

**ATP 1-06.4**

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**Internal Controls**

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**MAY 2016**

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**Headquarters Department of the Army**

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# Internal Controls

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## Preface

Army Techniques Publication (ATP) 1-06.4 provides techniques on how to implement and execute management internal controls within financial management (FM) while in support of unified land operations. The intent of this publication is to use along with Field Manual 1-06 to describe how FM units implement and enforce management internal controls within daily operations. This publication supports FM operations that relate specifically to the FM core competency of management internal controls.

The principle audience for ATP 1-06.4 is all members of the profession of arms. Commanders and staffs of Army headquarters serving as joint task force or multinational headquarters should also refer to applicable joint or multinational doctrine concerning the range of military operations and joint or multinational forces. Trainers and educators throughout the Army will also use this publication.

Commanders, staffs, and subordinates ensure that their decisions and actions comply with applicable United States, international, and in some cases host-nation laws and regulations. Commanders at all levels ensure that their Soldiers operate in accordance with the law of war and the rules of engagement. (See Field Manual 27-10)

ATP 1-06.4 uses joint terms where applicable. Selected joint and Army terms and definitions appear in both the glossary and the text. Terms for which ATP 1-06.4 is the proponent publication are italicized in the text and are marked with an asterisk (\*) in the glossary. Terms and definitions for which ATP 1-06.4 is the proponent publication are boldfaced in the text. For other definitions shown in the text, the term is italicized and the number of the proponent publication follows the definition.

ATP 1-06.4 applies to the Active Army, Army National Guard/Army National Guard of the United States, and the United States Army Reserve unless otherwise stated.

The proponent of the ATP 1-06.4 is the Financial Management School, Soldier Support Institute, Fort Jackson South Carolina. The preparing agency is the Capabilities Development & Integration Directorate, Doctrine Division, United States Army Soldier Support Institute. Send comments and recommendations using DA Form 2028 (*Recommended Changes to Publications and Blank Forms*) to Commander, United States Army Soldier Support Institute, ATTN: ATSG-CDI, Building 10000, Fort Jackson, SC 29207-7045, or submit an electronic DA Form 2028 by email to [usarmy.jackson.93-sig-bde.list.jackson-atsg-cdidfm-doctrine@mail.mil](mailto:usarmy.jackson.93-sig-bde.list.jackson-atsg-cdidfm-doctrine@mail.mil).

# Introduction

ATP 1-06.4 provides Army financial management with the techniques and practices to integrate management internal controls into key aspects of FM. This publication provides an initial overview of management internal controls and expands management internal controls into the five core competencies of financial management: fund the force; banking and disbursing; pay support; accounting support and cost management; and the Managers' Internal Controls Program (MICP). Additionally, this publication provides application of MICP which not only impacts Army financial management, but impacts commanders at all levels within the Army.

ATP 1-06.4 incorporates principles from the Department of Defense (DOD) Financial Improvement and Audit Readiness (FIAR) guidance as mandated by the Office of Management and Budget (OMB) Circular A-123.

**Chapter 1** provides an overview to management internal controls and discusses key principles and core competencies that are impacted by management internal controls, as well as overall FM responsibilities to ensure that management internal controls are integrated into all aspects of FM.

**Chapter 2** discusses management internal controls within financial management core competencies. Key discussion focuses on following internal controls within the core competency of fund the force, banking and disbursing, pay support, and accounting support. Additionally, this chapter discusses key responsibilities within FM organizations pertaining to each core competency and the execution of internal controls within the specific core competency of financial management, as well as discussion on internal control reviews.

**Chapter 3** provides discussion on the execution of the MICP. More specifically, the role of the theater Army (TA) assistant chief of staff, financial management (G-8) (TA G-8) and subordinate Assessable Unit Managers (AUMs). The chapter also discusses the Internal Control Evaluation Plan as well as the Annual Statement of Assurance.

## Chapter 1

# Management Internal Controls Overview

Internal controls are the rules, procedures, and mechanisms we use every day to ensure that what should happen in our operations does happen. Internal controls promote the wise use of resources; deter fraud, waste, and abuse; and protect resources – our dollars, our equipment and, most importantly, our people.

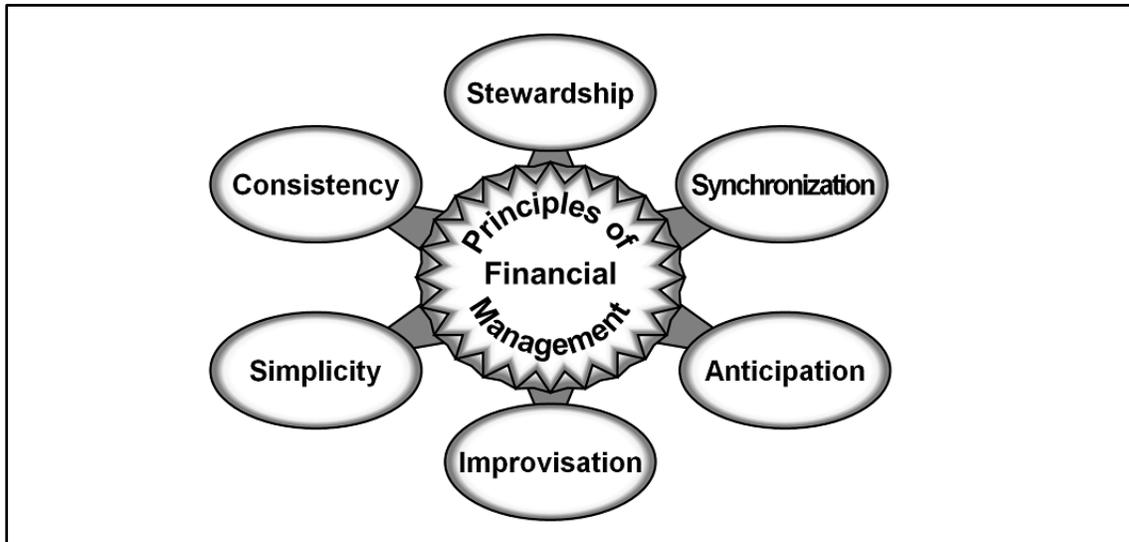
## INTERNAL CONTROLS

1-1. Internal controls help leaders to operate effectively and efficiently, while prudently using resources in order to achieve organizational objectives. OMB Circular A-123 defines internal controls as an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. An internal control structure or system is a combination of the policies and procedures that an organization implements to provide reasonable assurance that each of its goals are achieved. It provides reasonable assurance that each employee follows directives implemented by the senior management team and that every financial statement is accurate. In addition, an internal control structure ensures the organization remains compliant with any laws or other legal regulations in place.

1-2. Army leaders are responsible for ensuring that effective internal controls are developed, implemented, documented, and assessed within their organizations. Additionally, Army commanders and leaders must identify required improvements, take corrective actions, and report internal control issues through the annual management assurance statement for their command or directorate. They rely on the financial management (FM) community to manage the overall Management Internal Control Program for the Army. Additionally, it is incumbent upon the Army financial managers to ensure resources are properly managed.

## FM PRINCIPLES AND COMPETENCIES

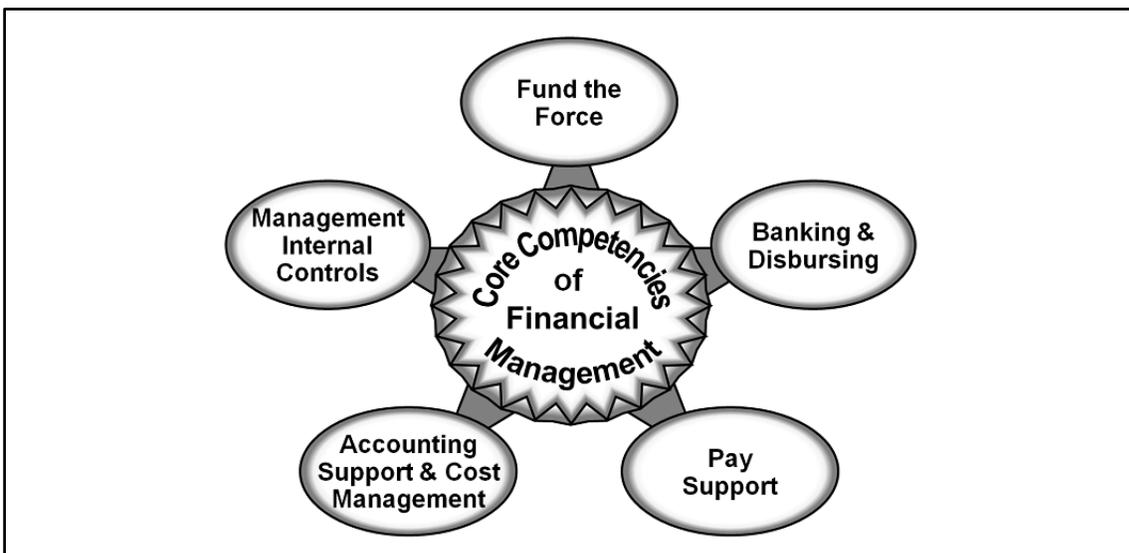
1-3. Financial management (FM) is comprised of six principles: stewardship, synchronization, anticipation, improvisation, simplicity, and consistency. These principles are critical to the successful mission accomplishment of FM operations at the strategic, operational, and tactical levels. Please see figure 1-1 for the principles of financial management on page 1-2.



**Figure 1-1. Principles of financial management**

1-4. These principles serve as the foundation to each of the five FM core competencies which are fund the force, banking and disbursing, pay support, accounting support & cost management, and management internal controls. See figure 1-2 for FM core competencies.

1-5. As a core competency, internal controls are derived from stewardship, which is one of the six FM principles that lay the foundation in making up the core competency of management internal controls. Stewardship is commonly known as an activity or job of protecting and being responsible for something that matters. Managers within the federal government are responsible for operating federal programs and for protecting federal resources. Therefore, the bedrock to management internal controls is stewardship.



**Figure 1-2. Financial management core competencies**

**FINANCIAL MANAGEMENT RESPONSIBILITIES**

1-6. OMB charges managers at all levels within the federal government to execute stewardship of federal resources. The inherent responsibilities of stewardship calls for managers, leaders, and staff of organizations

to develop and maintain effective internal controls. Commanders, organizational directors, and financial managers are key leaders deemed as responsible stewards within the Army for internal control purposes.

1-7. Commanders are responsible for developing and maintaining internal controls within their organizations; financial managers should assist in developing, maintaining, and implementing internal controls across FM operations.

1-8. The TA G-8 is overall responsible for implementing management internal controls within theater FM units and organizations. The TA G-8 Management Division provides the overall management and execution of the MICP for the Army Service Component Command (ASCC) and the management internal controls across theater FM units and organizations. The management division is responsible for ensuring audit readiness, developing the ASCC "5 year" MICP plan, and maintaining all fund certification documents and FM policy in the theater.

1-9. An internal control evaluation plan, which describes how key internal controls in the assessable unit will be evaluated over a 5-year period, is established and maintained in accordance with Army regulations.

1-10. The Financial Management Support Center (FMSC) has an internal control section that ensures a high level of technical proficiency is maintained within the FMSC, as well as throughout subordinate Financial Management Support Unit (FMSU) and Financial Management Support Detachment (FMSD). The FMSC internal control section has the primary responsibility to ensure compliance with applicable financial regulations, guidance, and laws. The FMSC internal control section conducts site assistance visits and cyclical reviews for all theater FM units and serves as the primary review team for theater FM.

1-11. Each FMSU has an internal control section that establishes and enforces management internal controls for the FMSU. This section mirrors the FMSC's internal control section; however, the FMSU's scope is limited to the FMSU as well as subordinate FMSDs, with heightened emphasis on audit readiness, which serves as the review team for the FMSU commander.

## **APPLICABLE GUIDANCE**

1-12. Management internal controls are based on federal laws, Department of Defense financial guidance, as well as Army guidance. The cornerstone of the competency, management internal controls, is derived from three specific congressional acts; the Federal Financial Management Improvement Act of 1982, the Federal Managers' Financial Integrity Act of 1982 and the Chief Financial Officers Act of 1990. These acts provide the legal basis to management internal controls.

1-13. OMB issued circular A-123 that defines management's responsibility for internal controls in Federal agencies. The A-123 implements the statutes of Federal Managers' Financial Integrity Act of 1982.

1-14. The Office of the Undersecretary of Defense (Comptroller) has implemented aggressive initiatives to meet the Congressional mandate to become an auditable agency. The 2013 FIAR has provided Army leadership guidance on obtaining an unqualified audit opinion on the Statement of Budgetary Resource.

1-15. Army regulation (AR) 11-2, holds commanders and managers responsible for establishing and maintaining effective management controls as well as assessing, identifying, and correcting material weaknesses. As key advisers for stewardship of resources, financial managers are responsible for coordinating controls throughout the command. The Managers Internal Control Program (MICP) is a key component to management internal controls.

## **FUNCTIONS OF MANAGEMENT INTERNAL CONTROLS**

1-16. Within the FM core competencies, management internal controls focus on deterring fraud, waste, and abuse by focusing on three significant programs; the MICP, the Internal Review Program for Finance Operations, and the Quality Assurance Program. Within FM, these three programs are applied to fund the force: banking; disbursing support; pay support; accounting; and the implementation of MICP. Figure 1-3 on page 1-4 shows the management control process as outlined in Field Manual 1-06, Financial Management Operations. It is important to understand that each of the programs within management internal controls are inter-dependent of each other to deter fraud, waste, and abuse.

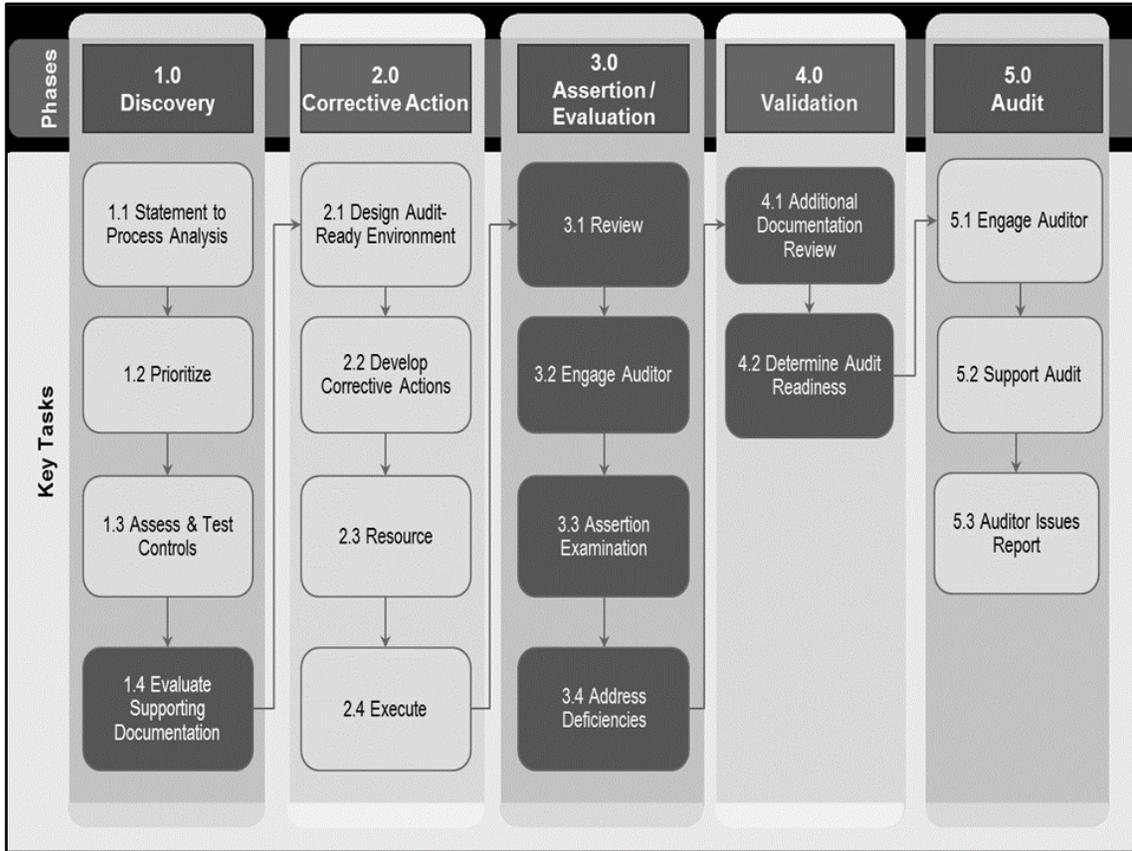


Figure 1-3. Management control

## AUDITABILITY

1-17. The Office of the Undersecretary of Defense (Comptroller) developed the FIAR plan in order to establish priorities for reporting entities and service providers to focus on improving controls and processes supporting information. The purpose of the FIAR is to facilitate the achievement of an unmodified audit opinion on DOD financial statements.

1-18. As a means to obtain unmodified audit opinion, DOD has established methodology phases within the FIAR guidance prescribing key tasks for achieving auditability. The phases are listed as 1.0 Discovery; 2.0 Corrective Action; 3.0 Assertion/Evaluation; 4.0 Validation; and 5.0 Audit. Each organization should focus its audit readiness efforts on improving their processes, controls, systems, and related documentation based on the results of the application for phases and key tasks. See figure 1-4 for the phases and key tasks of the FIAR plan.



**Figure 1-4. Phases and key tasks of the FIAR plan**

1-19. Within each of these areas, an overarching theme appears - safeguarding government assets. This is done at all levels within an organization, but it is an organization's management that is ultimately responsible for internal controls. Therefore, the term *management internal controls* is best used when discussing internal controls.

1-20. Management internal controls encompass each of the five phases of the FIAR. However, to simplify management internal controls into the execution of auditability, the term *audit trail* is derived.

1-21. According to the Department of Defense Financial Management Regulation (DODFMR), Volume 6a, DOD Components shall ensure that audit trails are maintained in sufficient detail to permit tracing of transactions and balances from their sources to amounts reported in their Enterprise Resource Planning systems or to the amounts reported in their transmission to Defense Finance and Accounting Services (DFAS). Audit trails are necessary to demonstrate the accuracy, completeness, and timeliness of a transaction. In addition, audit trails provide documentary support for all data generated by the DOD component in their enterprise resource planning system or submitted to DFAS.

1-22. In simplified terms, all financial transactions must be:

- Accurate and complete.
- Controlled from unauthorized access and use.
- Identified, tracked, and controlled to ensure that the numbers, types, and dollar amounts are complete.
- Authorized and approved by duly designated officials.

1-23. Management internal controls must integrate principles of auditability into an organization's business practices. Congress, DOD, and Army leadership are focused on improving business processes and achieving auditable financial statements that will result in an unqualified audit opinion by an independent auditor.

Therefore, incorporating auditability into organizations not only helps organizations achieve audit readiness, and accurate cost and financial information, but also helps organizations achieve sustainable management internal controls that ensure accountability.

## Chapter 2

# Internal Controls within Financial Management Core Competencies

As discussed in chapter 1, FM is comprised of five core competencies. This chapter will discuss how internal controls spans across the other core competencies of fund the force, banking and disbursing, accounting, and pay support.

### SECTION I – FUNCTIONS OF INTERNAL CONTROLS WITHIN FUND THE FORCE

2-1. According to Field Manual 1-06, *Financial Management Operations*, fund the force is the critical capability that matches legal and appropriate sources of funds with thoroughly vetted, validated, and legal requirements. Therefore, implementing management internal controls into fund the force is an integral part of safeguarding the nation's fiscal resources. It also ensures that appropriate and adequate financial resources are in place to meet the commander's requirements to accomplish the mission.

2-2. Fund the force begins with Congress' power to appropriate funds for the U.S. government. Upon passage of the Appropriation and Authorization Acts, funding flows from the OMB, to the Office of the Secretary of Defense, down to Department of Defense organizations. The Army is under the control of the Secretary of Defense and receives funding in order to recruit, organize, supply, equip, train, service, mobilize, demobilize, administer, and maintain. The Army receives funds to conduct its Title 10 responsibilities. Fund the force enables the Army to appropriately resource its units in order to accomplish its responsibilities to the nation's defense. It is essential proper stewardship and management internal controls are in place to resource America's Army and America's warfighters.

### FUNDS CONTROL

2-3. Section 1514(a) of Title 31, United States Code requires DOD components, which includes the Department of the Army, to establish and maintain effective controls over appropriations and other funds. The Army must establish and follow management internal controls for all aspects of the funds procurement process. This process begins with the receipt of a formal subdivision of funds through the informal subdivision of funds down to the subordinate (G-8) and battalion or brigade financial management officer (S-8).

2-4. Management internal controls for administration, distribution, and control of funds should be adhered to at all levels to include ASCCs, corps, divisions, and brigades. The following items comprise key considerations in the internal controls process:

- Funding apportionment, allotment, or allocation.
- Funds certification.
- Fiscal law.
- Deter fraud, waste, and abuse.

### FUNDING APPORTIONMENT, ALLOTMENT OR ALLOCATION

2-5. Internal controls must be established and followed throughout the funding allocation process. As prescribed by law, Congress exercises the power granted to it under the U.S. Constitution, which states, "No money shall be drawn from the Treasury, but in Consequence of Appropriations made by Law." The power to appropriate is a legislative power that Congress exercises by setting legal limits on U.S. government Departments within the Executive Branch.

2-6. Congress exercises the "power of the purse" by providing funding authorizations and appropriating funds authority for all Departments within the Executive Branch. With approval from Congress and upon issue of a Treasury Warrant, funding authorization and appropriations are distributed to departments such as DOD.

2-7. Individual components within DOD implement processes and procedures for administrative control of funds, so that formal subdivisions of funds are placed at the highest practical organizational level consistent with effective and efficient management. Each component restricts the use of limitations of available funds in order to comply with the DOD Authorization or Appropriation Act. Administrative control of funds is prescribed by DODFMR Vol. 14.

2-8. Within the distribution of funds process, there are formal and informal divisions as well as subdivisions. Funds are distributed from higher organizations to lower level organizations. Formal distributions of funds are provided via a Funds Allocation Document or a Resource Distribution Document. The Army Budget Office located within the Assistant Secretary of the Army (Financial Management and Comptroller) ASA (FM&C) provides formal distribution of funds to ASCCs, Army Commands or direct reporting units through funds allocation documents. ASCCs, Major Commands, and direct reporting units further distribute funds through Resource Allocation Document (RAD) to subordinate units or commands.

2-9. These allocation documents provide funding levels by appropriations and by fiscal year. With the use of General Funds Enterprise Business System; RADs, funds allocation documents, and resource distribution documents are conducted within the General Funds Enterprise Business System via the funding distribution module, Fund Management Budgeting Workbench transaction code (T code). The automated process General Funds Enterprise Business System provides, although auditable, should not diminish the use of a Resource Distribution Document, Funds Allocation Document, and or RAD. These documents provide an audit record for the distribution of funds from higher organizations to lower organizations within Army financial management.

## **FUND CERTIFICATION**

2-10. Another significant management internal control principle that must be integrated into an organization's business process is fund certification. DODFMR Vol. 14 and Defense Finance and Accounting Services Regulation 37-1, chapter 4 provides detailed guidance on funds certification.

2-11. The commander appoints a primary funds certifier for the command. This is normally done at the ASCC or joint task force level of command. The primary funds certifier can further delegate fund certification authority in order to obligate funds as necessary to support mission requirements. This delegation establishes the control of over-distribution, over-obligation, and over-expenditure of funds. A delegation of authority memorandum and other appropriate forms are the documents of record providing funds certification authority to the appointed individual. See figure 2-1 on page 2-3 for an example of a delegation of authority memorandum.

 DEPARTMENT OF THE ARMY  
UNIT  
ADDRESS

OFFICE-SYMBOL 1 October 2015

MEMORANDUM FOR: (MAJ John Doe) G8, ASCC, Unit Address

SUBJECT: Delegation of Authority to Certify Availability, Obligate, Establish, and Maintain Administrative Control of Funds

1. Reference: DFAS-IN Regulation 37-1, 28 February 2015, Finance and Accounting Policy Implementation, Chapter 4, Administrative Control of Appropriations and Financing of Requirements.
2. In accordance with the provisions of paragraph 0316, DFAS-IN Regulation 37-1, you are delegated authority to certify availability of funds allocated to this Command and to obligate funds as necessary to support mission requirements. **Your fund certification authority is limited to \$5,000,000.00 for current year funds and \$5,000,000.00 in prior year funds. Prior approval must be received from me for funds in excess of \$5,000,000.00.**
3. You are further charged with the responsibility for the establishment and maintenance of administrative controls to preclude over-distribution, over-obligation, over-expenditure, or exceeding and statutory or administrative limitation applicable to such funds to include specifically the Anti-Deficiency Act violations as referred in DFAS-IN Regulation 37-1, chapter 4.
4. As fund Certifying Officer, you are to acknowledge in writing the understanding of the provisions of DFAS-IN Regulation 37-1. This authority will remain in effect until you are officially relieved or released from assignment. In accordance with DFAS-IN Regulation 37-1, paragraph 0316, you may not further delegate this authority.

*Henry Johnson*  
HENRY JOHNSON  
COL, GS  
ACoS, G8

I certify that I have read and understand the provisions of DFAS-IN Regulation 37-1, Chapter 4.

*John Doe*  
John Doe  
Signature

The appointment of the individual named above is hereby revoked effective: 1 October 2016.

Figure 2-1. Example of delegation of authority memorandum

2-12. The level of funds certification should be commensurate with the individual level of responsibility, rank, accountability, experience, and training as a financial manager.

### FISCAL LAW

2-13. Internal controls must integrate principles of fiscal law into an organization's business practices. The term fiscal law pertains to the statutes and regulations (e.g., legal opinions, Public Law, United States Code, and the U.S. Constitution) that govern the availability and use of public funds to support military operations.

The U.S. Constitution provides Congress the ability to raise and levy taxes to raise and support armies for the defense and general welfare of the nation as specified in Article 1, Section 8. Additionally, Article 1, Section 9, provides that "No Money Shall be drawn from the Treasury but in Consequence of an Appropriation made by Law."

2-14. Congress has established legal limitations for government agencies within three separate tenets of fiscal law. These tenets are time, purpose, and amount. Establishing internal controls with fiscal law in mind significantly reduces the risk of an agency committing an Anti-deficiency Act violation.

2-15. It is a good practice for financial managers certifying funds to attend any fiscal law training available and consult with their fiscal law attorneys or administrative lawyers within their command prior to funds certification. Fiscal law attorneys can provide the best opinion whether a particular requirement meets the tenets of time, purpose, or amount. However, obtaining a legal opinion does not relieve the funds certifier of his/her responsibility to ensure that the requirement meets all stipulations of fiscal law.

### **DETECTING FRAUD WASTE AND ABUSE**

2-16. Financial managers at all levels play an integral part of protecting government resources from fraud waste, and abuse. Soldiers and Civilians not only certify that funding is available for requirements, but also certify that the funding for the particular requirement is legal regarding to time, purpose, and amount. See above discussion on fiscal law.

2-17. Financial managers are also considered the gate keepers in protecting government resources from redundant and/or unnecessary requirements. Therefore, financial managers should ensure their commands have a structured review and approval process for not only new requirements, but also for recurring requirements. This is conducted through a contract or requirement review process.

### **ORGANIZATION RESPONSIBILITIES**

2-18. Each FM organization throughout the Army is responsible for implementing and establishing management internal controls. G-8s across all spectrums of the Army command structure have an inherent responsibility to establish policies, procedures, and business practices that provide the commander with reasonable assurance that established accountability and control procedures comply with applicable laws and regulations.

### **THEATER ARMY G-8**

2-19. The TA G-8 is singularly responsible for all FM within theater. Therefore, the TA G-8 has the overall responsibility of ensuring reasonable management internal controls are established and implemented throughout theater. As such, the TA G-8 conducts the following in regards to management internal controls:

- Advises the commander on FM specific tasks relating to management internal controls.
- Implements command FM policies to provide responsible accountability and control of government resources.
- Provides technical coordination regarding internal controls between key stakeholder agencies such as, Office of the Secretary of Defense (C), Assistant Secretary of the Army (Financial Management and Comptroller), Army Budget Office and DFAS.
- Implements audit readiness across theater FM units and G-8s.
- Receives and distributes funding via funds allocation documents and RADs.
- Establishes and controls requirement review boards or funding boards at the Army service component command level.
- Delegates funds certification across theater.
- Provides fund certification complying with the tenets of fiscal law.
- Coordinates for external audits within theater.
- Ensures proper separation of duties.
- Maintains status of funds.
- Conducts funds control procedures.

## **THEATER SUSTAINMENT COMMAND (TSC)/EXPEDITIONARY SUSTAINMENT COMMAND (ESC)**

2-20. The TSC G-8 develops, coordinates and synchronizes theater FM policy, requirements, and support. As such, the TSC and ESC G-8 performs and oversees management internal controls as required by the ASCC. The TSC and ESC G-8 conducts the following in regards to management internal controls:

- Implements Command FM policies to provide responsible accountability and control procedures.
- Implements audit readiness across the sustainment command.
- Ensures proper separation of duties.
- Conducts funds control procedures.
- Provides fund certification authority.
- Maintains status of funds.

## **CORPS AND DIVISION G-8**

2-21. Within FM, the corps and division G-8s provide the preponderance of budget execution. Therefore, their responsibilities in managing internal controls mirror each other. The following are management internal control areas of responsibilities:

- Implements command FM policies to provide responsible accountability and control procedures across the corps and division.
- Implements audit readiness across the respective command.
- Ensures proper separation of duties.
- Conducts funds control procedures.
- Provides fund certification authority.
- Maintains status of funds.
- Manages funds control for special programs.
- Certify Funds for special programs.

## **BRIGADE S-8**

2-22. Many of the functions the Brigade S-8 executes are similar in nature to the functions at the corps and division. Functions remain consistent between the corps, division, and brigade in regards to execution of funds and management internal controls. The following are management internal control areas of responsibilities:

- Implements command FM policies to provide responsible accountability and control procedures across the brigade.
- Implements audit readiness across the respective command.
- Ensures proper separation of duties.
- Conducts funds control procedures.
- Provides fund certification authority.
- Maintains status of funds.

## **SECTION II – INTERNAL CONTROLS WITHIN BANKING AND DISBURSING**

2-23. Implementing management internal controls within banking and disbursing support procedures avoids theft or financial fraud in operating activities. Cash is an important asset on the Army's balance sheet. A balance sheet is also referred to as a statement of financial condition or statement of financial position. Management internal controls are directives implemented to regulate access and authorizations and comply with statutory and regulatory guidelines. To be effective, management internal controls must be adequate and functional. An adequate control specifies how to perform a task, to identify and report a problem.

## **BANKING AND DISBURSING SUPPORT**

2-24. Management internal controls are needed for the core competency of banking and disbursing support. Within this core competency, internal controls are necessary for cash management activities in order to ensure that cash is properly safeguarded so as to prevent fraud and theft. Management internal controls in cash management are divided into two sub-sections: policies and procedures and physical security measures. The DODFMR Volume 5, provides regulatory guidance for keeping and safeguarding public funds.

2-25. Management internal controls for cash management focuses on prevention of any loss of funds to achieve the following objectives:

- Accurate accounting and reporting.
- Separation of duties.
- Safeguarding funds.

2-26. Following these functional principles within cash management operations will reduce the inherent risk of a loss of funds for commanders and financial managers.

## **ACCURATE ACCOUNTING AND REPORTING**

2-27. All disbursing officers (DOs) are deemed as agents to the U.S. Department of Treasury and are directly accountable to the U.S. Treasury for cash assets (this includes payables and receivables) in direct possession of the DO and his/her deputies, cashiers, and agents.

2-28. Within Financial Management, the DO is normally the FMSU commander, and is responsible and accountable for all cash management functions within the Disbursing Station Symbol Number. However, certain cases allow for persons other than the FMSU commander to serve as the DO. An example would be a financial management support detachment commander, serving in a remote location as the sole provider for financial management support to an area of operations. Additionally, the banking officer within the FMSC normally serves as the DO for flow of U.S. and foreign currency within theater.

2-29. As an agent of the U.S. Treasury, DOs must provide monthly reporting to the U.S. Treasury via an Standard Form 1219 (Statement of Accountability). The DO also prepares a daily cash report. The DO's daily cash report is the DD Form 2657 (Daily Statement of Accountability) and is prepared and maintained by the DO or his/ her Deputy Disbursing Officer (DDO).

2-30. Disbursing Officers must balance cash assets and record their accountability daily. DDOs, cashiers, and agents perform cash transactions on behalf of the DO and therefore balance their cash assets in order to report their accountability to the DO. This occurs via the DD Form 2665 (Daily Agent Accountability Summary) and DD Form 1081 (Statement of Agent Officer's Account).

2-31. Ensuring accurate daily balancing for each Deputy, cashier, and agent ensures that the DO balances cash in their possession daily and immediately detects errors and irregularities within the Disbursing Station Symbol Number. Therefore balancing daily is the key management internal control within cash management.

2-32. Irregularities and errors in accountability that are a result of a physical loss of funds or overage must be reported within the time frame and in accordance with the DODFMR Volume 5, Chapter 6.

## **SEPARATION OF DUTIES**

2-33. All financial transactions must incorporate separation of duties. No financial transaction should be conducted by one person as this increases the potential for fraud.

2-34. Separation of duties prevents intentional or unintentional errors, attempts at fraud, or embezzlement from going undetected. A four-way separation between contracting, receiving, voucher certification, and disbursing functions are optimal for management internal controls within cash management.

2-35. Additionally, key duties within cash management such as authorizing, approving and recording transactions; issuing or receiving assets; certifying and making payments; preparing and signing checks; and reviewing or auditing payments should be assigned to separate individuals in order to minimize the risk of loss to the government.

2-36. Separation of duties is not always practical or possible as a result of time constraints, manpower shortages, or the use of electronic systems. As a result, commanders and financial managers must be aware of situations where valid, long-standing separation of duties cannot be achieved; recognize that the management internal controls have been weakened as a result, and make every effort to mitigate the risks.

### **SAFEGUARDING**

2-37. A significant function of management internal controls is ensuring that adequate safeguards are in place for securing cash assets. The DODFMR Volume 5, chapter 3 provides DOs with regulation and standards of physical security for protecting cash from theft or unauthorized use.

2-38. Commanders and DOs are identified as responsible individuals for safeguarding public funds, substantiating documents, and other accountable instruments. However, DDOs, cashiers, and agents as well as accountable officials also have an inherent responsibility to keep and safeguard public funds entrusted to them.

2-39. An important factor is keeping public and other funds belonging to other entities or personnel from being intermingled whereby public and private funds should never be stored together.

### **ROLES AND RESPONSIBILITIES**

2-40. The ASA (FM&C) and DFAS provide guidance on the proper use and disbursement of public funds in support of operations. The TA G-8 oversees and sets policies and guidance mandated by public law for cash management operations within theater. The FMSC provides overall theater technical oversight, support, and coordination for cash management operations for FMSUs and FMSDs.

### **TA G-8**

2-41. The TA G-8 provides operational and tactical level cash management guidance and policies; as such, the management internal control responsibilities are as follows:

- Develops the ASCC five-year Internal Control Plan.
- Administers the MICP which reviews current internal controls and identifies material weaknesses within cash management operations.
- Sets banking and disbursing polices to balance theater cash requirements and geographic combatant commander strategic goals and objectives.
- Ensures separation of duties are established and followed within FM units in theater.

### **FMSC**

2-42. The FMSC provides technical oversight for theater financial management units at the operational level as such, the management internal control responsibilities are as follows:

- Develops and implements management internal controls for theater FMSUs and FMSDs.
- Develops management internal control review plans for the theater.
- Conducts management internal control reviews for theater FMSUs and FMSDs.
- Conducts quality assurance reviews for theater FMSUs and FMSDs.
- Identifies material weakness and vulnerability for theater FMSUs and FMSDs within cash management areas.
- Establishes and maintains cash holding authority for the theater.
- Ensures implementation of management internal controls for establishment and maintenance of Limited Depository Accounts.
- Ensures proper physical security requirements are met for central funding operations to include storage, shipment, and distribution of U.S. and foreign currencies in theater.
- Appoints a banking liaison officer for each region within the area of operation.
- Ensures separation of duties are established and followed within theater FM units and in the banking section.

## FMSU

2-43. FMSUs are tactical level financial management units conducting cash management operations on a daily basis. As previously mentioned, the FMSU commander is normally the primary account holder to the U.S. Treasury and is responsible for the Disbursing Station Symbol Number as well as limited depository accounts that fall under the Disbursing Station Symbol Number. Therefore, roles and responsibilities may overlap between roles of the commander and roles of the DO. In general, command roles and functions provide for resources, manning, and command policies and procedures in regards to cash management. Specific functions within cash management pertain to the DO responsibilities as outlined in the DODFMR Volume 5. As such, management internal control responsibilities are as follows:

- Provides a vault, safe, or other adequate secure facility for exclusive use of the individual.
- Develops a security program and publish instructions.
- Ensures personnel protection is included in the overall disbursing security program.
- Requests armed guards for the escort of government funds to and from the disbursing office.
- Provides fire protection of government facilities and funds.
- Prepares and maintains daily accountability statements.
- Balances limited depository accounts between bank financial statements and daily accountability reports.
- Safeguards all public funds they collect or otherwise have in their custody or control.
- Assigns all DDOs, cashier, agents, and other custodians of public funds a separate secured container.
- Ensures that all DDOs, agents, cashiers, and other custodians of public funds are fully aware of their responsibilities for properly handling and protecting government funds.
- Ensures blank checks and check signing machines are secured and properly accounted.
- Ensures physical security and limited access to areas in which cash and public funds are stored.
- Ensures an adequate Intrusion Detection System is installed and operable.
- Ensures separation of duties are established and enforced across the FMSU.

## FMSD

2-44. The FMSD is the lowest echelon of FM support for cash management at the tactical level. FMSDs conduct disbursing operations on a daily basis through the disbursing section and through the Financial Management Support Teams. As with the FMSU, command roles and functions provide for resources, manning, and command policies and procedures in regards to cash management. Specific functions within cash management pertaining to the cashier and agent responsibilities outlined in the DODFMR Volume 5. As such, the management internal control responsibilities at the FMSD are as follows:

- Provides a vault, safe, or other adequate secure facility for exclusive use of the individual.
- Implements a security program and publish instructions.
- Ensures personnel protection is included in the overall disbursing security program and Financial Management Support Teams.
- Provides armed guards for the escort of government funds to and from the disbursing office and within the Financial Management Support Teams.
- Ensures fire protection of government facilities and funds.
- Prepares and maintains daily accountability statements.
- Safeguards all public funds within custody or control.
- Assigns all cashier, agents, and other custodians of public funds a separate secured container.
- Ensures that all agents, cashiers, and other custodians of public funds are fully aware of their responsibilities for properly handling and protecting government funds.
- Ensures physical security and limited access to areas in which cash and public funds are stored.
- Ensures an adequate Intrusion Detection System is installed and operable.
- Ensures separation of duties are established and enforced across the FMSD.

## SECTION III – INTERNAL CONTROLS WITHIN PAY SUPPORT

### PAY SUPPORT

2-45. Currently, FM units perform pay support as one of their core competencies within theater operations. As one of FM core competencies, FM units must follow strict internal controls in order to prevent fraud, waste, abuse, and to prevent erroneous entitlement payments to Soldiers; thereby creating undue and unnecessary financial hardships.

### SEPARATION OF DUTIES

2-46. Separation of duties are paramount in maintaining proper internal controls within a finance office. The main duties that must be separated are coder/inputter, verifier, and auditor regardless of the transaction. It is best to maintain three levels of separation (coder, verifier, and auditor); however, based on mission sets, the role of verifier and auditor may be combined.

### ORGANIZATIONAL RESPONSIBILITIES

2-47. Because the FMDS is the main element conducting pay support within the theater of operation, the FMDS and subordinate Financial Management Support Team conduct the preponderance of Military Pay (MILPAY) transactions which require strict adherence to internal controls. Some of these internal control measures include the following:

- Ensures separation of duties are followed within the finance office.
- Ensures cycles are issued to coders and returned in a timely manner.
- Ensures all certifiers have proper certification authority and supporting documents.
- Ensures at least each cycle has a 10 percent audit conducted.
- Ensures all transactions have corresponding substantiating documents attached.
- Ensures all FM personnel and high visibility accounts have a 100 percent audit conducted.
- Ensures each coder has annotated substantiating document numbers on each document.
- Ensures post payment audits are conducted as needed.

### FMSC

2-48. The FMSC has the overall responsibility for developing FM policy and procedures throughout theater as well as for providing advice regarding the interpretation and dissemination of FM directives, policy, and guidance. Within the scope of pay support, the FMSC serves as the vital hub setting and distributing pay support policy and establishes and implements management internal controls for theater FM units. The FMSC conducts the following:

- Establishes and implements FM pay support policy.
- Ensures FM units are following established pay support policy and guidance.
- Conducts site assistance visits.
- Provides the TA G-8 and commanders with findings from site assistance visits.

### FMSU

2-49. The FMSU oversees the execution of pay support functions of subordinate detachments. Additionally, the FMSU establishes management internal control processes across the organization in order to provide reasonable assurance that government funds are protected and safeguarded. These functions occur through the exercise of mission command of the FMDSs as well as through the Audit Readiness section of the FMSU. Specific functions within cash management pertain to the DO responsibilities as outlined in the DODFMR Volume 5. As such, management internal control responsibilities are as follows:

- Provides a vault, safe, or other adequate secure facility for exclusive use of the individual.
- Develops a security program and publish instructions.

- Ensures personnel protection is included in the overall disbursing security program.
- Requests armed guards for the escort of government funds to and from the disbursing office.
- Provides fire protection of government facilities and funds.
- Prepares and maintains daily accountability statements.
- Balances limited depository accounts between bank financial statements and daily accountability reports.
- Safeguards all public funds they collect or otherwise have in their custody or control.
- Assigns all DDOs, cashier, agents, and other custodians of public funds a separate secured container.
- Ensures that all DDOs, agents, cashiers, and other custodians of public funds are fully aware of their responsibilities for properly handling and protecting government funds.
- Ensures blank checks and check signing machines are secured and properly accounted.
- Ensures physical security and limited access to areas in which cash and public funds are stored.
- Ensures an adequate Intrusion Detection System is installed and operable.
- Ensures separation of duties are established and enforced across the FMSU.

### FMSD

2-50. Because the FMSD is the main element that conducts pay support within the theater of operation, the FMSD and subordinate Financial Management Support Team conducts the preponderance of Military Pay (MILPAY) transactions which require strict adherence to internal controls. Some of these internal control measures include the following:

- Ensures separation of duties are followed within the finance office.
- Ensures cycles are issued to coders and returned in a timely manner.
- Ensures all certifiers have proper certification authority and supporting documents.
- Ensures at least each cycle has a 10 percent audit conducted.
- Ensures all transactions have corresponding substantiating documents attached.
- Ensures all FM personnel and high visibility accounts have a 100 percent audit conducted.
- Ensures each coder has annotated substantiating document numbers on each document.
- Ensures post payment audits are conducted as needed.

## SECTION IV – INTERNAL CONTROLS WITHIN ACCOUNTING SUPPORT

### ACCOUNTING SUPPORT

2-51. According to Field Manual 1-06, accounting support reinforces internal controls over the U.S. government's funds, collections, expenditures, property and other assets. Establishing and following internal controls within the core competency of accounting support will increase the likelihood that financial information is reliable and accurate, thereby facilitating decision support to commanders, ensuring that government funds and assets are properly accounted, and that organizations meet applicable financial laws, policies, and regulatory guidance. Additionally, accounting support provides the mechanisms for a clean and auditable financial statement for the Army.

### TA G-8

2-52. In an operational environment, the TA G-8 provides all theater accounting support for the area of operation. Some of the accounting tasks that the TA G-8 has directly relate to the execution and strengthening of internal controls within FM units and operational G-8s. Some of these tasks are as follows:

- Monitors and manages funds control for theater funds.
- Establishes funds control and monitors fund execution throughout theater.
- Reviews financial transactions in order to ensure that data is not only timely, but accurate.
- Assists in resolving and correcting contract and vendor payment issues.

- Reviews reimbursable transactions to ensure data is timely, accurate, and complete
- Receives, interprets, and implements appropriate funds accounting policies and guidance.

## **FMSC**

2-53. With the accounting section of an FMSC, the FMSC provides accounting support to theater FM units and can augment the accounting functions of the TA G-8. Some of the accounting functions that the FMSC conducts which supports internal controls are the following:

- Reconcile and assist Disbursing Station Symbol Number with resolving analysis of unmatched transactions with the U.S. Treasury.
- Account for all cash and negotiable instruments.
- Reconcile and assist Disbursing Station Symbol Number with the Merged Accountability and Fund Reporting (MAFR).
- Reconcile and assist Disbursing Station Symbol Number with deposit tickets and debit vouchers to include stored-value card transactions.

## **CORPS, DIVISION, TSC G-8S, ESC G-8S AND BRIGADE S-8**

2-54. The Corps, Division, TSC, ESC G-8s, and Brigade S-8s perform the preponderance of budget execution within a theater of operation. Therefore, certain accounting tasks that the operational G-8s perform strengthen and reinforce internal controls. Some of these functions are as follows:

- Track and report costs for specific operations to support requests to theater command.
- Establish requirements to become a fund certifier and set funding levels for fund certifiers.
- Establish and report budget execution to ensure no Anti Deficiency Act violations occur.
- Ensure management controls are in place and subordinate commanders meet program objectives of providing reasonable assurance are in compliance with applicable laws.

## **FMSU AND FMSDS**

2-55. The FMSU and subordinate FMSDs perform limited accounting functions as a whole. Many tasks and functions that the FMSU and FMSD perform are discussed within the banking and disbursing support section and specifically relate to Disbursing functions. However, functions conducted in support of contract payments are inherently accounting functions and must incorporate management internal controls. Some of the functions are as follows:

- Verifies fund certification by Funds manager.
- Ensures payment meets contractual amounts.
- Ensures proper documentation (contract, purchase request, and receiving report).
- Accounts for and calculates interest penalties (if applicable).
- Maintains proper documentation for audit purposes.
- Maintains Bills Register Card.

# **SECTION V – INTERNAL CONTROL REVIEWS**

## **SECTION PURPOSE**

2-56. As mentioned in chapter 1, the FMSC Internal Control section or the FMSU Audit Readiness section conducts periodic internal reviews of operations within financial management units. The objectives of these reviews are to assist in: providing valuable feedback to leaders; assist in evaluating current business practices and provide improvement if warranted; reducing the risk of fraud, waste and abuse; providing a review of and help to enforce separation of duties within financial management operations.

## INTERNAL CONTROL REVIEWS

2-57. The internal control reviews range from formal scheduled reviews, which provide an overall evaluation of the organization's business practices, to cash verifications, courtesy reviews, operational reviews, and staff assistance reviews. Normally, a review is conducted once per quarter but no less than semi-annually. Additionally, cash verifications are performed at least quarterly in accordance with DODFMR Volume 5. A team of disinterested persons appointed by the commander verifies the DO's cash and other assets. Appoint team members in writing, and include at least two qualified personnel. Whenever possible, at least one person should have accounting or disbursing experience. It is in the best interest of a command to use the most competent personnel available. In cases where the DO is also the commander, the next higher commander in the administrative chain of command appoints the team.

2-58. Reviews should focus on the following areas of interest within banking and disbursing operations:

- The Commercial Vendor Services Section.
- DDO and DA Disbursing activities.
- E-commerce: Eagle Cash Card and Over The Counter Channel Application
- Treasury checks.
- Paying agent operations.
- Appointment orders.
- Cash Holding Authorities.
- Physical security.
- Cash verifications.
- International Treasury System (ITS.gov) payment Electronic Funds Transfer payments.
- Limited Depository Account balances.
- DD Form 577, (Appointment/Termination Record-Authorized Signature).

2-59. Internal control reviews are graded based on findings and observations through the inspection process. Inspectors gather information either through observation, review of policies and procedures, or validation of documents. Upon completion of the review, inspectors determine if the unit is within full compliance, at risk, or failed to meet compliance in key areas.

## Chapter 3

# The Managers' Internal Control Program

The Army Managers' Internal Control Program is designed to provide reasonable assurance that programs operate as intended. This program ensures that areas needing improvement are identified and reported, and that timely corrective action is taken. This program promotes these goals through periodic evaluation of key controls and full disclosure of any shortcomings detected. Commanders and managers at all levels have an inherent responsibility to establish and maintain effective internal controls, assess areas of risk, identify and correct weaknesses, and keep their superiors informed. An organization's leadership should understand the importance of evaluating controls in an objective manner and disclosing the results.

### PROGRAM OVERVIEW

3-1. Management controls are any rule, method, procedure, or device designed to ensure that what should happen does happen. In general, the program is implemented by scheduling, conducting, and documenting evaluations of management controls. Based on the results of these evaluations, management must identify and correct any material weaknesses, and must submit an Annual Statement of Assurance through their chain of command.

3-2. The TA G-8 manages the overall internal control program in order to ensure that obligations and expenditures are in compliance with applicable laws: ensuring funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; funding and expenditures are properly recorded and accounted for; and programs are efficiently and effectively carried out according to applicable laws and management policies. Therefore, much of the following discussion will focus on the TA G-8's role within the management of the internal control program.

### RESPONSIBILITIES

3-3. The TA G-8 should manage the overall program, provide training, and assistance to the Assessable Unit Managers. The TA G-8 should also ensure the implementation of an effective management control process within the organization. The TA G-8 normally receives the DA Form 11-2 (Internal Control Evaluation Certification) from AUMs and drafts the Statement of Assurance for signature by the commander or his/her designated principal deputy. The Annual Statement of Assurance will accurately describe the status of management controls in the reporting organization and fully discloses any material weaknesses in management controls, along with corrective actions taken.

3-4. Assessable Unit Managers are normally a commander or senior manager of units or staff sections within the command. Assessable Unit Managers normally:

- Appoints an Internal Control Administrator (ICA) by sending an appointment letter to the TA G-8, management division.
- Ensures the unit ICA receives MICP training.
- Provides certification that a required internal control evaluation has been conducted. This evaluation is documented on a DA Form 11-2 (Internal Control Evaluation Certification). Certification, in block 7, will include a statement of the method used (evaluation or alternate method) and how compliance was tested; summary of results; list of deficiencies identified if any; and what corrective actions have been taken, as well as what deficiencies are pending correction.

- Reports material weaknesses, if any, to the TA G-8 management division for inclusion in the Statement of Assurance.
- Ensures management control is listed as an explicit responsibility under major performance objectives in each assessable unit manager's annual personnel evaluations.

3-5. Assessable unit ICAs, which are located in subordinate units as well as within FM units, and operational staff directorates, normally administer the managers' internal control process and lead all management control activities for their units. They help to ensure completion of control evaluations, and forward completed assessments to the TA G-8 by the published dates. See figure 3-1 for a full representation of this process.

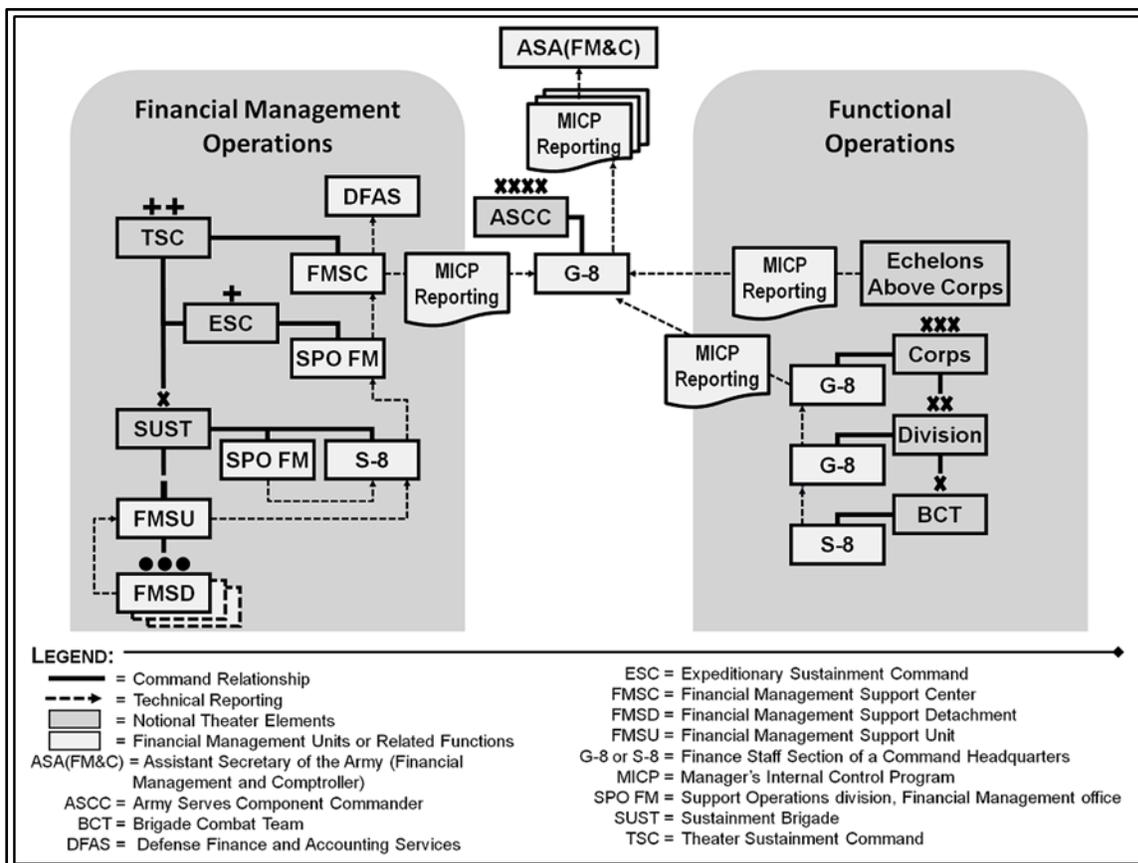


Figure 3-1. TA G-8 managers' internal control program

### INTERNAL CONTROL EVALUATION PLAN

3-6. Internal Control Evaluation Plan is simply a schedule of management control evaluations for each fiscal year. The schedule must clearly communicate to subordinate managers what areas are evaluated along with when and who will conduct the evaluation. The schedule should reflect the following types of evaluations that are set by the TA G-8:

- The Army has an inventory of management control evaluations. ICAs can locate this inventory on the DA ASA FM&C Managers' Internal Control Program website.
- Evaluations listed in this inventory are normally conducted at least once every five years. ICAs should first determine which evaluations from the inventory are applicable to their assessable unit.
- Command oversight processes such as staff assistance visits, internal and external audits, command inspections, and internal reviews are considered evaluations of internal controls.

3-7. ICAs seek senior leader involvement to determine which functions to evaluate. Managers focus on unique processes critical to their operations and not already covered by the Army's inventory of evaluations. Keep in mind that all leaders and managers perform internal controls. These controls range from the simple to the complex and from locking a door at the end of the day to formal audits of financial records. When these internal controls are significant and recurring, managers should document them and place them on the MICP.

3-8. Any level of command can make the initial determination of whether a weakness in internal controls is material. If the weakness is considered material and reported, the determination of materiality is then reevaluated at each successive level of command. Material weaknesses are reported to higher headquarters either because that level must be aware of the weakness or because it must take corrective action. In the case of material weaknesses reported for awareness, reporting organizations are responsible for tracking the weakness to ensure corrective actions are completed and the weakness is effectively resolved.

## **ANNUAL STATEMENT OF ASSURANCE**

3-9. An Annual Statement of Assurance is a report that provides a broad assessment of internal controls within the command or agency and identifies any material weaknesses in these internal controls. An Annual Statement of Assurance from reporting organizations consists of the following.

- A cover memorandum signed by the head of the reporting organization. This memorandum includes the actual statement of assurance: either an unqualified statement ("I have reasonable assurance ....") or a qualified statement ("I have reasonable assurance except for ...."). The cover memorandum addresses significant issues or concerns relating to the effectiveness of internal controls.
- DA Form 11-2 (Internal Control Evaluation Certification) provides a description of how the internal control process was conducted in the reporting organization and the basis for the determination of reasonable assurance. The certification describes how the determination of reasonable assurance was reached.

3-10. When writing the Annual Statement of Assurance, the G-8, regardless of the level of command, must determine the following:

- Reasonable Assurance: A satisfactory level of confidence that internal controls are adequate and are operating as intended. Inherently, a management judgment and reasonable assurance recognizes that there are acceptable levels of risk that cannot be avoided because the cost of absolute control would exceed the benefits derived.
- Internal Control Weakness: The absence or ineffectiveness of internal controls (e.g., internal controls are not in place, or are in place but are not being used, or are in place and being used but are not effective).
- Material Weakness: An internal control weakness that warrants reporting to the next level of command, either for their action or for their awareness. To be considered material, a weakness must meet two conditions: it must involve a deficiency in internal controls (i.e., internal controls are not in place, are not being used or are inadequate), and it must warrant the attention of the next level of command, either because that next level must take action or because it must be aware of the problem.

3-11. An effective MICP provides leaders with assurance that control measures are in place and are functioning effectively to support good stewardship.

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# Glossary

## ACRONYMS AND ABBREVIATIONS

<b>AR</b>	Army regulation
<b>ASCC</b>	Army Service component command
<b>ATP</b>	Army Techniques Publication
<b>DA</b>	Department of the Army
<b>DDO</b>	Deputy Disbursing Officer
<b>DFAS</b>	Defense Finance and Accounting Services
<b>DO</b>	disbursing officer
<b>DOD</b>	Department of Defense
<b>DODFMR</b>	Department of Defense Financial Management Regulation
<b>ESC</b>	expeditionary sustainment command
<b>FIAR</b>	Financial Improvement and Audit Readiness
<b>FM</b>	financial management
<b>FMSC</b>	Financial Management Support Center
<b>FMSD</b>	Financial Management Support Detachment
<b>FMSU</b>	Financial Management Support Unit
<b>G-8</b>	assistant chief of staff, financial management
<b>ICA</b>	Internal Control Administrator
<b>MICP</b>	Managers' Internal Control Program
<b>OMB</b>	Office of Management and Budget
<b>RAD</b>	resource allocation document
<b>S-8</b>	battalion or brigade financial management officer (S-8).
<b>TA</b>	theater Army
<b>TSC</b>	theater sustainment command
<b>U.S.</b>	United States

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**ATP 1-06.4**  
**12 May 2016**

By Order of the Secretary of the Army:

**MARK A. MILLEY**  
*General, United States Army*  
*Chief of Staff*

Official:

A handwritten signature in black ink, appearing to read "Gerald B. O'Keefe". The signature is written in a cursive style with some stylized flourishes.

**GERALD B. O'KEEFE**  
*Administrative Assistant to the*  
*Secretary of the Army*  
1612306

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