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Function No. 10000—Overview	TOPIC	INTERNAL CONTROL
Section No. 10300—Internal Control Guidance	DATE	April 2011

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Overview

Introduction This topic provides guidelines to assist State agencies and institutions in implementing internal control programs under the authority of the *Code of Virginia*, §§ 2.2-800 and 2.2-803.

The definitive source for internal control in the Commonwealth is the *Agency Risk Management and Internal Control Standards* (ARMICS). The initial ARMICS implementation was required through Comptroller’s Directives 1-07 and 1-08. Effective with fiscal year 2010, this CAPP Topic addresses Internal Control requirements for the Commonwealth. No further Comptroller’s Directives on Internal Control are planned.

Policy Each Agency Head is responsible for having agency management document the agency’s assessment of internal control to include:

- Strengths, weaknesses, and risks over the recording of financial transactions in the General Ledger;
- Compliance with the agency’s financial reporting requirements;
- Compliance with laws and regulations; and,
- Stewardship over the Commonwealth’s assets.

The assessment of internal controls and documentation must be conducted in accordance with ARMICS located at

http://www.doa.virginia.gov/Financial_Reporting/ARMICS/ARMICS_Main.cfm

Agency Level Controls Initially, an agency must: document, evaluate, and test agency-level controls across the five components of Internal Control.

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

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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, compliance with laws and regulations, and stewardship over Commonwealth assets. The agency must demonstrate that they have adequately assessed and tested the five components of internal control on an agency level.

ARMICS include samples of control self-assessment questionnaires that could generally apply to any organization. These questionnaires identify typical high-level risks for organizations. Agencies are strongly encouraged to adapt these sample questionnaires to best fit their own organization so they may be easily understood by those responding to the questionnaires.

Additionally, there are risk areas unique to each organization at the agency level that should be addressed by additional questions created specifically for each agency.

Once this process has been successfully implemented, the agency does not have to repeat this process each year. However, they should refresh and refine the agency-level control evaluation every year considering:

- Any changes to the organization, its management, or functions from prior implementations of ARMICS;
- Enhancements identified internally from prior ARMICS experiences, DOA Quality Assurance Reviews (QARs), implementation of prior year corrective actions, or other sources;
- Information from the most recent S.W.O.T. (Strengths, Weaknesses, Opportunities, and Threats) analysis; and,
- Best internal control practices from industry, governments, and other agencies.

The agency should implement any of the items above or other enhancements the agency determines is appropriate to improve the ARMICS process. Additionally, the agency should continue to document, evaluate, assess, and test the internal controls related to agency-level processes and develop a Corrective Action Plan, as needed.

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Transaction-Level Controls

Transaction-level controls are those applicable to significant fiscal processes for each agency. Initially, an agency must:

- Identify its significant fiscal processes using a documented, consistent, and reasonable process;
- Document the significant fiscal processes using tools such as narratives, flowcharts, data diagrams, etc.;
- Assess the risks associated with the significant fiscal processes using tools such as Risk Maps, Heat Maps, and Control Matrices;
- Identify all internal control points in those processes; and,
- Evaluate (test) controls over the agency’s significant fiscal processes to ensure the controls are functioning as intended and document the testing process and results.

Once this process has been successfully implemented the agency should update and retest the transaction-level controls every year by completing the following:

- Determine if any organizational changes occurred to require a reevaluation of the fiscal processes determined to be significant for the agency. All new significant fiscal processes should be documented, controls evaluated, and key controls tested;
- Determine if there were any changes to areas identified as significant fiscal processes. Reevaluate the controls for those processes experiencing change, document the process changes, and test the key controls to ensure they function as intended; and,
- For all significant fiscal processes that have not changed since the prior year, retest the key controls to ensure that they are still working.

Processes that were improved as the result of completing corrective actions identified in prior ARMICS reviews should be tested to ensure the new controls have adequately addressed the internal control weakness in the prior year’s corrective action plan.

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Corrective Action Plans

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 the resolution progress; and,
- A quantifiable target or qualitative characteristic that will indicate that the deficiency in internal control has been corrected.

Corrective action plans for significant weaknesses must be submitted to the Department of Accounts along with the ARMICS annual certification. All corrective actions should be implemented no later than the end of the next fiscal year.

Certification and Reporting

ARMICS provides guidance for establishing and assessing agency internal controls in order to more effectively manage risk and maintain accountability. As in prior years, agency heads will certify to the Comptroller and Auditor of Public Accounts that they have established, maintained and evaluated their agencies' internal control framework.

Beginning in fiscal year 2011, the ARMICS annual certification must be submitted to the Department of Accounts by September 30th of each year. In previous fiscal years, agencies were required to submit certifications by June 30th. Agencies will continue to certify the effectiveness of internal controls as of June 30, 20XX; however, the revised due date will provide agencies additional time to complete the required testing of key internal controls.

Three sample certification statements are included as exhibits following this CAPP Topic. Each one covers a particular reporting situation for an agency.

In addition, an agency (Primary Agency) may use another agency (Service Provider Agency) to perform significant fiscal processes for the Primary Agency. In these instances, the Primary Agency must have adequate interaction with the service provider agency to gain an appropriate understanding of the service provider agency's control environment. For example, the Department of Accounts serves as the service provider agency for several primary agencies.

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In order to incorporate these service provider situations into the certification, DOA has created a “Service Provider Agency Clause” in Appendix A following this CAPP Topic.

The primary agency must list the significant fiscal processes performed by a service provider agency on this form. Then, after obtaining assurances from the service provider agency regarding the state of internal control applicable to those processes, the primary agency must select and insert the appropriate control assessment option. This form has three options available based on the control environment of the service provider agency.

NOTICE: Primary agencies are cautioned to ensure the agreements with service provider agencies clearly delineate the processes, procedures, and controls assigned to each party of the agreement. Significant interactions between the primary agency and service provider agency should occur to ensure the primary agency is gaining the full value of the service provider agency’s entire control environment for all fiscal processes. The agreements usually take the form of a Memorandum of Understanding (MOU). All service arrangement agreements should be updated at least annually and more frequently in the event a significant change occurs. In all instances, the service agreement must ensure both parties fully understand their respective responsibilities under the MOU.

The certifying agency should submit the service provider agency clause (if applicable) with the applicable certification statement at the end of the fiscal year to DOA.

ARMICS Certification Channels

ARMICS Certifications will be accepted at DOA through the following channels:

- **E-Mail**
ARMICS @doa.virginia.gov
— Convert signed certification to an Acrobat file (.pdf) & attach
- **U.S. Mail**
Virginia Department of Accounts
Financial Reporting— Quality Assurance
PO Box 1971
Richmond, VA 23218 -1971

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- **Interagency Mail**
Department of Accounts
Agency #151— Monroe Building
Financial Reporting— Quality Assurance

 - **Hand Delivery**
Monroe Building
101 North 14th Street
2nd Floor
-

Additional Information Contact

Further information concerning this CAPP Topic can be obtained from the *Assistant Director of Financial Reporting—Quality Assurance* (804) 225-2542 or armics@doa.virginia.gov.

Documentation Maintenance

Documentation of the ARMICS assessment processes and performance of the assessments will be maintained at the agency and made available for review by the Department of Accounts or other appropriate parties.

Records Retention

Records Retention

ARMICS documentation should be maintained on file for three years after successful completion of the corrective action plan for a particular year.

DOA Contact

Contact

Assistant Director, Financial Reporting—Quality Assurance
 (804) 225-2542
 ARMICS@doa.virginia.gov

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Appendix A – Certification of Internal Control

This appendix contains sample certifications for agency signature. If any special circumstances arise, the agency head should modify the certification accordingly. The Agency Head and Chief Fiscal Officer who sign the certification must be the same persons whose names and signatures appear on the *Authorized Signatories* form submitted to DOA.

Service Provider Agency Clause

The (Primary Agency Name) utilizes (Service Provider Agency Name) as a service provider for the following fiscal processes that are significant to (Primary Agency Name):

We have received assurance from (Service Provider Agency Name) that they have adequately assessed the effectiveness of their internal control in accordance with the *Agency Risk Management and Internal Control Standards* issued by the Office of the Comptroller as applicable to the processes used to provide services to (Primary Agency Name). Insert the appropriate paragraph from the following:

Based on the results of (Service Provider Agency’s Name) internal control assessment in accordance with ARMICS,

no significant weakness was found in the design or operation of the internal controls applicable to the processes or services conducted on behalf of (Primary Agency Name).

OR

no significant weakness was found in the design or operation of the internal controls applicable to the processes or services conducted on behalf of (Primary Agency Name). However, other (non-significant) internal control weaknesses were identified and (Service Provider Agency’s Name) has provided assurance to us that they will address these minor weaknesses.

OR

significant weakness was found in the design or operation of the internal controls applicable to the processes or services conducted on behalf of (Primary Agency Name). (Service Provider Agency’s Name) has provided us with a list of these weaknesses and a copy of their Corrective Action Plan.

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**Exhibit 1: Certification Statement —
No Significant Weaknesses in Internal Control**

The [Agency’s] management is responsible for establishing and maintaining an effective system of internal control. The [Agency] has completed its control assessment of the agency level risks and significant fiscal processes at the transaction level.

(Agency) management is responsible for the integrity and objectivity of the financial transactions and other information provided to the State Comptroller. We believe the data provided for inclusion in the Commonwealth’s Comprehensive Financial Report (CAFR) are accurate in all material respects and that all disclosures necessary to obtain a thorough understanding of the (Agency’s) financial activities have been included.

The basis for these conclusions relates to our assessment of the internal controls operating within the (Agency). The [Agency] conducted its assessment of the effectiveness of the [Agency’s] internal control in accordance with the *Agency Risk Management and Internal Control Standards* issued by the Office of the Comptroller. Based on the results of this evaluation, the [Agency] can provide reasonable assurance that internal control over the recording of financial transactions in the General Ledger, compliance with the agency’s financial reporting requirements, compliance with applicable laws and regulations, and stewardship over the Commonwealth’s assets as of June 30, 20XX, was operating effectively and no significant weaknesses were found in the design or operation of the internal controls at the agency and transaction levels.

Agency Name	Agency Number
Agency Head Name	Chief Fiscal Officer Name
Agency Head Signature Date	Chief Fiscal Officer Signature Date

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**Exhibit 2: Certification Statement —
Internal Control Weaknesses Noted But None Significant**

The [Agency’s] management is responsible for establishing and maintaining an effective system of internal control. The [Agency] has completed its control assessment of the agency level risks and significant fiscal processes at the transaction level.

(Agency) management is responsible for the integrity and objectivity of the financial transactions and other information provided to the State Comptroller. We believe the data provided for inclusion in the Commonwealth’s Comprehensive Financial Report (CAFR) are accurate in all material respects and that all disclosures necessary to obtain a thorough understanding of the (Agency’s) financial activities have been included.

The basis for these conclusions relates to our assessment of the internal controls operating within the (Agency). The [Agency] conducted its assessment of the effectiveness of the [Agency’s] internal control in accordance with the *Agency Risk Management and Internal Control Standards* issued by the Office of the Comptroller. Based on the results of this evaluation, the [Agency] can provide reasonable assurance that internal control over the recording of financial transactions in the General Ledger, compliance with the agency’s financial reporting requirements, compliance with applicable laws and regulations, and stewardship over the Commonwealth’s assets as of June 30, 20XX, was operating effectively and no significant weaknesses were found in the design or operation of the internal controls on the agency and transaction levels.

Although no significant weaknesses were identified as a result of the ARMICS process, a list of other Internal Control weaknesses were identified and are attached to this certification. No formal corrective action plan is required for these weaknesses in accordance with ARMICS. The [Agency] will / will not correct these deficiencies by June 30, 20XX +1.

_____	_____
Agency Name	Agency Number
_____	_____
Agency Head Name	Chief Fiscal Officer Name
_____	_____
Agency Head Signature	Chief Fiscal Officer Signature
Date	Date

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Exhibit 3: Certification Statement — Significant Deficiencies or Material Weaknesses Identified — Corrective Action Plan Required

The [Agency’s] management is responsible for establishing and maintaining an effective system of internal control. The [Agency] has completed its control assessment of the agency level risks and significant fiscal processes at the transaction level in accordance with the *Agency Risk Management and Internal Control Standards* issued by the Office of the Comptroller. Based on the results of this evaluation, the [Agency] identified [number] of significant weakness(es) in its internal control as of June 30, 20XX.

(Agency) management is responsible for the integrity and objectivity of the financial transactions and other information provided to the State Comptroller. We cannot provide assurance that the data provided for inclusion in the Commonwealth’s Comprehensive Financial Report is accurate in all material respects or that all disclosures necessary to obtain a thorough understanding of the (Agency’s) financial activities have been included. Our basis for this conclusion is due to the extent of the significant weaknesses in internal control identified in Exhibit [xx].

Other than the exceptions noted in Exhibit [xx], the internal controls were operating effectively and no other significant weaknesses were found in the design or operation of the internal controls. A plan of the actions the [Agency] will take to comply with the *Agency Risk Management and Internal Control Standards* is included in Exhibit [xx].

If insignificant weakness(es) are also noted - Also, other Internal Control weaknesses were noted and attached to this certification. No formal corrective action plan is required for these weaknesses in accordance with ARMICS. The [Agency} will / will not correct these deficiencies by June 30, 20XX +1.

Agency Name

Agency Number

Agency Head Name

Chief Fiscal Officer Name

Agency Head Signature Date

Chief Fiscal Officer Signature Date