United States Department of Agriculture
Office of Inspector General

Statement on Standards for Attestation Engagements No. 16, Report on Controls at the National Finance Center for October 1, 2015, to July 31, 2016

Audit Report 11401-0002-12
September 2016

United States Department of Agriculture

Office of Inspector General

Washington, D.C. 20250

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TO: Jon Holladay
Chief Financial Officer
Office of the Chief Financial Officer

ATTN: Peggy Javery
Director
Fiscal Policy Division

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Statement on Standards for Attestation Engagements No. 16, Report on Controls at the National Finance Center for October 1, 2015, to July 31, 2016

This report presents the results of the Statement on Standards for Attestation Engagements No. 16 examination for the United States Department of Agriculture's (USDA) National Finance Center (NFC) description of its payroll/personnel and application hosting services used to process customer agencies' transactions throughout the period October 1, 2015 to July 31, 2016. The report contains an unmodified opinion on the description and controls that were suitably designed to provide reasonable assurance that the control objectives would be achieved.

KPMG LLP, an independent certified public accounting firm, conducted the audit. In connection with the contract, we reviewed KPMG LLP's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with *Government Auditing Standards (*issued by the Comptroller General of the United States), was not intended to enable us to express, and we do not express, opinions on the USDA NFC's description of its payroll/personnel and application hosting services used to process customer agencies' transactions throughout the period October 1, 2015 to July 31, 2016. KPMG LLP is responsible for the attached auditor's report, dated September 23, 2016, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG LLP did not comply, in all material respects, 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.

It is the opinion of KPMG LLP, in all material respects, based on the criteria described in NFC's assertion that throughout the October 1, 2015, through July 31, 2016, timeframe: (1) the description fairly presents the financial management services that were designed and implemented; (2) 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, and customer agencies applied the complementary customer agency controls and sub-service organizations applied the controls contemplated in the design of NFC's controls; and (3) the controls tested, which together with the complementary customer agency controls and sub-service organizations' controls referred to in the scope paragraph of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the description in Section IV were achieved.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted to our website http://www.usda.gov/oig in the near future.

United States Department of Agriculture
Office of the Chief Financial Officer

Report on National Finance Center's Description of Its Payroll/Personnel and Application-Hosting Systems and the Suitability of the Design and Operating Effectiveness of Its Controls

For the period October1, 2015 through July 31, 2016

I. INDEPENDENT SERVICE AUDITORS' REPORT PROVIDED BY KPMG LLP

KPMG LLP
1676 International Drive
McLean, VA 22102

Independent Service Auditors' Report

Deputy Chief Financial Officer, Office of the Chief Financial Officer
Director, National Finance Center
Inspector General, United States Department of the Agriculture

Scope
We have examined United States Department of Agriculture's (USDA's) description of the National Finance Center's (NFC's) Payroll/Personnel and Application-Hosting Systems throughout the period October 1, 2015 to July 31, 2016 (description) and the suitability of the design and the 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's controls are suitably designed and operating effectively, along with related controls at the service organization. We have not evaluated the suitability of the design or the operating effectiveness of such complementary user entity controls.

NFC uses external service organizations (sub-service organizations) for application processing. The description in Sections III and IV includes only the control objectives and related controls of NFC and excludes the control objectives and related controls of the sub-service organizations. Our examination did not extend to controls of sub-service organizations.

The information in Section V of management's description of the service organization's system, "Other Information Provided by NFC," is presented by management of NFC to provide additional information and is not a part of NFC's description of its system made available to customer agencies during the period October 1, 2015 to July 31, 2016. Information in Section V has not been subjected to the procedures applied in the examination of the description of the system and of the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description of the system, and, accordingly, we express no opinion on it.

Service organizations' responsibilities
In Section II, NFC has provided an assertion about the fairness of the presentation of the description, the suitability of the design and the 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 and using suitable criteria, and designing, implementing, and documenting controls to achieve the related control objectives stated in the description.

Service auditor's responsibilities
Our responsibility is to express an opinion on the fairness of the presentation of the description, the suitability of the design and the 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 attestation standards established by the American Institute of Certified Public Accountants

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(AICPA) and applicable Government Auditing Standards issued by the Comptroller General of the United States. 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, the controls were suitably designed and the controls were operating effectively to achieve the related control objectives stated in the description throughout the period October 1, 2015 to July 31, 2016.

An examination of a description of a service organizations system 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 the 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 management's assertion. 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 transactions. 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 (1) the description fairly presents the NFC's Payroll/Personnel and Application-Hosting Systems that was designed and implemented throughout the period October 1, 2015 to July 31, 2016, (2) 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 October 1, 2015 to July 31, 2016, and customer agencies applied the complementary user entity controls contemplated in the design of NFC's controls throughout the period October 1, 2015 to July 31, 2016, and (3) the controls tested, which together with the complementary user entity controls referred to in the scope paragraph of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the description in Section IV were achieved, operated effectively throughout the period October 1, 2015 to July 31, 2016.

Description of tests of controls

The specific controls and the nature, timing, extent, and results of the tests are listed in Section IV.

Restricted use

This report, including the description of tests of controls and results thereof in Section IV, is intended solely for the information and use of NFC, USDA's Office of Inspector General, the Office of Management and Budget, the Government Accountability Office, the U.S. Congress, customer agencies of NFC's Payroll/Personnel and Application-Hosting Systems during some or all of the period October 1, 2015 to July 31, 2016, and the independent auditors of such customer agencies who have a sufficient understanding to consider it, along with other information including information about controls implemented by customer agencies themselves, when assessing the risks of material misstatements of customer agencies' financial statements. This report is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

September 23, 2016
McLean, Virginia

The subsequent sections of the report Section II-Management's Assertion Provided by National Finance Center (pages 5-7), Section III-Description of Controls Provided by the National Finance Center (pages 8-36), Section IV-Control Objectives, Related Controls, and Tests of Operating Effectiveness (pages 37-65), and Section V-Other Information Provided by the National Finance Center (pages 66-67) are not being publicly released due to the sensitive security content.

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