BY ORDER OF THE COMMANDER
45TH SPACE WING

45TH SPACE WING INSTRUCTION 65-201

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Financial Management

MANAGEMENT CONTROL

COMPLIANCE WITH THIS PUBLICATION IS MANDATORY

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This instruction implements AFI65-201, *Management Control*. It provides the 45th Space Wing (45 SW) and its customers a broad understanding of the various statutory requirements of the Air Force Management Control Program. For a more indepth understanding, refer to the instructions or directives cited.

1. Goals and Responsibilities.

1.1. **Introduction.** To meet the Federal Managers' Financial Integrity Act (FMFIA) requirements, all government agencies must establish, evaluate, and report on management controls, and submit an annual Statement of Assurance (SOA) to the President and Congress. The 45th Space Wing Comptroller Squadron is the local office of primary responsibility for ensuring Wing compliance of the FMFIA. The 45 SW SOA, as well as those issued by fellow AFSPC Wings and Numbered Air Forces, serve as the basis for the AFSPC/CC's Statement of Assurance to the Chief of Staff of the Air Force.

1.2. **FMAP Responsibilities.** FMAP serves as the office of primary responsibility (OPR) for the Management Control (MC) program and as such:

1.2.1. Prepares and maintains the 45 SW Management Control Plan (MCP).

1.2.2. Ensures that management evaluations meet required documentation standards.

1.2.3. Instructs functional OPRs on the concept of management control evaluations and provides training on the MC program goals, policies and procedures.

1.2.4. Monitors functional OPR management control program activity, provides appropriate feedback, and reports program status as required.

1.2.5. Ensures that corrective actions are taken on material weaknesses.

1.2.6. Consolidates SOAs from functional OPRs and prepares the wing SOA for the commander.

1.2.7. Performs periodic quality control assessments of the MC program and reporting process.

1.3. **Functional OPR Responsibility.** Functional OPRs manage the MC program within their function. A functional OPR:

1.3.1. Ensures that MC program evaluations are performed completely, accurately and adequately support the objectives of the FMFIA.

1.3.1.1. At a minimum, each Assessable Unit (AU) must submit an annual SOA to 45 SW/CC to satisfy evaluation requirements.

1.3.2. Reports MC program activity to FMAP as required.

1.3.3. Actively seeks to identify and correct management control weaknesses identified by the MC program.

1.3.4. Closely coordinates with the FMAP on all aspects of the function's MC program and reports on improvements and weaknesses.

1.3.5. Establishes and maintains Corrective Action Plans (CAP) on material weaknesses until the weakness is corrected and closed.

2. Implementation.

2.1. **Introduction.** No aspect of Air Force worldwide operations is exempt from FMFIA requirements (Reference AFI 65-201, paragraph 2.2.1.). A common misperception is that MC responsibilities apply only to accounting or financial areas when, in fact, MC principles apply to all Air Force organizations (Reference AFI 65-201, paragraph 2.4.3.).

2.2. **Management Control Plan (MCP).**

2.2.1. The Management Control Plan is an inventory of all Assessable Units (AU) within the wing. The MCP is maintained by FMAP and is updated throughout the year. In general, assessable units normally consist of groups and wing staff offices that have functional responsibility for a MC reporting category.

2.2.2. All management control reporting categories applicable within the Wing must be addressed by at least one assessable unit. There are 15 management control categories:

2.2.2.1. Research, Development, Test and Evaluation. Covers the basic project definition, approval, and transition from basic research through development, test and evaluation as well as all DoD Contractor operations involved in accomplishing the project work. Excludes the support functions covered in separate reporting categories such as Procurement and Contract Administration.

2.2.2.2. Major Systems Acquisition. Covers items designated as major systems and that are subject to the procedures of the Defense Acquisition Board (DAB), the Military Services acquisition review councils or the Selected Acquisition Reporting System. DoD Directive 5000.1 may be helpful when evaluating a weakness for inclusion in this category.

2.2.2.3. Procurement. Covers the decisions to purchase items and services together with certain actions to award and amend contracts, e.g., contractual provisions, type of contract, invitation to bid, independent government cost estimate, technical specifications, evaluation and selection process, pricing and reporting.

2.2.2.4. Contract Administration. Covers the fulfillment of contractual requirements including

performance and delivery, quality control and testing to meet specifications, performance acceptance, billing and payment controls, justification for contractual amendments and actions to protect the best interests of the government.

2.2.2.5. Force Readiness. Includes the operational readiness capability of combat and combat support (both Active and Reserve) forces, based on analyses of the use of resources to attain required combat capability or readiness levels.

2.2.2.6. Manufacturing, Maintenance and Repair. Covers the management and operation of in-house and contractor-operated facilities performing maintenance and repair of, and/or installation of modifications to, materiel, equipment and supplies. Includes depot and arsenal-type facilities as well as intermediate and unit levels of military organizations.

2.2.2.7. Supply Operations. Encompasses the supply operations at the wholesale (depot and inventory control point) level from the initial determination of material requirements through receipt, storage, issue reporting and inventory control (excluding the procurement of materials and supplies). Also covers all supply operations at retail (customer level), including the accountability and control for supplies and equipment of all commodities in the supply accounts of all units and organizations (excluding the procurement of material, equipment and supplies).

2.2.2.8. Property Management. Covers construction, rehabilitation, modernization, expansion, improvement, management and control over real and installed property and facilities (both military and civil works construction). Includes all phases of property life-cycle management from determination of need through disposition. Also covers disposal actions for all materiel, equipment, and supplies, including the Defense Reutilization and Marketing System.

2.2.2.9. Communications, Intelligence or Security. Covers the plans, programs, operations, systems, and management activities for accomplishing the communications and intelligence missions. Includes safeguarding classified resources but not peripheral assets and support functions covered by other reporting categories. Also covers the DoD programs for protection of classified information.

2.2.2.10. Information Technology. Covers the design, development, testing, approval, deployment, use and security of electronic data processing systems, computers and other technologies for processing management information. Includes requirements justification for equipment and software.

2.2.2.11. Personnel or Organization Management. Covers authorizations, recruitment, training, assignment, use, development and management of military and civilian personnel of the Department of Defense. Also includes the operations of headquarters organizations. Contract personnel are not covered by this category.

2.2.2.12. Comptroller and/or Resource Management. Covers the budget process, finance and accounting, cost analysis, productivity and management improvement and the general allocation and continuing evaluation of available resources to accomplish mission objectives. Includes pay and allowances for all DoD personnel and all financial management areas not covered by other reporting categories, including those in connection with OMB Circular A-76.

2.2.2.13. Support Services. Includes all support services functions financed from appropriated funds not covered by the other reporting categories, such as health care, veterinary care, and

legal and public affairs services. All non-appropriated fund activities are also covered by this category.

2.2.2.14. Security Assistance. Covers management of DoD Foreign Military Sales, Grant Aid, and International Military Education and Training Programs.

2.2.2.15. Other (Primarily Transportation). All functional responsibilities not constrained in the previously noted categories, including management and use of land, sea and air transportation for movement of personnel, materiel, supplies and equipment using both military and civilian sources.

2.3. Management Control Evaluation (MCE). A MCE must be conducted at least once per fiscal year to satisfy statutory requirements. More frequent evaluations are encouraged.

2.3.1. The MCE commences upon AFSPC's receipt of a tasking letter from SAF/FMP. Upon receiving tasking from AFSPC/FM, 45 SW/FMAP, on behalf of 45 SW/CC, tasks each AU commander to conduct a MCE and issue a signed SOA to the wing commander.

2.3.1.1. SOAs should identify any material weaknesses that were discovered during the MCE. If no material weaknesses exist, the SOA should indicate that the system of internal accounting and administrative control in place during the current fiscal year, provides reasonable assurance that the objectives of the FMFIA have been achieved.

2.3.2. To aid in accomplishing the MCE, a comprehensive self assessment checklist will be provided by FMAP. The completed checklist should be returned as **Attachment 1** to the AU's signed SOA.

3. Material Weaknesses.

3.1. **Concept of Material Weakness.** A determination by management that a condition exists in which designated control procedures--or lack thereof--do not provide reasonable assurance that MC Program objectives are being met and correction of the situation requires participation of more senior management.

3.1.1. Weaknesses in management controls must be reported if they are deemed to be material. Noncompliance with vital management controls or ineffective vital management controls should be reported by the responsible assessable unit manager to more senior management. Management controls may be considered vital at one organizational level but not at another or more senior level. Classification of management controls as vital or non-vital is a management judgment, though each AU has management controls that should be classified as vital for that specific unit.

3.1.2. Management judges whether a weakness is material enough to warrant reporting to a level higher than that at which it was discovered. Managers should consider reporting a weakness to the next higher level if the manager requires participation of management at a higher level to help resolve the problem or, although they could resolve the problem at the lower level, it is serious enough, in the judgment of the manager, to bring to higher-level management's attention as a point of information.

3.1.3. Material weaknesses have the potential to:

3.1.3.1. Impair fulfillment of essential operations or mission.

3.1.3.2. Violate statutory or regulatory requirements.

3.1.3.3. Deprive the public of needed government services.

3.1.3.4. Endanger national security.

3.1.3.5. Cause adverse publicity or embarrassment.

3.1.3.6. Diminish credibility or reputation.

3.1.3.7. Lead to waste or loss of funds, property or other resources.

3.1.3.8. Allow fraud or other criminal activity to go undetected.

3.1.3.9. Cause harm, even though minor individually, because it can be extensive in the aggregate.

3.1.3.10. Cause loss of control over a significant amount of the resources for which an organization is responsible (including resources other than money; i.e., personnel, equipment, etc.).

3.1.4. The decision tree in **Figure 1.** can be used to determine if a weakness is material and requires reporting to the next higher level of management:

Figure 1. Material Weakness Decision Tree.
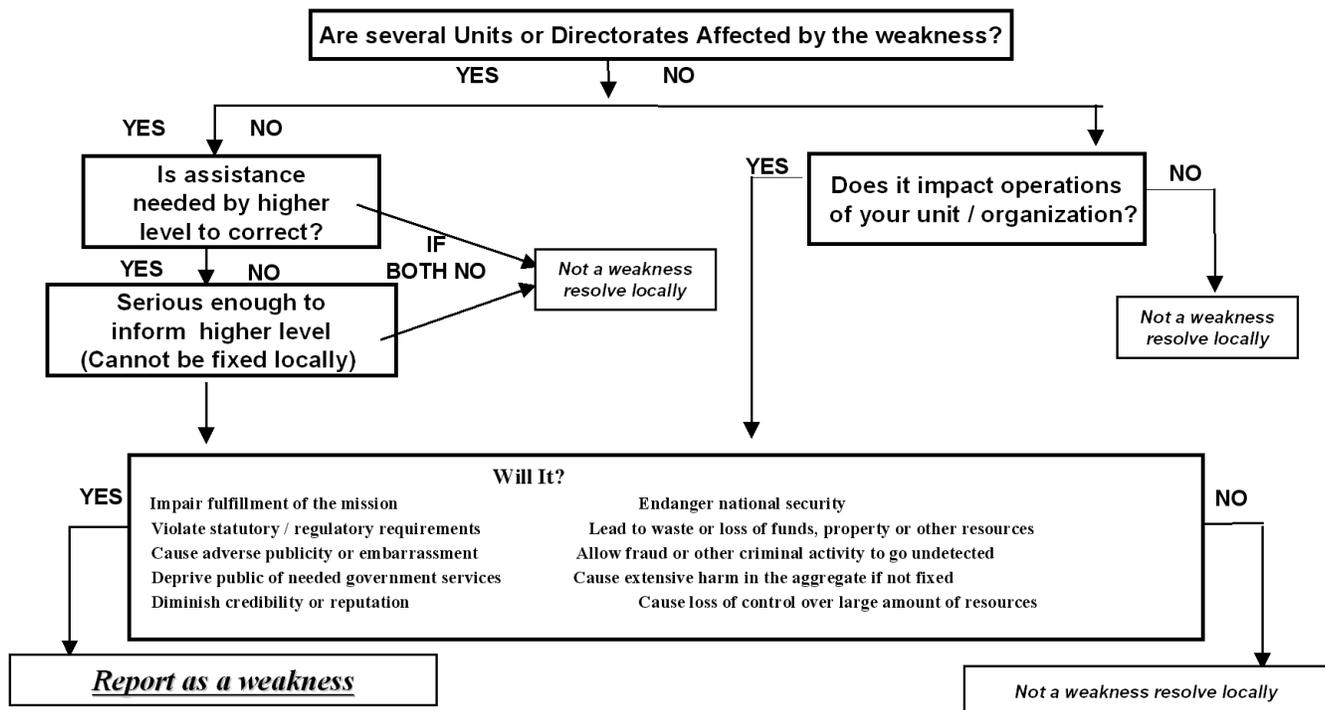
3.2. **Corrective Action Plans.** The status of corrective actions on all material weaknesses from their first reporting until their resolution should be documented in a corrective action plan. A material weakness is considered resolved when corrective actions have been verified to be effective and the condition is no longer considered material for reporting purposes.

3.2.1. At a minimum, a corrective action plan identifies specific actions and completion dates for correcting the weakness. The plan lists the tasks, called milestones, together with interim target dates for accomplishment of each task. The final milestone should be one of verifying that the corrective actions achieved the desired results.

3.2.2. The correction of management control weaknesses is an integral part of management accountability. It makes no difference if the weakness is systemic or the weakness is merely a failure to follow established procedure. In both cases, the weakness must be corrected.

3.2.3. Recommendations for corrective action should correlate with the risk. In some cases existing controls should be strengthened, and in other cases, new controls should be established.

3.2.4. Strengthened controls or new controls should be selected on the basis of cost effectiveness versus their ability to provide reasonable, but not absolute assurance against loss, errors, irregularities, operational or mission impairment. The costs of management controls should not outweigh the benefits derived from them.

   3.2.4.1. When determining the most desirable and alternative corrective actions, consider the way in which budget constraints or staff limitations affect the achievement of the control objectives. Managers must always consider the materiality of the weakness and the cost implications of actions to correct it.

4. Special Considerations.

   4.1. **Training.**

   4.1.1. FMAP will provide training to all AUs at least annually. AUs requiring training in addition to that regularly scheduled should contact FMAP.

   4.1.2. Ultimately, AU commanders are responsible for the continuous monitoring and improving of vital management controls. They should be knowledgeable and diligent in using the range of tools at their disposal to meet the requirements of this instruction.

   4.2. **Host Tenant Relationships.** Responsibilities of the MC program follow the chain of command.

   4.2.1. Tenant units on other MAJCOM bases must perform management control evaluations at the direction of the tenant unit's parent command.

   4.2.2. FMAP will make a recommendation to the commander where functions overlap between the host and tenant, or where functional OPRs disagree over who has responsibility for a certain action.

MICHAEL F. LEHNERTZ,   Colonel, USAF
Vice Commander

Attachment 1

GLOSSARY OF REFERENCES AND SUPPORTING INFORMATION

References

Public Law 97-255, Federal Managers' Financial Integrity Act

OMB Circular A-123, *Management Accountability and Control*

OMB Circular A-76, *Performance of Commercial Activities*

DODD 5000.1, *The Defense Acquisition System*

DODD 5010.38, *Management Control Program*

DODI 5010.40, *Management Control Program Procedures*

AFPD 65-2, *Management Control Program*

AFI 65-201, *Management Control*

Abbreviations and Acronyms

45SW—45th Space Wing

AFSPC—Air Force Space Command

AU—Assessable Unit

CAP—Corrective Action Plans

DAB—Defense Acquisition Board

DoD—Department of Defense

FMFIA—Federal Managers' Financial Integrity Act

MAJCOM—Major Command

MC—Management Control

MCE—Management Control Evaluation

MCP—Management Control Plan

OMB—Office of Management and Budget

OPR—Office of Primary Responsibility

SOA—Statement of Assurance

Terms

Assessable Unit—The basic segment for which management controls are evaluated. An assessable unit may be an organization, program, function, system or any other applicable division of Air Force activities capable of being evaluated by management control assessment procedures. An assessable unit shall be of an appropriate size to assure that a reasonable span of management control will allow for adequate control analysis.

Management Control—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, and ensure that programs achieve intended results. The term "management control" applies to all Air Force activities.

Management Control Evaluation—A review performed of an assessable unit to determine whether management control techniques exist and are effectively implemented to accomplish administrative, operational and mission objectives.

Management Control Program—The formal effort of an organization to ensure that MC systems are working effectively through assignment of responsibilities at the policy level, issuance and implementation of guidance, conduct of management control evaluations and reporting to senior management.

Management Control Plan—A written plan (updated as mission evolves) that details the inventory of assessable units throughout the organization along with the progress toward accomplishment of scheduled management control evaluations. It need not be lengthy and any format may be used so long as it conveys, with a reasonable certainty, the completion of required program activity.

Material Weakness—A determination by management that a condition exists (of sufficient importance to be reported to the next higher level of command) in which the designated control procedures or the degree of operational compliance therewith does not provide reasonable assurance that the objectives of the MC program are being accomplished.

Reasonable Assurance—A judgment, based upon an evaluation of all available information, that the organization's systems of management control are operating in a manner that achieves the objectives of the FMFIA.

Vital Management Controls—Those management controls most important to the accomplishment of the mission, and for which noncompliance would require disclosure to more senior management.