



Department of Defense DIRECTIVE

NUMBER 5010.38

August 26, 1996

USD(C)

SUBJECT: Management Control (MC) Program

- References:
- (a) DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987 (hereby canceled)
 - (b) Section 3512 of title 31, United States Code (also referred to as Public Law 97-255 and the Federal Managers' Financial Integrity Act (FMFIA) of 1982)
 - (c) Office of Management and Budget Circular No. A-123, Revised, "Management Accountability and Control," June 21, 1995
 - (d) Office of Management and Budget Memorandum, "Year-End Internal Control Report," current edition
 - (e) through (n), see enclosure 1

1. REISSUANCE AND PURPOSE

This Directive reissues reference (a) to:

- 1.1. Establish the DoD program for MC and address the establishment and assessment of MCs.
- 1.2. Incorporate guidance under references (b), (c), (d), and General Accounting Office "Standards for Internal Control in the Federal Government" (reference (e)).
- 1.3. Establish policy and assign responsibilities

2. APPLICABILITY

This Directive applies to the Office of the Secretary of Defense (OSD), the Military Departments, the Chairman of the Joint Chiefs of Staff, the Unified Combatant

Commands, the Inspector General of the Department of Defense (IG, DoD), the Uniformed Services University of the Health Sciences, the Defense Agencies, and the DoD Field Activities (hereafter referred to collectively as “the DoD Components”).

3. DEFINITIONS

Terms used in this Directive are defined in DoD Instruction 5010.40 (reference (f)).

4. POLICY

It is DoD policy under reference (b) and (c) that:

4.1. Each DoD Component shall implement a comprehensive strategy for MCs that provides reasonable assurance that:

4.1.1. Obligations and costs comply with applicable law.

4.1.2. Assets are safeguarded against waste, loss, unauthorized use, and misappropriation.

4.1.3. Revenues and expenditures applicable to DoD operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over the assets (emphasizing activities involving funds, property, and other assets for which managers are responsible), including nonappropriated fund activities, such as the Army and Air Force Exchange Services.

4.1.4. Programs and administrative and operating functions are efficiently and effectively carried out in accordance with applicable law and management policy.

4.1.5. The MC process emphasizes prevention of waste, fraud, mismanagement, and timely correction of MC weaknesses.

4.2. The MC process shall be integrated into the daily management practices of all DoD managers, and shall:

4.2.1. Be consistent with, and draw heavily upon, guidance provided by OMB Circular No. A-123 (reference (c)), except for those parts of paragraph V, “Reporting on Management Controls,” that pertain to reporting and distribution to parties and offices

that are external to the Department of Defense. Reporting is addressed in subsection 4.3.,below.

4.2.2. Address all significant operations and mission responsibilities and not limit evaluations to operations applicable to the financial management community.

4.2.3. Be designed, documented, and operated to provide reasonable assurance that specific objectives enumerated in 31 U.S.C. 3512 (reference (b)) and reference (c) are met. Managers will continuously monitor and improve the effectiveness of vital MCs. Continuous monitoring, and other periodic evaluations, should provide the basis for the annual statement about reasonable assurance. Further elaboration regarding MC Program and methods design are provided in DoD Instruction 5010.40 (reference (f)).

4.2.4. Wherever possible and to the greatest extent possible, rely on organizationally required and other contributing information sources (such as management and oversight reviews, computer security reviews, financial system reviews, audits, inspections, investigations, internal review studies, quality management initiatives, and management and/or consulting reviews). MC Program evaluation should not cause the duplication of existing information that pertains to assessing the effectiveness of MCs or information that may be used for that purpose. Evaluation of the MCs of an assessable unit should NOT be limited to existing information if that information does NOT allow for coverage of the full scope of vital MCs applicable to that unit. Whenever existing data does not provide for adequate review of MCs, then appropriate reviews should be planned and provided that will enable management to make reasonable judgments about the effectiveness of the MCs under OMB Circular No. A-123, (reference (c)). When considering the scope and necessity for reviewing or testing of MCs, managers should determine whether controls should be classified as “vital” or “nonvital.” In the final analysis, management’s opinion about the status of a Component’s MCs is based primarily on the status of its vital MCs.

4.2.5. Involve management at all levels and provide for the assignment of overall responsibility for program design, direction, and implementation to a designated senior management official who is, or is directly accountable to, the DoD Component Head.

4.2.6. Assign to the manager of each assessable unit responsibility and accountability for execution and evaluation of MCs in a manner consistent with this guidance.

4.3. Each DoD Component shall submit to the Secretary of Defense, based on the execution of their MC Program, a statement of assurance that indicates whether or not the MC systems meet the program standards, goals, and objectives of sound and effectively implemented MCs. Component statements, individually and in total, will serve as support for the letter of assurance to be provided by the Secretary of Defense to the President and to the Congress under 31 U.S.C. 3512 (reference b)). The Office of the Under Secretary of Defense (Comptroller) (USD(C)) shall provide annual guidance about this activity. Reporting will be in accordance with DoD Instruction 5010.40 (reference (f)).

4.4. In the most cost-effective manner, the DoD Components should provide managers throughout their organization with training consistent with their MC responsibilities and obligations. Mutually beneficial and consolidated training efforts are encouraged.

4.5. Those MCs that are an integral part of an accounting system shall be reviewed as part of the process for indicating whether the accounting system is in compliance with OMB Circular No. A-127 (reference (g)). Policies, procedures and responsibilities for the evaluation of MCs that are an integral part of a financial management system are prescribed in DoD 7000.14-R, Volume 1, chapter 3 (reference (h)). Due to the multiple applications of the data generated by accounting systems evaluations, when appropriate, evaluations should consider the requirements specified by the GAO Policy and Procedures Manual for Guidance of Federal Agencies (reference (i)), and 31 U.S.C. 3515 (reference (j)), and Statements of Federal Financial Accounting Standards (reference k)).

5. RESPONSIBILITIES

5.1. The Under Secretary of Defense (Comptroller) shall:

5.1.1. Serve as the DoD senior official under OMB Circular No. A-123 (reference (c)) for policy guidance, direction, and coordination with DoD Components and other Federal Agencies on MC matters.

5.1.2. Establish DoD MC policy and oversee its implementation and operation throughout the Department of Defense.

5.1.3. Issue guidance to further define responsibilities and policies for this program.

5.1.4. Prepare for the Secretary of Defense, by December 31 of each year, the statement of assurance for submission to the President and the Congress, as required by 31 U.S.C. 3512 (reference (b)) and OMB Memorandum (reference (d)), as interpreted by guidance provided by the Office of the USD(C).

5.1.5. Ensure that the DoD Senior Financial Management Oversight Council, established by Deputy Secretary of Defense Memorandum (reference (l)), monitors the DoD MC Program, as appropriate.

5.2. The Director of Administration and Management, Office of the Secretary of Defense, shall serve as the senior management official for the OSD Component (OSD and DoD Field Activities), with responsibility to carry out the functions described in paragraphs 5.5.2. through 5.5.6., below.

5.3. The Under Secretaries and Assistant Secretaries of Defense as Heads of Office of the Secretary of Defense Functional Elements, under the Secretary of Defense Memorandum, “Revised Federal Managers’ Financial Integrity Act Implementation” (reference (m)), shall:

5.3.1. Implement a MC Program within their respective staff organizations.

5.3.2. Identify systemic MC weaknesses for inclusion in the DoD Annual Statement of Assurance, including those which cut across areas of functional responsibility or the responsibility of a specific DoD Component.

5.3.3. Identify MC weaknesses in their functional areas that should be reported by one or more DoD Component.

5.3.4. Review the reported actions of the DoD Components on the specifications and accomplishment of milestones to correct reported material weaknesses in each functional area.

5.4. The Inspector General of the Department of Defense shall:

5.4.1. Periodically perform and report on evaluations of those DoD Components for which the IG, DoD, has audit cognizance.

5.4.2. Provide technical assistance to the DoD Components and their internal audit, internal review, inspection, and investigative activities on MC matters.

5.4.3. Provide to the DoD Components any IG, DoD, or GAO audit or inspection finding that discloses a potential weakness in MCs and the reported status of agreed on corrective actions.

5.4.4. Provide audit policy direction for DoD Component Heads on reviewing and reporting on the implementation of policies and standards established by this Directive.

5.4.5. Provide clearly disclosed commentary in all audit and evaluation reports, consistent with existing Office of the IG, DoD guidance and the Secretary's memorandum (reference (m)), on the adequacy of management's implementation of this Directive.

5.5. The Head of Each DoD Component shall:

5.5.1. Appoint a senior management official to be responsible for establishing and implementing the DoD Component's MC Program. That individual shall be known as the "MC Senior Responsible Official."

5.5.2. Emphasize prevention and correction of waste, fraud, and mismanagement in all MC plans and guidelines, and provide for appropriate cost-effective training of affected managers to assure their fulfillment of these responsibilities.

5.5.3. Issue applicable guidance and assign adequate resources to ensure that the policy provisions of this Directive are implemented fully.

5.5.4. Advocate accountability for appropriate compliance with MC guidance by encouraging performance evaluations of civilian and military managers having significant MC responsibilities. OMB Circular No. A-123 (reference (c)) emphasizes management accountability.

5.5.5. Monitor implementation of the program and establish follow-up systems to ensure acceptable performance and prompt correction of all material weaknesses. The follow-up systems shall be coordinated with other management reporting systems, especially the DoD Component audit follow-up system, whenever feasible.

5.5.6. Provide to the Secretary of Defense, by November 15 of each year, the statement of assurance called for in 31 U.S.C. 3512 (reference (b)).

5.6. The Secretaries of the Military Departments who provide executive agency support to Unified Combatant Command headquarters also shall provide to those headquarters applicable guidance, training, and assistance to allow the Unified Combatant Commands to fulfill the requirements of this Directive. At the discretion of the Secretaries of Military Departments, or designees, and consistent with the flexibility of MC Program implementation, Unified Combatant Commands may be permitted to design and implement an MC Program that is unique to their organization.

6. INFORMATION REQUIREMENTS

The annual DoD internal reporting requirement identified at paragraph 5.5.6. has been assigned Report Control Symbol DD-COMP(AR)1618 in accordance with DoD 8910.1-M (reference (n)).

7. EFFECTIVE DATE

This Directive is effective immediately.

A handwritten signature in black ink, appearing to read 'John P. White', is written over a horizontal line.

John P. White
Deputy Secretary of Defense

Enclosures - 1

1. References

E1. ENCLOSURE 1

REFERENCES, continued

- (e) General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, "Standards for Internal Control in the Federal Government," October, 1984
- (f) DoD Instruction 5010.40, "Management Control Program Procedures"
- (g) Office of Management and Budget Circular A-127 (Revised), "Financial Management Systems," July 23, 1993
- (h) DoD 7000.14-R, "DoD Financial Management Regulation," current edition, authorized by DoD Instruction 7000.14, November 15, 1992
- (i) General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, "Title II Accounting," May 1988
- (j) Sections 3512 and 3515 of title 31, United States Code (as amended by the Government Management Reform Act of 1994, Public Law 103-356, January 25, 1994
- (k) Statements of Federal Financial Accounting Standards (through 1996 and as issued by Office of Management and Budget)
- (l) Deputy Secretary of Defense Memorandum, "Establishment of the Senior Financial Management Oversight Council," July 14, 1993
- (m) Secretary of Defense Memorandum, "Revised Federal Managers' Financial Integrity Act Implementation," February 12, 1994 (implemented by Deputy Secretary of Defense memorandum, "Guidance to Implement Secretary of Defense Federal Managers' Financial Integrity Act Direction," April 18, 1994)
- (n) DoD 8910.1-M, DoD Procedures for Management of Information Requirements, November 28, 1986, authorized by DoD Directive 8910.1, June 11, 1993