



COMDTNOTE 5200
03 MAR 2016

COMMANDANT NOTICE 5200

CANCELLED:
02 MAR 2017

Subj: COAST GUARD INTERNAL CONTROL PROGRAM ANNUAL STATEMENT OF ASSURANCE REQUIREMENTS

- Ref:
- (a) Federal Managers' Financial Integrity Act (FMFIA) of 1982, 31 U.S.C. § 3512, (P.L. 97-255)
 - (b) Department of Homeland Security Financial Accountability Act (DHS FAA) of 2004, 31 U.S.C. §3516 , (P.L. 108-330)
 - (c) Reports Consolidation Act of 2000, 31 U.S.C. § 3516 (P.L. 106-531)
 - (d) Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control (rev. Sep 2013)
 - (e) Federal Financial Management Improvement Act (FFMIA) of 1996, 31 U.S.C. § 3512 (P.L. 104-208)

1. PURPOSE. To identify Assessable Organizational Elements (AOE) and establish requirements that these AOEs report to the Commandant the level of assurance over the effectiveness and efficiency of control activities under their supervision and direction, to include financial and non-financial business processes. Each AOE is responsible for providing a statement of assurance (SOA) over internal controls and compliance with laws and regulations. This Commandant Notice supports compliance with References (a) through (e) and directs Coast Guard managers to establish, maintain, review, and improve internal controls through active involvement in annual assessments that support the Commandant's assurance statement.
2. ACTION. The following identified AOEs have a significant impact on the Commandant's Assurance Statement and will comply with the provisions of this Commandant Notice: Director of Governmental & Public Affairs (CG-092); Judge Advocate General & Chief Counsel (CG-094);

DISTRIBUTION – SDL No.167

	a	b	c	d	e	f	g	h	i	j	k	l	m	n	o	p	q	r	s	t	u	v	w	x	y	z	
A																											
B	*	X	X		X	X	X	X	X		X	X								X			X				X
C																											
D	X				X																						
E																											
F																											
G																											
H						X																					

NON-STANDARD DISTRIBUTION: Ba;(CG-092), (CG-094), (CG-1), (CG-11), (CG-12), (CG-13), (CG-2), (CG-4), (CG-5P), (CG-5R), (CG-7), (CG-8), (CG-9), DCO-I, DOL, DCO, DCMS,

Assistant Commandant for Human Resources (CG-1); Director of Health, Safety & Work-Life (CG-11); Director of Civilian Human Resources, Diversity & Leadership (CG-12), Director of Reserve & Military Personnel (CG-13); Superintendent, Coast Guard Academy (CGA); Commander, Personnel Service Center (PSC); Assistant Commandant for Intelligence & Criminal Investigations (CG-2); Assistant Commandant for Engineering & Logistics (CG-4); Assistant Commandant for Prevention Policy (CG-5P); Assistant Commandant for Response Policy (CG-5R); Assistant Commandant for Command, Control, Communications, Computers & Information Technology/Chief Information Officer (CG-6); Assistant Commandant for Capability (CG-7); Assistant Commandant for Resources/Chief Financial Officer (CG-8); Assistant Commandant for Acquisition/Chief Acquisition Officer (CG-9); Senior Procurement Executive & Head of Contracting Activity (CG-91); Deputy Commandant for Operations (DCO); Deputy Commandant for Mission Support (DCMS); Director of International Affairs & Foreign Policy (DCO-I); Director of Operational Logistics (DOL); Commander, Force Readiness Command (FORCECOM); Commander, Coast Guard Atlantic Area (LANT-00); and Commander, Coast Guard Pacific Area (PAC-00). Internet release is authorized.

3. DIRECTIVES AFFECTED. COMDTNOTE 5200 dated 18 May 2015 is hereby cancelled.

4. BACKGROUND.

- a. Internal controls are essential to the effective management of organizations. They comprise the plans, methods, and procedures used to meet missions, goals, and objectives, and in doing so, support performance-based management. Internal controls also serve as the first line of defense in safeguarding assets, as well as in preventing and detecting errors and fraud. In short, internal controls, which are synonymous with management controls, help government program managers achieve desired results through effective stewardship of public resources. Internal controls should provide reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of reporting, and compliance with applicable laws and regulations. Furthermore, a carefully constructed, utilized, and monitored internal control program will play a key role in achieving the Commandant's Commitment to Excellence Priority #2: to "ensure efficiency across all Coast Guard activities through effective planning and sound risk management".
- b. The Commandant's Assurance Statement is submitted annually and must include specific assurances regarding the Coast Guard's internal control program. While assurances provided by AOE's may only concentrate on a segment of these requirements, it is important for all participants in the internal control program to have an understanding of how the assurances they provide over the internal controls within their respective programs influence the Coast Guard's overall assurance statement. Among the assurances provided by the Commandant with respect to the Coast Guard's internal controls are the following:
 - (1) Pursuant to Reference (a) Section 2, (commonly referred to as Section 2 of the Integrity Act), the Assurance Statement must include a statement asserting or denying a reasonable assurance that the Coast Guard's controls are achieving their intended objectives, and a report on any existing material weaknesses in the controls. Exceptions to assurance that would be determined to be significant enough to report outside of the organization are those that satisfy one or more of the following criteria:

- (a) Merits the attention of the Executive Office of the President and the relevant Congressional oversight committees;
 - (b) Violates statutory or regulatory requirements;
 - (c) Impairs fulfillment of essential operations or missions;
 - (d) Deprives the public of needed services.
- (2) Reference (b), Section 4 (c), requires assurance of internal controls that apply to financial reporting by DHS. The Coast Guard will evaluate the corrective actions being taken to resolve any inadequacies in its internal controls over financial reporting (ICOFR) program within the current year and will assess whether previously reported material weaknesses continue to exist. The Coast Guard's focus will be on adequately executing corrective actions in areas where controls are ineffective in achieving their goal of curtailing unaccepted risk. In addition, management is required to identify significant financial reporting areas where assurance can be provided by conducting tests of operating effectiveness of internal controls. The Commandant's ICOFR assessment is based on the results of the Coast Guard's control testing and assessments. It includes a description of each reportable condition as well as a determination as to whether the reportable condition rises to the level of a material weakness. Testing results reported by the Office of Internal Controls, Commandant (CG-85) are a large factor in the reported assurance in this section;
- (3) Pursuant to Reference (a), Section 4, the Commandant's assurance statement includes an assessment of Coast Guard financial management systems' conformance with government-wide requirements. If these systems do not substantially conform to financial system requirements, the statement must list the non-conformances and discuss plans for bringing its systems into substantial compliance. Information technology general controls (ITGC) testing results reported by Commandant (CG-6) are a large factor in the reported assurance in this section.
- (4) To support the Secretary's assurance statement over performance information, the Coast Guard must provide reasonable assurance that the mission performance reported to DHS is complete and reliable. In instances where such assurance can't be provided, the Coast Guard must identify any material inadequacy in the data. The DHS Government Performance and Results Act (GPRA) Performance Measures Checklist for Completeness and Reliability is used to self-evaluate key controls over GPRA performance measure planning and reporting information. The results of any DHS independent verification and validation assessments, as well as any Coast Guard-led internal measure reviews, should be factored into the ratings on the checklist.
5. DISCLAIMER. This guidance is not a substitute for applicable legal requirements, nor is it itself a rule. It is intended to provide operational guidance for Coast Guard personnel and is not intended to, nor does it impose, legally-binding requirements on any party outside the Coast Guard.
6. ENVIRONMENTAL ASPECT AND IMPACT CONSIDERATIONS.

- a. The development of this Directive and the general policies contained within it have been thoroughly reviewed by the originating office in conjunction with the Office of Environmental Management, and are categorically excluded (CE) under current USCG CE # 33 from further environmental analysis, in accordance with Section 2.B.2. and Figure 2-1 of the National Environmental Policy Act Implementing Procedures and Policy for Considering Environmental Impacts, COMDTINST M16475.1 (series).
 - b. This Directive will not have any of the following: significant cumulative impacts on the human environment; substantial controversy or substantial change to existing environmental conditions; or inconsistencies with any Federal, State, or local laws or administrative determinations relating to the environment. All future specific actions resulting from the general policies in this Directive must be individually evaluated for compliance with the National Environmental Policy Act (NEPA), DHS and Coast Guard NEPA policy, and compliance with all other environmental mandates.
7. **DISTRIBUTION**. No paper distribution will be made of this Commandant Notice. An electronic version will be located on the following Commandant (CG-612) web sites. Internet: <http://www.uscg.mil/directives/>, and CGPortal: <https://cgportal2.uscg.mil/library/directives/SitePages/Home.aspx>.
8. **PROCEDURES**. Specific procedures for complying with this Commandant Notice can be found in the Statement of Assurance Process Guide on the Commandant (CG-85) CGPortal Page: <https://cgportal2.uscg.mil/units/cg85/SitePages/Home.aspx>.
9. **RECORDS MANAGEMENT CONSIDERATIONS**. This Commandant Notice has been evaluated for potential records management impacts. The development of this Commandant Notice has been thoroughly reviewed during the directives clearance process, and it has been determined there are no further records scheduling requirements in accordance with Federal Records Act, 44 U.S.C. 3101 et seq., National Archives and Records Administration requirements, and the Information and Life Cycle Management Manual, COMDTINST M5212.12 (series). This policy does not make any significant or substantial change to existing records management requirements.
10. **DISCUSSION**. This Commandant Notice lays out the specific deliverables for completing the SOA requirements set forth in Management's Responsibility for Internal Control, COMDTINST 5200.10 (series).
- a. Sources of Information: Reference (d) recommends that agencies integrate and coordinate internal control assessments with other internal control-related activities. Further, OMB provides that the assessment of internal control can be performed using a variety of information sources. AOE's should consider the following when determining the level of assurance to provide in their SOA, as applicable:
 - (1) Management knowledge gained from the daily operation of agency programs and systems as analyzed and documented through an annual risk assessment process;
 - (2) Management reviews conducted expressly for the purpose of assessing the internal control, or for other purposes with an assessment of the internal control as a by-product of the

review, including annual assessments of compliance with laws and regulations and entity-level controls;

- (3) Inspector General and Government Accountability Office reports, to include audits, inspections, reviews, investigations, outcome of hotline complaints, or other products;
 - (4) Program evaluations, to include results of assessments, inspections, and audits (AIA);
 - (5) Audits of financial statements conducted pursuant to the Chief Financial Officers (CFO) Act of 1990, as amended, including: information revealed in preparing the financial statements; the auditor's reports on the financial statements, internal control, and compliance with laws and regulations; and any other materials prepared relating to the statements;
 - (6) Reviews of financial systems which consider whether the requirements of Reference (e) and Appendix D of Reference (d) are being met;
 - (7) Annual evaluations and reports pursuant to the Federal Information Security Management Act (FISMA) and OMB Circular No. A-130, Management of Federal Information Resources;
 - (8) Annual performance plans and reports pursuant to GPRA;
 - (9) Annual reviews and reports pursuant to the Improper Payments Information Act (IPIA) as amended by the Improper Payments Elimination and Recovery Act and Executive Order 13520 Reducing Improper Payments;
 - (10) Single Audit Act reports for grant-making agencies;
 - (11) Reports and other information provided by the Congressional committees of jurisdiction; and
 - (12) Other reviews or reports relating to agency operations, including MISHAP reporting.
- b. Assessing risk: To ensure balance between controls and risk in programs and operations, managers must first assess risk and the corresponding adequacy of the current controls.
- (1) Inherent risk is the risk to the achievement of entity objectives in the absence of any actions management might take to alter either the risk's likelihood or impact.
 - (a) "Likelihood" represents the probability that a given event will occur.
 - (b) "Impact" represents the severity or seriousness of a negative effect resulting from the occurrence of a given event.

- (2) Control adequacy (also known as “risk response”) is the amount of risk mitigated by effectively operating controls.
- (3) Residual risk is the risk to the achievement of objectives that remains after management’s responses have been developed and implemented.
- (4) Risk tolerance is the acceptable level of variation in performance relative to the achievement of objectives.
- (5) Risk analysis is applied first to inherent risk. Once controls have been developed, management then considers residual risk. Assessing inherent risk in addition to residual risk can assist the organization in understanding the extent of additional risk responses needed.
- (6) The benefits of internal controls should outweigh the costs and even the most robust internal control programs are not capable of eliminating residual risk entirely. Managers should consider the quantitative and qualitative aspects of their tolerance for risk in determining where to devote finite resources and should make note of risks they choose to accept.

11. POLICY.

- a. Deputy Commandants, Area Commanders, Director of Governmental and Public Affairs (CG-092), and Judge Advocate General and Chief Counsel (CG-094) are responsible for providing an SOA for internal controls and compliance with laws and regulations to Commandant (CG-8) no later than 29 July 2016.
- b. In addition to the sources of information listed in Paragraph 10.a, AOE’s should consider the risks identified and assurances provided by AOE’s subordinate to them when determining the level of assurance to provide in their SOA. This is an important part of the assurance process since numerous minor risks across a portion of the organization could result in a much higher level of risk in aggregate. The senior-level SOA’s identified in Paragraph 11.a must include the SOA’s of all AOE’s subordinate to them as enclosures. In order to facilitate this:
 - (1) AOE’s that report to an AOE listed in Paragraph 11.a are responsible for providing an annual SOA for internal controls and compliance with laws and regulations to their senior assessable AOE no later than 15 July 2016.
 - (2) All other AOE’s should submit their annual SOA for internal controls and compliance with laws and regulations to their senior AOE no later than 1 July 2016.
- c. The SOA memo explicitly states the level of assurance that can be made on the effectiveness of control activities under their supervision and direction. The assurance statement must be supported and documented with a high-level risk assessment. This assessment must identify, assess, and document the planned response to risks to accomplishing AOE objectives. A significant risk is one in which the negative impact as outlined in Paragraph 4.b.(1).(a)-(d) is at

least a reasonable possibility. Not all risks documented on the risk assessment will be significant, but a significant risk would impact the level of assurance provided.

- d. Enclosure (1) provides an example SOA that may be tailored to the needs of each AOE. Each SOA will feed the Commandant's assurance statement which is due to the DHS on 30 September 2016.
- e. In order to gain complete coverage for the year, each AOE is responsible for providing a bridge letter to Commandant (CG-8) no later than 15 September to capture any significant changes between the SOA submission date and the end of the fiscal year. If no significant changes are noted, a bridge letter is not required. Enclosure (2) provides an example.
- f. The Executive Management Council – Internal Controls and Audit Readiness Board (EMC-ICARB) will focus on AOE SOA reporting four times throughout the year.
 - (1) In Q1/Q2, Commandant (CG-8) will brief an overview of the SOA requirements as outlined in this annual Commandant Notice.
 - (2) In Q2, AOE's utilizing an alternative method to the risk assessment matrix provided by Commandant (CG-85) to identify and assess risk will brief their methodology.
 - (3) In Q3 and prior to SOA submission deadlines, Commandant (CG-85) will brief the EMC-ICARB to provide additional guidance on making an assurance decision. Significant AOE risk concerns can also be discussed.
 - (4) In Q4, AOE's will report their findings and SOA determinations. The EMC-ICARB will also formalize the recommended assurance provided in the Coast Guard assurance statement.
- g. AOE's are responsible for taking timely and effective action to correct identified deficiencies. Correcting deficiencies is an integral part of management accountability and must be considered a priority. Corrective Action Plan (CAP) development and implementation progress should be periodically assessed and will be reported throughout the internal controls governance structure.

12. DUTIES & RESPONSIBILITIES. As defined in Management's Responsibility for Internal Control, COMDTINST 5200.10 (series).

13. FORMS/REPORTS. None.

14. REQUEST FOR CHANGES. Change requests should be submitted through the chain of command to Commandant (CG-85).

C. D. MICHEL /s/
Vice Admiral, U. S. Coast Guard
Vice Commandant

COMDTNOTE 5200

Encl: (1) Example AOE Statement of Assurance
(2) Example AOE Bridge Letter

EXAMPLE AOE STATEMENT OF ASSURANCE

U.S. Department of
Homeland Security

United States
Coast Guard



Commandant
United States Coast Guard

US Coast Guard Stop 7618
2703 Martin Luther King Jr. Ave SE
Washington, DC 20593-7618
Staff Symbol:
Phone:

5200
XX JUL 20XX

MEMORANDUM

From: [AOE]

Reply to
Attn of:

To: [Senior AOE or] Commandant (CG-8)

Thru: Commandant (CG-85)

Subj: STATEMENT OF ASSURANCE

Ref: (a) Management's Responsibility for Internal Control, COMDTINST 5200.10 (series)
(b) Coast Guard Internal Control Program Annual Statement of Assurance Requirements, COMDTNOTE 5200 of XX XXX 201X

1. I have directed an evaluation of the control activities within [AOE] in effect for the period ending (DATE). The control activities evaluated have been determined to be critical to meeting operational and compliance related objectives and are in place to reduce the risk of failing to meet those objectives as outlined in enclosure (1). This evaluation was conducted in accordance with references (a) and (b).

2. Based on the results of this evaluation, including an assessment of applicable items listed in paragraph 10.a of reference (b), [AOE] provides (**Reasonable Assurance/Reasonable Assurance with noted exception(s)/No Assurance**) over its internal controls.

a. [High level summary of noted exception(s). Add additional paragraphs for each exception].

3. [IF APPLICABLE] A corrective action plan has been developed to address any control deficiencies in order to achieve reasonable assurance over internal controls by (DATE).

#

Encl: (1) Risk Management Supporting Documentation

Copy: Commandant (CG-85)

EXAMPLE AOE BRIDGE LETTER

**U.S. Department of
Homeland Security**

**United States
Coast Guard**



Commandant
United States Coast Guard

US Coast Guard Stop 7618
2703 Martin Luther King Jr. Ave SE
Washington, DC 20593-7618
Staff Symbol: CG-85
Phone: 202-372-3464

5200
15 SEP 20XX

MEMORANDUM

From: [AOE]

Reply to
Attn of:

To: Commandant (CG-8)

Thru: Commandant (CG-85)

Subj: STATEMENT OF ASSURANCE BRIDGE LETTER

Ref: (a) Management's Responsibility for Internal Control, COMDTINST 5200.10 (series)

1. Significant changes to our internal control program that require us to update our Statement of Assurance are outlined herein. This evaluation was conducted in accordance with reference (a).
2. [Summary of changes and the revised level of assurance offered.]

#