

Defense Logistics Agency Instruction



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J-51

Managers' Internal Control (MIC) Program

References: This DLA Instruction supersedes the Managers' Internal Control (MIC) Program process chapter dated October 29, 2008.

1. PURPOSE

a. This DLA Instruction ensures Agency compliance with Title 31, United States Code, Section 3512 (Public Law 97-255, The Federal Managers' Financial Integrity Act (FMFIA) of 1982), and establishes uniform policy and guidance on internal control within the Agency.

b. The Managers' Internal Control (MIC) Program is a system which helps the Agency achieve its operation, financial reporting, and compliance goals and objectives. An integral component of DLA's management, effective internal control is a built-in part of the management process (i.e., plan, organize, staff, direct, and control). Internal control keeps the Agency focused on meeting its objectives and the achievement of its mission. Effective internal control facilitates better performance by increasing effectiveness and efficiency of operations including the use of Agency resources, reducing the risk of asset loss, helping to ensure compliance with laws and regulations and increasing the reliability of financial reports on budget execution, financial statements, etc.

c. The outputs of this process are:

- (1) DLA Field Activity and Headquarters (HQ) DLA offices' individual MIC Plans and the DLA MIC plan.
- (2) DLA Annual Statement of Assurance (ASA).
- (3) The focus of the activities conducted during the management control reviews is to provide reasonable assurance that internal controls are in place and effectively operating. Furthermore, the objectives of the FMFIA were achieved within the limits described in Department of Defense Instruction (DoDI) 5010.4, "Managers' Internal Control (MIC) Program Procedures". The focus of right item, right time, right place, and right price does not apply to this process.

2. APPLICABILITY This DLA Instruction applies to all DLA organizations, field activities, programs, regional offices, and operational sites. This includes, but is not limited to DLA and its components, and contract firms or personnel associated with DLA activities.

3. POLICY

a. It is DLA policy that internal control must be maintained throughout DLA to help ensure efficient and effective operations, compliance with laws and regulations, accurate financial reporting, and to safeguard Agency assets. Internal control must be established according to standards set by the Comptroller General of the United States and incorporated into Office of Management and Budget (OMB) Circular A-123, "Management Accountability and Control," and OMB Circular A-123, Appendix A, "Internal Control Over Financial Reporting". <http://www.whitehouse.gov/omb/circulars/a123/a123.html> Controls must provide reasonable assurance that:

- (1) Obligations and costs comply with applicable law.
- (2) Assets are safeguarded against waste, loss, unauthorized use, and misappropriation.
- (3) Revenues and expenditures applicable to Agency operations are recorded and accounted for properly to permit the preparation of accounts and reliable financial and statistical reports and to maintain accountability over the assets.
- (4) Programs, administrative, and operating functions are efficiently and effectively carried out according to applicable laws, regulations, and management policy.

b. Organization.

- (1) DLA will organize, budget, and staff to meet the internal control objectives outlined in the FMFIA, OMB A-123, and DoD Instruction 5010.4.
- (2) The MIC Program Management Office (PMO) is responsible for the development of the DLA MIC program in accordance with the policies and direction provided by the FMFIA, OMB Circular A-123, OMB Circular A-123 Appendix A, and DoD Instruction 5010.4.
- (3) The DES-B primary agent for developing, implementing, managing, and improving the DLA MIC program will be the assigned DLA MIC Program Manager.
- (4) The MIC Program Manager will facilitate the establishment of a MIC Working Group comprised of FA and J-code MIC Administrators to assist in the implementation, execution, and management of all MIC activities.

4. RESPONSIBILITIES

a. MIC PMO:

- (1) Establish reporting procedures to ensure that systems of MICs are implemented and operating as intended.
- (2) Monitor MIC reviews.
- (3) Oversee uncorrected MIC material weaknesses and planned corrective actions by responsible HQ DLA Business Offices and DLA field activities.
- (4) Prepare the Director's Annual Statement of Assurance to the Secretary of Defense based upon input from Field Activities, J-codes, and D staff organizations. The Statement will reflect the Agency's MIC material weaknesses and plans of corrective actions, accounting system certification, and special interest items. The DLA Annual Statement of Assurance is signed by the DLA Vice Director.
- (5) Ensure that the Agency's accounting systems conform to the principles, standards, and related requirements prescribed by the Comptroller General of the United States, OMB

Circular Number A-127, and other applicable regulations. The Comptroller will prepare the input for the Director's Annual Statement in compliance with Section 4 of the FMFIA.

b. HQ DLA J-codes, D offices, and DES will:

- (1) Ensure effective and efficient MICs are included in each functional area, within automated information systems, and administrative activities in accordance with systems, policies, and procedures in HQ DLA and in the field activities.
- (2) Assign responsibility for management controls to each HQ DLA manager.
- (3) Designate a MIC Administrator for all MIC Program matters.
- (4) Ensure that position descriptions, performance standards, civilian employee performance appraisals, and evaluation reports for military personnel reflect (in accordance with applicable service regulations) accomplishments of MIC responsibilities.
- (5) Perform and document evaluations of internal control on all assessable units yearly.
- (6) Ensure that MIC are maintained when implementing new policies and procedures resulting from such actions as work simplification, productivity, reorganization, studies, Employee Suggestion Program initiatives, and quality improvement initiatives.
- (7) Review reports received from all sources, including DoD IG audits and inspections and GAO reports and determine if any discovered MIC deficiencies in the HQ DLA Business Office or field activities constitute material weaknesses.
- (8) Ensure that comments on MIC weaknesses identified in audits and inspections include a concurrence/non-concurrence with the weakness cited and state whether or not a material weakness exists. The HQ DLA Business Offices will document rationale and maintain this documentation with a copy of the audit or inspection. All HQ DLA Business Offices responses to audits and inspections identifying MIC weaknesses will be coordinated with the MIC PMO. All status reports on audits and inspections citing MIC weaknesses will be coordinated with the MIC PMO.

c. Field Activities, J-Codes, and D Offices will:

- (1) Assign responsibility for MIC to managers and ensure that position descriptions, performance standards, civilian employee performance appraisals, and evaluation reports for military personnel reflect accomplishment of internal management control responsibilities.
- (2) Designate a MIC Administrator for all MIC Program matters.
- (3) Ensure MIC training to all supervisors and managers regarding MIC responsibilities and obligations.
- (4) Develop a yearly assessment plan for assessable units for all field activity operations, goals and objectives. This plan is part of the MICP submitted annually to the MIC PMO.
- (5) Require managers to develop, maintain, and monitor a system of MICs in assigned areas of responsibility and establish administrative procedures to enforce the intended functioning of the MICs.
- (6) Review of general and application controls in automated information systems is an integral part of the MIC evaluation process.
- (7) Managers must ensure MIC are maintained when implementing new procedures resulting from such actions as work simplification, productivity, reorganization, and studies. Managers should be especially cautious when implementing actions that tend to relax or

eliminate restrictive requirements such as those stemming from approved Employee Suggestion Program proposals, National Performance Review, or Defense Performance Review waivers, and quality initiatives.

- (8) Coordinate on all appropriate HQ DLA Business Office comments to audit and inspection findings and recommendations citing management control weaknesses to ensure compliance with this regulation.

d. The Director of J-8 will act as the Agency's primary assessable unit for meeting internal control over financial reporting (ICOFR) requirements. DES will retain ICOFR policy, oversight, and reporting responsibilities. Financial Operations will:

- (1) Oversee the completion and integration of the OUSD(C) ICOFR deliverable cycle within the Agency.
- (2) Provide full operational control and responsibility for completing ICOFR requirements, in accordance with OUSD(C) and DLA MICP guidance.
- (3) Submit the completed and vetted Appendix A products to DES in sufficient time for review and to meet OUSD(C) suspense dates.
- (4) Serve as the executive secretary of the DLA SAT.
- (5) Support the broader SOA ICOFR process.

5. PROCEDURES

Procedures are discussed below. Additional information, including definitions, is included at [Enclosure 1](#).

a. The MIC process is applicable to all DLA programs, operations, and administrative activities. Use of the process ensures the resulting internal control measures address all significant operational risks and are in balance with operational requirements.

- (1) Designate assessable managers. Each field office and HQ component must name an individual responsible for reviewing all assessment reports pertaining to their organization, providing mid-year status reports to HQ DLA, and preparing the Annual Statement of Assurance for that activity.
- (2) Identify/validate objectives. The managers must review annually the organizational objectives at their assessable unit. Agency Core Objectives will be incorporated into the MICP annually.
- (3) Identify and analyze risks to achieving goals and objectives.
- (4) Find the internal controls in place that mitigate the risks.
- (5) Develop the MICP. The management control plan lists all key operational objectives and the controls by which it will be reviewed. The plan provides a point of contact for each objective and the schedule of reviews to be conducted during that fiscal year.
- (6) Field Activities J-codes, and applicable D offices submit plans to MIC PMO.
- (7) Test design of the internal control and ensure that it is operating as intended.
- (8) Assess results, correct deficiencies, submit assessable unit SOA to MIC PMO.

b. DLA MICP Program Manager reviews and assesses / evaluates plans.

- (1) If acceptable to MIC PMO, retain plan and incorporate into Agency-wide MICP. The compilation of these plans is the DLA Agency plan.
- (2) If not acceptable, return plan to owning organization for revision in accordance with applicable statutory and regulatory requirements.
- (3) Owning agency makes corrections/changes.
- (4) Owning agency resubmits plan to MIC PMO. If acceptable, incorporate into Agency-wide MICP.
- (5) Prepare Annual Statement of Assurance based on assessable unit submissions.
- (6) Submit Agency-wide Annual Statement of Assurance to Secretary of Defense and Office of Secretary of Defense (Comptroller) (OSD(C)).

6. EFFECTIVE DATE May 23, 2003.

ENCLOSURE(S)

1. Additional Information

Enclosure 1
Additional Information

- a. Each DLA Field Activity, J-code, and D office shall develop a MIC program that will include the following elements:
- (1) Organizing the MIC process. This includes: assigning MIC responsibilities and providing adequate personnel for planning, directing, and controlling the program; developing internal reporting and tracking capabilities; maintaining documentation; and scheduling appropriate program activities.
 - (2) Segmenting the organization into assessable units. Inventories of assessable units shall be established by segmenting the Agency into organizational, functional, programmatic, or other proper subdivisions suitable for evaluating systems of management controls, and identifying program and administrative activities of applicable nature and size to facilitate a meaningful assessment. The resultant listing of assessable units shall be reviewed and updated before starting the next annual cycle. All elements of the Agency should be contained in one or more assessable unit(s).
 - (3) Evaluating the effectiveness of management controls through the use of component determined processes and mechanisms. Management control evaluations and determinations should comply with the guidance contained in OMB Circular A-123 <http://www.whitehouse.gov/omb/circulars/a123/a123.html>, DODI 5010.40, and DLA guidance.
 - (4) Developing a MICP which maintains an inventory of assessable units, which includes a status on the completion of annual program execution responsibilities. The plan may be used to monitor MIC Program activity and progress made in correction of weaknesses. Corrective action milestones are reviewed by the local POC and semiannually reported to the MIC PMO. Any estimated completion dates that are not met must have a justification for the delay and a valid closure date established. Additionally, the plan will provide a link between MIC review activities and reviews conducted under OMB Circulars Numbers A-127. <http://www.whitehouse.gov/omb/circulars/a127/a127.html>
 - (5) Taking applicable management actions, including conducting Management Control or alternative MIC reviews. Guidance for this process is found at <https://today.dla.mil/des/MControls/>.
 - (6) Scheduling and taking corrective action. Formal follow-up systems shall be established to record and track MIC deficiencies, scheduled corrective actions, and completion dates at the local level.
 - (7) Providing for quality control. At the local level, procedures shall be established to ensure that the system of MIC is as follows:
 - (a) Adequate and achieves its objectives.
 - (b) Meets the “GAO Standards for Internal Control in the Federal Government.”
- b. Documented adequately.
- c. Identifies and reports material weaknesses.
- d. Reported corrections are tested to ensure that controls are operating as intended. An Agency Internal Review auditor shall participate in validating the effectiveness of corrective actions, whenever feasible.

e. Preparing Reports. Reports will be prepared in accordance with DLA guidance below.

- (1) On or about July 1, annually, the Assessable Unit Managers at each DLA Field Activity and J-code will submit an annual statement to the MIC PMO as to the adequacy of the organization's MICs. The statement of assurance shall be based on an evaluation conducted in accordance with foregoing guidance and shall consider MIC weaknesses disclosed by all sources, including: management studies; audits, inspections, investigations, internal review reports; and Department of Defense Inspector General (DoDIG), and GAO reports. Field Activities, J-Codes, and D Offices will prepare strategies and tasks, milestone charts, including a verification milestone, for correcting all uncorrected MIC material weaknesses. The statement will be in accordance with OSD guidance and will include the following:
 - (a) A description of how the evaluation was conducted.
 - (b) Material weaknesses disclosed and corrected in the reporting year, and a description of the actions taken.
 - (c) Uncorrected material weaknesses and the specific plans and schedules for correction.
 - (d) The status of actions taken to correct material weaknesses reported and uncorrected in prior years' reports.
 - (e) Quarterly, on or about 10 days following the end of a fiscal year quarter, the head of each applicable DLA Field Activity, J-code, and D office will submit a management control report that updates the status of open material weakness.

f. For each MIC material weakness discovered, a strategy and task and a milestone chart will be developed by field activities and HQ DLA Business Offices and forwarded to the MIC PMO for review and approval. This includes reviews of GAO, DoD IG, and other audits and findings indicating evidence of management control material weaknesses. At the end of the fiscal year, all material weaknesses discovered during the year should be included in the annual statements.

g. Definitions:

- (1) Assessable Unit. The basic organization that issues an ASA to DLA; normally a HQ DLA J-code, D office, and field activity.
- (2) Control Objective. A specific aim, goal, condition, or level of control established by a manager for an organizational activity that provides reasonable assurance the resources allocated to that activity are managed efficiently and effectively and protected adequately against waste, fraud, abuse, misappropriation, or mismanagement. Since the achievement of control objectives can be and is affected by such factors as budget constraints, statutory and regulatory restrictions, staff limitations, and cost/benefit considerations, the lack of achievement of control objectives does not necessarily represent a defect or deficiency in management control requiring correction. Such limiting factors need to be considered in determining whether there is reasonable assurance the control objectives are being achieved.
- (3) Control Technique. Any form of organization, procedure, or document flow that is relied upon to accomplish a control objective efficiently and effectively.
- (4) Documentation. Written evidence of the MIC process:

- (a) Review Documentation. Shows the type and scope of review, the responsible official, the pertinent dates and facts, the key findings, and the recommended corrective actions. Documentation is adequate if the information is understandable to a reasonably knowledgeable reviewer.
 - (b) System/Operational 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 authorities for accomplishing programs and activities. Documentation of MIC activities is required to the extent needed by management to control their operations effectively and may be generated by activities not specifically established to meet the requirements of the MIC Program. Documentation of MIC is mandated by OMB Circular A-123 (reference 3).
<http://www.whitehouse.gov/omb/circulars/a123/a123.html>
- (5) DoD Managers' Internal Control (MIC) Reporting Categories. The 15 categories DoD uses to classify all DoD material weaknesses are found in DODI 5010.4 at <http://www.dtic.mil/comptroller>.

Each HQ DLA Business Office and DLA Field Activity material weakness must be identified in the annual statement as being under one of the categories.

- (6) Event Cycle. A series of steps taken to get something done. Any program or function performed within an organization contains such processes used to start and perform related activities, create necessary documentation, and gather and report related data.
- (7) General Control Environment. The condition in which an event cycle operates, including: management attitude; organization structure; personnel competence; delegation of authority and responsibility; policies, procedures, budgeting, and reporting practices; and organizational checks and balances.
- (8) MIC. A system of guidance, instructions, regulations, procedures, rules or other organization instructions intended to determine the methods to be employed to carry out mission or operational actions or objectives. It is the plan of organization, methods, and procedures adopted by management to provide reasonable assurance that the objectives of FFMIA are met. Internal/management controls support the effectiveness and the integrity of every step of a process and provide feedback to management as stated previously. The term "Internal Management Control" is synonymous with the term "internal controls" or "management controls."
- (9) MIC Evaluation. A review of an assessable unit to determine whether adequate control techniques exist and are implemented to achieve cost-effective compliance with FFMIA.

MIC evaluations are of the following two types:

- (a) Alternative MIC Review. A process to determine that the control techniques are operating properly or a process developed for other organizational purposes which provides adequate information regarding the effectiveness of control techniques. This type of process may utilize: computer security reviews; quality assessments, financial systems reviews; DoDIG or GAO audits, inspections, or investigations; Agency internal review studies; and management and/or consulting reviews. Such alternative reviews must assist in determining overall compliance, and whenever possible, include testing of controls and documentation.

- (b) MIC Review. A detailed examination of a system of management controls in an assessable unit using the methodology specific to that purpose. All reviews should be conducted only when a reliable alternative source of information is not available and the review produces otherwise unavailable written materials documenting what was done and what was found.
- (10) MIC Guidelines. OMB Circular A-123 presents suggested approaches that may be adapted to meet DLA's needs. Any adaptation should remain in compliance with this circular. Guidance on this topic can be found in the "DLA MIC How to Guide" <https://today.dla.mil/des/MControls/>
- (11) MIC Program. The formal effort of an organization to ensure that MIC systems are working effectively, including the reporting of findings and conclusions to senior management. Components are encouraged to prevent this process from becoming an isolated exercise, outside the daily operating and management activities. Consolidating it with other evaluative activities is encouraged.
- (12) MIC Standards. The most pertinent yardstick for this factor is contained in Accounting Standards, GAO Title II Accounting, DoD 7220.9-M, DoD 7000.14-R, and 31 U.S.C. Sections 3512 and 3515. These materials should play a significant role in the development of MIC standards.
- (13) MIC System. The sum of DLA's methods and measures used to achieve the FMFIA and MIC objectives. It is not a separate system but an integral part of the systems used to operate the Agency's programs and functions.
- (14) Management Review. An independent evaluation of command programs, procedures, and operations and related management controls (especially those related to expenditure of funds use of resources and control of command property, material, and supplies) by staff auditors of the commanders of bases, installations, or activities.
- (15) MICP. A brief, written plan or other process that indicates the number of DLA assessable units and progress toward accomplishment of annual MIC program requirements. MIC weaknesses should be identified using the previously referenced 15 functional reporting categories. The data contained in, or summarized by, the MICP shall be consistent with information reported in each Annual Statement of Assurance.
- (16) Managers with significant MIC responsibilities. This includes the Agency Director through operational managers of programs and activities in which operations and resources must be managed efficiently and effectively.
- (17) Material Weakness. Specific instances of noncompliance with the FMFIA of sufficient importance to be reported to the next higher level of management. Such weaknesses significantly impair or may impair the fulfillment of DLA's mission or operational objective; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against fraud, waste, abuse, misappropriation or mismanagement of funds, property, or other assets; or pertain to a conflict of interest.
- (18) Reportable Condition. The magnitude of impact is more significant than a deficiency (more than inconsequential) but less than a material weakness.
- (19) Deficiency. Impact is not significant enough (inconsequential) to be considered a reportable condition for one of two reasons: it does not meet the criteria for a weakness, or it was recently discovered and needs to be further evaluated and tested.
- (20) Reasonable Assurance. Effective internal control helps DLA achieve its objectives; however, it does not ensure success. A robust control system provides reasonable, but not absolute assurance for the safeguarding of assets, the efficiency and

effectiveness of operations, the reliability of financial data, and the compliance with laws and regulations. Risk is the probability that an event or action will adversely affect the organization. Inadequate controls present undue risk; thus, management must achieve balance between cost and control. There are sensitive resources for which the cost of control cannot be an issue; however, the cost of an internal control should not exceed the expected benefit of the control.