

Management Assurances

Based on internal control monitoring and the individual assurances provided by Principal Operating Components, the Department is able to provide reasonable assurance that the internal controls and financial management systems in effect during FY 2014 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 all internal controls, including controls over operations, compliance, and financial reporting.
- FMFIA section 4 relates to the Department's analysis of systems, controls, and legal compliance related to financial reporting, and internal controls and system frameworks, including FMFIA, FFMIA, and the *Federal Information Security Management Act* (FISMA), as well as OMB Circular A-123, including Appendix D, 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, 2014, with the exception noted in the Legal Compliance section below.

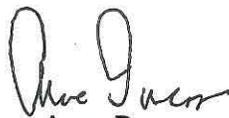
Internal Control Over Financial Reporting

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, 2014, were operating effectively and there were no material weaknesses 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 the *Federal Financial Management Improvement Act* as of September 30, 2014.

Notwithstanding the aforementioned assertions, I acknowledge that we have internal control- and compliance-related issues, such as those identified by our auditors and the management challenges raised by the Office of Inspector General in other sections of this report. We are committed to resolving them.



Arne Duncan

November 14, 2014

Financial Management Systems Strategy

The *Federal Information Security Management Act of 2002* (FISMA) requires federal agencies to implement a mandatory set of processes and system controls designed to ensure the privacy, confidentiality, integrity, availability, and security of system-related information. The Department has been implementing a multiyear process to improve its reporting activities, as described in the Controls over Systems section.

The Department has designated the 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. The Office of Management and Budget (OMB) has directed agencies to explore the possibility of utilizing a federal shared service provider (FSSP) for financial management before implementing or migrating to new versions of financial applications. During FY 2015, the Department expects to explore potential options pertaining to using an FSSP solution for core financial management services.

Legal Compliance

Compliance with applicable laws and regulations is an integral component of the Department's internal control program. This section is a partial list of those applicable laws for which the Department's internal controls ensure compliance, with the exceptions noted below.

Federal Financial Management Improvement Act (FFMIA)—requires that agency financial management systems comply with federal financial management systems requirements, applicable federal accounting standards and the [U.S. Standard General Ledger \(USSGL\)](#) at the transaction level in order to provide uniform, reliable, and more useful financial information. Agencies are required to assess and report on whether these systems comply with FFMIA on an annual basis.

The results of tests of FFMIA section 803(a) requirements disclosed no instances in which the Department's financial management systems did not substantially comply with (1) federal financial management systems requirements, (2) applicable federal accounting standards, or (3) the USSGL at the transaction level.

The Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)—requires agencies to annually report information on improper payments to the President and Congress, focusing on risk assessments, statistical sampling, and corrective actions. The statute requires OMB to provide guidance to agencies on reimbursement of costs between agencies, retention and timely destruction of records, and prohibiting the duplication and disclosure of records, including creation and maintenance of a Do Not Pay list to facilitate federal agencies' review of payment or award eligibility for purposes of identifying and preventing improper payments.

Federal Information Security Management Act of 2002 (FISMA)—requires federal agencies to implement a mandatory set of processes and system controls designed to ensure the confidentiality, integrity, and availability of system-related information.

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.

Anti-Deficiency Act of 1870 (with amendments in 1982)—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.

Debt Collection Improvement Act of 1996—enacted into law as part of the *Omnibus Consolidated Rescissions and Appropriations Act of 1996*. The primary purpose of the *Debt Collection Improvement Act* (DCIA) is to increase the collection of nontax debts owed to the federal government.

The *Digital Accountability and Transparency Act* (DATA Act), Public Law 113-101, enacted on May 9, 2014, amended the DCIA to require referral of delinquent debt to the Department of Treasury's Offset Program within 120 days. The Department is in communication with Treasury regarding implementation of the DCIA, and is working to determine the best course of action, including, as needed, modifications to existing regulations and/or systems and processes, to fully comply with the DCIA. This determination of noncompliance with this provision of the DCIA does not represent a material weakness in the Department's internal controls.

Federal Credit Reform Act of 1990—enacted to provide a more realistic picture of the cost of U.S. government direct loans and loan guarantees. The purposes of Title V of the act are to measure more accurately the costs of federal credit programs; place the cost of credit programs on a budgetary basis equivalent to other federal spending; encourage the delivery of benefits in the form most appropriate to the needs of beneficiaries; and improve the allocation of resources among credit programs and between credit and other spending programs (See Notes 1 and 6 in the Financial Section).

The Cash Management Improvement Act of 1990—The purpose of this law is to improve the transfer of federal funds between the federal government, the states, territories, and the District of Columbia. The law focuses on two recurrent intergovernmental issues: states drawing federal funds in advance of need; and the federal government providing late grant awards to states.

Single Audit Act of 1984—The [Single Audit Act of 1984](#) (with amendment in 1996) and [OMB Circular A-133](#) ("Audits of State, Local Governments, and Non-Profit Organizations") provide

audit requirements for ensuring that grant funds to state, local, and tribal governments, colleges, universities and other nonprofit organizations (nonfederal entities) are expended properly.

Government Performance and Results Act of 1993 as amended by the GPRA

Modernization Act of 2010—The GPRA of 1993 established strategic planning, performance planning, and reporting as a framework for agencies to communicate progress in achieving their missions. The *GPRA Modernization Act of 2010* established important changes to these existing requirements.

The foundations of GPRA are: (1) agencies are required to develop five-year strategic plans that must contain a mission statement as well as long-term, results-oriented goals covering each of its major functions; (2) agencies are required to prepare annual performance plans that establish the performance goals for the applicable fiscal year, a brief description of how these goals are to be met, and a description how these performance goals can be verified; and (3) agencies must prepare annual performance reports that review the agency's success or failure in meeting its targeted performance goals.

Elementary and Secondary Education Act—The current reauthorization of ESEA is the [No Child Left Behind Act](#) of 2001. It emphasizes equal access to education, sets high standards for academic performance, and demands a rigorous level of accountability from schools and districts. ESEA authorizes an important group of education programs administered by the states. These programs support eligible schools and districts eager to raise the academic achievement of struggling learners, and address the complex challenges that arise among students who live with disability, mobility problems, learning difficulties, poverty, transience, and the need to learn a second language.

Higher Education Opportunity Act of 2008—intended to strengthen the educational resources of our colleges and universities and to provide financial assistance for students in postsecondary and higher education. It increased federal money given to universities, created scholarships, and gave low-interest loans for students.

Individuals with Disabilities Education Act of 2004—governs how states and public agencies provide early intervention, special education, and related services to children with disabilities.

General Education Provisions Act—provides general administrative requirements that govern the implementation of all Department grant programs.

Department of Education Organization Act—established the Department, defines its mission, and sets out key components of its organizational structure.