



National Capital Region
Medical Directorate
ADMINISTRATIVE INSTRUCTION



NUMBER 5010.01
AUG 04 2016

RESOURCES

SUBJECT: Managers' Internal Control Program (MICP)

REFERENCES: See Enclosure 1

1. PURPOSE. This Administrative Instruction (AI) prescribes guidance and assigns responsibility for the Managers' Internal Control Program (MICP) for National Capital Region Medical Directorate (NCR MD). It advises NCR MD's Audit Readiness Senior Assessment Team (AR-SAT) and governance documents outlining procedures for the MICP.
2. APPLICABILITY. This AI applies to the NCR MD, Walter Reed National Military Medical Center (WRNMMC) to include the DiLorenzo Clinic and the Tri-Service Dental Clinic, Fort Belvoir Community Hospital to include Dumfries and Fairfax Clinics, the Joint Pathology Center. Hereafter, these facilities are collectively referred to as Joint Medical Treatment Facilities (MTFs) and Centers.
3. AUTHORITY. This AI is published in accordance with the authority contained within DoD Instruction 5010.40, Managers' Internal Control Program (MICP) Procedures, May 20, 2013, and DoD Directive 5118.03, Under Secretary of Defense (Comptroller)/Chief Financial Officer, Department of Defense (USD(C)/CFO)
4. DEFINITIONS. See Enclosure 2
5. OBJECTIVE. The objective of the MICP is to establish, evaluate, and correct weaknesses in policies and procedures, establish and maintain an effective internal control system in accordance with Standards for Internal Control in the Federal Government, GAO-14-704G "Green Book," September 10, 2015, provide reasonable assurance operations are effective and efficient financial reporting is reliable and timely, and ensure Joint MTFs are compliant with applicable laws and regulations.

The Department of Defense's MICP is mandated for implementation by each DoD Component to ensure operational, financial, program and administrative internal controls provide a level of assurance towards operational and fiscal effectiveness, efficiency and minimize loss of life. The basic principles of the MICP include: 1) proactive and consistent application of "Tone-At-Top" to include a culture of continuous business process improvement, self-reporting of internal control deficiencies, and identification/mitigation of risk before it negatively impacts the

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mission; 2) formal communication framework between Component's leadership, their appointed MICP Coordinator, and Assessable Unit Managers; 3) leverage/empowerment of "subject matter experts" embedded in each key functional areas and; 4) self-reporting of internal control deficiencies and recommendations for mitigation to include sustainment of corrective actions.

6. GUIDANCE

a. The focus of the MICP process shall be on continuous monitoring of internal controls (ICs)--not on periodic reviews and occasional control exercises. ICs shall be integrated into the daily management practices of all NCR MD managers.

b. The MICP shall be executed to provide reasonable assurance for effectiveness and efficiency of operation, reliability of financial reporting, and compliance with applicable laws and regulations.

c. The MICP process shall address all significant operations and mission responsibilities and shall not be limited to administrative and financial operations.

d. The MICP evaluation process shall, wherever possible, rely on existing information sources; such as, management and oversight reviews, computer security reviews, audits, and inspections, etc. Whenever existing data does not provide for adequate review of vital internal controls, appropriate reviews should be conducted that will enable management to make reasonable judgments about the effectiveness of their internal controls.

e. Managers shall be encouraged to be forthright in reporting material weaknesses in vital internal controls and shall not be penalized (at any level of the organization) for reporting a problem as a material weakness.

7. RESPONSIBILITIES

a. Director of NCR MD. The Director as the Senior Responsible Official for the MICP, will:

(1) Develop NCR MD guidance that will reasonably ensure NCR MD MICP objectives are met and establish a MICP to evaluate the design of ICs, assess the operating effectiveness of ICs, and identify and promptly correct ineffective ICs and establish ICs, when warranted.

(2) Annually provide separate explicit levels of assurance in a Statement of Assurance (SOA) addressed to the Secretary of Defense for the three IC assessments of Internal Controls Over Nonfinancial Operations (ICONO), Internal Controls Over Financial Reporting (ICOFR), and Internal Controls Over Financial Systems (ICOFS), as applicable, based upon the MICP annual guidance.

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(3) Direct and oversee the MICP for NCR MD, to include meeting the requirements of Appendix A, Internal Control over Financial Reporting, within Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control.

(4) Issue annual guidance to NCR MD's senior level executives regarding submission requirements for compliance with DoDI 5010.40, Managers' Internal Control Program (MICP) Procedures (authority document).

(5) Chair the AR SAT and designate the senior level executives who will comprise the AR SAT, to advise the NCR MD Director on IC matters and ensure NCR MD's compliance with the intent and timelines of OMB Circular A-123 and Office of the Under Secretary of Defense Comptroller (OUSDC) guidance.

(6) Designate an individual to serve as the NCR MD MICP Coordinator who shall act as the focal point for all matters relating to MICP.

b. NCR MD's Audit Readiness Senior Assessment Team (AR SAT). The AR SAT will be chaired by NCR MD's Director and comprised of senior level executives, designated by the Director. These individuals will:

(1) Develop MICP goals for NCR MD that will reasonably ensure NCR MD's MICP strategic mission and objectives are met.

(2) Segment the organization into Assessable Units (AU) by organization or function, suitable for evaluating ICs. (The AU will include all personnel and functions of NCR MD. An organization with field activities is to ensure these activities are included in the inventory.)

(3) Determine which AUs will be assessed and prioritizing an annual assessment schedule.

(4) Assign, in writing, the Assessable Unit Manager (AUM) responsible for each AU, at each MTF (MTFs will have at minimum, one AUM for each of the MTF's applicable AUs).

(5) Ensure AUMs are responsible and accountable for establishing and evaluating ICs in a manner consistent with this AI.

(6) Ensure risks and internal control weaknesses are promptly reported and actions are taken to correct each weakness.

(7) Provide input to Director of NCR MD for the annual SOA, in accordance with NCR MD annual IC guidance.

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8. DUTIES

a. NCR MD MICP Coordinator. The NCR MD MICP Coordinator will:

- (1) Assist the AR SAT in the design and implementation of the MICP. (See paragraph 9 for information regarding the AR SAT.)
- (2) Rank and prioritize risks with senior management to ensure alignment with short- and long-term priorities of the NCR MD.
- (3) Serve as the liaison between the AR SAT and the AUM to communicate management's mission requirements to ensure the requirements are incorporated in the review of ICs and associated risks.
- (4) Evaluate the effectiveness of management controls and appointment of AUMs and provide technical advice and guidance to AU Administrators and AUMs.
- (5) Retain MICP documentation (e.g., process flows and narratives, including associated risk matrices, control objectives, and control activities; SOA from AUMs to support the NCR MD SOA; and listing of AUs and AUMs) at a central repository.
- (6) Provide training to AU Administrators and AUMs regarding MICP roles, responsibilities, and reporting requirements.
- (7) Perform studies and prepare recommendations for correcting systemic MICP weaknesses that cross organizational boundaries.
- (8) Monitor and verify corrective actions have been completed on material weaknesses.
- (9) Identify and issue annual SOA milestones to AR SAT.
- (10) Prepare the NCR MD annual SOA for the signature of the NCR MD Director.

b. Assessable Unit Manager (AUM). AUM will be appointed by the AR SAT and each MTF will have at minimum, one AUM for each of the AUs identified for assessment by the AR SAT. AUM will:

- (1) Maintain a list of the AUs and AUMs of the organizations.
- (2) Provide training and guidance to AUMs regarding program reporting requirements.
- (3) Conduct an IC assessment in accordance with the annual OUSD(C) and NCR MD IC guidance.
- (4) Document business processes and procedures.

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(5) Assess risks that may adversely affect the AUs mission, test effectiveness of controls, and identify IC deficiencies and weaknesses.

(6) Provide an annual SOA to the NCR MD MICP Coordinator.

(7) Upload supporting documentation, such as list of all AUs, process flow charts, risk assessments and analysis, test plans, test results, and corrective action plans, to the shared workspace for record retention and audit purposes.

(8) Provide status on material weaknesses which address, at a minimum, the risks, test documentation, milestones, and accomplishments. (NCR MD Coordinator will work with AUMs to provide information.)

(9) Evaluate, in conjunction with the NCR MD MICP Coordinator, the quality of the organization's implementation of this AI, including adequate documentation.

9. AUDIT READINESS SENIOR ASSESSMENT TEAM (AR SAT). The AR SAT is chaired by the Director of NCR MD and comprised of the NCR MD Senior Leadership (or their designated representatives) to provide oversight of assessing and documenting the effectiveness of ICs for MICP and provide oversight of risk management. The AR SAT members will be designated by the Director of NCR MD. The AR SAT convenes to advise the NCR MD Director on IC matters to include the identification of IC weaknesses that merit reporting as material weaknesses. The AR SAT (1) assesses and monitors the MICP efforts, (2) reviews and approves all processes and methodologies for IC implementation, (3) communicates the IC-related objectives throughout NCR MD, (4) ensures IC assessments are carried out in a thorough, effective, and timely manner, (5) reviews and approves risk assessments, testing procedures, and test results, (6) validates which operational and financial processes and systems weaknesses are material for reporting purposes and report results and recommend SOA action to the NCR MD Director and (7) reviews and approves all IC corrective action plans and ensure prompt resolution.

10. GOVERNANCE DOCUMENTS OUTLINING PROCESSES. The MICP will be conducted on three distinct categories using processes contained in governance documents referenced below as tailored to each category:

a. Internal Controls over Nonfinancial Operations (ICONO). ICONO includes all operational and administrative controls relevant to mission essential functions conducted within the organization (excluding financial reporting and financial systems). ICONO also includes ICs over acquisition functions and establishes and assesses the ICs used in the ICONO process, following the procedures detailed in OMB Circular A-123, Management's Responsibility for Internal Control.

b. Internal Controls over Financial Reporting (ICOFR). ICOFR includes all financial reporting functions, as defined in Appendix A of OMB Circular A-123 and the ICOFR annual guidance, provided by the OUSD(C) Chief Financial Officer (CFO). ICOFR establishes and

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assesses the ICs used in the FMFIA ICOFR process, following the procedures detailed in Appendix A of OMB Circular A-123 and the ICOFR annual guidance provided by OUSD(C).

c. Internal Controls over Financial Systems (ICOFS). ICOFS includes all integrated financial management systems. ICOFS follows the procedures established in OMB Circular A-127, Chapter 3 of Volume 1 of the DoD Financial Management Regulation, and procedures detailed in OUSD(C) annual MICP guidance to assess, evaluate, and report the conformance of NCR MD's integrated financial management systems compliance with federal requirements. Nonconformance with federal requirements constitutes a material weakness, which will be reported in the SOA with a corrective action plan and schedule for resolution.

11. RELEASABILITY. UNLIMITED. This AI is approved for public release.

12. EFFECTIVE DATE. This AI is effective immediately.



D.A. Lane
Rear Admiral, MC, USN
Director

Enclosure

1. References
2. Definitions

ENCLOSURE 1

REFERENCES

- (A) DoD Instruction 5010.40, “Managers' Internal Control Program (MICP) Procedures”, May 20, 2013
- (B) DoD Directive 5118.03, “Under Secretary of Defense (Comptroller)/Chief Financial Officer, Department of Defense (USD(C)/CFO)”, April 20, 2012
- (C) Government Accountability Office (GAO), “Standards for Internal Control in the Federal Government”, GAO-14-704G, September 10, 2014

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ENCLOSURE 2DEFINITIONS

Assessable Unit (AU). An organizational or functional subdivision of NCR MD required to develop, implement, test, and report on internal controls (IC) in accordance with this Instruction.

Assessable Unit (AU) Administrator. The AU Administrator provides direction and guidance within their respective AU. Due to the inherently governmental nature of this function, the AU Administrator must be a government employee (civilian or military).

Assessable Unit Manager (AUM). The head or principal deputy assigned direct responsibility for ensuring the Manager's Internal Control Program (MICP) is in place and operating effectively within the assessable unit (AU).

Control Deficiency. Exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect errors or misstatements on a timely basis.

NCR MD MICP Coordinator. The organizational MICP Manager is the primary focal point of contact for the NCR MD Manager's Internal Control Program (MICP).

Internal Control (IC). The organizations, policies, and procedures that help program and financial managers achieve results and safeguard the integrity of their programs by reducing the risk of adverse activities.

Internal Control (IC) Assessment. A documented evaluation on the effectiveness and adequacy of the controls put in place to meet the mission objectives.

Internal Control over Nonfinancial Operations (ICONO). Pertains to the overall program, operational, and administrative controls relevant to all mission essential functions, except financial reporting and financial systems.

Internal Control over Financial Reporting (ICOFR). Relevant to financial reporting functions.

Internal Control over Financial Systems (ICOFS). Relevant to integrated financial management systems conformance with the Federal requirements.

Integrated Financial Management Systems (IFMS). A unified set of financial systems and the financial portions of mixed systems encompassing the software, hardware, personnel, process (manual and automated), procedures, controls, and data necessary to perform financial management functions, manage financial operations of NCR MD, and report on NCR MD's financial status.

Material Weakness. A control deficiency that should be communicated to the next higher level because it represents significant weaknesses in the design or operation of internal controls that could impact the organization's ability to meet Manager's Internal Control Program (MICP) objectives. The determination to categorize a weakness as material results from management's judgment about the relative impact of the weakness.

No Assurance Statement of Assurance. One of the three explicit levels of assurance that a Federal Managers' Financial Integrity Act (FMFIA) Internal Control over Nonfinancial Operations (ICONO), Internal Control over Financial Reporting (ICOFR), or Internal Control over Financial Systems (ICOFS) statement of assurance (SOA) must take. No assurance provides not reasonable assurance that ICs are effective because no assessments were conducted, the noted material weakness(es) are pervasive across many key operations, or the Integrated Financial Management Systems (IFMS) is substantially noncompliant with Federal requirements. The reporting entity shall provide an extensive rationale for this position.

Qualified Statement of Assurance. One of the three explicit levels of assurance that a Federal Managers' Financial Integrity Act (FMFIA) Internal Control over Nonfinancial Operations (ICONO), Internal Control over Financial Reporting (ICOFR), or Internal Control over Financial Systems (ICOFS) statement of assurance (SOA) must take. A qualified SOA provides reasonable assurance that internal controls (ICs) are effective with the exception of one or more material weakness(es) of the Integrated Financial Management Systems (IFMS) is not fully compliant with Federal requirements reported. The SOA must cite the material weaknesses in internal management controls that preclude an unqualified statement.

Reasonable Assurance. An informed judgment by management based on available information that the internal controls (ICs) in place are effective and operating as intended.

Risk. The possibility an event will occur and adversely affect the achievement of the Manager's Internal Control Program (MICP) objectives.

Statement of Assurance (SOA). An annual statement, in memorandum format, that provides the **Assessable Unit Managers** (AUMs) explicit level of assurance on whether internal controls (ICs) are effective. The SOA is based on self-assessments conducted for mission essential functions relative to risk and identifies any material weaknesses found during the assessments. The SOA is submitted from the AUM to the next higher level of command unless otherwise specified.

Unqualified Statement of Assurance. One of the three explicit levels of assurance that a Federal Managers' Financial Integrity Act (FMFIA) Internal Control over Nonfinancial

Operations (ICONO), Internal Control over Financial Reporting (ICOFR), or Internal Control over Financial Systems (ICOFS) statement of assurance (SOA) must take. An unqualified SOA provides reasonable assurance that ICs are effective with no material weaknesses reported or that the Integrated Financial Management Systems (IFMS) is in conformance with Federal requirements. Each unqualified statement must provide a firm basis and evidence for that position in the SOA.

Weakness. A deficiency in the design or operation of internal controls (ICs) that could impact the organization's ability to achieve the objective of the control.