



FEDERAL MARITIME COMMISSION
Washington, DC 20573

Office of Inspector General

System Review Report

August 13, 2019

Inspector General A. Roy Lavik
U.S. Commodity Futures Trading Commission
1155 21st Street, NW
Washington, DC 20581

Dear Mr. Lavik:

We have reviewed the system of quality control for the audit organization of the U.S. Commodity Futures Trading Commission (CFTC) Office of Inspector General (OIG) in effect for the year ended March 31, 2019. A system of quality control encompasses CFTC OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming with *Government Auditing Standards*¹. The elements of quality control are described in *Government Auditing Standards*. CFTC OIG is responsible for establishing and maintaining a system of quality control that is designed to provide CFTC OIG with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and CFTC OIG's compliance therewith based on our review.

Our review was conducted in accordance with *Government Auditing Standards* and the Council of the Inspectors General on Integrity and Efficiency (CIGIE) *Guide for Conducting Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. During our review, we interviewed CFTC OIG personnel and obtained an understanding of the nature of the CFTC OIG audit organization, and the design of CFTC OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audits and an attestation engagement, collectively referred to as "audits", and administrative files to test for conformity with professional standards and compliance with CFTC OIG's system of quality control. The audits selected represented a reasonable cross-section of the CFTC OIG audit organization. Prior to concluding the peer review, we reassessed the adequacy of the scope of the peer review procedures and met with CFTC OIG management to discuss the results of our review. We believe that the procedures we performed provide a reasonable basis for our opinion.

¹ GAO, *Government Auditing Standards*, GAO-12-331G (Washington, D.C., December 2011).

In performing our review, we obtained an understanding of the system of quality control for the CFTC OIG audit organization. In addition, we tested compliance with CFTC OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of CFTC OIG's policies and procedures on selected audits. 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.

Enclosure 1 to this report identifies the location of the CFTC OIG office that we visited and the audits that we reviewed.

In our opinion, the system of quality control for the audit organization of CFTC OIG in effect for the year ended March 31, 2019, has been suitably designed and complied with to provide CFTC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. CFTC OIG has received an External Peer Review rating of *pass*. As is customary, we have issued a letter dated August 13, 2019 that sets forth a finding that was not considered to be of sufficient significance to affect our opinion expressed in this report; Enclosure 2.

In addition to reviewing its 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 CFTC OIG's monitoring of audits performed by Independent Public Accountants (IPAs) under contract where the IPA served as the auditor. It should be noted that monitoring of audits 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 CFTC 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 CFTC OIG's monitoring of work performed by IPAs.

Sincerely,



Jon Hatfield, Inspector General

Enclosures

Scope and Methodology

We tested compliance with CFTC OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of one performance audit and one attestation engagement issued during the period April 1, 2016, through March 31, 2019.

In addition, we reviewed CFTC OIG's monitoring of audits performed by IPAs where the IPA served as the auditor. CFTC OIG contracted for the audit of its agency's fiscal year 2018 financial statements. CFTC OIG also contracted for certain other audits that were to be performed in accordance with *Government Auditing Standards*.

We visited the CFTC OIG office located in Washington, DC.

Reviewed Audit and Attestation Performed by CFTC OIG:

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
17-AU-03	12/18/2017	Audit of CFTC's Enterprise Architecture Program
17-AU-04	10/17/2017	Compliance with DATA Act of 2014-Reporting Accuracy (FY 2017 Quarter II)

Reviewed Monitoring Files of CFTC OIG for Contracted Audit:

<u>Report No.</u>	<u>Report Date</u>	<u>Report Title</u>
18-AU-03	11/15/2018	CFTC Financial Statements Audit: Fiscal Year (FY) 2018



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August 13, 2019

Inspector General A. Roy Lavik
U.S. Commodity Futures Trading Commission
1155 21st Street, NW
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Dear Mr. Lavik:

We have reviewed the system of quality control for the audit organization of U.S. Commodity Futures Trading Commission (CFTC) Office of Inspector General (OIG) in effect for the year ended March 31, 2019, and have issued our report thereon dated August 13, 2019, in which CFTC OIG received a rating of *pass*. That report should be read in conjunction with the comments in this letter, which were considered in determining our opinion. The finding described below was not considered to be of sufficient significance to affect the opinion expressed in that report.

Finding 1. System of Quality Control - Audit Policies and Procedures are in Place but Need Improvement

An audit organization's system of quality control encompasses the audit organization's leadership, emphasis on performing high quality work, and the organization's policies and procedures designed to provide reasonable assurance of complying with professional standards and applicable legal and regulatory requirements. The nature, extent, and formality of an audit organization's quality control system will vary based on the audit organization's circumstances, such as the audit organization's size, number of offices and geographic dispersion, knowledge and experience of its personnel, nature and complexity of its audit work, and cost-benefit considerations. [GAS 3.83]

An audit organization should establish policies and procedures in its system of quality control that collectively address a. leadership responsibilities for quality within the audit organization; b. independence, legal, and ethical requirements; c. initiation, acceptance, and continuance of audits; d. human resources; e. audit performance, documentation, and reporting; and f. monitoring of quality. [GAS 3.85]

The CFTC OIG developed and then approved their Audit Policy and Procedures Manual, Revision 1, on March 28, 2016. The manual is intended to demonstrate the CFTC OIG's commitment to a system of quality controls for the office's Audit Operations. However, there are audit subjects that lack clarity, or are silent in the manual. For example, the manual's policies and procedures on quality control needs clarity to ensure the annual self-evaluation of all OIG functions is performed. In addition, the audit manual is silent on several audit subjects, such as policies and procedures on the performance of attestation engagements conducted in accordance with generally accepted government auditing standards.

Recommendation - The CFTC OIG should enhance the office's Audit Policy and Procedures Manual to provide clarity and content for relevant audit subjects.

Views of Responsible Official - CFTC OIG agreed with the recommendation. CFTC OIG staff plans to update their policy manual by December 31, 2019, to ensure its alignment with the current GAGAS 2018 Revisions and to address the recommendation.

Sincerely,

A handwritten signature in black ink that reads "Jon Hatfield". The signature is written in a cursive, slightly slanted style.

Jon Hatfield, Inspector General



U.S. COMMODITY FUTURES TRADING COMMISSION

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Jon Hatfield
Inspector General
Federal Maritime Commission
800 North Capitol Street, NW, Suite 1054
Washington, DC 20573

August 13, 2019

Dear Mr. Hatfield,

Thank you for giving my staff the opportunity to comment on the draft *System Review Report*, dated August 6, 2019, on the system of quality control in the Office of Audit within the Office of Inspector General for the Commodity Futures Trading Commission, for the period ended March 31, 2019. We are pleased that your independent review concluded that their system of quality control was suitably designed and executed, in all material respects, to provide reasonable assurance of performance and reporting in conformity with *Generally Accepted Government Auditing Standards (GAGAS)*, and are pleased to receive a *pass* rating.

In conjunction with the opinion, you provided a finding and recommendation relating to the Office of Audits policy manual, which was not considered to be of sufficient significance to affect the opinion expressed. We agree, and therefore my staff plans to update our policy manual by December 31, 2019, to ensure its alignment with the current *GAGAS 2018 Revisions* and to address the recommendation.

We appreciate your efforts in conducting this review. Should you have questions, please contact Miguel Castillo, Assistant Inspector General for Audits, at (202) 418-5084.

Best Regards,



A. Roy Lavik
Inspector General