Office of the Inspector General

February 4, 2011

Mr. Carl Clinefelter
Inspector General
Farm Credit Administration
1504 Farm Credit Drive
McLean, Virginia 22102

Dear Inspector General Clinefelter:

We have reviewed the system of quality control for the audit organization of the Farm Credit Administration Office of the Inspector General (FCA-OIG) in effect for the period May 1, 2007, through April 30, 2010. A system of quality control encompasses FCA-OIG’s organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with Government Auditing Standards (July 2007 Revision-GAO-07-731G). The elements of quality control are described in Government Auditing Standards. The FCA-OIG is responsible for designing a system of quality control and complying with it to provide the FCA-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 FCA-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 FCA-OIG personnel and obtained an understanding of the nature of the FCA-OIG audit organization, and the design of the FCA-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 FCA-OIG’s system of quality control. The engagements selected represented a reasonable cross-section of the FCA-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. Subsequently, we met with FCA-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 FCA-OIG’s audit organization. In addition, we tested compliance with the FCA-OIG’s quality control policies and procedures to the extent we considered appropriate. These tests covered the application of the FCA-OIG’s policies and procedures on selected engagements. Our review was
based on these 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. Moreover,
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.

In addition to reviewing FCA-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 FCA-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 FCA-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 FCA-OIG’s
monitoring of individual work performed by IPAs.

**Enclosure 1** to this report identifies the offices of the FCA-OIG that we visited and the
engagements that we reviewed.

**Enclosure 2** to this report reexamines the findings and recommendations from an earlier peer
review report dated April 30, 2007 that was conducted by the National Archives and Records
Administration OIG (NARA-OIG).

In our opinion, the system of quality control for the audit organization of FCA-OIG in effect for
the period May 1, 2007, through April 30, 2010, has been suitably designed and complied with to
provide FCA-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*. FCA-OIG has received a peer review rating of
*pass*. As is customary, we have issued a letter dated (2-4-11) that sets forth findings that were
not considered to be of sufficient significance to affect our opinion expressed in this report.

Thank you for the assistance that you provided me and my staff during the conduct of this
review.

Sincerely,

[Signature]

A. Roy Lavik
Inspector General

Enclosures
SCOPe and METHODOLOGY

We tested compliance with the FCA-OIG audit organization’s system of quality control to the extent we considered appropriate. These tests included a review of 2 audit reports issued during the period May 1, 2007, through April 30, 2010, and semiannual reporting periods September 2007 to April 2010. We held the entrance conference on April 22, 2010 and signed a Memorandum of Understanding on May 18, 2010. We concluded our fieldwork on December 20, 2010. We also reviewed the internal quality control reviews performed by FCA-OIG.

In addition, we reviewed the FCA-OIG’s monitoring of an engagement performed by an IPA where the IPA served as the principal auditor during the period May 1, 2007, through April 30, 2010. During the period, FCA-OIG contracted with an IPA for the audit of Farm Credit Administration’s Fiscal Year 2009 financial statements.

We conducted this peer review at FCA-OIG office in McLean, Virginia. We reviewed the following:

**Reviewed Engagements Performed by FCA-OIG**

<table>
<thead>
<tr>
<th>Report</th>
<th>Issued Date</th>
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<tbody>
<tr>
<td>Office of Examination Travel</td>
<td>July 23, 2009</td>
</tr>
<tr>
<td>Expense Budgeting, Usage, and Control</td>
<td></td>
</tr>
<tr>
<td>Efficiencies Realized Through Outsourcing</td>
<td>May 20, 2008</td>
</tr>
</tbody>
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**Reviewed Monitoring Files of FCA-OIG For Contracted Engagements**

<table>
<thead>
<tr>
<th>Report</th>
<th>Issued Date</th>
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<tbody>
<tr>
<td>Audit of FCA’s Financial Statements Fiscal</td>
<td>November 4,</td>
</tr>
<tr>
<td>Year 2009 by Brown &amp; Company CPAs, LLC</td>
<td>2009</td>
</tr>
</tbody>
</table>
During our review of the system of quality control for the audit organization of Farm Credit Administration Office of the Inspector General (FCA-OIG) in effect for the period May 1, 2007, through April 30, 2010 we examined documents related to the prior peer review conducted by the National Archives and Records Administration OIG (NARA-OIG). The NARA-OIG audit report made several recommendations. We examined each of the recommendations mentioned in the NARA-OIG report and our findings are listed below.

**Independence**

NARA-OIG recommendation—May 2007 report page 1

_The OIG should enhance its policy on independence to include signatures of federal auditors certifying their independence on each review performed in accordance with Government Auditing Standards._

Analysis—April 2010

We reviewed two audits conducted by FCA-OIG:
1. Office of Examination Travel Expense Budgeting, Usage, and Control
2. Efficiencies Realized Through Outsourcing

In both cases we found documents certifying auditor’s independence during these audits.

**Supervision**

NARA–OIG recommendation—May 2007 report page 2

_The FCA IG should document supervisory comments of audit work performed using the Working Paper Review Sheet._

Analysis—April 2010

We reviewed two audits conducted by FCA-OIG:
1. Office of Examination Travel Expense Budgeting, Usage, and Control
2. Efficiencies Realized Through Outsourcing

In both cases we found documents indicating supervisory review of the auditor’s work product.

**Audit Planning**

NARA–OIG recommendation—May 2007 report page 2

_The FCA IG should include audit steps relating to previous audits and risks due to fraud in FCA OIG audit programs and document the results of the work performed._
We reviewed two audits conducted by FCA-OIG:
1. Office of Examination Travel Expense Budgeting, Usage, and Control
2. Efficiencies Realized Through Outsourcing

In both cases we found documents indicating awareness of previous audits and studies, and an understanding of the risks due to fraud in the area under review.

Monitoring the work of Non-Federal Auditors

Our review included the Audit of FCA’s Financial Statements Fiscal Year 2009 conducted by Brown & Company CPAs, LLC, an independent public accountant under contract to the OIG in accordance with Government Auditing Standards. Accordingly, we reviewed monitoring of this audit performed by Brown & Co. to assess FCA-OIG’s response to the recommendations stated in the NARA peer review.

NARA-OIG recommendation May 2007 report page 2
1. FCA-OIG did not document the planned level of review at the overall and material line item level in accordance with FAM 650.36

Analysis—April 2010
The work papers contained a monitoring plan for the financial statement audit which addressed this issue.

NARA-OIG recommendation May 2007 report page 2
2. FCA-OIG did not document their designed oversight procedures in using the work of other auditors contracted to perform the FY 2005 Financial Statement Audit or the type of reporting in accordance with FAM 650

Analysis—April 2010
The work papers contained a Financial Statement Oversight Guide which documented FCA-OIG’s oversight procedures of the IPA.

NARA-OIG recommendation May 2007 report page 2
3. FCA-OIG did not document their assessment or update their previous assessment of the firm’s independence, the firm’s internal quality control system of their assessment of key staff qualifications. While certain individuals signed independence statements, the latest peer review was documented and certain resumes and CPEs were documented, FCA-OIG did not document their assessment of this information. In addition, FCA-OIG did not document their verification of CPA licensing standings for the auditors engaged to perform the financial statement audit.

Analysis—April 2010
The FCA-OIG acquired independence statements from the IPA and provided to the review team documentation to address these issues.

NARA-OIG recommendation May 2007 report page 2

4. No evidence was presented that FCA-OIG provided comments on the other auditor's working papers or reports.

Analysis–April 2010

The work papers contained documents that addressed these issues to our satisfaction.

In our review of the Audit of FCA's Financial Statements Fiscal Year 2009 conducted by Brown & Company CPAs, LLC we found sufficient documents which provided evidence of FCA-OIG's monitoring of IPA.

We did not review the audit weaknesses identified by NARA-OIG with respect to the FY2005 FISMA Review.