

## Chapter 2

### THE CONTROLLING PROCESS

**2.1. Definition of Internal Control.** All AF organizations must use a cost-effective Managers' Internal Control Program (MICP) to protect resources. **(T-1)** Internal control procedures apply to all operation and mission responsibilities and are not limited to financial matters. See AFPD 65-2, *Managers' Internal Control Program*, and AFI 65-20, *Managers' Internal Control Program Procedures*, for additional information on the Air Force Manager's Internal Control Program. Internal control is an organizational plan and all the methods and measures used to:

- 2.1.1. Safeguard resources.
- 2.1.2. Assure accuracy and reliability of information.
- 2.1.3. Assure adherence to applicable laws, regulations and policies, instructions, and
- 2.1.4. Promote operational economy and efficiency.

**2.2. Organizational Structure.** Controls apply to all aspects contributing to the existence and well-being of an organization. An effective internal control plan requires each NAFI's organizational structure provide clear lines of authority and responsibility to ensure no single individual controls a transaction from beginning to end. This separation of duties protects assets and provides a cross-check promoting accuracy without duplication. By comparing recorded accountability to actual existing assets, variances can be readily identified and resolved. In this example an asset refers to something of value to the NAFI, not simply a fixed asset. A separation of duties provides a division among:

- 2.2.1. The initiation and authorization of a transaction.
- 2.2.2. The recording of a transaction.
- 2.2.3. The custody of the asset.

**2.3. Internal Control Objectives.** Internal controls must provide reasonable assurance the following internal control objectives are achieved:

- 2.3.1. Obligations and costs comply with AFI 65-106, *Appropriated Fund Support of Morale, Welfare, and Recreation (MWR) and Nonappropriated Fund Instrumentalities (NAFIS)* and AFMAN 34-201 on the proper use of appropriated and nonappropriated funds. **(T-1)**
- 2.3.2. All assets are safeguarded against mismanagement, waste, loss, unauthorized use, and misappropriation. **(T-1)**
- 2.3.3. Revenues and expenditures of operations must be recorded and accounted for properly to prepare reliable financial and statistical reports, and maintain accountability of assets. **(T-1)**
- 2.3.4. Resources are effectively and efficiently managed. **(T-1)**

**2.4. Internal Control Training.** The Resource Management Flight Chief will ensure managers implement internal control procedures for protection of NAFI assets. **(T-1)**

2.4.1. Activity Managers will include the web-based NAF Internal Controls Training requirement in their self-inspection checklist and local operating instructions. **(T-1)** The web-based training module is available via the Force Support Knowledge Center, <https://fskc.adls.af.mil> (users must possess a CAC enabled computer or an account to access this link) for all military and civilian employees directly involved in the handling of NAF funds or control of specific NAF assets, and those who have oversight of these employees. Employees will complete the web-based NAF Internal Controls Training within 30 days of hire or assignment and subsequent annual refresher training. **(T-1)**

2.4.2. FSS unit training managers will document the training, and ensure the training module is available to employees not able to access the Force Support Knowledge Center on-line training. **(T-1)**

**2.5. Managers' Internal Control Program (MICP).** The FSS commander or director will appoint a focal point (MICP Manager) to administer the MICP. **(T-2)** Commanders and managers at every level of the AF must establish, evaluate, improve, and report on internal controls. **(T-1)** The AFSVC Commander, installation commander, FSS commander or director may direct a local internal control review in any NAF area. **(T-0)**

2.5.1. The FSS commander or director will ensure managers and NAF Accounting Office (NAF AO) personnel are familiar with the conduct and ethical standards prescribed by Department of Defense Directive (DoDD) 5500.07-R, *Joint Ethics Regulation (JER)*, and 5 Code of Federal Regulations (CFR) Part 2635, *Standards of Ethical Conduct for Employees of the Executive Branch*. **(T-0)**

2.5.2. Activity and functional managers will implement internal controls specified in Air Force directives. **(T-1)** Activity and functional managers will perform and document a self-inspection/assessment of their activity or function at least annually to determine if required internal control procedures have been implemented and are functioning effectively. **(T-2)** If required, implement additional internal controls. Activity and functional managers immediately correct any regulatory compliance deficiencies identified in internal review reports (MICPs, inspections and audits, etc.).

2.5.3. The FSS MICP Manager ensures all activity managers and functional managers of unit-level NAFI operations and functions conducts MICP reviews of their assessable units and functions. Manager reviews are in addition to any AF directed reviews or any other reviews conducted by the NAFFA. Each assessable unit uses these MICP reviews, audits, and inspections as the basis for preparing the Annual Statement of Assurance for their activity or function.

2.5.4. The Resource Management Flight Chief as custodian (and as MICP Manager, if appointed) prepares, directs, and reviews MICP.

2.5.5. The FSS MICP Manager reviews all MICP reviews, including those conducted by the NAFFA in accordance with AFI 65-107, *Nonappropriated Funds Financial Management Oversight Responsibilities*.

2.5.6. The FSS MICP Manager reviews other AF directed agency audits and reviews.

2.5.7. The FSS MICP Manager evaluates internal control programs to ensure they provide for an effective organization, operation, and protection against fraud by:

2.5.7.1. Allocating responsibility so no single individual has exclusive control over all phases of a transaction.

2.5.7.1.1. The Resource Management Flight Chief may permit small operations (an activity with total revenue of less than \$12,000 a year and relatively few personnel) to operate under these circumstances. The Resource Management Flight Chief identifies these activities in writing and retains the appropriate documentation in the NAFI Life of the Fund file. The Resource Management Flight Chief will conduct a review, at least annually, to determine if conditions have changed and the authorization is no longer required. **(T-1)**

2.5.7.2. Documenting the review.

2.5.7.3. Providing continuous managerial review at all echelons of responsibility.

2.5.7.4. Establishing a clear functional line of responsibility and authority.

2.5.7.5. Ensuring a clearly defined position descriptions exist for all NAFI employees.

**2.6. Managers Internal Control Program (MICP) Responsibilities.** Deputy Assistant Secretary of the Air Force Financial Management for Financial Operations (SAF/FMF) is the focal point for the AF Internal Management Program. SAF/FMF designates primary reporting elements and internal control officials according to AFI 65-201. Annually, SAF/FMF tasks all Major Commands (MAJCOM), Field Operating Agency, and Direct Reporting Unit Commanders (CC) to prepare and submit the Annual Statement of Assurance.

2.6.1. MAJCOM/Commanders identify the assessable units within their command (i.e., MAJCOM divisions and installations) to evaluate for the Annual Statement of Assurance, and appoint a focal point to administer the MICP. The MAJCOM/CCs, through the focal points, ensure all MAJCOM-level division chiefs and field installation commanders, including FSS operations, implement the AF MICP.

2.6.2. If the annual report identifies an FSS nonappropriated fund instrumentality related weakness, the MAJCOM/CC forwards a copy to AFSVC/CC and Air Force, Director of Services (AF/A1S).

2.6.3. Installation commanders identify the assessable units within their command (normally squadrons), and appoint an installation focal point (normally the Financial Manager (FM)) to administer the MICP. Installation commanders, through their focal point, comply with all requirements of AFI 65-201 and MAJCOM MICP initiatives.

2.6.4. The installation focal point tasks assessable units including the FSS/CC or Civilian Leader to identify their assessable units (e.g., flight, unit, branch, activity, etc.) and appoint a MICP Manager (this may be the Resource Management Flight Chief) to administer the MICP.

2.6.5. Quarterly, the FSS MICP Manager evaluates the number and type (directed, special, and recurring) of evaluations and reviews performed for the assessable units according to the MICP plan. **(T-3)**

2.6.6. Each assessable unit uses these MICP reviews, audits, inspections, and other reviews as the basis for preparing the Annual Statement of Assurance for their activity or function. Managers may use a comprehensive self-inspection/assessment checklist as an alternative to MICP reviews if not Air Force directed. See AFI 65-201.