UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

TO: Thomas J. Vilsack
Secretary of Agriculture

FROM: Phyllis K. Fong
Inspector General

OCT 2 1 2009

SUBJECT: Office of Audit Peer Review

Attached is a copy of the recent Report on the System of Quality Control for the Department of Agriculture's (USDA) Office of Inspector General's (OIG) audit organization. This report reflects a rating of pass for the OIG's audit activities for the 3-year period ending March 31, 2009.

The rating of pass is the highest evaluation an audit organization can achieve. Specifically, it means that OIG's system of quality control has been suitably designed and complied with, thereby providing reasonable assurance that audits are performed and reported in conformity with applicable professional standards. For a Federal audit organization, the cognizant professional standards are the *Government Auditing Standards* promulgated by the General Accountability Office and other related issuances.

The Council of the Inspectors General on Integrity and Efficiency administers the Federal OIG peer review process. For this period, the Department of Housing and Urban Development, OIG conducted the review of USDA OIG's audit organization. This team evaluated our audit reports using guidance promulgated by the Council. Tests were conducted in the areas of independence, staff competence and professional judgment, audit planning, audit supervision, reporting, and quality control policies and procedures.

I am pleased to provide you with the results of this peer review and believe that it is a reflection of the high quality of the audit work we conduct at USDA. This would not be possible without the continuing support and cooperation that you and the members of USDA's management team provide.

If you have any questions, please feel free to contact me at 720-8001, or have a member of your staff contact Robert W. Young, Assistant Inspector General for Audit, at 720-6945

Attachment

cc:
Deputy Secretary
Chief of Staff

U.S. Department of Housing and Urban Development
**Office of Inspector General**
451 7th St., S.W.
Washington, DC 20410

The Honorable Phyllis Fong
Inspector General
United States Department of Agriculture
Jamie L. Whitten Building
1400 Independence Ave., SW
Room 117-W
Washington, DC 20250

Dear Ms. Fong:

We have reviewed the system of quality control for the audit organization of the United States Department of Agriculture (USDA) in effect for the year ended March 31, 2009. A system of quality control encompasses the USDA Office of Inspector General's (OIG) organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards.* The elements of quality control are described in *Government Auditing Standards*. USDA OIG is responsible for designing a system of quality control and complying with it to provide USDA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and USDA OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and guidelines established by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). During our review, we interviewed USDA OIG personnel and obtained an understanding of the nature of the USDA OIG audit organization and the design of USDA OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected engagements and administrative files to test for conformity with professional standards and compliance with USDA OIG's system of quality control. The engagements selected represented a reasonable cross-section of USDA OIG's audit organization, with emphasis on higher risk engagements. Before concluding the review, we reassessed the adequacy of the scope of the peer review procedures and met with USDA OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

In performing our review, we obtained an understanding of the system of quality control for USDA OIG's audit organization. In addition, we tested compliance with USDA OIG's quality control policies and procedures to the extent we considered appropriate. These tests

covered the application of USDA OIG's policies and procedures on selected engagements. Our review was based on selected tests; therefore, it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it.

There are inherent limitations in the effectiveness of any system of quality control, and, therefore, noncompliance with the system of quality control may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions or because the degree of compliance with the policies or procedures may deteriorate.

The enclosure to this report identifies the offices of USDA OIG that we visited and the engagements that we reviewed.

In our opinion, the system of quality control for the audit organization of USDA OIG in effect for the year ended March 31, 2009, has been suitably designed and complied with to provide USDA OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. USDA OIG has received a peer review rating of *pass*.

As is customary, we have issued a letter of comment that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

In addition to reviewing its system of quality control to ensure adherence with *Government Auditing Standards*, we applied certain limited procedures in accordance with guidance established by the CIGIE related to USDA OIG's monitoring of engagements performed by independent public accountants (IPA) under contract in which the IPA served as the principal auditor. It should be noted that monitoring of engagements performed by IPAs is not an audit and, therefore, is not subject to the requirements of *Government Auditing Standards*. The purpose of our limited procedures was to determine whether USDA OIG had controls to ensure that IPAs performed contracted work in accordance with professional standards. However, our objective was not to express an opinion, and, accordingly, we do not express an opinion on USDA OIG's monitoring of work performed by IPAs.

Sincerely,

Kenneth M Donohue

Kenneth M. Donohue
Inspector General

Enclosure

## SCOPE AND METHODOLOGY (Enclosure)

### Scope and Methodology

We conducted our review in accordance with the Council of the Inspectors General on Integrity and Efficiency Audit Committee's Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General, dated March 2009. We reviewed independence; staff competence and professional judgment; audit planning; audit supervision; obtaining sufficient, appropriate evidence and audit documentation; reporting; and quality control policies and procedures. In addition, our peer review followed up on the Office of Inspector General (OIG) response to recommendations made in the prior peer review.

We tested compliance with the United States Department of Agriculture (USDA) OIG's system of quality control for its audit operation as we considered appropriate. These tests included a review of the audit documentation of 11 of 54 audit reports issued during the one-year period composed of the semiannual reports to Congress: September 30, 2008, and March 31, 2009. Four of the audits related specifically to financial statements and financial auditing standards, in which one was related to USDA OIG's monitoring of an engagement performed by an independent public accountant. Six of the audits were performance audits, and one audit was an agreed-upon procedures engagement. One of the six performance audits that we reviewed was included in the Office of Compliance and Integrity's quality assurance review of the Midwest Region in the spring of 2009. We evaluated the procedures used to conduct the quality assurance review and compared the review's results to the results of our review of that audit.

We also selected three of three new hires between April 1, 2008, and March 31, 2009, to determine whether proper consideration was given to education and experience qualifications. In addition, we evaluated the Office of Audit's compliance with continuing professional education requirements by reviewing the Automated Reporting and General Operations System CPE Hours Report for the two-year period (fiscal years 2007/2008).

We visited USDA OIG's office in Washington, DC, and Temple, Texas. Site visits to USDA OIG regional offices were conducted on an as needed basis because USDA OIG provided audit documentation for the audits that we reviewed electronically on computers provided by USDA OIG. Any additional audit documentation needed was provided via e-mail or fax by the regional offices.

### Reviewed engagements performed by USDA OIG

| Report no. | Report date | Report title |
|---|---|---|
| 50501-13-FM | 09/30/2008 | Fiscal Year 2008 Federal Information Security Management Review |
| 50401-65-FM | 11/14/2008 | USDA Consolidated Financial Statements for Fiscal Years 2007 and 2008 |
| 11401-28-FM | 09/19/2008 | Statement on Auditing Standards No. 70, Report on the National Finance Center General Controls – Fiscal Year 2008 |

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|---|---|---|
| 11401-29-FM | 08/31/2008 | Agreed-Upon Procedures: Retirement, Health Benefits, and Life Insurance Withholdings/Contributions and Supplemental Semiannual Headcount Report Submitted to the Office of Personnel Management |
| 10099-04-SF | 08/25/2008 | Natural Resources Conservation Service Wetland Reserve Program |
| 03601-23-KC | 02/02/2009 | Hurricane Relief Initiatives: Livestock Indemnity and Feed Indemnity Programs |
| 34601-05-CH | 03/07/2008 | Implementation of Renewable Energy |
| 09601-06-TE | 03/07/2008 | Texas Community Connect Grants Closeout |
| 05099-28-AT | 03/04/2009 | Risk Management Agency's 2005 Emergency Hurricane Relief Efforts-Florida |
| 50601-12-CH | 03/31/2008 | USDA's Controls over Importation and Movement of Live Animals |

**Reviewed monitoring files of USDA OIG for contracted engagements**

| Report no. | Report date | Report title |
|---|---|---|
| 06401-23-FM | 11/13/2008 | Commodity Credit Corporation's Financial Statements for Fiscal Years 2008 and 2007 |