



UNITED STATES ENVIRONMENTAL PROTECTION AGENCY  
WASHINGTON, D.C. 20460

NOV 13 2012

THE INSPECTOR GENERAL

The Honorable Phyllis K. Fong  
Inspector General  
U.S. Department of Agriculture  
1400 Independence Avenue SW  
Washington, DC 20250

Dear Ms. Fong:

Enclosed is the System Review Report of the U.S. Department of Agriculture's Office of Inspector General audit organization conducted in accordance with *Government Auditing Standards* and Council of the Inspectors General on Integrity and Efficiency guidelines. Your response dated October 12, 2012, which indicated no comments to the draft report, is an appendix to the report.

We thank you and your staff for your assistance and cooperation during the conduct of the review.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Elkins, Jr.", written over a light blue background.

Arthur A. Elkins, Jr.

Enclosure

cc: Gil H. Harden  
Assistant Inspector General for Audit, USDA OIG

Bill Burke  
Assistant Director, Farm, Trade, Research,  
and Environment Division, USDA OIG

**REPORT ON THE EXTERNAL QUALITY CONTROL REVIEW  
OF THE AUDIT ORGANIZATION OF THE  
U.S. DEPARTMENT OF AGRICULTURE,  
OFFICE OF INSPECTOR GENERAL**

We have reviewed the system of quality control for the audit organization of the U.S. Department of Agriculture Office of Inspector General (USDA OIG) in effect for the year ended March 31, 2012. A system of quality control encompasses USDA OIG's 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's audit organization and the design of the 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 the USDA OIG's system of quality control. The engagements selected represented a reasonable cross-section of the USDA OIG's audit organization, with emphasis on higher-risk engagements. Prior to 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 the USDA OIG's audit organization. In addition, we tested compliance with the USDA OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the 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.

Appendix 1 to this report identifies the scope and methodology of our review, including the offices of the USDA OIG that we visited and the engagements that we reviewed. Appendix 2 provides the verbatim response from USDA IG.

In our opinion, the system of quality control for the audit organization of USDA OIG in effect for the year ended March 31, 2012, 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 also issued a letter 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 the USDA OIG's 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 where 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 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.

## SCOPE AND METHODOLOGY

We tested compliance with the USDA OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of 10 of 73 audit<sup>1</sup> and attestation reports issued during the period April 1, 2011, through March 31, 2012, and semiannual reporting periods (September 30, 2011, and March 31, 2012). We also reviewed the internal quality control reviews performed by the USDA OIG.

In addition, we reviewed the USDA OIG's monitoring of two engagements performed by Independent Public Accountants (IPAs) where the IPA served as the principal auditor during the period April 1, 2011, through March 31, 2012. During the period, USDA contracted for the audit of several USDA agencies' Fiscal Year 2011 financial statements. USDA OIG also contracted for certain other engagements that were to be performed in accordance with *Government Auditing Standards*.

We contacted staff in Headquarters and regional offices in Atlanta, Georgia; Beltsville, Maryland; Chicago, Illinois; Kansas City, Missouri; Oakland, California; and Temple, Texas. In addition, we visited USDA OIG's offices in Washington, DC, and Beltsville, Maryland. We did not make any site visits to USDA OIG regional offices. USDA OIG provided the audit documentation for the audits we reviewed electronically on computers and a compact disk. Any additional audit documentation needed was provided via electronic mail or fax by Headquarters and regional offices.

### Reviewed Engagements Performed by USDA OIG

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
047030002CH	09/30/2011	Controls over Eligibility Determinations for Single-Family Housing (SFH) Guaranteed Loan Recovery Act Funds (Phase 2)
047030003KC(1)	08/19/2011	Single-Family Housing Direct Loans Recovery Act Controls – Compliance Review of Borrowers' Eligibility Determinations
050990029AT	09/07/2011	Citrus Indemnity Payments Resulting from 2005 Florida Hurricanes
086010055SF	06/16/2011	Forest Service Administration of Special Use Program
087030003SF	03/12/2012	Recovery Act Forest Service (FS) Capital Improvement and Maintenance Projects Roads, Bridges, and Related Watersheds

<sup>1</sup> Reviewed audit reports included performance, financial, and "FAST" reports. FAST reports are interim reports.

**Appendix 1**

087030005SF(7)	11/23/2011	State Agency Charged Recovery Act Grants and Non-Recovery Act Grants \$14.4 Million in Unallowable Costs
11401000211	09/23/2011	Statement of Standards for Attestation Engagements No. 16 Report on Controls at National Finance Center
27002000113	11/23/2011	Analysis of Kansas' Supplemental Nutrition Assistance Program Eligibility Data
50024000111	03/14/2012	Fiscal Year 2011 Improper Payments Elimination and Recovery Act of 2010 Compliance Review
50401000111	11/15/2011	Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2011 and 2010

**Reviewed Monitoring Files of USDA OIG for Contracted Engagements**

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
027030005HQ	9/30/2011	Procurement Oversight Audit of Architect-Engineer Services Contract Awarded by Agricultural Research Service to Delta Engineers & Architects, P.C.
06401000111	11/10/2011	Commodity Credit Corporation's Financial Statements for Fiscal Years 2011 and 2010



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



October 12, 2012

The Honorable Arthur A. Elkins, Jr.  
Inspector General  
U.S. Environmental Protection Agency  
1200 Pennsylvania Avenue, NW. (2410T)  
Washington, D.C. 20460

Dear Mr. Elkins:

We appreciate the opportunity to respond to the U.S. Environmental Protection Agency, Office of Inspector General's draft System Review Report on the U.S. Department of Agriculture's Office of Inspector General (USDA OIG) Audit Organization. We are pleased that your review team has concluded that the audit organization of USDA OIG has earned a pass rating. We have no further comments on the System Review Report.

USDA OIG is committed to maintaining an effective system of quality controls, and we appreciate the thorough and professional manner in which your team conducted this review. If you have any questions, please contact me at (202) 720-8001, or have a member of your staff contact Mr. Gil H. Harden, Assistant Inspector General for Audit, at (202) 720-6945.

Sincerely,

A handwritten signature in cursive script, appearing to read "Phyllis K. Fong".

Phyllis K. Fong  
Inspector General