



UNIFORMED SERVICES UNIVERSITY OF THE HEALTH SCIENCES



SUBJECT: Management Control Program

Instruction 7004

(DRE)

DEC 12 2000

ABSTRACT

This Instruction implements Department of Defense (DoD) requirements for the Management Control Program under the Federal Managers' Financial Integrity Act (FMFIA). To comply with the Act, each agency must establish a system of internal controls to ensure that programs and administrative functions are efficiently and effectively carried out in accordance with applicable law and management policy; and to provide reasonable assurance each year that resources are adequately safeguarded. The concept of reasonable assurance requires that the cost of controls should not exceed the benefits derived from those controls.

The Uniformed Services University of the Health Sciences (USUHS) Departments and Activity Heads responsibilities include establishing internal control systems, performing management evaluations, and providing the President, USUHS, with a statement of assurance regarding the adequacy of internal controls throughout the USUHS programs and administrative functions. The USUHS managers have the responsibility for internal controls within their individual units.

- A. Reissuance and Purpose.** This Instruction reissues USUHS Instruction 7004^a to:
1. Establish the USUHS Management Control (MC) Program;
 2. Incorporate guidance provided in DoD Directive 5010.38^b; Title 31, USC, Chapter 35, Section 3512^c; OMB Circular A-123^d; OMB Year-End Internal Control Report^e; OMB Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government^f; and GAO Standards for Internal Control in the Federal Government^g; and
 3. Provide a structure to review the MC

Program.

B. References. See Enclosure 1.

C. Applicability. This Instruction applies to all USUHS components.

D. Definitions. See Enclosure 2.

E. Policies. It is USUHS policy that:

1. The USUHS shall implement an MC Program that will provide reasonable assurance that:

- a. assets are safeguarded against waste, loss, unauthorized use, and misappropriation, and that MC controls emphasize prevention of waste, fraud,

mismanagement, and timely correction of specific weaknesses,

- b. obligations and costs comply with applicable laws,
- c. revenues and expenditures applicable to USUHS operations are recorded properly to permit the preparation of reliable financial and statistical reports, and to maintain accountability over the assets, and
- d. programs and administrative functions are efficiently and effectively carried out in accordance with applicable laws and management policies, and that the cost of internal controls should not exceed the expected benefits;

2. The USUHS Management Control Program shall:

- a. meet the "GAO Standards for Internal Control in the Federal Government," see Enclosure 3, and comply with the policies and documentation requirements prescribed in this Instruction and applicable OMB documents for guidance^{d,e},
- b. be designed, documented, and operated to provide reasonable assurance that specific objectives enumerated in Title 31, USC, Chapter 35, Section 3512^e are met,
- c. provide for the assignment of overall responsibility for program design, direction, and implementation to a designated senior management official who is accountable to the President, USUHS,
- d. involve management at all levels and assign to the manager of each assessable unit responsibility and accountability for MC.
- e. address all program and administrative activities involving funds, property, and other assets for which managers are responsible, to include non-appropriated fund activities, and
- f. implement methods of evaluation such as computer security reviews, financial system reviews, audits, inspections, checklists, investigations, and internal review studies;

3. Each USUHS Component shall annually submit a Statement of Assurance to the President, USUHS, based on an evaluation as to whether or not the MC controls meet the program standards, goals, and objectives. These statements will support the annual statement of assurance submitted by the President, USUHS, through the USUHS Executive Committee, and the Assistant Secretary of Defense (Health Affairs), to the Under Secretary of Defense (Comptroller); and

4. The Defense Finance and Accounting Service (DFAS) shall review the USUHS accounting system as part of the process for indicating whether the accounting system is in compliance with accounting principles, standards, and related requirements as established by the "GAO Policy and Procedures Manual for Guidance of Federal Agencies."^h

F. Responsibilities.

- 1. The President, USUHS shall:
 - a. Ensure the establishment and the on-going operation of the USUHS MC Program;
 - b. Submit the Annual Statement of Assurance to the Under Secretary of Defense (Comptroller), through the USUHS Executive Committee and the Assistant Secretary of Defense (Health Affairs), by November 15 of each year; and
 - c. Assign adequate resources to ensure that the provisions of this Instruction are fully implemented.
- 2. The Vice President, Resource Management shall serve as the USUHS senior official under OMB Circular A-123^d for policy guidance, direction, and coordination with DoD Components and other Federal Agencies on MC matters.

3. The Director, Review and Evaluation shall:

a. Establish the MC Program and oversee its implementation and operation throughout the USUHS;

b. Issue applicable guidance to USUHS component heads by providing annual training on responsibilities and obligations using the USUHS MC Guide, and provide technical assistance to USUHS components on MC matters, including reporting;

c. Monitor any audit or inspection findings by the Inspector General (IG), DoD, General Accounting Office (GAO), or DLA, which disclose a potential weakness in USUHS MC follow-up on the status of agreed on corrective actions;

d. Monitor implementation of the program and establish follow-up systems to ensure acceptable performance and prompt correction of all material and other weaknesses;

e. Periodically perform MC evaluations of USUHS components and functions, including testing; and

f. Prepare for the President, USUHS, the Statement of Assurance, based on the statements of USUHS Departments/Activity

Heads, for submission to the under Secretary of Defense (Comptroller), through the USUHS Executive Committee and the Assistant Secretary of Defense (Health Affairs), as required by Title 31, USC, Chapter 35, Section 3512^c and an OMB Memorandum^e, by November 1 of each year.

4. The Manager of each Assessable Unit (USUHS Departments/Activity Heads), see Enclosure 4, shall:

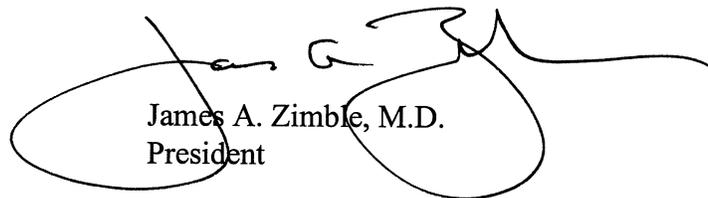
a. Provide to the President, USUHS through the Director, Review and Evaluation (DRE), the requisite Statement of Assurance, see Enclosure 5, for the component as described in paragraph E.3., by October 10 of each year;

b. Be responsible for implementing the Department's MC plan, using the Procedures at Enclosure 6;

c. Emphasize prevention and correction of waste, fraud, and mismanagement in all MC plans and guidelines;

d. Conduct an evaluation of his/her Department using either a Risk Assessment or the USUHS MC Checklist^d; and

e. Ensure that accountability for the success or failure of MC practices is reflected in performance evaluations of civilian and military managers having significant MC responsibilities.



James A. Zimble, M.D.
President

Enclosures:

1. References
2. Definitions
3. GAO Standards of Internal Control

4. Assessable Units
5. Sample Statement of Assurance
6. Manager Procedures

REFERENCES

- (a) USUHS Instruction 7004, "Internal Management Control Program," dated July 28, 1992 (hereby cancelled)
- (b) DoD Directive 5010.38, "Management Control (MC) Program," dated August 26, 1996
- (c) Title 31, United States Code, Chapter 35, Section 3512, "Executive Agency Accounting and other Financial Management Reports and Plans"
- (d) Office of Management and Budget, Circular A-123, Revised, "Internal Control System," dated June 21, 1995
- (e) Office of Management and Budget Memorandum, "Year-End Internal Control Report," dated September 26, 1983
- (f) Office of Management and Budget, "Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government," dated December 1982
- (g) General Accounting Office, "Standards for Internal Control in the Federal Government," dated June 1, 1983
- (h) General Accounting Office, "Policy and Procedures Manual for Guidance of Federal Agencies," Title 2
- (i) Uniformed Services University of the Health Sciences Management Control Guide, dated July 1995
- (j) Uniformed Services University of the Health Sciences Management Control Checklist, dated October 1999

DEFINITIONS

A. Assessable Unit. A USUHS department or activity having reporting responsibility and the capability for being evaluated.

B. Management Control (MC). The plan of organization, methods, and procedures adopted by management to provide reasonable assurance that the objectives of FMFIA^c are met.

C. MC Checklist. A document similar to the Risk Assessment designed for evaluating an assessable unit's operations, specifically at USUHS.

D. MC Evaluation. A detailed evaluation of an assessable unit to determine whether adequate control techniques exist and are implemented to achieve cost effective compliance with FMFIA^c using the methodology specified in the OMB Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government^f. All reviews should produce written materials documenting what was done and what was found.

E. MC Guide. The material developed for MC training at USUHS.

F. MC Guidelines. Reference (f) presents a suggested approach that may be adapted to meet component needs. Any such adaptation should remain in compliance with OMB Circular A-123^d and include testing of controls and documentation.

G. MC Program. The formal effort of an organization to ensure that MC systems are working effectively through assignment of

responsibilities at the policy level, issuance and implementation of guidance, conduct of risk assessments and MC reviews, provisions for quality control, and reporting to senior management.

H. MC Standards. The GAO Standards for Internal Control in the Federal Government^g issued by the Comptroller General for use in establishing and maintaining IMC systems.

I. MC System. The sum of a department's or activity's methods and measures used to achieve the FMFIA and MC objectives. It is not a separate system, but an integral part of the systems used to operate programs and functions.

J. Managers with Significant MC Responsibilities. This includes top level managers, down through operational managers of all programs and activities in which funds, property, and other assets must be safeguarded against fraud, waste, or mismanagement, and in which resources must be managed efficiently and effectively.

K. Material Weakness. Specific instances of noncompliance with the FMFIA of sufficient importance to be reported to the next higher level of management. Such weakness significantly impairs the fulfillment of a Component's mission; deprives the public of needed services; violates statutory or regulatory requirements of funds, property, or other assets; or results in a conflict of interest.

The final determination to categorize an internal control weakness as material rests with management's judgement about the relative impact of the weakness. For example,

Enclosure 2

scoring each of the following considerations as "significant" or "insignificant" might help a manager in determining whether the absence of, or noncompliance with, a control is a material weakness.

1. Actual or potential loss of resources.
2. Sensitivity of the resources involved.
3. Magnitude of funds, property, or other resources involved.
4. Frequency of actual and/or potential loss.
5. Current or probable media interest (adverse publicity).
6. Current or probable Congressional interest (adverse legislation/action).
7. Unreliable information causing unsound management decisions.
8. Diminished credibility or reputation of management.
9. Impaired fulfillment of essential mission.
10. Violation of statutory or regulatory requirements.
11. Impact on information security.
12. Deprived the public of needed Government services.

L. Reasonable Assurance. A judgment by a manager based upon all available information that his/her department's or activity's systems of internal controls are operating as intended by the FMFIA^c.

M. Risk Assessment. A documented review by management of a department or activity that rates an assessable unit's susceptibility to fraud, waste, or mismanagement as provided in the OMB Guidelines for the Evaluation and Improvement of and Reporting on Internal Control Systems in the Federal Government^f.

N. Testing. Procedures to determine through observation, examination, verification, sampling, or other procedures whether internal control systems are working in accordance with management's MC objectives and the GAO Standards^g.

STANDARDS OF INTERNAL CONTROL¹

A. General Standards

1. Reasonable Assurance. Control systems shall provide reasonable, but not absolute, assurance that the objectives of the systems shall be accomplished. (This standard recognizes that the cost of a control should not exceed its benefits, and that the benefits consist of reductions in the risks of failing to achieve the stated control objectives.)

2. Supportive Attitude. Managers and employees shall maintain and demonstrate a positive and supportive attitude toward management controls at all times.

3. Competent Personnel. Managers and employees shall have personal and professional integrity and shall maintain a level of competence that allows them to accomplish their assigned duties and to understand the importance of developing and implementing good controls.

4. Control Objectives. Control objectives shall be identified or developed for each activity and shall be logical, applicable, and complete as possible.

5. Control Techniques. Control techniques shall be effective and efficient in accomplishing their control objectives.

B. Specific Standards

1. Documentation. Control systems and all transactions and other significant events shall be documented clearly, and the documentation shall be readily available for examination.

2. Recording of Transactions and Events. Transactions and other significant events shall be recorded promptly and classified properly.

¹Quoted from the GAO Standards for Internal Control in the Federal Government^g, Parenthetical remarks added by the Comptroller of the Department of Defense.

Enclosure 3

3. Execution of Transactions and Events. Transactions and other significant events shall be authorized and executed only by persons acting within the scope of their authority.

4. Separation of Duties. Key duties and responsibilities in authorizing, processing, recording, and reviewing transactions shall be separated among individuals. (MC depends largely on eliminating opportunities to conceal errors or irregularities. Work shall be assigned so that no one individual controls all phases of an activity or transaction. This avoids creating a situation in which errors or irregularities might go undetected.)

5. Supervision. Qualified and continuous supervision shall be provided to ensure that control objectives are achieved.

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 shall be assigned and maintained. Periodic comparison shall be made between the resources and the recorded accountability to determine whether the two agree. The frequency of the comparison shall be a function of the vulnerability of the asset.

C. Audit Resolution Standard.

Prompt Resolution of Audit Findings. Managers are to (1) promptly evaluate findings and recommendations reported by auditors, (2) determine proper actions in response to audit findings and recommendations, and (3) complete, within established time frames, all actions that correct or otherwise resolve the matters brought to management's attention.

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* No action required; subordinates will
 prepare
 LOA

DRE 2/00

Sample

MEMORANDUM FOR PRESIDENT, UNIFORMED SERVICES UNIVERSITY OF THE
HEALTH SCIENCES

SUBJECT: Input for FY XXXX Annual Statement of Assurance Under The Federal
Managers' Financial Integrity Act: *(Name of Assessable Unit)*

1. The *(Name of Assessable Unit)* provides the information in this memorandum in support of your forthcoming Annual Statement to the USU Executive Committee, Assistant Secretary of Defense (Health Affairs), and the Under Secretary of Defense (Comptroller).

2. As *(Title of Assessable Unit Manager)*, of the *(Name of Assessable Unit)*:

a. I am aware that this position has significant internal management control responsibilities, the execution of which will be measured in my annual performance appraisal.

b. I am aware of the importance of internal management controls. I have taken the necessary measures to assure that program and administrative controls have been implemented and are observed within the segment of the University that is within my management responsibility.

c. I provide reasonable assurance that in the *(Name of Assessable Unit)*, the objectives of internal management control are being met: 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 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.

d. The assets, program responsibilities and mission objectives under my responsibility have been reasonably insulated against fraud, waste, and mismanagement and have not been materially impeded by deficiencies in internal management controls. I base this assurance on *[Note to preparer: Examples include management studies, observations, and initiatives; management knowledge; internal management review/checklists; internal/external reviews; or procedural reviews.]*

3. During FY XXXX, the following management actions were taken to improve operations in the *(Name of Assessable Unit)*:

a. *[Note to preparer: If improvements were made in program or administrative operations, list them here.]*

4. During FY XXXX, the *(Name of Assessable Unit)* took management action to correct the following weaknesses *:

a. *[Note to preparer: If weaknesses were identified, summarize the corrective action taken.]*

5. The following weaknesses identified by checklists, inspections, or management action remain uncorrected:

a. *[Note to preparer: List any weaknesses, a detailed plan of action including steps to be taken to correct the weakness, and the planned completion date.]*

6. As *(Title of Assessable Unit Manager)*, I continue to support the objectives of the Federal Managers' Financial Integrity Act.

(Name of Assessable Unit Manager)
(Name of Assessable Unit)

Enclosures:
As Stated

* A **weakness** is a problem that infringes on the accomplishment of the unit's mission.

**USUHS FY XXXX STATEMENT OF ASSURANCE
Corrected Weaknesses**

(Assessable Unit Title)

1. Title and Description of Weakness:
2. Year Identified:
3. Date Corrected: (Month/Year)

Actions Taken to Correct Weakness:

5. Department/Activity POC:

**USUHS FY XXXX STATEMENT OF ASSURANCE
Uncorrected Weaknesses**

(Assessable Unit Title)

1. Title and Description of Weakness:
2. Original Targeted Correction Date: (Month/Year)
3. Current Target Date: (Month/Year)
4. Reason For Change in Date(s), if applicable:
5. Steps Planned to Correct Weakness:
6. Source(s) Identifying Weakness: (Organization)
7. Department/Activity POC:

Management Control (MC) Program

Steps for Managers

A. Setting Up an MC System

The purposes of setting up an MC system is to effectively and efficiently manage your department's operations, and to protect against fraud, waste, and abuse.

1. Establish a written departmental mission and functions statement.
2. Identify short- and long-term goals to support your department's mission.
 - Determine your department's objectives and techniques to accomplish goals.
 - Develop written Standard Operating Procedures (SOPs) or manuals for your department's functions and operations, to include departmental policies.

B. Assessing your MC System

The following should be done annually with the submission of the Annual Statement of Assurance, however, it is recommended that a semi-annual review be conducted as well. Assistance is available from the Office of Review and Evaluation.

1. Review and evaluate your department's operations and functions by using either the Risk Assessment or MC Checklist, or some other format discussed with the Director, Review and Evaluation (DRE).

Examine the results of your review to determine if any portion(s) of

the department's operations or functions are deficient and/or could use improvements. Also, consider problem areas you feel need management's attention.

C. Correcting a Problem Area

1. Identify those areas in need of revision or improvement and establish a corrective action plan to implement the changes needed.
 - a. Submit this plan to your chain of command with your Annual Statement of Assurance.
 - b. Review your plan periodically and record completion of steps.
 - c. Report the progress of your plan to your chain of command and the DRE.

D. Reporting a Continuing Problem Area

1. Discuss with your chain of command if the problem area persists, and improvements are not being accomplished.
2. If you feel you are not getting management's support to correct the problem, contact the Office of Review and Evaluation at 295-3116/3681.
3. The Office of Review and Evaluation will conduct an internal review based on the above information and discussions with all parties involved.