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OFFICE OF THE JUDGE ADVOCATE GENERAL
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IN REPLY REFER TO
JAGINST 5200.35C
Code 63
05 OCT 1999

JAG INSTRUCTION 5200.35C

From: Judge Advocate General

Subj: MANAGEMENT CONTROL PROGRAM

Ref: (a) Section 3512 of Title 31, United States Code (Public Law 97-255/
Federal Managers' Financial Integrity Act of 1982)
(b) Office of Management and Budget Circular No. A-123, Revised,
"Management and Accountability and Control" of 21 Jun 95 (NOTAL)
(c) DOD Directive 5010.38, "Management Control (MC) Program" of
26 Aug 96 (NOTAL)
(d) DOD Instruction 5010.40, "Management Control (MC) Program
Procedures" of 28 Aug 96 (NOTAL)
(e) SECNAVINST 5200.35D

Encl: (1) Standards for Management Control in the Federal Government
(2) Definitions
(3) Parent Inventory of Assessable Units
(4) Vulnerability Assessment Form (w/instructions)
(5) Vulnerability Assessment Report Format
(6) Format for Reporting Status of Corrective Actions
(7) Reporting Requirements and Procedures

1. Purpose. To establish a Management Control Program (MCP) for the Office of the Judge Advocate General (OJAG) to comply with references (a) through (e) and to clarify management control and accountability. This is a complete revision and should be read in its entirety.

2. Cancellation. JAGINST 5200.35B.

3. Background

a. Commanders/managers are responsible for ensuring that their resources are used efficiently and effectively and that their programs run with integrity. The MCP is one tool available to assist them in this discharge of their duty. Other methods include the Command Inspection Program, command evaluation reviews and analyses, and individual audits and investigations. Together, these programs must reasonably ensure that:

(1) obligations and costs comply with applicable laws and regulations;

(2) assets are safeguarded against waste, loss, unauthorized use or misappropriation; and

(3) revenues and expenditures are properly accounted for and recorded.

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b. The system of management controls contained in this instruction encompasses all programs and functions within OJAG, not just the comptroller functions of budgeting, recording, and accounting for revenues and expenditures. Using the standards in enclosure (1), commanders/managers will incorporate basic management controls in the strategies, plans, guidance and procedures governing their programs and operations.

4. Definitions. The terms, standards, and other applicable concepts used in this instruction are defined in enclosures (1) and (2).

5. Policy. All OJAG components shall maintain effective management control systems. All levels of OJAG management shall:

a. establish controls consistent with the standards contained in this instruction; and

b. continually monitor and improve the effectiveness of controls chosen to be employed for their programs.

6. Responsibilities

a. Management Control Officer (MCO) (Code 63) will oversee the overall OJAG effort of evaluating, improving, and reporting on management control systems in accordance with reference (e) and shall:

(1) establish administrative procedures in accordance with the reporting requirements in reference (e) and enclosure (7) to implement the MCP;

(2) provide guidance and assistance to OJAG managers in implementing their individual management control systems;

(3) evaluate weaknesses of OJAG divisions to identify command-wide problems and monitor all management control weaknesses reported to ensure priority accomplishments of corrective action;

(4) establish a formal follow-up system to track recommendations and actions resulting from vulnerability assessments (upon completion of corrective action, the MCO will evaluate the effectiveness of the corrective action to determine if, in fact, it has corrected the identified weaknesses);

(5) define independent evaluation of the results of the operation and documentation of the MCP, in conjunction with periodic and special reviews;

(6) prepare an Annual Management Control Certification Statement ("Statement of Assurance") for signature by the Judge Advocate General to the Secretary of the Navy by 15 October of each year;

(7) serve as the command point of contact for all matters related to the OJAG MCP; and

(8) maintain liaison and coordination with the JAG Inspector General.

b. JAG Inspector General shall, as part of the inspection program, conduct a limited review to determine the extent of program compliance, test the management controls established, and evaluate whether the Management Control Program has been implemented in a reasonable and prudent manner.

c. Assistant Judge Advocates General shall ensure that management controls are implemented and operating within the areas they manage by:

(1) developing management control objectives that address specific vulnerabilities associated with the programs/functions they manage;

(2) documenting management control objectives and techniques, work flow and operational procedures, and other important management control activities (documentation shall be complete, accurate, and readily available for examination);

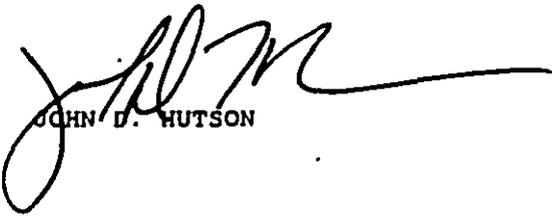
(3) evaluating existing controls and establishing administrative procedures to achieve specific program/function objectives and to comply with the standards provided in enclosure (1);

(4) completing all required/scheduled vulnerability assessments (VAs) and associated reports in enclosures (4), (5), and (6) to arrive at the MCO within the established timeframe;

(5) promptly evaluating VA findings and initiating actions to correct or otherwise resolve problems within the established timeframe; and

(6) ensuring that management officials at all levels are aware of their management control responsibilities and are accountable for the success or failure of management control practices and that such accountability is reflected in the performance appraisals of military and civilian commanders/managers.

7. Reports. Report control symbols have been assigned to all reports for this program.



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STANDARDS FOR MANAGEMENT CONTROL IN THE FEDERAL GOVERNMENT

1. General

a. Compliance with Law. All program operations, obligations and costs must comply with applicable laws and regulations. Resources should be efficiently and effectively allocated for duly authorized purposes.

b. Reasonable Assurance and Safeguards. Management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use and misappropriation. Management controls should be logical, applicable, reasonably complete, effective, and efficient in accomplishing management objectives.

c. Integrity, Competence, and Attitude. Commanders/managers and employees must have personal integrity and are obligated to support the ethics programs in their agencies. The spirit of the standards of ethical conduct requires that commanders/managers develop and implement effective management controls and maintain a level of competence that allows them to accomplish their assigned duties. Effective communication within and between offices should be encouraged.

2. Specific

a. Delegation of Authority and Organization. Commanders/managers should ensure that appropriate authority, responsibility and accountability are defined and delegated to accomplish the mission of the organization and that an appropriate organizational structure is established to effectively carry out program responsibilities. To the extent possible, controls and related decision-making authority should be in the hands of line managers and staff.

b. Separation of Duties and Supervision. Key duties and responsibilities in authorizing, processing, recording and reviewing official agency transactions should be separated among individuals. Commanders/managers should exercise appropriate oversight to ensure individuals do not exceed or abuse their assigned authorities.

c. Access to and Accountability for Resources. Access to resources and records should be limited to authorized individuals, and accountability for the custody and use of resources should be assigned and maintained.

d. Recording and Documentation. Transactions should be promptly recorded, properly classified and correctly accounted for in order to prepare timely accounts and reliable financial and other reports. The documentation for transactions, management controls and other significant events must be clear and readily available for examination.

e. Resolution of Audit Findings and Other Deficiencies. Commanders/managers should promptly evaluate and determine proper actions in response to known deficiencies, reported audits and other findings, and related recommendations. They should complete, within established time frames, all actions that correct or otherwise resolve the appropriate matters brought to management's attention.

DEFINITIONS

1. Assessable Unit. Any organizational, functional, programmatic or other applicable subdivision capable of being evaluated by management control assessment procedures. An assessable unit should be a subdivision of an organization, or functional area, that ensures a reasonable span of management control to allow for adequate analysis. Assessable units usually have specific management controls that are applicable to their responsibilities.
2. Control Objective. A specific aim, goal, condition or level of control established by a commander/manager for an assessable unit that provides reasonable assurance that the resources allocated to that activity are safeguarded or protected adequately against waste, fraud or mismanagement, and that organizational, operational or administrative objectives are accomplished. Control objectives are not absolutes. Limiting factors, such as budget constraints, statutory and regulatory restrictions, staff limitations and the cost-benefit of each control technique, must be considered in determining desired control objectives.
3. Control Technique. Any form of organizational procedure or document flow that is relied on to accomplish a control objective.
4. Cost-Benefit. The true net cost of correcting an identified weakness. The cost-benefit represents the real (actual) monetary benefit derived from correcting the weakness, reduced by (less) the costs associated with implementing the correction. The concept of reasonable assurance recognizes that the costs of management control should not exceed the benefits to be derived, and that the benefits themselves consist of a reduced risk of failing to achieve stated objectives. This balancing of management control costs and benefits is addressed using estimates and management judgment.
5. Documentation. Documentation of management control activities is required to the extent needed by management to control its operations effectively and may be generated by activities not specifically established to meet the requirements of the Management Control Program. Documentation for management control systems is mandated by reference (b) and encompasses the following two types of written materials:
 - a. Review Documentation. Shows the type and scope of the review, the responsible official, the pertinent dates and facts, the key findings and the recommended corrective action, if needed. Documentation is adequate if the information is understandable to a reasonably knowledgeable reviewer.
 - b. System Documentation. Includes policies and procedures, organizational charts, manuals, flow charts and related written and graphic materials necessary to describe organizational structure, operating procedures and administrative practices, and to communicate responsibilities and authority for accomplishing programs and activities.

6. General Control Environment. The environment in which management operates, including: (a) management attitude; (b) organizational structure; (c) personnel competence; (d) delegation of authority and responsibility; (e) policies, procedures, budgeting and reporting practices; and (f) organizational checks and balances.

7. Management Control. The organization, policies, and procedures used to reasonably ensure that: (a) programs achieve their intended results; (b) resources are used consistent with the Department of the Navy's (DON's) mission; (c) programs and resources are protected from waste, fraud and mismanagement; (d) laws and regulations are followed; and (e) reliable and timely information is obtained, maintained, reported and used for decision making. Management controls, in the broadest sense, include the plan of organization, methods and procedures adopted by management to ensure that its goals are met. Management controls include processes for planning, organizing, directing and controlling program operations. Some subsets of management controls are the internal controls used to assure that there is prevention or timely detection of unauthorized acquisition, use or disposition of the entity's assets.

8. Management Control Program (MCP). The full scope of management responsibilities as defined in this instruction. That responsibility includes the development of effective management controls, the evaluation and correction of deficiencies, the use of effective follow-up procedures, and the reporting requirements of this guidance.

9. Management Control Standards. Federal standards for management control are summarized in reference (b) and are identified in enclosure (1).

10. Management Control System. The sum of the methods and measures used to achieve the management control objectives - both the controls and the evaluations of those controls. It is not a separate system, but an integral part of the systems used to operate programs and functions.

11. Reasonable Assurance. The judgement by a DON component head based upon all available information that the component systems of management controls are operating as intended by reference (a).

12. Risk. The probable or potential adverse effects from inadequate management controls that may result in the loss of resources or cause an activity to fail to accomplish significant mission objectives through fraud, error or mismanagement.

13. Risk Assessment. A documented review by management of an assessable unit's susceptibility to fraud, waste or mismanagement. Management evaluates the general control environment, analyzes the inherent risks and arrives at a preliminary assessment of the safeguards for the assessable unit. One form of risk assessment is the following:

a. Vulnerability Assessment (VA). An evaluation, made by management, of the level of susceptibility of an assessable unit to waste, loss, misappropriation or unauthorized use of Government assets, errors in reports and information, illegal or unethical act, and/or adverse or unfavorable public opinion. The objective in performing VAs is to rate these assessable

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units as low, medium, or high in vulnerability, based on their susceptibility to waste, loss, unauthorized use or misappropriation. Enclosure (4) explains in greater detail the procedures for performing VAs.

PARENT INVENTORY OF ASSESSABLE UNITS

<u>FUNCTIONAL AREA</u>	<u>ASSESSABLE UNITS</u>
1. <u>Administrative Support</u>	Accident Prevention Accident Investigation and Reporting Correspondence Control Duplication and Reproduction Files Management Freedom of Information Act/Privacy Act Responses Instructions Management Management Control Program Library Mail and Postal Affairs Printing Productivity Reports Publications Reports Control Space Requirements Workload/Performance Measurement
2. <u>Audit</u>	Follow-up/Tracking Internal Review Program
3. <u>Information Technology</u>	Acquisition Management Automated Data Processing (ADP) Operations Application Support Back-up Operations Contingency Planning Database Management Hardware Control Maintenance Programming Services Security Software Control Technical Services
4. <u>Communications</u>	Message Handling
5. <u>Education and Training</u>	ADP Civilian Continuing Legal Education/Professional Responsibility Enlisted Financial General Military Training Mentoring Officer Security Supply
6. <u>Financial</u>	Appropriated Fund Accounting Budget Preparation

- 6. Financial (cont'd)
 - Budget Execution
 - Budget Reprogramming
 - Civilian Timekeeping
 - Civilian Pay
 - Commercial Bills
 - Metro Farecard Control
 - Operating Target
 - Overtime Administration
 - Prompt Payment Act Administration
 - Property Accounting
 - Telephone
 - Travel
 - Unliquidated Obligations

- 7. Security
 - Access Control
 - Classified Material
 - Physical Security/Loss Prevention

- 8. Supply/Property Management
 - Credit Cards
 - Excess Material
 - Minor Property
 - Missing-Lost-Stolen-Report Program
 - Plant Property
 - Office Equipment
 - Property Accounting Systems
 - Property Disposal
 - Storage

- 9. Personnel
 - Alcohol/Drug Abuse
 - Augmentation
 - Civilian Performance Appraisals
 - Command Managed Equal Opportunity
 - Duties/Watches
 - Enlisted Evaluations
 - Equal Employment Opportunity
 - JAG Intern Program
 - Manpower/Billet Requirements
 - Military Leave
 - Military Orders/PCS
 - Officer Fitness Reports
 - Personnel Records
 - Postgraduate Selection
 - Promotions and Advancement
 - Recruiting
 - Reserves

- 10. Procurement
 - Blanket Purchase Agreement
 - Open Market Procurement
 - Service Contracts
 - Sole Source Justification

- 11. Legal
 - Administrative Law
 - Affirmative Claims

11. Legal (cont'd)

Claims Adjudication
Claims (Affirmative and Defensive)
Admiralty
Carrier Recovery
Federal Tort
Foreign
Medical Care Recovery
Military
Personal Property
Court-Martial Appeals
Court-Martial Reviews
Environmental Law
Freedom of Information Act (FOIA)/
Privacy Act Appeals
International/Operational Law
JAG Manual Investigations
Litigation
Military Justice
Correspondence
Legal Advisory

12. Facilities

Commercial Activities
Major/Minor Construction

VULNERABILITY ASSESSMENT FORM
PLEASE PRINT COMMENTS ON REVERSE
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1. Command:			2. Functional Area and Assessable Unit:		
3. Emphasis on Management Controls	<u>Choice</u>	<u>Value</u>	6. Adequacy of Checks & Balances	<u>Choice</u>	<u>Value</u>
Major		(1)	Adequate		(1)
Moderate		(3)	Needs improvement		(3)
Minor		(5)	Needed, but lacking		(5)
4. Written Procedure			7. ADP Use		
Specific guidance		(1)	Reliability satisfactory		(1)
Flexible guidance		(3)	Reliability needs improvement		(3)
No written procedures		(5)	Reliability is a major problem		(5)
5. Goals & Accomplishments			8. Personnel Resources		
Formal goals		(1)	Adequate number & qualified		(1)
Informal goals		(3)	Some training required		(3)
Need goals		(5)	Insufficient number or training		(5)
9. Program Administration			14. Type of Transaction Document		
DON only		(1)	Document		
Joint Service		(3)	Non-convertible		(1)
Third party (contractor)			Convertible to services only		(3)
• Heavy involvement		(4)	Directly convertible to cash		(5)
• Total involvement		(5)	15. Interval Since Most Recent Evaluation or Audit		
10. Scope of Written Authority			Within last nine months		(1)
Precise		(1)	Between nine and 24 months		(3)
Clarification required		(3)	More than two years		(5)
No written authority		(5)	16. Recent Instances of Errors or Irregularities		
11. Age/Status of Program			None in the last 18 months		(1)
Relatively stable		(1)	Most significant findings or known errors fully corrected		(3)
Changing		(3)	Most errors unresolved		(5)
New or expiring w/in 2 years		(5)	17. Adequacy of Reports		
12. External Impact or Sensitivity			Accurate and timely		(1)
Not applicable			Sometimes inaccurate/late		(3)
Low level		(1)	Usually inadequate or late		(5)
Moderate level		(3)	18. Time Constraints		
High level		(5)	Not a significant factor in operations		(1)
13. Interaction Across Organizations			Occasionally a factor		(3)
Exclusive to one office		(1)	A significant daily factor		(5)
Within two functional offices		(3)			
More than two functional offices		(4)			
Involvement with outside organizations		(5)			
19. Assumed Effectiveness of Existing Controls			20. OVERALL VULNERABILITY ASSESSMENT	TOTAL SCORE	
Controls adequate		(1)	Low <input type="checkbox"/> (Less than 27)		
Less than adequate		(3)	Medium <input type="checkbox"/> (27-34)		
No existing controls or costs outweigh benefits		(5)	High <input type="checkbox"/> (Greater than 34)		
			<input type="checkbox"/>		
21. VA Conducted by: Title and Date:			22. VA Approved by: Title and Date:		

Enclosure (4)

COMPLETING THE VULNERABILITY ASSESSMENT FORM

The vulnerability assessment (VA) is not intended to be a massive, time-consuming use of resources. Rather, it is a tool to help commanders/managers determine the relative vulnerability of their assessable units. If the resulting score reaches into the "medium" or "high" range, further reporting and corrective action, if applicable, are required. More information is contained in enclosure (7) (Reporting Requirements and Procedures).

Mark the blocks which comes closest to describing the program, function, or activity being assessed.

1. **Command.** Enter the activity/command conducting the VA.
2. **Functional Area and Assessable Unit.** Enter the assessable unit under evaluation.

GENERAL CONTROL ENVIRONMENT: Blocks 3-8 cover some of the organizational, procedural, and operational factors, which can have an impact on the effectiveness of internal controls.

3. **Emphasis on Management Controls.** Select one of the following:

Major Emphasis: management controls are considered in the planning and operations of functions and programs at each level within the organization.

Moderate Emphasis: controls are considered in one or more of the following: evaluation of operations, performance appraisal, and external requirements.

Minor Emphasis: there is little evident consideration of management controls at most levels within the organization.

4. **Written Procedure.** The basic issue is whether there are written procedures for employees to follow within the general rules and how much discretion is allowed. The more discretion, the more potential for abuse. An example involving no discretion would be the time and attendance system; allocation of staffing or budget resources would represent significant discretion.

5. **Goals and Accomplishments.** Establishing program and budgeting goals provides an office and its employees with benchmarks for measuring accomplishments. When these goals are not established, reviewed or followed-up periodically, updated and disseminated to employees, successful achievement is less likely.

6. **Adequacy of Checks and Balances.** Checks and balances are utilized so that authority for certain functions is shared among two or more employees or organization levels to minimize the potential of waste, fraud, abuse or mismanagement. Determine first if checks and balances are appropriate, and, if so, are they adequate to protect the resource from manipulation, misappropriation, etc.

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7. **ADP Used.** Many activities are highly dependent on ADP for either operations or providing data or information on which management decisions are made. While use of ADP can save time, there are issues of reliability and security, which are particularly important when the use of automated equipment is involved. If ADP is not used for the unit being assessed, check the "not applicable" box.

8. **Personnel Resources.** Select the choice, which best depicts both the number of needed personnel available to perform the activity and the extent to which these personnel are adequately qualified and trained.

ANALYSIS OF INHERENT RISK: Blocks 9-18 deal with the function's inherent potential for waste, fraud abuse, or management.

9. **Program Administration.** An important factor in determining the vulnerability of a particular program is the extent to which DON management control mechanisms can effectively monitor and influence program operations. If another service or a contractor has significant responsibility for program administration, inherent risk is greater.

10. **Scope of Written Authority.** Select one of the following:

Precise: governing legislation or regulations, and/or delegations of authority clearly establish the amount of authority and discretion vested in program officials.

Clarification Required: the amount of authority and discretion is not clearly established.

No Written Authority: there are not written delegations or other official documentation establishing the limits on administering a program or function.

11. **Age\Status of Program.** A program or assessable unit which has been relatively stability over a period of years with the same fundamental mission can be potentially less vulnerable because procedures for administering its resources have been worked out and in place to a greater degree. Major new responsibilities or legislative changes can introduce greater potential for risk, as can situations involving phase out (expiration) or new programs.

12. **External Impact or Sensitivity.** Select one of the following:

Not Applicable: no external impact or sensitivity.

Low Level: total number of individuals or organization affected are relatively small.

Moderate Level: the program serves or impacts a moderately sizable number of individuals or organization external to the activity.

High Level: significant impact or sensitivity due to high degree of interest and potential influence over the program by external organizations. This situation exists when program managers must continuously consider the external impact of the program operations.

Enclosure (4)
Attachment (A)

13. **Interaction Across Organizations.** The greater the number of activity offices or outside organizations involved in carrying out the processes of a program of function, the greater the risk of error. Select one of the following:

Exclusive To One Office (e.g. classification, telephone change requests).

Within Two Functional Officers (e.g. procurement requests).

More Than Two Functional Offices (e.g., proposed policy directives, clearance of regulations, information collection).

Involvement With Outside Organization (e.g. interagency agreements, professional organizations, or systems, which involve more than one agency (i.e. payroll or administrative payment systems)).

14. **Type of Transaction Document.** An instrument is a document utilized in the approval/disapproval or execution phases of a process. The base issue is the convertibility of instruments to cash or things suitable for personal benefit. Many instruments can be converted to personal use. Select one of the following:

Non-convertible instruments: memoranda and letters indicating a determination or approval; these are records of transactions and cannot be exchanged for cash or services.

Convertible to Services Only: numbered items, convertible to services not cash (e.g., government meal tickets, GTR's).

Directly Convertible to Cash: negotiable items; salary checks, checks received by the activity, imprest fund vouchers, etc.

15. **Interval Since Most Recent Evaluation or Audit.** The longer the interval between systematic operational reviews, the greater the likelihood that system or operational errors go undetected. It is important, therefore, that all control systems undergo periodic audits/reviews/evaluations to detect errors and initiate improvements. Indicate in block 15 the length of time passed since the last audit or evaluation.

16. **Recent Instances of Errors or Irregularities.** Recent errors or irregularities are indications of either a lack of management controls or ineffectiveness of existing ones. Further, the speed with which these errors are corrected can be an indication of management commitment to minimizing opportunities for waste, fraud, abuse, and mismanagement.

17. **Adequacy of Reports.** The accuracy and timeliness of normal recurring reports (particularly financial reports) are good indicators of a well-run operation.

18. **Time Constraints.** To the extent that an activity must operate under severe time constraints, the ability to produce work of consistent quality is reduced. Such constraints generate a powerful inducement to end run a system of management control.

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PRELIMINARY ASSESSMENT OF SAFEGUARDS

19. **Assumed Effectiveness of Existing Controls.** Select one of the following:

Controls Adequate: if control improvements are required they are of a minor nature.

Less than Adequate: controls in need of more than minor revisions or improvements.

No Existing Controls or Costs Outweigh Benefits: indicates the need for establishing management controls or instances where costs unquestionably exceed the benefits derived from controls.

20. **Overall Vulnerability Assessment.** To arrive at the overall assessment rating, add up the numerical values assigned to the blocks checked and compare the sum with the ranges indicated next to the low, medium and high ratings.

21. **VA Conducted By.** This form should be signed and dated by the person who made the assessment and completed the form.

22. **VA Approved By.** The management official who approves this assessment should sign and date the form. Normally this official should be the supervisor of the individual who made the assessment.

COMMENTS (Reverse of form): Provide additional detail concerning responses in other blocks and any other information you feel is relevant.

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FORMAT FOR REPORTING STATUS OF CORRECTIVE ACTIONS

1. Assessable unit.
2. Description of weakness.
3. Previously reported estimated completion date.
4. Corrective actions yet to be accomplished.
5. Date the corrective action was completed:
6. Revised completion date.
7. Reasons why the original milestone slipped.

Enclosure (6)

REPORTING REQUIREMENTS AND PROCEDURES

To provide for the full implementation of the OJAG Management Control Program, the following applies:

1. Each fiscal year, the Management Control Officer (MCO) (Code 63) shall review the Parent Inventory of Assessable Units contained in enclosure (3) and select the assessable units that, in the MCO's discretion, are ripe for review that fiscal year. The MCO will prepare a list of these units and forward tasking letters to the pertinent OJAG divisions directing that a vulnerability assessment be performed on the selected assessable units.
2. Using enclosure (4), the divisions will review the assessable units that have been assigned and forward the results using enclosure (5) to the MCO. In addition, a report in the format of enclosure (6) is required for any assessable unit receiving a rating of "medium" or "high" during the previous year's review. This report is required annually thereafter until all corrective action has been completed and so reported.
3. Based on the results of the vulnerability assessment reports, the MCO will then prepare and forward the Management Control Certification Letter, as directed in reference (e), to the Secretary of the Navy, no later than 15 October.