



**DEPARTMENT OF THE NAVY**  
**SPACE AND NAVAL WARFARE SYSTEMS COMMAND**  
4301 PACIFIC HIGHWAY  
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SPAWARINST 5041.2A  
SPAWAR 00G  
9 Oct 02

SPAWAR INSTRUCTION 5041.2A

From: Commander, Space and Naval Warfare Systems Command

Subj: PREVENTION OF FRAUD, WASTE, AND MISMANAGEMENT

Ref: (a) DOD 5500.7-R, Joint Ethics Regulation  
(b) U.S. Navy Regulations, 1990  
(c) SPAWARINST 5040.3A  
(d) SPAWARINST 7540.4E

Encl: (1) [Chapter 1](#) - Hotline Program  
(2) [Chapter 2](#) - Command Evaluation Program  
(3) [Chapter 3](#) - Management Control Program

1. Purpose. To provide policy and assign responsibilities and procedures for a comprehensive program to prevent, deter, detect and report fraud, waste, and mismanagement within the Space and Naval Warfare Systems Command (SPAWAR).

2. Cancellation. SPAWARINST 5041.2 of 9 February 1998.

3. Background

a. Action to prevent, deter and detect instances of fraud, waste, and mismanagement is the responsibility of all personnel. SPAWAR's comprehensive program to fulfill this responsibility is managed by its Inspector General. The SPAWAR Hotline, Command Evaluation, Management Control, and Command Inspection Programs are the key elements of this comprehensive program. These programs are described in enclosures (1) through (3).

b. Reference (a) prescribes standards of ethical conduct required of all Department of Defense personnel, including responsibilities and procedures for monitoring and enforcing compliance with standards of conduct.

c. Reference (b) addresses the responsibility of commanding officers for economy within their commands, which includes the requirement for rigid compliance with regulations governing receipt, accounting and expenditure of public moneys and for the implementation of improved management techniques and procedures.

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d. Reference (c) deals with the Command Inspection Program and reference (d) covers SPAWAR's program to monitor and coordinate the work of external organizations reviewing SPAWAR functions or operations. Other pertinent references are discussed in detail in enclosures (1) through (3).

#### 4. Definitions

a. Fraud. Any willful taking or attempting to take unfair advantage of the government through deceit, misrepresentation, or concealment including, but not limited to, the offer, payment, or acceptance of bribes; the offer, giving, or acceptance of gratuities as set forth in reference (a); making false statements; submission of false claims; use of false weights and measures; evasion or corruption of inspectors and other officials; deceit either by suppression of the truth or misrepresentation of material fact; adulteration or substitution of materials; falsification of records and books of account; arrangement of secret profits, kickbacks, or commissions; and conspiracy to use any of these devices. It also includes those cases of conflict of interest, criminal irregularities, and unauthorized disclosure of official information which are connected with procurement and disposal matters.

b. Waste. Any extravagant, careless, or needless expenditure of government funds or consumption of government property.

c. Mismanagement. Any action that fails to meet the standard for public stewardship of funds, resources, and property. Any action dealing with the administration of military and civilian personnel matters that has an unwarranted adverse effect on the person who is the subject of such action, whether it is an act of commission or omission. Any nonfeasance or malfeasance that affects the operations or capabilities of SPAWAR or the Department of the Navy.

d. Other Definitions. Additional pertinent definitions are contained in enclosures (1) through (3).

5. Policies, responsibilities, and procedures for the command-wide programs identified in paragraph 3(a) are contained in enclosures (1) through (3).

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6. Action. SPAWAR personnel shall utilize the guidance and comply with the policies and procedures set forth in enclosures (1) through (3).

/s/  
K. D. SLAGHT

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## CHAPTER 1

Subj: HOTLINE PROGRAM

Ref: (a) SECNAVINST 5430.57F  
(b) SECNAVINST 5370.5A  
(c) SECNAVINST 5430.92A

1. Purpose. To publish policy, assign responsibilities, and prescribe procedures for the Space and Naval Warfare Command (SPAWAR) in executing the Navy and DoD Hotline Programs.

2. Background. Per reference (a), the Naval Inspector General serves as Navy Program Manager and focal point for the DoD and Navy "Hotline" Programs. These programs, as described in references (b) and (c), are designed to strengthen and focus efforts to combat fraud, waste, and mismanagement throughout the DoD and Navy. SPAWAR is responsible for encouraging maximum participation in these programs, implementing procedures for timely and thorough examination of Hotline allegations, and ensuring that complete and thorough reports are submitted to appropriate officials and organizations.

3. Policy. SPAWAR shall strive to maintain the highest level of effectiveness, efficiency, integrity, and public confidence. All inquiries into matters affecting the integrity and efficiency of SPAWAR shall be conducted in an independent and professional manner without undue influence or fear of reprisal from any level within SPAWAR. Allegations of misconduct shall be thoroughly and impartially investigated in a timely manner. Prompt, responsive, and impartial action will be taken to examine substantive allegations, to pursue corrective measures in accordance with applicable laws, regulations, and directives, and to report the result of such inquiries via the chain of command.

4. Responsibilities. The SPAWAR Inspector General, SPAWAR 00G, is the single point of contact for all SPAWAR, Navy and DoD Hotline Program matters. SPAWAR 00G will maintain telephone and electronic Command Hotlines. The SPAWAR Hotlines provide an opportunity to report instances of fraud, waste, abuse of authority, mismanagement, or other wrongdoing concerning SPAWAR or its Echelon III commands and activities to the Inspector General by telephone, mail, email, or in person. Anyone may contact the SPAWAR Hotlines to report allegations of fraud, waste, abuse of authority, mismanagement, or wrongdoing. The SPAWAR Staff Offices, Program Directorates, and the Echelon III commands and activities will publicize and distribute SPAWAR, Navy, and DoD Hotline Program information, making sure that

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telephone numbers and addresses for the Hotlines are prominently displayed throughout the command and available to all employees, including those located at Echelon III Detachments or Branch Offices.

5. Procedures. The SPAWAR Telephone Hotline, (619) 524-7070, may be called 24 hours a day and will be staffed during working hours from 0700 - 1630. Written Hotline complaints may be made by writing Commander, Space and Naval Warfare Systems Command (Code 00G), 4301 Pacific Highway, San Diego, CA 92110-3127. Alternatively, complaints may be electronically sent to the SPAWAR Inspector General. Electronic Hotlines may be accessed from the SKC or the SPAWAR Home Page.

Complainants may identify themselves or remain anonymous. A complaint to the SPAWAR Inspector General is a protected communication disclosure under a Whistleblower Protection statute by a person the statute allows to transmit such information, provided the information is disclosed to someone authorized by the statute to receive protected communications. However, not all whistleblower communications are protected communications. The statute applicable to military members, 10 USC 1034, is an exception. The Inspector General shall not, after receipt of a complaint or information from an employee, disclose the identity of the employee without the consent of the employee, unless the Inspector General determines such disclosure is unavoidable during the course of the investigation, or as required by law.

## CHAPTER 2

Subj: COMMAND EVALUATION PROGRAM

Ref: (a) OPNAVINST 5000.52A  
(b) SECNAVINST 5200.35D

1. Purpose. To provide policy and responsibilities of the Command Evaluation Program (CEP) within SPAWARSYSCOM in accordance with references (a) and (b).
2. Background. Reference (a) established the CEP to ensure that an independent local assessment capability is available to each activity's Commander/Commanding Officer (CO)/Director.
3. Policy. It is the policy of the Commander, SPAWARSYSCOM, that a strong CEP will be implemented and maintained at SPAWAR HQ and its Echelon III Commands and Activities.
4. Definition. The CEP is an independent assessment capability that reports directly to the Commander/CO/Director. CEP supports the Commander/CO/Director in determining if resources are being efficiently and effectively used, and programs and operations are being discharged with integrity and are complying with applicable laws and regulations.
5. Relationship of CEP to the Management Control Program (MCP)<sup>1</sup> at SPAWAR Headquarters and at SPAWAR Activities. The CEP and MCP should work together to help ensure that misuse of resources is prevented and detected. Accordingly, CEP staff should be consulted in the management control process (e.g., scheduling of management control evaluations, preparation of the certification statement, etc.). Routine evaluations of management controls should be included within the scope of CEP evaluations and reflected in the resultant reports.
6. Staffing and Followup. The CEP reports should be staffed with the management of the cognizant activities or functional areas reviewed before the final report is forwarded to the Commander/CO/Director. Specifically, the reports should be provided to the management of the activity or functional areas reviewed to determine if management agrees with the report as stated, and concurs with any recommendations that may be included in the report. Resolution of any disagreement or nonconcurrency should be attempted before forwarding the report to the Commander/CO/Director. Management comments should be forwarded with the CEP report to the Commander/CO/Director. After the report is approved by the Commander/CO/Director, followup action

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<sup>1</sup> Reference (b) establishes policy for the MCP within Navy. Chapter 3 of this instruction establishes and implements the SPAWAR MCP.

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should be performed to confirm that agreed upon corrective action or action directed by the Commander/CO/Director has been taken. Each command in the claimancy will maintain a followup system to monitor the status of actions taken by management to implement command inspection recommendations, CEP recommendations, and external audit recommendations. Recommendations will be tracked through completion. SPAWAR 00G will include reviews of followup action when conducting command inspections.

7. Release of Reports. Reports or other documents produced by CEP will be subject to the same release guidelines and procedures as other documents produced by the command. Requests for CEP reports under the Freedom of Information Act will be processed by SPAWAR's Office of Counsel (SPAWAR 00C).

8. Standards. When conducting evaluations, the following standards should be maintained:

a. Independence. Personnel involved with evaluations must be free from personal, external or organizational impairments and must consistently maintain independence and impartiality.

b. Professional Proficiency. Personnel involved with evaluations must collectively possess the necessary knowledge, skills and disciplines to properly conduct the evaluation. Sufficient training and development opportunities must be provided to maintain and improve professional proficiency.

c. Scope of Work. The scope of each evaluation shall include an evaluation of the adequacy and effectiveness of the organization's system of management controls.

d. Documentation. Conclusions and recommendations shall be adequately supported by information obtained or developed during the evaluation. This standard requires sufficient evidence of the activity's internal controls, as well as pertinent transactions and events under evaluation, to afford a reasonable basis for the evaluator's judgment and conclusions. This record shall be maintained in the form of working papers properly indexed and cross-referenced.

e. Reports. Written reports to management shall communicate the results of the evaluation in an effective, understandable, and timely manner.

9. Responsibilities

a. SPAWAR 00G is responsible for the CEP at SPAWARSCOM and oversight of the programs at its Echelon III Commands and Activities. This responsibility includes:

(1) Preparing an annual evaluation plan (calendar year basis) for approval by the Commander/CO/Director and updating the plan when required.

(2) Performing evaluations.

(3) Performing followup on correction of deficiencies identified by CEP recommendations at SPAWAR.

(4) Monitoring audit and CEP followup efforts of SPAWAR's Echelon III Commands and Activities.

(5) Evaluating internal management controls within the scope of CEP evaluations and reflecting the conclusions in the resultant CEP reports.

(6) Making the CEP reports available for use as potential alternate management control reviews.

(7) Providing CEP policy guidance and assistance to SPAWAR's Echelon III Commands and Activities.

b. SPAWAR'SYSCOM Codes, Program Managers, Directorate Heads and Staff Office Heads will provide full cooperation and assistance to CEP personnel on matters under their cognizance. These offices will make qualified personnel available to the CEP personnel to assist as needed in specific evaluations.

c. At SPAWAR's Echelon III Commands and Activities the CEP head should report directly to the Commander/CO/Director (i.e., separate staff official reporting directly to the Commander/CO/Director or within the executive officer, deputy commander or chief of staff organization, but not within the comptroller or other functional organizations). The organizational placement shall not impede the independence, objectivity and scope of evaluation. Commanders/COs/Directors of SPAWAR's Echelon III Commands and Activities will be responsible for ensuring that a strong CEP Program is implemented in accordance with this instruction. An annual evaluation plan will be prepared for the approval of the Commander/CO/Director and updated as required. A copy of the approved annual evaluation plan shall be forwarded to the SPAWAR Deputy Inspector General.



## CHAPTER 3

Subj: MANAGEMENT CONTROL PROGRAM

Ref: (a) SECNAVINST 5200.35D  
(b) DOD Directive 5010.38  
(c) DOD Directive 5010.40  
(d) OMB Circular A-123  
(e) Federal Managers' Financial Integrity Act of 1982  
(f) ASN(FM&C) memo 7540, FMO of 12 Jul 02  
(g) SECNAVINST 5040.3A

1. Purpose. To establish Space and Naval Warfare Systems Command (SPAWAR) policy for the Management Control Program (MCP) and ensure compliance with the requirements of reference (a).

2. Background. Reference (a) established the MCP within the Department of the Navy to develop, maintain, review and improve internal control systems in compliance with references (b) through (e). Reference (f) requires Echelon 1 and selected Echelon 2 input to the Statement of Assurance web-based tool. It should be noted that reference (a) is in the process of being revised and is scheduled for release in March 2003. Thereafter, this SPAWAR instruction will be revised as necessary.

3. Program Objectives. Management controls, an inherent management responsibility, are designed to provide cost-effective assurance that resources are not being misused. The MCP is not a guarantee against misuse of resources. Rather, the MCP is based on information provided by managers and other sources to balance the risk of misuse against the cost of protection. Internal controls are designed to provide management with reasonable assurance that:

- a. Obligations and costs comply with applicable law.
- b. Assets are safeguarded against waste, loss, unauthorized use and misappropriation.
- c. Revenues and expenditures are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of assets may be maintained.

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d. Programs are efficiently and effectively carried out in accordance with applicable law and management policy.

4. Policy. By law, managers are responsible for ensuring that effective internal controls are used to protect resources from misuse. SPAWAR's policy is to hold its managers accountable for the results of their internal control systems. Managers and supervisors will establish and maintain a viable MCP as delineated in the above references. This policy applies to all programs, to include classified and special access programs. Program and report requirements are contained in reference (a).

5. Definitions

a. Management Control Certification Statement. Managers are required to review the state of their internal controls on a continuing basis. Annually, status reports must be passed up the chain of command. SPAWAR Echelon 3 Commands and Activities must provide their reports to SPAWAR (Code 00G) who then reports to the Chief of Naval Operations. Each report states whether the organization's internal controls provide "reasonable assurance" that resources are protected in a cost-effective and efficient manner, with exceptions being specified. "Reasonable assurance" implies that some instances of misuse of resources may have occurred, but that in total the internal controls are satisfactory.

b. Assessable Unit. Any organizational, functional, programmatic or other applicable subdivision capable of being evaluated by management control assessment procedures. A discrete unit controlled by a manager. An assessable unit is the minimal basis on which a risk assessment or management control review may be conducted.

c. Documentation. Documentation of management control activities is required to the extent needed by management to control its operations effectively and may be generated by activities not specifically established to meet the requirements of the MCP. Documentation for management control systems is mandated by reference (d) and encompasses the following two types of written materials:

(1) Review Documentation. Shows the type and scope of the review, the responsible official, the pertinent dates and facts, the key findings and the recommended corrective actions.

Documentation is adequate if the information is understandable to a reasonably knowledgeable reviewer.

(2) System Documentation. Includes policies and procedures, organizational charts, manuals, flow charts and related written and graphic materials necessary to describe organizational structure, operating procedures and administrative practices, and to communicate responsibilities and authority for accomplishing programs and activities.

d. Management Control Evaluation. A documented examination of an assessable unit to determine whether adequate control techniques exist and are achieving intended objectives. Testing of controls and documentation must be accomplished. Management control evaluations are of the following two types:

(1) Alternative Management Control Review (AMCR). A process utilizing the results of audits, computer security reviews, financial systems reviews, inspections, investigations, self assessments, or studies to determine overall compliance with the standards for management control in the Federal Government as defined in reference (a), enclosure (1), appendix A.

(2) Management Control Review (MCR). A detailed examination by the responsible manager of the system of management controls in an assessable unit to determine the adequacy of controls, and to identify and correct deficiencies. A management control review should be conducted only when a reliable AMCR is not available.

e. Management Controls. The means used to ensure that resources are safeguarded; information is accurate and reliable; laws, regulations and policies are adhered to; and operations are effective and efficient. The term "management control" is used synonymously with the term "internal control."

f. Manager. For the purposes of this instruction, a manager is defined to be any employee responsible for resources. This includes, but is not limited to, any employee (civilian or military equivalent) whose job title or job description includes the word "supervisory."

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g. Material Weakness. A lack of or breakdown in internal controls of sufficient importance that it should be reported to the next higher level of command/management. Such weaknesses significantly impair or may impair the fulfillment of an activity's mission or operational objectives; deprive the public of needed services; violate statutory or regulatory requirements; significantly weaken safeguards against fraud, waste, or mismanagement of funds, property or other assets; or cause a conflict of interest.

h. Reasonable Assurance. The judgment by a DON component head based upon all available information that the component systems of management controls are operating as intended by reference (e).

i. Risk Assessment. A documented review by management of an assessable unit's susceptibility to fraud, waste or mismanagement. Management evaluates the general control environment, analyzes the inherent risks and arrives at a preliminary assessment of the safeguards for the assessable unit. Risk assessments shall be conducted at least once every five years on each assessable unit per reference (b).

j. Testing. Procedures to determine through observation, examination, verification, sampling or other procedures whether management control systems are working as intended.

## 6. Responsibilities

a. SPAWAR Office of the Inspector General (SPAWAR 00G):

(1) Provide overall policy, procedures and oversight of a SPAWAR command-wide MCP.

(2) Coordinate, prepare and submit all reports required by reference (a) for COMSPAWAR signature.

(3) Develop and maintain a Headquarters-wide inventory of assessable units. Coordinate revisions and updates to the inventory annually.

(4) Maintain a system to track MCRs and AMCRs against assessable units.

(5) In coordination with the Audit Liaison, Command Evaluation, and Hotline Investigation functions, track corrective actions for material weaknesses identified through both internal and external reviews and investigations.

(6) Provide input to the Automated Statement of Assurance Tool database, as required by reference (f).

(7) Inspect the MCP during command inspections of SPAWAR Echelon 3 Commands and Activities.

(8) Provide management control training to SPAWAR HQ managers and supervisors responsible for management controls over assessable units. Maintain training records.

b. SPAWAR Echelon 3 Commands and Activities:

(1) Ensure MCPs under their purview are implemented and functioning.

(2) Designate a MCP coordinator to administer the program; advise the SPAWSYSCOM MCP Coordinator of the name, code, phone number and email address of the designated MCP coordinator.

(3) SPAWAR Echelon 3 Commands and Activities shall provide assistance and management control training to coordinators and managers.

(4) Establish an inventory of assessable units for the activity's processes and functions. Update the inventory at least annually to reflect changes in the organization. Identify the responsible manager for each assessable unit.

(5) Ensure that all managers conduct a documented risk assessment of their assessable unit. Managers should identify, prioritize and address the high risk areas that may impair their ability to meet the organization's mission. Managers should establish controls to manage or mitigate identified high risks, ensuring that costs of such controls are commensurate with the risks.

(6) Ensure functional managers conduct and document required management control reviews at least every three years applying the Standards of Management Controls in the Federal

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Government defined in enclosure (1) of reference (a). Alternate processes such as command evaluations, audits, financial, acquisition, or contracting reviews, and self-assessment results can be substituted for management control reviews if the process tests internal controls and is documented.

(7) Establish and update a tracking system of the required management control evaluations (i.e., MCRs or AMCRs) by assessable unit.

(8) Material weaknesses should be reported via the chain of command as soon as identified by management control reviews or by other processes. Reference (a) provides specific criteria for determining whether a weakness is considered to be a material weakness. In general, a commanding officer should consider a weakness material if the next higher echelon is needed to resolve the problem or if it should be brought to the attention of the higher echelon as a point of information.

(9) Maintain a system to track and document material weaknesses and corrective actions. Corrective actions must be tested before they can be dropped from the tracking system.

(10) Report the status of corrective actions taken on reported material weaknesses and any new management control accomplishments to SPAWAR 00G by 30 July annually.

(11) Provide reports and other documentation to SPAWAR 00G via the chain of command as requested.

c. SPAWAR Staff Codes and Program Directorates:

(1) Provide SPAWAR 00G with updates to the assessable unit inventory, including responsible manager of each assessable unit, upon request.

(2) Ensure that managers conduct a documented risk assessment of their assessable unit(s). Managers should identify, prioritize and address the high risk areas that may impair their ability to meet the organization's mission. Managers should establish controls to manage or mitigate identified high risks, ensuring that costs of such controls are commensurate with the risks.

(3) Each manager of an assessable unit should identify any management control reviews and alternate management control reviews performed on their assessable unit(s) during the year. This information will be requested by 00G during the annual update of the inventory of assessable units.

(4) Ensure that managers conduct and document required management control reviews at least every three years. Alternate processes such as command evaluations; audits; financial, acquisition, or contracting reviews; self-assessments (as described in reference (g)); and other external or internal reviews can be substituted for management control reviews if the process tests internal controls and is documented. Supporting documentation of reviews must be maintained by the responsible functional manager for a period of three years and provided upon request by SPAWAR 00G.

(5) Ensure managers receive MCP training provided by SPAWAR 00G.

(6) Material weaknesses should be reported via the chain of command as soon as it is identified by a management control review or by other processes. Reference (a) provides criteria that warrant consideration for reporting as a material weakness, if the identified weakness is considered significant. In general, a commanding officer should consider a weakness material if the next higher echelon is needed to resolve the problem or if it should be brought to the attention of the higher echelon as a point of information.

(7) Report the status of corrective action taken on reported material weaknesses and any new management control accomplishments to SPAWAR 00G annually by 30 July.

(8) Corrective action on all material weaknesses must be tested before they can be dropped from the tracking system maintained by SPAWAR 00G.

(9) Provide reports and other documentation to SPAWAR 00G via the chain of command as requested.