Management Assurances

Based on the assurances of the Department’s management, which is responsible for internal controls, and assessment of the results of external audits, the Department is able to provide reasonable assurance that the internal controls and financial management systems in effect during FY 2013 met the objectives of both sections 2 and 4 of the FMFIA.

- FMFIA section 2 explains management’s responsibility for, and its role in, assessment of accounting and administrative controls.
- FMFIA section 4 relates to the Department’s analysis of systems, controls, and legal compliance related to financial reporting; internal controls and system frameworks included FMFIA, FFMIA, and the Federal Information Security Management Act (FISMA), as well as OMB Circulars A-123 and A-127, as addressed in previous sections of this report.
Statement of Assurance

The Department of Education’s management is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers’ Financial Integrity Act of 1982 (FMFIA) and OMB Circular A-123, Management’s Responsibility for Internal Control. The Department evaluated its internal controls to support (1) effective and efficient programmatic operations, (2) compliance with applicable laws and regulations, and (3) reliable financial reporting.

Internal Control Over Operations

For all program areas, the Department provides reasonable assurance that internal controls were in place and operating to meet the objectives of section 2 of FMFIA, no material weaknesses were identified, and we were in compliance with applicable laws and regulations as of September 30, 2013.

Internal Control Over Financial Reporting

The Department conducted its assessment of the effectiveness of internal controls over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of OMB Circular A-123. The Department has reasonable assurance that internal controls over financial reporting as of September 30, 2013, were operating effectively and no material weaknesses were found in the design or operation of the controls.

Internal Control Over Systems

The Department is required to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level. Based on the results of the Department’s assessment in accordance with the requirements of section 4 of FMFIA, the Department’s financial management systems substantially comply with Federal Financial Management Improvement Act as of September 30, 2013.

Notwithstanding the aforementioned assertions, I acknowledge that we have issues that we must remediate, including internal control and compliance issues identified by our auditors and the management challenges raised by the Office of the Inspector General in other sections of this report.

/s/

Arne Duncan
December 11, 2013
Financial Management Systems Strategy

The Department designated FMSS as a mission-critical system that provides core financial management services. The Department expects to improve the following performance outcomes: control and accountability over financial management services, including financial management system controls and practices that include cross-validation rules to prevent erroneous accounting transactions from being processed; and financial system reporting capabilities that continue to respond quickly to internal and external financial information inquiries. Additional areas of emphasis are the continued tight integration and streamlining with the office of Federal Student Aid and business processes; reduced manual reconciliation efforts for the Office of the Chief Financial Officer; reduction of errors and improved funds control; better data sharing and centralized data edits and controls that could otherwise get out of synchronization between the FMSS and its feeder systems; and budget planning that integrates with the general ledger.

Currently, the FMSS resides on an Oracle database and uses the Oracle Federal Financial Software Version 11.5.10 (11i). Oracle has issued version Release 12 of its software as a replacement for the 11i version. Release 12 has passed the necessary testing and is federally compliant for financial management. The Department is examining solutions for migrating to the Release 12 version. OMB has directed agencies to explore the possibility of utilizing a shared service provider (SSP) for financial management before implementing or migrating to new versions of financial applications. During FY 2014, the Department expects to begin the analysis of identifying the potential of using an SSP solution for financial management.

Legal Compliance

Federal Financial Management Improvement Act (FFMIA)—requires federal agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger at the transaction level. Section 803(c) (1) of the FFMIA requires the Department to make an annual determination of the agency’s substantial compliance with Section 803(a) of the Act based on a review of relevant factors. In determining whether the Department’s financial systems substantially comply with FFMIA, management considered available information from audit reports and other relevant and appropriate information. The Department’s determination leveraged the results of related reviews such as those required by FISMA and OMB Circular A-123. Key factors used in the determination included: agency improvements and ongoing efforts to strengthen financial management systems and the impact of instances of non-compliance on overall financial management system performance.

In FY 2012, management determined that the Department’s systems were not in overall compliance with FFMIA based, in part, on self-reported FMFIA material weaknesses. These issues directly impacted the reliability of borrower account information and related financial statement balances throughout FY 2012. Corrective actions taken in FY 2012 and FY 2013 sufficiently remediated the underlying conditions such that, for the year ended September 30, 2013, these deficiencies no longer aggregate to a material weakness. However, some of the remaining FY 2012 issues, including new issues of lesser significance identified in FY 2013, continued to impact the reliability of borrower account information and related financial statement balances throughout FY 2013. The auditors have provided their recommendations to address these issues and the Department plans to implement them in FY 2014. Full and complete implementation of the auditor’s recommendations and corrective actions to their
findings will allow the Department to continue to strengthen and improve the internal controls of its financial management systems.

The Department places a priority on the importance of adequate security controls over system access and data and continually looks to ways to strengthen these controls. Management reviews during FY 2013 confirm that favorable actions have been taken to diminish weaknesses and strengthen internal controls overall. The Department is committed to continually improving its key controls and acknowledges the ongoing efforts of management to strengthen financial management systems. Additionally, based on the evaluation of the criteria listed in the FFMIA Indicators of Compliance and Risk Categories, the department’s financial management system possesses low risk in complying with the FFMIA requirements based on the listed compliance indicators. None of the compliance indicators are rated at the high-risk level. Though the Department and its auditors have identified issues of non-compliance with some system requirements and significant internal control weaknesses exist, taken as a whole, the Department has determined that it is in substantial compliance with FFMIA in FY 2013 for its system of controls over loans, grants, contracts, payroll, and other key business activities.

**Federal Information Security Management Act (FISMA)—**requires that each agency perform an annual, independent evaluation of the information security program and practices of that agency to determine the effectiveness of such program and practices. The Department has been implementing a multiyear process to improve our reporting activities. In FY 2013, the Office of Inspector General (OIG) found that the Department has made progress in remediating issues identified in previous FISMA reviews. Specifically, they found the Department was compliant in 4 of the 11 reporting metrics. Their findings included issues related to: (1) configuration management; (2) identity and access management; (3) incident response and reporting; (4) risk management; (5) security training; (6) remote access management; and (7) contingency planning. Also, the findings in seven of the reporting metrics contained repeat or modified repeat findings from OIG reports issued from fiscal years 2010 through 2012.

In response to the reported issues, the Department established: a 24x7, on premise, Security Operations Center (EDSOC) that will operate in an integrated enterprise-wide program and respond to threats and vulnerabilities to the Department’s information infrastructure and assets; a Risk Management Framework, using a suite of continuous monitoring tools; and initiatives intended to safeguard personally identifiable information. The Department has garnered significant benefits from previous years’ audits and expects that the recommendations presented in FY 2013 will further improve the information security program by strengthening the associated management, technical and operational security controls. The Office of the Chief Information Officer has formulated a plan to address each of the findings and recommendations across the seven metric areas. The plan has been conveyed to and accepted by the OIG.

**Prompt Payment Act of 1982**—requires federal agencies to make timely payments to vendors. When a payment is not processed within the timeframes specified in the act, payment of interest is required. During FY 2013, the Department made timely payments for 99.77 percent of the 6,998 vendor invoices processed. Virtually all recurring payments were processed by information technology audits in accordance with the provisions of the Prompt Payment Act.

**Anti-Deficiency Act**—prohibits federal agencies from obligating or expending federal funds in advance or in excess of an appropriation, apportionment, or certain administrative subdivisions of those funds. The act also prohibits agencies from accepting voluntary services. For FY 2013, the Department had no Anti-Deficiency Act violations to report.