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, 2013, to July 31, 2014

11401-0007-11

September 2014

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Audit Report 11401-0007-11

What Were OIG's Objectives

To express an opinion on whether (1) NFC management's system description fairly presents the systems in place during the period, (2) system controls were suitably designed, and (3) the controls operated effectively to provide reasonable assurance that described control objectives are achieved.

What OIG Reviewed

OIG reviewed NFC management's description of its payroll/personnel and application hosting systems for the period from October 1, 2013, through July 31, 2014, and whether system controls were suitably designed. We also tested the controls to determine if they were operating with sufficient effectiveness to provide reasonable assurance that NFC achieved control objectives.

What OIG Recommends

This report does not contain recommendations.

OIG examined specified controls at USDA's National Finance Center.

What OIG Found

The Department of Agriculture's (USDA) National Finance Center (NFC) provided the Office of Inspector General (OIG) with a description of its payroll/personnel and application hosting systems for the period from October 1, 2013, through July 31, 2014. NFC also provided an assertion about whether the description was fairly presented and controls were suitably designed and operating effectively to achieve control objectives specified in the description. OIG performed an examination of the description and assertion in accordance with standards issued by the Comptroller General of the United States and relevant attestation standards issued by the American Institute of Certified Public Accountants.

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

This report is not intended to be and should not be used by parties other than NFC, entities using the systems during the period, and user entities' independent auditors.

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

DATE: September 25, 2014

AUDIT NUMBER: 11401-0007-11

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

ATTN: Kathy A. Donaldson
Audit Liaison Officer
Management Control and Audit Team

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, 2013, to July 31, 2014

This report presents the results of our Statement on Standards for Attestation Engagements No. 16 examination for the United States 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, 2013, through July 31, 2014. Additionally, the report includes our unmodified 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 our engagement. This report contains publicly available information and will be posted to our website http://www.usda.gov/oig in the near future.

Table of Contents

Independent Service Auditor's Report 1

Abbreviations 4

The subsequent sections of the report exhibit A (pages 5 and 6), exhibit B (pages 7 through 29), and exhibit C (pages 30 through 57) are not being publicly released due to the sensitive security content. 5

Independent Service Auditor's Report

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

Scope

We have examined the Department of Agriculture's National Finance Center's (NFC) description of its payroll/personnel and application hosting systems throughout the period from October 1, 2013, to July 31, 2014, included as Exhibit B, 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 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 B 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 A, 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, 2013, to July 31, 2014.

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 management's assertion in Exhibit A of this report. 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 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 A:

- The description fairly presents the NFC payroll/personnel and application hosting systems that were designed and implemented throughout the period from October 1, 2013, to July 31, 2014.

- 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, 2013, to July 31, 2014, and user entities applied the complementary user entity controls contemplated in the design of NFC's controls throughout the period from October 1, 2013, to July 31, 2014.

- The controls we tested, which together with the complementary user entity controls referred to in the scope paragraph of this report, if operating effectively, were those NFC controls necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from October 1, 2013, to July 31, 2014.

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, 2013, to July 31, 2014, 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
Assistant Inspector General for Audit

September 25, 2014

Washington, D.C.

Abbreviations

NFC ..... National Finance Center

OIG ..... Office of the Inspector General

USDA ..... United States Department of Agriculture

The subsequent sections of the report exhibit A (pages 5 and 6), exhibit B (pages 7 through 29), and exhibit C (pages 30 through 57) are not being publicly released due to the sensitive security content.

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