

Office of the Comptroller's Directive 1-07
Required Implementation of *Agency Risk Management and Internal Control Standards*

Issuance Date. November 15, 2006.

Purpose. This directive mandates the implementation and annual assessment of agency internal control systems in order to provide reasonable assurance of the integrity of all 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, agencies, and penal, educational, and eleemosynary 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*.

Due Dates. The assessment of agency internal control must be completed and certified to the Department of Accounts as follows:

- Stage 1 – Agency-Level Internal Control Assessment is due by **September 30, 2007**.
- Stage 2 – Process and Transaction-Level Internal Control Assessment is due by **March 31, 2008**.
- Stage 3 – Corrective Action Plan (if needed) is due by **June 30, 2008**.

Deliverables for the Agency's Assessment of Internal Control.

Stage 1 – Agency-Level Internal Control Assessment

The Stage 1 agency-level internal control assessment must be completed and certified to the Department of Accounts by **September 30, 2007**.

Documentation of the Assessment – Complete documentation for the agency-level assessment must include:

- A description and evaluation of the design of agency-level controls across the five components of internal control:

Control Environment
Risk Assessment
Control Activities
Information and Communication
Monitoring

- Documentation of the methods used to test the effectiveness of the agency-level controls and the results of those tests.

Stage 2 – Process and Transaction-Level Internal Control Assessment

The Stage 2 process and transaction-level internal control assessment must be completed and certified to the Department of Accounts by **March 31, 2008**.

Documentation of the Assessment – Complete documentation for the process-level assessment must include:

- A complete description of each significant fiscal process including:
 - A description of the fiscal process with examples of pertinent process documents. The use of process flow diagrams to graphically document the steps of the process is encouraged.
 - Policies and procedures governing the process.
 - Computer information systems used to support the process.
- A risk assessment of each significant fiscal process including:
 - An identification of potential events or conditions that could have an impact on the functioning or outcome of the process. The use of SWOT analysis is encouraged.
 - An assessment of the likelihood of the events and impact of the events on the agency.
 - A description of the associated agency risk responses.
- An internal control evaluation and control tests including:
 - A description of the control activities in place to accomplish the related control objectives for the business process.
 - Documentation of the methods used to test the effectiveness of the fiscal process control activities and the results of those tests.

Stage 3 – Corrective Action Plans

Agencies that have identified significant weaknesses in internal control in Stages 1 and/or 2 that are not mitigated through offsetting controls must complete and certify a corrective action plan to the Department of Accounts by **June 30, 2008**.

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.

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.

Sample certification statements for Stages 1 through 3 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 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 an agency head does not believe the internal control structure and procedures are adequate, the agency head should modify the certification accordingly. If the assessments of internal control have revealed significant weaknesses in the operation of one or more controls, a list of the deficient controls and a corrective action plan should accompany the certification.

Exhibit 1 – Certification Statement for the Agency-Level Assessment of Internal Control

The [Agency's] management is responsible for establishing and maintaining an effective system of internal control. The [Agency] has completed its assessment of the five components of internal control – control environment, risk assessment, control activities, information and communication, and monitoring – on the agency level. 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 September 30, 2007 was operating effectively and no significant weaknesses were found in the design or operation of the internal controls on an agency level.

Agency Head

Date

Chief Financial Officer

Date

Exhibit 2 – Certification Statement for the Process and Transaction-Level Assessment of Internal Control

The [Agency's] management is responsible for establishing and maintaining an effective system of internal control. The [Agency] has completed its assessment of internal control activities at the fiscal process and transaction level. 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 March 31, 2008 was operating effectively and no significant weaknesses were found in the design or operation of the internal controls at the process and transaction levels.

Agency Head

Date

Chief Financial Officer

Date

Exhibit 3 – Certification Statement on Internal Control if a Corrective Action Plan is required

The [Agency's] management is responsible for establishing and maintaining an effective system of internal control. 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] identified [number] of significant weakness(es) in its internal control as of June 30, 2008. 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].

Agency Head

Date

Chief Financial Officer

Date