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SECRETARY OF THE AIR FORCE**

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Financial Management

**MANAGERS' INTERNAL CONTROL
PROGRAM PROCEDURES**



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This instruction implements Air Force Policy Directive (AFPD) 65-2, *Managers' Internal Control Program*. It provides a structure to establish, evaluate, and report on Air Force internal controls in all functional areas including Special Access Programs. This Air Force Instruction (AFI) applies to all Air Force organizations, including Air Force Reserves and Air National Guard (ANG) units. This AFI may be supplemented at any level, but all supplements that directly implement this instruction are routed to SAF/FMF for coordination prior to certification and approval. Refer recommended changes and questions about this publication to the Office of Primary Responsibility (OPR) using the AF Form 847, *Recommendation for Change of Publication*; route AF Forms 847 from the field through the appropriate chain of command.

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SUMMARY OF CHANGES

This revision incorporates the following changes. The office of primary responsibility (OPR) changed from SAF/FMPA to SAF/FMFA. The addition of the definition and reporting requirements for control deficiencies and significant deficiency, revision of the objectives of the Managers' Internal Control Program (MICP). Revision of the descriptions of the operational and administrative controls, financial reporting functions and integrated financial management systems. Revision of the forms of assurance for the Statement of Assurance (SoA) as follows, an unmodified, modified or a statement of no assurance.

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Chapter 1

GOALS AND RESPONSIBILITIES

1.1. Introduction. To meet the requirement of the Federal Managers' Financial Integrity Act (FMFIA), all government agencies must establish, evaluate and report on internal controls, and submit an annual Statement of Assurance (SoA) to the President and the Congress.

1.1.1. Managers must:

1.1.2. Apply controls to all administrative, operational, and programmatic functions as well as accounting and financial management; (T-0)

1.1.3. Ensure internal control costs do not exceed the expected benefits; (T-0)

1.1.4. Use the annual SoA to report: (T-0)

1.1.4.1. Compliance with the FMFIA;

1.1.4.2. Administrative, operational, programmatic and financial management internal control material weaknesses; and,

1.1.4.3. Plans for taking corrective action to mitigate material weaknesses.

1.2. Objectives. The Managers' Internal Control Program (MICP) establishes the framework for the Air Force to assess the effectiveness of internal controls and provide reasonable assurance that internal controls comply with three objectives:

1.2.1. Effectiveness and efficiency of operations

1.2.2. Reliability of financial reporting.

1.2.3. Compliance with applicable laws and regulations.

1.3. Internal Control Standards. Managers have the fundamental responsibility to establish and maintain internal controls in accordance with the Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Internal Control* and the United States Government Accountability Office (GAO) *Standards for Internal Control* (GAO/AIMD-00-21.3.1). The OMB Circular A-123 specifically outlines five standards providing the basis against which internal control is to be evaluated, to include all aspects of operations whether programmatic, financial or compliance. The five standards are:

1.3.1. Control Environment. Understanding management's attitude, awareness, and actions, clearly defined authority and responsibility, appropriate delegation of authority and responsibility, integrity and ethical standards, commitment to competence, hierarchy for reporting, proper support for human capital hiring, training, advancing and disciplining.

1.3.2. Risk Assessment. Identifying internal and external risks, taking into account previous audit findings, inspections and other assessments, and known instances of noncompliance with laws, regulations and policies; then analyzing risk for potential effect and impact. Some significant events can affect risk, these include: complexity or magnitude of programs or new operations, extent of manual processes, related party transactions, decentralized versus centralized accounting, accounting estimates, new programs, new personnel, new technology, new or amended laws, regulations or accounting standards.

1.3.3. Control Activities. The policies, procedures, and mechanisms in place that ensure management's directives are carried out, such as proper segregation of duties, physical control over assets, proper authorization, appropriate documentation and access to documentation, analytical review and analysis, and safeguarding information.

1.3.4. Information and Communications. Information should be communicated to relevant personnel at all levels within an organization. The information should be relevant, reliable, and timely. It is also crucial that an agency communicate with outside organizations as well, whether providing information or receiving it.

1.3.5. Monitoring. Management should conduct periodic reviews to determine the effectiveness of internal controls through self-assessment by management, direct testing or evaluations from the Inspector General (IG), auditors, or other assessment organizations. The assessment should include obtaining an understanding of the major types of activities the agency uses to monitor internal control and how those activities are used to initiate corrective actions. Every step of the assessment process should be documented.

1.4. Roles and Responsibilities. Note: The MICP roles are inherently governmental. Only civilian employees and/or military members of the Air Force, to include direct-hire foreign national employees, are authorized to serve in the MICP roles listed below. Contractors or indirect-hire foreign national employees are not authorized to serve in the MICP roles indicated; however, contractors or indirect-hire foreign nationals may assist with most administrative tasks related to the preparation of the annual statement of assurance.

1.4.1. Secretary of the Air Force (SECAF): As the Head of a Department of Defense (DoD) component, the Secretary of the Air Force signs and submits an annual SoA to the Secretary of Defense on the assessment of the Air Force's internal controls.

1.4.2. The Assistant Secretary, Financial Management and Comptroller (SAF/FM): Serve as the MICP Senior Responsible Official for ensuring that the evaluation of, improvement of, and reporting on the Air Force internal control system meets the requirements of the FMFIA, OMB and DoD regulations. SAF/FM also serves as the Chair of the Air Force Senior Assessment Team (SAT) (See paragraph 1.4.11.).

1.4.2.1. SAF/FM will ensure the Department provides separate and explicit levels of assurance in the Secretary's statement to address these three distinct processes:

1.4.2.2. Operational and administrative controls relevant to all mission-essential functions throughout the Air Force.

1.4.2.3. Financial reporting functions for the Air Force General Fund and the Air Force Working Capital Fund, as assessed under the oversight of the senior assessment team. (See chapter 4).

1.4.2.4. Integrated financial management systems (IFMS) conformance with Federal requirements (See chapter 5).

1.4.3. The Deputy Assistant Secretary of the Air Force Financial Operations (SAF/FMF): is appointed the Director of the MICP. SAF/FMF is the executive agent for providing overall guidance and direction for implementing the Air Force MICP. SAF/FMF will, through SAF/FMFA:

1.4.3.1. Provide policy for implementing the FMFIA and issue administrative guidance and instructions.

1.4.3.2. Analyze documents from Congress, GAO, OMB, the Comptroller General, the Office of the Secretary of Defense (OSD), and others related to the FMFIA to identify and affect needed changes to the Air Force MICP.

1.4.3.3. Advise and represent the SAF/FM on matters involving the Air Force MICP.

1.4.3.4. Manage the MICP through an extensive network of Program Administrators (PA) as defined in paragraph 1.4.5.

1.4.3.5. Conduct quality assurance reviews of Primary Reporting Element (PRE) programs.

1.4.3.6. Issue a call letter for PRE supporting statements in the 2nd Quarter of each program year.

1.4.3.7. Receive and process PREs inputs and prepare and initiate coordination action for the overall Air Force Annual Statement of Assurance for the Secretary's signature.

1.4.3.8. Track and report on the status of material weakness corrective action milestones.

1.4.3.9. Respond to inquiries from auditors, DoD, OMB, GAO and the Congress concerning the MICP.

1.4.3.10. Coordinate with the Air Force Auditor General (SAF/AG), Headquarters Air Force (HAF) and PRE functional proponents to identify internal control weaknesses that merit reporting as material weaknesses in the Secretary's SoA.

1.4.3.11. Develop internal control and MICP training materials for use by PREs and their assessable unit managers.

1.4.3.12. Serve as the focal point for the Air Force Internal Controls Over Financial Reporting (ICOFR) program and, in addition, FMF shall:

1.4.3.12.1. Issue annual ICOFR guidance and training as required.

1.4.3.12.2. Review and consolidate ICOFR deliverables for submission to DoD.

1.4.3.12.3. Maintain a central repository to store MICP supporting documentation.

1.4.3.12.4. Prepare and coordinate the risk assessment over American Recovery and Reinvestment Act (ARRA) expenditures and other assessments as required by DoD.

1.4.4. Secretariat, Air Staff, MAJCOM, ANG and DRU:

1.4.4.1. All MAJCOMs, the Air Force Operational Test and Evaluation Center, United States Air Force Academy, Air National Guard (ANG), Army & Air Force Exchange Service, and the Air Force District of Washington are PREs of the Air Force MICP. Resource Directorate, Office of Administrative Assistant to the Secretary of the Air Force (SAF/AAR) serves as the PRE headquarters for all Secretariat and Air Staff offices.

SAF/FM will report directly to the SECAF, due to its unique reporting requirements specific to the ICOFR and Internal Controls Over Financial (ICOFS). The heads of these organizations are the Air Force's highest level Assessable Unit Managers (AUM) who direct the MICP within their organizations. Specifically, these organizational heads must:

1.4.4.2. Appoint a Program Administrator (PA) to manage the overall MICP and ensure program compliance through regular internal MICP reviews. (T-0) The Program Administrator shall be in the financial management and comptroller organization. (T-1) **EXCEPTION:** At locations without a financial management organization (for example, Secretariat or Air Staff) the organization head designates the office to perform PA duties; (T-1)

1.4.4.3. Establish internal controls to mitigate risks and to meet the objectives of the MICP; (T-0)

1.4.4.4. Communicate overall risk management priorities to the PRE's assessable units; (T-1)

1.4.4.5. Evaluate internal controls to ensure cost does not exceed the benefit derived from implementing the control; (T-1)

1.4.4.6. Prepare an annual statement, which states whether or not there is reasonable assurance that the objectives of the MICP were met. (T-0) The annual statement must be signed by the commander or commander's principle deputy and may not be delegated. (T-1) These statements collectively form the support for the Secretary of the Air Force's Annual SoA to the Secretary of Defense;

1.4.4.7. Ensure compliance in response to SAF/FM direction on MICP implementation and report progress on the status of material weakness corrective actions; (T-1)

1.4.4.8. Determine Assessable Units (AU) and Assessable Unit Managers (AUM) (See paragraph 2.2.); (T-1)

1.4.4.9. Prepare a management control plan (See paragraph 2.3.); (T-1)

1.4.4.10. Conduct and/or support ICOFR and ICOFS assessments as directed by the Air Force SAT; and, (T-1)

1.4.4.11. Ensure that AUMs are provided appropriate training for effective and continued operation of the MICP (See paragraph 1.4.5.4.). (T-1)

1.4.4.12. Secretariat and Air Staff organizations who oversee field activities must include their Field Operating Agency (FOA) in their MICP. They may require separate FOA management control plans and PAs. The oversight principal may have the FOA commander provide a separate supporting SoA. They should include documents that show the FOA's compliance with the MICP to support the principal's statement.

1.4.4.13. Subordinate organization commanders are responsible for their internal controls. Each commander must: Establish internal controls to meet program objectives and continuously monitor and improve the effectiveness of internal controls. (T-1) Furnish, upon request by higher headquarters, a statement giving reasonable assurance

that they have met the objectives of the MICP. (T-1) Carry out MICP responsibilities as higher headquarters delegates. (T-1)

1.4.5. **Program Administrator.** PAs form the MICP focal point network.

The PA will:

- 1.4.5.1. Prepare and maintain the PRE's Assessable Unit (AU) Inventory as a part of the Management Control Plan (MCP) (See paragraph 2.3.). (T-1)
- 1.4.5.2. Recommend AU composition to the PRE commander (See paragraph 2.2.). (T-1)
- 1.4.5.3. Ensure subordinate SoAs meet the required documentation standards (See paragraph 3.3.). (T-1)
- 1.4.5.4. Instruct AUMs on the concept of internal control assessments and provides training on the MICP goals, policies, and procedures. (T-1)
- 1.4.5.5. Monitor AU internal control program activity, provide appropriate feedback, and report program status as required by the PRE. (T-1)
- 1.4.5.6. Track and report on the status of corrective actions taken on material weaknesses.(T-1)
- 1.4.5.7. Draft the PRE's Annual SoA. (T-1)
- 1.4.5.8. Perform periodic quality control assessments of both the MICP activity and the reporting process. (T-1)
- 1.4.5.9. Be properly trained on the PRE's MICP procedures within 30 days of assignment and prior to drafting the PRE's Annual SoA. (T-1) Training is documented as a part of the PRE's MCP.
- 1.4.5.10. Be appointed in writing by the commander or commander's designee. (T-1)

1.4.6. **Assessable Unit Managers.** The AUM is the principle manager or head of the assessable unit with authority and responsibility over the internal controls of the assessable unit.

The AUMs are responsible for their organization's internal controls. AUM responsibility may apply at any management level, including the PRE to the smallest organization as determined by the PRE. AUMs should have an understanding of key processes, internal controls, and associated risks. AUMs are responsible for the continual monitoring, testing and improvement of internal controls. For available training resources, AUMs should contact their PAs. AUMs must operate an effective internal control system, evaluate the control system, and correct known weaknesses. (T-1) Whether controls apply to administrative, operational, or programmatic functions, the assessable unit manager must develop, implement, and maintain an internal control system as an integral part of the process used to operate the organization. (T-1) Each AUM must:

- 1.4.6.1. Establish internal controls based on a documented risk assessment to meet program objectives. (see paragraph 2.4.) (T-1)
- 1.4.6.2. Continuously monitor and improve the effectiveness of internal controls. (T-1)
- 1.4.6.3. Furnish, upon request by higher headquarters, an annual statement giving reasonable assurance that they met the objectives of the MICP. (T-1)

1.4.6.4. Carry out MICP responsibilities as higher headquarters delegates. (T-1)

1.4.6.5. Identify significant deficiencies in internal controls to the next higher level of management. (T-1)

1.4.6.6. Ensure that internal control assessments are performed completely, accurately, and adequately. (T-1)

1.4.6.7. Be evaluated in their performance appraisal plan, IAW the OMB Circular A-123 chapter V. (T-1) *Correcting Internal Control Deficiencies*, AFI 36-1001 *Managing Civilian Performance Plans*, paragraph A3.2.3., and the GAO/AIMD-00-21.3.1. *Standards for Internal Controls - Management of Human Capital* on the correction of internal control weaknesses. The concept of internal control should be a part of the functional statements, job descriptions and standards against which managers are evaluated. (T-1)

1.4.7. **Assessable Unit Administrator (AUA):** AUAs administer the MICP within their AU. The AUM may fulfill the role of the AUA if necessary. An AUA will:

1.4.7.1. Actively follow-up and report on internal control weaknesses identified by the MICP. (T-1)

1.4.7.2. Closely coordinate with the PA on all aspects of the AUs MICP. (T-1)

1.4.7.3. Notify the AUM of significant deficiencies and potential material weaknesses. (T-1)

1.4.7.4. Draft the AU's annual SoA for the AUM. (T-1)

1.4.8. **Functional OPR:** Functional OPRs conduct and report on the internal control assessments for their section, program, or function under an AU and will:

1.4.8.1. Provide the subject matter expertise to properly design and implement internal controls in their respective areas. (T-1)

1.4.8.2. Report on the status of internal controls and internal control assessments to the AUM and AU Administrator. (T-1)

1.4.8.3. Implement corrective action plans to mitigate internal control weaknesses. (T-1)

1.4.9. **The Air Force Auditor General (SAF/AG):** The SAF/AG, through the Air Force Audit Agency (AFAA) will:

1.4.9.1. Evaluate, during the normal course of audits, the effectiveness of internal controls, the adequacy of internal control evaluations, and the adequacy of actions taken to correct material weaknesses.

1.4.9.2. Identify in an annual report to SAF/FM proposed Air Force-level material weaknesses for possible reporting in the Secretary's Annual SoA no later than 30 April.

1.4.10. **The Air Force Inspector General (SAF/IG):** The offices of the Inspector General may, on their own initiative or at the request of the commander, perform special internal control reviews, studies, or other analyses, as either separate reviews or in conjunction with other efforts.

1.4.11. **The Air Force Senior Assessment Team (SAT):** A team of senior level executives chaired by SAF/FM that provides oversight of assessing and documenting the effectiveness of internal controls for FMFIA ICOFR and ICOFS and provides oversight and risk management for ARRA expenditures, IAW the DoDI 5010.40, *Managers' Internal Control Program (MICP) Procedures*. At minimum, the SAT is responsible for ensuring: 1) the objectives are clearly communicated; 2) the assessments are carried out in an effective and timely manner; 3) adequate funding and resources are available; 4) the resources to perform the assessments are identified; 5) the scope of the assessments are defined; 6) the assessments design and methodology are determined; and, 7) the prompt correction of weaknesses.

1.4.12. **The Air Force Financial Improvement Executive Steering Committee (ESC):** The Financial Improvement ESC is comprised of senior level executives charged with oversight of the Financial Improvement Plan and serves as the Air Force SAT, IAW the DoDI 5010.40, *Managers' Internal Control Program (MICP) Procedures*.

Chapter 2

PROCEDURES

2.1. MICP Implementation. The Air Force will implement the MICP at all levels. (T-1) Leadership includes as part of their basic management philosophy a culture to sustain organizational support for internal controls and internal control processes to improve effectiveness and accountability for results. Managers prevent this process from becoming an isolated exercise. Periodic assessments should be integrated as part of management's continuous monitoring of internal control. To the greatest extent possible, the MICP should be consolidated with daily operating and management practices and utilize existing evaluative processes.

Managers will implement the MICP as follows:

2.1.1. Segment the organization into assessable units. Divide each primary and subordinate reporting organization into entities capable of being evaluated by internal control assessment procedures as outlined in paragraph 2.2; (T-1)

2.1.2. Develop a management control plan as defined in paragraph 2.3; (T-1)

2.1.3. Perform a risk assessment to identify potential hazards that prevents the AU from achieving its objectives, document findings and implement the internal controls necessary to mitigate the risks as defined in paragraph 2.4; (T-1)

2.1.4. Conduct and document internal control assessments as described in paragraph 2.5.2; (T-1)

2.1.5. Develop and implement corrective action plans for identified deficiencies and weaknesses as outlined in paragraph 2.6; (T-1) and,

2.1.6. Prepare a SoA that provides an overall level of assurance of the effectiveness of internal controls as described in paragraph 3.2, and discloses internal control material weaknesses. (T-1)

2.2. Segmentation.

2.2.1. PREs should be segmented along organizational, programmatic, or functional lines into AUs so that all subcomponents or organizations under the direct authority, supervision, and/or responsibility of the Department of the Air Force are identified as a separate and distinct AU or are included as a part of another AU. The sum of the AUs encompasses the entire organization. No Air Force activity or program is exempt from the requirements of the MICP. This includes all personnel assigned to Air Force organizations and reporting organizations for which the Air Force serves as the executive agent.

2.2.2. PREs may determine how far the segmentation should progress in order to achieve adequate oversight of internal control responsibilities. Designate AUs of appropriate nature and size that a single manager may be held responsible for the assessment of internal controls. To the extent practical, standardize AUs and associated internal controls for the operation of common functions and activities throughout organizations.

2.2.3. AUs are mandated to meet the following criteria:

2.2.3.1. Have clear limits or boundaries and be identifiable to a specific responsible manager;

2.2.3.2. Be large enough to allow observations that provide reasonable assurance that internal controls are in place and adequate, but not so large that any material weakness goes un-detected. The AUM should have a span of control to be able to actively participate in the review process.

2.2.3.3. For activities or functions that are contracted out, Air Force managers performing related functions that are inherently governmental in nature (for example, property accountability, contract administration, and quality assurance) must form the assessable unit over that activity or function. (T-1)

2.3. Management Control Plan (MCP).

2.3.1. PREs identified in paragraph 1.4.4.1 shall establish and maintain a comprehensive MCP detailing the PRE's assessable units and the processes and procedures for conducting the MICP. (T-1) An AU inventory is maintained in a MCP which should be updated at least annually. (T-1)

2.3.2. The MCP includes at a minimum: number of AUs, title of each AU, responsible AUM, date of last MCP review, responsible AUA, status of AUM training, material weaknesses and significant deficiencies, if reported, and corrective action plans, if applicable.

2.4. Risk Assessment.

2.4.1. Prior to assessing risk, management must establish a clear mission and objectives for the assessable unit. (T-1)

2.4.2. A risk assessment determines where a potential hazard exists that might prevent the organization from achieving its objectives. The risk assessment should be updated as policies, procedures and missions change within the AU. Asking the following questions may help to identify risks:

2.4.2.1. What could go wrong in the process?

2.4.2.2. What processes require the most judgment?

2.4.2.3. What processes are the most complex?

2.4.2.4. What has to go right for mission success?

2.4.2.5. How could we fail to accomplish our objectives?

2.4.2.6. How do we know whether we are achieving our objectives?

2.4.2.7. Where are our vulnerable areas?

2.4.3. Management should identify and document risks that are internal and external to the organization as a part of standard operating procedures. Specific analysis methods can vary by organization due to varying mission requirements and difficulty assigning qualitative and quantitative risk levels. Management should consider the significance of the risk (low, medium, high), likelihood of occurrence, and what actions should be taken.

2.4.4. Management should also consider the following when assessing risk: previous reports and findings; e.g., auditor identified, results of internal management reviews, non-compliance with laws, regulations, policies and procedures within the organization.

2.4.5. Management should consider mechanisms for assessing special risks associated with changing environment and mission conditions. Existing risk management programs and tools should be leveraged where possible. Procedures and policies outlined in AFI 90-901, *Operational Risk Management*, may be used as a basis for MICP risk assessments; however, safety programs alone do not address all potential risks an assessable unit may face in accomplishing its mission and safeguarding its assets. Risk assessments, as a part of safety programs, contribute to, but do not likely fully satisfy the requirement for an AUM to assess risks under the MICP.

2.5. Internal Control Assessment.

2.5.1. AUMs are responsible for continuously monitoring their internal controls.

2.5.2. Internal control assessments are performed by or at the direction of AUMs to determine whether internal controls exist, are correctly implemented, and to ensure that internal control systems are working effectively to mitigate risks. Internal control assessments are of two broad types: 1) a specific detailed examination of internal controls in a prescribed review format especially designed for that purpose, (see paragraph 2.5.5.) or 2) using a variety of assessment processes that provide adequate information regarding the effectiveness of control techniques (see paragraph 2.5.4.).

2.5.3. AUMs must:

2.5.3.1. Develop and communicate a written description of the organizations goals and corresponding internal controls. These descriptions may already exist in current regulations, standard operating procedures, and other similar documentation. (T-1) If the observed controls differ from the AU's written description, the AUMs will update the description of the controls; (T-1)

2.5.3.2. Evaluate their internal controls so that excessive controls can be eliminated and weak controls can be improved; (T-1) and,

2.5.3.3. Ensure internal control assessments are documented and the documentation is maintained as a part of the AU MICP and in compliance with AFRIMS. (T-1)

2.5.4. In order to streamline the process of reviewing internal control systems, DoDI 5010.40, *Managers' Internal Control Program*, encourages managers to rely on existing internal control reviews. Managers shall not duplicate existing reviews that have included a specific assessment of internal controls and are properly documented. (T-1) Managers are encouraged to utilize the following sources of information for existing internal control assessments:

2.5.4.1. Management and oversight reviews;

2.5.4.2. Computer security reviews;

2.5.4.3. Air Force Audit Agency (AFAA), Department of Defense Inspector General (DoDIG) and GAO audits, inspections, or investigations;

2.5.4.4. Annual assessments performed in accordance with other statutory requirements such as the Federal Information Security Management Act (FISMA), Government Performance and Results Act, Improper Payments Information Act, and Clinger-Cohen Act;

2.5.4.5. System compliance reviews;

2.5.4.6. Program evaluations;

2.5.4.7. Self-inspection program, Staff Assist Visits (SAV);

2.5.4.8. Unit Compliance Inspections (UCI); and,

2.5.4.9. Quality Assurance (QA) reviews.

2.5.5. If an existing assessment of controls is not available, then an appropriate internal control review is performed for the assessable unit. Locally developed review formats are used and shall be completed with consideration of the Internal Control Standards (paragraph 1.3.). The Air Force has developed a standard review format that can also be used for this purpose. It conforms to all program requirements of OMB and DoD, and is available from the SAF/FMFA program office. The standard format is a simple and uniform way of conducting and documenting the accomplishment of an internal control evaluation.

2.6. Corrective Action Plan:

2.6.1. An AUM must prepare and implement a corrective action plan for all internal control material weaknesses as they are identified. (T-1) The correction of internal control weaknesses is an integral part of management accountability and is considered a priority. It makes no difference if the weakness is systemic or if the weakness is merely a failure to follow established procedures. In both cases, the weakness is reported and corrected.

2.6.2. The recommendations for corrective action correlate with the risk. In some cases management should strengthen the existing controls, and in others, management should include new controls. Managers must always consider the materiality of the weakness and the cost implications of actions to correct it when determining a corrective action plan. (T-1)

2.6.3. A corrective action plan identifies specific actions and completion dates for correcting the material weakness. The plan lists the tasks, called milestones, together with interim target dates for accomplishment. Milestones may be revised as required. The final milestone is one of verifying that the corrective actions achieved the desired results.

2.6.4. For internal control deficiencies that are not included as material weaknesses in the SoA, corrective actions are developed and tracked internally at the appropriate level.

2.6.5. The performance appraisal of the responsible senior management official for correction of material weaknesses reported in the Secretary's SoA evaluates the effective and timely resolution of the material weakness IAW DoDI 5010.40.

Chapter 3

REPORTING

3.1. General. The reports relating to the MICP have been assigned Report Control Symbol DD-Comp AR 1618. The Undersecretary of Defense, Comptroller (OUSD(C)) issues reporting guidelines and formats for all required reports. SAF/FM will issue appropriate call letters to PREs transmitting the prescribed guidance and current reporting formats.

3.2. Air Force Statement of Assurance:

3.2.1. SAF/FM will prepare the Air Force SoA according to instructions received from the OUSD(C). The statement provides the Secretary of the Air Force's level of reasonable assurance of the effectiveness of Air Force internal controls. A single cover memorandum states the senior management assessment as to whether or not there is reasonable assurance that the Air Force's internal controls are in place and operating effectively in three distinct processes.

3.2.1.1. Operational and administrative controls assessment relevant to all mission-essential functions throughout the Air Force.

3.2.1.2. Financial reporting assessment relevant to the Air Force General Fund and the Air Force Working Capital Fund functions assessed under the oversight of the SAT. (See chapter 4).

3.2.1.3. Financial Systems Assessment relevant to the integrated financial management system's conformance with Federal requirements (See chapter 5).

3.2.2. Each assessment takes one of the following forms:

3.2.2.1. Unmodified statement of assurance. An unmodified SoA provides reasonable assurance that internal controls are effective with no material weaknesses.

3.2.2.2. Modified statement of assurance. A modified SoA provides reasonable assurance that internal controls are effective with the exception of one or more material weakness. The SoA must cite the material weaknesses in internal controls that preclude an unmodified statement.

3.2.2.3. Statement of No Assurance. A statement of no assurance provides that no assurance can be provided that internal controls are effective because few or no assessments were conducted or the noted material weaknesses are pervasive across many key operations.

3.2.3. Where the annual SoA provides an unmodified statement of assurance, it is supported by clear indications that AUMs understand and adhere to the GAO Standards for internal control in the Federal Government, are formally held accountable for the effectiveness of their internal controls, have evaluated key internal controls as applicable to the AU, reported material weaknesses, if any, and have taken corrective action to resolve them.

3.2.4. Where the annual SoA provides a "modified" statement of assurance, the area or areas in question are specified and related to material weaknesses being reported.

3.2.5. The body of the statement provides a description of how the MICP was implemented during the year, improvements and innovations to the program, overview of training, disclose material weaknesses, describe the plans and schedules for correcting those weaknesses, and give the status of corrective actions on prior year weaknesses.

3.3. Supporting Statements of Assurance:

3.3.1. Each PRE must submit a supporting operational and administrative control SoA that provides an overall level of assurance as described in paragraph 3.2.2. (T-1) These supporting statements formulate the collective basis for the Secretary's SoA. (T-1)

3.3.2. SAF/AA and SAF/FM will address their SoA to the Secretary of the Air Force. All other PREs will address their SoA to the Chief of Staff of the Air Force. (T-1) All statements are due on the date designated by the annual call letter. PRE supporting statements are submitted to SAF/FMFA for review and to support development of the Secretary's SoA.

3.3.3. Field Operating Agencies (FOA) will address their statements, if required by provisions of paragraph 1.4.4., to the appropriate Secretariat or Air Staff oversight organization. (T-1) Accordingly, oversight organizations' supporting SoA will include responsibility for the evaluation and reporting on internal controls of their designated FOAs. (T-1)

3.3.4. PREs must develop a building block process to support their annual statements. (T-1) A supporting letter or SoA from each echelon to the next higher echelon as determined in paragraph 2.2. is mandated. These submissions serve as supporting documentation to the PRE statement and are maintained in compliance with the AF Records Disposition Schedule in AFRIMS.

3.3.5. The SoA completed at the subordinate level may disclose weaknesses of varying degrees of significance to the PRE as a whole. Management shall collect, analyze and document those crosscutting weaknesses or items common to several units and other significant deficiencies and consider whether they are appropriate for inclusion in the SoA to the next higher-level official. (T-1) Reference the DoDI 5200.1-R *Information Security Program*, to ensure documents containing potential weaknesses and deficiencies are properly marked and safeguarded if necessary.

3.3.6. The supporting SoA is based on management's assessment of the effectiveness of internal controls as of the end of the current fiscal year. Practical considerations of preparing a year-end statement in advance of the completion date may require an earlier cutoff date for internal processing and coordination. Significant findings, after the administrative cutoff date, are forwarded immediately to the AU's next level of management for amendment to its supporting statement. Administrative results and minor findings are reported in the subsequent reporting period.

3.4. Concept of Reasonable Assurance:

3.4.1. In the context of the FMFIA, "reasonable assurance" refers to a satisfactory level of management confidence that internal controls are adequate and operating as intended. Inherently a management judgment, reasonable assurance recognizes that acceptable levels of risk exist due to outside factors which cannot be avoided or the cost of management's ability to achieve absolute control would exceed the benefits derived.

3.4.2. The determination of reasonable assurance is a subjective management judgment. The subjectivity of this judgment can be reduced significantly by considering the following:

3.4.2.1. The degree to which all AUMs understand and adhere to the GAO *Standards for Internal Control in the Federal Government* and the OMB Circular A-123.

3.4.2.2. The degree to which AUMs are held formally accountable for the effectiveness of their internal controls and are evaluated on their performance in this regard.

3.4.2.3. The timeliness, adequacy, and results of internal control evaluations, including the correction of any internal control weaknesses detected.

3.4.2.4. Assessments from other sources (for example, audits, inspections, and investigations); media coverage; and direct management reviews or assessments by senior officials.

3.4.2.5. Supporting SoA from subordinate AUMs.

3.5. Classification of Control Deficiencies.

3.5.1. Deficiencies in internal controls must be reported by the AUM if they are deemed to be material to the AU. (T-1) Noncompliance with existing internal controls or ineffective internal controls shall be reported by the responsible AUM as a part of their supporting SoA. (T-1)

3.5.2. Subordinate AUMs must report deficiencies that are either material enough to warrant the attention of more senior management or require the participation of more senior management to resolve. (T-1) This information may be modified by management as it is reported forward. As part of the aggregation process, senior management may delete less significant control deficiencies and may add new items which apply at more senior organizational levels. Thus, what may be a material weakness at one level may not be material at the next higher level. If the decision is made to exclude a material weakness during the reporting process, this decision is clearly documented and retained as a part of the AU's MCP for review. This process culminates with the PRE denoted in paragraph 1.4.4., reporting their most significant internal control problems in their supporting SoA. **EXCEPTION:** "Significant Deficiencies" identified from evaluations conducted in accordance with the FISMA of 2002 are reported as a material weakness under ICOFS (See chapter 5).

3.5.3. A 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 satisfactorily accomplish their assigned functions or inhibits the prevention or detection of misstatements on a timely basis. Control deficiencies are internal to the Assessable Unit and listed in the MCP of the reporting AU.

3.5.4. An overall significant deficiency is a control deficiency or combination of control deficiencies that in management's judgment, represents deficiencies in the design or operation of internal controls that could adversely affect the organization's ability to meet its objectives. A significant deficiency specifically related to financial reporting is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles. The criteria for a significant deficiency means

that there is more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected. Significant deficiencies are internal to the Assessable Unit and listed in the MCP of the reporting AU.

3.5.5. To be considered material, a weakness must meet the following two conditions:

3.5.5.1. It must involve a weakness in internal controls, such as the controls are not in place, are not being used or are inadequate. Resource deficiencies in themselves are not internal control weaknesses.

3.5.5.2. It must warrant the attention of the next level of command, either because that next level must take action or because they must be aware of the problem. This requires management's judgment, particularly in determining whether the next level of command must be aware of a weakness. The fact that a weakness can be corrected at one level does not exclude it from being reported to the next level; demonstrating the ability to effectively identify internal control weaknesses is one of the primary reasons for reporting a material weakness.

3.5.6. Material weaknesses are defined as having the potential to:

Impair or potentially impair essential operations or mission, violate statutory or regulatory requirements, deprive the public of needed government services, endanger national security, cause adverse publicity or embarrassment, diminish credibility or reputation, lead to waste or loss of funds, property, or other resources, allow fraud or other criminal activity to go undetected, cause harm, even though minor individually, because it can be extensive in the aggregate, or cause loss of control over a significant amount of the resources for which an organization is responsible (including resources other than money; i.e., personnel, equipment, etc.).

3.5.6.1. Material weaknesses can be identified by other organizations, such as OSD functional offices, GAO, DoDIG, or AFAA. AUMs give strong consideration to these recommendations and work toward a consensus on material weakness reporting with these offices.

3.6. Material Weakness Quarterly Reporting:

3.6.1. All PRE's must provide a quarterly update on the status of corrective actions related to open material weaknesses to the SAF/FMF. (T-1) The 1st and 2nd quarterly updates are due on the 10th business day after the end of the quarter. The submission of the PRE's SoA serves as the 3rd quarter update and the coordination and review of the Air Force SoA serves as the 4th quarter update.

3.6.2. Identify and report all material weaknesses according to standard DoD Internal Control reporting categories. See Attachment 2 for the list of reporting categories.

3.7. Weakness Tracking System:

3.7.1. SAF/FMFA will maintain a summary of all material weaknesses. PREs must maintain a subordinate system to track their own material weaknesses. (T-1) Information in the tracking system must include the Internal Control Reporting Category, narrative description of the problem, corrective action milestone chart and the name of the responsible official and point of contact for corrective action progress.

3.7.2. A material weakness may be reported as closed only after corrective actions are verified as effective. This verification may be completed by specific management reviews, follow-on audits, metric tracking, or other independent validation. There must be sufficient time between implementation of the final corrective action and verification of the corrective actions to demonstrate internal controls are working properly in normal operations. The verification shall be documented and the documentation maintained as a part of the reporting agency's weakness tracking system and shall be maintained IAW AFMAN 33-363 and disposed of IAW the AF Records Disposition Schedule in AFRIMS. The documentation must be sufficient enough for an independent reviewer to reach a similar conclusion. A material weakness cannot be closed until the verification is complete.

3.7.3. When possible the audit follow-up process as required in AFI 65-403 may be used to track the planned corrective actions for each internal control weakness stemming from audit reports. Corrective action plans must be consistent with corrective action status reports in the audit follow-up process.

Chapter 4

INTERNAL CONTROL OVER FINANCIAL REPORTING

4.1. Overview. Appendix A of OMB Circular A-123, mandates a robust process for assessing, documenting, and reporting on the effectiveness of ICOFR. This is to include internal controls over the Air Force's annual financial statements and other significant internal or external financial reports.

4.1.1. The OUSD(C) requires an assurance statement from the Secretary of the Air Force on the effectiveness of ICOFR reporting as part of the SoA. This statement is based on the results of assessments and deliverables completed in accordance with the *United States Air Force Implementation Guidance for OMB Circular A-123, Appendix A* issued by SAF/FMF.

4.1.2. The ICOFR effort is completed in addition to the required efforts for all AUs under the MICP. SAF/FM centrally directs the overall Air Force ICOFR focus areas and deliverable response to OUSD(C). In order to meet these requirements, SAF/FM will task functional Air Staff and Major Command activities to perform work related to the processes detailed in this section. These tasks are considered part of the AU MICP responsibilities and given a high priority.

4.2. Reasonable Assurance. Appendix A of OMB Circular A-123 requires reasonable assurance over financial reporting such that management can reasonably make the following assertions:

4.2.1. All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date (existence and occurrence);

4.2.2. All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (completeness);

4.2.3. All assets are legally owned by the agency and all liabilities are legal obligations of the agency (rights and obligations);

4.2.4. All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (valuation);

4.2.5. The financial report is presented in the proper form and any required disclosures are present (presentation and disclosure);

4.2.6. The transactions are in compliance with applicable laws and regulations (compliance);

4.2.7. All assets have been safeguarded against fraud and abuse; and

4.2.8. Documentation for internal control, all transactions, and other significant events is readily available for examination.

4.3. Internal Control Standards. Management is responsible for developing, documenting and maintaining internal control activities over financial reporting that comply with the following OMB and GAO standards:

4.3.1. Control Environment: Understanding management's attitude, awareness, and actions, clearly defined authority and responsibility, appropriate delegation of authority and

responsibility, integrity and ethical standards, commitment to competence, hierarchy for reporting, proper support for human capital hiring, training, advancing and disciplining.

4.3.2. Risk Assessment: Identifying internal and external risks, taking into account previous audit findings, internal management reviews, noncompliance with laws, regulations and policies; then analyzing risk for potential effect and impact. Some significant events can affect risk, these include: complexity or magnitude of programs or new operations, extent of manual processes, related party transactions, decentralized versus centralized accounting, accounting estimates, new programs, personnel, technology, or amended laws, regulations or accounting standards.

4.3.3. Control Activities: The policies, procedures, and mechanisms in place that ensure management's directives are carried out, such as proper segregation of duties, physical control over assets, proper authorization, appropriate documentation and access to documentation, analytical review and analysis, and safeguarding information.

4.3.4. Information and Communication: Includes obtaining an understanding of the financial systems, communicating the duties and responsibilities to personnel for proper handling of external information, planning for disaster recovery, and determining the type and sufficiency of reports produced.

4.3.5. Monitoring: Management shall conduct periodic reviews to determine effectiveness of internal controls through self-assessment by management, direct testing or evaluations from the IG, auditors, or other assessment organizations. (T-1) The assessment will include obtaining an understanding of the major types of activities the agency uses to monitor internal control over financial reporting and how those activities are used to initiate corrective actions.

4.3.6. The GAO Financial Audit Manual identifies three types of audit risk components:

4.3.6.1. Inherent Risk – the original susceptibility to a potential hazard or material misstatement, assuming there are no related specific control activities.

4.3.6.2. Control Risk – the risk that a hazard or misstatement will not be prevented or detected by the internal control.

4.3.6.3. Combined Risk – also known as residual risk; the likelihood that a hazard or material misstatement would occur and not be prevented or detected on a timely basis by the agency's internal control.

4.4. ICOFR Assessment. OMB A-123 Appendix A prescribes a process for management to assess internal control over financial reporting. The process includes:

4.4.1. Establishing a high-level governance body such as a Senior Assessment Team (SAT). The SAT should provide oversight of the assessment process and is responsible for:

4.4.1.1. Ensuring that assessment objectives are clearly communicated throughout the agency;

4.4.1.2. Ensuring that the assessment is carried out in a thorough, effective, and timely manner;

4.4.1.3. Identifying and ensuring adequate funding and resources are made available;

4.4.1.4. Identifying staff and/or securing contractors to perform the assessment;

4.4.1.5. Determining the scope of the assessment, i.e., those financial reports covered by the assessment; and

4.4.1.6. Determining the assessment design and methodology.

4.4.2. Evaluating internal control at the entity level which encompasses the 5 components of internal controls as outlined in detail in 4.3: control environment, risk assessment, control activities, information and communication, and monitoring.

4.4.3. Evaluating internal control at the process, transaction, or application levels. Management's knowledge of daily operations, significant accounts or groups of accounts, major classes of transactions, understanding the financial reporting process, understanding control design, ability to identify controls not adequately designed, test controls and assess compliance to support management's assertions. Obtaining knowledge of the organization's key processes through performance of process risk assessments of financial assertions, providing reasonable assurance of completeness, rights and obligations, valuation, existence and occurrence, presentation and disclosure, as well as compliance with laws and regulations; while safeguarding assets from fraud, waste, and abuse and identifying existing key controls intended to mitigate identified risk.

4.4.4. Assessing and testing the design and operation of ICOFR, the assessment should determine whether internal controls are operating effectively and identify if a material weakness exists in the design or operation.

4.4.5. Management shall assess ICOFR using a variety of information sources, including those specific to internal control reviews or as a by-product of other reviews, such as IG, GAO, and AFAA audit reports. (T-1) The assessment of internal control over financial reporting should be coordinated with other activities to avoid duplication of efforts with similar activities.

4.4.6. Documenting the entire assessment process from the establishment of a SAT including key decisions, to the identification of deficiencies and development of corrective action plans. Documentation can be electronic or hard copy and shall be readily available for review. Documentation shall be maintained for weaknesses that are downgraded from a significant deficiency to a control deficiency in order to support management decisions.

4.4.7. Issue a SoA of ICOFR as a subset of the Annual Statement of Assurance. The statement must take one of the following forms: unmodified, modified, or statement of no assurance.

4.5. Materiality. Risk assessments under ICOFR must contain a risk analysis of all material business processes that affect financial reporting with specific focus on those business events that significantly increase or decrease financial statement balances. The Air Force's planning level of materiality is 0.99 percent of adjusted assets for Balance Sheet accounts and 0.99 percent of total budgetary resources for Statement of Budgetary Resources accounts. Other factors such as transaction volume, program visibility, or command directed focus areas may also be considered in determining materiality.

4.6. Material Weaknesses. The criteria for an ICOFR material weakness differs from that described in paragraph 3.6. An ICOFR material weakness is a deficiency that adversely affects the Air Force's ability to initiate, authorize, record, process, or report external financial data that will result in more than a remote likelihood of a material misstatement of the financial statements, or other significant financial reports, that do not prevent or detect a material weakness. Corrective action milestones for ICOFR material weakness are reported as part of the Financial Improvement Plans (FIPs).

4.6.1. All Air Force AUMs may be responsible for corrective action of ICOFR material weaknesses impacting their organization or function, as the root causes of the weakness may not be limited to financial management.

Corrective action of ICOFR material weaknesses:

4.6.1.1. Require prompt resolution of corrective actions.

4.6.1.2. Provide for appointment of an overall corrective action accountable official from senior management, reporting to the SAT if applicable.

4.6.2. Assure that performance appraisals of appropriate officials reflect effectiveness in resolving or implementing corrective action for the identified material weakness IAW the OMB Circular A-123, chapter V, *Correcting Internal Control Deficiencies*; AFI 36-1001, *Managing the Civilian Performance Program*, paragraph A3.2.3; and the GAO/AIMD-00-21.3.1, *Standards for Internal Controls - Management of Human Capital*,

4.6.3. Maintain accurate records on the status of the identified material weaknesses through the entire process of resolution and corrective action.

4.6.4. Assure that the corrective action plans are consistent with laws, regulations, and administration policy. A determination that a material weakness has been corrected should be made only when sufficient corrective actions have been taken and the desired results achieved consistent with Paragraph 3.7.2. Along with testing of the applicable internal controls, resolution of an ICOFR material weakness may also require financial statement balance reconciliation and validation to ensure the controls are effective. This determination shall be made in writing and include supporting documentation available for review by the SAT.

Chapter 5

INTERNAL CONTROL OVER FINANCIAL SYSTEMS

5.1. Overview. It is the responsibility of all Air Force managers that develop, deploy or sustain information systems, to effectively develop and maintain ICOFS. The Integrated Financial Management System (IFMS) is the unified set of Air Force financial systems and financial portions of mixed systems that encompass the hardware, software, personnel, processes, procedures, controls and data necessary to carry out financial management functions and operations. OUSD(C) requires a separate assurance statement from the Secretary of the Air Force on the effectiveness of ICOFS as a subset of the annual SoA.

5.1.1. The ICOFS effort is in addition to the required efforts for all AUs under the MICP. SAF/FM centrally directs the overall Air Force ICOFS response to OUSD(C). In order to meet these requirements, SAF/FM will task functional Secretariat, Air Staff and Major Command activities to perform work related to the processes detailed in this section. These tasks are considered part of the AU MICP responsibilities and given a high priority.

5.2. Internal Control Standards. Management shall ensure the effectiveness of security controls over information resources that support Air Force operations and assets. (T-1) The two broad groups of information system controls are application controls that cover the processing of data within the application software, and general controls that apply to all mainframe, minicomputer and network systems, (core financial systems). These controls are interrelated; both are needed to ensure complete and accurate information processing.

5.2.1. Management shall ensure the controls are adequate and are proportionate with the risk. (T-1)

5.2.2. Management shall prepare a report on the effectiveness of the ICOFS. (T-1)

5.2.3. Management shall disclosed material weaknesses in the annual SoA and must include specific plans and schedules for corrective actions. (T-1) Each material weakness corrective action plan will follow procedures as described in paragraph 3.6, and shall include a validation milestone which evaluates and certifies the effectiveness of the corrective action.

5.2.4. The ICOFS SoA is based on the results of assessments completed in accordance with; the Federal Financial Management Improvement Act of 1996 (FFMIA), Public Law 104-208, Title VIII (31 U.S.C. 3512 note), OMB Circular A-123, OMB Circular A-127 *Financial Management Systems*, OMB Circular A-130 *Management of Federal Information Resources*, DoD Financial Management Regulation (DoDFMR) Volume 1, Chapter 3 and the GAO *Standards for Internal Control*.

5.3. Assessment. Management must ensure that proper controls, manual or automated, are in place for the operation of the IFMS as well as the management of the system functionality as part of the MICP. (T-1) Key considerations when developing IFMS internal controls include, but are not limited to:

5.3.1. Management must have controls over information which is not directly transferred from the accounting system to the financial report, but requires intervening calculation, summarizations, etc. (T-1)

5.3.2. Data transfers to core financial systems must be traceable to the transaction source and posted to the core financial system in accordance with the Federal Accounting Standards Advisory Board (FASAB), to include the United States Standard General Ledger (USSGL). (T-1)

5.3.3. Controls must be in place to ensure completeness, accuracy, authorization, and validity of all transactions during application processing. (T-1)

5.3.4. Data centers and client-server operation controls will include backup and recovery procedures, contingency and disaster recovery plans. (T-1)

5.3.5. Access security controls must be in place to prevent un-authorized internal and external access, such as identification and authentication, security configuration, physical access and system penetration. (T-1)

5.3.6. Management must consider system software internal controls including control over the acquisition, implementation, and maintenance of all system software. (T-1)

5.3.7. Controls shall be established at an application's interface to verify inputs and outputs. (T-1)

5.4. Reliability. Substantial compliance with ICOFS is achieved when an agency's financial management systems routinely provide reliable and timely financial information for managing day-to-day operations as well as produce reliable financial statements, maintain effective internal control, and comply with legal and regulatory requirements.

Chapter 6

SPECIAL CONSIDERATIONS

6.1. Special Access Programs. Air Force Special Access Programs (SAP) are established and maintained when it is necessary to protect the most sensitive capabilities, information, technologies, and operations or when otherwise mandated by statute. The Air Force must establish controls, infrastructure and processes to manage, execute and protect the SAPs. Key roles and responsibilities for establishing a SAP are identified in the AFI 16-701 *Oversight, Management and Execution of Special Access Programs*. (T-1)

6.1.1. PREs have overall responsibility for their SAP AUs and will report an unclassified level of assurance over the effectiveness of SAP internal controls in their annual SoA. (T-1)

6.1.2. Special Access Programs are required to align their MICP efforts to the extent possible to comply with the guidance outlined in this instruction.

6.1.3. SAF/FMBIB is responsible for policy, oversight, program review/site visits, and training of all special program units/activities for MICP purposes.

6.1.4. Each SAP AUM will provide a level of reasonable assurance over the effectiveness of internal controls in a supporting statement of assurance through their chain of command up to their PRE with a copy to SAF/FMBIB. (T-1)

6.1.5. Reporting and tracking of a material weakness will be reported directly to SAF/FMBIB upon original determination from the unit/program and command level. Further consideration and determination will be accomplished by SAF/FMBIB along with appropriate command, audit, and other SAP personnel deemed necessary. However, the process for corrective actions will remain similar in nature and comply with this guidance. Any questions or concerns on handling material weaknesses should be directed to SAF/FMBIB.

6.2. Freedom of Information Act (FOIA) Implications:

6.2.1. The Department of the Air Force annual SoA may be made available, upon request, to the general public, except in the case of any Statement containing certain restricted information. The Federal Managers' Financial Integrity Act specifies that information in the following categories be deleted from the Statement before it is made available to the public:

6.2.1.1. Information specifically prohibited from disclosure by any provision of law.

6.2.1.2. Information specifically required by Executive Order to be kept secret in the interest of national defense or the conduct of foreign affairs.

6.2.1.3. All other requests for information about MICP, internal control evaluation results, supporting SoAs or other information developed through the internal control process are to be handled in accordance with procedures for release of information established by DoD 5400.7-R_AFMAN 33-302, *Freedom of Information Act Program*.

6.3. Host Tenant Relationships. Responsibilities of the MICP follow the chain of command.

6.3.1. Tenant units on other MAJCOM bases must perform internal control evaluations at the direction of the tenant unit's parent command. (T-1)

6.3.2. The PA will make recommendations to the commander where functions overlap or where functional OPRs disagree over who has responsibility for a certain action. (T-1)

LISA S. DISBROW
Assistant Secretary of the Air Force
(Financial Management)

Attachment 1**GLOSSARY OF REFERENCES AND SUPPORTING INFORMATION*****References***

OMB Circular A-123, *Management's Responsibility for Internal Control*, Dec 21, 2004

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AFI 90-901, *Operational Risk Management*, 1 April 2000

AFI 65-403, *Followup on Internal Air Force Audit Reports*, 2 June 1994

Prescribed Forms

No forms are prescribed by this publication.

Adopted Forms

AF Form 847, *Recommendation for Change of Publication*

Abbreviations and Acronyms

AFAA—Air Force Audit Agency

AFPD—Air Force Policy Directive

AFI—Air Force Instruction

AFRIMS—Air Force Records Information Management System

AG—Air Force Auditor General

ANG—Air National Guard

ARRA—American Recovery and Reinvestment Act

AU—Assessable Unit

AUA—Assessable Unit Administrator

AUM—Assessable Unit Manager

DoD—Department of Defense

DoDFMR—Department of Defense Financial Management Regulation

DoDIG—Department of Defense Inspector General

DRU—Direct Reporting Unit

ESC—Executive Steering Committee

FASAB—Federal Accounting Standards Advisory Board

FISMA—Federal Information Security Management Act of 2002

FFMIA—Federal Financial Management Improvement Act

FMFIA—Federal Managers' Financial Integrity Act

FIP—Financial Improvement Plan

FOA—Field Operating Agency

FOIA—Freedom of Information Act

GAO—Government Accountability Office

HAF—Headquarters Air Force

IAW—In Accordance With

ICOFR—Internal Control over Financial Reporting

ICOFS—Internal Control over Financial Systems

ICONO—Internal Control over Nonfinancial Operations

IFMS—Integrated Financial Management Systems

IG—Inspector General

MAJCOM—Major Command

MCP—Management Control Plan

MICP—Managers' Internal Control Program

OMB—Office of Management and Budget

OPR—Office of Primary Responsibility

OSD—Office of the Secretary of Defense

OUSD(C)—Office of the Under Secretary Defense (Comptroller)

PA—Program Administrator

PRE—Primary Reporting Element

QA—Quality Assurance

RD—Records Disposition Schedule

SAF—Secretary of the Air Force

SAF/AG—The Air Force Auditor General

SAF/FM—Assistant Secretary of the Air Force, Financial Management and Comptroller

SAF/AA—Assistant Secretary of the Air Force, Resource Directorate

SAP—Special Access Program

SAT—Senior Assessment Team

SAV—Staff Assist Visit

SECAF—Secretary of the Air Force

SoA—Statement of Assurance

UCI/CI—Unit Compliance Inspection/ Compliance Inspection

USSGL—United States Standard General Ledger

Terms

Assessable Unit (AU) —The basic segment for which internal controls are evaluated. An AU is a programmatic or organizational subdivision capable of being evaluated by internal control assessment procedures. An AU shall be of an appropriate size to ensure the AUM has a reasonable span of control over its internal controls.

Assessable Unit Administrator (AUA) — Administers the MICP within their AU.

Assessable Unit Manager (AUM) —The AUM is the principle manager or head of the assessable unit with authority and responsibility over the internal controls of the assessable unit.

Combined Risk —also known as residual risk; the likelihood that a hazard or material misstatement would occur and not be prevented or detected on a timely basis by the agency's internal control.

Control Deficiency —A 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 satisfactorily accomplish their assigned functions or inhibits the prevention or detection of misstatements on a timely basis.

Control Risk —the risk that a hazard or misstatement will not be prevented or detected by an internal control.

Functional OPR —Conduct and report on the internal control assessments for their section, program, or function under an AU.

Inherent Risk —the original susceptibility to a potential hazard or material misstatement, assuming there are no related specific control activities, such as human error.

Internal Control —The organization, policies, procedures, and instructions adopted by management to reasonably ensure mission or operational objectives are met, and programs achieve intended results, and to help managers safeguard the integrity of their programs. The concept of internal control applies to all Air Force activities.

Internal Control Assessment —A documented review performed by an AU to determine whether internal control techniques are effectively implemented to accomplish administrative, operational, and mission objectives.

Internal Control over Financial Reporting (ICOFR) —Provides an explicit level of assurance on the effectiveness of internal controls over financial reporting for each financial statement reporting entity. The assurance shall be based on the results of management's assessment conducted according to the requirements of OMB Circular A-123 Appendix A and the ICOFR guidance.

Internal Control over Financial Systems (ICOFS) —Provides an explicit level of assurance on the effectiveness of internal controls over financial systems. The assurance shall be based on the results of management's assessment conducted in accordance with the requirements of OMB Circular A-127, *Financial Management Systems*.

Internal Control over Nonfinancial Operations (ICONO) —Provides an explicit level of assurance on the effectiveness of internal controls over non-financial reporting for each entity as it pertains to the overall program, operational, and the administrative controls relevant to all mission-essential functions. The assurance shall be based on the results of management's assessment conducted according to the requirements of OMB Circular A-123 and the GAO Standards.

Managers' Internal Control Program (MICP) —The formal effort of an organization to ensure that internal control systems are working effectively through assignment of responsibilities at the policy level, issuance and implementation of guidance, conduct of internal control assessments, and reporting to senior management.

Management Control Plan (MCP) —A written plan that details the AU's inventory and is updated annually. The inventory will be maintained in the MCP and used to monitor progress and ensure that planned actions are taken. It must include at a minimum: 1) number of AUs, 2) title of each AU, 3) responsible AUM, 4) date of last MCP review 5) responsible AU administrator, 6) status of AUM training, 7) material weakness and significant deficiency, if reported, 8) corrective action plan.

Material Weakness for ICOFR —A significant deficiency or combination of conditions that adversely affects the entity's ability to initiate, authorize, record, process, or report external

financial data reliably and according to generally accepted accounting principles. The condition creates 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.

Material Weakness for ICOFS —The organization's integrated financial management system is not substantially in conformance with the Federal system requirements.

Material Weakness for ICONO —A significant deficiency 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.

Primary Reporting Element (PRE) — All Major Commands (MAJCOM), the Air Force Operational Test and Evaluation Center, United States Air Force Academy, Air Force District of Washington, Air National Guard and Army Air Force Exchange Service are designated primary reporting elements of the Air Force MICP. SAF/FM will report directly to the Secretary of the Air Force (SECAF). Resource Directorate, Office of Administrative Assistant to the Secretary of the Air Force (SAF/AAR) serves as the PRE for all Secretariat and Air Staff offices. The heads of these organizations are the Air Force's highest level Assessable Unit Managers (AUM) who direct the MICP within their organizations.

Program Administrator (PA) —Form the MICP focal point network. The Program Administrator prepares and maintains the PRE's MCP.

Reasonable Assurance —An informed judgment, based upon an evaluation of all available information that the organization's systems of internal control are operating in a manner that achieves the objectives of the Federal Managers' Financial Integrity Act.

Significant deficiency —A control deficiency or combination of control deficiencies, that in management's judgment represents significant deficiencies in the design or operation of internal controls that could adversely affect the organizations ability to meet its internal control objectives, also known as a significant deficiency.

Senior Assessment Team —A SAT is a team of senior level executives to provide oversight of assessing and documenting the effectiveness of internal controls and FMFIA ICOFR and ICOFS and oversight and risk management for American Recovery and Reinvestment Act expenditures.

Statement of Assurance (SoA) —An annual assessment in prescribed format that provides leader's explicit level of assurance on whether the internal controls are effective. The SoA is a self-assessment conducted for mission-essential functions relative to risk and identifies any material weaknesses found.

Unmodified SoA —An unmodified SoA provides reasonable assurance that internal controls are effective with no material weakness reported or that the IFMS is in conformance with Federal requirements. Each unmodified statement must provide a firm basis and evidence for that position in the SoA.

Attachment 2

REPORTING CATEGORIES

A2.1. Operational and Administrative Reporting Categories. Internal control deficiencies identified in the assessable unit's MCP and internal control accomplishments reported in the SoA will be classified using the following categories:

A2.1.1. Communications. Communication requires a sender, message, and intended recipient, although the receiver need not be present or aware of the sender's intent to communicate at the time of communication; thus communication can occur across vast distances in time and space.

A2.1.2. Intelligence. The plans, operations, systems, and management activities for accomplishing the collection, analysis, processing, and dissemination of intelligence in order to provide guidance and direction to commanders in support of their decisions.

A2.1.3. Security. The plans, operations, systems, and management activities for safeguarding classified resources (not peripheral assets and support functions covered by other reporting categories). Also covers DoD programs for protection of classified information.

A2.1.4. Comptroller and Resource Management. Covers the budget process, finance and accounting, cost analysis, productivity and management improvement, and the general allocation and continuing evaluation of available resources to accomplish mission objectives. Includes pay and allowances for all DoD personnel and all financial management areas not covered by other reporting categories, such financial reporting.

A2.1.5. 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.

A2.1.6. Force Readiness. The operational readiness capability of combat and combat support (both Active and Reserve) forces which provide the necessary flexibility to deter potential foes and rapidly respond to a broad spectrum of global threats.

A2.1.7. Information Technology. Any equipment or interconnected system or subsystem of equipment that is used in the automatic acquisition, storage, manipulation, management, movement, control, display, switching, interchange, transmission, or reception of data or information. It includes computers, ancillary equipment, software, firmware and similar services and related resources whether performed by in-house, contractor, or other intra-agency or intergovernmental agency resources or personnel.

A2.1.8. Acquisition. Acquisitions including major acquisitions and items designated as major systems that are subject to the procedures of the Defense Acquisition Board, the Military Services acquisition review councils, or the Selected Acquisition Reporting System. The Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics Memorandum, "*Guidance on the Assessment of Acquisition Functions under Office of Management and Budget, Circular No. A-123*," April 6, 2009 requires the use of an acquisition assessment template when conducting internal control reviews and reporting

material weaknesses for this category. DoD Directive 5000.1 may be helpful when evaluating a weakness for inclusion in this category.

A2.1.9. Manufacturing, Maintenance, and Repair. The management and operation of in-house and contractor-operated facilities, performing maintenance and repair 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.

A2.1.10. Other. 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 both military and civilian sources.

A2.1.11. Personnel and Organization 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.

A2.1.12. 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.

A2.1.13. 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 Re-utilization and Marketing System.

A2.1.14. 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. Excludes the support functions covered in separate reporting categories such as Procurement and Contract Administration.

A2.1.15. Security Assistance. Management of DoD Foreign Military Sales, Grant Aid, and International Military Education and Training Programs.

A2.1.16. 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). Also 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).

A2.1.17. Support Services. All support service functions financed from appropriated funds not covered by the other reporting categories, such as health care, veterinary care, and legal and public affairs services. All non-appropriated fund activities are also covered by this category.

A2.2. Financial Reporting and Financial System Reporting Categories. Financial reporting and financial system material weakness will be classified by one of the following end-to-end business process categories:

A2.2.1. Budget-to-Report. Encompasses the business functions necessary to plan, formulate, create, execute, and report on the budget and business activities of the entity. It includes updates to the general ledger. It also includes all activities associated with generating and managing the internal and external financial reporting requirements of the entity, including pre- and post-closing entries related to adjustments, reconciliations, consolidations, eliminations, etc.

A2.2.2. Hire-to-Retire. Encompasses the business functions necessary to plan for, hire, develop, assign, sustain, and separate personnel in the DoD and OSD Component.

A2.2.3. Order-to-Cash. Encompasses the business functions necessary to accept and process customer orders for services or inventory. This includes managing customers, accepting orders, prioritizing and fulfilling orders, distribution, managing receivables, and managing cash collections.

A2.2.4. Procure-to-Pay. Encompasses the business functions necessary to obtain goods and services. This includes requirements identification, sourcing, contract management, purchasing, payment management, and receipt and debt management.

A2.2.5. Acquire-to-Retire. Encompasses the business functions necessary to obtain, manage, and dispose of accountable and reportable property (capitalized and non-capitalized assets) through their entire life cycle. It includes functions such as requirements identification, sourcing, contract management, purchasing, payment management, general property, plant and equipment management, and retirement.

A2.2.6. Plan-to-Stock. Encompasses the business functions necessary to plan, procure, produce, inventory, and stock materials used both in operations and maintenance as well as for sale.