



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



DATE: December 17, 2013

AUDIT  
NUMBER: 50401-0006-11

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

ATTN: Kathy Donaldson  
Audit Liaison Officer  
Management Control and Audit Team

SUBJECT: Department of Agriculture's Closing Package Financial Statements for  
Fiscal Years 2013 and 2012

## **Report on the Closing Package Financial Statements**

We have audited the accompanying Closing Package Financial Statement Report of the Department of Agriculture, which comprise the Closing Package Financial Statement Report - Balance Sheet as of September 30, 2013 and 2012, and the related Closing Package Financial Statement Reports - Statement of Net Cost and Statement of Changes in Net Position for the years then ended, and the accompanying Financial Report Notes Report (except for the information in the Financial Report Notes Report entitled, "Threshold") for the years then ended; the accompanying Trading Partner Summary Note Report – Balance Sheet as of September 30, 2013 and 2012; and the related Trading Partner Summary Note Report – Statement of Net Cost and Statement of Changes in Net Position for the years then ended (hereinafter referred to as the closing package financial statements).

### **Management's Responsibility for the Closing Package Financial Statements**

Management is responsible for the preparation and fair presentation of these closing package financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the closing package financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these closing package financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and

Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the closing package financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the closing package financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the closing package financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the closing package financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the agency's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the closing package financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion on the Closing Package Financial Statements**

In our opinion, the closing package financial statements referred to above present fairly, in all material respects, the financial position of the Department as of September 30, 2013 and 2012, as well as its net costs and changes in net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

Exhibit A describes that the accompanying closing package financial statements were prepared to comply with the requirements of the United States Department of the Treasury's *Treasury Financial Manual* (TFM) Volume I, Part 2, Chapter 4700 for the purpose of providing financial information to the United States Department of the Treasury and the United States Government Accountability Office to use in preparing and auditing the "Financial Report of the United States Government," and are not intended to be a complete presentation of the consolidated balance sheets of the Department as of September 30, 2013 and 2012, and related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources (hereinafter referred to as "general-purpose financial statements") for the years then ended. Our opinion is not modified with respect to this matter.

### **Other Matters**

### **Opinion on the General-Purpose Financial Statements**

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 14-02, the general-purpose financial statements of the Department as of September 30, 2013 and 2012, and

our report thereon, dated December 13, 2013, expressed an unmodified opinion on those financial statements.

### **Required Supplementary Information and Required Supplementary Stewardship Information**

United States of America generally accepted accounting principles require that the information in Other Data Reports 1, 8, 9, and 14, except for the information included in the Other Text Data of Other Data Report 1 and the information in the Other Data Report 8, entitled “Threshold,” (which are discussed below) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 closing package financial statements; and other knowledge we obtained during our audits of the closing package 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.

Management has omitted the Management’s Discussion and Analysis and the combined Statement of Budgetary Resources that the United States of America generally accepted accounting principles require to be presented to supplement the closing package financial statements. Such missing information, although not part of the closing package financial statements, is required by the Federal Accounting Standards Advisory Board, who considers it to be an essential part of financial reporting for placing the general-purpose financial statements in an appropriate operational, economic, or historical context. Our opinion on the closing package financial statements is not affected by this missing information.

### **Other Information**

Our audit was conducted for the purpose of forming an opinion on the closing package financial statements as a whole. The information in the sections included in the Other Data Reports 15 and 16; the information included in the Other Text Data of Other Data Report 1; the information entitled “Threshold” in Other Data Report 8, and the information in the sections entitled “Threshold” in Financial Report Notes Report 2, 3, 4A, 4B, 6, 12, 13, 14, 15, and 19; the information in the Closing Package Line Reclassification Summary Report – Balance Sheet; and the information in the Closing Package Line Reclassification Summary Reports – Statement of Net Cost and Statement of Changes in Net Position are presented for purposes of additional analysis in accordance with TFM Chapter 4700 and are not a required part of the closing package financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the closing package financial statements and, accordingly, we do not express an opinion or provide any assurances on it.

**Restriction on the Use of the Report on the Closing Package Financial Statements**

This report is intended solely for the information and use of the management of the Department, Treasury, OMB, and Government Accountability Office in connection with the preparation and audit of the “Financial Report of the United States Government”, and is not intended to be and should not be used by anyone other than these specified parties.

**Other Reporting Required by Government Auditing Standards**

In accordance with government auditing standards and OMB Bulletin 14-02, we have also issued reports, dated December 13, 2013, on our consideration of the Department’s internal control over financial reporting and the results of our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters that are required to be reported under government auditing standards. Those reports are an integral part of an audit performed in accordance with government auditing standards and OMB Bulletin 14-02 in considering the Department’s internal control and compliance, and should be read in conjunction with this report in considering the results of our audits of the closing package financial statements.

In our fiscal year 2013 audit of the general-purpose financial statements of the Department, we noted the following material weaknesses, significant deficiencies, and/or compliance and other matters. There were two material weaknesses noted: (1) Improvements Needed in Overall Financial Management and (2) Improvements Needed in Overall Information Security Program; and two significant deficiencies: (1) Controls Over Financial Reporting Can Be Strengthened and (2) Information Technology Controls Can Be Strengthened in Two Financial Systems. We also noted two instances of noncompliance with laws and regulations: (1) Lack of Substantial Compliance with Federal Financial Management Improvement Act of 1996 Requirements and (2) an Anti-Deficiency Act Violation.

**Internal Control Over Financial Reporting Specific to the Closing Package Financial Statements**

In planning and performing our audit of the closing package financial statements as of and for the year ended September 30, 2013, we also considered the Department’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the closing package financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Department’s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control for the closing package financial statements was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that were not identified.

### **Compliance and Other Matters Specific to the Closing Package Financial Statements**

As part of obtaining reasonable assurance about whether the Department's closing package financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of TFM Chapter 4700. However, providing an opinion on compliance with those provisions was not an objective of our audit of the closing package financial statements, and, accordingly, we do not express such an opinion. The results of our tests of compliance with TFM Chapter 4700 disclosed no instances of noncompliance or other matters that are required to be reported herein under government auditing standards and OMB Bulletin 14-02.

### **The Department's Response**

There were no findings or recommendations included herein; therefore, no corrective actions are necessary.

### **Purpose of the Other Reporting Required by Government Auditing Standards**

The purpose of the communication provided in the Other Reporting Required by government auditing standards section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the agency's internal control or on compliance. This communication is an integral part of an audit performed in accordance with United States of America generally accepted government auditing standards in considering internal control and compliance with provisions of laws, regulations, contracts, and grant agreements that have a material effect on the closing package financial statements. Accordingly, this communication is not suitable for any other purpose.

If you have any questions concerning the report, please contact me at (202) 720-6945 or have a member of your staff contact Ernest M. Hayashi, Director, Farm, Trade, Research, and Environment Division at (202) 720-2887.

Gil H. Harden  
Assistant Inspector General for Audit

December 17, 2013

## **REQUIRED TFM NOTE TO THE CLOSING PACKAGE FINANCIAL STATEMENTS**

### **Notes to the Closing Package Financial Statements**

#### **Note 1 – Closing Package Financial Statement Requirements**

The Budget and Accounting Procedures Act of 1950 allows the Secretary of the Treasury to stipulate the format and requirements of executive agencies to furnish financial and operational information to the President and the Congress to comply with the Government Management Reform Act of 1994 (GMRA) (Public Law 103-356), which requires the Secretary of the Treasury to prepare and submit annual audited financial statements of the executive branch. The Secretary of the Treasury developed guidance in the United States Department of Treasury's TFM Volume I, Part 2, Chapter 4700 to provide agencies with instructions to meet the requirements of GMRA. The TFM Chapter 4700 requires agencies to:

1. Reclassify all line items and amounts on the comparative audited consolidated, department-level balance sheets, statement of net cost, and statement of changes in net position, to the closing package financial statements;
2. List closing package financial statement line item amounts identified as Federal by trading partner and amount;
3. Report notes information that is based on the Reclassified Balance Sheet line items and other notes information required to meet Federal Accounting Standards Advisory Board (FASAB) standards; and
4. Report other data information that is not based on the Reclassified Balance Sheet line items and other data noted information required to meet FASAB standards.