NAVSEAINST 5200.13C
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NAVSEA INSTRUCTION 5200.13C

From: Commander, Naval Sea Systems Command

Subj: MANAGEMENT CONTROL PROGRAM (MCP)

Ref: (a) SECNAVINST 5200.35D, "Department of the Navy (DON) Management Control (MC) Policy," 10 Dec 97
      (b) OMB Circular A-123, "Management Accountability and Control," 21 Jun 95
      (c) DOD Directive 5010.38, "Management Control (MC) Program," 26 Aug 96
      (d) DoD Instruction 5010.40, "Management Control (MC) Program Procedures," 28 Aug 96
      (e) GAO/AIMD-00-21.3.1, "Standards for Internal Control in the Federal Government," Nov 99
      (f) SECNAV memo, "Department of the Navy Management Control Program," 25 Apr 02
      (g) NAVSEAINST 5000.7A, "Command Evaluation and Review," 19 Jun 03
      (h) Federal Managers' Financial Integrity Act of 1982
      (i) SECNAV memo, "Clarification of SECNAVINST 5200.35 D Requirements," 19 Aug 02

Encl: (1) Definition of Terms
       (2) Sample Management Control Performance Standard
       (3) MCP Documentation Requirements
       (4) Sample Risk Assessment
       (5) Assessable Unit (AU) Reporting Categories
       (6) Format for Reporting Annual Management Control Certification Statement and Material Weaknesses

1. Purpose. To implement policy, assign responsibilities, and prescribe procedures, in accordance with references (a) through (i), and to reemphasize the importance of an active MCP. This is a complete revision and should be read in its entirety.

2. Cancellation. NAVSEAINST 5200.13B of 5 May 2000

3. Background. Commanders and managers are responsible for ensuring that resources under their purview are used efficiently and effectively, and that programs and operations are discharged with integrity and in compliance with applicable laws and regulations.

The Management Control Program is a tool to support Commanders and managers in meeting these responsibilities. Other tools include (but are not limited to) the Command Inspection Program, command evaluation reviews and analyses, and individual audits and investigations. The establishment and verification of management (internal) control effectiveness is essential for leadership to establish reasonable assurance that internal and external risks (that can lead to material weaknesses in their areas of responsibility) are promptly identified for corrective action.

The General Accounting Office's (GAO) standards for internal control in the Federal Government state that effective management controls: (1) establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management; (2) provide an assessment of the risks from both external and internal sources; (3) help ensure that management's directives are carried out; (4) record and communicate reliable information to those who need it, in a form that is relevant and in a timely manner; and (5) assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved in accordance with the *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1, November 1999.

4. <u>Policy</u>. By law, reference (h), managers are responsible for ensuring that effective internal controls are used to protect resources from misuse. It is NAVSEA policy that a comprehensive system of management controls, meeting the General Accounting Office standards listed above, be integrated (at all levels) into the organizational structure, policies and processes used to accomplish the day-to-day work of NAVSEA. Accordingly:

    a. All NAVSEA organizations shall, as required by reference (a), ensure that their management controls are designed, documented and operated to provide reasonable assurance that:

        (1 Obligations and costs comply with applicable law;

        (2) Assets are safeguarded against fraud, waste, loss, unauthorized use, and misappropriation;

        (3) Revenues and expenditures applicable to operations are properly accounted for and recorded; and

(4) Programs and administrative and operating functions are efficiently and effectively carried out in accordance with applicable laws and management policies.

b.   A prime goal of the DON and NAVSEA Management Control Program is to provide flexibility for commanders and managers to direct their programs without undue administrative control. Wherever possible, commanders and managers should rely on organizational assessments, evaluations, and other contributing information (performance metrics, external and internal audits, command evaluations, and inspections, etc.), to assess effectiveness of their management controls. Management control evaluation should not cause the duplication of existing information that pertains to assessing the effectiveness of management controls or information that may be used for that purpose.

c.   Incorporate management controls into management practices to:

(1) Address all significant operations and mission responsibilities.

(2) Involve all levels of management, with a designated senior management official assigned overall responsibility for program design and implementation.

(3) Rely on organizational assessments, evaluations, and other contributing information (performance metrics, external audits, internal reviews, and inspections, etc.), if possible, to assess effectiveness of management controls.

5. Definitions. The terms, standards, and other applicable concepts used in this instruction are defined in enclosure (1)

6. Responsibilities. The responsibilities as defined below are designated to ensure compliance with the instructions contained herein.

a.   NAVSEA Office of the Inspector General (SEA 00N). The NAVSEA Inspector General is the MCP Program Manager and is responsible for the overall function and administration of the MCP on behalf of COMNAVSEA. As such the NAVSEA Inspector General, (SEA 00N) shall:

(1) Appoint a MCP coordinator and alternate for NAVSEA claimacy, who is responsible for the administration and coordination of the program and reporting requirements.

(2) Ensure the program and reporting requirements are communicated throughout NAVSEA headquarters and its field activities.

(3) Develop and execute an annual Management Control Plan for NAVSEA Headquarters.

(4) Ensure MCP training is made available to all components on an annual basis.

(5) Coordinate, prepare, and submit all reports required by reference (a) for COMNAVSEA signature.

(6) Coordinate, maintain, update annually for COMNAVSEA approval NAVSEA's command-wide Assessable Unit (AU) Inventory Guide and disseminate the guide to all MCP coordinators.

(7) Coordinate identification of AUs that are at high risk for fraud, waste, abuse, and/or mismanagement based on internal/external audits, reviews, and/or investigations and provide the information to MCP coordinators for inclusion in their review process.

(8) Conduct or coordinate special Management Control Reviews (MCRs) or alternative MCRs for COMNAVSEA when appropriate.

(9) Ensure the integration of the MCP into NAVSEA's Command Performance Inspections (CPIs). Inspect NAVSEA field activity's MCPs and perform follow-up inspections when appropriate to ensure compliance with this instruction and other applicable guidance.

b. The Deputy Commander for Nuclear Propulsion (SEA 08) will satisfy the MCP requirements pursuant to Department of Energy policies and procedures. SEA 08 will provide NAVSEA with an annual memorandum of assurance, concomitantly with its submission to Department of Energy.

c. Commanders Naval Surface Warfare Center and Naval Undersea Warfare Center, shall ensure all policies and guidelines

contained in this instruction are implemented at their subordinate commands/activities/detachments.

   d. PEOs, NAVSEA Directorates, Staff Codes and Field Activities shall

      (1) Establish and maintain a MCP in accordance with NAVSEA policy as set forth in paragraph 4, and ensure compliance with all responsibilities contained in paragraph 6 of this instruction.

      (2) Submit an annual Statement of Assurance (SOA) as prescribed in paragraph 7 of this instruction.

      (3) Designate a MCP coordinator to provide oversight for the program and provide the MCP coordinator's name, phone number, email address to SEA 00N.

      (4) Ensure that the appropriate authority, responsibility and accountability are defined and delegated to accomplish the mission of the organization, and that an appropriate organizational structure is established to effectively carry out program responsibilities. To the extent possible, controls and related decision-making authority should be in the hands of line managers and staff.

      (5) Ensure managers perform MCRs and take corrective actions where internal controls are identified as weak, or deficient.

      (6) Ensure that management control responsibilities are included in civilian leadership's (director, deputy director, senior civilians, and MCP Coordinators) performance standards. Enclosure (2) provides sample management control performance standards.

      (7) Ensure AU information is developed and maintained for the entire organization including all departments, divisions, and/or branches of the organization.

      (8) Ensure the development of an annual organizational Management Control Plan.

      (9) Ensure the development and maintenance of tracking systems for correcting material control weaknesses that have been identified.

(10) Require all managers within the organization and functional responsibility receive MCP training every three years commencing in FY 2005.

(11) Provide MCP oversight to subordinate Commands and detachments to ensure adequate internal controls are in place.

e. **MCP Coordinators shall:**

(1) Communicate the program and reporting requirements throughout the organization.

(2) Prepare the annual Management Control Certification Statement/Statement of Assurance (SOA) in accordance with paragraph 7 of this instruction and report material weaknesses and accomplishments.

(3) Prepare the annual Management Control Plan in accordance with enclosure (3).

(4) Assist managers in obtaining MCP training and maintain applicable documentation indicating the managers' names and dates of training.

(5) Maintain the results and documentation of managers' MCRs or other alternative review sources.

(6) Establish an internal tracking system that identifies, reports, and corrects material weaknesses. Corrective actions must be identified and tested before a material weakness may be removed from the tracking process.

(7) Establish and maintain an inventory of assessable units (AU) for the activity's key financial and operational processes and functions, based on the NAVSEA Inventory maintained by SEA 00N. Identify the responsible functional and senior manager for each AU. AUs must cover key financial and operational functions, properly reflect the organization and be updated as necessary to reflect changes within the organization and/or its functional managers. At a minimum, the inventory of AUs should be reviewed yearly to ensure its accuracy.

(8) Ensure all AUs are reviewed and risk assessments are performed by functional and/or senior managers to make sure adequate internal controls are in place.

(9) Provide reports and other documentation to SEA 00N as requested

f. **All NAVSEA managers of assessable units** are required to:

(1) Incorporate into the strategies, plans, guidance and procedures that govern their programs and operations, basic management controls that provide reasonable assurance that assets are safeguarded against fraud, waste, loss, unauthorized use and misappropriation.

(2) Ensure key duties and responsibilities in authorizing, processing, recording and reviewing transactions are separate among individuals and provide oversight to ensure individuals do not exceed or abuse their assigned authorities.

(3) Limit access to resources and records to authorized individuals and assign accountability for custody and use of resources and records.

(4) Utilize documentation that is clear and readily available for examination (see paragraph 5 of enclosure (1)

(5) Promptly evaluate and determine proper actions in response to known deficiencies, reported audits and other findings and when appropriate, related recommendations.

(6) Complete, within established timeframes, all actions that correct or otherwise resolve matters brought to managers' attention.

(7) Review all key processes (including related sub-processes) and conduct risk assessments as an initial indicator of the overall strength or weakness of internal controls within these processes. A sample risk assessment form is provided as enclosure (4). Continuously monitor and improve the effectiveness of vital controls.

7 **Statement of Assurance (SOA):** As required annually:

a. Enclosures (5) and (6) must be used for reporting the SOA. Deviations will not be accepted.

b. One of the following statements must be used as the basis for certifying the SOA:

(1) I have reasonable assurance that management controls are in place and operating effectively and the objectives of the Federal Managers' Financial Integrity Act (FMFIA) were achieved.

(2) I have reasonable assurance that management controls are in place and operating effectively, except for the material weaknesses identified and the objectives of the Federal Managers' Financial Integrity Act (FMFIA) achieved.

(3) I do not have reasonable assurance that management controls are in place and operating effectively, the objectives of the Federal Managers' Financial Integrity Act (FMFIA) were not achieved.

c.   All corrective action taken on previously reported material weaknesses and significant accomplishments are to be reported as part of the SOA.

d.   NAVSEA Directorates, Program Executive Offices, Staff Offices and Echelon 3 Activities shall submit an SOA to COMNAVSEA (SEA 00N) no later than 30 June of each year (with an electronic copy to the NAVSEA Inspector General). The SOA shall incorporate the information provided by subordinate activities.

e.   All other NAVSEA Activities (echelon 4 and below) shall submit their SOA to their immediate superior with a copy to COMNAVSEA (with an electronic copy to the NAVSEA Inspector General) by the submission date established by that immediate superior. The SOA shall incorporate the information provided by subordinate activities.

8. Action. All NAVSEA components and managers will comply with the policies and responsibilities set forth in this instruction. Any requests for deviation from these guidelines shall be addressed to COMNAVSEA via the NAVSEA Inspector General (SEA 00N).

A. W. LENGERICH
Vice Commander

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DEFINITIONS, MANAGEMENT CONTROL STANDARDS
AND ASSOCIATED CONCEPTS

1. **Assessable Unit**. Any organizational, functional, programmatic, or other applicable subdivision capable of being evaluated by management control assessment procedures. An assessable unit should be a subdivision of an organization that ensures a reasonable span of management control to allow for adequate analysis. Assessable units usually have specific management controls that are applicable to their responsibilities.

2. **Control Objective**. A specific aim, goal, condition, or level of control established by a manager for an assessable unit that provides reasonable assurance that the resources allocated to that activity are safeguarded or protected adequately against waste, fraud or mismanagement, and that organizational, operational or administrative objectives are accomplished. Control objectives are not absolutes. Limiting factors such as budget constraints, statutory and regulatory restrictions, staff limitations, and the cost-benefit of each control technique are to be considered in determining desired control objectives.

3. **Control Technique**. Any form of organizational procedure or document flow that is relied upon to accomplish a control objective.

4. **Cost-Benefit**. The true net cost of correcting an identified weakness. The cost-benefit represents the real (actual) monetary benefit derived from correcting the weakness, reduced by (less) the costs associated with implementing the correction. The concept of reasonable assurance recognizes that the costs of management control should not exceed the benefits to be derived, and that the benefits themselves consist of a reduced risk of failing to achieve stated objectives. This balancing of management control costs and benefits is addressed using estimates and management judgment.

5. **Documentation**. Documentation of management control activities is required to the extent needed by management to control its operations effectively and may be generated by activities not specifically established to meet the requirements of the Management Control Program. Documentation for management control systems is mandated by reference (b), and encompasses the following two types of written materials:

a. <u>Review Documentation</u>. Shows the type and scope of the review, the responsible official, the pertinent dates and facts, the key findings, and the recommended corrective actions. Documentation is adequate if the information is understandable to a reasonably knowledgeable reviewer.

b. <u>System Documentation</u>. Includes policies and procedures, organizational charts, manuals, flow charts, and related written and graphic materials necessary to describe organizational structure, operating procedures and administrative practices, and to communicate responsibilities and authority for accomplishing programs and activities.

6. <u>General Control Environment</u>. The environment in which management operates, including management attitude; organizational structure; personnel competence; delegation of authority and responsibility; policies, procedures, budgeting and reporting practices; and organizational checks and balances.

7. <u>Management Control</u>. The organization, policies, and procedures used to reasonably ensure that (1) programs achieve their intended results; (2) resources are used consistent with the DON mission; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and, (5) reliable and timely information is obtained, maintained, reported and used for decision making. Management controls, in the broadest sense, include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include processes for planning, organizing, directing, and controlling program operations. A subset of management controls are the internal controls used to assure that there is prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets.

8. <u>Management Control Evaluation</u>. A documented examination of an assessable unit to determine whether adequate control techniques exist and are achieving their intended objectives. management control evaluations are of the following two types:

a. <u>Alternative Management Control Review</u>. A process which determines that control techniques are operating properly, or a process developed for other organizational purposes which provides adequate information on the effectiveness of control techniques. This type of process may utilize computer security reviews; quality assessments; financial systems reviews; GAO,

DODIG and Naval audits, inspections or investigations; internal reviews and Command Evaluations; studies; and management and consulting reviews. Such alternative reviews must assist in determining overall compliance and, whenever possible, include testing of controls and documentation. The process involved should have some reasonable testing aspect associated with it.

    b. <u>Management Control Review</u>. Detailed examination by the responsible manager of the system of management controls in an assessable unit to determine the adequacy of controls, and to identify and correct deficiencies. Management control reviews should be conducted only when a reliable alternative source of information is not available, and the review is expected to produce otherwise unavailable written documentation of what was done and what was found. Any review should have some reasonable cost effective testing aspect associated with it.

9. <u>Management Control Plan</u>. A brief, written plan (updated annually) that indicates the number of scheduled and accomplished management control evaluations, the identity of assessable units, progress toward accomplishment of annual program requirements, the method of monitoring and evaluation, and the date the evaluation was completed. The management control plan need not be lengthy and any format may be used, so long as it addresses management controls evaluations throughout the organization and conveys, with reasonable certainty, an awareness that the objectives of the Management Control Program have been accomplished.

10. <u>Management Control Program</u>. The full scope of management responsibilities as defined in this Instruction. That responsibility includes the development of effective management controls, the evaluation and correction of deficiencies, the use of effective follow-up procedures, and the reporting requirements of this guidance.

11. <u>Management Control Standards</u>. Federal standards for management control are summarized in reference (b).

12. <u>Management Control System</u>. The sum of the methods and measures used to achieve the management control objectives-both the controls and the evaluations of those controls. It is not a separate system, but an integral part of the systems used to operate programs and functions.

13. <u>Material Weakness</u>. Specific instances of noncompliance with the Federal Manager's Financial Integrity Act of such importance so as to warrant reporting of the deficiency to the next higher level of management. Such weaknesses significantly impair or may impair the fulfillment of an activity's mission or operational objective; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against fraud, waste or mismanagement of funds, property, or other assets; or cause a conflict of interest. In effect the weakness results from management controls that are not in place, not used or are not adequate. Material weaknesses should be identified using one of 15 functional reporting categories contained in enclosure (2) to the basic instruction. Open findings on management controls from any source, agreed to by management, are candidates for a material weakness at the applicable level, until all corrective actions are complete. Weaknesses considered significant on any of the following criteria warrant consideration for reporting as material weaknesses:

- Actual or potential loss of resources (e.g., property, inventory, personnel, etc.);
- Sensitivity of the resources involved (e.g., drugs, munitions, etc.);
  Magnitude of funds, property, or other resources involved.
- Frequency of actual or potential loss;
- Current or probable Congressional or media interest (adverse publicity);
- Impaired fulfillment of mission or operations;
- Unreliable information causing unsound management decisions;
- Violations of statutory or regulatory requirements;
- Diminished credibility or reputation of management;
- Deprives the public of needed Government services; or
- Impact on information security.

14. <u>Reasonable Assurance</u>. The judgment by a DON component head based upon all available information that the component system of management controls are operating as intended by the Federal Manager's Financial Integrity Act (FMFIA).

15. <u>Risk</u>. The probable or potential adverse effects from inadequate management controls that may result in the loss of

4

resources or cause an activity to fail to accomplish significant mission objectives through fraud, error, or mismanagement.

16. **Business Process Risk.** A situation that could (1) jeopardize the process's efficiency and/or effectiveness, (2) diminish established controls, or (3) result in repercussions to organizational strategic objectives. Risks at the process level may arise when processes:

- Are not effectively aligned with business strategies;
- Are ineffective in satisfying customers needs;
- Do not operate efficiently; or
- Fail to protect significant financial, human, physical and informational assets from unacceptable losses, misappropriations, and misuse.

17. <u>Business Risk.</u> Any event or occurrence that could jeopardize the achievement of the organization's mission

18. **Risk Assessment.** A documented review by management of an assessable unit's susceptibility to fraud, waste, or mismanagement. Management evaluates the general control environment, analyzes the inherent risk and arrives at a preliminary assessment of the safeguards for the assessable unit.

19. **Risk Mitigation.** A technique in which active steps are taken to reduce the probability or likelihood of a risk event occurring, and reduce the potential impact on a program or process.

20. **Testing.** Procedures to determine through observation, examination, verification, sampling, or other procedures whether Management control systems are working as intended.

SAMPLE MANAGEMENT CONTROL PERFORMANCE STANDARD

1. The following wording may be used to identify management control responsibilities in the performance standards of civilian command/organizational leadership:

    a. Establishes a system of management controls, as required by the FMFIA and prescribed by the GAO in its Standards for Internal Control in the Federal Government, to provide reasonable assurance that programs and functions meet mission objectives and operate effectively and efficiently.

    b. Oversees a management control program that continuously monitors, documents, evaluates, and communicates the continuing implementation of management controls to include assessable units, management control assessments, training, and tracking systems, as required by SECNAVINST 5200.35E.

2. For military leadership's performance standards, management control responsibilities defined in the SORM, OPNAVINST 3120.32C Affected individuals shall ensure compliance in accordance with the SORM.

MCP DOCUMENTATION REQUIREMENTS

1. To demonstrate implementation and continued operation of an effective MCP, all NAVSEA Directorates, PEOs, and Echelon 3 through 5 Commands and shore activities shall prepare the following program support documents:

    a. MCP Plan. The MCP Plan is designed to assist an organization in thinking through and documenting the key elements of its programs, practices, responsibilities and schedules in an effective manner. It must be in writing and updated at least annually. The Sample MCP Plan that follows may be used to create the MCP. The Sample MCP Plan outlines the key information requirements and provides prompts and questions in each section to enable development of a robust plan. It is designed to meet the reporting requirements and indicate how an organization's program relates to the five GAO standards.

    b. Control Activity Documentation. This includes policies and procedures, organizational charts, manuals, flow charts and related written and graphic materials necessary to describe organizational structure, operating procedures and administrative practices for achieving objectives, and to communicate responsibilities and authority for accomplishing programs and activities.

    c. Evaluation Documentation. This documentation identifies the assessable unit, type and scope of the review, the responsible official, the pertinent dates and fact, the key findings and the recommended corrective actions. Documentation is adequate if the information is understandable to a reasonably knowledgeable reviewer.

Enclosure (3)

SAMPLE MCP PLAN

Directorate/PEO/Command Name
Management Control Program (MCP) Plan
Fiscal Year 20__

This plan is updated annually.

Last Update:

MCP Coordinator:

Identify the MCP Coordinator by name, title and organization position.

Identify to whom the position reports.

Indicate how the responsibility is assigned and how often the position changes staffing.

Indicate if this is a full-time or part-time function.

Alternate MCP Coordinator:

Identify the alternate MCP Coordinator by name, title and organization position.

Identify how the position reports to the Coordinator

Indicate how the responsibility is assigned and how often the position changes staffing.

Indicate if this is a full-time or part-time function

Brief Overview of the Management Control Program within the Command: *Address all 5 elements of the GAO standards: Control Environment, Control Activities, Monitoring, Risk Assessments, and Information and Communication and how they are being addressed within your command. For each discussion area, if published information already exists, it is not necessary to repeat it within the document, merely attach or reference the*

location and source of the relevant information, so that it can
be easily obtained.

Control Environment

Mission

Identify your organization's mission - what your organization is
working to accomplish.

Identify your organization's major (top 5- 10) objectives and
goals directed toward accomplishing the mission.

Identify how your organization's mission aligns and/or supports
the overall DON mission.

Reference how the mission, objectives and goals are communicated
to management and staff throughout the organization.

Location and or copy of published mission

Strategic Plan

Describe your organization's formal planning process that results
in a planning document outlining management's strategic
decisions.

Identify the time and frequency of when the process is performed
and how often the planning document is reviewed and updated.

Location and/or copy of the Strategic

Organization Structure

Describe at a high level how your organization is structured- the
hierarchy, functional divisions, programs, staffing, etc.

Identify how key areas of authority and responsibility are
defined? Identify how lines of reporting are established?

Location and/or copy organization chart. Indicate the date of
the chart and frequency of update.

Location and/or copy of pertinent organizational manual
chapters, pages, etc.

Control Activities

Describe the types of policies and documented procedures that describe the operations to be accomplished and how to accomplish them.

Note if the documentation clearly identifies for each process operation and administrative functions:

- *roles and responsibilities*
- *the presence of controls*
- *who to notify if the controls fail*
  how to document significant events
  how duties are assigned systematically to a number of individuals to ensure that effective checks and balances exist

Describe how management works to ensure that skill needs are continually assessed and that the organization is able to obtain a workforce that has the required skills necessary to achieve organizational goals.

Describe how physical assets are safeguarded

Monitoring

Describe how management tracks the organization's accomplishments and compare these to its plans, goals, and objectives. Include a discussion on the types of performance measures and indicators (i.e., specific metrics) your organization has established to measure progress in accomplishing its objectives and goals.

Describe how your organization identifies and records problem areas, maintains visibility of these areas, communicates the problems, the corrective actions being taken, and the results.

Location and/or copy of performance measures, monitoring database, policies, etc.

Risk Assessment

Describe how your organization assesses the risks associated with accomplishing its mission. Is your command performing risk assessments on operations, programs and administrative functions?

Describe the impacts of those risks analyzed and the action taken to develop plans to mitigate those risks.

Information and Communications

Describe how your organization communicates information up and down the chain of command. Include information on the significant channels of communication, such as type of channel: e-mail, website, monthly reports, etc.; the typical subject matter; the target audience; and the frequency of the communication.

List of Assessable Units:

Describe how your assessable units were derived and how they represent and support your organization structure - do they follow organizational, functional, program, or reporting lines?

List the total number of assessable units. Describe the common objectives/function of each.

Attach list of assessable units

Comprehensive discussion of the types and methods of evaluations:

Describe the major types and. methods of monitoring activities being performed by both internal and external entities. Include self-assessments, evaluations and risk assessments. Reference by assessable units, if different or applicable.

Discussion of the tracking and monitoring of problem areas:

Include a brief description of your internal command process (either manual or automated) for tracking progress against problem areas. This may currently be one of the functions of your internal IG.

Location and/or copy of process or policy

MCP Training:

Provide a high level overview of the training philosophy or indicate the types of training in which management and staff participate.

Indicate the minimum annual training requirements and how they are monitored. Reference databases, sources, etc.

Within the existing training, are management controls discussed, identified and illustrated? Is the process adequately described for how and who to notify if controls fail?

Indicate if the organization conducts training specific to management controls and describe briefly or list as examples some of the course titles or concepts.

Include scheduled and received MCP training dates for the MCP Coordinator, Alternate MCP Coordinator, and others directly involved in the MCP.

Reporting Requirements:

Indicate the schedule for internal reporting and review times within your command necessary to meet the DON SOA requirement

Summary:

Recap major issues and progress made.

SAMPLE
RISK ASSESSMENT

ACTIVITY		ACTIVITY CODE	
ASSESSABLE UNIT			

1. EMPHASIS ON INTERNAL CONTROLS	**Pts:** ___	**9. AGE/STATUS OF PROGRAM**	**Pts:** ___
a. MAJOR EMPHASIS	1	a. RELATIVELY STABLE	1
b. MODERATE EMPHASIS	2	b. CHANGING	2
c. MINOR EMPHASIS	3	c. NEW OR EXPIRING WITHIN 2 YEARS	3
2. COVERAGE BY WRITTEN PROCEDURES	**Pts:** ___	**10. SCOPE OF WRITTEN AUTHORITY**	**Pts:** ___
a. SPECIFIC w/LITTLE OR NO DISCRETION	1	a. PERCISE	1
b. FLEXIBLE w/SIGNIFICANT DISCRETION	2	b. CLARIFICATION NEEDED	2
c. NO WRITTEN PROCEDURES	3	c. NO WRITTEN AUTHORITY	3
3. GOALS & ACCOMPLISHMENTS	**Pts:** ___	**11. EXTERNAL IMPACT OR SENSITIVITY**	**Pts:** ___
a. NOT APPLICABLE	0	a. NOT APPLICABLE	0
b. ESTABLISHED & MONITORED	1	b. LOW LEVEL	1
c. USED INFORMALLY w/LITTLE FOLLOWUP	2	c. MODERATE LEVEL	2
d. GOALS NEEDED BUT NOT ESTABLISHED	3	d. HIGH LEVEL	3
4. ADEQUACY OF CHECKS AND BALANCES	**Pts:** ___	**12. TYPE OF TRANSACTION DOCUMENT**	**Pts:** ___
a. NOT APPLICABLE	0	a. NON-COVERTIBLE TO CASH OR BENEFIT	1
b. ADEQUATE	1	b. CONVERTIBLE TO SERVICES ONLY	2
c. NEEDS IMPROVEMENT	2	c. DIRECTLY CONVERTIBLE TO CASH	3
d. NEEDED BUT NOT ESTABLISHED	3	**13. MOST RECENT EVALUATION/AUDIT**	**Pts:** ___
5. ADP USED FOR DATA	**Pts:** ___	a. WITHIN LAST 9 MONTHS	1
a. NOT APPLICABLE	0	b. BETWEEN 9 AND 24 MONTHS	2
b. DATA RELIABILITY SATISFACTORY	1	c. MORE THAN 24 MONTHS	3
c. NEEDS IMPROVEMENT	2	**14. ERRORS OR IRREGULARITIES**	**Pts:** ___
d. A MAJOR PROBLEM	3	a. NONE IN THE LAST 18 MONTHS	1
6. PERSONNEL RESOURCES	**Pts:** ___	b. MOST FULLY CORRECTED	2
a. ADEQUATE NO. OF QUALIFIED PEOPLE	1	c. SOME UNCORRECTED AFTER 6 MOS.	3
b. ADEQUATE, SOME TRAINING REQUIRED	2	**15. ADEQUACY OF REPORTS**	**Pts:** ___
c. INSUFFICIENT OR UNQUALIFIED	3	a. ACCURATE AND TIMELY	1
7. PROGRAM ADMINISTRATION	**Pts:** ___	b. SOMETIMES INACCURATE OR LATE	2
a. DON ONLY	0	c. USUALLY INADEQUATE OR LATE	3
b. JOINT SERVICE	1	**16. TIME CONSTRAINTS**	**Pts:** ___
c. THIRD PARTY (CONTRACTOR)	2	a. NOT A SIGNIFICANT FACTOR	1
- HEAVY INVOLVEMENT	3	b. OCCASIONALLY A FACTOR	2
- TOTAL INVOLVEMENT	4	c. A SIGNIFICANT DAILY FACTOR	3
8. INTERACTION ACROSS ORGANIZATIONS	**Pts:** ___	**17. ASSUMED EFFECTIVENESS OF CONTROLS**	**Pts:** ___
a. EXCLUSIVE TO ONE OFFICE	0	a. CONTROLS ADEQUATE	0
b. WITHIN TWO OFFICES	1	b. LESS THAN ADEQUATE	1
c. MORE THAN TWO OFFICES INVOLVED	2	c. NO EXISTING CONTROLS OR COSTS	2
d. INVOLVES OUTSIDE ORGANIZATIONS	3	d. OUTWEIGH BENEFITS	3
	SUBTOTAL PTS: ___		**SUBTOTAL PTS:** ___

TOTAL POINTS: ___

OVERALL RISK ASSESSMENT	LOW (1-34)	MEDIUM (35-42)	HIGH (ABOVE 42)

COMMENTS

RA CONDUCTED BY	TITLE	DATE
RA APPROVED BY	TITLE	DATE

GUIDANCE IN COMPLETING THE RISK ASSESSMENT FORM

The following guide is designed to provide managers an amplification/explanation of each question:

1. <u>Emphasis on Internal Controls</u>. Emphasis is considered to be major when management controls are considered in the planning and operations of functions and programs at each level within the organization. Managers who are aware of potential risks and know what they want to happen and what they want to avoid at the operating level will be able to set and implement appropriate control objectives. Major emphasis also exists when both managers and employees demonstrate and maintain a positive and supportive attitude toward internal controls at all times.

2. <u>Coverage by Written Procedures</u>. The basic issue is whether there are written procedures to follow within the general rules and the degree of discretion permitted in performing assigned responsibilities. The more discretion allowed, the greater the potential for abuse and lack of overall management control. As an example, the time and attendance form allows no flexibility, while allocation of staffing or budget resources would represent exercising significant discretion. Written procedures that cover operational functions are beneficial in many ways. They define job requirements and limitations for the employees (particularly essential in cases where the workforce is one man deep), provide a baseline for performance measurement, and afford continuity when managers leave.

3. <u>Goals and Accomplishments</u>. Establishing program and budgeting goals provide an organization with benchmarks for measuring accomplishments. These goals create the framework that allows an organization to accomplish its work and will address such factors as milestones, quality of outputs, resources, and infrastructure considerations. The successful achievement of goals is facilitated when they are disseminated to and discussed with employees and monitored, reviewed and updated periodically. Organizational goals will range from broad-based, comprehensive business plans at various levels (e.g., competency, departments, branch) to current and accurate individual performance plans for each employee that supports the operational goals of the work unit. It is essential for methods to be in place to track and measure the accomplishment of specified goals.

4. <u>Adequacy of Checks and Balances</u>. Checks and balances are the methods used to protect resources and minimize the potential for mismanagement of resources. Managers need to be aware of the risks, develop logical and complete control objectives applicable to their functional areas and implement control techniques that are effective and efficient in preventing loss. Examples of checks and balances include separation of duties (i.e., key duties such as authorizing, processing, recording and reviewing transactions are assigned to different individuals); limitations and controls over access to and accountability for the custody of resources (i.e., inventory control systems); and avoidance of conflict of interest situations where an individual could derive personal benefit from exercise of his/her authority. The checks and balances in place in an organization should be adequate to protect assets while assuring the effective performance of functional responsibilities.

5. <u>Automatic Data Processing (ADP) Used for Data</u>. Many activities are vulnerable due to dependence on ADP for daily operational use or provision of data on which management decisions are made. Issues of data reliability and security should be addressed in the response to this question. A satisfactory rating should be given when the data being provided are complete, accurate, current, replicable, and usable for intended purposes. Data insufficiency or lack of timeliness is conditions that increase the vulnerability of an organization and impair its ability to accomplish operating requirements.

6. <u>Personnel Resources</u>. Sufficient numbers of competent and qualified personnel are essential for the effective accomplishment of organizational goals. This element of the risk assessment involves determining whether an organization is under-or-over staffed, the skills mix is appropriate, training needs have been identified and are being met, cross-training is being provided where indicated, current performance plans are in place, the personnel system is effective, and supervisory oversight is qualified and continues to assure that program objectives and controls will be achieved.

7. <u>Program Administration</u>. The vulnerability of a functional area is dependent on the extent to which internal management control mechanism can effectively monitor and influence operations. The risk is inherently greater when another service or a contractor has significant responsibility for program administration.

3

8. <u>Interaction Across Organizations</u>. The risk of error is compounded with increases in the number of activity offices or outside organizations involved in carrying out the processes of a program or function. The impact may result from involvement with one or more external suppliers of goods, services or products. Specific examples of interactions that cross organizational lines include procurement requests, financial tracking, proposed policy directives, interagency agreements, and systems that involve more than one agency (i.e., payroll, civilian personnel, etc.)

9. <u>Age/Status of Program</u>. It is assumed that a program which has experienced proven relative stability over a period of years with the same fundamental mission can be potentially less vulnerable because procedures for administering its resources have been validated by actual experience and fully tested. Major new responsibilities, legislative changes and situations involving phase-out (expiration) or new programs can create vulnerability and increase the potential for loss or mismanagement of assets.

10. <u>Scope of Written Authority</u>. The GAO standards require existing systems of internal controls, accountability for assets, and all financial transactions to be clearly documented and readily available for review. In some functional areas, written authority from a regulatory or legislative source may clearly establish the amount of authority and discretion vested in program officials. The scope and limitations of authority may be less clear or even unseated in other situations, which increases the potential for abuse of authority and mismanagement of resources. An example of written authority would be a document outlining the delegation of signature authority for specific purposes to various levels/individuals within an organization. While written authority may not always be necessary, it is essential for personnel within an organization to be aware of, understand, and adhere to the scope and limitations of authority associated with their individual positions.

11. <u>External Impact or Sensitivity</u>. This topic refers to the sensitivity of your organization's functional responsibilities and/or the degree of impact exerted on individuals or activities external to your organization. Vulnerability is greater in situations where outputs are sensitive, the number of affected parties increases, or impacts extend beyond a single office.

12. **Type of Transaction Document**. The operation of some functional areas may require specific transaction documents. These instruments are sometimes utilized in the approval/ disapproval and executive phases of a process. Organizational vulnerability exists in situations where these instruments are convertible to cash or are otherwise suitable for personal benefit. Examples include negotiable items such as government checks, cash vouchers, government meal tickets, government travel requisitions, etc. Organizational checks and balances are particularly important when transaction documents can be converted to services cash. Control standards include recording transactions promptly and classifying them properly as well as assuring that transactions are authorized and executed only by persons acting within the scope of their authority.

13. **Most Recent Evaluation or Audit**. It is assumed that the longer the interval between systematic operational reviews, the greater the potential for system or operational errors to go undetected. It is important for all control systems to undergo periodic audits/reviews/
evaluations to detect errors and initiate improvements. In addition to the length of time since the last review, the auditing source and date should be noted on this form. Indicate whether there is formal disagreement with the audit findings (i.e., a reclama) and describe any interim measures being taken to correct deficiencies and minimize risk.

14. **Errors or Irregularities**. Recent errors or irregularities can indicate the absence of controls or ineffectiveness of the controls that are in place. The speed with which these errors are found and corrected can be an indication of management commitment to minimizing opportunities for fraud, waste, abuse, and mismanagement, which could result in potential loss of assets.

15. **Adequacy of Reports**. The adequacy and timeliness of normal recurring reports may be good indicators of a well-run operation. Address the adequacy of reports that are produced internally or that are received and impact internal operations. Specify reports that are late or inadequate and result in significant impact to ongoing operations. This applies to both reports generated by the functional area and those the organization is reliant upon to carry out and report on their operations to sponsors, customers, and your activity. Assessment of repetitive reports should be addressed as to their applicability to current reporting requirements. It is not unusual for reports to be

generated automatically with out any regard as to the value added
or the need for their continued use.

16. <u>Time Constraints</u>. In situations where an organization must
operate under severe time constraints, the ability to produce
work of consistent quality is impaired. Indicate whether such
incidences are occasional or frequent.

17. <u>Assumed Effectiveness of Controls</u>. Responding to this
question requires an overall assessment as to whether there is
reasonable assurance that internal management controls exist and
are sufficient to protect government resources and facilitate
effective and efficient operations within the organization.

ASSESSABLE UNITS (AUs)
REPORTING CATEGORIES

1. **Research, Development, Test, and Evaluation.** Covers the basic project definition, approval, and transition from basic research through development, test, and evaluation and all Department of Defense (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.

2. **Major Systems Acquisition.** Covers items designated as major systems and that are 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 of 12 May 2003, "The Defense Acquisition System," may be helpful when evaluating a weakness for inclusion in this category.)

3. **Procurement.** Covers the decisions to purchase items and services together 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).

4. **Contract Administration.** Covers 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.

5. **Force Readiness.** Includes 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.

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

7. <u>Supply Operations</u>. Encompasses 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).

8. <u>Property Management</u>. Covers construction, rehabilitation, modernization, expansion, improvement, management, and control over real and installed property, and facilities (both military and civil works construction). Includes all phases of property life-cycle management from determination of need through disposition. Also covers disposal actions for all material, equipment, and supplies, including the Defense Reutilization and Marketing System.

9. <u>Communications and/or Intelligence and/or Security</u>. Covers the plans, programs, operations, systems, and management activities for accomplishing the communications and intelligence missions. Includes safeguarding classified resources but not peripheral assets and support functions covered by other reporting categories. Also covers the DOD programs for protection of classified information.

10. <u>Information Technology</u>. Covers 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 7740.1-G, "DOD ADP Internal Control Guidelines," may be helpful when evaluating a weakness for inclusion in this category.)

11. <u>Personnel and/or Organization Management</u>. Covers authorizations, recruitment, training, assignment, use, development, and management of military and civilian personnel of the DOD. Also includes the operations of headquarters organizations. Contract personnel are not covered by this category.

12. **Comptroller and/or Resource Management.** Covers 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 Office of Management and Budget (OMB) Circular A-76 (Revised), Performance of Commercial Activities.

13. **Support Services.** Includes all support services functions financed from appropriated funds not covered by the other categories, such as health care, veterinary care, and legal and public affairs services. All nonappropriated fund activities are also covered by this category.

14. **Security Assistance.** Covers management of DOD foreign military sales, grant aid and international military education and training programs.

15. **Other (Primarily Transportation).** All functional responsibilities not contained in the previously noted categories, including management and use of land, sea, and air transportation for movement of personnel, material, supplies, and equipment using both military and civilian sources.

FORMAT FOR ANNUAL MANAGEMENT CONTROL CERTIFICATON STATEMENT
(STATEMENT OF ASSURANCE)
(Use Courier New 12 pitch)

From: Responsible Official
To: Commander, Naval Sea Systems Command

Subj: MANAGEMENT CONTROL CERTIFICATION STATEMENT

Ref: (a) SECNAVINST 5200.35D
       (b) NAVSEAINST 5200.13C

Encl: (1) Current Year Accomplishments
       (2) Material Weaknesses Identified and Corrected
       (3) Current Year Material Weaknesses and Corrective
           Actions-Actual and Prospective
       4) Prior Year Material Weaknesses - Status of Corrective
           Actions

1. The (title of organization, i.e., Directorate, PEO, or Field
Activity) has evaluated the system of internal administrative and
accounting controls in effect ending insert date. The evaluation
was performed in accordance with references (a) and (b).
Management Control (MC) compliance and the status of identified
material weaknesses are detailed in the enclosures.

2. (Insert statement of certification. See paragraph 7.b. of
the instruction.)

3. Information to support the certification statement was
derived from management reviews, Command Evaluation Reviews
(CERs), audits, inspections, investigations and other management
information, such as knowledge gained from daily operations of
programs and functions.

(Signature block)

Enclosure (6

FORMAT FOR REPORTING MATERIAL WEAKNESSES/ACCOMPLISHEMTNS
(Use Courier New, 12 pitch)

Title and Description of Material Weakness: *(Use the title from the source document. Provide a brief narrative summary describing the material weakness and its scope; i.e., local, area-wide, service-wide, etc. If the weakness was reported in a prior year, indicate the office of the Secretary of Defense Tracking system material weakness number parenthetically following the title; e.g., Unmatched Disbursements (OSD #93-022).)*

Functional Category: *(Indicate which Management Control Reporting Category (shown in this instruction as enclosure (2)) is applicable to this material weakness. One of the fifteen categories has to be used for reporting purposes.)*

Pace of Corrective Action. The five items below identify the pace of corrective action. *(All dates are to be reported by fiscal year (FY).)*

Year Identified: *(Identify the FY the material weakness was first reported in the command/activity's annual certification statement.)*

Original Targeted Correction Date: *(Provide the targeted correction date that was reflected in the initial report for this material weakness.)*

Targeted Correction Date in Last Year's Report: *(Provide the targeted correction date that was reported in the previous year's annual certification statement. If a material weakness is being reported for the first time and is classified as "Identified During the Current FY." report "N/A - new report" here.)*

Current Target Date: *(Indicate the current targeted correction date.)*

Reason For Change in Date(s): *(If the item labeled above as "Current Target Date" is different from the item "Targeted Correction Date in Last Year's Report," briefly explain this change in the correction date. Report "IN/All" if they are the same. If a material weakness is being reported for the first*

time and is classified as "Identified During the Current FY,"
report "N/A - new report" here.)

Component/Appropriation/Account Number. *(Identify the DON-related appropriation(s) and account number(s). Monetary information; i.e., amounts, are not required. When identifying the appropriation(s), nomenclature should be consistent with standard DOD designations; i.e., Operation and Maintenance, Navy.)*

Validation Process. *(Briefly explain how the effectiveness of the corrective action(s) will be demonstrated.)*

Results Indicators. *(Describe key results that have been or will be achieved. Quantitative and/or qualitative measures that will be derived from the corrective action(s), and the overall impact of the correction on the operations should be described. If the amount of the monetary benefits can be determined, it should be reported here.)*

Source(s) Identifying Weakness. *(Material weaknesses may be identified by Management Control Reviews or by any of the following Alternative Management Control Review sources: (a) DODIG audits; (b) NAVUAUDSVC audits; (c) GAO audits; (d) NAVINSGEN inspections; or (e) other sources such as local reviews conducted by Command Evaluation and Review (CER). Indicate the source that was used. When audit findings are the source of the material weakness identification, provide the title, report number, and date of the audit report that identified the weakness. If the weakness was identified by more than one source, list all identifying sources, in order of significance.)*

Major Milestones in Corrective Action. *(A milestone chart is to be provided that indicates actions taken and actions planned. It should be separated into three categories: (a) completed milestones, (b) milestones to be achieved during the next fiscal year, and (c) milestones to be achieved after the next fiscal year. Milestones should be reported in chronological order. The final milestone reported must be the milestone associated with verification of the corrective actions. For most material weaknesses this final milestone will consist of achieving the validation reported in the preceding item labeled "Validation Process." If the planned completion date for the milestone has changed from that already reported, it is not necessary to note the change; simply indicate the new correct date. All planned*

3

milestones should reflect a specific date, by month and year, based on the ending date of the nearest prospective semiannual period when the milestone will be accomplished. For example, milestones to be completed in the first half of fiscal year 1998 would be reported as being completed on "3/98," those planned for the latter half would be dated "9/98." Reporting of completed milestones need not include dates, though these may be added if desired.)

Completed Milestones:
Milestone:

Planned Milestones (Next FY)
<u>**Date:**</u>   <u>**Milestone:**</u>

Planned Milestones (Beyond Next FY):
<u>**Date:**</u>   <u>**Milestone:**</u>

<u>**Point of Contact**</u>:   *(The name and telephone number of the official responsible for administering implementation of all identified corrective actions for this material weakness.)*