I. PURPOSE

This operating procedure establishes internal controls to manage and safeguard the resources of the Department of Corrections, ensure policies and procedures are carried out as intended, and provide management with reasonable assurance that resources are being used as planned. (4-4027; 4-ACRS-7D-17; 4-APPFS-3D-23; 1-CTA-1B-02; 2-CO-1B-05)

II. COMPLIANCE

This operating procedure applies to all units operated by the Department of Corrections (DOC). Practices and procedures shall comply with applicable State and Federal laws and regulations, Board of Corrections policies and regulations, ACA standards, PREA standards, and DOC directives and operating procedures.

III. DEFINITIONS

Accounting Controls - Policies and procedures relating to authorization, processing, recording, and reporting of accounting transactions (operating within the broader environment of administrative controls)

Administrative Controls - The broader policies and procedures surrounding all activities carried out by officials to accomplish their objectives (e.g., planning, organization, productivity monitoring and improvement, and quality control)

Agency Fiscal Officer - The Business Manager at major institutions (including assigned field units), Support Services Manager at regional offices (including field units not assigned to major institutions), Business Manager at VCE, Operations Manager at the Academy for Staff Development, and the Chief Financial Officer for Central Office organizational units; the Director of Financial Services serves as the Community Corrections fiscal officer.

Agency Risk Management and Internal Control Standards (ARMICS) - Implementation and annual assessment of agency control systems in order to provide reasonable assurance of the integrity of fiscal processes related to the submission of transactions to the Commonwealth’s general ledger, submission of financial statement directive materials, compliance with laws and regulations, and stewardship over the Commonwealth’s assets

Commonwealth Accounting Policy and Procedure Manual (CAPP) - State accounting policies and procedures promulgated by the Virginia Department of Accounts to guide financial management processes for all state agencies

Internal Controls - Techniques or mechanisms installed in agency activities to ensure that specific objectives are achieved; internal controls will provide reasonable, but not absolute, assurance that the objectives will be accomplished. A control is detective, corrective, or preventative and is intended to be a "red flag" that signals problems that have occurred or may occur. The cost of such controls should not exceed the benefits (significant reductions in the risks of failing to achieve the objectives) to be derived from the controls.

Organizational Unit Head - The person occupying the highest position in a DOC unit, such as a correctional facility, regional office, probation and parole office, Virginia Correctional Enterprises (VCE),...
### Service Organization Control (SOC)

Reports provided by service organizations certifying the existence, adequacy, and success of internal controls related to fiscal processes associated with outsourced services; this report supports the annual agency certification for ARMICS.

### IV. PROCEDURE

#### A. Standards

- **Commonwealth Accounting Policy and Procedure Manual (CAPP), Topic 10305, Internal Control**, requires that all state agencies certify adherence to Agency Risk Management and Internal Control Standards (ARMICS) when developing and applying internal controls. These standards include, but are not limited to:

  1. **Documentation**
     - Financial and operational processes, including internal controls shall be clearly described in writing in an orderly manner by use of narrative form such as desk procedures and/or flowcharts.
     - Documentation shall be readily available in a secure central or limited number of designated locations.

  2. **Recording of Transactions**
     - Transactions shall be recorded as executed and shall be properly classified.

  3. **Execution of Transactions**
     - Independent evidence shall be maintained to document authorizations that are issued by persons acting within the scope of their authority, and transactions that conform to the terms of the authorizations.

  4. **Separation of Duties**
     - Key duties, such as authorizing, approving, and recording transactions; issuing or receiving assets; making payments; and reviewing or auditing of same shall be assigned to separate individuals to maximize the effectiveness of internal controls and to minimize the risk of loss.
     - Internal control depends largely on the elimination of opportunities to conceal errors or irregularities. This, in turn, depends on the assignment of work in such a manner that no one individual controls all phases of an activity or transaction, thereby creating a situation that would permit errors or irregularities to go undetected.

  5. **Supervision**
     - The Organizational Unit Head and Agency Fiscal Officer should develop and educate staff on internal controls that apply to their functional area.
     - Qualified and continuous supervision shall be provided to ensure that approved procedures are followed.
     - Lines of responsibility and accountability shall be clearly defined.

  6. **Access to Resources**
     - Access to resources, whether monetary, written or electronic, shall be limited to authorized personnel.
       - Access to resources includes but is not limited to information technology access, access to data, P-card, Voyager, lease privileges etc.
       - Access includes both direct physical access and indirect access through the preparation or processing of documents that authorize the use of and disposition of resources.
     - Periodic comparison shall be made of the resources used with the recorded accountability of the use to detect any discrepancy.

  7. **Competent Personnel**
     - Reasonable care shall be taken to ensure that key personnel have high standards of integrity and are competent.
b. This assurance can be achieved by education, training, and relevant experience.
   i. The agency fiscal officer should have appropriate professional qualifications, including at a
      minimum a bachelor’s degree in business administration or a related field and three or more
      years of demonstrated supervisory and administrative experience. The degree requirement
      may be satisfied by completion of a career development program that includes work-related
      experience, training, or college credits at a level of achievement equivalent to the bachelor’s
      degree. (4-4026)
   ii. To assist in this goal, the DOC provides various courses through the Academy for Staff
       Development and the Academy at Marion.

c. COV §53.1-13 requires proper bonds of all agents and employees who handle any funds which
   come into custody of the DOC. The Virginia Department of the Treasury, Division of Risk
   Management, operates the Faithful Performance of Duty Bond and Blanket Fidelity/Crime Bond
   programs for state agencies. (4-4027, 4-4041; 4-ACRS-7D-17; 4-APPFS-3D-27; 2-CO-1B-05, 2-
   CO-1B-11; 1-CTA-1B-02, 1-CTA-1B-09)

8. Records
   a. Procedures shall be implemented to ensure that records, regardless of medium, are secure from
      unauthorized use, alteration or destruction.
   b. All fiscal records shall be retained in accordance with the policies and disposition schedules of
      the Library of Virginia Records Retention and Disposition Schedule and be readily auditable.

B. Organizational Controls

1. The Organizational Unit Head is responsible for fiscal policy, management, and control. Management of fiscal operations may be delegated to a designated staff person (Agency Fiscal Officer). (4-4025; 4-ACRS-7D-16)

2. The Organizational Unit Head and Agency Fiscal Officer should develop and educate staff on internal controls that apply to their functional area.

3. Organizational Unit Heads are required to strive to maintain, at all times, adequate accounting and administrative controls relating to areas under their supervision.

4. Each employee is responsible for knowing and applying internal controls.
   a. Documentation of all staff authorized to approve transactions for business units codes 701,756,
      757, 761, 766, 767, 795, and 799 will be submitted to the DOC General Accounting Unit by June
      15th of each fiscal year for the upcoming fiscal year with the original General Accounting
      Authorization Signatories 210 F11.
   b. Each business unit will report any changes to the list of authorized signatories within a fiscal year
      to the DOC General Accounting Unit by submitting an updated original General Accounting
      Authorization Signatories 210 F11 within 30 days of the change.
   c. Business Units responsible for multiple department codes (cost codes) should attach a list of
      applicable business unit codes to the form.

5. The Organizational Unit Head and Agency Fiscal Officer must be able to demonstrate that adequate controls are in place, or, identify where internal controls are not adequate and the actions being taken to overcome such deficiencies.

C. DOC Controls - All operating procedures should be formally reviewed annually and updated as necessary in accordance with Operating Procedure 001.1, Operating Procedure Development.

D. Internal Auditing (see Operating Procedure 030.2, Internal Auditing)

1. The Internal Audit Unit performs a formalized risk assessment that is reviewed and updated with the
   completion of each audit. The risk assessment serves as the basis for audit planning.
2. The Internal Audit Unit conducts audits to review internal controls; prepares audit reports for the
   responsible executive team member containing findings and recommendations; requests action plans
in response to the findings and recommendations; and reviews the action plans for appropriate corrective actions.

E. Service Organization Control (SOC) Reports

1. Service Organization Control (SOC) Reports are necessary to provide assurance about controls in place and in use at services organizations with which the DOC conducts business. The assurance should address whether adequate controls are used related to security, availability and processing integrity of the systems employed by the service organizations which impact user information, confidentiality or privacy.

2. Annual SOC reports provide a level of oversight of the service organization and status of its fiscal activities as part of the annual ARMICS certification.

3. The Internal Audit Unit should provide assistance to the General Accounting Unit as part of the ARMICS annual certification process through performance of a review of the SOC reports and external independent audit reports of the service organizations.

4. Organizational Unit Heads should include as part of the procurement process whether a Service Organization Control (SOC) report or external audit report is required to provide appropriate fiscal assurances. Contact the Headquarters Procurement Office for assistance to determine applicability.

5. Where it has been determined that a SOC Report is needed, service organizations may submit an annual external independent financial audit in lieu of the SOC report provided it contains a review of internal controls associated with SOC reporting.

6. The procurement document should specify if an annual SOC or independent external financial audit report is required.

F. ARMICS Certification

1. DOC master ARMICS certifications will be prepared by the ARMICS team in accordance with CAPP Manual Policy Topic 10305 – Internal Control for agencies 799 and 766, reviewed by the Deputy Director for Administration, signed by the Director, and submitted to the Department of Accounts to be received by the DOA established deadline each year.

2. Organizational units are to acquire and maintain as necessary appropriate documentation related to assurance over outsourced operations and processes via the Service Organization Control (SOC) reports as required by the CAPP Manual Policy Topic 10305 – Internal Control. The SOC report is to be submitted to the Director of Financial Services in support of the annual ARMICS certification.

V. REFERENCES

Commonwealth Accounting Policy and Procedure Manual (CAPP), Topic 10305, Internal Control
Operating Procedure 001.1, Operating Procedure Development
Operating Procedure 030.2, Internal Auditing

VI. FORM CITATIONS

General Accounting Authorization Signatories 210_F11

VII. REVIEW DATE

The office of primary responsibility shall review this operating procedure annually and re-write it no later than three years after the effective date.

Signature Copy on File 10/4/17

N. H. Scott, Deputy Director for Administration Date