

CHAPTER 7: MANAGEMENT INTERNAL CONTROLS

7.1 PURPOSE

This chapter highlights the role and importance of a Management Control (MC) Program at each level throughout the Security Cooperation (SC) Community. [The Federal Managers' Financial Integrity Act \(FMFIA\) of 1982 \(Public Law 97-255, H.R. 1526\)](#) requires all Federal agencies to establish a MC system. The Department of Defense (DoD) implements the Managers' Internal Control Program (MICP) through the [Department of Defense Instruction DODI 5010.40](#). The GCC and SCO can also obtain more information on the Department's MICP at the following link: [Department of Defense Manager's Internal Control Program](#).

7.2 MANAGEMENT CONTROL (MC) PROGRAM RATIONALE AND SCOPE

7.2.1 BASIC TENETS

7.2.1.1 The basic tenets of a MC program are to ensure:

- 1) Obligations and costs are in compliance with applicable law
- 2) Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and
- 3) Revenues and expenditures applicable to operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.

7.2.1.2 These controls must be in place and working as an integral part of day-to-day operating procedures. Every supervisor must be personally involved in the establishment, operation, and review of internal controls.

7.2.1.3 MC programs shall provide reasonable, not necessarily absolute, assurance that the objectives of the program are accomplished. Moreover, the cost of administering the program should not exceed the anticipated benefits. It is also understood that the internal control structure is subject to inherent limitations, especially in smaller SCOs. Segregation of duties and management oversight is compounded in smaller SCOs because of limited personnel and the requirements to perform mission requirements when members are absent for valid reasons; however, each SCO needs to ensure appropriate controls and/or oversight are in place regardless of size.

7.2.1.4 Each GCCMD has a very important role in providing oversight and assistance in the development of effective SCO management controls and periodically assessing performance and effectiveness of controls, during staff assistance or performance and effective inspection program visits.

7.2.2 TERMINOLOGY

- Internal Controls - Methods established to accomplish the program
- Assessable Unit (Basic Building Block) - A function, task, activity or procedure
- Assessable Unit Listing - All assessable units maintained by the GCCMD
- Assessable Unit Manager - GCCMD MC functional manager
- Risk Level - Potential degrees (high, medium, or low) of risk of waste, fraud, abuse, and/or mismanagement assigned to an Assessable Unit
- Risk Assessment - Formal documented review conducted by the GCCMD or SDO/DATT
- Alternative Risk Assessment - Informal review of the risk
- Internal Control Review - Detailed examination by the user
- Alternative Internal Control Review - Detailed examination by an external agency
- Material Weakness - Identification of a systematic problem
- Vulnerability Assessment - Review of the susceptibility of a program or function to waste, loss, unauthorized use, or misappropriation

7.2.3 STANDARDS

At a minimum, every SCO MC Program should include the following standards:

7.2.3.1 Documentation. The SCO must implement or use and record all transaction descriptions clearly, and the documentation must be readily available for examination. Fully utilizing SAARMS meets basic MC standards.

7.2.3.2 Recording of Transactions and Events. The SCO shall record and classify transactions and other significant events promptly and clearly. The SAARMS Budget Execution Application records transactions. SAARMS users must understand the various funding categories to include existing expenditures and object classes in order to classify transactions properly, with a clear description of the transaction.

7.2.3.3 Execution of Transactions and Events. Only certified personnel shall authorize and execute transactions and other significant events. For instance, prior to the commitment or obligation of funds, the SCO must ensure sufficient funds are available. Further, the SCO must adhere to any directed funding limits (e.g., ceilings, "fencing") for various categories of expenses, such as representational authority.

7.2.3.4 Separation of Duties. The SDO/DATT shall establish separate duties and responsibilities in authorizing, processing, recording, and reviewing transactions among personnel. Where SCO manpower levels permit, the duties of a SCO Fiscal Technician (e.g., recording transactions) should be distinct from those of a SCO Fiscal Officer (e.g., setting budget limits). Moreover, the funds certification process – the responsibility of a SCO Budget Officer – should be separate from the bill paying process.

7.2.3.5 Supervision. The SDO/DATT shall provide supervision to ensure that MC objectives are met. The supervisory responsibility starts with the SDO/DATT and filters down the internal chain of command as applicable.

7.2.3.6 Access to and Accountability for Resources. Access to resources and records shall be limited to authorized individuals, and accountability for the custody and use of resources must be assigned and maintained. This MC standard extends to the overall administrative, financial, and property management of the SCO. For instance, the SCO should maintain a long-distance telephone log to track official calls and periodically reconcile this log to telephone bills to identify any unauthorized calls. The frequency of reconciliation is a function of the *vulnerability* of the asset.

7.2.3.7 This control further implies *independent checks of records and reports*. Simply stated, the initiator of a record should not be the reviewer of a record. The SCO Fiscal Officer should check the records of the SCO Fiscal Clerk, and the SDO/DATT should periodically check the work of both personnel.

7.2.3.8 Starting with the SDO/DATT, periodic *management reviews* should be conducted to ensure compliance with established procedures. The GCCMD is responsible for conducting management reviews as part of the ongoing Inspector General schedule.

7.2.4 ROLE OF THE SDO/DATT

7.2.4.1 The MC process involves the commitment of all SCO personnel. The SDO/DATT performs the informal *risk assessment* for each *assessable unit* using the *Assessable Unit Listing* to review the implementation and adequacy of the SCO's MC program each September. The SDO/DATT reports once a year on the MC program status to the GCCMD. The GCCMD must report annually to the SECDEF on the MC Program status within the GCCMD.

7.2.4.2 The SCO MC Program Point of Contact has the following responsibilities: document the program, teach assigned personnel about the program, ensure internal control reviews or alternative internal control reviews are conducted, and document performance of

those alternative internal control reviews. Other SCO members and attached personnel should implement the MC program in the day-to-day procedures.

7.2.5 PRACTICAL STEPS IN A MC PROGRAM

There are four basic steps in a successful MC Program:

7.2.5.1 Document the Management Controls. Use standard operating procedures (SOP) to identify how the various programs should work and who is responsible for each program.

7.2.5.2 Train personnel. The SDO/DATT should ensure all SCO personnel are familiar with the MC program and the SOPs.

7.2.5.3 Review the MC Program. The SCO should perform regular inspections of the MC Program, to ensure that SOPs are being followed. This may entail having the Defense Attaché Office inspect the SCO periodically.

7.2.5.4 External Review. The SCO should be inspected by an outside agency (Inspector General, Staff Assistance Visit (SAV), etc.) about every 18-24 months. This ensures that the program gets reviewed by non-invested personnel.

7.3 SUMMARY

In compliance with statutory and DoD regulatory requirements, all units, including SCOs, must have a Management Control Program. Proper understanding and implementation of the program will ensure better management and oversight to avoid any material weaknesses that could result in fraud, waste, abuse, or mismanagement.