

## September 2018 - Quarterly Internal Control News

*The purpose of this quarterly newsletter is to provide departments with articles on good business practices, internal control, 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 control. 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 operations.*

<http://finance.vermont.gov>

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### Self-Assessment Internal Control (SAIC) 2018 Update

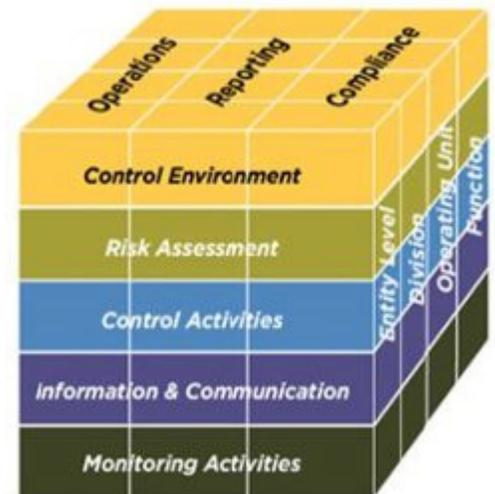
In April we reported that the Department of Finance & Management distributed the 14<sup>th</sup> Annual SAIC questionnaire to all participating Agencies. It was a successful participation year and the SAIC internal analysis was completed for both Phases I and II. We are now analyzing the last two final phases of the project.

- **Phase III: Individual Agency Review - Aug / Sep**

The Four Major Metrics are assessed for the Agencies and they include a Current Yr. to Prior Yr. comparison, Department vs. Statewide, Compliance with Policies and Procedures analysis, and High-Risk analysis to help identify potential material weaknesses within the areas of review.

- **Phase IV: Agency Selection - Sep / Dec**

The final phase of the SAIC project and most complicated, is the Data Valuation Reviews. Agencies and Departments are randomly selected for verification of responses from the submitted questionnaires. This is accomplished through the use of the Balancing Mechanism Reporting Agent (BMRA), which randomly selects Agencies based on certain criteria of the questionnaire from the universal pool of all 56 agencies. A detailed SAIC review schedule is being developed and all agencies will be notified of that outcome. Only those selected



for the review will receive the schedule with accompanying dates and requirements. As always, the F & M team appreciates your full cooperation during this review process for the State of Vermont.

## Separation of Duties; Internal Control Examples

The fundamental premise of separation of duties is that no one person should control or perform all key aspects of a transaction or event. Separation of duties is an important control activity that helps detect errors in a timely manner and deters improper activities. In smaller organizations, where it is impractical to maintain a strict separation of duties due to limited personnel, other compensating controls can be employed to mitigate the risk. This is most effectively accomplished through the direct involvement of senior management (e.g. appointing authority, board members, executive director). Management involvement provides strong control over activities, thus lessening the need for more formal activities.

### Examples include:

- Rotation of duties among personnel.
- Increased hands-on supervision.
- Enforced vacations.
- Having a manager perform one aspect of the transaction (e.g. deposits, approving invoices).
- Actively reviewing financial data and reports (e.g. reconciliations, voucher status report, etc.).

### Making Difficult Decisions

When faced with a difficult decision or ethical dilemma, consider asking yourself the following questions:

- Are your actions legal?
- Are there bulletins, regulations, rules, or procedures that restrict your choices?
- How will you feel about yourself after making the decision?
- Who are the other stakeholders...how will your decision affect them?
- Would you make the same decision if you knew it was going to be made public?
- If unsure, would you seek Counsel advice?
- Could you rationally and honestly defend your decision?
- If a colleague made the same decision, would you support him/her?



### Prevention is Key

The total cost (e.g. staff time, law enforcement, legal services, damage to reputation, employee morale, etc.) to investigate fraud and other illegal activity often exceeds the amount of the infraction, and successful prosecution is difficult. For this and many other reasons, management should focus their efforts on prevention rather than detection. ***Effective separation of duties and safeguarding of assets*** are two examples of preventive control activities that help to dissuade and prevent employees from ever engaging in illicit activities.

# Ten Principles of Leadership \*

<p><b>Passion</b> for the work and mission of one’s organization is the fuel for a successful organization. It impacts the other main principles in many direct and indirect ways. Without passion for the work you are doing and the work of the organization, your success will be limited.</p>	<p><b>Organizational Health:</b> People should like where they work. To achieve and maintain success, leaders must be vigilant and focus on creating and sustaining a happy and supportive work environment with high employee morale and satisfaction.</p>
<p><b>Self-awareness:</b> The ability to be honest with yourself about your strengths – and more importantly, your weaknesses – is essential to leading an organization. Knowing your weaknesses helps you develop systems and incorporate the right people into your organization to build compensating strengths</p>	<p><b>Innovation:</b> It is far more motivating to work in an organization that is passionate about innovation than one that is sterile and stuck. Create a culture that embraces creativity and efficiencies. Empower your employees to be part of this process in all aspects of the organization’s work.</p>
<p><b>Team Selection:</b> What an organization accomplishes can be traced back to the selection of employees. Take the time to create the right process for bringing people into your organization. Once in your organization, monitor employees for fit and advancement.</p>	<p><b>Productivity:</b> Without productivity organizations become irrelevant and fail. Leaders should inspire productivity. A key aspect of this is the ability to clearly articulate what needs to be done. Then utilize the right people and processes to get there.</p>
<p><b>Motivation:</b> It is the driver of productivity, and empowerment is the fuel of motivation. Employees who are supported, encouraged and given autonomy become highly motivated to do great things for their organization. Intrinsic motivation like autonomy and support for creativity will bring about better results than extrinsic methods like perks and rewards.</p>	<p><b>Vision:</b> Visionary leaders think strategically about the future. They see opportunities before others and identify challenges in time to navigate them by leading in the present moment. They lead with a focus on 1 to 10 years into the future.</p>
<p><b>Delegation:</b> Never lose sight of what the organization needs you for most. This will change from year to year, and it will be different for every organization. Continually ask yourself the question, “What am I doing that someone else can do just as well?” Know what not to do, when to give tasks to others.</p>	<p><b>Self-Improvement:</b> Walk through life continually curious about the way things work. Read as much as you can; listen to new ideas; meet other people who are doing great things. Self-improvement makes all the other principles easier to obtain.</p>

\* <https://theordinaryleader.com/10-guiding-leadership-principles/>

**Due to numerous staff changes in the past several months, an updated Finance & Management organizational chart is attached for your information. Effective - July 2018**

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# Agency of Administration, Department of Finance & Management

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