

# INTERNAL CONTROL NEWS

## JUNE 2009

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.

### Year-End Close

We continue to be on schedule for a timely year-end close. Thank you to those who honor the deadlines set in the FY2009 Year End Closing Instructions. There are several aspects to the closing instructions; if you are unsure of these requirements please call or email. Most of the sections have contacts listed; if you are unsure who to contact please contact the [VISION Finance Support Team](#) or 828-0407, option 2.

A well executed closing process is essential to producing the State's financial statements. We appreciate your help and hard work!



### Prior Year Payables

With the start of the new state fiscal year on July 1st, departments are reminded all vouchers and journals entered in FY 2010 which pertain to a prior year payable **must** be identified in VISION by using the PY prefix in the *Invoice Number* field for vouchers and a PY in the *Journal Class* field on the header tab for journals. Prior year payables are defined as payment for goods *or* services that were received *or* performed prior to July 1, 2009.

Proper coding of prior year payables in VISION is necessary for the State to accurately prepare its financial statements in accordance with generally accepted accounting principles (GAAP). All known prior year payable transactions must be posted in VISION by August 21, 2009. However, even after the August 21st deadline, departments must continue to use the PY identifier when processing payable transactions that pertain to the prior fiscal year. Departments should refer to page #28 of the [FY 2009 Year End Closing Instructions](#) for additional instructions.

# History Lesson

Can you guess the year this article was published in the *Caledonian-Record* newspaper?

## Would Computer Prove Cheaper? Opinions Differ

Vermont's *Finance Commissioner* said Wednesday that a switch of accounting systems for state government would be too costly to institute. The *Finance Commissioner* was responding to a strongly worded suggestion from the *Auditor of Accounts* that the State change from a cash accounting system to an accrual method. Under the cash system, actual receipts and expenditures are recorded. The accrual system takes into account anticipated receipts and money committed to be spent, both the *Auditor of Accounts* and *Finance Commissioner* said. The *Auditor of Accounts* said the accrual method was the only way the State could get an accurate picture of its finances. But, the *Finance Commissioner* said the system would require him to hire a substantial number of new employees. The *State Auditor* blamed the present accounting system for the delay in his office's work on auditing the State's major funds.

[Answer at end of newsletter]

# Honesty is the Best Policy but...

When responding to surveys and polls the overwhelming majority of people say it is important to be honest. Yet experiments by behavioral economists have shown that when given the opportunity, many *honest* people will cheat<sup>1</sup>. However, even when there is virtually no chance of getting caught, most people don't become wildly dishonest, suggesting that the extent to which they will cheat is influenced by personal ethics and socially acceptable norms. To examine what affect "money" has on dishonest acts, consider the following three scenarios:

1. Your spouse calls you at work to tell you your daughter needs a red pencil for school; how comfortable would you be?
  - A. Taking a red pencil from work for your daughter.
  - B. Taking money from the petty cash account to buy a pencil for your daughter.

➤ *Many people would find option "A" relatively easy but would have great difficulty with taking the cash.*
2. The following items were covertly placed in a communal refrigerator; which do you think "disappeared" the quickest?
  - A. Six-pack of Coke.
  - B. Plate of six one-dollar bills.

➤ *In multiple experiments conducted at university dormitories all the Coke was taken within 72 hours but the cash remained untouched.*



<sup>1</sup> In this article, most of the experiments and concepts regarding human behavior, honesty, and the affect of money are adapted from the following book: Ariely, Dan. *Predictably Irrational: The Hidden Forces That Shape Our Decisions*. New York: HarperCollins, 2008.

3. You have had a loss of personal property and believe your insurance coverage will not adequately cover your loss; which option are you most likely to do?

A. Claim loss of a 36" TV set when you actually loss a 32" set.

B. Steal \$100 in cash directly from your insurance company.

- *It's fairly safe to assume that a higher percentage of people (regardless of how many or few) would be more apt to do option "A" than "B". Experts estimate that when consumers report losses on their homes and cars they inflate their insurance claims by about 10 percent.*

Conclusion? The presence of money alters the dynamics, or more precisely, when cash is not directly involved we are far more capable of rationalizing the dishonest act. Even more troubling, the extent to which people will be dishonest is significantly increased when the act is at least one step removed from cash (e.g., more likely to steal a \$50 piece of equipment than to take \$5 in cash).

So how does all of this relate to internal controls? Organizations are susceptible to dishonest acts by employees, vendors, contractors, customers, etc., including such non-monetary acts as unethical accounting practices, pilfering supplies, stealing or using equipment for personal use, accepting gifts or junkets from vendors and contractors, exaggerating or falsely reporting losses on insurance claims, bid rigging or collusion, misrepresenting income or assets to qualify for tax breaks or assistance programs, inflating business expenses, falsifying timesheets, etc. To help deter, prevent, and detect these dishonest acts organizations should:

- Recognize that when given the opportunity many "honest" people will cheat. Workplace fraud is most often committed by those in positions of trust.
- Recognize the temptation and extent to which people will cheat is further exacerbated when the opportunity is non-monetary. It is much easier for individuals (or organizations) to rationalize the dishonesty when it is at least one step removed from cash. *A particularly salient point as we move towards a "cash-less" economy.*
- Reduce the opportunity (and temptation) for people to act dishonestly: use separation of duties to ensure no single employee controls an entire transaction, monitor the internal control system, maintain a system of checks & balances, perform internal audits, rotate job duties, etc.
- Instill a culture of ethics that continually reminds people (i.e., employees, customers, vendors, etc.) through words and deeds of the expectation to act ethically and honestly. Experiments have shown when people are "reminded" of ethics (e.g., codes of conduct, honor codes, sworn oaths, signed certifications, etc.) right before they are tempted with a dishonest act, they are much more likely to be honest. Display an employee code of conduct throughout your organization, sponsor fraud & ethics trainings, foster the perception that individuals engaged in dishonest acts will be caught, treat all individuals suspected of wrongdoing equally without regard to title, years of service, or relationship to the State.
- Be diligent in seeking out, identifying, and disclosing where individuals may have conflicts of interest or transactions with related-parties. When personal financial benefit is at stake, people are more likely to bend the rules and act dishonestly.

***" When morality comes up against profit, it is seldom that profit loses."***  
- Shirley Chisholm (1924-2005), US House of Representatives (D-NY, 1969-1983)

# Frequently Asked Questions



- ❖ **Question:** It's the beginning of a new fiscal year and I need to set up my organization budget. How do I do that?

**Answer:** There are several tools available to help you with setting up your budgets. [The Commitment Control guide is on the VISION website](#). This guide includes instructions on adding an Organization Budget Journal and how to identify the correct ledger group to use (Org, Org2\_GRP, Org3\_GRP). Additionally, the following queries are good resources to use for setting up and managing your budgets:

- VT\_APPROP\_JRNLS - Appropriation Journals for a General Ledger BU
- VT\_ORG\_JRNLS - ORG Journals for a General Ledger BU
- VT\_APPROP\_DEPTID\_SUM\_NW- Appropriation Summary Deptid
- VT\_APPROP\_FUND\_SUM\_NW - Appropriation Summary Fund
- VT\_ORG\_DEPTID\_SUM\_NW - ORG Summary Deptid
- VT\_ORG\_FUND\_SUM\_NW - ORG Summary Fund

- ❖ **Question:** I'm trying to enter a refund in July for items we sent back to the vendor in June but I keep getting a "spending authority over budget" budget check error. Why?

**Answer:** You are getting that budget check error because expenditures for the current year are not sufficient to offset the refund. VISION allows refunds to be processed only when there are sufficient current year expenditures to offset the refund. Resolving this error is a two-step process.

1. Change the expense account to revenue account 485000 - Prior Year Refund of Expenditures.
2. When there are sufficient expenditures to offset the refund, you must do an ONL journal entry. The refund must be moved from the revenue account to the appropriate expenditure account, debit (+) revenue and credit (-) expense.

When the ONL journal entry successfully budget checks and posts, expenditures are reduced and spending authority is increased by the amount of the refund. For more information refer to [VISION Procedure #6 on the VISION website](#). **Important note...**because this refund is for an expenditure posted in the prior fiscal year, the PY prefix on the Invoice Number and PY in the Journal Class fields must be used on these transactions.

- ❖ **Question:** Our department has received an invoice that includes a local option tax (e.g., sales, room & meals, entertainment, etc.) from a VT municipality, should we pay this local option tax?

**Answer:** No. Based on legal opinions from the Attorney General's Office and Tax Department, the State of Vermont is exempt from these local option taxes. If an item, organization or transaction is exempt from state sales tax it is also exempt from local option tax. This exemption extends to those local option taxes that are entirely locally administered (i.e., *not collected or administered through the Tax Dept.*); as these taxes would have been enacted because the Legislature approved a charter change for the municipality, and the presumption is the State did not intend to tax its own operations.

Refer to the [FAQ section](#) of the Finance and Management website for additional topics.

# Electronic Approvals

The conduct of business in electronic format continues to emerge as departments seek ways to increase the efficiency of their operations and minimize expenses. In deciding whether to utilize and accept electronic approvals, departments should take into account factors such as legal, security, and audit requirements. To help assess the reliability and credibility of electronic approvals consider the following criteria:



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|------------------------|---|
| <b>Authentication</b>  | The identity of the person or entity that approved the information can be confirmed.  |
| <b>Integrity</b>       | The information being approved can be validated as complete, accurate and current. There is assurance that the content was not intentionally or accidentally altered or destroyed when it was approved, processed and/or transmitted. |
| <b>Authorization</b>   | The information was approved by persons entitled to do so or responsible for doing so.  |
| <b>Non-repudiation</b> | A person or entity having approved the information cannot deny having taken part in the exchange and/or repudiate the information content.  |

## Staff Happenings



- **John Morris**, Systems Developer III, is retiring this month and we extend our gratitude and best wishes to John for his many years of outstanding service supporting the VISION-Financials system and our customers.
- **Joe Harris**, former Statewide Financial Reporting Analyst II, has taken a Financial Manager III position with the Dept of Buildings & General Services.
- **Kim Pearsons**, Financial Manager I, is leaving F&M on June 19<sup>th</sup> to take a position in the private sector.
- Due to the recent statewide workforce reductions, it is with sadness and heartfelt good wishes that we say goodbye to **Sueann Christie** (*Payroll*), **Jackie Durkee** (*Vendor Maintenance*), and **Anne Porter** (*Accounting*).

**History Lesson** answer:

This AP article was published on **April 25, 1974**; Joel Schlanger was the Finance Commissioner and Alexander Acebo was the Auditor of Accounts.