



# Report of the Vermont State Auditor

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March 31, 2008

## INTERNAL CONTROLS

Results of Review at the  
Department of Public Safety

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**Thomas M. Salmon, CPA**  
**Vermont State Auditor**  
**Rpt. No. 08-5**

### **Mission Statement**

The mission of the Auditor's Office is to be a catalyst for good government by promoting reliable and accurate financial reporting as well as promoting economy, efficiency, and effectiveness in state government.

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**THOMAS M. SALMON, CPA  
STATE AUDITOR**



**STATE OF VERMONT  
OFFICE OF THE STATE AUDITOR**

March 31, 2008

The Honorable Gaye Symington  
Speaker of the House of Representatives

The Honorable Peter D. Shumlin  
President Pro Tempore of the Senate

The Honorable James Douglas  
Governor

Mr. Thomas R. Tremblay  
Commissioner of the Department of Public Safety

Dear Colleagues,

As part of our audit of the Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2007, we reviewed internal controls over financial reporting, and compliance with laws and regulations at several State organizations, including the Department of Public Safety. We found that the Department had appropriately designed controls in a number of areas, such as pre-employment screening. However, we also found internal control deficiencies in which improvements could be made. Such as the areas of revenue recognition and the management of accounts receivable. We consider the lack of monitoring over the revenue recognition process combined with no written procedures relating to the collection of aged and delinquent accounts receivables to be significant deficiencies. Monitoring is a basic management duty which should be included in routine financial and program activities. Effective monitoring gives management the opportunity to identify and correct any control activity deficiencies or problems and to minimize the impact of unfavorable events such as uncollectible accounts receivables.

I would like to thank the management and staff of the Department of Public Safety for their cooperation and professionalism. If you would like to discuss any of the issues raised by this audit, I can be reached at the phone number or email listed below.

Sincerely,

*Thomas M. Salmon CPA*

Thomas M. Salmon, CPA  
State Auditor

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## Abbreviations

DPS	Department of Public Safety
CAFR	Comprehensive Annual Financial Report
DHR	Department of Human Resources
SAS	Statement of Auditing Standards

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## Introduction

The mission of the Department of Public Safety (DPS) is to provide law enforcement services, criminal justice systems support, emergency preparedness planning, fire prevention activities and the fire fighter training programs for the State of Vermont. It is comprised of six divisions,

- *Vermont State Police.* The State Police are the primary law enforcement agency in the state, providing 24 hour coverage to 212 of the states 255 towns.
- *Criminal Justice Services.* DPS provides system support to a variety of state, county and local criminal justice agencies. Operating units within Criminal Justice Services include the Vermont Forensics Laboratory, the Vermont Crime Information Center, the Electronic Communication Unit, the Information and Technology Unit and the Governor's Highway Safety Program.
- *Vermont Emergency Management.* This division ensures that Vermont is prepared to respond to emergencies and recover from them and to mitigate their impacts.
- *Fire Safety Division.* This division ensures the safety of the public through enforcement, education and certification programs. The division has responsibility for the safety and accessibility of Vermont's 80,000 public buildings.
- *Administrative Services.* This division provides a full range of financial services, payroll administration, human resources services, purchasing and contract administration for all Public Safety divisions.
- *Homeland Security Unit.* This division enhances public safety by promoting coordinated All-Hazard response among all of Vermont's first response agencies.

DPS is responsible for oversight of approximately \$36 million in transportation funds, \$31 million in federal funds, and \$15 million in other state funds.

In consideration of DPS's financial significance and in accordance with our

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internal control audit obligations<sup>1</sup> related to the State's fiscal year 2007 Comprehensive Annual Financial Report (CAFR), our objectives were to assess DPS's internal controls over financial reporting, and compliance with laws and regulations related to its (1) entity-level controls<sup>2</sup>, (2) accounts payable, (3) accounts receivable and (4) revenue control activities.<sup>3</sup>

Auditing standards define three types of control findings.<sup>4</sup> First, a control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. The auditor must evaluate identified control deficiencies to determine whether these deficiencies, individually or in combination, are significant deficiencies or material weaknesses. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote<sup>5</sup> likelihood that a misstatement of the entity's financial statements that is more than inconsequential<sup>6</sup> will not be prevented or detected. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a

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<sup>1</sup>*Generally Accepted Auditing Standards* AU Section 150.02 (American Institute of Certified Public Accountants, Inc.). These standards require that auditors obtain a sufficient understanding of the entity and its environment, including its internal control, to assess the risk of material misstatement of the financial statements whether due to error or fraud, and to design the nature, timing, and extent of further audit procedures.

<sup>2</sup> Entity-level controls can have a pervasive effect on the overall system of control activities and pertain to the organization as a whole. It encompasses the organization's control environment, risk assessment, information and communication, and monitoring activities.

<sup>3</sup>Control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives.

<sup>4</sup>*Statement on Auditing Standards (SAS) 112, Communicating Internal Control Related Matters Identified in an Audit* (American Institute of Certified Public Accountants, Inc., May 2006).

<sup>5</sup>SAS 112 states that the likelihood of an event is "more than remote" when it is at least reasonably possible (reasonably possible can be defined as when the chance of the future event occurring is more than remote but less than likely). Therefore, the likelihood of an event is "more than remote" when it is reasonably possible or probable.

<sup>6</sup>The term "more than inconsequential" describes the magnitude of potential misstatement that could occur. A misstatement is inconsequential if a reasonable person would conclude, after considering the possibility of further undetected misstatements, that the misstatement, either individually or when aggregated with other misstatements, would clearly be immaterial to the financial statements. Overall financial statement materiality is based on a percentage related to an element of elements in a financial statement that is expected to affect the judgment of reasonable person relying on and using the financial statements.

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material misstatement of the financial statements will not be prevented or detected.

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# Highlights: Report of the Vermont State Auditor

## Internal Controls: Results of Review at the Department of Public Safety

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(March 2008, Rpt. No. 08-5)

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### Why We Did This Audit

As part of our audit of the State's fiscal year 2007 CAFR, we evaluated the internal controls over financial reporting, and compliance with laws and regulations of DPS. As part of our evaluation, we reviewed the design of DPS's entity-level controls and accounts payable, accounts receivable, and revenue control activities, but did not perform tests of effectiveness.

### What We Recommend

We made a variety of recommendations pertaining to entity-level controls and accounts payable and revenue control activities. In particular, we recommended that DPS develop a formal risk assessment measurement and monitoring program, establish a committee responsible for monitoring and assessing internal controls, establish a formal communication process, implement a system to age their receivables and establish an allowance for doubtful accounts and develop procedures to properly classify revenue into the correct fiscal years.

### Findings

In general, DPS provided evidence that it utilized key entity-level controls, such as utilizing pre-employment screening to recruit and hire new staff. However, we found three control deficiencies in the department's key entity-level controls. DPS had not implemented either a formal risk measurement or monitoring program or an internal control evaluation mechanism. Through the risk assessment process, management determines how much risk is to be prudently accepted and strives to maintain risk within these levels. Such a process is important because managers can use risk assessments to determine the relative potential for loss in programs and functions and to design the most cost-effective and productive internal controls. In addition, DPS does not have an ongoing mechanism to evaluate its internal controls. According to the State's internal control guide, management should establish procedures that monitor the effectiveness of control activities. Such monitoring provides management the opportunity to identify and correct any control activity deficiencies or problems and to minimize the impact of unfavorable events.

DPS does not have a formal communication process in place. For a department to run and control its operations, it must have relevant, valid, reliable, and timely communications relating to internal and external events. Managers must be able to obtain reliable information to determine their risks and communicate policies and other information to those who need it.

DPS's control activities with respect to accounts payable, accounts receivable and revenue recognition presented a more varied picture. For accounts payable activities, DPS had some, but not all expected control activities in place. In particular, our testing of 25 disbursements made after the end of the fiscal year indicated that 8 percent should have been, but were not, recorded as accounts payable in fiscal year 2007, which is a control deficiency.

DPS's control activities regarding accounts receivable and revenue recognition had two control deficiencies, both of which we consider to be significant. The first is that aged accounts receivable were not investigated and no allowance for doubtful accounts is established. Second, revenue was not recognized in accordance with state policy. Appropriate revenue recognition procedures are a key control to ensure the completeness, accuracy, and the validity of information recorded in the financial reporting system.

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## Background

Internal control can be broadly defined as a process, affected by an entity's governance structure, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- effectiveness and efficiency of operations,
- reliability of financial reporting, and
- Compliance with applicable laws and regulations.<sup>7</sup>

Internal control is a major part of managing an organization. Such controls comprise the plans, methods, and procedures used to meet missions, goals, and objectives. In addition, internal controls serve as the first line of defense in safeguarding assets and preventing and detecting errors and fraud.

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## Scope and Methodology

As part of our audit of the State's fiscal year 2007 CAFR, we gained an understanding of internal controls at the Department of Public Safety. We considered the design of the Department's controls and whether they were in place and operational. We did not test the effectiveness of the controls.

To assess DPS's entity-level controls, we used guidance developed by the U.S. Government Accountability Office<sup>8</sup> to develop a set of questions that addressed the control environment, risk assessment, information and communications, and monitoring. We assessed the responses to these questions that were provided by DPS Administrative Services. In addition, we reviewed and assessed applicable documentation, such as DPS's budget documents, strategic plans, recruiting and employee performance evaluation forms, and its internal control self-assessment.

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<sup>7</sup>This definition generally comes from the Committee of Sponsoring Organizations of the Treadway Commission (COSO), but we substituted the term governance structure for board of directors used in the original definition to make it more applicable to State government.

<sup>8</sup>*Internal Control Management and Evaluation Tool* (U.S. Government Accountability Office, GAO-01-1008G, August 2001).

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As part of reviewing accounts payable, accounts receivable and revenue control activities we performed walkthroughs of these functions with applicable staff. For the accounts payable function, we obtained a listing from the State's primary financial system—VISION—of all disbursements made from July 1, 2007, to September 12, 2007. We performed a cut-off test of a sample of these disbursements to determine whether they were recorded in the correct fiscal year. For the accounts receivable, we reviewed the classification of the accounts receivables as well as the aging of the receivables. With respect to revenue control activities, in addition to the walkthrough, we performed analytical procedures and period-end cut-off procedures.

We performed this audit in accordance with generally accepted government auditing standards between November and December 2007 in Waterbury.

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## Entity-level Controls

In general, DPS provided evidence that it employed key entity-level controls although some improvements could be made. Specifically, DPS had not implemented either a formal risk measurement or monitoring program or an internal control evaluation mechanism. Also, DPS does not have a formal communication process in place.

DPS's entity-level controls encompass its control environment, risk assessment, information and communication, and monitoring activities, as follows.<sup>9</sup>

- *Control environment.* The control environment sets the tone of an organization. It is the foundation for all other components of internal control. Among the factors that influence an evaluation of an organizations' control environment are ethical values and integrity, management philosophy and operating style, commitment to competence, and structure.

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<sup>9</sup>To guide our assessment of entity-level controls, we generally utilized the internal control frameworks and definitions promulgated by COSO and the U.S. Government Accountability Office. These concepts are also included in State guidance on internal controls, *Internal Control Standards: A Guide for Managers* (Department of Finance and Management).

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- *Risk assessment.* Risk assessment is the identification and analysis of relevant risks to the achievement of the objectives of an organization, which forms the basis of determining how these risks, should be managed.
  - *Information and communication.* For an entity to run and control its operations, it must have relevant, reliable information, financial and non-financial, related to both internal and external events. Effective communication must occur in a broad sense, flowing down, across, and up the organization.
  - *Monitoring.* Internal control environments need to be monitored. Ongoing monitoring occurs in the course of operations, including regular management and supervisory activities.

DPS provided evidence that it had implemented important controls in these areas. For example, to emphasize its commitment to integrity and ethical values within its control environment, DPS ensures that all new employees are familiarized with the Department of Human Resources (DHR) Personnel Policy 5.6 “Employee Conduct” by requiring them to sign an acknowledgement that they have received and reviewed this policy with a human resource representative. In addition, to demonstrate its commitment to competence, the department performs a comprehensive pre-employment background investigation on both sworn<sup>10</sup> and civilian employees. For example, sworn applicants are recruited, tested and evaluated in an extensive screening procedure conducted by the State Police’s Office of Professional Development. Moreover, final applicant candidates for certain civilian positions are subject to a fingerprint supported criminal and motor vehicle background check, a financial credit check and a personal history background check prior to an offer of employment.

However, DPS also had three control deficiencies in two of the entity-level control areas. First, in the risk assessment area, DPS had not implemented a formal risk measurement and monitoring program. All entities, regardless of size, structure, nature, or industry, encounter risks at all levels within their organizations. Through the risk assessment process, management determines how much risk is to be prudently accepted and strives to maintain risk within these levels. Such a process is important because, according to the State’s

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<sup>10</sup> Most full-time sworn personnel are uniformed officers who regularly patrol and respond to calls for service. Others work as investigators, perform court-related duties, or carry out administrative or other assignments.

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internal control guidance,<sup>11</sup> managers can use risk assessments to determine the relative potential for loss in programs and functions and to design the most cost-effective and productive internal controls.

DPS does not have an internal audit function or an ongoing mechanism to evaluate its internal controls. Although the department has an Audit Division within the Administrative Services Division, the role of the division is primarily focused on financial monitoring and outreach to sub-recipients of grants, not on the internal operations of the department. While the department participates in an annual statewide internal control self-assessment process sponsored by the Department of Finance and Management, DPS had not implemented an ongoing mechanism to evaluate internal controls. According to the State's internal control guide, management should establish procedures that monitor the effectiveness of control activities and the use of control overrides. Such monitoring gives management the opportunity to identify and correct any control activity deficiencies or problems and to minimize the impact of unfavorable events.

Second, while DPS holds management meetings, there was no formal vehicle for the communication of action items to staff (i.e. minutes) or means to track progress of these items. Managers and staff must be provided reliable information to determine their risks, document decisions, and communicate policies and other information to those that may need it. All entities, regardless of size, structure, nature, or industry, need to communicate key information up, down and across their organization. Having an effective communication process such as documenting minutes that are distributed is important because, according to the State's internal control guidance,<sup>12</sup> entity level controls over information and communication is important to the success to an organization.

DPS does not have a standard mechanism for reporting suspected fraud or for dealing with whistleblowers. It is important for personnel in organizations to be able to report internal control weaknesses, adverse information, improper conduct or the circumvention of internal controls. By establishing a formal fraud prevention mechanism, the organization ensures that potential or actual fraud can be reported.

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<sup>11</sup>*Internal Control Standards: A Guide for Managers* (Department of Finance and Management).

<sup>12</sup>*Internal Control Standards: A Guide for Managers* (Department of Finance and Management).

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Whistleblowers frequently make their reports in confidence. Anonymous reporting mechanisms are a key component of effective anti-fraud programs. A defined communication channel (such as a confidential hotline) is critical to deter fraud. To the extent possible within the limitations of state statute and policy and the need to conduct a competent, thorough investigation, confidentiality of whistleblowers is vital to encourage individuals to come forward with their reports. Occupational frauds are more likely to be detected by a tip than by other means such as internal audits, external audits or internal controls. Additionally, the department should conduct anti-fraud training to educate their employees on how to recognize and report illegal conduct, and to impress upon those employees the fact that such conduct is counterproductive and will not be tolerated<sup>13</sup>. The department should ensure that all supervisors and managers be aware of the process and be alert to either oral or written, or formal or informal communications that may constitute a report of allegations of suspected fraud. Because we found that the State as a whole lacked this fraud reporting mechanism, we will be addressing this issue on a statewide rather than on an organization-by-organization basis.

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## Accounts Payable and Accounts Receivable and Revenue Control Activities

DPS's implementation of effective control activities for accounts payable, accounts receivable and revenue control activities was mixed. There were two control deficiencies related to accounts payable, one significant control deficiency in accounts receivable and one significant control deficiency in the revenue area. In particular, DPS did not actively pursue the collection of aged accounts receivables nor did it recognize departmental revenues in accordance with state policy or the Department of Finance & Management's year-end closing instructions. Because of the materiality and financial impact of these two issues on the department's financial operations, we consider both to be significant deficiencies.

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<sup>13</sup>2006 ACFE Report to the Nation on Fraud & Abuse (Association of Certified Fraud Examiners, 2006)

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## Accounts Payable Control Activities

In the case of accounts payable control activities, DPS had some, but not all, expected controls in place. An example of a control that was in place was the Department's invoice approval process which required that invoices be reviewed and signed by the applicable authorizer prior to payment. In contrast, sufficient controls were not in place to ensure that accounts payable were recorded in the correct fiscal year. As part of its year-end closing procedures, the Department of Finance and Management required departments to add a "PY" prefix to the invoice number recorded in the State's principal accounting system (VISION) for all vouchers and journals entered in fiscal year 2008 that pertained to goods and services received or performed in the prior fiscal year.<sup>14</sup> The proper coding in VISION of prior year payables through the use of the "PY" designation allows the State's Division of Financial Operations to extract relevant data from the system to record accounts payable in the correct fiscal year in the State's financial statements. Our review of 25 invoices with a payment date of July 1, 2007, or later found that two (\$148,297) were not reported in the correct fiscal year, which is a control deficiency. This does not seem to indicate a systemic problem. A second person reviewing the invoices and the coding at year-end at least on a sample basis would reduce the risk of such errors.

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## Accounts Receivable and Revenue Control Activities.

For the State to properly prepare and present its annual financial statements on an accrual basis in accordance with generally accepted accounting principles, the Department of Finance and Management requires that all departments report their accounts receivable<sup>15</sup> at year end. The Department of Finance and Management's year end closing instructions are specific in that accounts receivable is defined as "amounts DUE the State from private persons, organizations, other governments, or other state agencies for goods or services furnished by the State on or before June 30 and for which payment has not yet been received by the State by June 30th".<sup>16</sup> The departments are required to complete an AA-F-17 form which includes the

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<sup>14</sup> *FY 2007 Year End Closing Instructions* (Department of Finance and Management, May 1, 2007).

<sup>15</sup> An asset of the State reflecting an amount owed to a department that has not been received; may include amounts due from individuals, private entities, the federal government, local governments and municipalities, and other state departments and organizations.

<sup>16</sup> *FY 2007 Year End Closing Instructions* (Department of Finance and Management, May 1, 2007).

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following data: total accounts receivable, the amounts collected on these receivables within a 60 day period after the end of the fiscal year, any allowance for doubtful accounts, and any income that relates to the next fiscal year (deferred revenue). DPS did not follow these requirements because it did not report in the AA-F-17 about \$2.1 million in receivables that were received after July 5, 2007, even though they were for activities performed prior to the end of fiscal year 2007. This occurred because DPS did not follow generally accepted accounting principles, instead utilizing a cash-basis approach to receivables. As a general rule, the recognition of receivables is tied to the recognition of revenue. If payment is not received when the revenue recognition occurs (i.e. revenue is earned), then a receivable should be recorded. As a result, the department's financial results required adjustment at year end.

In addition, although the Department had a listing of its accounts receivables, it did not maintain an aging schedule<sup>17</sup> of these accounts or calculate an allowance for doubtful accounts<sup>18</sup> or have procedures and controls in place to ensure that the accounts receivable was stated at net realizable value.<sup>19</sup> We estimate that there is at least \$272,000 in accounts receivable that is at risk for non-payment because they are over a year old.

DPS should investigate and implement best practices for its receivables. These would include recording accounts receivable in a manner to permit an analysis of the aging of such receivables, preparing this schedule monthly and ensuring it is reviewed by a supervisor or manager at an appropriate level. This aging would serve as the basis to provide realistic estimates of and properly account for doubtful or uncollectible accounts receivables. Additionally, a best practice would be to document the methodology used to determine the estimate. The computer billing and accounts receivable accounting system currently in place does not have the capability to provide

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<sup>17</sup> The process of determining which customers are paying on time, which are not, and how far behind the delinquent customers are from the payment due date. This analysis assists in estimating bad debts and in establishing credit lines.

<sup>18</sup> The portion of the account receivable that is estimated to be not collectible is set aside in a contra-asset account called an "Allowance for Doubtful Accounts". The actual amount of uncollectible receivable is written off as an expense from allowance for doubtful accounts to the account called bad debt expense.

<sup>19</sup> Total accounts receivable less the allowance for uncollectible accounts (bad debt). It is also called the book value of accounts receivable.

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the aging schedule. The department is planning on utilizing the billing and accounts receivable modules of the State's VISION accounting system, which does have the capability to age the accounts receivable. Other departments within the State (the Department of Buildings and General Services and the Department of Corrections) are currently using this aging of receivables functionality within VISION. Management has indicated that the expected "go live date" for this software is July 1, 2008.

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## Conclusions

DPS has implemented a myriad of internal controls related to the entity-level controls, accounts payable, accounts receivable and revenue control activities. Such controls improve the likelihood that the Department is positioned to achieve reliability in its financial operations. Nevertheless, there were a number of areas for potential improvements including risk assessment, communications, recording accounts payable in the appropriate fiscal year, and implementing controls over accounts receivable and revenue. These improvements would further enhance DPS's controls and ensure the reliability of its financial reporting.

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## Recommendations

The Commissioner of Public Safety should:

- Develop a formal risk assessment measurement and monitoring program, which includes risk assessments in major operational areas.
- Establish a committee, comprised of financial and program managers within the Department, that is responsible for monitoring and assessing internal controls related to significant operational areas. This committee should also monitor and follow up on corrective action plans.
- Create a formal process to communicate and disseminate timely information to those staff that may need it to effectively manage their areas of responsibility (i.e. distributed minutes of meetings with action items, etc.).
- Direct DPS Administrative Services Division to develop a process to support the assessment of whether a service was provided, or goods were received, in a prior fiscal year to ensure that accounts payable are recorded in the correct fiscal year.

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- Direct DPS Administrative Services Division to develop a process to support the assessment of whether revenue was earned in a prior fiscal year and ensure that the revenue and any related accounts receivables are recorded in the correct fiscal year.
  - Direct financial staff to prepare a monthly aging and review the Department's accounts receivable at least once per quarter for potential doubtful accounts and direct that an allowance for doubtful accounts be established and adjusted based upon the aging. Consider using the State's VISION accounting system to manage the department's billing and accounts receivables.

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## Management's Response

On March 27, 2008, the Department of Public Safety provided comments on a draft of this report (reprinted in appendix I). Management was in general agreement with many of the findings in the report and plans to take action on the issues in the report. DPS did not agree with the finding that the department should have a standard mechanism for reporting fraud or for dealing with whistleblowers. They indicated that this process was better suited to a state-wide organization due to objectivity issues and prohibitive cost. As previously indicated in our report, this finding is being addressed on a state-wide basis.

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In accordance with 32 V.S.A §163, we are also providing copies of this report to the Secretary of the Agency of Administration, Commissioner of the Department of Finance and Management, and the Department of Libraries. In addition, the report will be made available at no charge on the State Auditor's web site, <http://auditor.vermont.gov/>.

# Appendix I: Response from the Department of Public Safety



State of Vermont  
Department of Public Safety  
103 South Main Street  
Waterbury, Vermont 05671-2101  
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**MEMO TO:** THOMAS M. SALMON, CPA, STATE AUDITOR, OFFICE OF THE VERMONT STATE AUDITOR  
**FROM:** MELISSA JENKINS, MANAGEMENT EXECUTIVE, DEPARTMENT OF PUBLIC SAFETY  
BRIAN G. PRETTI, JR., AUDITING AND ACCOUNTING ANALYST II, DEPARTMENT OF PUBLIC SAFETY  
**CC:** THOMAS R. TREMBLAY, COMMISSIONER, DEPARTMENT OF PUBLIC SAFETY; A. MARC METAYER, DEPUTY COMMISSIONER, DEPARTMENT OF PUBLIC SAFETY  
**DATE:** 3/27/2008  
**RE:** OFFICIAL RESPONSE TO INTERNAL CONTROL FINDINGS DERRIVED FROM THE STATE FISCAL YEAR 2007 COMPREHENSIVE ANNUAL FINANCIAL REPORT

The Department of Public Safety would like to thank the Office of the Vermont State Auditor for the opportunity to respond to the Report of the Vermont State Auditor, "Internal Controls-Results of Review at the Department of Public Safety" (Rpt. No. 08-5). The Department of Public Safety's Response Finding's Identified in this report are as follows:

Entity-Level Control Findings (3):

1. *Risk Assessment- DPS had not implemented a formal risk measurement and monitoring program.*
  - a. The Audit Unit of the Administrative Services Division of the Vermont Department Public Safety has taken steps to begin an intensive internal control monitoring program in accordance with the four primary initiatives identified in the Vermont Department of Finance and Management's Internal Control Program. Formal reviews will begin in the final quarter of State Fiscal Year 2008.
    - i. Significant time has been allocated by the Department's Auditing and Accounting Analyst II to become well versed with the "Internal Control-Best Practice" series of documents as provided by the Vermont Department of Finance and Management.
    - ii. The Management of the Administrative Services Division of the Department annually completes an Internal Control "Self Assessment Questionnaire". This questionnaire will be the basis for evaluating existing control deficiencies. The Internal Control Review, that will begin in the fourth quarter of State FYE 2008, will utilize a scope and methodology



Commissioner Tel 802 244-8718 FAX 802 241-5377 Director Vermont State Police Tel 802 244-7345 FAX 802 241-5551 Director Criminal Justice Services Tel 802 244-8786 FAX 802 241-5557 Director Vermont Emergency Management Tel 802 244-8721 FAX 802 241-5556 Legal Counsel Tel 802 244-6941 Fax 802 241-5377 Internal Affairs Tel 802 244-5194 FAX 802 241-5377 Administrative Services Tel 802 244-8763 FAX 802 241-5553 Director of Fire Safety Tel 802 479-7561 FAX 802 479-7562

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# Appendix I: Response from the Department of Public Safety

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consistent with the Department of Finance and Management's "Internal Control Standards-A Guide for Managers", as well industry-best practices

- iii. The Audit Unit continually monitors the Internal Control Newsletter issued by the Department of Finance and Management and implements control improvements on an ongoing basis.
- iv. The Department of Public Safety currently conducts the following operational reviews:
  1. The Department, as part the "pre-Audit" portion of its recipient/sub-recipient monitoring program established in June of 2004, has consistently monitored the Department's compliance with its existing Internal Control procedures surrounding:
    - a. Grant Issuance
    - b. Approval of Disbursement Requests by Program Managers
    - c. The payable process
    - d. Compliance with Vermont Agency of Administration Bulletins
  2. The Department, as part of its annual "Purchasing Card Audit", evaluates user's compliance with Federal, State, and Departmental Regulations with particular emphasis given to expenditure authorization and the quality of reconciliations.
  3. The DPS Auditing Analyst II performs an annual Audit of all Impress Monies.
  4. The Department of Public Safety uses the State of Vermont Asset Management Procedure issued May 1, 2007.
    - a. The DPS Asset plan also consists of the following.
      - i. Weekly checks of the following for assets.
      - ii. Running the following query  
VT\_MER\_VCHR\_4999
      - iii. Checking various files for computer related assets.  
(Dell, Insight, etc)
      - iv. Monthly follow ups with the people who receive and move most computer related asset.
    - b. Inventories

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# Appendix I: Response from the Department of Public Safety

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- i. Mid year inventories sent to DPS locations.
    - ii. Asset administrator visits every location every 2 to 3 years to conduct an inventory. With the exception of Headquarters, Governors Highway Safety Program and Williston VSP an inventory is done every year by the asset administrator.
    - iii. Completes required year-end inventory reports.
  - b. The Department has established a Risk Management Committee comprised of Financial and Program Managers that will meet quarterly to:
    - i. Assess Internal Control Risks
    - ii. Evaluate the Reliability of Financial Information
    - iii. Perform a high level analysis of the Department's Accounts Receivable Activity in accordance with the Department of Finance and Managements Accounts Receivable-Best Practice publications.
      1. Make recommendations to Program Managers on collecting against delinquent accounts.
      2. Evaluation of when a receivable will be deemed uncollectible.
        - a. Feasibility (cost/benefit analysis) of utilizing a collection agency.
        - b. Recommendations to as when to disbar certain customers due to systematic failure to make payment against the entity's respective account.
      3. Recommendations for possible alteration of payment methods
        - a. Cash Due at Time of Service, etc.
        - b. Identify vendor's who habitual fail to pay, yet DPS is required by Statute to serve.
    - c. The Auditing and Accounting Analyst II is, as in the past, dedicated sustained attention monitoring the Departments progress on the implementation of any and all corrective action plans.
2. *Information and Communication-Formal vehicle for the communication of action items to staff, or a means to track the progress of these items.*

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# Appendix I: Response from the Department of Public Safety

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- a. The Department of Public Safety, under its new Management, currently holds monthly meetings of senior management in an effort to facilitate communication and information sharing across divisional lines.
  - b. It is the practice of senior management to disseminate/communicate all issues identified in the aforesaid meetings to those who need it. This results in an effective, yet efficient, means of providing managers and staff with reliable information to determine risks, document decisions, and communicate key information up, down, and across the Department of Public Safety.
  - c. Procedural and Policy Changes are currently distributed to impacted staff via email correspondence and all such documents are available for public review on the VIBRS (DPS's Intranet) homepage.
3. *Information and Communication-DPS does not have a standard mechanism for reporting suspected fraud or for dealing with whistleblowers.*
- a. The Office of the Vermont State Auditor currently has a fraud tip hotline.
  - b. It is the position of the Department of Public Safety, given its current budgetary restrictions, that the creation of fraud tip hotline would be cost prohibitive.
  - c. The hierarchy of the Department would also make the maintenance of objectivity difficult, if not impossible, with this required independence being something that is innate to the function of the Office of the State Auditor.

#### Accounts Payable and Accounts Receivable Revenue and Control Activities Findings (3)

1. *Accounts Payable Control Activities--DPS did not recognize departmental revenues in accordance with state policy or the Department of Finance and Management's year end closing instructions.*
  - a. The Administrative Services Division of the Department of Public Safety will generate accurate financial reports reflective of all prior year payables. All prior year invoices received after fiscal year end will be coded with PY (prior year).
  - b. The Accounts Payable Supervisor has been charged with task of double checking the accuracy of prior year payables as prepared by the accounts payable clerks.
  - c. The Division will conduct year end close-out procedures in accordance with the Department of Finance and Management's year end closing instructions.
2. *Accounts Receivable and Revenue Control Activities--Aged Accounts Receivable were not investigated and no allowance for doubtful accounts is established*
  - a. The Administrative Services Division of the Department of Public Safety will begin utilizing the VISION Accounts Billing Module. The "go live date" for this system is 7/1/08.

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- i. This module will allow the department to properly age receivables in accordance with industry-wide best practices.
  - ii. It will allow the Department to begin the task of calculating an allowance for doubtful accounts.
    - 1. The Departments Risk Management Committee will begin meeting quarterly, starting on 9/30/08, to conduct a high level analysis of the adequacy of collection activities.
    - 2. Collections trends will be reviewed and an allowance of doubtful account with be created using the “aging of accounts receivable method.”
  - b. The Accounts Receivable Clerk has been charged with responsibility of producing a monthly aging report, accompanied by an executive summary at the end of each month. This report will be formally submitted to the Department’s Management Executive and then disseminated to the directors of all 6 DPS divisions. This mechanism will serve to provide management with current and accurate information necessary for mitigating risk associated with extending credit to historically delinquent customers.
  - c. Customer Statements for both current and past due, accounts will be generated at month end and mailed to customers.
  - d. The Department has, as of 3/1/08, begun an aggressive collections effort on past due accounts (phone and mail). The Department has also been working to further devise and implement techniques to better manage and collect receivables in accordance with the Department of Finance and Management’s “Accounts Receivable –Internal Control- Best Practices” Series.
3. *Accounts Receivable and Revenue Control Activities-DPS did not recognize departmental revenues in accordance with state policy or the Department of Finance and Management’s year end closing instructions.*
- a. The Administrative Services Division of the Department of Public Safety will generate accurate financial reports reflective of all prior year receivables.
  - b. The Division will conduct year end close-out procedures in accordance with the Department of Finance and Management’s year end closing instructions.

The aforesaid corrective action plan will be fully enacted by 7/1/08. The contact person for the Department of Public Safety is Brian George Pretti, Jr., Auditing and Accounting Analyst II. On behalf of the Vermont Department of Public Safety, I would like to thank the State Auditor’s Office for their professionalism in conducting this audit. In addition the Department of Public Safety sincerely values the State Auditor’s proactive approach in providing the State Financial Community with the feedback necessary to pursue our common goal of excellence in the accuracy of Financial Reporting and the mitigation of risk through the establishment/maintenance of a sound internal control environment.