

Analysis of Systems, Controls, and Legal Compliance

Introduction

Strong internal control helps an entity run its operations efficiently and effectively, report reliable information about its operations, and comply with applicable laws and regulations. The [Federal Managers' Financial Integrity Act of 1982 \(FMFIA\)](#) requires Federal agencies to establish internal controls that provide reasonable assurance that agency objectives will be achieved. [OMB Circular A-123, Management's Responsibility for Internal Control](#), implements FMFIA and provides guidance to agency managers on improving the accountability and effectiveness of programs and operations by establishing, assessing, correcting, and reporting on internal control. The guidance requires federal agencies to provide reasonable assurance that it has met the three objectives of internal controls:

- *Operations*—Effectiveness and efficiency of operations;
- *Reporting*—Reliability of reporting for internal and external use; and
- *Compliance*—Compliance with applicable laws and regulations.

This section describes the Department's internal control framework, an analysis of the effectiveness of its internal controls, and assurances provided by the Department's leadership that internal controls were in place and working as intended during FY 2015 to meet the three objectives.

Control Framework and Analysis

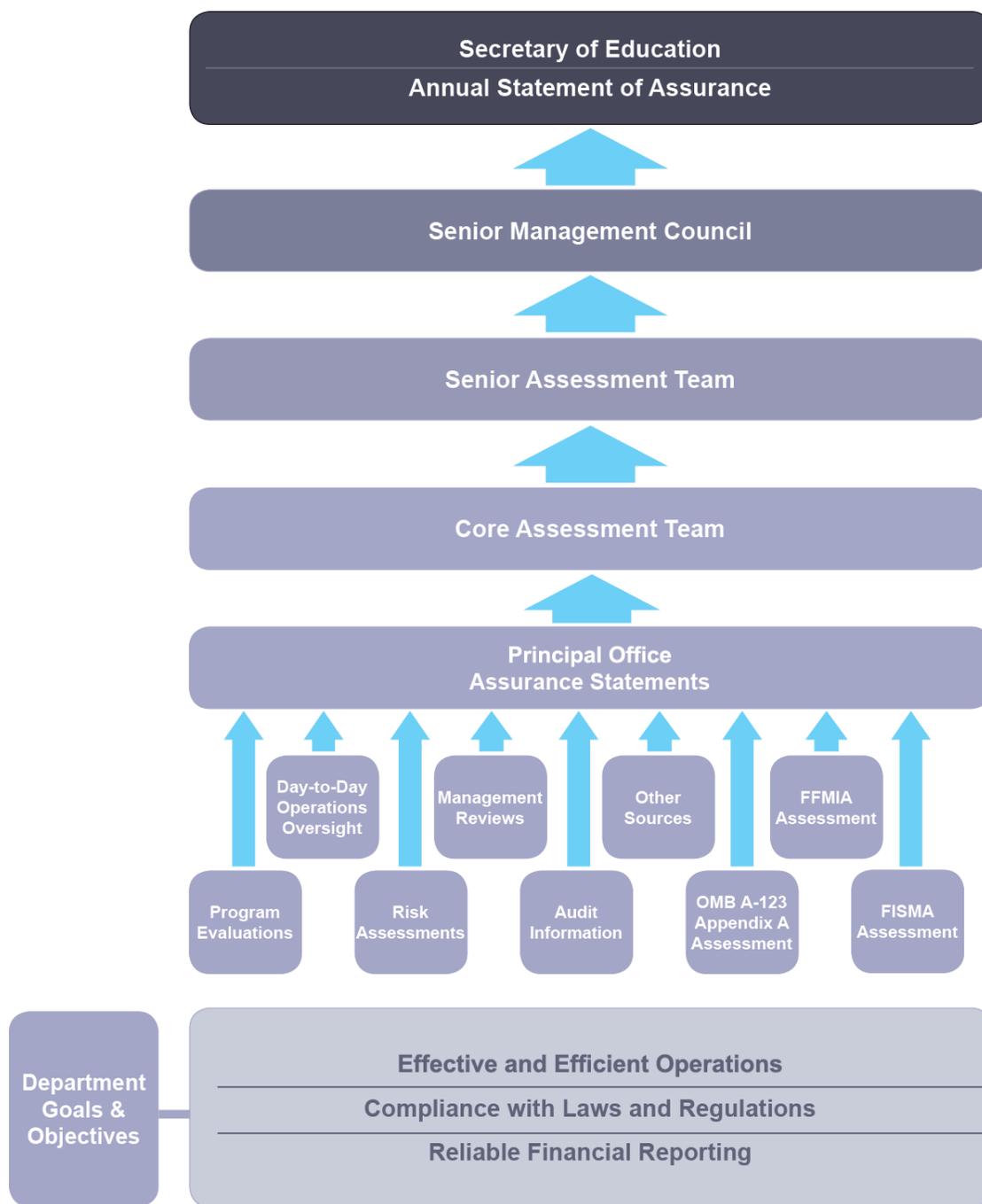
As indicated in the performance management section above, the Department's *Strategic Plan*, including the six FY 2014–15 APGs and the administration's CAP Goals, sets the foundation for determining the Department's mission goals and objectives. Underpinning the Department's internal control framework are its organizational structure, people, processes, policies and procedures, systems, and data.

Control Framework

The Department's internal control framework helps to ensure that the Department achieves its strategic goals and objectives related to delivering education services effectively and efficiently while complying with all applicable laws and regulations. It also provides reasonable assurance to Department leadership and external stakeholders that financial data produced by the Department's financial systems are complete, accurate, and reliable enough to support the preparation and fair presentation of financial statements that conform to federal standards, facilitate sound financial decision-making, and provide transparency about how the Department spent federal funds and maintains stewardship over its financial resources.

The Department maintains a comprehensive internal control framework and assurance process as depicted in the following diagram.

Internal Control Framework and Assurance Process



The Office of the Chief Financial Officer (OCFO) manages the assurance process on behalf of Department leadership. The Department established governance over the process, consisting of a Senior Management Council (SMC), comprised of senior leaders from across the Department to provide strategic direction and guidance and a Senior Assessment Team (SAT) and Core Assessment Team (CAT) to provide greater oversight and monitoring of activities related to internal control assessments. The SAT and CAT are composed of representatives from OCFO, the Office of the Chief Information Officer (OCIO), student loan and grant-making program

offices, Risk Management Service (RMS), and other operational support offices (including the Office of Management).

The annual assurance process is the primary mechanism by which the Department implements FMFIA and OMB requirements. It requires the head of each principal office to evaluate their respective internal controls and to assert, in a letter to the OCFO, that they have reasonable assurance that the controls are in place and working as intended or to provide a detailed description of significant deficiencies, material weaknesses, and other matters of nonconformance. In making the assessment, principal office staffs consider relevant information, such as office managers' personal knowledge of operations, external audit results, internal assessments, and other related material.

The OCFO staff works with the principal offices to help them identify potential control deficiencies and presents them to the SAT to determine whether they represent significant deficiencies or material weaknesses. Any principal office that identifies a significant deficiency or material weakness must prepare a Corrective Action Plan (CAP) to address the issue. These CAPs, in addition to daily operational oversight and management-initiated evaluations, facilitate the correction and monitoring of controls. If material weaknesses are identified, they are reported on the Department's Statement of Assurance.

Analysis of Controls

Overall, the Department relies on the principal office annual assurances, supported by risk-based internal control evaluations and testing, to provide reasonable assurance that its internal controls are well designed and in place and working as intended. During FY 2015, the Department identified no material control weaknesses related to effective and efficient program operations and no areas of noncompliance with laws and regulations other than those noted in the Other Regulatory Requirements section below. Although it reported no material weaknesses, the Department realizes that it has areas of control that need further strengthening, such as those identified by the Department's Office of Inspector General in its [Management and Performance Challenges for Fiscal Year 2016 report](#).

In accordance with OMB Circular A-123, the Department also conducted an additional assessment of the effectiveness of the Department's internal controls over financial reporting and compliance with key financial management laws and regulations as described below.

Internal Control over Financial Reporting

The Department maintains strong internal controls to identify, document, and assess internal control over financial reporting, which includes:

- comprehensive process documentation for the Department's significant business processes and subprocesses,
- maintenance of a control catalogue composed of 1,690 key financial and operational controls that align to the business processes,²
- technical assistance provided to principal offices to help them understand and assess key financial controls,
- a risk-based testing strategy, and

² Including Federal Student Aid (FSA)

- a process to develop corrective action plans when control deficiencies are found and to track progress against those plans.

During FY 2015, the Department tested 1,181 key financial controls. Although some weaknesses were detected in the design and effectiveness of controls, the Department determined that there were no material weaknesses. Corrective actions have been initiated for the deficiencies that were identified.

Financial Management Systems

The *Federal Financial Management Improvement Act of 1996* (FFMIA) requires Department management to make sure that its financial management consistently provides reliable data that complies with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger (USSGL) at the transaction level. Appendix D to OMB Circular A-123, "Compliance with the Federal Financial Management Improvement Act of 1996" and OMB Circular A-130, "Management of Federal Information Resources" provide specific guidance to agency managers when assessing conformance to FFMIA requirements.

The Department's core financial applications are under the umbrella of the Education Central Automated Processing System (EDCAPS), serving approximately 4,200 Departmental internal users in Washington, D.C. and 10 regional offices throughout the United States, and 55,000 external users. EDCAPS is composed of five main linked components:

- Financial Management Support System (FMSS),
- Contracts and Purchasing Support System (CPSS),
- Grants Management System (G5),
- E2 Travel System, and
- Hyperion Budget Planning.

The Department designated the FMSS as a mission-critical system that provides core financial management services, and its system strategy for FY 2016 will focus on:

- using cross-validation rules to prevent invalid accounting transactions from being processed;
- reducing manual reconciliations currently performed by OCFO;
- streamlining with the internal processes of Federal Student Aid (FSA);
- increasing the use of electronic invoicing (Invoice Processing Platform); and
- improving the Department's capacity for data-sharing and centralized edits to synchronize FMSS and its feeder system.

The Department's financial management systems are designed to support effective internal control and to produce accurate, reliable, and timely financial data and information. Based on self-assessments, system-level general controls tests, and results of external audits, the Department has concluded that there are no material weaknesses in controls over systems. The Department has also determined that its financial management systems substantially comply with FFMIA requirements. However, as noted below, the Department continues to address issues and improve its controls over systems.

The Department has a System Security Plan (SSP) for EDCAPS that identifies management, operation, and technical security controls, based upon reviews of the control environment, documentation, and interviews with information system personnel. Self-assessments and external audits continue to identify areas in need of improvement to include access control, configuration management, security management, and personnel security. The major issues are identified by the OIG in its [Management Challenges](#) report.

The *Federal Information Security Management Act* (FISMA) requires federal agencies to develop, document, and implement an agency-wide program to provide security for the information and information systems that support the operations and assets of the agency and ensure the confidentiality, integrity, and availability of system-related information.

Both the Department's Chief Information Officer FY 2015 FMFIA Assurance Letter and FSA's FY 2015 FMFIA Assurance Letter reported control deficiencies related to access controls and configuration management. Also, the Department's FY 2014 FISMA review identified control deficiencies in six of eleven reporting metrics related to the following areas: configuration management, identity and access management, incident response and reporting, risk management, remote access management, and contingency planning. In addition, 5 of the 11 reporting metrics contained repeat or modified repeat findings from reports issued from 2011 through 2013.

The auditors recommend the Department CISO work with the FSA CISO to:

- 1a. Refine and fully implement FSA's system security program to monitor compliance with NIST requirements, in coordination with the Department's organization-wide information security program, at both the agency and system level.
- 1b. Implement a process to ensure accountability for individuals responsible for remediating the identified control deficiencies in the Department and FSA's systems, including cooperation between the Technology Office and Business Operations.
- 1c. Implement a process for holding contractors accountable for remediation of control deficiencies in the Department and FSA's systems.

During FY 2015, the Department executed several major initiatives and programs in response to noted weaknesses in the FY 2014 FISMA audit conducted by the OIG. These initiatives and programs included:

- *Identity Management:* FSA implemented a new student identification system that focused on making access management for FSA systems more efficient and secure for students, borrowers, and FSA business partners by eliminating the use of social security numbers for user identification.
- *Incident Response:* The Department implemented a new Security Operations Management system to support joint management of incident response, as well as overall case management and Security Operations Center (SOC) operations.
- *Dual Authentication:* The Department implemented a solution to provide two-factor authentication for accessing email remotely from personally owned desktop or laptop computers and personal mobile devices, replacing the username and password authentication method.

- *Continuous Monitoring*: The Department completed the implementation of the core Continuous Monitoring technologies that focus on hardware and software management, asset management, vulnerability management, and configuration management.

Controls over Improper Payments

During FY 2015, the Department's gross outlays totaled \$303 billion, consisting of appropriated budgetary resources of \$103.8 billion and nonbudgetary credit program funding of \$199.5 billion. Accordingly, internal controls designed to prevent, detect, and collect improper payments are an essential part of the Department's internal control framework. Key controls related to improper payments include:

- preaward risk assessments,
- use of independent data sources (such as Internal Revenue Service data retrieval) to ensure accurate award amounts,
- automated system controls to detect and prevent payment errors, and
- award and payment monitoring.

As described below, in FY 2015, the Department determined that its Pell Grants and Direct Loan programs were susceptible to significant improper payments risk. A detailed description of the Department's controls over improper payments related to these two programs is presented in the [Other Information section](#) of this report.

Other Regulatory Requirements

Besides the laws and regulations cited above, the Department must also comply with a number of other laws and regulations. Those with notable financial requirements include the *Federal Credit Reform Act of 1990*, the *Antideficiency Act*, the *Improper Payments Information Act of 2002*, the *Debt Collection Improvement Act of 1996*, the *Pay and Allowance System for Civilian Employees*, the *Federal Civil Penalties Inflation Adjustment Act of 1990*, the *Prompt Payment Act*, the *Government Charge Card Abuse Prevention Act of 2012*, and the *Single Audit Act of 1984*.

Federal Credit Reform Act of 1990

The *Federal Credit Reform Act of 1990*, [2 U.S.C. § 661](#), was enacted to provide a more realistic picture of the cost of U.S. government direct loans and loan guarantees. The purpose of Title V of the act is 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.

Antideficiency Act

The *Antideficiency Act* (ADA), [31 U.S.C. § 1341\(a\)\(1\)\(A\)](#), 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 Department substantially complied with the ADA, properly disbursing about \$303 billion in gross outlays. However, as part of its assessment of compliance with relevant laws and regulations, the

Department discovered an ADA violation that resulted in an improper expenditure of approximately \$60,000, which covered payment for salaries and benefits of two of Department's employees who were carrying out responsibilities and duties for positions requiring Senate advice and consent in an acting capacity after such employees' second nominations to the positions had been returned to the President. This was in violation of an appropriations provision, [Pub. L. 111-8, 123 Stat. 693](#). Upon learning of the violation, the Department took immediate steps to correct it and reported the violation as required. Management has determined that this minor incident does not represent a material dollar amount nor does it indicate a significant control weakness over budget controls.

Improper Payments Information Act of 2002

The *Improper Payments Information Act of 2002* (IPIA), [Pub. L. 107-300, 116 Stat. 2350](#), as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA), [Pub. L. 111-204, 124 Stat. 2224](#), and the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), [Pub. L. 112-248, 126 Stat. 2390](#), requires federal agencies to annually report improper payments in programs susceptible to significant improper payments.

In FY 2015, the Department determined that its Pell Grants and Direct Loan programs were susceptible to significant improper payments risk.

IPERA requires the OIG to review the Department's improper payments reporting in its AFR and accompanying materials, and to determine whether the Department has met six compliance requirements. The OIG audit for FY 2014 found that the Department was not compliant with IPERA because the Department reported an improper payments rate for the Direct Loan program that did not meet the annual reduction target that was published in the FY 2013 AFR. The complete OIG report is available for review at the [OIG website](#).

A detailed description of the findings and corrective actions related to these two programs is presented in the ["Other Information" section](#) of this report.

Debt Collection Improvement Act of 1996

The *Debt Collection Improvement Act of 1996* (DCIA), [Pub. L. 104-134, 110 Stat. 1321-358](#), was enacted into law as part of the *Omnibus Consolidated Rescissions and Appropriations Act of 1996*, [Pub. L. 104-134, 110 Stat. 1321](#). The primary purpose of the DCIA is to increase the collection of nontax debts owed to the federal government. Additionally, the *Digital Accountability and Transparency Act* (DATA Act), [Pub. L. 113-101, 128 Stat. 1146](#), amended Section 3716(c)(6) of the DCIA to require referral of delinquent debt to the Department of Treasury's Offset Program (TOP) within 120 days.

As of September 30, 2015, the Department and FSA were not in compliance with the new 120-day referral requirement in 31 U.S.C. Section 3716(c)(6) because FSA had not yet revised their loan servicing systems, procedures, and internal processes in response to this ruling. This area of noncompliance is noted in the independent auditor's report, exhibit B. The Department will develop a Corrective Action Plan to address this area of noncompliance. During FY 2016, FSA anticipates the development of a revised policy for referring eligible delinquent debt to TOP and to establish detailed actions to address this area of noncompliance. This determination of noncompliance with the DCIA does not represent a material weakness in the Department's internal controls.

Pay and Allowance System for Civilian Employees

The Pay and Allowance System for Civilian Employees, [5 U.S.C. § 51](#), [5 U.S.C. § 53](#), [5 U.S.C. § 54](#), [5 U.S.C. § 55](#), [5 U.S.C. § 57](#), and [5 U.S.C. § 59](#), requires employees to be paid at the appropriate rates established by law, including general pay increases, and that employees be paid at least minimum wage. The Department ensures that pay and allowances for agency employees are appropriately administered and executed in accordance with laws, regulations, and agency policies, and that delegations of authorities are in place and further delegated to program areas responsible for exercising human capital activity as appropriate. More specifically, the Department has delegated authority to ensure that:

- positions in the agency are appropriately classified and graded under executive and general schedule, and (where applicable of Public Law) administratively determined positions;
- salaries and expenses for each authorized position are budgeted to include annual adjustments (including within grade or rates), locality pay, health benefits, retirement, training, travel, transportation, subsistence expense (as applicable), differentials and premium pay (as applicable), bonuses, and hiring flexibilities, as appropriate of current laws;
- funding is available for performance and recognition, including opportunities for quality step increases;
- appropriate withholdings of pay (as applicable), payment of accumulated and accrued leave, premium pay, advancement and allotment of pay, and settlement of pay (accounts), severance and back pay is executed properly on behalf of each compensated employee;
- various policies are in place and that periodic assessments are conducted to evaluate the use of applicable policies; and
- the Department meets other compliance and reporting requirements, which may include periodic investigations as applicable of governing pay and allowance Titles.

Federal Civil Penalties Inflation Adjustment Act of 1990

The *Federal Civil Penalties Inflation Adjustment Act of 1990*, [Pub. L. 104-410](#), [104 Stat. 890](#), requires Federal agencies to issue regulations adjusting their covered civil monetary penalties for changes in the cost of living by October 23, 1996, and to make necessary adjustments at least once every four years thereafter. Accordingly, the Department issued regulations adjusting its civil monetary penalties in October 2012. A description of the civil monetary penalties levied by the Department is presented in the [“Other Information” section](#) of this report.

Prompt Payment Act

The *Prompt Payment Act*, [31 U.S.C. § 39](#), requires federal agencies to make timely payments to vendors. During FY 2015, the Department successfully paid vendors within the timeframe stipulated by the *Prompt Payment Act* about 99.99 percent of the time. Additionally, the Department is committed to making timely payments to every vendor, especially the small business community, by making accelerated payments within 15 days of invoice.

Government Charge Card Abuse Prevention Act of 2012

The *Government Charge Card Abuse Prevention Act of 2012*, [Pub. L. 112-194](#), [126 Stat. 1445](#), was enacted to prevent waste, fraud, and abuse of governmentwide charge card programs. It requires all executive branch agencies to establish and maintain safeguards and internal

controls for purchase cards, travel cards, integrated cards, and centrally billed accounts. The Department is committed to operating an efficient, effective purchase card program in compliance with the act. In FY 2015, the Department's OIG carried out an extensive review of the purchase card program and affirmed that the Department was aligned with all applicable policies and procedures.

Single Audit Act of 1984

The *Single Audit Act of 1984*, [Pub. L. 98-502, 98 Stat. 2327](#), amended by the *Single Audit Act Amendments of 1996*, [Pub. L. 104-156, 110 Stat. 1396](#), 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. The Department has strengthened controls over audit follow-up to ensure more timely resolution, correction, and closure of audit findings. This reflects a key component of the Department's risk management strategy under the Department's [Strategic Plan, Objective 6.2](#). The Department continues to show significant improvements in timely audit resolution, and remains focused on working cooperatively with grant recipients to address the most complex and repeat findings.

Management Assurances

The Secretary of Education's 2015 Statement of Assurance, which is provided below, is the final report produced by the Department's annual assurance process.