



UNITED STATES MARINE CORPS
MARINE CORPS BASE
QUANTICO, VIRGINIA 22134-5001

MCBO P5200.2A
B 184
9 Dec 99

MARINE CORPS BASE ORDER P5200.2A

From: Commander
To: Distribution List

Subj: INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

Ref: (a) MCO 5200.24C (NOTAL)

Encl: (1) LOCATOR SHEET

1. Purpose. To establish a program to develop, maintain, review, and improve internal controls within the Command and ensure resources are efficiently and effectively managed. This Manual incorporates revised policies contained in the reference.
2. Cancellation. MCBO P5200.2.
3. Summary of Revision. On 1 October 1997, the Internal Management Control Program changed from a 5-year cycle to a 1-year cycle. Vulnerability assessments (VA's) are established once and they will remain in effect indefinitely. Annually the VA's are required to be reviewed for additions or deletions. Those VA's rated "high" will require an internal control review (ICR) which will be completed during the annual cycle. ICR's for VA's rated either "medium" or "low" will be completed at the discretion of the commander/division director. This Revision contains substantial changes and should be read in its entirety.
4. Recommendations. Recommendations concerning the contents of the Internal Management Control Program Manual are invited and will be submitted to the Commander, MCB (B 184) via the appropriate chain of command.
5. Certification. Reviewed and approved this date.

R. P. ROOK
Chief of Staff

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INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

CONTENTS

CHAPTER

INTRODUCTION

- 1 GENERAL INFORMATION
- 2 ESTABLISHMENT OF INTERNAL CONTROL SYSTEMS
- 3 PERFORMING VULNERABILITY ASSESSMENTS AND REPORTING THE RESULTS
- 4 PERFORMING INTERNAL CONTROL EVALUATIONS AND REPORTING THE RESULTS

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

INTRODUCTION

0001. PURPOSE

1. Shrinking resources and increased emphasis on the efficiency and effectiveness of government programs and activities have heightened the need for improved internal controls. The Congress, Office of Management and Budget (OMB), General Accounting Office (GAO), and Department of Defense (DoD) have stressed the need for agencies to implement and maintain effective controls as a primary method to improve management efficiency and to prevent fraud, waste, abuse, or mismanagement. OMB Circular No. A-123 (revised), "Management Accountability and Control," requires a continuous cycle of vulnerability (or risk) assessments and internal control reviews to evaluate and improve internal controls in Federal agencies. The Federal Managers' Financial Integrity Act of 1982, Public Law 97-255, requires the Secretary of Defense to evaluate internal controls and submit an annual statement to the Congress and the President on whether or not controls comply with the Standards for Management Control in the Federal Government. The Commander, MCB, Quantico is required to submit a similar statement annually to the CMC.
2. This Manual provides appropriate guidance, sets forth procedures in support of the program, and provides commanders/division directors with a basic understanding of internal management controls as it applies to this Command.
3. Internal Management Control Program refers to internal controls and systems of internal controls that are to be implemented and reviewed by commanders/division directors.
4. An effective Internal Management Control Program reduces the potential for fraud, waste, abuse, mismanagement, and unfavorable public opinion affecting this Command.
5. Internal control is inherent in command. In today's modern environment where efficient use of resources affects not only performance, but also every other aspect of command, it is incumbent upon all commanders/division directors to have an appreciation and understanding of internal control. Commanders/division directors must not only thoroughly understand the Internal Management Control Program, but also its benefits and limitations.
6. This Manual is designed to provide a nontechnical explanation of the principles and procedures used to establish and maintain an adequate Internal Management Control Program. It will be utilized as a guide amplifying, but not superseding or altering, official directives.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

7. Additional copies of this Manual may be obtained from the Resource Evaluation and Analysis Branch, Comptroller Division.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL
CHAPTER 1

GENERAL INFORMATION

	<u>PARAGRAPH</u>	<u>PAGE</u>
POLICY	1000	1-3
DEFINITIONS AND TERMS	1001	1-4
OBJECTIVES	1002	1-8
COMMAND RESPONSIBILITIES	1003	1-8
STANDARDS FOR INTERNAL CONTROLS IN THE FEDERAL GOVERNMENT	1004	1-11

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

CHAPTER 1

GENERAL INFORMATION

1000. POLICY

1. Effective and efficient internal controls must be established and maintained over all command programs, functions, and resources. Efforts to foster management economies and efficiencies require the dedicated attention of all personnel. It is of the utmost importance to the successful accomplishment of missions that controls over the management of material, manpower, and financial resources be maintained. A high priority must be directed toward the establishment and maintenance of effective internal control systems to deter and/or detect fraud, waste, and abuse of such resources.

2. All commanders/division directors will comply with the Federal standards on internal controls that are provided in paragraph 1004, involve themselves in ensuring the adequacy of controls, and evaluate control systems on an ongoing basis.

3. Checks and balances must be put into place to detect ineffective or fraudulent acts. The status quo must be challenged, policies reviewed, conditions investigated, and detailed investigations conducted.

4. Cognizant personnel within each organizational entity of this Command will take appropriate action to ensure sound use of resources and the avoidance of fraud, waste, abuse, and/or mismanagement.

5. Every Marine and civilian attached to this Command must contribute their part to optimize mission accomplishment. Whenever warranted, action must be taken to report instances of improper or wasteful actions to those who can initiate appropriate corrective action.

6. Establishment and maintenance of internal controls are applicable to all functional areas throughout the Command. Internal controls generally have an effect upon employee awareness of individual responsibility, create a positive organizational attitude, act as an incentive for employees to follow procedures, and provide reasonable assurance that the failure to perform assigned procedures will result in appropriate disciplinary action. Internal controls safeguard assets and assure reliability of records. Definitions and terms of internal control items are provided in paragraph 1001.

7. The establishment and maintenance of internal control systems and the performance of Vulnerability Assessments (VA's) and Internal Control Reviews (ICR's) are responsibilities applicable to all

commanders/division directors and are not functions or responsibilities of the Resource Evaluation and Analysis (REA) Branch, Comptroller Division. The REA Branch may, however, provide assistance in areas related to program coordination within an activity, such as development of administrative instructions and procedures, scheduling of ICR's, coordination and development of required reports, and internal control training upon request. The REA Branch may also provide technical assistance to management in the actual conduct of ICR's. Additionally, the REA Branch will review internal controls during the performance of internal reviews (i.e., financial inspections, cash verifications, etc.)

1001. DEFINITIONS AND TERMS. Definitions and terms applicable to this Manual are:

1. Assessable Unit. Any organizational, functional, programmatic, or other applicable subdivision capable of being evaluated by internal control assessment procedures. An assessable unit should be a subdivision of an organization that ensures a reasonable span of management control to allow for adequate analysis. Assessable units usually have specific internal controls that are applicable to their responsibilities. Specific examples of assessable units are listed in paragraph 2000.

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

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

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

5. Documentation. Documentation of internal control activities is required to the extent needed by management to control its operations effectively and include products not specifically designed to meet the requirements of the Internal Management Control Program. Documentation for internal control systems is mandated by OMB Circular No. A-123 (revised), "Management Accountability and Control," and encompasses the following two types of written materials:

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

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

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

7. Internal Control. The organization, policies, and procedures used to reasonably ensure that programs achieve their intended results. Resources are used consistent with the Marine Corps' mission; programs and resources are protected from waste, fraud, and mismanagement; laws and regulations are followed; and reliable and timely information is obtained, maintained, reported, and used for decision making. Internal controls, in the broadest sense, include the plan of organization, methods, and procedures adopted by management to ensure that its goals are met. Internal controls include processes for planning, organizing, directing, and controlling program operations.

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

a. Alternate Internal Control Review. A process that determines control techniques are operating properly, or a process developed for other organizational purposes that provides adequate information on the effectiveness of control techniques. This type of process may utilize computer security reviews; quality assessments; financial systems reviews; GAO, DoD Inspector General (DoDIG) and Naval Audit

Service (NAVAUDSVC) audits, inspections, or investigations; local audits and command evaluations; and management and consulting reviews. Such alternate reviews must assist in determining overall compliance and, whenever possible, include testing of controls and documentation.

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

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

10. Internal Management Control Program. The full scope of management responsibilities as defined in this Manual. That responsibility includes the development of effective internal controls, the evaluation and correction of deficiencies, the use of effective followup procedures, and the reporting requirements of this guidance.

11. Internal Control Standards. Federal standards for internal controls are summarized in OMB Circular No. A-123 (revised), "Management Accountability and Control," and are identified in paragraph 1004.

12. Internal Control System. The sum of the methods and measures used to achieve the internal control objectives, both the controls and the evaluations of those controls. It is not a separate system, but an integral part of the systems used to operate programs and functions.

13. Material Weakness. Specific instances of noncompliance with the Federal Managers' Financial Integrity Act of 1982, Public Law 97-255, are of such importance so as to warrant reporting of the deficiency to the next higher level of management. Such weaknesses significantly impair or may impair the fulfillment of an activity's

mission or operational objectives. Weaknesses considered significant on any of the following criteria warrant consideration for reporting as material weaknesses:

- a. Actual or potential loss of resources (e.g., property, inventory, personnel, etc.)
- b. Sensitivity of the resources involved (e.g., drugs, munitions, etc.)
- c. Magnitude of funds, property, or other resources involved.
- d. Frequency of actual or potential loss.
- e. Current or probable Congressional or media interest (adverse publicity).
- f. Impaired fulfillment of mission or operations.
- g. Unreliable information causing unsound management decisions.
- h. Violations of statutory or regulatory requirements.
- i. Diminished credibility or reputation of management.
- j. Deprivation of needed government services to the public.
- k. Impact on information security.

14. Reasonable Assurance. The judgment by a commander/division director based upon all available information that the component systems of internal controls are operating as intended by the Federal Managers' Financial Integrity Act of 1982, Public Law 97-255.

15. Risk. The probable or potential adverse effects from inadequate internal controls that may result in the loss of resources or cause an activity to fail to accomplish significant mission objectives through fraud, error, or mismanagement.

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

17. Testing. Procedures to determine through observation, examination, verification, sampling, or other procedures whether the internal control systems are working as intended.

1002. OBJECTIVES

1. Internal control systems should provide commanders/division directors with reasonable assurance that the following internal control objectives are met:

a. All resources are safeguarded against fraud, waste, abuse, and unfavorable opinion.

b. Obligations and expenditures comply with applicable laws and regulations.

c. Transactions are executed per authorization.

d. Records or reports are reliable.

e. Applicable laws, regulations, and policies are adhered to.

f. Resources are efficiently and effectively managed.

g. Income and payments involving public funds are properly accounted for and recorded.

2. All commanders/division directors throughout this Command possess an implicit responsibility to both control and direct cognizant activity functions and programs in an effective and efficient manner, while minimizing exposure to fraud, waste, abuse, mismanagement, and unfavorable public opinion. Failure to fulfill this responsibility will inevitably result in failure to achieve the missions and goals.

1003. COMMAND RESPONSIBILITIES1. General

a. Commanders/division directors are responsible for the establishment and maintenance of a system or systems of internal controls within their command/activity. This responsibility includes determining that the systems are functioning as prescribed and are modified, as appropriate, to meet changes in conditions. An internal control system should not be a separate system in an activity; it should be an integral part of the systems used to operate the programs and functions performed by the activity. Thus, internal control would be the responsibility of the same individuals who are responsible for operating the programs and functions. This enables the objectives of internal control to be accomplished in the most efficient and effective manner.

b. Where the span of control of an activity passes beyond the immediate supervision of the commander/division director, it is necessary to appoint an officer (or comparable grade civilian) as an internal management control officer to ensure the activity's Internal Management Control Program is functioning per the direction given by the commander/division director and the requirements of higher authority. The internal management control officer will also act as a liaison officer with the internal management control staff at higher echelons.

c. The Internal Management Control Program is not an attempt to evaluate discretionary policy decisions. Rather, the evaluation process begins at the point at which a program or function has been authorized by the official having authority to do so and focuses on the steps involved in the operation of the program. Reviews should evaluate whether the operation of the program is consistent with established criteria. Thus, there is reasonable assurance that obligations and costs are in compliance with applicable regulations; funds, property, and other assets are safeguarded; and revenues and expenditures are properly recorded.

2. Specific

a. Director, Comptroller Division

(1) Formulate overall policy, guidance, and direction in the area of internal control.

(2) Appoint the Head, Resource Evaluation and Analysis Branch (B 184) to be the Command Internal Management Control Program coordinator.

b. Head, Resource Evaluation and Analysis Branch. Following the guidelines in MCO 5200.24, coordinate the command effort to implement the Internal Management Control Program and disseminate guidance within the command that provides reasonable assurance that the objectives and standards of internal controls are met. Specific responsibilities are:

(1) Review the results of VA's performed by individual commands/activities to determine the overall vulnerability ranking for the command as a whole. Report any significant problems to the Command Inspector.

(2) Review the results of internal control evaluations. A copy of the annual report to the CMC will be provided to the Command Inspector.

(3) Serve as the focal point for reviewing and reporting to the Commander, MCB and Command Inspector significant internal control deficiencies, breakdowns, and resulting financial losses

(4) Initiate actions, as necessary, to ensure significant internal control deficiencies are promptly corrected. Provide assistance/advice to the Command Inspector on action taken on recommendations as appropriate.

c. Commanders/Division Directors

(1) Ensure internal control systems under your purview are implemented and functioning for each significant subordinate activity. All levels of command and management will involve themselves in assuring adequacy of controls. New programs will be designed to incorporate effective systems of internal control. All systems will be evaluated on an ongoing basis. All internal control systems will be documented per paragraphs 2002 and 2004 of this Manual.

(2) Issue additional guidance, as appropriate, to ensure effective implementation of internal control initiatives by subordinate activities, including the appointment in writing of internal management control officer(s). Internal management control officers will ensure that turnover files and information on the Internal Management Control Program are provided to incoming personnel assigned the function of internal management control officer. A letter of appointment will be submitted to the Commander, MCB (B 184) upon assumption of the duty of Internal Management Control Officer.

(3) Perform VA's and ICR's throughout the year and report results to the Commander, MCB (B 184) as follows:

(a) VA's. Annually review all VA's on assessable units submitted for their organization. Complete VA's for new (additional) assessable units identified. Identify VA's that need to be deleted. The format used for the VA's is contained in Chapter 3 of this Manual.

(b) Internal Control Reviews. Perform internal control reviews annually for those VA's rated as high. VA's rated as medium or low will be completed at the discretion of the commander/division director. Reviews should be scheduled throughout the year. The guidance used for completion of the reviews is contained in Chapter 4 of this Manual.

(c) Reports Required. As reflected in Chapter 4 of this Manual, annual reports on the Internal Management Control Program will be submitted by the individual activity to the Commander, MCB (B 184). Notification of reports requirements and due dates will be by separate correspondence. Generally, information will be requested in July.

(4) Develop and maintain local followup systems to provide information necessary to support preparation and submission of the above reports. Completed corrective actions must be tested to ensure adequacy.

(5) Establish quality assurance procedures to ensure the Internal Management Control Program has been fully and effectively implemented within the respective activity.

(6) Retain copies of reports on results of VA's and internal control plans, results of internal control evaluations, and all related documentation (local reports, worksheets, and working papers) supporting results therein reported. Chapter 2, paragraphs 2004 and 2005 apply.

(7) Ensure that military and civilian personnel responsible for systems of internal control are identified and documented at appropriate organizational levels. Fitness reports/performance appraisals for these individuals should reflect any internal management control responsibilities and accomplishments.

d. Command Inspector

(1) Per MCBO P5400.1, oversee the Internal Management Control Program. Evaluate command/activity compliance with this Manual during the conduct of inspections under the CG's Validation Program (CGVP) and investigations.

(2) Identify and report major internal control accomplishments and deficiencies identified during the conduct of inspections and investigations and identify impediments to resolving deficiencies.

1004. STANDARDS FOR INTERNAL CONTROLS IN THE FEDERAL GOVERNMENT. All internal control systems should exhibit and comply with the following general and specific standards of internal control:

1. General Standards

a. Compliance With Law. All program operations, obligations, and costs must comply with applicable laws and regulations. Resources should be efficiently and effectively allocated for duly authorized purposes.

b. Reasonable Assurance and Safeguards. Internal management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. Internal controls should be logical, applicable, reasonably complete, and effective and efficient in accomplishing management objectives.

c. Integrity, Competence, and Attitude. Commanders/division directors and employees must have personal integrity and are obligated to support the ethics programs in their agencies. The spirit of the standards of ethical conduct requires that commanders/division directors develop and implement effective internal controls and maintain a level of competence that allows them to accomplish their assigned duties. Effective communication within and between offices should be encouraged.

2. Specific Standards

a. Delegation of Authority and Organization. Commanders/division directors should ensure that appropriate authority, responsibility, and accountability are defined and delegated to accomplish the mission of the organization, and that an appropriate organizational structure is established to effectively carry out program responsibilities. To the extent possible, controls and related decision-making authority should be in the hands of line managers and staff.

b. Separation of Duties and Supervision. Key duties and responsibilities in authorizing, processing, recording, and reviewing official agency transactions should be separated among individuals. Also, for ordering, receiving, or paying for goods or services, internal controls should be maintained. When separation of duties is not possible, two individuals must be involved in the process of a transaction. Commanders/division directors should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.

c. Access to and Accountability for Resources. Access to resources and records should be limited to authorized individuals, and accountability for the custody and use of resources should be assigned and maintained.

d. Recording and Documentation. Significant events should be promptly recorded, properly classified, and correctly accounted for in order to prepare timely and reliable reports. The documentation for significant events (e.g., transactions and internal controls) must be clear and readily available for examination.

e. Resolution of Audit Finding and Other Efficiencies. Commanders/division directors should promptly evaluate and determine proper actions in response to known deficiencies, reported audits and other findings, and related recommendations. They should complete, within established time frames, all actions that correct or otherwise resolve matters brought to management's attention.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

CHAPTER 2

ESTABLISHMENT OF INTERNAL CONTROL SYSTEMS

	<u>PARAGRAPH</u>	<u>PAGE</u>
REPORTING FUNCTIONAL CATEGORIES AND ASSESSABLE UNITS	2000	2-3
ESTABLISHMENT OF INTERNAL CONTROLS	2001	2-11
EVALUATION OF THE PROCESS	2002	2-11
REPORTING UNDER THE FEDERAL MANAGERS ' FINANCIAL INTEGRITY ACT	2003	2-12
INTERNAL CONTROL DOCUMENTATION	2004	2-13
RETENTION OF DOCUMENTATION	2005	2-14

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

CHAPTER 2

ESTABLISHMENT OF INTERNAL CONTROL SYSTEMS

2000. REPORTING FUNCTIONAL CATEGORIES AND ASSESSABLE UNITS

1. There is no single method to segment an activity into functional categories and assessable units for the purpose of evaluating the system of internal controls, particularly since activities vary widely in organizational structure and nature of functions performed. The basic goal of segmenting an activity is to develop an activity-wide inventory of "assessable units," each of which can be the subject of a vulnerability assessment (VA). This inventory should provide complete coverage of all functional categories and assessable units. The individual assessable units should be of an appropriate nature and size to facilitate the conduct of a meaningful VA.

2. In developing the inventory of assessable units, reference should be made to such sources of information as the command's/activity's budget and related materials, organizational charts, manuals, and program and financial management information systems. The following specific factors should be considered:

- a. Existing organizational structure.
- b. Nature and size of the command's/activity's functional categories and assessable units.
- c. Budget levels.
- d. Number of personnel.

3. The following is a list of the 15 functional categories with their definitions and some examples of assessable units that fall under a given functional category. The list is to assist commanders/ division directors in developing a formalized inventory of assessable units and to portray the level at which command-wide controls will be assessed. Each command/activity has a different perspective on these functional categories and assessable units, depending on mission responsibilities, and some may overlap. In performing assessments, the command/activity should simply select the functional categories and assessable units that represent a significant level of effort within the command/activity. The list is not absolute and may be added to or deleted from, as appropriate.

- a. Research, Development, Test, and Evaluation. Covers the basic project definition, approval, and transition from basic research

through development, test, and evaluation and all Department of Defense (DoD) and contractor operations involved in accomplishing the project work, excluding the support functions covered in separate reporting categories such as procurement and contract administration. This functional category does not apply to nonappropriated fund activities.

b. Major Systems Acquisition. Covers items designated as major systems and that are subject to the procedures of the Defense Acquisition Board, the Military Services Acquisition Review Councils, or the Selected Acquisition Reporting System. (DoD Directive 5000.1 (NOTAL)), "Defense Acquisition," may be helpful when evaluating a weakness for inclusion in this category.) This functional category does not apply to nonappropriated fund activities.

c. 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 estimates, technical specifications, evaluation and selection process, pricing, and reporting). Included in this functional category are the following:

(1) The major procurement mission at the command and the Defense Logistics Agency. It includes procurement of the wholesale supply system.

(2) The procurement of systems or items while they are in research and development. Includes the procurement of research and development services and the initial buy of an item or system emerging from research and development.

(3) Procurement of major systems and equipment.

(4) All other procurement actions.

(5) Some examples of assessable units under this functional category are:

(a) Procurement. Ensuring that purchases are made only per applicable directives.

(b) International Merchant Purchase Authorization Card (IMPAC). Ensuring that the cardholder is knowledgeable of the controlling directives for IMPAC.

d. Contract Administration. Covers the fulfillment of contractual requirements, including performance and delivery, quality control and testing to meet specifications, performance acceptance,
2-4

billing and payment controls, justification for contractual amendments, and actions to protect the best interests of the Government. Some examples of assessable units under this functional category are:

(1) Contract Administration. Ensuring that all provisions of all contracts are fulfilled. Includes utilization and management of government property in possession of defense contractors.

(2) Contract Advisory and Assistance Services

(3) Completion Inspections. Ensuring that work claimed as performed is evaluated to determine if contract provisions have been fulfilled.

(4) Undefinitized Contracts

(5) High Tech Electronic Equipment Contracts

(6) Blanket Purchase Agreements

e. 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 of readiness levels. This functional category does not apply to nonappropriated fund activities. Some examples of assessable units under this functional category are:

(1) Course Development. Ensuring that courses of instruction and individual classes are prepared per appropriate directives and fulfill the objectives for which they are intended (could also be considered as an assessable unit under functional category Personnel and/or Organization Management (see paragraph k, page 2-8)).

(2) Military Skills Training. Ensuring that all assigned military personnel receive, and are given credit for, all required military skills training (same as Course Development, paragraph (1) above)).

f. Manufacturing, Maintenance, and Repair. Covers the management and operation of in-house and contractor-operated facilities performing maintenance and repair of, and/or installation of modifications to, material, equipment, and supplies. Includes depot and arsenal-type facilities, as well as intermediate and unit levels of military organizations. Some examples of assessable units under this functional category are:

(1) Corrective Maintenance (also known as unscheduled maintenance). Ensuring that problems with equipment are reported for correction and/or repairs are made in an efficient and expeditious manner (equipment as opposed to facilities).

(2) Preventive Maintenance (also known as scheduled maintenance). Ensuring that periodic preventive maintenance is performed on all government equipment (examples: typewriter cleaning, vehicle oil change, etc.)

g. 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). This functional category does not apply to nonappropriated fund activities. Some examples of assessable units under this functional category are:

(1) Supply Operations (includes excess property, inadequate inventory procedures, storage, etc.)

(2) Depot level program requirements formulation and execution

(3) Inventory Control. Ensuring that inventories are safeguarded and that accurate inventory records are kept to prevent loss and to maintain appropriate stockage levels without overstocking.

(4) Issue of Material. Ensuring that materials and supplies are issued only when appropriate and only by authorized personnel and that accurate records are kept.

(5) Receipt of Material. Ensuring that material received is appropriately inspected, receipted for, recorded, and forwarded to the ultimate user.

(6) Requisitioning. Ensuring that requests for supplies and services to be obtained from all sources are properly approved by the command/activity.

h. Property Management. Covers construction, rehabilitation, modernization, expansion, improvement, management, and control over real and installed property and facilities (both military and civil works construction). Includes all phases of property life-cycle

management from determination of need through disposition. Also covers disposal actions for all material, equipment, and supplies, including the Defense Reutilization and Marketing System. Some examples of assessable units under this functional category are:

(1) Equipment Usage (includes pilferable equipment, tools, and other property (including items subject to abuse or misuse)). Ensuring that government equipment is used only by authorized personnel and only for appropriate purposes.

(2) Facilities Utilization. Ensuring that facilities and spaces are used in the most effective and efficient manner.

(3) Facilities Maintenance. Ensuring that facilities and spaces occupied by the command/activity are kept in good condition and maintenance needs are anticipated where possible, reported, and followed up on.

(4) Land (Class I) and Natural/Environmental

(5) Physical Security. Ensuring that only authorized personnel have access to property and facilities.

(6) Property Management. Ensuring that all government property is accounted for to prevent loss. Includes physical inventory, excess material, and property records for computers.

(7) Property Disposal. Ensuring that unserviceable or excess property is disposed of per appropriate directives.

(8) Hazardous Waste Disposal. Ensuring compliance with local, state, and federal environmental laws and regulations.

(9) Requirements/Allowances. Ensuring that requirements for equipment are determined and authorization lists are kept current.

(10) Industrial Fund Fixed Assets

i. Communications and/or Intelligence and/or Security. Covers the plans, programs, operations, systems, and management activities for accomplishing the communications and intelligence missions. Includes safeguarding classified resources but not peripheral assets and support functions covered by other reporting categories. Also covers the DoD programs for protection of classified information. Some examples of assessable units under this functional category are:

(1) Communications Security. Ensuring that classified material transmitted by electronic means, and the equipment used to safeguard such transmissions, is safeguarded.

(2) Intelligence and/or Security

(3) Classified Material/Sensitive Information. Ensuring that information, which for one reason or another is not releasable to the general public, is safeguarded from disclosure.

(4) Telephone Operations. Ensuring that all long distance telephone calls are for official business only.

j. Information Technology. Covers the design, development, testing, approval, deployment, use and security of automated information systems (using a combination of computer hardware, software, data, or telecommunications that performs functions such as collecting, processing, storing, transmitting, or displaying information), and other technologies for processing management information. This includes requirements for justification of equipment. DoD 7740.1-G (NOTAL), "DoD ADP Internal Control Guidelines," may be helpful when evaluating a weakness for inclusion in this category. Some examples of assessable units under this functional category are:

(1) Information Technology/Computer Access Control. Ensuring that only authorized personnel have access to computer equipment and programs.

(2) Automatic Data Processing (ADP) Systems Development

k. Personnel and/or Organization Management. Covers authorizations, recruitment, training, assignment, use, development, and management of military and civilian personnel of the DoD. Also includes the operations of headquarters organizations. Contract personnel are not covered by this category. Some examples of assessable units under this functional category are:

(1) Basic Skills Education Program (BSEP). Ensuring that the BSEP program is administered properly. Includes determining eligibility and monitoring attendance and performance and may include evaluating adequacy of instruction.

(2) Conduct of Instruction. Ensuring that the presentation of course material to the student meets appropriate standards.

(3) Occupational Skills Training. Ensuring that all assigned personnel, both civilian and military, receive all required training to maintain and/or improve their occupational skills.

(4) Personnel Accountability. Ensuring that personnel are present in the appropriate place at the appropriate time.

(5) Personnel Utilization. Ensuring that personnel are assigned to tasks appropriate to their MOS or position description.

(6) Tuition Assistance Program. Ensuring that the program is administered properly. Includes determining eligibility and monitoring attendance and performance.

1. Comptroller and/or Resource Management. Covers the budget process, finance and accounting, cost analysis, productivity and management improvement, and the general allocation and continuing evaluation of available resources to accomplish mission objectives. Includes pay and allowances for all DoD personnel and all financial management areas not covered by other reporting categories, including those in connection with Office of Management and Budget Circular A-76 (Revised), "Performance of Commercial Activities." Some examples of assessable units under this functional category are:

(1) Accounting (policies and procedures). Ensuring that reservations, obligations, and expenses are recorded in an accurate and timely manner and per applicable directives.

(2) Audit and Inspection Followup. Ensuring that responses are made to reports of audits and inspections and that corrective actions are completed in a timely manner.

(3) Budget Execution. Ensuring that actual and budgeted obligations and expenses are periodically compared to evaluate the accuracy of budget submissions and to anticipate the need for additional funds or fund realignment.

(4) Budget Preparation. Ensuring that budget submissions are prepared properly and in a timely manner and the budget submission accurately portrays the financial needs of the command/activity.

(5) Cash Collections. Ensuring that monies owed the government are collected per applicable directives.

(6) Cash Handling. Ensuring that cash and other negotiable instruments held in the custody of government personnel are handled and safeguarded per applicable directives.

(7) Certification for Payment. Ensuring that bills received are evaluated and certified in an expeditious manner per appropriate directives.

(8) Civilian Payroll. Ensuring that payroll documents are correct, complete, accurate, and properly authorized and the operation process is in compliance with governing directives.

(9) Civilian Timekeeping. Ensuring that civilian timekeeping procedures are in compliance with governing regulations.

(10) Finance. Ensuring safekeeping of collected public funds or until disbursed for properly approved payment, such as pay and allowances, military personnel, and travel. Ensuring timely and accurate input of pay-related transactions.

(11) Energy Conservation. Ensuring that energy resources are not wasted.

(12) Imprest Funds (nonappropriated funds only). Ensuring that imprest funds are safeguarded, maintained, and used per appropriate directives.

(13) Local Travel. Ensuring that local travel subject to reimbursement is necessary and is performed per appropriate directives.

(14) Military Payroll. Ensuring that members are entitled to receive pay according to their pay grades and years' service and as prescribed by law.

(15) Nonappropriated Fund Accounting. Ensuring that all revenues, expenses, assets, and liabilities are recorded in an accurate and timely manner and per applicable directives.

(16) Temporary Additional Duty (TAD) Travel. Ensuring that TAD travel is properly authorized and approved and that TAD is necessary and conducted at minimal cost to the government. Ensuring that liquidations are made in a timely manner.

m. Support Services. Includes all support services functions financed from appropriated funds not covered by the other categories, such as health care, veterinary care, and legal and public affairs services. All nonappropriated fund activities are also covered by this category. Some examples of assessable units under this functional category are:

(1) Correspondence Control. Ensuring that correspondence is properly received, routed, and processed and that replies are generated when appropriate. Ensuring that due dates are met.

(2) Files, Publications, and Directives. Ensuring that files, publications, and directives are kept current and are maintained properly.

(3) Investigations. Ensuring that investigations are initiated when appropriate and are conducted per regulations.

(4) JUMPS/MMS Input. Ensuring to input all reportable events in an accurate, timely, and exhaustive manner.

(5) Military Justice. Ensuring that military justice is administered per regulations, including unit punishment book and charge sheets, as well as courts-martial when appropriate.

(6) Postal Operations. Ensuring that post offices and mailrooms are operated economically and efficiently per regulations.

(7) Problem Resolution. Ensuring problems within the purview of the command/activity are resolved in an expeditious and efficient manner.

(8) Project Control. Ensuring that projects initiated have stated objectives and that the projects are monitored to ensure that the objectives are being met in an effective and efficient manner.

(9) Reports Control. Ensuring that reports received from subordinate activities and those submitted to higher authority are necessary, accurate, and timely.

(10) Safety. Ensuring that a safe working environment is maintained at all times.

(11) Security and Control

n. Security Assistance. Covers management of DoD foreign military sales, grant aid, and international military education and training programs. This functional category does not apply to nonappropriated fund activities.

o. Other (Primarily Transportation). All functional responsibilities not contained in the previously noted categories, including management and use of land, sea, and air transportation for movement of personnel, material, supplies, and equipment using both military and civilian sources. Some examples of assessable units under this functional category are:

(1) Transportation

(2) Traffic Management

2001. ESTABLISHMENT OF INTERNAL CONTROLS. Internal controls should provide reasonable, but not absolute, assurance that the mission and goals of the organization will be accomplished efficiently and effectively. The cost of internal controls should not exceed the benefits derived therefrom. Once established, the internal control system must be maintained in an effective state. All supervisory levels are, therefore, responsible for the performance and review of the basic steps identified for the establishment of internal control systems on a regularly scheduled basis. Periodic supervisory review constitutes the primary requisite for the maintenance of effective and efficient internal control systems. Appropriate control monitoring procedures must be established to accomplish this task.

2002. EVALUATION OF THE PROCESS

1. The appointed internal management control officer is responsible for providing the commander/division director with the information required to make the annual statement (compliance statement) for his/her command/activity. The commander/division director must develop an information system that provides tracking of the status of the evaluations and corrective actions, as well as other pertinent information necessary to manage the overall process and facilitate preparation of reports. Chapter 1, paragraph 1003 applies.
2. Assess the vulnerability to waste, loss, unauthorized use, or misappropriation of the funds, property, or other assets within each command/activity and decide which are the most vulnerable. (Identifying the factors that create an inherent risk in the function does this.) Then consider the operating environment in which the function is performed and preliminarily evaluate whether safeguards exist to prevent waste, loss, unauthorized use, or misappropriation from occurring. Chapter 3 applies.
3. Develop plans and schedules for the performance of internal control reviews and other actions. Based on an evaluation of the results of the VA's and other considerations (management priorities, resource constraints, etc.), provide the internal controls in those functional categories and assessable units deemed to be the most vulnerable. Those deemed to be less vulnerable are evaluated and improved as necessary to ensure a strong system of internal controls. Chapter 3 applies.
4. Review internal controls. Determine whether adequate control objectives have been established and control techniques exist and are functioning as intended for the selected functional categories and assessable units. Develop recommendations to correct weaknesses in

either the design or functioning of the internal control system. Chapter 4 applies.

5. Determine, schedule, and take necessary corrective action. Improve internal controls in a timely manner. Included in the determination should be an analysis to assure that the expected benefits to be obtained will outweigh the costs of any improvements made.

2003. REPORTING UNDER THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

1. The Federal Managers' Financial Integrity Act of 1982 requires a statement to the President and Congress as to whether an agency has established a system of internal controls per the standards prescribed. In order to support the statement made annually by the CMC, the Commander, MCB is required to provide the same statement to the Commandant and, in return, requires a similar statement from all Command activities. An annual statement of compliance on the status of the system of internal controls will be prepared by each command/activity. Figure 4-2 provides a sample letter for the annual compliance statement and report of VA's and internal control reviews.

2. Basic Procedures

- a. Each command/activity will establish the following procedures:
 - (1) Assign responsibility to appropriate officials for directing a program to comply with these procedures.
 - (2) Disseminate internal control directives, regulations, and other materials throughout the command/activity.
 - (3) Document the conduct and results of ongoing VA's and internal control systems.
 - (4) Document corrective actions taken to strengthen the internal control systems.
 - (5) Include internal control elements in performance appraisals.

b. The existence of these procedures, collectively, provides strong evidence that management and other personnel throughout the Command are cognizant of the importance of internal controls and that the necessary evaluation and improvement processes are taking place. These procedures support the transmittal of the required statement.

3. Classified Matters. If classified matters are part of the statement, then the statement must indicate which matters can be made available to the public, with the deletion of certain information that is (1) specifically prohibited from disclosure by any provision of law or (2) specifically required by Executive Order to be kept secret in the interest of national defense or the conduct of foreign affairs.

2004. INTERNAL CONTROL DOCUMENTATION

1. It is the responsibility of the internal management control officer to maintain internal control documentation. Internal control documentation provides both the structural framework and the documentary evidence by which internal controls are established and through which internal controls can be reviewed, evaluated, and validated. The importance of the maintenance of current and accurate internal control documentation cannot be overemphasized. Additionally, all audits conducted by external sources will look at internal controls. Documentation must be available for external auditors.

2. Documentation may exist in a variety of forms, depending on the type or nature of the control described and the level at which it is employed. In one form or another, it should be developed and maintained at virtually all supervisory levels.

3. Flow charts and wire diagrams identifying internal control points, such as organizational roles and responsibilities, procedural steps, or transaction flows can prove extremely valuable and efficient.

2005. RETENTION OF DOCUMENTATION

1. Adequate written documentation will be maintained. In particular, documentation should be maintained for activities conducted in connection with VA's, ICR's, and followup actions to provide a permanent record of the methods used. This information will be useful for reviewing the validity of conclusions reached and performing subsequent assessments and reviews.

2. Documents retained on file for each system of internal controls will include each of the following:

- a. The command's/activity's objective statement.
- b. The definition of, and internal controls applied to, each transaction cycle.

- c. VA's conducted annually.
- d. ICR's conducted annually.
- e. Documents relating to the correction of deficiencies.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

CHAPTER 3

PERFORMING VULNERABILITY ASSESSMENTS AND REPORTING THE RESULTS

	<u>PARAGRAPH</u>	<u>PAGE</u>
VULNERABILITY ASSESSMENTS	3000	3-3
VULNERABILITY ASSESSMENT PROCESS	3001	3-3
PERFORMING AND DOCUMENTING VULNERABILITY ASSESSMENTS OF FUNCTIONAL CATEGORIES AND ASSESSABLE UNITS	3002	3-4
SCHEDULING INTERNAL CONTROL REVIEWS	3003	3-5

FIGURE

3-1 VULNERABILITY ASSESSMENT WORKSHEET . . .	3-6
3-2 GUIDANCE FOR COMPLETING THE VULNERABILITY ASSESSMENT WORKSHEET . . .	3-7

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

CHAPTER 3

VULNERABILITY ASSESSMENTS AND REPORTING THE RESULTS

3000. VULNERABILITY ASSESSMENTS

1. General. Vulnerability assessments (VA's) are an internal management evaluation of a function aimed at identifying the potential for mismanagement, loss, fraud, or waste in that program or function. The objective of the assessments is to attain a ranking of all functions within the command/activity in terms of their susceptibility to loss or unauthorized use of resources, errors in reports or information, illegal or unethical acts, and/or adverse or unfavorable public opinion. This ranking process enables management to determine priorities for conducting internal control reviews (ICR's).

2. Assessable Unit. Any organizational function, program, resource, or appropriate entity possessing sufficiently distinct characteristics of risk and control to warrant performance of a VA. Activities will establish and maintain inventories of assessable units.

3001. VULNERABILITY ASSESSMENT PROCESS

1. Basic Steps. The following are the basic steps in the VA process:

- a. Decide which major functions are applicable to the command/activity performing the evaluation.
- b. Determine what aspects of each major function are performed by the command/activity.
- c. Identify responsible supervisor(s) to perform the assessments.
- d. Document the vulnerability factors.
- e. Establish ratings and rankings based on experience and judgment.
- f. Issue local guidance and reporting instructions.

2. Responsibility. Conducting a VA is a commander/division director responsibility. Commanders/division directors who are responsible for programs, systems, functions, commands, and activities must perform the VA. While staff elements may and should contribute to the VA, supervisory judgment should produce the ranking of programs.

3. Prohibited. VA's should not be performed by audit/internal review activities for management, although audit and internal review reports and opinions may be helpful in assembly of information prior to final decisions on ranking.

4. Frequency. Initially, VA Worksheets will be done on all assessable units. VA Worksheets, once completed, will remain in effect indefinitely. However, the following actions will be taken annually and reported to the Commander, MCB (B 184):

- a. Review existing VA Worksheets for changes in the rating.
- b. Complete VA Worksheets for any new VA's.
- c. Identify any VA's that are no longer applicable.
- d. Conduct an ICR on VA Worksheets rated "high."
- e. At the discretion of the commander/division director, conduct an ICR on VA Worksheets rated "medium" or "low."

3002. PERFORMING AND DOCUMENTING VULNERABILITY ASSESSMENTS OF FUNCTIONAL CATEGORIES AND ASSESSABLE UNITS. VA's must be done for all assessable units using the VA Worksheet (figure 3-1) and the guidance provided in figure 3-2. While use of this technique will generally result in a satisfactory overall VA rating, the overall ratings can be subjectively increased or decreased based on management judgment and experience and/or the relative weight given to some factors. When an overall rating assigned differs from the rating obtained using the abbreviated numerical rating values, appropriate comment should be made in block 22 on the VA Worksheet. The VA Worksheet is basically segmented into the following categories:

1. General Control Environment. Perform an analysis of the general control environment which includes such factors as management attitude, organizational structure, competency of personnel, delegation and communication of responsibility, policies and procedures, and organizational checks and balances. Sections 4 - 9 of the VA Worksheet apply.

2. Analysis of Inherent Risks. Perform an analysis of the inherent risk or the inherent potential for waste, loss, unauthorized use, or misappropriation due to the nature of the function. Sections 10 - 19 of the VA Worksheet apply.

3. Preliminary Assessment of Safeguards. Complete a preliminary assessment of safeguards to judge the existence and adequacy of internal controls in the function. Sections 20 and 21 of the VA Worksheet apply.

4. Overall VA (Rating). Rate the function in terms of high, medium, or low vulnerability based on the assessment results. Section 21 of the VA Worksheet applies.

3003. SCHEDULING ICR's. ICR's will be scheduled based on the outcome of the VA's. Assessable units rated as "high" vulnerability must have an ICR scheduled/performed sometime during the annual cycle. Assessable units rated as "medium" or "low" may be reviewed at the discretion of the commander/division director or as directed by higher authority.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

VULNERABILITY ASSESSMENT WORKSHEET

1. ORGANIZATION:		2. ORGANIZATION CODE:				
3. Functional Category						
Assessable Unit						
GENERAL CONTROL ENVIRONMENT	4. EMPHASIS ON INTERNAL CONTROL:	Choice	Value	7. ADEQUACY OF CHECKS AND BALANCES:	Choice	Value
	Major Emphasis		(1)	Not Applicable		
	Moderate Emphasis		(3)	Adequate		(1)
	Minor Emphasis		(5)	Needs Improvement		(3)
	5. COVERAGE BY WRITTEN PROCEDURES:			Required but totally lacking		(5)
	Specific Guidance w/little or no discretion		(1)	8. ADP USED FOR REPORTING OF OPERATIONAL DATA:		
	Flexible guidance w/significant discretion		(3)	Not Applicable		
	No written procedures		(5)	Data reliability (timeliness, accuracy) and security are satisfactory		(1)
	6. SPECIFYING GOALS AND MEASURING ACCOMPLISHMENTS:			Data reliability or security needs some improvement.		(3)
	Not Applicable			9. PERSONNEL RESOURCES:		
Goals/Objectives formally established and monitored		(1)	Adequate number of qualified personnel		(1)	
Goals/Objectives used informally or w/little follow-up		(3)	Adequate number of personnel but some training required		(3)	
Goals/Objectives needed, but not established		(5)	Insufficient number of personnel or majority of staff lack qualifications needed for training		(5)	
ANALYSIS OF INHERENT RISK	10. PROGRAM ADMINISTRATION:			15. TYPE OF TRANSACTION DOCUMENT:		
	DCN only		(1)	Nonconvertible to cash or benefit		(1)
	Joint Service		(3)	Convertible to service only		(3)
	Third Party (Contractor)		(4)	Directly convertible to cash		(5)
	*Heavy Involvement		(5)	16. INTERVAL SINCE MOST RECENT EVALUATION OR AUDIT:		
	*Total Involvement		(5)	Within last 9 months		(1)
	11. SCOPE OF WRITTEN AUTHORITY:			Between 9 and 24 months		(3)
	Precise		(1)	More than two years		(5)
	Clarification required		(3)	17. RECENT INSTANCES OF ERRORS OR IRREGULARITIES:		
	No written authority		(5)	None in the last 18 months		(1)
12. AGE/STATUS OF PROGRAM:			Most significant findings or known errors fully corrected		(3)	
Relatively Stable		(1)	Most significant findings or known errors fully resolved		(5)	
Changing		(3)	18. ADEQUACY OF REPORTS:			
New or expiring within 2 years		(5)	Accurate and timely		(1)	
13. EXTERNAL IMPACT OR SENSITIVITY:			Sometimes inaccurate, incomplete, and/or late		(3)	
Not applicable			Usually inadequate and late		(5)	
Low level		(1)	19. TIME CONSTRAINTS:			
Moderate level		(3)	Not a significant factor in operations		(1)	
High level		(5)	Occasionally a factor		(3)	
14. INTERACTION ACROSS ORGANIZATION:			A significant daily factor		(5)	
		(1)	20. ASSUMED EFFECTIVENESS OF EXISTING CONTROLS:			
Within two functional offices		(3)	Controls adequate		(1)	
More than two functional offices		(4)	Less than adequate		(3)	
Involvement with outside organizations		(5)	No existing controls or costs outweigh benefits		(5)	
PRELIMINARY ASSESSMENT OF SAFE GUARDS	21. OVERALL VULNERABILITY ASSESSMENT:			SCORE		
	LOW		(LESS THAN 27)			
	MEDIUM		(27-34)			
			HIGH		(GREATER THAN 34)	
22.						
COMMENTS						
VA CONDUCTED BY:	TITLE:	DATE:				
VA APPROVED BY:	TITLE:	DATE:				

Figure 3-1.--Vulnerability Assessment Worksheet.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

1. GENERAL. The commander/division director must review the 15 functional categories and decide which functional categories apply to his/her command, division, etc. The next step for the commander/division director is to determine what assessable units are within each functional category. Once the assessable units are identified, a VA Worksheet must be done on each assessable unit. The following paragraphs are a guide for the completion of the VA Worksheet.

2. GENERAL CONTROL ENVIRONMENT. Blocks 1-9 identify the assessable unit's organizational, procedural, and operational factors which can have an impact on the effectiveness of the internal controls.

a. BLOCK #1: ORGANIZATION. Enter title of the command/activity conducting the VA (for example, "Comptroller Division").

b. BLOCK #2: ORGANIZATION CODE. Enter the organization code (for example, "B 18").

c. BLOCK #3: FUNCTIONAL CATEGORY/ASSESSABLE UNIT. Enter the functional category (for example, "Comptroller/Resource Management"). Enter the assessable unit which is being evaluated (for example, "Financial Inspections" would be an assessable unit).

d. BLOCK #4: Emphasis on Internal Control. Only one of the following must be selected depending on the impact:

(1) Major Emphasis. The internal controls are always considered in every aspect of planning and operation of functions at each level within the organization.

(2) Moderate Emphasis. The internal controls are considered in one or more levels when evaluating operations and performance appraisals and when there is an external requirement.

(3) Minor Emphasis. There is little evident consideration for internal controls at most levels within the organization.

e. BLOCK #5: Coverage by Written Procedures. This block is to identify whether there are written procedures for military/civilian employees to follow within the general rules and how much discretion is allowed. Usually, the more discretion allowed, the more potential for abuse. An example involving no discretion would be the recording of time and attendance for civilian employees. The allocation of

Figure 3-2.--Guidance for Completing the
Vulnerability Assessment Worksheet.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

staffing resources or handling cash would represent significant discretion. Only one of the following must be selected depending on the impact:

- (1) Specific guidance with little or no discretion.
- (2) Flexible guidance with significant discretion.
- (3) No written procedures.

f. BLOCK #6: Specifying Goals and Measuring Accomplishments. Establishing programs and tasking goals provides an office and its employees with benchmarks for measuring accomplishments. When goals are not established, reviewed periodically, updated, and disseminated to military/civilian employees, successful achievement of the goals are less likely. Only one of the following must be selected depending on the impact:

- (1) Not applicable.
- (2) Goals/objectives formally established and monitored.
- (3) Goals/objectives used informally or with little followup.
- (4) Goals/objectives needed, but not established.

g. BLOCK #7: Adequacy of Checks and Balances. Checks and balances are used so that the performance for certain functions is shared among two or more military/civilian employees or organizational levels to minimize the potential of fraud, waste, abuse, or mismanagement. Determine if checks and balances are appropriate and if they are adequate to protect the assessable unit from manipulation, mismanagement, etc. Only one of the following must be selected depending on the impact:

- (1) Not applicable.
- (2) Adequate. There are good procedures for separation of duties among the personnel involved.
- (3) Needs improvement. The procedures for separation of duties need to be improved.
- (4) Required, but totally lacking. There is no separation of duties or one individual has total control of a transaction or activity.

Figure 3-2.--Guidance for Completing the Vulnerability Assessment Worksheet--Continued.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

h. BLOCK #8: Automatic Data Processing (ADP) Used for Reporting of Operational Data. Many functions are highly dependent on ADP for either operations or providing data or information on which management decisions are made. While use of ADP can save time, there are issues of reliability and security which are particularly important when the use of automated equipment is involved. If ADP is not used for the unit being assessed, check the not applicable box. Only one of the following must be selected depending on the impact:

(1) Not applicable.

(2) Data reliability (timeliness, accuracy) and security are satisfactory.

(3) Data reliability or security needs some improvement.

i. BLOCK #9: Personnel Resources. The number of needed personnel (military/civilian) available to perform the activity and the extent to which these personnel are adequately qualified and trained. Only one of the following must be selected depending on the impact:

(1) Adequate number of qualified personnel.

(2) Adequate number of personnel, but some training required.

(3) Insufficient number of personnel or majority of staff lack qualifications needed for training.

3. ANALYSIS OF INHERENT RISK. Blocks 10-19 identify the assessable unit's inherent potential for waste, abuse, mismanagement, fraud, or unfavorable public opinion.

a. BLOCK #10: Program Administration. An important factor in determining the vulnerability of a particular program (assessable unit) is the extent to which Department of Navy (DON) internal control mechanisms can effectively monitor and influence program operations. If another service or a contractor has significant responsibility for program administration, inherent risk is greater. Only one of the following must be selected depending on the impact:

(1) DON only.

(2) Joint Service.

Figure 3-2.--Guidance for Completing the Vulnerability Assessment Worksheet--Continued.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

(3) Third party (contractor):

- Heavy involvement.
- Total involvement.

b. BLOCK #11: Scope of Written Authority. Only one of the following must be selected depending on the impact:

(1) Precise. Governing legislation or regulations and/or delegations of authority clearly establish the amount of authority and discretion vested in program officials.

(2) Clarification Required. The amount of authority and discretion is not clearly established.

(3) No Written Authority. There are no written delegations or other official documentation establishing the limits on administering a program or function.

c. BLOCK #12: Age/Status of Program. A program or assessable unit which has relative stability over a period of years with the same fundamental mission can be potentially less vulnerable because procedures for administering its resources have been worked out and in place to a greater degree. Major new responsibilities or legislative changes can introduce greater potential for risk, as can situations involving phase out (expiration) or new programs. Only one of the following must be selected depending on the impact:

- (1) Relatively stable.
- (2) Changing.
- (3) New or expiring within 2 years.

d. BLOCK #13: External Impact or Sensitivity. Only one of the following must be selected depending on the impact:

- (1) Not Applicable. No external impact or sensitivity.
- (2) Low Level. Total number of individuals or organizations affected is relatively small.
- (3) Moderate Level. The program serves or impacts a moderately sizable number of individuals or organizations external to the command/activity.

Figure 3-2.--Guidance for Completing the Vulnerability Assessment Worksheet--Continued.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

(4) High Level. Significant impact or sensitivity due to high degree of interest and potential influence of the program by external organizations. This situation exists when program managers must continuously consider the external impact of the program operations.

e. BLOCK #14: Interaction Across Organization. The greater the number of command/activity offices or outside organizations involved in carrying out the processes of a program or function, the greater the risk error. Only one of the following must be selected depending on the impact:

(1) Exclusive to One Office: For example, classification and telephone change requests.

(2) Within Two Functional Offices: For example, procurement requests.

(3) More Than Two Functional Offices: For example, proposed policy directives, clearance of regulations, or information collection.

(4) Involvement With Outside Organizations: For example, interagency agreements, professional organizations, or systems which involve more than one agency (i.e., payroll or vendor pay systems).

f. BLOCK #15: Type of Transaction Document. An instrument is a document used in the approval/disapproval or execution phases of a process. Many instruments can be converted to cash or things suitable for personal benefit. Only one of the following must be selected depending on the impact:

(1) Nonconvertible to Cash or Benefit. Memorandum and letters indicating a determination or approval. These are records of transactions and cannot be exchanged for cash or services.

(2) Convertible to Service Only. Numbered items, convertible to services, not cash (for example, government meal tickets, Government Travel Requests).

(3) Directly Convertible to Cash. Negotiable items; salary checks, checks received by the command/activity, imprest fund vouchers, etc.

g. BLOCK #16: Interval Since Most Recent Evaluation or Audit. The longer the interval between systematic operational reviews, the
Figure 3-2.--Guidance for Completing the Vulnerability
Assessment Worksheet--Continued.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

greater the likelihood that system or operational errors go undetected. It is important, therefore, that all control systems undergo periodic audit, review, or evaluations to detect errors and initiate improvements. Indicate in Block 16 the length of time passed since the last audit or evaluation. Then list in Block 22 the title and date of any audit, reviews, or evaluations during the previous 24 months. Only one of the following must be selected depending on the impact:

- (1) Within the last 9 months.
- (2) Between 9 and 24 months.
- (3) More than 2 years.

h. BLOCK #17: Recent Instances of Errors or Irregularities. Recent errors or irregularities are indications of either a lack of internal controls or ineffectiveness of existing ones. Further, the speed with which these errors are corrected can be an indication of management commitment to minimizing opportunities for waste, fraud, abuse, and mismanagement. Only one of the following must be selected depending on the impact:

- (1) None in last 18 months.
- (2) Most significant findings or known errors fully corrected.
- (3) Most significant findings or known errors fully resolved.

i. BLOCK #18: Adequacy of Reports. The accuracy and timeliness of normal recurring reports (particularly financial reports) are good indicators of a well-run operation. Only one of the following must be selected depending on the impact:

- (1) Accurate and timely.
- (2) Sometimes inaccurate, incomplete, and/or late.
- (3) Usually inadequate and late.

j. BLOCK #19: Time Constraints. To the extent that the command/activity must operate under severe time constraints, the ability to produce work of consistent quality is reduced. Such constraints generate a powerful inducement to end run a system of

Figure 3-2.--Guidance for Completing the Vulnerability Assessment Worksheet--Continued.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

internal control. Only one of the following must be selected depending on the impact:

- (1) Not a significant factor in operations.
- (2) Occasionally a factor.
- (3) A significant daily factor.

4. PRELIMINARY ASSESSMENT OF SAFEGUARDS

a. BLOCK #20: Assumed Effectiveness of Existing Controls. Only one of the following must be selected depending on the impact:

(1) Controls Adequate. If internal control improvements are required, they are of a minor nature.

(2) Less Than Adequate. Internal controls needed are more than minor revisions or improvements.

(3) No Existing Controls or Costs Outweigh Benefits. Indicates the need for establishing internal control or instances where costs unquestionably exceed the benefits derived from controls.

b. BLOCK #21: Overall Vulnerability Assessment. To arrive at the overall assessment rating, add the numerical values assigned to the blocks checked and compare the sum with the ranges shown below:

- Low - Less than 27
- Medium - 27 to 34
- High - 34 or greater

5. Comments. Cite the title and date of any audit, reviews, or evaluations during the previous 24 months as shown in Block 16. Provide additional comments which are relevant to the assessable unit. Also complete the following items in this section of the worksheet:

a. VA Conducted By. The form should be signed and dated by the person who made the assessment and completed the form.

b. VA Approved By. The management official who approves this assessment should sign and date the form. Normally, this official would be the supervisor of the individual who made the assessment.

Figure 3-2.--Guidance for Completing the Vulnerability Assessment Worksheet--Continued.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

CHAPTER 4

PERFORMING INTERNAL CONTROL EVALUATIONS AND REPORTING THE RESULTS

	<u>PARAGRAPH</u>	<u>PAGE</u>
INTERNAL CONTROL EVALUATIONS	4000	4-3
PERFORMING INTERNAL CONTROL EVALUATIONS . . .	4001	4-3
FOLLOWUP	4002	4-4
REPORTING RESULTS OF INTERNAL CONTROL EVALUATIONS	4003	4-4

FIGURE

4-1	GUIDANCE TO PERFORM AN INTERNAL CONTROL REVIEW	4-5
4-2	SAMPLE LETTER OF COMPLIANCE STATEMENT AND REPORT OF VULNERABILITY ASSESSMENTS AND INTERNAL CONTROL REVIEWS	4-10

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

CHAPTER 4

INTERNAL CONTROL EVALUATIONS AND REPORTING THE RESULTS

4000. INTERNAL CONTROL EVALUATIONS. An internal control evaluation (Internal Control Review (ICR) or Alternate Internal Control Review (AICR)) is a detailed examination of an assessable unit to determine if adequate controls exist and are implemented in a cost effective manner. The nature and scope of the vulnerability of an assessable unit must be considered prior to deciding the type of internal control evaluation to be performed. The nature and scope of the vulnerability of an assessable unit may be such that more than one ICR or AICR should be performed. The most appropriate and effective form of internal control evaluation to be performed must be determined.

4001. PERFORMING INTERNAL CONTROL EVALUATIONS

1. Performing AICR's. The AICR should determine the effectiveness of operational compliance with the internal controls and identify weaknesses/deficiencies in the internal control system to be corrected. AICR's utilize the results of audits, computer security reviews, financial system reviews, inspections, and studies. Note: The quality focused management principles of Total Quality Leadership (TQL) establish a culture of continuous improvement in processes used to meet our objectives. Process improvements derived from the application of TQL principles which meet Internal Management Control Program requirements will improve the Marine Corps' ability to manage more effectively. Specific process improvements using TQL which meet the requirements for the Internal Management Control Program need not be duplicated and should be used as AICR's. The controls must be tested when using an AICR.

2. Performing ICR's. ICR's determine the effectiveness of operational compliance with internal controls and identifies weaknesses/deficiencies in the internal control system requiring corrective action. ICR's must be sufficiently documented to identify the scope of the ICR, the responsible official, pertinent dates and facts, results of testing, key findings, and recommended corrective actions. Documentation should be sufficient to be understood by a reasonably knowledgeable reviewer. An ICR includes the following steps:

a. Planning and scheduling the ICR should be accomplished when results of the vulnerability assessment (VA) (in combination with the results of any previous ICR and/or AICR) for an assessable unit are completed.

(1) The desired scope of the ICR to be performed must be defined to describe what will be reviewed.

(2) Personnel to conduct the ICR must be assigned and target start and completion dates for the ICR must be established. Personnel assigned need to determine potential areas of concern to be put into the annual Internal Control Plan.

(3) Guidance to perform an ICR is provided at figure 4-1 and may be used to assist managers in performing the ICR.

b. Material Weaknesses. Material weaknesses may be identified from a variety of sources such as audits, inspections, investigations and management control evaluations. The definition for a material weakness is provided in Chapter 1, paragraph 1001.

4002. FOLLOWUP

1. Followup on Internal Control Review Results. Each command/activity will establish methods to followup on actions taken to correct those control deficiencies identified in the internal control reviews. Existing audit followup procedures should be used to the maximum extent possible.

2. Correct Deficiencies in Existing Internal Controls. The final step in the internal control process is to take appropriate action, at the appropriate level, to correct any internal control deficiencies identified in the review and analysis of existing controls. Any action taken or contemplated should be documented.

4003. REPORTING RESULTS OF INTERNAL CONTROL EVALUATIONS

1. There are specific Internal Management Control Program reporting requirements. Each command/activity shall provide annually, upon request, an internal control compliance statement. Chapter 1, paragraph 2003 applies. This is the statement of assurance for the command/activity. The required statement shall be based on general assessment of internal control evaluations conducted per this guidance. The statement shall consider internal control weaknesses disclosed by any and all sources, including management studies; audits, inspections, investigations, or resource evaluations and analysis evaluations; and General Accounting Office (GAO), Department of Defense Inspector General (DoDIG), and Naval Audit Service (NAS) audits, investigations, and reports.

2. Reports will summarize Internal Management Control Program accomplishments and identify material weaknesses from the command/activity, including any subordinate components' accomplishments and weaknesses considered significant enough to warrant reporting. A sample letter for the annual compliance statement and report of VA's and internal control reviews is provided in figure 4-2.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

STEP 1. Identify the information:

- a. Assessable Unit: _____
- b. Organization Code: _____

TO COMPLETE STEP 1:

Provide the assessable unit title and code of the organization having overall responsibility for the assessable unit.

STEP 2. Review results of the risk or VA:

PURPOSE: To highlight potential areas of concern which should be considered during the review. It is necessary to review the assessment results to highlight potential areas of concern. The results of any audits, inspections, investigations, or Total Quality Leadership (TQL) process action team results should be taken into consideration when doing this review.

TO COMPLETE STEP 2:

Briefly note specific items of concern identified by the vulnerability assessment or subsequent audits, e.g.:

- a. Environment - no written procedures for the assessable unit.
- b. Risk - high value items easily converted to cash.
- c. Safeguards - weak due to changes in the assessable unit.

STEP 3. What am I supposed to do?

PURPOSE: Describe the functions and responsibilities of the assessable unit.

TO COMPLETE STEP 3:

- a. Describe the functions and responsibilities of the assessable unit as it relates to the command/activity (e.g., mission statement, standing operating procedures (SOP), etc.)

Figure 4-1.--Guidance to Perform an Internal Control Review.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

- b. List the guidance which applies to the assessable unit (e.g., Marine Corps Orders (MCO), instructions, notices, SOP's, etc.)
- c. Ensure that current copies of the applicable guidance (MCO's, instructions, notices, SOP's, and organizational manuals) are readily available.
- d. Identify, if any, guidance listed above which is not locally available, not current, or in your opinion provides inadequate policy and procedures. The existence of any of the above situations may indicate a weakness in the assessable unit that requires corrective action.

STEP 4. How do I do the job?

PURPOSE: Determine "What can go wrong?". This includes identifying the steps necessary to accomplish the assessable unit, the risk or what could go wrong, and the risks for which controls embodied in the steps that are either inadequate or excessive.

TO COMPLETE STEP 4:

- a. List the actions (steps) taken to accomplish the function(s) of the assessable unit including input and output processes.
 - (1) If these actions (steps) are identified in an organizational manual, mission statement, SOP, etc., identify the appropriate guidance.
 - (2) If guidance is not available or current, the listing of actions (steps) should be summarized to not exceed one page.
- b. Identify and describe the risk associated with the assessable unit. "What can go wrong?"
- c. Identify the actions that reduce the risks identified above. These actions contain or represent the internal controls for the assessable unit. Evaluate if the actions are adequate, inadequate, or excessive as a control.

Figure 4-1.--Guidance to Perform an Internal Control Review
--Continued.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

- d. Identify those risks for which current controls are inadequate or excessive. Some risks will be obvious because there will be no control or the controls will be excessive. Other risks identified will require managerial judgement. Some risks may have several controls which taken individually are inadequate but combined act as an acceptable level of control.

STEP 5. Am I doing the job?

PURPOSE: To test the effectiveness of the controls identified in Step 4c and determine if the controls are adequate (working as intended), nonexistent, weak, or excessive.

TO COMPLETE STEP 5:

- a. Test the effectiveness of the controls. Select a representative number of transactions, reports, etc. Testing techniques which may be applied to the representative number include:
 - (1) Review. Examine the selected sample for accuracy, completeness, timeliness, appropriate approving signatures, and applicable supporting documents.
 - (2) Observe. Observe the performance of each step to determine if procedures and controls are being followed.
 - (3) Interview. Talk with the personnel directly involved with the assessable unit to determine their awareness of procedures, responsibilities, and controls.
 - (4) Test document. Prepare and submit test documents to determine the effectiveness of controls. These documents could contain incomplete and inaccurate data and either a fictitious or inappropriate authorizing signature.

Figure 4-1.--Guidance to Perform an Internal Control Review
--Continued.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

- b. Testing must be fully documented by identifying:
 - (1) The transactions, documents, reports, etc. used in the test.
 - (2) Steps and actions observed.
 - (3) Personnel interviewed and their assessable unit responsibilities.
- c. Provide a statement on the results of testing including a determination as to whether individual controls were adequate, weak, nonexistent, or excessive. Weak, nonexistent, or excessive controls are weaknesses requiring corrective action.

STEP 6. Report the review results

PURPOSE: Identifies the weaknesses resulting from the review and the corresponding corrective actions and estimated completion dates.

TO COMPLETE STEP 6:

- a. Provide the following for any weaknesses identified in Steps 3d, 4c, 4d, and 5c above:
 - (1) A brief description of each weakness identified and actions to be taken or completed to correct the weakness.
 - (2) An estimated completion date for each required corrective action or actual date completed.
- b. The report should be in letter form. At a minimum, the above should be included in the response.
- c. If a particular corrective action is outside your area of responsibility, identify the individual, division, or organization that has responsibility and provide a copy of the weakness along with any supporting documentation that may have been developed as a result of the review.

Figure 4-1.--Guidance to Perform an Internal Control Review
--Continued.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

STEP 7. Identify who conducted and who approved the review

a. Internal Control Review conducted by:

_____ Date: _____

b. Internal Control Review approved by:

_____ Date: _____

TO COMPLETE STEP 7:

The Internal Control Review must be signed and dated by the individual conducting the review and approved by the next level supervisor with overall responsibility for the assessable unit.

Figure 4-1.--Guidance to Perform an Internal Control Review
--Continued.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

5200
(activity code)
(date)

From: (Commander/Division Director, as appropriate)
To: Commander, Marine Corps Base, Quantico (B 184)

Subj: ANNUAL COMPLIANCE STATEMENT AND REPORT OF VULNERABILITY
ASSESSMENTS AND INTERNAL CONTROL REVIEWS

Ref: (a) MCBO P5200.2A
(b) Commander, MCB ltr 5200 B 184 of (date)

Encl: (1) Results of Internal Control Review(s) (ICR) Completed
for the Period Ending (date)
(2) New Vulnerability Assessment (VA) Worksheets
(if applicable)

1. Per references (a) and (b), the annual compliance statement and report on results of internal control review(s) for the period ending (date) is submitted.

a. The results of internal control review(s) completed are provided at enclosure (1).

b. Indicate the following statements, whichever is applicable:

(1) The current VA Worksheets are still valid.

(2) The following VA Worksheets have been deleted: (list the assessable units).

(3) VA Worksheets for new assessable units are submitted (see enclosure (2)).

c. Indicate the following statement if it is determined that no ICR's are required on VA's rated "medium:"

"This (Command/Division) has reviewed all VA's rated medium and has determined that ICR's are not required."

d. Provide the name and telephone number of the current Internal Management Control Officer.

Figure 4-2.--Sample Letter of Compliance Statement and Report of Vulnerability Assessments and Internal Control Reviews.

INTERNAL MANAGEMENT CONTROL PROGRAM MANUAL

Subj: ANNUAL COMPLIANCE STATEMENT AND REPORT OF VULNERABILITY
ASSESSMENTS AND INTERNAL CONTROL REVIEWS

e. Specific actions to improve effectiveness and efficiency of internal controls as well as reduce the potential for fraud, waste, abuse, mismanagement, and unfavorable public opinion are:

- (1) Continually evaluate operational procedures.
- (2) Conduct random cash audit verifications.
- (3) Take action on all recommendations cited on scheduled inspections and audits.

2. Compliance Statement. This Command/Activity has taken appropriate and conscientious action to review and improve internal control systems as required by reference (a). The system of internal controls in effect for the reporting period ending (date) provides reasonable assurance that the standards and objectives of internal controls contained in reference (a) have been achieved.

(Signature of Commander/Division
Director, as appropriate)

Figure 4-2.--Sample Letter of Compliance Statement and Report
of Vulnerability Assessments and Internal Control
Reviews--Continued.