Agency Risk Management and Internal Control Standards

To ensure fiscal accountability and safeguard the Commonwealth's assets

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Introduction

Overview

Current national standards for internal control are considered "best practices" for both private sector and public sector management in the United States. These nationally recognized "best practices" directly support the Commonwealth's vision and long-term objectives, as authorized by *Code of Virginia* § 2.2-2684 *et seq*. and published by the Council on Virginia's Future:[1]

Vision Statement

The third paragraph of the Commonwealth's vision statement states:

We have a responsibility to be the best-managed state in the country. To do so, we must have a focused vision, and a fiscally responsible system that provides clear, measurable objectives, outcomes and accountability, and that attracts, motivates, rewards, and retains an outstanding state workforce.

Long-Term Objective

One of the Commonwealth's eight long-term objectives is:

Be recognized as the best-managed state in the nation.

In recent years, government interest in internal control and enhanced disclosure has grown as governments became more complex and as citizens demanded more accountability. An effective system of internal control:

- provides accountability for meeting program objectives;
- promotes operational efficiency;
- improves the reliability of financial statements;
- strengthens compliance with laws and regulations;
- reduces the risk of financial or other asset losses due to fraud, waste, or abuse.

For each Executive Branch agency identified in the Appropriation Act, responsibility for implementing internal control standards begins with the chief executive officer (agency head)

[1] *Interim Report of the Council on Virginia's Future to the Governor and the General Assembly of Virginia*, January 12, 2005, Page 16.

and extends to everyone in the agency. Each agency head personally holds the leadership responsibility for helping to design, implement, maintain, and champion an internal control program that encompasses all agency fiscal programs and related activities. Each agency's chief financial officer shares this leadership role, yet ultimate accountability remains with the agency head.

The Objective of Agency Risk Management and Internal Control Standards

The following sections provide information about internal controls to familiarize the reader with the applicable concepts and facilitate implementation of the Commonwealth's agency risk management and internal control standards. After fiscal officers and others read these standards, they should fully understand both the Commonwealth's standards and their individual roles in the process.

The Objective of *Agency Risk Management and Internal Control Standards*

To provide reasonable assurance of the integrity of all fiscal processes related to:

- **Submission of transactions to the Commonwealth's general ledger**
- **Submission of deliverables required by financial statement directives**
- **Compliance with laws and regulations**
- **Stewardship over and safeguarding the Commonwealth's assets**

In less technical terms, to ensure fiscal accountability and safeguard the Commonwealth's assets.

COSO Standards

Formed in 1985 in response to private sector internal control scandals, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) now sets the most broadly accepted standards for internal control in the United States. COSO has issued two key standards documents:

- *Internal Control – Integrated Framework* (September 1992) and
- *Enterprise Risk Management – Integrated Framework* (September 2004).

The standards herein are based primarily on COSO's 1992 Internal Control framework, yet reflect some content from COSO's 2004 Enterprise Risk Management framework. Those responsible for implementing these standards may find it helpful to read COSO's framework documents for a deeper conceptual understanding of this subject.

Sarbanes-Oxley Standards

In 2002, the Sarbanes-Oxley Act (SOX) was passed by Congress and signed by the President to restore trust in publicly traded companies after a surge in internal control scandals. SOX responded to internal control breakdowns at publicly traded companies. These breakdowns resulted in the issuance of fraudulent financial statements that led to the loss of tens of thousands of jobs and billions of dollars in shareholder wealth.

SOX Management Certification Requirements

In publicly traded companies' financial statements, the chief executive officers and chief financial officers must personally certify that they:

- know of no material misstatements;
- designed controls so they would know of any misstatements;
- have evaluated the effectiveness of internal controls within 90 days prior to issuance of corporate annual financial statements;
- reported their conclusions on internal control effectiveness;
- disclosed any significant deficiencies in internal controls;
- disclosed any fraud involving people who have a significant role in internal control;
- indicated any significant change in internal controls since the internal control evaluation.

Other Major SOX Requirements

SOX contains additional requirements for financial statements, as well as requirements for each corporation to have a code of ethics.

- Annual reports must include:
  - A statement of management's responsibility for adequate internal control and financial reporting procedures
  - An assessment of the effectiveness of internal control and financial reporting procedures
  - A report from the external auditor on management's assessment of the effectiveness of internal controls and financial reporting procedures
- All publicly traded companies must have a code of ethics that encompasses:

- Honest and ethical conduct
- Ethical handling of actual or apparent conflicts of interest
- Full, fair, accurate, timely, and understandable disclosure in periodic reports
- Compliance with applicable governmental rules and regulations

In effect, SOX gave COSO's internal control requirements the force of law, including unprecedented criminal sanctions for fraudulent reporting.

At this time, SOX does not apply to government entities. However, as discussed in the next section, the public sector anticipates a future SOX-equivalent mandate. Although public sector employees do not currently face SOX criminal sanctions, SOX reinforces internal control as an essential, required element of organizational governance.

Federal Government Standards

OMB Circular Number A-123 (*Management's Responsibility for Internal Control*) includes requirements for federal agencies that are similar to those in COSO's 1992 internal control framework. In response to the internal control requirements that SOX imposes on publicly traded companies, the federal government revised Circular A-123 to strengthen requirements for management assessments of internal control over financial reporting. The revised circular also requires an annual management assurance statement on internal control over financial reports.

Circular A-123 clearly indicates that Federal government agencies are subject to COSO-like internal control standards and clearly aligns Federal executive agency practice with both SOX and COSO. As Federal program managers begin implementing these newly adopted control standards, their effect is expected to be felt by state governments through Federal grant programs. It is unclear whether Federal agencies will mandate these standards for state governments through grant programs, but the recent issuance of Federal agency internal control standards (A-123) strongly suggests that the Federal government will expect grantee agencies to conform to internal control best practice concepts.

The Commonwealth's *Agency Risk Management and Internal Control Standards*

This document contains the Commonwealth's complete standards for internal control. Although discussion of "internal control" has long standing with accountants and auditors, all of agency management should know, understand, embrace, and implement these standards. The standards must be applied to all government activities that involve the state's assets, accounting, and financial reporting.

These standards currently focus on the fiscal impact of agency programs and services. However, all programs and services are entrusted with financial and other assets and must achieve the internal control objectives embodied in these standards.

Internal Control Limitations

Readers should be aware of internal control's limitations. No matter how well designed and operated, effective internal control provides only reasonable (not absolute) assurance. Achievement of objectives is always influenced by limitations inherent in all management processes, including:

- Faulty judgment or other human error
- Collusion
- Management override of controls
- Limitations disclosed by cost-versus-benefit analysis

These limitations exist wherever internal controls exist, whether in the public, private, or not-for-profit sectors.

Internal Control Basics

Glossary

Glossary of Internal Control Terms	
Best Practice	"Best practice" is a frequently used business term with many definitions. For the purposes of these standards, these definitions help to provide an understanding of this term from multiple perspectives: • The winning strategies, approaches, and processes that produce superior performance in an organization. Source: www.portfoliostep.com/390.1TerminologyDefinitions.htm • An activity or procedure that has produced outstanding results in another situation and could be adapted to improve effectiveness, efficiency, ecology, and/or innovativeness in another situation. Source: www.ichnet.org/glossary.htm • A way or method of accomplishing a business function or process that is considered to be superior to all other known methods. Source: www.qaproject.org/methods/resglossary.html • The term best practice generally refers to the best possible way of doing something; it is commonly used in the fields of business management, software engineering, and medicine, and increasingly in government. Source: en.wikipedia.org/wiki
Control Activities	Policies and procedures established and implemented to help ensure the risk responses are effectively carried out. Control activities occur throughout an organization, at all levels, and in all functions. They include: • Authorization • Review and approval • Verification • Reconciliation • Physical security over assets • Segregation of duties • Education, training, and coaching • Performance planning and evaluation

Glossary of Internal Control Terms	
Control Environment	The agency's "corporate culture," showing how much the agency's leaders value ethical behavior and internal control. Factors include: • Values stated and promoted for integrity and ethical behavior • Direct and active involvement of the agency management team • Commitment to competence • Organizational structure • Assignment of authority and responsibility • Human resource standards • Internal control philosophy • Risk management philosophy • Oversight by the Cabinet Secretary • Oversight by the agency's governing board or commission (when applicable)
GAAP	"Generally accepted accounting principles," promulgated by the Governmental Accounting Standards Board (GASB) and other standards-setting entities.
Information and Communication	Communicating relevant information in a timeframe to enable people to carry out their responsibilities. Effective communication occurs down, across, and up the agency. An effective information and communication process ensures that all personnel receive a clear message from the agency head that internal control must be taken seriously.
Inherent Risk	The risk that one or more factors will prevent an objective from being accomplished, if the agency does not implement risk mitigation measures.
Internal Control	Ongoing process led by agency head to design and provide reasonable assurance that these types of objectives will be achieved: • Effective and efficient operations • Reliable financial reporting • Compliance with applicable laws and regulations • Safeguarding of assets
Internal Control Components	1. Control Environment 2. Risk Assessment 3. Control Activities 4. Information and Communication 5. Monitoring Activities
Monitoring	The process of assessing the presence and functioning of internal control components and making continuous improvements. Monitoring can be accomplished by routine management activities, separate evaluations, or both.
Residual Risk	The risk that remains after management responds to inherent risk. Once risk responses have been developed, management then considers residual risk.

Glossary of Internal Control Terms	
Responses to Risk	The technique used to offset the impact of risk: • Avoid risk • Reduce risk • Share risk • Accept risk A complete response to a given risk may include more than one technique.
Risk	A factor that could prevent an individual, group, or agency from accomplishing an objective as intended or planned.
Risk Assessment	Process of analyzing potential events and determining what impact they may have on achieving agency objectives.

Internal Control and Fiduciary Responsibility

Agency heads, executives, managers, and other public sector employees share the common role of fiduciary. This fiduciary role applies in varying degrees to all of the Commonwealth's employees, regardless of any individual's position title or program-related responsibilities.

FIDUCIARY: In many common law jurisdictions, *fiduciary* is a legal term used to describe a relationship between a person who occupies a particular position of trust, power or responsibility with respect to the rights, property or interests of another. Common relationships with this character are those of a guardian and a ward, an attorney and a client, and a trustee and a beneficiary.

A fiduciary must act for the benefit of the person to whom he or she owes fiduciary duties, to the exclusion of any contrary interest. A fiduciary will often be entrusted with broad power over the property of another. A fiduciary is generally held to a very high standard of honesty and integrity within the scope of the relationship … definitions of "fiduciary" vary, but four duties are common:

1. Duty of loyalty – disregarding self-interest and acting for the good of the public
2. Duty of care – exercising highest standards of care in promoting the public interests
3. Duty of candor – disclosing all relevant information
4. Duty to act prudently [2]

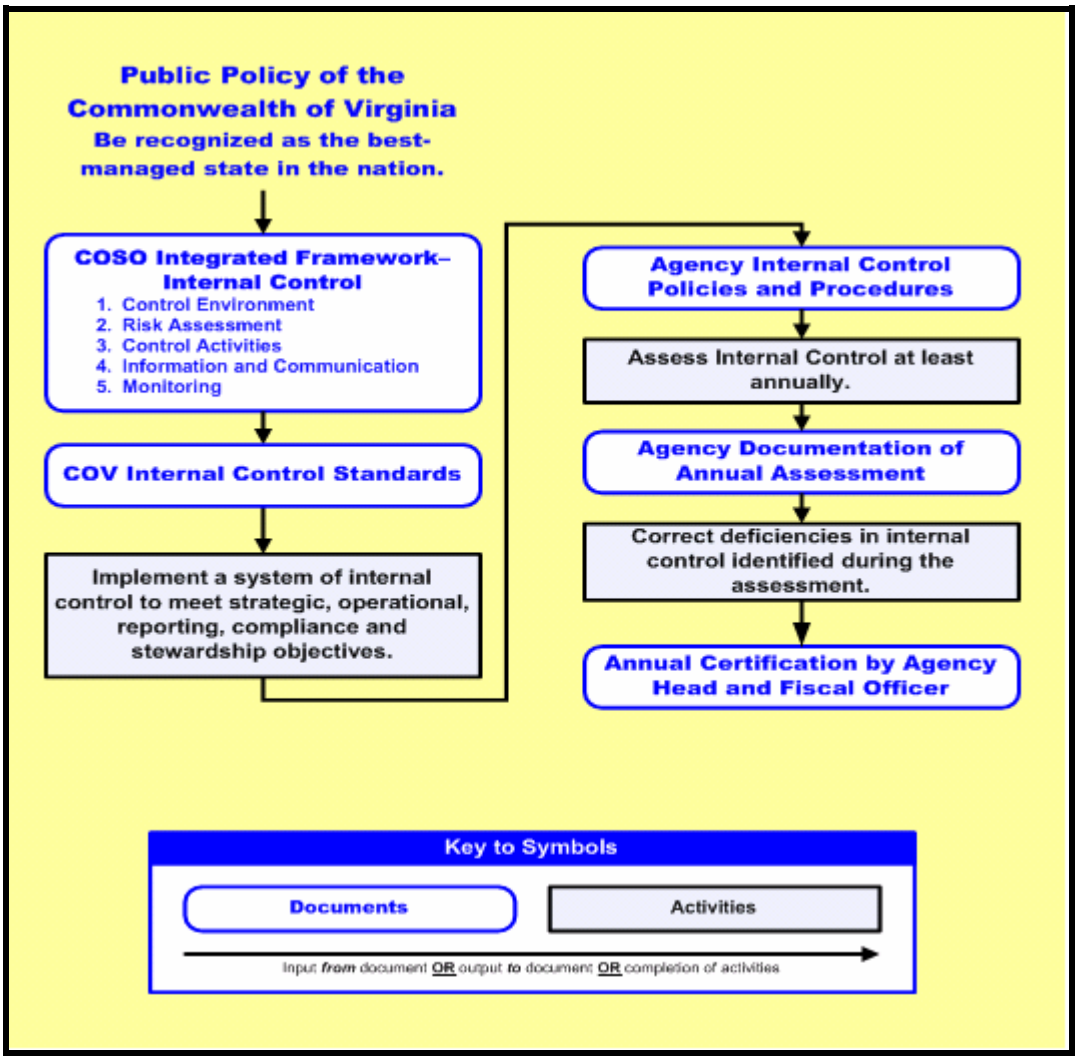
Internal Control Implementation Overview

To implement these *Standards*, each agency must plan and take systematic and proactive measures to (a) develop, implement, and maintain adequate and cost-effective internal control over the recording of financial transactions in the Commonwealth's General Ledger, compliance with the Commonwealth's financial reporting requirements for the agency, compliance with laws and regulations, and stewardship over the Commonwealth's assets; (b) periodically assess the

[2] Excerpted and adapted from Wikipedia, The Free Encyclopedia (http://en.wikipedia.org/wiki/fiduciary)

adequacy of internal control and identify needed improvements; (c) take corresponding preventative and corrective actions; (d) report annually on internal control to the Office of the Comptroller; and (e) take action to remediate any deficiency noted by the Department of Accounts or Auditor of Public Accounts. The following exhibit provides a summary of the implementation process.

Exhibit 1 – Implementing Agency Risk Management and Internal Control Standards – An Overview



Roles and Responsibilities

While each state employee has personal internal control responsibility, the agency head holds ultimate responsibility and must assume ownership for internal control. Other agency executives and managers must support the agency's internal control philosophy, promote compliance, and maintain control within their areas of responsibility. Chief financial officers and fiscal officers have key oversight and policy enforcement roles over fiscal matters. Other agency managers may hold lead responsibility for compliance with non-financial aspects of laws, directives, policies, procedures, and the code of ethics.

Internal auditors hold essential responsibilities for assessing, testing, and reporting on internal control. However, internal auditors cannot relieve agency management from its internal control responsibilities. Although internal auditors can provide valuable consultative services with regard to control design, function, and assessment, they cannot relieve management of its responsibility. **These standards prohibit "delegation" or assignment of internal auditors to fulfill management's role for the design, implementation, monitoring, and periodic evaluation of internal control.** Agency management may use the internal auditor's analysis of internal control in management's assessment of internal controls; however, the internal auditor's work cannot be substituted for management's independent analysis and documentation of agency internal control. Internal auditors are limited to serving as independent evaluators and verifiers of internal control components and management performance in maintaining internal control.

External parties such as citizens, customers, the General Assembly, other agencies, outside auditors (e.g. the Auditor of Public Accounts), and regulators often provide information that is useful in effecting control. However, external parties, too, are neither responsible for nor part of an agency's internal control program.

Agency Risk Management and Internal Control Standards

Overview

Virginia has designed these *Standards* to achieve five objectives.

1. Strategic – support for "being recognized as the best-managed state in the nation" through internal control best practice
2. Operational – effective and efficient use of fiscal resources and other assets
3. Reporting – integrity and reliability of financial reporting
4. Compliance – compliance with applicable laws and regulations
5. Stewardship – protection and conservation of assets

To meet Virginia's *Standards*, an agency must demonstrate that it has five internal control components established and fully functioning:

1. Control environment,
2. Risk assessment,
3. Control activities,
4. Information and communication, and
5. Monitoring.

Agency size, complexity, programs, corporate culture, management style, and other attributes will affect how these *Standards* are effectively and efficiently implemented. Even with these and other variables, the following stages usually occur when implementing a comprehensive internal control program.

Exhibit 2 – General Internal Control Implementation Requirements

Preparedness	Gain and maintain familiarity with internal control concepts and ensure those concepts are addressed in strategic fiscal matters and routine fiscal management.
Executive Sponsorship	Executive support drives success. Executive sponsorship must be visible and audible, early and often. This includes supporting fiscal and audit personnel on internal control issues and providing the "muscle" for enforcement.

Exhibit 2 – General Internal Control Implementation Requirements, cont.

Implementation Planning	The fiscal officer should write an implementation or assessment plan. The plan should set out such items as project phases, work streams, milestones, resources, deadlines, and responsibilities to the extent appropriate, considering organizational size, complexity, and related factors.
Assessment of Current Status	Assess how internal control components, concepts, and principles are currently applied across the agency.
Capability Development	Ensure that the fiscal function has sufficient resources (typically qualified people, technology, and training resources) to do the job.
Monitoring	As part of the ongoing management process, continually review and strengthen internal control in key matters pertaining to mission, operations, accounting and reporting, asset management, and compliance with laws and regulations.

Control Environment

Internal control requires an adequate "Control Environment" foundation. The control environment reflects top management's expectations for how seriously agency employees should view and execute their fiduciary responsibilities.

Control environment is extremely important and has major impact – positive or negative – on internal control. The attitude and concern that top management expresses must be definitive, clear, and permeate the agency. Merely talking about management's support is insufficient – words must be reflected in everyday executive action and demeanor over the long term.

Management Philosophy

Management philosophy is the set of shared beliefs and attitudes characterizing how the agency handles everything it does, from developing and implementing strategy to day-to-day activities. This philosophy reflects the agency's values, influencing its culture and operating style, and affects how well fiscal programs can implement, maintain, and enforce control.

Management philosophy appears in policy statements, oral and written communications, and decision-making. Management reinforces the philosophy more with everyday actions than with its words.

Reasonable Risk

Internal control cannot be perfect and includes an element of risk, which the agency management must consider in pursuit of its operating objectives. How an agency manages risk reflects its management philosophy (and in turn influences the agency's culture and operating style) in programs that provide direct services to citizens, regulants, clients, elected officials, other agencies, and other stakeholders. How an agency manages risk also affects the integrity and reliability of its reporting, its compliance with applicable laws and regulations, and its protection and conservation of assets. Even with the best internal controls, management cannot eliminate all risk and must accept some level of residual risk. Agency management may only accept reasonable risk that relates to operational objectives. Risks that jeopardize compliance with financial reporting or legal requirements cannot be accepted, and, if present, must be eliminated as soon as possible.

Oversight by the Agency's Governing Board

When statutes create an agency governing board, its members (commissioners, visitors, or directors) play a critical part in creating the control environment, assessing control adequacy, and monitoring control performance. The board's independence from management, experience and stature of its members, extent of its involvement and scrutiny of activities, and appropriateness of its own actions all contribute to internal control. Effective boards require effective internal control programs.

Integrity and Ethical Values

An agency's strategy, objectives and implementation stem from preferences, value judgments, and management styles. Management commitment to ethics influences these preferences and judgments, which translate into behavioral expectations. Effectiveness of control activities cannot rise above the integrity and ethical values of the people who create, lead, and monitor agency programs. To protect an agency's reputation, standards of behavior must exceed mere compliance with law. Top agencies reflect a belief that good ethics is good government.

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Promoting Ethics and Appropriate Conduct

Agencies that actively and continually support a culture of integrity and ethical values communicate these core values through a code of ethics or similar document. Developing and reinforcing a comprehensive and understandable code is a "best practice" and essential to internal control, linking the agency's mission and vision to its operating policies and procedures. The following table illustrates possible elements of a code of ethics.

Exhibit 3 – Developing a Code of Ethics

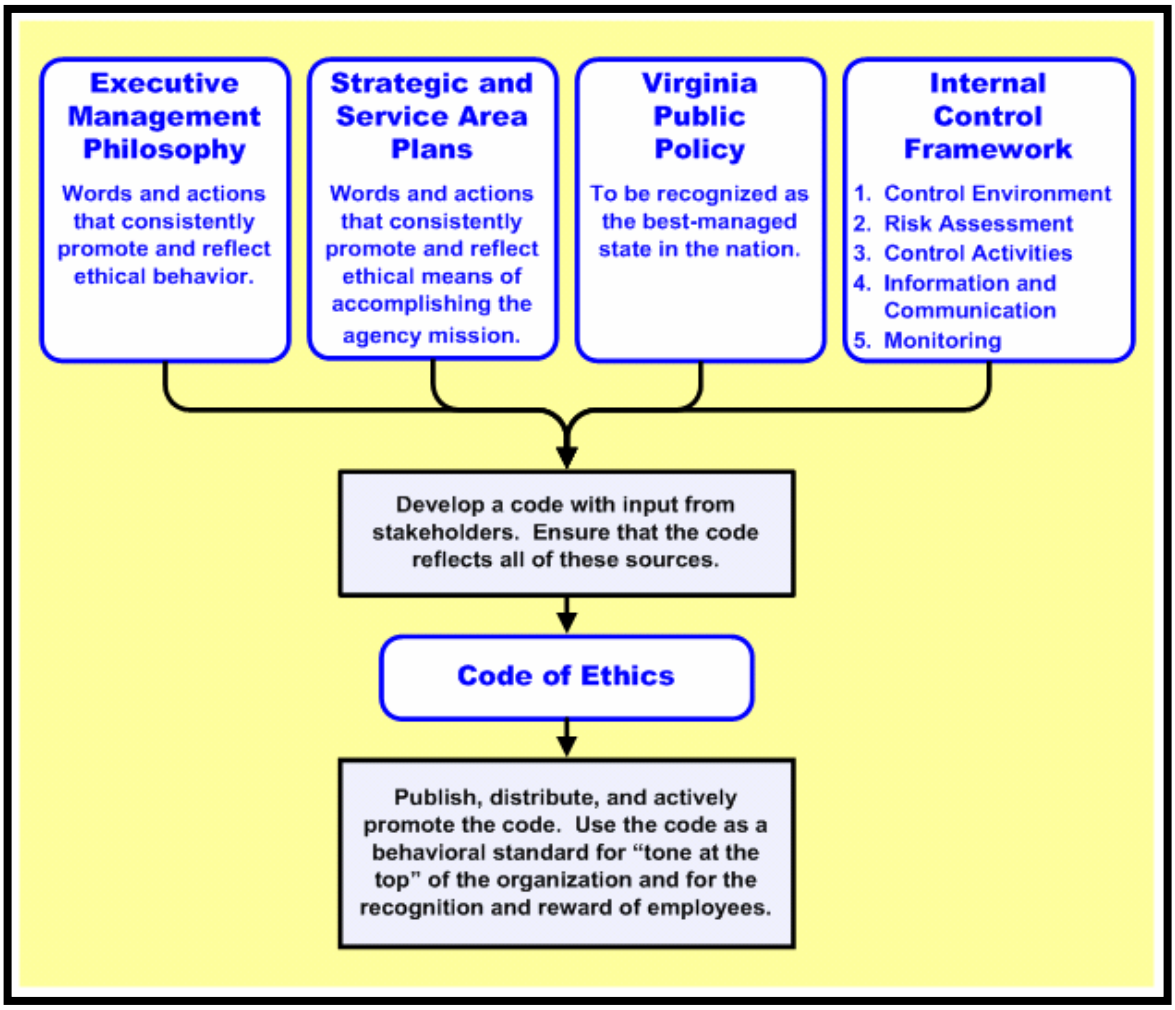


Exhibit 4 – Illustrative Structure for a Code of Ethics

Section	Section Outline
1. Letter from Agency Head	• Present top management's message on the importance of integrity and ethics to the agency. • Introduce the code of ethics. Gives its purpose and tells how to use it.
2. Goals and Philosophy	• Consider the agency's: o Organizational culture, o Programs and types of programs (e.g., regulatory, human services, *et al*), o Geographic locations, o Commitment to open and ethical leadership.
3. Conflicts of Interest	• Address conflicts of interest and forms of self-dealing. • Speaks to personnel and those activities, investments, or interests that reflect on the agency's integrity or reputation. • Counsels all employees regarding actual and perceived conflicts of interest, not only those subject to the *State and Local Government Conflict of Interests Act* (*Code of Virginia* § 2.2-3100 *et seq*.).
4. Gifts and Gratuities	• Deal with giving or receiving of gifts and gratuities, setting forth the agency's policy, typically going beyond legal requirements. • Sets standards and provides guidance regarding gifts and entertainment and their proper reporting.
5. Agency Resources	• May include provisions dealing with the safeguarding of agency resources, including intellectual property and proprietary information.
6. Social Responsibility	• May include the agency's role as a citizen, including its commitment to human rights, environmental protection, community involvement, and environmental and economic issues.
7. Additional Related Topics	• May include provisions regarding adherence to policies established within specific areas of agency activity, for example: o Employment issues such as fair labor practices and antidiscrimination o Governmental dealings such as contracting, lobbying and political activity o Antitrust and other competitive practices o Good faith and fair dealing with citizens, clients, suppliers, and others o Confidentiality and security of information o Safety and quality in program services

Organizational Structure

An agency's organizational structure provides the structure to plan, execute, control, and monitor activities. A sound organizational structure defines key areas of authority and responsibility, while illustrating reporting lines. An organizational structure may be centralized or decentralized; it may create direct reporting lines or a matrix format. An agency may be organized by services, geographical locations, or enabling statutes.

Assignment of Authority and Responsibility

Assignment of authority and responsibility involves the degree to which individuals and teams are authorized and encouraged to use initiative to accomplish objectives and solve problems. It includes establishing reporting relationships, fixing authorization procedures, issuing policy that assigns appropriate personnel to each program, and allocating resources to do each job. A critical challenge is delegating to the extent required to achieve objectives, ensuring that decision

making is based on sound practices for risk identification and assessment. Another challenge is ensuring that everyone understands the agency objectives and how his or her job contributes to meeting those objectives.

Work Force Competence

Competence reflects the knowledge, skills, and abilities needed to meet objectives. Management sets competencies for particular jobs and translates those competencies into *Employee Work Profiles* and employee development programs. Top agencies provide qualified and committed personnel to key control positions.

Human Resources Development

Human resources practices for hiring, orientation, training, evaluating, counseling, promoting, compensating, and remediation send messages to employees about expectations for integrity, ethical behavior, and competence. For example, standards for hiring and retaining the most qualified and ethical individuals demonstrate an agency's true culture. Providing continuing training and education can reward expected performance and behavior. It is essential that employees be groomed to tackle new challenges as agencies become more complex.

The agency human resources director and staff should take an active part in maintaining a sound control environment, ensuring that *Employee Work Profiles* reflect the coming year's portion of meaningful long-term professional development plans. Those plans must be sufficient to provide the leadership, analytical, technical, and communication skills required to support best practices and continuous improvement.

COMMONWEALTH OF VIRGINIA INTERNAL CONTROL STANDARDS MINIMUM REQUIREMENTS

To demonstrate that the control environment internal control component is established and fully functioning, the agency must meet the following *minimum* requirements:

- **Develop and actively promote a Code of Ethics.**
- **Document and assess key elements of the control environment including, but not limited to:**
  - **Management philosophy**
  - **Management's attitude towards risk**
  - **Oversight by the agency's governing board**
  - **Integrity and ethical values**
  - **Promotion of ethics and appropriate conduct**
  - **Organizational structure**
  - **Assignment of authority and responsibility**
  - **Workforce competence and human resource development**

(See *Appendix A – Internal Control Assessment Guide,* "Control Environment Assessment Tools", pp. 40-45)

Risk Assessment

"Risk Assessment" is the process of analyzing potential events and considering likelihood and impact to determine those events' possible impact on achievement of objectives.

Risk Map – An Example

	Low Impact	Medium Impact	High Impact
High Probability	2	3	3
Medium Probability	1	2	3
Low Probability	1	1	2

For each event, determine the impact of that event occurring and the probability that it will occur.

Probability = The likelihood that a negative event will occur.

Impact = The severity of the consequences of a negative event.

3 Red Zone – high risk – mitigate or reduce the risks.
2 Yellow Zone – medium risk – manage the risks.
1 Green Zone – low risk – accept the risks.

This is just one of many formats that a risk matrix may take.

In risk assessment, management considers the mix of potential events relevant to the agency and its activities in the context of the agency's risk profile, which includes size, operational complexity, and regulatory restraints. Management must consider both expected and unexpected events. Many events are routine, recurring, and already addressed in management's programs and operating budgets. Management must assess the risk of unexpected potential events and any expected events that could have a significant impact. Risk assessment is a continuous and repetitive interplay of actions occurring throughout an agency.

Management should assess events from two perspectives – likelihood and impact. The positive and negative impacts of potential events should be examined individually or by category. A visual matrix can be used to categorize events by risk level.

Risks should be assessed on both an inherent and residual basis.

- **Inherent risk** is the risk to an agency if management takes no action to reduce either the likelihood or impact of the event.
- **Likelihood** is "the odds" that a given event will occur.
- **Impact** is the measurement of the effect of the event in quantitative or qualitative terms.
- **Residual risk** is the risk that remains after management's risk response.

The Four Basic Risk Responses

Often, likelihood and impact estimates are based on past events, offering some objectivity. Management first assesses inherent risk and decides how it will respond. Responses to risk fall into four categories.

- **Avoiding risk** means ending those activities that give rise to risk (for example, eliminating a service or division).

- **Reducing risk** involves everyday management decisions, including the imposition of control activities. For example, routine mechanical maintenance could decrease the likelihood of a major computer hardware failure, while routine backups could decrease the impact of technology equipment failure on the agency's ability to provide services.

- **Sharing risk** transfers a portion of likelihood or impact to another party. Examples of sharing include acquiring insurance or outsourcing an activity.

- **Acceptance** means taking no action in response to risk, within parameters dictated by state policy. All risk cannot be eliminated. Risk that remains after all possible risk responses have been taken is accepted.

Exhibit 5 illustrates relationships between inherent risk, residual risk, and risk responses.

Exhibit 5 – A Risk Equation

Inherent Risk	–	Risk Reduction via Control Activities	=	Residual Risk
		risk responses: avoid, reduce, share		risk response: accept

In considering how to respond to each risk, management should consider such factors as:

- The effect of management's response (control activity) on likelihood and impact.

- Cost-versus-benefit – When considering cost-benefit and recognizing interrelationships among risks, management may pool agency risk responses across organizational units or programs.

On one hand, risks in different units or activities may be within their respective managers' acceptable risk levels but, taken together, may exceed the agency-wide acceptable risk level. In such cases, additional or different responses are needed to bring risk within the agency's acceptable risk level. Risks may naturally offset across an agency; for example, some units might have higher risk while others remain relatively risk-free, such that overall risk is within the agency's acceptable risk level.

As chief executives of government agencies, agency heads are not authorized to take risks that would knowingly jeopardize their ability to meet obligations for financial management, financial reporting, or compliance with laws, regulations, policies, and procedures. Financial and compliance objectives serve needs of both the agency and of the Commonwealth as a whole and are "not negotiable" when choosing strategies or tactics for achieving program objectives. Agency heads may only accept reasonable risk that relates to operational objectives, not risk that relates to financial or compliance objectives.

COMMONWEALTH OF VIRGINIA INTERNAL CONTROL STANDARDS MINIMUM REQUIREMENTS

To demonstrate that the risk assessment internal control component is established and fully functioning, the agency must meet the following *minimum* requirements:

- **Conduct and document an agency-wide risk assessment. This risk assessment should be coordinated with the strategic planning process overseen by the Department of Planning and Budget. (See *Appendix A – Internal Control Assessment,* "Agency-Level Risk Assessment Tools", pp. 46-48)**
- **Conduct and document risk assessments of each agency fiscal process as part of the documentation and assessment of control activities. (See *Appendix A – Internal Control Assessment,* "Process Control Assessment", pp. 65)**

Control Activities

"Control Activities" are policies and procedures implemented to help ensure that risk responses are effectively completed. Control activities occur across an organization, at all levels, and in all functions. They include a range of activities such as approvals, authorizations, verifications, reconciliations, security over assets, and segregation of duties.

Managers set up control activities to provide reasonable assurance that their objectives are met. A "control activity" could be as simple as listing tasks assigned to staff members and then occasionally checking the list to verify that assignments are completed on time.

Control activities can be categorized by the nature of the objectives to which they relate. These control objectives could include the following five types of objectives:

1. Strategic – Activities designed to provide reasonable assurance that program goals and objectives are met
2. Operational – Activities designed to make the most effective and efficient use of fiscal resources and other assets
3. Reporting – Activities designed to provide reasonable assurance of the integrity and reliability of financial reporting
4. Compliance – Activities designed to enhance compliance with applicable laws and regulations
5. Stewardship – Activities designed to safeguard assets or to reduce fraud, waste and abuse in the use of assets

Sometimes, control activities satisfy agency objectives in more than one category. When management selects its risk responses, those responses result in control activities designed to help ensure that the risk responses are executed properly and on time. In some cases, a single control activity will address multiple risk responses. In other cases, multiple control activities will apply to one risk response. Managers should consider cost-versus-benefit for control activities, but should keep in mind that cost-benefit analyses cannot be used to justify a lack of control activities over processes that are vital to achieving financial reporting or regulatory compliance objectives.

Types of Control Activities

Types of control activities include preventive, detective, manual, computer, and management controls. Control activities can correspond to specified control objectives, such as ensuring completeness and accuracy of data processing. Control activities can be classified in the following eight broad categories:

- **Authorization –** Control activities in this category are designed to provide reasonable assurance that all transactions are within the limits set by policy or that exceptions to policy have been granted by the appropriate officials.

- **Review and Approval –** Control activities in this category are designed to provide reasonable assurance that transactions have been reviewed for accuracy and completeness by appropriate personnel.

- **Verification –** Control activities in this category could encompass a variety of computer and manual controls that are designed to provide reasonable assurance that all accounting information has been correctly captured.

- **Reconciliation** – Control activities in this category are designed to provide reasonable assurance of the accuracy of financial records through the periodic comparison of source documents to data recorded in accounting information systems.

- **Physical Security over Assets** – Control activities in this category are designed to provide reasonable assurance that assets are safeguarded and protected from loss or damage due to accident, natural disaster, negligence or intentional acts of fraud, theft or abuse.

- **Segregation of Duties** – Control activities in this category reduce the risk of error and fraud by requiring that more than one person complete a particular fiscal process.

- **Education, Training and Coaching –** Control activities in this category reduce the risk of error and inefficiency in operations by ensuring that personnel have the proper education and training to perform their duties effectively. Education and training programs should be periodically reviewed and updated to conform to any changes in the agency environment or fiscal processing procedures.

- **Performance Planning and Evaluation –** Control activities in this category establish key performance indicators for the agency that may be used to identify unexpected results or unusual trends in data which could indicate situations that require further investigation and/or corrective action.

Often, a combination of controls deals best with related risk responses. Control activities include preventive controls to stop inappropriate transactions before execution, while detective controls identify, on a timely basis, error transactions after they have occurred. The control activities combine computer and manual controls, including automated controls to ensure all information is correctly captured, and routing procedures enabling responsible individuals to authorize or approve decisions.

Examples of a variety of preventive and detective control activities are shown below in Exhibit 6.

Exhibit 6 – Examples of Control Activities

- To reduce the impact of electric power failures on operations, an agency installs a backup electricity generator for its information systems. To ensure that the generator operates when needed, facilities management performs routine maintenance and IT managers review the maintenance logs monthly.

- To heighten safety for employees and security over cash, an agency installs protective counter-to-ceiling glass partitions in its cashiering office between cashier stations and customers.

- To ensure that pension obligations and costs are reported properly in financial statements, management reviews the state's demographic data and the methods and assumptions used by the actuary, and compares amounts in the actuary's report with those in the financial statements and related footnotes.

- To help ensure that the agency's monthly income tax remittances comply with regulations, an electronic tickler file prompts staff with due dates for tax filings, and a supervisor verifies timely remittance.

- To help ensure that computer interfaces between accounting systems operate to effect complete and accurate processing, transaction totals from subsidiary systems are compared with the balance in the general ledger control account, with any differences reported and resolved.
- To help minimize inventory losses, the warehouse supervisor reviews and approves transfer documents before releasing goods.
- To help ensure that only tested and accepted programs are transferred to production libraries, transfers are made only based on completion of testing and related approvals and authorization of the IT and user department managers.

Control Activities over Automated Information Systems

General controls include controls over information technology management, infrastructure, security management, and software acquisition, development, and maintenance. For example:

- **Information Technology Management** – A steering committee oversees, monitors, and reports on information technology activities and improvement initiatives.
- **Information Technology Infrastructure** – Controls apply to system definition, acquisition, installation, configuration, integration, operation, and maintenance. Controls include continuity of operations (COOP) planning, scheduling of computer operations, restricting access to system configuration and operating system software, incident tracking, system logging, and monitoring use of data-altering utilities.
- **Security Management** – Secure passwords restrict internal access to the network, database, and applications. Firewalls and virtual private networks protect data from unauthorized external access.
- **Software Acquisition, Development, and Maintenance** – Software acquisition and implementation controls are incorporated into a formal change management process. One control over development is allowing software developers to work only in segregated development environments with no access to the production environment. System change controls include authorizations, reviews, approvals, documentation, and testing.

Application Software Controls

Application controls focus directly on capture and processing of complete, accurate, authorized, and valid data. They help ensure data are captured or generated when needed, supporting applications are available, and interface errors are corrected quickly. Application controls help to prevent, detect, and correct errors. Controls (including edit checks for format, existence, reasonableness, and validity) are built into application software. Examples follow:

- **Balancing and Reconciling** – Reconciling amounts entered to a control total will help detect data capture errors.

- **Check Digits** – Check digit logic helps detect and correct incomplete or inaccurate data.
- **Predefined Data Listings** – For example, using drop-down lists of acceptable values.
- **Data Reasonableness Tests** – Data captured is compared with a benchmark.
- **Logic Tests** – Range limits, value, or alphanumeric tests can detect potential errors.

As authorized by its enabling legislation, the Information Technology Investment Board and the Virginia Information Technologies Agency (VITA) promulgates policies, standards, and guidelines pertaining to internal control over information technology investments and infrastructure (hardware, software, networks, and other information technology resources). These documents can be found at the VITA website library http://www.vita.virginia.gov/docs/psg.cfm.

Of special interest relative to controls and risk are the requirements contained in the Accessibility, Information Security, and Project Management areas. However, **agency heads and fiscal officers remain directly responsible for understanding and maintaining internal control over all fiscal processes, regardless of the infrastructure used to perform those processes.** Compliance with VITA requirements is just one part of overall internal controls and alone is not sufficient to ensure fiscal internal control needs or standards are adequate. Information technology personnel and the fiscal officer must collaborate and cooperate to provide assurance to the agency head that adequate internal controls are employed for all automated fiscal processes, documented in terms that both the fiscal officer and agency head can understand from a functional perspective.

Attention To Soft Controls

Traditional internal control processes focused on "hard" controls (such as physical or electronic controls). Current standards also emphasize "soft control" activities. Soft controls are intangibles that management emphasizes to direct the organization's expectations and behavior.

Exhibit 7 – Soft Controls

Underlying Drivers	Examples of Soft Controls
• Integrity • Ethical values • Philosophy • Operating style • Communication principles • Commitment to competence • Commitment to performance • Commitment to public policy • Commitment to fiduciary responsibilities • Commitment to legal and regulatory compliance	• Performance incentives • Performance standards for hiring and promotion • Employee training and education programs • Encouragement of new ideas and methods • Periodic employee feedback and interview sessions • Response to client and supplier feedback • Review and investigation of exception reports • Effective employee suggestion programs that drive management action

Attention to Significant Fiscal Processes

Given limited resources of time, personnel, and funding, agency managers should optimize the effectiveness of their control assessments by concentrating on "significant" fiscal processes. The definition of a significant fiscal process is affected by numerous factors such as organizational structure, program size, complexity and timing pressure, regulatory environment, etc. and will vary by agency. Agency managers must use their experience and professional judgment in identifying significant processes for the assessment and should keep in mind that they are ultimately responsible for the final determination of significance.

A fiscal process may be significant if it is associated with programs or activities that:

- consume a proportionally large share of agency resources;
- have a high-degree of public visibility;
- represent areas of concern and high risk to mission-critical business processes for agency managers and stakeholders, or;
- have a significant affect on general ledger account balances. A fiscal process would have a significant effect if an error or misstatement generated by the process would impact management's or other stakeholders' decisions or conclusions about the activity.

Decisions about significance should take into account not only quantitative, but also qualitative factors. Transaction amounts for a given fiscal process may be insignificant either individually or in total, but some qualitative factor may nonetheless raise the importance of the process in terms of the need for stringent control activities. For example, management should pay close attention to the design of control activities for any fiscal process that is particularly vulnerable to fraud regardless of the dollar amounts involved because any adverse incident could have a disproportionately bad effect upon agency management's reputation for honesty and reliability. Likewise, managers should define any fiscal process as significant if errors or misstatements in the process could have adverse consequences for legal or regulatory obligations.

COMMONWEALTH OF VIRGINIA INTERNAL CONTROL STANDARDS MINIMUM REQUIREMENTS

To demonstrate that the control activity internal control component is established and fully functioning, the agency must meet the following *minimum* requirements:

- **Document and assess agency-level control activities applicable to:**
  - **All significant fiscal processes**
  - **Accounting administration**
  - **The general ledger**
  - **Information systems**

  (See *Appendix A – Internal Control Assessment Guide,* "Agency-Level Control Activity Assessment Tools", pp. 49–54)

- **Document all significant agency fiscal processes and assess the operation of their associated control activities.**

  (See *Appendix A – Internal Control Assessment Guide,* "Process or Transaction-Level Control Activity Assessment", pp. 60-67)

Information and Communication

"Information and Communication" involves identifying, capturing and communicating relevant information in a form and timeframe that enables people to carry out their responsibilities. Effective communication occurs down, across and up the agency. An effective information and communication process will assure that all personnel receive a clear message from top management that internal control responsibilities must be taken seriously.

The entire agency needs **information** to handle risks, provide services, and achieve objectives. Quantitative and qualitative information comes from many internal and external sources. Information enables change management, strategy, identifying events, analyzing risks, selecting risk responses, and performing other management activities. However, information has no value without **communication**.

Internal Communication

Clear **internal communication** conveys the agency's code of ethics, internal control philosophy and approach, and delegation of authority. Communication about processes and procedures should include clear links to the mission and agency culture. Communication should effectively convey the importance and relevance of internal control and the roles each person plays to support it.

Front-line employees providing direct, daily public service are often in the best position to see new problems as they arise. Communication channels should ensure that front-line and other personnel can communicate information across divisions and processes, as well as to their managers. Communication breakdowns can occur when anyone is discouraged from or unable to provide important information to others.

To avoid breakdowns, personnel must believe managers and agency heads truly want to know about problems and resolve them. Usually, normal agency reporting lines are the appropriate channels for communication. Sometimes, alternate communication lines are needed as a backup mechanism if normal channels do not work. The Commonwealth's "Fraud, Waste, and Abuse Hotline" is one such alternate channel. This hotline provides a ready means for any employee to confidentially report illegal, unethical, or otherwise inappropriate behavior.

Critical communication channels connect the agency head, cabinet secretary, and the agency's governing board or commission (when applicable). Quality communication to appointed officials makes them more effective in meeting their oversight responsibilities.

External Communication

Open **external communication** channels allow citizens, clients, and suppliers to provide valuable input on services quality and design. This enables an agency to address evolving needs,

demands, and preferences. Management should appropriately convert such input into continuous improvements in operations, reporting, and compliance. Open external communications also allow citizens and clients to understand the agency's service standards.

Alternate Communication Channels

Communication methods include a **Code of Ethics**, Internet sites, policy manuals, memos, e-mails, and posted notices. Whenever messages travel orally — in large groups, smaller meetings, or one-on-one sessions — vocal tone and body language form part of the message. Personnel management style sends a powerful message. Managers should remember that actions speak louder than words. Their actions are influenced by both the agency's history and culture, including the managers' past observations of how their mentors dealt with similar situations.

To enhance regular communications channels, an agency may create supplemental employee communication channels. These channels may be called "whistle blower" programs or "ethics hotlines" and can be voluntary or legally mandated. An executive order has established the State Employee Fraud, Waste and Abuse Hotline for the use of all state employees. This does not preclude an individual agency from establishing its own hotline or another confidential process for employees. Exhibit 8 identifies items to be considered in establishing an ethics hotline.

Exhibit 8 – Considerations for Ethics Hotlines

- Are reporting mechanisms and protocols such that personnel will feel comfortable using the channel?
- What procedures will ensure personnel trust the communication channel, without concern for reprisal?
- Will the system be managed internally or by an external third party?
- How will incidents be prioritized?
- How will appropriate follow-up resources be identified?
- What is the target response time?
- What are documentation standards?
- What monitoring processes should be in place?
- Are technology and security resources sufficient to manage the system?
- Who will perform any necessary investigations?
- How will complaints be documented and tracked?
- How will the employee reporting the information be advised of conclusions and actions taken?
- What kinds of summary reports are needed and with what frequency?
- What mechanisms will ensure that needed broad-based corrective and future preventive actions are taken?

Information Technology and Communication

Information systems architecture and technology acquisition are key elements of strategy. IT selection and implementation depends on many factors, including organizational goals and the service expectations of stakeholders. Information systems are fundamental to internal control; in turn, internal control needs and techniques assist in making technology decisions. Usually, technology infrastructure (developed over time for operations, reporting, and compliance objectives) also generates information integral to the internal control program.

IT infrastructure should capture and convey timely, detailed, and reliable data sufficient to strengthen the control environment. Information flow must respond to agency needs yet avoid "information overload". The next exhibit lists media that management may consider during technology planning, recognizing that each organization finds its own blend of electronic and non-electronic media.

Exhibit 9 – Agency Communication Media

- Broadcast e-mails
- Broadcast voice mails
- Agency newsletters
- Databases supporting specific control issues
- Letters from the agency head
- E-mail discussion groups
- Intranet sites
- Organization, function, or location-wide web casts or conference calls
- Posters or signs reinforcing key aspects of internal control
- Regular face-to-face meetings among employees from a range of functions and organizational units
- "Town-hall" meetings

Parties to Communication

Healthy communication results from continual interaction among all organizational stakeholders at all levels. Exhibit 10 reflects many of the parties to healthy agency communication.

Exhibit 10 – The Essence of Information and Communication

External Parties	Internal Parties
• Virginia's Citizens	• Virginia's Government
• Government Regulators	• All State Agencies
• Suppliers and Contractors	• Any Organizational Unit
• Clients and Customers	• Up the chain of command
• Regulated Individuals & Organizations	• Down the chain of command
• Agency Service Providers	• Executives and Managers
	• Purchasers and Contract Managers
	• Those who deal with the public
	• Operational Personnel
	• Support and Administrative Personnel

To maintain an adequate control environment, agency leadership must promote continual communication. Exhibit 10 reminds us that communication involves everyone with a stake in agency activities and links them together in an extended organization of shared interests.

COMMONWEALTH OF VIRGINIA INTERNAL CONTROL STANDARDS

MINIMUM REQUIREMENTS

To demonstrate that the information and communication internal control component is established and fully functioning, the agency must meet the following *minimum* requirement:

- **Document and assess how the agency gathers, uses and disseminates information.**

  (See *Appendix A – Internal Control Assessment Guide,* "Information and Communication Assessment Tools, pp. 55-57)

Monitoring

"Monitoring" is the process of assessing the presence, functioning, and continuous improvement of internal control components. Monitoring is accomplished through ongoing management activities, separate evaluations, or both.

Monitoring can be examined from three perspectives: ongoing activities, separate comprehensive evaluations, and special ad hoc evaluations.

Ongoing Monitoring

Ongoing monitoring is built into normal, recurring operating activities, is performed on a real-time basis, reacts dynamically to changing conditions, and is ingrained in the agency. Ongoing monitoring often stems from regular management activities, which might involve analysis, comparison of information from multiple sources, and dealing with unexpected occurrences.

Managers, giving thoughtful consideration to implications of information they receive, generally perform ongoing monitoring activities. By focusing on relationships, inconsistencies, or other relevant observations, they identify issues and follow up with others to determine whether or not action is necessary. Activities required by operational processes are generally not considered monitoring activities. For example, approvals of transactions, reconciliations of account balances, and verifying the accuracy of changes to master files, performed as required steps in information systems or accounting processes, are best defined as control activities. Examples of ongoing monitoring activities include:

- Managers reviewing operating reports.
- Internal auditors, external auditors, and advisors regularly providing recommendations.
- Training seminars, planning sessions and other meetings giving feedback to management.

Many different activities performed in the ordinary course of operations serve to monitor the effectiveness of internal control components, as illustrated in Exhibit 11 on the next page.

Exhibit 11 – Examples of Ongoing Monitoring Activities

- Management reviews reports of key activity indicators, including financial and operating statistics.
- Operations managers compare productivity, inventory, quality measures, and other data gathered in the course of daily activities to systems-generated information, budget, and plans.
- Management reviews performance against established limits, such as acceptable error rates, items in suspense, or reconciling items.
- Management reviews key performance indicators such as trends in direction and magnitude of risks, status of strategic and tactical initiatives, or trends in actual results compared to budget or prior periods.

Comprehensive Assessments

In addition to ongoing monitoring, these *Standards* require agencies to perform and document a comprehensive assessment of internal control and control activities annually. Documentation of internal control will vary with agency size, complexity, and management style, and may include:

- Organization charts
- Description of key roles, authorities, and responsibilities
- Policy manuals
- Operating procedures
- Process flowcharts
- Relevant controls and associated responsibilities
- Key performance indicators
- Key identified risks

With regard to developing documentation of the assessment process itself, the fiscal officer might consider the extent to which documentation is expected to:

- Provide an audit trail of the assessment
- Communicate assessment results – findings, conclusions, and recommendations
- Facilitate review by auditors and senior management
- Facilitate assessments in subsequent periods
- Identify and report broader issues
- Identify individual roles and responsibilities in the assessment process
- Supplement existing control documentation that may be deficient

Ad Hoc Evaluations

In addition to ongoing monitoring activities and comprehensive assessments, agency fiscal personnel should focus directly on internal control from time to time through **ad hoc evaluations.** These provide a chance to consider the continued effectiveness of ongoing monitoring procedures. Direct evaluations are control self-assessments, where persons responsible for a particular unit or function determine the effectiveness of internal control for their activities. Internal auditors perform evaluations as part of their regular duties or by specific

request of senior management. Management may use input from external auditors. A combination of efforts may be used in conducting whatever evaluation procedures management deems necessary to determine the effectiveness of controls. Tools used for monitoring may include checklists, questionnaires, and flow charts.

Exhibit 12 – Routine Management Reports vs. Ad Hoc Control Evaluations

	Monitoring Ongoing Operations	Ad Hoc Internal Control Evaluations
Evaluation Focus	Routine programs and performance	Internal control in one or more units or programs
Internal Control	One of many factors being monitored	The primary factor being investigated
Report Content	Significant findings appear in periodic, routine management reports (for example, routine monthly management reports to the agency head)	A "special project" report prepared by management, agency internal auditor, agency inspector general, APA, JLARC, State Internal Auditor, or a consultant

Internal control documentation varies with such factors as agency size, programs, budget, and employment level, and is composed of two components. The first component includes existing policies and procedures issued by central agencies, the agency itself, or other organizations that include (but may not be limited to):

- DOA
- DPB
- Treasury
- VITA
- DGS
- DHRM
- Library of Virginia
- Internal Revenue Service
- Federal grantor agencies

A review of existing documentation should clearly describe an organization's risks and responses. Documentation takes these forms:

Exhibit 13 – Control Activity Documentation – Some Examples

- Budget-to-actual and exception reports
- Completed *Authorized Signatories* forms
- Completed *Employee Work Profile* forms
- Delegations of authority
- Descriptions of key roles, authorities, and responsibilities
- Format of periodic management reports
- Key identified risks
- Key performance indicators
- Key risk measures
- Operating procedures
- Organization charts
- Policies and procedures manuals
- Process flowcharts
- Relevant controls and related responsibilities
- Standardized forms (e.g., travel authorizations)
- Strategic and operational plans

The second component of internal control documentation records review processes, including tests to determine whether control activities and their related policies and procedures are adequate and being followed. The leader of an ad hoc internal control evaluation may develop documentation to achieve the following objectives:

- Create a history of the team's assessments and testing
- Communicate evaluation results – findings, conclusions, and recommendations
- Facilitate review by senior management
- Facilitate future evaluations
- Identify and report strategic issues
- Identify individual roles and responsibilities in the ad hoc evaluation project
- Supplement existing internal control documentation

Control deficiencies may surface from many sources including an agency's ongoing monitoring procedures, ad hoc evaluations, and information provided by external parties. External sources include customers, vendors, external auditors, and regulators. All identified deficiencies that affect the agency's ability to implement its strategy and achieve its objectives should be reported to those positioned to make corrections. Not only should reported deficiencies be investigated and corrected, but any underlying cause should be eliminated.

COMMONWEALTH OF VIRGINIA INTERNAL CONTROL STANDARDS

MINIMUM REQUIREMENTS

To demonstrate that the monitoring internal control component is established and fully functioning, the agency must meet the following minimum requirement:

- **Document and assess the effectiveness of the agency's monitoring activities.**

  (See *Appendix A – Internal Control Assessment Guide,* "Monitoring Assessment Tools", pp. 58-59)

Internal Control Assessment

The Commonwealth entrusts each agency head with a level of authority and control over monetary and other assets that are used to accomplish the agency's mission. In return, the Commonwealth requires agency heads to account for the use, care, and disposition of these assets by accountability mechanisms such as statewide accounting systems and formal financial statements. To provide reasonable assurance that stewardship responsibilities are met and that agency accountability mechanisms function properly, agency heads must develop, implement, and maintain "internal control" over financial accountability processes. In turn, state law requires the Comptroller to oversee, manage, and vouch for the sufficiency of internal control efforts in all agencies.

In practice internal control relies on numerous individual control activities that many people have devised over the life of an organization. As programs, services, and technology naturally evolve, agencies continually develop, implement, and update specific control activities. In such an ever-changing environment, an agency must periodically and systematically assess internal control and all supporting control activities to ensure the ongoing sufficiency of internal control.

Appendix A of this document provides detailed information and tools defining how to structure an internal control assessment or reassessment to meet the Commonwealth's requirements.

Appendix A – Internal Control Assessment Guide

Overview

This guide describes the Comptroller's specific **minimum** requirements for an agency's assessment of internal control. Agencies that follow this appendix's procedures in good faith have taken the most essential step towards meeting the Commonwealth's agency risk management and internal control standards. **This appendix requires professional judgment and thoughtful participation on the part of agency heads, fiscal officers, internal auditors, and all other agency personnel involved in the development, deployment, operation, and assessment of internal control and related control activities.**

Scope of the Assessment

In order to comply with these *Standards* the design and operating effectiveness of agency-level controls must be assessed in addition to examining detailed process and transaction-level control activities. Agency-level controls permeate the agency and have a significant impact on how it achieves its objectives relating to the recording of financial transactions, compliance with financial reporting requirements and stewardship over Commonwealth assets. To assist in obtaining input on agency-level and process-level controls, assessment tools are provided in the following pages to provide a starting point in the evaluation of the control environment, agency-level, process-level, and transaction-level control activities (including information system general controls), information and communication, and monitoring. Agency heads and fiscal officers are cautioned that these checklists and questionnaires are not designed to be all-inclusive and that these tools cannot replace thorough analysis and informed professional judgment. Agency fiscal personnel should customize these tools or develop alternate tools to fit the agency's particular situation.

Stages of the Assessment

A complete assessment of agency internal control should encompass the following three stages of activity.

Stage		Assessment Guide Page #
1	Agency-level assessment of the five components of internal control:	
	1. Control Environment	40-45
	2. Risk Assessment	46-48
	3. Control Activities	49-54
	4. Information and Communication	55-57
	5. Monitoring	58-59
2	Process and transaction-level control assessment	60-67
3	Corrective action plan (if needed)	68

Numeric Scoring for Surveys of Subjective Opinions

Some of the following exhibits ask survey respondents to quantify how strongly they agree or disagree that specific controls are implemented and operating effectively. For those exhibits, suggested descriptions for each score are:

Score		Description
5	=	Strongly agree
4	=	Agree
3	=	Somewhat agree
2	=	Somewhat disagree
1	=	Strongly disagree
NA	=	Control does not exist or cannot exist due to agency circumstances

The score assigned may sometimes be subjective but should be based on the knowledgeable and experienced respondent's understanding about the control in question. A more systematic method of defining what each score means based on the perceived reliability level of each control is useful. Exhibit 14 assigns a "control reliability level" based on five factors:

1. Supporting documentation for the control's design and its operation
2. Employee awareness and understanding of the control

3. Perceived value of the control to employees
4. The extent to which the control procedure is formal and standardized
5. The extent to which the control is monitored

Exhibit 14: Summary of Internal Control Reliability Model*

	Characteristics of This Control Reliability Level				
Control Reliability Level	**Documentation**	**Awareness and Understanding**	**Perceived Value to Employees**	**Control Procedures**	**Monitoring**
Initial	Very limited	Basic awareness by management	Unformed	Ad hoc, unlinked	No monitoring
Informal	Sporadic, inconsistent	Understanding not communicated beyond management	Controls are separate from business operations	Intuitive, repeatable	No monitoring
Systematic	Comprehensive and consistent	Formal communication and some training	Controls integral to operations	Formal, standardized	No monitoring
Integrated	Comprehensive and consistent	Comprehensive training on control-related matters	Control processes considered part of strategy	Formal, standardized	Periodic monitoring begins
Optimized	Comprehensive and consistent	Comprehensive training on control-related matters	Commitment to continuous improvement	Formal, standardized	Real-time monitoring

* Adapted from *How to Comply with Sarbanes-Oxley Section 404: Assessing the Effectiveness of Internal Control*, by Michael Ramos, John Wiley & Sons, 2004.

After assessing each control's reliability level, the respondent would then "translate" that reliability level into a score, as shown in Exhibit 15 on page 40.

Exhibit 15: Translating "Reliability Level" into a Score for Each Control

In our agency, this control condition's reliability is..... "Optimized"..... so I **strongly agree**, giving a score of..... "5"
In our agency, this control condition's reliability is..... "Integrated"..... so I **agree**, giving a score of..... "4"
In our agency, this control condition's reliability is..... "Systematic"..... so I **somewhat agree**, giving a score of…..... "3"
In our agency, this control condition's reliability is..... "Informal"..... so I **somewhat disagree**, giving a score of….. "2"
In our agency, this control condition's reliability is..... "Initial"..... so I **strongly disagree**, giving a score of..... "1"
In our agency, this control does not or cannot exist..... giving a score of..... "NA"

This scoring method is not mandatory and appears here for management consideration. Management may devise alternate methods and modify the exhibits accordingly. Whichever scoring or other answering scheme is used, management should take care to ensure that the assessment is done by someone with the appropriate background, experience, and training in the area under consideration and that instructions are clear so that respondents provide meaningful feedback.

Stage 1 – Agency-Level Internal Control Assessment

Control Environment Assessment Tools

Integrity and Ethical Values

An agency's strategy and objectives and the way they are implemented are based on preferences, value judgments, and management styles. Management's integrity and commitment to ethical values influences these preferences and judgments, which are translated into standards of behavior. Because an agency's good reputation is so valuable, the standards of behavior must extend beyond mere compliance with law and regulation.

Exhibit 16: Ethics Questionnaire

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency's Code of Ethics and other policies regarding acceptable business practice, conflicts of interest, and expected standards of ethical and moral behavior are comprehensive and relevant and address matters of significance.	5 4 3 2 1 NA	
2. Employees fully and clearly understand what behavior is acceptable and unacceptable under the agency's Code of Ethics and know what to do when they encounter improper behavior.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
3. Management frequently and clearly communicates the importance of integrity and ethical behavior during staff meetings, one-on-one discussions, training and periodic written statements of compliance from key employees.	5 4 3 2 1 NA	
4. Management demonstrates a commitment to integrity and ethical behavior by example in their day-to-day activities.	5 4 3 2 1 NA	
5. Employees are generally inclined to do the "right thing" when faced with pressures to cut corners with regard to policies and procedures.	5 4 3 2 1 NA	
6. Management addresses and resolves violations of behavioral and ethical standards consistently, timely, and equitably in accordance with the provisions of the agency's Code of Ethics.	5 4 3 2 1 NA	
7. The existence of the agency's Code of Ethics and the consequences of its breach are an effective deterrent to unethical behavior.	5 4 3 2 1 NA	
8. Management strictly prohibits circumvention of established policies and procedures, except where specific guidance has been provided, and demonstrates commitment to this principle.	5 4 3 2 1 NA	
9. Performance targets are reasonable and realistic and do not create undue pressure on achievement of short-term results.	5 4 3 2 1 NA	
10. Ethics are woven into criteria used to evaluate individual or division's performance.	5 4 3 2 1 NA	
11. Management reacts appropriately when receiving bad news from subordinates and divisions.	5 4 3 2 1 NA	
Conclusions Reached and Actions Needed:		

Commitment to Competence

Competence reflects the knowledge and skills needed to perform assigned tasks. Management decides how well these tasks need to be accomplished, weighing the agency's strategy and objectives against plans for their implementation and achievement.

Exhibit 17: Management's Commitment to Professional and Technical Competence Questionnaire

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Job descriptions (and other documents that define key position duties/requirements) are current, accurate, and understood.	5 4 3 2 1 NA	
2. There is a mechanism in place to keep the job descriptions current, accurate, and understood.	5 4 3 2 1 NA	
3. Job knowledge/skill requirements realistically match the organization and position's needs.	5 4 3 2 1 NA	
4. Management has the specialized knowledge, experience, and training required to perform their duties and does not rely extensively on technical specialists or outside consultants.	5 4 3 2 1 NA	
5. Employees are properly trained and are capable of performing all jobs within your division.	5 4 3 2 1 NA	
6. Employees are committed to excellence in performing their jobs.	5 4 3 2 1 NA	
7. Individual performance targets focus on both the long- and short-term and address a broad spectrum of criteria (e.g., quality, productivity, leadership, teamwork, and self-development).	5 4 3 2 1 NA	
Conclusions Reached and Actions Needed:		

Organizational Structure

An agency's organizational structure provides the framework to plan, execute, control, and monitor its activities. A relevant organizational structure includes defining key areas of authority and responsibility and establishing appropriate lines of reporting.

Exhibit 18: Organizational Structure Questionnaire

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency's organizational structure is appropriate to carry out its mission and manage its activities.	5 4 3 2 1 NA	
2. Management treats your division as an integral part of the agency's overall operations.	5 4 3 2 1 NA	
3. The current organizational structure facilitates the flow of information both up and down within your division and across to other divisions/functions.	5 4 3 2 1 NA	
4. Reporting relationships provide managers with the information appropriate to their responsibility and authority.	5 4 3 2 1 NA	
5. Managers and process owners in your division have ready access to senior management in addressing significant issues.	5 4 3 2 1 NA	
6. The organizational structure in your division provides adequate supervisory and managerial oversight.	5 4 3 2 1 NA	
7. Management periodically evaluates the organizational structure relevant to your division in light of changes in the scope, nature, or extent of your operations.	5 4 3 2 1 NA	
8. The agency has the appropriate number of people and resources allocated to key functions/activities.	5 4 3 2 1 NA	
9. Employees do not work excessive overtime and do not fulfill the responsibilities of more than one employee.	5 4 3 2 1 NA	
Conclusions Reached and Actions Needed:		

Assignment of Authority and Responsibility

Assignment of authority and responsibility involves the degree to which individuals and teams are authorized and encouraged to use initiative to address issues and solve problems, as well as limits to their authority. It includes establishing reporting relationships and authorization procedures, as well as policies that describe appropriate business practices, knowledge and experience of key personnel, and resources provided for carrying out duties.

Exhibit 19: Assignment of Authority and Responsibility Questionnaire

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Management designates who is responsible for committing your division to financial or contractual obligations through a formal delegation of authority.	5 4 3 2 1 NA	
2. Specific limits are established for certain types of transactions and delegations are clearly communicated and understood by employees within your division.	5 4 3 2 1 NA	
3. Job descriptions for your division's personnel include specific references to control related responsibilities.	5 4 3 2 1 NA	
4. Management accepts responsibility for information generated within your division and on reported results.	5 4 3 2 1 NA	
5. Managers in your division are appropriately empowered to correct problems and implement improvements.	5 4 3 2 1 NA	
6. The current level of delegation of duties balances empowerment and "getting the job done" with management involvement and authority levels.	5 4 3 2 1 NA	
Conclusions Reached and Actions Needed:		

Standards for Managing Human Resources

Human resource practices pertaining to hiring, orientation, training, evaluating, counseling, promoting, compensating, and taking remedial actions send messages to employees regarding expected levels of integrity, ethical behavior, and competence. Training policies can reinforce expected levels of performance and behavior by communicating prospective roles and responsibilities. It is essential that employees be equipped to tackle new challenges as issues and risks through the agency change and become more complex—driven in part by rapidly changing technologies. Education and training (whether classroom instruction, self-study, or on-the-job training) must help personnel keep pace and deal effectively with the evolving environment.

Exhibit 20: Human Resources Standards Questionnaire

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Existing personnel policies and procedures facilitate recruiting and developing competent and trustworthy personnel necessary to achieve the agency's objectives.	5 4 3 2 1 NA	
2. Employees new to your division's activities are made aware of their responsibilities and management's expectations.	5 4 3 2 1 NA	
3. Supervisory personnel meet periodically with employees in your division to review job performance and discuss opportunities for improvement.	5 4 3 2 1 NA	
4. Performance appraisals adequately address internal control responsibilities and set forth criteria for integrity and ethical behavior.	5 4 3 2 1 NA	
5. Management takes the appropriate remedial action for departures from approved policies and procedures.	5 4 3 2 1 NA	
Conclusions Reached and Actions Needed:		

Agency-Level Risk Assessment Tools

In conducting an agency-level risk assessment, managers should carefully consider the likelihood and effect of potential events, both positive and negative. Events originating from both within and outside of the agency should be identified and addressed if the events could have a significant impact upon the achievement of agency objectives. The risk assessment questionnaire below provides some suggested areas to consider in assessing an agency's overall approach to risk management. It is followed by a discussion of SWOT (strengths, weaknesses, opportunities and threats) analysis, a tool that may be used to analyze an agency's internal and external risk factors in relation to its objectives. Agencies should coordinate the risk assessment component of these *Standards* with the risk assessment and objective setting efforts required by the Department of Planning and Budget's strategic planning process.

Exhibit 21: Risk Assessment

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Formal or informal mechanisms exist to inform management of events that are considered risks; i.e., events that may adversely affect the achievement of agency-wide or division objectives.	5 4 3 2 1 NA	
2. Management identifies correlations between events or events that combine and interact to create significantly different probabilities or impacts.	5 4 3 2 1 NA	
3. Management assesses for inherent risk, each event or combination of events that represents a risk, considering both likelihood and impact, and then develops a risk response.	5 4 3 2 1 NA	
4. Once a risk response is developed for each risk, management considers residual risk.	5 4 3 2 1 NA	
5. Management uses an appropriate blend of quantitative or qualitative techniques across the various divisions/functions such that sufficient consistency exists to assess risks agency-wide.	5 4 3 2 1 NA	
6. The process used to analyze risks in each division is clearly understood and includes estimating the significance or risks and assessing the likelihood of their occurring.	5 4 3 2 1 NA	

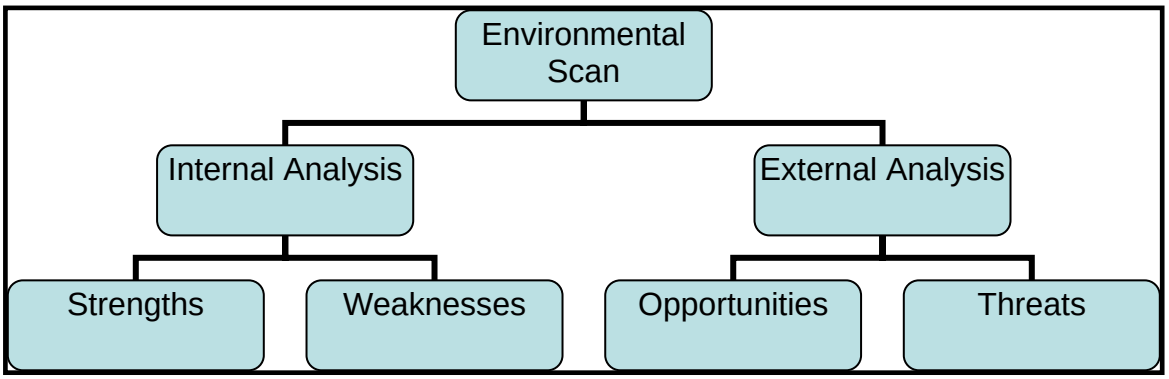
Exhibit 22: Risk Response

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The process used to analyze risks in your division is clearly understood and includes determining steps needed to mitigate risks.	5 4 3 2 1 NA	
2. In determining risk response, management considers the effects of potential responses on risk likelihood and impact because a response may affect the likelihood and impact differently.	5 4 3 2 1 NA	
3. Management considers the relative costs and benefits of alternative risk response options.	5 4 3 2 1 NA	
4. When considering cost-benefit relationships, management looks at risks as interrelated and pools the agency's risk reduction and risk sharing responses.	5 4 3 2 1 NA	
5. The agency's risk response considerations are not limited solely to reducing identified risks, but also include consideration of new opportunities.	5 4 3 2 1 NA	
6. Once management has selected a response, management determines whether an implementation plan is needed.	5 4 3 2 1 NA	
7. If an implementation plan is needed, management establishes the necessary control activities to ensure the risk response is carried out.	5 4 3 2 1 NA	
8. The agency evaluates risk from an ARM/agency-wide/portfolio perspective.	5 4 3 2 1 NA	
Risk Assessment Component Summary – Conclusions Reached and Actions Needed:		

Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis

Strengths, weaknesses, opportunities and threats (SWOT) analysis is a strategic planning technique used to assess an organization and how its individual characteristics may help or hinder it in meeting key goals and objectives. SWOT analysis takes a holistic approach, analyzing not only the organization itself, but also its larger environment. The process moves from an assessment ("scan") of the environment in which the organization operates and any opportunities or threats that may be present in that environment to an assessment of the organization's strengths and weaknesses. (See Exhibit 23.)

Exhibit 23 – SWOT Analysis Framework



The internal analysis component of SWOT seeks to assess an organization's strengths and weaknesses. A strength is any resource or capability that assists an organization in achieving its objectives. A weakness is a negative trait or the absence of a resource or capability that may hinder the organization in meeting its goals. The same trait could be both a strength and a weakness when viewed from different perspectives. For example, an organization with many long-tenured employees may view the experience that they have accumulated over many years as a strength, but career longevity could also be a weakness if those many years of service now make it a possibility that the organization could soon face many vacancies due to retirements.

The external analysis component of SWOT identifies the opportunities and threats present in the environment. Opportunities are potential favorable conditions that could aid the organization in meeting its goals. Threats are potential unfavorable conditions that could prevent the organization from achieving its objectives. The organization does not usually have much influence or control over the opportunities or threats that are present, but good outcomes in all situations can be maximized by being aware of and prepared for likely external situations.

Proper use of SWOT analysis can aid an organization in optimizing its strengths so that it is better able to take advantage of available opportunities. Likewise, the technique also benefits the organization by identifying potential obstacles or weaknesses that should be addressed if the organization is to achieve its goals.

Agency-Level Control Activity Assessment Tools

Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities—as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. Control activities can be categorized based on the nature of the agency's objectives to which they relate: strategic, operations, reporting, and compliance. They provide reasonable assurance that objectives are being achieved in the areas of effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

In selecting control activities, management considers how control activities are related to one another. In some instances, a single control activity addresses multiple risk responses. In other instances, multiple control activities are needed for one risk response. In still others, management might find that existing control activities are sufficient to provide reasonable assurance that new risk responses are executed effectively.

Exhibit 24 – Control Activities – Applicable to All Fiscal Processes

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Appropriate policies and procedures have been developed and implemented for each of division's major processes.	5 4 3 2 1 NA	
2. Appropriate and timely actions are taken on exceptions to each division's policies and procedures.	5 4 3 2 1 NA	
3. Policies and procedures identify how processes are to be performed and monitored and who is responsible for carrying them out.	5 4 3 2 1 NA	
4. Control activities described in policy and procedure manuals are actually applied the way they are intended to be applied and clearly relate to designated risks.	5 4 3 2 1 NA	
5. Management clearly assigns responsibilities for training and monitoring of internal controls.	5 4 3 2 1 NA	
6. Controls are in place to provide reasonable assurance that management decisions are properly carried out.	5 4 3 2 1 NA	
7. Supervisory personnel with appropriate responsibilities, organizational experience, and knowledge of the organization's affairs periodically review and document the functioning and overall effectiveness of controls.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
8. Appropriate criteria are established to evaluate controls.	5 4 3 2 1 NA	
9. Responsibilities in each division have been assigned in a manner that precludes any individual from processing data transactions in their entirety or from maintaining records for transactions in which the individual participated.	5 4 3 2 1 NA	
10. Effective procedures have been established for the routine verification of the accuracy of data when it is entered, processed, generated, distributed, or transferred.	5 4 3 2 1 NA	
11. Individuals from a division/ function have appropriately segregated responsibility for control over assets and data and the processing of transactions.	5 4 3 2 1 NA	
12. Effective contingency plans have been developed and documented for each division to deal with service interruptions if they occur.	5 4 3 2 1 NA	
13. Periodic tests of contingency and disaster recovery plans take place to make sure they are current, operational, and effective.	5 4 3 2 1 NA	
14. Appropriate controls are built-in as new information systems are designed and integrated into the agency.	5 4 3 2 1 NA	
Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 25 – Control Activities – Applicable to Accounting Administration

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency has adequately detailed accounting policies and procedures.	5 4 3 2 1 NA	
2. Accounting policies and procedures manuals are updated timely.	5 4 3 2 1 NA	
3. Manuals are distributed or made available to appropriate personnel.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
4. The principal accounting officer of the agency has adequate authority over accounting employees and principal accounting records at all locations.	5 4 3 2 1 NA	
Accounting Administration – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 26 – Control Activities – Applicable to Any General Ledger

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Access to the general ledger and related records is restricted to those who are assigned general ledger responsibilities.	5 4 3 2 1 NA	
2. The responsibilities for maintaining the general ledger and custody of assets are segregated.	5 4 3 2 1 NA	
General Ledger – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 27 – Control Activities – Information System General Controls – System Risk Assessment

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Risk assessments are performed and documented regularly and whenever systems, facilities, or other conditions change.	5 4 3 2 1 NA	
2. Risk assessments consider data sensitivity and integrity.	5 4 3 2 1 NA	
3. Final risk determinations and managerial approvals are documented and kept on file.	5 4 3 2 1 NA	

Exhibit 28 – Control Activities – Information System General Controls – Agency-wide Security Management Program

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency has developed a plan that clearly describes the agency-wide security program and policies and procedures that support it.	5 4 3 2 1 NA	
2. Senior management has established a structure to implement and manage the security program throughout the agency, and security responsibilities are clearly defined.	5 4 3 2 1 NA	
3. The agency has implemented effective security-related personnel policies.	5 4 3 2 1 NA	
4. Management monitors the security program's effectiveness and periodically assesses the appropriateness of security policies and compliance with them.	5 4 3 2 1 NA	
5. If weaknesses in the security program are identified, corrective actions are promptly and effectively implemented and tested, and they are continually monitored.	5 4 3 2 1 NA	
6. Agency information technology policies and procedures are in accordance with VITA policies, standards and guidelines pertaining to internal control over information technology investments and infrastructure.	5 4 3 2 1 NA	

Exhibit 29 – Control Activities – Information System General Controls – Access Control

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency classifies information resources according to their criticality and sensitivity. Consider the following: • Resource classifications and related criteria have been established and communicated to resource owners. • Resource owners have classified their information resources based on the approved criteria and with regard to risk determinations and assessments and have documented those classifications.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
2. Resource owners have identified authorized users, and their access to the information has been formally authorized.	5 4 3 2 1 NA	
3. The agency has established physical and logical controls to prevent or detect unauthorized access.	5 4 3 2 1 NA	
4. The agency monitors information systems access, investigates apparent violations, and takes appropriate remedial and disciplinary action.	5 4 3 2 1 NA	

Exhibit 30 – Control Activities – Information System General Controls – Application Software Development & Change Control

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Information system processing features and program modifications are properly authorized.	5 4 3 2 1 NA	
2. All new or revised software is thoroughly tested and approved.	5 4 3 2 1 NA	
3. The agency has established procedures to ensure control of its software libraries, including labeling, access restrictions, and use of inventories and separate libraries.	5 4 3 2 1 NA	

Exhibit 31 – Control Activities – Information System General Controls – System Software Control

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency limits access to system software based on job responsibilities, and access authorization is documented.	5 4 3 2 1 NA	
2. Access to and uses of system software are controlled and monitored.	5 4 3 2 1 NA	
3. The agency controls changes made to the system software.	5 4 3 2 1 NA	

Exhibit 32 – Control Activities – Information System General Controls – Segregation of Duties

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Incompatible duties have been identified and policies implemented to segregate those duties.	5 4 3 2 1 NA	
2. Access controls have been established to enforce segregation of duties.	5 4 3 2 1 NA	
3. The agency exercises control over personnel activities through the use of formal operating procedures, supervision, and review.	5 4 3 2 1 NA	

Exhibit 33 – Control Activities – Information System General Controls – Service Continuity

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The criticality and sensitivity of computerized operations have been assessed and prioritized, and supporting resources have been identified.	5 4 3 2 1 NA	
2. The agency has taken steps to prevent and minimize potential damage and interruption through the use of data and program backup procedures including off-site storage of backup data as well as environmental controls, staff training, and hardware maintenance and management.	5 4 3 2 1 NA	
3. Management has developed and documented a comprehensive contingency plan.	5 4 3 2 1 NA	
4. The agency periodically tests the contingency plan and adjusts it as appropriate.	5 4 3 2 1 NA	
Information Systems General Controls – Conclusions Reached and Actions Needed: [*enter here*]		

Information and Communication Assessment Tools

Information is needed at all levels of an organization to identify, assess, and respond to risks, and to otherwise run the agency and achieve its objectives. Operating information from both internal and external sources and both financial and non-financial, is essential for developing financial, compliance, and other reports.

Exhibit 34 – Information Questionnaire

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Adequate information gathering mechanisms are in place to provide information to appropriate personnel so that they can carry out their operating, reporting, and compliance responsibilities.	5 4 3 2 1 NA	
2. Reports generated or used by each division are adequate and contain sufficient and meaningful information.	5 4 3 2 1 NA	
3. Mechanisms exist for identifying emerging information needs.	5 4 3 2 1 NA	
4. An information technology plan has been developed for each division that is linked to achieving the division's objectives.	5 4 3 2 1 NA	
5. Information technology plans are modified as needed to support new objectives.	5 4 3 2 1 NA	
Conclusions Reached and Actions Needed:		

Communication not only provides information to appropriate personnel to carry out their responsibilities but communication also takes place when dealing with expectations, responsibilities of individuals and groups, and other important matters.

Management provides specific and directed communication that addresses behavioral expectations and the responsibilities of personnel. This includes a clear statement of the agency's risk management philosophy and approach and a clear delegation of authority. Communication about processes and procedures should align with, and underpin, the desired culture. Communication should effectively convey the importance and relevance of internal control and the roles and responsibilities of personnel in affecting and supporting the components of internal control. Personnel must know what is deemed acceptable and unacceptable behavior.

Front-line employees who deal with critical operating issues every day are often in the best position to recognize problems as they arise, and communications channels should ensure personnel can communicate risk-based information across divisions and processes as well as to their managers. Communication breakdowns can occur when individuals or units are discouraged from providing information important to others or do not have a vehicle to provide it. Personnel must believe their managers truly want to know about problems and will deal with them effectively. A relevant and comprehensive code of conduct, coupled with employee training sessions, and ongoing corporate communications and feedback mechanisms, along with the right example set by the actions of senior management, can reinforce these important messages.

Exhibit 35 – Communication Questionnaire

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Management clearly and effectively communicates employees' internal control and risk assessment duties and responsibilities and these roles and responsibilities are uniformly understood.	5 4 3 2 1 NA	
2. Communication channels exist for employees to effectively communicate up, down and across within an agency.	5 4 3 2 1 NA	
3. Computer information/analytical reports are provided to the right people, with the right level of detail, at the right time.	5 4 3 2 1 NA	
4. Mechanisms are in place to identify emerging technology needs, establish priorities, and provide feedback on system performance.	5 4 3 2 1 NA	
5. A clear communication channel is available to report suspected improprieties.	5 4 3 2 1 NA	
6. Persons who report suspected improprieties are provided feedback and are immune from reprisals.	5 4 3 2 1 NA	
7. Realistic mechanisms are in place for employees to provide recommendations for improvement.	5 4 3 2 1 NA	
8. Good employee suggestions are acknowledged by providing incentives or other meaningful recognition.	5 4 3 2 1 NA	
9. Changes with respect to agency-wide objectives and strategies are communicated timely and effectively to all affected personnel.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
10. Outside parties understand the agency's ethical and behavioral standards and expectations regarding dealings with the agency.	5 4 3 2 1 NA	
11. Management is receptive to comments by internal and external auditors regarding control deficiencies or suggestions for process improvement. Appropriate actions are taken and documented.	5 4 3 2 1 NA	
Conclusions Reached and Actions Needed:		

Monitoring Assessment Tools

Monitoring of the effectiveness of an agency's internal control can be done in two ways: through ongoing activities or separate evaluations. Ongoing monitoring is built into the normal, recurring operating activities of an agency, is performed on a real-time basis, reacts dynamically to changing conditions, and is ingrained in the agency. Ongoing monitoring often stems from regular management activities, which might involve analysis, comparison of information from disparate sources, and dealing with unexpected occurrences.

Exhibit 36 – Monitoring Questionnaire

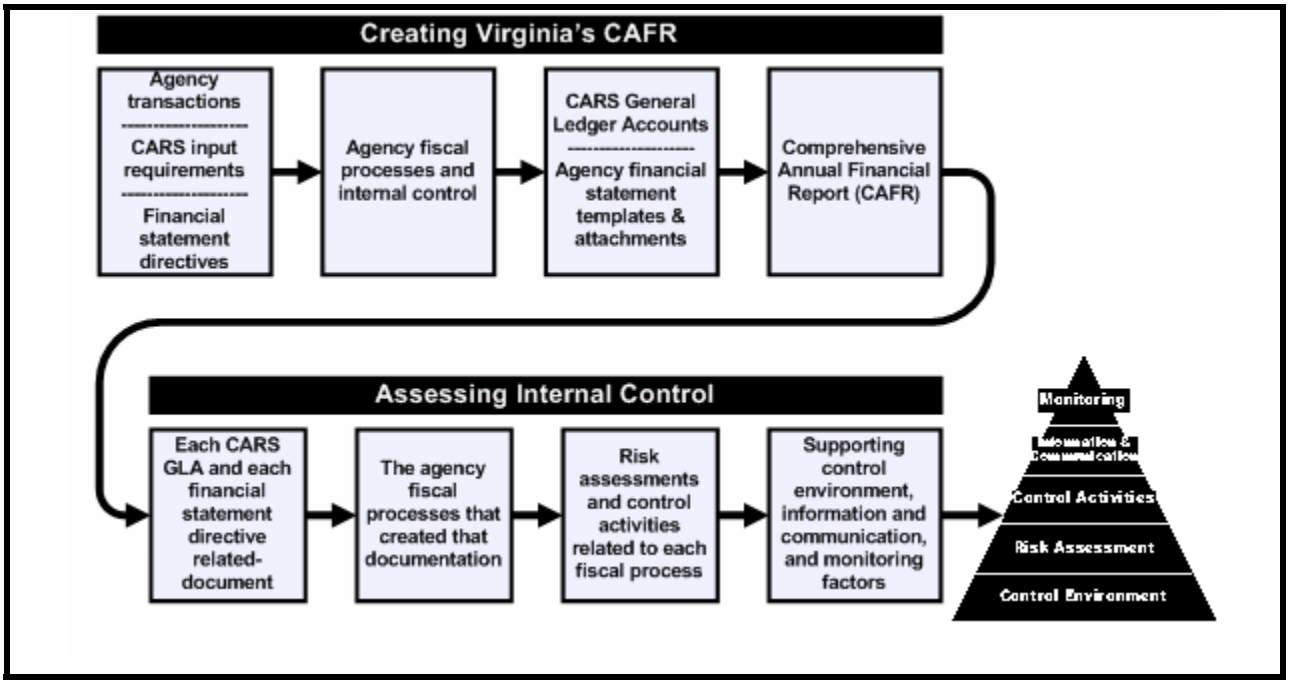
This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Management has established performance measures for processes in a division and receives periodic reports of results against those measures.	5 4 3 2 1 NA	
2. Personnel responsible for reports in a division are required to "sign off" on their accuracy and integrity and are held accountable if errors are discovered.	5 4 3 2 1 NA	
3. In the event of known control breakdowns or deficiencies, controls that should have prevented or detected problems are reassessed and modified as appropriate.	5 4 3 2 1 NA	
4. Controls most critical to mitigating high priority risks in your function are evaluated with appropriate frequency.	5 4 3 2 1 NA	
5. Evaluations of the entire internal control system are performed when there are major strategy changes, major acquisitions or dispositions, or operations and methods of processing financial information are changed.	5 4 3 2 1 NA	
6. An appropriate level of documentation is developed by your function to facilitate the understanding of how your internal control system works.	5 4 3 2 1 NA	
7. Employees are provided with sufficient control and compliance training sessions and feedback opportunities.	5 4 3 2 1 NA	
8. Control deficiencies are identified by on-going monitoring activities of the agency, including managerial activities and everyday supervision of employees.	5 4 3 2 1 NA	
9. Control deficiencies are identified during separate evaluations of the agency's internal control system.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
10. Internal control deficiencies are reported to the person directly responsible for the activity and to a person at least one level higher.	5 4 3 2 1 NA	
11. Specifications have been established for deficiencies that should be reported to more senior management and to the board.	5 4 3 2 1 NA	
12. Senior management ensures that the necessary follow-up actions are taken in response to reported control deficiencies.	5 4 3 2 1 NA	
13. Current audit/compliance reporting procedures are timely and effective.	5 4 3 2 1 NA	
Conclusions Reached and Actions Needed:		

Stage 2 – Process or Transaction-Level Control Activity Assessment

Once the assessment of agency-level control activities has been performed and documented, agency management must evaluate the control activities related to the individual fiscal processes that generate transactions in CARS or in agency-based systems that transfer information to CARS. The first step in assessing the control activities involves identifying all significant agency fiscal processes. As shown in Exhibit 37 below, the recommended method of identifying fiscal processes begins with their "end product", the Commonwealth's Comprehensive Annual Financial Report (CAFR), and works backwards**.**

Exhibit 37 – CAFR Links to Agency Internal Control



To systematically assess internal control, reverse the process that reports agency transactions in the Commonwealth's CAFR:

Step 1. List every CARS general ledger account into which the agency posts transactions. (See Exhibit 38, *Sample List of CARS GLAs Posted*)

Step 2. List every deliverable required for compliance with financial statement directives. (See Exhibit 39, *Sample List of Financial Statement Deliverables*)

Step 3. Identify all of the fiscal processes that affect or should affect CARS GLA postings or financial statement directive submissions.

Step 4. Perform a risk assessment of each fiscal process identified in Step 3. Use the questionnaires in Appendix A-1 to gain input on the processes.

Step 5. Identify the control activities and control objectives for each fiscal process.

Step 6. Test the effectiveness of control activities and document the results.

A detailed description of the process-level control activity assessment methodology is provided in the following sections.

Process Control Assessment Step 1 – List the CARS GLAs Posted

This information appears in CARS Report ACTR0402. It also is available from FINDS downloads and other reports drawn from the CARS Fund Ledger File.

Exhibit 38 – Step 1 – Sample List of CARS GLAs Posted

GLA No.	General Ledger Account
101	Cash with the Treasurer of Virginia
102	Allotments
103	Petty Cash Advances
122	Parking Fee Suspense Account
370	Equipment
371	Accumulated Depreciation – Equipment
703	Reserve for Allotments
798	Investment in General Fixed Assets
800	Fund Balance
801	Surplus Appropriated
892	Central / Outside Budget – Original
893	Central / Outside Budget – Adjusted
899	Contra Statistical Records
900	Appropriations
901	Expenditures
902	Expenditure Refunds
960	Estimated Revenue
961	Revenue
996	Cash Transfer In – General Fund

Process Control Assessment Step 2 – List Deliverables Required by Financial Statement Directive

Each agency prepares and submits a list (similar to Exhibit 39, below) to DOA as part of complying with financial statement directive requirements. Exhibit 39 is only an example. The answers to Financial Reporting Directive Attachment One will depend upon whether an agency needs to complete the listed attachments.

Exhibit 39 – Step 2 – Sample List of Financial Statement Deliverables

Document or File	Submission Required?
Comprehensive Annual Financial Report (CAFR)	No
Fund Descriptions	Yes
Revenue Classification Table	Yes
Attachment 1 – Checklist to Determine Information Required by Comptroller's Directive	Yes
Attachment 2 – Contact Survey	Yes
Attachment 3 – GASBS No. 14 Checklist – Modified to Reflect GASBS No. 39	No
Attachment 4 – Energy Efficiency Performance Contracts	Yes
Attachment 5 – Leave Liability Statement – CIPPS and Non-CIPPS Users	No
Attachment 6 – Schedule of Outstanding Installment Purchase Obligations	No
Attachment 7 – Schedule of Inventory on Hand at June 30	No
Attachment 8 – Governmental Fund Financial Statement Template	No
Attachment 9 – Enterprise Fund Financial Statement Template	No
Attachment 10 – Internal Service Fund Financial Statement Template	No
Attachment 11 – Private-Purpose Trust Fund Financial Statement Template	No
Attachment 12 – Agency Fund Financial Statement Template	No
Attachment 13 – Fixed Asset Accounting and Control System (FAACS) Analysis	Yes
Attachment 13A – GASBS No. 42 – Impairment of Capital Assets and Insurance Recoveries	Yes
Attachment 14 – Federal Schedules – Word Attachment	Yes
Attachment 14 – Federal Schedules – Federal Schedules	No
Attachment 14 – Federal Schedules – Reconciliation	No
Attachment 14 – Federal Schedules – Footnotes	No
Attachment 15 – GASBS No. 33 – Expenditure and Revenue Analysis	Yes
Attachment 16 – GASBS No. 38 – Short-term Debt	No
Attachment 17 – Internal Service Funds – Conversion to Government-wide Statement of Activities	No
Attachment 18 – Receivables as of June 30	No
Attachment 19 – Schedule of Retainage Payable	No
Attachment 20 – Schedule of Cash, Cash Equivalents, and Investments at June 30	Yes
Attachment 21 – Donor-Restricted Endowments	No
Attachment 22 – GASBS No. 33 Federal Fund Analysis – Advance Funded / Block Grants	No
Attachment 23 – Government-Wide Payables and Other Accruals at June 30	Yes
Attachment 24 – Direct Billed Central Services	No
Attachment 25 – Management Discussion and Analysis	No
Attachment 26 – Internal Control Statement	Yes
Attachment 27 – Adjustments	Yes
Attachment 28 – Report of Financial Condition – Submit to APA only	No
Attachment 29 – Supplementary – Revision Control Log	No

Process Control Assessment Step 3 – Identify and Document Significant Fiscal Processes

Once the CARS GLAs that the agency posts to have been listed, the fiscal processes that affect those postings need to be identified. Fiscal officers may do this by querying their CARS data through the use of FINDS or an agency-based accounting system. A review of the transaction codes, batch types, and batch agencies embedded in CARS transactions should reveal the agency fiscal processes that generated the CARS entries. For agencies that do not have access to FINDS or another query system, DOA will query CARS history to produce a list of the GLAs posted to by the agency with related data (transaction agency, batch agency, batch type, and transaction code) that form an audit trail back from CARS to the agency fiscal processes that created the CARS transactions (see Exhibit 41). DOA will distribute this list in electronic format on an as-needed basis.

Similarly, fiscal officers should review their financial statement directive deliverables to identify each fiscal process that is associated with the creation of the deliverable data. Exhibit 40 shows an example of how data from CARS transactions and financial statement deliverables has been associated with agency fiscal processes.

Exhibit 40 – Step 3 – Identification of Fiscal Processes

DATA FROM DOA				INFORMATION FROM FISCAL OFFICER
GLA	**Batch Type**	**Trans Code**	**Batch Agency**	**Agency Fiscal Process**
101	**3**	**324**	**151**	Accounts Payable Processing (Richmond and Northern Virginia offices process accounts payable for all locations)
Directive – Attachment 7 – Schedule of Inventory on Hand at June 30				Physical Count of Inventory

Agency fiscal personnel should keep in mind that more than one fiscal process could be associated with a particular GLA/Trans Code combination or financial statement directive deliverable. For example, the GLA 101/Trans Code 324 combination might identify accounts payable fiscal processes at two different agency locations. If the accounts payable process differs at each location, the procedures used at each location must be separately documented and assessed. Likewise, if differing procedures exist for a particular code combination based on fund, program, project or other coding detail, all associated fiscal processes must be identified and documented.

Documentation of a process could include a step-by-step description of the process including examples of the process documents, the policies and procedures governing the process, or a

process flow diagram. Process flow diagrams provide a standardized methodology for graphically illustrating the steps of a process.

Exhibit 41 – Data Linking CARS GLAs to Agency Fiscal Processes

GLA	Batch Type	Trans Code	Batch Agency	GLA	Batch Type	Trans Code	Batch Agency	GLA	Batch Type	Trans Code	Batch Agency	GLA	Batch Type	Trans Code	Batch Agency
101	2	332	151	101	5	200	997	800	5	714	997	901	4	180	158
101	2	468	151	101	5	380	997	801	5	008	997	901	4	180	161
101	3	149	151	101	5	710	997	801	5	022	997	901	4	180	182
101	3	324	151	101	5	711	997	801	5	200	997	901	4	180	194
101	3	334	151	101	6	180	151	801	8	020	122	901	4	180	199
101	3	342	997	101	6	193	151	801	8	024	122	901	4	180	201
101	3	935	151	101	6	230	151	801	8	028	122	901	4	180	212
101	4	136	143	101	6	340	151	801	8	034	122	901	4	180	245
101	4	180	111	101	6	380	151	801	8	038	122	901	4	180	261
101	4	180	136	101	7	001	151	892	O	879	122	901	4	180	409
101	4	180	152	101	7	002	151	892	O	880	122	901	4	180	501
101	4	180	154	101	7	003	151	893	O	881	122	901	4	180	601
101	4	180	156	101	7	003	997	899	O	879	122	901	4	180	701
101	4	180	158	101	8	038	122	899	O	880	122	901	4	180	750
101	4	180	161	101	9	228	997	899	O	881	122	901	4	180	765
101	4	180	182	101	9	246	997	900	5	022	997	901	4	180	777
101	4	180	194	101	9	252	997	900	8	020	122	901	4	180	999
101	4	180	199	101	P	334	151	900	8	024	122	901	4	380	151
101	4	180	201	101	X	334	151	900	8	028	122	901	4	380	194
101	4	180	212	102	8	051	122	900	8	034	122	901	5	180	997
101	4	180	245	103	7	002	151	900	8	038	122	901	5	380	997
101	4	180	261	122	6	230	151	901	P	334	151	901	6	180	151
101	4	180	409	122	9	228	997	901	X	334	151	901	6	380	151
101	4	180	501	370	5	713	997	901	2	332	151	901	9	246	997
101	4	180	601	370	F	619	997	901	2	468	151	901	9	252	997
101	4	180	701	371	F	625	997	901	3	149	151	902	4	193	239
101	4	180	750	371	5	714	997	901	3	324	151	902	6	193	151
101	4	180	765	371	F	640	997	901	3	334	151	902	7	003	151
101	4	180	777	703	8	051	122	901	3	342	997	902	7	003	997
101	4	180	999	798	F	619	997	901	3	935	151	960	5	008	997
101	4	193	239	798	F	625	997	901	4	180	111	961	4	136	143
101	4	380	151	798	F	640	997	901	4	180	136	961	5	136	997
101	4	380	194	800	5	710	997	901	4	180	152	961	6	340	151
101	5	136	997	800	5	711	997	901	4	180	154	961	7	001	151
101	5	180	997	800	5	713	997	901	4	180	156	996	8	038	122

Note – This exhibit is an example of a global chart of accounts for an agency. DOA will produce this information at the agency's request. The chart is intended to be useful to the agency in determining the fiscal processes used to generate and record financial activity in CARS.

Process Control Assessment Step 4 – Perform a Risk Assessment of Each Fiscal Process

Performing a risk assessment for each fiscal process involves identifying potential events or conditions that could have an impact on the functioning or outcome of the process. SWOT analysis should be employed again here at the process-level to classify events or conditions as either strengths, weaknesses, opportunities or threats. Once relevant events or conditions have been identified and classified, the next step is to assess the likelihood that the event(s) will occur and the impact that the occurrence would have on the agency. Agencies should then detail how they will respond to the risks associated with the fiscal process. Possible responses are to avoid, reduce, share or accept the risk. Details of how the particular risk response will be implemented should be provided. If acceptance of the risk is chosen as a risk response, an explanation should be provided to show that either the likelihood of the occurrence of the risk is sufficiently low or that the impact of it is of such a magnitude that it would pose little threat to the achievement of agency objectives. **Please keep in mind that risks which jeopardize the agency's ability to meet obligations for financial management, financial reporting or compliance with laws and regulations cannot be accepted. Plans to eliminate such risks must be detailed and implemented as soon as possible.**

Detailed questionnaires that can be used to identify common areas of risk and recommended controls by fiscal process are provided in Appendix A-1. The questionnaires are organized around the *Commonwealth Accounting Policies and Procedures Manual* (CAPP Manual) and highlight the required or recommended procedures for all types of fiscal processes. An example illustrating the completion of a risk assessment for a cash receipts fiscal process is shown in Appendix A-2. The example contains a sample completed questionnaire for the cash receipts accounting CAPP Topic 20205, *Deposits*.

Process Control Assessment Step 5 – Identify Control Activities and Control Objectives for Each Fiscal Process

Control activities are policies and procedures that are established and implemented to provide reasonable assurance that the risk responses identified in Step 4 are effectively carried out. A control activity may be classified in one of the following eight broad categories as defined in the "Types of Control Activities" section of the *Standards* on pages 22-23:

- Authorization
- Review and approval
- Verification
- Reconciliation
- Physical security over assets
- Segregation of duties
- Education, training and coaching
- Performance planning and evaluation

A fiscal process may have several associated control activities in multiple categories. In performing the assessment document all control activities that apply.

In addition to classifying the control activities, the assessment should also identify the operational and/or compliance objectives that the control activities are designed to achieve. Examples of the control activities and objectives associated with a cash receipts fiscal process are shown in Appendix A-2.

Process Control Assessment Step 6 – Test the Effectiveness of Control Activities and Document the Results

Once the control activities have been identified for each fiscal process, agency fiscal personnel should proceed to test them to ascertain if the activities are operating effectively and as intended. Professional judgment should be used to ascertain how best to test controls. Possible testing methods include:

1. Inquiry and observation of personnel performing the controls
2. Inspection of relevant documentation
3. Walkthroughs of the fiscal process by the examiner
4. Re-performance of the control by the examiner

The testing methods used and the results of the tests of controls should be documented. If a control is found to be working in a less than an optimal manner, reasons for the deficiency

should be investigated. If the deficiency is deemed to be an internal control weakness, a corrective action plan must also be developed and documented.

Stage 3 – Corrective Action Plans

Significant weaknesses in internal control that are identified through either the agency-level or process-level assessments must be documented and a corrective action plan developed. A corrective action plan must include at a minimum the following elements:

- Summary description of the deficiency in internal control.
- When the deficiency was identified.
- A target date for the completion of corrective action. The date of completion should be within the next fiscal year following the date of the assessment.
- Agency personnel responsible for monitoring progress.
- Indicators or statistics used to gauge resolution progress.
- A quantifiable target or qualitative characteristic that will indicate that the deficiency in internal control has been corrected.

Appendix A-1 – Process or Transaction-Level Control Questionnaires

The following exhibits contain questionnaires to aid in obtaining input on fiscal process or transaction-level controls. These questionnaires link back to the *Commonwealth Accounting Policies and Procedures Manual* (CAPP Manual), the main source of fiscal policy for the Commonwealth. Agency fiscal personnel should review the topics addressed to ensure that adequate controls are in place to meet agency objectives in the areas of effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations, and safeguarding of assets. These questionnaires are not designed to be inclusive of all possible fiscal processes and financial management situations and agency fiscal personnel are expected to use their professional judgment in modifying the material accordingly.

Exhibit 42 – CAPP 20105 – Appropriations – Appropriations, Allotments, and Transfers

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency does not expend funds against any appropriation until they have received an allotment of funds.	5 4 3 2 1 NA	
2. The agency monitors expenditures to ensure that appropriation, allotment and cash balances are not exceeded.	5 4 3 2 1 NA	
3. The agency does not expend appropriated or allotted funds for purposes that are not authorized by the Appropriation Act.	5 4 3 2 1 NA	

Exhibit 43 – CAPP 20110 – Appropriations – Operating Expenditure Plan

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency has implemented procedures to ensure that the total of the agency's expenditure operating plans equals the total of the DPB operating plan.	5 4 3 2 1 NA	
Appropriations – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 44 – CAPP 20205 – Cash Receipts – Deposits

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency has developed internal processing systems capable of separating payments received from the related accounting documents at the earliest possible processing point.	5 4 3 2 1 NA	
2. The agency analyzes the full range of cash management techniques and banking services available to determine what benefit can be derived from their use.	5 4 3 2 1 NA	
3. Deposit policies and procedures are in accordance with federal and state requirements, clearly stated, and systematically communicated through manuals, handbooks, or other media.	5 4 3 2 1 NA	
4. All deposits are properly and accurately recorded and accounted for in CARS in a timely manner.	5 4 3 2 1 NA	
5. Check endorsements meet Federal Reserve requirements and include the phrase "For Deposit Only."	5 4 3 2 1 NA	
6. Responsibilities for collection and deposit preparation functions are segregated from those for recording cash receipts and general ledger entries.	5 4 3 2 1 NA	
7. Responsibilities for cash receipts functions are segregated from those for cash disbursements.	5 4 3 2 1 NA	
8. "Non sufficient funds" checks are delivered to someone independent of processing and recording of cash receipts.	5 4 3 2 1 NA	
9. Procedures exist for follow-up of "non sufficient funds" checks.	5 4 3 2 1 NA	
10. Receipts are controlled by cash register, prenumbered receipts, or other equivalent means if payments are made in person.	5 4 3 2 1 NA	
11. Receipts are accounted for and balanced to collections on a daily basis.	5 4 3 2 1 NA	
12. Facilities exist for protecting undeposited cash receipts.	5 4 3 2 1 NA	
Cash Receipts Accounting – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 45 – CAPP 20305 – Cash Disbursements – Receiving Reports

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency documents unacceptable materials and incomplete services on the receiving report and takes the appropriate corrective action with the vendor.	5 4 3 2 1 NA NA	
2. The agency ensures that the requisition and purchase order and vendor invoice are compared to the receiving report prior to approval and payment processing.	5 4 3 2 1 NA	
3. A designated individual who is not also authorized to make payments pursuant to the purchase order or contract authorizes receiving reports.	5 4 3 2 1 NA	

Exhibit 46 – CAPP 20310 – Cash Disbursements – Expenditures

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Responsibilities for initiating a purchase are separate from responsibility for approving a payment.	5 4 3 2 1 NA	
2. Responsibilities for the invoice processing and accounts payable functions are adequately segregated from those for the general ledger functions.	5 4 3 2 1 NA	
3. The agency calculates and assigns the “required” payment due date in accordance with the Prompt Payment Requirements.	5 4 3 2 1 NA	
4. If the agency is decentralized, the payment processing documents are retained on file at the agency for the required retention period as specified in regulations promulgated by the Library of Virginia.	5 4 3 2 1 NA	
5. The agency has procedures to ensure the proper use of funds for all State expenditures.	5 4 3 2 1 NA	

Exhibit 47 – CAPP 20315 – Cash Disbursements – Prompt Payment

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency reviews the CARS ACTR1305, Payments Made After the Due Date Report, and the ACTR1306, Due Date Monitoring Report, for compliance with the Prompt Payment Requirements.	5 4 3 2 1 NA	
2. The agency documents unacceptable materials and incomplete services on the receiving report and takes the appropriate corrective action with the vendor.	5 4 3 2 1 NA	
3. The agency ensures that the requisition and purchase order and vendor invoice are compared to the receiving report prior to approval and payment processing.	5 4 3 2 1 NA	
4. The agency calculates and assigns the "required" payment due date in accordance with the Prompt Payment Requirements.	5 4 3 2 1 NA	

Exhibit 48 – CAPP 20325 – Cash Disbursements – Revenue Refunds

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. An authorized individual on the agency's signatory form approves revenue refunds to ensure refunds are made in accordance with State regulations.	5 4 3 2 1 NA	

Exhibit 49 – CAPP 20330 – Cash Disbursements – Petty Cash

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. There are at least two people (a cashier and an authorizing official) handling petty cash.	5 4 3 2 1 NA	
2. The bank statement is delivered unopened, directly to the person performing the reconciliation.	5 4 3 2 1 NA	
3. Someone other than the cashier or authorizing official reconciles the monthly petty cash bank statement.	5 4 3 2 1 NA	
4. The agency has a petty cash checking account where funds exceed $200.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
5. Interest earned on the petty cash checking account is deposited at least quarterly with the Treasurer of Virginia.	5 4 3 2 1 NA	
6. The petty cash account is in the name of the agency.	5 4 3 2 1 NA	
7. All checks are serially prenumbered and imprinted with “Petty Cash Fund” and the name of the agency.	5 4 3 2 1 NA	
8. Checks are only signed upon presentation of satisfactory documentary evidence that the disbursement is proper.	5 4 3 2 1 NA	
9. The check register lists every check issued and provides date issued, check number, name of payee, amount disbursed, and the account to be charged.	5 4 3 2 1 NA	
10. When the monthly bank statement is received, the register is updated to reflect the checks that have been paid by the bank.	5 4 3 2 1 NA	
11. Cancelled checks or carbon copies of the checks and bank statements are maintained for audit by internal auditors and APA.	5 4 3 2 1 NA	
12. Spoiled checks are marked “VOID” and the signature line obliterated or mutilated.	5 4 3 2 1 NA	
13. Voided checks are filed in numerical sequence with cancelled checks.	5 4 3 2 1 NA	
14. The check register shows every bad check and provides the check date, name of maker, amount, and status of collection.	5 4 3 2 1 NA	
15. A record is made of every advance payment in a listing or the check register and the record provides the type of advance, the date issued, name of payee, amount disbursed, and date advance was repaid.	5 4 3 2 1 NA	
16. The different types of advances (temporary travel, permanent travel, salary, etc.) are recorded on separate pages of the register.	5 4 3 2 1 NA	
17. Receipts for all disbursements accompany the request for reimbursement.	5 4 3 2 1 NA	

Exhibit 50 – CAPP 20340 – Cash Disbursements – Capital Outlay

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Actual expenditures are compared to planned amounts by project.	5 4 3 2 1 NA	
2. Capital outlay plans are updated to reflect approved change orders affecting the original budget.	5 4 3 2 1 NA	
3. Plans are set up at only one level (project, task, or phase) for the same project.	5 4 3 2 1 NA	
4. The total of the budgeted items at all levels does not exceed the amount fixed for the project plus any change order adjustments.	5 4 3 2 1 NA	

Exhibit 51 – CAPP 20345 – Cash Disbursements – Moving and Relocation

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Agency moving and relocation rules, policies, and procedures are not in conflict with the CAPP Manual regulations.	5 4 3 2 1 NA	
2. Agency rules, policies, and procedures are submitted to the State Comptroller for review before becoming effective.	5 4 3 2 1 NA	

Exhibit 52 – CAPP 20350 – Cash Disbursements – Non-State Funds

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency has developed procedures governing the processing of non-state fund reimbursements.	5 4 3 2 1 NA	
2. Goods and services procured are in accordance with the Virginia Public Procurement Act.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
3. Expenditures submitted for reimbursement are properly charged against non-state funds and processed in accordance with statewide disbursement guidelines.	5 4 3 2 1 NA	
4. Duties are segregated between the individuals processing the reimbursement batches and the individuals performing the non-state fund payment review and approval processes.	5 4 3 2 1 NA	
5. Each reimbursement voucher is properly completed and the appropriate authorizing signature obtained.	5 4 3 2 1 NA	
6. An acceptable receipt such as the vendor's sales document evidencing the purchase/receiving date and the amount paid supports all disbursements in the reimbursement batch.	5 4 3 2 1 NA	
7. All payments contained in the reimbursement batch are processed in accordance with the statewide policies and laws governing disbursements.	5 4 3 2 1 NA	

Exhibit 53 – CAPP 20355 – Cash Disbursements – Purchase Charge Cards

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency has developed and documented internal control procedures for the purchasing charge card activities that comply with CAPP Manual Topics 20310, Expenditures; 20315, Prompt Payment; 20320, Information Returns Reporting; 20335, State Travel Regulations; 20350, Non-State Funds; 20355, Purchasing Charge Card; and 30105, Fixed Assets.	5 4 3 2 1 NA	
2. The agency has developed and documented internal control procedures that are in compliance with Commonwealth procurement rules and regulations.	5 4 3 2 1 NA	
3. The agency has developed and documented internal control procedures that are in compliance with Corporate Purchasing Card contract provisions.	5 4 3 2 1 NA	
4. All payments to the Purchase Charge Card Vendor are made by the corresponding due date.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
5. Purchase logs and cardholder statements are obtained and reconciled with the corresponding purchase charge card vendor statement prior to receipt of the next purchase charge card vendor statement.	5 4 3 2 1 NA	
6. Reconciled statements are reviewed and approved in writing by the cardholder's supervisor.	5 4 3 2 1 NA	
7. Unacceptable materials and incomplete services are documented and the purchaser takes the appropriate corrective action with the vendor.	5 4 3 2 1 NA	
8. Original payment processing documents are maintained in an agency file for audit purposes.	5 4 3 2 1 NA	
Cash Disbursements Accounting – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 54 – CAPP 20405 – Inter-Agency Transactions

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Before processing IATs, the agency ensures that the IAT is properly completed by the originating agency or returns the IAT to that agency.	5 4 3 2 1 NA	
2. An individual authorized on the agency's signatory form approves interagency transfers.	5 4 3 2 1 NA	

Exhibit 55 – CAPP 20410 – Intra-Agency Transactions

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The preparation and approval functions of journal entries are segregated.	5 4 3 2 1 NA	
2. All journal entries are adequately explained and supported.	5 4 3 2 1 NA	
3. The approving officer reviews supporting documentation to ensure the journal entry contains proper coding for the adjustment.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
4. An authorized individual in the agency approves all ATVs.	5 4 3 2 1 NA	
Inter-Agency and Intra-Agency Transactions – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 56 - CAPP 20505 – Accounts Receivable

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Accounts receivable policies and procedures are in accordance with Attorney General and Comptroller requirements, clearly stated, and systematically communicated through manuals, handbooks, or other media.	5 4 3 2 1 NA	
2. All receivable transactions are properly and accurately recorded, aged, and accounted for in the agency-based accounting system.	5 4 3 2 1 NA	
3. Billings are timely and accurately recorded and documented on the date the revenue transaction is completed, or on the nearest normal billing cycle date.	5 4 3 2 1 NA	
4. All collections on accounts receivable are deposited and the source and date of payment are recorded in a timely manner.	5 4 3 2 1 NA	
5. Responsibilities for billing for services and fees are adequately segregated from those for collection and accounting.	5 4 3 2 1 NA	
6. Responsibilities for maintaining detailed accounts receivable records are adequately segregated from those for collection, deposit, and general ledger posting.	5 4 3 2 1 NA	
7. All adjustments, write-offs, and discharges are properly authorized, documented, and made in accordance with established policies, procedures and legal requirements.	5 4 3 2 1 NA	
8. Uncollected accounts are periodically reviewed and collection actions taken in accordance with established policies, procedures, and legal requirements.	5 4 3 2 1 NA	
9. Account balances are aged periodically and reviewed by an official not involved in cash receipts and disbursements.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
10. Recorded balances of receipts and accounts receivable and related transaction activity are periodically substantiated and evaluated.	5 4 3 2 1 NA	
11. Required report information is accurately prepared, keyed, and transmitted to the DOA web-based Accounts Receivable Data Entry system by the due date.	5 4 3 2 1 NA	
Accounts Receivable – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 57 – CAPP 20605 – Federal Grants Management

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Federal grant acquisition and management policies and procedures are in accordance with federal and State requirements, clearly stated and systematically communicated through manuals, handbooks, or other media.	5 4 3 2 1 NA	
2. Required federal reports are accurately prepared and submitted by the required due date.	5 4 3 2 1 NA	
3. All grant transactions are properly and accurately recorded and accounted for in CARS, either through direct input or interface of an agency-based accounting system, with subsequent reconciliation or correction, as needed.	5 4 3 2 1 NA	
4. Requests for advance or reimbursement funds are submitted on a timely basis with accurate and appropriate documentation, minimizing the amount and time federal funds are held.	5 4 3 2 1 NA	
Federal Grants Management – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 58 – CAPP 20705 – Indirect Cost Recovery

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Unallowable costs are not charged to federal awards either directly or indirectly.	5 4 3 2 1 NA	
2. The agency's organizational structure has been reviewed to determine the appropriate proposal methodology.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
3. An indirect cost rate proposal or cost allocation plan has been prepared according to requirements set forth in OMB Circular A-87, Cost Principles for State and Local Governments, or OMB Circular A-21, Cost Principles for Educational Institutions.	5 4 3 2 1 NA	
4. The completed indirect cost rate proposal or cost allocation plan has been submitted, negotiated and approved by the cognizant agency in a timely manner.	5 4 3 2 1 NA	
5. The approved indirect cost rate or amount has been applied against grant awards.	5 4 3 2 1 NA	
Indirect Cost Recovery – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 59 – CAPP 20805 – Loans Payable

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Treasury loan application, use, accounting and reporting, and repayment policies and procedures are in accordance with State requirements, clearly stated, and systematically communicated through manuals, handbooks or other media.	5 4 3 2 1 NA	
2. All loan transactions are properly and accurately recorded and accounted for in the agency-based accounting system.	5 4 3 2 1 NA	
3. Required reports are accurately prepared and submitted by the due date.	5 4 3 2 1 NA	
Loans – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 60 – CAPP 20905 – CARS Reconciliation Procedures

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Agency procedures for reconciliation of internally prepared accounting records, data submission logs and other accounting data to reports produced by CARS are fully documented.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
2. Reconciliation procedures that differ from those in CAPP Topic 20905, *CARS Reconciliation Procedures,* are fully documented and have been approved by the Director of the Department of Accounts General Accounting Unit.	5 4 3 2 1 NA	
3. A *CARS Transaction and Batch Control Log* of all CARS transactions is maintained.	5 4 3 2 1 NA	
4. Source document detail is reconciled to the agency internal accounting system (if applicable) and to the CARS ACTR0401 report on a weekly basis.	5 4 3 2 1 NA	
5. Corrections to CARS via ATV or IAT or corrections to internal accounting systems via adjusting journal entries are made on a timely basis.	5 4 3 2 1 NA	
6. The CARS Error File is cleared each day.	5 4 3 2 1 NA	
7. The monthly Confirmation of Agency Reconciliation to CARS Reports (Exception Register) is submitted by the fiscal officer through the Internet-based system by the due date.	5 4 3 2 1 NA	
8. Annual certification by the agency head and fiscal officer that all CARS general ledger account balances for the agency as of June 30 final close are correct is submitted by the due date.	5 4 3 2 1 NA	
CARS Reconciliation Procedures – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 61 – CAPP 70220 – CARS Security

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency has controls over access to CARS.	5 4 3 2 1 NA	
2. Access to CARS is limited to individuals who need the access to perform their job responsibilities.	5 4 3 2 1 NA	
3. The agency has assigned a CARS Security Officer.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
4. The CARS Security Officer is responsible for the comprehensive system of internal control over both on-line and off-line access to CARS tables and files.	5 4 3 2 1 NA	
CARS Security – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 62 – CAPP 30105 – Fixed Assets – FAACS Overview

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Access to FAACS is limited to those individuals who need the access to perform their job responsibilities.	5 4 3 2 1 NA	
2. Fixed assets are only acquired for use in furthering the agency's programs and missions.	5 4 3 2 1 NA	
3. All assets within the required capitalization or control limits are recorded in FAACS.	5 4 3 2 1 NA	
4. Proper stewardship and control over assets is carried out, including periodic inventories.	5 4 3 2 1 NA	
5. Financial records and reports properly reflect fixed asset balances.	5 4 3 2 1 NA	
6. Assets are reasonably protected from theft.	5 4 3 2 1 NA	
7. Internal procedures are documented in writing.	5 4 3 2 1 NA	
8. Proper segregation of duties is maintained between recording of fixed assets in FAACS and the purchase and disposal of fixed assets.	5 4 3 2 1 NA	
FAACS Overview – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 63 – CAPP 30205 – Fixed Assets – Fixed Assets Acquisition Method

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. All assets are acquired using an acceptable method of acquisition.	5 4 3 2 1 NA	
2. All assets are recorded in a timely manner.	5 4 3 2 1 NA	
3. All assets are properly accounted for.	5 4 3 2 1 NA	

Exhibit 64 – CAPP 30210 – Fixed Assets – Fixed Assets Acquisition Valuation

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. All assets are recorded at their proper value.	5 4 3 2 1 NA	
2. The method of valuation is properly documented.	5 4 3 2 1 NA	
3. All assets are periodically reviewed to avoid material overstatement.	5 4 3 2 1 NA	
Asset Acquisition and Valuation – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 65 – CAPP 30305 – Fixed Assets – Classification – Capitalized or Controlled Fixed Assets

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Fixed assets purchased with federal grant funds are recorded appropriately in FAACS.	5 4 3 2 1 NA	
2. Controls are in place to exclude the depreciation of capitalized fixed assets purchased with Federal grant funds from the indirect cost recovery plan.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
3. Assets are properly classified for financial reporting purposes.	5 4 3 2 1 NA	
4. Record keeping procedures exist that account for excludable assets.	5 4 3 2 1 NA	
5. Excludable assets are safeguarded against damage or theft.	5 4 3 2 1 NA	
6. A periodic inventory is performed of excludable assets.	5 4 3 2 1 NA	
7. Assets are recorded in FAACS in a timely manner.	5 4 3 2 1 NA	
8. Assets are adequately safeguarded and controlled.	5 4 3 2 1 NA	

Exhibit 66 – CAPP 30310 – Fixed Assets – Classification – Fixed Asset Categorization

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Assets are properly categorized into the prescribed major asset categories.	5 4 3 2 1 NA	
2. All expenditures are properly recorded in CARS to ensure completeness of data for review and evaluation.	5 4 3 2 1 NA	
3. All asset expenditures are recorded in a timely and accurate manner and supported by detail documentation.	5 4 3 2 1 NA	
4. All assets are further categorized, as appropriate, into more detailed categories necessary for various programmatic cost recoveries.	5 4 3 2 1 NA	
5. Appropriate detail is maintained to reconcile data in FAACS with data maintained in the Real Property Management System (RPMS) maintained by the Bureau of Real Property Management (BRPM).	5 4 3 2 1 NA	

Exhibit 67 – CAPP 30315 – Fixed Assets – Classification – Nomenclature Codes

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Assets are assigned the appropriate nomenclature code.	5 4 3 2 1 NA	
2. Assets are assigned the correct depreciation type.	5 4 3 2 1 NA	
3. Form 83, "Nomenclature Table Specification," is submitted to DOA for assets requiring a new nomenclature code or changes to an existing nomenclature code.	5 4 3 2 1 NA	
Asset Classification – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 68 – CAPP 30405 – Fixed Assets – Asset Revaluations – Additions, Renovations, and Repairs

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. All transactions involving additions, renovations, and repairs are evaluated on a case-by-case basis to determine whether costs should or should not be entered on FAACS.	5 4 3 2 1 NA	
2. Costs to be entered into FAACS are properly referenced against the underlying original asset.	5 4 3 2 1 NA	
3. Proper transaction dates are used for financial reporting and depreciation calculations.	5 4 3 2 1 NA	
Asset Revaluations – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 69 – CAPP 30505 – Fixed Assets – Asset Control and Management – Physical Inventory

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. All asset transactions are entered into FAACS in a timely manner.	5 4 3 2 1 NA	
2. A responsible person whose duties encompass property management approves all adjustments to FAACS data.	5 4 3 2 1 NA	
3. All FAACS reports are reviewed in a timely manner for accuracy and completeness.	5 4 3 2 1 NA	
4. Discrepancies are thoroughly researched and brought to management's attention.	5 4 3 2 1 NA	
5. Inventories are taken at least once every two years.	5 4 3 2 1 NA	

Exhibit 70 – CAPP 30510 – Fixed Assets – Asset Control and Management – Maintenance

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. All pertinent maintenance information and costs are entered in FAACS in a timely manner.	5 4 3 2 1 NA	
2. Maintenance costs are periodically reviewed and analyzed.	5 4 3 2 1 NA	
3. Maintenance contracts are current and cover only assets approved by management.	5 4 3 2 1 NA	
4. Maintenance costs are not incurred for assets covered under comparable warranties.	5 4 3 2 1 NA	
5. Warranty expirations are reviewed so maintenance can be continued, when and where necessary.	5 4 3 2 1 NA	
Asset Control and Management – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 71 – CAPP 30605 – Fixed Assets – Asset Depreciation – Useful Life

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. A realistic useful life is assigned to all depreciable assets.	5 4 3 2 1 NA	
2. Major assets are periodically examined for major occurrences, which may increase or decrease the existing useful life.	5 4 3 2 1 NA	
3. Assets are properly revalued and updated on a timely basis so that proper costs exist for depreciation calculation.	5 4 3 2 1 NA	

Exhibit 72 – CAPP 30610 – Fixed Assets – Asset Depreciation – Methods and Calculations

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Asset acquisition cost, acquisition date, and useful life are properly recorded so that accurate depreciation is calculated.	5 4 3 2 1 NA	
2. Reconciliations are performed in a timely manner between FAACS straight-line depreciation and any other depreciation method used by the agency.	5 4 3 2 1 NA	
3. Depreciation is reviewed for accuracy for inclusion in the financial records and reports.	5 4 3 2 1 NA	
Asset Depreciation – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 73 – CAPP 30705 – Fixed Assets – Surplus Property – Surplus Property Management

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. All assets are periodically reviewed as to proper status of available, unavailable or surplus.	5 4 3 2 1 NA	
2. All surplus items, which are sold or transferred, are properly recorded as disposals.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
3. Depreciation on surplus assets is not included in the overhead pool for federal indirect cost recovery.	5 4 3 2 1 NA	
4. Depreciation on all assets, including those that are surplus, are accounted for in the agency financial records and reports, where required.	5 4 3 2 1 NA	
Surplus Property – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 74 – CAPP 30805 – Fixed Assets – Asset Disposal – Disposal Management

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Disposal reports are reviewed to detect the existence of poor asset control.	5 4 3 2 1 NA	
2. Adequate segregation of duties exists between asset physical control and disposal approval.	5 4 3 2 1 NA	
3. Procedures exist for the identification and evaluation of disposals of a suspicious nature.	5 4 3 2 1 NA	
4. Disposal reports are reviewed to provide more precise definitions of an asset's useful life.	5 4 3 2 1 NA	
5. The proper condition exists for the disposal action to occur.	5 4 3 2 1 NA	
6. The disposed asset is removed from FAACS in a timely manner.	5 4 3 2 1 NA	
7. The effective date of the transaction posted in FAACS is the actual date the condition occurred.	5 4 3 2 1 NA	
8. Stolen property is removed from FAACS or reported to security in a timely manner.	5 4 3 2 1 NA	
9. If assets are transferred to another agency, all required IATs are issued and appropriate FAACS disposal entries are made.	5 4 3 2 1 NA	
Asset Disposal – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 75 – CAPP 30905 – Fixed Assets – Reconciliation and Error Correction

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Controls are maintained over all transactions that affect the fixed assets of the agency as recorded in central FAACS.	5 4 3 2 1 NA	
2. Timely and accurate property management and financial information are provided through FAACS reports for agency management decisions.	5 4 3 2 1 NA	
3. Clear audit trails from source documents are provided to FAACS accounts for all agency fixed asset transactions.	5 4 3 2 1 NA	
4. The reconciliation and error correction processes are well documented and reviewed periodically by senior management.	5 4 3 2 1 NA	
Reconciliation and Error Correction – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 76 – CAPP 31005 – Fixed Assets – Fiscal Year-End Reporting

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. All changes to fixed assets are reviewed for reasonableness.	5 4 3 2 1 NA	
2. All reporting requirements set in the Comptroller's annual financial statement directive are met.	5 4 3 2 1 NA	
3. All federal reporting requirements are met.	5 4 3 2 1 NA	
4. Procedures exist to ensure depreciation on federally funded assets is excluded for indirect cost recovery.	5 4 3 2 1 NA	
5. All amounts reported in financial records and reports are fully reconciled to FAACS and CARS.	5 4 3 2 1 NA	

Exhibit 77 – CAPP 31010 – Fixed Assets – Summary User Reporting

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Assets are adequately controlled and safeguarded.	5 4 3 2 1 NA	
2. Proper reconciliation procedures are in effect and corrections made in a timely manner.	5 4 3 2 1 NA	
3. All necessary financial reporting for both state and federal requirements are done in a timely and accurate manner.	5 4 3 2 1 NA	
4. All depreciation, where appropriate, is calculated, summarized and reported on a basis consistent with GAAP.	5 4 3 2 1 NA	
5. Internal controls are established which satisfy the requirements of APA.	5 4 3 2 1 NA	
Reporting – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 78 – CAPP 31105 – Fixed Assets – Federal Fixed Asset Accounting Requirements

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency ensures that assets purchased with federal grant funds conform to State and federal rules and regulations.	5 4 3 2 1 NA	
2. Cost principles and administrative requirements pertaining to federally funded assets are followed.	5 4 3 2 1 NA	
3. Depreciation is computed using a generally accepted method and consistently applied for a particular class of assets.	5 4 3 2 1 NA	
4. Controls are in place to exclude the depreciation on capitalized fixed assets purchased with federal grant funds and on surplus property from the indirect cost pool.	5 4 3 2 1 NA	
5. The grantor is notified when capitalized assets acquired with grant funds are no longer used in the grant program.	5 4 3 2 1 NA	
Federal Asset Accounting – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 79 – CAPP 70305 – Fixed Assets – Online FAACS Overview

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Procedures are in place to ensure that data element field coding defaults are identified and changes to these fields are made when necessary.	5 4 3 2 1 NA	
2. Procedures are in place to ensure the proper identification of data element fields entered in FAACS.	5 4 3 2 1 NA	
3. Procedures are in place regarding appropriate reviews and reconciliations to ensure that actual data input to FAACS is accurate and correct.	5 4 3 2 1 NA	

Exhibit 80 – CAPP 70310 – Fixed Assets – Online FAACS Security

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency has developed internal procedures to ensure assets are properly recorded in FAACS and verification of data on the MASTER FILE is made with the source documents.	5 4 3 2 1 NA	
2. The security officer reminds users about the importance of maintaining secret passwords to restrict access to Online FAACS to only authorized personnel.	5 4 3 2 1 NA	

Exhibit 81 – CAPP 70360 – Fixed Assets – Online FAACS Interface Requirements

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency has procedures to ensure that accurate, uniform and timely information is reported and interfaced.	5 4 3 2 1 NA	
2. FAACS and CARS reconciliation procedures are followed.	5 4 3 2 1 NA	
Online FAACS – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 82 – CAPP 31210 – Lease Accounting – Economic Analysis

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Procedures exist to identify when an economic analysis should be performed.	5 4 3 2 1 NA	
2. Every effort is made to obtain favorable rates of interest in the lease or installment purchase.	5 4 3 2 1 NA	
3. The agency head or designee approval is obtained for all leases shown to have unfavorable terms.	5 4 3 2 1 NA	
4. Interest rates are compared to incremental borrowing rates and Treasury Board Financing Program rates.	5 4 3 2 1 NA	
5. Treasury Board approval is obtained for alternative financing arrangements for items exceeding prescribed limits.	5 4 3 2 1 NA	

Exhibit 83 – CAPP 31215 – Lease Accounting – LAS Transactions

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Access to the lease accounting system is limited to individuals who need the access to perform their job responsibilities.	5 4 3 2 1 NA	
2. Potential agreements to acquire property, plant and equipment are properly evaluated to determine if the transaction is truly a lease.	5 4 3 2 1 NA	
3. All leases are properly classified as either operating or capital.	5 4 3 2 1 NA	
4. All leasehold improvements are properly evaluated for inclusion in FAACS.	5 4 3 2 1 NA	

Exhibit 84 – CAPP 31220 – Lease Accounting – LAS Reporting

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. All leases are properly classified and included in LAS.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
2. All rental expense and income transactions are posted in CARS.	5 4 3 2 1 NA	
3. Assets included in the lease accounting system which are also included in FAACS are properly coded to eliminate duplicate reporting.	5 4 3 2 1 NA	
4. Rent expense is reviewed and reconciled for proper disclosure.	5 4 3 2 1 NA	
5. The agency ensures familiarity with the FASB and GASB statements and compliance with the Comptroller's Directive on Financial Statement Preparation.	5 4 3 2 1 NA	
Lease Accounting – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 85 – CAPP 70605 – Lease Accounting – LAS Input Documents

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. All lease activity is properly controlled by the submission of appropriate lease input documents.	5 4 3 2 1 NA	
2. Lease input documents are prepared in a timely and accurate manner.	5 4 3 2 1 NA	
3. Lease input documents are reviewed and approved by authorized personnel.	5 4 3 2 1 NA	
4. Lease data entered into the system is reconciled to source documentation.	5 4 3 2 1 NA	

Exhibit 86 – CAPP 70610 – Lease Accounting – LAS Reports

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Files of all active leases are maintained and include LAS reports on each lease and agency-wide "roll up" reports for the most recent fiscal year.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
Lease Accounting System – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 87 – CAPP 40105, 40205, 40210, 40305, 40405 – CIPPS Leave Accounting

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency has established procedures to ensure accurate leave balances are available to employees each payday.	5 4 3 2 1 NA	
2. The agency has established appropriate processes governing leave form preparation, authorization, submission, data entry, and reconciliation.	5 4 3 2 1 NA	
3. The agency retains documentation supporting entries establishing leave balances.	5 4 3 2 1 NA	
4. The agency ensures that maintenance transactions are authorized and entered on a timely basis.	5 4 3 2 1 NA	
5. The agency has ensured that employee leave documents are stored in a secure location to maintain the confidentiality of the data.	5 4 3 2 1 NA	
6. The agency has appropriately separated tasks related to leave activity to ensure that no one person has control of a transaction from beginning to end.	5 4 3 2 1 NA	
Leave Accounting – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 88 – CAPP 50105 – Introduction to CIPPS

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency ensures that employees comply with work schedules.	5 4 3 2 1 NA	
2. Overtime is properly authorized.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
3. Proper tax withholdings are based on accurate employee information.	5 4 3 2 1 NA	
4. The agency has ensured that management and staff are properly trained in the use of CIPPS and the controls available within the system.	5 4 3 2 1 NA	
5. The agency has appropriately segregated payroll-processing tasks to ensure that no one person has control of a transaction from beginning to end.	5 4 3 2 1 NA	
6. The agency has policies in place to ensure that only authorized persons have access to essential data and are able to make changes to employee pay records.	5 4 3 2 1 NA	
7. The agency has policies in place to ensure that paychecks are not distributed prior to payday.	5 4 3 2 1 NA	

Exhibit 89 – CAPP 50115 – CIPPS Menu and Link Functions

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Proper paperwork and authorizations are in place prior to entering payroll data.	5 4 3 2 1 NA	
2. Payroll and fiscal officers review data entry prior to certification.	5 4 3 2 1 NA	
3. All applicable forms/applications used to establish an employee record or to make a change to the current information are maintained by the agency for audit purposes.	5 4 3 2 1 NA	

Exhibit 90 – CAPP 50120 – CIPPS Automated Changes

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. All reports generated from the use of mass transactions and automated interface processes are reviewed to verify accuracy of master file changes and updates.	5 4 3 2 1 NA	

Exhibit 91 – CAPP 50125 – CIPPS Programmatic Data

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. All funding information is approved and established for agency use in CARS prior to entry into CIPPS.	5 4 3 2 1 NA	

Exhibit 92 – CAPP 50130 – CIPPS Batch Processing and Balancing

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. All batch transactions are complete, properly authorized, and accurately entered into CIPPS.	5 4 3 2 1 NA	
2. Out-of-balance payroll batches are reviewed and evaluated to ensure proper payroll processing.	5 4 3 2 1 NA	
3. Documentation supporting the batch data entry is available for review during the pre- and post-certification process and is retained for audit purposes.	5 4 3 2 1 NA	

Exhibit 93 – CAPP 50135 – CIPPS Pending File

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Documentation and authorization exists for all employee record changes and payroll transactions and is retained for audit purposes.	5 4 3 2 1 NA	
2. Pending file reports are reviewed routinely and all outdated or unnecessary transactions are deleted.	5 4 3 2 1 NA	
CIPPS Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 94 – CAPP 50205 – CIPPS Agency Profiles – Agency Information

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Agency management obtains the appropriate federal and state employer identification numbers required to withhold payroll taxes.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
2. The agency sends employer name/address changes and key personnel changes timely to ensure no disruption in communications or payroll reporting.	5 4 3 2 1 NA	
3. The agency researches and corrects charges made to the default expenditure coding for the CIPPS general ledger interface and the automated healthcare reconciliation.	5 4 3 2 1 NA	
4. The agency reviews Report 59, Gross Pay Limit Exceeded, and all payments or hours paid in a particular pay period that exceed agency default values are researched and verified for accuracy.	5 4 3 2 1 NA	

Exhibit 95 – CAPP 50210 – CIPPS Agency Profiles – User Security

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency CIPPS Security Officer verifies the appropriateness of security actions and levels prior to the submission of the CIPPS Security Authorization Request form to DOA.	5 4 3 2 1 NA	
2. The agency has developed procedures governing the levels of security requested.	5 4 3 2 1 NA	
3. The agency requires the timely submission of requests to delete access for terminated/transferred employees so as to safeguard the assets of the Commonwealth.	5 4 3 2 1 NA	
4. All copies of the CIPPS Security Authorization Requests and agency Security Spreadsheets are maintained by the agency for audit purposes.	5 4 3 2 1 NA	
5. The agency responds timely to the annual distribution of the security verification report, noting required changes or acceptance of existing security.	5 4 3 2 1 NA	
6. The agency has policies in place to ensure that Individuals with Certification access do not have access to Update Payroll.	5 4 3 2 1 NA	
Maintain Agency Profile Information – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 96 – CAPP 50305 – CIPPS Employee Profiles – New Employee Add

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The documentation supporting the hiring of employees is properly completed and authorized before processing.	5 4 3 2 1 NA	
2. Prior to certification, a review of all information pertaining to the new hires is performed to ensure the correctness of the data entry.	5 4 3 2 1 NA	
3. The agency has developed policies and procedures concerning the data entry and review processes.	5 4 3 2 1 NA	
4. The agency maintains, for audit purposes, all applicable forms/applications used to establish an employee record or to make a change to the current information.	5 4 3 2 1 NA	

Exhibit 97 – CAPP 50310 – CIPPS Employee Profiles – Rehires and Employee Data Changes

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Documentation supporting rehires and employee maintenance is completed and authorized prior to data entry.	5 4 3 2 1 NA	
2. Agency management ensures the correctness of data entry by reviewing information pertaining to rehires and employee master file changes.	5 4 3 2 1 NA	
3. The agency has developed policies and procedures concerning the data entry and review processes.	5 4 3 2 1 NA	
4. The agency maintains for audit purposes all applicable forms/applications used to establish an employee record or to make a change to the current information.	5 4 3 2 1 NA	

Exhibit 98 – CAPP 50315 – CIPPS Employee Profiles – Employee Tax Maintenance

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency ensures that all employees complete both federal and state withholding forms.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
2. The agency withholds the allowances claimed by the employee on Form W-4s and any additional amount requested on both the federal and state withholding forms.	5 4 3 2 1 NA	
3. The agency ensures that all reciprocal tax agreements with other states are honored and taxes are withheld and reported to those states.	5 4 3 2 1 NA	
4. The agency sends copies of W-4s to the IRS on a quarterly basis when the employee claims more than ten exemptions.	5 4 3 2 1 NA	
5. The agency requires eligible employees to complete a new W-5, Earned Income Credit form, by certification of the first pay period of the new calendar year.	5 4 3 2 1 NA	
6. The agency ensures that Local Income Taxes are withheld as required.	5 4 3 2 1 NA	

Exhibit 99 – CAPP 50320 – CIPPS Employee Profiles – Terminations

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency verifies that CIPPS information concerning terminating employees is complete, properly authorized, and entered accurately into CIPPS.	5 4 3 2 1 NA	
2. The agency's fiscal officer ensures that all payments have been properly and accurately issued and that any outstanding advances or agency property have been recovered prior to the final payment issued to the employee.	5 4 3 2 1 NA	
3. The agency ensures that all benefit deductions are adjusted as required prior to final payment to the employee.	5 4 3 2 1 NA	
4. The agency ensures that all debt-set off amounts have been recovered and processed.	5 4 3 2 1 NA	
CIPPS Employee Profiles – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 100 – CAPP 50405 – CIPPS Deductions – Court-Ordered Withholdings

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency ensures that third-party payments are deducted in accordance with the Court Order or levy and applicable laws governing debt collections.	5 4 3 2 1 NA	
2. Third-party payments are forwarded to the creditor by the due date.	5 4 3 2 1 NA	
3. The agency ensures that processing fees are withheld as appropriate.	5 4 3 2 1 NA	
4. The agency ensures that deductions for third-party payments are turned off in compliance with return dates.	5 4 3 2 1 NA	

Exhibit 101 – CAPP 50410 – CIPPS Deductions – Retirement – VRS and ORP

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Retirement, retirement credit, group insurance, and long-term disability and other corresponding retirement plan deductions are established properly in CIPPS.	5 4 3 2 1 NA	
2. The monthly reconciliation of retirement plan contributions is performed timely and any IAT or 1501 adjustments are processed promptly.	5 4 3 2 1 NA	
3. Employee enrollment information and any supporting documentation are maintained for audit purposes.	5 4 3 2 1 NA	

Exhibit 102 – CAPP 50415 – CIPPS Deductions – Retirement – Salary Reduction Plans

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Proper documentation exists prior to initiating any change to an employee master file and changes are made accurately and timely.	5 4 3 2 1 NA	
2. Reports 855 or 857 (Deferred Compensation/Annuity Excess Deduction Reports) are used to assist in identifying employees who may be approaching or exceeding plan contribution limits.	5 4 3 2 1 NA	

Exhibit 103 – CAPP 50420 – CIPPS Deductions – Cash Match Plans

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency uses the Report 906 to identify potential exceptions for the cash match.	5 4 3 2 1 NA	
2. For employees reported on Report 906, the agency verifies the accuracy of the Cash Match deduction amounts and makes any necessary changes to the amounts to be in compliance with the rules of the Cash Match program.	5 4 3 2 1 NA	

Exhibit 104 – CAPP 50425 – CIPPS Deductions – Group and Optional Life Insurance

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency ensures that group and optional group life plan deductions are established properly in CIPPS.	5 4 3 2 1 NA	
2. A monthly reconciliation of group and optional group life contributions is performed and any adjustments to correct employee records are performed timely.	5 4 3 2 1 NA	
3. Employee enrollment information and any supporting documentation are maintained for audit purposes.	5 4 3 2 1 NA	
4. The agency ensures that Imputed Life is accurately entered in CIPPS.	5 4 3 2 1 NA	

Exhibit 105 – CAPP 50430 – CIPPS Deductions – Health Insurance

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency ensures that all employee and agency premiums due according to BES are paid.	5 4 3 2 1 NA NA	
2. The monthly reconciliation of health care premiums collected through payroll to authorization in BES is performed timely and any IAT adjustments processed.	5 4 3 2 1 NA NA	
3. The agency ensures that applicable forms affecting employee healthcare plan eligibility and the related payroll deductions are maintained for audit.	5 4 3 2 1 NA	

Exhibit 106 – CAPP 50435 – CIPPS Deductions – Flexible Spending Accounts

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency ensures that there is proper documentation (e.g. BES turnaround document) prior to initiating any change to an employee's reimbursement account.	5 4 3 2 1 NA	
2. Maximum deferral amounts are not exceeded.	5 4 3 2 1 NA	
3. The agency ensures that deductions are processed appropriately for terminated employees or employees on LWOP.	5 4 3 2 1 NA	

Exhibit 107 – CAPP 50440 – CIPPS Deductions – Savings Bonds

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency verifies that CIPPS bonds information is complete, properly authorized, and entered accurately into the system.	5 4 3 2 1 NA	

Exhibit 108 – CAPP 50445 – CIPPS Deductions – Direct Deposit

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Direct deposit payments are made to the correct employee bank account.	5 4 3 2 1 NA	
2. Any stop payment/reversal required is communicated immediately to DOA to enable a successful retrieval of funds.	5 4 3 2 1 NA	
3. The agency maintains copies of employee direct deposit enrollment applications.	5 4 3 2 1 NA	

Exhibit 109 – CAPP 50450 – CIPPS Deductions – Parking and Transportation

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency ensures that employees pay for assigned parking spaces and obtain appropriate salary reduction agreements for pre-tax deductions.	5 4 3 2 1 NA	
2. The agency reconciles the DGS Parking Fee Suspense Account monthly.	5 4 3 2 1 NA	
3. The agency retains supporting payroll documents for audit purposes.	5 4 3 2 1 NA	

Exhibit 110 – CAPP 50455 – CIPPS Deductions – Miscellaneous Employee Deductions

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency ensures that all required employee authorizations are obtained before the deduction is established in CIPPS.	5 4 3 2 1 NA	
2. The agency retains supporting payroll documents for audit purposes.	5 4 3 2 1 NA	
CIPPS Deductions – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 111 – CAPP 50505 – CIPPS Employee Pay – Time and Attendance

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency verifies that all source documents such as timecards, timesheets, or any other authorization used to pay or adjust an employee's pay, have been properly completed, authorized by the appropriate party, and entered accurately into CIPPS.	5 4 3 2 1 NA	
2. CIPPS payroll duties are segregated between the person who collects and processes the source documents and the fiscal manager who oversees the payroll operations to ensure consistent application of internal control procedures.	5 4 3 2 1 NA	
3. Proper source documentation is maintained and accessible for current or future review.	5 4 3 2 1 NA	
4. The agency reviews the DOA centralized post audit of all CIPPS payments under the CIPPS/PMIS compare program and researches, explains and takes corrective action where necessary.	5 4 3 2 1 NA	

Exhibit 112 – CAPP 50510 – CIPPS Employee Pay – Unpaid Leaves of Absence and Overpayments

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Accurate and complete timekeeping is performed to ensure that all periods of LWOP are reported and salary payments docked accordingly.	5 4 3 2 1 NA	
2. The agency has implemented policies and procedures concerning LWOP and overpayments.	5 4 3 2 1 NA	
3. All reductions in an employee's salary are properly authorized and entered into CIPPS correctly and timely.	5 4 3 2 1 NA	
4. The agency retains supporting payroll documents for audit purposes.	5 4 3 2 1 NA	
5. The agency has procedures in place to ensure that benefits are adjusted appropriately.	5 4 3 2 1 NA	

Exhibit 113 – CAPP 50515 – CIPPS Employee Pay – Special Payments

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency verifies that information pertaining to special payments is complete, properly authorized, and entered accurately into CIPPS.	5 4 3 2 1 NA	
2. Policies and procedures have been established to ensure the proper review of information entered into CIPPS before the certification process.	5 4 3 2 1 NA	
3. CIPPS payroll duties are segregated between the person who collects and processes the source documents and the fiscal manager who oversees the payroll operations to ensure consistent application of internal control procedures.	5 4 3 2 1 NA	

Exhibit 114 – CAPP 50520 – CIPPS Employee Pay – Workers' Compensation

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency has established and maintained consistent standards and procedures for the payment of workers' compensation awards and the calculation of related pay, fringe benefits, and leave.	5 4 3 2 1 NA	
2. The agency verifies that the information processed is complete, properly authorized, and entered accurately into CIPPS.	5 4 3 2 1 NA	
3. Payroll actions made to CIPPS are segregated between the person who collects and processes the source documents and the fiscal manager who oversees the payroll operations to ensure consistent application of internal control procedures.	5 4 3 2 1 NA	
4. The agency retains supporting payroll documents for audit purposes.	5 4 3 2 1 NA	

Exhibit 115 – CAPP 50525 – CIPPS Employee Pay – Virginia Sickness and Disability Program

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency has policies and procedures in place governing VSDP claim payment processing.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
2. The procedures incorporate employee notification, receipt of VSDP TPA action reports, compliance with the VSDP program guidelines, and employee leave usage.	5 4 3 2 1 NA	
3. Agency payroll personnel, fiscal officers, and human resource personnel coordinate effectively to ensure proper payment to employees.	5 4 3 2 1 NA	

Exhibit 116 – CAPP 50530 – CIPPS Employee Pay – Void Payments

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. All voids submitted to DOA for processing are properly prepared by the payroll technician and reviewed by the fiscal manager to ensure validity.	5 4 3 2 1 NA	
2. The fiscal manager documents evidence of the review of the appropriate documents and reports by providing a signature and date of the review.	5 4 3 2 1 NA	
3. The agency has procedures in place to ensure that void checks are processed within 45 days from the check date.	5 4 3 2 1 NA	
CIPPS Employee Pay– Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 117 – CAPP 50605 – CIPPS Tax and Deduction Adjustments and Overrides

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency verifies that changes to employee and tax master files have been properly authorized and entered accurately into CIPPS.	5 4 3 2 1 NA	
CIPPS Tax and Deduction Adjustments – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 118 – CAPP 50705 – CIPPS Employee and Tax Master File Updates

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Before entering a manual pay set, the agency ensures that proper documentation (i.e. memorandums, authorizations) has been received and approved by appropriate parties.	5 4 3 2 1 NA	
2. After entering a manual pay set, the agency verifies the results to ensure the entries are processed as expected.	5 4 3 2 1 NA	
CIPPS Master File Updates – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 119 – CAPP 50805, 50810, 50815 – CIPPS Payroll Certification

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency has policies and procedures governing the certification process.	5 4 3 2 1 NA	
2. The person responsible for data entry of the payroll is not the person responsible for certification of payroll.	5 4 3 2 1 NA	
3. There is an assigned primary certifier and backup in cases when the primary certifier is not available.	5 4 3 2 1 NA	
4. There are procedures in place to ensure that unauthorized personnel do not breach the certification security.	5 4 3 2 1 NA	
5. There are procedures in place to ensure that security is continuously updated.	5 4 3 2 1 NA	

Exhibit 120 – CAPP 50820 – CIPPS Payroll Certification – Post-Certification Activities

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency has policies and procedures governing the post-certification process.	5 4 3 2 1 NA	

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
2. Procedures are in place to ensure that unauthorized personnel do not breach the certification security.	5 4 3 2 1 NA	
3. Procedures are in place to reconcile the pre- and post-certification amounts and resolve any discrepancies that may exist.	5 4 3 2 1 NA	
4. Procedures are in place to ensure employees are not paid more than they are entitled to or paid less than they are entitled to.	5 4 3 2 1 NA	
CIPPS Payroll Certification – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 121 – CAPP 50905 – CIPPS Reconciliation – Monthly Reconciliation

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency completes and submits required reconciliations in a timely manner.	5 4 3 2 1 NA	
2. The agency ensures that all records are maintained accurately and completely.	5 4 3 2 1 NA	

Exhibit 122 – CAPP 50910 - CIPPS Reconciliation - Quarterly Reconciliation and Certification

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Fiscal management ensures that all quarterly reports have been reviewed and audited.	5 4 3 2 1 NA	
2. Fiscal management ensures that all appropriate adjustments have been made prior to the certification of the final year-to-date totals on the quarterly report.	5 4 3 2 1 NA	

Exhibit 123 – CAPP 50915 – CIPPS Reconciliation – Calendar Year-End Reconciliation and Certification

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Fiscal management ensures that year-end reports have been reviewed and audited.	5 4 3 2 1 NA	
2. Fiscal management ensures that all appropriate adjustments have been made prior to the certification of final year-to-date totals.	5 4 3 2 1 NA	
3. Fiscal management ensures that all deadlines are adhered to and W-2s issued in compliance with all regulations.	5 4 3 2 1 NA	
CIPPS Reconciliation – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 124 – CAPP 70510 – CIPPS Magnetic Media Interface Requirements

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Batch transactions procedures ensure valid transactions are properly recorded and executed.	5 4 3 2 1 NA	
2. The agency has procedures to ensure batches are not duplicated.	5 4 3 2 1 NA	
3. Fiscal positions, responsible for approving and releasing transactions to DOA, are defined within the agency.	5 4 3 2 1 NA	
4. Adequate security measures are followed to ensure confidentiality of data being transmitted.	5 4 3 2 1 NA	
5. Agency procedures pertaining to the transaction approval process, submission of batch transactions, and the assignment of CIPPS access capabilities and user levels for agency personnel are developed and documented in such a manner that they can audited by APA.	5 4 3 2 1 NA	
Payroll Accounting – CIPPS Magnetic Media Interface Requirements – Conclusions Reached and Actions Needed: [*enter here*]		

Exhibit 125 – CAPP 70735 – CIPPS FINDS Payroll Audit Tool

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. Policies and procedures specify how PAT Reports will be used for general information, payroll certification, budgeting, or other processes internally.	5 4 3 2 1 NA	
FINDS CIPPS Payroll Audit Tool – Conclusions Reached and Actions Needed: [*enter here*]		

CONTROL ACTIVITIES COMPONENT SUMMARY – **Conclusions Reached and Actions Needed:** [*enter here*]

Exhibit 126 – CAPP 70105 – Agency-Based Automated Accounting Systems

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency planned and conducted the design, development, implementation, operation, or modification of automated accounting systems in accordance with the information systems security, development and maintenance policies and regulations of the Virginia Information Technologies Agency.	5 4 3 2 1 NA	
2. The agency has procedures in place to reconcile records in agency systems to central systems.	5 4 3 2 1 NA	
Agency-Based Automated Accounting Systems – Conclusions Reached and Actions Needed: [*enter here*]		

Appendix A-2 – Process Control Assessment Example (Stage 2)

An example of the assessment of the control activities associated with a cash receipts process for checks follows. In this example agency fiscal personnel have analyzed the agency's CARS GLA postings as described in *Appendix A – Process or Transaction-Level Control Activity Assessment, Steps 1-3,* pp. 61-64, and have found that the code combination of Fund 09XX, GLA 101, Trans Code 001 relates to its cash-received-on-account fiscal process. The agency receives payments by check through the mail from customers who have previously been billed for services. After the fiscal process has been identified, the process control activity assessment continues with the process documentation portion of Step 3 and with the remaining steps of the process control assessment as follows:

Steps
3) Documentation of the process
4) Risk assessment of the process
5) Identification of control activities for the process
6) Control activity testing

Step 3 – Documentation of the Process

Documentation of the process should begin with a review of the existing written procedures for the process. A current walk-through of the process should also be performed to ascertain if any procedures have changed since the written procedures were last updated. The tasks involved in the current process consist of the following:

Task 1. The mailroom clerk opens the mail and separates the checks and remittance advices received from customers. The checks are restrictively endorsed and totaled. The remittance advices are date stamped, and a list of the remittances is prepared. The remittance list and advices are forwarded to Accounts Receivable. The checks, a copy of the remittance list, and the control total are forwarded to Cash Receipts.

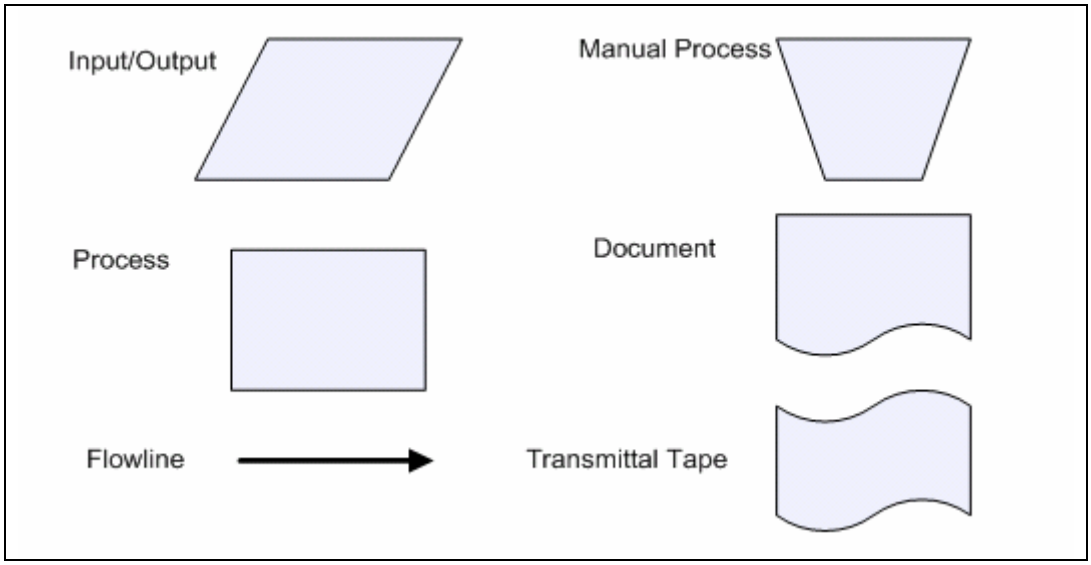
Task 2. The cash receipts clerk receives the checks and assembles the bank deposit, preparing the deposit slip in triplicate. The clerk's supervisor approves the deposit slip after making sure that the remittance list and control totals match the deposit total. The cash receipts clerk forwards the deposit receipts and two copies of the deposit slip to the bank. A validated copy of the deposit slip is returned from the bank and filed.

Task 3. The cash receipts clerk uses the remittance list to post the receipts to the cash receipts journal. The clerk also prepares a deposit certificate (DC) for entry to CARS. The DC is forwarded to the CARS data entry clerk.

Task 4. The validated deposit slips, remittance lists, cash receipts journal and DCs are reconciled to the CARS ACTR0401 report on a weekly basis.

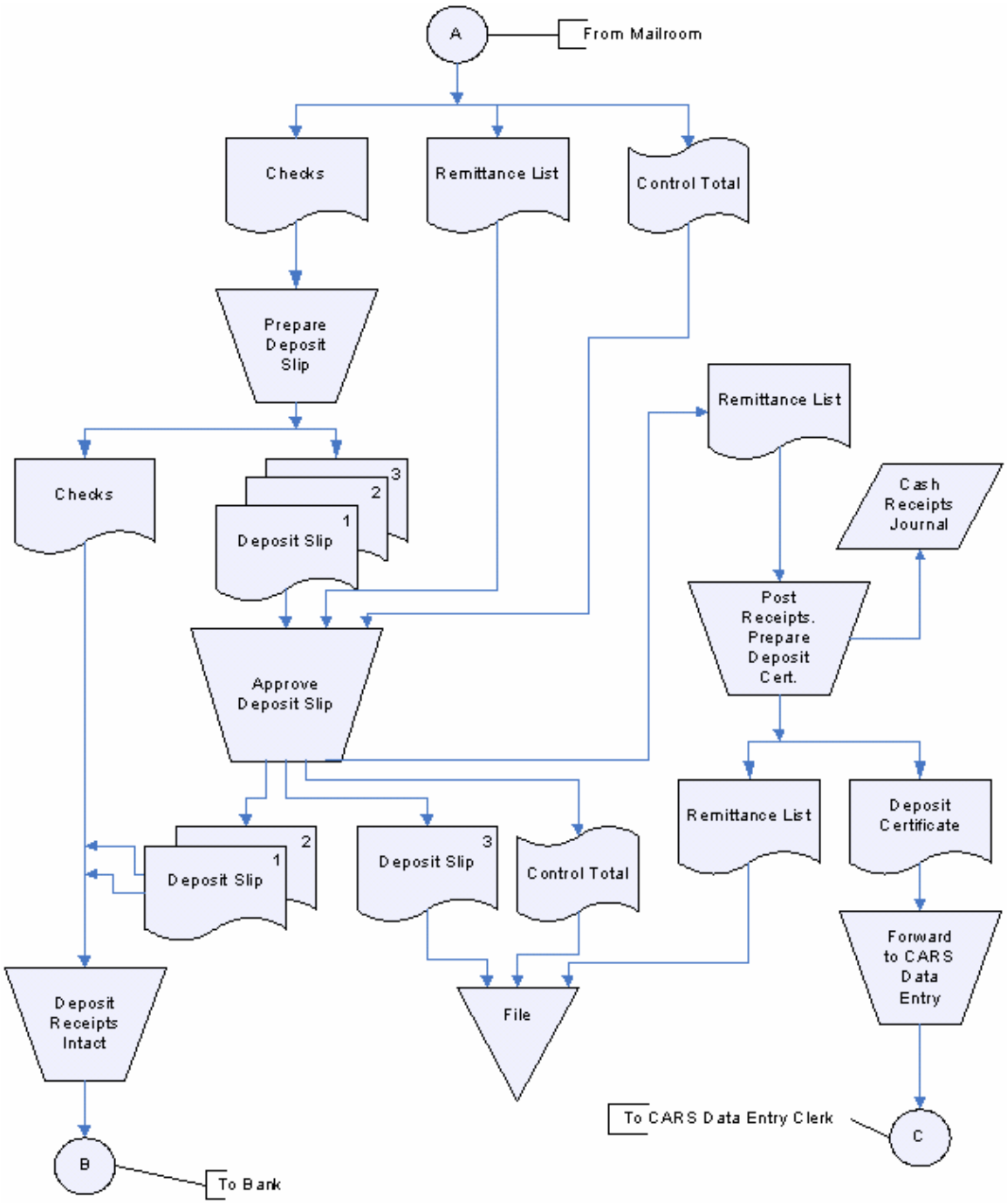
Once the tasks of the process are documented in narrative form, process flow analysis can be used to diagram the process to better understand interrelationships among process inputs, tasks, outputs, and responsibilities. In order to diagram the process, the entities and documents involved in the process must be identified. In this case the entities are the mailroom clerk, the cash receipts clerk, the accounts receivable clerk and the CARS data entry clerk. The input documents for the process are the remittance advices and checks. There are numerous output documents including the deposit slip, remittance list and CARS deposit certificate. The analysis follows the flow of events from inputs to outputs, connecting the two through the appropriate processes. Standard symbols for the elements of a process are shown in Exhibit 127.

Exhibit 127 – Symbols for Flowcharting a Process



A process flow diagram for part of the cash receipts process is shown on the next page. Tasks 2 and 3 are diagrammed. The lettered circles are connectors that represent either preceding or succeeding tasks or tasks performed by others that are outside of the scope of the analysis. The circle labeled "A" represents Task 1 of the process that occurs in the mailroom. In a full analysis there would be another diagram of the mailroom portion of the cash receipts process. The circle labeled "C" refers to succeeding processes such as CARS data entry of the DCs and CARS reconciliations. The circle labeled "B" represents the bank's processing of the deposit, but because the bank is an outside entity, its process is not analyzed.

Exhibit 128 – Process Flow Diagram for the Cash Receipts Process



Steps 4 and 5 – Risk Assessment and Identification of Control Activities

Once the steps of a fiscal process are documented, agency fiscal personnel can proceed to analyzing the risks involved in the process. Potential adverse events or breakdowns in the process should be identified and classified as to their likelihood of occurrence and potential impact on the achievement of the agency's objectives. Control activities designed to prevent or detect these potential risk events are then identified. At this point gaps in control activities should be readily apparent. If a control gap relates to a highly likely and/or high impact risk event, measures for remedying the deficiency should be outlined in a corrective action plan.

The process control activity questionnaires provided in Appendix A-1 can be used to gain additional input on a process during the risk assessment. The questionnaires are intended to highlight typical areas of concern for a particular process. Answering the questions could pinpoint areas where controls are weak or where more extensive testing may need to be done to determine the exact level of effectiveness of the control. A completed questionnaire (Exhibit 129) and a matrix relating fiscal process tasks to risk events and control activities and objectives (Exhibit 130) for the cash receipts for checks process example are provided starting on page 114.

Step 6 – Control Activity Testing

Completing the risk assessment for a fiscal process will aid in determining the nature and extent of the testing of controls. Control activities associated with tasks with a high likelihood of misstatement or whose potential risk events would have a high impact should receive more extensive testing. The testing program and results should be thoroughly documented. In the cash receipts for checks process example the Process Control Assessment matrix contains columns for documenting how the control was tested and what the results of the test were.

Exhibit 129 – Completed Cash Receipts Process Questionnaire

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
1. The agency has developed internal processing systems capable of separating payments received from the related accounting documents at the earliest possible processing point.	5 4 3 2 1 NA Answer – 5 Strongly Agree	Checks are separated from remittance documents as soon as the mail is opened.
2. The agency analyzes the full range of cash management techniques and banking services available to determine what benefit can be derived from their use.	5 4 3 2 1 NA Answer – 3 Somewhat Agree	Agency has not investigated alternate processing services in some time.
3. Deposit policies and procedures are in accordance with federal and state requirements, clearly stated, and systematically communicated through manuals, handbooks, or other media.	5 4 3 2 1 NA Answer – 5 Strongly Agree	Deposit policies and procedures are fully documented and in accordance with state policies.
4. All deposits are properly and accurately recorded and accounted for in CARS in a timely manner.	5 4 3 2 1 NA Answer – 3 Somewhat Agree	During periods of high receipt activity checks are not always deposited within two banking days as required by state policy.
5. Check endorsements meet Federal Reserve requirements and include the phrase “For Deposit Only.”	5 4 3 2 1 NA Answer – 5 Strongly Agree	All checks are restrictively endorsed as soon as received.
6. Responsibilities for collection and deposit preparation functions are segregated from those for recording cash receipts and general ledger entries.	5 4 3 2 1 NA Answer – 5 Strongly Agree	The clerk who prepares the deposit has no responsibilities for recording deposit certificates in CARS.
7. Responsibilities for cash receipts functions are segregated from those for cash disbursements.	5 4 3 2 1 NA Answer – 5 Strongly Agree	Clerks who are responsible for cash receipts functions do not prepare cash disbursements.
8. Receipts are accounted for and balanced to collections on a daily basis.	5 4 3 2 1 NA Answer – 5 Strongly Agree	Remittance lists are reconciled to deposits on a daily basis. Cash Receipts Journals are reconciled to CARS general ledger reports on a weekly basis.

This Control Implemented and Operating Effectively	Agree/Disagree	Comments
9. Facilities exist for protecting undeposited cash receipts.	5 4 3 2 1 NA Answer – 5 Strongly Agree	Undeposited cash receipts are stored in a secure area.

Cash Receipts Accounting – Conclusions Reached and Actions Needed:

Tests should be performed to ensure that the controls identified through questions 1, 5, 8 and 9 are operating effectively and as intended. The results of the tests of controls should be thoroughly documented. (See Exhibit 130, Process Control Activity Assessment for tests of controls and test results)

Personnel testing controls over the cash receipts process should pay particular attention to controls related to the timeliness of deposits (Question 4) to determine how often deposits are not made within two banking days of the receipt of checks. If tests of these controls yield unacceptable results, a plan for improvement should be made.

It would also be advisable for the agency to investigate alternate cash management techniques, such as the use of lockbox services that could improve receipt processing efficiency and timeliness.

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Exhibit 130 - PROCESS CONTROL ACTIVITY ASSESSMENT – CASH RECEIPTS PROCESS FOR CHECKS							
Task	**Potential Risk Event**	**Potential Problem or Misstatement**	**Risk Event Likelihood & Response**	**Control Activities**	**Control Objectives**	**Test of Control**	**Control Test Results**
1. Mailroom Clerk stamps checks with restrictive endorsement and remittances advices with date.	• Mailroom Clerk fails to stamp check.	• Check is credited to incorrect account by bank.	• Low – Reduce	Verification – Cash Receipts Clerk verifies that checks have been stamped with a restrictive endorsement.	Stewardship over assets	Make inquiries of staff and observe immediate restrictive endorsement of incoming checks.	Cash Receipts Clerk reports that the Mailroom Clerk sometimes fails to stamp checks with the restrictive endorsement. Compensating control – Cash Receipts Clerk stamps any checks that are missing the endorsement. Reiterate to Mailroom Clerk the importance of stamping checks.
	• Mailroom Clerk fails to stamp remit-tance advice.	• Incorrect receipt date is recorded in Accounts Receivable subsidiary ledger.	• Low – Reduce	Verification - A/R clerk verifies that remittance advices have been date stamped.	Reliability of financial records – Receipt transactions should be recorded accurately in the correct period.	Obtain sample of remittance advices from file and examine for date stamp.	Control is effective.

Exhibit 130 - PROCESS CONTROL ACTIVITY ASSESSMENT – CASH RECEIPTS PROCESS FOR CHECKS							
Task	**Potential Risk Event**	**Potential Problem or Misstatement**	**Risk Event Likelihood & Response**	**Control Activities**	**Control Objectives**	**Test of Control**	**Control Test Results**
2. Mailroom clerk prepares a remittance list and check control total and forwards the list and remittance advices to Accounts Receivable. A copy of the remittance list and the check control total are forwarded to Cash Receipts.	• Mailroom Clerk fails to record check details. • Mailroom Clerk records incorrect check details.	• Incorrect amount is credited to customer account. • Amount is credited to incorrect account.	• Low - Reduce	Review and Approval – A/R Clerk reviews remittance list for accuracy and completeness before entry into A/R subsidiary ledger.	Reliability of financial records – Receipt transactions should be recorded accurately in the correct period.	Trace from remittance list to cash receipts journal. Examine remittance list for indication of internal verification by A/R Clerk.	Control is effective.

Exhibit 130 - PROCESS CONTROL ACTIVITY ASSESSMENT – CASH RECEIPTS PROCESS FOR CHECKS							
Task	**Potential Risk Event**	**Potential Problem or Misstatement**	**Risk Event Likelihood & Response**	**Control Activities**	**Control Objectives**	**Test of Control**	**Control Test Results**
3. Cash Receipts Clerk prepares deposit.	• Cash Receipts Clerk totals deposit incorrectly.	• Incorrect deposit amount is recorded by bank.	• Low –Reduce	• Review and Approval – Cash Receipts Supervisor approves deposit slip by verifying deposit total against remittance list and check control total prepared by Mailroom Clerk.	Reliability of financial records – Receipt transactions should be recorded accurately in the correct period.	Trace filed check control totals to deposit records. Examine filed deposit slips for indication of internal verification by Cash Receipts Supervisor.	Control is effective.
	• Cash Receipts Clerk misappro-priates check.	• Embezzlement of public funds is not prevented.	• Medium - Reduce	• Safeguarding of Assets – Checks are restrictively endorsed immediately upon receipt.	Stewardship over assets	Make inquiries of staff and observe immediate restrictive endorsement of incoming checks.	See control test results for Task 1.

Exhibit 130 - PROCESS CONTROL ACTIVITY ASSESSMENT – CASH RECEIPTS PROCESS FOR CHECKS							
Task	**Potential Risk Event**	**Potential Problem or Misstatement**	**Risk Event Likelihood & Response**	**Control Activities**	**Control Objectives**	**Test of Control**	**Control Test Results**
4. Checks are deposited. Validated copy of deposit slip is filed.	• Check is lost while in route to bank.	• Recorded receipts do not match cash deposited.	• Low – Reduce	• Safeguarding of Assets – Checks to be deposited are placed in a sealed envelope.	Stewardship over assets Reliability of financial records	Observe preparation of deposit.	Control is effective.
	• Checks are not deposited on a timely basis.	• Agency fails to meet state policy to deposit funds within two banking days of receipt.	• Medium – Reduce	• Review and Approval – Cash Receipts Supervisor reviews workflow to ensure that receipts are processed promptly.	Compliance with laws and regulations	Compare dates of deposits with dates in the cash receipts journal and remittance listings.	Not always effective during periods of high receipt activity. Review staffing levels and procedures to improve compliance.
				• Safeguarding of assets – Undeposited cash receipts are stored in a secure area.	Stewardship over assets	Observe handling of undeposited checks. Make inquiries as to how checks are secured.	Control is effective.
	• Stamped deposit slip lost.	• Verification of deposit is lost.	• Low - Accept	N/A	N/A	If needed, deposit can be verified through the bank.	N/A

Exhibit 130 - PROCESS CONTROL ACTIVITY ASSESSMENT – CASH RECEIPTS PROCESS FOR CHECKS							
Task	**Potential Risk Event**	**Potential Problem or Misstatement**	**Risk Event Likelihood & Response**	**Control Activities**	**Control Objectives**	**Test of Control**	**Control Test Results**
5. Cash Receipts Clerk posts remittances to Cash Receipts Journal.	• Cash Receipts Clerk fails to record check details. • Cash Receipts Clerk records incorrect check details.	• Accounting records are inaccurate or incomplete.	• Medium – Reduce	• Reconciliation – Source documents and Cash Receipts Journal are reconciled to CARS reports on a weekly basis.	Reliability of financial records – Receipt transactions should be recorded accurately in the correct period.	Review documentation of reconciliation of source documents and Cash Receipts Journal to CARS reports.	Control is effective.

Exhibit 130 - PROCESS CONTROL ACTIVITY ASSESSMENT – CASH RECEIPTS PROCESS FOR CHECKS							
Task	**Potential Risk Event**	**Potential Problem or Misstatement**	**Risk Event Likelihood & Response**	**Control Activities**	**Control Objectives**	**Test of Control**	**Control Test Results**
6. Cash Receipts Clerk prepares Deposit Certificate (DC) and forwards it to CARS Data Entry Clerk.	• DC batch total or coding is incorrect.	• Accounting records are inaccurate or incomplete.	• Medium – Reduce	• Review and Approval – Cash Receipts Supervisor reviews DC batches before they are released in CARS.	Reliability of financial records – Receipt transactions should be recorded accurately in the correct period.	Examine DC batches for indication of supervisory approval.	Control is effective.
				• Reconciliation – Source documents and Cash Receipts Journal are reconciled to CARS reports on a weekly basis.		Review documentation of reconciliation of source documents and Cash Receipts Journal to CARS reports.	Control is effective.
	• Cash Receipts Clerk alters accounting records to cover defalcation of funds.	Embezzlement of public funds is not prevented.	• Medium - Avoid	• Segregation of Duties – No individual has uncontrolled access to both cash receipts and the accounting records for those receipts.	Stewardship over assets Reliability of financial records	Observe segregation of duties.	Control is effective.