

Management's Assurances

Federal Managers' Financial Integrity Act

As required under the *Federal Managers' Financial Integrity Act (FMFIA) of 1982*, the Department reviewed its management control system. The objectives of the management control system are to provide reasonable assurance that the following occur:

- 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 controls are implemented in their areas of responsibility. Individual assurance statements from senior management serve as a primary basis for the Department's assurance that management controls are adequate. The assurance statement provided on p. 27 is the result of our annual assessment and is based upon each senior officer's evaluation of controls.

Department organizations that identify material deficiencies are required to submit plans for correcting the cited weaknesses. The plans must include a risk assessment, cost of correction, and estimated date of completion. These corrective action plans, combined with the individual assurance statements, provide the framework for continual monitoring and improving of the Department's management 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 provide only 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 our auditor has identified instances in which the Department's financial management systems did not substantially comply with the act.

The Department is cognizant of our auditor's concerns relating to instances of non-compliance with FFMIA as noted in the Compliance with Laws and Regulations Report located on pages 160–162 of this report. The Department continues to strengthen and improve our financial management systems.

The FFMIA requires that agencies' financial management systems provide reliable financial data in accordance with generally accepted accounting principles and standards. Under FFMIA, our financial management systems substantially comply with the three following requirements under FFMIA—federal financial management system requirements, applicable federal accounting standards, and the use of U.S. Government Standard General Ledger at the transaction level.

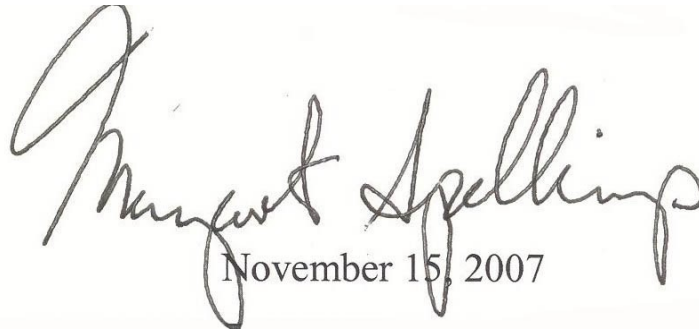
We are cognizant of the Inspector General's concerns regarding the Department's challenges regarding the proper storage of personally identifiable information, the lack of progress in implementing a two-factor authentication and encryption and the completion of system migration of mission critical systems along with their certification and authentication. The Department has solid corrective action plans in place to address these concerns.

Federal Managers' Financial Integrity Act

Management for 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). I am able to provide a qualified statement of assurance that the Department's internal control structure and financial management systems meet the objectives of FMFIA, with the exception of two material weaknesses. The details of these exceptions are provided on the next page in Exhibit 1.

The Department conducted its assessment of internal control in compliance with applicable laws and regulations, and in accordance with the Office of Management and Budget's Circular No. A-123, *Management's Responsibility for Internal Control*. Based upon the results of this evaluation, the Department identified two material weaknesses in its internal control over the effectiveness and efficiency of operations, and compliance with applicable laws and regulations, as of September 30, 2007. Other than the exceptions noted in Exhibit 1, the internal controls were operating effectively, and no material weaknesses were found in the design or operation of the internal controls. Based upon this evaluation the financial management systems meet the objectives of FMFIA.

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, *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 financial reporting as of June 30, 2007, was operating effectively and that no material weaknesses were found in the design or operation of the internal control over financial reporting.



November 15, 2007

Exhibit 1 – FMFIA Material Weaknesses

ID	Material Weakness	Description	Corrective Action	Anticipated Correction Date
1	Information Technology (IT) Security	Instances of inadequate security controls, including password protection, encryption, and intrusion detection.	<p>The Office of the Chief Information Officer (OCIO) is implementing a number of mitigating actions to correct IT security deficiencies found in management, operational, and technical controls.</p> <p>Procuring a world class Managed Security Service Provider (MSSP) who would have Independent Verification & Validation responsibilities in the area of operational Intrusion Detection Monitoring and incident escalation, Situational Awareness, Vulnerability Management and Configuration Management, Software Assurance, and Security Operations Center (SOC) Management.</p> <p>OCIO plans to mitigate weaknesses in password protection by implementing a two-factor authentication solution derived from Homeland Security Presidential Directive 12 (HSPD-12).</p> <ul style="list-style-type: none"> • Procure Service to Develop Enterprise Identity Management Framework • Develop an integrated identity management framework that addresses minimum Identity and Access Management requirements inclusive of E-Authentication, Public Key Infrastructure HSPD-12 and multifactor authentication <p>OCIO also plans to correct deficiencies found in protecting personally identifiable information (PII) by encrypting backup tapes, laptop computers, and other mobile media instruments containing PII such as thumb drives, CDs, and DVDs.</p>	<p>Awarded September 26, 2007.</p> <p>September 30, 2008.</p> <p>Awarded September 27, 2007.</p> <p>March 2008</p> <p>September 30, 2008</p>

ID	Material Weakness	Description	Corrective Action	Anticipated Correction Date
2	Monitoring and Oversight of Guaranty Agencies, Lenders and Servicers	Financial Partner Eligibility & Oversight had internal control deficiencies related to monitoring and oversight of Guaranty Agencies, Lenders and Servicers that aggregate to a material weakness.	<p>To address the internal control deficiencies, Federal Student Aid has re-evaluated its overall approach to oversight and monitoring of financial institutions, resulting in numerous corrective actions. The more significant corrective actions include the following:</p> <ol style="list-style-type: none"> 1) Clear delineation of functional responsibility within Federal Student Aid for oversight of these entities. 2) Development and full implementation of a more rigorous risk assessment methodology that will identify high-risk areas. This risk assessment methodology includes specific steps to incorporate recommendations from audits and reviews performed by organizations external to Federal Student Aid. 3) Standardization of the program review process to ensure consistency in decision-making. 4) Enforcement of appropriate corrective actions and the measurement of effectiveness of actions. <p>Together, these corrective actions and numerous others form a broader plan to provide the necessary oversight and monitoring to ensure compliance with the HEA, regulations, and guidance.</p>	Corrective Action Plans have been submitted for all audit findings and will be implemented by December 31, 2008.