

Agency Risk Management and Internal Control Standards

Presentation to the Board of Visitors

November 14, 2014

ARMICS

Comptroller's Directive No. 1-07

(The Commonwealth's version of the Sarbanes Oxley Act)

“...provides guidance for establishing and assessing agency internal controls in order to more effectively manage risk and maintain accountability.”

ARMICS Definition:

Ongoing process led by agency head to design and provide reasonable assurance that these types of objectives will be achieved:

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

Objective of ARMICS

To provide reasonable assurance of the integrity of all fiscal processes related to:

- Transactions submitted to the Commonwealth's general ledger
- Deliverables required by financial statement directives
- Compliance with laws and regulations
- Stewardship over and safeguarding the Commonwealth's assets

In short, to ensure fiscal accountability and safeguard the Commonwealth's assets.

ARMICS Control Objectives

1. Strategic – to support “being recognized as the best-managed state in the nation” through internal control best practice
2. Operational – effective and efficient use of fiscal resources and other assets
3. Reporting – integrity and reliability of financial reporting
4. Compliance – compliance with applicable laws and regulations
5. Stewardship – protection and conservation of assets

Components of Internal Control

Control Environment

Risk Assessment

Control Activities

Information and Communication

Monitoring

Control Environment

- ✓ Management Philosophy
- ✓ Reasonable Risk
- ✓ Oversight by the BOV
- ✓ Integrity and ethical values
- ✓ Promoting ethics & appropriate conduct
- ✓ Organizational structure
- ✓ Assignment of authority and responsibility
- ✓ Work force competence
- ✓ Employee development

Risk Assessment

- The process of analyzing potential events and considering their likelihood and impact in order to determine those events' possible affect on the achievement of UMW's objectives
- Management considers the mix of potential events, both expected and unexpected, relevant to UMW and its activities in the context of the UMW's risk profile
- Many expected events are routine, recurring and already in UMW's programs and budgets
- Management must assess the risk of unexpected potential events
- Risk assessment is a continuous and repetitive interplay of actions occurring throughout UMW

Control Activities

- Policies and procedures implemented to help ensure that risk responses are effectively completed
- Occur across UMW
- Range of activities
- Managers set up control activities to provide reasonable assurance that their objectives are met
- Categorized by the nature of the objectives to which they relate

Information and Communication

- Involves identifying, capturing and communicating relevant information
- Effective communications occurs down, across and up the agency
- From top management that internal control responsibilities must be taken seriously
- Handle risks, provide services and achieve its objectives
- Information enables change management strategy
- Information without communication has no value

Monitoring

- The process of assessing the presence, functioning and continuous improvement of internal control components
- Accomplished through ongoing management activities and/or separate evaluations
- Examined from three perspectives:
 - Ongoing activities
 - Separate comprehensive evaluations
 - Special ad hoc evaluations

ROLES AND RESPONSIBILITIES

Group	Roles/Responsibilities
BOV & President	<ul style="list-style-type: none">▪ Assume ownership for internal control philosophy▪ Provide visible and audible support for internal control issues and provide the muscle for enforcement▪ Certify ARMICS compliance to DOA
Executive Staff/ Department Directors	<ul style="list-style-type: none">▪ Support the internal control philosophy, promote compliance and maintain control within divisions▪ Responsible for compliance with non-financial aspects of laws, directives, policies, procedures and the code of ethics▪ Complete Internal Control Self-Assessment and consider/document gaps and improvement opportunities resulting from the risk assessment