

# **INTERNAL CONTROL NEWS**

## **MARCH 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.

## **We Have News for You!**

With the launch of the Department of Finance & Management's new website, we are utilizing the [Latest News](#) section to publish website updates and other important information from our department. If you visit our website regularly, you may view the *Latest News* on our homepage. However, a more convenient method is to subscribe to the news feed and have the latest news articles automatically delivered to your Outlook Inbox!



Instructions on [How to Add RSS Feed Directly to Outlook](#) are available on Finance & Management's website under VISION Job Aids. As soon as you set up the subscription, all past news articles will be delivered initially. In the future, new articles will be delivered when they are posted.

We hope that you will take advantage of this feature as our department is always striving to improve communication with the people we support. Should you have any questions, please don't hesitate to contact the VISION Support Team at: [VISION.FINHelpDesk@vermont.gov](mailto:VISION.FINHelpDesk@vermont.gov).

## **Self-Assessment Reminder**

The Department of Finance & Management (F&M) intends to distribute the 13<sup>th</sup> annual [Self-Assessment of Internal Control](#) for FY 2017 to departments on or around April 10<sup>th</sup>. As with past years, departments will have a minimum of 3 weeks to complete, certify and return the questionnaire to F&M. We don't anticipate any significant changes to the process.



**Self-Assessment** aims to promote awareness of internal controls throughout state government and be a catalyst for strengthening Vermont's overall system of internal control. The questionnaire provides departments with a checklist to review and document their current internal control practices, while helping management to identify and address potential areas of risk or non-compliance within their operations.

# Pay Less Taxes

*Do we have everyone's attention now?!* A recent analysis by the Department of Finance & Management revealed that annually hundreds of employee expense reports are taxed as income due to lateness or data entry errors. In most circumstances the taxing of expenses for these reasons is an avoidable situation under the control of the employee. When expenses are taxed, the employee incurs federal, state and FICA payroll taxes, and their department must pay the employer share of FICA.



Since most people don't want to pay **more** taxes than required, employee awareness and cooperation are key to avoid having expense reimbursements unnecessarily taxed. Here are some crucial points to be aware of when submitting expenses in the VISION Travel & Expense (T&E) module:

- ✓ **Timeliness:** Submit all expenses within 60-days of when the expense was incurred (**preferably much sooner**).
  - Under IRS Accountable Plan rules, the State of Vermont must tax expense reimbursements that do not occur within 60-days of the expense (refer to [AOA Bulletin 3.4: Employee Travel & Expense Policy](#), Section 9. Timeliness of Claims).
- ✓ **Tuition:** For reimbursement of Tuition, use an expense date that reflects when documentation was received of successful completion of the coursework (e.g., transcript). Since tuition is typically paid in advance but not reimbursed until after the course is completed, using the *completion date* (instead of the *date paid*) is acceptable.
- ✓ **Commuting Mileage:** Only use the Commuter Mileage expense types when requesting reimbursement of authorized commuting mileage; do not use the standard Mileage expense types for commuting reimbursements. The T&E module will automatically process commuting mileage as taxable (regardless of dates) in accordance with IRS rules.
- ✓ **Billing Type Field\*:** Do not change the Billing Type field to 'Taxable-Internal' solely because tax was paid on the expense (e.g., *room tax on a hotel stay, sales tax on a supply purchase*). This field has nothing to do with whether the expense being reimbursed included tax.
- ✓ **Billing Type Field\*:** Pay particular attention when copying an expense line (or report) to enter a new expense. If the expense copied had a Billing Type of 'Taxable-Internal' then that same value will be copied to the new expense line and must be changed to 'Non-Taxable' (as appropriate).
  - *For example*, the first expense line entered is over 60-days (and thus 'Taxable-Internal'), then the employee copies that line to enter their next expense

item...which is not over 60-days...but the employee does not change the Billing Type field to 'Non-Taxable' and therefore will be unnecessarily taxed.

- \* For each expense line, the **Billing Type** field is used to flag whether Payroll must tax the expense reimbursement as income to the employee. There are two values for this field ('Taxable-Internal' or 'Non-Taxable – Internal') with a default value for most expense types of 'Non-Taxable'. If the expense was incurred more than 60-days ago, then the T&E module will automatically require the field value be set to 'Taxable-Internal'.

For more information, the VISION Job Aid: [Taxed Employee Expense Reimbursements](#) is available on the F&M website for departments to share with their employees. Should you have any questions, please don't hesitate to contact the VISION Support team at: [VISION.FinHelpdesk@vermont.gov](mailto:VISION.FinHelpdesk@vermont.gov).

## Are You Drifting?

[The following article is reprinted with permission from Minnesota Management & Budget, Internal Control & Accountability Unit]

How many of us regularly drive 5 MPH over the speed limit? How many have even passed police cars while speeding and have not been pulled over? Has exceeding the speed limit become so common even the police abide by the new norm? Why is this?



There is a concept in safety investigations known as **Procedural Drift**. It happens any time people routinely deviate from official practices to perform a task, and over time the deviation slowly becomes the new established practice. Procedural drift is more common than you might think.

There are reasons for procedural drift. Workers can see certain procedures as too burdensome and inconsistent with how work is really done. Policies and procedures can become outdated. Employees can view lack of consequences as a sign it is safe to stray from the rules. As a result, the drift away from formal policy can become such a regular practice that everyone accepts it as the new norm.

Not every instance of procedural drift has immediate consequences, but over time the drift away from good business practice can become serious. A simple example is when supervisors, without direct knowledge of employees' work, approve employee timesheets. Maybe a few times here and there seem harmless. However, when this practice becomes an accepted norm, some employees could take advantage of the lack of knowledge, increasing the chance of errors or fraud.

Preventing procedural drift is rooted in the policies and procedures themselves. To minimize

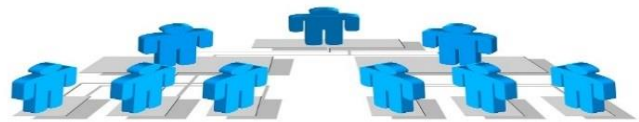
procedural drift, follow these tips:

- **Ensure policy and procedure are realistic.** Policy developers must have a thorough understanding of the user and the business process. They should strongly consider getting stakeholder input in policy development and update.
- **Review policies often.** Outdated policy and procedure can seem irrelevant and provide justification for workers to drift away.
- **Verify the policy or procedure is being followed.** Observe how users apply the policy. Find where they deviate from standard procedure and why. Enforce and reward compliance.
- **Explain why policy or procedure should be followed.** When workers understand the reason for a process or control, it is easier for them to abide by the policy.
- **Encourage a culture of professionalism and pride in following policy and procedure.** Management should walk-the-walk and not promote procedural drift. Everyone should hold others accountable for complying.

People are good at finding faster, more efficient ways of doing things. If the rules are overly burdensome or do not reflect the reality of the job, they will often drift away from them.

*Suggested action steps:* Think about your department's policies and procedures. Are they always followed? If not, why not? If you are developing or updating a policy, procedure, standard, or rule, take steps to avoid **procedural drift**.

## F&M Happenings



- **Melissa Mazza-Paquette** began work on February 6 as an Administrative Support Coordinator. Melissa has an accounting degree, business background, and will perform administrative and financial duties for the department.
- **VISION Upgrade Project is a Go!** The Department of Finance & Management was recently given the greenlight to upgrade their State accounting system, known to everyone as VISION, from Oracle PeopleSoft v8.8 to v9.2! The project has been quickly making traction and a kick-off to the project is expected to start in the springtime. Stay tuned for more updates!

**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>