



Health Sciences and ARMICS

Agency Risk Management
& Internal Control Standards

New Emphasis on Internal Controls

- The Sarbanes-Oxley Act of 2002 is now impacting the public sector
- Auditing profession has 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 – ARMICS
 - Comptroller's Directive No. 1-07 and Agency Risk Management & Internal Control Standards

Source: VCU Controller's Office

Commonwealth's Vision Statement

"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."

“Although discussion of ‘internal control’ has long standing with accountants and auditors, all of agency management should know, understand, embrace, and implement these standards. The standards must be applied to all government activities that involve the state’s assets, accounting, and financial reporting.”

Agency Risk Management And Internal Control Standards

Published by the Office of the State Comptroller

November 15, 2006

The Purpose of Internal Controls

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

- Submission of transactions to the Commonwealth's general ledger
- Submission of deliverables required by financial statement directives
- Compliance with laws and regulations
- Stewardship over and safeguarding the Commonwealth's/University's assets
- To ensure fiscal accountability

Higher Level of Accountability

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

Who Is Responsible?

Responsibility for internal controls is shared

- Governing Boards
- Executive Management (Agency Heads)
- Senior and Line Management (including CFOs, Deans, Chairs and Fiscal Officers)
- Supervisors
- Staff

Everyone shares in the responsibility at VCU!

ARMICS Affects All Areas of the University

- Management – President, Vice Presidents, Deans, Department Head, 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 central offices.
- Departments must document procedures, ensure proper internal controls, and comply with established policies and procedures.
- Central units must implement, review, and test controls.

Expected Outcome?

- Stewardship over VCU's assets
- Maintain the public's trust in the University's financial dealings
- Maintain "best practices"
- Actively managing risks
- Review internal operations and recognize areas where improvement is needed
- Develop and implement a corrective action plan

ARMICS Stages

State Comptroller Directive 1-07, issued November 15, 2006 - 3 stages

- Stage 1: Agency-Level Internal Control Assessment – due September 30, 2007
- Stage 2: Process and Transaction-Level Internal Control Assessment – due March 31, 2008
- Stage 3: Corrective Action Plan – due June 30, 2008

ARMICS Stages

- Each stage requires certification by President and CFO as well as disclosure of deficiencies
- After this initial review, ARMICS will be a continuing process. Documentation must be maintained and updated as processes and personnel change.

Where is the Emphasis?

- Effective and efficient operations
- Reliable fiscal processes and financial statements
- Compliance with laws and regulations -
Federal, State, University
- Stewardship over assets
- Ethical behavior

Health Sciences Schedule

Functional areas on the Health Science Campus complete Process Control Activity Assessment Forms by 12/20/07 for any activity where there is a financial risk.

Some examples:

Cash Receipts	HR/Payroll
Procurement > 5,000	Procurement < 5,000
Petty Cash	Purchase Card
Fixed Assets	Travel/Direct Pays
Billing	Charge-backs – supplies
Service Centers	Tuition Awards
Federal grants management	Cash disbursements

Process Level Assessment

- Process/transaction level assessment:
 - Identify and document significant fiscal processes – anything that impacts the State's general ledger
 - Perform a risk assessment
 - Identify control activities
 - Test effectiveness of control activities and document the results
- Includes departmental activities as well as central units – from the initiation of a transaction to recording in Banner to the University's financial statements.

Risk Assessment and Monitoring

- The Office of the Vice President for Health Sciences, Assurance Services and the Office of the Controller at VCU will assist in the initial ARMICS evaluation and testing of key areas beginning in December and continuing through March 2008.
- Review and assessment of internal controls will be an on-going process at VCU.

What Is “Testing”?

- Departments/functional units complete a Process Control Activity Assessment (PCAA) form for tasks and identify potential risks and internal control activities in place to prevent the risk event.
- Departments maintain a notebook of PCAA forms and each staff member performing the task keeps a copy of the PCAA.
- Forms are updated as processes and personnel change.

What Is “Testing”? (con't)

- The purpose of testing or monitoring is to determine if accounting processes are complete, accurate, current and effective.
 - Is enough detail provided to ensure the process can be understood?
 - Does the PCAA form address all fiscal processes?
 - Are manuals or applicable portions thereof distributed to all personnel needing access?
 - Do staff know how to locate VCU policies and procedures?
 - Are internal policies and procedures documented and accessible to staff?
 - Are staff members properly trained?

What Are Some Risks?

- Insufficient direction is provided to non-fiscal office personnel who have an impact on fiscal processes. Example: travel authorizations and approvals, purchasing approvals, initial coding, etc.
- Internal policies and procedures are not documented and/or clearly communicated to staff
- Staff member does not maintain skills through available training and accessing University resources

Additional Risks

- Are employees receiving enough information to adequately perform their duties?
 - Is information flow adequate?
 - Is information communicated in a timely manner?
 - Dissemination of information is done as efficiently as possible?
 - Is sensitive or classified information handled appropriately?
 - Are staff provided feedback?
 - Does everyone take ownership of their role in the process?



Where do we begin?

VCU Health Sciences

Virginia Commonwealth University

The Health Sciences Plan

- Under the guidance of the Vice President for Health Sciences, the campus is approaching the ARMICS project as a team.
- Cindy Cull is the campus coordinator for ARMICS.
- The Health Science Campus web site will provide information and guidance as functional areas work through the process.

<http://blog.vcu.edu/vphsweb/>

This site will be moved to a permanent address in January, 2008.

Starting Point – The Forms

- The Office of the Vice President has assembled several Process Control Activity Assessment forms for basic tasks. The forms are available for download on the VPHS web site, along with a blank Process Control Activity Assessment form in Excel format.

<http://blog.vcu.edu/vphsweb/>

- Cash Receipts, Procurement > 5,000, Budget Entry, Journal Voucher, Purchasing Card, Travel, Petty Cash, HR-New Hires, HR-Labor Distribution, HR-Overtime, HR-Terminations
- Additional form examples will be added
- Functional areas are asked to share forms with the VPHS Office as they are developed
- The forms are a template, a starting point for a department/functional area.

Department Name: _____

Date: _____

Contact Name: _____

Contact Phone #: _____

**Contact is the departmental
fiscal administrator or senior
financial officer**

These sections will be completed by
Central Units

PROCESS CONTROL ACTIVITY ASSESSMENT

**** Task Title ****

Task	Potential Risk Event	Potential Problem or Misstatement	Risk Event Likelihood & Response	Control Activities	Control Objectives	Test of Control	Control Test Results
<p>Begin task with the position title of the person performing the task. Ex.: The fiscal technician enters the journal voucher information in Banner. For the Control Activity, what position performs the control activity? Ex.: The fiscal technician senior reviews and approves the journal voucher in Banner.</p>							

Employee(s) performing the task: _____

Employee's supervisor(s): _____

Remember This

Brevity & Clarity

- The form isn't a position description.
- Use brief statements, short and to the point.
- No fluff needed – be clear and concise.
- Less is more.
- Only include tasks, risk events where there is a financial impact to the University's financial statements.

Keep It Simple

- For a few days, ask staff to briefly write down the tasks they perform – very short statements. Include all employees involved in any activity with financial impact.
- Review the list and cross off any tasks where there is no financial risk or impact.
- List potential risk events and rate the likelihood (low, medium, high).
- Pass the list to the supervisor who adds control activities in place to minimize risks and adds the control objective.

Keep It Simple (con't)

- Statements should be brief and to the point.
- Forms may include a few tasks associated with one job function or may list only one task per form.
- A task may have one potential risk event or several.
- For a risk event, there may be only one control activity or several in place.

Department Name:							Date:	
Contact Name:								
Contact Phone #:							These sections will be completed by Central Units	

PROCESS CONTROL ACTIVITY ASSESSMENT

Procurement > 5,000

Task	Potential Risk Event	Potential Problem or Misstatement	Risk Event Likelihood & Response	Control Activities	Control Objectives	Test of Control	Control Test Results
Requisitioner receives email or other paperwork requesting procurement. Log into EVA to create requisition.	Select incorrect EVA PO category code	Receive a charge from EVA	Medium	Separate approver required at the department level. Reviewed by Procurement & Payment.	State Reporting		
	Select wrong vendor or wrong vendor address	Inaccurate accounting records. Invoice sent directly to Accounts Payable will not match	Medium	Verified by department approver and Procurement & Payment.	Reliability of financial records		
	Detail PO lines not entered	Inaccurate accounting records; late vendor payment	Medium	Receiver will see that lines on PO do not match packing slip; Banner system will not process invoice	Compliance; reliability of financial records		

Risk Assessment

- Risk assessment is the process of analyzing potential events and determining what impact they may have on achieving objectives.
- For the task, can one avoid risk? Reduce risk? Share risk? Accept risk?
- A response to a given risk may include more than one technique or control activity.

Risk Assessment (con't)

- Avoiding risk means ending those activities that give rise to risk (i.e. eliminate a service)
- Reducing risk involves everyday management decisions, including the imposition of control activities
- Sharing risk transfers a portion of likelihood or impact to another party
- Acceptance means taking no action in response to risk, within parameters dictated by State/University policy. (cost versus benefit)

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 = high risk - mitigate or reduce the risk.

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

What Are Control Activities?

- Authorization
- Review and approval
- Verification
- Reconciliation
- Physical security over assets
- Segregation of duties
- Education, training, and coaching
- Performance planning and evaluation

Department Name:						Date:	
Contact Name:							
Contact Phone #:							These sections will be completed by Central Units

PROCESS CONTROL ACTIVITY ASSESSMENT

Cash Receipts

Task	Potential Risk Event	Potential Problem or Misstatement	Risk Event Likelihood & Response	Control Activities	Control Objectives	Test of Control	Control Test Results
Mail clerk opens mail, stamps check restricted for deposit into VCU account	Checks not stamped	Check lost or stolen	Low	Department policy is stressed when training employees; cash receipts clerk and supervisor verify that all checks have been stamped when preparing/reviewing deposit	Safeguarding assets		
Mail clerk completes check log, including check number, date, amount and vendor/agency	Checks not logged	Check misplaced or misappropriated	Medium	Lost/misappropriated check is discovered by review of outstanding invoices or revenue that is not recorded. Fiscal administrator reviews SAS status reports for accuracy.	Safeguarding assets		
	Incorrect check amount is recorded	Inaccurate accounting records	Medium	Cash receipts clerk verifies check amounts to log and brings discrepancies to supervisor's attention. Fiscal administrator reviews SAS status reports for accuracy.	Reliability of financial records		
Cash receipts clerk completes deposit slip; files a copy; notes deposit number beside each check on the log; places deposit slip and checks in logged bank bag and notes bag number on check log	Cash receipts clerk fails to include all checks in the deposit	Check is misplaced	Medium	Supervisor reviews deposit, verifies to check log and signs deposit slip; checks have been restrictively endorsed.	Safeguarding assets		

Examples of Control Activities

- Fixed asset custodian's supervisor randomly selects one item on the inventory and verifies its location once a month.
- To verify that journal vouchers are processed correctly, the fiscal administrator reviews the SAS Transaction Report once a week.
- E-Print financial reports are signed off on by the fiscal administrator each month.
- The supervisor reviews the check log and backup documents weekly.

Examples of Control Activities (con't)

- Employee training and education programs
- Periodic employee feedback and interview sessions
- Review and investigation of exception reports
- Review and reconciliation of SAS and Banner reports by supervisor

Next Step

- Fiscal administrator maintains notebook with all Process Control Activity Assessment forms in central location
- Notebook is available for testing by VCU, Assurance Services, VPHS Office
- Person performing task retains a copy of the forms for their tasks
- Forms are updated in both places as task, procedures, personnel change

Control Activity Documentation

- In the notebook, include organization charts for functional areas in the department (divisions, special units)
- Internal operating procedures and policies must be documented
- Description of key roles and responsibilities, authorities
- Delegation of authority documented
- Process flow charts may be added (optional)

Internal Policy Examples

Travel Process

- 1) Traveler completes travel authorization, signs and submits to Anatomy business office
- 2) Fiscal Asst reviews authorization and forwards to administrator for signature
- 3) Administrator reviews org and approves or returns if more information is needed
- 4) Out of country authorizations are approved by administrator and chair
- 5) TA is returned to fiscal asst
- 6) Fiscal asst prepays registration fees if requested on TA
- 7) TA is filed until reimbursement request is received from traveler

Purchasing:

1. Get order request form from requestor with PI signature on the page and form completely filled out.
2. Review order request form for accuracy and make sure everything is filled out and prices are clearly stated on form along with shipping costs.
3. Verify Index and Account number.
4. Verify if it is a EVA vendor or not.
5. Type up order as on request form.
6. The department Approver will then get a e-mail from EVA saying there is a purchase order that needs to be approved.
7. The department Approver goes into EVA and makes sure everything is correctly imputed in.
8. Department Approver then approves purchase order then prints it off.
9. The purchase order is then filed in the appropriate index.

Internal Policy Examples (con't)

Travel Reimbursements

- TR must be completed within 30 days of travel.
- Paper work to be included in travel packet
 1. Hotel receipt with zero balance
 2. Boarding pass
 3. Airport parking receipts
 4. Cab receipts, etc.
 5. Conf. agenda
- Travel Reimbursement voucher must be completed with traveler name, home address, banner id, traveler's signature, supervisor's signature, complete with correct amounts from receipts for reimbursing, print my name for certifying that all computations are correct along with my phone number, give index code and give explanations if requesting exceptions (examples: using internet service to get office emails, and hotel overage because conference hold at hotel and it reduced the cost of travel).
- Get VP signature if over the % rate (my case is Cindy or Alan).
- Made copies for my record and send originals to account payable.
- Check banner in a few days for payment.
- Keep paper work on file.

Travel Reimbursement:

1. Upon returning from trip the traveler comes to the Accounting Office to get appropriate paperwork to fill out.
2. Travel reimbursement paperwork is then returned to the Accounting Office along with receipts for Travel Coordinator to prepare reimbursement.
3. The Travel Coordinator then prepares the travel reimbursement form following state guidelines and verifying that proper documentation is attached.
4. The Travel Coordinator then contacts the traveler to go over travel reimbursement form then sign.
5. Travel Reimbursement form goes out for appropriate signatures. (i.e. Department, Dean and or VP)
6. Once everything is signed copies are made of the travel packet and originals get sent to Accounts Payable. The copy gets filed with the appropriate index.

Travel:

1. Faculty/staff complete a travel authorization form at least 14 days before planned travel, signing and dating.
2. Department travel coordinator reviews the travel authorization for accuracy.
3. Travel authorization is then forwarded to the appropriate designee's for signatures. (i.e. Department, Dean and or VP)
4. Then filed away until travel is taken.

Internal Policies and Processes

Internal policies and procedures must not conflict or circumvent Federal, State or University policies and procedures.

Wrap Up

- 3-ring binders are available in Room 209, Stephen Putney House
- Notebook cover and spine available for download on the VPHS website
 - Adobe Acrobat 5.0 and later
- ARMICS templates available on the VPHS web site

VCU Health Sciences

Virginia Commonwealth University

ARMICS:

**Agency Risk Management and
Internal Control Standards**

**Department of
Anatomy & Neurobiology**

Office of the Vice President for Health Sciences
Financial and Administrative Affairs

References

- Comptroller's Directive & Agency Risk Management & Internal Control Standards Manual
 - www.doa.virginia.gov/aicco/armics/
- VCU Policies and Procedures
 - www.controller.vcu.edu
- Human Resources Policies and Procedures
 - www.hr.vcu.edu
- Virginia State Government Policies and Procedures
 - www.doa.virginia.gov/admin_services/CAPP/

QUESTIONS?

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