



Department of Defense INSTRUCTION

NUMBER 5010.40
July 29, 2010

USD(C)

SUBJECT: Managers' Internal Control Program (MICP) Procedures

References: See Enclosure 1

1. **PURPOSE.** This Instruction reissues DoD Instruction 5010.40 (Reference (a)) in accordance with the authority in DoD Directive (DoDD) 5118.03 (Reference (b)) to implement the policy in section 3512 of title 31, United States Code (U.S.C.) (also known and hereafter referred to as "The Federal Managers' Financial Integrity Act (FMFIA)" (Reference (c))) and Office of Management and Budget (OMB) Circular No. A-123 (Reference (d)) to assign responsibilities and prescribe procedures for the execution of the MICP.

2. **APPLICABILITY.** This Instruction applies to OSD, the Military Departments, the Office of the Chairman of the Joint Chiefs of Staff and the Joint Staff, the Combatant Commands, the Office of the Inspector General of the Department of Defense (IG DoD), the Defense Agencies, the DoD Field Activities, and all other organizational entities within the Department of Defense (hereafter referred to collectively as the "DoD Components").

3. **DEFINITIONS.** See Glossary.

4. **POLICY.** This Instruction implements DoD policy, pursuant to References (c) and (d), that an MICP be established to review, assess, and report on the effectiveness of internal controls (ICs) in the Department of Defense in accordance with References (c) through (l).

5. **RESPONSIBILITIES.** See Enclosure 2.

6. **PROCEDURES.** See Enclosure 3.

7. INFORMATION REQUIREMENTS. Reports on the MICP submitted in accordance with Enclosure 4 have been assigned Report Control Symbol DD-COMP (AR) 1618 according to DoD 8910.1-M (Reference (m)).

8. IC REPORTING CATEGORIES. See Enclosure 5.

9. RELEASABILITY. UNLIMITED. This Instruction is approved for public release and is available on the Internet from the DoD Issuances Website at <http://www.dtic.mil/whs/directives>.

10. EFFECTIVE DATE. This Instruction is effective upon its publication to the DoD Issuances Website.



Robert F. Hale
Under Secretary of Defense (Comptroller)
DoD Chief Financial Officer

Enclosures

1. References
 2. Responsibilities
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ENCLOSURE 1

REFERENCES

- (a) DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006 (hereby cancelled)
- (b) DoD Directive 5118.03, “Under Secretary of Defense (Comptroller) (USD(C))/Chief Financial Officer (CFO), Department of Defense,” January 6, 1997
- (c) Section 1101, 3512,¹ and 7501 of title 31, United States Code
- (d) Office of Management and Budget Circular No. A-123, “Management’s Responsibility for Internal Control,” December 21, 2004
- (e) Office of Management and Budget Circular No. A-127, “Financial Management Systems,” January 9, 2009
- (f) Volume 1, Chapter 3 of DoD 7000.14-R, “Department of Defense Financial Management Regulation,” as amended
- (g) Public Law 111-5, “The American Recovery and Reinvestment Act of 2009,” February 17, 2009
- (h) Office of Management and Budget, “Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009,” current version
- (i) Under Secretary of Defense (Comptroller)/Chief Financial Officer, Department of Defense, “Guidance for Financial Reporting and Data Requirements for the American Recovery and Reinvestment Act of 2009,” June 26, 2009
- (j) Under Secretary of Defense (Comptroller)/Chief Financial Officer, Department of Defense, “Risk Management for the American Recovery and Reinvestment Act,” April 29, 2009
- (k) Government Accountability Office, “Standards for Internal Control in the Federal Government,” November 1999
- (l) Government Accountability Office, “Internal Control Management and Evaluation Tool,” August 2001
- (m) DoD 8910.1-M, “Department of Defense Procedures for Management of Information Requirements,” June 30, 1998
- (n) “DoD Agency Financial Report,” current edition
- (o) Sections 3534 and 3544 of title 44, United States Code (also known as the Federal Information Security Management Act of 2002)
- (p) Title 8 of Public Law 104-208, “The Federal Financial Management Improvement Act of 1996,” September 30, 1996
- (q) Office of Management and Budget Memorandum, “Conducting Acquisition Assessments Under Circular No. A-123,” May 21, 2008
- (r) DoD Acquisition, Technology, and Logistics, “Assessment of Acquisition Functions under Office of Management and Budget (OMB) Circular No. A-123,” December 18, 2008²
- (s) Department of the Treasury Federal Accounting Standards Advisory Board (FASAB) Generally Accepted Accounting Principles, as amended²

¹ Section 3512 is also known and referred to throughout the Instruction as “The Federal Managers’ Financial Integrity Act (FMFIA)”

² Available at <http://www.fms.treas.gov/>

- (t) Department of the Treasury Financial Manual, Volume 1, "Federal Agencies," current edition
- (u) United States Standard General Ledger, current edition
- (v) Office of Management and Budget Circular No. A-136, "Financial Reporting Requirements," current edition
- (w) DoD Directive 8000.01, "Management of the Department of Defense Information Enterprise," February 10, 2009
- (x) DoD Directive 5000.01, "The Defense Acquisition System," May 12, 2003

ENCLOSURE 2

RESPONSIBILITIES

1. UNDER SECRETARY OF DEFENSE (COMPTROLLER) (USD(C)/CHIEF FINANCIAL OFFICER (CFO), DEPARTMENT OF DEFENSE. The USD(C)/CFO shall:

a. Monitor compliance with this Instruction.

b. Provide supplementary annual or periodic guidance, as needed, for the internal controls over nonfinancial operations (ICONO) process according to Reference (d); the internal controls over financial reporting (ICOFR) as prescribed by Appendix A of Reference (d); the internal controls over financial systems (ICOFS) according to References (c), (e), and (f); and the risk management of Public Law 111-5, also known and hereafter referred to as “The American Recovery and Reinvestment Act (ARRA) of 2009” (Reference (g)).

c. Designate a DoD Senior Assessment Team (SAT) to provide oversight and accountability for the Department’s FMFIA ICOFR and ICOFS and the performance and risk management of the DoD expenditures for the ARRA. This team shall help to ensure DoD operations are consistent with References (c) through (l).

2. DIRECTOR OF ADMINISTRATION AND MANAGEMENT (DA&M). The DA&M shall manage the MICP for the OSD and DoD Field Activities, preparing and submitting the consolidated statement of assurance (SOA) to the Secretary of Defense.

3. UNDER SECRETARIES AND ASSISTANT SECRETARIES OF DEFENSE AND GENERAL COUNSEL OF THE DEPARTMENT OF DEFENSE. The Under Secretaries and Assistant Secretaries of Defense and, with respect to the Defense Legal Services Agency, the General Counsel of the Department of Defense, shall:

a. Approve the appropriate Defense Agencies’ SOA prior to submission to the Secretary of Defense.

b. In their capacity as the DoD functional proponents, maintain ownership of any DoD-wide material weakness(es), which are defined as systemic weaknesses that are pervasive across the Department and are reported in the Department’s SOA to the OMB, Congress, and the President. This includes:

(1) Identifying and reporting any new systemic or material weakness(es) and reporting the status, until resolved, of any existing ones.

(2) Reviewing the reported actions of the DoD Components that pertain to their area of functional responsibility and promptly assisting to resolve any weaknesses by taking the necessary actions required.

(3) Reporting and explaining the actions taken to resolve systemic or material weakness(es).

4. HEADS OF THE DoD COMPONENTS. The Heads of the DoD Components shall:

a. Establish an MICP to identify and promptly correct ineffective ICs, and establish ICs, when warranted.

b. Implement the requirements of the MICP for the Combatant Command's assessable units (AUs), or sub-functions.

c. Designate the MICP Administrator of the Component.

d. Annually provide separate explicit levels of assurance in an SOA addressed to the Secretary of Defense for three distinct processes:

(1) The FMFIA ICONO as it pertains to the overall program, operational, and administrative controls relevant to all mission-essential functions throughout their Component, except financial reporting and financial systems, which are covered in paragraphs 4.b. and 4.c. of this section.

(2) The FMFIA ICOFR relevant to financial reporting functions as defined under the oversight of the SAT according to Appendix A of Reference (d).

(3) The FMFIA ICOFS relevant to integrated financial management systems (IFMS) conformance with the Federal requirements according to References (c) through (f).

e. Submit annual SOAs to the Secretary of Defense as described in Enclosures 3 and 4. Information copies shall be provided to the Chairman of the Joint Chiefs of Staff and the USD(C)/CFO.

ENCLOSURE 3

PROCEDURES

1. DoD COMPONENT MICP. Each DoD Component shall promote an MICP that concludes with the Heads of the DoD Components or Principal Deputy annually reporting an SOA to the Office of the USD(C)/CFO, which includes an explicit level of assurance about the effectiveness of ICs.

a. The Heads of the DoD Components will assign IC responsibility to the Component MICP Administrator for all subcomponents, task forces, or other organizations under his or her direct authority, supervision, and/or responsibility throughout the Department of Defense and will provide trained personnel for planning, directing, and implementing the MICP.

b. The MICP Administrator for each DoD Component shall assist the Head of the DoD Component and lead the Assessable Unit Managers (AUMs) in the design and implementation of the MICP. These duties include preparation of the annual SOA, monitoring and tracking of material weaknesses through completion, retention of MICP documentation to support annual reports, identification of MICP training requirements, evaluating the effectiveness of management controls, and appointment of a technical advisor to the AUM. The MICP Administrator for each DoD Component serves as the liaison between the Heads of the DoD Components and the AUMs to ensure that the specific mission requirements are recognized during the review of internal controls and associated risks. The MICP Administrator shall assist the Heads of the DoD Components and the AUMs in the design and implementation of the MICP. These duties include the preparation of the Annual SOA based upon the current fiscal year program and identified weaknesses, report of material weaknesses, retention of MICP documentation to support annual reports, identification and arrangement of MICP training requirements, evaluation of the effectiveness of management controls, the appointment of AUMs and technical advice and guidance to AUMs. The MICP Administrator recommends the appropriate AUM for each AU based upon the AUM's understanding of key processes, internal controls, and associated risks. The Head of the DoD Component shall concur with the appointment of the recommended AUM.

c. AUMs shall report assurance and track corrective actions taken to expedite prompt resolution of control deficiencies, reportable conditions, or material weaknesses found during the assessment. Documentation shall be maintained and fully disclosed in the annual SOA reporting any material weaknesses found during the assessment of ICs, to include a schedule of actions to resolve those weaknesses. The AUMs are assigned to a specific sub-function within the Component to document related processes, internal controls, and associated risks. These duties include the assessment of vulnerability to determine necessary controls, design and documentation of controls, placement of controls in operation, continuous monitoring, testing, identification of weaknesses, and improvement of the effectiveness of controls, as well as tracking progress on corrective action.

2. AUs

a. Each DoD Component shall segment into organizational, functional, or other AUs, so that all subcomponents, task forces, or organizations under the direct authority, supervision, and/or responsibility of each DoD Component are identified as a separate and distinct AU or are included as a part of another AU. An AU should be large enough to allow managers to evaluate a significant portion of the activity being examined, but not so large that managers cannot perform a meaningful evaluation without extensive time and effort. The individual AU should be appropriate size and nature to facilitate a meaningful risk assessment. The AUMs are the heads of the AUs.

b. The Managers' Internal Control (MIC) Program Administrator shall appoint a trained AUM for every AU, who is a Government employee due to the inherently governmental nature of the work, who shall manage a successful MICP for the MIC Program Administrator.

c. The AUM will maintain a current list of any and all sub-AUs and annually update the list.

3. MICP PROCESSES. The MICP will be segregated into three distinct processes. All DoD Components shall establish the FMFIA ICONO, which includes all mission-essential functions conducted within the Component except for financial reporting and financial systems. DoD Components that produce stand-alone statements, or are specified in the Office of the USD(C)/CFO annual guidance, shall also establish both an FMFIA ICOFR process and an FMFIA ICOFS process.

a. FMFIA ICONO Process. All DoD Components shall:

(1) Assess the effectiveness of ICs through a process consistent with the guidance contained in References (c) and (d) and the MICP annual guidance in accordance with Reference (k). This process should include risk assessments, internal reviews, and the use of already existing management assessments and evaluations as well as audit findings.

(2) Identify and report IC weaknesses. Each DoD Component shall establish and maintain a process that identifies and reports IC weaknesses, as follows:

(a) Identification. The DoD Components may identify weaknesses in their ICs over program, operational, or administrative areas through a variety of sources such as audits, inspections, investigations, management assessments, credible information of nongovernmental origin, staff meetings, and IC assessments. Additional sources are defined as "IC assessments for FMFIA ICONO Process" in the Glossary.

(b) Reporting. Identified material weaknesses in the design and operation of ICs to include modifications or additions to ICs shall be reported by the Heads of the DoD Components in the FMFIA ICONO Process SOA to the Secretary of Defense. The determination of materiality is management's judgment, but is a deficiency that the management determines to be significant enough to be reported outside the Component.

b. FMFIA ICOFR Process. For establishing and assessing the ICs used in the FMFIA ICOFR Process, DoD Components shall follow the procedures as established in Appendix A of Reference (d) and the ICOFR annual guidance, provided by the USD(C)/CFO.

c. FMFIA ICOFS Process. For ICOFS, DoD Components shall follow the procedures as established in References (c), (e), and (f), and as provided in the USD(C)/CFO annual guidance, to assess, evaluate, and report the conformance of their IFMS compliance with Federal requirements. Nonconformance with Federal ICOFS requirements constitutes a material weakness, which will be reported in the SOA with a corrective action plan and schedule for resolution. DoD Components with portions of their IFMS provided by service providers should require testing of material controls within the IFMS by the service provider auditor as part of the service provider agreement to enable the Component to assess the reliability of the overall IFMS.

4. PROMPT RESOLUTION OF WEAKNESSES IN ICs. Reference (d) requires the DoD Component Heads, AUMs, SATs, and senior accountability officials to take prompt and effective actions to correct any weaknesses in their ICs. Components shall, for each unresolved material or systemic weakness reported to the Secretary of Defense:

a. Appoint a senior accountable official from senior management's financial statement reporting entities organization who is responsible for ensuring prompt resolution of the weakness. This appointment should be based on the manager's ability to understand and correct the problem and delegate others to make the correction a priority.

b. Require prompt resolution of corrective actions.

c. Require corrective action plans that show progress on a quarterly basis at a minimum.

d. Require corrective action plans that are consistent with laws, regulations, and administrative policy.

e. Require the addition of a critical element to the performance appraisal plan of the senior accountable official that indicates the effective and timely resolution of the material and systemic weakness.

f. Ensure that an adequate determination has been made prior to reporting a material weakness as resolved. The last milestone in each corrective action plan shall include a correction validation unless a metric is used, in which case, the final corrective action shall describe how the metric goal was met.

5. SOA. The Heads of the DoD Components shall annually submit an FMFIA ICONO Process SOA based on the general assessment of the effectiveness of their ICs over all functions described in Enclosure 4 of this Instruction, except ICOFR and ICOFS. This SOA shall also include material weaknesses found in ICs and the plans to correct them according to the MICP

annual guidance, provided by the USD(C)/CFO. The SOA must be signed by the Heads of the DoD Components or the Principal Deputy and submitted annually to the Secretary of Defense by September 1 or the date stipulated by the MICP annual guidance. The signature authority may not be delegated below the Principal Deputy level.

a. DoD Components that produce stand-alone financial statements or are designated in the MICP annual guidance, shall annually submit a separate FMFIA ICOFR SOA based on a general assessment of the effectiveness of their ICs over financial reporting as further described in Enclosure 4 of this Instruction. This ICOFR SOA shall be consistent with ICOFR annual guidance in regard to the content and structure of the statement and provide the plan to correct any reported material weakness(es). The ICOFR SOA must be signed by the Heads of the DoD Components or the Principal Deputy and submitted as a subset to the FMFIA ICONO SOA to the Secretary of Defense by September 1 of each year or the date stipulated by the MICP annual guidance. The signature authority may not be delegated below the Principal Deputy level.

b. In addition, DoD Components that produce stand-alone financial statements or are designated in the MICP annual guidance, shall annually include in their SOA the results of an ICOFS assessment and evaluation of their financial management systems' compliance with the Federal requirements prescribed in References (c), (e), and (f). Additional information is provided in Enclosure 4 of this Instruction. This statement shall be consistent with the ICOFS annual guidance in regard to the content and structure of the statement and also identify any material weakness(es) and briefly describe the plan to correct the material weakness(es). The ICOFS SOA must be signed by the Heads of the DoD Components or the Principal Deputy and submitted as a subset to the FMFIA ICONO SOA to the Secretary of Defense by September 1 of each year or an alternative date if required by the MICP annual guidance. The signature authority may not be delegated below the Principal Deputy level.

6. SATs. All DoD Components should use either SATs or senior management councils as a forum for assessing and monitoring MICP efforts. Those DoD Components that produce stand-alone financial statements, and DoD Components that provide expenditures under ARRA requirements, must establish an entity SAT. The SATs will oversee the implementation of the ICOFR according to Appendix A of Reference (d), the ICOFS according to References (c), (e), and (f), and ARRA performance and risk management according to References (h), (i), and (j). SAT charters should be updated to reflect the requirements of References (g) through (j). A highly recommended source for designating the entity SAT is the audit committee overseeing the financial statement reporting activities for the Component.

ENCLOSURE 4

INFORMATION REQUIREMENTS

1. DoD SOA. As required by References (c) and (d), the Secretary of Defense is required to submit an SOA in a single FMFIA report section as part of the Agency Financial Report labeled, "Management Assurances," (Reference (n)) annually by November 15, or a date specified by OMB. This will provide an explicit SOA for:

a. FMFIA ICONO for all operations as specified, except for financial reporting and financial systems.

b. FMFIA ICOFR for financial reporting operations as specified by Appendix A of Reference (d).

(1) An assessment of the effectiveness of the DoD IC over financial reporting as of June 30, including an explicit conclusion as to whether the internal controls over financial reporting are effective.

(2) If a material weakness is discovered by June 30, but corrected by September 30, a statement should be included that identifies the material weakness, the corrective action taken, and that it has been resolved by September 30 for the Department of Defense.

(3) If a material weakness is discovered after June 30, but prior to September 30, the statement identifying the material weaknesses should be updated to include the subsequently identified material weakness.

c. FMFIA ICOFS for IFMS according to References (c), (e), and (f). A material weakness must be included in the FMFIA ICOFS section of the DoD SOA with a schedule of corrective actions for any "significant information security deficiency" found and reported pursuant to sections 3534 and 3544 of title 44, U.S.C, also known and hereafter referred to as "The Federal Information Security Management Act (FISMA) of 2002" (Reference (o)). FISMA requires agencies to report a significant deficiency as a material weakness under FMFIA, and an instance of a lack of substantial compliance under title 8 of Public Law 104-208 (Reference (p)) if related to financial management systems. (See Reference (d) for further information on reporting significant deficiencies.)

2. DoD COMPONENT'S SOA

a. All DoD Components shall provide annually an FMFIA ICONO SOA that provides the Head of the DoD Components or Principal Deputy's level of reasonable assurance of the effectiveness of ICs. The DoD Components shall consider IC weaknesses disclosed by all sources including management studies; DoD Component audits, inspections, investigations, or internal review reports; and IG DoD and Government Accountability Office (GAO) reports.

This SOA is based on management's assessment of the effectiveness of Component's ICs as of the date signed for that fiscal year. DoD Components required by OMB or the Department of Defense to produce stand-alone financial statements, or entities identified in the MICP annual guidance, shall also annually provide as a subset to the FMFIA ICONO SOA:

(1) FMFIA ICOFR explicit level of assurance on the effectiveness of ICs over financial reporting for each entity. The assurance shall be based on the results of management's assessment conducted according to the requirements of Appendix A of Reference (d) and the ICOFR annual guidance. This SOA is management's assessment of the effectiveness of Component's ICs as of June 30 of each year or a date as prescribed in the ICOFR annual guidance.

(2) FMFIA ICOFS explicit level of assurance on the effectiveness of ICs over financial systems. The assurance shall be based on the results of management's assessment conducted according to the requirements of References (c), (e), and (f) and MICP annual guidance. This SOA is management's assessment of the effectiveness of the agency's IFMS conformance to Federal requirements as prescribed by the MICP annual guidance and effective as of the date the SOA is signed.

b. The Heads of the DoD Components or Principal Deputy of the DoD Component shall sign and provide to the Secretary of Defense the annual FMFIA SOA, including the explicit levels of assurance as required in the MICP annual guidance. Additional copies of the SOA and accompanying reports shall be furnished to the USD(C)/CFO; the quantity of copies will be contained in the MICP guidance provided by the USD(C)/CFO.

c. The DoD Component SOA will have one cover memorandum. Those DoD Components also required to provide levels of assurance for FMFIA ICOFR and/or ICOFS shall report assurance in subparagraphs to the FMFIA "ICONO" SOA cover memorandum. Also in accordance with Reference (d), each FMFIA ICONO, ICOFR, or ICOFS SOA must meet one of the three explicit levels of assurance:

(1) Unqualified SOA. An unqualified SOA provides reasonable assurance that ICs are effective with no material weakness(es) reported or that the IFMS is in conformance with Federal requirements. Each unqualified statement must provide a firm basis and evidence for that position in the SOA.

(2) Qualified SOA. A qualified SOA provides reasonable assurance that ICs are effective with the exception of one or more material weakness(es) or the 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.

(3) No Assurance SOA. No assurance provides no reasonable assurance that ICs are effective because no assessments were conducted, the noted material weakness(es) are pervasive across many key operations or the IFMS is substantially noncompliant with Federal requirements.

d. The DoD Component SOA will be in the format prescribed by the MICP annual guidance and include a description of how the DoD Component assessment was conducted.

e. When the level of assurance is “qualified,” for the FMFIA ICONO, ICOFR, or ICOFS, the following MUST be included in the format provided by the MICP annual guidance:

(1) Uncorrected material weaknesses (current year and prior year disclosures) and the specific plans and schedules for correction. The specific plans and schedules shall include the actions that will correct a weakness. Although the actions that should correct the weakness may still be in development, the weaknesses must be reported with updated actions.

(2) Material weaknesses corrected in the current year (current year disclosures and prior year disclosures corrected in the current year) and a description of the action taken. Each corrected material weakness shall include, as the last milestone, a validation milestone that evaluates and certifies the effectiveness of the corrective action.

f. When the level of assurance is “no assurance” for the FMFIA ICONO, ICOFR, or ICOFS, it is strongly recommended that either uncorrected or corrected material weaknesses be included in the SOA. If not, leadership must expressly state the reason for no assurance without corresponding material weaknesses. Examples are that no assessment was conducted or the unreliable data prevented sound assessments.

ENCLOSURE 5

IC REPORTING CATEGORIES

When reporting a material weakness according to evaluations conducted, the DoD Component will identify which function the material weakness concerns. The following will be used as IC reporting categories to classify the material weaknesses:

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

b. Comptroller and/or Resource Management. The budget process, finance and accounting, cost analysis, productivity and management improvement, and the general allocation and continuing evaluation of available resources to accomplish mission objectives. Includes pay and allowances for all DoD personnel and all financial management areas not covered by other reporting categories, including those in connection with Reference (d).

c. Contract Administration. 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, according to the OMB Memorandum (Reference (q)) and the Assessment of Acquisition Functions under OMB Circular A-123, (Reference (r)).

d. Financial Reporting (Pertaining to ICOFR). Processes, procedures, and systems used to prepare, compile, and generate the DoD financial statements according to References (d) and (f); the Federal Accounting Standards Advisory Board guidance (Reference (s)); the Department of the Treasury Manual (Reference (t)); United States Standard General Ledger (Reference (u)); and the financial reporting guidance established by OMB Circular A-136 (Reference (v)).

e. Financial Systems (Pertaining to ICOFS) Conformance with Federal Requirements. The assessment, evaluation, and reporting of achievement or material weakness(es) of the integrated financial management system's conformance with Federal requirements for financial systems in accordance with References (c), (e), and (f).

f. Force Readiness. 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.

g. Information Technology. 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 and

software. DoDD 8000.01 (Reference (w)) may be helpful when evaluating a weakness for inclusion in this category.

h. Major Systems Acquisition. Items designated as major systems, subject to the procedures of the Defense Acquisition Board, the Military Services Acquisition Review Councils, or the Selected Acquisition Reporting System. DoDD 5000.01 (Reference (x)) may be helpful when evaluating a weakness for inclusion in this category.

i. Manufacturing, Maintenance, and Repair. The management and operation of in-house and contractor-operated facilities performing maintenance and repair and/or installation of modifications to materiel, equipment, and supplies. Includes depot and arsenal-type facilities as well as intermediate and unit levels of military organizations.

j. Other (Primarily Transportation). All functional responsibilities not represented by any other functional category, including management and use of land, sea, and air transportation for movement of personnel, materiel, supplies, and equipment using military and civilian sources.

k. Personnel and/or Organizational Management. Authorizations, recruitment, training, assignment, use, development, and management of military and civilian DoD personnel. Also includes the operations of headquarters' organizations. Contract personnel are not covered by this category.

l. Procurement. The decisions to purchase items and services 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).

m. Property Management. Construction, rehabilitation, modernization, expansion, improvement, management, and control over real property (both military and civil works construction), to include installed equipment, and personal property. Also covers disposal actions for all materiel, equipment, and supplies including the Defense Reutilization and Marketing System.

n. Research, Development, Test, and Evaluation. The basic project definition, approval, and transition from basic research through development, test, and evaluation and all 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.

o. Security Assistance. Management of DoD Foreign Military Sales, Grant Aid, and International Military Education and Training Programs.

p. Supply Operations. The supply operations at the wholesale (depot and inventory control point) level from the initial determination of material requirements through receipt, storage, issue reporting, and inventory control (excluding the procurement of materials and supplies). Covers all supply operations at retail (customer) level, including the accountability and control for

supplies and equipment of all commodities in the supply accounts of all units and organizations (excluding the procurement of material, equipment, and supplies.)

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

GLOSSARY

PART I. ACRONYMS AND ABBREVIATIONS

AU	assessable unit
ARRA	American Recovery and Reinvestment Act
AUM	Assessable Unit Manager
DA&M	Director of Administration and Management
DoDD	DoD Directive
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
IC	internal control
ICOFR	internal control over financial reporting
ICOFS	internal control over financial systems
ICONO	internal control over nonfinancial operations
IFMS	integrated financial management systems
IG DoD	Inspector General of the Department of Defense
MIC	Managers' Internal Control
MICP	Managers' Internal Control Program
OMB	Office of Management and Budget
SAT	senior assessment team
SOA	statement of assurance
U.S.C.	United States Code
USD(C)/CFO	Under Secretary of Defense (Comptroller)/Chief Financial Officer

PART II. DEFINITIONS

These terms and their definitions are for the purpose of this Instruction.

AU. An organizational subdivision of each DoD Component's total MICP. An AU, or sub-function, is any organizational, functional, programmatic or other applicable subdivision of an organization that allows for adequate internal control analysis. AU includes the documentation, identification, and insertion of controls associated with a specific sub-function in order to mitigate identified risk. The assessable unit is required to have an appointed and adequately trained AUM, who manages the MICP for the MIC Program Administrator.

AUM. The head or principal deputy of the assessable unit.

DoD Functional Proponent. DoD staff principal responsible for policy and oversight of a particular functional area.

IC. The organization, policies, and procedures that help program and financial managers to achieve results and safeguard the integrity of their programs by reducing the risk of adverse activities.

IC assessment. A documented evaluation on the effectiveness and adequacy of the system to meet the mission objectives.

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 the agency, and report on the agency's financial status to central agencies, Congress, and the public.

material weakness

FMFIA ICONO. A reportable condition that the DoD Component Head deems significant enough to report to a higher level. It is management's judgment as to whether or not a weakness is deemed material.

ICOFR. A reportable condition, or combination of reportable conditions, that results in more than a remote likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected. The determination is a management judgment as to whether a weakness is material.

ICOFS. The IFMS is not substantially in conformance with the Federal requirements for DoD Components.

materiality

FMFIA ICONO. The risk of error or inability to accomplish mission objectives. The level of materiality is based upon management's judgment.

FMFIA ICOFR and ICOFS. The risk of error or misstatement on the financial statements that could occur and would impact management's or user's decisions or conclusions based on such statements. Materiality for FMFIA ICOFR is further defined in Appendix A, paragraph C of Reference (d).

no assurance SOA. One of the three explicit levels of assurance that a FMFIA ICONO, ICOFR, or ICOFS SOA must take. No assurance provides no reasonable assurance that ICs are effective because no assessments were conducted, the noted material weakness(es) are pervasive across many key operations or the IFMS is substantially noncompliant with Federal requirements.

qualified SOA. One of the three explicit levels of assurance that a FMFIA ICONO, ICOFR, or ICOFS SOA must take. A qualified SOA provides reasonable assurance that ICs are effective with the exception of one or more material weakness(es) or the 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 regarding the overall adequacy and effectiveness of IC based upon available information that the systems of ICs are operating as intended according to Reference (c).

reportable conditions

FMFIA ICONO. A control deficiency, or combination of control deficiencies, that in management's judgment, should be communicated because they represent significant weaknesses in the design or operation of IC that could adversely affect the organization's ability to meet its IC objectives.

FMFIA ICOFR and ICOFS. A control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report external financial data reliably according to generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements, or other significant financial reports, is more than inconsequential will not be prevented or detected.

risk. The possibility an event will occur and adversely affect the achievement of the IC objectives and may result in the loss of Government resources or cause an agency to fail to accomplish significant mission objectives through fraud, error, or mismanagement. Risk is measured by the likelihood of an event occurring and the impact of the event having a negative effect.

SAT. A team of senior level executives that provides oversight of assessing and documenting the effectiveness of ICs for FMFIA ICOFR and ICOFS and provides oversight and risk management for ARRA expenditures.

Senior Management Council. A committee or board of senior level executives that convene to advise the head of an organization on IC matters, to include the identification of IC weaknesses that merit reporting as material weaknesses.

senior official. A member of the highest level of management or leadership of the agency or DoD Component.

SOA. An annual statement in memorandum format that provides a leader's explicit level of assurance on whether 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 provides a plan with prescribed milestones to promptly correct any material weaknesses reported. The SOA is submitted to each leader's next higher level of command unless otherwise specified.

system nonconformance. Instances in which financial management systems do not substantially conform to financial system requirements constitute system nonconformance as defined in Reference (d). Financial management systems include financial and financially related (or mixed) systems.

systemic weakness. Pervasive within the Department of Defense and materially affect ICs across organizational and program lines, usually affecting more than one DoD Component.

unified set of systems. Systems are planned for and managed together, operated in an integrated fashion, and linked together electronically in an efficient and effective manner to provide agency-wide financial system support necessary to carry out the agency's mission and support the agency's financial management needs.

unqualified SOA. One of the three explicit levels of assurance that a FMFIA ICONO, ICOFR, or ICOFS SOA must take. An unqualified SOA provides reasonable assurance that ICs are effective with no material weakness(es) reported or that the IFMS is in conformance with Federal requirements. Each unqualified statement must provide a firm basis and evidence for that position in the SOA.