



United States Department of Agriculture



OFFICE OF INSPECTOR GENERAL

# U.S. Department of Agriculture's Closing Package Financial Statements for Fiscal Year 2018

## Audit Report 50401-0017-11

OIG audited USDA's closing package financial statements for FY 2018 and assessed internal controls over financial reporting and compliance with reporting requirements.

### OBJECTIVE

Our objectives were to determine whether (1) USDA's closing package financial statements were fairly presented in accordance with generally accepted accounting principles; (2) internal control objectives for the financial reporting process were met; and (3) the Department complied with the reporting requirements for the Financial Report of the United States Government.

### REVIEWED

The audit encompassed the internal control and compliance reporting specific to the closing package financial statements as well as the internal control and compliance reporting related to USDA's consolidated financial statements (general-purpose financial statements), upon which the closing package financial statements are based. We conducted our audit at the financial offices of various USDA agencies and offices in Washington, D.C., at USDA's National Finance Center in New Orleans, Louisiana, and at selected agencies' field offices.

### WHAT OIG FOUND

U.S. Department of Agriculture (USDA) received an unmodified opinion from the Office of Inspector General's (OIG) audit of USDA's closing package financial statements. We determined that USDA's closing package financial statements present fairly, in all material respects, the Department's financial position as of September 30, 2018, and were prepared in accordance with accounting principles generally accepted in the United States of America. This includes the USDA's net cost, changes in net position, and related notes to the closing package financial statements.

Our consideration of USDA's internal control over financial reporting for the closing package financial statements did not identify any deficiencies in internal control that we consider to be material weaknesses. Also, the results of our tests of compliance with the U.S. Department of Treasury's Treasury Financial Manual, Volume I, Part 2, Chapter 4700, "Agency Reporting Requirements for the Financial Report of the United States Government," disclosed no reportable instances of noncompliance.

### RECOMMENDS

This report does not contain recommendations.





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



DATE: November 16, 2018

AUDIT  
NUMBER: 50401-0017-11

TO: Lynn Moaney  
Deputy Chief Financial Officer  
Office of the Chief Financial Officer

ATTN: Annie Walker  
Director  
Internal Control Division

FROM: Gil H. Harden  
Assistant Inspector General for Audit

SUBJECT: U.S. Department of Agriculture's Closing Package Financial Statements for  
Fiscal Year 2018

This report presents the results of our audit of the U.S. Department of Agriculture's (USDA) closing package financial statements for the fiscal year ending September 30, 2018. This report contains an unmodified opinion on the financial statements, as well as the results of our assessment of USDA's internal control over financial reporting, compliance, and other matters specific to those statements.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions. This report contains publicly available information and will be posted in its entirety to our website <http://www.usda.gov/oig> in the near future.



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# Independent Auditor’s Report

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Lynn Moaney  
Deputy Chief Financial Officer  
Office of the Chief Financial Officer

## Report on the Closing Package Financial Statements

We have audited the accompanying Closing Package Financial Statement Report of the U.S. Department of Agriculture (USDA), which comprise the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) Reconciliation Report – Reclassified Balance Sheet as of September 30, 2018, and the related GTAS Reconciliation Reports – Reclassified Statement of Net Cost and Reclassified Statement of Operations and Changes in Net Position for the year then ended, and the related notes to the financial statements (hereinafter referred to as the “closing package financial statements”). The notes to the financial statements comprise the following:

- the GTAS Closing Package Lines Loaded Report;
- Financial Report (FR) Notes Report (except for the information in the FR Notes Report entitled “2017 – September,” “Prior Year,” “PY,” “Previously Reported,” “Line Item Changes,” “Threshold,” [and the information as of and for the year-ended September 30, 2017 in the “Text Data” of the FR Notes Report]); and
- the accompanying Additional Note No. 1 (except for the information as of and for the year ended September 30, 2017).

## 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 (U.S.); 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in government auditing standards, issued by the Comptroller General of the U.S.; and Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the closing package financial statements are free from 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 agency'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 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 USDA as of September 30, 2018, and its net cost and changes in net position for the year then ended in accordance with U.S. generally accepted accounting principles.

### **Emphasis of Matter**

We draw attention to Additional Note No. 1 to the closing package financial statements, which describes that the accompanying closing package financial statements were prepared in accordance with the requirements of the U.S. Department of the Treasury's (Treasury) *Treasury Financial Manual* (TFM) Volume I, Part 2, Chapter 4700 (*TFM 2-4700*) for the purpose of providing financial information to the Treasury and the 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 the consolidated balance sheet of the USDA as of September 30, 2018, and the related consolidated statements of net cost, changes in net position, and the combined statement of budgetary resources for the year then ended (hereinafter referred to as "general-purpose financial statements"). The notes to the closing package financial statements are those that the Treasury deemed relevant to the *Financial Report of the U.S. Government*. 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 U.S.; the standards applicable to financial audits contained in government auditing standards issued by the Comptroller General of the U.S.; and OMB Bulletin No. 19-01 the general-purpose financial statements of USDA as of and for the year ended September 30, 2018, and our report thereon, dated November 14, 2018, expressed an unmodified opinion on those financial statements.

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

U.S. generally accepted accounting principles require that the information, except for such information entitled “2017 – September,” “Prior Year,” “PY,” “Previously Reported,” “Line Item Changes,” and “Threshold,” and the information as of and for the year ended September 30, 2017 included in the “Text Data” of the FR Notes Report and “Other Text Data” of the Other Data Report, included in Other Data Report Nos. 8 and 9 be presented to supplement the basic closing package financial statements.

Such information, although not a part of the basic closing package financial statements, is required by the Federal Accounting Standards Advisory Board (FASAB) who considers it to be an essential part of financial reporting for placing the basic closing package 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 U.S., 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 audit of the closing package financial statements. Although our opinion on the closing package financial statements is not affected, Other Data Report Nos. 8 and 9 contain material departures from the prescribed guidelines because the information included in these Other Data Reports is limited to USDA’s information that will be used for the *Financial Report of the U.S. Government* and does not include all of the information required for USDA’s component-level 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 Management’s Discussion and Analysis and the combining Statement of Budgetary Resources that U.S. generally accepted accounting principles require to be presented to supplement the closing package financial statements. Such missing information, although not a part of the closing package financial statements, is required by the FASAB who considers it to be an essential part of financial reporting for placing the closing package 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 other than that described in the first paragraph and the paragraph labeled *Required Supplementary Information and Required Supplementary Stewardship Information* are presented for purposes of additional analysis in accordance with *TFM 2-4700* and are not a required part of the closing package financial statements. We read the other information included with the closing package financial statements in order to identify material inconsistencies, if any, with the audited closing package financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the closing

package financial statements as of and for the year ended September 30, 2018, 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 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.

### **Other Reporting Required by Government Auditing Standards**

In accordance with government auditing standards and OMB Bulletin No. 19-01, we have also issued reports dated November 14, 2018 on our consideration of USDA'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 No. 19-01 in considering the USDA's internal control and compliance, and should be read in conjunction with this report in considering the results of our audit of the closing package financial statements.

In our audit of the general-purpose financial statements as of and for the year ended September 30, 2018, we noted certain matters involving internal control that we consider to be significant deficiencies. Specifically, we identified weaknesses in USDA's:

- overall financial management,
- information technology (IT) security program, and
- controls over unliquidated obligations.

We determined that the first two deficiencies are also material weaknesses. Also, our tests disclosed instances of noncompliance with Federal Financial Management Improvement Act of 1996 requirements and the Anti-Deficiency Act. These material weaknesses and significant deficiencies in internal control and instances of noncompliance with laws and regulations are discussed in Audit Report 50401-0016-11, *U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Year 2018*.

Additionally, during fiscal year 2018, we identified instances of noncompliance with the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA), regarding the design of program internal controls related to reporting improper payments. A separate report will be issued with further details on USDA's compliance with improper payment requirements.<sup>1</sup>

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<sup>1</sup> IPERA amended the Improper Payments Information Act of 2002, Public Law 107-300. These two laws address improper payment requirements.

## **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, 2018 we also considered USDA'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 of the effectiveness of USDA's internal control. Accordingly, we do not express an opinion on the effectiveness of USDA'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 a 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 have not been identified.

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

As part of obtaining reasonable assurance about whether USDA's closing package financial statements are free from material misstatement, we also performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a material effect on the closing package financial statements. 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 disclosed no instances of noncompliance or other matters that are required to be reported herein under government auditing standards and OMB Bulletin No. 19-01.

## **Management's Response**

There were no findings or recommendations specific to the closing package financial statements included herein, therefore, no corrective actions are necessary. USDA's response to the findings identified in our audit of the general-purpose financial statements is presented within our report thereon, dated November 14, 2018.

## **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 USDA's internal control or on compliance. This communication is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal control and compliance with provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a material effect on the closing package financial statements. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Gil H. Harden".

Gil H. Harden  
Assistant Inspector General for Audit  
Washington, D.C.  
November 15, 2018

## Abbreviations

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FASAB .....	Federal Accounting Standards Advisory Board
FR.....	Financial Report
GAO.....	Government Accountability Office
GMRA.....	Government Management Reform Act of 1994 (Public Law 103-356)
GTAS .....	Governmentwide Treasury Account Symbol Adjusted Trial Balance System
OMB .....	Office of Management and Budget
TFM .....	Treasury Financial Manual
Treasury .....	U.S. Department of the Treasury
U.S. ....	United States of America
USDA.....	U.S. Department of Agriculture

## **Exhibit A: Additional Note No. 1 – Closing Package Financial Statement Requirements**

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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) (Pub. L. No. 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 Treasury’s TFM Volume I, Part 2, Chapter 4700 (*TFM 2-4700*) to provide agencies with instructions to meet the requirements of GMRA. The *TFM 2-4700* requires agencies to:

1. Submit a GTAS Adjusted Trial Balance that will be used to populate a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and Reclassified Statement of Operations and Changes in Net Position;
2. List closing package financial statement line item amounts identified as Federal by trading partner and amount;
3. Report FR notes information that is based on the Reclassified Balance Sheet line items and other notes information required to meet FASAB standards;
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, and
5. Report the information in the FR Notes Report and Other Data Report entitled “2017 – September,” “Prior Year,” “PY,” “Previously Reported,” “Line Item Changes,” and “Threshold,” [and the information as of and for the year-ended September 30, 2017 included in the “Text Data” of the FR Notes Reports and “Other Text Data” of the Other Data Reports] and the information in the Additional Note No. 1 related to the prior year balances, for purposes of additional analysis in accordance with *TFM 2-4700*. Such information is are not a required part of the closing package financial statements.

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