

DEPARTMENT OF THE ARMY
Corps of Engineers, Omaha District
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Omaha, Nebraska 68102-1618

CENWO-RM-B

MEMORANDUM
No. 11-1-2

1 April 2002

Army Programs
MANAGEMENT CONTROLS

History. This memorandum supersedes DM 11-1-2 dated 1 February 1999.

Summary. This memorandum describes Management Controls in the Omaha District.

1. Purpose. This memorandum establishes management control policy, assigns responsibilities, and provides guidance and procedures for meeting those responsibilities.
2. Applicability. All elements of the Omaha District.
3. Related References.
 - a. AR 11-2, Management Control.
 - b. NWDR 11-1-1, Management Control Process.
4. Definitions. See Appendix A.
5. Policy. It is Army policy that all commanders and managers have the inherent responsibility for establishing and maintaining effective management controls. The Omaha District will implement this policy by the consistent application of management controls and the periodic evaluation of key controls to provide reasonable assurance that:
 - a. Mission and functions are efficiently and effectively carried out in accordance with applicable laws, regulations, and policies.
 - b. Government resources are safeguarded from abuse, fraud, loss, misappropriation, mismanagement, unauthorized use, and waste.
 - c. Revenues and expenditures are properly recorded and accounted for.
 - d. Obligations and costs are in compliance with applicable laws.

6. Responsibilities.

a. The District Commander is designated as the Assessable Unit Manager for the District and as such is responsible for:

(1) The overall effectiveness of controls in the District through its implementation by the Management Control Administrator (Chief, Resource Management Office).

(2) Submission of the annual assurance statement to the Division Commander.

(3) Certification of the results of required management control evaluations.

b. Since by intent and definition, management controls are a managerial responsibility, all District managers have the obligation to:

(1) Understand and apply the General Accounting Office standards summarized in Appendix B.

(2) Use management controls to conduct operations in a professional and businesslike manner.

(3) Apply designated evaluation checklists and other control assessments, identify deficiencies and material weaknesses, initiate corrective actions promptly, and advise the next level of management of actual and potential problem areas.

(4) Exercise the judgment required to determine the existence of a material weakness using the guidance in Appendix C. A fundamental principle of management controls is the detection and correction of weaknesses by management itself. As such, no manager will be penalized for identifying problems.

(5) Resolve audit findings by the Internal Review Office and other sources.

(6) Include a statement on management control accountability (Appendix D) in performance standards and objectives.

c. Division chiefs, office chiefs, and directors have the responsibility for ensuring that they and their subordinate managers are supportive in all areas specified in paragraph b. above. This support will be documented in the form of written certification for the District Commander's annual assurance statement.

d. The Internal Review Office will include management controls as part of its reviews, advise the Management Control Administrator (MCA) of potential material weaknesses discovered during the reviews, and verify the correction of reported material weaknesses prior to closure.

e. The MCA will implement management controls for the District and keep the Commander advised of their status. Specifically, the MCA will:

- (1) Provide managers with guidance, information, and training.
- (2) Apply the Division-wide management control plan to District operations.
- (3) Coordinate and monitor the annual formal evaluations of controls during the third quarter of the fiscal year.
- (4) Assist managers in determining and documenting material weaknesses, forward weaknesses to higher authority as appropriate, and track the completion of corrective action plans.
- (5) Prepare the Commander's annual assurance statement during the fourth quarter of the fiscal year and respond to other reporting requirements as occurring.

FOR THE COMMANDER:

4 Appendices
App A - Glossary
App B - GAO Standards
App C - Material Weakness
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LTC, EN
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<http://w3.nwo.usace.army.mil/html/im-c/rcrdsmgt/pdf/m11-1-2.pdf>

APPENDIX A

Glossary

Abuse. Intentionally wrongful or improper use of Government resources, such as misuse of rank, position, or authority.

Annual assurance statement. A report by the District Commander to the Division Commander on the status of the District's management controls.

Assessable unit and manager. An organizational element of the Army responsible for conducting management control evaluations. The Omaha District is an assessable unit and the Commander is the unit manager.

Deficiency. A weakness that is minor, not material, and is readily correctable.

Evaluation. See Management Control Evaluation.

Evaluation checklist. One method used to assist managers in evaluating the effectiveness of key management controls of a function.

Fraud. Intentionally misleading or deceitful conduct that deprives the Government of its resources or rights.

Internal Controls. See Management Controls.

Key management controls. See Management Controls.

Management control evaluation. A detailed, systematic, and comprehensive examination of the key management controls to determine whether they are in place, are being used as intended, and are effective in achieving their purpose. One of several approaches to actually testing controls is required, including direct observation, file/document analysis, sampling, and simulation. Testing must be supported with documentation that clearly indicates who conducted the evaluation, when, what methods were used, any weaknesses detected, and the corrective actions taken or planned.

Management control plan. A five-year Division-wide plan that stipulates specific management control evaluations that must be completed each year and outlines managers' ongoing control evaluation responsibilities.

Management controls. This term and “internal controls” are synonymous, the latter being used by the General Accounting Office in Appendix B. Controls are the means, procedures, techniques, devices, and mechanisms used by managers to ensure that what should be done in daily operations is done and on a continuing basis. Examples are the organization structure itself that designates responsibility and accountability, formally defined procedures such as required certifications and reconciliations, checks and balances, recurring reports and reviews, separation of duties, and supervisory monitoring. Key controls are those absolutely essential to implement and sustain in daily operations so as to ensure organizational effectiveness and compliance with legal requirements.

Managers. District Commander and deputy commanders, division and office chiefs, directors, and element (branch, section and unit) chiefs, GS-9 and above with supervisory responsibilities whether or not specifically titled as supervisors. Also included are senior employees without responsibility for an organizational element but who perform major program management functions.

Material weakness. The absence or ineffectiveness of management controls that warrant the attention of the next level of command. See Appendix C.

Reasonable assurance. An acceptable degree of confidence in the general adequacy of management controls to deter or detect material failures.

Resources. That which is necessary for mission accomplishment including but not limited to funds, personnel, equipment, supplies, material, time, technology, and information.

Risk. The probable or potential adverse effects from inadequate management controls that may result in the loss of Government resources.

APPENDIX B

General Accounting Office Standards for Internal Control in the Federal Government

The Comptroller General of the United States has established five standards to serve as criteria for the quality expected of management control systems. While the brief description that follows summarizes each standard, a fuller understanding will result from examining them in their entirety. Their complete text can be found in the document GAO/AIMD-00-21.3.1 available at www.gao.gov/special.pubs/afm.html.

1. Control Environment. The quality and character of the organizational ambience within which controls exist significantly affect their effectiveness. Integrity, ethical values, a commitment to competence, the managerial philosophy and operating style, and a structure that clearly defines key areas of authority and responsibility all contribute to a positive management control environment.
2. Risk Assessment. This refers to the identification and analysis of risks to government resources that may arise with the pursuit of management's objectives. Once a potential risk is identified, the process involves estimating its significance, determining the likelihood of its occurrence, and deciding how to eliminate or best manage it.
3. Control Activities. These are the policies, procedures, techniques, and mechanisms that help ensure management's directives are implemented. Examples are approvals, authorizations, verifications, reconciliations, continuous performance tracking and review, maintenance of physical security, proper execution and documentation of transactions, segregation of duties, and resource accountability.
4. Information and Communication. Information such as operational and financial data must be recorded and communicated in a timely manner up, down, and across the organization to enable management and others to carry out their internal control responsibilities.
5. Monitoring. This is the ongoing, ingrained part of normal operations done by managers when they engage in the various control activities. Routine monitoring is supplemented by periodic formal evaluations of functions and the prompt response to and resolving of audit and other review findings.

APPENDIX C

The Determination and Reporting of a Material Weakness

1. Whenever the absence or ineffectiveness of management controls is detected, a weakness exists and must be corrected. At this point managerial judgment is required to make a determination regarding the significance of the weakness, that is, whether or not it is material. A material weakness must be reported. To be considered material, a weakness must meet these two conditions:

a. Is the management control not in place, not being used, or inadequate?

b. Does it warrant the attention of the next level of command because that level must take action or must be made aware of the problem? (Note that because a weakness can be corrected at one level does not exclude it from being reported to the next level since the sharing of important management information is one of the primary benefits of the process.)

2. In reaching a judgment about materiality, the manager can take into consideration these factors:

a. Actual or potential loss of resources and their sensitivity. It should be noted here that resource shortages in themselves are not management control weaknesses.

b. The magnitude of funds, property, or other resources involved. (Dollar significance alone is not necessarily a deciding factor.)

c. Actual or potential frequency of loss.

d. Current or probable media or Congressional interest (adverse publicity).

e. Unreliable information causing unsound management decisions.

f. Diminished credibility or reputation of management.

g. Impaired fulfillment of essential mission.

h. Violation of statutory or regulatory requirements.

- i. Information security risks.
 - j. Public deprivation of needed Government services.
 - k. Audit finding.
3. The Chief, Resource Management Office, as the District's Management Control Administrator, is available to consult with any manager to determine the possible materiality of a weakness.
4. Once a material weakness has been identified, the Management Control Administrator is to be contacted for assistance in documenting it and developing a corrective plan of action. The documented weakness is then reviewed by the District Commander who decides if it will be sent to Division. At each subsequent level, a decision is reached regarding further forwarding.

APPENDIX D

Performance Standards

1. Explicit statements of responsibility for management controls are required in either the performance standards or the Total Army Performance Evaluation System performance standards and objectives of the following:

a. For the District Commander and Deputy Commanders: “Responsible for establishing and maintaining effective management controls consistent with AR 11-2 and local circumstances and for ensuring timely and effective resolution of audit findings and recommendations and implementation of agreed-upon corrective actions.”

b. All managers as the term is defined in Appendix A: “Apply the five GAO standards and management controls to institute the division-wide management control policy for my function(s).”

c. Management Control Administrator: “Develop and administer management control procedures for the District. Identify managers responsible for completing management control evaluations, advise them of management control plan evaluation requirements, and make evaluation methods available to them. Assist managers in documenting material weaknesses. Prepare the annual assurance statement and other reports.”

2. The objective/standard may either stand alone or be included as part of a broader element.