DEPARTMENT OF THE NAVY
COMMANDER
NAVAL EDUCATION AND TRAINING COMMAND
250 DALLAS STREET
PENSACOLA, FLORIDA 32508-5220

Canc frp: May 05

NETCNOTE 5200
N00GR
MAY 0 4 2004

NETC NOTICE 5200

Subj: MANAGEMENT CONTROL (MC) PROGRAM

Ref: (a) CNETINST 5200.6C
(b) OPNAVINST 3500.39A

Encl: (1) SECNAV memo of 25 Apr 02
(2) Functional Categories with Universal Work Processes
(3) Sample Flowchart
(4) Internal Control System Test and Operational Risk Management (ORM) Assessment (NETC 5200/1)
(5) Flowchart of an ORM Assessment
(6) ORM Assessment (NETC 5200/2)
(7) Sample MC Certification Statement with attachments

1. Purpose. To announce reporting requirements and due dates for the FY 2004 cycle of the Department of the Navy (DON) Management Control (MC) Program. Reference (a) and enclosure (1) apply.

2. Background. SECNAV requires compliance with the Federal Managers' Financial Integrity Act (FMFIA) (Public Law 97-255).

3. Discussion

a. The DON MC Program is the Navy's method for demonstrating and documenting compliance with FMFIA. SECNAV expects all managers to be active participants. During audits, external audit agencies (Government Accounting Office, Department of Defense Inspector General, and Navy Audit) review command compliance with this program. The auditors continue to be very active in the Naval Education and Training Command.

b. The MC Program stresses using a variety of existing methods to gauge the effectiveness, efficiency, and economy of work processes. A process is defined as the manner in which resources are employed in generating a product, performing a responsibility, or rendering a service. It consists of starting and ending points that are connected by a series of decision points and various work-related steps.

MAY 0 4 2004

4. Requirements for FY 2004. To demonstrate compliance with FMFIA, commands must complete the following.

a. Evaluate the Work Process/Assessable Unit Inventory

(1) The inventory must reflect processes that are performed within the command. Compare your inventory to the Universal Processes shown in enclosure (2). Each command's inventory should include these processes, unless unique circumstances dictate otherwise. Ensure your inventory reflects mission critical as well as associated support processes.

(2) At this point, the focus really should be more on reviewing and making adjustments to previously developed flowcharts. A one-page linear flowchart is needed to depict a process. Enclosure (3) provides a sample of the preferred method for developing a flowchart. Documentation shall be retained in-house for turnover and inspection purposes. These efforts establish a perpetual state of readiness for any type of inspection or area visit. It also provides the basis for performing process self-assessments.

(3) This inventory check-up should be completed by 15 May 2004.

b. Key Metrics, Internal Control System Test, and ORM Assessment

(1) Ensure each process is examined for efficiency, effectiveness, and economy. Use enclosure (4) to document the test. Note that an important new step has been added to the enclosure. It requests the identification of key metrics for measuring performance. These metrics should provide a quick view of how well a process is progressing in achieving its intended purpose. Most processes have at least two or three key metrics. Ensure the location of the metrics is annotated on the flowchart. See enclosure (3).

(2) Under the guidelines of reference (b), ensure an ORM Assessment has been performed for mission critical processes and other processes deemed risky. The process flow of an ORM assessment is displayed in enclosure (5). Enclosure (6) gives a streamlined format for completing it. Ensure both forms are properly signed and dated.

(3) Tests and assessments should be completed by 15 June 2004.

c. FY 2004 Annual MC Certification Statement. A sample certification statement format is available in enclosure (7).

(1) To demonstrate the existence of a clear audit trail of accountability at the activity level, department heads must submit an annual certification statement to the commander, commanding officer, or director.

(2) Include in the statement comments on efforts to adhere to the internal controls governing the purchase and travel card programs and premium travel. If contracts and/or contractors are used within the command, include a comment as to the effectiveness of internal controls for monitoring contractor performance. Ensure only non-inherently governmental functions are being performed under contract.

(3) When necessary, use the appropriate form to report on the following issues:

(a) NETC 5200/3 for Major Accomplishments

(b) NETC 5200/4 for Material Weaknesses that are not correctable at the local level

(c) NETC 5200/4 for Status of Corrective Actions on weaknesses not previously reported as closed

(4) Echelon 3 commands shall submit a consolidated statement that reflects chain of command compliance by both headquarters and subordinate commands. Commanders and commanding officers reporting directly to NETC shall provide a signed certification statement to NETC, via NETC N00GR for compilation, no later than 21 July 2004 per the above guidelines.

5. Action

a. Complete the requirements as described above.

b. For CNO N00T and NETC Headquarters Division Directors and Special Assistants, internal reporting guidelines and staff work proceses will be worked via separate documents.

c. Request N00T and all commands identify a point of contact and phone number to NETC N00GR points of contact, Mr. Charlie Gimbel, email charles.gimbel@navy.mil, or Ms. Jill Gonterman, email jill.gonterman@navy.mil, DSN 922-4867, by 14 May 2004.

6. Forms. Use the forms at enclosures (4), (6), and (7).

7. Report Control Symbol. All reports for this program are assigned Report Control Symbol DD-COMP(AR)1618(5200).

8. Cancellation Contingency. This notice is canceled upon receipt of the next notice on this subject.

G. B. DYE
Chief of Staff

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NETC Staff

NETCNOTE 5200

MAY 0 4 2004

DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
1000 NAVY PENTAGON
WASHINGTON, D.C. 20350-1000

25 April 2002

MEMORANDUM FOR DISTRIBUTION

Subj: DEPARTMENT OF THE NAVY MANAGEMENT CONTROL PROGRAM

Ref: (a) "Navy Implementation of the Federal Managers' Financial Integrity Act," NAVAUDSVC Report 2001-0059
(b) SECNAVINST 5200.35D

Recent events have highlighted the need to reemphasize the importance of a robust Management Control Program (MCP) throughout the Department of the Navy (DON) and that direct command involvement at all levels is critical to its success. Management control is the means through which commands and activities ensure that the policies, procedures, and organizational structure are effectively in place to accomplish the command's mission. Specifically, comprehensive management controls should reasonably assure that: (1) Programs achieve their intended results; (2) resources are used consistent with agency mission; (3) programs and resources are protected from waste, fraud, and mismanagement; (4) laws and regulations are followed; and (5) reliable and timely information is obtained, maintained, reported and used for decision making. The Naval Audit Service recently reported (reference (a)) that several commands had not complied with these program requirements.

An MCP is not intended to be a stand-alone process. It needs to be integrated into each command and activity's daily practices and culture. The concept behind the MCP is to use existing procedures to gauge the health of mission and support processes. A meaningful assessment of the controls is more important than a rigid, formal documentation of the assessment. It is important to emphasize that management controls encompass all programs, operations, and administrative areas, as well as accounting and financial management. Good management-control involves everyone, at all levels and from every function, program and process throughout the DON.

The Office of the Assistant Secretary of the Navy (Financial Management and Comptroller) (OASN(FM&C)), Office of Financial Operations (FMO), which oversees the MCP for the Department, is conducting training and developing tools to assist commands and activities in maintaining and improving

Enclosure (1)

their MCPs. This training is designed to provide the fundamentals of management controls and the requirements for an MCP. Other efforts include development of two web-based tools - one a self-assessment program, allowing commands and activities to gauge the effectiveness of their MCPs, and the other a tool for automating the annual Management Control Certification Statement reporting process, improving ease and efficiency of reporting. In addition, the OASN(FM&C) FMO is revising the Secretary of the Navy Instruction governing the DON MCP. Until that revision is completed, enclosure (2) of reference (b) identifies the minimum requirements to implement an MCP.

I strongly encourage each command and activity within the Department to review its MCP to ensure it is meeting program requirements as set forth in reference (b) and to ensure that appropriate management attention is afforded this critical aspect of our day-to-day business. Good management controls are everyone's responsibility and are a requirement for effective and efficient operations. We must stay focused on our goals and objectives, we must be alert to opportunities for process improvements, and we must ensure that our management controls provide the level of assurance necessary to successfully accomplish our mission.

If you have any questions regarding the DON MCP, or if you require assistance in assessing or strengthening your command or activity's MCP, please contact Gilbert Gardner, OASN(FM&C) FMO, (202) 685-6727, DSN 325-6727, or email: gardner.gilbert@fmo.navy.mil.

Susan Morrisey Livingstone
Under Secretary of the Navy

Distribution:
(see next page)

FUNCTIONAL CATEGORIES WITH UNIVERSAL WORK PROCESSES

Functional Category 03: Procurement

Credit Cards: Government Commercial Purchase Card Program
Credit Cards: Government Travel Charge Card Program

Functional Category 04: Contract Administration

Monitoring Contractor's Performance and Inspection and Acceptance of Supplies and Services

Functional Category 07: Supply Operations

Inventory Management (including physical inventory)
Supply Management (including material requisitioning, issue, receipt)

Functional Category 09: Communications, Security, and/or Intelligence

Telecommunications (including cell phones, pagers, and beepers)
Telephone Billing and Collections
Telephone Services and Usage

Functional Category 10: Information Management

Network Security
Information Assurance

Functional Category 11: Personnel and/or Organizational Management

Accreditation Program (including fiduciary process, liaison, policy, and management)
Curriculum Development, Maintenance Review, and Control
Curriculum Management (component commanders and Curriculum Control Authority)
Distributed Learning - Navy Learning Network
Instructor Certification/Evaluation/Utilization/Recognition
Instructor of the Year Program
Learning Strategies
Master Training Specialist Program
Navy Military Training (NMT)
Quota Control/Management

Student Management (including attrition data and control, and planned versus actual student input)
Training Feedback/Liaison
Budget Execution
Budget Formulation
Civilian Timekeeping

Functional Category 13: Support Services

Subfunction A: Administrative Support

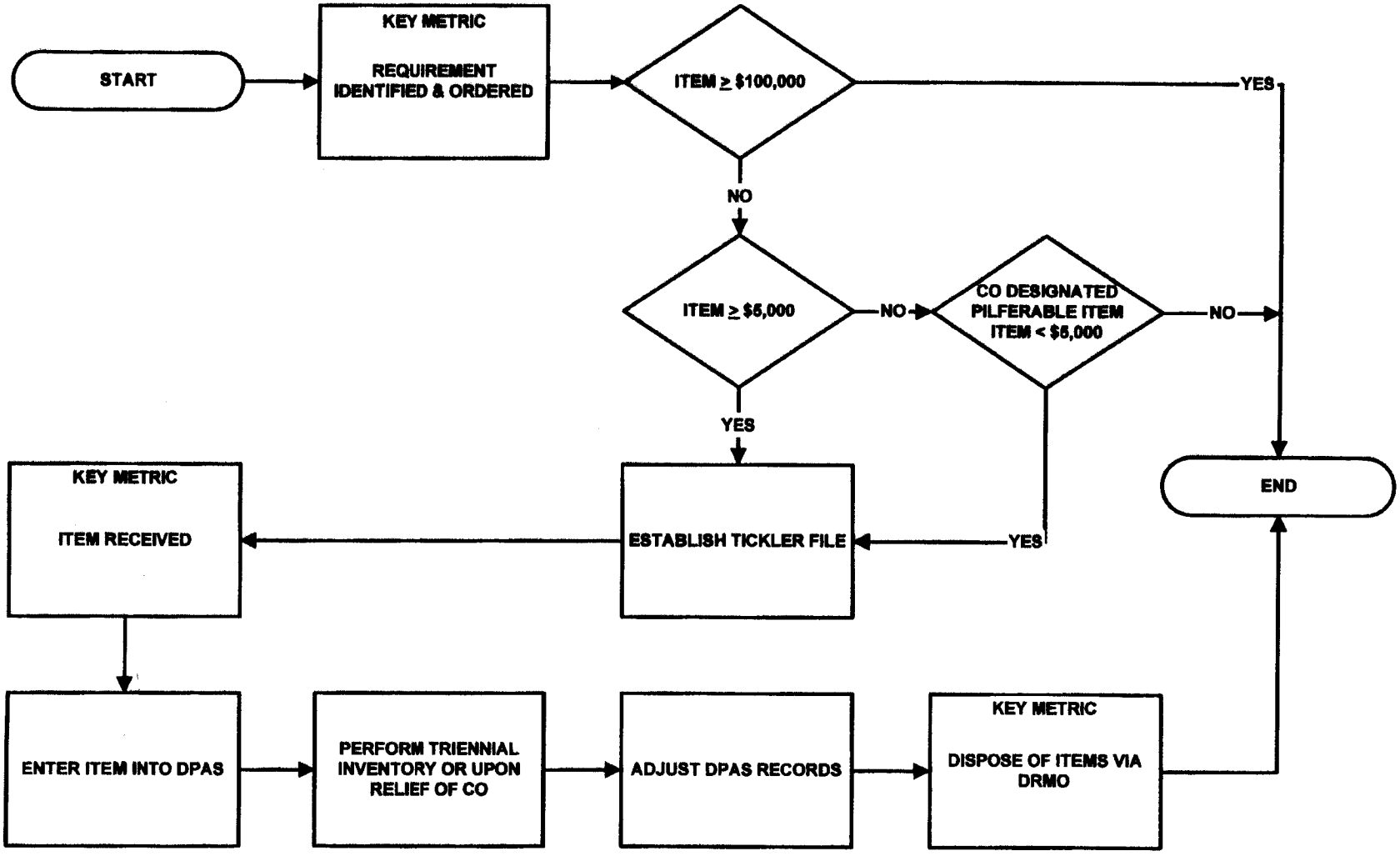
Management Control Program

Subfunction B: Audit

Audit Follow-up/Liaison
Command Evaluation Program/Local Audit Function
Command Inspection Program
Investigations (i.e., Hotlines)

SAMPLE FLOWCHART

Minor and Pilferable Property Process
Purpose: Process by which minor and pilferable property is managed and controlled.
Process Owner: J. P. Jones 452-4867



INTERNAL CONTROL SYSTEM TEST AND OPERATIONAL RISK MANAGEMENT ASSESSMENT

1. **Command/Department:** _____

2. **Work Process/Assessable Unit:** _____

3. **Identify key metrics used to measure performance. Annotate the flowchart to show their location(s):** (Normally a work process will have two to three key metrics that show the level of progress towards achieving intended results.)

4. **Test the key metrics. Are they reliable indicators?** (If no, explain remedies in paragraph 7 below.)

5. **Way(s) internal controls tested:** (Perform and check one or more blocks.)
   - [ ] Performed a physical inspection or walk through of the process.
   - [ ] Reviewed documents.
   - [ ] Interviewed cognizant managers.
   - [ ] Evaluated data.

6. **Test results**

	YES	NO
a. Does the flowchart accurately reflect the process?	[ ]	[ ]
b. Is the process producing intended results?	[ ]	[ ]
c. Are protections against fraud, waste, abuse, and mismanagement practices adequate?	[ ]	[ ]
d. Are laws and regulations followed?	[ ]	[ ]
e. Is the process effective, efficient, and economical?	[ ]	[ ]
f. Has an Operational Risk Management (ORM) Assessment been performed? (Refer to OPNAVINST 3500.39A, encl (1))	[ ]	[ ]
g. Are the internal controls acceptable for reducing risks?	[ ]	[ ]

(1) If YES, attach a completed NETC 5200/2.
If NO, explain why in paragraph 7 below.

(2) For the ORM Assessment, what is the overall Risk Assessment Code (RAC)? (check one)
- 1 = Critical [ ]
- 2 = Serious [ ]
- 3 = Moderate [ ]
- 4 = Minor [ ]
- 5 = Negligible [ ]

7. **For any "NO" response above, indicate if any action is planned and expected completion date.**

8. **Does this process warrant reporting to higher authority as a material weakness?** **YES [ ]** **NO [ ]**

9. **Attested to by:** _____ **Date:** _____

Flowchart of an ORM Assessment

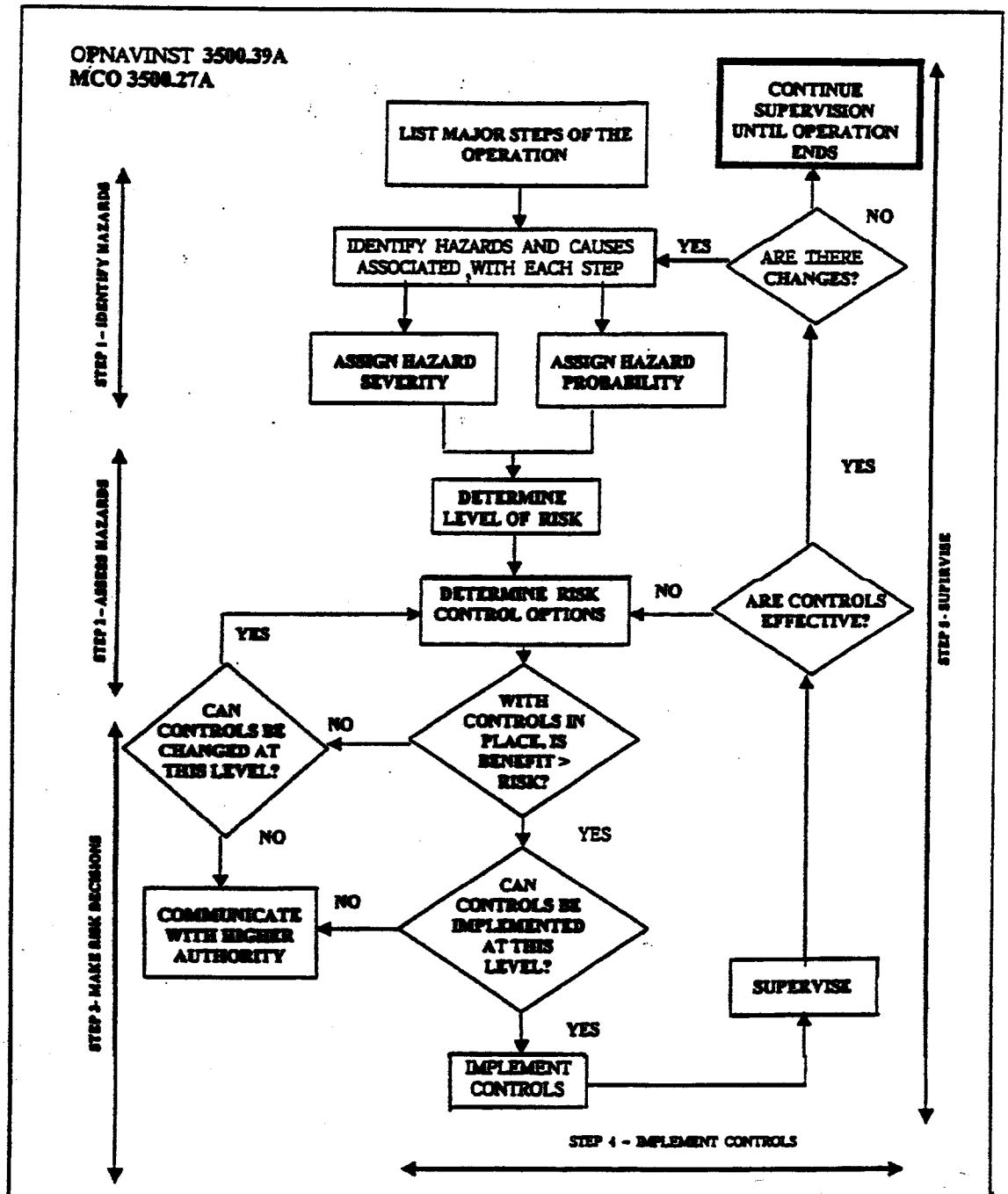


FIGURE 1

OPERATIONAL RISK MANAGEMENT (ORM) ASSESSMENT (OPNAVINST 3500.39A FIVE-STEP PROCESS)

Command/Department: _____

Work Process/Assessable Unit: _____

Step 1. Identify Hazards: — Yes / No / N/A

a. Has a flowchart been completed identifying major steps of the work process? [ ] [ ] [ ]

b. Have applicable hazards of each step with possible causes for those hazards been documented? If yes, attach copy (format on page 3). If no, comment on page 2. [ ] [ ] [ ]

Step 2. Assess Hazards. Each hazard identified in Step 1 will be assigned a "Hazard Severity Category," "Mishap Probability Rating," and a "Risk Assessment Code (RAC)." The below matrices are a guide for assessing hazards.

a. Has each hazard been assigned a Hazard Severity Category? [ ] [ ] [ ]

b. Has each hazard been assigned a Mishap Probability Rating? [ ] [ ] [ ]

c. Has each hazard been assigned a RAC? [ ] [ ] [ ]

Hazard Severity Category Matrix:

I (death, loss, or grave damage)
II (severe injury, damage, or inefficiencies)
III (minor injuries, damage, or inefficiencies)
IV (minimal threat to personnel and property)

Mishap Probability Sub-Category Matrix:

A (likely to occur immediately)
B (probably will occur in time)
C (may occur in time)
D (unlikely to occur)

Hazard Severity	Mishap Probability Rating A	B	C	D
I	1	1	2	3
II	1	2	3	4
III	2	3	4	5
IV	3	4	5	5

Risk Assessment Code
1 = Critical
2 = Serious
3 = Moderate
4 = Minor
5 = Negligible

Step 3. Risk Decisions:

a. Have risks been prioritized and internal controls selected to reduce process risks? [ ] [ ] [ ]

b. Do selected internal controls provide benefits that outweigh risks? [ ] [ ] [ ]

c. If risk outweighs benefit, does the process warrant reporting to higher authority as a material weakness? Discuss issues on page 2. [ ] [ ] [ ]

Step 4. Internal Control Implementation (more than one type internal control may apply):

a. Have "Engineering Controls" been implemented that reduce risks by design, material selection, or substitution when technically or economically feasible? [ ] [ ] [ ]

b. Have "Administrative Controls" been implemented that reduce risks through specific administrative actions, such as:

(1) providing suitable warnings, markings, placards, signs, and notices? [ ] [ ] [ ]

(2) establishing written policies, programs, instructions, and standard operating procedures? [ ] [ ] [ ]

	Yes	No	N/A
(3) training personnel to recognize hazards and take appropriate precautionary measures?	[ ]	[ ]	[ ]
(4) limiting the exposure to a hazard (either by reducing the number of personnel/assets or the length of time they are exposed)?	[ ]	[ ]	[ ]
c. Is there use of "Personal Protective Equipment" (serves as a barrier between personnel and a hazard and should be used when other controls do not reduce the hazard to an acceptable level)?	[ ]	[ ]	[ ]
Step 5. Supervision. Is there periodic supervisory oversight of internal controls for the work process?	[ ]	[ ]	[ ]

ORM Assessment conducted by: _____ **Date:** _____

ORM Assessment reviewed by: _____ **Date:** _____
(Department Head)

ORM Assessment conducted by: _____ **Date:** _____

ORM Assessment reviewed by: _____ **Date:** _____
(Department Head)

ORM Assessment conducted by: _____ **Date:** _____

ORM Assessment reviewed by: _____ **Date:** _____
(Department Head)

Issues/Comments **Actions (Include estimated completion dates.)**

OPERATIONAL RISK MANAGEMENT (ORM) ASSESSMENT
WORK PROCESS HAZARDS

Command/Department: _____

Work Process/Assessable Unit: _____

Document applicable risks and causes on the above work process. List hazards in order of severity. Refer to page 1 of ORM Assessment Form for matrices to determine Hazard Severity Category, Mishap Probability Sub-category, and Risk Assessment Code (RAC).

1. Hazard.

   a. Cause.

   b. Hazard Severity Category: _____

   c. Mishap Probability Sub-Category: _____

   d. RAC: _____

2. Hazard.

   a. Cause.

   b. Hazard Severity Category: _____

   c. Mishap Probability Sub-Category: _____

   d. RAC: _____

3. Hazard.

   a. Cause.

   b. Hazard Severity Category: _____

   c. Mishap Probability Sub-Category: _____

   d. RAC: _____

SAMPLE MANAGEMENT CONTROL CERTIFICATION STATEMENT

From: Responsible Official
To: NETC

Subj: MANAGEMENT CONTROL CERTIFICATION STATEMENT FOR FY 2004

Ref: (a) CNETINST 5200.6C
(b) NETCNOTE 5200 of _____

Encl: (1) Major Accomplishments (See Attachment A)
(2) Material Weakness (See Attachment B)

1. I have taken the necessary measures to ensure that the system of internal controls in effect during FY 2004 has been evaluated per references (a) and (b). Major accomplishments are presented in enclosure (1). (Provide major accomplishments as applicable.)

2. During the year, special attention was focused on ensuring compliance with the guidelines governing purchase and travel cards and premium travel. Contracting was another area of high emphasis where managers were requested to ensure internal control systems were sound.

3. (**Make one of the following statements**:)

I have reasonable assurance that management controls are in place and operating effectively. The objectives of the Federal Managers' Financial Integrity Act were achieved. (or)

I have reasonable assurance that management controls are in place and operating effectively, except for the weaknesses discussed in enclosure (2). Overall, the objectives of the Federal Managers' Financial Integrity Act were achieved. (or)

I do not have reasonable assurance that controls are in place and working effectively, as discussed in enclosure (2). However, remedial action is being taken to ensure compliance with the objectives of the Federal Managers' Financial Integrity Act.

4. Information to support the certification statement was derived from process analyses, audits, inspections, investigations, and other management information such as knowledge gained from daily operations of programs and functions.

_____
Signed by Responsible Official

MAJOR ACCOMPLISHMENTS	
1. **General Information.**	
(a) Command/Activity:	UIC:
(b) Department:	
(c) Functional Category:	
(d) Work Process/Assessable Unit:	
(e) Point of Contact:	
2. **Major Accomplishments.**	
Discuss major steps taken to promote a control-conscious environment within the activity, or measures to strengthen internal controls:	

MATERIAL WEAKNESS
OR STATUS OF CORRECTIVE ACTIONS

- - - - - - - - - - - - - - - - - -

COMPLETE ONLY APPLICABLE AREAS

1. **General Information.**

(a) Command/Activity: UIC:

(b) Department:

(c) Functional Category:

(d) Work Process/Assessable Unit:

(e) Point of Contact:

2. **Material Weakness or Status of Corrective Actions.**

(a) Title of Material Weakness:

(b) Description of Material Weakness and impact on operations:

(c) Source employed to identify material weakness (process analysis, audit finding, inspection, investigation or management studies):

(1) Source:

(2) Date Identified:

(d) Corrective Actions: (Check applicable box, detail actions and milestones below.) [ ] Completed (Date:_____)
[ ] Pending (Est. Completion Date:_____)
[ ] Not correctable at this level (Note who must correct and why.)

(e) Explain the methodology that will be (has been) employed to certify the effectiveness of the corrective actions:

Estimated Date of Certification: