United States Department of Agriculture

Statement on Standards for Attestation Engagement No. 18 Report on Controls at The National Finance Center for October 1, 2017 to July 31, 2018

Audit Report 11401-0004-12

September 2018

OFFICE OF INSPECTOR GENERAL

IMPORTANT NOTICE

This audit report contains sensitive information that has been redacted for public release, due to privacy concerns.

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

DATE: September 21, 2018

AUDIT NUMBER: 11401-0004-12

TO: Lynn Moaney
Acting Deputy Chief Financial Officer
Office of the Chief Financial Officer

ATTN: Calvin Turner
Director
National Finance Center

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Statement on Standards for Attestation Engagements No. 18, Report on Controls at the National Finance Center for October 1, 2017, to July 31, 2018

This report presents the results of the Statement on Standards for Attestation Engagements No. 18 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, 2017 to July 31, 2018. 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, 2017 to July 31, 2018. KPMG LLP is responsible for the attached auditor's report, dated September 14, 2018, 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, 2017, through July 31, 2018, 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. Due to the sensitive information in this document, further distribution or release of this information is not authorized without OIG approval. A redacted version of this report will be made publically available at 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 October 1, 2017 through July 31, 2018

I. INDEPENDENT SERVICE AUDITOR'S REPORT PROVIDED BY KPMG LLP

KPMG LLP
1676 International Drive
McLean, VA 22102

Independent Service Auditor's Report

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

Scope
We have examined the description of the National Finance Center's (NFC's) Payroll/Personnel and Application-Hosting Systems throughout the period October 1, 2017, to July 31, 2018 (the Description) and the suitability of the design and operating effectiveness of the controls included in the description to achieve the related control objectives stated in the description, based on the criteria identified in NFC's Assertion (Assertion). The controls and control objectives included in the description are those that management of NFC believes are likely to be relevant to user entities' internal control over financial reporting, and the description does not include those aspects of the system that are not likely to be relevant to user entities' internal control over financial reporting.

The information included in Section V "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 user entities during the period October 1, 2017, to July 31, 2018. 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 upon it.

NFC uses subservice organizations for some of its application processing. The description includes only the control objectives and related controls of NFC and excludes the control objectives and related controls of the subservice organizations. The description also indicates that certain control objectives specified by NFC can be achieved only if complementary subservice organization controls assumed in the design of NFC's controls are suitably designed and operating effectively, along with the related controls at NFC. Our examination did not extend to controls of the subservice organizations and we have not evaluated the suitability of the design or operating effectiveness of such complementary subservice organization controls.

The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls assumed in the design of NFC's controls are suitably designed and operating effectively, along with related controls at NFC. Our examination did not extend to such complementary user entity controls, and we have not evaluated the suitability of the design or operating effectiveness of such complementary user entity controls.

Service organization's responsibilities
In section II, NFC has provided an assertion about the fairness of the presentation of the description and 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 assertion, including the completeness, accuracy, and method of presentation of the description and 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 stated in the assertion, and designing, implementing, and documenting controls that are suitably designed and operating effectively 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 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.

KPMG LLP is a Delaware limited liability partnership and the U.S. member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA) and Generally Accepted Government Auditing Standards established by the U.S. Government Accountability Office (GAO). Those standards require that we plan and perform the examination to obtain reasonable assurance about whether, in all material respects, based on the criteria in management's assertion, 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 October 1, 2017, to July 31, 2018. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

An examination of a description of a service organization's system and the suitability of the design and operating effectiveness of controls 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 the controls to achieve the related control objectives stated in the description, based on the criteria in management's assertion;
- 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;
- testing the operating effectiveness of those controls that management considers necessary to provide reasonable assurance that the related control objectives stated in the description were achieved; and
- evaluating the overall presentation of the description, suitability of the control objectives stated in the description, and suitability of the criteria specified by the service organization in its assertion.

Inherent limitations

The description is prepared to meet the common needs of a broad range of user entities and their auditors who audit and report on user entities' financial statements and may not, therefore, include every aspect of the system that each individual user entity may consider important in its own particular environment. Because of their nature, controls at a service organization may not prevent, or detect and correct, all misstatements 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 stated in the description is subject to the risk that controls at a service organization may become ineffective.

Description of tests of controls

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

Opinion

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

a. the description fairly presents the system that was designed and implemented throughout the period October 1, 2017, to July 31, 2018;
b. 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, 2017, to July 31, 2018, and subservice organizations and user entities applied the complementary controls assumed in the design of NFC's controls throughout the period October 1, 2017, to July 31, 2018; and
c. the controls operated effectively to provide reasonable assurance that the control objectives stated in the description were achieved throughout the period October 1, 2017, to July 31, 2018, if complementary subservice organization and customer agency controls, assumed in the design of NFC's controls, operated effectively throughout the period October 1, 2017, to July 31, 2018.

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 management of NFC, customer agencies of NFC's system during some or all of the period October 1, 2017, to July 31, 2018, and their auditors who audit and report on such customer agencies' financial statements or internal control over financial reporting and 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 misstatement 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 14, 2018
McLean, VA

The subsequent sections of the report
Section II— Management's Assertion Provided by National Finance Center (pages 7–10), Section III—Description of Controls Provided by the National Finance Center (pages 11–55), Section IV—Control Objectives, Related Controls, and Tests of Operating Effectiveness (pages 56–96), and Section V—Other Information Provided by the National Finance Center (pages 97–98) are not being publicly released due to the sensitive security content.

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