



United States Department of Agriculture
Office of Inspector General





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



DATE: September 27, 2012

AUDIT
NUMBER: 11401-0004-11

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

ATTN: Kathleen A. Donaldson
Audit Liaison Officer
Planning and Accountability 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

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 generally accepted 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, 2011, through July 31, 2012. 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.

Table of Contents

Executive Summary	1
Independent Service Auditors' Report	2
Abbreviations	5
Exhibit A: National Finance Center - Management's Assertion	6
Exhibit B: National Finance Center - Management's System Description.....	8
Exhibit C: Independent Service Auditor's Description of Tests of the National Finance Center Controls	30

Statement on Standards for Attestation Engagements No. 16, Report on Controls at the National Finance Center (Report 11401-0004-11)

Executive Summary

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 generally accepted 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, 2011, through July 31, 2012, included as exhibit B, and an assertion, included as exhibit A, 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, 2011, to July 31, 2012. 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, 2011, to July 31, 2012, 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
Deputy 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, 2011 to July 31, 2012, 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 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 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 generally accepted 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, 2011 to July 31, 2012.

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 A. 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 A:

- The description fairly presents the NFC payroll/personnel and application hosting systems that were designed and implemented throughout the period from October 1, 2011, to July 31, 2012.
- 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, 2011, to July 31, 2012, and user entities applied the complementary controls contemplated in the design of NFC controls throughout the period from October 1, 2011, to July 31, 2012.

- The controls we tested, which were those NFC controls necessary to provide reasonable assurance that the control objectives stated in the description were achieved,¹ operated effectively throughout the period from October 1, 2011, to July 31, 2012.

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, 2011, to July 31, 2012, 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 27, 2012

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

EmpowHR.....	Human Capital Management System
NFC.....	National Finance Center
NIST.....	National Institute of Standards and Technology
POA&M.....	Plan of Action and Milestones
PP	Pay Period
SSP.....	System Security Plan
ST&E	Security Test and Evaluation
USDA	Department of Agriculture

The subsequent sections of the report exhibit A (pages 6 through 7), exhibit B (pages 8 and 29), and exhibit C (pages 30 through 53) are not being publicly released due to the sensitive security content.

To learn more about OIG, visit our website at
www.usda.gov/oig/index.htm

How To Report Suspected Wrongdoing in USDA Programs
Fraud, Waste, and Abuse

Email: usda.hotline@oig.usda.gov

Phone: 800-424-9121 Fax: 202-690-2474

Bribes or Gratuities:
202-720-7257 (24 hours a day)



The U.S. Department of Agriculture (USDA) prohibits discrimination in all of its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex (including gender identity and expression), marital status, familial status, parental status, religion, sexual orientation, political beliefs, genetic information, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD). USDA is an equal opportunity provider and employer.