



COMMONWEALTH of VIRGINIA

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COMPTROLLER

Office of the Comptroller

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May 12, 2008

MEMORANDUM

TO: Heads of All State Agencies and Institutions

FROM: David A. Von Moll

SUBJECT: Comptroller's Directive No. 1-08 and *Agency Risk Management and Internal Control Standards*

On November 15, 2006, the Department of Accounts issued *Agency Risk Management and Internal Control Standards* (ARMICS) along with Comptroller's Directive 1-07. I greatly appreciate all the efforts put forth by the agencies and institutions of the Commonwealth to comply with this Directive that was implemented in three Stages during Fiscal Year 2007-08.

A new fiscal year will soon be upon us and once again agencies will be required to assess, document, and test their internal control structures in accordance with ARMICS. Instead of three submissions, agencies will only be required to submit one certification at the end of each fiscal year beginning with fiscal year ending June 30, 2009. This combined certification will cover each of the three ARMICS stages. Additionally, this certification will replace the internal control assurance certification normally required by the Annual Financial Reporting Directive.

This year you will be asked to build upon the groundwork laid during last year's initial ARMICS implementation. We are asking each agency to look at last year's implementation and critique your efforts to strengthen your implementation. Some best practices identified during our Quality Assurance Reviews of agency ARMICS implementations include:

- Customize the Questionnaires in the Standards to best fit your agency and operational structure.

- Prepare an ARMICS implementation plan identifying resources and completion goals.
- Document the procedures used to comply with ARMICS and note areas to improve or streamline the process in future years.
- List areas for additional coverage in future years.
- Prepare an internal report of results for use by applicable Boards or in agency strategic planning.

Operations that were sufficiently documented in the first year do not have to be redone in the second year. However, if the process changed from the prior year, adjust and change the documentation as needed. Testing is one area that must be completed each year to ensure controls put in place continue to function as intended.

The implementation Directive and Standards, including the Internal Control Assessment Guide, control questionnaires and example business process control assessment (Standards Appendices) remain linked to our web site at www.doa.virginia.gov/General_Accounting/ARMICS/ARMICS_Main.cfm.

These Standards provide guidance for establishing and assessing agency internal controls in order to more effectively manage risk and maintain accountability. These Standards are an extension and clarification of existing requirements contained in the annual Comptroller's Financial Reporting Directives and the Commonwealth Accounting Policies and Procedures Topic 10305, *Internal Control*. **Each year agency heads certify to my office, and to the Auditor of Public Accounts, that you have established, maintained and evaluated your agency's internal control framework. The ARMICS Standards establish the basis against which your annual certifications will be measured.**

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 retain ultimate responsibility for risk management and internal control over all agency programs.

Internal control standards have deep roots in management best practices. The Commonwealth's Standards are based on widely accepted risk management and internal control concepts established by the National Commission on Fraudulent Financial Reporting (commonly known as "The Treadway Commission" or COSO), formed in 1985.

Public sector focus on internal control continues to grow as governments become more complex, as citizens demand more accountability and as audit standards become more stringent. As we collaborate to institutionalize these Standards across state government,

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we will enhance Virginia's reputation for leadership and excellence in governmental financial management.

Thank you for your cooperation in implementing these important Internal Control Standards. Questions concerning the Standards or Directive requirements can be directed to armics@doa.virginia.gov or to Ron Necessary (ron.necessary@doa.virginia.gov or 804-225-2380).

Enclosures

DAV/lar

c: Cabinet Secretaries

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

Walter J. Kucharski, Auditor of Public Accounts

Lewis R. McCabe, Assistant State Comptroller, Department of Accounts

Ronald D. Necessary, Senior Director, Accounting and Internal Control Compliance
Oversight Unit, Department of Accounts

Fiscal Officers of State Agencies and Institutions

Internal Audit Directors of State Agencies and Institutions