# OFFICE OF THE SURGEON GENERAL & U.S. ARMY MEDICAL COMMAND

# MANAGERS' INTERNAL CONTROL PROGRAM (MICP)

[The MICP was formerly known as the Management Control Process (MCP). The Army program manager changed the name of the program for FY09 and expects to issue a revision to AR 11-2, Management Control to reflect this change during FY09.]

## MICP TRAINING BRIEF



**FY09 Edition** 

File Name: TabD-09.doc

#### **MICP TRAINING BRIEF**

<u>PURPOSE</u>: This training brief is designed to provide Commanders, Internal Control Administrators, and managers at all levels with a general overview of the Managers' Internal Control Program (MICP) and how it operates within the OTSG/MEDCOM.

Note: Although we only refer to Commander within this training brief, the term Director, Manager, Chief, Etc., should be substituted for Commander where appropriate.

- 1. <u>Why do this?</u> It is required by law! Public Law 97-255, Federal Managers' Financial Integrity Act of 1982 mandates the establishment of the Managers' Internal Control Program (MICP). The Office of Management and Budget (OMB) implements the law's by providing guidelines to the heads of executive departments in OMB Circular A-123, Management's Responsibility for Internal Control. The Department of Defense (DOD) implements the OMB guidelines in DOD Instruction (DODI) 5010.40, Managers' Internal Control (MIC) Program Procedures. The U.S. Army uses Army Regulation 11-2 (AR 11-2), Management Control, to implement the requirements in OMB Circular A-123 and DODI 5010.40. In addition, the Assistant Secretary of Defense for Health Affairs has established a Defense Health Program (DHP) MICP to complement the Army MICP employed throughout the OTSG/MEDCOM. The MICP is mandatory for every organization. Presently no organization within the U.S. Army or the OTSG/HQ, MEDCOM is exempt from the requirements of AR 11-2. This includes DOD activities where the Army is the "executive agent."
- 2. <u>Who cares</u>? The MICP is of keen interest to Congress, DOD and the Army leadership. Their interest has increased in recent years due to the collapse of several high profile public companies resulting in the passage of the Sarbanes-Oxley Act that now requires public companies to report on their internal controls similar to the requirements imposed on us by the MICP. For example, at the request of the Army leadership, the U.S. Army Audit Agency (USAAA) audits the MICP every year at randomly selected commands and their subordinate activities. <u>USAAA</u> then reports the audit results to the Secretary of the Army. The Surgeon General/MEDCOM Commander has also expressed a firm commitment to having an effective MICP throughout the Army Medical Department. Therefore, failure on our part to effectively operate the MICP will send the wrong message to our leadership--that Army medicine is not committed to effective internal controls or responsible stewardship of our resources. We must take credit for what we have been doing and continue to do in respect to internal controls. We do not want our budget or personnel strength adversely affected because we did not send the right message to our leaders when operating our MICP.
- 3. <u>Any benefits?</u> Yes! You basically have two choices on how to operate your MICP. You can do it right and use the MICP to add value to your organization, or, you can make the MICP a "paper-drill" and waste resources. To improve your operations you must perform self-evaluations required by regulations and perform DHP MICP risk assessments of specific assessable functions. The evaluations and risk assessments provide feedback on the effectiveness of internal controls providing you the opportunity to make adjustments within your control or to seek help in resolving problems. Failure to do so allows ineffective and inefficient programs and processes to flourish costing the Army precious resources and possibly resulting in mission failure. However, if you make the MICP a part of your operations, it can only add value by helping you to identify and improve those operations and processes not operating in the most effective and efficient manner. Furthermore, the MICP is the Army's official reporting and tracking vehicle that is used to carry the message to our top leadership when major problems with internal controls (material weaknesses) prevent us from doing the job the right way. How many times have you heard someone say, "Why doesn't somebody at the top fix this problem?" The MICP requires us to report material weaknesses and track the weaknesses until corrective action will not happen because the right people are not informed and there is no official mechanism to track the corrective actions until they're completed. The MICP is another management tool designed to help reduce risk.

4. Who's responsible? The Army program manager for the MICP is the Assistant Secretary of the Army (Financial Management and Comptroller) (ASA (FM&C)). The TRICARE Management Activity (TMA) manages the Defense Health Program (DHP) MICP for the Office of the Assistant Secretary of Defense for Health Affairs (OASD (HA)). The OTSG/MEDCOM Internal Review and Audit Compliance Office (IRACO) manages the Army and DHP MICP for the OTSG and the MEDCOM. The OTSG/MEDCOM MICP Senior Responsible Official and Internal Control Administrator (ICA) both reside within the OTSG/MEDCOM IRACO. Primary responsibility for execution of the MICP rests with commanders designated as assessable unit managers (AUM's). Each Commander (AUM) must ensure that an ICA is appointed to operate the MICP. ICA's play a critical role as a facilitator of the MICP within the organization to ensure that what should get done, actually does get done. Yet, the real "nuts and bolts" MICP work is done by managers at all levels since they perform evaluations and risk assessments of their operations, report material weaknesses to their Commanders and provide their Commanders assurance about their operations. Managers at every level are responsible for ensuring that they have effective internal controls and many will be involved in performing MICP evaluations required by regulations or risk assessments required by the DHP MICP. Plus, all managers must be aware of the MICP so they will know to report any material weaknesses in their operations.

#### 5. How will we operate the MICP?

- a. <u>Organization</u>. The OTSG and MEDCOM subordinate activities are segmented into assessable units. The OTSG/MEDCOM MICP Senior Responsible Official (SRO) and ICA work with OTSG/MEDCOM leaders and assessable units to determine what activities should be designated as assessable units based on a combination of factors such as number of personnel assigned, budgetary resources and mission. (*Special Note: There is only one SRO within OTSG/MEDCOM. Assessable units do not have a SRO.*) Each assessable unit has an AUM (Commander) and an Internal Control Administrator (ICA) who decide how to best segment their organization for effective reporting. The MICP Handbook provides a listing of all OTSG/MEDCOM activities designated as assessable units. In addition, the MICP Handbook provides suggestions on how to segment your assessable unit into "functional units," "reporting offices," or "assessable sub-units" so you can have an effective MICP within your organization.
- b. <u>Training</u>. The AUM (Commander) and the ICA of each assessable unit are responsible for providing/arranging MICP training and maintaining training records. The MICP Handbook provides information about MICP training resources and recommends the type of MICP training for personnel.
  - c. **Program Execution.** MICP program execution involves several key steps as discussed below.
- (1) The Army requires each activity designated as an "assessable unit" to develop a <u>Five-year Internal</u> <u>Control Evaluation Plan (ICEP)</u> for performing internal control evaluations required by regulations. Annually, the OTSG/MEDCOM ICA provides instructions for updating the ICEP. The instructions include the latest inventory of regulations that contain evaluations to facilitate updating the ICEP.
- (2) Annually, OASD (HA) requires each assessable unit to develop a <u>Risk Assessment Plan</u> for performing DHP MICP risk assessments on assessable functions they specify each year. Every year the OTSG/MEDCOM ICA provides instructions for developing / updating the Risk Assessment Plan.
- (3) Assessable units <u>must report material weaknesses when detected</u> to the next higher command level and provide a status update in their Annual Statement of Assurance on Internal Controls.
- (4) Assessable units must prepare an Annual Statement of Assurance on Internal Controls. Every year the OTSG/MEDCOM ICA provides preparation instructions to MSCs for preparing the annual statement. MSCs inturn usually forward the same preparation instructions with a cover memorandum to subordinate activities (assessable units) for preparing their annual statements. The annual statement is the Commander's (AUMs) assessment to the next higher command level about whether or not the Commander has reasonable assurance that internal controls for operations are in place and working as intended. Commanders should not base their assessment about whether internal controls are operating as intended solely on the results of evaluations or risk assessments that are performed as required by the MICP. Reasonable assurance that internal controls are in place and operating as

intended is mainly based on those internal controls that are employed on a routine or recurring basis to ensure mission accomplishment—periodic meetings and reports, organizational inspection programs, reviews by The Joint Commission, etc. These are the controls the Commander uses every day to ensure the job gets done so they help provide the basis for the Commander's assurance in the annual statement.

- d. <u>Proponents of Regulations</u>. OTSG and some MEDCOM organizations are proponents of Army Regulations or Department of Defense regulations and must comply with the requirements in AR 11-2. <u>All Army organizations and activities are subject to the requirements in AR 11-2</u>. No one is exempt. The OTSG/MEDCOM ICA has developed a guide entitled "Guide for Developing Internal Control Evaluations for Regulations" to help simplify this task. Department of the Army will not approve publication of any regulation until the requirements in AR 11-2 are met and presented correctly in the regulation. The guide for writing evaluations for regulations is included in the MICP Handbook or may obtain a copy by contacting the OTSG/MEDCOM ICA. All new or revised regulations must be staffed through the OTSG/MEDCOM ICA. We recommend you contact the OTSG/MEDCOM ICA early in the regulation development or revision process.
- 6. <u>What guidance will we follow?</u> We follow AR 11-2, Management Control, OTSG/MEDCOM guidance and the MICP Handbook. The handbook describes how to operate the MICP and has specific instructions on what's required. Furthermore, the handbook is automated allowing assessable unit ICAs the opportunity to easily tailor the handbook to their specific requirements and furnish copies of the handbook to key personnel.
- 7. What's a "material weakness"--something to do with supply? Yes and no! A material weakness (major problem) in internal controls can affect not only supply, but any kind of operation or process. Therefore, no operation or process is exempt from reporting a material weakness in internal controls. To be considered material, a weakness must meet two conditions: One, it must involve a deficiency in internal controls (i.e., internal controls are not in place, are not being used or are inadequate) and two, it must warrant the attention of the next level of command, either because the next level must take action or because it must be made aware of the problem. Think about a weakness as a big problem you don't want your boss to hear about from somebody else. If you have a big problem and you're not sure if it is a material weakness, immediately contact your ICA. Your ICA will help you get the right people involved to assess the magnitude of the problem. However, the final decision on reporting a material weakness is a subjective management judgment. You will also have to evaluate material weaknesses reported to you by your subordinate activities and determine whether to report them to the next higher command level. Remember, the purpose of reporting the weakness to the next higher level is to get their help in resolving the weaknesses or to make them aware of the weakness because of its significance. (Note: In the past Material weaknesses were only reported up the chain of command in the Annual Statement of Assurance on Internal Controls. Material weaknesses can now be reported year-around upon detection and an undate should be included in your annual statement. Please contact the OTSG/MEDCOM ICA for reporting details if you have a material weaknesses.) A word of advice when reporting a weakness: Allocation of resources involves difficult, critical decisions that are ultimately made by the Army's senior leadership and the senior leadership of your command. Reporting resource deficiencies as material weakness should n
- 8. What MICP responsibilities do managers at all levels have?
  - a Read the MICP Training Brief and know who your local Internal Control Administrator is
- b. If required, <u>complete evaluations</u> and <u>risk assessments</u> scheduled on your organization's Five-year Internal Control Evaluation Plan (ICEP) and Risk Assessment Plan respectively.
- c. <u>Report material weaknesses in your operations when discovered</u> no matter how the weaknesses were found and provide a status update in your organization's Annual Statement of Assurance on Internal Controls.

- d. On an annual basis, <u>if you're requested to do so</u>, <u>provide input</u> for your organization's <u>Annual Statement of Assurance on Internal Controls</u> as to whether or not you have reasonable assurance that internal controls for your operations are in place and working as intended.
- 9. What MICP responsibilities do Commanders (Assessable Unit Managers) typically have? See page 5.
- 10. What responsibilities do the Internal Control Administrators (ICA's) typically have? See page 6.
- 11. As a Commander or manager at any level, what education/training is necessary? At minimum, all managers should read this training brief. All key managers should also arrange with their ICA to view the MICP training video, which is about 20 minutes in duration. Once you've read this training brief and/or viewed the training video, please inform your ICA via email accordingly. The type and extent of training you will need depends on your level of involvement in the MICP. The MICP Handbook provides recommended training based on your MICP responsibilities. Your ICA will help you assess your training needs. Always inform your ICA about any MICP training you've had because the ICA is responsible for tracking and reporting MICP training completed. For example, your ICA may ask for copies of training certificates or other documents as evidence of completed training since your ICA is required to maintain evidence of training completed.
- 12. <u>How do I contact the OTSG/MEDCOM Internal Control Administrator (ICA)?</u>
  Please contact the OTSG/MEDCOM Internal Review and Audit Compliance Office, Phone: DSN 471-6164 of Compression (210) 221-6164

### COMMANDER'S (Assessable Unit Manager's) GENERAL MICP RESPONSIBILITIES

(Note: Although we only refer to ''Commander'' within this training brief, the term Director, Manager, Chief, etc. should be substituted for Commander where appropriate.)

- 1. <u>Provide</u> the <u>leadership and support</u> needed to ensure you have an effective MICP. Methods to accomplish this are illustrating your emphasis for the MICP through memorandums and staff meetings by expressing commitment to the MICP along with what you expect of your staff.
- 2. <u>Appoint an Internal Control Administrator</u> (ICA) for your organization (assessable unit) and ensure the ICA receives appropriate MICP training. We recommend that all ICAs attend the two-day Army Manager's Internal Control Administrators' Course. The ICA should possess a good overall knowledge of the organization as they will need to interact with most key managers in the organization to do their job. The ICA should contact the OTSG/MEDCOM ICA (see page 4) to obtain MICP training information when appointed.
- 3. <u>Performance Standards</u>. AR 11-2, Management Control, requires that <u>your performance standards</u> include MICP responsibilities as required by AR 11-2. We also recommend you include MICP responsibilities in the ICA's performance standards. (See example wording in MICP Handbook.)
- 4. Review the MICP Training Brief (15 minutes) and view the MICP training video (20 minutes). Encourage all managers to review this training brief and view the MICP training video—especially key managers. All managers must be educated about the MICP for it to succeed and add value to your operations.
- 5. Ensure the Five-year Internal Control Evaluation Plan (ICEP) and DHP MICP Risk Assessment Plan are updated annually and that evaluations and risk assessments are performed when scheduled. The Five-year ICEP is used to schedule all internal control evaluations required by regulations. The DHP MICP Risk Assessment Plan is used to schedule risk assessments of specific assessable functions required by the OASD (HA). Your ICA should maintain the evaluation plan and risk assessment plan and have offices within the organization update their segment of the plan annually based on guidance from OTSG/MEDCOM. Most evaluations and risk assessments are self-evaluations/risk assessments performed by the subject matter experts within your organization. The evaluations and risk assessments performed must be properly documented. In addition, you or your principal deputy must sign a certification for each evaluation completed.
- 6. Submit an "Annual Statement of Assurance on Internal Controls" to the next higher command level with your opinion about whether or not you have reasonable assurance that internal controls in your organization are in place and operating effectively. Your annual statement must also include the basis for your assessment that supports your overall opinion. The OTSG/MEDCOM ICA will provide annual statement preparation instructions that will include sample annual statements.
- 7. Report material weaknesses (e.g., major problems) in your operations when detected to the next higher command level and a status update in your annual statement. The reporting of a material weakness is a subjective management judgment. Usually this judgment is based on a combination of factors such as the weakness is material to your organization as a whole and it warrants the attention of the next higher command level for them to take corrective action or for their awareness. You must also evaluate material weaknesses reported to you by your subordinate activities and determine whether to report them to the next higher command level. (Note: This is why all managers must be educated about the MICP--so they will know how to identify and report material weaknesses or at least know who to contact for help if they believe they have a material weakness.)
- 8. <u>Comply with AR 11-2 when publishing regulations</u>. If your organization is the proponent of any Department of Defense regulation as the Executive Agent or any Army regulation, ensure that the procedures are followed in AR 11-2 by using the OTSG/MEDCOM MICP "Guide for Developing Internal Control Evaluations for Regulations." Please contact the OTSG/MEDCOM ICA if you need a copy.

### INTERNAL CONTROL ADMINISTRATOR'S (ICA) GENERAL MICP RESPONSIBILITIES

- 1. Continually, <u>advise the Commander</u> on the implementation and status of the Managers' Internal Control Program and ensure the Commander's performance standards include MICP responsibilities.
- 2. **Keep managers** at all levels within your organization **informed** on internal control matters.
- 3. <u>Identify the MICP training requirements for your organization and arrange/provide that training.</u> The MICP Handbook provides information about training resources. All managers must be educated about the Managers' Internal Control Program in general and specifically how to recognize and report material weaknesses in operations. We recommend you distribute this MICP Training Brief to all managers. We also recommended you ensure that all key managers and MICP personnel view the MICP training video. <u>In addition, you must maintain training records and report training statistics in your Annual Statement of Assurance on Internal Controls as prescribed in the instructions for preparing the annual statement.</u>
- 4. Ensure the Five-year Internal Control Evaluation Plan (ICEP) and DHP Risk Assessment Plan are updated annually and that evaluations and risk assessments are performed when scheduled. The Five-year ICEP is used to schedule all internal control evaluations required by regulations. The DHP Risk Assessment Plan is used to schedule risk assessments required by the DHP MICP. The ICA usually maintains the ICEP and Risk Assessment Plan and requires offices within the organization to update their segment of the plan annually. In addition, ensure that evaluation certifications for completed evaluations are signed by the Commander or principal deputy. You may want all evaluation certifications routed through you so you can arrange for signature by the Commander and track completed evaluations. Evaluation and risk assessment documentation must be kept on file by the office performing the evaluation or risk assessment. Note: The results of the most recent risk assessment for all assessable functions must be reported in the Risk Assessment Report that is part of the Annual Statement of Assurance on Internal Controls.
- 5. Prepare the Annual Statement of Assurance on Internal Controls for the Commander's signature based on instructions provided to you each year from OTSG/MEDCOM ICA or your next higher command level. The annual statement preparation instructions will include an automated sample annual statement that will allow you to easily revise the sample to reflect your own operational results.
- 6. Report and track material weaknesses (e.g., major problems) in your operations when detected to the next higher command level and a status update in your "Annual Statement of Assurance on Internal Controls." Material weaknesses must be reported using the proper format as described in the MICP Handbook. You will also have to evaluate material weaknesses reported to you by your subordinate activities and determine whether to report them to the next higher command level. (Note: Previously, material weaknesses were reported up the chain of command only in the Annual Statements of Assurance on Internal Controls. We now strongly recommend you report material weaknesses upon detection to the next higher command level and provide a status update in your annual statement. The revised AR 11-2, due out in FY09, will include this as a new requirement to promote prompt resolution of material weaknesses.) In addition, each year your annual assurance must include the updated status on material weaknesses previously reported as "uncorrected" until all corrective actions are completed. Therefore, you must track corrective action progress on material weaknesses until corrective actions are completed and someone validates that the corrective actions taken effectively corrected the weakness.
- 7. Ensure compliance with AR 11-2 when publishing regulations. If your organization is the proponent of any Department of Defense regulation as the Executive Agent or any Army regulation, ensure that the procedures are followed in the guide for "Developing Internal Control Evaluations for Regulations." The Army will not publish regulations if the requirements in AR 11-2 are not met. The guide will help you accomplish this task. No Army or DoD function within the Army's control is exempt from any of the requirements in AR 11-2. Please contact the OTSG/MEDCOM ICA if you need a copy.