DEPARTMENT OF DEFENSE
Defense Commissary Agency
Fort Lee, VA 23801-1800

MANUAL

Manager's Guide to Completing the DeCA Managers' Internal Control Program Risk Mitigation

DeCAM 70-2.1
September 28, 2010

Resource Management
OPR: DeCA/RM

1. POLICY. This Manual implements policy as defined in DeCA Directive (DeCAD) 70-2 (Reference (a)), and is in compliance with references listed within this document. In order to meet the requirements of Reference (a), Office of Management and Budget Circular A-123 (Reference (b)), and DoD Instruction 5010.40 (Reference (c)), it is necessary to provide assurance that all key internal controls within the Agency are operating effectively. This task was formerly accomplished by executing the Management Control Review Checklists (MCRC). After careful study, it was determined that the method found in Appendix A was a more effective and efficient tool for reporting on the efficacy of key internal controls.

2. PURPOSE. This Manual shall provide guidance on preparation of supporting documents to identify all key controls and assure that controls are operating effectively in business processes.

3. APPLICABILITY. This Manual applies to all DeCA activities.

4. MANAGEMENT CONTROL SYSTEM. This Manual contains internal management control provisions that are subject to evaluation, testing, and other requirements of Reference (a) and as specified by the Federal Managers' Financial Integrity Act.

5. RELEASABILITY – UNLIMITED. This Manual is approved for public release and is located on DeCA's Internet Web site, www.commissaries.com.

6. EFFECTIVE DATE. This Manual is effective immediately.

Lauren P. Bands, Jr.
Acting, Chief Financial Executive

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REFERENCES

(a) DeCA Directive 70-2, "Internal Control Program," December 17, 2007
(b) Office of Management and Budget Circular No. A-123, Revised, "Management's Responsibility for Internal Control," December 21, 2004
(c) DoD Instruction 5010.40, "Managers' Internal Control Program (MICP) Procedures," July 29, 2010
(d) DeCA Manual 70-2.3, "Internal Control Responsibilities at Store Level for Zone Managers," November 30, 2009
(e) DoD Directive 5105.55, "Defense Commissary Agency (DeCA)," March 12, 2008

CHAPTER 1

INTRODUCTION AND RESPONSIBILITES

1-1. INTRODUCTION.

a. Implementation of Appendix A methodology provides DeCA with a process designed to provide an unqualified statement of reasonable assurance regarding the reliability of financial reporting, operational effectiveness, and documentation that supports the assertions made yearly by the Director to the Secretary of Defense that DeCA's internal controls are operating effectively.

b. The Appendix A methodology prescribes a process for assessing internal controls over financial reporting. This methodology has also been adopted for documenting the nonfinancial operational processes. Each form of documentation and its completion will be explained in this Manual. This documentation includes:

(1) Narratives.

(2) Flowcharts.

(3) Risk analyses.

(4) Test plans.

(5) Control analysis.

c. Store level business processes will be evaluated by zone managers and reported through the Managers' Internal Control Program (MICP) quarterly as required by DeCA Manual 70.2-3 (Reference (d)).

1-2. MANAGEMENT RESPONSIBILITIES. Managers shall:

a. Be responsible and accountable to develop and maintain effective internal controls over the overall nonfinancial operations and financial reporting, as well as stewardship of Federal resources.

b. Ensure DoD programs operate and DoD resources are used efficiently and effectively to achieve desired objectives. Programs must operate and resources must be consistent with the missions, in compliance with laws and regulations, and with minimal potential for waste, fraud, and mismanagement. Process owners must self-assess the controls for which they are responsible and communicate results to management.

1-3. MANAGERS' INTERNAL CONTROL PROGRAM (MICP).

MICP staff shall provide guidance on the implementation of Appendix A methodology and the development of narratives, flowcharts, risk analysis**,** test plans, and control analysis as necessary to facilitate understanding and correct process implementation.

APPENDIX A

REQUIRED DOCUMENTATION

A-1. NARRATIVE.

a. A narrative is defined as “an account describing incidents or events” by Webster’s Dictionary. When thinking about the process, think of it as an event taking place and describing that event step-by-step. Each step of the process should be numbered. It is recommended that the process narrative be performed prior to being flowcharted. Interviews should be conducted with personnel who have knowledge of the relevant operations to validate that manuals, policies, forms, and documents are accurate and being applied. The narratives should be written clearly to ensure that a reader will understand the process. Included in the narrative steps will be control points. A control point is a critical step in the process that has to take place and can later be tested to ensure the controls in the process are effective. A narrative template will be provided to ensure the format is executed correctly.

b. The following questions may help in preparing the narratives:

(1) Are the key elements (process, assessable unit manager, references, strategic link, and date reviewed) properly filled in at the top of the narrative template?

(2) Is the process explained well in the narrative?

(3) Is each step numbered properly (i.e., STEP 1:)?

(4) Are each of the control points properly identified and documented correctly (i.e., STEP 1: CONTROL 1-)?

(5) Does the narrative indicate what systems or important documents are used?

FY 2009 INTERNAL CONTROL NARRATIVE

Defense Commissary Agency: Contracting Directorate, Contracting Division (AMD) Narrative

Process: Support Services and Supplies

Assessable Unit Manager: Bruce Piper, Chief Contracting Division

References: FAR, DFARS, DeCAARS, CBUC's

Strategic Link: Goal 3, Maintain and communicate the relevance of the commissary benefit through constant innovation and by strengthening our internal governance.

Date Reviewed: 15 December 2008

STEP 1: An E DARTS requisition is transmitted to a Contracting Officers In -Box in the Standard Procurement System, (PD2). KO determines if is appropriate for their branch, if so forwards to a Contract Specialist, if not, either transfers to appropriate branch or contacts originator.

STEP 2: The requirement is reviewed by the Contract Specialist to determine if all appropriate information is provided. (Good description, funding, required date, etc) Contract is made with the originator for missing information.

STEP 3: Conduct Acquisition Planning, extent is determined by estimated value of requirement (Ref: Part 7 of FAR and its supplements). Perform market survey to determine availability of requirement in the market place and determine if small business programs should be utilized.

STEP 4: CONTROL 1 Small Business Review. If over $10K and not a Total SB Set-aside or if over $100K prepare a DD 2579 (Ref: CBUC 08-12), which is signed by KO and Small Business Specialist.

STEP 5: Prepare and issue a FedBizOps notice for requirements over $25K.

STEP 6: Develop solicitation, incorporating requirement for purchase request and clauses from the appropriate clause matrix (Ref: Public Folders/Contracting/Checklists/Clause Matrix –Update (most recent). Prepare all necessary memorandums for pre-solicitation contract file.

STEP 7: CONTROL 2 - Solicitation is reviewed and pre-solicitation contract file is reviewed, extent of review is dependent on the estimated value of the requirement. (Ref: DeCAARS 1.691- 1 and 2)

STEP 8: Solicitation posted to FedBizOps for contractors to obtain it on –line. In some cases copies may be emailed directly to contractors. I a few very unique cases copies may be printed and distributed.

Figure 1. Narrative Example

A-2. FLOWCHART.

a. A flowchart will show a picture of the process from beginning to end and how each step flows from one to the next. Follow the narrative, step-by-step when creating the flowchart. Ensure that each step is numbered appropriately and the control points are identified at the correct step in the process. There are different symbols used for the steps, depending on if it is a process or a document being created. There are also symbols for start, stop, decisions, and control points. Flowcharts will become a vital part of an assertion package as a segment moves towards audit readiness. A template for the flowcharts will be provided which has a legend on the bottom that ensures the proper symbols are being used.

b. All subprocesses performed by other organizations must be incorporated into the documented processes. Where material portions of key processes are performed by organizations other than the reporting group, it will be necessary for the reporting process owner to obtain from sharing partner (i.e., Defense Logistics Agency, Defense Finance Accounting Services, and different branches/sections within

the organization) either assertions, process narratives, or flowcharts to complete the reporting Component's entire process flowchart. The following questions may help in preparing flowcharts.

(1) Is there a defined start symbol (or connector from another flowchart)?

(2) Does the flowchart have a legend that describes the various shapes in the flowchart?

(3) Is each shape in the flowchart appropriate (e.g., database reference shows a database shape)?

(4) Where is the action being performed (could be externally, internally, systemic application, database, different department)?

(5) How is the action being performed? Does the symbol include an action description of what is being done at that step in the process?

(6) Do the flowcharts indicate inputs and outputs for each activity/process?

(7) Is the input and/or output specifically identified (i.e., exact name of query or name of report)?

(8) Are control points identified and numbered between flowchart symbols?

(9) Does the process end at the end of the flowchart? If yes, is there a defined end symbol? If no, is the next process connector on the flowchart instead of an end symbol?

(10) If the process flowchart is linked to/from another, is the naming convention understandable and logical?

(11) Flowchart deliverables shall include the name, phone number, and e-mail address of an operational point of contact (POC).

(12) Does every process identified on the flowchart have an associated description in the narrative?

(13) Do all decisions have a yes and no exit?

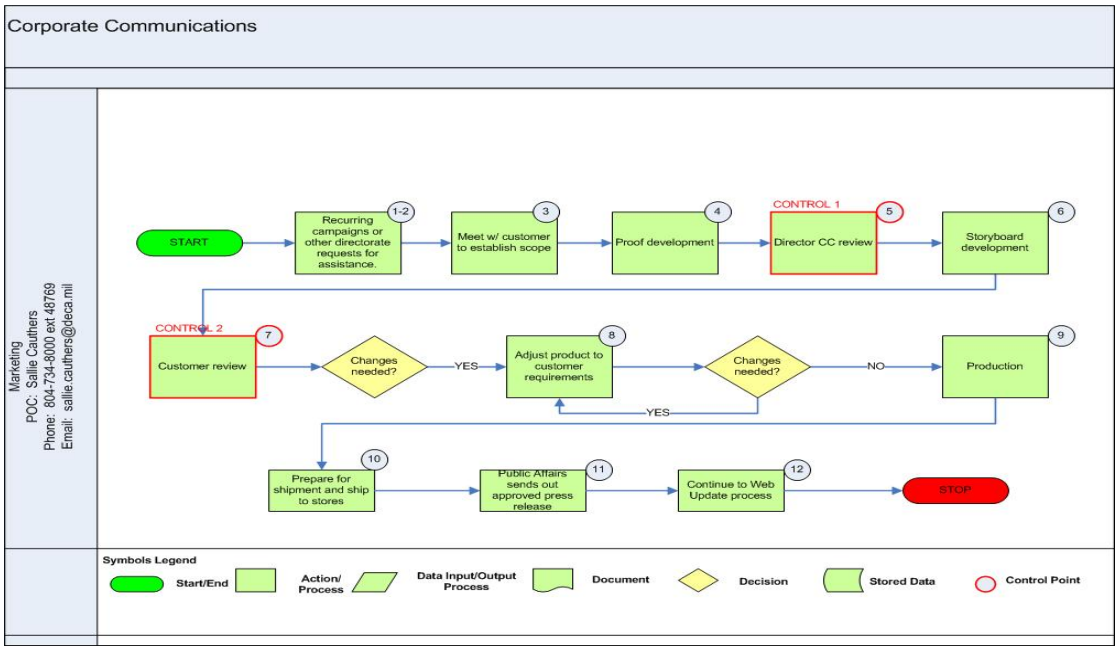

Figure 2. Flowchart Example

A-3. RISK ANALYSIS.

a. The risk analysis is the identification and review of risk that pertains to each control point in the process that was earlier identified in the narrative and flowchart. It helps to determine where weaknesses are most likely to exist, and forms a basis for determining how risks should be managed. Every entity faces a variety of risks from external and internal sources that must be assessed. Management must use a reasonable approach to determine what, when, where, and how to test the key controls, and properly document the tests and results. The intent of risk identification is to answer the question, "What can go wrong?" Identified risks should be analyzed for their cause and potential effect or impact on the Agency. The risk should explain how the process or system could create a reporting misstatement.

b. Internal controls are the additional steps in the key processes that help ensure that the risks just listed do not occur. Internal controls are typically double-checks, document reviews, authorizing signatures, checklists, and other management tools that make sure everyone is doing their job right. DeCA's MICP is based entirely on the analysis of these risks and the testing of the internal controls in place to mitigate those risks. To this end, the MICP office has developed a electronic workbook that will be the primary tool for documenting the risk analysis, test plan, and control analysis portions of the internal control assessments. There are three spreadsheets that are required to be filled out.

(1) Risk Analysis (Figure 3).

(2) Test Plan (Figure 4).

(3) Control Analysis (Figure 5).

c. Steps to complete the Risk Analysis form (refer to Figure 3).

DECA RISK ANALYSIS - FY2008

Assessable Unit: Equipment

Assessable Unit Manager: Steve Brunow

Control Number	Process	Risk	Likelihood	Impact	Inherent Risk	Internal Control Currently In Place (ICCIP)	Does the ICCIP mitigate the stated risk?	Control Risk	Internal Control Test Method Used
1	Requirements Development, Establish Push Package	Lack of defined purchase plan may result in inadequate POM funding and unnecessary or wrong equipment type sent to wrong location at wrong time.	3	3	Low	Daily and Monthly updating of established tailored store Push Package by assigned specialist based on life cycle reviews, store authorization changes, DeCA Policy changes, and out-of-cycle requirements, to ensure authorization levels and accuracy.	Yes	Low	Inspection
2	Requirements Development, Document Register	Field level non-validation of purchase plan may result in lost opportunities for funds savings thru maximum life cycle use of individual equipment pieces, or local operational changes.	3	3	Low	Annual Store Document Register created by assigned specialist to guide scheduled purchase actions for a specific fiscal year.	Yes	Low	Inspection
3	Requirements Development, Out-of-Cycle Requests	Unplanned, unscheduled, out-of-cycle requests not properly reviewed and approved may result in wastage of funds on unnecessary or wrong types of equipment.	2	2	Low	Daily review of Command, Staff, or field activity generated requests for equipment by assigned specialist to ensure validation and approval of the requirement.	Yes	Low	Inspection
4	POM Budget Authorization	Inadequate funds to meet the equipment purchase and equipment maintenance needs of the stores and CDCs.	4	3	Low	Annual POM Budget projections provided by DOLM to RM to identify equipment replacement program requirements to ensure funding of known requirements.	Yes	Low	Inspection
5	Funding Authorization	A requirement that has not been authorized for funding could be processed into the E-Darts system resulting in an unnecessary expenditure of funds.	2	2	Low	Daily, the Region Support Team Leader reviews all E-Darts or DLA or MIPR requests prior to input or transfer to ensure proper authorization and availability of current funding.	Yes	Low	Inspection
6	Technical Review	Failure to review requirement and industry standard equipment may result in sending the wrong or inadequate equipment that fails to meet the operational needs of the stores.	3	3	Low	Daily, region support team matches in-cycle and out-of-cycle requirements to standardized equipment authorized to meet the specific operational need to ensure the equipment meets the minimum needs of the Agency. As required Maintenance Team develops new CED specifications.	Yes	Low	Inspection
7	Purchase Action	Execution of the purchase action thru the wrong source/agent and with the wrong specifications or SOW may result in the store receiving wrong or inadequate equipmen that does not meet the needs of the store.	3	3	Low	Daily, region support team determines source for purchase of the individual requirements to ensure best source is used and the proper documents are provided.	Yes	Low	Inspection

Figure 3. Risk Analysis Example

(1) Column 1 – Control Number. This column is unlabeled and is the control number for each risk and control. The numbering scheme is basic. Each risk is numbered numerically. If a risk has more than one control, then an additional set of numbers is added in parenthesis after the first number to account for the controls.

(2) Column 2 – Process. This is a short description of the specific key process within the assessable unit that is being evaluated. This is typically one or two words (i.e., contract review, labor relations, public relations). Each assessable unit will define for itself what the key processes are within that unit, and within each process there will be separate risks and controls. It is not necessary that every process within the assessable unit must be accounted for, just those processes that define the primary tasks within the assessable unit.

(3) Column 3 – Risk. This column is for stating the risk. The risk, as discussed in paragraph A-3, is the result of a key step not occurring at all, not occurring on time, or not being performed accurately. For example, the first risk listed in Figure 3 is, "Lack of defined purchase plan may result in inadequate program objective memorandum (POM) funding and unnecessary or wrong equipment type sent to wrong location at wrong time." The result of that key step not occurring would be funding loss. That is the risk. Once the key steps have been identified in the key processes, identifying the risks becomes very easy. Special attention should be paid to ensuring that the risks are stated clearly and accurately. All of the rest of the analysis flows from the proper definition of the risk.

(4) Column 4 – Likelihood; Column 5 – Impact. These two factors are used to quantify management's judgment as to the severity of each risk. Each factor is measured on a scale of 1 to 5, with 1 being the lowest, and 5 being the highest. This constitutes the analysis of the inherent risk level. Inherent risk is the level of risk present in a situation before it is controlled.

(a) Likelihood. This factor is simply a judgment as to how likely it is that the risk would occur. As indicated in Figure 3, the assessable unit manager has stated that the likelihood is a 3, meaning that while not impossible, this happens every once in a while. When the form is first opened, all the risk levels will be set at 3. For each risk, simply ask how often the situation arises, and make a determination. Below is a scale to assist in the rating:

1	Extremely unlikely
2	Unlikely, but not impossible
3	Happens every once in awhile
4	Happens regularly
5	Guaranteed to occur

Table 1. Likelihood Rating Scale

(b) Impact. This factor is a measure of just how bad it would be if this risk did occur. In Figure 3, the funding challenges may cause problems, but not severe enough to cause a material weakness. Below is a scale to assist in the rating:

1	No impact on operations
2	Some impact, but negligible
3	Causes problems, but not severe
4	Seriously interferes with effectiveness
5	Guarantees failure

Table 2. Impact Rating Scale

(5) Column 6 – Inherent Risk. This column is automatically populated for the user based upon the likelihood and impact levels they select. It is either "high" or "low." Certain combinations of impact and likelihood will add up to a different risk level. The importance of the high or low distinction is that only controls that mitigate high risks will be evaluated. All controls are named irrespective of the risk level they mitigate; however, resources are only expended on testing key controls.

(6) Column 7 – Internal Control Currently in Place (ICCIP). The reason it is called ICCIP is that we do not want managers making this a fantasy list of the controls that would ideally be in place, instead of what they and their employees are actually doing. Sometimes, directives and manuals will say we are supposed to be doing one thing, when in fact the procedure is something different, or we are doing nothing at all. There may be instances where the control does not fit easily into the format. In these cases, make the best effort to provide as much detail about what is being done to mitigate the risk. The detail is important because how we define our controls leads directly to defining how we test their effectiveness during the control analysis.

(7) Column 8 – Does the ICCIP mitigate the stated risk? This is a "yes" or "no" question that asks the manager to make a judgment as to whether the control is working effectively or not. For many processes in the Agency, managers know that a particular control is not catching mistakes because they waste inordinate amounts of time fixing the mistakes they should have caught the first time. Saying "yes" to all of these would be a mistake and a greater waste of time if the manager knows that a control is not working, because each of these controls that mitigate a high risk must be tested. Under the old system of MCRC, the management could simply say yes or no to the questions on the list without having to prove anything. With the new system, even if the control is working, it must actually be tested and proven that it is, in fact, working effectively. There must be verifiable proof that will be inspected by the MICP office. If a control is not working, and it was known before hand, all the testing time was wasted. The bottom line is that the evaluation of the effectiveness of internal controls will no longer be subjective, but quantifiably objective.

(8) Column 9 – Control Risk. This column is automatically populated for the user based upon the likelihood or impact of a risk with this internal control in place. It is either "high" or "low." The importance of the high or low distinction is that only controls that mitigate high risks will be evaluated. All controls are named irrespective of the risk level they mitigate; however, resources are only expended on testing key controls.

(9) Column 10 – Internal Control Test Method Used. The last column is for identifying how to test the effectiveness of each internal control. There are five choices for this drop-down block: interviewing, observation, inspection, re-performance, or corrective action plan. In choosing which test method to employ, do not choose the one that seems like it will take the least amount of effort. Choose the test that will most accurately reveal the effectiveness of the control.

(a) Interviewing. Interviewing is the least effective method of testing the effectiveness of an internal control. There will be few instances where another of the methods will not be more appropriate. Interviewing is for preparation for identifying controls and designing tests. By gathering information from the people who exercise the controls, management can gain a better understanding of exactly what is being done. For those controls for which there is no other logical method for testing, the interviews must be documented.

(b) Observation. Observation is simply watching while the control is being exercised. This is especially useful in the stores. Managers must be careful in their use of this test as it is universally understood that someone who knows they are being watched will not do precisely the same things they would if they were not. This will, however, uncover whether the employee being observed does not know that what they are doing is the wrong thing. A good example of this situation is when external auditors went to a central distribution center to observe their physical inventory. The employees knew they were being observed and still violated the rules outlined in the statement of work because they did not know they were conducting the inventory improperly. All observation tests must be documented, including the person observing; the person observed; and the time, date and location of the test.

(c) Inspection. Inspection is the best method for determining the effectiveness of a control. This method is especially good for controls that involve documentation where the exercise of the control can be confirmed. Signed documents, entry logs, control logs, checklists, and other such controls are perfect candidates for inspection. Inspection tests will involve determining how many instances of the control occur in a testing period and deciding what percentage of that total will give an accurate look at the control's effectiveness (typically 10 to 15 percent). Any documents that are inspected should be listed in the Test Results spreadsheet included in the electronic workbook. The MICP office will be conducting random spot checks of the testing documents to ensure accurate testing.

(d) Re-performance. This is the last testing option and would be best employed for controls whose exercise is not documented. For example, review of contract requirements and compliance with federal regulations would require re-performance of the control to discover whether or not it was employed correctly the first time. In the contract example, simply pull a certain number of contracts and review them in the same way they would have been reviewed the first time to try and find as many mistakes as possible. To perform this test, the tester must not be the person who inspected the documents the first time.

(e) Corrective Action Plan (CAP). The last option is not a testing option. When a manager decides that the control currently in place is not working, the control risk will be high and a CAP will be initiated. CAP is covered in paragraph A-6.

A-4. TEST PLAN.

a. The goal of testing internal controls is to validate they are functioning effectively and address the relevant control objectives and assertions. The purpose of the test plan is to document planned procedures to provide evidence of the operating effectiveness of each control and to identify lapses in implementation of these controls.

b. In developing the test plan, key items to consider include the objectives of the test, the population, method of selecting a sample, sample size, and the organization's tolerance rate. These key items are further explained below (refer to Figure 4):

(1) Objectives of the Test. Objectives of the specific control test should be clearly identified, and management should plan to evaluate operating effectiveness in terms of the rate of deviations from prescribed controls. This involves defining the specific control to be tested and the deviation conditions. The control deviation should be defined in terms of control activities not followed. For example, define a deviation in cash disbursements as "invoice not approved and initialed by authorized individual."

(2) Population. In defining the population, identify the whole set of items on which a conclusion needs to be reached and from which the sample will be drawn. This includes describing the population, determining the source document, documents or process to be tested, and defining the period covered by the test. When multiple locations are involved, consider all or several locations as one population for sampling if the controls at each location are components of one overall control system. Before combining locations into one population, consider such factors as the extent of uniformity of the controls and their applications at each location, whether significant changes can be made to the controls or their application at the local level, the amount and nature of centralized oversight or control over local operations, and whether there could be a need for separate conclusions for each location. If the locations should be separate populations, select separate samples at each location and evaluate the results separately.

(3) Method of Selection. Samples selected should be representative of the population. As such, they should be selected at random without regard to transaction dollar amount or other special characteristics. Software may be used to make random selections but is not necessary.

(4) Sample Size. Items tested should support the preliminary assessment of control risk as either moderate or low and thus test effectiveness of these controls. The sample size should be representative of the population in order to properly support the control assessment. Management should consider the frequency and complexity of the transaction type when determining sample size. Below is a recommended guideline for determining an adequate sample size.

TRANSACTION OCCURRENCE	SAMPLE SIZE
Annually	1
Quarterly	2
Monthly	3
Weekly	10
Daily	30
Recurring	45

Table 3. Sample Size Guidelines

(a) Note that the above table only provides guidance in relation to sample size and that management should use judgment and consider additional factors, such as the significance of the control and whether the control is manual or automated, when developing sample size. Management should also use judgment when designing procedures to ensure that specific control objectives and assertions are sufficiently supported by the internal control.

(b) In many cases, a sample set of transactions can test multiple controls. This reduces the need for separate samples and provides for an improved understanding of how the controls interact. For example, disbursement controls can be tested using a sample of invoices to determine that purchase orders are present, invoices were properly approved, the accounts charged are reasonable, and expenses are correctly recognized.

(5) Tolerance Rate. Before testing an internal control, management must determine the number of deviations, or lapses in control, it considers acceptable for a control. Management must address each control individually and establish what an acceptable tolerance rate will be for each control. Document the tolerance rate before testing and include it in the test plan.

(6) A test plan template will be provided to fill in the blank for each control test. Some information from the risk analysis will carry over into the test plan.

TEST PLAN - FY 2008

Entity: DeCA Working Capital Fund	
Preparer: Marla Howard, (804) 765-2900	
Account Line: Accounts Receivable	
Control #	1(1)
Risk	Accounts receivable could be understated on financial statements if all receivables were not recorded in the month in which they occurred
Internal Control Currently in Place	Daily, store compares cash, checks, credit/debit card transactions, Electronic Benefits Transmission (EBT), coupons, etc. to Summary of Daily Receipts (DeCAF 70-15E) to ensure that all coupons presented are recorded as part of the front end transactions
Assertion	Completeness
Control Risk	Low
Testing Period	July 1, 2007 to June 30, 2008
Test Method	Inspection
Control Frequency	Daily
Sample Size	30
Exceptions Allowed	3
Test Description	Compare the sum of the cash sales activity line from the Voucher Register and Control Report (VRGC) to the cumulative coupon amount on the DD Form 707E, Report of Deposits, to verify that the amounts agree
	Obtain the VRGC for three months for each of the stores and the DD Form 707-E for the last day of that month. The VRGC Cash sales and the DD Form 707-E cumulative total amounts should agree. Any unexplained discrepancies will be considered exceptions, and any exceptions greater than 3 will indicate the internal control is ineffective and remediation is needed
Test Strategy	SFC Maurice C. Jenkins, RM will conduct the test
	The testing will be done at the DeCA NIC II site, during the week of April 1, 2008
	Documents to be tested: DD Form 707E and the Voucher Register Control Report
	Stores for testing: Fort Sill, Tinker AFB, Offut AFB, Randolph AFB, White Sands, Travis AFB, McChord AFB, Eielson AFB, Anchorage, Hickam AFB
	Test results are maintained on the Portal
Test Results	Test work resulted in no exceptions
	Items in test properly followed internal control procedures. Assessed preliminary control risk of low is properly supported

Figure 4. Test Plan Example

A-5. CONTROL ANALYSIS.

a. Testing, as described in paragraph A-4, can be accomplished in several ways. The process will be described further by going through the Control Analysis form.

b. Steps in completion of the Control Analysis form (refer to Figure 5):

DeCA CONTROL ANALYSIS - FY 2009

1 Entity:	DECA AMD			2. Preparer: 3. Preparer's Phone #:		Bruce Piper (804) 734-8000, ext. 48640 Effective Effective W/Exceptions Ineffective	
4 Control Number	5 Process	6 Risk	7 Internal Control Currently In Place (ICCIP)	8 Description of Control Operation Test	9 Control Operation Effective?	10 New Risk Level	11 Test Results
1	Support Services and Supply Contracting, - **Small Business Review**	What are consequences of an ineffective control at Control Point #1? **The consequence of an ineffective control at Control Point #1 is that the Small Business programs may not be given proper consideration, which could reflect negatively on DeCA.**	**DD-2579 are prepared several times a week by various Contract Specialists. Contracting Officers review the files prior to issuing a solicitation and in which case would see if a DD-2579 was missing, this is also an item on the file checklist.**	Random Inspection of Contract Files	Yes	Low	All DD 2579 filled out, signed and incorporated in files
2	Support Services and Supply Contracting, - **Solicitation and pre-solicitation file review**	What are consequences of an ineffective control at Control Point #2? **Consequences of ineffective control at Control Point #2 are incorrectly specified requirements, improper or missing clauses, processing delays, the need to issue amendments to correct deficiencies (further increasing PALT), etc.**	**Control #2 occurs each time a solicitation is developed usually several times per week. Contracting Officers are the first point of review, actions over $100K are reviewed by the Division Chief. Requirements over $1 Mil are reviewed by a Procurement Analyst in a separate division. Reviews are accomplished to ensure accuracy and compliance with regulation.**	Random Inspection of Contract Files	Yes	Low	Reviews were conducted as required, although some were requested to be expedited or done concurrently with the release of the solicitation.
3	Support Services and Supply Contracting, - **Proposed Contract Award Review (DSD)**	What are consequences of an ineffective control at Control Point #3? **Consequences of an ineffective control at Control Point 3 is poorly structured and documented contracts will be provided to the Contracting Officer to sign, this could end up costing DeCA money and delay performance.**	**Control #3 occurs each time it is proposed to award a contract $500K base year or $1Mil with options, this occurs about 6 times per year. Contracting Officers are the first point of review, they are then reviewed by the Division Chief. Reviews are also performed by a Procurement Analyst in a separate division and GC. Reviews are accomplished to ensure accuracy and compliance with regulations. After the individual**	Random Inspection of Contract Files	Yes	Low	All files requiring a DSD were found to be reviewed by a Procurement Analyst and GC as required.
4	Support Services and Supply Contracting, - **Contracting Officer reviews and releases contract**	What are the consequences of an ineffective control at Control point #4? **Consequences of an ineffective control at Control Point #4 are improperly awarded contracts, which could cost DeCA money and delay contract performance. Additional modifications may have to be negotiated and issued to correct deficiencies.**	**Control #4 occurs each time a Contract or Purchase order is awarded. The Contract Specialist prepares the proposed award and the Contracting Officer reviews it using the clause checklist, checking for proper funding. Actions over $100K, are also reviewed by the Division Chief.**	Random Inspection of Contract Files	Yes	Low	All contracts and PO's were found to be reviewed by a Contracting Officer, since only individuals identified as Contracting Officers can release awards in PD2. Division Chief reviews were conducted as appropriate.
5	Support Services and Supply Contracting, - **Items or Service is received**	What are consequences of an ineffective control at Control Point #5? **Consequences of an ineffective control at Control Point #5 are not knowing if the government has obtained the items or service they required.**	**Control #5 occurs almost daily at the store or other receiving location, the check on this is the contractor will not be paid until the provide the proper item(s) or service.**	Random Inspection of Contract Files	Yes	Low	Some cases were found where items were not initially received, however in those cases there was documentation that coordination between Contracting, the customer and contractor resulted in locating the item, resending the item or deducting the item from the invoice. Control worked, since issues were resolved.
6	Support Services and Supply Contracting, - **Receiving Report Obtained**	What are consequences of an ineffective control at Control Point #6? **Consequences of an ineffective control at Control Point #6 is contractors not getting paid in a timely manner and property book records not getting updated.**	**Control # 6 occurs almost daily at the store or other receiving location, the check on this is if the contractor is not paid they will very quickly let the Contracting Officer know.**	Random Inspection of Contract Files	Yes	Low	There were a few cases where the receiving report was not provided on time and interest was incurred. Coordination between Contracting, the customer and contractor resulted in this issue being resolved. Control worked, since issues were resolved.
	Support Services and Supply Contracting, - **Option modification issued**	What are consequences of an ineffective control at Control Point #7? **Consequences of an ineffective control at Control Point #7 are the government losing its right to unilaterally exercise options. The contractor is free to walk away from the contract or may ask for more money if we miss the specified dates.**	**Control #7 occurs by the contract specialists and Contracting Officers maintaining suspenses of upcoming options.**	Random Inspection of Contract Files	Yes	Low	Some instances were found where options were not issued in a timely manner, in most cases the contractor accepted the option late and there was no issue, in 2 cases the contract expired because the options were not issued requiring a new contract to be negotiated and awarded.

Figure 5. Control Analysis Example

(1) Columns 1 – 4. The first four columns (Control Number, Process, Risk, Internal Control Currently in Place (ICCIP)) are linked to the Risk Analysis spreadsheet and will already be filled in.

(2) Column 5 – Description of Control Operation Test. This is the most important block to fill in on the form. This block is asking for a description of how the effectiveness of the control listed is going to be tested. On the last column of the risk assessment form (Figure 3), the test method is identified. Based on the test method proposed, write a brief description of how the control is going to be tested. There are a few basic elements that must be present in the test description.

(a) If there is a large number of occurrences of the control (i.e., it happens everyday or every week), then define what the sample size for the test will be. A business process like processing receipts, the sample size should be at least 30. A good rule of thumb to use is if the control is exercised biweekly, test 15; weekly, test 20; and daily, test 30. Managers may decide to test more if time and personnel permit, as a larger sample will give a much higher level of accuracy. If the control is exercised monthly or less, test 100% of the occurrences of the control. If an insufficient sample size is taken, it may be requested to do more testing. Any questions about sample size should be referred to the MICP manager.

(b) Once a sample size is determined, indicate what specifically will be tested. If the control is simple and well described, it is enough to say inspecting is to ensure the control has been exercised. If, however, the control is more complex or requires several steps, provide a more detailed description. The bottom line is a description must be provided that makes it clear what is going to be tested.

(c) The last element of the test description is the criteria for effectiveness. This is simply a statement about what will cause the control to fail the test for effectiveness. The simplest criterion is the use of a 10 percent rule. For controls that do not have a fixed sample size or an unknown sample size, it is up to management to decide what is appropriate. Again, if there are any doubts as to the reasonability of the test criteria, ask the MICP manager.

(d) The next step is to conduct the test. The same individual who designed the test should conduct the test. This serves two purposes. First, the individual should already be inspecting the subordinates work on a regular basis, and this gives the individual a great excuse to do so in an organized fashion. Second, the person exercising the control should not be the one testing their own performance. If the individual is the one who exercises the control, designate someone else to conduct the test. Once the sample has been identified, the criteria for effectiveness established, and document gathered, be sure to document what documents were used for testing..

(e) Do not attempt to fabricate any documentation or test results as there will be inspections of the work. MICP is required to verify the veracity of the statements in order to brief the Director with absolute confidence.

(8) Column 6 - Control Operation Effective and Column 7 - New Risk Level. The two columns are linked together, so use the drop-down menu to select “yes” or “no” in response to the question of whether or not the control test revealed that the control was effective or ineffective. If the answer is “yes,” the control risk will automatically go to “low”. If the answer is “no,” the control risk will automatically go to “high” and drafting of a CAP (paragraph A-6) will begin.

A-6. CORRECTIVE ACTION PLAN (CAP).

a. CAP will be used to document who, when, and how an ineffective control will be brought back to the level of effectiveness that is required. Some of these plans will be as simple as documenting every time the control is exercised for 90 days, to a more complex plan that addresses a more complex problem. To assist managers in designing their plans a spreadsheet form is available.

b. Steps to complete the CAP are (refer to Figure 6):

Internal Controls Over Financial Reporting Corrective Action Plan				
Date Initiated:	August 1, 2008	**POC Name:**	Ebony Hudson	**Control Number**
Date Last Updated:	June 9, 2009	**POC Phone:**	(804) 734-8000 Ext. 52836	CAP-PAY-6a-2-08
Process Name:	Payroll			
Risk:	Entries on DCPS printout not the same as regular hours worked, leave taken, or comp time/OT worked			
Internal Control Currently in Place:	Biweekly, supervisor compares DCPS printout to source documents and to personal knowledge of leave taken and/or comp time/OT worked to ensure that time and attendance is correct on DCPS printout			
Test Results:	Test work resulted in 13 (out of 136 sampled) exceptions. Eight supervisors (Kaneohe Bay, Seymour Johnson, Holloman, Fort Monmouth, Eglin, Moody, Taegu, and Iwakuni) were missing leave documentation and 5 supervisors (Kaneohe Bay-2 supervisors, Bangor-1 supervisor, and Nellis-2 supervisors) were missing OT authorizations			
Corrective Action			**Milestones w/ Completion Date**	**Status**
Send notices to timekeepers and supervisors to remind them that approved OT request is mandatory for all OT/Comp time worked as certified on DCPS printout			Quarterly or when an exception is found in testing	Ongoing
Sample stores and request DCPS print outs and OT requests. Since July 1, 2008, records of 53 supervisors were tested internally ; 2 did not proper approvals for OT/comp time worked.			May 8, 2009	Complete
External auditors will perform timekeeping tests February-May, 2009. 24 stores and CDCs will be tested			May 31, 2009	Complete
For OT requests, 2/53 supervisors failed to document appoval of OT/comp time worked. Also, KPMG found 4/24 stores did not have the proper approvals for OT/Comp time worked			May 31, 2009	Complete
For leave taken, 5/53 supervisors failed to provide approved leave requests for all leave taken. Also, KPMG found 1/24 stores where this occurred. KPMG limited testing to at least 8 hours of leave taken			May 31, 2009	Complete
Progress was not sufficient for SAT to approve closing of CAP			June 9, 2009	Complete
CAP will split in two for FY 2009. One CAP will be for OT requests and second CAP will be for leave requests			June 9, 2009	Complete
Stakeholders	All DeCA timekeepers and certifiers			
Comments	Designate as a FY 2009 CAP			

Figure 6. Corrective Action Plan Example

(1) Date Initiated. Date the CAP is approved for implementation.

(2) POC Name. Name of the person who will be held accountable for timely completion of the CAP.

(3) Control Number. Filled in by the MICP office.

(4) Date Last Updated. Adjusted every time a status is given for a particular milestone or any additional information is added.

(5) POC Phone. Self-explanatory.

(6) Process Name, Risk, Internal Control Currently in Place, Test Results. Copied from the Control Analysis form described in paragraph A-5.

(7) Corrective Action. This block is for a detailed description of what the plan is to correct the control deficiency that was revealed either in the Risk Analysis or the testing conducted during the Control Analysis. This can be one action or a series of actions. In the example shown in Figure 6, the risk was "Entries on DCPS printout not the same as regular hours worked, leave taken, or comp time/OT worked." The control was that biweekly, supervisor compares Defense Civilian Pay System (DCPS) printout to source documents and to personal knowledge of leave taken and/or compensatory time/overtime worked to ensure that time and attendance is correct on the DCPS printout. When the control was tested, it was found that test work resulted in 13 (out of 136 sampled) exceptions. This was clearly a control deficiency. The CAP was simply to send notices to timekeepers and supervisors to

remind them that approved overtime request is mandatory for all. This is a great example of a plan that does not require anything but a more disciplined exercise of the control in place. It is possible; however, that a control deficiency will reveal a much more systemic problem in a process that will require a more detailed series of steps that must be accomplished to ensure that the stated risk will not occur. The MICP office will work directly with any assessable unit that finds control deficiencies in order to facilitate finding the appropriate action to take and how to define what the plan will be.

(8) Milestones w/Completion Date. In any CAP it is extremely important to set hard goals with dates for completion. Set dates by which certain tasks must be accomplished in order to measure how well the plan is working. The milestones can be as simple as a status update as shown in Figure 6, or a more detailed, quantifiable milestone. The milestones and their completion dates will be at the discretion of the responsible manager, but should be discussed with the MICP office if it is not clearly measurable.

(9) Status. This block is a detailed description of what was accomplished by the date set in the corresponding milestone block. Make a statement about the progress made to that point. As shown in Figure 5, that progress is ongoing. The progress showed a decline in errors; however, the CAP was not closed because the process did not show sufficient progress for the senior assessment team to approve closing the CAP. In this case, the CAP was split to pinpoint which area of timekeeping required greater attention. The CAPs would continue until the assessable unit manager was satisfied that the controls were now working effectively.

(10) Stakeholders. This block lists who the control affects. No process in DeCA operates in a vacuum. Everything we do affects many other parts of the Agency. The point of listing the stakeholders is to ensure that anybody affected by the control deficiency is notified that there is a weakness in a key internal control and that a plan is being worked to correct the deficiency. Communication and accountability are two of the most important aspects of internal control.

(11) Comments. This section is for the responsible manager to make any comments about the status of the plan or the completion of the plan.

GLOSSARY

ACRONYMS

CAP	corrective action plan
DCPS	Defense Civilian Pay System
DeCAD	Defense Commissary Agency Directive
ICCIP	internal control currently in place
MCRC	management control review checklist
MICP	managers' internal control program
POC	point of contract
POM	program objective memorandum