



U.S. Department of Agriculture



Office of Inspector General
Financial Audit Operations

Audit Report

Statement on Auditing Standards No. 70 Report on National Finance Center Controls

Audit Report 11401-33-FM
September 2010



U.S. Department of Agriculture
Office of Inspector General
Washington, D.C. 20250



DATE: September 24, 2010

REPLY TO
ATTN OF: 11401-33-FM

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

THROUGH: Kathleen A. Donaldson
Audit Liaison Officer
Office of the Chief Financial Officer

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

SUBJECT: Statement on Auditing Standards No. 70 Report on
National Finance Center Controls

This report presents the results of our Statement on Auditing Standards (SAS) No. 70 audit of the National Finance Center's (NFC) description of controls as of June 30, 2010. The audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and the American Institute of Certified Public Accountants standards that are commonly referred to as a SAS No. 70 audit. This report contains an unqualified opinion and does not contain recommendations. The projection of any conclusions based on our audit findings to future periods are subject to the risk that changes may alter the validity of such conclusions. This report is intended solely for the management of NFC, its customer agencies, and their auditors.

We appreciate the courtesies and cooperation extended to us during this review.

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Executive Summary

Statement on Auditing Standards No. 70 Report on the National Finance Center Controls (Report 11401-33-FM)

Results in Brief

This report presents the results of our Statement on Auditing Standards No. 70 audit of the Department of Agriculture (USDA) National Finance Center's (NFC) description of controls as of June 30, 2010. Our review was conducted in accordance with *Government Auditing Standards* and relevant standards established by the American Institute of Certified Public Accountants.

Our objectives were to perform procedures necessary to express opinions about whether (1) NFC's description of controls in exhibit A presents fairly, in all material respects, the aspects of NFC controls that may be relevant to a customer agency's internal control as it relates to an audit of financial statements; (2) the controls included in the description were placed in operation and suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily; and (3) the controls we tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified were achieved during the period from July 1, 2009, through June 30, 2010.

In our opinion, NFC's description of controls presented fairly, in all material respects, the relevant aspects of NFC controls. Also, in our opinion, the controls included in the description were suitably designed and operating with sufficient effectiveness to provide reasonable assurance that associated control objectives would be achieved if customer agencies and subservice organizations applied the controls contemplated in the NFC description of controls.

Recommendation Summary

We do not make any recommendations in this report.

Independent Auditors' Report

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

We have examined the accompanying description of controls, referenced in exhibit A, related to the Department of Agriculture's (USDA) National Finance Center (NFC) payroll/personnel systems and application hosting services. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of NFC's controls that may be relevant to a customer agency's internal control as it relates to an audit of financial statements; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily and customer agencies and subservice organizations applied the controls contemplated in the design of NFC's controls; and (3) such controls had been placed in operation as of June 30, 2010. The control objectives were specified by the management of NFC.

NFC uses the services of subservice organizations, including the Office of the Chief Information Officer/National Information Technology Center (OCIO/NITC), to help support general controls related to payroll/personnel processing and application hosting. The accompanying description includes only those controls and related control objectives of NFC. Our examination did not extend to controls of the sub-service organizations specified by NFC.¹

Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and relevant standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary to obtain a reasonable basis for rendering our opinion. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In our opinion, NFC's description of controls in exhibit A presents fairly, in all material respects, the relevant aspects of NFC controls that had been placed in operation as of June 30, 2010. Also, in our opinion, the controls, as described in exhibit A, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily and customer agencies and subservice organizations applied the controls contemplated in the design of NFC's controls.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific controls to obtain evidence about their effectiveness in meeting the related control objectives during the period from July 1, 2009, through June 30, 2010. The specific controls and the nature, timing, extent, and results of our tests are listed in exhibit B. This information will be provided to customer agencies and their auditors to be taken into consideration, along with information about the internal control at

¹ OCIO/NITC control activities were evaluated in our Report 88501-14-FM, *Statement on Auditing Standards No. 70 Report on the National Information Technology Center General Controls Review*, dated September 2010.

customer agencies, when making assessments of control risk for customer agencies. In our opinion, the controls that were tested, as described in exhibit B, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in exhibit A were achieved during the period from July 1, 2009, through June 30, 2010.

The relative effectiveness and significance of specific controls at NFC and their effect on assessments of control risk at customer agencies are dependent on their interaction with the controls and other factors present at individual customer agencies. We have performed no procedures to evaluate the effectiveness of controls at individual customer agencies.

The description of controls at NFC is as of June 30, 2010, and information about tests of the operating effectiveness of specific controls covers the period from July 1, 2009, through June 30, 2010. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at NFC is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that (1) changes made to the system or controls, (2) changes in processing requirements, or (3) changes required because of the passage of time may alter the validity of such conclusions.

This report is intended solely for use by the management of NFC, its customer agencies, and the independent auditors of the customer agencies.

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

September 23, 2010

Abbreviations Used in This Report

ACID.....	accessor identification
C&A.....	certification and accreditation
CIO.....	Chief Information Officer
CSAM.....	Cyber Security Assessment and Management System
DR.....	disaster recovery
EPIC.....	Entry, Processing, Inquiry, and Corrections System
EPP.....	Employee Personal Page
FESI.....	Front-End System Interface
FIPS.....	Federal Information Processing Standard
ID.....	identification
ISA.....	interconnection security agreement
IT.....	information technology
NEIS.....	Non-Employee Information System
NFC.....	National Finance Center
NITC.....	National Information Technology Center
OCIO.....	Office of the Chief Information Officer
PIA.....	privacy impact assessment
POA&M.....	plan of action & milestones
PSD.....	position sensitivity designation
RA.....	risk assessments
SALL.....	SecureALL
SPPS.....	Special Payroll Processing System
SRM.....	Security Requirements Matrix
SSP.....	system security plan
ST&E.....	security test and evaluation
STAR.....	System for Time and Attendance Reporting
TIME.....	Time and Attendance Validation System
TMGT.....	Table Management System
USDA.....	U.S. Department of Agriculture

The subsequent sections of the report exhibit A (pages 5 through 28) and exhibit B (pages 29 through 42), are not being publicly released due to the sensitive security content.