

INTERNAL CONTROL NEWS

SEPTEMBER 2008

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.

Short-Paying Invoices

Ideally, when a vendor's invoice is incorrect the paying department will request the vendor to re-submit a corrected invoice. While this approach is thorough, it is often not practical or efficient. Occasionally departments have legitimate reasons to short-pay an invoice, that is, to pay an amount that is less than stated on the vendor's invoice. Deductions may be necessary for various reasons, such as short shipments, damaged goods, fees/taxes incorrectly charged, billed amounts not in accordance with the contract, etc. **When an invoice is not paid-in-full it is important that the reason(s) be documented and communicated to the vendor.**



If the department has a key contact at the vendor they may e-mail the explanation to that person, or, the check can be returned to the department so they can include an explanation with the payment. Departments should also retain this documentation with their invoice/vendor files in case the issue is raised at a later date by the vendor or in the course of an audit.

To the vendor, the invoice number is generally the most important information on their payment remittance advice as it provides the information needed to apply the payment to the correct account. When the payment amount does not match the invoice, and there is no explanation provided, it will likely lead the vendor to call the department seeking an explanation or, even worse, the vendor may suspend future dealings with the department thinking it is owed money. While the vendor may not always agree with the reasoning for the deduction, attempting to communicate up-front with the vendor is the most effective way to eliminate many unnecessary calls and to maintain good vendor relations.

News from the VISION Finance Support Team

VISION Training Classes are coming soon! The fall schedule has been set and is available on the *new* Finance & Management [website](#), in the Training & Reference Material section. This series includes a new addition as well as the old favorites. A Billing class has been added which is appropriate for any employee of a department that uses Billing. The Billing class will be on October 9th. All classes are held in the 3rd floor training room of 109 State Street. Classes are great for training new employees who use VISION, supplementing cross-training and refreshing skills and knowledge.

Logout of VISION by clicking on the **Sign Out** link in the upper right-hand corner of the VISION screen. Logging out this way instead of “X-ing” out, (by clicking on the red X), ensures that the session is closed properly. Closing properly can prevent future login problems and also helps with system-wide performance.



Process Instances that run to “No Success” should not be deleted! If a process has run to no success, please contact the VISION Finance Support Team. Even if you know what went wrong and how to fix it, it is VERY important that you let us know. Depending on the process you are running, when you receive a “no success” result it is likely that data is stuck. If the Process Instance is deleted, this data can become corrupt. Again, please do not delete process instances!



The **VISION Finance Support Team** is always available to answer any questions! Recent callers may have noticed a different greeting when selecting option 2, “finance support”. The same great people are still providing the same great service! We hope this change makes clear who is on the other end of the phone and what assistance they are ready to provide. The team can be reached at 802-828-0407, option 2.

Improving Internal Controls



Thorough understanding of a process and the consequences of non-performance are keys to improving a department’s system of internal control. Gaining a better understanding of not just the “*how*” but “*why*” something is done enhances an employee’s ability to improve performance, identify errors or wrongdoing, and make better overall decisions. Some reasons that internal controls breakdown and don’t always function as intended:

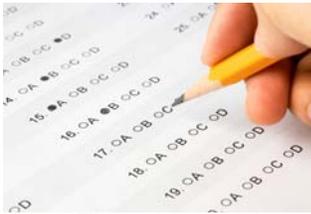
- **Inadequate knowledge of State or departmental policies and procedures**
 - “*I didn’t know that!*”
- **Inadequate segregation of duties**
 - “*We trust employee ‘X’ to do all of those things.*” Increases likelihood that mistakes or fraud will occur and go undetected; most fraud is committed by those we trust.
- **Inappropriate access to assets**
 - Passwords shared, offices left unlocked, cash not secured, etc.
- **Form over substance**
 - “*You mean I’m supposed to do something besides sign/initial it.*” (e.g., invoices, contracts, time reports, expense accounts, etc.)

- **Control override**
 - “I know that’s the policy, but we do it this way.”
- **Inherent limitations**
 - People are people and mistakes happen; you can’t foresee or eliminate all risk.

In offering his endorsement of the inaugural Self-Assessment questionnaire, former State Auditor Randy Brock wrote, “*For Vermont, good controls depend much more on people than on policies and procedures. The latter are important, but what is critical is the involvement of people who understand the importance of doing the right thing, not just doing things right.*” To improve the system of internal control, **all employees** should:

- ✓ Read, understand, and adhere to the policies & procedures which affect you and your job.
- ✓ Comply with the controls established to protect you and the State.
- ✓ Point out control weaknesses or suspected irregularities to your supervisor or manager.

Portions excerpted from Nebraska Information System presentation



Internal Controls Quiz

(Answers are at the end of the newsletter)

1. Fines incurred for traffic or parking violations while on official state business are a reimbursable employee expense.
 - a. True
 - b. False

2. All of the following are examples of **preventive** controls except for:
 - a. Use of computer passwords to stop unauthorized access.
 - b. Review and approval of purchase orders before the purchase occurs.
 - c. Performing bank account reconciliations.
 - d. Verifying a participant’s eligibility for State services prior to enrollment.

3. The State’s standard payment terms (*per F&M Policy #5*) for most vendors providing goods and services to the State of Vermont are:
 - a. NET00
 - b. NET15
 - c. NET30
 - d. NET45

4. Which one of the following examples is **not** an acceptable reason (*per F&M Policy #4*) for a department to purchase food and refreshments?
 - a. Department sponsored event where the public is invited.
 - b. Weekly staff meeting.
 - c. Board meeting.
 - d. Department sponsored event to recognize the work-related accomplishments of its employees.

5. Under Blanket Delegation of Authority #1 (BDA-1), the Commissioner of BGS has delegated to each department the authority to make direct purchases up to \$3,500 from suppliers provided that:

- a. The item is not available under an existing state contract.
 - b. The item is not restricted by statute or administrative bulletin.
 - c. The item is not an ongoing need of the department that is likely to be purchased on a regular basis.
 - d. All of the above.
6. The State of Vermont defines a **capital asset** as a physical resource with:
- a. An acquisition cost of at least \$1,000.
 - b. An acquisition cost of at least \$5,000 and a useful life of at least 2 years.
 - c. An acquisition cost of at least \$5,000 and a useful life of at least 3 years.
 - d. An acquisition cost of at least \$25,000 and a useful life of at least 3 years.
7. Per Administrative Bulletin #5.0, departments are required to enter grants to subrecipients in VISION within ___ days of the grant execution date:
- a. 5 days
 - b. 10 days
 - c. 15 days
 - d. 20 days
8. Ethical values & integrity, management's operating style, and a commitment to competence are all factors that influence which internal control standard?
- a. Control Environment
 - b. Risk Assessment
 - c. Control Activities
 - d. Communication & Information
 - e. Monitoring
9. The minimum standard for timely deposit of cash receipts (i.e., cash, checks, money orders, etc.) has been established as:
- a. Daily regardless of amount.
 - b. Whenever there are 5 or more items to be deposited.
 - c. Daily when in excess of \$500 but no less frequently than weekly.
 - d. At least monthly.
10. Reimbursement for travel expenses incurred more than 60 days prior to submission of the employee's expense account require the approval of the Department Head.
- a. True
 - b. False

F&M Staff Happenings



- The Technical Services Divisions of the Departments of Finance & Management and Human Resources have been consolidated within the Dept. of Information & Innovation as a combined PeopleSoft Technical Unit reporting to **Michael K. Morey**, Chief Technology Officer/Enterprise Architect.
- **Tim Holland**, former Director of Technical Services, has taken an IT position in the Agency of Human Services.

Internal Control Quiz Answers

1. (b); 2. (c); 3. (c); 4. (b); 5. (d); 6. (b); 7. (b); 8. (a); 9. (c); 10. (a)