

# INTERNAL CONTROL NEWS

## DECEMBER 2014

The purpose of this quarterly newsletter is to provide departments with articles on good business practices, internal controls, and responsibilities. Through articles intended to promote educational and professional development opportunities for employees, this newsletter seeks to raise awareness across state government on the importance of internal controls. We hope that by providing this array of information, we can keep you informed of internal control related activities, and help you implement and maintain effective controls in your areas of operation.

### Heating Fuel Purchases

With the prime heating season now upon us, this is a good time to remind all departments of the requirement to use statewide fuel contract vendors **and** to verify the accuracy of invoiced amounts against contracted prices (i.e., ‘weekly rack rate’ + ‘vendor mark-up’). For more information on current vendor contracts, establishing new accounts, calculating per gallon fuel prices, invoice review & reconciliation, etc. refer to the **Fuel Information** website maintained by the Department of Buildings & General Services’ Office of Purchasing & Contracting at <http://bgs.vermont.gov/purchasing/fuel>.



### Fraud Prevention & Detection

There are numerous internal controls that department management can utilize to combat fraud, waste and abuse in their organizations. Fraud controls may be **preventative** (*‘stop it from happening’*) or **detective** (*‘catch it after it happens’*) including, but not limited to, the following:

#### **Fraud Prevention**

- Separation of duties among employees...ensure no single employee has control over all parts of a financial transaction;
- Separate handling functions (cash receipts & deposits, receiving purchases, petty cash, asset custodians, etc.) from recordkeeping functions (recording transactions for payables, cash receipts, receivables and inventories, physical inventory of assets, reconciling accounts, etc.);
- Require purchases and disbursements to be approved by authorized employees;
- Restrictively endorse (“for deposit only”) incoming checks upon receipt and list checks in a cash receipts log;
- Rotate job duties among staff, especially for functions more susceptible to fraud;

- Practice diligence in identifying, reviewing and disclosing related-party transactions and activities which may create a conflict-of-interest (*real or perceived*);
- Routinely assess fraud risks (*How could it happen? Which positions could do it?*), then implement controls to mitigate those risks;
- **‘Tone at the Top’** – Send a clear message that fraud and other dishonest acts will not be tolerated and inform employees *how and to whom* they should report suspected fraudulent activity;
- **‘Perception of Detection’** – Cultivate an environment in which employees expect that fraud will be detected through monitoring techniques, transactions review, surprise inspections, tips from other employees, audits, etc.;
- **‘Least Privileges’** – Embrace this principle that restricts an individual’s security access to assets (IT systems, confidential data, equipment, buildings, cash, etc.) to the minimum necessary for the employee to accomplish their job;
- **‘Professional Skepticism’** – Practiced with respect, proper tone and no assumption of either honesty or dishonesty can be an effective fraud deterrent...*Have a questioning mind, critically evaluate situations, don’t accept at face value, request additional documentation, challenge why something was done (or not done), etc.*;
- Enforce adherence to established policies & procedures;
- Maintain adequate security (passwords, locks, safes, etc.) over assets;
- Perform appropriate background checks when hiring employees;
- Ensure proper training and supervision of employees;
- Heightened monitoring of operational areas/tasks more susceptible to fraud;
- Take appropriate and consistent disciplinary measures when fraud or other dishonest acts are detected, *regardless of the perpetrator’s position, status, etc.*



### **Fraud Detection**

- Complaints or tips from employees, vendors or customers are the most likely source of fraud detection;
- Account reconciliations are performed by an employee who doesn’t have recordkeeping responsibilities for the activity...or require reconciliations to be reviewed & approved by a supervisor;
- Inspect documents (voucher register, deposit listing, credit card statements, bank account statements, financial/budget reports, P-Card activity, etc.) for potentially suspicious activity;
- Assess whether findings detected by internal or external audits may be a symptom of fraud;
- Conduct surprise inspections of operations (financial operations, asset security, performance of critical duties);
- Perform targeted reviews/audits of transactions more susceptible to fraud (expense reports, timesheets, P-Card, cash benefits, petty cash, etc.);

- Investigate unusual or unexplained variances in reports (financial, budget, payroll, inventory, etc.).

Per the *Whistleblower Protection* statute (3 VSA-chapter 27-subchapter 4A), State Employees are free to report suspected fraud, waste or abuse, in good faith and with candor, without fear of reprisal, intimidation or retaliation. Employees are encouraged to report suspected fraud to their appointing authority or in accordance with their department's internal policies. Employees hesitant to report suspected fraud internally can file a report with the VT State Auditor's Office at 1-877-290-1400 or at <http://auditor.vermont.gov/reports/whistleblower>.

## Employee Expense Guidance

Here are two important reminders for the timely and accurate processing of employee expense reimbursements in the VISION Expense module. Please contact VISION Support at 802-828-6700 or [VISION-helpdesk-FIN@state.vt.us](mailto:VISION-helpdesk-FIN@state.vt.us) with any questions.

### 1. **'Tis the Season for Taking Time Off: Expense Approval Authorized User**

In an effort to promptly reimburse employees and to avoid extra work deleting/reassigning expense reports at the end of the month, please remind approvers who will **not** be available to approve expenses to do the following:

- i. Respond to open requests
  - a. approve or send back any travel authorizations or expense reports
- ii. Assign an alternate supervisor who can approve in your absence
  - a. complete the Alternate User section in Main Menu > My System Profile

### 2. **Call-in = Commuter**

Mileage reimbursement for authorized call-in status, (per DHR Policy 12.6 and collective bargaining agreements), requires the use of the **In Commuter Mile** expense type under the following condition:

- **“In Commuter Mile”** is for use when the requested mileage reimbursement is for eligible call-in travel between the employee's residence and their official duty (work) station. *Per the IRS, commuting expense reimbursement is taxable income and is not a deductible business expense (even for authorized call-in).*

For eligible call-in travel between the employee's residence and a work location that is **not** the employee's official duty station, use the “In Miles – Full” expense type. Additional information about the information above can be found in the commuting mileage section of [Bulletin 3.4: Employee Travel & Expense Policy](#).

# New and Updated Agency of Administration Bulletins



On December 2, 2014, the Agency of Administration released a new version of **Bulletin 5 ~ Policy for Grant Issuance and Monitoring** which becomes effective December 26, 2014. This Bulletin supersedes and consolidates two previously released grants policies: **Bulletin 5 ~ Single Audit Policy for Subgrants**, issued September 5, 2003, and **Bulletin 5.5 ~ Policy for Issuing and Monitoring Grants of State Funds**, issued July 1, 2006. Revision of Bulletin 5 was necessary due to the implementation of new Federal regulations (*Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“*Uniform Guidance*”)) which becomes effective for States on December 26, 2014. The Uniform Guidance supersedes and streamlines requirements of seven previous OMB circulars into a single guidance document and numerous changes were made to Federal awarding requirements and audit provisions. While making the necessary changes to the existing Bulletin 5, we also took the opportunity to create a single, comprehensive grants management policy by merging in requirements for State-funded grants as found in Bulletin 5.5. The new Bulletin 5 can be found on the Bulletins page of the Agency of Administration website: <http://aoa.vermont.gov/bulletins>. Please contact Karen Jaquish at [karen.jaquish@state.vt.us](mailto:karen.jaquish@state.vt.us) if there are any questions about the new Bulletin 5.

Currently, State Chief Performance Officer (CPO) Sue Zeller is leading the revision of two Administrative Bulletins and the issuance of one new Bulletin. First and foremost, a cross-agency team of contract specialists is working with the CPO and Assistant Attorney General Jaye Pershing Johnson to review and edit a long awaited revision of **Bulletin 3.5 ~ Procurement and Contracting Procedures**. The Team is targeting completion in early 2015.

Almost finalized, and due for reissue prior to the end of calendar year 2014, is **Bulletin 2.3 ~ State Vehicles Policy**. Revised in cooperation with the Department of Buildings & General Services Fleet Management Services, the Department of Finance & Management and the Agency of Administration, completion and issuance for this bulletin is slated for December 31, 2014.

And, lastly, the new Administrative Bulletin on the near horizon is **Bulletin 9.5 ~ State Mobile Device Policy & Procedures**. With the ever increasing demand for mobile devices/capacity and the escalating costs of procurement and monthly usage fees, the need for this new Bulletin became apparent. Bulletin 9.5 is being developed collaboratively among the Agency of Administration, the Department of Information and Innovation, and the Department of Buildings & General Services Purchasing Division. Hopefully, this Bulletin will be ready for issuance early in 2015.

# Staff Happenings



- **Emily Byrne**, former Principal Budget & Management Analyst, has been promoted to the position of Director of Budget & Management Operations.
- **Karen Jaquish**, former Statewide Reporting Analyst III, has been promoted to the position of Statewide Grants Administrator.
- **Linda Morse**, Administrative Support Coordinator, will be retiring from State service at the end of January. Linda has been an integral part of F&M operations for nearly twelve years and we wish her all the best in retirement.
- **Sam Winship** joined the Department of Finance & Management on September 29<sup>th</sup> as a Budget & Management Analyst. Sam recently received a MBA from Bentley University (Massachusetts) and his principal assignments include the Agency of Education, Higher Education, the Department of Labor and the Agency of Administration (*except for Secretary's Office and Dept. of Information & Innovation*).

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Please contact [Kevin Gilman](#) with comments or suggestions.