



United States Department of Agriculture

Independent Service Auditor's Report on FMS' Description of Its Financial Systems and the Suitability of the Design and Operating Effectiveness of Its Controls for October 1, 2019 to June 30, 2020



Audit Report 11403-0004-12

September 2020

OFFICE OF INSPECTOR GENERAL

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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 18, 2020

AUDIT
NUMBER: 11403-0004-12

TO: Scott Soles
Principle Deputy Chief Financial Officer
Office of the Chief Financial Officer

ATTN: Lance Raymond
Director Financial Management Services
Office of the Chief Financial Officer

FROM: Gil H. Harden
Assistant Inspector General for Audit

SUBJECT: Independent Service Auditor's Report on FMS' Description of Its Financial
Systems and the Suitability of the Design and Operating Effectiveness of Its
Controls for October 1, 2019 to June 30, 2020

This report presents the results of the System and Organization Controls 1 Type 2 examination conducted in accordance with Statement on Standards for Attestation Engagements No. 18 for the United States Department of Agriculture's (USDA) Financial Management Services' (FMS) description of its financial systems used to process user entities financial transactions throughout the period October 1, 2019 to June 30, 2020. 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.

CONRAD LLP, an independent certified public accounting firm, conducted the audit. In connection with the contract, we reviewed CONRAD'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 FMS' description of its financial systems used to process user entities financial transactions throughout the period October 1, 2019 to June 30, 2020. CONRAD LLP is responsible for the attached auditor's report, dated September 11, 2020, and the conclusions expressed in the report. However, our review disclosed no instances where CONRAD LLP did not comply, in all material respects, with Government Auditing Standards and relevant attestation standards established by the American Institute of Certified Public Accountants.

It is the opinion of CONRAD LLP, in all material respects, based on the criteria described in FMS' assertion that:

- a. The description fairly presents the financial systems that were designed and implemented throughout the period October 1, 2019, to June 30, 2020.
- 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, 2019, to June 30, 2020 and subservice organizations and user entities applied the complementary controls assumed in the design of FMS' controls throughout the period October 1, 2019, to June 30, 2020.
- c. The controls operated effectively to provide reasonable assurance that the control objectives stated in the description were achieved throughout the period October 1, 2019, to June 30, 2020, if complementary subservice organization and user entities controls assumed in the design of FMS' controls operated effectively throughout the period October 1, 2019, to June 30, 2020.

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**

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Financial Systems and the Suitability of the Design and Operating
Effectiveness of Its Controls for October 1, 2019 to
June 30, 2020**

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**I. INDEPENDENT SERVICE AUDITOR'S REPORT
PROVIDED BY CONRAD LLP**



**Independent Service Auditor's Report on FMS'
Description of Its Financial Systems and the Suitability of the Design of Controls**

Deputy Chief Financial Officer, Office of the Chief Financial Officer
Deputy Director, Financial Management Services
Inspector General, United States Department of Agriculture

Scope

We have examined Financial Management Services' (FMS) description of its financial systems, entitled "Financial Management Services' Description of Its Financial Systems" (FMS' systems) for processing user entities' transactions throughout the period October 1, 2019 to June 30, 2020 (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 "FMS' Assertion" (Assertion). The controls and control objectives included in the description are those that management of FMS believes are likely to be relevant to user entities' internal control over financial reporting, and the description does not include those aspects of the financial systems that are not likely to be relevant to user entities' internal control over financial reporting.

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 FMS controls are suitably designed and operating effectively, along with related controls at the service organization. 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.

FMS uses subservice organizations to perform some of the services provided to user entities that are likely to be relevant to those user entities' internal control over financial reporting. The description includes only the control objectives and related controls of FMS, and excludes the control objectives and related controls of the subservice organizations. The description also indicates that certain control objectives specified by FMS can be achieved only if complementary subservice organization controls assumed in the design of FMS' controls are suitably designed and operating effectively, along with the related controls at FMS. 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 information included in Section V, "Other Information Provided by FMS" is presented by management of FMS to provide additional information and is not a part of FMS' description of its system made available to user entities during the period October 1, 2019 to June 30, 2020. 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.

Service Organization’s Responsibilities

In Section II, FMS 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. FMS 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.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants 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, 2019 to June 30, 2020. 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.
- 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, 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 FMS' assertion:

- a. The description fairly presents the financial systems that were designed and implemented throughout the period October 1, 2019 to June 30, 2020.
- 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, 2019 to June 30, 2020, and subservice organizations and user entities applied the complementary controls assumed in the design of FMS' controls throughout the period October 1, 2019 to June 30, 2020.
- b. The controls operated effectively to provide reasonable assurance that the control objectives stated in the description were achieved throughout the period October 1, 2019 to June 30, 2020, if complementary subservice organization and user entities controls assumed in the design of FMS' controls operated effectively throughout the period October 1, 2019 to June 30, 2020.

Restricted Use

This report is intended solely for the information and use of FMS, user entities of FMS' financial systems during some or all of the period October 1, 2019 to June 30, 2020, and their auditors who audit and report on such user entities' 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 user entities themselves, when assessing the risks of material misstatement of user entities' financial statements. This report is not intended to be, and should not be, used by anyone other than these specified parties.

Conrad LLP

Conrad LLP
Lake Forest, CA
September 11, 2020

The subsequent sections of the report Section II—
Management’s Assertion Provided by Financial Management
Services (pages 5–8); Section III—Description of Controls
Provided by Financial Management Services (pages 9–60);
Section IV—Control Objectives, Related Controls, and Tests
of Operating Effectiveness (pages 61–132); and Section V—
Other Information Provided by the Financial Management
Services (pages 133–134) are not being publicly released due
to the sensitive security content.

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