

ANALYSIS OF SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

MANAGEMENT ASSURANCES

The Secretary of Education's 2018 Statement of Assurance provided below is the final report produced by the Department's annual assurance process. Although the Department has not identified any material weaknesses, it acknowledges that there are significant weaknesses and management challenges to be addressed that are identified elsewhere in this report.

STATEMENT OF ASSURANCE

FISCAL YEAR 2018

November 14, 2018


The Department of Education (the Department) management is responsible for meeting the objectives of the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) by establishing, maintaining, evaluating and reporting on the Department's internal control and financial systems.

In accordance with Section 2 of FMFIA and Office of Management and Budget (OMB) Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, management evaluated the effectiveness of the Department's internal controls to support effective and efficient operations, reliable reporting and compliance with applicable laws and regulations.

Section 4 of FMFIA and the *Federal Financial Management Improvement Act of 1996* (FFMIA) require management to ensure the Department's financial management systems provide reliable, consistent disclosure of financial data. In accordance with Appendix D of OMB Circular A-123, management evaluated whether the Department's financial management systems substantially complied with FFMIA requirements. The Department also conducted a separate assessment of the effectiveness of its internal control over financial reporting, including controls designed to prevent, detect and recover improper payments, in accordance with Appendix A of OMB Circular A-123.

The Department has not identified any material weaknesses in operations, reporting or compliance with applicable laws and regulations.

Based on the results of the Department's assessments described above, our system of internal controls provides Department management with reasonable assurance that the objectives of sections 2 and 4 of the FMFIA were achieved as of September 30, 2018.



Betsy DeVos

INTRODUCTION

Strong risk management practices and internal control help an entity run its operations efficiently and effectively, report reliable information about its operations and financial position, and comply with applicable laws and regulations. The 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 Enterprise Risk Management and Internal Control* implements FMFIA and defines management's responsibilities for ERM and internal control. The Circular provides guidance to federal managers to improve accountability and effectiveness of federal programs, as well as mission support operations through implementation of ERM practices and by establishing, maintaining, and assessing internal control effectiveness. 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.

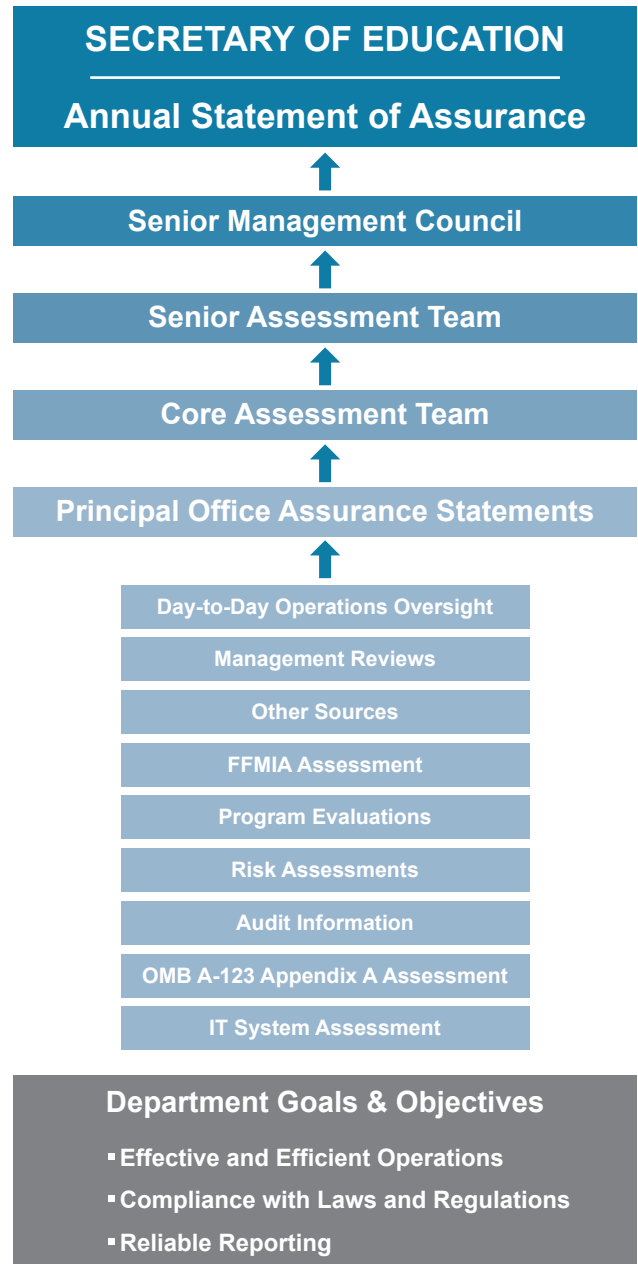
This section describes the Department's internal control framework, an analysis of the effectiveness of its internal controls, and assurances provided by the Department's leadership that internal controls were in place and working as intended during FY 2018 to meet the three objectives.

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 applicable laws and regulations and preparing accurate reports. This includes providing 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.

Figure 12. 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, a Senior Assessment Team (SAT), and a Core Assessment Team (CAT). The Senior Management Council is comprised of senior leaders from across the Department. It is the primary governance structure for ensuring overall management and efficiency of Department activities, especially with respect to process, procedures, and administrative structures, including providing strategic direction for the implementation of the internal control program. The SAT and CAT include representatives from OCFO, the Office of the Chief Information Officer (OCIO), student loan and grant-making program offices, Risk Management Service, and other operational support offices (including the Office of Management). The SAT and CAT provide greater oversight and monitoring of activities related to internal control assessments.

The annual assurance process is the primary mechanism by which the Department implements FMFIA and OMB requirements pertaining to internal control. It requires the head of each principal office to evaluate its respective internal controls and to assert, in a letter to the Chief Financial Officer, that it has reasonable assurance that key internal 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 this assessment, the head of the principal office considers information such as office managers' personal knowledge of operations, external audit results, internal assessments, and other related material.

OCFO staff work with the principal offices to help them identify potential control deficiencies and consult with the SAT to determine whether they represent significant deficiencies or potential material weaknesses. Any principal office that identifies a significant deficiency or material weakness must prepare a Corrective Action Plan to address the issue. These Corrective Action Plans, in addition to daily operational oversight and management-initiated evaluations, facilitate the correction and monitoring of controls. If potential material weaknesses are identified, they are evaluated by the Senior Management Council to determine if they should be 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. The Department also considers issues identified by external auditors. During FY 2016, the Department revised its annual assurance process to conform to the new requirements contained in the revised U.S. Government Accountability Office publication, *Standards for Internal Control in the Federal Government* (commonly referred to as the "Green Book"). In FY 2018, the Department further revised the process to conform to the revised OMB Circular A-123 issued on July 15, 2016.

In FY 2018, the Department identified no material control weaknesses related to effective, efficient program operations and no areas of noncompliance with laws and regulations other than those noted in the Internal Control Exceptions section below. Although no material weaknesses were identified, the Department realizes that it has areas of control that need further strengthening, such as those disclosed in this report, the Independent Auditors' Report, and the major challenges identified by the Department's OIG in its OIG FY 2019 Management Challenges report. The Department continues to demonstrate its commitment to addressing, mitigating, or resolving its identified management challenges.

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 comprised of 3,934 key financial, operational, and Information Technology (IT) controls that align to the business processes (the Department documented 398 key controls and FSA documented 3,536 key controls [1,541 Business Process and Entity-Level controls and 1,995 IT controls]),

- technical assistance provided to principal offices to help them understand and assess key financial controls,
- a risk-based testing strategy, and
- a process to develop corrective action plans when control deficiencies are found and to track progress against those plans.

During FY 2018, the Department assessed the design and operating effectiveness of 2,767 key financial, operational, and IT process controls (the Department assessed 119 key controls and FSA assessed 2,648 key controls [1,287 Business Process and Entity-Level controls and 1,361 IT controls]).

Although some control deficiencies were detected, the Department did not identify any significant deficiencies or material weaknesses. Corrective actions have been initiated for the deficiencies identified. As a function of this assessment, the Department tested the key financial controls over the *Digital Accountability and Transparency Act of 2014* (DATA Act) reporting and concluded that the controls are designed and operating effectively.

INTERNAL CONTROL OVER FINANCIAL MANAGEMENT SYSTEMS

The FFMIA requires management to ensure that the Department's financial management systems consistently provide reliable data that comply with federal financial management system requirements, applicable federal accounting standards, and the U.S. Standard General Ledger 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, *Managing Federal Information as a Strategic Resource*, provide specific guidance to agency managers when assessing conformance to FFMIA requirements.

The Department's core financial systems are under the umbrella of the Education Central Automated Processing System (EDCAPS), serving approximately 8,500 Departmental internal users in Washington, D.C., and 10 regional offices throughout the United States, as well as 39,600 external users. In FY 2018, the Department conducted an annual risk assessment of EDCAPS and tested 92 IT security controls, out of a baseline of 630 IT security controls. 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 focused its system strategy on the following areas during FY 2018:

- Managing and implementing cross-validation rules throughout the fiscal year to prevent invalid accounting transactions from being processed,
- Transmitting the Department's spending data related to contracts, grants, loans, and other financial assistance awards for the USASpending.gov initiative as part of the *Federal Funding Accountability and Transparency Act of 2006*,
- Transmitting the entire Department's payments through the Department of Treasury Secure Payment System,
- Transmitting the Department's spending data related to contracts, grants, loans, and other financial assistance awards for the DATA Act implementation, and
- Initiating the upgrade of the FMSS Oracle E-Business Suite application to Oracle R12, to ensure continued vendor support, improved security, improved infrastructure, and enhanced functionality.

In FY 2019, EDCAPS will continue to provide customer service and improve security of its systems by completing the Department's implementation of Oracle E-Business Suite R12. In doing so, the Department will be current and ready to provide a more secure and better integrated financial management application.

The Department's financial management systems are designed to support effective internal control and produce accurate, reliable, and timely financial data and information. Based on self-assessments, system-level general controls tests, and the results of internal and external audits, the Department has not identified any 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 in the Internal Control Exceptions section, the Department continues to address issues and improve its controls over systems.

Federal Information Security Modernization Act of 2014

The *Federal Information Security Modernization Act of 2014* (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.

The Department's and FSA's information security programs completed a number of significant activities in FY 2017 and FY 2018 to improve cybersecurity capabilities and functions, some of which included:

- In August of 2017, OCIO began publishing monthly ED Cyber Security Framework (CSF) Risk Scorecards. The CSF Risk Scorecard is published as part of ED's Information Security Continuous Monitoring (ISCM) efforts to identify cybersecurity risks, issues, and opportunities for improvements in our cybersecurity protections. The ED CSF Risk Scorecard is a detailed analysis tool for Authorizing Officials, Information System Owners, and Information System Security Officers to:
 - Describe the current cybersecurity posture;
 - Describe a target state for cybersecurity;
 - Identify and prioritize opportunities for improvement within the context of a continuous and repeatable process;
 - Assess progress toward the target state; and
 - Communicate among internal and external stakeholders about cybersecurity opportunities and risks.
- The Department has also continued to strengthen its partnership with the Department of Homeland Security to deploy Continuous Diagnostics and Mitigation capabilities and strengthen the Department's ISCM program.
- 100 percent of Department users completed the annual computer security and privacy awareness training course in FY 2018. The Department strictly enforced compliance with annual security and privacy awareness training requirements, and disabled network accounts for noncompliant users. In addition, the Department won the Security Awareness Training Scenario category in the Federal Information Systems Security Educators Association's Annual Security Awareness, Training, and Education Contest.
- In January of 2018, OCIO undertook an effort to reshape the Department's cybersecurity policy and guidance. A new information security instruction and standards framework was developed to allow for the following:
 - Flexibility
 - Alignment with the Framework for Improving Critical Infrastructure Cybersecurity in coordination with M-17-25
 - Alignment with the current budgeting and risk reporting structures
 - Support for outcomes sensitive to the OCIO objectives
 - Responsiveness to the risk environment
 - Reduction in review and approval timelines
 - Workflow automation

ANALYSIS OF LEGAL COMPLIANCE

The Department identified two instances of noncompliance with laws and regulations in FY 2018. Additionally, reviews and assessments conducted pursuant to information technology-related laws and regulations identified challenges still facing the Department.

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 report improper payments annually for programs that are deemed susceptible to significant improper payments. IPERA also requires each agency's OIG to review the agency's improper payment reporting in its AFR and accompanying materials, and to determine whether the agency has met six compliance requirements.

In its annual improper payment compliance audit for FY 2017, the OIG concluded that the Department was not compliant with IPERA because it did not meet one of IPERA's six compliance requirements for the Pell Grant (Pell) program. The Department reported an improper payment rate for the Pell program that did not meet the prior year published reduction target. The Department met all six IPERA compliance requirements for the Direct Loan program. For FY 2018, the improper payment rates for the Pell and Direct Loan programs met the prior-year published reduction targets.

This determination of noncompliance with IPERA does not represent a material weakness in the Department's internal controls. The Department's current nonstatistical estimation methodology limits the ability to establish accurate out-year reduction targets. To address this issue, the Department coordinated with OMB and other stakeholders in 2018 to develop a statistically-valid methodology that will be implemented in 2019 to estimate improper payments for the Pell Grant and Direct Loan programs. This new methodology will improve the accuracy of the Department's improper payment estimates and the Department's ability to set and meet reduction targets.

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 DATA Act, **Pub. L. 113-**

101, 128 Stat. 1146, amended Section 3716(c)(6) of the DCIA to require referral of delinquent debt to Treasury's Offset Program within 120 days.

Due to unique program requirements of the Higher Education Act of 1965 (HEA), the Department requested guidance from Treasury's Bureau of Fiscal Service, Office of General Counsel for the application of this revised DCIA requirement to Title IV debt. Treasury provided its interpretation of this requirement for Title IV debt in July 2015. Per Treasury's interpretation, compliance for Title IV debt requires that the Title IV debt be: 1) in technical default (i.e., 271 days delinquent per Title IV aging) and 2) a receivable of the federal government. Therefore, the DCIA Treasury Offset Program referral requirement for Title IV debt owned by FSA at the time of delinquency is 271 days delinquent and for debt acquired via a FFEL guarantee default claim or default Perkins Loan assignment is 120 days delinquent (per DCIA aging which begins upon acceptance of a defaulted debt). As of September 30, 2018, the Department and FSA were not in compliance with the DCIA Treasury Offset Program referral requirement for Title IV debt as interpreted by Treasury because FSA had not yet revised its loan servicing systems, procedures, and internal processes in response to this interpretation. During FY 2018, FSA continued to implement changes to its default loan servicing system and business process for referring eligible debts to the Treasury Offset Program sooner. In addition, FSA provided guidance to the Guaranty Agencies that will facilitate sending debts to Treasury sooner. FSA anticipates this first round of changes will be implemented during FY 2019. Afterwards, FSA will a) revise its compliance reporting procedures to enable FSA to establish a new DCIA compliance baseline and b) analyze the remaining compliance gap to determine next steps. This area of noncompliance is noted in the independent auditors' report, exhibit C.

This determination of noncompliance with the DCIA does not represent a material weakness in the Department's internal controls.