



# Agency Risk Management and Internal Control Standards (ARMICS)

Finance, Investment and Property Committee of the  
Board of Visitors  
May 17, 2007

# New Emphasis on Internal Controls

- The Sarbanes-Oxley Act of 2002 is now impacting the public sector.
- Auditing profession has a new standard related to internal controls - lowers the bar on internal control weaknesses reported by auditors.
- Commonwealth of Virginia Comptroller has mandated internal control assessments at agencies and institutions –*Agency Risk Management and Internal Control Standards* – ARMICS.

# Internal Control Objectives

- Effective and efficient operations
- Reliable financial reporting
- Compliance with laws and regulations
- Safeguarding assets

# Characteristics of Good Internal Controls

- Institutional commitment to integrity and ethics
- Management's commitment to professional and technical competence
- Organizational structure appropriate to carry out the missions
- Clear assignment of authority and responsibility
- Evaluation of risks
- Effective information and communication systems
- Comprehensive policies and procedures
- Continual monitoring

# Responsibility for Internal Controls

- Management is responsible for the design, implementation, monitoring, and testing of internal controls. . . not the internal audit department.
- Internal control responsibility is at all levels of the institution
  - Board of Visitors
  - President and Vice Presidents
  - Deans, Directors, Department Heads
  - Supervisors
  - Employees

# Internal Controls Affect All Areas of the University

- Governing Boards – Board of Visitors provides oversight, sets expectations on the control environment, and monitors performance.
- Management – President, Vice Presidents, Deans, Department Heads, Supervisors – must set the tone and be committed to internal controls.
- Employee responsibilities must be clear at all levels affecting financial systems – from departmental administrators, to principal investigators, to corporate purchasing card holders, to central office staff.
- Departments must document procedures, ensure proper internal controls, and comply with established policies and procedures.
- Central units must implement, review, and test controls.

# State Internal Control Requirements: ARMICS

- Comptroller Directive 1-07 – issued in Nov. 2006 sets out 3 stages:
  - 1: Agency-Level Internal Control Assessment - due Sept. 30, 2007
  - 2: Process and Transaction-Level Internal Control Assessment - due Mar. 31, 2008
  - 3: Corrective Action Plan - due June 30, 2008
  - Each stage requires certification by President and CFO, as well as disclosure of deficiencies.
  - After this initial review, ARMICS will be a continuing process.
- Emphasis on:
  - Fiscal processes and financial statements
  - Compliance with laws and regulations
  - Stewardship over assets
- VCU Controller's Office will coordinate ARMICS.

# Stage 1: Agency Level Controls Focus on the Institution

- University must document and test the control environment – at all levels, including schools and departments.
  - Are ethics and integrity key components of the institution?
  - Are employees expected to do the right thing?
  - Are job descriptions current, accurate and understood? Do they include specific reference to internal controls?
  - Is there adequate supervisor and managerial oversight?
  - Are sufficient resources allocated to key functions / activities?
  - Are there mechanisms to inform management of events with considerable risks?
  - Are there clear channels of communication? Are there ways to report suspected improprieties?
  - Are there policies and procedures? Are they being followed?
  - Is management held accountable for monitoring staff? Are staff held accountable for monitoring their own activities?

# Agency Level Controls

- Oversight Team will assess agency level controls:
  - Identify and describe University and executive level controls
  - Identify weaknesses and areas for improvement
  - Assist in the development of methods to test the control's effectiveness
  - Evaluate results of test
  - Assist in scoring effectiveness of the controls
  - Develop strategies to improve the controls
- Key areas to be reviewed:
  - Integrity and ethical values
  - Management's commitment to professional/technical competence
  - Organizational structure
  - Assignment of authority and responsibility
  - Human resource standards
  - Risk assessment
  - Information and communication
  - Monitoring

## Stage 2: Process Assessment Focuses on Financial Processes and Transactions

- Process/transaction level assessment:
  - Identify and document significant fiscal processes
  - Perform risk assessment
  - Identify control activities
  - Test effectiveness of control activities and document the results
- Key areas: cash receipts, disbursements, procurement, grants management, effort reporting, journal vouchers/chargebacks, fixed assets, payroll and leave accounting, student billings, financial statements, and security.
- Includes departmental, as well as central units' activities – from the initiation of a transaction, to recording in Banner, to the University's financial statements.
- Assurance Services will assist in the initial ARMICS evaluation and testing in several key areas.

## Stage 3: Reporting Deficiencies

- Deficiencies must be disclosed to the State with March 2008 certification.
- Corrective action plan must submitted by June 2008 including:
  - Description of deficiency and when identified
  - Target date for completion of corrective action
  - Personnel responsible for monitoring progress
  - Indicators/statistics used to monitor progress
  - Target to indicate deficiency corrected
- State Department of Accounts (DOA) and the Auditor of Public Accounts (APA) are expected to review any documentation related to ARMICS – both at the department and central unit levels.

# Status

- Controller's Office has developed detail work plan, key dates, and training materials/tools for departments to document their individual processes.
  - Stage 1: Oversight Committee being established to assess agency control environment.
  - Stage 2: Central units and Assurance Services are documenting and assessing key financial processes; testing will begin this summer.
- Management is stressing the importance of internal control requirements for employees with financial and administrative responsibilities and showing its commitment for the ARMICS process. Reinforcing University documents that set the tone:
  - University Code of Ethics [www.vcu.edu/president/ethics/index.html](http://www.vcu.edu/president/ethics/index.html)
  - Code of Conduct for Business Practices [www.finance.vcu.edu/pdfs/codeofconduct.pdf](http://www.finance.vcu.edu/pdfs/codeofconduct.pdf)
  - Reporting Compliance Concerns [www.toolkit.vcu.edu/ComplianceConcernsProcedure.pdf](http://www.toolkit.vcu.edu/ComplianceConcernsProcedure.pdf)