

**VOLUME 1, CHAPTER 3: “FEDERAL FINANCIAL MANAGEMENT
IMPROVEMENT ACT COMPLIANCE”**

SUMMARY OF MAJOR CHANGES

All changes are denoted by [blue font](#).

Substantive revisions are denoted by an asterisk (*) symbol preceding the section, paragraph, table, or figure that includes the revision.

Unless otherwise noted, chapters referenced are contained in this volume.

Hyperlinks are denoted by [***bold, italic, blue, and underlined font***](#).

The previous version dated [April 2019](#) is archived.

PARAGRAPH	EXPLANATION OF CHANGE/REVISION	PURPOSE
0301	Added overview paragraph of the Federal Financial Management Improvement Act of 1996 (FFMIA) and enhanced the definitions of financial and mixed systems.	Revision / Addition
0303	Revised to reflect Office of Management and Budget (OMB) Implementation Guidance and Circular A-123, Appendix D.	Revision
0304	Revised to consolidate FFMIA compliance responsibilities in one section and include the Chief Financial Officer Data Transformation Office.	Revision

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CHAPTER 3

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT COMPLIANCE

*0301 GENERAL

030101. Overview

The Federal Financial Management Improvement Act of 1996 (FFMIA) is intended to advance Federal financial management and ensure Federal systems provide reliable, consistent and uniformed disclosure of financial data using professionally-accepted accounting standards. FFMIA requires the Department of Defense (DoD or Department) to implement and maintain systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the United States Standard General Ledger (USSGL) at the transaction level. FFMIA requires DoD auditors to report on the Department's compliance as part of financial statement audit reports; and determine, based on the audit report and other information, whether the Department's financial management systems comply with FFMIA and, if not, to develop remediation plans as applicable.

030102. Purpose

This chapter prescribes the Department's policy for achieving compliance with FFMIA. It provides the basis for the implementation of FFMIA in order for the Department to generate timely, accurate, and useful information with which the Department leadership can make informed decisions and to ensure accountability on an ongoing basis.

030103. Authoritative Guidance

The requirements prescribed by this chapter are in accordance with the applicable provisions of:

- A. Title 10, United States Code, section 2223(a)(5) ([10 U.S.C. § 2223\(a\)\(5\)](#)) "Information technology: additional responsibilities of Chief Information Officers"
- B. [31 U.S.C § 1115](#) "Federal Government and agency performance plans."
- C. [31 U.S.C. § 3512](#), "Executive agency accounting and other financial management reports and plans"; with emphasis on sections 801 – 807 (FFMIA).
- D. [31 U.S.C. Chapter 9](#) "Agency Chief Financial Officers (CFO)."
- E. [44 U.S.C. Chapter 35, Subchapter III](#) "Confidential Information Protection and Statistical Efficiency.
- F. [44 U.S.C. §3601](#), "Definition."

G. Office of Management and Budget ([OMB Bulletin No. 19-01](#)), “Audit Requirements for Federal Financial Statements.”

H. [OMB Circular A-123, Appendix D](#), “Compliance with the Federal Financial Management Improvement Act of 1996.”

I. [OMB Circular A-130, Appendix I](#), “Responsibilities for Protecting and Managing Federal Information Resources.

J. Statement on Standards for Attestation Engagements No. 18, ([SSAE 18, AT-C Section 320](#)) “Reporting on an Examination of Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting.”

K. National Institute of Standards and Technology (NIST) [Special Publication 800-53 Revision 4](#) “Assessing Security and Privacy Controls for Federal Information Systems and Organizations.

L. U.S. Department of Treasury Financial Manual, Volume 1, Part 6, Chapter 9500 ([1 TFM 6-9500](#)), “Revised Federal Financial Management System Requirements for Fiscal Reporting”

M. [DoD Instruction \(DoDI\) 8510.01](#),”Risk Management Framework (RMF) for DoD Information Technology (IT)”

0302 DEFINITIONS

030201. Financial System

A financial system is an information system or set of applications that comprise the accounting portion of the financial management system that maintains all summary or detailed transactions resulting from budgetary and proprietary financial activity. The financial system encompasses processes and records that:

A. [Collect, process, maintain, transmit, and report financial events for all valid budgetary and proprietary transactions;](#)

B. [Provide sufficient, timely detail to permit proper classification of all budgetary and proprietary transactions to support the Department’s financial planning and budgeting activities;](#)

C. [Accumulate and measure the value of budgetary and proprietary transactions in a manner that permits consistent disclosure and reporting of financial information;](#) and

D. [Determine the period in which transactions occurred to permit the recording of transactions in the proper accounting period to support the preparation of financial statements.](#)

030202. Mixed System

A mixed system is an information system that supports both the financial and non-financial functions of the Department.

*0303 ACCOUNTING STANDARDS

030301. System Transactions

A. The Department's financial management systems must maintain accounting data at the transaction level. Financial management systems include both financial and mixed systems. All DoD financial events (budgetary and proprietary) must be recorded applying the requirements of the USSGL guidance in the TFM, and DoD USSGL transaction library (See Chapters 4 and 7 for additional guidance).

B. Application of the USSGL at the transaction level means that each time an approved transaction is recorded in DoD's financial management system; it will generate appropriate general ledger accounts for posting the transaction according to the rules defined in the DoD USSGL transaction library guidance.

030302. FFMIA Compliance

In determining whether the Department's financial management systems substantially comply with FFMIA, management and auditors must consider whether a system's performance prevents the Department from meeting the specific requirements of FFMIA as listed in paragraph 030101. Identified deficiencies that do not prevent the Department from meeting the requirements listed in paragraph 030101 generally should not be considered as part of a FFMIA compliance determination. Auditors then need to use judgment in assessing whether the adverse impacts caused by identified deficiencies are instances of substantial noncompliance with FFMIA.

A. The DoD strategy for FFMIA compliance is integrated with related efforts to achieve auditability and maintain effective Internal Control over Reporting (ICOR) including Internal Control over Financial Reporting (ICOFR). Documentation that supports these related requirements also support FFMIA compliance and may be used to avoid duplication of efforts.

B. The DoD ICOFR Guide serves as a standard reference for users involved in financial reporting internal control activities within the DoD. This includes the annual requirements prescribed in the OMB Circular A-123, the FFMIA, and other applicable laws, regulations, and guidance. Its companion, the DoD Financial Statement Audit Guide is a reference for the Department's personnel to use while supporting internal controls based financial statement audits.

C. The DoD ICOFR Guide identifies the specific Federal Information System Controls Audit Manual (FISCAM) control activities and techniques needed to address the key ICOR risk areas most likely to impact financial reporting based on the DoD's experience. The remaining FISCAM control activities (identified as "Other Control Techniques for Consideration

in a Financial Statement Audit”) should be considered by Components when evaluating federal financial systems’ compliance with laws and regulations, such as FFMIA and [the Federal Information Security Management Act of 2002 \(FISMA\)](#).

D. In addition, the system assessment and authorization requirements set forth in DoDI 8510.01, for DoD Information Technology” were developed to meet FISMA requirements but did not meet system audit requirements as defined in the DoD ICOFR Guide. To maximize testing efficiency, [the Office of the Under Secretary of Defense \(Comptroller\) \(OUSD\(C\)\)/CFO](#) developed the Financial Management Overlay that maps select FISCAM controls to their RMF counterparts as defined in NIST Special Publication 800-53, Version 4, to allow entities to test controls once and meet multiple compliance requirements. Any applicable FISCAM controls not covered by the Financial Management Overlay must be included in separate internal controls testing under the Manager’s Internal Control Program.

030303. Compliance Determination Framework

As an agency covered by the CFO Agency Act of 1990, the Department must determine whether financial management systems comply with Section 803(a) of the FFMIA. [DoD Components and OUSD\(C\)/CFO must utilize OMB’s “FFMIA Compliance Determination Framework”](#) (see Table 3-1) to assist the [OUSD\(C\)/CFO](#) in determining whether [the Department is](#) compliant with FFMIA. The FFMIA Compliance Determination Framework includes performance results based on annual financial statements, the "Federal Financial Management System Requirements" contained in [1 TFM 6-9500](#), and other information considered relevant and appropriate. [The FFMIA Compliance Determination Framework goals and compliance indicators must to be used during the ongoing operation of the Department’s financial management systems.](#) (See [OMB Circular A-123, Appendix D, Attachment 1](#) for additional guidance).

030304. Maintaining Compliance

To maintain compliance with FFMIA, [DoD Components must acquire, implement, and maintain financial management systems following the policies prescribed in Circular A-130, as well as associated financial management system guidance \(see paragraph 030103\).](#) The DoD ICOFR Guide defines mandatory practices for maintaining auditability subsequent to assertion and validation. These same practices must be applied to maintain compliance with FFMIA requirements.

*0304 RESPONSIBILITIES

The responsibilities identified in this section are limited to those specific to FFMIA compliance and are not meant to be an exhaustive list of all of the responsibilities of these entities. This includes the authorities and framework that the Department employs to monitor, analyze, validate, integrate, and control FFMIA compliance requirements.

030401. OUSD(C)/CFO

A. OUSD(C)/CFO is supported by the CFO Data Transformation Office (CDTO) Directorate, the Financial Improvement and Audit Remediation (FIAR) Directorate, and the Financial Management Policy and Reporting (FMPR) Directorate. OUSD(C) is responsible for providing a Department-wide assessment of compliance with the requirements of FFMIA.

1. If the Component financial management systems do not substantially comply with the requirements, Section 803(c)(3) of the FFMIA requires that a remediation plan be developed, in consultation with OMB, that describes the resources, remedies, and milestones for achieving substantial compliance.

2. OUSD(C)/CFO must provide OMB progress towards resolving identified deficiencies and such progress must be discussed in the Components remediation plan, capital planning and investment control plans, and other planning documents, when applicable. When discussing resolution of deficiencies in such reports, the findings or analysis of noncompliance must be included with a discussion of ongoing remediation activities. Progress towards resolving the deficiencies must not be construed as compliance with FFMIA.

3. Remediation plans are expected to bring the Department's financial management systems into substantial compliance no later than three years after the date a determination is made by OUSD(C)/CFO. However, if OUSD(C)/CFO, in concurrence with OMB, determines that the Department's financial management systems cannot be brought into substantial compliance within 3 years, the Component (in concurrence with OUSD(C)/CFO) may specify a longer period. In this case, the Component must designate a Component official responsible for bringing the Components financial management systems into substantial compliance by the date specified.

B. The CDTO Directorate:

1. Governs the DoD Advancing Analytics (Advana) repository of common enterprise data. See Chapter 10 for additional information.

2. Maintains alignment of Advana capabilities and products with the functional requirements.

3. Acquires, incorporates, and standardizes data to support the business domain areas that align with the organizational structure of the Department.

4. Provides reasonable assurance to data consumers that data controls are clearly defined and executed in accordance FFMIA.

C. The FIAR Directorate:

1. Develops, publishes, and issues detailed financial improvement audit strategies, methodologies, and implementation guidance.

2. Manages the overall Office of the Deputy Chief Financial Officer Notice of Findings and Recommendations Database functional requirements and critical audit capabilities.

3. Monitors reporting entity FFMIA assertions made and provides internal control training to reporting entities on improving compliance with FFMIA.

4. Supports and monitors the progress of reporting entity testing and remediation plans; and develops metrics for monitoring and reporting progress.

5. Defines practices for maintaining auditability subsequent to FFMIA compliance assertion and validation.

6. Prepares and distributes to DoD Components instructions for the preparation of the Annual Statement of Assurance (SOA), including reporting the results of the most recent FFMIA assessments.

D. The FMPR Directorate:

1. Interprets applicable accounting principles, standards and requirements to issue updates to FFMIA compliance policy.

2. Develops and issues the DoD Agency Financial Report and other financial information and external financial management reports.

3. Maintains and publishes the DoD Financial Management Regulation (DoD 7000.14-R) to ensure it remains consistent with laws and other applicable guidance.

030402. Office of the Chief Management Officer

The Office of the Chief Management Officer (CMO) is the principal management office for the Secretary of Defense responsible for optimizing the business environment across the DoD enterprise. The Office of the CMO:

A. Oversees development, modernization, and sustainment of the Department's portfolio of business systems through the Defense Business Council.

B. Develops and issues the Integrated Business Framework, the Business Enterprise Architecture requirements, and investment review process compliance guidance.

030403. DoD Components

A. Components must establish and maintain financial management systems that substantially comply with FFMIA Section 803(a) requirements. Component systems must be

developed to generate reliable, timely and consistent information necessary for the Department to comply with FFMIA requirements. DoD systems must have the ability to:

1. Prepare financial statements and other required financial and budget reports using information generated by the financial management system(s);
2. Provide reliable and timely financial information for managing current operations;
3. Reliably account for assets to properly protect from loss, misappropriation, or destruction; and
4. Be consistent with Federal accounting standards and the Standard General Ledger.

B. Components must maintain records of systems and transactional data to comply with FFMIA, financial statement audits, ICOFR, and Internal Control over Financial Systems in:

1. DoD Information Technology Portfolio Repository (DITPR). Components must ensure their system portfolio is consistent with the systems reported in DITPR. DoD financial systems and mixed systems must be identified in DITPR as part of the annual review process for Defense business systems in accordance with 10 U.S.C. § 2223(a)(5).

2. FIAR Systems Database (FSD). Components must utilize FSD to identify, capture, and report on the universe of financially-relevant systems for audits, executive leadership, and Congressional reporting requirements. Owners of each system must maintain the current status of FFMIA compliance in FSD to support annual FFMIA compliance and Department's Annual SOA reporting. This information includes the System Name, Date Validated, Validating Organization, a Material Weakness Indicator (as a result of the FFMIA assessment), and rationale for excluding a system from FFMIA compliance requirements.

3. Advana Database. Components must provide CDTO with periodic (minimum quarterly) budgetary and proprietary transactional data for uploading to the Advana database. See Chapter 10 for additional information.

C. Components must use 1 TFM 6-9500 in the pre-acquisition, acquisition, and implementation of new financial management solutions (manual or automated). These federal financial management system requirements establish uniform financial systems, standards, and reporting that support the achievement of the DoD financial reporting objectives. In addition, Components must use the Federal Financial Management System Requirements in accordance with OMB Circular A-123.

1. Develop a plan in accordance with OMB Circular A-130, Appendix I.

2 Ensure the system portfolio and remediation plans are consistent with modernization priorities identified in [44 U.S.C. §3601](#).

D. Assess internal controls over business processes as well as Information Technology General Controls (ITGC) and IT Application Controls.

E. Address FFMIA compliance status and remediation plan in the Annual SOA.

F. Conduct FFMIA certification testing using the [Government Accountability Office \(GAO\) Financial Audit Manual](#), [DoD ICOFR Guide](#), [1 TFM 6-9500](#) and [DoD Financial Statement Audit Guide](#), leveraging existing system development life-cycle activities where appropriate.

G. Maintains risk assessments and ensures testing of internal controls are performed, and SOA supporting documentation (e.g., control evaluation matrix, detailed Corrective Action Plans (CAP), risk assessment) including evidence of management's evaluation of existing internal controls and conclusions of material weaknesses reported in support of DoD-wide SOA reporting.

H. Maintains an itemization and characterization of the system of internal controls, Significant Deficiencies (Internal Control over Operations only), and Material Weaknesses and includes them in their SOA.

I. Ensures CAPs are established, internal control deficiencies remediated, and status reported to DoD leadership as specified in the DoD Guide.

030404. Defense Finance and Accounting Service

The Defense Finance and Accounting Service (DFAS) must develop and maintain a DFAS system FFMIA compliance remediation plan in coordination with DoD Components. For each financial system and mixed system managed by DFAS, this includes:

A. Establishment of a Memorandum of Agreement (MOA) with each DoD reporting entity supported by each DFAS system.

B. Conducting compliance testing, as required per the MOA.

C. Supporting reporting entity end-to-end business process testing (in accordance with the MOA).

D. [Provide Components with a Report on Controls at a Service Organization Relevant to User Entities' Internal Control over Financial Reporting](#) and also known as a [System and Organizational Controls 1 \(SOC 1\)](#). The SOC 1 is an important tool for Component management and auditors as they evaluate the effect of the controls at the service organization on the user entities' controls for financial reporting.

030405. DoD Inspector General

The Office of the Inspector General is responsible for:

A. Performing system audits (e.g., general and application control and FFMIA) based on the DoD Internal Control Guide and DoD Audit Guide.

B. Performing FFMIA compliance evaluations as part of financial statement audits and/or oversees evaluations performed by independent public accounting firms during financial statement audits. This includes identifying in writing the nature and extent of non-compliance when appropriate.

C. Report to Congress instances and reasons when the Department has not met the intermediate target dates established in the remediation plan required under FFMIA Section 803(c). Specifically, the report must include:

1. The Component responsible for the non-compliance;
2. The facts pertaining to the failure to comply with the requirements of subsection (a), including the nature and extent of the non-compliance, the primary reason or cause for the failure to comply, and any extenuating circumstances; and
3. A statement of the remedial actions is needed to comply.

030406. Defense Information Systems Agency

The Defense Information Systems Agency (DISA) provides application hosting services for the DoDs service providers. As a result, DISA is responsible for most of the ITGC over the computing environment in which many financial, personnel, and logistics applications reside. In order for service providers and components to rely on automated controls and documentation within these applications, controls must be appropriately and effectively designed.

Table 3-1. FFMIA Compliance Determination Framework

Goal	Compliance Indicator	Risk (or Performance) Level		
1. Federal Financial Information Management and Reporting		Low Risk	Medium Risk	High Risk
1.1. Consistently, completely, and accurately record and account for Federal funds, assets, liabilities, revenues, expenditures, and costs.	1.1.a. Current / prior year’s agency-reported material weaknesses, reportable conditions, or non-conformances, or auditor-reported material weaknesses, or significant deficiencies related to accounting for and recording Federal funds, assets, liabilities, revenues, expenditures, and costs.	Agency- or auditor-reported control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non-conformances. OR Auditor-reported significant deficiencies.	Agency- or auditor-reported material weaknesses.
1.2. Provide timely and reliable Federal financial management information of appropriate form and content to agency program managers for managing current Government programs and activities.	1.2.a. Current / prior year’s agency-reported material weaknesses, reportable conditions, or non-conformances related to internal reporting of financial management information used for managing current Government programs and activities.	Agency-reported- control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non- conformances.	Agency-reported material weaknesses.

Table 3-1. FFMIA Compliance Determination Framework (Continued)

Goal	Compliance Indicator	Risk (or Performance) Level		
		Low Risk	Medium Risk	High Risk
1. Federal Financial Information Management and Reporting				
1.3. Provide timely and reliable Federal financial management information of appropriate form and content for continuing use by stakeholders external to the agency, including the President, Congress, and the public.	1.3.a. Audit opinion on agency financial statements.	Unmodified (Unqualified).	N/A	Modified (Qualified), Disclaimer, or Adverse.
	1.3.b. Unaudited interim agency financial statements submitted to OMB within 21 calendar days after the end of the first three quarters of the fiscal year.	On time.	Not on time for current quarter.	Not on time for current and prior quarter(s).
	1.3.c. Agency financial reports submitted to OMB, GAO, and Congress by November 15th.	On time.	Not on time for current year.	Not on time for current and prior year(s).
1.4. Provide timely and reliable Federal financial management information of appropriate form and content that can be linked to strategic goals and performance information.	1.4.a. Agency costs, as presented in the Statement of Net Cost, in accordance with OMB Circular A-136, are clearly linked to agency strategic goals and are free from agency-reported material weaknesses, reportable conditions, or non-conformances, or auditor-reported material weaknesses or significant deficiencies.	Agency- or auditor-reported control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non-conformances. OR Auditor-reported significant deficiencies.	Agency- or auditor-reported material weaknesses.
	1.4.b. Financial and performance information, as presented in the performance section of the Agency Financial Report or Performance & Accountability report, is free from agency-reported material weaknesses, reportable conditions, or non-conformances.	Agency-reported-control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non-conformances.	Agency-reported material weaknesses.

Table 3-1. FFMIA Compliance Determination Framework (Continued)

Goal	Compliance Indicator	Risk (or Performance) Level		
		Low Risk	Medium Risk	High Risk
1. Federal Financial Information Management and Reporting				
1.5. Provide timely and reliable Federal financial management information of appropriate form and content that can be linked to strategic goals and performance information.	1.4.c. Agency costs, as presented in the Statement of Net Cost, in accordance with OMB Circular A-136, are clearly linked to agency strategic goals and are free from agency-reported material weaknesses, reportable conditions, or non-conformances, or auditor-reported material weaknesses or significant deficiencies.	Agency- or auditor-reported control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non-conformances. OR Auditor-reported significant deficiencies.	Agency- or auditor-reported material weaknesses.
	1.4.d. Financial and performance information, as presented in the performance section of the Agency Financial Report or Performance & Accountability report, is free from agency-reported material weaknesses, reportable conditions, or non-conformances.	Agency-reported-control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non-conformances.	Agency-reported material weaknesses.

Table 3-1. FFMIA Compliance Determination Framework (Continued)

Goal	Compliance Indicator	Risk (or Performance) Level		
2. Financial Management and Internal Controls		Low Risk	Medium Risk	High Risk
2.1. Provide internal control to restrict Federal obligations and outlays to those authorized by law and within the amount available.	2.1.a. Current / prior year's agency-reported material weaknesses, reportable conditions, or non-conformances, or auditor-reported material weaknesses or significant deficiencies related to restricting agency obligations and outlays to those authorized by law and within the amount available.	Agency- or auditor-reported control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non-conformances. OR Auditor-reported significant deficiencies.	Agency- or auditor-reported material weaknesses.
	2.1.b. Antideficiency Act violation report required to be submitted.	None required within the last 2 fiscal years preceding the current fiscal year.	Required within the last 2 fiscal years preceding the current fiscal year.	Required for the current fiscal year.
2.2. Perform Federal financial management operations effectively within resources available.	2.2.a. Current / prior year's instances of non-compliance with laws and regulations related to prompt payments or debts owed to the Federal Government.	No reported instances.	Instances reported in current year.	Instances reported in current and prior year(s).

Table 3-1. FFMIA Compliance Determination Framework (Continued)

Goal	Compliance Indicator	Risk (or Performance) Level		
		Low Risk	Medium Risk	High Risk
2. Financial Management and Internal Controls				
2.3. Minimize waste, loss, unauthorized use, or misappropriation of Federal funds, property and other assets within resources available.	2.3.a. Current / prior year's agency- reported material weaknesses, reportable conditions, or non-conformances, or auditor-reported material weaknesses or significant deficiencies related to minimizing waste, loss, unauthorized use, or misappropriation of Federal funds, property and other assets.	Agency- or auditor-reported control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non-conformances. OR Auditor-reported significant deficiencies.	Agency- or auditor-reported material weaknesses.
2.4. Minimize Federal financial management system security risks to an acceptable level.	2.4.a. FISMA or other (for example, National Institute of Standards and Technology-related) significant deficiencies ¹ impacting financial management systems in the agency Security Certification and Accreditation of Federal Information Systems.	Agency- or auditor-reported control deficiencies that individually or collectively are not considered significant.	Agency-reported reportable conditions or non-conformances. OR Auditor-reported significant deficiencies.	Agency- or auditor-reported material weaknesses. Agency-reported non-conformances, reportable conditions, or material weaknesses OR Auditor-reported significant deficiencies or material weaknesses

¹ OMB Memorandum 12-20 defines a significant deficiency as "a weakness in an agency's overall information systems security program or management control structure, or within one or more information systems that significantly restricts the capability of the agency to carry out its mission or compromises the security of its information, information systems, personnel, or other resources, operations, or assets. In this context, the risk is great enough that the agency head and other agencies must be notified and immediate or near-immediate corrective action must be taken.