

# **INTERNAL CONTROL NEWS**

## **JUNE 2017**

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.

## **VISION Prior Year (PY) Payables**



It is absolutely critical that vouchers entered after June 30<sup>th</sup> for prior year expenditures use the prefix **PY** in the **invoice number** field. This requirement has been the subject of repeat audit findings and most commonly happens with construction and consulting contracts where it's not always obvious that the invoice is for work completed in June (or earlier).

Employees in your department's business office generally enter expenditures into the VISION Accounts Payable module when they are paying for a particular good or service. In order for the Department of Finance & Management (F&M) to identify which expenditures need to be reported as payables in the State's financial statements (*see CAFR below*), we require employees to identify all vouchers entered after each June 30 that pertain to the prior year (goods received or services performed prior to July 1) by using a PY prefix in the invoice number field on VISION Accounts Payable vouchers.

Each year F&M prepares the Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles (or GAAP) and is subject to independent audit in accordance with generally accepted auditing standards. We have experienced a repeat audit finding for the way that departments have been processing invoices. The audit findings are generally caused by two issues, the first is when an invoice was clearly for the prior year but was not coded as such. F&M attempts to identify these invoices by running various queries, but this is not only time consuming, it also doesn't guarantee that we will find each instance where this occurs. The second involves instances where invoices span multiple fiscal years and the portion attributable to the prior year had not been coded as such. This most commonly happens in construction or consulting contracts, where invoices may cover expenses that were incurred partially in June and partially in July, but included in a single invoice dated in July. Often it is not apparent on the invoice summary that it is necessary to make an allocation to the correct fiscal year, but the supporting documentation did contain the needed information. This is why it is very

important to review the supporting information in addition to the invoice to determine the correct allocation across fiscal years. Invoices that cover a period including the fiscal year just ended and the new fiscal year that are clearly itemized by date and amount will require the preparation of a separate voucher for each fiscal year's amount. The voucher covering the goods received or services performed for the period prior to July 1 must have a prefix of PY in the invoice number field.

For additional information please refer to:

- ❖ **FY 2017 Year End Closing Instructions** (page 20)  
→ <http://finance.vermont.gov/policies-and-procedures/vision-closing-instructions>
- ❖ **Operational Guidance #4: Prior Year Payables Reporting**  
→ <http://finance.vermont.gov/training-and-support/vision-job-aids-and-operational-guidance>
- ❖ If you find vouchers were entered that should have had a PY prefix but didn't, you can notify us of that correction by using the **Vouchers–PY Missing** form and email it to [Vision.Cafr@vermont.gov](mailto:Vision.Cafr@vermont.gov).  
→ <http://finance.vermont.gov/forms/cafr>

If you have any questions regarding prior year payables, please contact John Becker by phone at 802-828-0678 or email at [john.becker@vermont.gov](mailto:john.becker@vermont.gov). Thank you for your assistance in helping to ensure another successful year end closeout.

## Internal Control Quiz



1. An inherent limitation of internal control in which two or more people conspire to commit fraud is referred to as:
  - a. Cause & Effect
  - b. Collateral Damage
  - c. Collusion
  - d. Conflict of Interest
  
2. Under IRS Accountable Plan rules, employees must submit their expense reports within \_\_\_\_\_ calendar days of when the expense was incurred for the reimbursement to not be treated as taxable income.
  - a. 30
  - b. 60
  - c. 90
  - d. 120

3. The most effective control activity to prevent employee fraud is:
  - a. Employee background checks
  - b. Reconciliations
  - c. Written policies & procedures
  - d. Separation of duties
  
4. Via Form AA-1: Request for Grant Acceptance, departments must obtain **prior** approval before accepting any new grant, gift, loan, or any sum of money or thing of value, in excess of \$\_\_\_\_\_ (*notwithstanding statutorily authorized exceptions*).
  - a. \$5,000
  - b. \$10,000
  - c. \$15,000
  - d. \$20,000
  
5. Which of the following is **not** a strong internal control over the processing of cash receipts (re: collection and deposit of cash & checks)?
  - a. Checks are restrictively endorsed (“*for deposit only*”) just prior to deposit.
  - b. Cash & checks are maintained in a secure location with limited access.
  - c. Cash & checks are deposited in the bank as soon as possible.
  - d. Cash & checks are recorded in a control log upon receipt.
  - e. None; all are recommended controls over cash receipts.
  
6. The State of Vermont’s standard payment terms for vendors providing goods & services is:
  - a. NET00 (pay immediately).
  - b. NET20 (payment due 20 days after invoice date).
  - c. NET30 (payment due 30 days after invoice date).
  - d. Whatever terms the vendor requests.
  
7. Which of the following is **not** a likely cause of duplicate payments?
  - a. Inaccurate or inconsistent voucher data entry.
  - b. Making payment without a valid invoice.
  - c. Use of multiple payment methods (e.g., voucher, expense report, P-Card).
  - d. Use of a master vendor file.
  - e. Not thoroughly researching “Past Due” invoices.
  
8. An organization is required to have a **single audit** if it expends \$\_\_\_\_\_ or more in federal grant assistance during its fiscal year.
  - a. \$250,000
  - b. \$500,000
  - c. \$750,000
  - d. \$1,000,000

9. Per a directive of the Agency of Administration, departments may purchase **gift cards** and **gift certificates** to use for employee merit and recognition awards.
- True
  - False
10. Workplace fraud is most often detected by \_\_\_\_\_
- Tips.
  - Accident
  - Reconciliations.
  - Auditors.

## Year-End Reporting of Accounts Receivable



**You too can prevent repeat audit findings by diligence in reporting accounts receivable on the CAFR-1 form.**

Accounts receivable, unearned revenue and cash on hand information is collected by F&M's Financial Reporting section for CAFR reporting and audit purposes. The State's CAFR reports all accounts receivable net of any allowances for uncollectible amounts on its balance sheet at year-end. The accounts receivable information is collected on the **CAFR-1 form**. The CAFR-1 form includes information about amounts that were owed to the State on or before June 30, and for which payment has not yet been received by the State by June 30. Departments/Agencies are required to have the ability to properly account for, record, and manage receivables to ensure the information provided on the CAFR-1 form is accurate.

One area related to the audit testing of the CAFR-1 that has caused audit findings is Departments/Agencies not being able to provide the auditors with sufficient back-up information to support the amounts entered on the CAFR-1. This year we would like to see these audit findings not be repeated. When preparing this year's CAFR-1 please remember your department is required to maintain a detailed listing to support the amounts reported on the CAFR-1. This listing should be readily available should the amount be selected for testing by the auditor.

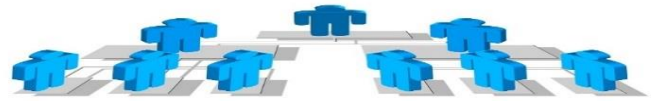
For additional information please refer to:

❖ **FY 2017 Year End Closing Instructions** (page 30)

→ <http://finance.vermont.gov/policies-and-procedures/vision-closing-instructions>

If you have any questions regarding accounts receivable or the CAFR-1 form, please contact John Becker by phone at 802-828-0678 or email at [john.becker@vermont.gov](mailto:john.becker@vermont.gov).

# F&M Happenings



- **Commissioner Andy Pallito** has resigned from F&M effective June 23 to accept the position of Director of Health System Finances for the Green Mountain Care Board.
- **Sam Winship**, former Senior Budget & Management Analyst, was promoted in April to the position of Assistant Director of Budget & Management Operations.
- **Dan Shepard** joined F&M on May 30 as a Statewide Reporting Analyst II. Since 2010 Dan has been a business analyst for the Agency of Education and prior to that worked at IBM in accounting for over 20 years.
- **Tara Rivet** joined F&M on May 30 as a VISION Support Specialist II. Tara previously worked in State government as a Financial Manager II for the Agency of Agriculture, Food & Markets.
- **Megan Klinefelter**, former VISION Support Specialist II, resigned from F&M on June 9 to accept a Financial Administrator II position with the Department of Public Safety.
- **Melissa Mazza-Paquette**, former Administrative Support Coordinator, resigned from F&M in May to take the position of Private Secretary for the Agency of Administration.
- The Customer Service & Change Management Division is actively recruiting for a **VISION Support Specialist II**; the job posting can be viewed in [VTHR](#) (Job ID 621465) and has an application deadline of 06/19/2017.
- Effective April 13, **VISION** hours of availability were expanded to **6:00am – 9:00pm daily**.

**Internal Control News** is published quarterly by the Dept. of Finance & Management. Please contact [Kevin Gilman](#) with comments or suggestions. For past issues please visit: <http://finance.vermont.gov/reports-and-publications/internal-control-newsletters>