



Virginia Department of Corrections

Financial Management and Procurement

Operating Procedure 210.1

Internal Fiscal Controls

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REVIEW

The Content Owner will review this operating procedure annually and re-write it no later than three years after the effective date.

The content owner reviewed this operating procedure in November 2021 and determined that no changes are needed.

The content owner reviewed this operating procedure in December 2022 and determined that no changes are needed.

COMPLIANCE

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

Table of Contents

DEFINITIONS	3
PURPOSE	4
PROCEDURE.....	4
I. Principles of Operation	4
II. Organizational Controls	5
III. Internal Auditing	6
IV. Service Organization Control (SOC) Reports	6
V. Unit Risk Management and Internal Control Standards (ARMICS) Certification	6
REFERENCES.....	6
ATTACHMENTS	7
FORM CITATIONS	7



DEFINITIONS

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 Virginia Correctional Enterprises (VCE), Operations Manager at the Academy for Staff Development, and the Chief Financial Officer for Central Office Organizational Units and the Community Corrections units.

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), Academy for Staff Development, Corrections Construction Unit, Agribusiness Unit, and individual headquarters unit e.g., Human Resources, Offender Management, Internal Audit

Service Organization Control (SOC) - Reports provided by service organizations certifying the existence, adequacy, and success of internal controls related to fiscal processes associated with out sourced services; this report supports the annual agency certification for ARMICS.



PURPOSE

This operating procedure establishes internal controls to manage and safeguard Department of Corrections (DOC) resources, ensuring that Virginia Department of Accounts (DOA) policies and procedures are carried out as intended, and to provide management with reasonable assurance that resources are being used as planned. (5-ACI-1B-03; 4-ACRS-7D-17; 4-APPFS-3D-23; 1-CTA-1B-02; 2-CO-1B-05)

PROCEDURE

- I. Principles of Operation
 - A. Commonwealth Accounting Policy and Procedure Manual (CAPP), Topic 10305, *Internal Control*, requires that all state agencies certify adherence to the DOA, Office of the Comptroller - *Agency Risk Management and Internal Control Standards* (ARMICS) when developing and applying internal controls.
 - B. Documentation
 1. Financial and operational processes, including internal controls must be clearly described in writing in an organized manner by use of narrative form such as desk procedures and/or flowcharts.
 2. Documentation must be readily available in a secure central or limited number of designated locations.
 - C. Transactions
 1. DOC staff must record all transactions as executed, and must properly classify such transactions as required by ARMICS.
 2. Documentation must be maintained as evidence that authorizations are issued by staff acting within the scope of their authority, and that transactions conform to the terms of the authorizations.
 - D. Separation of Duties
 1. 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.
 2. Key duties, such as authorizing, approving, and recording transactions; issuing or receiving assets; making payments; and reviewing or auditing of the same must be assigned to separate individuals to maximize the effectiveness of internal controls and to minimize the risk of loss.
 - E. Supervision
 1. The Organizational Unit Head and Agency Fiscal Officer should develop and educate staff on internal controls that apply to their functional area.
 2. Qualified and continuous supervision will be provided to ensure that approved procedures are followed.
 3. Lines of responsibility and accountability must be clearly defined.
 - F. Access to Resources
 1. Access to resources, whether monetary, written or electronic, must be limited to authorized staff; 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.
 2. Periodic comparisons will be made of the resources used with the recorded accountability of the use to detect any discrepancy.
 - G. Minimal Staff Qualifications
 1. Reasonable care will be taken to ensure that key staff members have high standards of integrity and are knowledgeable about applicable state regulations, DOC operating procedures and processes. This



assurance can be achieved by education, training, and relevant experience.

2. 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.
 - a. 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. (5-ACI-1B-02)
 - b. The DOC provides various courses through the Academy for Staff Development and other auxiliary locations.
3. COV §53.1-13, *Bonds of agents and employees*, requires proper bonds of all agents and staff members who handle any funds which come into the 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. (5-ACI-1B-03, 5-ACI-1B-17; 4-ACRS-7D-17; 4-APPFS-3D-27; 2-CO-1B-05, 2-CO-1B-11; 1-CTA-1B-02, 1-CTA-1B-09)

H. Records

1. Procedures and processes will be implemented to ensure that records, regardless of the medium, are secure from unauthorized use, alteration or destruction.
2. All fiscal records must be retained in accordance with the policies and disposition schedules of the Library of Virginia Records Retention and Disposition Schedule and be readily auditable, see Operating Procedure 025.3, *Public Records Retention and Disposition*.

II. Organizational Controls

- A. The Organizational Unit Head is responsible for fiscal policy, management, and control. Management of fiscal operations may be delegated to a designated staff person, i.e., Agency Fiscal Officer. (5-ACI-1B-01; 4-ACRS-7D-16)
- B. The Organizational Unit Head and Agency Fiscal Officer should develop and educate staff on internal controls that apply to their functional area.
- C. Organizational Unit Heads are required to maintain, at all times, adequate accounting and administrative controls relating to fiscal operations under their supervision.
- D. Each staff member is responsible for knowing and applying internal controls.
 1. Documentation of all staff authorized to approve transactions for business units codes 701,756, 757, 766, 767, 795, and 799 must be submitted to the General Accounting Unit by June 15th of each fiscal year for the upcoming fiscal year with the original *General Accounting Authorization Signatories 210_F11*.
 2. Each Organizational Unit Head or designee must report any change to the list of authorized signatories within a fiscal year to the General Accounting Unit by submitting an updated original *General Accounting Authorization Signatories 210_F11* within 30 days of the change.
 3. Organizational units responsible for multiple cost codes should attach a list of applicable organizational unit codes to the form.
- E. 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.
- F. The Financial Services Director or designee must formally review operating procedures, annually, and update the content, as necessary, in accordance with Operating Procedure 010.4, *Operating Procedure Management*.



III. Internal Auditing

- A. The Internal Audit Unit conducts financial audits to review internal controls; prepares audit reports that contain findings and recommendations for the responsible executive team member; requests action plans in response to the findings and recommendations; and reviews the action plans for appropriate corrective actions.
- B. These internal financial audits are a formalized risk assessment that is reviewed and updated at the completion of each audit.
- C. The risk assessment serves as the basis for annual audit planning; see Operating Procedure 030.2, *Internal Audit*.

IV. Service Organization Control (SOC) Reports

- A. SOC reports are necessary in order to provide assurance about the controls in place and in use at service organizations with which the DOC conducts business.
 - 1. This assurance should address whether adequate controls are used related to the 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 for the service organization and the status of its fiscal activities as part of the annual ARMICS certification.
- B. The Internal Audit Unit should assist the General Accounting Unit as part of the ARMICS annual certification process by reviewing the service organization's SOC reports and external independent audit reports.
- C. Organizational Unit Heads should include as part of the procurement process whether a SOC report or external audit report is required to provide appropriate fiscal assurances. Contact the Headquarters Procurement Office for assistance on determining applicability.
- D. Where it has been determined that a SOC report is needed, vendors who perform service related jobs for the DOC; e.g., medical related services, may submit an annual external independent financial audit in lieu of the SOC report, provided the independent financial audit contains a review of internal controls associated with SOC reporting.
- E. Procurement documentation should specify if an annual SOC or independent external financial audit report is required.
- F. The SOC report is to be submitted to the Director of Financial Services in support of the annual ARMICS certification.

V. Unit Risk Management and Internal Control Standards (ARMICS) Certification

- A. Organizational units must acquire and maintain, as necessary, appropriate documentation related to assurance over outsourced operations and processes via the SOC reports required by the CAPP Manual Policy Topic 10305 - *Internal Control*.
- B. DOC Master ARMICS certifications are 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 DOA to be received by the DOA established deadline each year.

REFERENCES

Commonwealth Accounting Policy and Procedure Manual (CAPP), Topic 10305, *Internal Control*

COV §53.1-13, *Bonds of agents and employees*

Department of Accounts (DOA), Office of the Comptroller, *Agency Risk Management and Internal Control*



Standards

Operating Procedure 010.4, *Operating Procedure Management*

Operating Procedure 025.3, *Public Records Retention and Disposition*

Operating Procedure 030.2, *Internal Audit*

ATTACHMENTS

None

FORM CITATIONS

General Accounting Authorization Signatories 210_F11

