November 15, 2006

MEMORANDUM

TO: Heads of All State Agencies and Institutions

FROM: David A. Von Moll

SUBJECT: Comptroller’s Directive No. 1-07 and Agency Risk Management and Internal Control Standards

In September 2005, the Department of Accounts issued draft *Agency Risk Management and Internal Control Standards* (Standards) for comment. After carefully considering the many thoughtful comments offered by agency heads and financial managers, an extensive revision of the Standards is complete. The Standards are now implemented through Comptroller’s Directive No. 1-07. The implementation Directive and Standards, including the Internal Control Assessment Guide, control questionnaires and example business process control assessment (Standards Appendices), are linked to our web site at [http://www.doa.virginia.gov/AICCO/ARMICS/ARMICS_Main.cfm](http://www.doa.virginia.gov/AICCO/ARMICS/ARMICS_Main.cfm).

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

Responsibility for implementing these Standards begins with you, the agency head, and extends to everyone in your agency or institution. Although agency chief financial officers share leadership responsibility for financial management, legal and regulatory
compliance, and stewardship over assets, you as the agency head retain ultimate responsibility for risk management and internal control over all agency programs.

As background, the Sarbanes-Oxley Act of 2002 (SOX) was enacted (after a surge in major private sector frauds) to establish comprehensive internal control requirements designed to restore trust in publicly traded companies. In December 2004, the U. S. Office of Management and Budget issued revised Circular A-123 mandating SOX-like risk management and control requirements for Federal agencies. Although SOX and A-123 do not apply directly to state government, as Federal managers implement the revised requirements, states and localities will feel the impact through new Federal grant program regulations.

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

Public sector focus on internal control continues to grow as governments become more complex, as citizens demand more accountability and as audit standards become more stringent. As we collaborate to institutionalize these Standards across state government, we will enhance Virginia’s reputation for leadership and excellence in governmental financial management. To help ensure your success in this effort, we will soon provide additional information regarding training courses and consulting resources that can assist with your implementation.

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

Enclosures
DAV/iar

c: Cabinet Secretaries
   Richard D. Brown, Director, Department of Planning and Budget
   Walter J. Kucharski, Auditor of Public Accounts
   Lewis R. McCabe, Assistant Comptroller, Department of Accounts
   Ronald D. Necessary, Director, Accounting and Internal Control Compliance Oversight Unit, Department of Accounts
   Fiscal Officers of State Agencies and Institutions
   Internal Audit Directors of State Agencies and Institutions