

## **Slide 1 Introduction**

Department of the Navy

Office of Financial Operations

Presentation on Comptrollers' Responsibilities with Management Controls

5 March 2002

## **Slide 2 Agenda**

- Consequences of Unmitigated Risks
- Management Controls - Overview
- NAVAUDSVC Efforts
- FMO Back-to-Basics Approach
- Conclusion

## **Slide 3 Quality Assurance And The Sinking Of The Largest Offshore Oil Platform**

### **Slides 4 through 19**

The following 16 slides show photos of the largest offshore oil platform as it gradually sinks into the Atlantic Ocean. The text below is split among these slides:

For those of you who may be involved in project cost control (at whatever level), please read this quote from a Petrobras executive, extolling the benefits of cutting quality assurance and inspection costs, on the project that sunk into the Atlantic Ocean off the coast of Brazil in March 2001.

“Petrobras has established new global benchmarks for the generation of exceptional shareholder wealth through an aggressive and innovative program of cost cutting on its P36 production facility. Conventional constraints have been successfully challenged and replaced with new paradigms appropriate to the globalized corporate market place. Through an integrated network of facilitated workshops, the project successfully rejected the established constricting and negative influences of prescriptive engineering, onerous quality requirements, and outdated concepts of inspection and client control. Elimination of these unnecessary straitjackets has empowered the project's suppliers and contractors to propose highly economical solutions, with the win-win bonus of enhanced profitability margins for themselves. The P36 platform shows the shape of things to come in unregulated global market economy of the 21st Century”

And now you have seen the final result of this proud achievement by Petrobras.

## **Slide 20 Management Controls in the Federal Government**

Why do you need to be concerned with management controls?

- Insures accomplishment of mission
- Helps to ensure that resources are protected from fraud, waste, abuse and mismanagement
- Regulatory/Statutory requirement
  1. FMFIA of 1982
  2. OMB A-123, revised 1995
  3. DoD Directive 5010.38
  4. DoD Instruction 5010.40
  5. SECNAV Instruction 5200.35D

### **Slide 21 Consequences of Unmitigated Risk Reasons for Control**

The following graphic illustrates that a number of specific events have lead to a public demand for improvement. These events follow:

- Department of the Navy: Problem Disbursement, Tail Hook, USS Greenville Incident
- Exxon Valdez: Oil Spill Scandal
- Three Mile Island: Nuclear Reactor Meltdown (compliance problem)
- Ford/Bridgestone/Firestone: Faulty tire/Ford Explorer roll over (control problem)
- Sigma Seafood: Importer Fraud – Seafood Scandal
- Prudential: Deceptive Sales Practices
- NASA: Challenger Space Shuttle (control problems)
- Rockwell International: False certification of Nuclear Waste Disposal (compliance problems)
- Vermont Farms: Imported Diseased Sheep (control problems)

### **Slide 22 Management Controls History**

Federal Managers Financial Integrity Act Enacted in 1982

- Requires the establishment of “internal accounting and administrative controls”
- Requires agencies to annually evaluate their systems of internal accounting and administrative control
- Requires each agency to prepare a statement of assurance, to include identification of material weaknesses in the agency’s systems of internal accounting and administrative control, based on the evaluation of those controls

Speaker Notes: OMB A-123 - “Agency management should determine the appropriate level of documentation needed to support the assessment.”

### **Slide 23 Management Controls Purpose**

Management controls are the organization, policies, and procedures used to reasonably ensure that:

- i. Programs achieve their mission;
- ii. Resources are used consistent with agency mission;
- iii. Programs and resources are protected from waste, fraud, and mismanagement;
- iv. Laws and regulations are followed; and
- v. Reliable and timely information is obtained, maintained, reported and used for decision making.

Source OMB A-123, Revised 1995.

### **Slide 24 Management Controls GAO Guidance**

The following graphic illustrates GAO's Five Standards:

1. Control Environment: Key Factors: Integrity and ethical values, organization structure, human capital policies and procedures, etc.
2. Risk Assessment: Requires identifying, analyzing, and managing internal and external risks that may affect achievement of an organization's mission.
3. Control Activities: Effective and efficient internal control activities help ensure management's directives are carried out. Types of control activities: Performance reviews, segregation of duties, etc.
4. Information and Communication: Should be relevant, reliable, and timely and flow to appropriate personnel.
5. Monitoring: Internal control monitoring should assess the quality of performance over time and ensure audit findings are promptly resolved.

### **Slide 25 Management Controls—GAO Standards for Internal Controls**

The following graphic illustrates the objective of a Control Community is to Manage Improper Payments through monitoring, risk assessment, information and communication, and control activities.

Speaker Notes: Actions to manage improper payments would typically require a continual interaction between these areas. As depicted in the figure, the Control Environment surrounds and reinforces the other components, but all components work in concert toward a central objective, which, in this case, is managing improper payments.

### **Slide 26 Management Control Concepts**

- A continuous built-in component of operations
- Effected by people
- Provides reasonable assurance, not absolute assurance

### **Slide 27 Management Control Examples**

- Policies and Procedures including Organization Policy Manual
- Segregation of Duties
- Documentation and Record Keeping including Staff Meeting Notes
- Performing Reconciliation's include accounting and budgetary records and Treasury and appropriation accountFunds Control
- Placing limitations on obligations & expenditures
- Delegation of Duties including Organization Chart

Management controls are the normal, common sense approach to the management and protection of various types of resources.

### **Slide 28 When Management Controls Don't Work**

The following image shows a declining trend line on a graph.

When management controls don't work, expect loss of assets, fraud, waste, abuse, accidents, errors, negative PR, and unauthorized use.

### **Slide 29 Management Controls Comptrollers Responsibilities**

- To ensure 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
- To maintain accountability over the assets, including non-appropriated funds activities

Speaker Notes: OMB A-123 - "Agency management should determine the appropriate level of documentation needed to support the assessment."

### **Slide 30 NAVAUDSVC Audit 2001 Efforts**

Objective: To verify that the DON has fully implemented the FMFIA and is meeting the major requirements of the Act.

Reported Impact: 1. The requirements of the FMFIA, a Public Law, were not met and 2. There was no assurance that the seven activities reviewed had adequate controls in place to preclude material weaknesses (CNO, Naval IG, ASN(FM&C), NCIS, ASN(RD&A), OGC, and ASN(M&RA))

### **Slide 31 NAVAUDSVC Audit 2001 Recommendations**

Recommendation 1: Under Secretary of the Navy provide a memo to Navy commands to stress the need and importance of establishing procedures that are workable and part of management operations

Recommendation 2: CNO establish procedures to periodically monitor subordinate commands to check compliance with FMFIA requirements

Recommendation 3: CNO revise implementing guidance for subordinate activities to establish procedures that meet the intent of FMFIA, are part of management operations and workable at the Echelon 2 and below level.

### **Slide 32 NAVAUDSVC Audit 2001 Recommendations**

Recommendation 3 continued: The guidance should require subordinate activities to include all operational areas at a minimum to:

- Require Echelon 2 commands to submit certified annual MCCSs to CNO and maintain supporting documentation for outside review
- Require that their functional/program managers maintain some form of current information showing their high risk functional areas/processes/programs and show how they tie into the activity's strategic plan
- Require that their functional/program managers ensure that these high-risk areas are periodically assessed through internal or external assessment tools, such as audits, and document these assessment efforts for outside review

### **Slide 33 NAVAUDSVC Audit 2001 Recommendations**

Recommendation 3 continued:

- Maintain the required internal tracking system to correct management control weaknesses that are deemed material to the activity management or higher levels
- Maintain some form of documentation that meets management control plan requirements
- Incorporate a statement concerning management control responsibilities to meet FMFIA requirements into high-level managers' performance standards
- Provide high-level managers in all operational areas with FMFIA training

### **Slide 34 NAVAUDSVC Audit 2001 Recommendations**

Recommendation 4: The ASN(FM&C), ASN(M&RA), ASN(RD&A), Naval IG, OGC, and NCIS comply with FMFIA requirements to include:

- Identify and document assessable units
- Prepare an annual management control plan
- Ensure internal or external management control assessments are performed and documented
- Perform training for managers on FMFIA responsibilities
- Develop accountability controls to include incorporating FMFIA responsibilities into manager's performance standards
- Establish an internal tracking system to ensure management control weaknesses are corrected

Speaker Notes: OMB A-123 - "Agency management should determine the appropriate level of documentation needed to support the assessment."

### **Slide 35 NAVAUDSVC Audit 2001 Recommendations**

Recommendation 5: The Naval IG evaluate activity compliance with FMFIA requirements during inspections, as required by SECNAV Instruction 5200.35D

Speaker Notes: OMB A-123 - "Agency management should determine the appropriate level of documentation needed to support the assessment."

### **Slide 36 NAVAUDSVC Audit Lessons Learned**

- Awareness. Deficiencies in command MCPs are due to a lack of awareness and education on management controls. Organizations have controls in place, and they monitor those controls; however, they may not consider them to be "management controls".
- Documentation. DON needs to improve documentation of controls and corresponding MCP efforts. An arrow points to a Back-to-Basics banner

Speaker Notes: OMB A-123 - "Agency management should determine the appropriate level of documentation needed to support the assessment."

### **Slide 37 Back-to-Basics FMO Efforts**

- Program focuses on the fundamentals of an MCP
- Purpose is to provide tools, strategies, communication venues, training, and processes to all commands to address weaknesses in their existing programs
- Approach encompasses:
  1. Greater emphasis on training;
  2. Assisting commands and activities in enhancing their MCPs through best practices and self assessments;
  3. Automating support activities to benefit command and activity operations and to meet the reporting requirements more efficiently and easily; and
  4. Establishing an MCP website.

Speaker Notes: OMB A-123 - "Agency management should determine the appropriate level of documentation needed to support the assessment."

**Slide 38 NAVAUDSVC Audit 2002 Follow-on Efforts**

Objective: To verify that the Department of the Navy has fully implemented the FMFIA and is meeting the major requirements of the Act. (Note: same objective from FY 2001 audit)

- Started end of January 2002
- Auditees were not identified in Announcement Memo
- Includes follow-up on corrective actions for selected activities reviewed during the FY 2001 Navy Implementation of FMFIA audit

**Slide 39 Conclusion**

- Management controls should be an integral part of the entire cycle of planning, budgeting, management, accounting, and auditing;
- Be aware of the management controls within your organization;
- Documentation for transactions, management controls, and other significant events must be clear and readily available for examination.

**Slide 40 Questions?**