



## COMMONWEALTH of VIRGINIA

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September 1, 2005

### **MEMORANDUM**

TO: Heads of All State Agencies and Institutions

FROM: David A. Von Moll

SUBJECT: Drafts of Comptroller's Directive No. 3-05 and of *Agency Risk Management and Internal Control Standards*

This is to request your review of and comments on the draft documents linked to our web site at [www.doa.virginia.gov/Financial\\_Reporting/ARMICS/ARMICS\\_Main.cfm](http://www.doa.virginia.gov/Financial_Reporting/ARMICS/ARMICS_Main.cfm). I would appreciate hearing from as many agency heads as are able to reply by October 31, 2005, after which I will finalize and issue these documents.

These standards and tools are an extension and clarification of existing requirements contained in Commonwealth Accounting Policies and Procedures Topic 10305, *Internal Control*. Each year you certify to my office, and to the Auditor of Public Accounts, that you have established, maintained and evaluated your agencies' internal control framework. These new standards establish the basis against which your certifications will be measured.

These *Agency Risk Management and Internal Control Standards* provide guidance for managing risk, maintaining accountability, and achieving strategic objectives. They also contain implementation and evaluation tools that can be tailored to meet your agency's unique circumstances. Responsibility for implementing these standards begins with you, the agency head, and extends to everyone in your agency or institution. Although agency chief financial officers share leadership responsibility for financial management, legal and regulatory compliance, and stewardship over assets, you as the agency head will retain ultimate responsibility for risk management and internal control over all programs, both financial and non-financial.

In recent years, public sector focus on internal control and the broader concept of enterprise risk management ("ERM") has grown rapidly, as governments became more complex and as citizens demanded more accountability. After a surge in major frauds,

the President signed the Sarbanes-Oxley Act of 2002 (SOX) to restore trust in publicly traded companies. SOX responded to corporate breakdowns that led to fraudulent financial statements, caused losses of billions of dollars, destroyed tens of thousands of jobs, and threatened our nation's economy.

Although SOX does not yet apply directly to state or local governments, the public sector anticipates future SOX-equivalent mandates. Last December, the U. S. Office of Management and Budget issued revised Circular A-123 to mandate SOX-like risk management and control requirements for Federal agencies. As Federal managers implement the revised requirements, states and localities expect to feel the impact through new Federal grant program regulations.

Although adopting a comprehensive risk management framework may be new for Virginia government, these standards have deep roots in management best practices. The Commonwealth's new standards evolved from decades of development of risk management and internal control concepts, including work by the National Commission on Fraudulent Financial Reporting (usually referred to as "The Treadway Commission"), formed in 1985. As we collaborate to institutionalize these standards across state government, we will enhance Virginia's reputation for leadership and excellence in governmental management.

Although these new standards dovetail with existing DPB requirements for strategic planning, their impact over time could grow to be as significant as the impact of strategic planning itself. To help ensure your success in this effort, we will soon provide additional information regarding publications, training courses, and consulting resources that can assist your agencies.

Thank you in advance for your thoughtful comments on these important new standards. We will create an e-mail clearinghouse at [armics@doa.virginia.gov](mailto:armics@doa.virginia.gov) for your feedback. Of course, you also are welcome to directly contact me ([david.vonmoll@doa.virginia.gov](mailto:david.vonmoll@doa.virginia.gov) or 804-225-2109) or Randy McCabe ([randy.mccabe@doa.virginia.gov](mailto:randy.mccabe@doa.virginia.gov) or 804-225-2244), the director responsible for this initiative. I am confident that this new program will help deliver an ever higher caliber of service to the Commonwealth of Virginia and its citizens.

Enclosures

DAV/jem

c: Cabinet Secretaries

Richard D. Brown, Director, Department of Planning and Budget

Walter J. Kucharski, Auditor of Public Accounts

Lewis R. McCabe, Director, General Accounting, Department of Accounts

Fiscal Officers of State Agencies and Institutions

Internal Audit Directors of State Agencies and Institutions