



**INSPECTOR GENERAL**  
DEPARTMENT OF DEFENSE  
4800 MARK CENTER DRIVE  
ALEXANDRIA, VIRGINIA 22350-1500

January 17, 2014

## **INSPECTOR GENERAL INSTRUCTION 5010.40**

### **MANAGERS' INTERNAL CONTROL PROGRAM**

#### **FOREWORD**

This Instruction establishes responsibilities, procedures and reporting requirements for the Department of Defense Office of Inspector General Managers' Internal Control Program.

This Instruction must be reissued, cancelled, or certified current within 5 years of its publication date, in accordance with DoD Instruction 5025.01, *DoD Directives Program*. If not, it will expire 10 years from its publication date and will be removed from the Office of Inspector General website.

The office of primary responsibility for this Instruction is the Office of Professional Responsibility. This Instruction is effective immediately.

FOR THE INSPECTOR GENERAL:

A handwritten signature in black ink, appearing to read "SDWilson", is positioned above the printed name.

Stephen D. Wilson  
Assistant Inspector General  
for Administration and Management

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**MANAGERS’ INTERNAL CONTROL PROGRAM**

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## CHAPTER 1 GENERAL

**A. Purpose.** This Instruction provides the Department of Defense Office of Inspector General (DoD OIG) internal policy, responsibilities, procedures, and reporting requirements for:

1. Establishing and maintaining the Managers' Internal Control (MIC) Program.
2. Ensuring OIG compliance with the policy and guidance stated in references (a) through (e).

**B. Cancellation.** This Instruction supersedes IGDINST 5010.40, *Managers' Internal Control Program*, July 20, 2006.

**C. Summary of Changes.** Only administrative and formatting revisions were made. There were no revisions to policy.

**D. Applicability.** This Instruction applies to the Office of Inspector General.

**E. References.** See Appendix A.

**F. Definitions.** See Appendix B.

**G. Acronyms.** See Appendix C.

**H. Policy.** It is OIG policy under references (a) through (e) that each Component will implement a comprehensive strategy for the MICs that provides reasonable assurance that:

1. Obligations and costs comply with applicable law.
2. Assets are safeguarded against waste, loss, unauthorized use, and misappropriation.
3. Revenues and expenditures applicable to OIG operations are recorded and accounted for properly to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets (emphasizing activities involving funds, property, and other assets for which managers are responsible).
4. Programs and administrative and operating functions are efficiently and effectively carried out in accordance with applicable law and management policy.
5. The MIC process emphasizes prevention of fraud, waste, mismanagement, and timely correction of MIC weaknesses.

**I. Responsibilities.**

1. The **Assistant Inspector General for Office of Professional Responsibility (AIG-OPR)** will:

- a. Serve as the OIG senior official under references (a) through (e) for policy guidance, direction, and coordination with the Components on the MIC matters.
- b. Establish the MIC policy and oversee its implementation and operation throughout the OIG.
- c. Issue guidance to further define responsibilities and policies for the MIC Program.
- d. Periodically perform and report on evaluations of Component compliance with this Instruction.
- e. Provide technical assistance to the Components on MIC matters.
- f. Provide to the Components any OIG, Government Accountability Office (GAO), or other audit, inspection, or review finding that discloses a potential weakness in MICs and the reported status of agreed-on corrective actions.

2. Each **Component Head** will:

- a. Evaluate select controls on an annual basis as part of their participation in the Senior Management Council for Internal Control.
- b. Appoint an assessable unit manager in writing, and within 90 days of vacated position to be responsible for establishing and implementing the Component's MIC Program in accordance with the procedures detailed in this Instruction.
- c. Emphasize prevention and correction of fraud, waste, and mismanagement in all MIC plans and guidelines, and provide for appropriate cost-effective training of affected managers to assure their fulfillment of those responsibilities.
- d. Issue applicable guidance and assign adequate resources to ensure that the policy provisions of this Instruction are implemented fully.
- e. Ensure accountability for appropriate compliance with the MIC guidance by requiring job performance evaluations of civilian and military managers having significant MIC responsibilities. Reference (d) emphasizes management accountability.
- f. Monitor implementation of the MIC Program and establish follow-up systems to ensure acceptable performance and prompt correction of all material weaknesses. The follow-up systems will be coordinated with other management reporting systems, when feasible.

## CHAPTER 2 PROCESS

### A. Program Process.

1. The MIC process will be integrated into the daily management practices of all managers and will:
  - a. Be consistent with, and draw heavily upon, the guidance and procedures provided by references (a) through (e). Reporting on the MIC by the Inspector General and the Components is addressed in paragraph C of this Chapter.
  - b. Address all significant operations and mission responsibilities and not limit evaluations to operations applicable to financial management.
  - c. Be designed, documented, and operated to provide reasonable assurance that the specific standards and objectives enumerated in references (c) and (d) are met. The managers will continuously monitor and improve the effectiveness of vital MICs. Continuous monitoring and other periodic evaluations should provide the basis for the annual statement about reasonable assurance.
  - d. Where possible, and to the greatest extent possible, rely on organizationally required and other contributing information sources (such as management and oversight reviews, computer security reviews, financial system reviews, audits, inspections, investigations, internal review studies, quality management initiatives, and management and/or consulting reviews).
  - e. The MIC program evaluation should not cause the duplication of existing information that pertains to assessing the effectiveness of the MICs or information that may be used for that purpose.
  - f. Evaluation of the MICs of an assessable unit should not be limited to existing information if that information does not allow for coverage of the full scope of vital MICs applicable to that unit. When existing data does not provide for adequate review of the MICs, appropriate reviews should be planned and provided that will enable management to make reasonable judgments about the effectiveness of the MICs under reference (d).
  - g. When considering the scope and necessity for reviewing or testing of the MICs, managers should determine whether controls should be classified as “vital” or “non-vital.” In the final analysis, management’s opinion about the status of a Component’s MICs is based primarily on the status of its vital MICs.
  - h. Involve management at all levels and provide for the assignment of overall responsibility for program design, direction, and implementation to a designated senior management official who is, or is directly accountable to, the Component Head.

i. Assign to the manager of each assessable unit responsibility and accountability for execution and evaluation of MICs in a manner consistent with this Instruction.

2. Each Component Head will submit to the Inspector General, based on the execution of their MIC Program, a statement of assurance that indicates whether or not the MIC systems meet the program standards, goals, and objectives of sound and effectively implemented MICs. Component statements, individually and in total, will serve as support for the statement of assurance to be provided by the Inspector General to the Secretary of Defense under reference (a). The OPR will provide annual guidance about this activity.

3. In the most cost-effective manner, the Components should provide managers throughout their organization with training consistent with their MIC responsibilities and obligations. Mutually beneficial and consolidated training efforts are encouraged.

4. Policies, procedures, and responsibilities for the evaluation of MICs that are an integral part of a financial management system.

5. The Senior Management Council for Internal Control evaluates selected controls on an annual basis. The Council consists of the Component Heads.

**B. Program Elements.** Each Component will develop a MIC Program that will include the following elements:

1. MIC Process. After the Component Heads have developed and established MICs as required by this Instruction, and as elaborated by references (a) through (e), a MIC process will be established that will conclude with the reporting of management's opinion about the effectiveness of its MICs. The process includes, as appropriate, assigning responsibilities and providing personnel for planning, directing, and executing the MIC Program; developing internal reporting and tracking capabilities; ensuring periodic evaluations of the MICs, as required by references (a) through (e); and maintaining appropriate documentation.

2. Assessable Units. All programs and operations of each Component will be segmented along organizational, functional, or programmatic lines into assessable units. Each Component will establish and maintain an inventory of its assessable units. The inventory will be a part of every Component Managers' Internal Control Plan and will be reviewed and updated annually, along with the control objectives, control techniques, and control tests within each assessable unit.

3. Evaluation. Evaluate the effectiveness of the MICs through a documented process or mechanism determined by each Component Head to meet their specific requirements. The evaluations will be consistent with the guidance contained in references (a) and (d). The process should maximize the use of already existing management evaluation data and, to the greatest extent possible, minimize the creation of processes solely for the execution of the MIC Program.

4. Identify, Report, and Correct MIC Weaknesses. Each Component will establish and maintain a process that identifies, reports, and corrects MIC weaknesses, as follows:

a. Identification. The Components may identify weaknesses in their MIC through a variety of objective sources. Those sources should include, but not be limited to, audits, inspections, investigations, management assessments and reviews, creditable information of non-Governmental origin, staff meetings, and the MIC evaluations.

b. Reporting. Weaknesses in the MICs should be reported if they are deemed to be material. Materiality is defined in Appendix B.

c. Correction. References (a) and (e) require the Component managers to take timely and effective actions to correct weaknesses in their MICs. Correcting the MIC weaknesses is an integral part of management accountability. Tracking corrective actions should be commensurate with the severity of the weakness. Corrective action plans should be developed for all material weaknesses, and progress in implementing those plans should be periodically assessed and reported to management. A determination that a material weakness has been corrected should be made only when sufficient actions have been taken and the desired results achieved. The last milestone in each corrective action plan will include correction validation.

5. Annual Statement of Assurance. The Components will submit an Annual Statement of Assurance to the AIG-OPR based on a general assessment of the effectiveness of their MICs. The statement will also include material weaknesses and the plan to correct them, and be consistent with annual OPR guidance about the content and structure of the statement. The statement must be signed by the Component Head and submitted to the AIG-OPR at least one month before the date due to the Secretary of Defense.

### C. Reporting.

1. The Inspector General is required under reference (a) to submit the Annual Statement of Assurance to the Secretary of Defense addressing whether the OIG has established a MIC Program consistent with the requirements of references (a) and (e) and whether the Program provides reasonable assurance that it meets the *Federal Managers Financial Integrity Act* objectives under reference (c). The statement is due to the Secretary of Defense and to the Office of the Under Secretary of Defense (Comptroller), Deputy Chief Financial Officer, 10 weeks before the Secretary must submit the Department's Annual Statement of Assurance to the Office of Management and Budget and Congress on November 15 of each year.

2. At least 2 weeks before the due date required by the annual Office of the Secretary of Defense MIC guidance memoranda, the AIG-OPR will prepare the Statement of Assurance for the Inspector General's signature and submission to the Secretary of Defense.

3. Each Component Head will submit an Annual Statement of Assurance based on a general assessment of the MICs conducted in accordance with foregoing guidance and will consider the MIC weaknesses disclosed by all sources, including:

- a. management studies;

- b. internal or external audits,
- c. inspections, investigations, or internal review reports; and
- d. the OIG and the GAO reports.

4. The statement, signed by the Component Head, will be submitted to the Inspector General at least one month before the date due to the Secretary of Defense each year in the format provided by annual OPR guidance. One copy of the statement and accompanying reports will be furnished to the AIG-OPR by the same deadline. The submission will include the following:

a. A cover memorandum, signed by the Component Head, providing the Component's senior management assessment as to whether there is reasonable assurance that the Component's MICs are in place and operating effectively as required under references (a) through (e). The statement of assurance must take one of three forms:

(1) Unqualified Statement of Assurance. An unqualified statement of assurance provides reasonable assurance that internal controls are effective with no material weaknesses reported or that the integrated financial management system (IFMS) is in conformance with federal requirements. Each unqualified statement should describe how the level of assurance is supported and how assessments were conducted.

(2) Qualified Statement of Assurance. A qualified statement of assurance provides reasonable assurance that internal controls are effective with the exception of one or more material weakness or the IFMS is not in conformance with federal requirements. The statement of assurance must cite the material weaknesses in internal management controls that preclude an unqualified statement.

(3) Statement of No Assurance. A statement of no assurance provides that no assurance can be provided that internal controls are effective because few or no assessments were conducted, the noted material weaknesses are pervasive across many key operations, or the IFMS is substantially noncompliant with federal requirements.

b. A description of how the Component evaluation was conducted and a statement, based on that evaluation, on whether assurance was achieved.

c. Uncorrected material weaknesses (current year and prior year disclosures) and the specific plans and schedules for correction. The specific plans and schedules will include the actions that will correct a weakness. Although the actions to correct the weakness may be in development, the weaknesses should be reported and the tentative actions should be disclosed in a manner consistent with management's current perceptions.

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

e. Other disclosures or special presentations, including significant MIC accomplishments, that may arise from time to time due to specific requests or inquiries.

### CHAPTER 3 MATERIAL WEAKNESS GUIDANCE

**A. Conditions.** A material weakness must satisfy two conditions.

1. It must be a condition in which MICs, or compliance with them, do not provide reasonable assurance that the objectives of the MIC Program are being met. In effect, the weakness results from the MICs that are not in place, not used, or not adequate.

2. It must be a condition that requires the attention of the next higher level of management. As with many other aspects of the MIC Program, whether a weakness is material enough to warrant reporting to a level higher than that at which it was discovered will always be a management judgment. Fundamentally, managers should consider reporting a weakness to the next higher level if the participation of management at a higher level is required to help resolve the problem. Although the problem can be resolved at the lower level, it is serious enough, in the judgment of the manager with the control weakness, to bring to the attention of higher level management as a point of information. The additional yardsticks provided in paragraphs B and C of this Chapter, are to help managers understand the concept of materiality and are not intended to be determinants of materiality.

**B. Defining Material Weakness.**

1. A material weakness in the OIG system of the MICs may be due to lack of an applicable control, or more frequently, inadequate compliance with existing controls. The controls deal with all program, operational, and administrative functions; they are not limited to financial or accounting matters. Material weaknesses are considered at the following levels:

a. **Inspector General Level.** When a weakness is serious enough to merit the attention of the Inspector General or exists in a majority of the Components.

b. **Component Organization Level.** When a weakness is serious enough to merit the attention of the Component Head or exists with frequency throughout the Component.

c. **Assessable Unit Level.** When a weakness requires the attention of managers responsible for an assessable unit or exists with frequency throughout the assessable unit.

2. In addition to the basic characteristics of a material weakness described in paragraphs A and B1 of this Chapter, the final determination to categorize a MIC weakness as material results from management judgment about the relative impact of the weakness. For example, scoring each of the following considerations as “significant” or “insignificant” might help a manager in determining whether the absence of, or noncompliance with, a control is a material weakness.

a. Actual or potential loss of resources.

b. Sensitivity of the resources involved.

- c. Magnitude of funds, property, or other resources involved.
- d. Frequency of actual and/or potential loss.
- e. Current or probable media interest (adverse publicity).
- f. Current or probable congressional interest (adverse publicity).
- g. Unreliable information causing unsound management decisions.
- h. Diminished credibility or reputation of management.
- i. Impaired fulfillment of essential mission or operations.
- j. Violation of statutory or regulatory requirements.
- k. Impact on information security.
- l. Deprived the public of needed Government services.

3. Monetary value impact generally will be considered material when the weakness has caused or might cause loss of control over a significant amount of resources for which an organization is responsible (including money, personnel, equipment, etc.).

4. Open findings on the MICs from any source, agreed to by management, are candidates for a material weakness at the applicable level until all corrective actions are complete.

**C. Determining a Material Weakness.** This determination is a management judgment as to whether a weakness meets the criteria discussed in paragraphs A and B of this Chapter. A higher or lower dollar threshold may be applicable in different contexts, depending on the nature and characteristics of the weakness and the level in the organization that the problem is identified.

**APPENDIX A  
REFERENCES**

- a. DoD Instruction 5010.40, *Managers' Internal Control (MIC) Program Procedures*, May 30, 2013
- b. Section 3512 of Title 31, United States Code
- c. Office of Management and Budget Circular No. A-123, *Managements' Responsibility for Internal Control*, December 21, 2004
- d. Government Accountability Office, *Standards for Internal Control in the Federal Government*, November 1, 1999
- e. Office of Management and Budget Circular No. A-127, *Financial Management Systems*, January 9, 2009

## APPENDIX B DEFINITIONS

1. **Assessable Unit.** Any organizational, functional, programmatic or other applicable subdivision of an organization that allows for adequate internal control analysis.
2. **Assessable Unit Manager.** A government employee selected by appropriate functional leadership that is responsible for the Managers' Internal Control Program requirements of the assessable unit.
3. **Corrective Action Plan.** A written document that spells out the specific steps necessary to resolve a material weakness, including targeted milestones and completion dates.
4. **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.
5. **Integrated Financial Management Systems.** A unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, processes (manual and automated), procedures, controls, and data necessary to perform financial management functions, manage financial operations of the DoD and OSD Component, and report on the DoD and OSD Component's financial status to central agencies, Congress, and the public.
6. **Material Weakness.** A specific instance of a failure in a system of control or lack of control that would significantly impair fulfillment of agency's mission, violate statutory or regulatory requirements, or significantly weaken safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets.
7. **Senior Management Council for Internal Control.** A committee or board of senior level executives that convene to advise the DoD and OSD Component Head or Principal Deputy on internal control matters related to operations, financial reporting, and financial systems, to include the identification of internal control material weaknesses that merit reporting as material weaknesses.
8. **Statement of Assurance.** An annual statement, in memorandum format, that provides a leader's explicit level of assurance on whether internal controls are effective. The statement of assurance is based on self-assessments and testing of internal controls developed for mission-essential functions relative to risk and identifies any material weaknesses found during the analysis.

**APPENDIX C  
ACRONYMS**

AIG-OPR	Assistant Inspector General for Office of Professional Responsibility
DoD	Department of Defense
GAO	Government Accountability Office
IFMS	Integrated Financial Management Systems
MIC	Managers' Internal Control
OIG	Office of Inspector General

## APPENDIX D REPORTING CATEGORIES

1. **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.
2. **Equal Employment Opportunity.** Covers activities associated with managing the OIG Equal Employment Opportunity Program.
3. **Comptroller.** Covers the budget process, finance, and accounting, cost analysis, and the general allocation, and continuing evaluation of available resources to accomplish mission objectives. Includes pay and allowances for all OIG personnel.
4. **Information Technology.** This area 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 perform functions such as collecting, processing, storing, transmitting, or displaying information) and other technologies for processing management information. That includes requirements for justification of equipment and software.
5. **Maintenance and Repair.** Covers the management and operation of in-house and contractor-operated services associated with performing maintenance and repair of, and/or installation or modifications to, materiel, equipment, and supplies.
6. **General Control Environment.** The environment in which an event cycle operates, including management attitude; organization structure; personnel competence; delegation of authority and responsibility; policies, procedures, budgeting, and reporting practices; and organizational checks and balances.
7. **Personnel and/or Organization Management.** Covers authorizations, recruitment, training, assignment, use, development, and management of the OIG military and civilian personnel. Also includes the operations of headquarters organizations. Contract personnel are not covered by this category.
8. **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).
9. **Program and Administrative Management.** This covers the basic management responsibilities and functions associated with mission accomplishment: planning, organizing, staffing, direction, MIC, evaluation, innovation, and coordination.

**APPENDIX D (cont'd)**

10. **Property Management.** Covers construction, rehabilitation, modernization, expansion, improvement, management, and control over real and installed property and facilities. Includes all phases of property life-cycle management from determination of need through disposition. Also covers disposal actions for materiel, equipment, and supplies.

11. **Security.** Covers the plans, programs, operations, systems, and management activities for accomplishing the mandated security missions. Includes safeguarding classified resources and assets. Also covers the programs for protection of classified information.

12. **Supply Operations.** Encompasses the supply operations 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, including the accountability and control for supplies and equipment of accountable property in the supply accounts of all units and organizations (excluding the procurement of material, equipment, and supplies).

**APPENDIX E  
INTERNAL CONTROL EVALUATION PLAN**

Example Your Component Name Here Fiscal Year (FY) 2013-2017 Internal Control Evaluation Plan (ICEP)									
FUNCTIONS (Key Controls)	DESCRIPTION/REQUIRED EVALUATIONS	REGULATION	Responsible	FY14	FY15	FY16	FY17	FY18	RISK
Agents Training (Mandatory)	Personnel fulfill continuing professional education requirements established by Special Agents Manuel.	SAM Chapter 41	John Doe	X		X		X	LOW
Auditors Training (Mandatory)	Personnel fulfill continuing professional education requirements established by General Accepted Government Auditing Standards.	GAGAS	John Doe	X		X		X	LOW
Property Accountability	Proper use and care of all Government Property and equipment assigned.	IGDINST: 4140.1	John Doe	X	X	X	X	X	MED
Fire Arms Inventory	Guns and Bullets required for Law Enforcement Personnel.	SAM Chapter 38	John Doe		X	X	X	X	HIGH
Government Vehicles	Vehicle issued for use to a component for official government business.	SAM Chapter 36	Jane Doe		X	X	X	X	LOW
Time & Attendance	Employee work hours accurately entered into ATTAPS	IGDINST: 1422.1	John Doe	X	X	X	X	X	LOW
Travel	Employee travel on official time entered into DTS.	Federal Travel Regulations	Any Who		X	X	X	X	LOW
Records Management	Official Files used to maintain official government records for tracking and disposition.	IGDINST: 5015.2	Any Who	X	X		X		LOW
Fire Extinguishers	Safety equipment used for fires required by the Front Office FY 13.	OIG Directive	Any Who	X					LOW
Memorandum of Agreements	Requested by the Front Office to report any MOAs during FY 13.	OIG Directive	Jane Doe	X					LOW
Memorandum of Understanding	Requested by the Front Office to report any MOUs during FY 13.	OIG Directive	John Doe	X					LOW
Charters	Requested by the Front Office to report any charters during FY 13.	OIG Directive	Any Who	X					LOW
Security/ Classified	OPR personnel appropriately handle classified and sensitive information throughout its life cycle.	IGDINST: 5200.1 Cancel Contact OSEC	John Doe		X		X		LOW
Contracting Officer Technical Representative	A government acquisition title given to those certified to act on behalf of a contracting officer.	FAR 42.202	Jane Doe	X					LOW
Government Purchase Card	Government Charge Card used to purchase services and supplies for official business.	IGDINST: 4100.3	Any Who		X	X		X	LOW
Investigations	Conduct criminal and administrative investigations of allegations of misconduct by OIG employees.	OPR Policy Manuel Chapter 2 and IGDINST: 5505.1	John Doe	X		X		X	LOW
Inspections	Inspect OIG components at regular intervals to determine operational efficiency.	OPR Policy Manuel Chapter 3 and IGDINST: 5505.1	Any Who		X		X		LOW
Performance Management	Assess internal performance measures and internal controls and report results to senior leadership.	DoD 5010.40	Jane Doe		X		X		LOW