

## Management's Assurances

### *Federal Managers' Financial Integrity Act*

As required under the *Federal Managers' Financial Integrity Act of 1982* (FMFIA), the Department reviewed its internal control system. Internal controls are an integral component of an organization's management that provide reasonable assurance that the following objectives are being achieved:

- Obligations and costs are in compliance with applicable laws.
- Assets are safeguarded against waste, loss, unauthorized use, or misappropriation.
- The revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and maintain accountability over assets.
- Programs are efficiently and effectively carried out in accordance with applicable laws and management policy.

Managers throughout the Department are responsible for ensuring that effective internal controls are implemented in their areas of responsibility. Individual assurance statements from senior management serve as the primary basis for the Department's assurance that the controls are adequate. The assurance statement provided on page 33 is the result of our annual assessment and is based upon each senior officer's evaluation of controls.

Offices within the Department that identify material weaknesses are required to submit plans for correcting the cited weaknesses. These corrective action plans, combined with the individual assurance statements, provide the framework for continual monitoring and improving the Department's internal controls.

**Inherent Limitations on the Effectiveness of Controls.** Department management does not expect that our disclosure on controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can only provide reasonable—not absolute—assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints. The benefits of the controls must be considered relative to their associated cost. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

### *Federal Financial Management Improvement Act*

The Secretary has determined that the Department is in compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA), although the auditors have identified instances in which the Department's financial management systems did not substantially comply with the Act. The instances of noncompliance generally relate to user access issues, e.g. the timely removal of access for terminated employees, inconsistent maintenance of access approval documentation, revalidation of user rights not consistently performed, password configuration not in compliance with Department policy, lack of monitoring of the activities of administrators, etc. The Department will continue its efforts to address security and control weaknesses with an emphasis on addressing the root cause of the security or control weakness uniformly across the organization. The goal of this action is to decrease the likelihood of similar weaknesses being identified in future audit assessments.

The Department continues to meet the criteria for achieving compliance because the Department has demonstrated that the deficiencies do not have an impact on the following:

- Financial statements, both annual and quarterly preparations, and other required financial and budget reports are prepared using information generated by the Financial Management Support System (FMSS).
- Reliable and timely financial information for managing current operation is provided by the financial management system. Financial information is available both via online and standard reports to provide for financial analysis and support decision making. Reporting is in compliance with OMB guidance.
- The Financial Management Support System operations and procedures remain consistent with Federal accounting standards and comply with the U.S. Government Standard General Ledger guidance at a transactional level.

### *Federal Managers' Financial Integrity Act*

Management at the Department of Education is responsible for establishing and maintaining effective internal control and financial management systems that meet the intent and objectives of the *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*. The Department conducted its assessment of the effectiveness of internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations in accordance with OMB Circular No. A-123, *Management's Responsibility for Internal Control*. Based on the results of this evaluation, the Department of Education can provide reasonable assurance that its internal control over the effectiveness and efficiency of operations and compliance with applicable laws and regulations and financial management systems as of September 30, 2011, was operating effectively and no material weaknesses were found in the design or operations of the internal controls.

In addition, the Department conducted an assessment of the effectiveness of internal control over financial reporting, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Appendix A of the Office of Management and Budget's Circular No. A-123. In accordance with the results of this assessment, the Department of Education can provide reasonable assurance that its internal control over financial reporting as of June 30, 2011, was operating effectively, and that no material weaknesses were found in the design or operation of the internal control over financial reporting.

/s/

Arne Duncan  
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