



U.S. Department of Agriculture



**Office of Inspector General
Financial Audit Operations**

**Statement on Standards for Attestation
Engagements No. 16 Report on Controls at the
National Finance Center**

**Report 11401-2-11
September 2011**



United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: September 23, 2011

AUDIT
NUMBER: 11401-2-11

TO: Jon M. Holladay
Acting Chief Financial Officer
Office of the Chief Financial Officer

ATTN: Kathleen A. Donaldson
Audit Liaison Officer

FROM: Gil H. Harden /s/
Assistant Inspector General
for Audit

SUBJECT: Statement on Standards for Attestation Engagements No. 16 Report on Controls at
the National Finance Center

This report presents the results of our Statement on Standards for Attestation Engagements No. 16 examination for the Department of Agriculture's National Finance Center (NFC). Our examination was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and relevant attestation standards established by the American Institute of Certified Public Accountants. This report contains NFC management's system description and assertion about whether the description is fairly presented and controls are suitably designed and operating effectively to achieve control objectives stated in the description throughout the period from October 1, 2010, through July 31, 2011. Additionally, the report includes our unqualified opinion on NFC's controls based on the criteria described in its assertion. Furthermore, the report does not contain recommendations. The projection of any conclusions based on our engagement to future periods is subject to the risk that changes may alter the validity of such conclusions. This report is intended solely for NFC as well as user entities of NFC payroll/personnel and/or application hosting systems during the specified period and their independent auditors.

We appreciate the courtesies and cooperation extended to us by members of your staff during this engagement.

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Executive Summary
Statement on Standards for Attestation Engagements No. 16 Report on Controls at the National Finance Center (Report 11401-2-11)

Results in Brief

This report presents the results of our Statement on Standards for Attestation Engagements No. 16 engagement for the Department of Agriculture's National Finance Center (NFC). Our examination was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and relevant attestation standards established by the American Institute of Certified Public Accountants.

NFC provided us with a description of its payroll/personnel and application hosting systems for the period from October 1, 2010, through July 31, 2011, included as exhibit A, and an assertion, included as exhibit B, about the subject matter of our engagement. Our objectives were to obtain reasonable assurance about whether, in all material respects, based on suitable criteria, (1) management's description of NFC systems fairly presents the systems that were designed and implemented throughout the period specified in the description; (2) the controls related to the control objectives stated in the description of NFC systems were suitably designed throughout the specified period; and (3) the controls operated effectively to provide reasonable assurance that the control objectives stated in the description of NFC systems were achieved throughout the specified period.

In our opinion, in all material respects, based on the criteria described in NFC's assertion, the description fairly presents NFC payroll/personnel processing and application hosting systems that were designed and implemented throughout the period from October 1, 2010, to July 31, 2011. Also, in our opinion, the controls included in the description were suitably designed and operating effectively to provide reasonable assurance that the associated control objectives would be achieved from October 1, 2010, to July 31, 2011, if user entities effectively applied the complementary controls contemplated in the design of NFC controls throughout this period.

Recommendation Summary

We do not make any recommendations in this report.

Independent Service Auditors' Report

To: Jon M. Holladay
Acting Chief Financial Officer
Office of the Chief Financial Officer

Scope

We have examined the Department of Agriculture National Finance Center's (NFC) description of its payroll/personnel and application hosting systems throughout the period from October 1, 2010 to July 31, 2011, included as exhibit A, and the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description. The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls contemplated in the design of NFC controls are suitably designed and operating effectively, along with related controls at NFC. We have not evaluated the suitability of the design or operating effectiveness of such complementary user entity controls.

NFC used subservice organizations to help support general controls related to payroll/personnel processing and application hosting. The description in exhibit A includes only the controls and related control objectives of NFC and excludes the control objectives and related controls of the specified subservice organizations. Our examination did not extend to controls at the subservice organizations specified in the NFC system description.

NFC's Responsibilities

NFC has provided an assertion, included as exhibit B, about the fair presentation of the description and the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description. NFC is responsible for preparing the description and for the assertion, including the completeness, accuracy, and method of presentation of the description and the assertion; providing the services covered by the description; specifying the control objectives and stating them in the description; identifying the risks that threaten the achievement of the control objectives; selecting the criteria; and designing, implementing, and documenting controls to achieve the related control objectives stated in the description.

Office of Inspector General's Responsibilities

Our responsibility is to express an opinion on the fairness of the presentation of the description and on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description, based on our examination. We conducted our examination in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, and relevant attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our examination to obtain reasonable assurance about whether, in all material respects, the description is fairly presented and the controls were suitably designed and operating effectively

to achieve the related control objectives stated in the description throughout the period from October 1, 2010 to July 31, 2011.

An examination of a description of a service organization's systems and the suitability of the design and operating effectiveness of the service organization's controls to achieve the related control objectives stated in the description involves performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design and operating effectiveness of those controls to achieve the related control objectives stated in the description. Our procedures included assessing the risks that the description is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives stated in the description. Our procedures also included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the related control objectives stated in the description were achieved. An examination engagement of this type also includes evaluating the overall presentation of the description and the suitability of the control objectives stated therein, and the suitability of the criteria specified by the service organization and described in exhibit B. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Inherent Limitations

Because of their nature, controls at a service organization may not prevent, or detect and correct, all errors or omissions in processing or reporting associated with NFC payroll/personnel and application hosting systems. Also, the projection to the future of any evaluation of the fairness of the presentation of the description, or conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives, is subject to the risk that controls at a service organization may become inadequate or fail.

Opinion

In our opinion, in all material respects, based on the criteria described in NFC's assertion in exhibit B:

- The description fairly presents the NFC payroll/personnel and application hosting systems that were designed and implemented throughout the period from October 1, 2010, to July 31, 2011.
- The controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period from October 1, 2010, to July 31, 2011, and user entities applied the complementary controls contemplated in the design of NFC controls throughout the period from October 1, 2010, to July 31, 2011.

- The controls we tested, which were those NFC controls necessary to provide reasonable assurance that the control objectives stated in the description were achieved¹, operated effectively throughout the period from October 1, 2010, to July 31, 2011.

Description of Tests of Controls

The specific controls tested and the nature, timing, and results of those tests are included in exhibit C.

Restricted Use

This report, including the description of tests of controls and results thereof in exhibit C, is intended solely for the information and use of NFC, user entities of NFC payroll/personnel and/or application hosting systems during some or all of the period from October 1, 2010, to July 31, 2011, and the independent auditors of such user entities, who have a sufficient understanding to consider it, along with other information including information about controls implemented by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements. This report is not intended to be and should not be used by anyone other than these specified parties.

Gil H. Harden /s/
Assistant Inspector General
for Audit

September 22, 2011

Washington, D.C.

¹ In addition to the NFC controls we tested, the effective application of the complementary user entity controls referred to in the scope paragraph of this report is necessary to achieve the related control objectives.

Abbreviations

CSAM Cyber Security Assessment and Management System
EmpowHR..... Human Capital Management System
NFC..... National Finance Center
POA&M..... Plan of Action and Milestones

The subsequent sections of the report exhibit A (pages 6 through 26), exhibit B (pages 27 and 28), and exhibit C (pages 29 through 52) are not being publicly released due to the sensitive security content.