



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



DATE: November 16, 2012

AUDIT
NUMBER: 50401-0004-11

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

ATTN: Kathy Donaldson
Audit Liaison Officer

SUBJECT: Report on the Department of Agriculture's Special-Purpose Financial Statements
for Fiscal Years 2012 and 2011

We have audited the accompanying reclassified balance sheets as of September 30, 2012 and 2011, and the related reclassified statements of net cost and changes in net position for the years then ended (hereinafter referred to as the special-purpose financial statements), contained in the special-purpose closing package of the Department of Agriculture (USDA). These special-purpose financial statements are the responsibility of USDA's management. Our responsibility is to express an opinion on these special-purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in government auditing standards, issued by the Comptroller General of the United States and the Office of Management and Budget (OMB) Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special-purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the special-purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall special-purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The accompanying special-purpose financial statements and accompanying notes contained in the special-purpose closing package have been prepared for the purpose of complying with the requirements of the *U.S. Department of the Treasury's Financial Manual (TFM) Volume I, Part 2, Chapter 4700* solely for the purpose of providing financial information to the U.S. Department of the Treasury (Treasury) and U.S. Government Accountability Office (GAO) to use in preparing and auditing the Financial Report of the U.S. Government, and are not intended to be a complete presentation of USDA's financial statements.

In our opinion, the special-purpose financial statements and accompanying notes referred to above present fairly, in all material respects, the financial position of USDA as of September 30,

2012 and 2011, and its net costs and changes in net position for the years then ended, in conformity with accounting principles generally accepted in the United States of America and the presentation pursuant to the requirements of the TFM Chapter 4700.

Accounting principles generally accepted in the United States of America require certain information be presented to supplement the basic general-purpose financial statements. Such information, although not a part of the basic general-purpose financial statements, is required by the Federal Accounting Standards Advisory Board, which considers it to be an essential part of financial reporting for placing the basic general-purpose financial statements in an appropriate operational, economic, or historical context. This information is included in the Other Data Report Nos. 1 through 16 (except for the information entitled “Threshold” in Other Data Report No. 8, which is discussed in the next paragraph) to supplement the basic special-purpose financial statements in accordance with TFM Chapter 4700. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic special-purpose financial statements, and other knowledge we obtained during our audit of the basic special-purpose financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The information entitled “Threshold” in Other Data Report No. 8; the information in the sections entitled “Threshold” in FR Notes Report Nos. 2, 3, 4A, 4B, 6, 8, 9, 13, 14, 15, and 19; and the information in the Closing Package Line Reclassification Summary Reports – Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position are presented for purposes of additional analysis and are not a required part of the special-purpose financial statements. This information has not been subjected to the auditing procedures applied in the audit of the special-purpose financial statements and, accordingly, we express no opinion on it.

In accordance with U.S. government auditing standards and OMB Bulletin 07-04, as amended, we have also issued reports dated November 15, 2012, on our consideration of USDA’s internal control over financial reporting and its compliance with certain provisions of laws and regulations. Those reports are an integral part of an audit of general-purpose financial statement reporting performed in accordance with U.S. government auditing standards and OMB Bulletin 07-04, as amended, and should be read in conjunction with this report in considering the results of our audit.

In planning and performing our audit of the special-purpose financial statements, we also considered USDA’s internal control over the financial reporting process for the special-purpose financial statements and compliance with the TFM Chapter 4700. Management is responsible for establishing and maintaining internal control over financial reporting, including “Other Data,” and for complying with laws and regulations, including compliance with the TFM Chapter 4700 requirements.

Our consideration of internal control over the financial reporting process for the special-purpose financial statements would not necessarily disclose all matters in the internal control over the financial reporting process that might be significant deficiencies or material weaknesses. Significant deficiencies are deficiencies, or a combination of deficiencies, in internal control that are less severe than a material weakness, yet important enough to merit attention by those charged with governance. Material weaknesses are deficiencies, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the special-purpose financial statements being audited will not be prevented, or detected and corrected on a timely basis.

We found no material weaknesses in internal control over the financial reporting process for the special-purpose financial statements, and our tests of compliance with the TFM Chapter 4700 requirements disclosed no instances of noncompliance that are required to be reported under U.S. government auditing standards and OMB Bulletin 07-04, as amended. However, providing opinions on internal control over the financial reporting process for the special-purpose financial statements or on compliance with the TFM Chapter 4700 requirements were not objectives of our audit of the special-purpose financial statements and, accordingly, we do not express such opinions.

This report is intended solely for the information and use of USDA, Treasury, OMB, and GAO in connection with the preparation and audit of the Financial Report of the U.S. Government, and is not intended to be and should not be used by anyone other than these specified parties.

Gil H. Harden
Assistant Inspector General
for Audit

November 16, 2012