

LEVERAGING  
THE MANAGERS'  
INTERNAL CONTROL  
PROGRAM (MICP) FOR  
**AUDIT  
SUSTAINMENT**

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“DoD is monitoring its component agencies’ progress toward audit readiness. However, as dates for validating audit readiness approach, DoD has emphasized asserting audit readiness by a certain date instead of making sure that effective processes, systems, and controls are in place, without which it cannot ensure that its components have improved financial management information for day-to-day decision making. While time frames are important to measuring progress, DoD should not lose sight of the ultimate goal of implementing lasting financial management reform to ensure that it can routinely generate reliable financial management and other information critical to decision making and effective operations.”

—**Asif A. Khan**, *Director, Financial Management and Assurance*, Testimony Before the Committee on Homeland Security and Governmental Affairs, U.S. Senate, May 2014

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The Department of Defense (DoD) is in a race to achieve audit readiness by the end of fiscal year (FY) 2017.

However, as stated in Asif A. Khan's May 2014 testimony before the Committee on Homeland Security and Governmental Affairs, U.S. Senate, there are concerns as to whether an environment of audit sustainability without effective processes, systems, and controls can be maintained. Historically, financial improvement and audit readiness (FIAR) efforts across the DoD have been focused at the departmental and headquarters levels. To achieve and sustain auditability beyond FY 2017, each component must expand the scope of its FIAR efforts to encompass all levels of the organization to mitigate risk, remediate deficiencies, and ultimately realize a mature control environment.

## LEVERAGING MICP FOR AUDIT SUSTAINMENT

To effectively sustain auditability, each DoD component must be able to implement a comprehensive Managers' Internal Control Program (MICP) in accordance with DoD Instruction 5010.40, which is designed to establish effective and efficient internal controls over financial reporting (ICOFR), internal controls over operations (ICOO), and internal controls over financial systems (ICOFS) across all levels of an organization. The annual MICP assessment cycle supports audit sustainment and lasting financial management reform by providing the framework to:

- Develop a comprehensive annual internal control assessment plan and risk assessment.
- Identify key personnel to lead and support program implementation.
- Document processes and internal controls.
- Assess and align risks with mission priorities.
- Test design and operating effectiveness of key controls.
- Develop, execute, and monitor corrective action plans (CAPs) for remediating deficiencies.

# UNLOCKING THE BENEFITS OF MICP

## MICP BENEFITS

By continuously observing the MICP principles and consistently performing annual assessment activities organization-wide, DoD components can facilitate audit sustainment by:

- Raising stakeholder awareness of the requirements surrounding risk, internal controls, and supporting documentation.
- Identifying financial reporting risks internally, allowing ample time to initiate corrective actions in advance of audits or to self-report deficiencies during the early stages of audits.
- Providing auditors with a complete and accurate understanding of the business process and control environment.
- Increasing auditor confidence in the design and operating effectiveness of internal controls, significantly reducing the number of samples tested and resources dedicated to audits.
- Enabling timely response to documentation requests.
- Addressing operations and systems risks impacting financial reporting through ICOO and ICOFS assessments (e.g., evaluating and improving the design and effectiveness of ICOO for time reporting to mitigate financial misstatement risk).

By leveraging the MICP, components can cultivate an environment of continuous process improvement with the objective of enhancing fiscal stewardship, facilitating efficient resource allocation, positioning organizations for mission success, and strengthening audit sustainment efforts.

MorganFranklin's deep domain expertise in DoD financial management, FIAR, and MICP enables our team to support components in developing and executing robust and effective MICPs, positioning our clients to achieve and sustain auditable financial statements.

## MICP PRINCIPLES

An effective MICP requires that DoD components implement the MICP assessment cycle and maintain the following principles:

### DEFINE ROLES & RESPONSIBILITIES

Enables accountability and assigns subject matter experts—such as MICP Coordinators and Assessable Unit Managers—to support program understanding and execution throughout the organization.

### ENCOURAGE INTERNAL CONTROL ASSESSMENT SELF-REPORTING

Provides enterprise-wide transparency by establishing communication channels based on the proper chain of command to facilitate consistent and effective self-reporting.

### PROMOTE ORGANIZATION-WIDE COLLABORATION

Increases efficiencies throughout the assessment process and ensures critical areas are reviewed.

### IMPLEMENT ENTERPRISE RISK MANAGEMENT (ERM) FRAMEWORK

Enables the identification and assessment of risk, and facilitates prioritization of remediation efforts around high-risk deficiencies.

# BEYOND READINESS

## ENABLING AUDIT SUSTAINMENT

*MorganFranklin's proven MICP solutions lead to mission success through strategy, enablement, and execution.*



### STRATEGY

Follow a risk-based approach to develop a comprehensive annual MICP plan that identifies mission-critical areas, engages key stakeholders across all levels of the organization, and adheres to all federal requirements.



### ENABLEMENT

Deliver capabilities, including planning, stakeholder engagement, ICOFR, IC00, and ICOFS testing, reporting, and training.



### EXECUTION

Provide end-to-end support across the annual MICP life cycle, including planning, risk assessments, control assessments, CAP development/implementation and monitoring, and stakeholder reporting.

**Who is MorganFranklin? We're a "better different."** We listen first to ensure a common understanding of the nuances and complexities of the challenges our clients face that are impacting mission success. We engage and act with determination to deliver solutions that produce positive results and enhance mission.

**MORGANFRANKLIN**<sup>®</sup>  
CONSULTING

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