

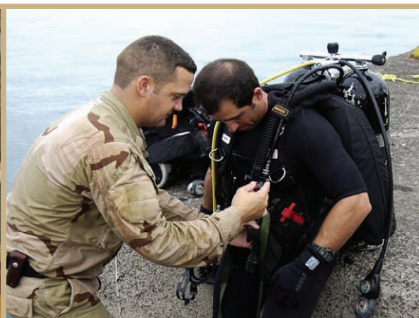
# THE SECRETARY OF THE NAVY

SECNAV M-5200.35

MARCH 2007



## DEPARTMENT OF THE NAVY MANAGERS' INTERNAL CONTROL MANUAL



**PUBLISHED BY  
THE ASSISTANT SECRETARY OF THE NAVY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)**



**THE ASSISTANT SECRETARY OF THE NAVY**  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
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WASHINGTON DC 20350-1000

## FOREWORD

This manual implements the policy set forth in Secretary of the Navy Instruction (SECNAVINST) 5200.35E, Department of the Navy (DON) Managers' Internal Control (MIC) Program regarding internal controls across the DON and is issued under the authority of SECNAVINST 5430.7N, Assignment of Responsibilities and Authorities in the Office of the Secretary of the Navy, 9 June 2005.

This Manual specifies procedures for implementing an internal control program throughout the DON. An effective internal control program will serve as management's basis for the DON annual Statement of Assurance.

This Manual is effective immediately; it is applicable to the Offices of the Secretary of the Navy, The Chief of Naval Operations (CNO), the Commandant of the Marine Corps (CMC), and all Navy and Marine Corps activities, installations, commands, ships, and stations.

This manual may be accessed through the Department of the Navy Issuances website: <http://neds.daps.dla.mil/default.aspx>. For further assistance or to offer comments and recommendation concerning this manual, contact the office delineated below:

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720 Kennon St. SE  
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A handwritten signature in black ink, appearing to read "Ashley D. Godwin". The signature is stylized and includes a long horizontal flourish extending to the right.

Ashley D. Godwin  
Acting

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## **Preparation of the Annual DON Statement of Assurance**

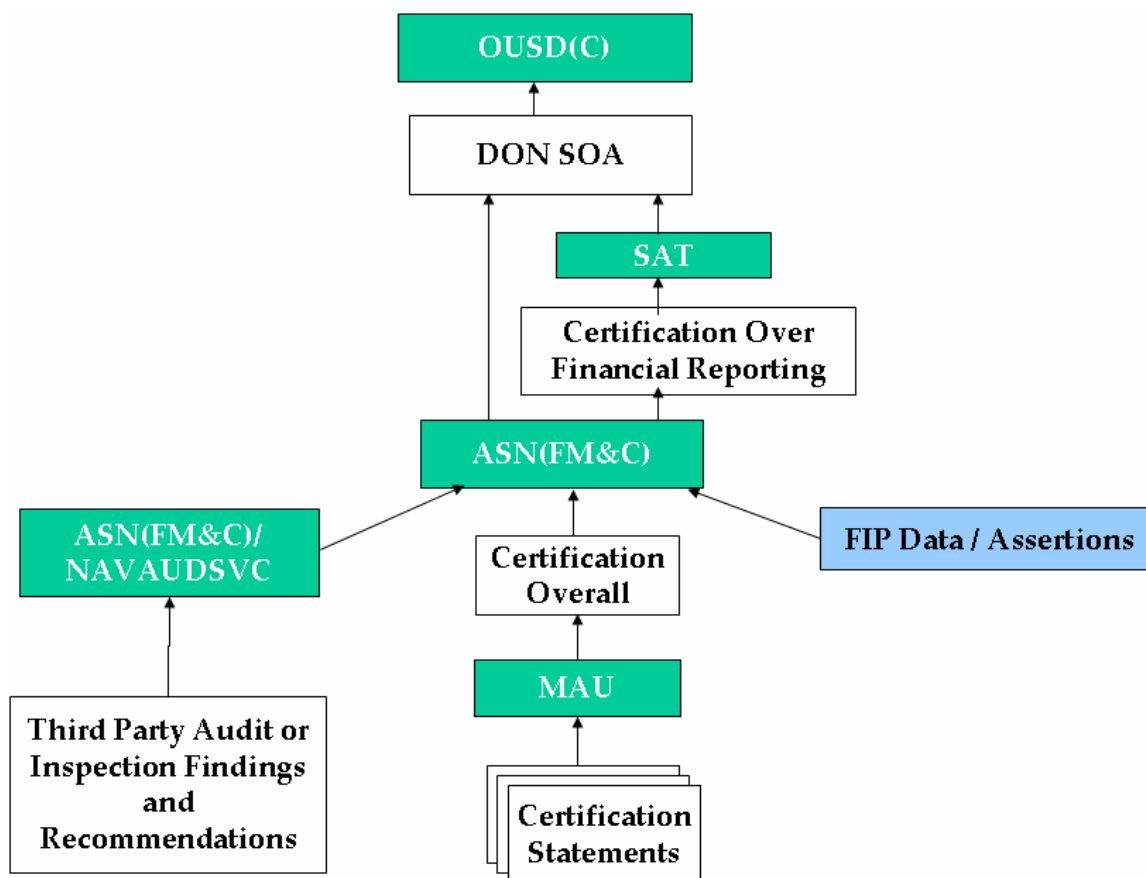
The Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN(FM&C)) is responsible for preparing and compiling the annual Statement of Assurance (SOA). This responsibility is delegated by ASN(FM&C) to the Office of Financial Operations (FMO) and is described in detail in SECNAV Instruction 5200.35E, and its accompanying guidance, SECNAV Manual 5200.35. Information regarding internal controls, to include both control deficiencies and control-related accomplishments, is collected through two main venues. The DON's Major Assessable Units (MAUs) receive internal control certification statements from their subordinate units, and in turn submit certification statements up to ASN(FM&C) through FMO. This "self-reporting" of control deficiencies enables commands to demonstrate their control environments and activities, and indicate the findings of their control assessments. Complementing the self-reporting of control deficiencies, FMO uses audit reports from the Government Accountability Office, Department of Defense Inspector General and Naval Audit Service to help identify material control deficiencies throughout the year. FMO works closely with the Naval Audit Service to review audit reports on a quarterly basis and utilizes a systemic method to determine materiality and potential inclusion in the SOA.

For both self-reported material weaknesses and those stemming from audit reports, FMO works with the commands to develop, document and monitor corrective actions and milestones in accordance with Department of Defense Instruction (DoDI) 5010.40 and applicable guidance.

FMO references the DoD "Systemic Weaknesses" identified by the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) in the annual DON SOA. DON control deficiencies are mapped to corresponding DoD weaknesses to identify any correlation between these issues.

Additionally, the annual SOA includes a separate certification on Internal Controls Over Financial Reporting (ICOFR). The "FMFIA over Financial Reporting" process for collecting and reporting this information is described in the next section of this manual. Figure 1 depicts both the FMFIA Overall and FMFIA over Financial Reporting process.

Figure 1 – Information Flow for Annual Statement of Assurance



### Internal Controls Over Financial Reporting (ICOFR)

In December 2004, the Office of Management and Budget (OMB) released a revised version of OMB Circular A-123, Management's Responsibility for Internal Control, which included a new appendix dealing specifically with internal controls over financial reporting. OMB Circular A-123, Appendix A strengthens the requirements for conducting management's assessment of internal control over financial reporting.

In 2005, the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) revised DoDI 5010.40 to incorporate the requirements of the revised OMB Circular A-123. Annual guidance for implementing DoDI 5010.40 is also provided. Specifically, DoD components and agencies are directed to submit process flowcharts, narratives, risk assessments, control analyses and test plans for financial reporting processes in certain financial statement focus areas. The annual Statement of Assurance must now include a separate statement on assurance of the Department's internal controls over financial reporting.

The DON is meeting the requirements of OMB Circular A-123, Appendix A and DoDI 5010.40 through the efforts of the Financial Improvement Program (FIP). This program, led by the Office of Financial Operations, is directed toward achieving an unqualified audit opinion for the DON financial statements. The FIP involves personnel at the command level who participate in certain business processes that impact the DON financial statements.

Currently, MAUs are not responsible for providing a separate certification statement for their command's internal controls over financial reporting. However, MIC coordinators at all levels should be aware of the OMB Circular A-123, Appendix A requirements and how they are being met in the DON, particularly in those commands where the FIP is validating processes and producing documentation of internal controls over financial reporting.

### **DON Major Assessable Units**

DON Major Assessable Units represent all organizations that report directly to the Secretary of the Navy or the Under Secretary of the Navy. The head of each assessable unit, the Assessable Unit Manager, has the responsibility and accountability for establishing and assessing internal controls.

The following identifies the DON Major Assessable Units for FY 2007:

|   |           |
|---|-----------|
| Assistant for Administration, Office of the Under Secretary of the Navy | AAUSN     |
| Assistant Secretary of the Navy (Financial Management and Comptroller)  | ASN(FM&C) |
| Assistant Secretary of the Navy (Installations and Environment)         | ASN(I&E)  |
| Assistant Secretary of the Navy (Manpower and Reserve Affairs)          | ASN(M&RA) |
| Assistant Secretary of the Navy (Research, Development and Acquisition) | ASN(RD&A) |
| Auditor General of the Navy   | AUDGEN    |
| Chief of Information  | CHINFO    |
| Chief of Legislative Affairs  | OLA       |
| Chief of Naval Operations   | CNO       |
| Chief of Naval Research   | ONR       |
| Commandant of the Marine Corps  | CMC       |
| Department of the Navy Chief Information Officer                        | DON CIO   |
| Director, Office of Program Appraisal                                   | OPA       |
| Director, Naval Criminal Investigative Service                          | NCIS      |
| Director, Office of Small Business Programs                             | OSBP      |
| General Counsel of the Department of the Navy                           | OGC       |
| Judge Advocate General  | JAG       |
| Naval Inspector General   | NAVINGEN  |

## **Senior Management Council**

The Senior Management Council will meet quarterly to discuss progress on reported material weaknesses and reportable conditions as well as potential new material weaknesses and reportable conditions.

The Director, Office of Financial Operations (FMO) will be the Senior Management Council Chair. The Auditor General of the Navy will serve as a permanent member of the council and other Senior Civilian Staff and/or Flag Officers (or their representatives) from DON Major Assessable Units will be invited to join the council on an as-needed basis depending on the type and scope of weaknesses being considered.

## **Senior Assessment Team**

The Director, FMO will be the Senior Assessment Team Chair. The voting membership of the DON Senior Assessment Team will be represented by members of the Senior Executive Service and/or Flag Officers (or their representatives) from the following organizations:

- Office of the Assistant Secretary of the Navy (Financial Management and Comptroller), Office of Budget
- Headquarters Marine Corps
- Defense Finance and Accounting Service (Arlington, Cleveland and Kansas City)
- Naval Air Systems Command
- Naval Facilities Engineering Command
- Naval Sea Systems Command
- Naval Supply Systems Command
- Space and Naval Warfare Systems Command
- Commander, Fleet Forces Command
- Commander, Navy Installations Command
- Bureau of Naval Personnel
- Office of Naval Research
- Executive, non-voting advisors from the Naval Audit Service and appropriate business management (non-FM) areas.

The Senior Assessment Team will meet at least twice yearly with additional meetings determined by the Chair. Any member may request a special meeting whenever issues surface.

## Reporting Period

The DON Statement of Assurance (SOA) reporting period does not follow the 1 October - 30 September fiscal year. The SOA reporting period begins 1 July and ends 30 June. This is considered the **MIC reporting year**. However, when stating milestones in a corrective action plan, include the **fiscal year** quarters in which the milestones are scheduled for completion rather than **MIC reporting year** quarters. For example, a milestone scheduled for completion in January would be reported as having a targeted completion date in the fiscal second quarter not the MIC third quarter.

Since the preparation of the DON Statement of Assurance occurs during the fourth quarter of the fiscal year, it is strongly advised to **not** assign milestones to the fourth quarter (July - September). It is difficult to accurately report on and update fourth quarter milestones once the preparation of the DON Statement of Assurance begins. For this reason, if a milestone is scheduled to be completed on 1 August 2008, identify the targeted completion date of the milestone as the first quarter of 2009. This will allow adequate time to confirm the completion of the milestone and report the completion up the chain of command.

## Submitting Instructions

All DON Major Assessable Units are required to provide input to the annual DON Statement of Assurance by submitting a MIC Certification Statement.

### Certification Statements

Signed Certification Statements, along with supporting enclosures, will be submitted to the Secretary of the Navy via Assistant Secretary of the Navy (Financial Management and Comptroller)(ASN(FM&C)) no later than 1 August 2007.

In addition to the hardcopy submission, an electronic copy is required via the web-based SOA Tool for DON Major Assessable Units. It is strongly recommended that lower subordinate organizations use the SOA Tool (when available) to provide the necessary information to their reporting organization.

The mailing address is: Office of Financial Operations, 720 Kennon St. SE, Building 36, Room 115, Washington Navy Yard, DC 20374-5025.

E-mail submissions shall be sent to the MIC Program Manager, Mr. Michael Moreau, at [michael.moreau@navy.mil](mailto:michael.moreau@navy.mil).

## Preparing a MIC Certification Statement

The submission for the MIC Certification Statement for the FMFIA Overall Process shall include:

1. A cover memorandum
2. Tab A: Accomplishments
3. Tab B-1: Listing of Material Weaknesses, Reportable Conditions and Items to be Revisited; Uncorrected and Corrected
4. Tab B-2: Uncorrected Material Weaknesses, Reportable Conditions and Items to be Revisited
5. Tab B-3: Corrected Material Weaknesses, Reportable Conditions and Items to be Revisited

### Cover Memorandum

A cover memorandum (Example 1), addressed to the **Secretary of the Navy** and signed by the Head of the command, or the principal deputy, shall provide senior management's assessment as to whether there is reasonable assurance that internal controls are in place and operating effectively. The certification must take one of the following three forms:

An **unqualified statement of assurance** (reasonable assurance with no material weaknesses reported). Each unqualified statement shall provide a firm basis for that position, which the Head (or principal deputy) will summarize in the cover memorandum.

A **qualified statement of assurance** (reasonable assurance with exception of one or more material weakness(es) noted). The cover memorandum must cite the material weakness(es) in internal controls that preclude an unqualified statement. Tab B-2 will fully describe all weaknesses, the corrective actions being taken and by whom, and the projected quarter and fiscal year of those corrective actions.

A **statement of no assurance** (no reasonable assurance because no assessments conducted or the noted material weaknesses are pervasive). The Head (or principal deputy) shall provide an extensive rationale for this position.

In addition, the Assessable Unit Manager must certify to the number of internal control (IC) assessments that are scheduled for the upcoming MIC year and the number of IC assessments completed during the previous MIC year.

SECNAV M-5200.35  
MARCH 2007**Example 1: Overall Certification Statement**

15 July 2007

## MEMORANDUM FOR SECRETARY OF THE NAVY

Subj: MANAGERS' INTERNAL CONTROL CERTIFICATION STATEMENT

Ref: (a) SECNAVINST 5200.35E

- Encl: (1) Tab A: Accomplishments  
(2) Tab B-1: Listing of Material Weaknesses, Reportable Conditions and Items to be Revisited; Uncorrected and Corrected  
(3) Tab B-2: Uncorrected Material Weaknesses, Reportable Conditions and Items to be Revisited  
(4) Tab B-3: Corrected Material Weaknesses, Reportable Conditions and Items to be Revisited

**[Insert Command]** evaluated the system of internal controls in effect during the 12-month period ending 30 June 2007 by completing **[insert number of completed internal control assessments]** internal control assessments. The evaluation was performed in accordance with the policies contained in reference (a). For the 12-month period ending 30 June 2008, **[Insert Command]**, plans to complete [insert number of scheduled internal control assessments] internal control assessments.

Information to support the certification was derived from management reviews, audits, inspections, lower level subordinate commands' Managers' Internal Control Certification Statements and other management information, including knowledge gained from daily operations of programs and functions. An overview of the evaluation and related accomplishments can be found in Enclosure (1).

I have reasonable assurance that management controls are in place and operating effectively and that the objectives of the Federal Managers' Financial Integrity Act were achieved with the exception of the material weaknesses identified in Enclosure (2).

My point of contact is Ms. Jane Doe. She may be reached at (202) 555-5555 or jane.doe@navy.mil.

**[Insert Name of Senior Manager]**  
**[Insert Title of Senior Manager]**

**Tab A: Accomplishments**

Tab A (Example 2) shall include a brief summary of the most significant accomplishments and actions taken by the command during FY 2007 to strengthen internal controls. The accomplishments shall be ordered by significance with most significant accomplishments listed first. Major Assessable Units and their immediate subordinates should use the Statement of Assurance Tool to prepare Tab A.

**Example 2: Tab A**

| <b>2005 Accomplishment</b>  |   |
|---|---|
| Form Status: Pending With FMO Admin   | Created: John Doe - FMO - MAIN – 04-21-2005 |
|   | Current Owner: FMO - MAIN                   |
| <b>Title</b>  |   |
| Managers' Internal Control (MIC) Program Computer Based Training (CBT)  |   |
| <b>Description of Issue</b>   |   |
| The Office of Financial Operations (FMO) oversees the Department of Navy (DON) MIC Program. One of FMO's responsibilities is to develop and provide training for coordinators and managers across the department. In the past this training has been provided using instructor-led courses throughout the year in various locations around the world. Using this method of instruction made it difficult for many coordinators and managers to obtain the training due to lack of travel resources or lack of availability.   |   |
| <b>Description of Accomplishment</b>  |   |
| FMO completed the development and successfully deployed two versions of MIC training onto the Navy Knowledge Online e-learning portal. One course is specifically designed for MIC coordinators and alternates, and provides a 7-hour, comprehensive instruction on internal controls and the DON MIC Program. The other course provides a shorter overview on the same topics for DON managers. The CBT was intended to replace instructor-led training, and as of June 30, 2005 over 1,200 users have accessed and completed the courses. This course allowed any manager and coordinator to access basic internal control training anywhere in the world at anytime. Commands no longer need to allocate training and travel resources to ensure their coordinators and managers are trained. The training is provided via Navy Knowledge Online at no cost to the command. The funding that was allocated for providing instructor-led basic internal control training will now be re-allocated to developing more advanced Manager's Internal Control Program Workshops to further strengthen training opportunities within the DON. |   |
| <b>Functional Category</b>  |   |
| Functional Category - Personnel and/or Organization Management<br>Notes - Computer Based Training   |   |
| <b>Point of Contact</b>   |   |
| John Doe, Staff, Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Financial Operations, (202) 555-5555, john.doe@navy.mil   |   |
| <b>Approver</b>   |   |
| Jane Deer, Director, Assistant Secretary of the Navy (Financial Management and Comptroller) Office of Financial Operations, (202) 555-5555, jane.deer@navy.mil  |   |
| <b>Notes</b>  |   |
| None  |   |

**Tab B-1: Listing of Material Weaknesses, Reportable Conditions and Items to be Revisited; Uncorrected and Corrected**

Tab B-1 (Example 3) should serve as a table of contents and clear listing of the titles of all uncorrected and corrected Material Weaknesses (MW), Reportable Conditions (RC), and Items to be Revisited (IR).

**Example 3: Tab B-1**

| <u>UNCORRECTED MATERIAL WEAKNESSES, REPORTABLE CONDITIONS AND ITEMS TO BE REVISITED IDENTIFIED DURING THE PERIOD FISCAL YEAR (FY) 2005</u> |    |                      |                            |  |                           |               |
|--|----|----------------------|----------------------------|--|---------------------------|---------------|
| <u>Title</u>   |    | <u>Weakness Type</u> |                            | <u>Targeted Correction Date</u>                        |                           | <u>Page #</u> |
| Accurate and Complete Reporting of Accounts Payable, General Fund  |    | MW                   |                            | FY 2008  |                           | B-2-6         |
| Certification and Accreditation of DON Information Technology Systems  |    | MW                   |                            | FY 2007  |                           | B-2-3         |
| Cost Management of the Navy's Shipbuilding Programs  |    | IR                   |                            | FY 2006  |                           | B-2-23        |
| Identifying and Reporting Environmental Disposal Liabilities   |    | MW                   |                            | FY 2007  |                           | B-2-8         |
| Military Equipment Reporting   |    | MW                   |                            | FY 2008  |                           | B-2-11        |
| Reserve Personnel, Navy (RPN) Endstrength Levels at OSD Controlled Activities  |    | RC                   |                            | FY 2006  |                           | B-2-21        |
| Top Secret/Sensitive Compartmented Information Requirements Process  |    | MW                   |                            | FY 2006  |                           | B-2-1         |
| Valuation of Inventory and Operating Materials and Supplies  |    | MW                   |                            | FY 2011  |                           | B-2-14        |
| <u>UNCORRECTED MATERIAL WEAKNESSES, SIGNIFICANT ISSUES AND ITEMS TO BE REVISITED IDENTIFIED DURING PRIOR PERIODS</u>                       |    |                      |                            |  |                           |               |
| <u>Title</u>   |    | <u>Weakness Type</u> | <u>Year First Reported</u> | <u>Correction Quarter (Qtr) &amp; Fiscal Year Date</u> |                           | <u>Page #</u> |
| Earned Value Management  |    | RC                   | FY 2003                    | <u>Per Last Statement</u>                              | <u>Per This Statement</u> | B-2-27        |
| Navy and Marine Corps Intranet   | MW | FY 2004              | FY 2007                    | FY 2006  | B-2-17                    |               |
| <u>CORRECTED MATERIAL WEAKNESSES IDENTIFIED DURING ALL PERIODS</u>   |    |                      |                            |  |                           |               |
| <u>Title</u>   |    | <u>Weakness Type</u> |                            | <u>Year First Reported</u>                             |                           | <u>Page #</u> |
| Military Personnel Recruiting  |    | MW                   |                            | FY 2001  |                           | B-3-20        |
| Supply Inventory Management  |    | MW                   |                            | FY 1998  |                           | B-3-13        |

**Tab B-2: Uncorrected Material Weaknesses, Reportable Conditions and Items to be Revisited**

Tab B-2 (Example 4) shall contain detailed narrative descriptions of all uncorrected Material Weaknesses, Reportable Conditions and Items to be Revisited including the plans and schedules for the corrective action(s). Include those identified during the current year and those disclosed in prior years with updated information. Major Assessable Units and their immediate subordinates should use the Statement of Assurance Tool to prepare Tab B-2.

The narrative shall be in the format provided in the below example and include the following data elements:

- **Title and Description of Issue:** Provide specific title that narrowly defines the issue. Do not use broad categories to title specific weaknesses. Confine the weakness description to three sentences if possible.
- **Functional Category:** Indicate one of the 16 functional categories provided that are described in the section titled “Managers’ Internal Control Reporting Category” in this guidance, e.g., “Force Readiness.”
- **Weakness Type:** Indicate the weakness classification: Material Weakness (MW), Reportable Condition (RC) or Item to be Revisited (IR). Definitions for these weakness classifications are provided in Enclosure (1) of SECNAVINST 5200.35E.
- **Justification:** Indicate one or more justification categories that apply for materiality consideration: threat to mission, threat to resources (i.e. greater than 1% of budget), and/or threat to image (i.e. Congressional or media interest).
- **Command:** Indicate which Command is reporting the weakness.
- **Senior Accountability Official:** Identify the name and title of the senior official in charge of ensuring this weakness is resolved according to the proposed corrective action plan. This official must be a flag-level officer or member of the Senior Executive Service (SES).
- **Year Identified:** Fiscal year of the annual certification statement in which Command first reported the weakness.
- **Original Targeted Correction Date:** Quarter and fiscal year of the targeted correction date as Command first reported it. (For all targeted correction dates, Commands must show both the Quarter and Fiscal Year, e.g., 1st Qtr, FY 2007, 2nd Qtr, FY 2008, etc.)

- **Targeted Correction Date in Last Year's Report:** Quarter and fiscal year of the targeted correction date as it was reported in the Command's annual MIC Certification Statement for the previous year. If this is a new weakness, simply put "N/A."
- **Current Target Date:** Quarter and fiscal year of targeted correction date per this report.
- **Reason For Change in Date:** If applicable, reason for change in quarter and fiscal year of Current Target Date from the Target Correction Date in Last Report. The reason for change should include a brief description of the impact (cost, operation) of any delay in correcting the weakness.
- **Validation Indicator:** Briefly indicate the methodology that the Command will use to certify the effectiveness of the corrective action(s) and the projected date that the certification will take place. In addition, indicate the role that the DoD Inspector General or Naval Audit Service will play in verification of the corrective action.
- **Results Indicator:** Describe key results that have been or will be achieved in terms of performance measures. Performance measures are quantitative and/or qualitative measures that determine the benefits derived or to be derived from the corrective action and the overall impact of the correction on operations. If monetary benefits can be determined, state that information here. NOTE: Specifically identify one or two defined performance measures, metrics or results that will be used to determine successful completion of the proposed remedial effort.
- **Source(s) Identifying Weakness:** Use the following other applicable sources: MIC Program Evaluation; DoD IG; Naval Audit Service; Government Accountability Office; Command internal review organization; or Other. When audit findings are the source of weakness identification, identify the title, number and date of the document in which the weakness was identified. If the weakness was identified by more than one source, list all identifying sources in order of significance.
- **Major Milestones to Include Progress to Date:** Use a milestone chart indicating actions taken and actions planned for the future. Separate milestones into three categories: (a) **Completed Milestones**, (b) **Planned Milestones for Fiscal Year 2008**, and (c) **Planned Milestones Beyond Fiscal Year 2008**. List major milestones (minimum of one per quarter with the exception of the fiscal fourth quarter) in chronological order by milestone completion date with the terminal milestone listed last. The terminal milestone is the final corrective action, and should either be or include the validation that the weakness is corrected.

- **Point of Contact:** Enter the name, telephone number and e-mail address of the official responsible for supporting the Senior Accountability Official in administering the implementation of corrective actions.

General rules to follow when completing Tab B-2:

- Do not exclude sections, if they are not applicable, simply note "N/A" following the heading.
- **Spell out acronyms** the first time they are used in each individual material weakness narrative.
- Narratives should be succinct, void of technical jargon, and easy for the general public to interpret.

**Example 4: Tab B-2**

| <b>2006 New Weakness</b>  |                                      |
|---|--------------------------------------|
| Form Status: Sent to Echelon 2  | Created: John Doe - FMO - 06-29-2006 |
|   | Current Owner: Naval Aircraft Agency |
| <b>Title</b>  |                                      |
| Military Equipment Reporting  |                                      |
| <b>Description of Weakness</b>  |                                      |
| The Department of the Navy (DON) is unable to accurately report the financial value of Military Equipment because legacy information systems do not maintain a historical cost baseline and are unable to properly record and maintain the value of military equipment. Currently, DON does not meet Federal Accounting Standards for the financial reporting of Property, Plant and Equipment. |                                      |
| <b>Functional Category</b>  |                                      |
| Functional Category - Comptroller and/or Resource Management  |                                      |
| Notes - None  |                                      |
| <b>Weakness Type</b>  |                                      |
| Weakness Type - Material Weakness (MW)  |                                      |
| <b>Justification</b>  |                                      |
| Justification - Magnitude of funds, property, or other resources involved   |                                      |
| Notes - None  |                                      |
| <b>Command</b>  |                                      |
| Naval Aircraft Agency   |                                      |
| <b>Senior Accountable Official</b>  |                                      |
| CAPT Jane Doe, Deputy Director, Naval Aircraft Agency, (202) 555-5555, jane.doe@navy.mil.   |                                      |
| <b>Year Identified</b>  |                                      |
| 2006  |                                      |
| <b>Original Targeted Correction Date:</b>   |                                      |
| 1st Quarter, FY 2008  |                                      |
| <b>Targeted Correction Date in Last Year's Report</b>   |                                      |
| None  |                                      |
| <b>Current Target Date</b>  |                                      |
| 1st Quarter, FY 2008  |                                      |
| <b>Reason for Change in Dates</b>   |                                      |
| N/A   |                                      |
| <b>Validation Process</b>   |                                      |
| All corrective action(s) are certified by the responsible components upon completion and reviewed through an on-site verification, subsequent audit, inspection, quality assurance review, or management control review.  |                                      |
| <b>Results Indicator</b>  |                                      |
| DON meets Federal Accounting Standards for the financial reporting of Property, Plant and Equipment.  |                                      |

**Example 4: Tab B-2 (Continued)****Source(s) Identifying Weakness**

- Government Accountability Office (GAO), Report No. GAO-05-284T, "Fiscal Year 2004 U.S. Government Financial Statements," February 9, 2005.
- Department of Defense, Office of Inspector General (DoD IG), Report No. D-2004-036, "Independent Auditor's Report on the Department of Defense Fiscal Year 2003 Agency-Wide Principal Financial Statements," dated December 10, 2003.
- GAO, Report No. GAO-01-244, "Report on the Department of Defense Fiscal Year 2001 Major Management Challenges and Program Risks," dated January 16, 2001.

**Completed Milestones (Progress to Date)**

- DON worked with the Office of Secretary of Defense Property and Equipment (OSD P&E) policy office to develop business rules, which were reviewed by the DoD IG and GAO and approved by the Deputy Chief Financial Officer (DCFO). The business rules are being incorporated into the Department of Defense (DoD) Financial Management Regulations (FMR).
- The DON worked with the OSD P&E policy office to establish initial valuations based on actual data.
- DON began development of a system to maintain the baseline data - Capital Asset Management System - Military Equipment (CAMS-ME) that was adopted by OSD P&E policy office as solution for all DoD.
- The system received its acquisition Milestone B and has been certified for obligation by the Under Secretary of Defense, Comptroller.

**Planned Milestones - Next Fiscal Year**

1st Qtr - OSD will provide DON with baseline valuations for military equipment (95% for Army and Navy, 100% for Air Force), a process and corresponding business rules for valuation and a tool to maintain those baseline valuations in order for them to begin their assertion process with regards to Military Equipment.

2nd Qtr - Begin training on military equipment tool

3rd Qtr - Capital Asset Management System-Military Equipment (CAMS-ME) Increment 1 - Initial Operational Capability

**Planned Milestones - Beyond Next Fiscal Year**

1st Qtr, FY 2008 - DON completes establishment of baseline values for military equipment. CAMS-ME Increment 1 - Full Operational Capability

1st Qtr, FY 2008 - Release of CAMS-ME Increment 2 - Initial Operational Capability

**Point of Contact**

John Doe, Staff, Naval Aircraft Agency, (202) 555-1212, john.doe@navy.mil

**Notes**

None

**Tab B-3: Corrected Material Weaknesses, Reportable Conditions and Items to be Revisited**

Tab B-3 (Example 5) provides a brief narrative describing the material weaknesses corrected in the current year, including the most significant actions taken to correct each weakness. This section will include all material weaknesses corrected in FY 2007 that were identified in either the current or prior year(s). The data elements are similar to the data elements in Tab B-2. Follow the general rules for Tab B-2 when completing Tab B-3. For each corrected material weakness, the last completed milestone will describe the method used to validate the corrective action including a certification that the corrective action effectively resolved the weakness. Major Assessable Units and their immediate subordinates should use the Statement of Assurance Tool to prepare Tab B-3.

**Example 5: Tab B-3**

| <b>2006 Corrected Material Weakness</b>  |  |
|--|--|
| Form Status: Pending With FMO Admin  | Created: John Doe - COMNAVAIRSYSCOM - 08-12-2002 |
|  | Current Owner: FMO - MAIN                        |
| <b>Title</b><br>Supply Inventory Management  |  |
| <b>Description of Weakness</b><br>Department of Navy (DON) activities did not exercise necessary oversight to ensure the implementation and monitoring of subordinate commands' controls over Government furnished material/sponsored owned materials held at contractor sites, including interim supply support contractors, resulting in the DON maintaining excess material, incurring unnecessary storage costs and not fully realizing cash value from disposal of excess material. |  |
| <b>Functional Category</b><br>Functional Category - Supply Operations<br>Notes - None  |  |
| <b>Weakness Type</b><br>Weakness Type - Material Weakness (MW)   |  |
| <b>Component</b><br>Naval Aircraft Agency  |  |
| <b>Senior Accountable Official</b><br>CAPT Jane Doe, Deputy Director, Naval Aircraft Agency, (202) 555-5555, jane.doe@navy.mil.  |  |
| <b>Year Identified</b><br>FY 1998  |  |
| <b>Original Targeted Correction Date:</b><br>1st Quarter, FY 2001  |  |
| <b>Targeted Correction Date in Last Year's Report</b><br>1st Quarter, FY 2006  |  |
| <b>Current Target Date</b><br>N/A  |  |
| <b>Reason for Change in Dates</b><br>N/A   |  |
| <b>Validation Process</b><br>All corrective action(s) are certified by the responsible components upon completion and reviewed through on-site verification, subsequent audit, inspection, quality assurance review, and management control review.  |  |
| <b>Results Indicator</b><br>Ninety-five percent of all Sponsored Owned Material (SOM) inventories are recorded and tracked correctly.  |  |
| <b>Source(s) Identifying Weakness</b><br>Management Internal Control Reviews   |  |

**Example 5: Tab B-3 (Continued)**

|   |
|---|
| <p><b>Completed Milestones (Progress to Date)</b></p> <p>Revised Naval Aviation Supply Office Instruction 4440.88 that implements the Inventory Accuracy Officer Program to conform with Naval Supply Systems Command (NAVSUP) Instruction 4440.177 and specifically include direction to: 1) provide the Inventory Accuracy Officer with the authority to extend across directorate lines and encompass all aspects of the organization whose work affects the accuracy of inventory records and 2) require the weapons managers and contracting officers to notify the Inventory Accuracy Department of situations that will prevent the normal updating of the inventory records.</p> <p>Completed the implementation of the NAVSUP Realtime Residual Asset Management System (RRAM) at Cheatham Annex.</p> <p>Developed stocking objective for SOM - Addressed in NAVAIRINST 4451.2, Management of NAVAIR Sponsor Owned Material.</p> <p>Issued procedures for maintaining the SOM Inventories under memo AIR 3.3.3/0005, dated 12 April 2004.</p> <p>Completed RRAM installation at the Foreign Military Sales Warehouse in Orange Park on 29 November 2004.</p> <p>Completed SOM inventory at China Lake.</p> <p>Completed inventories of Interim Supply Support, Foreign Military Sales Reserve and Special Tooling/Special Test Equipment material.</p> <p>Certified that 94% of all Sponsored Owned Material (SOM) inventories are recorded and tracked correctly according to FY 2005 management control review.</p> <p><b>Planned Milestones - Next Fiscal Year</b><br/>N/A</p> <p><b>Planned Milestones - Beyond Next Fiscal Year</b><br/>N/A</p> <p><b>Point of Contact</b><br/>John Doe<br/>MIC Coordinator, Naval Aircraft Agency<br/>john.doe@navy.mil<br/>(555) 555-5555</p> <p><b>Notes</b><br/>None</p> <p><b>Has this Prior Period Weakness Been Corrected?</b><br/>Yes</p> |
|---|

**MIC Program Documentation Requirements**

All DON Major Assessable Units and their immediate subordinates must maintain the following MIC Program documentation for the FMFIA Overall Process:

1. Inventory of Assessable Units
2. MIC Plan
3. Risk Assessment
4. Internal Control Assessment
5. Corrective Actions for Reportable Conditions and Material Weaknesses

## Inventory of Assessable Units

Assessable units are designed to provide a reasonable span of control to conduct management reviews. An assessable unit can be any organization, function, program, or subdivision capable of being evaluated using internal control assessment procedures. An assessable unit must have clear limits or boundaries and be identifiable to a specific responsible manager. Further, it must be small enough to provide reasonable assurance of adequate management controls but large enough that any detected material weakness has the potential to impact the mission of the organization.

Assessable units must constitute the entire organization. This means that every part of the organization must be represented by one of the assessable units in the organization's inventory of assessable units.

The size and structure of assessable units will vary with the type of organization, mission, and risks associated with a command or activity. Each organization will customize their assessable units to ensure a reasonable span of control. There are three spans of control that may be considered.

**1. Narrow Span of Control** (Oversight of 5-10 individuals/components): This level of control would be necessary for critical functions, programs or activities that require immediate oversight by the assessable unit manager.

**2. Medium Span of Control** (Oversight of 10-30 individuals/components): This level of control is more appropriate if the organization is segmented along organizational lines. The assessable unit manager would be responsible for overseeing other MIC Coordinators or Points of Contact.

**3. Wide Span of Control** (30+ individuals/components): This level of control can be used if automated monitoring processes are available. For example, a technology department may be able to monitor certain controls for 50 workstations to protect against computer viruses using a software package.

At a minimum, the inventory of assessable units (Example 6) shall include the name of the assessable unit and responsible manager identified by either name or billet title.

An organization's inventory of assessable units shall be updated periodically to reflect changes within the organization.

**NOTE:** The following example is only a guide and is not intended to be replicated by every command. Commands should use the format that is most conducive to the command's environment and organizational practices to document their assessable units.

**Example 6: Inventory of Assessable Units**

| <b>Inventory of Assessable Units<br/>Office of Financial Operations</b> |                                |
|---|--------------------------------|
| <b>Assessable Unit Name</b>   | <b>Assessable Unit Manager</b> |
| 1. Financial Operations   | J. Doe                         |
| 2. Financial Services   | K. Smith                       |
| 3. Financial Systems and Planning                                       | A. Lopez                       |
| 4. Financial Process Improvement  | D. King                        |
| 5. Administrative and Information Technology Support                    | M. Lee                         |

**The Managers' Internal Control (MIC) Plan**

The MIC Plan is an executive summary of a commands MIC program. The plan captures the organization's approach to implementing an effective internal control program, and serves as the first resource MIC coordinators use to understand the organization's program.

The MIC Plan will assist in the transition from one MIC coordinator to another by establishing in writing how the organization is implementing the relevant guidance. New MIC coordinators and alternates shall use the MIC plan to learn the specific approach and vision of the MIC program within their organization.

The MIC plan shall be updated as needed. The plan may take any form but must identify the following key elements:

- (1) the organization's senior official overseeing the MIC program, the MIC coordinator and the alternate MIC coordinator;
- (2) an overview of the MIC program as related to the GAO standards for internal control;
- (3) a description of risk assessment methodology;
- (4) a description of monitoring/internal control assessment methodology;
- (5) a description of how to develop and track corrective action plans;
- (6) MIC training efforts; and
- (7) the date the plan was last updated.

A MIC Plan guide is provided in Example 7 and may be used to create the organization's plan. The guide outlines the key information requirements for each section to provide assistance in developing a robust plan. The format presented in the

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guide is designed to meet the reporting requirements and to indicate how an organization's program relates to the GAO five standards for internal control.

**NOTE:** The following example is only a guide and is not intended to be replicated by every command. Commands should use the format that is most conducive to the command's environment and organizational practices to document MIC plan.

**Example 7: MIC Plan Guide**

**MIC PLAN GUIDE**

**Organization Name**

**Managers' Internal Control (MIC) Plan**

**This plan is updated** (indicate frequency, i.e., annually, quarterly, etc.)

**Last Update:** (Enter actual date of last update)

**MIC Senior Official:** (This person will sign the organization's certification statement)

- Identify the MIC senior official by name, title and position within the organization.
- Identify to whom the position reports.
- Indicate how the responsibility is assigned and how often the position changes staffing.

**MIC Coordinator:**

- Identify the MIC coordinator by name, title and position within the organization. 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 MIC Coordinator:**

- Identify the alternate MIC coordinator by name, title and position within the organization.
- 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.

**Overview of the Managers' Internal Control Program within the Organization:** Address all five elements of the GAO standards: Control Environment, Risk Assessment, Control Activities, Information and Communication, and Monitoring, and how they are being addressed within your organization.) For each discussion area, if published information already exists, it is unnecessary to repeat it within the document. Instead, attach or reference the location and source of the relevant information, so it can be easily obtained.

## **Control Environment**

### **Mission**

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

*Attach/Reference: location and/or copy of published mission statement*

### **Strategic Plan**

- Identify your organization's strategic plan.

*Attach/Reference: location and/or copy of the Strategic Plan*

### **Organization Structure**

- Describe at a high level how your organization is structured--the hierarchy, functional divisions, programs, staffing, etc.
- Discuss how key areas of authority and responsibility are defined. Identify how lines of reporting are established.
  - ▶ Identify the IC reporting chain of command within your organization
  - ▶ Identify the funding flow within your organization

*Attach/Reference: organization chart, DON organizational manual, chapters, pages, etc. Indicate the date of the chart and frequency of update.*

## **Risk Assessment**

- Describe how your organization assesses the risks associated with accomplishing its mission. Is your organization performing risk assessments on operations, programs and administrative functions? (This section is simply a narrative overview of your risk assessment. The results of your risk assessment shall be included in the risk assessment documentation requirement.)

## **Control Activities**

- Describe the methodology of how control activities are identified and developed, the types of policies and documented procedures that are in place to explain and outline how to ensure the effectiveness of the controls.

## 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.

## Monitoring

### Control Activities

- Describe the major types and methods of monitoring activities/internal control assessment being performed by both internal and external entities. Include self-assessments, evaluations and risk assessments. Reference by assessable units, if different or applicable.
- List the total number of scheduled internal control assessments for upcoming MIC year. (This information is needed for the annual MIC certification statement).
- List the total number of completed internal control assessments for the previous MIC year. (This information is needed for the annual MIC certification statement).

### Accomplishments

- Describe how management tracks the organization's accomplishments. 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.

### Corrective Action Plans

- Include a brief description of your internal organization process (either manual or automated) for tracking progress against control deficiencies. This may currently be one of the functions of your internal Inspector General.

## MIC Training

- Provide a high level overview of the training opportunities available within your organization.
- Indicate the minimum annual training requirements and how they are monitored. Reference databases, sources, etc.

## Reporting Requirements:

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

## Risk Assessment Documentation

A risk assessment determines where a potential hazard exists that might prevent the organization from achieving its objectives. Asking the following questions may help to identify risks:

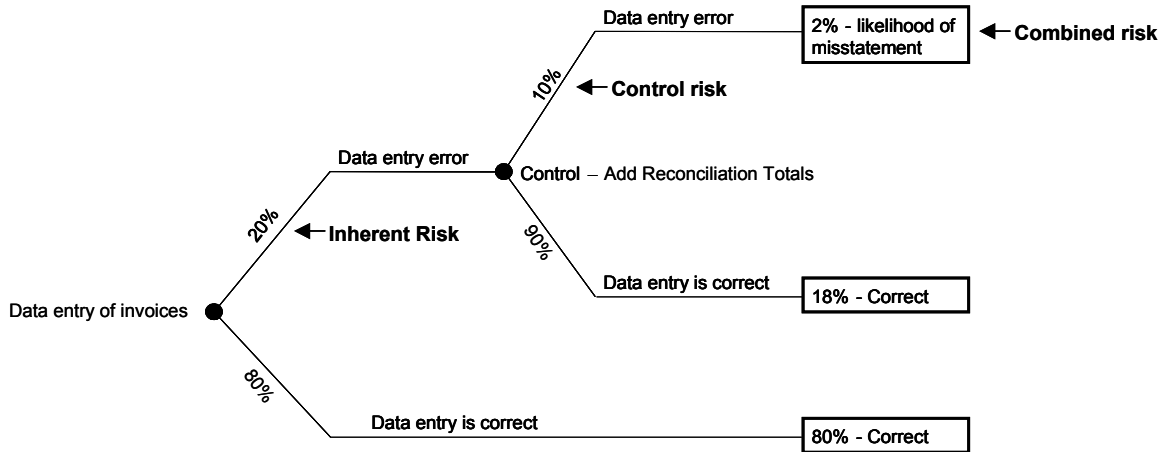
- a. What could go wrong in the process?
- b. What processes require the most judgment?
- c. What processes are most complex?
- d. What must go right for proper reporting?
- e. How could we fail to report accurately?
- f. How do we know whether we are achieving our objectives?
- g. Where are our vulnerable areas?

For each of the risks identified in a business process, a control activity or combination of control activities should be identified and documented in the risk assessment. The Government Accountability Office (GAO) identifies three types of risk:

- a. **Inherent risk** – the original susceptibility to a potential hazard or material misstatement, assuming there are no related specific control activities. For example, human error in data entry of figures.
- b. **Control risk** – the risk that a hazard or misstatement will not be prevented or detected by the internal control. For example, the control activity to prevent data entry error is to include a reconciliation total. The control risk is that the reconciliation total will not prevent a misstatement.
- c. **Combined risk**, also known as residual risk – the likelihood that a hazard or material misstatement would occur and not be prevented or detected on a timely basis by the agency's internal control. For example, combined risk remains if the transposition of numbers in the data entry process resulted in the total transactions matching the reconciliation total. In this case, the reconciliation total would not mitigate the inherent risk. The risk that remains is known as the combined risk.

Figure 2 is a decision diagram to better illustrate the three risks. Percentages are used to distinguish the different risks; however, are not required when preparing the risk assessment.

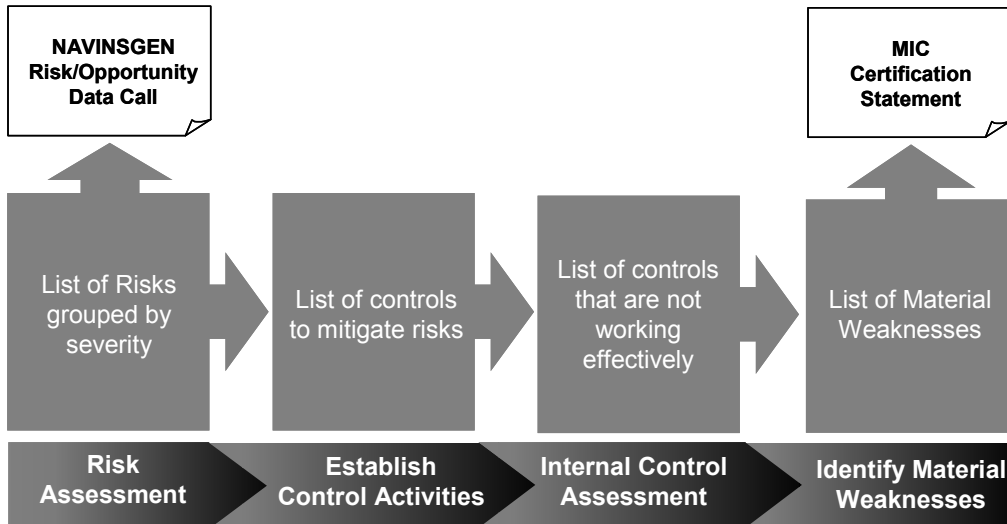
**Figure 2: Risk Diagram**



While risk assessment documentation is required, there is no prescribed format for completing a risk assessment for the MIC program overall. The goal is to maintain risk assessment documentation that gives managers the information they need to establish and improve internal controls to provide reasonable assurance.

A command's risk assessment should be used to support daily management decisions, the requirements of SECNAVINST 5200.35E, and the Naval Inspector General's (NAVINGEN) Risk/Opportunity data call. The risk assessment required by SECNAVINST 5200.35E is not intended to duplicate other risk assessments being conducted at the command level. Figure 3 illustrates how a command's risk assessment can support both the NAVINGEN data call and the MIC Certification Statement.

**Figure 3: Risk Assessment Process Flow**



The following tools may assist in preparing your risk assessment documentation:

1. Process Narrative and Process Flowchart Examples
2. Risk Type and Level Matrix
3. Risk Assessment Table

### **Process Narrative and Process Flowchart Examples**

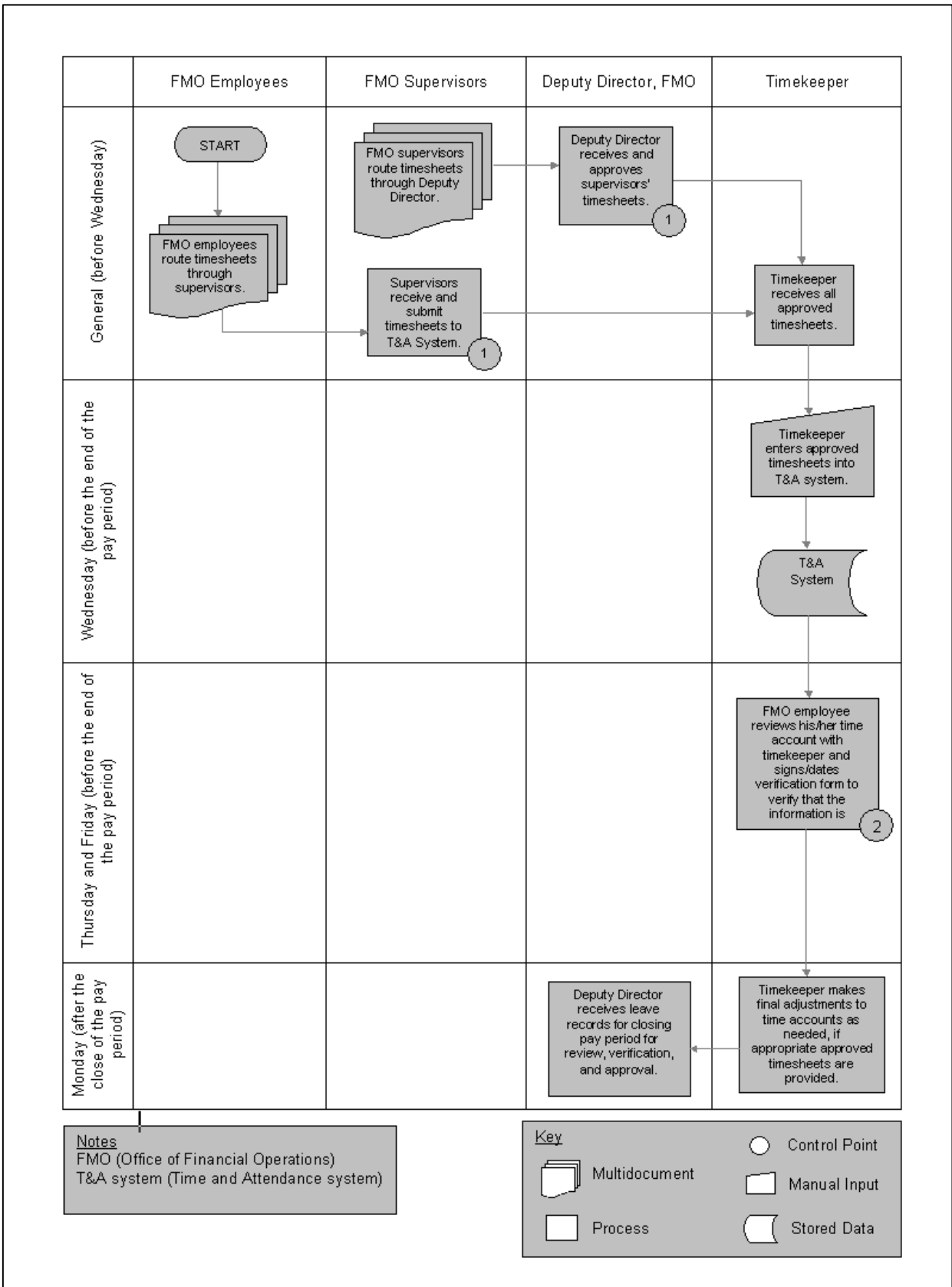
Preparing process narratives and process flowcharts that describe and illustrate the major and essential operations can assist in identifying risks and control deficiencies.

Process narratives are written descriptions of the flow charts, explaining what actions are being taken in each step. The process flowchart (Example 8) should complement the process narrative and summarize the significant steps in major and essential operations. Additionally, the method(s) of communication used to share the status of steps throughout the process can be documented.

The flowchart will identify key processes and their related control activities such as, control over information processing, physical control over vulnerable assets, segregation of duties, and accurate and timely recording of transactions and events. These flowcharts can then be linked to the required risk assessment documentation.

**NOTE:** The following example is only a guide and is not intended to be replicated by every command. Commands should use the format that is most conducive to the command's environment and organizational practices to document their work processes.

**Example 8: Process Flowchart**



**Risk Type and Level Matrix**

Using professional judgment, assess the level of inherent, control, and combined risk for each issue by using Table 1 below:

**Table 1: Risk Type and Level Table**

| <b>Risk</b>     | <b>Low</b>   | <b>Moderate</b>   | <b>High</b>   |
|-----------------|--|---|---|
| <b>Inherent</b> | Hazard or misstatement does not have severe consequences and is unlikely to occur.   | Hazard or misstatement has severe consequences or is likely to occur.   | Hazard or misstatement has severe consequences and is likely to occur.  |
| <b>Control</b>  | Controls will prevent or detect any hazard or aggregate misstatements that could occur in the assertion in excess of design materiality. | Controls will more likely than not prevent or detect any hazard or aggregate misstatements that could occur in the assertion in excess of design materiality. | Controls will unlikely prevent or detect any hazard or aggregate misstatements that could occur in the assertion in excess of design materiality. |
| <b>Combined</b> | Any hazard or aggregate misstatements in the assertion do not exceed design materiality.   | More likely than not, any hazard or aggregate misstatements in the assertion do not exceed design materiality.  | More unlikely than likely, any hazard or aggregate misstatements in the assertion do not exceed design materiality.                               |

**Risk Assessment Table**

Some form of a risk assessment table will be necessary to document the risk assessment required by SECNAV Instruction 5200.35E. The following data elements are included in the example risk assessment table (Example 9).

The numbers in the columns of the Risk Assessment Table correlate to the following instructions.

- (1) Document the risk/control point (i.e. number) from the process flow chart.
- (2) Identify the risk. (The approach to this process of identifying risks is to envision what could go wrong. What problems could arise that might hinder the objective?)
- (3) Identify the level of Inherent Risk as High, Moderate, or Low. If inherent risk is determined to be "High", stronger or more extensive controls to prevent or detect misstatements may be needed than if inherent risk is "Low."
- (4) Identify the level of Control Risk as High, Moderate, or Low. If control risk is determined to be "High" (i.e. controls have not been implemented or are not effective in either design or operation), there is no need to test the controls for that risk. Corrective action plans to address internal controls should be developed to mitigate the risk.
- (5) Identify the level of Combined Risk as High, Moderate, or Low.
- (6) Document the control currently being used by the organization to mitigate the risk described in (1) above.

**NOTE:** The following example is only a guide and is not intended to be replicated by every command. Commands should use the format that is most conducive to the command's environment and organizational practices to document their risk assessment.

**Example 9: Risk Assessment Table**

| <b>Risk Assessment</b>                        |   |                      |                     |                      |   |
|---|---|----------------------|---------------------|----------------------|---|
| <b>Command: ASN(FM&amp;C)/FMO</b>             |   |                      |                     |                      |   |
| <b>Preparer: John Doe</b>                     |   |                      |                     |                      |   |
| <b>Process: Time &amp; Attendance Process</b> |   |                      |                     |                      |   |
| (1)<br>Control Number                         | (2)<br>Risk   | (3)<br>Inherent Risk | (4)<br>Control Risk | (5)<br>Combined Risk | (6)<br>Internal Control Currently in Place  |
| 1   | Employee inaccurately records hours worked.                   | Moderate             | Low                 | Moderate             | Supervisor reviews employee's timesheets and approves hours worked.   |
| 2   | Timekeeper could inaccurately input data into the T&A system. | Moderate             | Low                 | Low                  | FMO employee reviews his/her time account with timekeeper and signs/dates to verify that the information is accurate. |

### **Control Assessment Documentation**

Once internal controls are in place, management shall actively monitor those controls to ensure that they are functioning correctly and effectively mitigating the associated risk. Control assessments can include both an internal review of controls and evaluations from external organizations such as audit organizations or offices of inspector general.

Every assessable unit (both major and sub-assessable units) should conduct at least one internal control assessment annually. Sub-assessable units are any assessable units that immediately report to a major assessable unit for MIC purposes. The Head of the Major Assessable Unit is required to report each year in their MIC Certification Statement the number of completed internal control assessments for the previous MIC year, the results of those assessments and the number of planned internal control assessments for the upcoming MIC year. This number generally should represent one internal control assessment per sub-assessable unit. An internal control assessment performed by an assessable unit does not need to include all controls each year. The scope of the internal control assessment is based on management's judgment.

During the risk assessment, controls will initially be rated as having a low, moderate, or high control risk. If a control risk is determined to be high, there is no need to test the control. The reason for not testing the controls labeled "high" is that those controls have not been implemented or are not effective in either their design or operation, and therefore must be improved. Develop corrective action plans for all controls that are rated as having high control risk.

Controls with low or moderate control risk should be tested to see if the controls are effective. If the control is assessed to be ineffective, the control should be reclassified as having a high control risk. Develop corrective action plans for those controls that are reclassified as having a high control risk.

Significant control deficiencies should be reported to the next higher level assessable unit as either a reportable condition or material weakness, based on management judgment.

While internal control assessment documentation is required, there is no prescribed format for completing an internal control assessment for the MIC program overall. The goal is to maintain internal control assessment documentation that gives managers the information they need to establish and improve internal controls within their command.

Some form of an internal control assessment table (Example 10) is necessary to document the internal control assessment required by SECNAVINST 5200.35E. Data from the Risk Assessment Table should be carried over to the internal control assessment for the following columns: Control Number, Risk, Internal Control Currently in Place.

The numbers in the columns of the Internal Control Assessment Table correlate to the instructions below

- (1) Identify the control test objective to validate the assumed level of control risk.
- (2) Describe the design of the control, which will be tested.
- (3) Answer if the design of the control is effective based upon the testing performed. (Choose either "Yes" or "No")
- (4) Describe how the control operation was tested.
- (5) Answer if the control operation is effective based upon the testing performed. (Choose either "Yes" or "No")
- (6) New level of control.

Determine the new level of control risk based on the control design test and the control operation test. For example, if the initial control risk was "Low" and was tested to be ineffective for both the design and control operation tests, the new control risk level would be elevated to "High". However, if the initial control risk was "Low" and both the design and control operation tests were effective, the control risk level would stay classified as "Low."

**NOTE:** The following example is only a guide and is not intended to be replicated by every command. Commands should use the format that is most conducive to the command's environment and organizational practices to document their internal control assessment.

**Example 10: Control Assessment Table**

| Control Assessment |   |   |  |  |                                      |   |   |                               |
|--------------------|---|---|--|--|--------------------------------------|---|---|-------------------------------|
| Command            |   | ASN(FM&C)/FMO   |  |  |                                      |   |   |                               |
| Preparer           |   | Jane Doe  |  |  |                                      |   |   |                               |
| Process:           |   | Time and Attendance Process   |  |  |                                      |   |   |                               |
| Control Number     | Risk  | Internal Control Currently In Place   | (1)<br>Control Test Objective  | (2)<br>Description of Design Test        | (3)<br>Was Control Design Effective? | (4)<br>Description of Control Operation Test                            | (5)<br>Was Control Operation Effective? | (6)<br>New Control Risk Level |
| 1                  | Employee inaccurately records hours worked.                   | Supervisor reviews employee's timesheets and approves hours worked.   | To ensure supervisors are accurately reviewing timesheets.                                 | Review existence of approved timesheets. | Yes                                  | Track employee's time and compare with approved timesheets.             | Yes                                     | Low                           |
| 2                  | Timekeeper could inaccurately input data into the T&A system. | FMO employee reviews his/her time account with timekeeper and signs/dates to verify that the information is accurate. | To ensure the FMO employee review effectively reduces inaccuracies on recorded timesheets. | Review existence of verification forms.  | Yes                                  | Compare approved timesheets with timesheets recorded in the T&A system. | Yes                                     | Low                           |

The example Risk and Control Assessment Tables are designed to be used together. These tools are available on the DON's MIC webpage found at: [http://www.fmo.navy.mil/mic/home\\_index.htm](http://www.fmo.navy.mil/mic/home_index.htm).

**Corrective Action Plans**

Monitoring of internal controls shall include policies and procedures for ensuring that the findings of audits and other reviews are promptly resolved.

Managers are to (1) promptly evaluate findings from audits and other reviews, including those showing deficiencies and recommendations reported by auditors and others who evaluate agencies' operations, (2) determine proper actions in response to findings and recommendations from audits and reviews, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention. The resolution process begins when audit or other review results are reported to management, and is completed only after action has been taken that corrects identified deficiencies, produces improvements, or demonstrates the findings and recommendations do not warrant management action.

Corrective action plans for all material weaknesses and reportable conditions shall be included as an enclosure to the MIC Certification Statement. Formatting instructions are outlined in the "Preparing an Internal Control Certification Statement" section of this implementation guide.

## Determining Materiality

Materiality is a management judgment. It is difficult to apply a strict formula or test to determine whether something is or is not material. There are, however, important questions that can be asked to help management determine if an issue is a material weakness.

### 1. Is the issue control-related?

Consider whether the issue is related to internal controls. If a control deficiency has been identified through the risk assessment process, this will be clear. If, however, the issue was identified through other sources such as the media or an audit, it may not be clear. Not all problems are control-related. There could be a significant exposure to risk and/or a potential for loss of significant financial resources that result from informed management decisions, not from a control deficiency. Management may determine to pursue a certain strategy or policy that is inherently risky. The mere exposure to risk does not automatically dictate that there is a control deficiency. For example, resource limitations may prevent an organization from achieving its mission, but unless it is the result of a control deficiency, it should not be included in the SOA. Issues must be control-related to be included in a MIC Certification Statement and/or the DON SOA. Other issues should be addressed elsewhere (i.e. budget process, responses to audit recommendations, direct briefs to the Secretary, NAVIG risk/opportunity data call, etc.).

### 2. Does the issue meet any of the general criteria for materiality (Threat to Mission, Threat to Resources, or Threat to Image)?

**Threat to Mission:** Consider whether the control deficiency presents a risk to achieving the mission of the organization. Missions will vary greatly across the DON; therefore, the answer to this question will also vary greatly. Threats to Mission include but are not limited to:

- impaired fulfillment of essential mission or operations
- unreliable information causing unsound management decisions
- violations of statutory or regulatory requirements
- impact on information security
- depriving the public of needed Government services

**Threat to Resources:** Consider whether the control deficiency is a threat to physical, financial or human resources. Both actual loss and potential for loss of resources should be considered along with the magnitude and frequency of the loss. When a control deficiency has a clear dollar value associated with it, the general standard used for materiality is a one percent (1%) threshold. Anything greater than one percent (1%) of the organization's budget would be considered material.

**Threat to Image:** Finally, consider the impact on the organization's image. A control deficiency may not pose a threat to the mission or a material threat to resources, but it may bring substantial negative publicity. These control deficiencies could be material even if they do not meet the first two criteria. Threats to Image include but are not limited to:

- sensitivity of the resources involved (e.g., drugs, munitions)
- current or probable Congressional or media interest
- diminished credibility or reputation of management

### **3. Is the issue command-wide?**

Once an issue is determined to be control-related and meets at least one of the three general criteria above, the final question is whether the issue is command-wide. An issue is only material if it affects your organization as a whole. For example, if your organization has ten assessable units and a control deficiency is identified in one of those assessable units, but the other nine assessable units do not have that control deficiency, then the control deficiency would not be considered command-wide. The one exception is when a control deficiency is identified in one assessable unit and that assessable unit is solely responsible for that function across the command. For example, if one assessable unit is responsible to store and secure medicines within your command and a control deficiency is reported that relates to unauthorized access to medicine, the remaining nine commands do not need to report the same "access to medicine" control deficiency in order for it to be considered command-wide since every where medicine is stored within the command is susceptible to the internal control weakness.

The following chart (Example 11) can be used to help managers evaluate these questions:

**Example 11: Matrix of Materiality**

| Determining Materiality |           |   |  |                    |                            |                  |                        |          |   |                      |
|-------------------------|-----------|---|--|--------------------|----------------------------|------------------|------------------------|----------|---|----------------------|
| Date                    | Issue     | Summary of issue  | Control-Related?   | Material?          |                            |                  | Command/Activity-wide? | Comments | Decision  |                      |
|                         |           |   |  | Threat to Mission? | Threat to Resources? (>1%) | Threat to Image? |                        |          |   |                      |
| 1                       | 1/2/2005  | Certification and Accreditation of DON IT Systems       | DON is required by law to certify 90% DON IT systems. Internal controls were not in place to ensure that this requirement was met. | Y                  | Y                          | N                | N                      | Y        | This is a threat to the mission because we are unable to comply with the law. The lack of certification of IT system could impede the accuracy and timeliness of critical mission-related information.  | Material Weakness    |
| 2                       | 5/15/2005 | Government Travel Card Program at Naval Aircraft Agency | Audit found inappropriate expenditures by four individuals in the amount of \$300,000.   | Y                  | N                          | N                | Y                      | N        | Although the amount of money is not material (i.e. less than 1%), there is the potential for negative media publicity. Since this was not a command-wide problem this will be reported as a reportable condition rather than material weakness. | Reportable Condition |
| 3                       |           |   |  |                    |                            |                  |                        |          |   |                      |
| 4                       |           |   |  |                    |                            |                  |                        |          |   |                      |

## Department of Defense Internal Control Reporting Categories

1. **Research, Development, Test, and Evaluation.** This covers the basic project definition, approval, and transition from basic research through development, test, and evaluation and all DoD and contractor operations involved in accomplishing the project work, excluding the support functions covered in separate reporting categories such as Procurement and Contract Administration.
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.
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 materiel, equipment, and supplies. It also includes depot and arsenal-type facilities as well as intermediate and unit levels of military organizations.
7. **Supply Operations.** 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. **Property Management.** Covers construction, rehabilitation, modernization, expansion, improvement, management, and control over real and installed property, and facilities (both military and civil works construction). It includes all phases of property life-cycle management from determination of need through disposition.

9. **Communications and/or Intelligence and/or Security.** Covers the plans, programs, operations, systems, and management activities for accomplishing the communications and intelligence missions. It includes safeguarding classified resources but not peripheral assets and support functions covered by other reporting categories. It also covers the DoD programs for protection of classified information.
10. **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 performs functions such as collecting, processing, storing, transmitting or displaying information) and other technologies for processing management information.
11. **Personnel and/or Organization Management.** Covers authorizations, recruitment, training, assignment, use, development, and management of military and civilian personnel of the Department of Defense. It 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.
13. **Support Services.** Includes all support service functions financed from appropriated funds not covered by the other reporting categories, such as healthcare, veterinary care, and legal and public affairs services. All non-appropriated 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 (above), including management and use of land, sea, and air transportation for movement of personnel, materiel, supplies, and equipment using both military and civilian sources.
16. **Financial Statement Reporting.** Covers processes, procedures, and systems used to prepare, compile, and generate the Department of Defense financial statements. This category is reserved for those weaknesses identified through FMFIA Over Financial Reporting process.

## **Managers' Internal Control Training**

MIC training is available online through Navy e-Learning and Navy Knowledge Online. The information below provides an explanation of the two courses and information on how to access the courses.

### **DON MIC Program Training for Coordinators**

#### **About the Course**

The purpose of this course is to provide an overview of the DON MIC Program. It is designed for MIC coordinators and alternates with internal control responsibilities for their units in the DON. This course is required for MIC coordinators and alternates to satisfy the training requirement for coordinators and alternates established in SECNAVINST 5200.35E.

#### **Content**

The course is divided into five modules, which introduce the basic definitions and concepts related to the DON MIC Program and also provide more detailed explanations and examples where necessary.

#### **Objectives**

After completing this course, participants should be able to:

- Explain the fundamentals of management controls.
- Understand the DON MIC Program requirements and responsibilities.
- Describe how to use the tools and techniques to evaluate and enhance a MIC Program.
- Describe the DON SOA process.

#### **Estimated Duration**

The completion time for this course is approximately five hours.

### **DON MIC Training for Managers**

#### **About the Course**

The purpose of this course is to provide DON managers with a foundation for understanding internal controls and the DON MIC Program. This course is designed for managers and does not meet SECNAVINST 5200.35E training requirements for MIC coordinators or their alternates.

#### **Content**

Course content consists of a single module that is divided into four topics and a module test. These topics introduce the basic definitions and concepts related to the DON MIC Program and also provide more detailed explanations and examples where necessary.

#### **Objectives**

After completing this course, participants should be able to:

- Explain internal controls and their importance.

- Describe the purpose of a MIC program.
- Understand DON MIC requirements and responsibilities

### Estimated Duration

The completion time for this course is approximately two hours.

### Accessing the Computer Based Training Courses

The MIC courses are available through the Navy Knowledge Online website.

[www.nko.navy.mil](http://www.nko.navy.mil)

To access the courses, go to this website and follow these instructions:

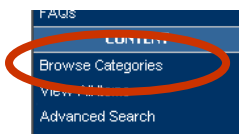
If you are a new user select “Register as a new user” to establish a username and password.

Login to the NKO Knowledge Portal using your NKO username and password.

Launch the Navy e-Learning site by clicking on “Navy e-Learning” on the toolbar, second box from the right, titled “Learning”.



If you are accessing the Navy e-Learning site for the first time, additional authentication is required. This is a one-time only validation and no user-id or password is required.



Search for the applicable course by selecting “Browse Categories” in the left-hand toolbar.

On the main screen, select “US Department of the Navy (DON),” from “Select a category to browse.”



Under the listing of Subcategories on the main screen, select, “Military Leadership & Management.”

| Subcategories  |  |   |
|--|--|---|
| <a href="#">Academic Basic Skills</a>                                  | <a href="#">Information Assurance (IA)</a>             | <a href="#">Navy Judge Advocate General (JAG)</a>   |
| <a href="#">Antiterrorism &amp; Security</a>                           | <a href="#">Information Professional Training</a>      | <a href="#">Navy Medical Education and Training</a> |
| <a href="#">Aviation Maintenance Training Continuum System (AMTCS)</a> | <a href="#">Instructional Delivery Continuum (IDC)</a> | <a href="#">Navy Meteorology and Oceanography</a>   |
| <a href="#">C4ISR / IO</a>   | <a href="#">Joint Professional Military Education</a>  | <a href="#">Navy Process Improvement</a>            |
| <a href="#">Code of Conduct</a>  | <a href="#">Military Finance &amp; Accounting</a>      | <a href="#">Navy Reserves</a>                       |
| <a href="#">DON eBusiness Training</a>                                 | <a href="#">Military Leadership &amp; Management</a>   | <a href="#">Navy Submarine Training</a>             |
| <a href="#">Environmental and Safety</a>                               | <a href="#">Military Property Management System</a>    | <a href="#">Navy Supply</a>                         |
| <a href="#">General Aviation Training</a>                              | <a href="#">Navy Administrative</a>                    | <a href="#">Navy Training Administration</a>        |

Select “Managers’ Internal Control (MIC) Program” from the main screen.

| Browse Category > Military Leadership & Management   |
|--|
| All Catalog Items > Department of the Navy (DON) Training > Military Leadership & Management |
| <b>Subcategories</b>   |
| <a href="#">Managers' Internal Control (MIC) Program</a>                                     |

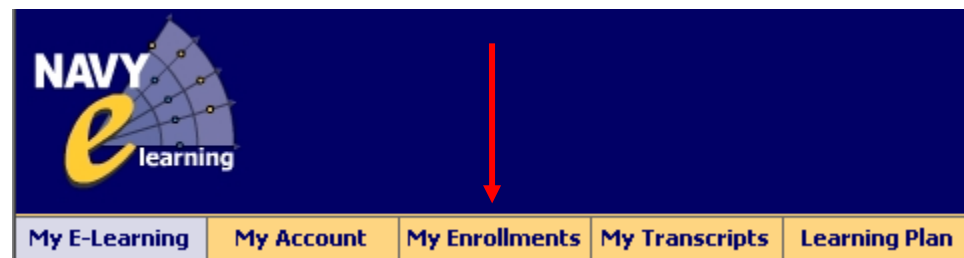
Click on the title of the course you wish to take from the “Course Title” list.

| Course Title ↑ ↓   | Catalog Code ↓ | Status ↑ ↓ |
|--|----------------|------------|
| Managers' Internal Control (MIC) Program Training for Managers | OASN-MCPM-1    | Active     |
| Managers' Internal Control (MIC) Program Training              | OASN-MCPT-1    | Active     |

Select the “Enroll Now” button to enroll in the course.

Enroll

The next time you access the site, the course information will automatically be listed under the “My Enrollments” tab.



From there you can “Launch” your course using this button:

Launch

Below is the detailed course information.

| <b>Course Title</b>                                      | <b>Catalog Code</b> | <b>Learning Category</b>                                       |
|--|---------------------|--|
| Managers' Internal Control Program Training              | OASN-MCPT-1         | US Department of Navy (DON) / Military Leadership & Management |
| Managers' Internal Control Program Training for Managers | OASN-MCPM-1         | US Department of Navy (DON) / Military Leadership & Management |

We recommend that you review the "Get Started" section for detailed directions on accessing and taking courses.

Please email the DON MIC Program training point of contact if you have any questions, comments, or suggestions regarding the content of the course.

Email: [M\\_WNYD\\_MCPtraining@navy.mil](mailto:M_WNYD_MCPtraining@navy.mil)

Technical questions regarding the CBT should be sent through the Navy e-Learning site. The Navy e-Learning support center can be reached by filling out a Problem Report on their website or via phone at (877) 253-7122.



## Brief of Changes

The following are major changes in the policy and procedures as incorporated in this current revision of SECNAV M-5200.35

**030401, 030402, 030403, 030404** – Clarifies the process undertaken by the Assistant Secretary of the Navy (Financial Management and Comptroller) to produce the annual Statement of Assurance to the Department of Defense.

**040501, 040502, 040503, 040601, 040602** – Describes the requirement to document Internal Controls Over Financial Reporting (ICOFR) as required by Office of Management and Budget (OMB) Circular A-123, Appendix A.

**060701** – Changed from Atlantic Fleet to Fleet Forces Command

**090805** – Changed MIC Program Manager to Mr. Michael Moreau and included his contact information.

**103301** – Updated the web address for Main Managers' Internal Control Program.

**123402** – Clarified the meaning of a control-related deficiency,

**Technical Corrections:** Changed 2006 to 2007 where applicable. Updates to screen shots where made to provide up-to-date Navy Knowledge Online changes.

SECNAV M-5200.35

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