



Welcome to the Department of Accounts, *Agency Risk Management & Internal Control Standards* Training for Fiscal Officers, Managers and Staff.

The Agency Risk Management and Internal Control Standards will be referred to as “ARMICS” throughout this training.


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OBJECTIVES

To review and understand:

- Definition of “Internal Control”
- Role of Internal Control in Achieving Objectives
- Virginia’s Long-Term Objectives
- ARMICS Process & COSO Framework
- Fiscal Officer, Manager, and Agency Staff Responsibilities
- Tips on Complying with ARMICS & Certification Process
- ARMICS Online Tools

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The objectives for this training are to review AND understand:

- Definition of “Internal Control,”
- Role of Internal Control in Achieving Objectives,
- Virginia’s Long-Term Objectives,
- The ARMICS Process & COSO Framework,
- Fiscal Officer, Manager, and Agency Staff Responsibilities,
- Tips on Complying with ARMICS and the Certification Process, and
- ARMICS Online Tools that are available.


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COSO - Internal Control Framework



The Committee of Sponsoring Organizations (COSO) Framework

AICPA

The Institute of Internal Auditors

fei financial executives international

American Accounting Association

IMA INSTITUTE OF MANAGEMENT ACCOUNTANTS

COSO. (2014). Committee of Sponsoring Organizations (COSO) of the Treadway Commission. "How the COSO Frameworks Can Help." Retrieved from <https://www.coso.org/Documents/2014-2-10-COSO-Thought-Paper.pdf>

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The definition of “INTERNAL CONTROL” is provided by the *Committee of Sponsoring Organizations*, or COSO, which delivers the most broadly accepted standards, and guidance on internal control. COSO is a private sector initiative, jointly sponsored and funded by:

- The American Accounting Association (AAA),
- The American Institute of Certified Public Accountants (AICPA),
- The Financial Executives International (FEI),
- The Institute of Management Accountants (IMA), and
- The Institute of Internal Auditors (IIA).

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Definition of Internal Control

The *Committee of Sponsoring Organizations (COSO) of the Treadway Commission* defines **Internal Control** as a:

“Process, effected by an entity’s board of directors, management, and other personnel, but more specifically states that it is designed to provide reasonable assurance regarding the achievement of objectives in the following areas:

- Effective and Efficient Operations
- Reliable Financial Reporting
- Compliance with Laws & Regulations”

COSO. (2014). Committee of Sponsoring Organizations (COSO) of the Treadway Commission. "How the COSO Frameworks Can Help."
Retrieved from <https://www.coso.org/Documents/2014-2-10-COSO-Thought-Paper.pdf>

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COSO defines Internal Control as:

“A process effected by an entity’s board of directors, management, and other personnel, but, more specifically, states that it is designed to provide “reasonable” assurance regarding the achievement of objectives relating to: Effective and Efficient Operations, Reliable Financial Reporting, and Compliance with Laws and Regulations.”

In essence, COSO states that an effective internal control process can provide “reasonable assurance” that an entity will achieve its operational, financial reporting, and compliance goals.

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Helps Achieve Objectives

What is internal control?

Internal control is a process that helps an entity achieve its objectives. It is the first line of defense in safeguarding public resources.



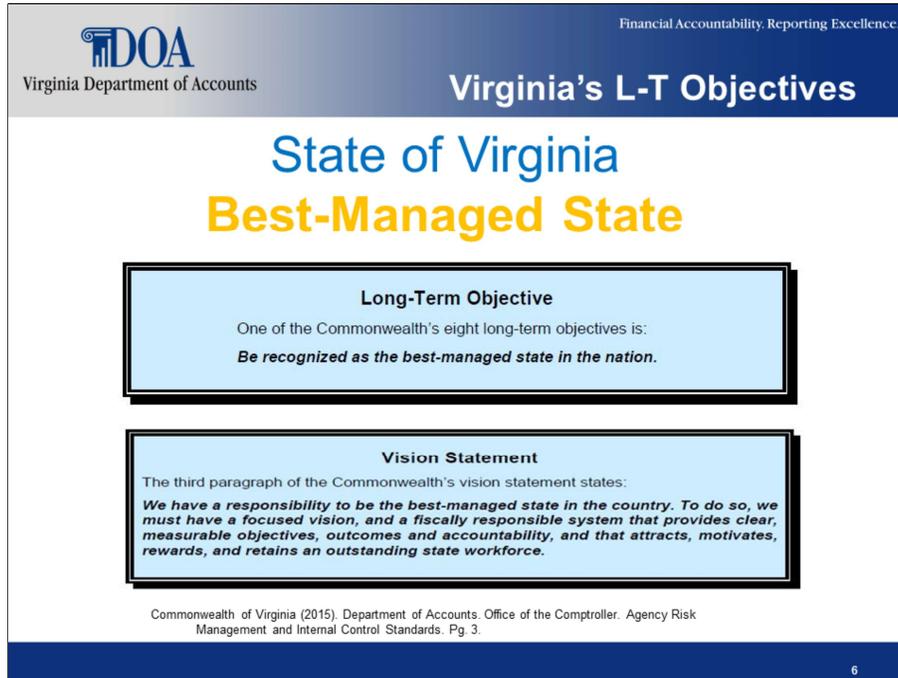
Objective identified → Controls designed → Controls in place → Objective achieved

Comptroller General of the United States (2014). [Standards for Internal Control in the Federal Government](#). United States Government Accountability Office.

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Internal control helps an organization achieve its objectives and is the first line of defense in safeguarding public resources.

- Once an organization or agency has defined its goals and objectives, it must identify its risks, and then design internal controls, implement the controls, then test and monitor its internal controls.
- Once controls are in place and functioning, internal controls require ongoing monitoring, testing and enhancements to achieve objectives.



The slide features the DOA logo and 'Virginia Department of Accounts' in the top left, and 'Financial Accountability. Reporting Excellence.' in the top right. The main title is 'Virginia's L-T Objectives'. Below it, the text reads 'State of Virginia Best-Managed State'. Two boxes contain the following text:

Long-Term Objective
One of the Commonwealth's eight long-term objectives is:
Be recognized as the best-managed state in the nation.

Vision Statement
The third paragraph of the Commonwealth's vision statement states:
We have a responsibility to be the best-managed state in the country. To do so, we must have a focused vision, and a fiscally responsible system that provides clear, measurable objectives, outcomes and accountability, and that attracts, motivates, rewards, and retains an outstanding state workforce.

Commonwealth of Virginia (2015). Department of Accounts. Office of the Comptroller. Agency Risk Management and Internal Control Standards. Pg. 3.

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Internal Controls are designed to help an organization achieve its objectives. Let's review some background on Virginia's goals:

- Part of the Commonwealth of Virginia's Vision and Long-Term Objective, per the *Code of Virginia*, is essentially,

“To be recognized as the best-managed state in the nation.”

- However, Virginia cannot accomplish or achieve this objective without:
 - Being accountable,
 - Being Fiscally responsible,
 - Minimizing its Risks, and
 - Maintaining Internal Control.

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Virginia Department of Accounts **AAA Bond Rating & Best State**

Virginia
Holds "AAA" Bond Rating
Since 1938



Virginia General Assembly, Joint Legislative Audit and Review Commission (JLARC). (2017). ["Virginia Compared to Other States"](#) "Bond Ratings" (22).

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Virginia is well on its way to achieving its Long-Term objective of being the Best-Managed State in the Nation, as evidenced by its AAA bond rating.

- Virginia's AAA bond rating, the highest rating attainable, is a reflection of the confidence placed in the Commonwealth's fiscal health, and a measure of a state's financial reputation as deemed by organizations such as Standard & Poor's.
- A high bond rating makes the state's bonds more attractive to investors.
- In 2017, JLARC reported Virginia has held its AAA bond rating since 1938, longer than any other state.

SO VIRGINIA IS MAKING STRIDES TOWARDS BEING A BEST MANAGED STATE.

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Virginia Department of Accounts **Internal Control - Roles & Activities**

1. Whose role is it to help VA achieve its Long-Term Objectives?

2. What activities are required to help VA maintain its AAA bond rating and achieve its L-T goal?

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- To attain the goal of being a “best-managed state,” whose role is it help Virginia achieve its long-term objectives?
- What actions or activities would you say are required to help Virginia maintain its AAA bond rating and achieve its long-term goal?

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Virginia Department of Accounts **Internal Control - Roles & Activities**

1. Whose role is it to help VA achieve its Long-Term Objectives?
The responsibility of governmental leadership and the role of every state employee.
2. What activities are required to help VA maintain its AAA bond rating and achieve its L-T goal? Effective internal control system and other fiscal activities are required to maintain VA's bond rating and achieve its L-T goals.

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It is the RESPONSIBILITY OF GOVERNMENTAL LEADERSHIP and the ROLE OF EVERY STATE EMPLOYEE to help Virginia achieve its long-term objectives through establishing and maintaining an EFFECTIVE INTERNAL CONTROL SYSTEM, and to maintain integrity and objectivity in fiscal activities and reporting.

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Roles & Activities - VA Achieving Long-Term Objectives



- Planning strategically
- Accurately forecasting expenditures and revenues
- Complying with financial reporting requirements, laws & regulations
- Monitoring fiscal processes and procedures
- Mitigating potential organizational & fraud risks
- Helping to safeguard assets and establish/maintain/monitor Internal Control
- Independently studying problem areas; recommending sound improvement strategies; and taking corrective action

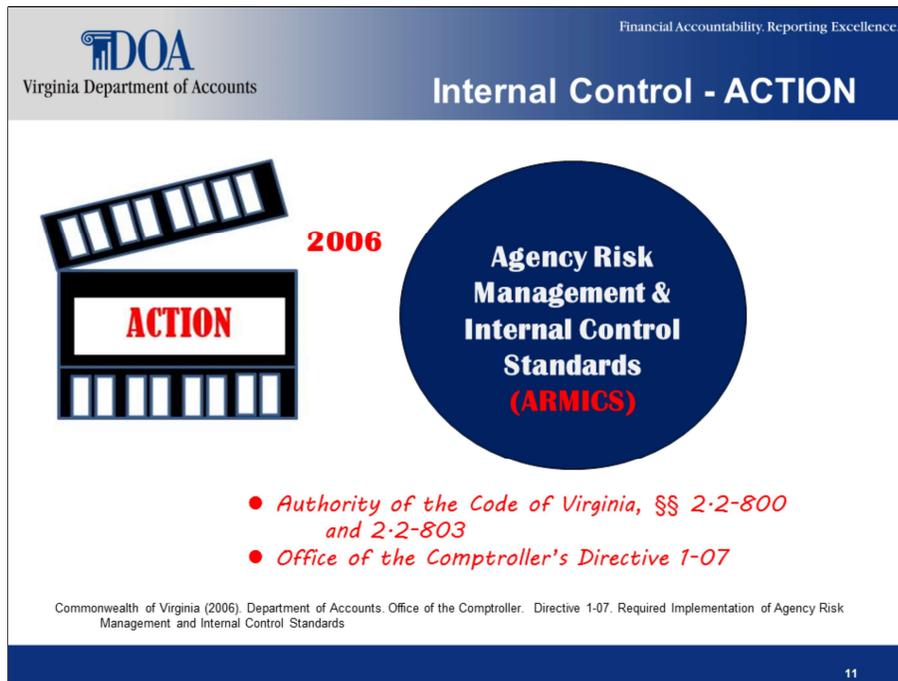
Virginia Performs. Bond Rating. (2017). "Bond Ratings." [What is the State's Role?](#)

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We ALL HAVE A ROLE to help ensure VIRGINIA'S PRACTICES are sound by:

- Planning strategically,
- Accurately forecasting expenditures and revenues,
- Complying with financial reporting requirements, laws, regulations, policies and procedures,
- Monitoring fiscal processes and procedures,
- Mitigating potential organizational risk and fraud risk,
- Safeguarding assets; implementing controls, and monitoring Internal Control,
- Independently studying problem areas; recommending sound improvement strategies; and taking corrective action.

EVERY AGENCY HEAD, FISCAL OFFICER, MANAGER, AND EMPLOYEE has a RESPONSIBILITY AND ROLE in ensuring that the SYSTEM OF INTERNAL CONTROL is effective in achieving VIRGINIA'S LONG-TERM GOAL of being a "BEST-MANAGED STATE."



The slide features a dark blue header with the DOA logo and the text 'Financial Accountability. Reporting Excellence.' on the right. Below the header, the title 'Internal Control - ACTION' is displayed in white. The main content area is white and contains a graphic of a clapperboard with 'ACTION' written on it, the year '2006', and a large blue circle containing the text 'Agency Risk Management & Internal Control Standards (ARMICS)'. Below this, two bullet points in red text provide the legal authority for the standards. At the bottom, a small line of text provides the source information, and the number '11' is in the bottom right corner.

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Internal Control - ACTION

2006

ACTION

Agency Risk Management & Internal Control Standards (ARMICS)

- Authority of the Code of Virginia, §§ 2-2-800 and 2-2-803
- Office of the Comptroller's Directive 1-07

Commonwealth of Virginia (2006). Department of Accounts. Office of the Comptroller. Directive 1-07. Required Implementation of Agency Risk Management and Internal Control Standards

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Exhibiting its commitment to Internal Control, Virginia government has taken ACTION and sought ways to mitigate risks; improve accountability and reporting; and establish internal control in achieving its objectives, through the implementation of the *Agency Risk Management and Internal Control Standards (ARMICS)*.

- In November 2006, under the Authority of the *Code of Virginia*, the *Office of the Comptroller* published ARMICS via *Office of the Comptroller's Directive 1-07* as the definitive source for Internal Control.

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5 Objectives - ARMICS		
STRATEGIC	Support for being “best-managed” state in the nation through internal control best practices	
OPERATIONAL	Effective and Efficient use of Fiscal Resources and Other Assets	
REPORTING	Integrity and Reliability of Financial Reporting	
COMPLIANCE	Compliance with Applicable Laws and Regulations	
STEWARDSHIP	Safeguarding and Conservation of Assets	
<small>Commonwealth of Virginia (2015). Department of Accounts. Office of the Comptroller. Agency Risk Management and Internal Control Standards. Pg. 13</small>		
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Virginia has designed the *ARMICS Standards* to achieve five objectives:

1. Strategically, by assuming Internal Control best practices to provide reasonable assurance that goals and objectives are met;
2. Operationally, to ensure effective and efficient use of fiscal resources;
3. Reporting-wise, to provide integrity and reliability of Virginia’s financial reporting;
4. Compliance, to ensure compliance with applicable laws and regulations; and lastly,
5. Stewardship, by safeguarding assets, mitigating risks, reducing fraud opportunities, waste & abuse.


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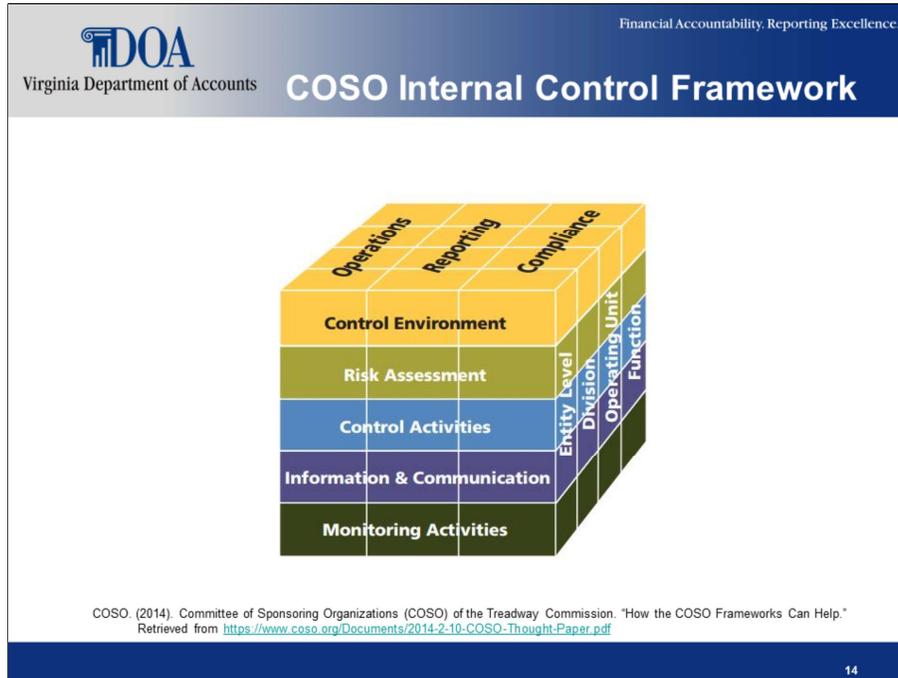
ARMICS - Guidance

- Initial Implementation: Comptroller's Directives 1-07 and 1-08
- ARMICS requires agencies meet *Minimum Requirements* (MR) to provide reasonable assurance of adequate internal control
- **Agency Head has ultimate responsibility/ownership*** for the Annual ARMICS Assessment and Internal Control
 *NOTE: It is not the responsibility of Internal Audit.
- CAPP Topic 10305, Internal Control - Effective FY 2010
- Annual Agency ARMICS Assessment - **Due Sept. 30**
- Based on the COSO framework

Commonwealth of Virginia (2015). Department of Accounts. Office of the Comptroller. Agency Risk Management and Internal Control Standards.

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- The initial ARMICS implementation was required through Comptroller's Directives 1-07 and 1-08.
- The ARMICS Standards require agencies to comply with *Minimum Requirements* to provide reasonable assurance of adequate internal control, fiscal accountability, integrity of financial reporting, and safeguarding of the Commonwealth's assets.
- The standards are clear that each Agency Head is ultimately responsible and accountable for having management document the agency's Annual Assessment of Internal Control.
- **Please note that COMPLETING THE AGENCY'S Annual ARMICS Assessment is not the Internal Audit Department's Responsibility.** Internal Auditors must maintain their independence and objectivity and not assume management roles. However, Internal Audit may provide consultative services with regard to control design, function and assessment, but they cannot relieve management of its ultimate responsibility of implementing and assessing internal control.
- Effective with fiscal year 2010, CAPP Topic 10305, provides Internal Control guidance on ARMICS implementation.
- Each agency's ARMICS assessment must be completed annually and the ARMICS Certification is due to DOA the last business day on or before September 30.
- ARMICS is based on the COSO framework, where the Committee of Sponsoring Organizations is the widely accepted authority on Internal Control frameworks.



The COSO Framework states that Internal Control should be examined with 3 objectives and 5 integrated components in mind:

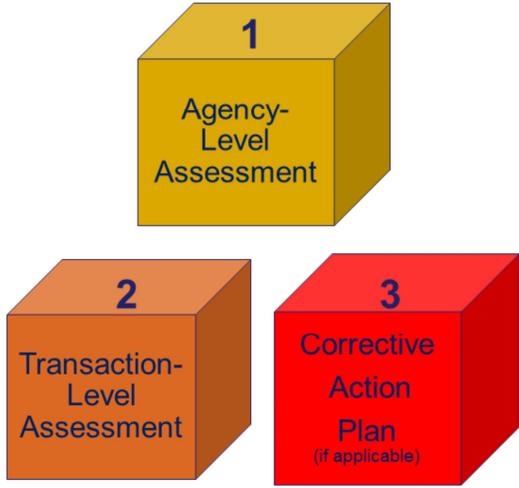
- The 3 Objectives are to assess an organization’s internal control from an Operational, Reporting, and Compliance perspective.
- The 5 Components include Designing, Assessing and Testing internal control within the organization’s:
 - Control Environment,
 - Risk Assessment,
 - Control Activities,
 - Information and Communication, and
 - Monitoring Activities.
- The COSO Framework is adaptable to any organization’s size or structure, allowing you to evaluate internal controls from an entity, divisional, operational unit, and/or functional level.
- Therefore the need for Controls starts at an agency level on down to the functional or transaction level.

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3 Stages of ARMICS Assessment

To comply with ARMICS:

Each agency must establish & complete an assessment of Internal Control of Stages 1 & 2, and meet the Minimum Requirements(MR). Must complete Stage 3 (if applicable)



Commonwealth of Virginia (2015). Department of Accounts. Office of the Comptroller. Agency Risk Management and Internal Control Standards. Pg. 38

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As we begin our review of ARMICS, you can see that it requires agencies to evaluate internal control from the Agency-Level on down to the Transaction-Level.

- The Agency Level is Stage 1, and the Transaction-Level is Stage 2. Stage 3 is necessary when significant weaknesses or deficiencies exist in Internal Controls and a Corrective Action Plan is required.
- Each agency must complete an annual assessment of internal control that should encompass these 2 stages of activity.
- Each of the stages have Minimum Requirements that must be met to comply with ARMICS.

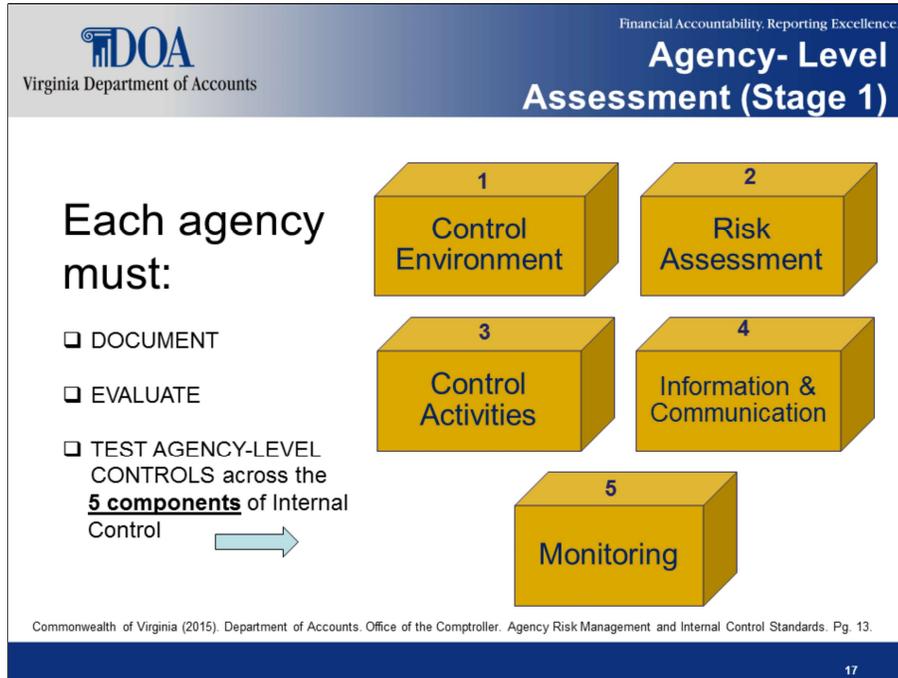

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Agency - Level

Annual Assessment
(Stage 1)

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Let's review Stage 1, the Agency-Level Assessment.

- To comply with Virginia's ARMICS Standards, an agency must demonstrate that all 5 internal control components are established and fully functioning. Agencies must assess, test, and document results that these internal control components are fully functioning.
- An *Agency-Level Assessment* must be performed at each of the 5 Control areas.
- Each of the 5 areas have *Minimum Requirements* within the standards in order to be compliant with ARMICS.
- The ARMICS Agency-Level Assessment requires that agencies document, evaluate, and test internal control in all 5 areas.
- We will define each of the 5 areas.


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Agency Level:
Control Environment- #1

- **Definition:** The agency’s corporate culture or “**Tone at the Top**” and how much the agency’s leaders value ethical behavior and internal control.
- **Purpose:** To establish a tone and Control Environment which reflects top management’s expectations for how seriously agency employees should view and execute their internal control and fiduciary responsibilities.

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The 1st of the 5 Agency-Level components is the *Control Environment*, which is the foundation for the other 4 components.

- The Control Environment or “Tone at the Top,” represents the agency’s “corporate culture” and how much the agency’s leaders value ethical behavior and internal control.
- The Control Environment should reflect top management’s view on the importance of internal control, ethical values, and standards of conduct, and reinforces fiduciary expectations of employees at all levels.



- Agencies that actively and continually support a culture of integrity, appropriate conduct and ethical values communicate these core values through a **Code of Ethics** or similar document.
- Developing and reinforcing a comprehensive and understandable Code of Ethics is a “best practice” and is essential to internal control, linking the agency’s mission and vision to its operating policies and procedures.


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Control Environment- #1 Minimum Requirements

To demonstrate that the Control Environment internal control component is established and fully functioning, the agency must meet the following minimum requirements:

- Develop and actively promote a Code of Ethics.
- Document and assess (test) key elements of the control environment including, but not limited to:
 - o Management's philosophy
 - o Management's attitude towards risk
 - o Oversight by the agency's governing board
 - o Integrity and ethical values
 - o Promotion of ethics and appropriate conduct
 - o Organizational structure
 - o Assignment of authority and responsibility
 - o Workforce competence and human resource development

Commonwealth of Virginia (2015). Department of Accounts. Office of the Comptroller. Agency Risk Management and Internal Control Standards, p. 18

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Agencies must demonstrate that the **Control Environment** internal control component is established and fully functioning, through meeting the following minimum requirements per the Standards:

- Develop and actively promote a Code of Ethics.
- Document, assess, and test key elements of the control environment as outlined in the ARMICS Standards, which includes assessing:
 - Management's philosophy,
 - Management's attitude towards risk,
 - Oversight by the agency's governing board,
 - Integrity and ethical values,
 - Promotion of ethics and appropriate conduct,
 - Organizational structure,
 - Assignment of authority and responsibility, and
 - Workforce competence and human resource development.


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Tips: Control Environment

- List of Agency-Level Controls & Testing conducted
- Actively promotes a “Code of Ethics (COE)” and appropriate conduct
- Employees acknowledge receipt of the COE; requires employee training on ethics
- Conflict of Interest Policy
- Well-designed Recruiting, Hiring & Performance Review process
- Current Job Descriptions & EWP’s for each Position
- Commitment to Workforce Competence/Training
- Standards and Current Policies and Procedures
- Assignment of Authority & Responsibility

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The Control Environment is the most important part of the framework because it forms the core of the organization.

However, the Control Environment is often a challenging area for agencies to document and test, but here are a few tips on areas to consider:

- Is there a list of Agency-Level Controls? Have they been tested?
- Does the agency Actively promote a “Code of Ethics” and appropriate conduct?
- Do Employees acknowledge receipt of the Code of Ethics? Does the agency require employee training on ethics? Is there a Conflict of Interest Policy?
- Is there a well-designed Recruiting, Hiring and Performance Review Process? Are there Current Job Descriptions and EWP’s for each position?
- Is there a demonstrated Commitment to Workforce Competence and Training?
- Are there Standards established for the agency; and are Policies and Procedures current? Are there clear lines of authority, responsibility and reporting relationships?
- Additional guidance on documenting the Control Environment is available in the *ARMICS Standards*, pages 14 through 18.


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**Agency Level:
Risk Assessment - #2**

- Definition: The agency's process of identifying and analyzing agency level **Risks, Potential Events** and determining the **Likelihood and Impact** they may have on achieving agency objectives.
- Purpose: Enables the agency to consider the extent to which potential events could affect the achievement of objectives.

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The 2nd of the 5 Agency-Level components is the ***Risk Assessment***.

Each state agency must perform a risk assessment of each significant fiscal process as part of the documentation and assessment of Internal Control.

- A Risk Assessment is the process of identifying and analyzing potential agency-level risk events that may occur; and determining the *Likelihood* and *Impact* they may have on the agency achieving its objectives.
- In the Risk Assessment, management considers the mix of potential events relevant to the agency and its activities in the context of the agency's risk profile, which includes size, operational complexity, and regulatory restraints.
- Management must identify risks, then assess the risk of unexpected potential events and any expected events that could have an affect on achieving the agency's objectives.



Risks must be assessed from 4 perspectives: Likelihood, Impact, and Inherent and Residual Risk basis:

- Likelihood is the odds that a given event will occur.
- Impact is the measurement of the effect of the event in quantitative or qualitative terms.
- Inherent risks are the risk to an agency if management takes no action to reduce either the likelihood or impact of the event occurring.
- Residual risk is the risk that remains after management's risk response has been applied.

Risks should be assessed individually and collectively in order to focus attention on significant threats and opportunities, and lay the groundwork for a risk appetite, risk tolerance, and risk response.

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Risk Assessment Criteria

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Risk Map – An Example

	Low Impact	Medium Impact	High Impact
High Probability	2	3	3
Medium Probability	1	2	3
Low Probability	1	1	2

For each event, determine the impact of that event occurring and the probability that it will occur.
Probability = The likelihood that a negative event will occur.
Impact = The severity of the consequences of a negative event.

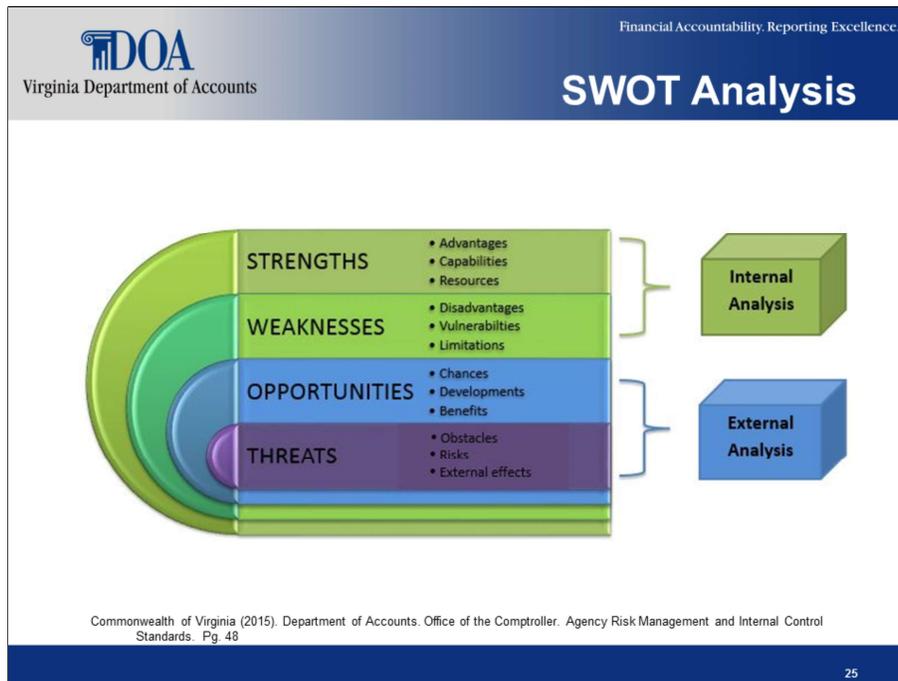
3 Red Zone – high risk – mitigate or reduce the risks.
2 Yellow Zone – medium risk – manage the risks.
1 Green Zone – low risk – accept the risks.

This is just one of many formats that a risk matrix may take.

Commonwealth of Virginia (2015). Department of Accounts. Office of the Comptroller. Agency Risk Management and Internal Control Standards. Pg. 19

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- Agencies must develop a common set of Risk Assessment Criteria to be deployed across the agency through:
 - Developing a process to measure risk, along with risk rating levels, and definitions.
 - Each agency should identify its “Risk Events” and “Risk Profile,” which identify all risks facing the agency.
 - Assess Agency-Level risks events from the perspectives of “Likelihood” and “Impact” as well as Inherent and Residual Risks.
- A visual matrix can be used to categorize, assess, and measure risk events.
- A Risk or Heat Map allows you to compare and evaluate risk based on the potential impact and likelihood of an event occurring.
- This is one of many formats that may be used to measure risks.
- In this format, the higher the Risk Impact value, the more severe the consequences, indicating the need to mitigate risks, especially in the Red Zone;
- The higher the Risk Probability value, the more likely a negative event will occur.



- A SWOT analysis is another strategic planning technique used during the Risk Assessment. It helps assess an organization's health, and how its individual characteristics may help or hinder it in meeting key goals and objectives.
- The SWOT analysis is coordinated with the Department of Planning and Budget, and takes a holistic approach, analyzing not only the organization itself, but also its larger environment.
- The analysis includes an assessment of the organization's strengths and weaknesses, and an assessment of the environment in which the organization operates and any opportunities or threats that may be present in that environment.

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Risk Assessment Considerations	
<p>REQUIRED: Perform a Risk Assessment of Significant Fiscal Processes</p> <p style="text-align: center;"><u>Risk Classification</u></p> <ul style="list-style-type: none"> • Financial • Operational • Strategic • Regulatory • Reputational 	<ul style="list-style-type: none"> <input type="checkbox"/> What tone at the top or business activities expose our agency to greatest risk? Are we monitoring our SWOT analysis and proactive in corrective action? <input type="checkbox"/> What could jeopardize our ability to meet financial obligations, and deliver accurate financial reporting? <input type="checkbox"/> What policies, laws or regulations could be violated and or result in non-compliance? <input type="checkbox"/> Are procedures or policies outdated, exposing us to risk of errors? <input type="checkbox"/> Are our controls designed effectively? How could someone bypass internal controls? Assurance of business partners? <input type="checkbox"/> What could go wrong? What opportunity is there for fraud?? <input type="checkbox"/> What potential risks could cause adverse publicity, or reputational damage?
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During the Risk Assessment of Significant Fiscal Processes, agencies should assess risks from a financial, operational, strategic, regulatory, and reputational perspective. Agencies may also identify risks by considering questions such as:

- What is our tone at the top? What business activities expose our agency to greatest risk?
- Are we monitoring our SWOT analysis results; and proactively taking corrective action to address weaknesses and take advantage of opportunities?
- What could jeopardize our ability to meet financial obligations, and deliver accurate financial reporting?
- What policies, laws or regulations could be violated and/or result in non-compliance?
- Are staff following outdated procedures, exposing us to risk?
- Are our controls designed effectively? How could someone bypass internal controls?
- Have we received annual assurance of adequate internal control from our business partners, service provider agencies, and third-party providers?
- What could go wrong? Is there a window of opportunity for fraud to occur?
- What potential risks could cause adverse publicity or reputational damage?

An effective Risk Assessment performed by the agency should help identify its risk exposure, risk profile, and risk response; evaluate its control activities in response to risks; and provide reasonable assurance that the Risk Assessment component is functioning as intended.

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Response to Risks

Management's Risk Response Options

<p>AVOIDANCE</p> <p>To end those activities that give rise to risk.</p> <p>Ex: Eliminate a service or high-risk activity.</p>	<p>MITIGATION</p> <p>To reduce the impact or probability of risk event.</p> <p>Ex: Scheduling computer backups.</p>	<p>SHARE</p> <p>To share or transfer a portion of the likelihood/impact to another party.</p> <p>Ex: Acquiring an insurance policy.</p>	<p>ACCEPTANCE</p> <p>Taking no action in response to risk.</p> <p>Ex: Remaining risks after all possible risk responses have been taken.</p>
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NOTE: Agency heads and all State employees are not authorized to take risks that would knowingly jeopardize the agency's ability to meet its fiscal obligations nor jeopardize effective financial management, accurate financial reporting, or compliance with laws, regulations, policies or procedures.

Commonwealth of Virginia (2015). Department of Accounts. Office of the Comptroller. Agency Risk Management and Internal Control Standards. Pg. 20

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As management considers all potential risk events, management must respond to its risks. Management's Response to risk is grouped into four main categories:

- Avoiding risk means ending those activities that give rise to risk (for example, eliminating a service or high-risk activity or process).
- Mitigating risk is reducing the impact or probability of risk, which involves everyday management decisions, including the imposition of control activities. For example, routine backups and software updates could decrease the impact of technology failure on the agency's ability to provide services.
- Sharing risk transfers a portion of likelihood or impact to another party. Examples of sharing risks include acquiring an insurance policy.
- Acceptance means taking no action in response to risk, within parameters dictated by state policy. All risk cannot be eliminated. These are the risks that remain after all possible risk responses have been taken.

Agency heads and state employees are not authorized to take risks that would knowingly jeopardize the agency's ability to meet its fiscal obligations nor jeopardize effective financial management, accurate financial reporting, or compliance with laws, regulations, policies or procedures.

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Risk Assessment - #2 Minimum Requirements

To demonstrate that the *Risk Assessment* internal control component is established and fully functioning, the agency must meet the following minimum requirements:

- Conduct and document an agency-wide risk assessment. This risk assessment should be coordinated with the strategic planning process overseen by the Department of Planning and Budget.
- Conduct and document risk assessments of **each agency fiscal process** as part of the documentation and assessment of control activities.
- The risk of fraud must be included in the agency-level risk assessment and the transaction-level risk assessments of each agency fiscal process. Fraud originating inside an agency, as well as, fraud perpetrated by individuals outside of the agency, should be considered.

Commonwealth of Virginia (2015). Department of Accounts. Office of the Comptroller. Agency Risk Management and Internal Control Standards. Pg. 21.

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To demonstrate that the *Risk Assessment* internal control component is established and fully functioning, the agency must meet the following minimum requirements:

- Conduct and document an agency-wide risk assessment. This risk assessment should be coordinated with the strategic planning process overseen by the Department of Planning and Budget. A SWOT analysis, and assessment of agency-wide risks, are part of the risk assessment.
- Conduct and document risk assessments of **each agency fiscal process** as part of the documentation and assessment of control activities.
- The risk of fraud must be included in the agency-level risk assessment and the transaction-level risk assessments of each agency fiscal process.
- Fraud originating inside an agency, as well as fraud perpetrated by individuals outside of the agency, should be considered.


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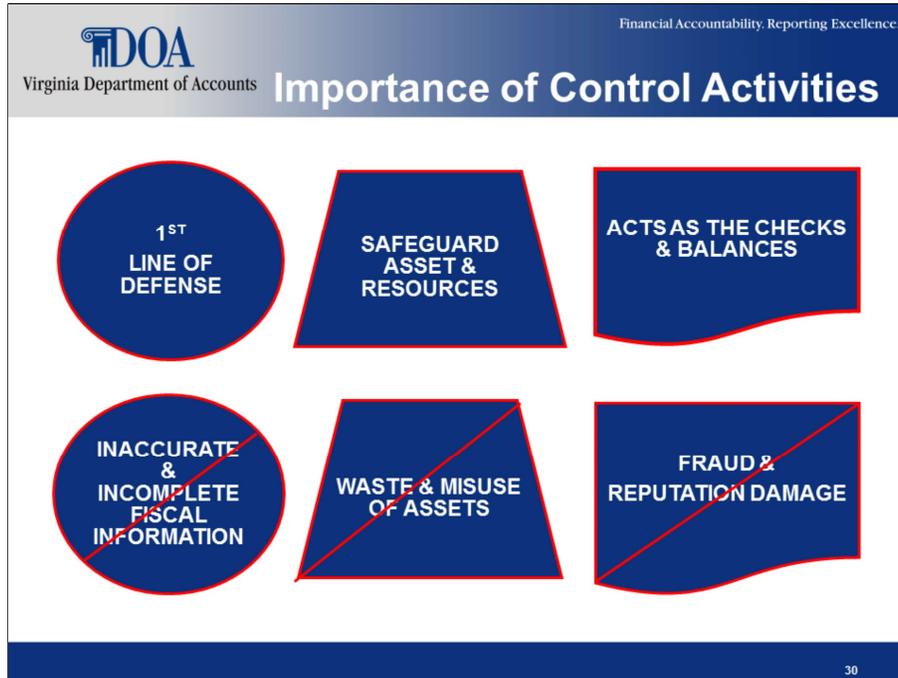
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Agency Level:
Control Activities - #3

- Definition: The agency's implemented controls, which are deployed through its policies and procedures to help ensure the risk responses are effectively carried out.
- Purpose: Establish controls to mitigate risks, and events that prevent achievement of objectives.

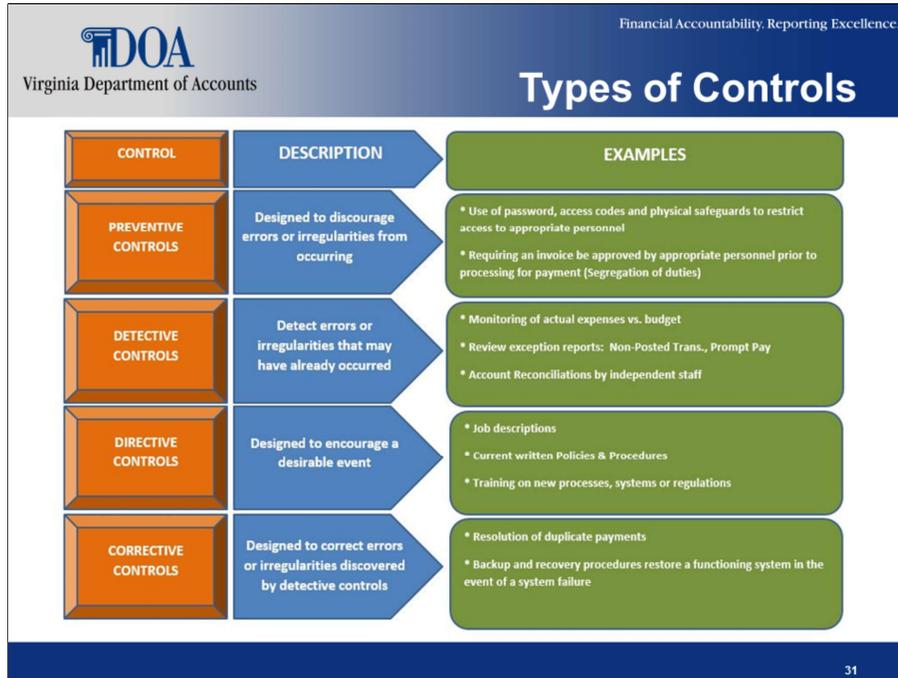
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The 3rd of the 5 Agency-Level components are the ***Control Activities***. The Control activities are the agency's controls which are implemented and deployed through its policies and procedures.

- The agency must document, assess, and test agency-level control activities applicable to:
 - All significant fiscal processes,
 - Accounting administration,
 - The general ledger, and
 - Information systems.
- These Control Activities help mitigate risks and help ensure the agency's risk responses are effectively carried out.
- When control activities adequately mitigate risks, they can help achieve an agency's goals.

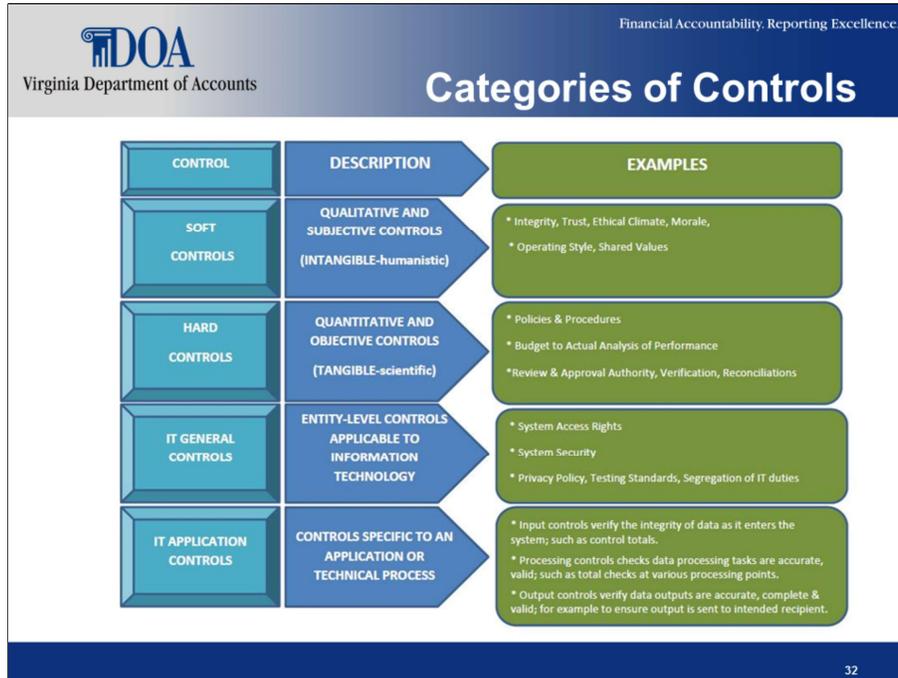


- Control Activities are important and necessary to mitigate risks, and act as the first line of defense and the best mechanism an organization has to safeguard its assets and resources, even though they can provide only reasonable assurance.
- Control Activities act as the checks and balances to support the agency’s mission while helping prevent fraud, waste, and abuse, and ensuring the efficient use of resources.
- The consequences of weak internal Control Activities can range from inaccurate or incomplete fiscal information, waste or misuse of assets and resources, even fraud, and reputational damage.
- Therefore, control activities are required to mitigate risks and management must ensure a well designed control system. The agency must also monitor the control activities to ensure they are effective and operating as designed.



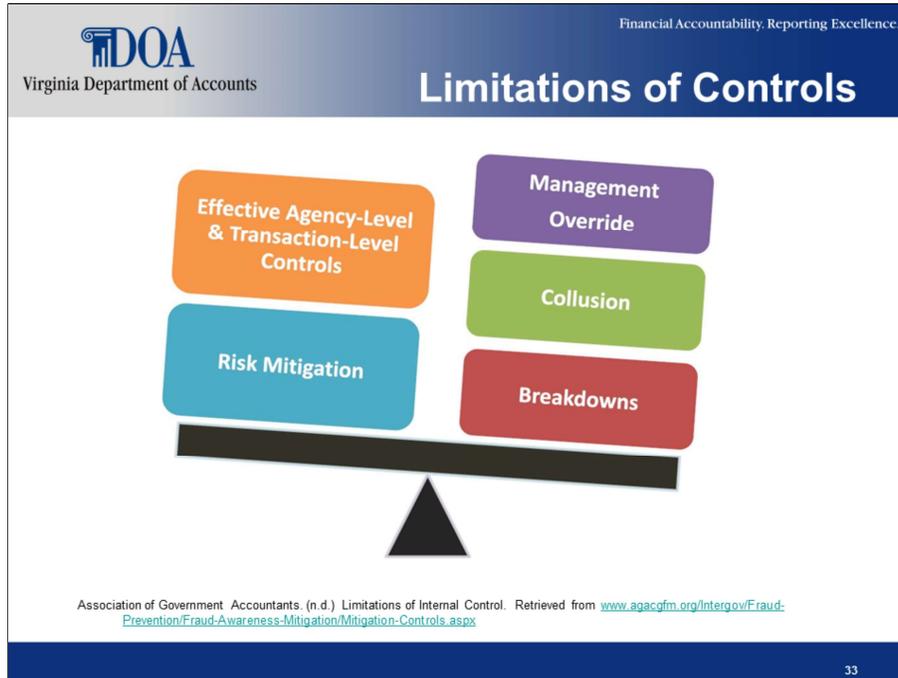
Controls Activities should exist at every level of the agency, and in all functions. There are many types of controls including *Preventive*, *Detective*, *Directive* and *Corrective Controls*:

- Preventive Controls are used to deter undesirable events “before” they occur. For example: The use of passwords and physical safeguards restrict access to systems; or requiring an invoice be approved by appropriate personnel prior to processing payment.
- Detective Controls are used to detect errors or irregularities “after” they have occurred. For example, monitoring variances on actual vs budget reports, reviewing exception reports and taking appropriate action to resolve exceptions. Also, the reconciliation of agency transactions should be done by an individual independent of staff member who processed the initial transactions.
- Directive Controls are pro-active controls to encourage a desirable event and include guidance through job descriptions, written and up-to-date policies & procedures, and training.
- Corrective Controls are reactive controls designed to allow manual or automated correction of errors discovered by the detective controls such as resolution of duplicate payments in a cash disbursement system or email backup and recovery controls.



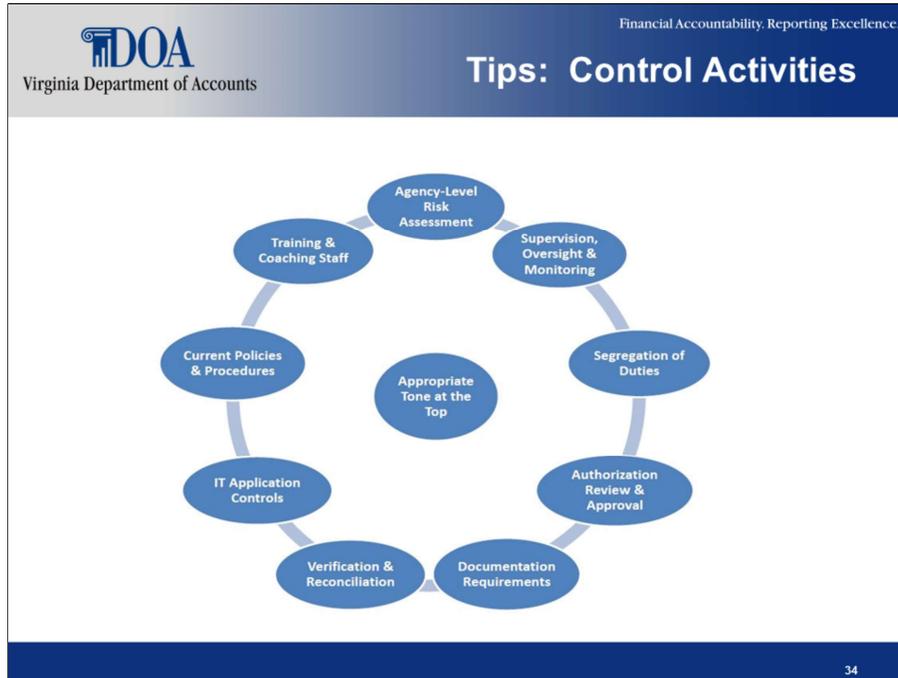
Historically, control focus has been on existence of hard (tangible) controls rather than soft (intangible) controls. However, control activities are varied and should exist at every level of the agency, and in all functions. Let's review a few other control categories.

- While Soft Controls are intangible controls like morale, integrity, ethical climate, empowerment, competencies, openness and shared values; Hard Controls include Policies and Procedures, Budget to Actual Analysis of Performance, Review and Approval Authority, Verification, and Reconciliations.
- Soft controls can be viewed as the foundation of hard controls. Soft controls directly affect the behavior of organizations by fostering the tone at the top and have positive influence on the moral behavior of employees when they are doing their work.
- Information Technology also has controls to address risks associated with IT systems that are applicable at the entity-level and transaction level. General IT Controls address areas such as access security, privacy, and segregation of IT duties, while Application IT Controls are process or transaction-level controls that are specific to a process such as input, processing, and output controls.



An appropriate Tone at the Top, effective agency controls, and risk mitigation can help agencies achieve organization goals. However, Internal Controls are subject to a number of limitations, including:

- Management Override, where management often has the authority to override established policies and procedures. In certain cases, such interventions support legitimate business purposes. However, in cases of fraud, management interference is connected to personal advantage and gain.
- Collusion, where any combination of management, staff, contractors, vendors, customers or beneficiaries can act collectively to circumvent internal controls. A preventive control, such as segregation of duties, fails when several employees pool their efforts to defeat the system of controls and perpetrate fraud. An employee, acting in concert with a vendor, can effect any number of payment-type frauds.
- Breakdowns, which can occur in systems and processes. For example, software testing may not have disclosed all vulnerabilities. Employees make mistakes or are improperly trained. Management may suffer from errors of judgment. Policies and procedures may be inaccurate, non-existent or out-of-date.
- Management override, collusion and breakdowns are just some of the actions that may affect the balance and effectiveness of the agency's internal control system.



Agencies may consider these Control Activities, as well as others, in developing, designing, and monitoring control activities:

- Is there an *Appropriate and Ethical Tone at the Top*?
- Is there *Supervision, Oversight, and Monitoring* of risks, controls, staff, and processes?
- Does *Segregation of Duties* facilitate only one person completing a fiscal process, to reduce the risk of fraud?
- Are *Transactions Reviewed* for accuracy, and *Authorized and Approved* by appropriate personnel?
- Is *Documentation Required* for each transaction as indicated in the CAPP Manual, regulations, and/or other policies/procedures?
- Are *Reconciliations Prepared and Approved* weekly, monthly, or quarterly to compare source documents to data recorded in accounting systems?
- Do *IT Computer Controls* exist to ensure appropriate software, security, access, backup and encryption controls? Is access deleted immediately when an employee is terminated or resigns?
- Is there *Regular Monitoring of Policies and Procedures* for updates required for changes in processes or systems?
- Is there *Ongoing Training and Coaching of Staff* to reduce the risk of error and inefficiency in operations due to lack of training?

Continual testing and monitoring of the effectiveness and design of control activities are necessary to ensure controls are operating as intended. Controls should be efficient and effective, but also considered in terms of their cost or benefit to the agency. However, when it comes to designing and implementing strong internal controls, the cost implications of potential non-compliance with federal and state regulations, or the cost to repair a damaged reputation, often make investing in efficient, effective and preventive controls a significantly better option to mitigate risks.


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Control Activities - #3 Minimum Requirements

To demonstrate that the control activity internal control component is established and fully functioning, the agency must meet the following minimum requirements:

- Document and assess agency-level control activities applicable to:
 - All significant fiscal processes
 - Accounting administration
 - The general ledger
 - Information systems(See Appendix A – Internal Control Assessment Guide, “Agency-Level Control Activity Assessment Tools”, pp. 49–54)
- Document all significant agency fiscal processes and assess the operation of their associated control activities. (See Appendix A – Internal Control Assessment Guide, “Process or Transaction-Level Control Activity Assessment”, pp. 60-67)

Note: Agencies that use another agency (Service Provider Agency) or a Third-Party Service Provider to perform significant processes or functions, must obtain internal control assurance from that provider. See CAPP Topic No. 10305, Internal Control, for more guidance.

Commonwealth of Virginia (2015). Department of Accounts. Office of the Comptroller. Agency Risk Management and Internal Control Standards. Pg. 27.

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To demonstrate that the **Control Activity** internal control component is established and fully functioning, the agency must meet the following minimum requirements:

- Document and assess agency-level control activities applicable to
 - All significant fiscal processes,
 - Accounting administration,
 - The general ledger, and
 - Information systems.
- Document all significant agency fiscal processes and assess the operation of their associated control activities. (See Appendix A – Internal Control Assessment Guide, “Process or Transaction-Level Control Activity Assessment,” pages 60 through 67.
- ***Please note that agencies that use another agency (Service Provider Agency) or a Third-Party Service Provider to perform significant processes or functions, must obtain internal control assurance from that provider. See CAPP Topic 10305, Internal Control, for more guidance.***


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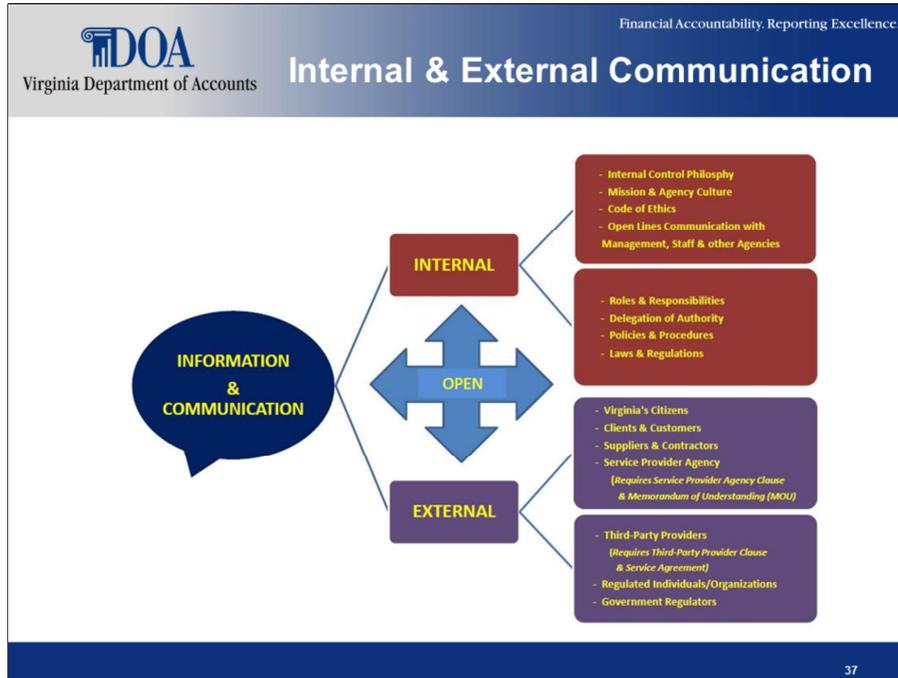
Agency Level:
Information & Communication - #4

- **Definition:** The communication of relevant information in a timeframe to enable staff to carry out their responsibilities. Effective communication occurs down, across, and up the agency.
- **Purpose:** Effective information and communication ensures a clear message of objectives, risks, controls, and other pertinent information to those that need it.

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The 4th of the 5 Agency-Level components is the ***Information and Communication*** area.

- The *Information and Communication* component is necessary to ensure relevant information is communicated in a timeframe which enables people to carry out their responsibilities.
- Effective communication sends a clear message and occurs throughout the agency: vertically and horizontally.
- The entire agency needs information to handle risks, provide services, and achieve objectives.
- Simply put, “Information has no value without communication.”



Communication is the continual process of providing, sharing, and obtaining necessary information. Quantitative and qualitative information comes from many internal and external sources. Management obtains, generates and uses relevant information from both internal and external sources to support the functioning of internal control.

- Internal communication is the means by which information is disseminated throughout the organization, flowing up, down, and across the entity. Clear and open internal communication conveys the agency’s internal control philosophy, delegation of authority, roles and responsibilities and communication about processes and procedures.
- External communication is twofold: it enables inbound communication of relevant external information and provides information to external parties in response to requirements and expectations. For example, there must be adequate interaction with Service Provider Agencies, and the Memorandum of Understanding (MOU) must clearly delineate the significant fiscal processes performed for the primary agency, such as the Payroll Services. An annual *Service Provider Agency Clause* provides assurance regarding the state of internal control regarding those fiscal processes performed on behalf of the primary agency and should be incorporated into the agency’s ARMICS Certification statement.
- Likewise, adequate interaction with external Third-Party Service Providers is required to gain an appropriate understanding of the service provider’s control environment. Agencies must maintain oversight over third-party service providers; maintain and update Service Agreements, and assurances regarding its control environment. Obtaining annual *Service Organization Control (SOC) Reports*, can help meet this requirement of the Annual ARMICS Certification.

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Information Technology

- Agencies should ensure an Information Technology plan has been developed that is linked to achieving the agency's objectives; and supports new objectives
- Mechanisms are in place to identify emerging technology needs, establish priorities, and provide feedback on system performance.

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The agency's Information Technology System is an integral part of the Information and Communication component.

- Agencies should ensure an Information Technology plan has been developed that is linked to achieving the agency's objectives and that supports new objectives.
- Also, mechanisms should exist to identify emerging technology needs, establish priorities, and provide feedback on system performance.


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Tips: Information & Communication

- Is Communication timely and effective across the organization (internally/externally)?
- How does the agency communicate? Do they have meetings, Intranet, Memos, Town Hall Meetings?
- Is there training on new regulations/processes?
- Are agency internal control standards conveyed to Service Provider Agencies & Third-Party Providers and are annual assurance & SOC reports obtained?
- Is management receptive to auditor feedback?
- Is information secure and do issues get disseminated to the right level and resolved appropriately?
- Is management receptive to employee concerns?
- Are current Information Systems effective?

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These are some examples of areas to determine the existence of controls in the *Information and Communication* areas:

- Is Communication timely and effective across the organization? Is Financial Reporting Information communicated timely?
- How does the agency communicate? Do they have meetings? Use an Intranet? Memos? Town Hall Meetings? Training?
- How is the importance and relevance of internal control conveyed, along with the roles which support it?
- Are agency internal control standards for business conduct conveyed to third parties? Are Third Party Provider SOC reports and Service Provider Agency assurances obtained annually and status included in the ARMICS Certification?
- Is Management receptive to comments by internal and external auditors regarding findings, control deficiencies and corrective action?
- Does information or issues get disseminated to the right level of management or staff, and resolved appropriately?
- Is Management open and receptive to employee concerns, suggestions, and complaints?
- Are current Information Systems effectively meeting data security and agency operational, financial, regulatory and reporting objectives?

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Information & Communication - #4 Minimum Requirements

To demonstrate that the *Information and Communication* internal control component is established and fully functioning, the agency must meet the following minimum requirements:

- Document and assess how the agency gathers, uses and disseminates information.

(See [ARMICS Standards](#) Appendix A – Internal Control Assessment Guide, “Information and Communication Assessment Tools, pp. 55-57)

Commonwealth of Virginia (2015). Department of Accounts. Office of the Comptroller. Agency Risk Management and Internal Control Standards. Pg. 31.

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To demonstrate that the *Information and Communication* internal control component is established and fully functioning, the agency must meet the following minimum requirements:

- Document and assess how the agency gathers, uses and disseminates information. (See also ARMICS Standards, Appendix A – Internal Control Assessment Guide, “Information and Communication Assessment Tools,” pages 55 through 57)


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Agency Level:
Monitoring - #5

- Definition: The process that assesses the presence and quality of internal control performance over time; along with improvements.
- Purpose: Evaluate the design and operation of controls on a timely basis and ensures action is taken when specific controls are not functioning.

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The last of the 5 Agency-Level components is the **Monitoring** area.

- *Monitoring* is the process of determining the presence, quality and functioning of internal control performance over time.
- Regular attention should be given to the design and operation of controls, to ensure action is taken when controls are not functioning as intended.
- On-going Monitoring can be built into normal, recurring operating activities or may stem from separate evaluations.
- Monitoring also includes follow-up control testing related to Corrective Action or deficient controls.


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Tips: Monitoring

- Monitoring is used to test and evaluate whether the Internal Control Plan is up to date
- Monitoring includes the agency conducting independent self-assessments in addition to the required annual ARMICS assessment
- Documentation and audit trail of monitoring activities, an evaluation of the results; reporting any deficiencies, and take corrective actions
- Accountability for management, supervisors and staff monitoring controls and providing feedback

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Some examples of areas to determine the existence of controls in Monitoring include:

- Does the agency regularly test its Controls to evaluate if its Internal Control System is effective? The most effective way to find problems is to test your own system regularly.
- Does the agency conduct independent self-assessments of internal control in addition to the required annual ARMICS assessment?
- Does the agency maintain documentation of its monitoring activities, including the results, any deficiencies, and corrective action?
- Are management, supervisors and employees held accountable for monitoring control activities and providing feedback on control effectiveness?

The key to *Monitoring* is to determine whether internal control is adequately designed, properly functioning, and effective to mitigate risks.

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Documentation of the Monitoring Assessment

- An audit trail of the “Monitoring” assessment
- Communicate assessment results, findings, conclusions, and recommendations
- Facilitate review by auditors and senior management
- Facilitate assessment in subsequent periods
- Identify and report broader issues
- Identify individual roles and responsibilities in the assessment process
- Supplement existing control documentation that may be deficient

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With regard to developing documentation of the “Monitoring” assessment process itself, the Fiscal Officer or agency may consider the extent to which the agency’s documentation:

- Provides an audit trail of the assessment and monitoring activities,
- Communicates assessment results, findings, conclusions, and recommendations,
- Facilitates review by auditors and senior management,
- Facilitates assessment in subsequent periods,
- Identifies and reports broader issues,
- Identifies individual roles and responsibilities in the assessment process, and
- Suggests ways to supplement existing control documentation that may be deficient.


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Monitoring - #5
Minimum Requirements

To demonstrate that the *Monitoring* internal control component is established and fully functioning, the agency must meet the following minimum requirements:

- Document and assess the effectiveness of the agency's monitoring activities.

(See Appendix A – Internal Control Assessment Guide, “Monitoring Assessment Tools”, pp. 58-59)

Commonwealth of Virginia (2015). Department of Accounts. Office of the Comptroller. Agency Risk Management and Internal Control Standards.
Pg. 35

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To demonstrate that the **Monitoring** Internal Control component is established and fully functioning, the agency must meet the following minimum requirements:

- Document and assess the effectiveness of the agency's monitoring activities.
- (See Appendix A – Internal Control Assessment Guide, “Monitoring Assessment Tools”, pages 58 and 59)
- Written documentation of controls, tests performed, and results should be maintained by the agency.

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Agency Level:

Assessment – Every 3 years or sooner

- Agency should repeat the Agency-Level Assessment at least every 3 years or sooner.
- The Agency should refresh and refine the Agency-Level control evaluation every year considering:
 - a. Any changes to the organization, its management, systems or functions from its prior implementations of ARMICS
 - b. Control issues identified internally from prior ARMICS reviews, DOA Quality Assurance Reviews (QARs), APA audits, or other sources

Commonwealth of Virginia (2015). Department of Accounts. Office of the Comptroller. CAPP Topic 10305. Topic: Internal Control. Section No. 10300 – Internal Control Guidance. Pg. 3

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After successful documentation and implementation of the *Agency-Level Assessment*, the agency should repeat the Agency-Level process at least every 3 years, if not sooner.

- In addition, the agency should refresh and refine the agency-level control evaluation every year, considering:
 - Any changes to the organization, its management, systems or functions since its prior implementations of ARMICS or if significant control issues were identified from a prior ARMICS review, DOA Quality Assurance Reviews (QARs), APA audit, or other sources.


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Transaction - Level

Annual Assessment (Stage 2)

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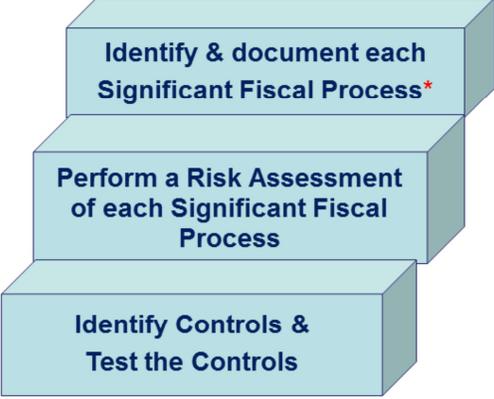
Transaction - Level

Annual Assessment (Stage 2)

Each agency must:

- DOCUMENT
- EVALUATE
- TEST

TRANSACTION-LEVEL CONTROLS



• NOTE: Monthly Reconciliations and CAFR Submissions must be included as a Significant Fiscal Process

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Once the Agency-Level Assessment has been performed, tested, and documented, agency management must complete the *Transaction-Level Assessment – Stage 2* annually.

- The Transaction-Level assessment requires agencies to Identify, Document, Evaluate, and Test the control activities related to the significant fiscal processes that generate transactions in CARDINAL, or in agency-based systems that transfer information to CARDINAL.
- Agencies should identify and list all of the significant fiscal processes which affect CARDINAL or the financial statement directive submissions.
- Agencies must include “Monthly Reconciliations” and “Financial Reporting in the CAFR” as significant fiscal processes.
- Agencies must conduct a Risk Assessment of each significant fiscal process identified.
- Then, agencies must identify controls for these significant fiscal processes, test the effectiveness of control activities, and document the results.

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Virginia Department of Accounts **Step 1: Identify Fiscal Process**

Identify & document each Significant Fiscal Process

- A. Understand the process – how transactions are initiated, authorized, processed and recorded.
- B. Identify those processes which post to and affect *CARDINAL*.
- C. List every deliverable required for compliance with the *Financial Statement Directive (CAFR)*.
- D. Prepare a “*List of Significant Fiscal Processes.*”

Commonwealth of Virginia (2015). Department of Accounts. Office of the Comptroller. Agency Risk Management and Internal Control Standards. Pg. 60-67

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When identifying agency fiscal processes:

- Agencies should understand all of their processes, how transactions are initiated, authorized, processed and recorded.
- Agencies should identify those significant processes which post to or affect *CARDINAL*.
- Identify every deliverable required for compliance with the Financial Statement Directive.
- Prepare a “List of Significant Fiscal Processes.”


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Step 2: Perform Risk Assessment



Perform a Risk Assessment of each Significant Fiscal Process

- A. Identify potential events or conditions that could have an impact on the functioning or outcome of the significant process.
- B. SWOT analysis should be employed again here at the transaction-level to classify events or conditions as either strengths, weaknesses, opportunities or threats.
- C. Assess the likelihood that the event(s) will occur and the impact that the occurrence would have on the agency.
- D. Agencies should then detail how they will respond to the risks associated with the fiscal process.

Commonwealth of Virginia (2015). Department of Accounts. Office of the Comptroller. Agency Risk Management and Internal Control Standards. Pg. 60-67

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Each state agency must identify and perform a Risk Assessment of each significant fiscal process as part of the documentation and assessment of control activities at the Transaction Level.

- Performing a Risk Assessment for each fiscal process involves identifying potential events or conditions that could have an impact on the functioning or outcome of the process.
- A SWOT analysis should be employed again here at the transaction-level to classify events or conditions as either strengths, weaknesses, opportunities or threats. Once relevant events or conditions have been identified and classified, the next step is to assess the likelihood that the event(s) will occur and the impact that the occurrence would have on the agency.
- Agencies should then detail how they will respond to the risks associated with the fiscal process. Possible responses are to avoid, reduce, share or accept the risk.
- Consideration of the mix of potential risk events relevant to the agency and its activities must be assessed in the context of the agency's risk profile, which includes size, operational complexity, and regulatory restraints.
- During the Risk Assessment process, agencies may consider asking questions such as:
 - What is our tone at the top and what business activities expose our agency to greatest risk? Are we monitoring our SWOT analysis and proactively taking corrective action to address weaknesses?
 - What could jeopardize our ability to meet financial obligations, and deliver accurate financial reporting?



- What policies, laws or regulations could be violated and/or result in non-compliance?
- Are staff following outdated procedures, exposing us to risk?
- Are our controls designed effectively? How could someone bypass internal controls? Have we received assurance of internal control from our business partners or third-party providers?
- What could go wrong? Is there a window of opportunity for fraud to occur?
- What potential risks could cause adverse publicity or reputational damage?

An effective Risk Assessment performed by the agency should help identify its risk exposure, risk profile, and risk response; evaluate its control activities in response to risks; and provide reasonable assurance that the Risk Assessment component is functioning as intended.

More detailed information on performing the Transaction-Level *Risk Assessments* is presented earlier on Slides 22 through 28.

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Virginia Department of Accounts **Step 3 : Identify & Test Controls**



A. Identify control activities for each fiscal process. A fiscal process may have control activities in multiple categories.

B. Test the control activities to ascertain if the activities are operating effectively.

C. Testing methods used and results of the tests of controls should be documented.

D. If a control is working in less than an optimal manner, reasons for deficiency should be investigated, documented, and if deemed a weakness, a corrective action plan must also be developed and documented.

Commonwealth of Virginia (2015). Department of Accounts. Office of the Comptroller. Agency Risk Management and Internal Control Standards.
Pg. 60-67

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When identifying and testing controls, the agency should:

- A. Identify control activities for each fiscal process. A fiscal process may have control activities in multiple categories.
- B. Test the control activities to ascertain if the activities are operating effectively.
- C. Document the testing methods used to test the controls, and the results of those tests.
- D. If a control is working in a less than optimal manner, the reasons for deficiency should be investigated, documented, and if deemed a weakness, a corrective action plan must also be developed and documented.


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Transaction-Level Testing Tips

Professional judgment should be used to ascertain how best to test controls, but a few examples include:

TESTING IN PROGRESS

- A. Inquiry and observation of personnel performing the controls.
- B. Inspection of relevant fiscal documentation.
- C. Walkthroughs of the fiscal process by the tester.
- D. Vouching or Tracing information by tracking from initial transaction to posting in Cardinal; and tracking information backward from Cardinal to source document.
- E. Re-performance of the process/transaction by the tester using agency procedures.
- F. Document testing methods used and the results of the tests of controls.
 - Reasons for any deficiency should be investigated.
 - If the deficiency is deemed to be an internal control weakness, a corrective action plan must also be developed and documented.

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Possible testing methods include:

- A. Inquiry and observation of personnel performing the controls.
- B. Inspection of relevant documentation.
- C. Walkthroughs of the fiscal process by the tester.
- D. *Vouching or tracing* information by tracking from initial transaction to posting in Cardinal; and tracking information backward from Cardinal to source document.
- E. Re-performance of the control by the tester using agency procedures.
- F. The testing methods used and the results of the tests of controls should be documented. If a control is found to be working in a less than optimal manner, reasons for the deficiency should be investigated. If the deficiency is deemed to be an internal control weakness, a corrective action plan must also be developed and documented.

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Transaction Level: Required Annual Testing (Stage 2)

- Agencies must monitor, update and retest the Transaction-Level controls **annually**
- Determine if any organizational OR functional changes require a re-evaluation of the fiscal processes determined to be significant
- For 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 CAP, should be tested to ensure the new or enhanced controls have addressed the internal control weakness

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When completing the annual Transaction-Level testing, the agency should update and retest the Transaction-Level controls every year, by:

- Determining if any organizational OR functional changes occurred which may require a re-evaluation of those processes that were previously determined to be significant for the agency.
- 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 action should be tested to ensure the new or enhanced controls have adequately addressed the internal control weakness in the prior year's corrective action plan.

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Quarterly Corrective Action Plan: (Stage 3)



Significant weaknesses in internal control that are identified through either the Agency-Level or Transaction-level assessments must be documented and a corrective action plan developed.

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.

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Significant weaknesses in internal control that are identified through either the Agency-Level or Transaction-Level assessments must be documented and a corrective action plan developed.

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.
- Agencies must provide Quarterly updates to DOA of the corrective action status until the corrective action is completed. The agency head must certify the final Corrective Action Plan.


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ARMICS Documentation

Formal documentation of the ARMICS assessment process, tests performed, AND results of the assessment MUST be maintained at the agency, and made available for review by the Department of Accounts and other appropriate parties.

(Electronic Files or Hard-Copy documentation is acceptable)

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Formal documentation of the annual ARMICS assessment process, tests performed, AND results of the assessment MUST be maintained at the agency, and made available for review by the Department of Accounts and other appropriate parties.


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ARMICS Certification and Required Attachments

- ARMICS annual certification must be submitted to the Department of Accounts by September 30th of each year based on the agency's June 30 status of ARMICS compliance
- Agencies may not certify compliance unless they have performed ARMICS in accordance with standards
- Annual Certification Statements are included as exhibits in CAPP Topic 10305
- Submission of other documents, as required

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- Each agency must certify annually on the status of Internal Control at its respective agency. The certification status is as of June 30; however, agencies have until September 30 (or the last business day, prior to September 30, if the due date falls on a weekend).
- Agencies cannot certify compliance unless they have conducted the annual ARMICS assessment in accordance with the Standards and met the minimum requirements.
- DOA provides Certification Statements that agencies can use to communicate the results of their Annual ARMICS assessments.
- Agencies may also be required to submit, if applicable:
 - A List of Insignificant Weaknesses,
 - A List of Significant Weaknesses,
 - A Corrective Action Plan, and
 - Other required documents.


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ARMICS Information

Located on the DOA website
ARMICS Standards:
[Agency Risk Management and Internal Control Standards](#)

CAPP Manual Topic 10305 (Internal Control):
[CAPP Topics Cardinal/10305.pdf](#)

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The ARMICS standards and CAPP Topic 10305, Internal Control, are all located on DOA's website under the "Reference" tab.



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ARMICS ONLINE TOOLS

Located on DOA's Website

- **ARMICS Review Checklist** (Checklist of areas to consider while performing the Annual ARMICS assessment)
- **ARMICS Questionnaires** (Surveys to gain insight and feedback from agency staff)
- **ARMICS FAQs** (Quick answers to typical agency questions)

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There are online tools available on DOA's website that assist with the ARMICS process; however, the use of these tools is not required.

- The ARMICS Review Checklist is a checklist of areas to consider while performing the Annual ARMICS assessment.
- The ARMICS Questionnaires are Surveys to gain insight and feedback from agency staff.
- The ARMICS FAQs are Quick answers to typical agency questions.

Keep in mind, these Online Tools do not substitute for the agency's independent verification of the existence of controls, nor do they replace required testing, to determine if a control is functioning adequately.

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DOA
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ACFE: 2018 “Report to the Nations”

**INTERNAL CONTROL WEAKNESSES
WERE RESPONSIBLE FOR NEARLY
HALF OF FRAUDS**



2018 Report to the Nations. Copyright 2018 by the Association of Certified Fraud Examiners, Inc.

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As we conclude this training, a few statistics are provided on the need for Internal Control: In the *Association of Certified Fraud Examiners* “2018 Report to the Nations,” the Association studied over 2,000 cases of occupational fraud in 125 countries, and 23 different industries.

The results of the study show that:

- Internal Control Weaknesses were responsible for nearly half of all frauds.
- The Government and Public Administration industry represented 201 of the cases studied, with Median Losses related to fraud averaging \$125,000.
- These statistics convey the need for Internal Control and the importance of Internal Control in our organizations and every state agency.

 Financial Accountability. Reporting Excellence.
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Best Managed State in the
Nation

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WHAT IS THE OVERALL HEALTH OF YOUR AGENCY'S INTERNAL CONTROL SYSTEM?

WHAT ROLE WILL YOUR AGENCY PLAY IN ACHIEVING ITS OBJECTIVES?

WHAT ROLE WILL YOUR AGENCY TAKE IN VIRGINIA ACHIEVING ITS LONG-TERM OBJECTIVE OF BEING THE BEST-MANAGED STATE?

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This is a list of several sources for information pertaining to internal control.



The slide features a blue header with the DOA logo and the text "Virginia Department of Accounts" on the left, and "Financial Accountability. Reporting Excellence." on the right. The main content area is split: the left side shows a photograph of classical columns with a small DOA logo and text at the bottom; the right side is a dark blue box containing the text "AGENCY RISK MANAGEMENT & INTERNAL CONTROL STANDARDS" in white and red, followed by "ARMICS TRAINING FOR STATE AGENCY FISCAL OFFICERS, MANAGERS, and STAFF" in yellow and white. A footer at the bottom right of the slide contains the number "61".

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