

Agency Risk Management and Internal Control Standards



COMPTROLLER'S DIRECTIVE NO. 1-07

**EACH EMPLOYEE HERE AT THE UNIVERSITY
OF MARY WASHINGTON HAS AN INTERNAL
CONTROL RESPONSIBILITY**

ARMICS



ARMICS is the Commonwealth's version of the Federal Sarbanes-Oxley Act of 2002, and is mandated by the Virginia Department of Accounts (DOA).

Provides guidance for establishing and assessing agency internal controls in order to:

- More effectively manage risk
- Maintain accountability

The objective of ARMICS is to provide reasonable assurance of the integrity of all fiscal processes related to the following:

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

ARMICS



The review process is performed January – June. The assessment of the University of Mary Washington’s internal controls must be completed before June 30, 2011.

The review process consist of:

- Policies and procedures are reviewed
- Internal controls are evaluated
- Audit work is performed
- Any applicable recommendations are made

UMW executives and managers must support UMW’s internal control philosophy, promote compliance, and maintain control in their area of responsibility.

The Vice President for Administration and Finance & CFO and Associate Vice President for Finance and Controller are responsible for the key oversight and policy enforcement roles over fiscal matters

ARMICS



What are policies and procedures?

A policy answers the overarching questions as to why we do things. It should be short - one to two pages max - and speak to the purpose of why the individual departments exist.

An external procedure is one that we develop and set for others to follow.

An internal procedure (also called desk procedures) is one that we develop and set to get our jobs done on a day to day basis (internally).

ARMICS



What is an internal control?

An internal control provides accountability for meeting program objectives, promotes operational efficiency, improves the reliability of financial statements, strengthens compliance with laws and regulations, and reduces the risk of financial or other asset loss due to fraud, waste, and abuse.

An internal control is also an ongoing process which designs and provides reasonable assurance that the following objectives are met:

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

ARMICS



Effective System of Internal Control

- Provides accountability for meeting program objectives
- Promotes operational efficiency
- Improves the reliability of financial statements
- Strengthens compliance with applicable laws and regulations
- Reduces the risk of financial or other asset losses due to fraud, waste, or abuse

ARMICS



The Commonwealth has developed standards and mandates that ARMICS reviews be completed to achieve the following five objectives:

- 1. Strategic – to support “being recognized as the best managed state in the nation” through internal control 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**

The University of Mary Washington examines internal controls and documentation at two levels:

- The University level – broad over arching internal controls, policies, and procedures**
- The Departmental level – more specific internal controls focusing more on individual transactions and departmental operations**

ARMICS – University Level



For the University of Mary Washington to meet the Commonwealth's standards, we must demonstrate that the University has the following five internal control components established and fully functioning:

1. Control Environment
2. Risk Assessment
3. Control Activities
4. Information and Communication
5. Monitoring

ARMICS – University Level



University Level Survey

An electronic survey is sent to random sample of the entire University employee population.

Survey participants will be asked a variety of questions pertinent to the five internal control components mentioned on the previous slide.

Survey participants will have the following options when responding:

- Strongly Agree
- Agree
- Disagree
- Strongly Disagree
- N/A

ARMICS – University Level



Control Environment

Internal control requires an adequate “Control Environment” foundation. The environment reflects top management’s expectations for how seriously agency employees should view and execute their fiduciary responsibilities. For example:

- Management philosophy
- Reasonable risk
- Oversight by the Board of Visitors
- Integrity and ethical values
- Promoting ethics and appropriate conduct
- Organizational structure
- Assignment of authority and responsibility
- Work force competence
- Employee development

ARMICS – University Level



Risk Assessment

Risk assessment analyzes potential events and considers their likelihood and impact in order to determine those events' possible affect on the achievement of UMW's objectives. For example:

- The mix of potential events, both expected and unexpected, are relevant to UMW and its activities in the context of the UMW's risk profile.
- Expected events are routine, and already in UMW's programs and budgets.
- The risk of unexpected potential events is assessed and considered.

A risk assessment is a continuous process, and a repetitive interplay of actions occurring throughout UMW.

ARMICS – University Level



Control Activities

Control Activities are policies and procedures which are implemented to help ensure that risk responses are effectively completed. **Control Activities:**

- Occur across UMW, at all levels and in all functions.
- Range in activities such as: approvals, authorizations, verifications, reconciliations, security over assets and segregation of duties.
- Provide reasonable assurance that their objectives are met.
- Categorized by the nature of the objectives to which they relate.

Control Activities can be:

- As simple as listing tasks assigned to staff members, and then occasionally checking to verify completion on time.
- As complex as duties spread across multiple departments to complete a portion of one task.

ARMICS – University Level



Information and Communication

The Information and Communication component of ARMICS focuses on how relevant information is identified, captured, and communicated in a form and timeframe that enables employees to carry out their responsibilities.

- An effective information and communication process will assure that all personnel receive a clear message from top management that internal control responsibilities must be taken seriously.
- UMW needs information to handle risks, provide services, and achieve its objectives.
- Quantitative and qualitative information comes from internal and external sources.
- Information enables change management strategy, identifying events, analyzing risks, selecting risk responses, and performing other management activities.
- Information without communication has no value.

ARMICS – University Level



Monitoring

The Monitoring component of ARMICS assesses the functioning and continuous improvement of internal control components throughout the University. This can only be successfully accomplished through ongoing management activities and/or separate evaluations.

Examined from the three perspectives:

- Ongoing activities
- Separate comprehensive evaluations
- Special ad hoc evaluations

ARMICS – Departmental Level



Departmental Level Survey

Departments which process fiscal transactions will be required to complete an ARMICS survey annually.

Each survey will be tailored based on the nature of the department's fiscal processes.

Survey participants will have the following options when responding:

- 1 – Policy and procedure documentation is very limited
- 2 – Policy and procedure documentation is sporadic or in draft form
- 3 – There is approved comprehensive policy and procedure documentation available. It has been formally communicated, employees have been trained, but it is not being monitored or tested
- 4 – There is approved comprehensive policy and procedure documentation available. It has been formally communicated, employees have been trained, and it is being monitored or tested sporadically
- 5 – There is approved comprehensive policy and procedure documentation available. It has been formally communicated, employees have been trained, and it is being monitored or tested regularly in real time
- Not Applicable. This control either does not exist, cannot exist, or is not applicable to your department

NOTE: in order for survey respondents to score a 3 or above, policy or procedure documentation must exist. The name and location of the documentation must be noted on the survey when scoring a 3 or above.

ARMICS – Departmental Level



Departmental Survey Information

Department heads will be responsible for the survey; however, the survey questions can be delegated to different employees within the department as needed.

Each survey will be accompanied by the following resources:

- ARMICS Glossary: lists and defines the more commonly used phrases in the ARMICS survey
- Types of Control Activities: identifies and defines the different types of Control Activities used to help ensure the risk responses are effectively carried out
- Sections Described: identifies and briefly summarizes the different sections of the ARMICS survey
- ARMICS Scoring Tool: assists survey respondents in determining a score as needed

ARMICS



Thank you for your cooperation on this important project for the University of Mary Washington and the Commonwealth of Virginia.

Please remember to have your completed ARMICS survey emailed to Laura Tabler-Allison (ltabler@umw.edu) no later March 18, 2011.

Feel free to contact Laura with any questions or concerns.