

Appendix B: Material Weaknesses Reported by Auditors and Federal Managers' Financial Integrity Act (FMFIA) Tables

OMB audit guidance requires auditors to disclose material weaknesses in internal control over financial reporting. The FMFIA and OMB guidance require the head of each executive agency to annually report whether there is reasonable assurance that the agency's controls are achieving the intended objectives and whether the agency's financial management systems conform to government-wide requirements.

Agency heads are required to identify material weaknesses related to agency programs and operations (pursuant to Section 2 of FMFIA) and non-conformances with government-wide financial systems requirements (pursuant to Section 4 of FMFIA). Reporting material weaknesses under FMFIA is not limited to weaknesses over financial reporting.

The following tables include: the number of material weaknesses reported by independent auditors, the number of material weaknesses reported by agency heads under Section 2 of FMFIA, and the number of financial system non-conformances reported by agency heads under Section 4 of FMFIA. The number of material weaknesses may differ from those identified by independent auditors and those identified by agency heads. This difference is primarily due to the more in-depth review that management is required to perform on its internal control environment over financial reporting, per OMB Circular A-123, which may result in more material weaknesses being identified.

Table Definitions:

- **Beginning**—the number of material weaknesses (beginning balance) reported in the Independent Auditor's Report or FMFIA Report for the prior fiscal year.
- **New**—the number of new material weaknesses reported in the Independent Auditor's Report or FMFIA Report for the current fiscal year which could include reportable conditions/significant deficiencies reported from the prior fiscal year whose severity has risen to the level of a material weakness.
- **Resolved**—the number of material weaknesses reported in the Independent Auditor's Report or FMFIA Report for the current fiscal year that were reported as resolved or whose severity has been reduced so that it is no longer a material weakness.
- **Consolidated**—the number of material weaknesses reported in the Independent Auditor's Report or FMFIA Report that were combined with other repeat material weaknesses from a prior fiscal year or with a new material weakness from the current fiscal year.
- **Ending**—the number of material weaknesses (ending balance) reported in the Independent Auditor's Report or FMFIA Report for the current fiscal year. The number is calculated by adding the number of new material weaknesses reported from the current fiscal year to the number of material weaknesses reported the prior fiscal year and then subtracting the number of weaknesses resolved and consolidated weaknesses during the current fiscal year.

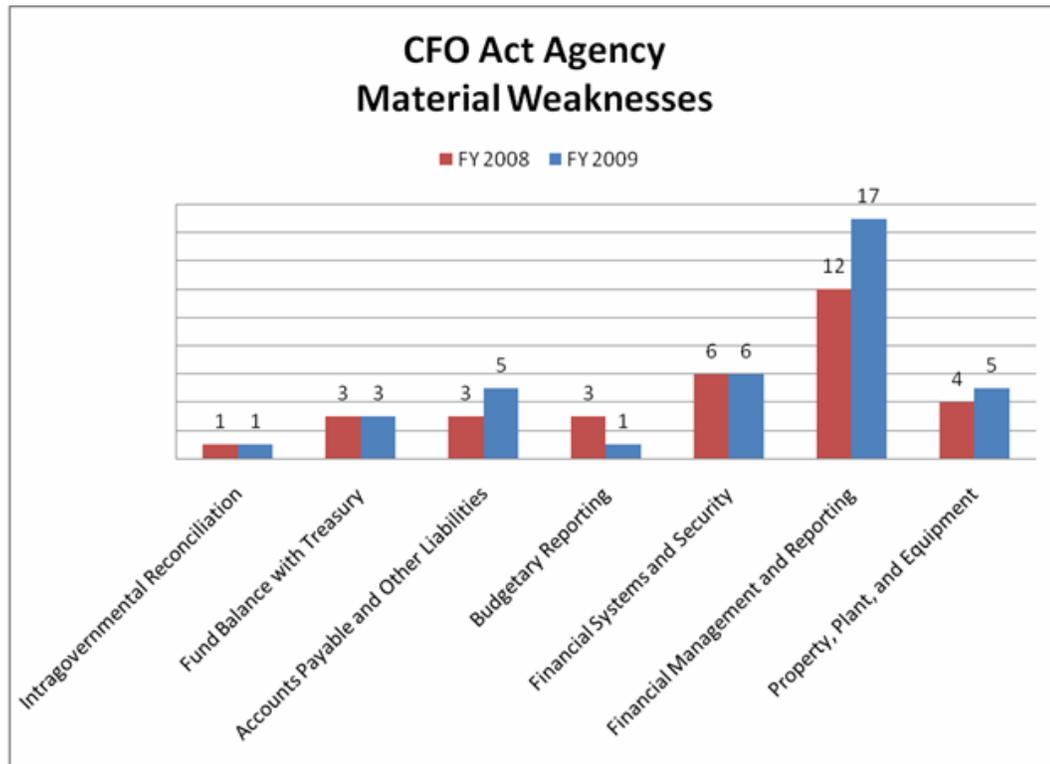
Fiscal Year 2009: Auditor-Identified Material Weaknesses

	Beginning	New	Resolved	Consolidated	Ending
Agriculture	2	0	0	0	2
Commerce	0	0	0	0	0
Defense	13	0	0	0	13
Education.....	0	0	0	0	0
Energy	0	0	0	0	0
HHS	2	0	0	0	2
Homeland	6	0	0	0	6
HUD	0	0	0	0	0
Interior.....	1	0	1	0	0
Justice.....	0	0	0	0	0
Labor.....	0	0	0	0	0
State	0	3	0	0	3
DOT	0	0	0	0	0
Treasury.....	1	1	0	0	2
VA.....	3	1	0	0	4
AID.....	1	0	0	0	1
EPA.....	0	3	0	0	3
GSA	1	0	1	0	0
NASA.....	2	0	1	0	1
NSF.....	0	0	0	0	0
NRC.....	0	0	0	0	0
OPM.....	0	0	0	0	0
SBA.....	0	1	0	0	1
SSA.....	0	0	0	0	0
Total	32	9	3	0	38

Fiscal Year 2009 Auditor-Identified Material Weaknesses by Category

In the fall of 2008, when the financial market began to show signs of significant stress, the nation looked to the Government to stabilize the nation’s financial system while protecting the taxpayer. In response, the Government enacted both the Emergency Economic Stabilization Act of 2008 (EESA) and the American Recovery and Reinvestment Act of 2009 (ARRA). Implementing EESA and ARRA presented extraordinary challenges in financial management. Reporting under ARRA was unparalleled in the breadth and depth of transparency it provides to the American public. In addition, the Government made unprecedented investments in private entities. Despite these challenges the Government did not increase the number of repeat material weaknesses; however new material weaknesses were incurred.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected. The existence of material weaknesses does not necessarily mean the financial statements are unreliable. However, they are indicators and their existence suggests the likelihood that the financial statements include material misstatements has increased.



This year great strides were made in the area of Budgetary Reporting, which was reduced by over 50 percent. However, challenges still remain particularly in the area of Financial Management and Reporting, which increased by almost 50 percent. Financial Management and Reporting material weaknesses were found in nine agencies. Auditors found the controls over the financial statement preparation needed to be improved in various areas including oversight, data integrity, reconciliations, updating of policies and procedures, and training. By improving controls over the reporting process agencies are better positioned to prepare reliable, useful, and timely financial information for decision making.

Fiscal Year 2009: FMFIA Section 2—Consolidated Totals

The agency head is responsible for submitting an annual assurance statement on the effectiveness of the agency's internal control. The OMB Circular A-123 requires the Agency Head to separately address the effectiveness of internal control over operations separately from the internal control over financial reporting. The assurance statement must take one of the following forms: a) Unqualified statement of assurance (no material weaknesses reported); b) Qualified statement of assurance, considering the exceptions explicitly noted (one or more material weaknesses reported); or c) Statement of no assurance (no processes in place or pervasive material weaknesses).

A material weakness over operations includes reportable conditions in which the agency head determines to be significant enough to report outside of the agency. A material weakness over financial reporting is a reportable condition, or a combination thereof which results in more than a remote¹ likelihood that a material misstatement of the financial statements, or other significant financial reports, will not be prevented or detected.

¹ The term "remote" is defined in SFFAS No. 5, Accounting for Liabilities of the Federal Government, as the chance of the future event, or events, occurring is slight.

Fiscal Year 2009: FMFIA Section 2–Consolidated Totals

	Adequate and Effective Management Controls		Number of Material Weaknesses					
	Section 2 Operational	Section 2 Financial Reporting	Beginning	New	Resolved	Consolidated	Reassessed	Ending
Agriculture ..	Unqualified	Qualified	3	0	0	0	0	3
Commerce ..	Qualified	Unqualified	1	0	0	0	0	1
Defense	Qualified	No Assurance	16	1	1	0	0	16
Education.....	Unqualified	Unqualified	1	0	1	0	0	0
Energy	Unqualified	Unqualified	0	0	0	0	0	0
HHS	Qualified	Qualified	2	0	0	0	0	2
Homeland ...	Qualified	No Assurance	16	0	0	0	4	12
HUD	Unqualified	Unqualified	0	0	0	0	0	0
Interior.....	Qualified	Unqualified	1	1	1	0	0	1
Justice.....	Qualified	Unqualified	2	0	0	0	0	2
Labor.....	Unqualified	Unqualified	0	0	0	0	0	0
State	Unqualified	Unqualified	0	0	0	0	0	0
DOT	Unqualified	Unqualified	1	0	1	0	0	0
Treasury.....	Qualified	Qualified	4	1	0	0	0	5
VA	Qualified	Qualified	1	0	0	0	0	1
AID.....	Unqualified	Unqualified	0	0	0	0	0	0
EPA.....	Unqualified	Qualified	0	3	0	0	0	3
GSA	Unqualified	Unqualified	2	0	2	0	0	0
NASA	Unqualified	Qualified	2	0	1	0	0	1
NSF.....	Unqualified	Unqualified	0	0	0	0	0	0
NRC	Unqualified	Unqualified	0	0	0	0	0	0
OPM.....	Qualified	Unqualified	1	0	0	0	0	1
SBA.....	Qualified	Unqualified	0	1	0	0	0	1
SSA.....	Unqualified	Unqualified	0	0	0	0	0	0
Total			<u>53</u>	<u>7</u>	<u>7</u>	<u>0</u>	<u>4</u>	<u>49</u>

Fiscal Year 2009: FMFIA Section 2–Operational

	Adequate and Effective Management Controls			Number of Material Weaknesses					
	Unqualified	Qualified	No Assurance	Beginning	New	Resolved	Consolidated	Reassessed	Ending
Agriculture	X			0	0	0	0	0	0
Commerce.....		X		1	0	0	0	0	1
Defense.....		X		4	1	1	0	0	4
Education	X			1	0	1	0	0	0
Energy.....	X			0	0	0	0	0	0
HHS.....		X		1	0	0	0	0	1
Homeland.....		X		10	0	0	0	4	6
HUD	X			0	0	0	0	0	0
Interior.....		X		0	1	0	0	0	1
Justice.....		X		2	0	0	0	0	2
Labor.....	X			0	0	0	0	0	0
State.....	X			0	0	0	0	0	0
DOT.....	X			1	0	1	0	0	0
Treasury.....		X		3	0	0	0	0	3
VA.....		X		1	0	0	0	0	1
AID	X			0	0	0	0	0	0
EPA.....	X			0	0	0	0	0	0
GSA.....	X			1	0	1	0	0	0
NASA	X			0	0	0	0	0	0
NSF.....	X			0	0	0	0	0	0
NRC	X			0	0	0	0	0	0
OPM.....		X		1	0	0	0	0	1
SBA.....		X		0	1	0	0	0	1
SSA.....	X			0	0	0	0	0	0
Total	14	10	0	26	3	4	0	4	21

Fiscal Year 2009: FMFIA Section 2–Financial Reporting

	Adequate and Effective Management Controls			Number of Material Weaknesses					
	Unqualified	Qualified	No Assurance	Beginning	New	Resolved	Consolidated	Reassessed	Ending
Agriculture		X		3	0	0	0	0	3
Commerce	X			0	0	0	0	0	0
Defense.....			X	12	0	0	0	0	12
Education	X			0	0	0	0	0	0
Energy.....	X			0	0	0	0	0	0
HHS		X		1	0	0	0	0	1
Homeland.....			X	6	0	0	0	0	6
HUD	X			0	0	0	0	0	0
Interior.....	X			1	0	1	0	0	0
Justice.....	X			0	0	0	0	0	0
Labor.....	X			0	0	0	0	0	0
State.....	X			0	0	0	0	0	0
DOT	X			0	0	0	0	0	0
Treasury.....		X		1	1	0	0	0	2
VA		X		0	0	0	0	0	0
AID.....	X			0	0	0	0	0	0
EPA.....		X		0	3	0	0	0	3
GSA	X			1	0	1	0	0	0
NASA		X		2	0	1	0	0	1
NSF.....	X			0	0	0	0	0	0
NRC	X			0	0	0	0	0	0
OPM.....	X			0	0	0	0	0	0
SBA.....	X			0	0	0	0	0	0
SSA.....	X			0	0	0	0	0	0
Total	16	6	2	27	4	3	0	0	28

Fiscal Year 2009: FMFIA Section 4—Financial Management Systems

	Systems Conform to Requirements		Number of Non-conformances						
	Yes, with Non-conformances		Beginning	New	Resolved	Consolidated	Reassessed	Ending	
	Yes	No							
Agriculture.....	X		1	0	0	0	0	1	
Commerce	X		0	0	0	0	0	0	
Defense		X	1	0	0	0	0	1	
Education.....	X		0	0	0	0	0	0	
Energy	X		0	0	0	0	0	0	
HHS		X	2	0	0	0	0	2	
Homeland		X	3	0	0	0	0	3	
HUD	X		0	0	0	0	0	0	
Interior.....	X		0	0	0	0	0	0	
Justice.....	X		0	0	0	0	0	0	
Labor.....	X		0	0	0	0	0	0	
State	X		0	0	0	0	0	0	
DOT	X		0	0	0	0	0	0	
Treasury.....	X		0	0	0	0	0	0	
VA.....		X	2	1	0	0	0	3	
AID.....	X		0	0	0	0	0	0	
EPA.....	X		0	0	0	0	0	0	
GSA.....	X		1	0	1	0	0	0	
NASA.....		X	1	0	1	0	0	0	
NSF.....	X		0	0	0	0	0	0	
NRC.....	X		0	0	0	0	0	0	
OPM.....	X		0	0	0	0	0	0	
SBA.....	X		0	0	0	0	0	0	
SSA.....	X		0	0	0	0	0	0	
Total.....	<u>18</u>	<u>2</u>	<u>4</u>	<u>11</u>	<u>1</u>	<u>2</u>	<u>0</u>	<u>0</u>	<u>10</u>