



DEPARTMENT OF THE NAVY

NAVAL AIR STATION OCEANA
VIRGINIA BEACH, VIRGINIA 23460-5120

IN REPLY REFER TO:

NASOCEANAINST 5200.6C
00C

01 FEB 2000

NAS OCEANA INSTRUCTION 5200.6C

Subj: MANAGEMENT CONTROL PROGRAM

Ref: (a) 31 U.S. Code 3512 Federal Managers' Financial Integrity Act of 1982
(b) OMB Circular A-123, of 21 Jun 95
(c) DoD Directive 5010.38 of 26 Aug 96
(d) SECNAVINST 5200.35D
(e) OPNAVINST 5200.25C
(f) CINCLANTFLTINST 5200.6B
(g) OPNAV P-09B2-05-92 (CNO Management Control Program Manual)

Encl: (1) Definitions, Management Control Standards and Associated Concepts

1. Purpose. To provide policy and guidance and assign responsibility for the Management Control Program (MCP) at Naval Air Station (NAS) Oceana. The program was formerly called the Internal Control Program (ICP). The term "Management Control" (MC) has been adopted to emphasize that the program is a management tool.

2. Cancellation. NASOCEANAINST 5200.6B. Because of numerous revisions paragraph markings have been omitted.

3. Background

a. Management controls are not new to the Navy. Responsibility and accountability for adequate management controls are an integral part of the Navy chain of command concept of management and operations.

b. Reference (a) established the MCP in the Federal Government and reference (b) formulated policy and requires periodic evaluations and reporting on the Federal Government's system of MC. The MC program is implemented within the DoD by reference (c), within the DoN by references (d) and (e) and within the Commander in Chief, U.S. Atlantic Fleet by reference (f). Reference (g) is the Chief of Naval Operations (CNO) Management Control Program Manual which provides authoritative guidance and is a training tool to be used by all managers and coordinators. This instruction implements the program at NAS Oceana by assigning management the responsibility for establishing, maintaining, reviewing and improving management control systems.

01 FEB 2000

4. Definitions. Definitions of terms used in the MC program are contained in enclosure (1).

5. Policy. All department heads and special assistants are responsible for ensuring effective systems of accounting, administrative and operational controls are maintained within their departments or area of responsibility. All levels of management shall:

a. Comply with Management Control Standards provided in enclosure (1)

b. Personally involve themselves in ensuring adequacy of controls

c. Continually evaluate management control systems

d. Establish procedures to ensure prompt reporting and correction of management control weaknesses regardless of the source (e.g., audits, inspections, investigations, reviews or management control reviews)

6. Guidance. Overall guidance for the MCP is provided by references (d) through (g) and enclosure (1). The guidance may be modified periodically by higher authority or by the appointed senior official or Management Control Program Coordinator (MCPC). CNO special interest items are usually required annually. Specific guidance for reporting requirements shall be obtained from the MCPC.

7. Responsibilities. The Director, Command Evaluation, Code 00C, is the NAS Oceana MCPC. To administer the MCP, the following duties are assigned:

a. Each department head and special assistant shall:

(1) Assign in writing, a departmental or area of responsibility Management Control Program Representative (MCPR) for the MC program within their respective departments or area of responsibility. A copy of the appointment shall be forwarded to the MCPC. The MCPR should have sufficient authority to cause Vulnerability Assessments (VAs) and Management Control Reviews (MCRs) to be performed when required.

(2) Ensure each MCPR is indoctrinated and receives support and training to adequately perform the assigned responsibilities.

01 FEB 2000

(3) Ensure MCPRs annual performance appraisals reflect management control responsibilities.

(4) Ensure VAs or Risk Assessments and MCRs are performed as directed and results have been reported per specific guidance provided by the MCPC.

b. Departmental or Area of Responsibility MCPRs shall:

(1) Obtain specific guidance for reporting requirements and performing VAs and MCRs from the MCPC.

(2) Develop and maintain an inventory of assessable units for their respective departments. The inventory will be recorded on an Assessable Unit Inventory and Management Control Recap Sheet. A copy of the Recap Sheet will be forwarded to the MCPC.

(3) Review the Recap Sheet annually to determine whether assessment ratings have changed. If so, a copy of the revised Recap Sheet shall be forwarded to the MCPC to update MCP files.

(4) Cause VAs and MCRs to be performed at the direction of the department head or the MCPC.

(5) Determine which audits, inspections, investigations, or reviews qualify as Alternate Management Control Reviews (AMCRs).

(6) Maintain a current file of VAs and MCRs and report the results to the MCPC as directed.

(7) Attend MCP training when scheduled by the MCPC.

c. The MCPC shall:

(1) Conduct the MCP per current instruction and as directed by higher authority.

(2) Develop and maintain a station inventory of assessable units.

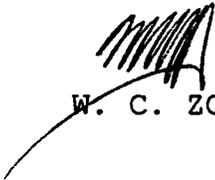
(3) Provide training for departmental and other MCP representatives upon request or when considered necessary to implement program changes.

(4) Maintain a follow-up system to provide data for the Semiannual Tracking Report and local tracking of completed milestones.

NASOCEANAINST 5200.6C

01 FEB 2000

8. Reports. The MCPC shall prepare reports listed in reference (g) and as directed by higher authority.



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Distribution:
NASOCEANAINST 5216.1U
List I (Case A), III and IV

01 FEB 2000

DEFINITIONS, MANAGEMENT CONTROL STANDARDS
AND ASSOCIATED CONCEPTS

1. Assessable Unit. Any organizational, functional, programmatic or other applicable subdivision capable of being evaluated by management control assessment procedures. An assessable unit should be a subdivision of an organization that ensures a reasonable span of management control to allow for adequate analysis. Assessable units usually have specific management controls that are applicable to their responsibilities.
2. Control Objective. A specific aim, goal, condition or level of control established by a commander/manager for an assessable unit that provides reasonable assurance that the resources allocated to that activity are safeguarded or protected adequately against waste, fraud or mismanagement, and that organizational, operational or administrative objectives are accomplished. Control objectives are not absolutes. Limiting factors such as budget constraints, statutory and regulatory restrictions, staff limitations and the cost-benefit of each control technique are to be considered in determining desired control objectives.
3. Control Technique. Any form of organizational procedure or document flow that is relied on to accomplish a control objective.
4. Cost-Benefit. The true net cost of correcting an identified weakness. The cost-benefit represents the real (actual) monetary benefit derived from correcting the weakness, reduced by (less) the costs associated with implementing the correction. The concept of reasonable assurance recognizes that the cost of management control should not exceed the benefits to be derived, and that the benefits themselves consist of a reduced risk of failing to achieve stated objectives. This balancing of management control costs and benefits is addressed using estimates and management judgment.
5. Documentation. Documentation of management control activities is required to the extent needed by management to control its operations effectively and may be generated by activities not specifically established to meet the requirements of the MCP. Documentation for management control systems is mandated by reference (b), and encompasses the following two types of written materials:
 - a. Review Documentation. Shows the type and scope of the review, the responsible official, the pertinent dates and facts,

01 FEB 2000

the key findings and the recommended corrective actions. Documentation is adequate if the information is understandable to a reasonably knowledgeable reviewer.

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

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

7. Management Control. The organization, policies, and procedures used to reasonably ensure that programs achieve their intended results; resources are used consistent with the DoN's mission; programs and resources are protected from waste, fraud and mismanagement; laws and regulations are followed; and, reliable and timely information is obtained, maintained, reported and used for decision making. Management controls, in the broadest sense, include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include processes for planning, organizing, directing and controlling program operations. Some subsets of management controls are the internal controls used to assure that there is prevention or timely detection of unauthorized acquisition, use or disposition of the entity's assets.

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

a. Alternative Management Control Review. A process which determines that control techniques are operating properly, or a process developed for other organizational purposes which provides adequate information on the effectiveness of control techniques. This type of process may utilize computer security reviews; quality assessments; financial systems reviews; General Accounting Office (GAO), DoD Inspector General (DoD IG) and Naval Audit Service (NAVAUDSVC) audits, inspections or investigations; local audits and command evaluations; and management and consulting reviews. Such alternative reviews must assist in determining overall compliance and, whenever possible, include testing of controls and documentation.

01 FEB 2000

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

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

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

11. Management Control Standards. Federal standards for management control are summarized in reference (b), and are identified in appendix A of this enclosure.

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

13. Material Weakness. Specific instances of noncompliance with reference (a) of such importance so as to warrant reporting of the deficiency to the next higher level of command/management. Such weaknesses significantly impair or may impair the fulfillment of an activity's mission of operational objectives; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against fraud, waste or mismanagement of funds, property or other assets; or cause a conflict of interest. In effect, the weakness results from management controls that are

01 FEB 2000

not in place, not used or not adequate. Material weaknesses should be identified using one of 15 functional reporting categories (see appendix B to this enclosure). Open findings on management controls from any source, agreed to by management, are candidates for a material weakness at the applicable level, until all corrective actions are complete. Weaknesses considered significant on any of the following criteria warrant consideration for reporting as material weaknesses:

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

14. Reasonable Assurance. The judgment by a DoN component head based upon all available information that the component systems of management controls are operating as intended by reference (a).

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

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

01 FEB 2000

preliminary assessment of the safeguards for the assessable unit.

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

NASOCEANAINST 5200.6C

01 FEB 2000

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01 FEB 2000

APPENDIX A

STANDARDS FOR MANAGEMENT CONTROL IN THE FEDERAL GOVERNMENT1. General

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

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

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

2. Specific

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

b. Separation of Duties and Supervision. Key duties and responsibilities in authorizing, processing, recording and reviewing official agency transactions should be separated among individuals. Commanders/managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.

c. Access to and Accountability for Resources. Access to resources and records should be limited to authorized

NASOCEANAINST 5200.6C

01 FEB 2000

individuals, and accountability for the custody and use of resources should be assigned and maintained.

d. Recording and Documentation. Transactions should be promptly recorded, properly classified and correctly accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls and other significant events must be clear and readily available for examination.

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

01 FEB 2000

APPENDIX B

MANAGEMENT CONTROL REPORTING CATEGORIES

1. Research, Development, Test and Evaluation. Covers the basic project definition, approval and transition from basic research through development, test and evaluation and all Department of Defense (DoD) and contractor operations involved in accomplishing the project work, excluding the support functions covered in separate reporting categories such as Procurement and Contract Administration.
2. Major Systems Acquisition. Covers items designated as major systems and that are subject to the procedures of the Defense Acquisition Board, the Military Services acquisition review councils, or the Selected Acquisition Reporting System. [DoD Directive 5000.1 of 15 March 1996 (NOTAL), "Defense Acquisition," may be helpful when evaluating a weakness for inclusion in this category.]
3. Procurement. Covers the decisions to purchase items and services together with certain actions to award and amend contracts (e.g., contractual provisions, type of contract, invitation to bid, independent government cost estimate, technical specifications, evaluation and selection process, pricing and reporting).
4. Contract Administration. Covers the fulfillment of contractual requirements including performance and delivery, quality control and testing to meet specifications, performance acceptance, billing and payment controls, justification for contractual amendments and actions to protect the best interests of the Government.
5. Force Readiness. Includes the operational readiness capability of combat and combat support (both active and reserve) forces, based on analyses of the use of resources to attain required combat capability or readiness levels.
6. Manufacturing, Maintenance and Repair. Covers the management and operation of in-house and contractor-operated facilities performing maintenance and repair of, and/or installation of modifications to material, equipment and supplies. Includes depot and arsenal-type facilities as well as intermediate and unit levels of military organizations.
7. Supply Operations. Encompasses the supply operations at the wholesale (depot and inventory control point) level from the

01 FEB 2000

initial determination of material requirements through receipt, storage, issue reporting and inventory control (excluding the procurement of materials and supplies). Covers all supply operations at retail (customer) level, including the accountability and control for supplies and equipment of all commodities in the supply accounts of all units and organizations (excluding the procurement of material, equipment and supplies).

8. Property Management. Covers construction, rehabilitation, modernization, expansion, improvement, management and control over real and installed property and facilities (both military and civil works construction). Includes all phases of property life-cycle management from determination of need through disposition. Also covers disposal actions for all material, equipment and supplies, including the Defense Reutilization and Marketing System.

9. Communications and/or Intelligence and/or Security. Covers the plans, programs, operations, systems and management activities for accomplishing the communications and intelligence missions. Includes safeguarding classified resources but not peripheral assets and support functions covered by other reporting categories. Also covers the DoD programs for protection of classified information.

10. Information Technology. Covers the design, development, testing, approval, deployment, use and security of automated information systems (using a combination of computer hardware, software, data or telecommunications that performs functions such as collecting, processing, storing, transmitting or displaying information) and other technologies for processing management information. This includes requirements for justification of equipment. [DoD 7740.1-G of July 1988 (NOTAL), "DoD ADP Internal Control Guidelines," may be helpful when evaluating a weakness for inclusion in this category.]

11. Personnel and/or Organization Management. Covers authorizations, recruitment, training, assignment, use, development and management of military and civilian personnel of the DoD. Also includes the operations of headquarters organizations. Contract personnel are not covered by this category.

12. Comptroller and/or Resource Management. Covers the budget process, finance and accounting, cost analysis, productivity and management improvement, and the general allocation and continuing evaluation of available resources to accomplish mission objectives. Includes pay and allowances for all DoD personnel and all financial management areas not covered by

01 FEB 2000

other reporting categories, including those in connection with Office of Management and Budget (OMB) Circular A-76 (Revised), "Performance of Commercial Activities."

13. Support Services. Includes all support services functions financed from appropriated funds not covered by the other categories, such as health care, veterinary care, and legal and public affairs services. All nonappropriated fund activities are also covered by this category.

14. Security Assistance. Covers management of DoD foreign military sales, grant aid and international military education and training programs.

15. Other (Primarily Transportation). All functional responsibilities not contained in the previously noted categories, including management and use of land, sea and air transportation for movement of personnel, material, supplies and equipment using both military and civilian sources.

