



DEPARTMENT OF THE NAVY  
OFFICE OF THE SECRETARY  
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SECNAVINST 5200.35E  
ASN(FM&C)  
8 November 2006

SECNAV INSTRUCTION 5200.35E

From: Secretary of the Navy

Subj: DEPARTMENT OF THE NAVY (DON) MANAGERS' INTERNAL CONTROL  
(MIC) PROGRAM

Ref: (a) Title 31, U.S. Code, Section 3512  
(b) OMB Circular A-123, Revised, (Management's  
Responsibility for Internal Control) 21 Dec 2004  
(NOTAL)  
(c) United States Navy Regulations, 1990  
(d) DoD Instruction 5010.40, Managers' Internal Control  
(MIC) Program Procedures, of 4 Jan 2006  
(e) SECNAV M-5200.35  
(f) SECNAVINST 5430.7N  
(g) Government Accountability Office GAO/AIMD-00-21.3.1,  
Standards for Internal Control in the Federal  
Government, of Nov 1999 (NOTAL)  
(h) Title 6, U.S. Code, Section 101 Note  
(i) SECNAV m-5214.1

Encl: (1) Definitions

1. Purpose. To provide revised Managers' Internal Control (MIC) policy for the Department of the Navy (DON) to all DON components. This is a complete revision and should be read in its entirety.

2. Cancellation. SECNAVINST 5200.35D.

3. Background

a. DON personnel are responsible for the proper stewardship of Federal resources as a basic obligation of their public service in accordance with references (a) and (b). They must ensure government resources are used in compliance with laws and regulations, consistent with mission, and with minimal potential for waste, fraud, and mismanagement.

b. Management controls (MCs) and Internal Controls (ICs) are synonymous terms to describe the tools military and civilian managers use to achieve results and safeguard the integrity of programs in accordance with reference (c).

c. ICs are sound management practices and play an important role in achieving business and mission objectives throughout the DON. Managers should not be encumbered by controls but rather benefit from them. Managers must ensure an appropriate balance between too many and too few controls.

d. Reference (d) provides the Department of Defense (DoD) instruction on establishing a MIC program, which is comprised of FMFIA Overall Process and FMFIA Over Financial Reporting.

e. MIC programs shall encompass the GAO's five standards for IC: (1) Control Environment, (2) Risk Assessment, (3) Control Activities, (4) Information and Communications, and (5) Monitoring. The design, operation, and documentation of the organization's programs should provide reasonable assurance that the objectives detailed in references (a) and (b) are met.

f. Reference (e) will be updated and provided each year to assist commands in complying with this instruction. This manual fulfills the DoD MIC Strategy documentation requirements as defined in reference (d).

4. Definitions. The terms, standards, and other applicable concepts used in this instruction are defined in enclosure (1).

5. Policy

a. It is DON policy that commands establish MIC programs to evaluate and report on the effectiveness of ICs throughout their organizations and make corrections when necessary. Commands shall use organizational assessments, evaluations, and other contributing information (performance metrics, external audits and inspections, etc.) as forms of monitoring ICs.

b. DON organizations shall implement a system of ICs to provide reasonable assurance that the following objectives are met:

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

c. Implementation of this program should not duplicate existing control efforts, but rather complement other efforts (e.g., Financial Improvement Program, Naval Safety Program, performance appraisal processes/National Security Personnel System, etc.). For example, this program should be considered in

evaluating supervisory performance elements relating to resource management.

d. In addition to the DON MIC program, the DON Risk and Opportunity Assessment is a SECNAV directed annual data call led by the Naval Inspector General (NAVINSGEN) in which Navy and Marine Corps Echelon I and II activities identify high-level vulnerabilities that represent significant challenges to senior naval leadership. The purpose of the annual DON Risk and Opportunity Assessment is to guide the development of the Annual Oversight Plan. Both the Risk Assessment and Oversight Plan are reviewed and approved by the Oversight Planning Board, chaired by the Under Secretary. Leadership can consider including risks identified through the DON Risk and Opportunity Assessment as part of their internally-identified MIC risk assessment. Risks from the DON Risk and Opportunity assessment, and command or activity-identified risks, can then be assessed to aid in identifying control deficiencies. While the DON Risk and Opportunity Assessment and the MIC program serve different purposes, they should be viewed as complementary processes that both involve risk identification and assessment.

6. Responsibilities. The following responsibilities are assigned:

a. Per reference (f) the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN(FM&C)) or a senior manager designated by him or her shall:

(1) Develop policy and procedures which emphasize prevention and correction of waste, fraud and mismanagement, while eliminating duplication in collecting and assessing performance data;

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

(3) Develop and maintain policies and procedures for the appropriate use of travel cards consistent with the requirements of Appendix B of reference (b);

(4) Designate Major Assessable Units. Assign to the head of each major assessable unit the responsibility and accountability for establishing and assessing ICs consistent with reference (d). This senior executive will be known as the Assessable Unit Manager for that major assessable unit. The Assessable Unit Manager will have a critical element in their performance appraisal addressing their MIC program performance;

(5) Separate the MIC program into the following two distinct assessment and reporting processes:

(a) Program, operational, and administrative controls except for the controls over financial reporting. This process will be known as the FMFIA Overall Process.

(b) Financial reporting internal controls. This process will be known as the FMFIA Over Financial Reporting Process.

(6) Establish a Senior Management Council to provide oversight of the FMFIA Overall Process and assist in the identification of IC deficiencies that merit reporting as material weaknesses;

(7) Establish a Senior Assessment Team for each Financial Statement Reporting Entity (FSRE), as defined in the DoD Annual Guidance, to provide oversight of the FMFIA Over Financial Reporting Process and ensure the organization adheres to the procedures established in Appendix A of reference (b);

(8) Ensure adequate training and tools are available for DON organizations to comply with MIC guidance and issue information on obtaining these resources;

(9) Ensure all DON major assessable units conduct an assessment of ICs;

(10) Monitor implementation of the program and establish follow-up systems to ensure acceptable performance and prompt correction of items to be revisited, reportable conditions (formerly known as significant issues), and material weaknesses reported in the annual DON Statement of Assurance (SOA);

(11) Provide prompt assistance to other DoD Components in resolving material weaknesses that are DON-related;

(12) Appoint a Senior Accountability Official in writing for each reported material weakness to ensure prompt resolution of the material weakness in accordance with the projected completion date and in accordance with the guidelines of references (b) and (g), and the MIC Program Annual Guidance provided by Office of Under Secretary of Defense (Comptroller). The Senior Accountability Official must be selected, in coordination with the appropriate Major Assessable Unit, from DON senior management and shall not be delegated below the Senior Executive Service or Flag Officer level. Prompt resolution of the material weakness for which the official has responsibility

will be incorporated into the performance appraisal of the senior official;

(13) Require a quarterly update on the status of items to be revisited, reportable conditions, and material weaknesses;

(14) Prepare and submit the annual DON SOA, signed by the Secretary of the Navy or the principal deputy, to the Secretary of Defense. The DON SOA shall certify to the level of assurance as outlined in the DON MIC Manual for:

(a) FMFIA Overall Process; and

(b) FMFIA Over Financial Reporting Process for each FSRE identified in the DoD Annual Guidance.

(15) Maintain and submit documentation requirements for FMFIA Over Financial Reporting to the Office of Under Secretary of Defense (Comptroller) as outlined in the DoD MIC Annual Guidance. The DON documentation requirements for FMFIA Over Financial Reporting Process include:

(a) Process narratives and flow charts;

(b) Risk analyses;

(c) IC assessments; and

(d) Corrective action documentation.

b. The Senior Management Council shall:

(1) review the MIC program and advise the ASN(FM&C) on IC matters;

(2) Identify control deficiencies that merit reporting as material weaknesses.

c. The Senior Assessment Team (SAT) shall:

(1) Review the scope of the assessment, i.e., those financial reports covered by the assessment and the processes that impact those reports;

(2) Ensure that assessment objectives are clearly communicated throughout the DON;

(3) Ensure that assessments are carried out in a thorough, effective, and timely manner;

(4) Monitor the progress of implementation of corrective actions; and

(5) Report assessment results to DON Audit Committee.

d. The Auditor General of the Navy (AUDGEN) shall:

(1) Evaluate and disclose compliance with this instruction during audits;

(2) Identify, summarize, and report quarterly IC accomplishments and control deficiencies detected during the conduct of audits; and determine impediments to resolving identified control deficiencies;

(3) In coordination with the NAVINSGEN and Director, Naval Criminal Investigative Service (NCIS), revise NAVINSGEN/AUDGEN/NCIS plans, as necessary, to ensure compatibility with IC goals and to eliminate duplication in collecting and assessing performance data.

e. The Naval Inspector General shall:

(1) Evaluate and disclose compliance with this instruction during inspections;

(2) Identify, summarize, and report quarterly IC accomplishments and control deficiencies; and determine impediments to resolving identified control deficiencies discovered during the conduct of inspections; and

(3) In coordination with the AUDGEN of the Navy and NCIS, revise NAVINSGEN/AUDGEN/NCIS plans, as necessary, to ensure compatibility with IC goals and to eliminate duplication in collecting and assessing performance data.

f. The Director, Naval Criminal Investigative Service shall:

(1) Identify, summarize, and report quarterly IC accomplishments and control deficiencies during the conduct of investigations; and

(2) In coordination with the AUDGEN of the Navy and NAVINSGEN, revise NAVINSGEN/AUDGEN/NCIS plans, as necessary, to eliminate duplication in collecting and assessing control deficiencies.

g. The DON Chief Information Officer shall identify, summarize, and report quarterly any control deficiency deemed a "significant deficiency" in accordance with reference (h).

h. The Assistant Secretary of the Navy (Research, Development and Acquisition) shall:

(1) Develop and maintain policies and procedures consistent with the requirements of Appendix B of reference (b) for the appropriate use of charge cards, with the exception of travel cards; and

(2) Ensure Program Executive Officers and Direct Reporting Program Managers have a clear chain of command for reporting material weaknesses within the scope of their mission.

i. DON Major Assessable Units and their immediate subordinates shall:

(1) Establish IC policy outlining guidance for subordinate activities to meet the intent of the statutory requirements described in references (a) through (h);

(2) Involve management at all levels and advocate accountability for establishing, evaluating, and improving ICs;

(3) Establish a positive control environment throughout their organization;

(4) Oversee the performance of risk assessments within their organization;

(5) Strongly encourage MIC training for managers as outlined in the DON MIC Manual;

(6) Appoint an organization MIC coordinator and alternate responsible for the administration and coordination of the MIC program and its reporting requirements. Incorporate MIC responsibilities into the performance appraisals of the MIC coordinator and alternate. The MIC coordinator and alternate shall:

(a) Ensure that the MIC program and its reporting requirements are completed in a timely manner and are communicated throughout the organization;

(b) Support assessable unit managers as needed;

(c) Obtain MIC training, outlined in the DON MIC Manual, upon assignment of the duty as the MIC coordinator or alternate. After initial training, MIC coordinators and their alternates shall take refresher training every 3 years; and

(d) Apprise organization of MIC training opportunities and track MIC training for MIC coordinator and alternates within their organization.

(7) Take corrective actions that are consistent with laws, regulations, and administrative policy when control deficiencies rise to the level of reportable condition or material weakness; and

(8) Maintain documentation requirements outlined in the DON MIC Manual. The DON documentation requirements for the FMFIA Overall Process include:

- (a) An inventory of assessable units;
- (b) The organization's MIC plan;
- (c) Risk assessment documentation;
- (d) Internal control assessments; and
- (e) Corrective action documentation for reportable conditions and material weaknesses.

j. DON Major Assessable Units as identified in the DON MIC Manual are responsible for all requirements outlined for DON Major Assessable Units and their immediate subordinates and shall submit to the Secretary of the Navy via the ASN(FM&C) an annual MIC Certification Statement for the FMFIA Overall Process. These statements will be the basis for the DON SOA Overall and should be signed by the Assessable Unit Manager.

7. Reports. Reports on the MIC program, as reflected in the DON MIC Manual, have been assigned Report Control Symbol DD-COMP(AR)1618(5200) and are approved for 3 years in accordance with reference (i).



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Under Secretary of the Navy

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## DEFINITIONS

1. Assessable Unit. Any organization, function, program, or subdivision capable of being evaluated by internal control assessment procedures. Assessable units should be divided to ensure the assessable unit manager a reasonable span of control over the internal controls of the assessable unit. It must have clear limits or boundaries, be identifiable to a specific responsible manager. It must be small enough to provide reasonable assurance of adequate internal controls but large enough that any detected control deficiencies may impact the mission. The sum of the assessable units must equal the entire organization.
2. Assessable Unit Manager. The head of the assessable unit. A critical element in his or her performance appraisal plan should address his or her Managers' Internal Control program performance.
3. Control Activities. The policies, procedures, techniques, and mechanisms that enforce management directives. Control activities occur at all levels and help ensure that actions are taken to address risks. Examples of control activities are: top level reviews of actual performance; reconciliation of actual and recorded inventory; access restrictions to classified information; and segregation of duties. This is one of the five standards for internal control prescribed by the Government Accountability Office in reference (f).
4. Control Deficiency. The design or operation of a control that does not allow management or employees (in the normal course of performing their assigned functions) to prevent or detect fraud, waste, abuse or mismanagement in a timely manner.
5. Control Environment. The organizational structure and culture created by management and employees to sustain organizational support for effective internal controls. Within the organizational structure, management must clearly: define areas of authority and responsibility; appropriately delegate the authority and responsibility throughout the agency; establish a suitable hierarchy for reporting; support appropriate human capital policies for hiring, training, evaluating, counseling, advancing, compensating, and

disciplining personnel; and uphold the need for personnel to possess and maintain the proper knowledge and skills to perform their assigned duties as well as understand and be responsible for maintaining effective internal controls within the organization. This is one of the five standards for prescribed by the Government Accountability Office in reference (f).

6. Department of Navy Annual Managers' Internal Control (MIC) Manual. Annual guidance prepared by the Department of Navy that provides detailed information on the implementation of the internal control program. The Guide provides the internal control reporting structure, due dates, submission process, instruction on documentation and reporting requirements, examples of documentation and reporting requirements, and instructions on accessing internal control training. In addition, this guide serves as the Department of Defense MIC Strategy and includes (1) a list of assessable units, (2) the number of scheduled internal control assessments, (3) the number of accomplished internal control assessments, and (4) progress for accomplishing the annual program.

7. Documentation. Documentation of internal control activities is required to the extent needed by management to control its operations effectively and to evaluate the comprehensive nature of their program. Documentation for an Internal Control System is mandated by reference (b) and includes for the FMFIA Overall Process: the Managers' Internal Control Plan, List of Assessable Units, Risk Assessment Documentation, Internal Control Assessments, and Corrective Action Documentation as described in the Department of Navy Managers' Internal Control Annual Manual. Documentation for FMFIA Over Financial Reporting Process includes: Process Narratives, Flow Charts, Organizational Charts, Risk Analyses, Internal Control Assessments, and Corrective Action Documentation. Documentation shall be maintained in accordance with this instruction for subsequent review by management, inspector general, and audit personnel.

8. FMFIA Overall Process. Establishes and assesses internal controls for all program, operational, and administrative controls excluding internal controls over the financial reporting. The FMFIA Overall Process reports reasonable assurance over internal controls (i.e. Unqualified, Qualified, or No Assurance), identifies any material weaknesses found

during the assessment, determines plans and schedules to promptly correct them, and determines if internal controls achieve their intended objectives.

9. FMFIA Over Financial Reporting Process. Establishes the internal controls for financial reporting. Reports reasonable assurance over internal controls to include identifying any material weaknesses found during the assessment with the plans and schedules to promptly correct them.

10. Information and Communications. Information should be recorded and communicated to management, and others who need it, in a form and within a timeframe 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. This is one of the five standards for internal control prescribed by the Government Accountability Office in reference (f).

11. Internal Control. The organization, policies, and procedures that help program and financial managers achieve results and safeguard the integrity of their programs. Synonymous with management control.

12. Internal Control Assessment. A documented evaluation on the effectiveness and adequacy of the internal control system to meet the mission objectives, implemented in a cost-effective way to comply with reference (a).

13. Internal Control Standards (also called the Standards for Internal Control). Issued by the Government Accountability Office per reference (f), these are the Federal standards for internal control. The five internal control standards are: Control Environment, Risk Assessment, Control Activities, Information and Communications, and Monitoring. See individual definitions provided in this enclosure.

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

15. Item to be Revisited. An internal control issue brought to management's attention with insufficient information to determine whether the control deficiency is material or not. These issues will be revisited throughout the following fiscal year to determine the materiality of the control deficiency.

16. Management Control. Synonymous with internal control (see definition above).

17. Managers' Internal Control (MIC) Certification Statement. A statement used by an assessable unit to provide reasonable assurance that internal controls are in place and operating effectively. The MIC Certification Statements prepared by the Major Assessable Units will provide the primary basis for the DON Statement of Assurance.

18. Managers' Internal Control Plan. A brief, written plan (updated as needed) in any format that documents the key elements, mission, strategy, and methodologies used by an organization to assess its internal controls. See the Department of Navy Managers' Internal Control Manual to assist in preparing a Managers' Internal Control Plan.

19. Managers' Internal Control Program. The full scope of management responsibilities as defined in this instruction. These responsibilities include the development of effective internal controls, the evaluation of internal controls and correction of control deficiencies, the use of effective follow-up procedures, and the documentation and reporting requirements of this guidance. A Managers' Internal Control Program is not intended to be a stand-alone program, but rather incorporated into an organization's daily activities. The Managers' Internal Control program has two distinct processes, the FMFIA Overall Process and the FMFIA Over Financial Reporting Process.

20. Material Weakness (FMFIA Overall Process). A reportable condition or combination of reportable conditions, which is significant enough to report to the next higher level. The determination is a management judgment as to whether a weakness is material.

21. Material Weakness (FMFIA Over Financial Reporting Process). 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.

22. Materiality (FMFIA Overall Process). The risk of error or inability to accomplish mission objectives. The level of materiality for each organization is based upon that particular organization's management's judgment. The criteria to consider are the following: threat to mission, threat to resources, and threat to image. Materiality is further outlined in the DON MIC Manual.

23. Materiality (FMFIA Over Financial Reporting Process). The risk of error or misstatement that could occur in a financial report that would impact management's or users' decisions or conclusions based on such a report. Management must consider 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 the day-to-day management and operations are different than the objectives of the third party user of the financial statements, it stands that materiality will be different for each type of report. Materiality is a function of management's professional judgment and discretion.

24. Monitoring. Monitoring the effectiveness of internal controls should occur in the normal course of business. In addition, periodic reviews, reconciliations or comparisons of data should be included as part of the regular assigned duties of personnel. Periodic assessments should be integrated as part of management's continuous monitoring of internal controls, which should be ingrained in the agency's operations. If an effective continuous monitoring program is in place, it can provide the resources needed to maintain effective ICs throughout the year. Deficiencies found in internal controls should be reported to the appropriate personnel and management responsible for that area. Deficiencies identified through internal review or by an external audit should be evaluated and corrected. Monitoring includes establishing follow-up systems to ensure acceptable performance and prompt correction of

control deficiencies. This is one of the five standards for internal control prescribed by the Government Accountability Office in reference (f).

25. Reasonable Assurance. An informed judgment by management as to the overall adequacy and effectiveness of internal controls based upon available information that the systems of internal controls are operating as intended by references (a) through (c).

26. Reportable Condition (FMFIA Overall Process). A control deficiency, or combination of control deficiencies, that adversely affects the ability to meet mission objectives but are not deemed by the Head of the Component as serious enough to report as material weaknesses. These deficiencies were formerly known as "Significant Issues."

27. Reportable Condition (FMFIA Over Financial Reporting Process). 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 in accordance with 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 and will not be prevented or detected.

28. Risk. The probable or potential adverse effects from inadequate internal controls that may result in the loss of resources or cause a command to fail to accomplish 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: complex transactions, pilferable items, and cross-functional processes.

29. Risk Assessment. The identification of internal and external risks that may prevent the organization from meeting its objectives. When identifying risks, management should take into account 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 when identifying risks. Identified risks should then be

analyzed for their potential effect or impact on the agency. Risk Assessment is one of the five standards for internal control prescribed by the Government Accountability Office in reference (f).

30. Senior Accountability Official. The senior official (member of the Senior Executive Service or a Flag Officer) who has the ability to understand and correct a specific material weakness according to the proposed corrective action plan.

31. Senior Assessment Team. A team of senior level executives that provides oversight of assessing and documenting the effectiveness of internal controls over financial reporting.

32. Senior Management Council. A committee or board of senior level executives that convenes to advise the Under Secretary of the Navy on IC matters, to include the identification of IC deficiencies that merit reporting as material weaknesses.

33. Senior Manager. A senior official who is a member of the highest level of management or leadership of the organization.

34. Statement of Assurance. Certification of internal controls of the FMFIA Overall Process and FMFIA Over Financial Reporting Process used to prepare the Department of Defense Performance and Accountability Report in accordance with reference (a). The Statement of Assurance is a department-wide statement used to disclose material weaknesses identified in the annual process and describes plans and schedules to correct any reported material weaknesses.