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Department of Defense INSTRUCTION

NUMBER 5010.40

USD(C)

SUBJECT: Managers' Internal Control Program (MICP) Procedures

References: See Enclosure 1

1. PURPOSE. This Instruction:

a. Reissues DoD Instruction 5010.40 (Reference (a)) in accordance with the authority in DoD Directive (DoDD) 5118.03 (Reference (b)) to implement and execute the MICP.

b. Implements the Federal Managers' Financial Integrity Act (FMFIA) codified in section 3512 of title 31, United States Code (U.S.C.) (Reference (c)) and Office of Management and Budget (OMB) Circular No. A-123 (Reference (d)).

c. Establishes an additional requirement for DoD Component Heads, who provide stand-alone financial statements or are defined as an entity in the MICP annual guidance, to report to the Secretary of Defense an explicit level of assurance over integrated financial management systems (IFMS) conformance with Federal requirements according to References (c) and (d), OMB Circular No. A-127 (Reference (e)), and Volume 1, Chapter 3 of DoD 7000.14-R (Reference (f)).

d. Requires an MICP Administrator be appointed by the Assessable Unit (AU) Manager for every AU. MICP Administrators will Government employees, due to the inherently governmental nature of the work.

e. Requires the Senior Assessment Teams (SATs) to update charters to add a new requirement for overseeing the performance and risk management of all DoD expenditures for the American Recovery and Reinvestment Act (ARRA), Public Law 111-5 (Reference (g)), Updated OMB Implementing Guidance for ARRA (Reference (h)), OUSD(C) Guidance for Financial Reporting and Data Requirements for ARRA (Reference (i)), and OUSD(C) Risk Management for the ARRA (Reference (j)).

2. APPLICABILITY. This Instruction applies to Office of the Secretary of Defense (OSD), the Military Departments, the Office of the Chairman of the Joint Chiefs of Staff and the Joint Staff,

the Combatant Commands, the Office of the Inspector General of the Department of Defense (IG DoD), the Defense Agencies, the DoD Field Activities, and all other organizational entities within the Department of Defense (hereafter referred to collectively as the "DoD Components").

3. DEFINITIONS. See Glossary.

4. POLICY. Instruction establishes DoD policy, under Reference (b), that an MICP be established to review, assess, and report on the effectiveness of internal controls (ICs) in the Department of Defense according to References (c) through (j) and the Comptroller General Standards (Reference (k)) and the GAO Evaluation Tool (Reference (l)).

5. RESPONSIBILITIES. See Enclosure 2.

6. PROCEDURES. See Enclosure 3.

7. INFORMATION REQUIREMENTS. Reports on the MICP as described in Enclosure 4 have been assigned Report Control Symbol DD-COMP (AR) 1618 according to DoD 8910.1-M (Reference (m)).

8. IC REPORTING CATEGORIES. See Enclosure 5.

9. RELEASABILITY. UNLIMITED. This Instruction is approved for public release and is available on the Internet from the DoD Issuances Web Site at <http://www.dtic.mil/whs/directives>.

10. EFFECTIVE DATE. This Instruction is effective immediately.



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Under Secretary of Defense (Comptroller)
DoD Chief Financial Officer

Enclosures

1. References
 2. Responsibilities
 3. Procedures
 4. Information Requirements
 5. IC Reporting Categories
- Glossary

TABLE OF CONTENTS

REFERENCES4

RESPONSIBILITIES6

 UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL
 OFFICER (USD(C)/CFO)6

 DIRECTOR OF ADMINISTRATION AND MANAGEMENT (DA&M)6

 UNDER SECRETARIES AND ASSISTANT SECRETARIES OF DEFENSE6

 HEADS OF THE DoD COMPONENTS7

 COMMANDERS OF THE COMBATANT COMMANDS7

PROCEDURES8

 DoD COMPONENT MICP8

 ASSESSABLE UNITS (AUs)8

 MICP PROCESSES8

 FMFIA INTERNAL CONTROL OVER NONFINANCIAL OPERATIONS (ICONO)
 PROCESS9

 FMFIA INTERNAL CONTROL OVER FINANCIAL REPORTING (ICOFR) PROCESS...9

 FMFIA INTERNAL CONTROL OVER FINANCIAL SYSEMS (ICOFs) PROCESS9

 PROMPT RESOLUTION OF WEAKNESSES IN ICs9

 STATEMENT OF ASSURANCE (SOA)10

 SATs11

 INFORMATION REQUIREMENTS12

 DoD SOA12

 DoD COMPONENT'S SOA12

INTERNAL CONTROL (IC) REPORTING CATEGORIES15

GLOSSARY18

 ACRONYMS AND ABBREVIATIONS18

 DEFINITIONS18

ENCLOSURE 1

REFERENCES

- (a) DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006 (hereby canceled)
- (b) DoD Directive 5118.03, "Under Secretary of Defense (Comptroller) (USD(C))/Chief Financial Officer (CFO), Department of Defense," January 6, 1997
- (c) Section 1101, 3512, and 7501 of title 31, United States Code
- (d) Office of Management and Budget Circular No. A-123, "Management's Responsibility for Internal Control," December 21, 2004
- (e) Office of Management and Budget Circular No. A-127, "Financial Management Systems," January 9, 2009
- (f) Volume 1, Chapter 3 of DoD 7000.14-R, "Department of Defense Financial Management Regulation," as amended
- (g) Public Law 111-5, "The American Recovery and Reinvestment Act," February 17, 2009
- (h) Office of Management and Budget, "Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009," current version
- (i) OUSD(C) Guidance for Financial Reporting and Data Requirements for the American Recovery and Reinvestment Act of 2009, June 26, 2009
- (j) OUSD(C) Risk Management for the American Recovery and Reinvestment Act, April 29, 2009
- (k) Government Accountability Office, "Standards for Internal Control in the Federal Government," November 1999
- (l) Government Accountability Office, "Internal Control Management and Evaluation Tool," August 2001
- (m) DoD 8910.1-M, "Department of Defense Procedures for Management of Information Requirements," June 1998
- (n) "Department of Defense Agency Financial Report," current edition
- (o) Section 3534 and 3544 of title 44, United States Code
- (p) Office of Management and Budget Circular No. A-76, "Performance of Commercial Activities," as amended¹
- (q) DoD Guidance on the Assessment of Acquisition Functions under Office of Management and Budget (OMB) Circular No. A-123, December 18, 2008
- (r) Office of Management and Budget Memorandum, "Conducting Acquisition Assessments Under Circular No. A-123," May 21, 2008
- (s) Department of the Treasury Federal Accounting Standards Advisory Board (FASAB) Generally Accepted Accounting Principles, as amended²
- (t) Department of the Treasury Financial Manual, Volume 1, "Federal Agencies," current edition
- (u) United States Standard General Ledger (USSGL), current edition
- (v) Office of Management and Budget Circular No. A-136, "Financial Reporting Requirements," current edition

¹ Can be found at http://www.whitehouse.gov/omb/circulars_default/

² Can be found at <http://www.fms.treas.gov/>

- (w) DoD Directive 8000.01, "Management of the Department of Defense Information Enterprise," February 10, 2009
- (x) DoD Directive 5000.01, "The Defense Acquisition System," May 12, 2003
- (y) Program Assessment Rating Tool, current version

ENCLOSURE 2

RESPONSIBILITIES

1. UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF FINANCIAL OFFICER, DEPARTMENT OF DEFENSE ((USD(C)/CFO). The USD(C)/CFO shall:

a. Monitor compliance with this Instruction.

b. Provide supplementary annual or periodic guidance, as needed, for the Internal Controls over Nonfinancial Operations (ICONO) process according to Reference (d); the Internal Controls over Financial Reporting (ICOFR) as prescribed by Appendix A of Reference (d); the Internal Controls over Financial Systems (ICOFS) according to References (c), (e), and (f); and the risk management of the ARRA (References (h), (i), and (j).

c. Designate a DoD SAT to provide oversight and accountability for the Department's FMFIA ICOFR and ICOFS and the performance and risk management of the DoD expenditures for the ARRA. This team shall help to ensure DoD operations are consistent with (References (c) through (l))

2. DIRECTOR OF ADMINISTRATION AND MANAGEMENT(DA&M). The DA&M shall manage the MICP for the OSD and DoD Field Activities, preparing and submitting the consolidated SOA to the Secretary of Defense.

3. UNDER SECRETARIES AND ASSISTANT SECRETARIES OF DEFENSE. The Under Secretaries and Assistant Secretaries of Defense and, with respect to the Defense Legal Services Agency, the General Counsel of the Department of Defense, shall:

a. Approve the appropriate Defense Agencies' SOA prior to submission to the Secretary of Defense.

b. In their capacity as the DoD functional proponents, maintain ownership of any DoD-wide material weakness(es), which are defined as systemic weaknesses that are pervasive across the Department and are reported in the Department's SOA to the OMB, the Congress, and the President. This includes:

(1) Identifying and reporting any new systemic material weakness(es) or reporting the status, until resolved, of any existing ones.

(2) Reviewing the reported actions of the DoD Components that pertain to their area of functional responsibility and promptly assisting to resolve any weaknesses by taking the necessary actions required.

(3) Reporting and explaining the actions taken to resolve systemic or material weakness(es).

4. HEADS OF THE DOD COMPONENTS. The Heads of the DoD Components shall establish an MICP to identify and promptly correct ineffective ICs, and establish ICs, when warranted. Additionally, the Heads of the DoD Components will annually provide separate explicit levels of assurance in a statement of assurance (SOA) addressed to the Secretary of Defense for three distinct processes:

a. The FMFIA ICs Over Nonfinancial Operations (ICONO) as it pertains to the overall program, operational, and administrative controls relevant to all mission-essential functions throughout their Component, except financial reporting and financial systems, which are covered in paragraphs 4.b. and 4.c. of this Instruction.

b. The FMFIA ICs over Financial Reporting (ICOFR) relevant to financial reporting functions as defined under the oversight of the SAT according to Appendix A of Reference (d).

c. The FMFIA ICs Over Financial System (ICOFS) relevant to integrated financial management systems (IFMS) conformance with the Federal requirements (References (e), and (f)).

5. COMMANDERS OF THE COMBATANT COMMANDS. The Combatant Commanders are ultimately responsible for implementing the requirements of the MICP for the Combatant Command's AUs. The Commanders of the Combatant Commands shall submit annual SOAs to the Secretary of Defense as described in Enclosure 3 and 4. Information copies shall be provided to the Chairman of the Joint Chiefs of Staff and the USD(C)/CFO.

ENCLOSURE 3

PROCEDURES

1. DoD COMPONENT MICP. Each DoD Component shall develop an MICP that concludes with the DoD Component Head or Principal Deputy annually preparing and reporting to the Secretary of Defense a SOA, which includes an explicit level of assurance about the effectiveness of ICs.

a. The Head of each DoD Component will assign IC responsibility to civilian and military leaders (hereafter referred to as “assessable unit managers” (AUMs) for all subcomponents, task forces, or other organizations under his or her direct authority, supervision, and/or responsibility throughout the Department of Defense and will provide trained personnel for planning, directing, and implementing the MICP.

b. DoD AUMs shall report assurance and track corrective actions taken to expedite prompt resolution of control deficiencies, reportable conditions, or material weaknesses found during the assessment. Documentation shall be maintained and fully disclosed in the annual SOA reporting any material weaknesses found during the assessment of ICs, to include a schedule of actions to resolve those weaknesses.

2. ASSESSABLE UNITS (AUs).

a. Each DoD Component shall segment into organizational, functional or other AUs, so that all subcomponents, task forces or organizations under the direct authority, supervision, and/or responsibility of each DoD Component are identified as a separate and distinct AU or are included as a part of another AU. The AUMs are the heads of the AUs.

b. The AUMs shall appoint a trained MICP Administrator, who is a government employee due to the inherently governmental nature of the work, who shall manage a successful MICP for the AUM.

c. The MICP Administrators will maintain a current list of any and all sub-AUs and annually update the list.

3. MANAGEMENT INTERNAL CONTROL PROGRAM PROCESSES. The MICP will be segregated into three distinct processes.

a. All DoD Components shall establish the FMFIA ICONO, which includes all mission-essential functions conducted within the Component except financial reporting and financial systems.

b. DoD Components that produce stand-alone statements, or are specified in the Office of the USD(C)/CFO annual guidance, shall also establish both a FMFIA ICOFR process, and a FMFIA ICOFS process.

4. FMFIA ICONO PROCESS. For the FMFIA ICONO Process, all DoD Components shall:

a. Assess the effectiveness of ICs through a process consistent with the guidance contained in References (c), and (d) and the MICP annual guidance in accordance with Reference (K). This process should include risk assessments, internal reviews, and the use of already existing management assessments and evaluations as well as audit findings.

b. Identify and report IC weaknesses. Each DoD Component shall establish and maintain a process that identifies and reports IC weaknesses, as follows:

(1) Identification. The DoD Components may identify weaknesses in their ICs over program, operational, or administrative areas through a variety of sources such as audits, inspections, investigations, management assessments, credible information of nongovernmental origin, staff meetings, and IC assessments. Additional sources are defined as “IC assessments for FMFIA ICONO Process” in the Glossary.

(2) Reporting. Identified material weaknesses in the system of ICs shall be reported by the Head of the DoD Component in the FMFIA ICONO Process SOA to the Secretary of Defense. The determination of materiality is management’s judgment, but is a deficiency that the management determines to be significant enough to be reported outside the Component.

5. FMFIA ICOFR PROCESS. For establishing and assessing the ICs used in the FMFIA ICOFR Process, DoD Components shall closely follow the procedures as established in Appendix A of Reference (d) and the ICOFR annual guidance, provided by the USD(C)/CFO.

6. FMFIA ICOFS PROCESS. For ICOFS, DoD Components shall closely follow the procedures as established in References (c), (e), and (f), and as provided in the USD(C)/CFO annual guidance, to assess, evaluate, and report the conformance of their integrated financial management system’s compliance with Federal requirements. Nonconformance with Federal requirements constitutes a material weakness, which will be reported in the SOA with a corrective action plan and schedule for resolution.

7. PROMPT RESOLUTION OF WEAKNESSES IN ICs. Reference (d) requires the DoD Component Heads, AUMs, SATs, and senior accountability officials to take prompt and effective actions to correct any weaknesses in their ICs. Components shall, for each unresolved material or systemic weakness reported to the Secretary of Defense:

- a. Appoint a senior accountable official from senior management, who is responsible for ensuring prompt resolution of the weakness. This appointment should be based on the manager's ability to understand and correct the problem and delegate others to make the correction a priority.
- b. Require prompt resolution of corrective actions.
- c. Require corrective action plans that show progress on a quarterly basis at a minimum.
- d. Require corrective action plans that are consistent with laws, regulations, and administrative policy.
- e. Require the addition of a critical element to the performance appraisal plan of the senior accountable official that indicates the effective and timely resolution of the material and systemic weakness.
- f. Ensure that an adequate determination has been made prior to reporting a material weakness as resolved. The last milestone in each corrective action plan shall include a correction validation unless a metric is used, in which case, the final corrective action shall describe how the metric goal was met.

8. **STATEMENT OF ASSURANCE.** The Head of the DoD Component shall annually submit a FMFIA ICONO Process SOA based on the general assessment of the effectiveness of their ICs over all functions described in Enclosure 4 of this Instruction, except ICOFR and ICOFS, which are described in paragraphs 8.a. and 8.b. of this enclosure. This SOA shall also include material weaknesses found in ICs and the plans to correct them according to the MICP annual guidance, provided by the USD(C)/CFO. The SOA must be signed by the Head of the DoD Component or the Principal Deputy and submitted annually to the Secretary of Defense by September 1 or the date stipulated by the MICP annual guidance. The signature authority may not be delegated below the Principal Deputy level.

a. DoD Components that produce stand-alone financial statements or are designated in the MICP annual guidance, shall annually submit a separate FMFIA ICOFR SOA based on a general assessment of the effectiveness of their ICs over financial reporting as further described in Enclosure 4 of this Instruction. This ICOFR SOA shall be consistent with ICOFR annual guidance in regard to the content and structure of the statement and provide the plan to correct any reported material weakness(es). The ICOFR SOA must be signed by the Head of the DoD Component or the Principal Deputy and submitted as a subset to the FMFIA ICONO SOA to the Secretary of Defense by September 1 of each year or the date stipulated by the MICP annual guidance. The signature authority may not be delegated below the Principal Deputy level.

b. In addition, DoD Components that produce stand-alone financial statements or are designated in the MICP annual guidance, shall annually include in their SOA the results of an ICOFS assessment and evaluation of their financial management systems' compliance with the Federal requirements prescribed in References (c), (e), and (f). Additional information is

provided in Enclosure 4 of this Instruction. This statement shall be consistent with the ICOFS annual guidance in regard to the content and structure of the statement and also identify any material weakness(es) and briefly describe the plan to correct the material weakness(es). The ICOFS SOA must be signed by the Head of the DoD Component or the Principal Deputy and submitted as a SUBSET to the FMFIA ICONO SOA to the Secretary of Defense by September 1 of each year or an alternative date if required by the MICP annual guidance. The signature authority may not be delegated below the Principal Deputy level.

9. SATs. All Components should use either SATs or senior management councils as a forum for assessing and monitoring MICP efforts. Those DoD Components that produce stand-alone financial statements, and DoD Components that provide expenditures under the requirements of the ARRA (Reference (g)), must establish an Entity SAT. The SATs will oversee the implementation of the ICOFR according to Appendix A of Reference (d), the ICOFS according to References (c), (e), and (f), and the performance and risk management of the ARRA (Reference (g)) according to References (h), (i), and (j). A highly recommended source for designating the entity SAT is the audit committee overseeing the financial statement reporting activities for the Component.

ENCLOSURE 4

INFORMATION REQUIREMENTS

1. DoD STATEMENT OF ASSURANCE. As required by References (c) and (d), the Secretary of Defense is required to submit a SOA in a single FMFIA report section as part of the Agency Financial Report labeled, "Management Assurances," (Reference (n)) annually by November 15, or a date specified by OMB, providing an explicit statement of assurance for:

a. FMFIA ICONO for all operations as specified, except for financial reporting and financial systems.

b. FMFIA ICOFR for financial reporting operations as specified by Appendix A of Reference (d).

(1) An assessment of the effectiveness of the DoD IC over financial reporting as of June 30, including an explicit conclusion as to whether the internal controls over financial reporting are effective.

(2) If a material weakness is discovered by June 30, but corrected by September 30, a statement should be included that identifies the material weakness, the corrective action taken, and that it has been resolved by September 30 for the Department of Defense.

(3) If a material weakness is discovered after June 30, but prior to September 30, the statement identifying the material weaknesses should be updated to include the subsequently identified material weakness.

c. FMFIA ICOFS for IFMS according to References (c), (e), and (f).

d. A material weakness must be included in the FMFIA ICOFS section of the DoD SOA with a schedule of corrective actions for any "significant information security deficiency" found and reported under the Federal Information Security Management Act (FISMA) of 2002, Section 3534 and 3544 of Title 44, U.S.C. (Reference (o)).

2. DoD COMPONENT'S STATEMENT OF ASSURANCE.

a. All DoD Components shall provide annually a FMFIA ICONO SOA that provides the DoD Component Head's or Principal Deputy's level of reasonable assurance of the effectiveness of ICs. The DoD Components shall consider IC weaknesses disclosed by all sources including management studies; DoD Component audits, inspections, investigations, or internal review reports; and DoD IG and GAO reports. This SOA is based on management's assessment of the effectiveness of Component's ICs as of the date signed for that fiscal year. DoD Components required by OMB or the Department of Defense to produce stand-alone financial statements or

entities identified in the MICP annual guidance, shall also annually provide as a subset to the FMFIA ICONO SOA:

(1) FMFIA ICOFR explicit level of assurance on the effectiveness of ICs over financial reporting for each entity. The assurance shall be based on the results of management's assessment conducted according to the requirements of Appendix A of Reference (d) and the ICOFR annual guidance. This SOA is management's assessment of the effectiveness of Component's ICs as of June 30 of each year or a date as prescribed in the ICOFR annual guidance.

(2) FMFIA ICOFS explicit level of assurance on the effectiveness of ICs over financial systems. The assurance shall be based on the results of management's assessment conducted according to the requirements of References (c), (e), and (f) and MICP annual guidance. This SOA is management's assessment of the effectiveness of the agency's IFMS conformance to Federal requirements as prescribed by the MICP annual guidance and effective as of the date the SOA is signed.

b. The Head of the DoD Component or Principal Deputy shall sign and provide to the Secretary of Defense the annual FMFIA SOA, including the explicit levels of assurance as required in the MICP annual guidance. Additional copies of the SOA and accompanying reports shall be furnished to the USD(C)/CFO; the quantity of copies will be contained in the MICP guidance provided by the USD(C)/CFO.

c. The DoD Component SOA will have one cover memorandum. Those DoD Components, which also are required to provide levels of assurance for FMFIA ICOFR and/or ICOFS, shall report assurance in subparagraphs to the FMFIA Overall SOA cover memorandum. Also in accordance with Reference (d), each SOA must take one of three forms:

(1) Unqualified SOA.

(2) Qualified SOA.

(3) No Assurance SOA.

d. The DoD Component SOA will be in the format prescribed by the MICP annual guidance and include a description of how the DoD Component assessment was conducted.

e. When the level of assurance is "qualified", for the FMFIA ICONO, ICOFR, or ICOFS, the following MUST be included in the format provided by the MICP annual guidance:

(1) Uncorrected material weaknesses (current year and prior year disclosures) and the specific plans and schedules for correction. The specific plans and schedules shall include the actions that will correct a weakness. Although the actions that should correct the weakness may still be in development, the weaknesses must be reported with updated actions.

(2) Material weaknesses corrected in the current year (current year disclosures and prior year disclosures corrected in the current year) and a description of the action taken. Each corrected material weakness shall include, as the last milestone, a validation milestone that evaluates and certifies the effectiveness of the corrective action.

f. When the level of assurance is “no assurance” for the FMFIA ICONO, ICOFR, or ICOFS, it is strongly recommended that either uncorrected or corrected material weaknesses be included in the SOA. If not, leadership must expressly state the reason for no assurance without corresponding material weaknesses. Examples are that no assessment was conducted or the unreliable data prevented sound assessments.

ENCLOSURE 5

IC REPORTING CATEGORIES

When reporting a material weakness according to evaluations conducted, the DoD Component will identify which function the material weakness concerns. The following will be used as IC reporting categories to classify the material weaknesses:

- a. Communications, Intelligence, and/or Security. The plans, operations, systems, and management activities for accomplishing the communications and intelligence missions and safeguarding classified resources (not peripheral assets and support functions covered by other reporting categories). Also covers the DoD programs for protection of classified information.
- b. Comptroller and/or Resource Management. The budget process, finance and accounting, cost analysis, productivity and management improvement, and the general allocation and continuing evaluation of available resources to accomplish mission objectives. Includes pay and allowances for all DoD personnel and all financial management areas not covered by other reporting categories, including those in connection with OMB Circular A-76 (Reference (p)).
- c. Contract Administration. The fulfillment of contractual requirements including performance and delivery, quality control and testing to meet specifications, performance acceptance, billing and payment controls, justification for contractual amendments, and actions to protect the best interests of the Government, according to DoD Guidance for OMB A-123 Acquisition (Reference (q)) and OMB Memorandum (Reference (r)).
- d. Financial Reporting (Pertaining to ICOFR). Processes, procedures, and systems used to prepare, compile, and generate the DoD financial statements according to References (d) and (f); the Federal Accounting Standards Advisory Board guidance (Reference (s)); the Department of the Treasury Manual (References (t)); United States Standard General Ledger (Reference (u)); and the financial reporting guidance established by OMB Circular A-136 (Reference (w)).
- e. Financial Systems (Pertaining to ICOFS) Conformance with Federal Requirements. The assessment, evaluation, and reporting of achievement or material weakness(es) of the integrated financial management system's conformance with Federal requirements for financial systems in accordance with References (c), (e), and (f).
- f. Force Readiness. The operational readiness capability of combat and combat support (both Active and Reserve) forces based on analyses of the use of resources to attain required combat capability or readiness levels.
- g. Information Technology. The design, development, testing, approval, deployment, use, and security of automated information systems (using a combination of computer hardware, software, data or telecommunications that performs functions such as collecting, processing, storing, transmitting, or displaying information) and other technologies for processing management information. This includes requirements for justification of equipment and

software. DoD Directive 8000.1 (Reference (w)) may be helpful when evaluating a weakness for inclusion in this category.

h. Major Systems Acquisition. Items designated as major systems, subject to the procedures of the Defense Acquisition Board, the Military Services Acquisition Review Councils, or the Selected Acquisition Reporting System. DoD Directive 5000.1 (Reference (x)) may be helpful when evaluating a weakness for inclusion in this category.

i. Manufacturing, Maintenance, and Repair. The management and operation of in-house and contractor-operated facilities performing maintenance and repair and/or installation of modifications to materiel, equipment, and supplies. Includes depot and arsenal-type facilities as well as intermediate and unit levels of military organizations.

j. Other (Primarily Transportation). All functional responsibilities not represented by any other functional category, including management and use of land, sea, and air transportation for movement of personnel, materiel, supplies, and equipment using military and civilian sources.

k. Personnel and/or Organizational Management. Authorizations, recruitment, training, assignment, use, development, and management of military and civilian DoD personnel. Also includes the operations of headquarters' organizations. Contract personnel are not covered by this category.

l. Procurement. The decisions to purchase items and services with certain actions to award and amend contracts (e.g., contractual provisions, type of contract, invitation to bid, independent Government cost estimate, technical specifications, evaluation and selection process, pricing, and reporting).

m. Property Management. Construction, rehabilitation, modernization, expansion, improvement, management, and control over real property (both military and civil works construction), to include installed equipment, and personal property.. Also covers disposal actions for all materiel, equipment, and supplies including the Defense Reutilization and Marketing System.

n. Research, Development, Test, and Evaluation. The basic project definition, approval, and transition from basic research through development, test, and evaluation and all DoD and contractor operations involved in accomplishing the project work, excluding the support functions covered in separate reporting categories such as Procurement and Contract Administration.

o. Security Assistance. Management of DoD Foreign Military Sales, Grant Aid, and International Military Education and Training Programs.

p. Supply Operations. The supply operations at the wholesale (depot and inventory control point) level from the initial determination of material requirements through receipt, storage, issue reporting, and inventory control (excluding the procurement of materials and supplies). Covers all supply operations at retail (customer) level, including the accountability and control for

supplies and equipment of all commodities in the supply accounts of all units and organizations (excluding the procurement of material, equipment, and supplies.)

q. Support Services. All support service functions financed from appropriate funds not covered by the other reporting categories such as health care, veterinary care, and legal and public affairs services. All nonappropriated fund activities are also covered by this category.

GLOSSARY

ACRONYMS AND ABBREVIATIONS

AU	Assessable unit
ARRA	American Recovery and Reinvestment Act
AUM	Assessable Unit Manager
DA&M	Director of Administration and Management
DoD	Department of Defense
DoDD	Department of Defense Directive
FASAB	Federal Accounting Standards Advisory Board
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FSRE	Financial Statement Reporting Entity
GAO	Government Accountability Office
IC	Internal control
ICOFR	Internal control over financial reporting
ICOFs	Internal control over financial systems
ICONO	Internal control over nonfinancial operations
IFMS	Integrated financial management systems
IG DoD	Inspector General of the Department of Defense
MIC	Managers' Internal Control
MICP	Managers' Internal Control Program
OMB	Office of Management and Budget
OSD	Office of the Secretary of Defense
OUSD(C)/CFO	Office of Under Secretary of Defense (Comptroller) / Chief Financial Officer
SAT	Senior Assessment Team
SOA	Statement of Assurance
U.S.C.	United States Code
USD(C)/CFO	Under Secretary of Defense (Comptroller) / Chief Financial Officer
USSGL	United States Standard General Ledger

DEFINITIONS

These terms and their definitions are for the purpose of this Instruction.

Assessable Unit. An organizational subdivision of each DoD Component's total MICP. An assessable unit is any organizational, functional, programmatic or other applicable subdivision of an organization that allows for adequate internal control analysis. The assessable unit is required

to have an appointed and adequately trained MICP Administrator, who manages the MICP for the AUM.

Assessable Unit Manager. The head or principal deputy of the assessable unit.

Comptroller General standards. The five standards issued by the Comptroller General to be applied by all managers in the Federal Government in establishing, assessing, documenting, monitoring, and reporting ICs under References (d) and (l). The five standards are control activities, control environment, information and communication, monitoring, and risk assessment.

Control Activities. One of the five standards issued by the Comptroller General to be applied by all managers in the Federal Government in establishing, assessing, documenting, monitoring, and reporting ICs under Reference (d) and (k). Examples include proper segregation of duties; physical control over assets; proper authorization; and appropriate documentation and access to that documentation.

Control Environment. One of the five standards issued by the Comptroller General to be applied by all managers in the Federal Government in establishing, assessing, documenting, monitoring, and reporting ICs under Reference (d). The organizational structure and culture created by management and employees to sustain organizational support for effective ICs. Within the organizational structure, management must clearly: define areas of authority and responsibility; appropriately delegate the authority and responsibility throughout the agency; establish a suitable hierarchy for reporting; support appropriate human capital policies for hiring, training, evaluating, counseling, advancing, compensating, and disciplining personnel; and uphold 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 IC within the organization.

Information and Communication. One of the five standards issued by the Comptroller General to be applied by all managers in the Federal Government in establishing, assessing, documenting, monitoring, and reporting ICs under Reference (d). Information should be communicated to relevant personnel at all levels within an organization. The information should be relevant, reliable, and timely. It is also crucial that an agency communicate with outside organizations well, whether providing information or receiving it. Examples include receiving updated guidance from central oversight agencies; management communicating requirements to the operational staff; operational staff communication with the information systems staff to modify application software to extract data requested in the guidance.

Monitoring. One of the five standards issued by the Comptroller General to be applied by all managers in the Federal Government in establishing, assessing, documenting, monitoring, and reporting ICs under Reference (d). Monitoring the effectiveness of internal control should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal control, which should be ingrained in the agency's operations. If an effective continuous

monitoring program is in place, it can provide the resources needed to maintain effective ICs throughout the year. Deficiencies found in internal control should be reported to the appropriate personnel and management responsible for the area. Deficiencies identified whether through internal review or by an external audit should be evaluated and corrected. A systemic process should be in place for addressing deficiencies.

Risk Assessment. One of the five standards issued by the Comptroller General to be applied by all managers in the Federal Government in establishing, assessing, documenting, monitoring, and reporting ICs under Reference (d). Management should identify 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 organizations as well as with outside organizations. Management should also consider previous findings; e.g., auditor identified, internal management reviews, or noncompliance with laws and regulations when identifying risks. Identified risks should then be analyzed for their potential effect or impact on the agency.

Control Deficiency. Occurs when the design or operations of a control does not allow management or employees to prevent error or detect misstatements on a timely basis or accomplish the mission objectives.

Design Deficiency. Occurs when the existing control is not properly designed so that even if the control operates as intended and designed, the control objective is not consistently met.

DoD Functional Proponent. The DoD staff principal responsible for policy and oversight of a particular functional area.

Financial Statement Reporting Entity. An entity assigned by either the OMB or the Department of Defense to produce and provide stand-alone financial statements. For example, a DoD Component's general fund or working capital fund.

Internal Control. The organization, policies, and procedures that help program and financial managers to achieve results and safeguard the integrity of their programs by reducing the risk of adverse activities.

Internal Control Assessment. A documented evaluation on the effectiveness and adequacy of the system to meet the mission objectives.

Federal Managers' Financial Integrity Act Internal Control Over Nonfinancial Operations. The conduct of assessing the effectiveness of ICs for all functions under the FMFIA as defined in Enclosure 5 of this Instruction, except ICOFR and ICOFS. The assessment shall be designed by management following Reference (d) and the MICP Annual Guidance provided by USD(C)/CFO. DoD Components are encouraged to integrate these assessments with other evaluative activities such as:

- a. Annual evaluations and reports pursuant to Reference (l).

- b. Annual reviews and reports pursuant to Government Performance and Results Act, section 1101 of Reference (c).
- c. IG DoD and GAO reports, including audits, inspections, reviews, investigations, outcome of hotline complaints, or other products.
- d. Management knowledge gained from the daily operation of agency programs and systems.
- e. Management reviews conducted to assess ICs or for other purposes with an assessment of IC as a by-product of the review.
- f. Other reviews or reports relating to agency operations; e.g., for the Department of Health and Human Services, quality control reviews of the Medicaid and Temporary Assistance for Needy Families programs.
- g. Program Assessment Rating Tool assessments (Reference (y)).
- h. Program Evaluations.
- i. Reports and other information provided by the congressional committees of jurisdiction.
- j. Single audit reports for grant-making agencies, according to section 7501 of Reference (c).

FMFIA ICOFR Process. The conduct of assessing the effectiveness of ICs over financial reporting that should closely follow the guidance in Appendix A of Reference (d) and MICP Annual Guidance provided by the USD(C)/CFO.

FMFIA ICOFS conformance with Federal requirements. The conduct of the assessment and evaluation of the integrated financial management system's conformance with Federal requirements for financial systems in accordance with References (c), (e), and (f).

Internal Control Standards. GAO standards for establishing and maintaining internal management in Federal agencies. See Reference (k).

Integrated Financial Management Systems. A unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, process (manual and automated), procedures, controls, and data necessary to perform financial management functions, manage financial operations of the agency, and report on the agency's financial status to central agencies, Congress, and the public.

MICP Administrator. The MICP Administrator is assigned by the AUM to manage the MICP for the AU. Due to the inherently governmental nature of this function, the MICP administrator should be a Government employee (civilian or military).

MICP Strategy. A brief, written strategy that indicates the number of scheduled and accomplished IC assessments and the identity of DoD Component AUs and their progress toward accomplishing the annual program requirements consistent with information reported in the DoD Component's FMFIA SOA.

Material Weakness.

FMFIA ICONO. A reportable condition in which the DoD Component Head deems significant enough to report to a higher level. It is management's judgment as to whether or not a weakness is deemed material.

ICOFR. A reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected. The determination is a management judgment as to whether a weakness is material.

ICOFS. The IFMS is not substantially in conformance with the Federal requirements for DoD Component's.

Materiality.

FMFIA ICONO. The risk of error or inability to accomplish mission objectives. The level of materiality is based upon management's judgment.

FMFIA ICOFR and ICOFS. The risk of error or misstatement on the financial statements that could occur and would impact management's or user's decisions or conclusions based on such statements. Materiality for FMFIA ICOFR is further defined in Appendix A, paragraph C of Reference (d).

No Assurance SOA. One of the three explicit levels of assurance that a FMFIA ICONO, ICOFR, or ICOFS SOA must take. No assurance provides no reasonable assurance that ICs are effective because no assessments were conducted, the noted material weakness(es) are pervasive across many key operations or the IFMS is substantially noncompliant with Federal requirements.

Operational Deficiency. Occurs when a properly designed control does not operate as it was designed or the person performing the control is not qualified or skilled to perform the control effectively.

Qualified SOA. One of the three explicit levels of assurance that a FMFIA ICONO, ICOFR, or ICOFS SOA must take. A qualified SOA provides reasonable assurance that ICs are effective with the exception of one or more material weaknesses(es) or the IFMS is not fully compliant with Federal requirements reported. The SOA must cite the material weaknesses in internal management controls that preclude an unqualified statement.

Reasonable Assurance. An informed judgment by management regarding the overall adequacy and effectiveness of IC based upon available information that the systems of ICs are operating as intended according to Reference (c).

Reportable Conditions.

FMFIA ICONO. A control deficiency, or combination of control deficiencies, that in management's judgment, should be communicated because they represent significant weaknesses in the design or operation of IC that could adversely affect the organization's ability to meet its IC objectives.

FMFIA ICOFR and ICOFS. 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 according to generally accepted accounting principles such 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 will not be prevented or detected.

Risk. The possibility an event will occur and adversely affect the achievement of the IC objectives and may result in the loss of Government resources or cause an agency to fail to accomplish significant mission objectives through fraud, error, or mismanagement. Risk is measured by the likelihood of an event occurring and the impact of the event having a negative effect.

Senior Assessment Team. A team of senior level executives that provide oversight of assessing and documenting the effectiveness of ICs for FMFIA ICOFR and ICOFS and provide oversight and risk management for ARRA expenditures

Senior Management Council. A committee or board of senior level executives that convene to advise the head of an organization on IC matters, to include the identification of IC weaknesses that merit reporting as material weaknesses.

Senior Official. A member of the highest level of management or leadership of the agency or DoD Component.

Statement of Assurance. An annual statement in memorandum format that provides a leaders' explicit level of assurance on whether ICs are effective. The SOA is based on self- assessments conducted for mission essential functions relative to risk and identifies any material weaknesses found during the assessments. The SOA provides a plan with prescribed milestones to promptly correct any material weaknesses reported. The SOA is submitted to each leader's next higher level of command unless otherwise specified.

System Nonconformance. Instances in which financial management systems do not substantially conform to financial system requirements constitute system non-conformance as defined in Reference (d). Financial management systems include financial and financially related (or mixed) systems.

Systemic Weakness. Pervasive within the Department of Defense and materially affect ICs across organizational and program lines, usually affecting more than one DoD Component.

Unified Set of Systems. Systems are planned for and managed together, operated in an integrated fashion, and linked together electronically in an efficient and effective manner to provide agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

Unqualified SOA. One of the three explicit levels of assurance that a FMFIA ICONO, ICOFR, or ICOFS SOA must take. An unqualified SOA provides reasonable assurance that ICs are effective with no material weakness(es) reported or that the IFMS is in conformance with Federal requirements. Each unqualified statement must provide a firm basis and evidence for that position in the SOA.