

**BY ORDER OF THE
SECRETARY OF THE AIR FORCE**

AIR FORCE POLICY DIRECTIVE 65-2

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Financial Management

**MANAGER'S INTERNAL CONTROL
PROGRAM**

COMPLIANCE WITH THIS PUBLICATION IS MANDATORY

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This Policy Directive implements DoD Instruction 5010.40, *Managers' Internal Control Program (MICP) Procedures*. The Department of Defense (DoD) supports the government commitment to responsible use of resources. Air Force organizations including Air Force Reserves and Air National Guard (ANG) units must use cost-effective internal controls to fulfill that commitment, comply with public law, and ensure resources are used properly and to the best advantage in accomplishing their assigned operations and missions. Ensure that all records created as a result of processes prescribed in this publication are maintained in accordance with AFMAN 33-363, *Management of Records*, and disposed of in accordance with the Air Force Records Disposition Schedule (RDS) in the Air Force Records Information Management System (AFRIMS). Refer recommended changes and questions about this publication to the Office of Primary Responsibility (OPR) using the AF Form 847, *Recommendation for Changes of Publication*; route AF Form 847 from the field through the appropriate chain of command.

SUMMARY OF CHANGES

This revision changes the office of primary responsibility (OPR) from SAF/FMPA to SAF/FMFA and includes revised descriptions of the three processes required to be addressed in the Secretary's Statement: operational and administrative controls, financial reporting functions, and financial management systems.

1. Policy. It is Air Force Policy that:

- 1.1. Internal controls will be used in all Air Force activities. They will be applied to all significant operation and mission responsibilities and not limited to financial matters.
- 1.2. Commanders and managers at every level of the Air Force are responsible for establishing, evaluating, improving, and reporting on internal controls, identifying material weaknesses and taking corrective actions.
- 1.3. The internal control assessment process should be integrated into the daily management practices of Air Force managers. At the commander's discretion they may rely on various existing organizational policies and procedures as well as other contributing sources.
- 1.4. Internal control assessments should not cause the duplication of existing procedures which pertain to assessing the effectiveness of internal controls or information which may be used for that purpose.
- 1.5. Whenever existing information does not provide for adequate review of internal controls, then appropriate reviews should be planned and implemented to enable management to make reasonable judgments regarding the effectiveness of internal controls and whether a material weakness exists.
- 1.6. Continuous monitoring of internal controls and other periodic evaluations should provide the basis for the annual statement to provide reasonable assurance.

2. The following responsibilities and authorities are assigned:

- 2.1. The Assistant Secretary of the Air Force, Financial Management and Comptroller (SAF/FM), is responsible for ensuring the evaluation, improvement, and reporting on the Air Force internal control system to meet the requirements of law and DoD instructions.
 - 2.1.1. SAF/FM will ensure the Department provides separate and explicit levels of assurance in the Secretary's Statement to address these three distinct processes:
 - 2.1.1.1. Operational and administrative controls relevant to all mission-essential functions throughout the Air Force.
 - 2.1.1.2. Financial Reporting functions of the Air Force General Fund and the Air Force Working Capital Fund, as assessed under the oversight of the senior assessment team.
 - 2.1.1.3. Integrated financial management system (IFMS) conformance with Federal requirements.
 - 2.1.2. SAF/FM serves as the Chair of the Air Force SAT which assesses and monitors the effectiveness of the ICOFR and ICOFS programs and provides oversight and risk management for American Recovery and Reinvestment Act (ARRA) expenditures.
- 2.2. 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. Assistant Secretary of the Air Force, Resource Directorate (SAF/AAR) serves as the Primary Reporting Element (PRE) for all Secretariat and Air Staff offices.

2.3. Field Operating Agency (FOA) implementation and reporting on the MICP are included in the annual statement of the appropriate Secretariat or Air Staff office having oversight responsibility of the FOA.

3. Guidance for compliance, instructions and reporting requirements are specified in AFI 65- 201, *Managers' Internal Control Program Procedures*.

DEBORAH L. JAMES
Secretary of the Air Force

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

Public Law 97-255, Federal Managers' Financial Integrity Act, 31 U.S.C. 3512, September 8, 1982

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

OMB Circular A-127, *Financial Management Systems*, January 9, 2009

GAO *Standards for Internal Controls*, GAO/AIMD-00-21-21.3.1, November 1999

DoDI 5010.40, *Managers' Internal Control Program Procedures*, May 30, 2013

AFI 65-201, *Managers' Internal Control Program Procedures*, January 30, 2012

AFMAN 33-360 *Publications and Forms Management*, 1 December 2015

Prescribed Forms

None.

Adopted Forms

AF Form 847, *Recommendation for Change of Publication*

Abbreviations and Acronyms

ARRA—American Recovery and Reinvestment Act

AU—Assessable Unit

AUM—Assessable Unit Manager

DoD—Department of Defense

FOA—Field Operating Agency

GAO—Government Accountability Office

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

ICOFR—Internal Control over Financial Reporting

ICOFS—Internal Control over Financial Systems

ICONO—Internal Control over Nonfinancial Operations

MAJCOM—Major Command

MICP—Managers' Internal Control Program

MCP—Management Control Plan

OPR—Office of Primary Responsibility

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

SAT—Senior Assessment Team

Terms

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 assessable unit (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 assessment, 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 assessable unit manager (AUM), 4) date of last MCP review, 5) responsible AU administrator, 6) status of AUM training, 7) material weakness and reportable conditions, if reported, 8) corrective action plan.

Senior Assessment Team (SAT)—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. At minimum should provide oversight and is responsible for ensuring; 1) objectives are clearly communicated, 2) assessment is carried out in an effective and timely manner, 3) adequate funding and resources are made available, 4) staff/contractors to perform assessments are identified, 5) scope of the assessment, and 6) the assessment design and methodology are determined.