

Office of the Comptroller's Directive 1-08
Required Implementation of
Agency Risk Management and Internal Control Standards
For Fiscal Year Ended June 30, 2009

Issuance Date. May 12, 2008

Purpose. This directive mandates the implementation and annual assessment of agency internal control systems in order to provide reasonable assurance of the integrity of fiscal processes related to the submission of transactions to the Commonwealth's general ledger, submission of financial statement directive materials, compliance with laws and regulations, and stewardship over the Commonwealth's assets.

Applicability. This directive applies to all state offices, departments, boards, commissions, state agencies, and educational institutions maintained in whole or in part by the Commonwealth (hereafter referred to as "agencies").

Authority. Code of Virginia §§ 2.2-800 and 2.2-803

Policy. Each Agency Head is responsible for having agency management document the agency's assessment of internal control 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 the Commonwealth of Virginia's *Agency Risk Management and Internal Control Standards* (ARMICS).

Due Date. The assessment of agency internal control must be completed and certified to the Department of Accounts as of June 30, 2009, along with a Corrective Action Plan (if needed) to address significant internal control weaknesses. This assessment and certification covers all three ARMICS stages. This certification is due to DOA no later than June 30, 2009. Also, this submission and certification will replace the financial reporting year end internal control certification required as a component of the Comptroller's Financial Reporting Directive(s).

Components of the Agency's Assessment of Internal Control.

Agency-Level Internal Control Assessment – Refresh and Refine

Evaluation of FY 2008 (Prior year) ARMICS Stage 1 Process – Determine what improvements could be made over the first year's implementation of ARMICS. Some possible improvements include:

- Implement enhancements identified through internal or DOA Quality Assurance Reviews (QARs).

- Include agency or industry specific risks in questionnaires.
- Add best practices which include;
 - Document the Agency's process for implementing ARMICS.
 - Create a results report for Agency Management or applicable Boards.
 - Provide supporting comments for questionnaire answers.
 - Create a Steering or Oversight Committee.
- Address questionnaires not included in the prior year that were scheduled to be addressed in future year(s) – (Cycling of questionnaires).
- Correct ARMICS process deficiencies determined from the review of the first year's implementation (Expanding the questionnaire scope, applicable testing of agency level controls, and adding agency specific control questions to the questionnaire exhibits.)

Implement any of the items above or other enhancements the Agency determines is appropriate to improve their ARMICS process. Continue to document, evaluate, assess, and test the internal controls related to the processes chosen and develop a Corrective Action Plan as needed.

Process and Transaction-Level Internal Control Assessment – Update and Retest

Documentation of the Assessment – Examine the supporting documentation from the FY 2008 ARMICS implementation and complete 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 tested.
- Determine if there were any changes to areas identified as significant fiscal processes. Reevaluate the controls for those processes experiencing change and test the controls to ensure they function as intended.
- For all significant fiscal processes that have not changed since the prior year, retest the controls to ensure that they are still working.

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.
- A quantifiable target or qualitative characteristic that will indicate that the deficiency in internal control has been corrected.

Documentation of the assessment processes and performance of the assessments will be maintained at the agency and made available for review by the Department of Accounts and

other external auditors upon request. Corrective action plans for significant weaknesses must be submitted to the Department of Accounts by June 30, 2009.

Agencies using other agencies or contractors as service providers for significant fiscal processes should complete and insert the applicable section into the certification that is included in the instructions in Appendix A.

Sample certification statements are found in Appendix A at the end of this directive.

Certification and Inquiries. Submit certifications to, or request further information concerning this directive from, the Senior Director of Accounting and Internal Control Compliance Oversight (804-225-2380 or armics@doa.virginia.gov).

Copies. Copies of this directive and related documents may be obtained from the Department of Accounts Internet site at www.doa.virginia.gov.

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 Clause

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

We have received assurance from (Agency or Contractor 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 (Agency Name). Insert the appropriate paragraph from the following:

Based on the results of (Agency or Contractor's Name) internal control assessment in accordance with ARMICS,

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

OR

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

OR

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

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, 2009, 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

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, 2009, 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, 2010.

Agency Name

Agency Number

Agency Head Name

Chief Fiscal Officer Name

Agency Head Signature

Date

Chief Fiscal Officer Signature

Date

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, 2009.

(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].

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, 2010.

Agency Name

Agency Number

Agency Head Name

Chief Fiscal Officer Name

Agency Head Signature Date

Chief Fiscal Officer Signature Date