

LIFO-PRO, INC.

INDEPENDENT SERVICE AUDITOR'S REPORT ON A  
DESCRIPTION OF A SERVICE ORGANIZATION'S SYSTEM AND  
THE SUITABILITY OF THE DESIGN AND OPERATING  
EFFECTIVENESS OF CONTROLS

JANUARY 1, 2020 THROUGH DECEMBER 31, 2020



McKONLY & ASBURY

LIFO-PRO, INC.

TABLE OF CONTENTS

	<u>Page</u>
I. Independent Service Auditor’s Report Provided by McKonly & Asbury, LLP.....	1
II. Management’s Assertion. ....	5
• Management’s Assertion.....	6
III. Description of Relevant Controls Provided by LIFO-PRO, Inc. ....	8
• LIFO-PRO’s Description of its Service Bureau Calculation System .....	9
• Control Environment.....	9
• Risk Assessment.....	10
• Monitoring.....	11
• Overview of Control Activities .....	11
• Operational Controls .....	11
• Information Technology Controls .....	13
IV. Control Objectives and Related Controls .....	16
• Control Objectives and Related Controls.....	17
• User Control Considerations .....	17
V. Information Provided by McKonly & Asbury, LLP.....	18
• Control Environment Elements .....	19
• Description of Tests Performed by McKonly & Asbury, LLP .....	19
• Information Provided by the Entity.....	19
• Control Objectives, Description of Controls, Tests of Operating Effectiveness, and Results of Tests of Operating Effectiveness .....	20

**I. INDEPENDENT SERVICE AUDITOR'S REPORT  
PROVIDED BY McKONLY & ASBURY, LLP**

MEMBERS

AMERICAN AND PENNSYLVANIA INSTITUTES  
OF CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT MEMBER OF



## INDEPENDENT SERVICE AUDITOR'S REPORT ON A DESCRIPTION OF A SERVICE ORGANIZATION'S SYSTEM AND THE SUITABILITY OF THE DESIGN AND OPERATING EFFECTIVENESS OF CONTROLS

LIFO-PRO, Inc.  
Omaha, Nebraska

### Scope

We have examined LIFO-PRO, Inc.'s description of its Service Bureau Calculation system entitled "LIFO-PRO's Description of Its Service Bureau Calculation System" for providing the LIFO Service Bureau Calculation service to its user entities throughout the period January 1, 2020 to December 31, 2020 (description), and the suitability of the design and operating effectiveness of controls included in the description to achieve the related control objectives stated in the description based on the criteria identified in "Management's Assertion" in Section II (assertion). The controls and control objectives included in the description are those that management of LIFO-PRO, Inc. believes are likely to be relevant to user entities' internal control over financial reporting, and the description does not include those aspects of the Service Bureau Calculation system 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 LIFO-PRO, Inc.'s 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 and operating effectiveness of such complementary user entity controls.

### Service Organization's Responsibilities

In Section II of this report, LIFO-PRO, Inc. 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. LIFO-PRO, Inc. 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. Those standards require that we plan and perform our 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 January 1, 2020 through December 31, 2020. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our qualified 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 performing the calculations. 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 V of this report.

## **Opinion**

In our opinion, in all material respects, based on the criteria described in LIFO-PRO, Inc.’s assertion in Section II of this report:

- a. The description fairly presents the Service Bureau Calculation system that was designed and implemented throughout the period January 1, 2020 to December 31, 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 January 1, 2020 through December 31, 2020; and user entities applied the

complementary user entity controls assumed in the design of LIFO-PRO Inc.'s controls throughout the period January 1, 2020 through December 31, 2020.

- c. The controls operated effectively to provide reasonable assurance that the control objectives stated in the description were achieved throughout the period January 1, 2020 through December 31, 2020, if complementary user entity controls assumed in the design of LIFO-PRO Inc.'s controls operated effectively throughout the period January 1, 2020 through December 31, 2020.

### **Restricted Use**

This report, including the description of tests of controls and results thereof in Section IV of this report, is intended solely for the information and use of LIFO-PRO, Inc., user entities of LIFO-PRO, Inc.'s Service Bureau Calculation system during some or all of the period January 1, 2020 to December 31, 2020, and the independent auditors who audit a 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 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.

*McKonly & Asbury, LLP*

Camp Hill, Pennsylvania  
January 26, 2021

## **II. MANAGEMENT'S ASSERTION**

## LIFO-PRO, INC.

### MANAGEMENT'S ASSERTION AND DESCRIPTION OF RELEVANT CONTROLS PROVIDED BY LIFO-PRO, INC.

#### MANAGEMENT'S ASSERTION

**December 31, 2020**

We have prepared the description of LIFO-PRO, Inc.'s Service Bureau Calculation system entitled "LIFO-PRO's Description of Its Service Bureau Calculation System" for providing the LIFO service bureau calculation service to its user entities throughout the period January 1, 2020 through December 31, 2020 (description), for user entities of the system during some or all of the period January 1, 2020 through December 31, 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 of the system themselves, when assessing the risks of material misstatements of user entities' financial statements.

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 LIFO-PRO Inc.'s controls are suitably designed and operating effectively, along with related controls at the service organization. The description does not extend to controls of the user entities.

We confirm, to the best of our knowledge and belief, that:

- 1) The description fairly presents the Service Bureau Calculation system made available to user entities of the system during some or all of the period January 1, 2020 through December 31, 2020, for Service Bureau Calculations, as it relates to controls that are likely to be relevant to user entities' internal control over financial reporting. The criteria we used in making this assertion were that the description:
  - a) presents how the system made available to user entities of the system was designed and implemented to process relevant user entity transactions, including, if applicable:
    - i) the types of services provided, including, as appropriate, the classes of transactions processed.
    - ii) the procedures, within both automated and manual systems, by which services are provided, including, as appropriate, procedures by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for user entities of the system.
    - iii) the information used in the performance of the procedures including, if applicable, related accounting records, whether electronic or manual, and supporting information involved in initiating, authorizing, recording, processing, and reporting transactions; this includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities.
    - iv) how the system captures and addresses significant events and conditions, other than transactions.
    - v) the process used to prepare reports and other information for user entities.
    - vi) the specified control objectives and controls designed to achieve those objectives, including, as applicable, complementary user entity controls assumed in the design of the service organization's controls.



## LIFO-PRO, INC.

### MANAGEMENT'S ASSERTION AND DESCRIPTION OF RELEVANT CONTROLS PROVIDED BY LIFO-PRO, INC.

- vii) other aspects of our control environment, risk assessment process, information and communication (including the related business processes), control activities, and monitoring controls that are relevant to the services provided.
  - b) includes relevant details of the changes to the Service Bureau Calculation system during the period covered by the description.
  - c) does not omit or distort information relevant to the Service Bureau Calculation system, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities of the Service Bureau Calculation system and their user auditors and may not, therefore, include every aspect of the Service Bureau Calculation system that each individual user entity of the Service Bureau Calculation system and its auditor may consider important in its own particular environment.
- 2) The controls related to the control objectives stated in the description were suitably designed and operating effectively throughout the period January 1, 2020 through December 31, 2020, to achieve those control objectives if user entities applied complementary user entity controls assumed in the design of LIFO-PRO, Inc.'s controls through the period January 1, 2020 through December 31, 2020. The criteria we used in making this assertion were that:
- a) the risks that threaten the achievement of the control objectives stated in the description have been identified by management of the service organization;
  - b) the controls identified in the description would, if operating effectively, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved; and
  - c) the controls were consistently applied as designed, including whether manual controls were applied by individuals who have the appropriate competence and authority.

\_\_\_\_\_/s/Lee Richardson  
Lee Richardson  
President

**III. DESCRIPTION OF RELEVANT CONTROLS PROVIDED  
BY LIFO-PRO, INC.**

# LIFO-PRO, INC.

## DESCRIPTION OF RELEVANT CONTROLS PROVIDED BY LIFO-PRO, INC.

### LIFO-PRO'S DESCRIPTION OF ITS SERVICE BUREAU CALCULATION SYSTEM

#### Scope of the Description

This description addresses only LIFO-PRO, Inc.'s LIFO Service Bureau Calculation service system (including assignment of Producer Price Index codes to inventory items) provided to user entities and excludes other services provided by LIFO-PRO, Inc. The description is intended to provide information for user entities of the LIFO Service Bureau Calculation service system and their independent auditors who audit and report on such user entities' financial statements or internal control over financial reporting, to be used in obtaining an understanding of the LIFO Service Bureau Calculation service system and the controls over that system that are likely to be relevant to user entities' internal control over financial reporting. The description of the system includes certain business process controls and IT general controls that support the delivery of LIFO-PRO, Inc.'s LIFO Service Bureau Calculation service system.

#### General Description of Operations

LIFO-PRO, Inc., (LIFO-PRO or the Company) is a Nebraska corporation. LIFO-PRO is located in Omaha, Nebraska and provides non-auto dealer LIFO software and LIFO Service Bureau Calculation services to companies and CPA firms across the U.S. These services are provided using the LIFO-PRO software developed and sold by LIFO-PRO. The end product of the LIFO Service Bureau Calculation service is a set of reports that document the calculation of the year-end LIFO reserve balance for a company, which is used for preparation of the annual income tax return and/or year-end financial statements.

LIFO-PRO is the leading provider of non-auto dealer LIFO inventory calculation services and the only provider of non-auto dealer LIFO calculation software. Non-auto dealer LIFO has been their sole business for the past 25 years, and they are the only firm with a LIFO only practice. Their clients include several hundred clients of all sizes ranging from very small companies to many of the largest companies in the world, in all industries that carry inventories. They are the non-auto dealer LIFO calculation resource or LIFO software provider for over 60 CPA firms.

Lee Richardson, the company founder and software creator, is the leading non-auto dealer LIFO practitioner with over 70,000 hours of LIFO experience. Lee is the only practicing CPA who provided written and oral testimony to the IRS during the new IPIC LIFO Regs. drafting period in 2000.

### CONTROL ENVIRONMENT

#### Control Framework

The control environment at LIFO-PRO provides employees with the company's overall philosophy on professional conduct and operating style. It provides the framework for other aspects of internal control. The control environment at LIFO-PRO involves the following areas:

1. Integrity and Ethics.
2. Organization.
3. Administration.

#### *Integrity and Ethics*

##### *Employee Handbook*

Each employee receives the Employee Handbook, which documents various personnel matters. The handbook covers areas regarding expected conduct while serving as an employee. These areas include conflict of interest,

## **LIFO-PRO, INC.**

### **DESCRIPTION OF RELEVANT CONTROLS PROVIDED BY LIFO-PRO, INC.**

confidentiality, and security. Each new employee is required to review the employee handbook and confirm adherence to its contents by signing a statement of acknowledgement.

#### *Confidentiality Agreement*

LIFO-PRO is committed to providing high quality services to its clients. In an effort to meet that commitment, clients provide confidential financial and personal information. LIFO-PRO uses reasonable care and maintains appropriate policies and procedures to protect data from loss, misuse, unauthorized access, disclosure, alteration, or destruction.

The Employee Handbook incorporates the importance of maintaining confidentiality over business information. Each employee agrees to safeguard company information through their signing of a statement of acknowledgement.

#### *Code of Business Conduct and Ethics*

The company Code of Professional Conduct (the Code) is designed to provide a means to prevent and detect criminal conduct and to treat clients fairly and ethically. All employees and officers are required to be aware of its contents and operation and are responsible for conducting themselves in compliance with this Code and applicable laws and regulations. Employees are also required to comply with updates associated with the Code. The Code is incorporated into the Employee Handbook. The statement of acknowledgement signed by each employee implies their willingness to abide by the Code.

#### *Organization*

##### *Organization Structure*

The single LIFO-PRO office is in Omaha, Nebraska. The organizational structure for LIFO-PRO is designed to provide an adequate segregation of duties or the effective application of mitigating or compensating controls. The highly-specialized nature of its business requires all employees to have the training and skills necessary to perform all aspects of the work LIFO-PRO performs with the exception of computer programming.

#### *Administration*

##### *Communication of Information*

The LIFO-PRO email system is set up so that any message sent by or received with a @lifopro.com email address is visible to all employees. All offices are in close proximity to all other offices (no one has to walk more than about 50 feet to visit any other employee's office). All employees talk frequently with all other employees throughout the day. All employees meet at least once a week and more frequently during busy season. Communication is encouraged to promote operating effectiveness and efficiency.

## **RISK ASSESSMENT**

LIFO-PRO published the LIFO Inventory Training Basics and Audit Guide in 2015. Chapter 5 in the Audit Guide section of this 64-page Guide is entitled LIFO Potential Error Types and Controls to Prevent Errors. This is a list of 54 different LIFO related potential errors, along with the following for each error: example of error, audit step to determine whether an error was made, control to prevent method application or manual calculation error, LIFO-PRO report reference, and IRS Reg. Section or GAAP Reference. The LIFO calculation service policies, procedures, processes, and the controls that LIFO-PRO employs are designed to minimize the likelihood of these errors. All LIFO-PRO personnel meet at least weekly to discuss engagements in which LIFO related errors occurred at a company before their engagement of LIFO-PRO when they made manual calculations. The purpose of these meetings is to discuss ways that they may need to enhance control activities to address new errors types when necessary.

## LIFO-PRO, INC.

### DESCRIPTION OF RELEVANT CONTROLS PROVIDED BY LIFO-PRO, INC.

#### MONITORING

LIFO-PRO management is responsible for monitoring the quality of internal control performance as part of their duties. Information systems are in place to assist management in monitoring the results of its operations on an ongoing basis. These systems provide information which allows management to monitor and control business functions. Management reports have been developed that measure the results of various processes involved in servicing clients. Management also periodically meets with or contacts clients to review their current and future needs, and discuss the quality of service received.

#### OVERVIEW OF CONTROL ACTIVITIES

Key areas of information systems control objectives are detailed below and are further discussed in the Information Systems Controls section of this description of relevant controls:

- **Monthly Updates of PPI (Producer Price Indexes) and CPI Indexes (Consumer Price Indexes) and PPI Category Maintenance** – Controls provide reasonable assurance that the PPI and CPI codes and indexes used by the LIFO-PRO software are those indexes published by the BLS.
- **New Client Setup** – Controls provide reasonable assurance that when new clients are on boarded, the LIFO-PRO software layer history entered ties to the client provided manual layer history schedule (subject to error corrections made) and that the method settings in the LIFO-PRO software reflect those used by the client in the past.
- **Client request for recurring LIFO Service Bureau Calculation Work and DIS Preparation Work** – Controls provide reasonable assurance that the LIFO current-year cost information and breakdowns of inventory balances by PPI or CPI codes provided to LIFO-PRO by the client or assigned by LIFO-PRO is used as input by the LIFO-PRO software in the calculations made and that the assignment of PPI codes made by LIFO-PRO are made using the LIFO-PRO Service Bureau Calculation Policies and Procedures Manual.
- **LIFO Service Bureau Calculation Processing Work** – Controls provide reasonable assurance that the DIS processing made using our LIFO-PRO software are made using the LIFO-PRO Service Bureau Calculation Policies and Procedures Manual.
- **Create PDF Reports Documenting the Year End LIFO Reserve Calculation and Delivery of Reports to Clients** – Controls provide reasonable assurance that the reports created by the LIFO-PRO software are made using the LIFO-PRO Service Bureau Calculation Policies and Procedures Manual.

#### OPERATIONAL CONTROLS

##### Monthly Updates of PPI and CPI Indexes and PPI Category Maintenance

The primary business of LIFO-PRO is to provide software and LIFO calculation services for companies using the IPIC LIFO method. PPI and CPI published by the BLS (Bureau of Labor Statistics) are used to make IPIC LIFO method calculations. LIFO-PRO uses these indexes published by the BLS for all PPI and CPI categories to create text files that are uploaded to its Web server that are automatically downloaded by the LIFO-PRO software after those indexes are published every month. Because of this, an important part of LIFO-PRO's business is to convert these indexes published by the BLS to LIFO-PRO software readable files and to perform PPI category maintenance to address the new, discontinued and recoded PPI commodity codes.

## **LIFO-PRO, INC.**

### **DESCRIPTION OF RELEVANT CONTROLS PROVIDED BY LIFO-PRO, INC.**

#### **New Client Setup**

LIFO-PRO receives phone calls, email messages, and website inquiries from companies or their CPA firm regarding the scope of its software and service offering and questions about their present or prospective LIFO methods and processes.

LIFO-PRO informs the prospective clients the information required to provide them a proposal for software or services. The information that LIFO-PRO asks for includes: Excel, PDF, or Word files documenting the calculation of the prior year LIFO reserve including the pool index calculation schedules, the LIFO layer history schedules, IRS forms filed to elect the LIFO method or change LIFO methods, and other written description of LIFO calculation methods and processes.

The prospects at times will provide everything that is asked for before LIFO-PRO provides a proposal and sometimes the information provided is piecemeal, and the remaining data is provided once LIFO-PRO is engaged to provide the services. In some cases, at the request of the prospect, LIFO-PRO executes a written client confidentiality agreement prior to any data being sent to LIFO-PRO. In all cases, prospects are informed that LIFO-PRO is bound by the CPA Code of Ethics requiring such confidentiality.

LIFO-PRO provides the prospects an informal or formal proposal regarding the scope of work that will be required, the options that exist for who does the work required (mostly who should assign PPI codes, the client or LIFO-PRO), and the information required for the first year of the engagement and for subsequent years. LIFO-PRO provides the client an estimate of the fees and what the timing would be for the work required and what the IRS accounting method changes rules are regarding possible method changes. LIFO-PRO occasionally provides to clients pro forma estimates of what LIFO inflation would be using the IPIC method and PPI indexes.

If the prospective client decides to engage LIFO-PRO for the services requested, an engagement letter is prepared when requested by the client, and for all engagements for large projects and/or more complicated work, engagement letters are used.

#### **Client request for recurring LIFO Service Bureau Calculation Work and DIS Preparation Work**

LIFO-PRO typically receives requests from clients to provide their annual year-end LIFO calculation service via email message and the required inventory data is often attached to that email message. The company president will assign responsibility for the work to one or more people. That designated individual sends an email message response to the client informing them that LIFO-PRO received their message and inventory data file(s), if applicable. The response email message will describe what additional information from the client is required (CYC and Sec. 263A ratio, e.g.) and what the expected timing of the work will be.

The outline of steps for this work is:

1. Planning required before starting work.
2. Work required to make assignment of PPI codes to all inventory items (when the work scope includes this). Clients should refer to Appendix 1 in the LIFO-PRO Service Bureau Calculation Policy and Procedures Manual for these steps.
3. Preparation of LIFO-PRO software readable Excel Data Input Sheet (DIS), which is a schedule listing the PPI or CPI commodity codes and the dollars applicable to that code for each row of inventory detail or summarized by PPI or CPI code with applicable LIFO pool number if the IPIC pooling method is not used.

## **LIFO-PRO, INC.**

### **DESCRIPTION OF RELEVANT CONTROLS PROVIDED BY LIFO-PRO, INC.**

#### **LIFO Service Bureau Calculation Processing Work**

The outline of steps for this work is:

1. Process the completed DIS using LIFO-PRO software.
2. Create PPI code comparison (to prior year) report using a Visual Basic program built into the Service Bureau Calculation Database Access program and review the report for reasonableness.

#### **Create PDF Reports Documenting Year End LIFO Reserve Calculation and Delivery of Reports to Clients**

The outline of steps for this work is:

1. Use the LIFO-PRO Print Standard Reports Automatically feature of the LIFO-PRO software selecting a PDF file writer driver.
2. Update the Word file report cover and table of contents pages as necessary for the current year-end.
3. Combine the individual report PDF files with the report cover and table of contents pages and save as a PDF file.
4. Preparer review reports and PPI or CPI code comparison report.
5. Preparer addresses review points.
6. Draft email message to client including a summary of results and description of any noteworthy items.
7. Reviewer review of reports and PPI or CPI code comparison report.

The LIFO-PRO software used by LIFO-PRO is a Visual Basic program developed beginning in 1992 by the company founder, Lee Richardson. Mr. Richardson has over 70,000 hours of non-auto dealer LIFO experience and LIFO-PRO is the only company whose sole business has always been non-auto dealer LIFO. The LIFO-PRO program is the only non-auto dealer LIFO calculation program sold in the United States. Mr. Richardson was assisted in the program design and development by Paul Lewis, who has over 40 years of business application development. Over 10,000 hours have been spent on the development of the LIFO-PRO software. While there have been many ease of use features added to the software over the years, the underlying calculations made by the program have changed very little in 25 years. This is because the IRS Regs. that describe the rules for IPIC LIFO method calculations change very seldom. After the IPIC LIFO Regs. were written in 1983, there has been only one change in the Regs. in 2001 that affected the LIFO calculation steps. There are over 250 different companies and CPA firms that use the LIFO-PRO software or the LIFO-PRO service offerings. The LIFO-PRO software is used to make the LIFO calculations for approximately 1,000 separate corporations.

## **INFORMATION TECHNOLOGY CONTROLS**

### **Physical Access**

LIFO-PRO is physically located in a single office space in a multi-use building in Omaha, NE. The building is open to the public from 7am – 7pm Monday through Friday and 8am – 1pm on Saturday. After hour access is controlled by a keycard that is supplied by a third-party Property Manager (the keycard request must be made by an authorized tenant).

Access to the office is via a locked door. Only employees and the property manager employees have keys to enter the individual offices.

### **Logical Access**

The highly-specialized nature of LIFO-PRO's business requires all employees to have access to the network and software. Each employee has a standard package of software that is loaded on one or both of their

## **LIFO-PRO, INC.**

### **DESCRIPTION OF RELEVANT CONTROLS PROVIDED BY LIFO-PRO, INC.**

computers. Each computer has password protection enabled, which initiates upon one hour of inactivity. In addition, each employee is expected to manually initiate the password lock upon leaving the office each day.

#### **Computer Operations**

Each employee has two computers physically located in their office. The following software programs are loaded on one or both computers based on convenience and/or need: MS Office, Quick Books, Act, LIFO-PRO, and Adobe Reader. No permanent files are to be stored on these computers, as they are not included in the back-up process discussed later.

Each computer is connected to the network through an Ethernet cable and LIFO-PRO utilizes Windows Defender as the Firewall and Antivirus protection.

Two computers are designated Development Servers, and have been configured under the 32-bit Windows Operating System and have the development software loaded. All LIFO-PRO program changes are made by the company President, Lee Richardson.

LIFO-PRO has one computer designated as the company Server. This computer stores all permanent company files, several data mining software programs, and has several back-up processes running to ensure critical files are backed up and retrievable.

LIFO-PRO utilizes three different back-up processes to ensure minimal downtime should a catastrophic event occur, whether that is a hard drive crash, fire, or building destruction.

1. Super Flexible File Synchronizer – This program makes a mirror copy of the server to an external drive attached to the server on a daily scheduled basis.
2. Carbonite – This program provides us an offsite backup of all critical files (on a continuous basis) that would be needed to become operational within a couple of hours. This includes the LIFO-PRO data files along with previous years excel files required for individual clients, Quick Books Company data files, Act Databases, and the SBC Client Database entries. Additionally, this program can restore file versions should they be needed, and LIFO-PRO could purchase a complete hard-drive should it be needed.
3. Beyond Compare 3 – This program is run on a weekly basis, making a backup to a separate external drive located in LIFO-PRO's office. This back up contains the same critical files that are backed up by Carbonite.

#### **LIFO-PRO Software Enhancements**

When changes are made in the Visual Basic code for the LIFO-PRO software, the program reflecting the revised code is tested before the new code is used to make actual calculations for clients.

All programming is done by either Lee Richardson (company owner and wrote most of the code 1990 through the present) or Paul Lewis (who has done some of the programming over the years and much of the revisions since his full-time employment from 2005 through 2014). Paul worked part time since 2015 and works on a project basis starting in 2016.

The code revision work follows these steps:

1. A LIFO-PRO employee has an idea for a change or someone else makes a suggestion for a change in the program. The President reviews the suggestion and, if they believe this merits consideration, the President will determine what steps he thinks are necessary to make the change and make a time estimate and determine a priority status.



## LIFO-PRO, INC.

### DESCRIPTION OF RELEVANT CONTROLS PROVIDED BY LIFO-PRO, INC.

2. If the President decides to proceed with the program change, he will either assign the work to Paul Lewis or modify the code himself on one of the two development PCs in the LIFO-PRO office.
3. Once the code writing for the revision has been completed, the revised program will be tested in the programming environment by the code writer until he is satisfied that revised code is working as intended. The sample LIFO-PRO data files used for the testing may be live client data files for changes that do not involve writing any LIFO-PRO data files and if writing LIFO-PRO data files is involved, sample LIFO-PRO data folders are created to use for testing.
4. Where applicable, the code is tested for the different method setting alternatives to make sure that the new functionality works properly for retail LIFO, as well as cost LIFO, for reports excluding Sec. 263A costs and for reports including Sec. 263A cost, for both CPI and PPI indexes, for both 10% method calculation and non-10% method calculations and for both non-IPIC pooling method with a pool number DIS input value column and the IPIC pooling method for which pool numbers are not entered in the DIS.
5. Once the code writer is satisfied that the code revision works properly in the programming environment, that person compiles the program and does further testing of the compiled program executable file.
6. If the code writer was Paul Lewis, the President will perform testing of the code on sample data.
7. Once the President is satisfied that the compiled program is working as intended, he will use the new compiled program in the calculations he makes, but no one else will use the new code version.
8. Once the President is satisfied that the revised program can be used by others, either he instructs all others to start using the new program version or he will copy the new executable file to each employee's PCs.
9. Once the new program version has been used for in-house calculations for a period of time that varies, the President will create a new InstallShield full installation setup LIFO-PRO-Setup.exe file to LIFO-PRO' Inc.'s Hostway web server (where it is made available to clients for download) along with the lp32bit.exe executable file, which is necessary for version upgrades only. The upload is made using the Ipswitch FTP software.
10. The <http://www.lifopro.com/software-installation/> page of LIFO-PRO's website shows the current program version number, and users were advised during software installation to check the version number periodically to upgrade to the latest version. This is done simply by downloading the lp32bit.exe program file from this website. No password is required for version upgrades only.

The LIFO-PRO program development code changes log is kept in the VBChangeLog sheet of the Excel file. This log shows the code revisions since 1999. The nature of the revision is described in the change made column. There are columns also for version, date of code change, date of the President's approval to use for in-house calculations and date of upload of this version to the web server and made available for client use. The date entry indicates the President's satisfaction of the testing of the changes and approval of the revisions. Some changes in the Visual Basic code do not entail a version number change. This is the case when the changes made are minor. There are very few changes to the code that affect the calculations, as previously noted, because after the IPIC LIFO IRS Regs. were written in 1984, there has been only one revision of the IPIC Regs. in 2001.

#### **IV. CONTROL OBJECTIVES AND RELATED CONTROLS**

## **LIFO-PRO, INC.**

### **OTHER INFORMATION PROVIDED BY LIFO-PRO, INC.**

#### **CONTROL OBJECTIVES AND RELATED CONTROLS**

LIFO-PRO's control objectives and related controls are included in Section V of this report, "Information Provided by McKonly & Asbury, LLP," to eliminate the redundancy that would result from listing them in this section and repeating them in Section V. Although the control objectives and related controls are presented in Section IV, they are an integral part of LIFO-PRO's description of controls.

#### **USER CONTROL CONSIDERATIONS**

The processing of transactions by the system and the control policies and procedures of LIFO-PRO cover only a portion of the overall internal control environment for each client. It is not feasible for control objectives relating to the processing of transactions to be solely achieved by LIFO-PRO. Therefore, each client's internal control must be evaluated with consideration to LIFO-PRO's controls and testing summarized in Sections III and V of this report.

The following list describes certain controls that clients should consider to achieve the control objectives identified in this report. The client control considerations presented below should not be regarded as a comprehensive list of all controls that should be employed by clients. Client management is responsible for the following:

- The prior year-end LIFO calculations documentation and LIFO methods history provided to LIFO-PRO by clients are those used for their prior years' LIFO calculations. The client will ensure that this information is accurate and complete.
- The client is to provide the appropriate assignment of valid PPI or CPI commodity codes as published by the BLS. The client should review this information for reasonableness prior to supplying to LIFO-PRO.
- The client will ensure that the year-end inventory balances they provide to LIFO-PRO for their LIFO current-year cost are accurate, and the client will compare the balances they provide to those shown in the reports LIFO-PRO delivers to them.
- The client will review the reports LIFO-PRO provides to them to make sure the prior year LIFO reserve balances ties and the CYC balance provided to LIFO-PRO ties to the client records of these balances.

**V. INFORMATION PROVIDED BY  
McKONLY & ASBURY, LLP**

## **LIFO-PRO, INC.**

INFORMATION PROVIDED BY McKONLY & ASBURY, LLP

### **CONTROL ENVIRONMENT ELEMENTS**

The control environment represents the collective effect of various elements in establishing, enhancing, or mitigating the effectiveness of specific controls. The control environment elements as described in the description of the system include, but are not limited to the Employee Handbook, Code of Conduct and Ethics, and the Organization Structure.

Our tests of the control environment included the following procedures, to the extent we considered necessary; (a) an inspection of LIFO-PRO's organizational structure included segregation of functional responsibilities and policies and procedures; (b) inquiries with management, operations administrative and other personnel who are responsible for developing, ensuring adherence to and applying controls; (c) observations of personnel in the performance of their assigned duties; and (d) inspection of documents and records pertaining to controls.

### **DESCRIPTION OF TESTS PERFORMED BY McKONLY & ASBURY, LLP**

Our tests of operating effectiveness of controls included such tests as we were considered necessary in the circumstances to evaluate whether those controls, and the extent of compliance with them, were sufficient to provide reasonable, not absolute, assurance that the control objectives stated in the description were achieved throughout the period January 1, 2020 to December 31, 2020. In selecting particular tests of the operating effectiveness of the controls, we considered (i) the nature of the controls being tested; (ii) the types of available evidential matter; (iii) the nature of the criteria to be achieved; (iv) the assessed level of control risk; and (v) the expected efficiency and effectiveness of the test. Such tests were used to evaluate fairness of the presentation of the description of LIFO-PRO's Service Bureau Calculation system and to evaluate the operating effectiveness of specified controls.

Our tests of operating effectiveness of controls included the following the following procedures, to the extent necessary:

- Examined: Examined LIFO-PRO documentation and system components.
- Inquiry: Inquired of LIFO-PRO personnel performing controls and processes.
- Observation: Observed LIFO-PRO personnel in the performance of controls and processes.

### **INFORMATION PROVIDED BY THE ENTITY**

The information provided by the entity was evaluated for accuracy and completeness. This was accomplished concurrently with the testing of the controls over the preparation and maintenance of the information. The information provided was evaluated and it was determined that the information is sufficiently precise and reliable for audit purposes.

### **CONTROL OBJECTIVES, DESCRIPTION OF CONTROLS, TESTS OF OPERATING EFFECTIVENESS, AND RESULTS OF TESTS OF OPERATING EFFECTIVENESS**

Conclusions noted below are made with the understanding that user organizations have reviewed and appropriately addressed user control considerations noted in Section IV as these considerations apply.

**LIFO-PRO, INC.**

INFORMATION PROVIDED BY McKONLY & ASBURY, LLP

**OPERATIONAL CONTROLS**

**Monthly Updates of PPI and CPI Indexes and PPI Category Maintenance**

**Control Objective #1**

Controls provide reasonable assurance that the PPI and CPI codes and indexes used by the LIFO-PRO software are those indexes published by the BLS.

<p style="text-align: center;"><b>Control Objective 1 Control Description Specified by LIFO-PRO</b></p>	<p style="text-align: center;"><b>Tests of Operating Effectiveness</b></p>	<p style="text-align: center;"><b>Results of Tests</b></p>
<p>PPI and CPI index files used by LIFO-PRO software are created via an automated process, which is validated to ensure successful update.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that PPI and CPI index files used by LIFO-PRO software are created via an automated process, which is validated to ensure successful update.</li> <li>• Observed, for a sample of months, the PPI and CPI index files being updated using an automated process and validated to ensure successful updating of the software.</li> </ul>	<p>No exceptions noted.</p>
<p>Analysis is performed to make sure that the indexes published are reasonable in relation to the indexes published in prior months.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming analysis is performed to make sure that the indexes published are reasonable in relation to the indexes published in prior months.</li> <li>• Examined a sample of months index files for PPI and CPI codes verifying that month over month analysis is performed to verify the reasonableness of the index files.</li> </ul>	<p>No exceptions noted.</p>
<p>A comparison is made of the updated index files to an Excel version of the published tables for the month provided to LIFO-PRO directly from the BLS to ensure that the update processed correctly.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming a comparison is made of the updated index files to an Excel version of the published tables for the month provided to LIFO-PRO directly from the BLS to ensure that the update processed correctly.</li> <li>• Observed, for a sample of months, LIFO-PRO personnel performing a comparison of the updated PPI and CPI index files to the monthly PPI and CPI index files provided by the BLS to verify the update processed correctly.</li> </ul>	<p>No exceptions noted.</p>

## LIFO-PRO, INC.

INFORMATION PROVIDED BY McKONLY & ASBURY, LLP

Control Objective 1 Control Description Specified by LIFO-PRO	Tests of Operating Effectiveness	Results of Tests
<p>Upon creation of the software readable index files, test calculations are performed and reviewed to verify that the LIFO-PRO software is using the most recent PPI and CPI indexes.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming, upon creation of the software readable index files, test calculations are performed and reviewed to verify that the LIFO-PRO software is using the most recent PPI and CPI indexes.</li> <li>• Examined, for a sample of months, test calculations being performed and reviewed verifying that the LIFO-PRO software is accurately using the most recent PPI and CPI indexes.</li> </ul>	<p>No exceptions noted.</p>

### New Client Setup

#### Control Objective 2

Controls provide reasonable assurance that when new clients are onboarded, the LIFO-PRO software layer history entered ties to the client provided manual layer history schedule (subject to error corrections made) and that the method settings in the LIFO-PRO software reflect those used by the client in the past.

Control Objective 2 Control Description Specified by LIFO-PRO	Tests of Operating Effectiveness	Results of Tests
<p>After entering certain LIFO layer history data, LIFO reserve balances are automatically calculated and used to validate that the client's manual layer history calculations are accurate and consistent.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that after entering certain LIFO layer history data, LIFO reserve balances are automatically calculated and used to validate that the client's manual layer history calculations are accurate and consistent.</li> <li>• Observed for a sample of new clients the LIFO-PRO software calculating the LIFO reserve balances for comparison with the LIFO layer history data to validate the accuracy of the calculations.</li> </ul>	<p>No exceptions noted.</p>

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<p align="center"><b>Control Objective 2 Control Description Specified by LIFO-PRO</b></p>	<p align="center"><b>Tests of Operating Effectiveness</b></p>	<p align="center"><b>Results of Tests</b></p>
<p>The LIFO-PRO preparer and reviewer verify that most recent year-end LIFO reserve in the LIFO-PRO software ties to the client provided schedule balance.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that LIFO-PRO has a formal review process in place to ensure that the most recent year-end LIFO reserve in the software ties to the client prepared schedule balance.</li> <li>• Examined a sample of new client calculations verifying that the preparer and reviewer verified the most recent year-end LIFO reserve in the LIFO-PRO software tied to the client provided schedule balance.</li> </ul>	<p>No exceptions noted.</p>
<p>System edit checks are in place such that a warning message will display if the LIFO calculations do not tie to the sum of the underlying extension files. Such imbalance error messages will continue until the imbalance is corrected.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that system edit checks are in place such that a warning message will display if the LIFO calculations do not tie to the sum of the underlying extension files. Such imbalance error messages will continue until the imbalance is corrected.</li> <li>• Observed for a sample client, the LIFO-PRO software generating an imbalance error message when the LIFO inventory balances calculated do not tie to the sum of extension files.</li> <li>• Re-performed an invalid calculation verifying that system edit checks are in place and generate a warning message if the LIFO calculations do not tie to the sum of the underlying extension files.</li> </ul>	<p>No exceptions noted.</p>



**LIFO-PRO, INC.**

INFORMATION PROVIDED BY McKONLY & ASBURY, LLP

**Client request for recurring LIFO Service Bureau Calculation work and DIS Preparation Work**

**Control Objective 3**

Controls provide reasonable assurance that the LIFO current-year cost information AND breakdowns of inventory balances by PPI or CPI codes provided to us by the client or assigned by LIFO-PRO are used as input by the LIFO-PRO software in the calculations made and that the assignment of PPI codes made by LIFO-PRO are complete and accurate.

<p align="center"><b>Control Objective 3 Control Description Specified by LIFO-PRO</b></p>	<p align="center"><b>Tests of Operating Effectiveness</b></p>	<p align="center"><b>Results of Tests</b></p>
<p>After assigning PPI codes for a client, LIFO-PRO performs a vLookup for all PPI codes assigned to ensure that the codes are valid.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that after assigning PPI codes for a client, LIFO-PRO performs a vLookup for all PPI codes assigned to ensure that the codes are valid.</li> <li>• Observed LIFO-PRO personnel using a vLookup function to verify that all PPI codes assigned are valid PPI codes.</li> </ul>	<p>No exceptions noted.</p>
<p>All LIFO-PRO staff with responsibility for assignment of PPI Codes are provided training in PPI Code assignment and have adequate experience.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that all LIFO-PRO staff with responsibility for assignment of PPI Codes are provided training in PPI Code assignment and have adequate experience.</li> <li>• Examined a sample of PPI coding checklists verifying that the individuals with responsibility for PPI coding had participated in relevant training and had adequate experience in this area.</li> </ul>	<p>No exceptions noted.</p>
<p>The PPI code assignment work is reviewed by a senior level LIFO-PRO employee verifying the accuracy of the PPI code assignments.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that PPI code assignment work is reviewed by a senior level LIFO-PRO employee verifying the accuracy of the PPI code assignments.</li> <li>• Examined a sample PPI code assignments verifying that the PPI coding was reviewed for accuracy by a senior level LIFO-PRO employee.</li> </ul>	<p>No exceptions noted.</p>

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<p align="center"><b>Control Objective 3 Control Description Specified by LIFO-PRO</b></p>	<p align="center"><b>Tests of Operating Effectiveness</b></p>	<p align="center"><b>Results of Tests</b></p>
<p>An automated report is generated to compare the dollar value assigned to each PPI Code for the current year calculation with the dollar value assigned in the prior year. The preparer and reviewer evaluate fluctuations for reasonableness and investigate any unexpected relationships.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming an automated report is generated to compare the dollar value assigned to each PPI Code for the current year calculation with the dollar value assigned in the prior year. The preparer and reviewer evaluate fluctuations for reasonableness and investigate any unexpected relationships.</li> <li>• Examined a sample of PPI code assignments verifying that a year over year comparison of dollars assigned by PPI code is reviewed by the preparer and reviewer to verify the accuracy of the coding.</li> </ul>	<p>No exceptions noted.</p>

**LIFO Service Bureau Calculation Processing Work**

**Control Objective 4**

Controls provide reasonable assurance that the DIS processing made using our LIFO-PRO software are complete and accurate.

<p align="center"><b>Control Objective 4 Control Description Specified by LIFO-PRO</b></p>	<p align="center"><b>Tests of Operating Effectiveness</b></p>	<p align="center"><b>Results of Tests</b></p>
<p>The LIFO-PRO software will not permit invalid PPI or CPI code entries to be included in report totals, which results in an imbalance error that is investigated by LIFO-PRO personnel.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that the LIFO-PRO software will not permit invalid PPI or CPI code entries to be included in report totals, which results in an imbalance error that is investigated by LIFO-PRO personnel.</li> <li>• Observed LIFO-PRO software verifying that the software will not permit invalid PPI and CPI code dollar entries to the grand total balance resulting in an imbalance error warning.</li> </ul>	<p>No exceptions noted.</p>

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Control Objective 4 Control Description Specified by LIFO-PRO	Tests of Operating Effectiveness	Results of Tests
<p>The LIFO-PRO software is configured to automatically compare totals between two key reports, the current year cost and LIFO index calculation by pool summary totals (report 23s), and produces an error warning if these totals are out of balance.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that the LIFO-PRO software is configured to automatically compare totals between two key reports, the current year cost and LIFO index calculation by pool summary totals (report 23s), and produces an error warning if these totals are out of balance.</li> <li>• Observed LIFO-PRO software verifying that the software automatically compares the current year cost total to the LIFO index calculation by pool summary totals (report 23s) and generates an imbalance error warning if there is an imbalance.</li> </ul>	<p>No exceptions noted.</p>

### Create PDF Reports Documenting the Year End LIFO Reserve Calculation and Delivery of Reports to Clients

#### Control Objective 5

Controls provide reasonable assurance that the reports created by our LIFO-PRO software are have been prepared and reviewed for completeness and accuracy.

Control Objective 5 Control Description Specified by LIFO-PRO	Tests of Operating Effectiveness	Results of Tests
<p>The LIFO-PRO software presents the LIFO reserve balance on five different reports, which are cross-verified to ensure the accuracy of the report package.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming the LIFO-PRO software presents the LIFO reserve balance on five different reports, which are cross-verified to ensure the accuracy of the report package.</li> <li>• Examined a sample of LIFO-PRO software calculation reports verifying that the LIFO reserve balance was presented on at least five different reports and the reserve balance tied to each report.</li> </ul>	<p>No exceptions noted.</p>

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<p style="text-align: center;"><b>Control Objective 5 Control Description Specified by LIFO-PRO</b></p>	<p style="text-align: center;"><b>Tests of Operating Effectiveness</b></p>	<p style="text-align: center;"><b>Results of Tests</b></p>
<p>LIFO-PRO personnel utilize multiple reports to validate the accuracy of the LIFO Calculations before finalizing the report. If the report components do not tie as expected, errors are investigated, and corrections made.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming LIFO-PRO personnel utilize multiple reports to validate the accuracy of the LIFO Calculations before finalizing the report. If the report components do not tie as expected, errors are investigated, and corrections made.</li> <li>• Examined a sample of LIFO-PRO software calculation reports and verified that LIFO-PRO personnel review multiple reports to validate the accuracy of the calculation of the reports prior to distribution.</li> </ul>	<p>No exceptions noted.</p>
<p>Upon completion of all edit checks and validations, all reports are reviewed for reasonableness by the preparer prior to distribution.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that upon completion of all edit checks and validations, all reports are reviewed for reasonableness by the preparer prior to distribution.</li> <li>• Examined a sample of LIFO-PRO calculation reports verifying that the reports have been reviewed by the preparer for reasonableness prior to distribution.</li> </ul>	<p>Exception noted.</p>
<p>Upon completion of all edit checks and validations, and approval by the preparer, all reports are reviewed by a secondary reviewer prior to distribution.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that upon completion of all edit checks and validations, and approval by the preparer, all reports are reviewed by a secondary reviewer prior to distribution.</li> <li>• Examined a sample of LIFO-PRO calculation reports verifying that the reports have been reviewed by a secondary reviewer prior to distribution.</li> </ul>	<p>No exceptions noted.</p>

**Exception:** For 1 of 20 reports selected documented evidence of the preparer review of the reports prior to distribution did not exist.

**LIFO-PRO, INC.**

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**Physical Access Controls**

**Control Objective 6**

Controls provide reasonable assurance that physical access to the facility and its related peripherals is restricted to authorized personnel.

<p align="center"><b>Control Objective 6 Control Description Specified by LIFO-PRO</b></p>	<p align="center"><b>Tests of Operating Effectiveness</b></p>	<p align="center"><b>Results of Tests</b></p>
<p>Access to the LIFO-PRO facility is restricted by key or other security measures.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming LIFO-PRO facilities can only be accessed by authorized personnel.</li> <li>• Examined physical access policies verifying that the LIFO-PRO facility access is restricted by key or other security measures.</li> <li>• Observed that office door has external electromechanical lock.</li> </ul>	<p>No exceptions noted.</p>
<p>Access to the server area is restricted to authorized individuals and LIFO-PRO reviews access upon changes in employee roles including hiring or termination.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming LIFO-PRO server can only be accessed by authorized individuals.</li> <li>• Observed that the server area is restricted and has external lock.</li> <li>• Examined a listing of authorized personnel with access to the server area.</li> <li>• There were no changes to employee roles, new employees or terminated employees during the testing period.</li> </ul>	<p>No exceptions noted.</p>

## LIFO-PRO, INC.

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### Logical Access Controls

#### Control Objective 7

Controls provide reasonable assurance that computer system access is restricted to authorized individuals and information systems are adequately safeguarded.

Control Objective 7 Control Description Specified by LIFO-PRO	Tests of Operating Effectiveness	Results of Tests
The ability to add, modify, and remove user access rights to the system and applications is restricted to authorized personnel.	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming controls are in place to bar the ability to add, modify, or remove system user access rights are limited to authorized personnel.</li> <li>• Examined system access rights of LIFO-PRO personnel with the ability to add, modify, and remove user access rights verifying that access was appropriately restricted to authorized personnel</li> </ul>	No exceptions noted.
Management performs an annual review of users to ensure those with access to the LIFO-PRO systems are appropriate.	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that the annual role-based review has been maintained.</li> <li>• Examined documentation verifying that management performs a review of users with access to the LIFO-PRO systems.</li> </ul>	No exceptions noted.
Policies exist requiring the changing of passwords, the structure of passwords, and limiting of access attempts to LIFO-PRO's information systems.	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that policies remain in effect requiring changing of passwords, and mandating certain structure and limit of failed attempts.</li> <li>• Examined standard password composition rules and account lockout settings were appropriately implemented. Further viewed an annual log of password updates made, ensuring the timing requirements are being observed.</li> </ul>	No exceptions noted.

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**Computer Operations Controls**

**Control Objective 8**

Controls provide reasonable assurance that operations procedures provide a reliable processing environment and that critical processing activities can be restored adequately and timely in the event of an interruption.

<p style="text-align: center;"><b>Control Objective 8 Control Description Specified by LIFO-PRO</b></p>	<p style="text-align: center;"><b>Tests of Operating Effectiveness</b></p>	<p style="text-align: center;"><b>Results of Tests</b></p>
<p>Anti-Virus Protection is installed on all computers and is updated, as required.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that anti-virus protection is maintained on all computers and servers and is updated, as required.</li> <li>• Observed anti-virus protection with current antivirus definitions installed and enabled on a sample of LIFO-PRO computers.</li> </ul>	<p>No exceptions noted.</p>
<p>A firewall is in place on the LIFO-PRO network to prevent unauthorized access to the network and applications.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that the firewall is in place on the LIFO-PRO network to prevent unauthorized access to the network and applications.</li> <li>• Observed LIFO-PRO firewall settings verifying that the firewall enabled on the LIFO-PRO network.</li> </ul>	<p>No exceptions noted.</p>
<p>Daily and weekly back-up processes are performed for all LIFO-PRO data and configurations.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that daily and weekly back-up processes are performed for all LIFO-PRO data and configurations.</li> <li>• Examined log of backups of LIFO-PRO data and configurations, noting daily and weekly backups are being performed.</li> </ul>	<p>No exceptions noted.</p>
<p>Data restoration from back up are performed at least annually.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that the data restoration from backups are performed annually.</li> <li>• Observed LIFO-PRO personnel successfully performing data restoration from backups.</li> </ul>	<p>No exceptions noted.</p>

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**Change Management Controls**

**Control Objective 9**

Controls provide reasonable assurance that system program changes are properly authorized, tested, and implemented.

<p style="text-align: center;"><b>Control Objective 9 Control Description Specified by LIFO-PRO</b></p>	<p style="text-align: center;"><b>Tests of Operating Effectiveness</b></p>	<p style="text-align: center;"><b>Results of Tests</b></p>
<p>Program changes are evaluated, approved, and documented prior to being coded and implemented.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming program changes are evaluated, approved, and documented prior to being coded and implemented.</li> <li>• Examined a sample of program changes, verifying that they were evaluated and approved prior to being coded and implemented.</li> </ul>	<p>No exceptions noted.</p>
<p>All program changes to the LIFO-PRO software are performed in a development environment separate from the production environment.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that all program changes to the LIFO-PRO software are performed in a development environment separate from the production environment.</li> <li>• Observed development environment, verifying that the development environment is separate from the production environment.</li> </ul>	<p>No exceptions noted.</p>
<p>All program changes are tested by the developer prior to implementation</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that the program changes are tested prior to implementation.</li> <li>• Examined a sample of program changes, verifying that testing was performed prior to implementation.</li> </ul>	<p>No exceptions noted.</p>
<p>All program changes are quality control tested by another senior level LIFO-PRO staff member prior to implementation of the code into production.</p>	<ul style="list-style-type: none"> <li>• Inquired of LIFO-PRO personnel confirming that the program changes are subjected to secondary quality control review by another senior level LIFO-PRO staff member prior to implementation.</li> <li>• Examined a sample of program changes, verifying the quality control review was performed by a senior level LIFO-PRO staff member.</li> </ul>	<p>No exceptions noted.</p>



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<b>Control Objective 9 Control Description Specified by LIFO-PRO</b>	<b>Tests of Operating Effectiveness</b>	<b>Results of Tests</b>
Program changes that require updated versions to the software are appropriately communicated to LIFO-PRO software users.	<ul style="list-style-type: none"><li>• Inquired of LIFO-PRO personnel confirming that a notification is provided to all users of LIFO-PRO software whenever there is a new software update.</li><li>• Examined a sample program changes, verifying that updated versions to the software were communicated to the LIFO-PRO software users.</li></ul>	No exceptions noted.



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