



DEPARTMENT OF THE NAVY  
NAVAL SERVICE TRAINING COMMAND  
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Canc frp: May 05

CNSTCNOTE 5200

CA/IG

1 Jun 04

COMNAVSERVTRACOM NOTICE 5200

Subj: MANAGEMENT CONTROL PROGRAM (MCP)

Ref: (a) NTCGLAKESINST 5200.4C  
(b) CNETINST 5200.6C  
(c) OPNAVINST 3500.39A  
(d) NETCNOTE 5200

Encl: (1) Internal Control System Test and Operational Risk  
Management (ORM) Assessment (NETC 5200/1)  
(2) ORM Assessment (NETC 5200/2)  
(3) Sample MCP Certification Statement w/attachments  
A & B  
(4) Definition of a Material Weakness

1. Purpose. To announce changes, reporting requirements and due dates for FY-04 cycle of the Department of the Navy (DON) Management Control Program (MCP). Reference (b) and (d) apply.

2. Background. Secretary of the Navy (SECNAV) requires compliance with the federal Managers' Financial Integrity Act (FMFIA) (Public Law 94-255).

3. Discussion.

a. The DON MCP is the Navy's method for demonstrating and documenting compliance with FMFIA. SECNAV expects all managers to be active participants. During audits, all external audit agencies (GAO, DODIG, and NAVAUDSRV) review command's compliance with this program. Auditors continue to be very active in the Naval Education and Training Command.

b. MCP 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.

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

a. Evaluate Process Inventory

(1) The inventory must reflect processes that are performed within the command. Compare your inventory to the Universal Processes shown at reference (d) 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. Reference (d) enclosure (3) provides a sample of the preferred method for developing a flowchart. However, if you have the flowchart format developed with Bearing Point, it will suffice as well. 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 process inventory list for your command or department should be completed by **9 Jun 2004**.

b. Key Metrics, Internal Control System Test and Operational Risk Management (ORM) Assessment.

(1) Ensure each process is examined for efficiency, effectiveness and economy. Use enclosure (1) to document new testing. 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 reference (d) enclosure (3).

(2) Under the guidelines of reference (c), 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 reference (d) enclosure (5).  
Enclosure (2) gives a streamlined format for completing it.  
Ensure both forms are properly signed and dated.

(3) Tests and assessments should be completed by **18 June 2004**.

c. FY-04 Annual MCP Certification Statement: A sample certification statement format is available at enclosure (3).

(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, enclosure (3) Attachment A.

(b) NETC 5200/4 for Material Weaknesses that are not correctable at the local level, enclosure (3) Attachment B. A definition of what constitutes a Material Weakness is at enclosure (4).

(c) NETC 5200/4 for Status of Corrective Actions on weaknesses not previously reported as closed, enclosure (3) Attachment B.

(4) Echelon 4 commands shall submit a consolidated statement that reflects chain of command compliance by both headquarters and subordinate commands. Commanding Officers reporting directly to NSTC shall provide a signed certification statement to CNSTC via NSTC, CA/IG for compilation, no later than **10 July 2004** per above guidelines.

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5. Action:

a. Complete requirements as described above.

b. Request all NSTC Commands/Department Heads/Special Assistances identify a POC with phone number and provide to NSTC, CA/IG Ms. Patricia Molette - E-Mail: patricia.Molette@navy.mil by **9 Jun 2004**.

c. Request a list of your processes also be forwarded to Ms Molette at the same address by **9 Jun 2004**.

d. Request signed Certification Statements, discussed in 4.c., from CO's, Department heads and Special Assistants be provided to Ms. Patricia Molette by **10 July 2004**.

6. Forms: Use forms at enclosures (1), (2) and (3) A and B.

7. Point of Contact: You may submit your responses by E-Mail, FAX to 4165, or mail to our Command Assessment/Inspector General (CA/IG) Office, Bldg. 3200. If you have any questions, please contact Mr. Frank P. Columbus or Ms. Patricia Molette at (847) 688-2765 or DSN: 792-2765.



D. L. COLES  
Chief of Staff

Distribution:

CNSTCINST 5216.1

Lists III (Less NAVSTA, NAVHOSP, NRAC)

## 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))	[ ]	[ ]

(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 [ ]

g. Are the internal controls acceptable for reducing risks? [ ] [ ]

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: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

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

**Command/Department:** \_\_\_\_\_

**Work Process/Assessable Unit:** \_\_\_\_\_

- Step 1. Identify Hazards:**
- |   | <u>Yes</u> | <u>No</u> | <u>N/A</u> |
|---|------------|-----------|------------|
| 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: Commander, Naval Service Training Command  
Via: Department Head, Command Assessment/Inspector General Office,  
Naval Service Training Command

Subj: MANAGEMENT CONTROL CERTIFICATION STATEMENT FOR FY-2004

Ref: (a) NTCGLAKESINST 5200.4C  
(b) NSTCNOTE 5200

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

Enclosure (3)

**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:

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**MATERIAL WEAKNESS  
OR STATUS OF CORRECTIVE ACTIONS**

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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:

## DEFINITION OF MATERIAL WEAKNESS

Per CNETINST 5200.6C, Management Control Program, enclosure (2), the following definition of a material weakness is as follows:

A material weakness exists when a condition results in a relatively high risk of loss, errors, or irregularities in relation to the assets or resources being managed. Professional judgment, based on applied common sense, must be used when determining materiality. The factors below should be considered in deciding whether a particular condition represents a material weakness.

- (1) Actual or potential loss of five percent or more of resources (e.g., property, inventory, personnel, etc.).
- (2) Actual or potential loss of two percent or more of sensitive resources (e.g., drugs, materials, munitions (weapons and ammunition), etc.)
- (3) Current or probable Congressional or media interest (adverse publicity).
- (4) Impaired fulfillment of mission.
- (5) Unreliable information causing unsound management decisions (e.g., ten percent or more which affect timeliness or data error rate).
- (6) Violations of statutory requirements.
- (7) Systematic deficiencies regardless of the magnitude of resources involved.
- (8) Magnitude of funds, property, or other resources involved.
- (9) Diminished credibility or reputation of management.
- (10) Deprived the public of needed Government services.