

Self-Assessment of Internal Control

**Monday July 20th, 2020 – Monday August 31st, 2020
(6 Weeks)**



Fiscal Year 2020



Department of Finance & Management

Fiscal Year 2020 Self-Assessment of Internal Control

Table of Contents

	Page
Commissioner's Message.....	3
Mission Statement and References.....	4
Internal Control Overview.....	5
Recommended Practices for Completing Questionnaire.....	6 – 7
Questionnaire Instructions.....	8 – 9
Back cover COSO Integrated Framework Principles.....	10
Self-Assessment Questionnaire: (Excel File Format - ONLY)	
Procurement & Accounts Payable.....	Tab 1
Accounts Receivable & Cash Receipts.....	Tab 2
Fixed Assets.....	Tab 3
Inventory.....	Tab 4
Grants Administration.....	Tab 5
Budgeting.....	Tab 6
General Elements.....	Tab 7
Certification Form.....	Tab 8



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Adam Greshin, Commissioner

To: Secretaries, Commissioners, Elected Officials, and Deputies
From: Adam Greshin, Commissioner
Date: July 17th, 2020
Subject: FY 2020 Self-Assessment of Internal Control

As leaders, we are accountable to the Governor and to Vermonters for the resources entrusted to us. We must be effective and efficient, but we also must safeguard against fraud, waste and abuse. **These are key components of strong internal controls.** My office will issue the **FY 2020 Self-Assessment of Internal Control** to your business offices on **Monday July 20th, 2020** for completion by close of business **Monday August 31st, 2020** – **our customary three-week window PLUS three additional weeks to complete, a total of 6 weeks.** The Self-Assessment questionnaire provides departments with a management tool to review, assess, and document current control practices, identify potential areas of risk or non-compliance, and ultimately be a catalyst for strengthening each department’s internal control system.

How can you help? The overall effectiveness of internal control, including the self-assessment, is greatly influenced by our collective commitment to it. Setting the proper tone begins with managers at all levels demonstrating their support of internal control through their words and actions, and by motivating and guiding employees to produce high-quality work, meet deadlines, adhere to prescribed policies and procedures, timely communicate information to those that need it, promptly resolve errors or problems, and protect the State’s assets. Additional information, including our **Internal Control Standards: Manager Guide 2.0**, can be found on the Finance & Management Internal Control website at: <http://finance.vermont.gov/policies-and-procedures/internal-controls>.

I recognize many business offices are already consumed with COVID-19 recovery efforts. Finance & Management believes the time spent completing this self-assessment will pay dividends, especially during unexpected situations that impact day-to-day operations. When operational disruptions, errors, and even breakdown situations occur, they can be significant, time-consuming and costly. Ultimately, they can pull resources away from our core missions. An objective of the self-assessment is to minimize undesirable events through informed staff and robust internal control. **Better outcomes can be achieved within our departments and the State when proper internal control exists within each agency.**

My entire staff is ready to assist you and we look forward to your support in endorsing the **2020 Self-Assessment of Internal Control** within your department. Please confirm the questionnaire responses are a valid representation of your operations. The responsibility for certifying the Self-Assessment resides solely with the appointing authority. Please ensure the questionnaire is completed, reviewed, certified and returned to jeffrey.montgomery@vermont.gov by close of business **Monday August 31st, 2020**. Thank you for your support.

Fiscal Year 2020 Self-Assessment of Internal Control

Mission Statement

The mission of the Internal Control Section is to provide State agencies and departments the objective resources, guidance and recommendations to improve the State's financial operations and system integrity. Through a combined effort of evaluation, communication, cooperation and education, we will work toward improving operational efficiency, enhancing internal controls and ensuring compliance with published bulletins, policies and procedures.



References & Acknowledgements

The Vermont Department of Finance & Management would like to credit the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and various State governments and institutions of higher learning for portions of the material contained in this document.

FY 2020 Self-Assessment of Internal Control

Internal Control Overview

Definition: Internal Control is a process integrating the activities, plans, attitudes, policies, and efforts of the people of a department working together to provide reasonable assurance that the department will achieve its objectives in the following categories:

- **Operations:** Effectiveness and efficiency of operations, including operational and financial performance goals, and safeguarding assets against loss;
- **Reporting:** Reliable and timely internal and external financial and non-financial reporting;
- **Compliance:** Adherence to applicable laws and regulations.

Fundamental Concepts of Internal Control:

- Geared towards the achievement of objectives, affecting every aspect of a department...its people, processes and infrastructure
- People-dependent, effectiveness based upon the action, attention and attitude of people at every level of the department
- Cost-effective and adaptable to each department's operating environment(s)
- Process consisting of ongoing tasks and activities woven into the day-to-day activities and responsibilities of managers and staff – *a means to an end, not an end in itself*
- Provides reasonable assurance regarding the achievement of objectives, but not absolute assurance

COSO's Five Interrelated Components:

Control Environment: The control environment sets the tone of the department and influences the effectiveness of internal controls. Control environment factors include the ethical values and integrity of the people, management's philosophy and operating style, a commitment to competence, and the organizational structure of the department.

Risk Assessment: Risk assessment is the identification, analysis, and management of risks relevant to the achievement of the department's goals and objectives. Risks include internal and external events or circumstances that may occur and adversely affect the department's operations.

Control Activities: Control activities are the policies, procedures, and practices that help ensure management directives are carried out. Control activities help identify, prevent or reduce the risks that can impede accomplishment of the department's objectives. They include a range of activities as diverse as approvals, authorizations, separation of duties, documentation, reconciliations, supervision, and safeguarding of assets.

Information and Communication: Pertinent information must be identified, captured and communicated in a form and timeframe that enables people to carry out their responsibilities. Effective communication also must occur in a broader sense, flowing down, across and up the department.

Monitoring Activities: Internal controls systems need to be monitored to assess the quality of the system's performance over time. Monitoring occurs during normal operations and through separate evaluations and includes review of the department's activities, systems, and transactions to determine whether controls are effective.

- ❖ For more information refer to the following publication on the Dept. of Finance & Management's website:
[Internal Control Standards: Manager's Guide](#) DFM Edition 2.0.

Self-Assessment of Internal Control (SAIC)

Recommended Practices for Completing the Questionnaire

- Appointing Authority raises SAIC exercise at management team meeting to set expectation for engagement and cooperation of staff.
- Complete SAIC as a team exercise; benefits include - raises awareness of internal controls, contributes to staff buy-in of the process, exposes discrepancies or inconsistencies in departmental practices, etc.
- Involve line-level staff for questions pertaining to transaction processing as they're the ones who know what's really happening.
- Give extra attention to areas with higher inherent risk –
 - Changes in organizational structure, key staff, physical location, business processes, IT systems or regulatory environment;
 - Presence of cash receipts, cash benefit payments or other cash-type equivalents;
 - Highly complex operations or new programs/activities;
 - Prior record of control weaknesses (e.g., fraud, major operational breakdowns or audit findings)
- In large departments, especially with decentralized accounting, have individual units complete separate questionnaires, then the central business office reviews for exceptions, areas of non-compliance, etc., and submits one unified SAIC that most accurately reflects the overall operations of the department.
- **Current Practices: {requirement}** Responses must reflect business processes at the point-in-time the SAIC is being completed, not what the department *intends* to do in the future.
- **Written Procedures: {requirement}** When responding to SAIC questions about a *department's written procedures (or policies)* only respond YES when there are department-specific written procedures; do not respond YES if the only available documentation is a statewide bulletin, policy or procedure. [refer to SAIC Instructions]
- **NA Responses for Infrequent Activity: {requirement}** Questions must not be answered NA (not applicable) solely because of infrequent use. For example, even if your department only issues a "few" grants or travel cash advances each year, the related business rules still apply, and the applicable questions must be answered YES or NO.

[Note: Does not apply to *Accounts Receivable* or *Inventory* Sections that use a \$10,000 threshold.]

- **NA Responses for Centralized Functions: {requirement}** Do not respond NA to questions for the sole reason that the referenced activity is being performed by another State entity (e.g., IT or accounting functions provided by a separate service organization). If these activities benefit or are being performed on behalf of your department, then the question is applicable to your department.

Ultimately, it's your department's data, finances, programs, etc. at stake, and management is accountable for having reasonable assurance that these service organizations are providing appropriate controls. In certifying the SAIC, the Appointing Authority is attesting that the responses are "*an accurate representation of the operations of this department...*" it's not intended to imply that every referenced control activity or best practice is being performed by an employee of said department. Departments may want to consult with these service organizations in order to provide responses that accurately reflect the controls and practices they have in place.

- **Documentation:** Keeping internal notes about SAIC responses can provide many benefits - reviewing with Appointing Authority during certification process, audit trail for follow-up from F&M or Auditor's Office, reminders for next year's self-assessment, valuable information for new hires/staff turnover, etc. -
 - Keep track of which staff/units were consulted or had primary responsibility for completing each section of the SAIC;
 - For written policies & procedures – note the document title, owner and location;
 - For YES responses to subjective questions, formulate an answer that would justify your response;
 - If an activity (re: question) is performed by an entity other than your department, then document who;
 - If you sampled transactions to base your response, then document what was reviewed;
 - Maintain a "highlights" memo about key assumptions, areas of concern/risk, improvements made since last year, risks to be addressed during upcoming year, etc.
- **Certification Form: {requirement}**
 - The person(s) with primary responsibility for completing the SAIC questionnaire (i.e., Box 1) **must** be different than the person responsible for review & certification (i.e., Box 2 - *Appointing Authority*).
 - Certification must be completed by the Appointing Authority and cannot be delegated to Deputies or others. [Refer to instructions on the Certification Form]
 - Electronic certifications, submitted via email, must come directly from the Appointing Authority's State email account; submissions from a delegate ("*On Behalf of*") or others are not allowed. [Refer to instructions on the Certification Form]

FY 2020 Self-Assessment of Internal Control

Questionnaire Instructions

The **Self-Assessment of Internal Control Questionnaire** is a review of the internal policies and procedures in each department. The questionnaire is designed to help you identify risk and eliminate considerations of risk that do not apply to your department. The questionnaire serves as a management tool for your department in evaluating how well risks are being addressed through current control policies and practices. It is designed to raise awareness of certain issues and encourage further analysis and discussion. The questionnaire will also help the Department of Finance & Management identify best practices to share with departments.

The questionnaire may only be completed in an Excel format with an option for the Appointing Authority to electronically certify and submit via email. If electronic certification (Excel Only) is used, (1) the box on the certification form must be checked **and** (2) the file must be **submitted directly from the appointing authority's email account**. [Note: Email submissions from delegates (re: **On Behalf of**) are **not** permitted.]

❖ **IMPORTANT: The certification (signature or electronic) must be completed by the Appointing Authority (i.e., Secretary, Commissioner) and cannot be delegated to Deputies or other subordinate positions.**

The Department of Finance & Management requires that the questionnaire be completed, certified by the appointing authority, and returned by close of business **Monday August 31st, 2020** to:

Email Only: jeffrey.montgomery@vermont.gov

The questionnaire consists of **8 sections** and not all sections will be applicable to every department:

1. Procurement and Accounts Payable

Purchasing activities, invoice processing, petty cash, and employee payroll & expenses.

2. Accounts Receivable and Cash Receipts

Treatment of revenue and amounts owed the State, the handling of cash receipts (currency & checks), and the management of external bank accounts.

3. Fixed Assets

Management and accounting treatment of fixed assets.

4. Inventory

Control and tracking of significant inventories; does not apply to items such as office supplies, computers, or fixed assets.

5. Grants Administration

Compliance issues pertaining to grants and *AOA Bulletin 5: Policy for Grant Issuance & Monitoring*.

6. Budgeting

Best practices pertaining to the budget process.

7. General Elements of Internal Control *

Five interrelated components of internal control as identified by the COSO model: Control Environment – Risk Assessment – Control Activities – Communication & Information systems – Monitoring.

*** This section should be answered from a department-wide perspective.**

8. Certification Form – Must be filled out by agency staff and certified by Appointing Authority.

In completing this questionnaire, we expect you to consult with other members of your department to provide as comprehensive and accurate responses as possible. Responses should be based upon **current practices**, not on what the department thinks the answer should be, and not on what the department intends to implement in the future. For the purpose of this questionnaire, "Department" means any discrete agency, department, office, board or other administrative unit with a designated general ledger business unit number. We strongly recommend a single unified response for each department. However, if there are smaller discernable areas within your organization with separate and distinct operations, you may complete multiple questionnaires as appropriate; please identify those discernable areas on each response.

Questions are phrased so that a "YES" answer indicates a control strength and "NO" answer indicates a possible weakness. It is not expected that a questionnaire will have all "YES" answers even if internal controls are adequately addressed. Answering many of the questions will require professional judgment and we recognize that a "YES" answer does not imply absolute assurance. Following are some guidelines to keep in mind when completing the questionnaire:

- Please try to limit the response of "N/A" to only those questions that are clearly not applicable to your department; just because the control activity referenced in the question is not in place in your department, does not necessarily signify that the question is not applicable.
- For questions that pose "*Does the department have written procedures...*" **only respond "YES"** where there are **department specific written procedures**; do not answer "YES" if you are only referring to a statewide policy (e.g., F&M Policies, VISION Procedures, AOA Administrative Bulletins, etc.).
- To assist departments with completing the questionnaire, [hyperlinks](#) have been added to many questions to facilitate review of referenced documents or websites.
- In responding to the questions, we recommend using the following criteria:

YES: When the issue addressed is widely in place throughout your department.

NO: When the issue addressed is not in place or only in a very limited scope.

NA: Use only when the issue addressed is "not applicable" to your department.

Note: Questions answered "YES" and "NO" will be marked "NO" for compilation & scoring purposes.

If you have any questions regarding this Self-Assessment questionnaire, please contact the following individuals at the Department of Finance & Management:

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Adam Greshin, Commissioner;
e-mail: adam.greshin@vermont.gov

