



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
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WASHINGTON DC 20350-1000

SECNAVINST 5200.35F
ASN (FM&C)
July 21, 2014

SECNAV INSTRUCTION 5200.35F

From: Secretary of the Navy

Subj: DEPARTMENT OF THE NAVY MANAGERS' INTERNAL CONTROL PROGRAM

- Ref:
- (a) OMB Circular A-123, Revised, Management's Responsibility for Internal Control of 21 December 2004
 - (b) 31 U.S.C. § 3512, Executive Agency Accounting and Other Financial Management Reports and Plans
 - (c) 32 C.F.R. Part 700, United States Regulations and Official Records
 - (d) DoD Instruction 5010.40 of 30 May 2013
 - (e) GAO/AIMD-00-21.3.1, Standards for Internal Control in the Federal Government of November 1999
 - (f) SECNAV M-5200.35, Department of the Navy Managers' Internal Control Manual of June 2008
 - (g) SECNAVINST 5430.7Q
 - (h) GAO-05-218G, Framework for Assessing the Acquisition Function at Federal Agencies of September 2005
 - (i) OMB Memorandum for Chief Acquisition Officers, Conducting Acquisition Assessments under OMB Circular A-123 of 21 May 2008
 - (j) OUSD Memorandum, Guidance on the Assessment of Acquisition Functions under OMB Circular A-123 of 6 April 2009
 - (k) DoD FIAR Guidance of March 2013

- Encl:
- (1) Responsibilities
 - (2) Acronyms and Abbreviations
 - (3) Definitions

1. Purpose. To provide revised Managers' Internal Control (MIC) policy for the Department of the Navy (DON). This is a complete revision and should be read in its entirety. Recent changes to program guidance include reporting requirements for DON Major Assessable Units (MAUs) and Budget Submitting Offices (BSOs).

2. Cancellation. SECNAVINST 5200.35E.

3. Background

a. DON personnel are responsible for the proper stewardship of Federal resources as a basic obligation of their public service per references (a) and (b). They must ensure government resources are used in compliance with laws and regulations, consistent with mission, and with minimal impact and potential for waste, fraud, and mismanagement of the DON's limited resources.

b. Internal Controls (ICs) are terms to describe the tools military and civilian managers use to achieve results and safeguard the integrity of programs per reference (c). All DON personnel play important roles in implementing and operating the IC program. ICs will be the common term used for the purpose of this instruction.

c. DON ICs are comprehensive management practices that play a vital role in achieving business and mission objectives. The implementation of effective and efficient ICs ensures organizational policies and procedures are in place. The implementation also assists program and financial managers in achieving results to safeguard the integrity of their programs by reducing risk exposure. Managers should not be encumbered by controls, but rather benefit from them. In addition, managers should ensure an appropriate balance between meeting program objectives and maintaining an appropriate number of controls.

d. References (a), (d), and (e) set requirements that programs shall encompass the Government Accountability Office (GAO) standards for ICs:

- (1) Control Environment;
- (2) Risk Assessment;
- (3) Control Activities;
- (4) Information and Communications; and
- (5) Monitoring.

The design, operation, and documentation of an organization's program should provide the framework for a senior leader to determine reasonable assurance that the objectives detailed in references (a) and (b) are met.

e. Reference (f) shall be updated periodically to reflect current guidance to assist commands in complying with this instruction. The manual complements the Department of Defense (DoD) MIC Strategy documentation requirements as defined in reference (d).

4. Policy

a. It is DON policy that MAUs and/or commands establish a Managers' Internal Control Program (MICP) to evaluate and report on the effectiveness of ICs throughout their organizations, and make corrections when necessary. MAUs and/or commands shall perform IC and risk assessments. The following tools may assist in IC and risk assessments:

- (1) Process narratives and flowcharts;
- (2) Risk assessment templates; and
- (3) Self-assessment forms.

In addition, organizations are encouraged to utilize other contributing information, i.e. performance metrics, external audits, inspections, investigations, etc., as methods of monitoring and evaluating IC effectiveness.

b. DON organizations shall implement a system of ICs to provide reasonable assurance that the following objectives are met:

- (1) Effectiveness and efficiency of operations;
- (2) Reliability of financial reporting; and
- (3) Compliance with applicable laws and regulations.

c. The DON implements the following programs to complement the MICP: Financial Improvement and Audit Readiness (FIAR), Naval Safety, Command Evaluation (CE), Operational Risk Management, Shipboard Material Maintenance Management, Time and Attendance, Government Purchase Card and Travel Card, Performance Appraisal Process, etc. The results of these programs, in conjunction with other contributing information, provide organization leaders with an assessment of program

integrity and control effectiveness that will be consolidated into their annual certification statement.

d. The DON's Statement of Assurance (SOA) is an annual report, endorsed by the Secretary of the Navy (SECNAV), certifying the DON's level of reasonable assurance to the overall adequacy and effectiveness of ICs within the Department. The report includes the DON Federal Managers' Financial Integrity Act (FMFIA), material weaknesses identified with corrective action plans, and IC related accomplishments.

e. In addition to the DON MICP, the DON Risk and Opportunity Assessment (ROA) is a SECNAV directed annual data call led by the Naval Inspector General (NAVINSGEN) and Naval Audit Service (NAVAUDSVC). Navy and Marine Corps Echelon I and II activities identify high-level vulnerabilities that represent significant challenges to senior naval leadership, and are outside a single organization's ability to initiate corrective action. The purpose of the annual DON ROA is to guide the development of the Annual Oversight Plan that includes audits, inspections, special studies, and other oversight functions. Both the DON ROA and Annual Oversight Plan are reviewed and approved by the Oversight Planning Board, chaired by the Under Secretary of the Navy (UNSECNAV). While the DON ROA and the MICP serve different purposes, they are complementary processes that both involve risk identification and assessment.

5. Responsibilities. See enclosure (1).
6. Acronyms and Abbreviations. See enclosure (2).
7. Definitions. See enclosure (3).
8. Guidance. Reference (f) is provided by the Assistant Secretary of the Navy (Financial Management and Comptroller (ASN (FM&C))). The manual implements the policy set forth in this publication in regards to DON ICs that are issued under the authority of reference (g). In addition, reference (f), provides guidance for the MIC process from program overview through submitting certification statements. Also, supplemental information is available to aid in the assessment process, which includes templates for risk and control assessments, and appointment letters for MIC coordinator and alternate.

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9. Records Management. Records created as a result of this instruction, regardless of media and format, shall be managed per SECNAV Manual 5210.1 of January 2012.

10. Reports. The reports required in enclosure (1), paragraph 1, are assigned Report Control Symbol DD-COMP (AR)1618(5200) per SECNAV Manual 5214.1 of December 2005. The Report Control Symbol expires three years from the date of signature.



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RESPONSIBILITIES

All DON organizations will focus reporting on ICs associated with their assigned chartered functional responsibilities. For those organizations that constitute the Secretariat, responsibilities are addressed in reference (g). The following additional responsibilities are assigned:

1. Per reference (g), the ASN (FM&C) is assigned functional responsibility for preparing the Department's SOA, and the ASN (FM&C) or designated senior manager shall:

a. Develop policies and procedures that emphasize the prevention and correction of waste, fraud, or mismanagement, while eliminating duplication in the collection and assessment of performance data;

b. Issue applicable guidance and assign adequate resources to ensure policy provisions are implemented per this instruction;

c. Develop and maintain policies and procedures for the appropriate use of business operations and programs consistent with the requirements of references (a), (b), and (d);

d. Designate MAUs. MAUs represent all organizations that report directly to the SECNAV or the UNSECNAV. The Assessable Unit Manager (AUM) will be an individual at the division, department, chief, and/or director level who understands the daily operations and will have a critical element in their performance appraisal addressing effective MICP performance and execution;

e. Implement a MICP that encompasses the following distinct assessments and reporting processes:

(1) Internal Controls over Non-Financial Operations (ICONO) to support non-financial, operational, and administrative controlled functions;

(2) Internal Controls over Financial Reporting (ICOFR) to support FIAR initiatives; and

(3) Internal Controls over Financial Systems (ICOFS) to support Federal Financial Management Improvement Act (FFMIA) and Federal Information System Controls Audit Manual (FISCAM) that will evaluate the DON's identified systems of record.

f. Establish a Senior Management Council (SMC) to provide oversight of the ICONO process and assist in the identification of control deficiencies that merit reporting. The Deputy Assistant Secretary of the Navy (Financial Operations) (DASN (FO)) is the SMC Chair. The Auditor General of the Navy (AUDGEN) will serve as an independent advisory role to the Council and other senior civilian staff and/or flag officers, or their representatives, from MAUs will be invited to join the Council on an as-needed basis depending on the type and scope of weaknesses being considered;

g. Establish a Senior Assessment Team (SAT), as defined in reference (d). The SAT provides oversight of the ICOFR and ICOFS processes and ensures the organization adheres to the ICOFR and ICOFS procedures established in reference (a), Appendices A and D. Currently the SAT is chaired by DASN (FO). The SAT is comprised of senior executive service members with cross-functional experience to include: generally accepted government accounting principles, financial statements, ICs, audit standards, and DON policy;

h. Ensure adequate training and tools are available for DON organizations to comply with MIC guidance and issue information on obtaining these resources;

i. Confirm that DON MAUs conduct annual risk assessments to identify key IC objectives to support their chartered mission;

j. Monitor program implementation and establish a tracking system to ensure prompt corrective action of material weaknesses and reportable conditions;

k. Provide prompt assistance to DoD service provider components in resolving DON-related deficiencies;

l. Appoint a MAU Senior Accountable Official (SAO), in writing, for each identified material weakness or reportable condition to ensure prompt resolution by the projected completion date and within the guidelines of references (a) and

(e), and the DoD FMFIA SOA Fiscal Year Guidance provided by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)). Each SAO is responsible and accountable for establishing and assessing ICs consistent with reference (d). The SAO must be a responsibility delegated in writing by the ASN (FM&C) and shall not be below the Senior Executive Service or flag officer level. The SAO's annual performance assessment will include consideration of whether prompt action has been taken to correct material weaknesses or reportable conditions;

m. Monitor, track, and require a quarterly update from the SAO or MAU MIC Coordinator on the status of material weaknesses and/or reportable conditions;

n. Appoint a government civilian or military member in writing, utilizing the appointment letter template, as the DON MIC coordinator or alternate, who is responsible for the administration and coordination of the program and its reporting requirements per reference (d);

o. Prepare and submit the annual DON SOA, signed by the SECNAV or designated appointee, to the Secretary of Defense. The DON SOA shall certify to the level of assurance as outlined in references (d) and (f) and the DoD MIC Annual Guidance for:

- (1) ICONO Process;
- (2) ICOFR Process;
- (3) ICOFS Process; and
- (4) ICs over Acquisition Functions.

p. Maintain and submit ICOFR documentation to OUSD(C) as outlined in the DoD MIC Annual Guidance - SOA on the Effectiveness of ICOFR and ICOFS.

2. A SMC shall be chartered to:

a. Oversee the MICP and advise ASN (FM&C) on matters concerning program implementation;

b. Monitor and validate DON ICONO process effectiveness;

- c. Designate ICONO material weaknesses, reportable conditions or items to be revisited;
- d. Monitor and review the implementation of corrective actions to ensure they are accurate and timely; and
- e. Report results for implementation of corrective actions to ASN (FM&C).

3. A SAT shall be chartered to:

- a. Direct the DON-level ICOFR and ICOFS testing efforts, review the scope and methodology of the assessment, and the processes that impact any financial reports covered by the assessment;
- b. Ensure adequate policies and methods are in place to determine the assessment design, methodology and results;
- c. Ensure assessment of DON objectives is clearly communicated;
- d. Identify and ensure adequate funding and resources are made available;
- e. Ensure assessments are carried out in a thorough, effective, and timely manner;
- f. Analyze results of organizational and departmental control testing;
- g. Determine ICOFR and/or ICOFS material weaknesses, reportable conditions or items to be revisited;
- h. Monitor and review the implementation of corrective actions; and
- i. Report assessment results to the DoD SAT and the DON Audit Readiness Steering Committee.

4. The AUDGEN shall:

- a. Serve as the focal point for internal audit policy, as it relates to this program and, during internal audits, evaluate

the adequacy and effectiveness of ICs in preventing or detecting fraud, waste or other related improprieties in a timely manner, and disclose any non-compliance with this instruction;

b. Identify, summarize, and report quarterly to ASN (FM&C) any IC related deficiencies detected during internal audits and determine obstacles to resolving identified control deficiencies; and

c. Revise plans in coordination with NAVINSGEN and Director, Naval Criminal Investigative Service (NCIS), as necessary, to ensure compatibility with the goals of this program and to eliminate duplication in collecting and assessing performance data.

5. NAVINSGEN shall:

a. Evaluate and disclose compliance with this instruction during inspections;

b. Coordinate the DON Inspection Program in order to assess organizational procedures used to provide reasonable assurance that program controls detect and eliminate the potential for fraud, waste, inefficiency or related improprieties over an extended period of time, i.e. the period between inspections;

c. Identify, summarize, and report quarterly to ASN (FM&C) on control-related best practices or deficiencies. Determine impediments to resolving identified control deficiencies discovered during the conduct of inspections; and

d. Revise plans in coordination with AUDGEN and Director, NCIS, as necessary, to ensure compatibility with the goals of this program and to eliminate duplication in collecting and assessing performance data.

6. The Director, NCIS shall:

a. Summarize and report quarterly to ASN (FM&C) on control-related accomplishments and control deficiencies identified during the conduct of investigations; and

b. Revise plans in coordination with AUDGEN and NAVINSGEN, as necessary, to eliminate duplication in collecting and assessing control deficiencies.

7. The DON Chief Information Officer shall identify, summarize, and report quarterly to ASN (FM&C) any significant risk management deficiencies at the DON component level in mission or business processes, per Federal Information Security Management Act (FISMA) requirements.

8. The Assistant Secretary of the Navy (Research, Development and Acquisition) (ASN (RD&A)) shall:

a. Develop and maintain policies and procedures consistent with the requirements of reference (a), Appendix B for the appropriate use of government charge cards, with the exception of travel cards;

b. Ensure Program Executive Officers and Direct Reporting Program Managers have a clear chain of command for reporting material weaknesses and/or reportable conditions within the scope of their mission and for establishing milestones for planned corrective actions;

c. Review the DON Assessment of IC over Acquisition Functions Template per references (h), (i) and (j), to determine if any new deficiencies exist. Material weaknesses and/or reportable conditions will be reported in the annual ASN (RD&A) Certification Statement; and

d. Provide a separate attachment to the ASN (RD&A) Certification Statement describing how the annual review was conducted, and any significant findings to ASN (FM&C) for inclusion in the annual DON SOA.

9. DON MAUs and their immediate subordinate organizations shall:

a. Establish IC policy outlining guidance for subordinate activities to meet the intent of the statutory and regulatory requirements described in references (a), (b), (d), and (i);

b. Establish a positive control environment by involving all managers throughout the organization, and advocate

accountability for establishing, evaluating, and improving controls in all areas of business practice;

c. Oversee and perform risk assessments, control assessments, and self-assessments through the use of tools, i.e. templates for risk assessment and IC assessment;

d. Establish mandatory MIC training for MIC coordinators and/or alternates and all functional area managers or higher level as outlined in reference (f);

e. Appoint, in writing, a MIC coordinator and alternate responsible for the administration and coordination of the MICP and its reporting requirements. Incorporate MIC responsibilities into the performance appraisals of the MIC coordinator and alternate. The MIC coordinator and alternate shall satisfy the following areas:

(1) Reporting Requirements

(a) Support the MICP and ICs oversight to ensure the MAU is adhering to the current policies and procedures; and

(b) Analyze, compile, and submit annual MIC Certification Statement by the prescribed deadline.

(2) Training

(a) Obtain MIC Navy Knowledge On-line Training, within 30 calendar days of appointment, and take a refresher course every three years thereafter;

(b) Notify MAU MIC personnel of MIC training opportunities to ensure all training requirements are satisfied; and

(c) Provide training opportunities to immediate subordinate commands and follow-up on the corrections and milestone progress for reported deficiencies.

(3) Audit Reviews

(a) Review corrective actions, findings, and recommendations of external audits, i.e. NAVAUDSVC, GAO, DoD Inspector General from current year and prior years;

(b) Maintain an effective follow-up mechanism to ensure acceptable performance, and prompt correction of identified deficiencies; and

(c) Assist AUMs with determining if an identified control deficiency is a Material Weakness, Reportable Condition, or Item to be Revisited.

(4) Review Assessments

(a) Create and update a MIC Plan to capture the organization's approach of implementing an effective and efficient IC program and serve as the first resource MIC stakeholder's reference to gain a thorough understanding of their organization's program;

(b) Perform self-assessments that align with the identified Assessable Units (AUs) and core business lines;

(c) Ensure high risk AUs are periodically, i.e. daily, weekly, monthly, quarterly, bi-annually, yearly assessed;

(d) Facilitate a relationship with AUMs to assist in identifying, tracking, and developing corrective actions and milestones to correct deficiencies;

(e) Assist in testing, as necessary, and validate conclusions provided by subject matter experts on the effectiveness of ICs; and

(f) Assist in identifying and classifying IC deficiencies based on evaluations conducted.

(5) Process Improvement

(a) Identify best business practices and recommend to AUMs ways to improve control documentation, enhance controls, eliminate inefficient controls, or implement new controls; and

(b) Ensure that identified efficiencies, "best practices" and/or deficiencies are shared across AUs, to ensure relevant information is available for use by the AUs.

f. Initiate corrective actions consistent with laws, regulations, and administrative policy when control deficiencies escalate to the level of material weakness or reportable condition; and use the DON SOA tool (<https://www.fmosystems.navy.mil/soa>) and/or Navy Taskers for reporting, monitoring, and tracking corrective action plans, and documenting MICP related accomplishments;

g. Maintain documentation requirements outlined in reference (f); and

h. Submit to SECNAV via ASN (FM&C), an annual ICONO Certification Statement. MIC Certification Statements are the foundation of the DON SOA that shall be endorsed by a senior leader or principal deputy. Endorsement of the statement cannot be delegated below the level of the organization's principal deputy or equivalent.

10. DON BSOs are responsible for sustainment operations as part of FIAR initiatives. Prior to validation of audit readiness and audit, the sustainment maintains audit readiness through risk-based periodic testing of ICs utilizing processes and procedures in references (a) and (k) and resolves any identified weaknesses in a timely manner. During sustainment operations, DON BSOs shall:

a. Submit to SECNAV via ASN (FM&C) an annual ICOFR Certification Statement. The BSO comptrollers shall provide an ICOFR level of reasonable assurance for financial reporting integrity. The ICOFR certification shall be endorsed by the BSO senior leaders or principal deputies, and submitted via the BSO MICPs to the next higher echelon;

b. Provide a separate certification statement for ICOFS to SECNAV via ASN (FM&C). The BSO ICOFS certifications shall be initiated by the BSO comptrollers providing a level of reasonable assurance of financial systems integrity for those systems procured or maintained by the BSO. The ICOFS certification shall be endorsed by the BSO senior leaders or

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principal deputies and submitted via the BSO MICPs to the next higher echelon;

c. Retain documentation for ICOFR and ICOFS related processes that have been asserted as audit-ready through the DON FIAR per reference (a) and the periodic OUSD(C) FIAR guidance; and

d. Administer phasing plans, compile, and submit budget estimates, and supporting materials directly to the Office of Budget for the DON, Office of the Secretary of Defense and/or Office of Management and Budget, and President's Budget submissions.

ACRONYMS AND ABBREVIATIONS

ASN (FM&C)	Assistant Secretary of the Navy (Financial Management and Comptroller)
ASN (RD&A)	Assistant Secretary of the Navy (Research, Development & Acquisition)
AUs	Assessable Units
AUDGEN	Auditor General of the Navy
AUM	Assessable Unit Manager
BSOs	Budget Submitting Offices
CE	Command Evaluation
CO	Commanding Officer
DASN (FO)	Deputy Assistant Secretary of the Navy (Financial Operations)
DoD	Department of Defense
DON	Department of the Navy
FFMIA	Federal Financial Management Improvement Act
FIAR	Financial Improvement and Audit Readiness
FISCAM	Federal Information System Controls Audit Manual
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
GAO	Government Accountability Office
ICOFR	Internal Control over Financial Reporting
ICOFs	Internal Control over Financial Systems
ICONO	Internal Control over Non-Financial Operations
ICs	Internal Controls
MAUs	Major Assessable Units
MIC	Managers' Internal Control
MICP	Managers' Internal Control Program
NAVAUDSVC	Naval Audit Service
NAVINGEN	Navy Inspector General
NCIS	Naval Criminal Investigative Service
OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
ROA	Risk and Opportunity Assessment
SAO	Senior Accountable Official
SAT	Senior Assessment Team
SECNAV	Secretary of the Navy
SECNAVINST	Secretary of the Navy Instruction

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SMC	Senior Management Council
SOA	Statement of Assurance
UNSECNAV	Under Secretary of the Navy

DEFINITIONS

1. Appointment Letters. Each DON MAU and their immediate subordinate organizations shall appoint an organizational MIC coordinator and alternate responsible for the administration and coordination of the MICP to align with the reporting requirements of FMFIA. The appointment is valid until rescinded and signed by the SAO.

2. Assessable Unit. The AU is any organization, function, program, or subdivision capable of being evaluated by management and/or IC assessment procedures.

a. Evaluating an AU is a systematic approach to address potential risk areas that reside within the organization's Departmental mission and objectives. It is the distinct segmentation of an organization into functional subcomponents that enables leadership to effectively evaluate the potential risk of IC deficiencies. The evaluation and/or assessment of an identified AU ensures that key control deficiencies are detected to mitigate waste, fraud, and mismanagement.

b. Each AU is required to have an assigned AUM that is properly trained to conduct risk and control assessments of its daily and/or primary operations. An AU's scope must be clearly defined and identifiable to a specific responsible AUM. The AU must be reasonable in size, to adequately assess ICs, but not too large that control deficiencies are undetected and impact the mission. The population of AUs should cover the scope and/or mission of the entire organization. Aligning AUs to an organizational chart and process flow is a method to ensure the breadth of the organization is addressed in its entirety. In most instances each AU should be able to function independently.

3. Assessable Unit Manager. The AUM shall be a military or civilian department and/or division head, chief, or director with the knowledge of daily operations of an AU or MAU. The AUM is appointed by the commander or principal and/or designated appointee. A critical element in the AUM's performance appraisal should address effective MICP performance.

4. Certification Statement. The certification statement demonstrates reasonable assurance by the senior leadership that key ICs are in place and operating effectively to ensure the

organization is capable of meeting its mission objectives to include accurate financial information.

a. The annual MIC Certification Statement indicates the SAO's assessment of ICs in effect during the reporting period, 1 July through 30 June of the previous and current calendar year, and whether the ICs were able to provide reasonable assurance that: (1) programs achieved their intended results; (2) resource use was consistent with the DON mission; (3) programs and resources were protected from waste, fraud, and mismanagement; (4) laws and regulations were followed; and (5) reliable and timely information was obtained, maintained, reported and used to guide decision-making.

b. The certification statement must take one of the following three forms: (1) an unqualified certification statement (reasonable assurance with no material weaknesses reported); (2) a qualified certification statement (reasonable assurance with exception of one or more material weakness(es) noted); and (3) no assurance (no reasonable assurance because no assessments conducted or the noted material weaknesses are pervasive).

5. Command Evaluation. CE is a tool of the MICP meant to provide a unit's commanding officer (CO) with an independent, in-house assessment designed to assist the CO in improving mission accomplishment, integrity of command and economical use of resources. CE is the conduction of reviews, studies, analysis or evaluation of command or activity operations. CE is used to detect deficiencies, improprieties or inefficiencies and is intended to provide recommendations to correct conditions that adversely impact mission accomplishment. The CE Program is a staff function that reports directly to the CO, vice commander or executive officer.

6. Control Activities. Control activities include the policies, procedures, techniques, and mechanisms that enforce management directives. Control activities occur at all levels and help ensure that management's directives are carried out and reasonable actions are taken to mitigate risks. The control activities should be effective and efficient in accomplishing the agency's control objectives. Examples of control activities are: top level reviews of actual performance; reconciliation of

actual and recorded inventory; access restrictions to classified information; and segregation of duties.

7. Control Deficiency. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect fraud, waste, or mismanagement on a timely basis. A design deficiency exists when a control necessary to meet the control objective is missing or an existing control is not properly designed, so that even if the control operates as designed, the control objective is not always met. An operation deficiency exists when a properly designed control does not operate as designed or when the person performing the control is not qualified or properly skilled to perform the control effectively.

8. Control Environment. The organizational structure and culture created by management and employees to sustain organizational support for effective ICs. Within the organizational structure, management must assist with: (1) defining areas of authority and responsibility; (2) appropriately delegating the authority and responsibility throughout the agency; (3) establishing a suitable hierarchy for reporting; (4) promoting and demonstrating ethical practices; (5) supporting appropriate human capital policies for hiring, training, evaluating, counseling, advancing, compensating, and disciplining personnel; and (6) upholding the need for personnel to possess and maintain the proper knowledge and skills to perform their assigned duties as well as understand and be responsible for maintaining effective ICs within the organization.

9. Department of Navy Managers' Internal Control Manual (SECNAV M-5200.35). Reference (f) is DON guidance that provides detailed information on the implementation of the IC program. The guidance provides the IC reporting structure, due dates, submission process, instruction on documentation and reporting requirements, examples of documentation and reporting requirements, and instructions on accessing IC training.

10. Documentation. Documentation of IC activities is required to the extent needed by managers to control operations effectively, and to evaluate the comprehensive nature of their programs. Documentation for the MICP is mandated by reference

(a) and must include: (1) MIC Plan; (2) Inventory of AUs; (3) Risk Assessments; (4) Control Assessments; and (5) Corrective Action Plans as described in the DON MIC Manual. Documentation can also include: Process Narratives; Flow Charts; Organizational Charts; and Quarterly Status on Corrective Actions. Key supporting documentation shall be maintained per this instruction for subsequent review by management, and inspector general or audit personnel.

11. Federal Financial Management Improvement Act of 1996. The purpose of FFMIA is to advance Federal financial management by ensuring that Federal financial management systems provide accurate, reliable, and timely financial management information to the government's managers. Compliance with the FFMIA will provide the basis for the continuing use of reliable financial management information by program managers, and by the President, the Congress, and the public.

12. Financial Improvement and Audit Readiness. The FIAR Plan outlines the strategy, priorities, and methodology for improving the Department's financial processes, controls, and information and reporting its progress. The FIAR Plan is a strategic plan and management tool for guiding, monitoring, and reporting on the Department's efforts to resolve its financial management weaknesses and achieve audit readiness. FIAR strategy focuses on financial management improvement efforts on department-wide priorities; first, on budgetary information and preparing the Department's Statements of Budgetary Resources for audit; and second, on accountability over the Department's mission-critical assets as a way of improving information used by DON leaders to manage operations, and to more effectively demonstrate incremental progress toward achieving audit readiness.

13. Federal Information System Controls Audit Manual. The FISCAM provides a methodology for performing effective and efficient information system controls audits, either alone or as part of a performance audit, a financial audit, or an attestation engagement, including communication of any identified control weaknesses.

14. Federal Information Security Management Act of 2002. The act emphasizes the importance of information security to the economic and national security interests of the United States. The FISMA requires each Federal agency to develop, document, and

implement an agency-wide program to provide security for the information and information systems that support the operations and assets of the agency, including those provided or managed by another agency, contractor, or other source.

15. Federal Managers' Financial Integrity Act of 1982. The act requires Federal agencies, on an ongoing basis, to evaluate the ability of their IC systems to protect Federal programs against fraud, waste, and mismanagement. They must report annually to the President and Congress on the effectiveness of ICs, and any identified material weaknesses in those controls.

16. Information and Communications. Information should be recorded and communicated to management and other relevant parties, or for the purposes of leadership awareness, in a form and within a timeframe that enables them to carry out their ICs and other responsibilities. An organization must have relevant, reliable, and timely communications, with information flowing down, across, and up the organization.

17. Internal Audit. An impartial and objective appraisal or verification of the data, the procedures, or the performance of diverse operations, systems, activities, programs, functions, or funds, and of ICs. Audits are performed using professionally qualified auditors who meet and follow Generally Accepted Government Auditing Standards, which are issued by the Comptroller General of the United States. Internal audits are performed to determine whether: (1) government resources are managed properly and used in compliance with laws and regulations; (2) government programs are achieving their objectives and desired outcomes; and (3) government services are being provided efficiently, economically, and effectively. Internal audits help management identify risks and arrive at solutions to problems, devise better ways of doing business, and deter fraud, waste, and mismanagement.

18. Internal Control. An integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: (1) effectiveness and efficiency of operations; (2) reliability of reporting for internal and external use; and (3) compliance with applicable laws and regulations. ICs are the plans, methods, and procedures used to meet missions, goals, and objectives. ICs also serve as the first line of defense in safeguarding

assets and preventing and detecting errors and fraud. IC is not one event, but a series of actions and activities that occur throughout an entity's operations and on an ongoing basis.

19. Internal Control Assessment. A documented evaluation on the effectiveness and adequacy of the IC system to meet the mission objectives, implemented in a cost-effective way to comply with reference (b).

20. Internal Controls over Acquisition Functions. Establishes ICs for acquisition functions. ICs over acquisition functions promote and report reasonable assurance for the overall adequacy and effectiveness of ICs within the multi-disciplinary acquisition process. The framework to guide assessments of strengths and weaknesses within the acquisition process consists of: (1) organizational alignment and leadership; (2) policies and processes; (3) human capital; and (4) information management and stewardship.

21. Internal Controls over Financial Reporting. Establishes the ICOFR. ICOFR reports reasonable assurance over financial reporting ICs to include identifying any material weaknesses found during the assessment, and includes the plan of action and milestones to promptly correct them.

22. Internal Controls over Financial Systems. Establishes ICOFS. ICOFS reports reasonable assurance over financial management systems ICs to include identifying any material weaknesses found during the assessment, with the plan of action and milestones to promptly correct them.

23. Internal Controls over Non-Financial Operations. Establishes the ICONO. The ICONO assesses ICs for all program, operational, and administrative controls and excludes ICOFR. The ICONO process documents the line of reasoning that determines if ICs achieve their intended objectives, reports reasonable assurance over non-financial ICs to include identifying any material weaknesses or reportable conditions found during the assessment, and determines the plan of action and milestones to promptly correct them.

24. GAO Standards for Internal Controls. The standards are issued by the GAO per reference (e). The five IC standards are: (1) Control Environment; (2) Risk Assessment; (3) Control

Activities; (4) Information and Communications; and (5) Monitoring. These standards define the minimum level of quality acceptable for IC in government, and provide the basis against which IC is to be evaluated. These standards apply to all aspects of an agency's operations: programmatic; financial; and compliance. See individual definitions provided in this enclosure.

25. Internal Control System. IC system encompasses a set of rules, policies, and procedures an organization implements to provide reasonable assurance that (1) financial reports are reliable, (2) operations are effective and efficient, and (3) activities comply with applicable laws and regulations. It is not a separate system, but an integral part of the control environment, which includes management directives used to operate programs and functions.

26. Item to be Revisited. An IC issue brought to management's attention with insufficient information to determine whether the control deficiency is reportable. These issues will be revisited throughout the following fiscal year to determine the materiality of the control deficiency.

27. Managers' Internal Control Plan. A brief, written plan (updated as needed) that documents the key elements; mission, strategy, MIC training efforts, and methodologies used by an organization to assess its ICs. See reference (f) to assist in preparing a MIC Plan.

28. Managers' Internal Control Program. The full scope of management responsibilities as defined in this instruction. These responsibilities include the development of effective ICs in key mission critical processes, the evaluation of ICs and correction of control deficiencies, the use of effective follow-up procedures, and the documentation and reporting requirements of this guidance. A MICP is not intended to be a stand-alone program, but rather incorporated into an organization's daily activities.

29. Material Weakness (ICONO Process). A reportable condition or combination of reportable conditions deemed significant enough by an organization's senior leadership team to report to the next higher level. The determination is a management judgment, and should reflect reasonable justification as to

whether a weakness is material. A material weakness could reflect a point in a corrective action plan where action at the next higher level will be required before further actions can be taken by the reporting organization.

30. Material Weakness (ICOFR and/or ICOFS Processes). A reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of a financial statement, or other significant financial report, will not be prevented or detected. The determination is a management judgment as to whether a weakness is material.

31. Materiality (ICONO Process). The risk of error or inability to accomplish mission objectives and/or a systemic error throughout the Department. The level of materiality for each organization is based upon management's informed judgment. The criteria to consider are the following: impact on mission success or failure; health and safety; and/or threat to image. ICONO materiality is further outlined in reference (f).

32. Materiality (ICOFR and/or ICOFS Processes). The risk of error or misstatement that could occur in a financial report that would impact management's or users' decisions or conclusions based on such a report. Management must consider whether the error was generated by an integrated financial management system, and how an error would affect management or operations that rely on the key financial reports within the assessment scope. An error that would materially affect the day-to-day decisions based on these key reports would be considered a material error. Since the financial reporting objectives for day-to-day management and operations are different than the objectives of the third party user of the financial statements, it stands to reason that materiality will be different for each type of report. Materiality is a function of management's professional judgment and discretion, but should be substantiated by actual performance data and established thresholds.

33. Monitoring. Monitoring the effectiveness of ICs should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regularly assigned duties of management personnel. Deficiencies identified through internal review or

by an external audit should be evaluated and corrected. Monitoring includes establishing follow-up systems to ensure acceptable performance, and prompt correction of control deficiencies.

34. Reasonable Assurance. An acceptable degree of confidence in the general adequacy of ICs to deter or detect material failures in complying with the FMFIA objectives. An informed, reasoned judgment by management as to the overall adequacy and effectiveness of internal procedures to control accepted levels of inherent risk based upon available information from the system of ICs that indicate they are operating as intended.

35. Reportable Condition (ICONO Process). A control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to meet mission objectives but are not deemed by management as serious enough to report as a material weakness. These deficiencies are normally within the organization's ability to correct. Corrective action plans must be included in the certification statement package.

36. Reportable Condition (ICOFR and/or ICOFS Processes). A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report external financial data reliably per generally accepted accounting principles. The criteria for a reportable condition means that there is more than a remote likelihood that a misstatement of the entity's financial statements, or other significant financial reports, is more than inconsequential and will not be prevented or detected.

37. Risk. The probable or potential adverse effects from inadequate ICs that may result in the loss of resources or cause an organization to fail to accomplish its mission objectives through fraud, error, or mismanagement. Risk is measured by the likelihood and the impact of the event having a negative effect. Examples of risk contributors include: manual processes associated with complex transactions; reliance on pilferable items such as cell phones, blackberries or laptop computers; and processes that involve multiple process owners.

38. Risk Assessment. The identification of internal and external risks that may prevent the organization from meeting its objectives. When identifying risks, management should take

into account relevant interactions within the organization as well as with outside organizations. When identifying risks, management should also consider previous findings i.e., auditor-identified, internal management reviews, or noncompliance with laws and regulations. Identified risks should then be analyzed for their potential frequency of occurrence and impact on the agency. Risk assessment involves managers weighing the potential and determining whether the risk is acceptable or requires a control activity. Risk assessment is the first stage for establishing reasonable assurance.

39. Senior Accountable Official. The senior official (member of the Senior Executive Service or a flag officer) who controls the resources necessary to correct a specific material weakness and/or reportable condition according to the proposed corrective action plan.

40. Senior Assessment Team. A team of senior level executives that provides oversight of the effectiveness of ICOFR and financial systems, to include the identification of control deficiencies that merit reporting.

41. Senior Management Council. A team of senior level executives that provides oversight of the effectiveness of ICONO, to include the identification of control deficiencies that merit reporting.

42. Senior Manager. A senior official who is a member of the highest level of management or leadership of the organization.

43. Statement of Assurance. Statutory and/or regulatory requirements establish preparation and submission of the SOA. The SOA is a department-wide statement used to disclose material weaknesses and reportable conditions identified in the annual reporting process, and describes plans and schedules to correct any reported deficiencies. The statement must take one of the following forms: (1) unqualified (no material weaknesses reported); (2) qualified (one or more material weaknesses reported); and (3) statement of no assurance (no processes in place or pervasive material weaknesses). The SOA is used to prepare the DoD Agency Financial Report per reference (b).