



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
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WASHINGTON DC 20350-1000

SECNAVINST 5200.35G
ASN (FM&C)
29 Mar 2019

SECNAV INSTRUCTION 5200.35G

From: Secretary of the Navy

Subj: DEPARTMENT OF THE NAVY MANAGERS' INTERNAL CONTROL PROGRAM

Ref: See enclosure (1)

Encl: (1) References
(2) Managers' Internal Control Program Lifecycle
(3) Managers' Internal Control Reporting Requirements
(4) DON Internal Control Governance Structure
(5) DON Audit Committee Charter
(6) DON Senior Management Council Charter
(7) DON Senior Assessment Team Charter
(8) Managers' Internal Control Roles and Responsibilities
(9) Definitions
(10) Statutory and Regulatory Requirements and Guidance
(11) Acronyms and Abbreviations

1. Purpose. To provide revised Managers' Internal Control Program (MICP) strategic guidance and policy for the Department of the Navy (DON) to reflect recent changes to references (a), (b), and (c), which provide implementation guidance for Federal managers to improve accountability and effectiveness of Federal programs. This instruction is a complete revision and should be read in its entirety.

2. Cancellation. SECNAVINST 5200.35F and SECNAV M-5200.35.

3. Applicability. This instruction applies to the DON.

4. Policy

a. Per references (a) and (d), Major Assessable Units (MAUs) and Budget Submitting Offices (BSOs) must establish a MICP to evaluate and report on the effectiveness of internal controls throughout their organizations, subordinate organizations, and commands. MAUs and BSOs will develop, implement, test, and perform risk assessments on internal controls to achieve mission and implement internal controls to mitigate risk. Each MAU, BSO, and their subordinate

organizations will follow and incorporate the Government Accountability Office's (GAO) five components into their MICP. These are illustrated as part of enclosure (2). Documentation of compliance with each GAO component must be maintained by MAUs, BSOs, and their subordinate organizations. MAUs and BSOs will provide documentation to the DON MICP annually in compliance with enclosure (10).

b. DON MAUs, BSOs, and their subordinate organizations will implement a system of documented internal controls to provide reasonable assurance that the following objectives are met:

- (1) Effectiveness and efficiency of operations;
- (2) Reliability of financial reporting; and
- (3) Compliance with applicable laws and regulations.

c. Several DON programs operate in tandem with MICP and should be leveraged in implementing MICP requirements. These programs include but are not limited to: Financial Improvement and Audit Remediation; Naval Safety, Operational Risk Management; Shipboard Material Maintenance Management; and Government Purchase Card and Travel Card. All of these programs reinforce one another, and ultimately contribute to the establishment of a system of internal control.

d. Annually, the DON will prepare a Statement of Assurance (SOA) which includes the DON statement of adherence to reference (e), Material Weaknesses (MW) identified with Corrective Action Plans (CAP), milestones, and internal control-related accomplishments. The Assistant Secretary of the Navy, Financial Management and Comptroller (ASN(FM&C)), Chief of Naval Operations (CNO), and Commandant of the Marine Corps (CMC) will sign the SOA for delivery to the Secretary of the Navy (SECNAV). The SOA is signed by the SECNAV, certifying the DON's level of assurance to the overall adequacy and effectiveness of internal controls within the Department.

e. Program governance is defined in enclosure (4) and structured senior oversight provided by enclosure (5), enclosure (6), and enclosure (7).

5. Responsibilities

a. DON personnel are responsible for the proper stewardship

of Federal resources as a basic obligation of their public service, per references (a) and (f). Government resources must be used in compliance with laws and regulations, consistent with the mission, and with minimal impact and potential for fraud, waste, and mismanagement of the DON's limited resources.

b. The DON's MICP operates in tandem with the DON's other risk management processes and initiatives - Enterprise Risk Management (ERM), the Risk and Opportunity Assessment (ROA), and the Information Technology (IT) Risk Management Framework (RMF) via the annual SOA. Together, they create an integrated RMF that complies with reference (g) enables proper risk management decision-making. The DON MICP roles and responsibilities are identified in enclosure (8).

Reference (a) requires ERM to be added as a management responsibility for Federal agencies and defines ERM as an "effective agency-wide approach to addressing the full spectrum of an organization's significant risks by considering the combined array of risks as an interrelated portfolio, rather than addressing risks only within silos." ERM informs better decision-making, broadens senior leaders' views across a portfolio of risks, illustrates linkages between risks, and provides improved insight to more effectively prioritize and manage key risks to mission delivery. MICP is a key input to ERM.

c. Internal controls are policies, procedures, and other mechanisms in place to ensure an organization, function, program, or activity's mission is achieved.

(1) Organizations rely on internal controls to provide reasonable assurance of effective and efficient operations and compliance with applicable laws and regulations. All DON personnel play important roles in implementing and operating the internal control program.

(2) DON internal controls are comprehensive management practices that play a vital role in achieving business and mission objectives. The implementation of effective and efficient internal controls assists program and financial managers in achieving results to validate the integrity of their programs by reducing risk exposure.

d. An internal control system is a continuous built-in

component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that an entity's objectives will be achieved. References (a), (b), (c), (d), and (f) set the following requirements that programs must encompass based on the GAO's five components of internal control:

(1) Control Environment: Management and employees will demonstrate a commitment to integrity and ethical values. Management will establish and document an organizational structure, assign responsibility, and delegate authority to achieve the organization's objectives, including establishing an oversight body to oversee the agency's internal control system;

(2) Risk Assessment: Identify risks the agency faces from both external and internal sources; assess likelihood, impact on operation, severity of consequences and risk tolerance. Prioritize results of analysis;

(3) Control Activities: Implement policies and procedures that respond to risks in the internal control system and ensure management directives and the agency's objectives are achieved;

(4) Information and Communication: Quality information will be used internally and externally, as needed, to support the internal control system and achieve objectives. Information is shared to maximize the effectiveness of the internal control system and provided within a time frame that enables proper internal control system operation and objective completion; and

(5) Monitoring: Assess the quality of the dynamic control system's performance over time to ensure alignment with evolving objectives, environment, laws, resources, and risks. Promptly implement corrective actions to resolve the findings of audits and other reviews.

e. Programs designed to support ERM and a system of internal control shall follow the requirements established in references (a), (b), (c), and (f). These requirements include but are not limited to the following concepts:

(1) Risk Profiles provide analysis of the risks an agency faces toward achieving strategic objectives that arise from its activities and operations, and identify appropriate options for addressing significant risks. The risk profile prioritizes significant risks, and considers risks from a

portfolio perspective by identifying sources of uncertainty, both positive (opportunities) and negative (threats). For this instruction, the term "operations" refers to Business Process Operations as distinct from the conduct of military operations.

(2) The identification, measurement, and assessment of the organization's risks related to mission delivery should provide the framework for a senior leader to determine reasonable assurance that the objectives detailed in references (a) and (f) are met and that the DON can organize, train, equip, prepare and maintain the readiness of the Navy and Marine Corps.

6. Definitions. See enclosure (9).
7. Statutory and Regulatory Requirements. See enclosure (10).
8. Acronyms and Abbreviations. See enclosure (11).
9. Records Management

a. Records created as a result of this instruction, regardless of format or media, must be maintained and dispositioned according to the records disposition schedules found on the Directives and Records Management Division (DRMD) portal page:

<https://portal.secnav.navy.mil/orgs/DUSNM/DONAA/DRM/SitePages/Home.aspx>

b. For questions concerning the management of records related to this instruction or the records disposition schedules, please contact your local Records Manager or the DRMD program office.

10. Reports. The reporting requirements contained in enclosures (2) through (10) are exempt from information collections control per part IV paragraph 7n of reference (h).



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REFERENCES

- (a) OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control of 15 July 2016
- (b) GAO/14-704G, Standards for Internal Control in the Federal Government of 10 September 2014
- (c) OMB Circular No. A-123, Appendix A, Management of Reporting Data Integrity Risk of 6 June 2018
- (d) DoD Instruction 5010.40 of 30 May 2013
- (e) Public Law 97-255
- (f) 31 U.S.C. §3512
- (g) Public Law 104-208, §801
- (h) SECNAV M-5214.1
- (i) Public Law 110-181 §904
- (j) Public Law 110-417 §908
- (k) SECNAVINST 5430.7R
- (l) DoD FMR 7000.14-R, Volume 6B, Chapter 1, 010406, Audit Compliance

MANAGERS' INTERNAL CONTROL PROGRAM LIFECYCLE

1. A robust MICP allows for the achievement of entity mission and objectives by enabling an organization's ability to identify, analyze, and respond to its own unique risks in changing or difficult circumstances. Implementation of a MICP increases an organization's understanding of internal controls, which should result in better decision-making related to activities, objectives, operations, and resources. Moreover, an effective MICP improves the quality of an organization's governance over internal control compliance. MAUs and BSOs are required to establish a MICP to evaluate and report on their organization's internal control effectiveness.

2. The MICP lifecycle includes several elements, which are designed to encompass the GAO's five components for internal control in the Federal Government.

a. Control Environment

(1) To establish the foundation for a robust control environment, enclosure (4) will serve as the oversight structures tasked with overseeing the DON internal control system. These three structures assign responsibility, delegate authority to achieve the DON's objectives, and demonstrate a commitment to integrity and ethical values.

(2) To support its control environment, the DON has structured itself into assessable units (AU) or subdivisions to appropriately define strategic objectives and business processes, implement and assess internal controls, and provide adequate oversight and management for each of the DON's core functions.

b. Risk Assessment

(1) Organizations should conduct risk assessment activities on a proactive and ongoing basis, and institute internal controls to mitigate risks as appropriate. Risk assessments can be done at several levels, across the organization, within a program, or for specific activities as the need arises to stay attuned and engaged in identifying and actively managing risks and directing resources toward the most important mission and mission support priorities, and elevating

risks to appropriate leadership attention.

(2) Risk assessments should encompass all strategic risks, both internal and external. Organizations should consider various DON programs that complement MICP, such as the ROA, Evaluate, Prioritize, Remediate (EPR), Business Process Improvement (BPI), IT Risk RMF, the planning, programing, budget, and execution process, and all strategic planning processes.

c. Control Activities

(1) Control activities are implemented to address the identified risks obtained through the risk assessment process. Some common control activities implemented throughout the DON include:

- (a) Top-level reviews of actual performance;
- (b) Reviews at the functional or activity level;
- (c) Internal controls over information processing and information systems;
- (d) Segregation of duties throughout various end-to-end business segments;
- (e) Documentation and document retention; and
- (f) Inventory internal controls for vulnerable and valuable assets.

(2) Additionally, several DON MAUs serve as functional owners for end-to-end business segments, operations, and activities. These functional owners are responsible for the continuous improvement and implementation of internal controls related to their assigned function.

d. Information and Communication

(1) The DON MICP Office regularly provides MICP stakeholders with information on requirements, best practices, key upcoming dates, and current activities. Senior Management Council (SMC) and Senior Assessment Team (SAT) members are

provided with a targeted newsletter, at minimum quarterly, which will ensure members are kept informed on the DON's MICP activities and progress. Additionally, the DON MICP Office will maintain an information and communication repository, accessible by all MAU and BSO MICP stakeholders with Navy Marine Corps Intranet access.

(2) MICP coordinators will have access to frequent touchpoints with the DON MICP Office to increase open communication and personal attention, provided on an adhoc, as-requested basis.

(3) MICP Training Requirements and Resources

(a) In addition to its communication efforts, the DON MICP Office is responsible for issuing a MICP training curriculum, and providing the resources necessary to ensure MICP stakeholders, personnel, and ancillary personnel are properly trained to carry out their MICP duties.

(b) The DON MICP Office develops, maintains, and conducts instructor-led training sessions for the MICP training curriculum to ensure adequate knowledge and the ability to manage, oversee, and execute the DON MICP. As appropriate, training sessions will be made available online to accommodate MICP personnel who are unable to attend the training session(s) or who were appointed to their MICP posts off-cycle. The MICP online repository, maintained by the DON MICP Office, which also contains all required and supplemental MICP training sessions and resources, can be found on the DON SharePoint site at <https://portal.secnav.navy.mil/orgs/FMC/FMO/FMO-4/FMO-43/SitePages/Training%20and%20Communications.aspx>.

e. Monitoring. The DON MICP Office continuously monitors internal controls throughout the DON through various tools and methods, and has established a deficiency lifecycle to ensure the prompt remediation and proactive identification of deficiencies.

(1) Deficiency Lifecycle. The lifecycle of a deficiency and its corrective actions begins through the identification of an ineffective, non-compliant, or lacking internal control, and ends with the validated correction of the deficient or non-compliant internal control or the implementation of the lacking

internal control. For deficiencies deemed material, the validated correction is demonstrated via the completion of the deficiency's associated CAP. Deficiency identification and remediation is critical to ensuring the DON's internal controls are functioning correctly, and enables the DON to achieve its mission and objectives.

(2) The following is a detailed deficiency lifecycle:

(a) Deficiency Identification. Deficiencies are identified by both the DON MICP Office and all DON components. The reporting of any deficiencies identified is not a new requirement; managers at every level have always had an inherent responsibility to keep the next level of management informed of sensitive problems and issues as they are identified.

1. Deficiencies can be identified through multiple methods: internal controls self-assessments and testing; Certification Statement submission aggregation; and DON, DoD, GAO and independent public accountant inspections, examinations, and audits.

2. Internal controls testing is required of all DON MAUs and BSOs, the results of which are reported through annual certification statements. Additionally, the Office of Financial Operations and Office of Financial Policy and Systems perform DON-wide internal control testing on a continuous basis to ensure the effectiveness of internal controls.

3. Once a deficiency is identified, the deficiency and the evaluation process used must be documented with notification provided to the MICP coordinator if at the MAU or BSO level. The DON MICP Office will notify the SAT and SMC of any deficiencies identified which merit their attention and evaluation.

(b) Materiality Assessment

1. Once a deficiency is identified, a thorough Root Cause Analysis (RCA) should be performed to determine the deficiency's trigger. The more specific the root cause(s) identified is (are), the easier it will be to determine actionable steps to take to prevent the deficiency, and all other associated deficiencies, from reoccurring. Root cause

identification should be documented and retained. Based on the results of the RCA, a materiality assessment of a deficiency will be performed.

2. Materiality assessment will vary slightly, depending on whether the deficiency is believed to be at the DON level or MAU or BSO level. If the deficiency is at the MAU or BSO level, materiality should be assessed based on the impact on the MAU or BSO. The DON MICP Office will assess all Material Weakness (MW) and Significant Deficiency (SD) at the MAU or BSO level, which are reported via annual certification statements to evaluate whether the deficiency merits consideration as a DON MW or SD by the SAT and SMC.

3. The DON MICP Office will also evaluate other deficiencies identified through the various deficiency identification methods for DON-level MW or SD consideration with classification recommendations issued according to their assessed severity and impact level. The DON SAT will review all Internal Controls Over Financial Reporting (ICOFR) and Internal Controls Over Financial Systems (ICOFS) MW, SD, and non-conformance recommendations, and issue a recommendation to the SMC. The SMC will then make the final determination on DON-level deficiencies and their materiality levels. All possible Internal Control over Operation (ICO) MWs and SDs are reviewed directly by the SMC.

4. Materiality definitions are described in reference (a) for all ICO deficiencies. All ICOFR and ICOFS deficiencies should be assessed using the materiality criteria identified by the enclosure (10) paragraph 3.d.

(c) CAP Development

1. If the SMC confirms the existence of a new DON-level MW, SD, or non-conformance and agrees with the owning MAU or BSO recommendation issued by the DON MICP Office, a SAO will be appointed. The Under Secretary of the Navy (UNSECNAV), or designated Office of the Chief Management Officer (OCMO) official will appoint the SAO for ICO on DON-level MW or SD and the ASN (FM&C) will appoint an SAO for ICOFR and ICOFS DON-level MW or SD.

2. If the deficiency remains at the MAU or BSO level, the SAO will be appointed by the organization's management. In both circumstances, appointed SAOs will work with the deficiency identifier to confirm and validate the initial RCA performed prior to CAP development. Using the DON MICP CAP template, and through collaboration with all affected stakeholders, the SAO will develop milestones that address each identified root cause of the MW, SD, or non-conformance - direct, indirect, and contributing. Sub-milestones may be added, as necessary, for milestones that require the completion of several smaller actions. A target completion date for each CAP milestone is required.

(d) CAP Validation

1. Validation paths will be determined based on the nature and scope of the identified deficiency and will be selected via coordination of the owning MAU or BSO and the associated validation path organization. The DON MICP Office will serve as a facilitator for validation path agreement, updates, and completion. For DON-level MWs and SDs, final approval of the validation path must be obtained by the SMC. Specifically:

a. Validation planning, readiness, and initiation will be coordinated with the DON MICP Office and the selected validating entity;

b. Relevant audit and inspection reports or Notice of Finding and Recommendations will be considered to ensure corrective actions and artifacts adequately address or will address any related findings;

c. Substantial target date and milestone changes, or other delays that may affect CAP validation readiness should be immediately communicated to the DON MICP Office and the validating entity;

2. To ensure timely validation completion, requests for additional information, artifacts, or clarification by the DON MICP Office or the validating entity should be expedited by the SAO; and

3. The SAO will prepare and submit the

validation package at the onset of the validation process to both the DON MICP Office and the validating entity. The package will contain artifacts substantiating the completion of milestones and correction of the deficiency's root cause(s), which the validating entity will review as part of the validation process.

(e) CAP Reporting

1. For DON-level MWs, SDs, and non-conformances, CAP progress will be monitored by the DON MICP Office, Audit Committee, SMC, or SAT. SAOs will be required to provide status updates to the DON MICP Office on a monthly basis. Additionally, SAOs will be responsible for briefing CAP progress and status to the SAT and SMC monthly.

2. For MAU and BSO level MWs, SDs, and non-conformances, CAP progress will be monitored by the DON MICP Office via the review of annual certification statements, in addition to engagement discussions throughout the fiscal year.

(f) CAP Modification Process. For any modification to an implemented CAP, justification must be documented and provided to the appropriate authority. For a DON level MW, SD, or non-conformance, if the SAO should determine that a significant CAP modification is needed, formal notification to the DON MICP Office is required. For a MAU or BSO level MW, SD, or non-conformance, the SAO must provide notice of CAP modification to their organization's management. Modifications can often be documented within the current CAP template itself to meet CAP modification documentation requirements.

(g) Deficiency Status Changes. Upon validation completion via the approved validation path, a MW, SD, or non-conformance is reclassified and can either be closed or downgraded based upon the results of the validation.

1. Deficiency Closure. For any MW, SD, or non-conformance, whether at the DON, MAU, or BSO level, the deficiency is considered remediated not when all CAP milestones have been completed, but when validation results indicate the deficiency has been sufficiently corrected to the degree or level required to substantiate closure.

2. Deficiency Downgrading

a. A DON-, MAU-, or BSO-level deficiency can be downgraded to the next lower severity level based upon the validation results.

b. Downgrading is appropriate when validation results indicate that corrective actions do not suffice in remediating the entire deficiency to the degree or level required by the SMC or SAT for DON-level deficiencies, or management's judgement for MAU- or BSO-level deficiencies, but demonstrate sufficient remediation progress to substantiate a lower deficiency severity classification.

(h) Reporting. Monitoring efforts culminate with the compliance of reporting requirements, as outlined in enclosure (3).

(3) Annually, the DON MICP Office releases certification statement guidance for MAUs and BSOs to adhere to in order to comply with reporting requirements. Annual guidance on SOA submission and completion is released by the Office of the Secretary of Defense, which the DON MICP Office will adhere to in order to comply with reporting requirements.

MANAGERS' INTERNAL CONTROL REPORTING REQUIREMENTS

The DON MICP reporting period is from 1 October to 30 September. All requirements must be submitted via the approved templates as developed in coordination with MAUs and BSOs and provided by the DON MICP Office. The following requirements must be submitted on an annual basis.

1. MICP ICO, ICOFR, and ICOFS Certification Statements

a. Certification Statements are submitted in accordance with the annual Certification Statement call letter, following guidance issued within the annual Certification Statement Guidebook, by the prescribed deadline. The annual MICP Certification Statement details whether organizational internal controls could provide reasonable assurance that:

- (1) Programs achieved their intended results;
- (2) Resource use was consistent with the DON mission;
- (3) Programs and resources were protected from fraud, waste, and mismanagement;
- (4) Laws and regulations were followed; and
- (5) Reliable and timely information was obtained, maintained, reported, and used to guide decision-making.

b. The Certification Statement must take one of the following three forms:

- (1) An unmodified Certification Statement (reasonable assurance with no MWs reported);
- (2) A modified Certification Statement (reasonable assurance with the exception of one or more MWs noted); or
- (3) No assurance (no reasonable assurance because no assessments were conducted or the noted MWs are pervasive).

c. MAUs are required to submit an annual ICO MICP Certification Statement, signed by the head or principal deputy of the applicable MAU; and

d. BSOs are responsible for submitting an annual ICOFR and ICOFS MICP Certification Statement, signed, at a minimum, by the applicable BSO comptroller. BSOs will submit their ICO Certification Statements and supporting information to their commanding MAUs.

2. MICP Coordinator and Alternate appointment letters must be submitted within 30 days of appointment and should be validated annually.

3. MICP Plan

a. A MICP plan summarizes the organization's approach to implementing an effective and efficient MICP, and serves as the first resource MICP stakeholders reference to gain a thorough understanding of their organization's program. The MICP plan is to be kept current at all times, including any changes to the organization chart or MICP personnel.

b. An organization's MICP plan can be tailored to meet the formatting requirements of the organization, but must include and identify the following key elements to be effective:

(1) The organization's MICP governance leaders and personnel overseeing MICP implementation and communication, including the SMC member, the SAT member, MICP personnel, and ancillary personnel;

(2) An overview of the organization's MICP as related to the GAO components for internal control;

(3) A timeline for the completion of MICP activities set forth by each MAU and BSO;

(4) An inventory list and description of assessable units with an identified Assessable Unit Manager (AUM) for each;

(5) A description of risk assessment methodology;

(6) A description of internal control assessment methodology;

(7) A description of monitoring methodology for control activities;

(8) A list of completed and upcoming validation assessments, both as assigned by the DON MICP Office and by the organization's MICP coordinator;

(9) A process for documenting MICP accomplishments throughout the year;

(10) A list of currently owned MWs and SD at both the DON and organization level; and

(11) The MICP training plan outlining training requirements and efforts.

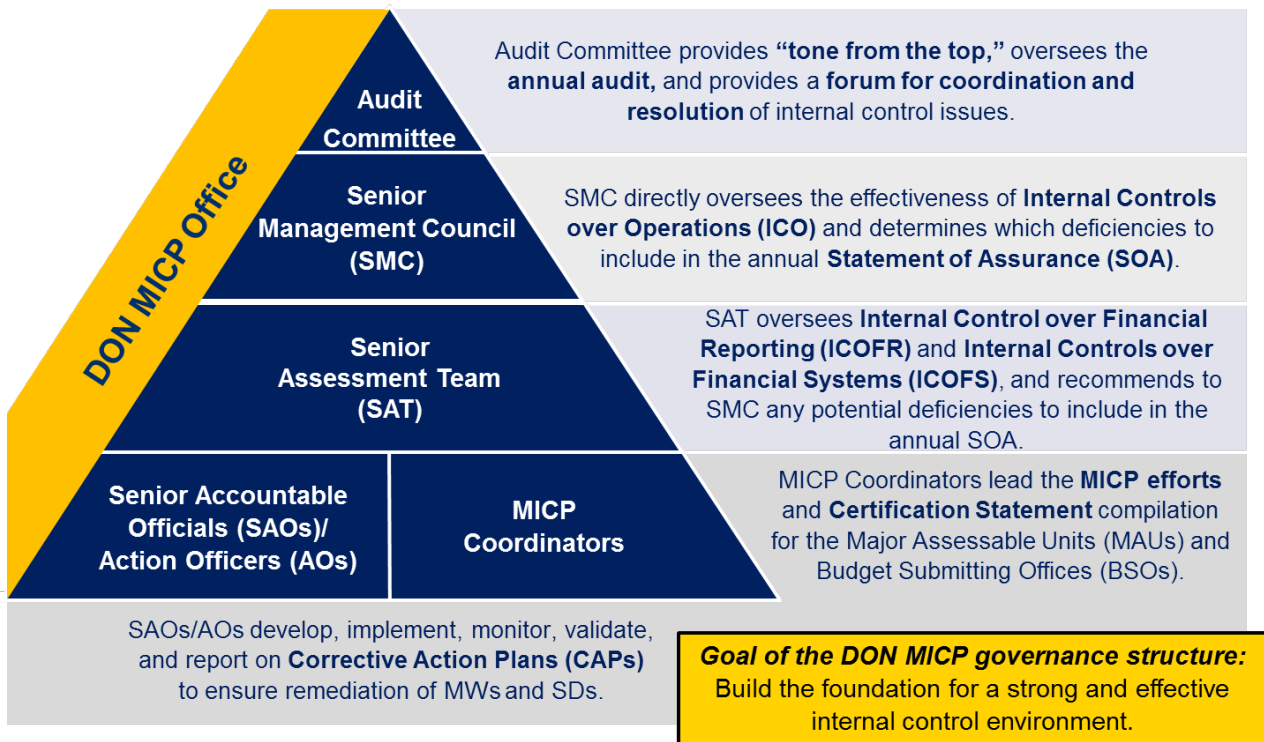
4. The MICP Training Status Form attests to the fiscal year training completion status for the organization's MICP personnel and ancillary personnel to demonstrate compliance with MICP training requirements.

5. Additional inputs to support the DON SAO, as needed.

DON INTERNAL CONTROL GOVERNANCE STRUCTURE

The DON internal control governance structure features three governing bodies: The Audit Committee; SMC; and SAT.

The figure below illustrates how these three governing bodies are supported by Senior Accountable Officials, Action Officers and MICP Coordinators to build the foundation for a strong and effective internal control environment.



1. Audit Committee

a. Established in June 2017, the Audit Committee is the DON’s oversight body for the annual audit of the DON’s financial statement, and assists with the enterprise resolution of obstacles to a clean audit opinion, as required by enclosure (10), paragraph 31. The Audit Committee broadly represents the DON’s senior-level functional expertise, providing comprehensive and dedicated oversight of the financial statement audit and a forum to discuss and resolve business process issues which impact financial reporting, accounting, and audit. The Audit Committee is chaired by the UNSECNAV.

b. In executing its duties and responsibilities, and to avoid duplication of effort, the Audit Committee may rely upon the internal control oversight functions of the SMC and SAT. The Audit Committee may call upon the SMC and SAT from time to time as needed to discuss audit progress, prioritization, key risks, and issues.

c. See enclosure (5) for chartered Audit Committee responsibilities, membership, and meeting frequency.

2. SMC

a. Established in 2016, the SMC oversees the DON MICP and advises the SECNAV, UNSECNAV, and ASN (FM&C) on matters concerning program implementation. The SMC is the governing body for the annual SOA, ICO processes, and the adjudicator for ICOFR and the ICOFS processes. The SMC is designed to ensure leadership participation and oversight across the DON's components.

b. See enclosure (6) for chartered SMC responsibilities, membership, and meeting frequency.

3. SAT

a. Established in 2016, the SAT is the governing body involved with ICOFR and ICOFS processes, and reports to the SMC at least quarterly. The SAT provides financial reporting and financial system senior management oversight, ensures accountability with respect to ICOFR and ICOFS, and assists in the management and implementation of a framework for ICOFR and ICOFS.

b. See enclosure (7) for chartered SAT responsibilities, membership, and meeting frequency.

4. MAU

a. A MAU is defined as any organizational, functional, programmatic, or other applicable subdivision of an organization to include military commands across all echelons throughout the DON that allows for adequate internal control analysis. AUs that report directly to the SECNAV or the UNSECNAV are designated as MAUs by the ASN (FM&C) or its designated senior

manager. The DON's MAUs are the components that make up the DON's significant programs, organizations, administrative activities, or functional subdivisions that perform entity-wide objectives. MAUs are often the organizations tasked as the accountable owners for an entire process within the DON, such as acquisitions, naval operations, financial management, etc. MAUs will include BSOs as their AUs, in addition to any other offices or sub-organizations that perform critical functions related to mission delivery. BSOs will also further segment themselves into sub-AUs following the same rationale employed by their MAUs.

b. The following are DON MAUs:

- (1) Assistant Secretary of the Navy (Energy, Installations & Environment) (ASN (EI&E));
- (2) ASN (FM&C);
- (3) Assistant Secretary of the Navy (Manpower & Reserve Affairs) (ASN (M&RA));
- (4) ASN (RD&A);
- (5) Chief of Information (CHINFO);
- (6) CMC;
- (7) CNO;
- (8) Deputy UNSECNAV (DUSN);
- (9) NAVAUDSVC;
- (10) NAVINSGEN;
- (11) Naval Criminal Investigative Service;
- (12) OCMO;
- (13) Office of the General Counsel;
- (14) Office of the Judge Advocate General;

(15) Office of Legislative Affairs;

(16) Office of Naval Research;

(17) Office of Small Business Programs (OSBP);

in addition to any other offices of the UNSECNAV, as designated by the UNSECNAV.

5. BSO

a. BSOs are those administering offices or commands responsible for preparation, compilation, and submission of budget estimates and supporting materials directly to ASN (FM&C) which will move up to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)), Office of Management and Budget (OMB), and Congress.

b. DON BSOs are as delineated and documented by ASN (FM&C).

DON AUDIT COMMITTEE CHARTER

1. Purpose. The purpose of this charter is to prescribe the roles and responsibilities of the DON Audit Committee as a complementary part of the DON internal control governance structure.

2. Background

a. Reference (f) requires the head of each executive agency to establish internal controls to provide reasonable assurance that: obligations and costs are in compliance with the applicable laws; property, funds, and other assets are safeguarded; and revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over assets.

b. Reference (j) requires the military departments to have financial management systems that substantially comply with the Federal Financial Management Systems requirements, standard General Ledger at the transaction level. Financial management systems shall have general and application controls in place in order to support management decisions by providing timely and reliable information.

c. Reference (a) provides guidance to all Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control. It defines management's responsibilities related to internal control and the process for assessing internal control effectiveness.

d. Reference (l) requires each DoD component to establish an audit committee.

3. Objectives. The objective of the Audit Committee is to establish audit requirements, identify contract deliverables, monitor the execution of contracts, and identify and assist with the resolution of obstacles to a clean opinion. The DON Audit Committee also shall provide a forum to discuss and resolve business process issues which tie to financial reporting, accounting and auditing issues,

4. Audit Committee Responsibilities

a. Audit Committee (General)

(1) Advise and consult with the DoD Inspector General (DoD IG) regarding their plan for the audit of the DON's financial statements, including the audit approach, auditor's responsibilities, and timelines for completing the DON audit.

(2) If the DoD IG contracts with an independent auditor to perform the audit, coordinate with the DoD IG to assist in overseeing selection and performance of an independent auditor, to include:

(a) Developing evaluation criteria used in contracting;

(b) Ensuring that auditor adheres to Government Auditing Standards;

(c) Reviewing audit contract deliverables and recommending acceptability to the contracting officer;

(d) Reviewing and providing alternatives to resolve any significant disagreements between the auditors and management;

(e) Evaluating the performance of the auditor.

(3) Review qualitative issues pertaining to the audit of the DON's financial reporting, including:

(a) Effectiveness of the control environment;

(b) Effectiveness of business processes;

(c) Significant accounting issues and policies over acquisitions, property, and accounting;

(d) Management's judgments and estimates used;

(e) Indicators of fraudulent financial reporting or misappropriation of assets;

(f) Audit adjustments;

(g) Disagreements between the auditors and management; and

(h) Any other difficulties the independent auditor encountered in performing the audit.

(4) Review audit results with the independent auditor including recommendations, management responses, and progress in implementing corrective actions.

(5) Advise management and DoD IG of any disclosed relationships or services that may impact the objectivity and independence of contracted financial statement auditors.

(6) Consult with the SECNAV regarding any significant issues or developments that the Committee determines warrant the DON's immediate attention and/or action.

b. Audit Committee (Financial Reporting)

(1) Review with leadership the financial statements and consider whether they are complete and consistent with public information and DON records.

(2) Review with leadership other sections of the Annual Financial Statement or Performance and Accountability Report and consider the accuracy, consistency and completeness of the information.

(3) Review plans and progress for the improvement of financial management processes and systems.

(4) Review financial results and performance measures to evaluate progress in achieving financial management objectives and identify areas of risk or concern.

(5) Sign the Management Representation letter.

c. Audit Committee (Internal Controls)

(1) Review DON process for assessing the effectiveness of internal controls, the adequacy of management's assessment, and

the progress in resolving material weaknesses, audit follow up actions, and other management challenges and control issues.

(2) Evaluate the reasonableness of proposed actions and timelines for correcting material weaknesses.

(3) Review major changes to the DON's accounting principles and practices as suggested by leadership or the independent auditor.

5. Audit Committee Membership

a. Chairman. The DON Audit Committee will be chaired by the UNSECNAV.

b. Members. In addition to the Committee Chairman, the Vice CNO, the Assistant CMC, and the Senior Executive Staff and/or Flag Officer representatives from the following organizations shall have a voting membership:

- (1) ASN (FM&C);
- (2) ASN (EI&E);
- (3) ASN (M&RA);
- (4) ASN (RD&A);
- (5) Office of the General Counsel;
- (6) Office of the Auditor General; and
- (7) CHINFO.

c. Advisors (Non-voting). Non-voting membership of the DON Audit Committee shall be represented by Senior Executive Staff and/or Flag Officers from the following organizations:

- (1) DUSN;
- (2) Office of the CNO (N4 and N8);
- (3) Deputy CMC (Programs and Resources);

- (4) Director, OCMO;
- (5) DON CIO;
- (6) Director Marine Corps Staff;
- (7) Director Navy Staff;
- (8) OSBP;
- (9) DASN (FO);
- (10) DASN FMP;
- (11) OUSD(C) / Chief Financial Officer;
- (12) DoD IG;
- (13) Defense Finance and Accounting Service (DFAS).

Note: OUSD(C), DoD IG, and DFAS will be invited as necessary by the Chairman.

d. In addition, other senior DON officials in appropriate business areas may be invited to participate as non-voting members as required by the Chairman.

e. The DASN (FO) will serve as the Executive Secretary of the Audit Committee. DASN (FO) staff will provide full administrative and technical support to the committee. DASN (FO) will maintain minutes to serve as a record for audit.

f. To better fulfill its duties and responsibilities, the Audit Committee may establish working groups and subcommittees as necessary to support the Audit Committee in its oversight role, and to function as a Command-level decision making body.

g. Meetings

- (1) The Chairman will:
 - (a) Preside at meetings; and
 - (b) Approve the agenda and minutes for each meeting.

(2) At a minimum, the Audit Committee will meet quarterly. The frequency of meetings and additional committee meetings outside of the meeting schedule will be determined by the Chairman.

(3) The Audit Committee Chairman may establish sub-committees as required.

(4) Any Audit Committee member, by contacting the Executive Secretary of the Audit Committee, may request a special meeting or a specific session whenever issues warrant. The Chairman need not be present but the minutes of the meeting should be shared with the Committee leadership to ensure unity of effort.

(5) A simple majority is necessary to decide the outcome of any vote at an Audit Committee meeting.

(6) The DASN(FO)'s shall prepare minutes of their meetings. The minutes should identify the topics discussed at the meetings rather than attempt to include detailed summaries. Enough information should be recorded, however, to establish that the Audit Committee sought the information it deemed relevant, reviewed the information it received and otherwise engaged in whatever actions and discussions it deemed appropriate in light of the then-known facts and circumstances. The Audit Committee will communicate its decisions to all relevant stakeholders, assign Office of Primary Responsibilities with deadlines and ensure appropriate follow-up for all actions.

6. SMC and SAT. Enclosure (6) and enclosure (7) provide the roles and responsibilities of the SMC and the SAT.

a. Assistance from the SMC and SAT:

(1) In executing its duties and responsibilities, and to avoid duplication of effort, the Audit Committee may rely upon the internal control oversight functions of the SMC and SAT.

(2) The Audit Committee may call upon the SMC and SAT from time to time as needed to discuss audit progress, prioritization, key risks, and issues.

DON SENIOR MANAGEMENT COUNCIL CHARTER

1. Purpose. The purpose of this charter is to identify the responsibilities, membership, and meeting frequency of the DON SMC.

2. Background

a. The FMFIA requires the head of each executive agency to establish internal controls to provide reasonable assurance that:

(1) Obligations and costs comply with applicable laws;

(2) Property and funds are safeguarded; and

(3) Programs are efficiently and effectively carried out according to applicable law.

b. References (a) and (d) direct agency heads to establish a SMC to ensure senior leader participation and oversight of internal controls.

3. Objectives. The DON SMC serves as the central focal point for oversight of DON compliance with reference (a). The DON SMC has the governance role to recommend to the SECNAV which non-operating deficiencies will be reported in the annual DON SOA. The DON SMC has the responsibility to ensure the DON achieves the following objectives for internal controls:

a. Effectiveness and efficiency of operations;

b. Reliability of reporting for internal and external use;
and

c. Compliance with laws and regulations.

4. Governing Council Affiliation. The DON SMC oversees the DON SAT. The SAT will periodically, no less than quarterly, report to the SMC on the effectiveness of the DON's ICOFR and ICOFS. In addition, the SMC will periodically, no less than quarterly, report to the Audit Committee on the effectiveness of the DON's ICO, ICOFR, and ICOFS.

5. Responsibilities. The SMC will:

- a. Oversee the MICP, and advise the SECNAV and the ASN (FM&C) on matters concerning program implementation;
- b. Monitor, validate, and provide recommendations on the effectiveness of ICO, ICOFR, and ICOFS programs to the DON's Audit Committee;
- c. Identify deficiencies that merit reporting in the DON SOA;
- d. Oversee the risk management process related to operations including identification and assessment of risks, and the development of appropriate, risk-based internal controls;
- e. Oversee and confirm that DON MAUs conduct annual control and risk assessments to identify key internal control objectives to support their chartered functional responsibility;
- f. Advocate and educate business process leaders within their organization regarding how financial statement audit issues affect their functional processes; ensuring their awareness, understanding, coordination, and involvement in audit finding remediation and internal control testing and compliance;
- g. Ensure organizations that are responsible and accountable for annual audit results monitor, test, and correct business processes and systems under their purview, as necessary;
- h. Designate ICO MW, SD, or items to be revisited;
- i. Monitor and review the implementation of corrective actions to ensure they are accurate and timely;
- j. Reference the DON ICO validation process to determine when sufficient action has been taken to verify that a MW or SD has achieved a validation milestone or merits downgrading and/or reclassification;
- k. Report results for implementation of corrective actions to ASN (FM&C); and

1. Receive MW and SD corrective action plan updates from Senior Accountable Officials, their representatives, or both.

6. Membership

a. The DON SMC will be co-chaired by the ASN (FM&C) and the Director, OCMO, or their designated Senior Executive Service representatives.

b. The NAVINSGEN will periodically, no less than quarterly, report to the SMC on control related accomplishments and deficiencies identified during the conduct of inspections.

c. The Auditor General (AUDGEN) of the Navy will serve as an independent advisor to the Council and will provide awareness on existing pertinent audits relevant to the Council's mission.

d. Either Senior Executive Service members or equivalent, or a flag or general military officer, from the MAUs identified per enclosure (4), will serve as official members of the SMC and attend periodic meetings (exceptions must be addressed to the SMC co-chairs).

e. MAU representatives must have expertise in their organization's functional responsibility and internal control processes, and the ability to improve internal control processes. Representatives are expected to brief their principal on SMC discussions, deliverables and outcomes prior to Audit Committee meetings.

f. Other senior DON officials in appropriate business areas may be invited to participate as required by the SMC co-chairs.

7. Meetings

- a. The co-chairs will:
- (1) Preside at meetings;
 - (2) Approve the agenda and minutes for each meeting; and
 - (3) Periodically report progress to the SECNAV via the ASN (FM&C).

b. At a minimum, the DON SMC will meet quarterly each year. A roll call will be made to establish a quorum.

c. A meeting will be held at the beginning of each fiscal year to issue guidance on internal control processes and determine focus areas for ICO.

d. Meetings will include reviews of progress in correcting previously reported DON-level MWS or SDs, discussions related to risk, additional internal control deficiencies that could merit reporting as DON MWS or SDs, and other matters that enable proper internal control oversight.

e. A meeting will be held before the SECNAV's annual SOA is submitted for approval and signature. This meeting will serve to:

(1) Conduct a final corporate review of the proposed DON statement; and

(2) Resolve any other issues.

8. Duration

a. The DON SMC will remain in existence indefinitely unless cancelled by charter revocation.

b. Revisions of the charter, including those required based on policy guidance, will be made as needed.

DON SENIOR ASSESSMENT TEAM CHARTER

1. Purpose. The purpose of this charter is to establish the DON SAT and set forth responsibilities, membership, meeting frequency, and duration.

2. Background

a. Reference (e) requires the head of each executive agency to establish internal controls to provide reasonable assurance that:

(1) Obligations and costs comply with applicable laws;

(2) Property, funds, and other assets are safeguarded;

and

(3) Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial reports and to maintain accountability over assets.

b. Reference (g) requires agencies to have financial management systems that substantially comply with the Federal Financial Management Systems requirements, standards promulgated by the Federal Accounting Standards Advisory Board, and the United States Standard General Ledger at the transaction level. Financial management systems must have general and application controls in place to support management decisions by providing timely and reliable data.

c. References (a) and (d) outline that agency heads should establish a SAT to ensure senior leader participation and oversight for financial reporting and financial systems.

3. Objectives. The DON SAT serves as the central focal point for programs involved with financial reporting and systems deficiencies. The DON SAT has the governance role to recommend to the DON's SMC which financial reporting and financial systems deficiencies will be reported in the annual DON SOA. The DON SAT has the responsibility to ensure the DON achieves the following objectives for internal controls:

- a. Effectiveness and efficiency of operations;
- b. Reliability of reporting for internal and external use;
and
- c. Compliance with laws and regulations.

4. Governing Council Affiliation. The DON SAT is subordinate to the DON SMC. The SAT will periodically, no less than quarterly, report to the SMC on the effectiveness of the DON ICOFR and ICOFS.

5. Responsibilities. The SAT will:

- a. Provide senior management oversight and ensure accountability with respect to DON ICOFR and ICOFS;
- b. Monitor, validate, and provide recommendations on the effectiveness of ICOFR and ICOFS programs to the ASN (FM&C) through the SMC;
- c. Emphasize an enterprise-wide culture that yields a robust internal control environment that produces timely, accurate, and reliable financial reporting;
- d. Oversee the risk management process related to financial reporting and financial systems, including identification and assessment of risks and the development of appropriate risk-based internal controls;
- e. Advocate and educate business process leaders within their organization regarding how functional processes affect the financials; ensuring their awareness, understanding, coordination, and involvement in audit finding remediation and internal control testing and compliance;
- f. Ensure organizations responsible and accountable for annual audit results monitor, test, and correct business processes and systems under their purview, as necessary;
- g. Ensure objectives of financial reporting and financial systems assessments are clearly communicated throughout the DON;

- h. Designate ICOFR and ICOFS MW, SD, or items to be revisited;
- i. Monitor and review the implementation of corrective actions to ensure they are accurate and timely;
- j. Reference the DON ICOFR and ICOFS validation process to determine when sufficient action has been taken to verify that a MW or SD has achieved a validation milestone or merits downgrading, reclassification, or both;
- k. Report results for implementation of corrective actions to ASN (FM&C) through the SMC for inclusion in the SOA; and
- l. Receive MW and SD corrective action plan updates from Senior Accountable Officials, their representatives, or both.

6. Membership

- a. Co-Chairs: The DON SAT will be co-chaired by the DASN (FO) and Deputy Assistant Secretary of the Navy, FMP or their designated Senior Executive Service representatives.
- b. Members: Comptrollers (senior financial manager and advisor to the service chief, commander, or commanding officer) from BSOs designated by ASN (FM&C), per enclosure (4), will serve as members of the SAT.
- c. Representatives in appropriate business areas will participate as non-voting members on an as-needed basis. These representatives include:
 - (1) Assistant Secretary of the Navy (Research, Development, and Acquisition);
 - (2) Assistant Secretary of the Navy (Manpower and Reserve Affairs);
 - (3) Chief of Naval Operations;
 - (4) Naval Audit Service;
 - (5) Naval Inspector General;

- (6) Office of General Counsel;
- (7) DON Chief Information Officer;
- (8) Defense Finance and Accounting Services; and
- (9) ASN(FM&C) - Office of Budget.

d. In addition, other senior DON officials in appropriate business areas may be invited to participate as required by the co-chairs.

7. Meetings

a. The co-chairs will:

- (1) Preside at meetings;
- (2) Approve the agenda and minutes for each meeting; and
- (3) Periodically report progress to ASN (FM&C) through the SMC.

b. At a minimum, the DON SAT will meet quarterly each year. Meeting frequency will be determined by the SAT co-chairs.

c. At the first meeting of each fiscal year, the SAT will issue guidance on financial reporting and financial systems processes while determining focus areas.

d. Meetings will include reviews of progress in correcting previously reported DON-level MWs and SDs, discussions related to risk, additional financial reporting and financial systems deficiencies that could merit reporting as DON MWs or SDs, and other matters that enable proper internal control oversight.

e. A meeting will be held before the annual DON SOA is submitted to the SECNAV for review and signature. This meeting will serve to:

- (1) Conduct a final corporate review of the proposed DON IFCOR and ICOFS assurance statements; and
- (2) Resolve any outstanding issues.

8. Duration

a. The DON SAT will remain in existence indefinitely unless cancelled by charter revocation.

b. Revisions of the charter, including those required based on policy guidance, will be made as needed.

MANAGERS' INTERNAL CONTROL ROLES AND RESPONSIBILITIES

All DON organizations will focus reporting on internal controls associated with their assigned chartered functional responsibilities. Responsibilities for those organizations that constitute the Secretariat are addressed in reference (k).

The following additional responsibilities are assigned:

1. Under Secretary of the Navy (UNSECNAV)

a. Per reference (k), the UNSECNAV is the DON's Chief Management Officer (CMO) responsible for the oversight of the DON's operational internal control environment and reporting, and internal control governance structure. The UNSECNAV or designated senior manager will:

(1) Develop and oversee the governance and implementation of the DON's ERM framework and annual risk profile for submission to the Office of the Secretary of Defense CMO;

(2) Chair the DON's Audit Committee to carry out the duties and responsibilities outlined in enclosure (6);

(3) Appoint a designated Office of the Chief Management Officer (OCMO) senior level director, in writing, to co-chair the Senior Management Council (SMC) with the Assistant Secretary of the Navy (Financial Management & Comptroller) (ASN (FM&C)) or ASN (FM&C) designee;

(4) Lead, implement and maintain a MICP that includes Internal Controls over Operations (ICO) to support non-financial, operational, and administrative controlled functions;

(5) Appoint a MAU Senior Accountable Official (SAO), in writing, using the specified template, for each identified ICO MW and Significant Deficiency (SD), and sign their appointment letter. The template is located at <https://portal.secnav.navy.mil/orgs/FMC/FMO/FMO-4/FMO-43/SitePages/Governance.aspx>;

(6) Monitor, track, and require quarterly updates to the SMC and Senior Assessment Team (SAT) from the appropriate SAO, MICP Coordinator, or both on the status of MWS or SDs for ICO.

2. ASN (FM&C)

a. Per reference (k), the ASN (FM&C) is the SECNAV's principal financial advisor, assigned functional responsibility for DON-wide Financial Statement audit remediation effort, and is responsible for all matters related to FM and comptrollership within the DON, including preparation of the annual SOA required by reference (a). The ASN (FM&C) or designated senior manager will:

(1) Develop policies and procedures that emphasize the prevention and correction of fraud, waste, or mismanagement, while eliminating duplication in the collection and assessment of performance data;

(2) Issue applicable guidance and assign adequate resources to ensure policy provisions are implemented per this instruction;

(3) Develop and maintain policies and procedures for the appropriate use of business operations and programs consistent with the requirements of references (a), (c), (d), and (f);

(4) Implement and maintain a MICP that encompasses the following distinct assessments and reporting processes:

(a) ICOFR to support reference (a); and

(b) Internal Controls over Financial Systems (ICOFS) to support enclosure (10), paragraphs 2b and 3k to evaluate the DON's identified systems of record.

(5) Establish and maintain the SMC to carry out the duties and responsibilities outlined in enclosure (6);

(6) Establish and maintain the SAT as a subset to the SMC, to carry out the duties and responsibilities outlined in enclosure (7);

(7) Designate MAUs and BSOs whose representatives will staff the SMC and SAT, respectively;

(8) Appoint an SAO, in writing, using the specified template, for each identified ICOFR and ICOFS MW and SD, signed by the Deputy Assistant Secretary of the Navy (Financial Operations) (DASN(FO));

(9) Monitor, track, and require quarterly updates to the SMC and SAT from the appropriate SAO, MICP Coordinator, or both on the status of MWs or SDs for ICOFR, and ICOFS;

(10) Prepare and submit the annual DON SOA, signed by the SECNAV or designated appointee, to the Secretary of Defense. The DON SOA will certify to the level of assurance as outlined in reference (d), and the DoD MICP Annual Guidance for:

- (a) ICO Process;
- (b) ICOFR Process;
- (c) ICOFS Process; and
- (d) Internal Controls over Acquisition Functions.

(11) Maintain and submit ICO, ICOFR, and ICOFS documentation to the Office of the Under Secretary of Defense (Comptroller) (OUSD(C)) as outlined in the DoD MICP Annual Guidance - SOA on the effectiveness of ICO, ICOFR, and ICOFS.

3. Audit Committee. The Audit Committee will:

a. Review DON processes for assessing the effectiveness of internal controls, the adequacy of management's assessment, and the progress in resolving MWs, audit follow-up actions, and other management challenges and internal control issues;

b. Evaluate and monitor CAPs to ensure MW and NFR corrective actions are reasonable, timely, and sufficient to complete remediation;

c. Remove barriers to ensure the complete remediation of MW and Notice of Findings and Recommendations CAPs;

d. Advise and consult with the DoDIG and oversee the selection and performance of an independent auditor when the auditing entity is not the DoDIG;

e. Oversee and coordinate on the DON's financial activities, including the annual budget and the full spectrum of financial reporting policies and processes; and

4. Auditor General of the Navy (AUDGEN). The AUDGEN will:

a. Serve as the focal point for internal audit policy, as it relates to this program and, during internal audits, evaluate the adequacy and effectiveness of internal controls in preventing or detecting fraud, waste, or other related improprieties in a timely manner;

b. Disclose any non-compliance with this instruction;

c. Identify, summarize, and report quarterly to ASN (FM&C) any internal control-related deficiencies detected during internal audits, and determine obstacles to resolving identified deficiencies;

d. In conjunction with the DON MICP Office, serve as an advisor to SAOs for ICO MWs and SDs during CAP development;

e. Perform independent reviews of ICO MWs and SDs to validate through remediation; and

f. Annually develop the DON's Risk and Opportunity Assessment (ROA) through a survey of risks and areas for improvement across all DON MAUs, BSOs, and other components.

5. Naval Inspector General (NAVINGEN). NAVINGEN will:

a. Evaluate and disclose compliance with this instruction;

b. Coordinate the DON Inspection Program to assess organizational procedures used to provide reasonable assurance that program internal controls detect and eliminate the potential for fraud, waste, inefficiency, or related improprieties over an extended period (i.e. the period between inspections);

c. Identify and summarize deficiencies, impediments in resolving deficiencies discovered during command inspections and area visits; or control-related best practices; and

d. Revise plans in coordination with AUDGEN as necessary, to ensure compatibility with the goals of this program and to eliminate duplication in collecting and assessing performance data.

6. DON Chief Information Officer (CIO). The DON CIO supports DON-wide adherence with IT and security internal control requirements issued in enclosure (10), paragraphs 2c and 3k. Quarterly, the DON CIO will coordinate with ASN (FM&C) and other DON leadership on IT and information security controls and report on any significant risk management deficiencies at the DON component level, per enclosure (10), paragraph 2c. The DON CIO will submit FISMA reports to the Office of DoD CMO on behalf of the DON. The submitted FISMA reports are consolidated by DoD CMO to support development of an overall DoD FISMA report for the Office of Management and Budget (OMB) and Congress.

7. Assistant Secretary of the Navy (Research, Development and Acquisition) (ASN (RD&A)). The ASN (RD&A) or senior manager will:

a. Develop and maintain policies and procedures consistent with the requirements of enclosure (10) paragraph 3.g for the appropriate use of government purchase cards, with the exception of travel cards;

b. Ensure Program Executive Officers and Direct Reporting Program Managers have a clear chain of command for reporting deficiencies within the scope of their mission and for establishing milestones for planned corrective actions;

c. Review the DON Assessment of Internal Controls over Acquisition Functions Template outlined in the statutory requirements of enclosure (10), paragraph 3b, 3i, and 3p to determine if any new deficiencies exist. MWs and SDs will be reported in the annual ASN (RD&A) Certification Statement; and

d. Provide a separate attachment to the ASN (RD&A) Certification Statement describing how the annual review was conducted, including any significant findings, to ASN (FM&C) for inclusion in the annual DON SOA.

8. MAUs and BSOs. DON MAUs, BSOs, and their immediate subordinate organizations, in addition to their chartered functional responsibilities and administrative duties, must fulfill designated MICP obligations, including:

a. Establish internal control policy outlining guidance for subordinate activities to meet the intent of the statutory and regulatory requirements described in references (a), (c), (d), and the statutory requirements of enclosure (10), paragraph 2d;

b. Oversee and perform risk assessments, control assessments, and self-assessments through the use of tools, ensuring high risk Assessable Units (AU) are periodically assessed and that reporting follows the assessment methodology provided in reference (a), Appendix A (e.g. templates for risk assessment and internal control assessment);

c. DON-level MAUs and BSOs will appoint a full time MAU or BSO MICP Coordinator and alternate, in writing, utilizing the appointment letter template located at: <https://portal.secnav.navy.mil/orgs/FMC/FMO/FMO-4/FMO-43/SitePages/Governance.aspx>. Immediate subordinate organizations should also appoint MICP Coordinator and alternate, in writing, that maybe full time depending on the program requirements. The MICP Coordinator for the organization must be a government civilian or military member;

d. Establish a positive control environment by involving all managers, military and civilian, throughout every organization under their oversight, and advocate accountability for establishing, evaluating, and improving controls in all areas of business practice;

e. Maintain an effective follow-up mechanism to ensure acceptable performance, and prompt correction of identified deficiencies;

(1) MAUs must proactively track any ICO uncorrected deficiencies identified in prior periods; and

(2) BSOs must proactively track any ICOFR or ICOFS uncorrected deficiencies identified in prior periods.

f. Initiate corrective actions consistent with laws, regulations, and administrative policy when control deficiencies escalate to the level of MW or SD;

g. Designate an Assessable Unit Manager (AUM) for each AU. The AUM will be an individual at the division, department, or director level who understands the daily operations;

h. Review corrective actions, findings, and recommendations of external audits (e.g. Naval Audit Service (NAVAUDSVC), GAO, DoDIG from current year and prior years;

i. Establish a MICP annual training plan and requirements for their MICP Coordinators, Alternates, and ancillary MICP personnel to support the completion of MICP objectives;

(1) Designate requirements for the attendance of DON MICP Office instructor-led trainings, as applicable;

(2) Notify MAU and BSO MICP Coordinators of MICP training opportunities to ensure all training requirements are satisfied; and

(3) Provide training opportunities to immediate subordinate commands.

j. Maintain adequate and accurate supporting documentation for all reporting requirements to support sustainment;

k. Dedicate adequate resources to ensure compliance with the annual MICP reporting requirements as outlined in enclosure (3);

l. Provide annual guidance to applicable subordinate organizations for input requirements to meet annual reporting requirements specified in enclosure (3); and

m. Ensure MICP responsibilities and effective MICP performance and execution are incorporated into performance appraisals or military fitness reports and evaluations for MICP and ancillary personnel. MICP personnel and ancillary personnel

are defined as those appointed to the following posts: MICP Coordinator; MICP Alternate; AUM; SAO; and Action Officer (AO).

9. MICP Coordinators and Alternates

a. MICP Coordinators and Alternates are the primary liaisons between their organization and the DON MICP Office and are the responsible parties for oversight, administration, and coordination of their organization's MICP and its reporting requirements as specified by enclosure (10), paragraph 2a.

b. MICP Coordinator and Alternate appointments are valid until rescinded by their MAU, BSO, or subordinate organization's determination. MICP Coordinators and Alternates appointed off-cycle must complete the DON MICP training course located at <https://portal.secnav.navy.mil/orgs/FMC/FMO/FMO-4/FMO-43/SitePages/MICP%20Overview.aspx> within 30 calendar days of appointment, and adhere to training sustainment requirements per the MICP curriculum.

c. MICP Coordinators and Alternates are tasked with performing the following:

(1) Facilitate the implementation of an effective governance process to establish and maintain compliance;

(2) Identify best business practices within their MAU or BSO and issue recommendations to their AUMs on internal control, documentation, and best practices;

(3) Develop and maintain their organization's annual MICP plan by 1 October that captures the MICP reporting period from 1 October to 30 September. The MICP plan must be signed by the organization head, commander, or designated official and include a current AU inventory list with AUMs identified by name and billet;

(4) Identify internal control objectives in coordination with the commanders, directors, or AUMs within their organization and based on their risk assessments;

(5) Perform regular self-assessments of AUs and core functions and operations;

(6) Identify deficiencies based on evaluations conducted;

(7) Assist AUMs in determining if an identified control finding is a MW, SD, or control deficiency;

(8) Monitor and track CAPs developed by organization SAOs, including milestones to correct deficiencies;

(9) Maintain MICP documentation, including the organization's MICP plan, risk assessments, control activities and assessments, CAPs, certification statements, and other key documentation such as process narratives, flow charts, organizational charts, quarterly CAP status documents, etc.;

(10) Obtain and review findings and recommendations of internal and external audits that impact their organization;

(11) Ensure identified efficiencies, best practices, or deficiencies are shared across the AUs within each component and with the DON MICP Office and ASN (FM&C);

(12) Compile, complete, and submit their MAU's or BSO's reporting requirements as stated in enclosure (3); and

(13) Ensure their alternate has completed required MICP trainings necessary for their post, are able to support the coordinator in fulfilling the outlined responsibilities, and serve as a proxy for the coordinator, if necessary.

10. AUM

a. AUMs are military members or civilians serving in leadership positions that serve as the process-level managers of AUs. AUMs are appointed by the AU's commander, commanding officer, or designated appointee.

b. AUMs are tasked with performing the following responsibilities and functions:

(1) Support their MAU and BSO MICP Coordinator in fulfilling MICP requirements by serving as the subject matter expert on their AU;

(2) Appoint and be supported by an Assessable Unit Representative (AUR);

(a) AURs are individuals at the department level who will support all AUM duties; and

(b) Will communicate regularly with the appropriate MICP Coordinator.

(3) Manage the processes within their AU's purview;

(4) Assess risks that may adversely affect their AU's mission or operations;

(5) Identify internal control objectives that support the AU;

(6) Assess the level of risk (risk appetite and tolerance) their organization can absorb due to a control failure or gap;

(7) Document operational, administrative, system, and financial internal controls and business processes;

(8) Review processes and procedures to provide recommendations for the enhancement, elimination, or implementation of the AU's internal controls;

(9) Test the effectiveness of the internal controls;

(10) Identify and classify internal control deficiencies according to established reporting categories;

(11) Notify and report on identified internal control deficiencies which merit the attention of superiors for remediation; and

(12) Develop, implement, track, and report on corrective actions designed to remediate identified internal control deficiencies within their AU.

11. SAO

a. SAOs are Senior Executive Service-level members or equivalent, and are appointed for every identified MW or SD, regardless of whether it is a DON-wide or organization-level deficiency. An SAO's appointment is valid until the appointed MW or SD is fully remediated (i.e. the deficiency no longer exists), or until rescinded by determination of the owning MAU, BSO, or subordinate organization's management. Full remediation of all DON-wide deficiencies will be evidenced by a SMC vote to close the deficiency.

b. SAOs are responsible for monitoring the effectiveness of internal controls throughout the year to ensure prompt and effective actions are taken to correct their specific MW or SD.

c. As part of their appointment, SAOs of DON-wide deficiencies are required to perform the following duties for each assigned MW or SD:

(1) Identify AOs with the appropriate knowledge and skills necessary to assist with deficiency closure;

(2) Delegate CAP development and adjudication of any identified challenges to deficiency closure to the appropriate AO;

(3) Initiate and track corrective actions that are consistent with laws, regulations, and administrative policy to ensure prompt resolution by the projected completion date, using the NAVAUDSVC as an advisor;

(4) Coordinate with their MAU or BSO MICP Coordinator, ensuring they are aware of developments in the remediation of the deficiencies;

(5) Provide written quarterly updates to the DON MICP Office;

(6) Provide verbal status updates, as required:

(a) To the SMC at quarterly SMC meetings for ICOFR, ICOFS, and ICO; and

(b) To the SAT at quarterly SAT meetings for ICOFR and ICOFS;

(7) Provide presentation materials, including artifacts, to the DON MICP Office no later than 21 calendar days prior to each meeting to support written and verbal updates;

(8) Provide a comprehensive update to the governing bodies within two quarters of the CAP nearing completion;

(9) Participate in SAO working groups;

(10) Participate in external testing and validation; and

(11) Present testing and validation results to the SMC for adjudication.

12. AO

a. AOs serve as the process-level support for SAOs.

b. AOs must perform the following tasks to support their SAOs in deficiency closure:

(1) Understand the challenge remediation may have on the current work force and efficiencies that can be gained;

(2) Collaborate with SAOs and the DON MICP Office to support the adequate tracking of CAP operational impacts, outcomes, and gaps to ensure successful mitigation is achieved;

(3) Draft initial assessments that reflect the major stakeholders, resource requirements, resource challenges, milestones, and other key issues that may affect remediation efforts;

(4) Develop plans to address and coordinate resource requirements with MAUs, BSOs or their subordinate organizations, program managers, resource sponsors, or outside stakeholders such as the ASN (FM&C) or Office of the Secretary of Defense during budget and program builds;

(5) Empower collaborating stakeholders to reach consensus on all issues;

(6) Coordinate with the SAO, the responsible stakeholders, or both to develop, initiate, and complete a CAP;

(7) Provide and brief status updates regarding remediation efforts to the SAO working groups and the DON MICP Office; and

(8) Monitor and escalate risks and issues early in and throughout the remediation process to relevant stakeholders, including the DON MICP Office.

DEFINITIONS

1. Action Officer (AO). An AO is identified by a SAO to serve as their process-level support and assist them in the remediation of an assigned deficiency. AOs should be a government civilian or military service member.
2. Annual Oversight Plan. The Annual Oversight Plan is guided by the ROA process and includes audits, inspections, special studies, and other oversight functions for the DON. The plan is reviewed and approved by the Oversight Planning Board.
3. AU. Any organization, function, program, or subdivision to include military commands across all echelons throughout the DON, capable of being evaluated by management, internal controls assessment procedures, or both:
 - a. Evaluating an AU is a systematic approach to address potential risk areas that reside within the organization's Departmental mission and objectives. It is the distinct segmentation of an organization into functional subcomponents that enables leadership to effectively evaluate the potential risk of internal control deficiencies. The evaluation and assessment of an identified AU ensures key deficiencies are detected to prevent fraud, waste, and mismanagement.
 - b. Each AU is required to have an assigned AUM who is properly trained to conduct risk and control assessments of its daily and primary operations. An AU's scope must be clearly defined and identifiable to a specific responsible AUM. The AU must be reasonable in size, to adequately assess internal controls, but not so large that deficiencies are undetected and impact the mission. The population of AUs should cover the scope and mission of the entire organization. Aligning AUs to an organizational chart and process flow is a method to ensure the breadth of the organization is addressed in its entirety. In most instances, each AU should be able to function independently.
4. AUM. The AUM must be a military member or civilian serving in a leadership position with the knowledge of daily operations of an AU, MAU, or BSO. The AUM is appointed by the commander, commanding officer, or designated appointee. AUMs serve as the action-level managers of AUs who support MICP Coordinators in

fulfilling MICP requirements and oversee the processes within their AU's purview.

5. AUR. The AUR must be a military member or civilian serving within an organization supporting the efforts of an AUM. The AUR is appointed by an AUM, and supports all AU activities. The AUR communicates regularly with the appropriate subordinate command's MICP Coordinators.

6. BSO. BSOs are those administering offices or commands responsible for preparation, compilation, and submission of budget estimates and supporting materials directly to ASN (FM&C) which will move up to the OUSD(C), OMB, and Congress.

7. Business Process Operations. The activities, processes, functions, interfaces, automation, and/or communication performed to achieve a specified objective or combination thereof:

a. The summation of all efforts expended in achieving a defined objective apart from unique classifications supporting the entity's (e.g., Component, AU) functioning such as reporting.

b. Business process operations do not include military operations relating to the warfighter.

c. Business process operations may be further classified to characterize the nature of those business process operations such as:

d. Administrative, financial, engineering, production, logistical, maintenance, safety, public relations or IT performed for an entity (e.g., Component, AU, Combat support operations entity (to include supply, logistics, financial support, medical support, maintenance, but not including military warfighting operations.))

8. Certification Statement. The Certification Statement demonstrates reasonable assurance by an organization's senior leadership that key internal controls are in place and operating effectively to ensure it can meet its mission objectives to include accurate financial information. The annual MICP Certification Statement is a reporting requirement for all DON

MAUs and BSOs, and indicates the organization's assessment of internal controls in effect during the reporting period of the previous and current calendar year.

9. Control Activities. Policies, procedures, techniques, and mechanisms that enforce management directives. Control activities occur at all levels and help ensure management directives are carried out and reasonable actions are taken to mitigate risks. The control activities should be effective and efficient in accomplishing the agency's control objectives. Examples of control activities include top level reviews of actual performance, reconciliation of actual and recorded inventory, access restrictions to classified information, and segregation of duties.

10. Control Deficiency. A control deficiency exists when the design, implementation, or operation of a control does not allow management or personnel, in the normal course of performing their assigned functions, to achieve control objectives and address related risks:

a. A deficiency in design exists when:

(1) A control necessary to meet a control objective is missing, or

(2) An existing internal control is not properly designed, so that even if the internal control operates as designed, the control objective would not be met.

b. A deficiency in implementation exists when a properly designed internal control is not implemented correctly in the internal control system.

c. A deficiency in operation exists when a properly designed internal control does not operate as designed or when the person performing the internal control does not possess the necessary authority or competence to perform the control effectively.

11. Control Environment. The organizational structure and culture created by senior management (civilian, military, or both) and their employees to sustain organizational support for

effective internal controls. Within the organizational structure, management must assist with:

- a. Defining areas of authority and responsibility;
- b. Appropriately delegating authority and responsibility throughout the agency;
- c. Establishing a suitable hierarchy for reporting;
- d. Promoting and demonstrating ethical practices;
- e. Supporting appropriate human capital policies for hiring, training, evaluating, counseling, advancing, compensating, and disciplining personnel; and
- f. Recruiting and training personnel to possess and maintain the proper knowledge and skills to perform their assigned duties, and understand and be responsible for maintaining effective internal controls within the organization.

12. Documentation. Documentation of internal control activities is required to the extent needed by managers (military and civilian) to control operations effectively, and to evaluate the comprehensive nature of their programs. MICP documentation is mandated by reference (a), and must include:

- a. MICP Plan;
- b. Inventory of AUs;
- c. Risk Assessments;
- d. Control Assessments; and
- e. CAPs as described in enclosure (2).

Documentation can also include: process narratives; flow charts; organizational charts; and quarterly status on corrective actions. Key supporting documentation must be maintained, per this instruction, for subsequent review by management and inspector general or audit personnel.

13. ERM. ERM was added as a management responsibility for federal agencies per reference (a). ERM is designed as an agency-wide approach for the effective consideration and management of organizational significant risks through the use of an interrelated risk portfolio, which informs better decision-making. Overseen by the DON Chief Management Officer, top DON risks are vetted through discussions with DON senior leadership. Over time, input from the DON's various risk programs, including the SOA and DON MICP, will be used to inform senior leadership on ERM discussions and decision making. As the Department of Defense (DoD) continues to mature and refine its approach to ERM over the next few years, the DON will tailor its approach based on the principles and best practices outlined by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the "COSO Framework for ERM: Integrating with Strategy and Performance."

14. Information and Communication. Information should be recorded and communicated to management and other relevant parties, or for the purposes of leadership awareness, in a form and within a time frame that enables them to carry out their internal controls and other responsibilities. An organization must have relevant, reliable, and timely communications, with information flowing down, across, and up the organization.

15. IT RMF. The IT RMF is intended to identify risks to the DON's organizations and individuals associated with system operations, and designates a framework solution to appropriately select security controls for DON systems to protect individuals, assets, and operations.

a. The DoD-wide transition to the National Institute of Standards and Technology (NIST) RMF facilitates risk identification for the organization, its components, and individuals associated with system operations.

b. The DON's FM Overlay supports the NIST RMF and enhances the DON's IT control environment for financially relevant systems. Targeted risk management strategies for financial systems are based on the Federal Information System Controls Audit Manual and the DON Enterprise IT Controls Standards. The FM Overlays are specific to the following most critical control families: Access Control; Audit and Accountability; Configuration Management; and Identification and Authentication.

c. Using a risk-based approach, and in accordance with Defense Finance and Accounting Service FM Systems Requirements Manual ("Blue Book"), the DON has determined which Federal FM Requirement controls are of highest criticality to DON systems. Implementation of controls and transition to RMF is the responsibility of all DON system owners.

16. Integrated RMF. The DON integrates ERM, the annual ROA, RMF and the FFMIA compliance, and the annual DON SOA to manage risk and form a comprehensive, integrated RMF.

17. Internal Audit. An impartial and objective appraisal or verification of the data, the procedures, or the performance of diverse operations, systems, activities, programs, functions, or funds, and of internal controls, similarly related to the Impartial Verification and Validation efforts. Internal audits help management identify risks and arrive at solutions to problems, devise better ways of doing business, and deter fraud, waste, and mismanagement. Audits are performed using professionally qualified auditors who meet and follow Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States. Internal audits are performed to determine whether:

- a. Government resources are managed properly and used in compliance with laws and regulations;
- b. Government programs are achieving their objectives and desired outcomes; and
- c. Government services are being provided efficiently, economically, and effectively.

18. Internal Controls. Internal controls are the plans, methods, and procedures used to meet missions, goals, and objectives. Internal controls are designed to be detective or preventive in nature. Detective internal controls are designed to detect errors or irregularities that may have occurred (e.g. reviews, analyses, and reconciliations). Preventive internal controls are designed to deter or prevent errors or irregularities from occurring in the first place (e.g. separation of duties, proper authorization, adequate documentation, and physical control over assets). Internal controls also serve as the first line of defense to safeguard assets, and prevent and detect errors and fraud. Internal

controls are not limited to one event, but a series of actions and activities that occur on an ongoing basis throughout an entity's operations. Internal controls are an integral component of an organization which, when implemented, assessed, and operating effectively provide reasonable assurance that the following objectives are being achieved:

- a. Effectiveness and efficiency of operations;
- b. Reliability of reporting for internal and external use;
and
- c. Compliance with applicable laws and regulations.

19. Internal Control Assessment. An internal control assessment is the documented evaluation of the effectiveness and adequacy of the internal control system to meet the mission objectives, implemented to comply with reference (d), in a cost-effective manner.

20. Internal Controls over Acquisition Functions. Internal controls over acquisition functions promote and report reasonable assurance for the overall adequacy and effectiveness of internal controls within the multi-disciplinary acquisition process. The framework to guide assessments of strengths and weaknesses within the acquisition process consists of:

- a. Organizational alignment and leadership;
- b. Policies and processes;
- c. Human capital; and
- d. Information management and stewardship.

21. ICOFR. The ICOFR process reports reasonable assurance over financial reporting Internal controls, to include identifying any MWS or SD found during the assessment, with the plan of action and milestones to promptly correct them.

22. ICOFs. The ICOFS process reports reasonable assurance over FM system internal controls to include identifying any MWS, SDs, or non-conformances found during the assessment, with the plan of action and milestones to promptly correct them.

23. ICO. The ICO process assesses internal controls for all program, operational, and administrative controls excluding ICOFR and ICOFS. The ICO process documents the line of reasoning that determines if internal controls achieve their intended objectives, reports reasonable assurance over non-financial internal controls to include identifying any MWS and SDs found during the assessment, and determines the plan of action and milestones to promptly correct them.

24. Internal Control System. The internal control system is a continuous built-in component of operations, effected by people, that provides reasonable assurance, not absolute assurance, that an entity's objectives will be achieved. An internal control system encompasses a set of rules, policies, and procedures an organization implements to provide reasonable assurance that:

- a. Financial reports are reliable;
- b. Operations are effective and efficient; and
- c. Activities comply with applicable laws and regulations.

It is not a separate system, but includes control environment as a foundation which provides the discipline and structure to help an entity achieve its objectives. It includes management directives used to operate programs and functions.

25. Item to be Revisited. Items to be revisited are internal control issues brought to management's attention with insufficient information to determine whether they merit being reportable. These issues will be revisited throughout the following FY to determine the materiality of the control deficiency.

26. MAU. MAUs are the AUs that report directly to the SECNAV or the UNSECNAV. MAUs serve as the components that make up the DON's significant programs, organizations, administrative activities, or functional subdivisions that perform entity-wide objectives.

27. Managers' Internal Control Program (MICP). MICP is the full scope of management responsibilities as defined in this instruction, to include the development of effective internal

controls in key mission critical processes, the evaluation of internal controls and correction of deficiencies, the use of effective follow-up procedures, and the documentation and reporting requirements of this guidance. A MICP is not intended to be a stand-alone program, but rather incorporated into an organization's daily activities.

28. MICP Plan. The MICP plan is a written plan (updated annually and as needed) that documents the key elements, mission, strategy, MICP training efforts, and methodologies used by an organization to assess its internal controls. The MICP plan is a reporting requirement for all DON MAUs and BSOs.

29. Material Weakness (MW). A MW is an internal control deficiency that the agency head determines to be material enough to report outside the agency due to its impact and likelihood or potential impact and likelihood. In the context of reference (a), non-achievement of a relevant principle and related component results in a MW.

a. A MW in ICO might include, but is not limited to, conditions that: impact the operating effectiveness of Entity-Level Controls; impair fulfillment of essential operations or mission; deprive the public of needed services; or significantly weaken established safeguards against fraud, waste, unauthorized use, misappropriation of funds, property, or other assets, or conflicts of interest.

b. A MW in ICOFR is a condition which the Agency Head determines significant enough to impact internal or external decision-making and reports outside the Agency as a MW. A MW in ICOFR is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected, on a timely basis.

c. A MW in ICOFS is a condition where management lacks a process that reasonably ensures preventing a violation of law or regulation that has a direct and material effect on financial reporting or significant effect on other reporting or achieving Agency objectives. ICOFS MWs are called non-conformances.

30. Materiality (ICO Process). The risk of error or inability

to accomplish mission objectives, a systemic error throughout the Department, or both. The level of materiality for each organization is based upon management's informed judgment. The criteria to consider include: impact on mission success or failure; health and safety; and threat to image. ICO materiality is further outlined in enclosure (2).

31. Materiality (ICOFR and ICOFS Processes). The risk of error or misstatement that could occur in a financial report that would impact management or user decisions or conclusions based on such a report. Management must consider whether the error was generated by an integrated FM system, and how an error would affect management or operations that rely on the key financial reports within the assessment scope. An error that would materially affect the day-to-day decisions based on these key reports would be considered a material error. Since the financial reporting objectives for day-to-day management and operations are different than the objectives of the third-party user of financial statements, it stands to reason that materiality will be different for each type of report. Materiality is a function of management's professional judgment and discretion, but should be substantiated by actual performance data and established thresholds.

32. MICP Coordinator Appointment Letters. Each DON MAU, BSO, and their immediate subordinate organizations will appoint an organizational MICP Coordinator and Alternate responsible for the administration and coordination of the MICP to align with the reporting requirements of enclosure (10), paragraph 2a. The appointment letter, signed by the commanding officer or designated appointee, is valid until rescinded. MICP Coordinators should be government civilians or military service members. MICP Coordinator and Alternate appointment letters must be submitted to the DON MICP Office.

33. Monitoring. Monitoring the effectiveness of internal controls should occur in the normal course of business. Periodic reviews, reconciliations, or comparisons of data should be included as part of the regularly assigned duties of management personnel. Deficiencies identified through internal review or by an external audit should be evaluated and

corrected. Monitoring includes establishing follow-up processes

to ensure acceptable performance, and prompt correction of deficiencies.

34. A Portfolio View of Risk. Provides insight into all areas of organizational exposure to risk (e.g. reputational, programmatic performance, financial, IT, acquisitions, human capital, etc.), thus increasing an Agency's chances of experiencing fewer unanticipated outcomes and executing a better assessment of risk associated with changes in the environment.

35. Reasonable Assurance. An acceptable degree of confidence in the general adequacy of internal controls to deter or detect material failures in complying with the objectives of enclosure (10), paragraph 2a. Reasonable assurance is an informed, reasoned judgment by management as to the overall adequacy and effectiveness of internal procedures to control accepted levels of inherent risk based upon available information from the system of internal controls that indicate they are operating as intended.

36. Risk. The probable or potential adverse effects from inadequate internal controls that may result in the loss of resources or cause an organization to fail to accomplish its mission objectives through fraud, error, or mismanagement. Risk is measured by the likelihood and the impact of the event having a negative effect. Examples of risk contributors include: manual processes associated with complex transactions; reliance on pilferable items such as cell phones, BlackBerrys, or laptop computers; and processes that involve multiple process owners.

37. ROA. The ROA, directed by the DON Oversight Planning Board Charter, 16 June 2004, is a SECNAV directed annual data call led by the Naval Inspector General and Naval Audit Service. The ROA provides DON leadership with insights into Echelon I and II risks and opportunity gaps, enabling the concentration of DON efforts and limited resources within areas of greatest impact. The purpose of the annual DON ROA is to guide the development of the Annual Oversight Plan that includes audits, inspections, special studies, and other oversight functions. Both the DON ROA and Annual Oversight Plan are reviewed and approved by the Oversight Planning Board, chaired by the UNSECNAV.

38. Risk Assessment. Identifies internal and external risks

that may prevent the organization from meeting its objectives. When identifying risks, management should consider relevant interactions within the organization as well as with outside organizations. Management should also consider previous findings (e.g. auditor-identified, internal management reviews, or noncompliance with laws and regulations). Identified risks should then be analyzed for their potential frequency of occurrence and impact on the agency. Risk assessment involves managers weighing the potential and determining whether the risk is acceptable or requires a control activity. Risk assessment is the first stage for establishing reasonable assurance.

39. SAO. An individual assigned responsibility for the remediation of a MW or SD. The SAO designs and implements corrective actions via a CAP and ensures prompt and effective actions are taken to correct their MWs and SDs. An SAO's appointment remains valid until remediation of the assigned deficiency is achieved or rescinded.

40. SAT. Serves as one of the DON's internal control governance bodies, staffed with senior level executives who provide oversight of the effectiveness of ICOFR and ICOFS, to include identification of deficiencies that merit reporting. The SAT is a subordinate of the SMC.

41. SMC. Serves as the DON's overarching internal control governance body, staffed with senior level executives who provide oversight of the effectiveness of ICO, to include identification of deficiencies that merit reporting. The SMC also serves as the final adjudicator for all internal control processes, including ICO, ICOFR, and ICOFS, and receives recommendations on ICOFR and ICOFS identification, reporting, and remediation from the SAT, for which it provides final judgment.

42. Senior Manager. A senior official who is a member of the highest level of management or leadership of an organization within the DON.

43. Significant Deficiency SD. An internal control deficiency, or combination of deficiencies, that is less severe than a MW, yet important enough to merit attention by those charged with governance.

44. SOA. A Department-wide statement used to disclose MWs and

SDs identified in the annual reporting process, and describe plans and schedules to correct any reported deficiencies. The SOA is a reporting requirement for the DON that is used to prepare the DoD Agency Financial Report, per reference (d), and must take one of the following forms:

a. Unmodified SOA: The component has reasonable assurance that internal controls are in place and operating effectively in the Department's mission-essential processes;

b. Modified SOA: The component has reasonable assurance, with the exception of MWS identified in the report, that internal controls are in place and operating effectively in their mission-essential processes; or

c. Statement of No Assurance: The component cannot provide reasonable assurance that internal controls are in place and operating effectively in their mission-essential processes.

45. Strategic Risks. The risk of failing to achieve strategic or tactical objectives because the strategic and tactical planning process, leadership, or implementation of the strategic plan is not fully effective. Strategic risks can be affected by changes in the political environment such as changes in administration and resulting changes in strategic priorities. Strategic risk can also be triggered by actions of key stakeholders such as Federal agencies or lawmakers.

46. Validation Path. A validation path is the process for which a deficiency and its completed CAP is assessed to determine if it merits a recommendation for downgrade in severity or closure/remediation. A validation path organization is the organization that will perform the validation of the deficiency and CAP. For example, the Naval Audit Service and DON MICP Office have both served as validation path organizations charged with reviewing a deficiency's CAP, corrective action evidentiary artifacts, and other information to determine whether a deficiency is recommended to be remediated or merits downgrading.

STATUTORY AND REGULATORY REQUIREMENTS AND GUIDANCE

1. The DON's MICP is designed to meet Federal statutory and regulatory requirements and guidance. The DON MICP provides the DON with effective management over its business processes and internal control system. In addition to this instruction, the DON also follows supplemental guidance to assist in the enterprise-wide administration and management of the MICP.

2. Statutory Requirements

a. Reference (e), requires agencies to establish and maintain internal controls, and submit a statement to the President and Congress by 31 December that provides an assessment of internal control systems and a plan for correcting any agency-identified MW. Reference (e) focuses on anticipating and preventing deficiencies through emphasis on individual accountability by requiring managers to have financial and management controls over resources and programs. Requirements of Reference (e) serve as an umbrella under which other reviews, evaluations, and audits will be coordinated and considered to support management's assertion of the effectiveness of operational and financial reporting internal controls and compliance with laws and regulations.

b. Reference (g), requires agencies to have financial management (FM) systems that substantially comply with Federal FM systems requirements, standards promulgated by the Federal Accounting Standards Advisory Board, and the United States Standard General Ledger at the transaction level. Reference (g) serves to advance and ensure Federal FM systems provide accurate, reliable, and timely FM information to the government's managers to include in their financial decision-making process.

c. Federal Information Security Modernization Act (FISMA) of 2014. Provides a comprehensive framework for ensuring the effectiveness of information security controls over information resources that support Federal operations and assets. FISMA requires agencies to provide information security controls proportionate to the risk and potential harm of not having those controls in place.

d. Government Performance and Results Act (GPRA) of 1993. Requires compliance with program objectives and the intent of Congressionally-authorized funds and programs. GPRA also requires agencies to develop strategic plans, set performance goals, and report annually on actual performance achieved compared to stated goals to support results-oriented management.

e. Chief Financial Officers (CFO) Act of 1990. Requires agencies to both establish and assess internal controls related to financial reporting, and requires the preparation and audit of financial statements. The CFO Act in this process serves to prescribe the requirement for financial reporting internal controls to satisfy laws and regulations to ensure agency audit readiness.

f. Reference (f), Executive Agency Accounting and Other FM Reports and Plans. Requires the head of each executive agency to establish and maintain systems of accounting and internal controls that provide complete disclosure, adequate financial information, effective control over, and accountability for assets for which the agency is responsible, including internal audit and reliable accounting results to inform budget activity, requests, and provide the president with sound financial information.

3. Regulatory Requirements and Guidance

a. Reference (b). Provides definitions, objectives, and fundamental concepts for internal controls. This guidance defines the five components for a system of internal control as (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communication, and (5) Monitoring, along with 17 internal control principles. These components and principles apply to all aspects of an agency's operations - programmatic, financial, and compliance - and serve as the foundation for the establishment and implementation of an effective MICP.

b. GAO-05-218G. Framework for Assessing the Acquisition Function at Federal Agencies of 1 September 2005. Framework developed to provide guidance on high-level, qualitative assessments for acquisition function strengths and weaknesses within Federal agencies.

c. GAO-15-593SP. Framework for Managing Fraud Risks in Federal Programs, July 2015. This guidance identifies leading practices for managing fraud risks and organizes them into a conceptual framework which encompasses control activities to prevent, detect, and respond to fraud. In addition, the framework highlights the importance of monitoring and incorporating feedback.

d. GAO Financial Audit Manual (FAM). Presents a methodology for performing financial statement audits of federal entities in accordance with professional standards.

e. Reference (a). Implements FMFIA by providing guidance to Federal managers to improve the accountability and effectiveness of programs and operations by establishing, assessing, correcting, and reporting on internal controls. Federal agencies are required to utilize and comply with the GAO Internal Control Framework and 17 Principles from the "Green Book" as a model for internal control system execution.

f. Reference (c). Provides a methodology for Agency management to assess, document, and report on the components, requirements, and process of the Internal Control over Financial Reporting (ICOFR).

g. OMB Circular No. A-123 Appendix B, Improving the Management of Government Charge Card Programs, January 2009. Consolidates and update current government-wide charge card program requirements and guidance issued by OMB, GSA, Department of the Treasury and other Federal agencies as well. Establish standard minimum requirements and suggested best practices for government charge card programs that may be supplemented by individual agency policy and procedures.

h. OMB Circular No. A-123 Appendix C, Requirements for Payment Integrity Improvement, June 2018. This guidance aims to ensure the integrity of the Government's payments and the efficiency of its programs and activities, and ensure that federal agencies focus on prevention and have the proper incentives to improve their improper payment rates.

i. OMB Circular No. A-123, Conducting Acquisition Assessments under OMB Circular A-123, May 2008. Provides guidance for meeting the requirement to conduct Entity Level

Control (ELC) reviews of the acquisition function. The purpose of this guidance is to standardize ELC reviews of agency acquisition functions required by reference (a), and to integrate entity-level acquisition reviews into agencies' existing internal control review. This guidance addresses reporting processes used to support annual assurance statements related to reference (a), as appropriate.

j. OMB Circular No. A-123 Appendix D, Compliance with the FFMIA. Provides guidance for compliance with FFMIA and reducing the cost, risk, and complexity of financial system modernizations through the use of an outcome-based approach, and establishes a series of financial management goals that are common to all Federal agencies.

k. Federal Information System Controls Audit Manual (FISCAM). FISCAM provides a methodology for performing effective and efficient information system control audits, either alone or as part of a performance audit, a financial audit, or an attestation engagement, including communication of any identified control weaknesses.

l. Reference (1). Mandates that each DoD component, after completing their assertion of auditability, and with the advice of the Department of Defense, Office of the Inspector General (DoDIG), will establish an audit committee to oversee its financial audit. The purpose of the audit committee is to establish audit requirements, identify contract deliverables, monitor the execution of the contract, and to identify and assist with the resolution of obstacles to a clean opinion. Once the component entity is deemed auditable, the audit committee's focus will be on ensuring a forum exists to address ongoing accounting and auditing issues.

m. Reference (d). Directs DoD components and agencies to prepare and maintain process flowcharts, narratives, risk assessments, control analyses, and test plans for financial reporting processes in certain financial statement focus areas.

n. DoDI 8500.01, Cybersecurity of 14 March 2014. Emphasizes operational resilience, integration, and interoperability in IT systems; adopts the Federal cybersecurity terminology into a common language; transitions DoD to the National Institute of Standards and Technology (NIST) Special

Publication 800-53 Security Control Catalog; and incorporates security early and continuously within the acquisition lifecycle.

o. DoDI 8510.01, DoD RMF for DoD IT of 12 March 2014. Delineates the roles, responsibilities, and high-level lifecycle process to effectively manage IT risks and make more informed, risk-based decisions. In addition to the RMF controls, financial systems are required to implement the FM Overlay of controls on top of RMF. The FM Overlay encompasses high-priority control families that the Office of Financial Policy and Systems (FMP) has determined to be essential for audit readiness.

p. OUSD (Acquisition, Technology, and Logistics) Memorandum, Guidance on the Assessment of Acquisition Functions under OMB Circular No. A-123 of 6 April 2009. Issues a framework for DoD organizations to address the requirements within reference (a) for conducting acquisition assessments, and requires that assessments be retained and made available, if needed for review. The requirement for a separate acquisition assessment under OMB Circular A-123 has been suspended until Fiscal Year (FY)2020. Acquisition function is no longer required to be separately reported until that time and should be assessed as part of the normal internal control system process.

q. DoD FMFIA SOA FY Guidance. Establishes requirements for the preparation and submission of the annual SOA, required by reference (a) and enclosure (10), paragraph 2a.

r. DoD Internal Control Over Financial Reporting Guide of May 2018. Provides standard guidance regarding financial management internal controls within the DoD. This guidance replaces the Financial Improvement and Audit Readiness guidance of April 2017. This guidance is designed to facilitate DoD's transition from audit readiness to audit remediation support, focusing specifically on sustainment activities.

s. United States Navy Regulations. Describes some of the statutory authorities for Department of the Navy regulations, including for prescription of other regulations, the issuance of directives by other officers and officials, administrative control requirements, and regulation maintenance requirements.

ACRONYMS AND ABBREVIATIONS

AO	Action Officer
ASN (FM&C)	Assistant Secretary of the Navy (Financial Management & Comptroller)
ASN (RD&A)	Assistant Secretary of the Navy (Research, Development & Acquisition)
AU	Assessable Unit
AUDGEN	Auditor General of the Navy
AUM	Assessable Unit Manager
AUR	Assessable Unit Representative
BPI	Business Process Improvement
BSO	Budget Submitting Office
CAP	Corrective Action Plan
CMO	Chief Management Officer
DASN (FO)	Deputy Assistant Secretary of the Navy (Financial Operations)
DoD	Department of Defense
DoDIG	Department of Defense Inspector General
DON	Department of the Navy
ELC	Entity Level Control
EPR	Evaluate, Prioritize, Remediate
ERM	Enterprise Risk Management
FFMIA	Federal Financial Management Improvement Act
FISCAM	Federal Information System Controls Audit Manual
FISMA	Federal Information Security Modernization Act
FMFIA	Federal Managers' Financial Integrity Act
FM	Financial Management
FMP	Office of Financial Policy and Systems
FY	Fiscal Year
GAO	Government Accountability Office
GPRA	Government Performance and Results Act
ICO	Internal Controls over Operations
ICOFR	Internal Controls over Financial Reporting
ICOFIS	Internal Controls over Financial Systems
IT	Information Technology
MAU	Major Assessable Unit
MICP	Managers' Internal Control Program
MW	Material Weakness
NAVAUDSVC	Naval Audit Service
NAVINGEN	Naval Inspector General
NIST	National Institute of Standards and Technology
OCMO	Office of the Chief Management Officer
OMB	Office of Management and Budget

OUSD(C)	Office of the Under Secretary of Defense (Comptroller)
RCA	Root Cause Analysis
RMF	Risk Management Framework
ROA	Risk and Opportunity Assessment
SAO	Senior Accountable Official
SAT	Senior Assessment Team
SD	Significant Deficiency
SECNAV	Secretary of the Navy
SECNAVINST	Secretary of the Navy Instruction
SMC	Senior Management Council
SOA	Statement of Assurance
UNSECNAV	Under Secretary of the Navy