



DEPARTMENT OF THE NAVY
UNITED STATES NAVAL ACADEMY
121 BLAKE ROAD
ANNAPOLIS MARYLAND 21402-1300

USNAINST 5200.4C
4/IG

19 NOV 2013

USNA INSTRUCTION 5200.4C

From: Superintendent

Subj: MANAGERS' INTERNAL CONTROL PROGRAM

Ref: (a) Federal Manager's Financial Integrity Act of 1982
(b) OMB Circular A-123 Revised 21 Dec 2004
(c) SECNAVINST 5200.35E
(d) OPNAVINST 5200.25D
(e) SECNAV M-5200

Encl: (1) Definitions
(2) Management Control Overview
(3) Testing Managers' Internal Control Systems
(4) Risk Assessment
(5) Suggested Wording for Performance Standards
(6) Sample Management Control Compliance Statement
(7) Report of Current Year Material Weaknesses

1. Purpose. To assign management responsibility for the development, documentation, maintenance, review, testing, and improvement of managers' internal controls per references (a)-(e).
2. Cancellation. USNA Instruction 5200.4B.
3. Information. No special markings appear in this instruction because changes are extensive. The terms management control and internal control are used interchangeably throughout this instruction. Definitions of terms are provided as enclosure (1).
4. Background. Reference (a) requires a continuing evaluation of management controls and an annual report on compliance with Government Accountability Office (GAO) standards for management control. Reference (b) provides guidance for establishing, maintaining, reviewing, improving, and reporting on management control systems in each agency. References (c) and (d) establish the Department of Navy (DON) and Chief of Naval Operations (CNO) policy for the Navy Managers' Internal Control Program. Management controls apply to all programs and functions, and managers are responsible for implementing, executing, evaluating, documenting, and testing internal controls.
5. Policy. The Naval Academy fully supports the principles of management control. Each activity will maintain systems of controls consistent with references (a) through (e). Managers at all levels will develop, maintain, and continually assure the adequacy of their internal controls through integration of those controls into the daily administration of all programs and activities. All civilian and military staff will be thoroughly familiar with established control standards.
6. Responsibilities
 - a. The Superintendent will oversee the development and implementation of managers' internal control systems within USNA and will be the focal point for reviewing and reporting significant internal control deficiencies.
 - b. All Cost Center Heads are responsible for:

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(1) Completing the Managers' Internal Control Training for Managers (OASN-MCPTM-1.3) on the NKO website and providing the USNA Inspector General (IG) with a copy of the training certificate.

(2) Ensuring all Assessable Unit Managers in their cost center complete the Managers' Internal Control Training for Managers (OASN-MCPTM-1.3) on the NKO website and providing the USNA IG Office with a copy of the training certificate.

(3) Ensuring managers' internal control systems under their purview are implemented and functioning as intended to meet the GAO standards as identified in enclosure (2). Monitoring efforts must be documented.

(4) Maintaining an up to date inventory of assessable units. A copy of all updates should be forwarded to the USNA IG. Organizations should be segmented to identify major functions or programs and divided into meaningful assessable units.

(5) Ensuring that enclosure (4) is completed and maintained by assessable unit managers for each assessable unit under their control to identify the potential for mismanagement, loss, or waste in programs, systems, and operations. A copy of enclosure (4) must be provided to the USNA IG.

(6) Assigning individuals responsible for managers' internal control systems at appropriate levels of the organization and properly appointing assessable unit managers in writing. The minimum grade requirement for assessable unit managers is GS-11 or Lieutenant. Performance appraisal systems (i.e., civilian performance evaluations and military fitness reports) of these individuals should include manager's internal controls in their performance standards. Enclosure (5) provides suggested wording.

(7) Ensuring material weaknesses are reported to the Superintendent via the USNA IG. Annually provide a certification of the adequacy of the managers' internal control systems to the Superintendent, using enclosure (6). Enclosure (2) can be used as an evaluation tool to support the certification. Managers can also use the results of internal reviews or studies, USNA Command Evaluation reviews, reviews conducted by external agencies, and other evaluations of internal controls. A managers' internal control evaluation should test the controls and document the results. Enclosure (3) will be used to report testing of internal controls at least annually to the cost center head. A copy of internal control testing documentation will be submitted with the cost center head's certification statement. Enclosure (7) will be used to report any material weaknesses.

c. The Inspector General will be responsible for:

(1) Maintaining a managers' internal control plan that includes the inventory of assessable units, the number of scheduled and accomplished manager's internal control evaluations, and other pertinent information to document the Naval Academy's commitment to the objectives of the Managers' Internal Control Program.

(2) Evaluating compliance with internal control standards and reporting the results to the Superintendent. Review of managers' internal control systems will be an integral part of all scheduled reviews.

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(3) Preparing the Annual MIC Certification Statement for the Superintendent's signature and submission to CNO per the guidelines of reference (c).



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DEFINITIONS

Assessable Unit. Any organizational segment or function with a defined purpose that aids in the accomplishment of the organization's mission. It must have clear limits or boundaries and be identifiable to a specific responsible manager.

Examples: Information Technology, Comptroller/Resource Management, Human Resources

Assessable units should be further divided where appropriate for more efficient control and review. For example, Information Technology could be divided into Hardware Management and Systems Development; Comptroller/Resource Management could be divided into Government Property, Purchase Card, Government Travel, etc.

The inventory of assessable units should constitute the entire organization.

Managers' Internal Control. The organization, policies, and procedures adopted by management to reasonably ensure that programs achieve their intended results; resources are used consistent with agency mission; programs and resources are protected from waste, fraud, and mismanagement; laws and regulations are followed; and reliable and timely information is obtained and used for decision making.

Management should design and implement internal controls based on the related costs and benefits. Internal controls must be integrated into daily practices. Examples of internal controls and activities:

1. Placing restrictions
 - (a) travel and purchase cards for official government business only
 - (b) dollar limits on single purchases
2. Security
 - (a) network logins and passwords
 - (b) security badges
3. Segregation of duties
 - (a) person who orders goods should not be the same person who receives the goods
 - (b) certifying officer of a purchase card program should not be a purchase card holder
4. Annual performance appraisal
 - (a) evaluating employees on specific roles and responsibilities
 - (b) determining what additional training is required to meet necessary skill level
5. Property management
 - (a) tagging equipment to identify as government property
 - (b) issuing property passes to account for equipment taken off the installation

Note that management controls are different from command evaluation. Managers' internal controls are ways and means to ensure that what should happen does happen. Managers are responsible for adequate controls within

Enclosure (1)

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their programs. The Command Evaluation Program provides an independent evaluation of, among other matters, the adequacy of managers' internal controls.

Managers' Internal Control Documentation. Written policies, organization charts, procedural write-ups, manuals, memoranda, flow charts, decision tables, completed questionnaires, software, and related written materials used to describe the internal control methods and measures, to communicate responsibilities and authorities for operating such methods and measures, and to serve as a reference for persons reviewing the internal controls.

Managers' Internal Control Assessment. A documented evaluation on the effectiveness and adequacy of the internal control system to meet the mission objectives, implemented in a cost-effective way.

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

Material Weakness. A weakness is a condition in which specific control techniques, or the degree of compliance with them, do not provide reasonable assurance that program assets and program functions are safeguarded from fraud, waste or abuse. A weakness is material if the condition results in a relatively high risk of loss, errors, or irregularities in relation to the assets or resources managed. If a condition cannot be corrected by management and requires intervention by the next higher level of command, it is considered a material weakness.

Reasonable Assurance. An informed judgment by management as to the overall adequacy and effectiveness of internal controls based upon available information that the systems of internal controls are operating as intended. Internal controls provide reasonable, not absolute, assurance of meeting program objectives.

Risk (Vulnerability) Assessment. The identification of internal and external risks that may prevent the organization from meeting its objectives. Management should consider the susceptibility of a program or function to waste, loss or unauthorized use of resources, errors in reports and information, illegal or unethical acts, adverse or unfavorable public opinion, or the perception that such situations may exist. Examples of risks:

1. Financial - loss of assets or available operating or capital budget
2. Technology - systems and technology tools, in design and operation, do not allow achievement of mission
3. Human resources - management and staff not sufficient to meet needs and mission of organization
4. Reputation - negative public opinion
5. Operational - policies, procedures, instructions do not sufficiently control business to allow achievement of mission

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MANAGERS' INTERNAL CONTROL PROGRAM OVERVIEW

GAO Standards for Internal Control:
Control Environment
Risk Assessment
Control Activities
Information and Communications
Monitoring

Control Environment

Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management.

Mission

Are your organization's mission, objectives, and goals and employees' roles in fulfilling the mission, objectives, and goals clearly defined and communicated throughout the organization?

Environment

Has an ethical tone been established and are violators held accountable for their actions?

Organization Structure

Do you have an up-to-date organization chart?

Are key areas of authority and responsibility defined and lines of reporting established?

Are employees properly supervised?

Assessable Units

Do you have a current inventory of assessable units (your organization segmented by organizational, functional, or program lines)? The sum of your assessable units must constitute the entire activity/organization.

Training

Is training regularly provided to management and staff?

Risk Assessment

Internal control should provide for an assessment of the risks faced from both external and internal sources.

Have managers identified the inherent risks in their assessable areas, e.g., assets, safety, public opinion, etc.?

Have management and staff established internal controls to address those risks?

Do managers take immediate actions to remedy situations when the controls in place are insufficient to safeguard assets or compromise the accomplishment of the mission?

Enclosure (2)

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Control Activities

Internal control activities are the policies, procedures, and techniques that help ensure management's directives are carried out. The control activities should be effective and efficient in accomplishing the control objectives. These should include approval and authorization levels, verifications, reconciliations, performance reviews, security issues, creation and maintenance of records.

Do your control activities include top level reviews of actual performance, reviews by management at the functional or activity level, management of human capital, controls over information processing, physical control over vulnerable assets, establishment and review of performance measures and indicators, segregation of duties, proper execution of transactions and events, accurate and timely recording of transactions and events, access restrictions to and accountability for resources and records, and appropriate documentation of transactions and internal controls.

Are management and staff aware of the Department of Defense, Navy, Naval Academy, and department policies that govern their areas of responsibility? Is the guidance reviewed periodically to ensure you are operating under current rules?

Are written standard operating procedures developed when necessary to provide guidance on local procedures?

Does management ensure the workforce has the skills necessary to achieve organizational goals?

Are duties properly segregated to ensure checks and balances exist?

Are physical assets safeguarded?

Are control activities in place specific to information systems?

Are general controls in place for mainframe, minicomputer, network and end-user environments?

Are application controls in place that are designed to cover the processing of data within the application software?

Are internal controls and significant events documented?

Information and Communications

Information should be recorded and communicated to management and others within the entity who need it, in a form and within a time frame that enables them to carry out their internal control and other responsibilities.

Does your organization communicate information up and down the chain of command?

Do your managers receive adequate and timely information from other Academy departments that is necessary to complete their mission?

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Monitoring

Internal control monitoring should assess the quality of performance over time and ensure that the findings of audits and other reviews are promptly resolved.

Internal Reviews

Does your activity/organization conduct documented self-assessments of its own functions/operations/projects to ensure compliance with regulations?

Does your organization measure progress in accomplishing its goals and mission?

Are problems (and subsequent corrective action) routinely reported up the chain of command?

External Reviews

Does the organization undergo reviews (command evaluation reviews, audits, inspections, investigations) by outside organizations?

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TESTING MANAGERS' INTERNAL CONTROL SYSTEMS

Approach to management control testing generally includes:

- Identifying key controls to be tested;
- Developing the test plan (consider the nature, extent (including sampling technique) and timing of the execution of the controls tests;
- Selecting the test method (inquiry, observation, inspection, or re-performance);
- Selecting the sample size, sampling technique, and acceptable number of tolerable misstatements;
- Executing testing of automated versus manual controls;
- Summarizing and analyzing test results.

1. Department and Assessable Unit Title:
2. Work Process:
3. Does the process include Privacy Act Information? If yes, what information/records are involved?
4. What are the key indicators that measure the performance of the assessable unit?
5. Describe processes used and **provide supporting documentation** to show how you validate that your process:
 - a. Is producing intended results.
 - b. Results are achieved in the most efficient and economical manner.
 - c. Has adequate controls in place to protect against fraud, waste, abuse, and mismanagement practices.
 - d. Is following all applicable laws and regulations.
6. Are the internal controls in place for this assessable unit acceptable for reducing risk? Please explain why.
7. Have you performed the Risk Assessment detailed in Enclosure 4 of this instruction? If no, please provide an explanation of why the assessment has not been performed.
8. Does this process warrant reporting to higher authority as a material weakness? If so, please explain why?

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RISK ASSESSMENT

Managers who are responsible for an assessable unit (programs, systems, or functions) should complete this assessment for each program they administer and submit the documented assessment to the USNA IG bi-annually or when significant program changes occur.

Provide the name of assessable unit and a short description:

Provide the name of the program manager, cost center, and sub-cost center, department or division

Note: The numbers in parentheses below represent values to obtain the overall risk assessment score.

Control Environment - Questions 1-6 evaluate the general control environment - management attitude, organizational structure, personnel competence, delegation of authority and responsibility, policies and procedures, and organizational checks and balances.

1. **Emphasis on Managers' Internal Controls.** Consider how much emphasis you, your employees, and your supervisors place on the internal controls for the program.

- (1) Major emphasis
- (3) Moderate emphasis
- (5) Minor emphasis

2. **Coverage by Written Procedures.** The basic issue is whether there are written procedures for 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 time and attendance system; allocation of staffing or budget resources would represent significant discretion.

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

3. **Specifying Goals and Measuring Accomplishments.** Establishing program goals and objectives provides an office and its employees with benchmarks for measuring accomplishment. When these goals or objectives are not established, reviewed periodically, updated, and disseminated to employees, successful achievement is less likely.

- (1) Goals/objectives formally established and monitored
- (3) Goals/objectives used informally or with little follow-up
- (5) Goals/objectives needed but not established

Enclosure (4)

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4. Adequacy of Checks and Balances. Checks and balances are methods of financial or administrative control; e.g., appropriate levels of authorizations, signatures, supervision, observations, security devices, inventory controls, and separation of duties. Checks and balances are used so that authority for certain functions is shared among two or more employees or organizational levels to minimize the potential for waste, fraud, abuse or mismanagement. Determine what checks and balances are appropriate, and whether they are adequate to protect the resource from manipulation, misappropriation, etc.

- (1) Adequate
- (3) Needs improvement
- (5) Required but totally lacking

5. Technology Used for Reporting or Gathering Operational Data. Most activities are highly dependent on ADP technology 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.

- (0) Not applicable - not used for the unit being assessed
- (1) Data reliability (timeliness and accuracy) and security are satisfactory
- (3) Data reliability or security needs some improvement
- (5) Data reliability and security a major problem

6. Personnel Resources. The managers' internal control certification process is not designed to obtain additional personnel resources. However, the number and quality of needed personnel to perform the activity impact the vulnerability of the function to loss of mission capability.

- (1) Adequate number of qualified personnel
- (3) Adequate number of personnel but some training required
- (5) Insufficient number of personnel or majority of staff lacks qualifications or needed training

Analysis of Inherent Risk - Questions 7-16 deal with the function's inherent potential for waste, fraud, abuse or mismanagement. Some programs have an increased potential because of the type of resources or sensitivity of information. A high risk rating does not mean a program is mismanaged.

7. Program Administration. An important factor in determining the vulnerability of a particular program is the extent to which Department of Navy (DON) internal control mechanisms can effectively monitor and influence program operations. If another service or a contract has significant responsibility for program administration, inherent risk is higher.

- (1) DON only
- (3) Joint service
- Third party (contractor):
 - (4) Heavy involvement
 - (5) Total involvement

8. Scope of Written Authority. Select one of the following:

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

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(3) Clarification required - the amount of authority and discretion is not clearly established

(5) No written authority - there are no written delegations or other official documentation establishing the limits on administering a program or function

9. 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 are 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.

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

10. External Impact or Sensitivity. A program does not have to possess significant resources to be vulnerable. External impact is the affect the program has on persons and organizations outside the Naval Academy. Select one of the following:

- (0) Not a factor - no external impact or sensitivity
- (1) 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 Academy
- (5) 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.

11. Interaction Across Organizations. Consider the number of offices within the Academy and outside the Academy that are contacted to conduct the program. The greater the number of activity offices or outside organizations involved in carrying out the processes of a program or function, the greater the risk of error.

- (1) Exclusive to one office
- (3) Within two functional offices
- (4) More than two functional offices
- (5) Involvement with outside organizations

12. Type of Transaction Document. An instrument is a document utilized in the approval/disapproval or execution phases of a process. The base issue is the convertibility of instruments to cash or things suitable for personal benefit. Many instruments can be converted to personal use.

- (1) Non-convertible to cash or benefit - memoranda and letters indicating a determination or approval. These are records of transactions and cannot be exchanged for cash or services.

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(3) Convertible to services only - numbered items, convertible to services, not cash (e.g., tickets)

(5) Directly convertible to cash - negotiable items (e.g., checks)

13. Interval Since Most Recent Evaluation or Audit. The longer the interval between systematic operational reviews, the greater the likelihood that system or operational errors go undetected. It is important, therefore, that all control systems undergo periodic audits/reviews/evaluations to detect errors and initiate improvements. Program managers are responsible for conducting periodic reviews of their internal control systems. They may also rely on reviews conducted by the Command Evaluation Office or external audit agencies.

(1) Within last 9 months

(3) Between 9 and 24 months

(5) More than 2 years

Record title and date of any reviews or audits of program/function/activity during the previous 24 months on a separate sheet of paper.

14. Recent Instances of Errors or Irregularities. Recent errors or irregularities are indications of either a lack of managers' 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. Provide a brief synopsis of recent errors or irregularities and corrective actions on a separate sheet of paper.

(1) None in the last 18 months

(3) Most significant findings or known errors fully corrected

(5) Most significant findings or known errors unresolved

15. Adequacy of Reports. The accuracy and timeliness of normal recurring reports (particularly financial reports) are good indicators of a well-run operation.

(1) Accurate and timely

(3) Sometimes inaccurate, incomplete and/or late

(5) Usually inadequate and late

16. Time Constraints. To the extent that an activity must operate under severe time constraints, the ability to produce work of consistent quality is reduced. Such constraints generate a powerful inducement to circumvent the system of internal controls.

(1) Not a significant factor in operations

(2) Occasionally a factor

(3) A significant daily factor

Preliminary Assessment of Safeguards

17. Assumed Effectiveness of Existing Controls

(1) Controls adequate - if improvements are needed, they are of a minor nature

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(3) Less than adequate - controls are in need of more than minor revisions or improvements

(5) No existing controls or costs outweigh benefits - indicates the need for establishing

Managers' internal controls, or instances where costs unquestionably exceed the benefits derived from controls

Overall Risk Assessment - To arrive at the overall assessment rating, add up the numerical values assigned to each choice and compare the sum with the ranges indicated next to the Low, Medium, and High ratings. Score _____

Low (less than 27)

Medium (27-34)

High (greater than 34)

In most cases, if you have marked a High overall risk assessment, you should schedule a review of your operation to determine how the internal controls can be strengthened.

Comments:

Conducted by:

Title

Date

Approved by:

Title

Date

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From: [Cost Center Head]
To: Superintendent

Subj: MANAGERS' INTERNAL CONTROL COMPLIANCE STATEMENT

Ref: (a) USNAINST 5200.4B

Encl: (1) Report of Current Year Material Weaknesses [if any]

1. The [Cost Center Head's Title] has evaluated the system of internal administrative and accounting controls in effect during the year 1 July 200X - 30 June 200X. The evaluation was performed per Department of the Navy policy contained in reference (a). Managers' Internal Control accomplishments and the status of identified material weaknesses are detailed in the enclosures [if any].

2. [Choose on the following:

I have reasonable assurance that managers' internal controls are in place and operating effectively; -or-

I have reasonable assurance that managers' internal controls are in place and operating effectively except for the material weaknesses provided in enclosure(s); -or-

I do not have reasonable assurance that managers' internal controls are in place and operating effectively],

and the objectives of the Federal Manager's Financial Integrity Act were/were not achieved.

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

SIGNED

Enclosure (6)

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REPORT OF CURRENT YEAR MATERIAL WEAKNESSES

Description of Material Weakness: Provide a brief narrative summary describing the material weakness and its impact on the mission.

Function/Program: Provide the name of the program or the subcost center in which the material weakness was identified.

Source(s) Identifying Weakness: Provide the source(s) used to identify the material weakness; e.g., managers' internal control review, audit, inspection, investigation, or management observation. When appropriate, cite the report number, title, and date. List all sources individually.

Point of Contact: Provide name and telephone number.

Corrective Actions Taken/Planned: Provide a description of corrective actions taken with dates. If not completed, provide a milestone chart that indicates actions planned with dates.