

Analysis of Controls, Systems, and Legal Compliance

The Department is the smallest of 15 cabinet-level agencies in terms of government staff, yet it manages the largest direct loan portfolio in the federal government and has the third largest grant portfolio among the 26 federal grant-making organizations. As such, the Department relies heavily on its internal controls and system frameworks to provide appropriate stewardship over funds entrusted to it by the American people.

This section provides management assurances regarding compliance with the [Federal Managers' Financial Integrity Act of 1982](#) (P.L. 97-255) (FMFIA) and Office of Management and Budget (OMB) revisions to [Circular A-123, Management's Responsibility for Internal Control](#). It also provides an analysis of the Department's controls, systems, and legal compliance. In future years, the Department will assess compliance in accordance with GAO's recently updated [Standards for Internal Control in the Federal Government](#) (Green Book).

Controls Framework and Analysis

The FMFIA requires agencies to establish internal controls which provide reasonable assurance the following objectives are achieved:

- effectiveness and efficiency of operations,
- compliance with applicable laws and regulations, and
- reliability of financial reporting.

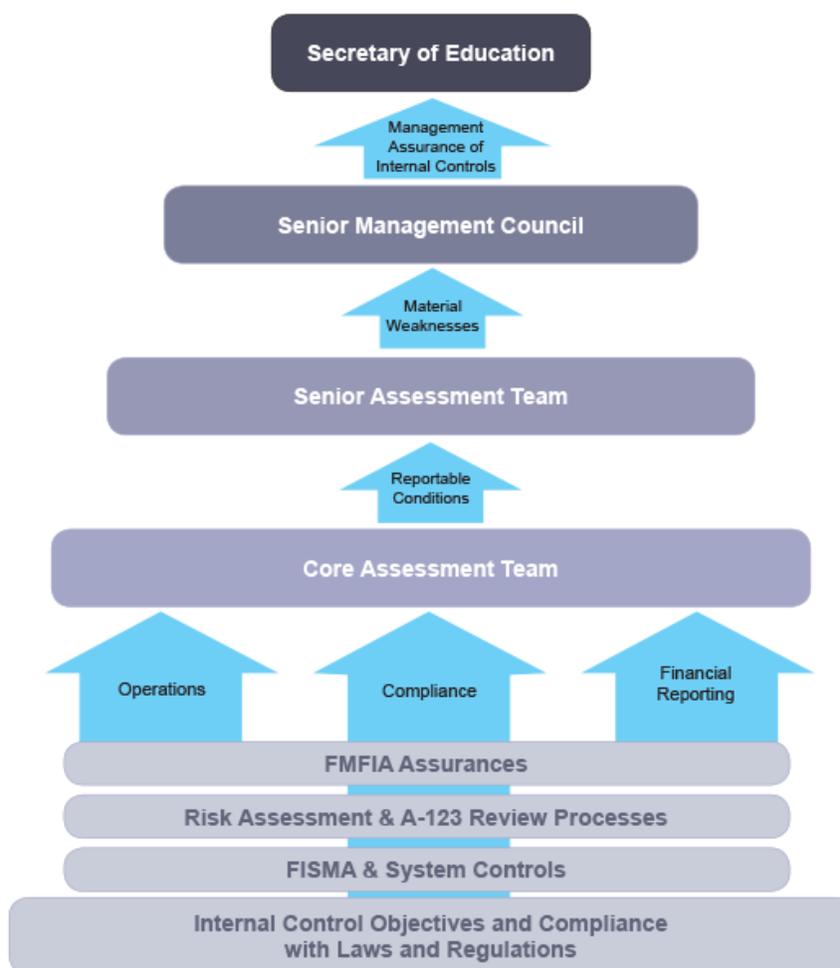
OMB Circular A-123 implements the FMFIA and defines management's responsibility for internal control in federal agencies. Appendix A is intended to assist federal managers with implementing a process for assessing the effectiveness of the entity's internal control over financial reporting. Appendix B prescribes policies and procedures to agencies regarding how to maintain internal controls that reduce the risk of fraud, waste, and error in government charge card programs. Appendix C acknowledges payment accuracy as a high-risk area and describes the requirements for effective measurement and remediation of improper payments. Appendix D defines new requirements for financial management systems in compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA).

The Department's internal control framework is robust. Consistent with Circular A-123, the Department established a Senior Management Council (SMC) comprised of senior leaders from across the Department to oversee the internal control framework. This oversight role includes identifying focus areas, determining when internal control deficiencies are significant, setting expectations for their correction, and monitoring the implementation of corrective actions. The Department also established a Senior Assessment Team (SAT) and Core Assessment Team (CAT) to help guide the internal control process.

Each principal office within the Department implements internal controls to achieve programmatic goals, which include internal controls over operations, financial reporting, and information technology systems. The internal control implementation begins with risk assessments of the Department's business processes and functional units. The SAT considers the potential impact of risks using a multidimensional framework comprised of numerous risk factors. The SAT then recommends processes and systems with high risk factors for more frequent and rigorous internal control evaluations. Through the evaluations, Department offices document key controls, evaluate and test the design and effectiveness of controls, and

communicate results to the SAT. Each office must develop and implement corrective action plans for reported deficiencies. The CAT provides technical guidance throughout the process.

Federal Student Aid (FSA) maintains a parallel governance structure which is integrated within the Department's governance structure. FSA's Chief Operating Officer chairs FSA's SMC and participates as a member of the Department's SMC. FSA's Chief Financial Officer chairs FSA's SAT and participates as a member of the Department's SAT. The chair of FSA's CAT participates as a member of the Department's CAT. Additional information on FSA's internal control framework, assessment of controls, and related assurances can be found in the Analysis of Systems, Controls, and Legal Compliance section of the [FY 2014 Federal Student Aid Annual Report](#).



The Secretary designated the Chief Financial Officer (CFO) as the Senior Internal Control Official for the Department. In this role, the office of the CFO develops and issues policies, procedures, and reporting requirements; develops and provides training and technical assistance; coordinates with the SMC, SAT, and CAT; leads selected internal control reviews; and develops and maintains internal control and audit follow-up systems.

Controls over Operations

The Department's two primary areas of operation are the administration of grants and loans. Other significant business activities include the management of contracts and interagency agreements, human capital, facilities, and legal enforcement activities. To ensure the efficient and effective implementation of these and other operations, including compliance with applicable laws and regulations, the Department issued a directive, establishing in policy that all managers are responsible for ensuring the development, maintenance, documentation, evaluation, and improvement of internal control for the programs and administrative functions for which they are responsible.

Each principal office assesses the design and operation of applicable key controls in their respective areas of responsibility and prepares an annual FMFIA assurance which highlights internal control processes, and reports identified material weaknesses and significant deficiencies. These management assurances, along with the results of internal control reviews and external audits, serve as the basis for the Secretary's assurance statement provided later in this section of the report.

In FY 2014, the Department identified no material weaknesses in internal controls over the effectiveness and efficiency of operations. The Department, however, continues to address significant deficiencies (reportable conditions) in the administration of grants, loans, and other program operations. These are consistent with OIG's report, [FY 2015 Management Challenges](#). The Department is committed to continuous improvement, making corrections in accordance with OIG findings. A summary of the OIG report is provided in the Other Information section.

Controls over Financial Reporting

Internal Control over Financial Reporting (ICOFR) is a subset of FMFIA, section 2. The Department's assessment of the effectiveness of internal control over financial reporting is performed in accordance with Office of Management and Budget (OMB) circular [A-123 Appendix A \(A-123A\)](#). Additionally, the Department leverages the [A-123A Implementation Guidance](#), which describes the process for assessing internal control over financial reporting and requires each agency to provide an annual statement of assurance on the effectiveness of internal control over financial reporting as part of its overall FMFIA assurance statement.

Planning is a critical step in our assessment of the effectiveness of internal control over financial reporting. Key decisions that drive the assessment are made during the planning phase. Management decides on the materiality threshold, risk factors, the scope of the assessments (e.g., which financial processes to review), and the test approach/methodology, as well as other key decisions. Based on this assessment, management identifies specific areas to test. For any deficiency identified during testing, OCFO staff work with process owners to facilitate the development, approval, and implementation of Corrective Action Plans (CAPs). The Department also considers the status of ongoing corrective actions and results of the financial statement audit.

In FY 2014, OCFO strengthened its framework for internal control over financial reporting by creating end-to-end process documentation for eight (8) significant business processes and 32 subprocesses that support the Department's financial statements. OCFO also catalogued controls within these processes.

Beginning in FY 2014, the Department strengthened its influence over key system controls that impact financial management operations by making OCFO the new segment owner of the

Department's Financial Management Line of Business (FMLoB). This change in ownership from the Office of the Chief Information Officer to the OCFO was intended to help guide the FM modernization strategy towards one that not only maintains tightly integrated Department-owned systems, but also seeks to make prudent investments that will yield efficient and effective financial management business processes, maximize shared services opportunities, maintain strong internal controls within the systems, ensure compliance with pertinent laws and regulations, and improve the reporting and analytic capabilities available to the FM workforce. In addition, FMLoB investments will support the FM mission of the Department, which is to provide objective financial data and performance information to its stakeholders, promote sound financial management, support data-driven decision-making, and enhance financial reporting and compliance activities.

The goals of the FMLoB Modernization Plan are:

- sustain and/or modernize Financial Management segment's integrated hardware, software, and system support,
- optimize utilization of Treasury solutions and shared services where feasible,
- ensure that IT investments support effective and efficient Financial Management business processes,
- build analytic capacity to support data-driven decision-making and enhance financial reporting and compliance activities,
- pay the Department's fair share of government-wide cost, and
- maximize interoperability between Financial Management Segment and other Department Segments.

In FY 2014, the Department identified no material weaknesses in internal controls over financial reporting.

Controls over Systems

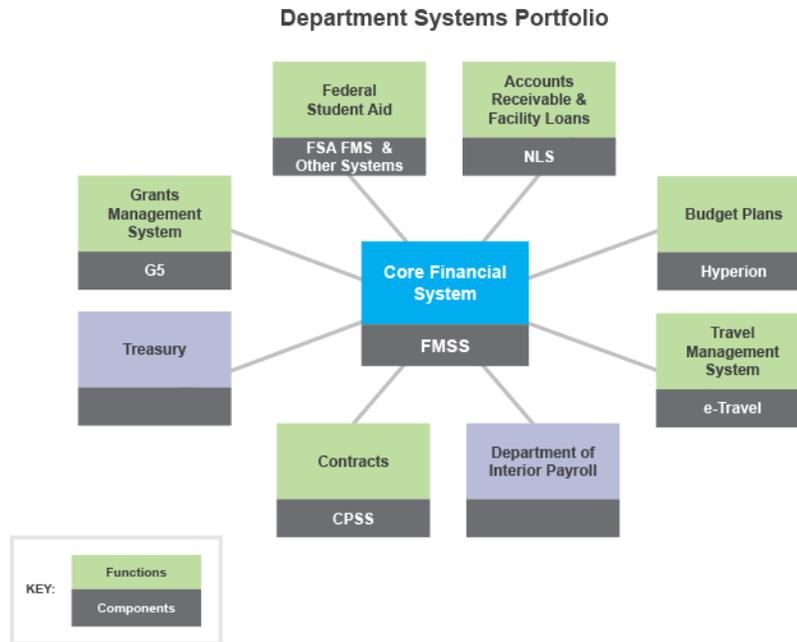
Internal controls over systems support all three internal control objectives: operations, compliance, and financial reporting. In particular, system controls have a significant impact on financial reporting and have been the Department's and FSA's primary area of focus for addressing deficiencies in internal control.

The Department has garnered significant benefits from previous years' audits and expects that implementation of the recommendations presented in FY 2014 will further improve the information security program by strengthening the associated management, technical, and operational security controls.

Among the guidance applied by the Department in assessing controls over systems during FY 2014 were FMFIA (section 4) and Appendix D of OMB A-123. We also assessed the Department's automated systems for compliance with key provisions of the *Federal Financial Management Improvement Act of 1996*.

The Department's core financial applications have been brought together under the umbrella of the Education Central Automated Processing System (EDCAPS). EDCAPS is a suite of financial applications (including commercial off-the-shelf and custom code and interfaces) that encompass the Department's core financial management processes.

The Department's financial management systems are designed to support effective internal controls and to produce accurate, reliable, and timely financial information. The current systems portfolio is depicted in the image below:



The components of EDCAPS are linked through custom interfaces to provide the Department with real-time financial management capabilities. EDCAPS serves approximately 4,200 departmental users in Washington, DC, as well as 10 regional offices throughout the United States. EDCAPS also serves approximately 100,000 external users.

Components of EDCAPS

Financial Management Support System (FMSS)—The FMSS is the Department's core financial system. It provides financial management functions for the Department, including general ledger, financial statement production, funds control and budget reporting, cost accounting, and accounts receivable/administrative accounts payable functions.

Contracts and Purchasing Support System (CPSS)—The CPSS provides users with a central repository to enter, retrieve, manage, and view acquisition/contract-related data. The centralized data provides enhanced information dissemination with the ability to respond to internal and external information requests. Various other systems and processes are used to augment and supplement the business process management gaps in the current environment.

Grants Management System (G5)—G5 manages all grant activities from initial recipient contact, through grant processing, to payments and grant closeout. This single system approach provides improved grant information management, recipient response time, and accuracy of financial management information.

Travel Management System (TMS)—The Department participates in e-Travel. Under e-Travel, travel system functionality is provided under contract by E2 solutions. EDCAPS interfaces with E2 in accordance with an established memorandum of understanding.

Hyperion Budget Planning—Hyperion Budget Planning is used by the Department for preparing annual spending plans. The Plan versus Actuals Report is generated from this system.

EDCAPS also interfaces with the Department of Interior for payroll data, the Department of Treasury for payment data, and the Nortridge Loan System (NLS) for promissory note data.

2014 Internal Control Results

In FY 2014, system-level general controls tests were performed on all financially significant systems similar to those performed in FY 2013.

The Department is keenly aware of the importance of strong internal controls and adequate security controls over system access and data and continuously seeks to strengthen these controls. The Department's System Security Plan (SSP) identifies management, operational, and technical security controls for EDCAPS. The SSP is based upon a review of the environment, documentation, and interviews with information system personnel. While the Department has not eliminated all risks, management reviews confirm that all favorable actions are taken to diminish deficiencies and strengthen internal control overall. Risks are routinely monitored and contingency and mitigation plans are maintained.

EDCAPS is a moderate-impact application per [Federal Information Processing Standards \(FIPS\) 199](#), and is subject to the moderate-impact baseline required by National Institute of Standards and Technology (NIST) Special Publication (SP) 800 53 Rev 4. Therefore, EDCAPS uses the moderate-impact baseline as its minimum security control requirements.

All internal EDCAPS user accounts are established using an EDCAPS Access Request Form. This form is used to grant initial access to EDCAPS subsystems and must be validated by the user's supervisor and the appropriate Information System Security Officer. Access is based on the user's role or job title. Principles of least privilege and segregation of incompatible duties are applied at all times. Access to all EDCAPS applications is protected by a user ID and password. Each application has a security administrator who is responsible for vetting individual EDCAPS access forms and for establishing their accounts. Access is granted based on the "need to know" and the least privilege the user requires performing his or her duties.

EDCAPS has been designed to deliver efficient and effective operations, while complying with FFMIA. Management considered available information from annual audit reports and other relevant, appropriate information to determine whether the Department's financial systems comply with system controls. The Department's determination leverages the results of related annual reviews. The Department is committed to continually improving all controls and acknowledges the ongoing efforts of security management to strengthen financial management systems.

Based on self-assessments and results of external audits in FY 2014, the Department has concluded that there are no material weaknesses in control over systems. However, self-assessments and external audits continue to identify control deficiencies in the areas of security management, personnel security, access controls, and configuration management across these systems. That is consistent with the management challenges OIG identified for IT security as well as system development and implementation.