



System Review Report

OIG-AR-14-03

To Mr. A Roy Lavik, Inspector General
Commodity Futures Trading Commission

We have reviewed the system of quality control for the audit organization of the Commodity Futures Trading Commission Office of the Inspector General (CFTC OIG) in effect for period ended March 31, 2013. 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*. The elements of quality control are described in *Government Auditing Standards*. CFTC OIG is responsible for designing a system of quality control and complying with it to provide CFTC 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 CFTC 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 CFTC OIG personnel and obtained an understanding of the nature of the CFTC OIG's 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 engagements and administrative files to test for conformity with professional standards and compliance with CFTC OIG's system of quality control. The engagements selected represented a reasonable cross-section of the CFTC OIG's audit organization, with emphasis on higher-risk engagements audits. Prior to concluding the 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.

In performing our review, we obtained an understanding of the system of quality control for the CFTC OIG's 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 engagements. 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.



April 22, 2014

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

Dear Mr. Lavik:

Enclosed is our final report on the system of quality control for your audit organization conducted in accordance with *Government Auditing Standards* and Council of the Inspectors General on Integrity and Efficiency guidelines. Your response to the draft report is included in Enclosure 2 with excerpts and our evaluation of your response incorporated into the relevant sections of the report.

After carefully considering your responses, we respectfully disagree with the responses to the recommendations submitted by your office. We thank you and all your staff for your assistance and cooperation during the review.

A handwritten signature in blue ink, appearing to read "Osvaldo Gratacos".

Osvaldo Gratacos
Inspector General

Enclosure

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.

The Enclosure to this report identifies the engagement performed by CFTC OIG and monitoring files of CFTC OIG's contracted engagement that we reviewed.

CFTC has made many positive strides since their last peer review. The last peer review had 29 recommendations which 25 involved updating policy. These recommendations for the most part have been incorporated into draft policies. CFTC has also created many internal control forms that are used for every GAGAS audit and is incorporated into their draft policy. CFTC has also been proactive on obtaining an automated workpaper system (TeamMate) to improve workpaper documentation.

We noted the following deficiencies during our review.

1. Deficiency – Continuing Professional Education (CPE) (repeat finding)

Government Auditing Standards, Section 3.76, states that “Auditors performing work in accordance with [Generally Accepted Government Auditing Standards (GAGAS)], including planning, directing, performing audit procedures, or reporting on an audit conducted in accordance with GAGAS, should maintain their professional competence through continuing professional education (CPE). Therefore, each auditor performing work in accordance with GAGAS should complete, every 2 years, at least 24 hours of CPE that directly relates to government auditing, the government environment, or the specific or unique environment in which the audited entity operates... Auditors required to take the total 80 hours of CPE should complete at least 20 hours of CPE in each year of the 2-year periods.” We found that the Acting Assistant Inspector General for Audit (AIGA) did not meet the *Government Auditing Standards* 80 hour CPE requirement for the two-year period January 1, 2011, through December 31, 2012. Further, the Acting AIGA did not meet the *Government Auditing Standards* minimum requirement of 20 hours of training in 2011.

Recommendation

1. CFTC OIG should ensure that all audit staff performing work in accordance with GAGAS meet the CPE requirements and maintain appropriate documentation, as described by *Government Auditing Standards*.

CFTC OIG Response. We disagree with this finding, conclusion, and resulting recommendation because the supporting information is not accurate.

Specifically, the CPE requirement for the Acting AIGA for calendar years 2011 thru 2012 was 40 hours - not 80 hours. Consistent with Government Auditing Standards, 2011 Revision, the Acting AIGA completed 41.5 hours of CPEs during the CPE period. The Acting AIGA performed no GAGAS related duties during calendar year 2011. During calendar year 2011, CFTC-OIG only performed contract GAGAS audits under the technical supervision of the GS-15 Supervisory Auditor. The Acting AIGA initially participated in GAGAS audits in March 2012. Consequently, the Acting AIGA participated in GAGAS audits for only half (50%) of the 2-year CPE period. The Government Auditing Standards section 3.76 states that "Auditors hired or initially assigned [underline added] to GAGAS audits after the beginning of an audit organization's 2-year CPE period should complete a prorated number of CPE hours." Consequently, as we advised your staff prior to and during the exit conference, the CPE requirement for the Acting AIGA was 40 hours - not 80 hours.

Evaluation of CFTC OIG's Response. We do not agree with CFTC OIG's interpretation of the GAGAS CPE requirements. In addition, according to the GAO report *Interpretation of Continuing Education and Training Requirements*, "audit organizations should have its auditors complete those requirements (CPE) if it is reasonably possible that it will be doing yellow book audits in the future."¹ Due to the small size of CFTC OIG Audit office, we find it very reasonable possible that they may need to engage in yellow book audits and with only two personnel it would indicate that both would need to be up to date on CPEs. Furthermore, during the 2011 and 2012 period, the Supervisor Auditor meet all CPE requirements and through discussions it was determined that CFTC OIG's intentions are for all auditors to meet the 80 hour CPE requirement. We believe CFTC auditors have taken the necessary steps to ensure compliance with CPE requirements in the future. These actions will resolve this recommendation.

2. Deficiency - Independence

Government Auditing Standards, Section 3.59, states that "Documentation of independence considerations provides evidence of the auditor's judgments in forming conclusions regarding compliance with independence requirements. GAGAS contains specific requirements for documentation related to independence which may be in addition to the documentation that auditors have previously maintained. While insufficient documentation of an auditor's compliance with the independence standard does not impair independence, appropriate documentation is required under the GAGAS quality control and assurance requirements." Additionally *Government Auditing Standards*, Section 3.84, states that "The audit organization should document compliance with its quality control policies and procedures and maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the

¹ "Interpretation of Continuing Education and Training Requirements" (GAO, April 1991).

extent of the audit organization's compliance with its quality control policies and procedures." In addition, according to Section 300.01 of the CFTC OIG policy manual; "Consistent with [*Government Auditing Standards*], OIG staff prepares annual confidentiality and conflicts of interest certifications." We received no documentation of the Acting AIGA's independence for fiscal year 2012. When questioned, the Acting AIGA stated that he completed the required certification; however he was unable to provide a copy. Based on this finding the CFTC OIG is not compliant with *Government Auditing Standards* and its own policies and procedures.

Recommendation

2. CFTC OIG should ensure that all staff prepare annual confidentiality and conflicts of interest certifications and maintain the required documentation in accordance with *Government Auditing Standards* and Section 300.01 of the CFTC OIG policy manual.

CFTC OIG Response. We agree that consistent with CFTC-OIG policies and procedures, all certifications of independence should be documented in CFTC-OIG files and we have taken steps to do so. It should be noted, however, that our policies and procedures requirement is redundant for the Acting AIGA because the Acting AIGA did have documentation of independence on file with CFTC's ethics office which meets GAGAS requirements. Specifically, the *Government Auditing Standards* 3.59 state that "GAGAS contains specific requirements for documentation related to independence which may [underline added] be in addition to the documentation that auditors have previously maintained." As we advised your staff, for calendar years 2011, and 2012, the Acting AIGA completed OGE Form 278s - Public Financial Disclosure Report - which do meet GAGAS standards in documenting his independence.

Evaluation of CFTC OIG's Response. Managements proposed action of documenting certifications of independence in its OIG files will resolve this recommendation. However, it should be noted, that we do not consider the "Public Financial Disclosure Form" as a substitute for the confidentiality and conflicts of interest certification. The "Public Financial Disclosure Form" is specifically for financial disclosure while the confidentiality and conflicts of interest certification provides evidence of the judgment in forming conclusions regarding compliance with independence requirements. In addition, we found that an independence statement is maintained for the Supervisory Auditor in accordance to CFTC policy.

3. Deficiency - Policy and Procedures

According to GAS 3.84 "Each audit organization should document its quality control policies and procedures and communicate those policies and procedures to its personnel. The audit organization should document compliance with its quality control policies and procedures and maintain such documentation for a period of

time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent of the audit organization's compliance with its quality control policies and procedures." We found that CFTC OIG lacked an official policy as required by GAS 3.84. When we requested a copy of the official policy, CFTC OIG provided a copy that was not dated or signed. In addition, the document was marked "Draft" and contained editing marks such as highlighting and comments in the margin. The lack of an official policy hinders the ability of those performing monitoring procedures and peer reviews to evaluate the extent of the audit organization's compliance with its quality control policies and procedures.

Recommendation

3. CFTC OIG should finalize the audit organization policies and procedures, including addressing any outstanding editing remarks, clearly identifying the effective date of the policies and procedures, and obtaining the signature of the responsible official.

CFTC OIG Response. We agree that CFTC-OIG policies and procedures should be finalized and we have done so. However, any suggestion that the audit function was operating without guidance is not accurate. First, as we advised your staff, the CFTC Inspector General issued a memorandum on October 7, 2011 that stated that the audit related portions of the draft policies and procedures were final. The Inspector General affirmed this in a memorandum to your staff on November 26, 2013. Secondly, CFTC-OIG has an audit staff of two. Both staff were involved in revising the audit policies and procedures after the 2011 peer review and as a result are both thoroughly familiar with its contents. Finally, the copy of the policies and procedures provided your staff did not include "editing marks". It only contained cross references to the 2011 CFTC-OIG Peer Review Enclosure remediation plan. These cross references were included to facilitate your staffs review of CFTC-OIG's efforts to revise the audit policies and procedures as we committed to in the remediation plan.

Evaluation of CFTC OIG's Response. Managements proposed action of finalizing their policies and procedures will resolve this recommendation. We are not stating that the audit function was operating without guidance only that they did not have an official policy as required by GAS 3.84. Furthermore, the policy provided to Ex-Im OIG contained the statement "draft" in the header of each page. In addition, per our conversations and a memorandum from the CFTC IG, the policy manual is used as a living document.

Enclosure 2 to this report includes the response by CFTC OIG to the above deficiencies.

In our opinion, except for the deficiencies described above, the system of quality control for the audit organization of CFTC OIG in effect for the period ended March 31, 2013, 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. Federal audit organizations can receive a rating of *pass*, *pass with deficiencies*, or *fail*. CFTC OIG has received a peer review rating of *pass with deficiencies*.

As is customary, we have issued a letter dated April 22, 2014 that sets forth findings that were not considered to be of sufficient significance to affect our opinion expressed in this report.

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 audit 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 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.

SCOPE AND METHODOLOGY (Enclosure 1)

Scope and Methodology

We tested compliance with the CFTC OIG audit organization's system of quality control to the extent we considered appropriate. These tests included a review of one of one audit report issued April 1, 2010, through March 31, 2013.

In addition, we reviewed CFTC OIG's monitoring of engagements performed by IPAs where the IPA served as the principal auditor during the period April 1, 2010, through March 31, 2013. During the period, CFTC OIG contracted for the audit of its agency's fiscal year 2012 financial statements. CFTC OIG also contracted for certain other engagements that were to be performed in accordance with *Government Auditing Standards*.

Reviewed Engagements Performed by CFTC OIG

<u>Report Date</u>	<u>Report Title</u>
06/22/2012	Audit of the Financial Stability Oversight Council's Controls over Non-public Information*

*This report was published by The Council of Inspectors General on Financial Oversight (CIGFO). Although, CFTC OIG only participated in a portion of this audit, CFTC OIG certified that they performed the work in accordance with GAGAS. CIGFO completed all planning and reporting. CFTC completed a template spreadsheet for the fieldwork phase that was incorporated into CIGFO's report.

Reviewed Monitoring Files of CFTC OIG for Contracted Engagements

<u>Report Date</u>	<u>Report Title</u>
11/15/2012	Review of the Independent Auditors CFTC Financial Statements for Fiscal Year 2012

CFTC OIG Comments (Enclosure 2)



U.S. COMMODITY FUTURES TRADING COMMISSION

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March 14, 2014

**Office of the
Inspector General**

The Honorable Osvaldo Gratacos
Inspector General
Export-Import Bank
Office of Inspector General
811 Vermont Avenue, NW
Washington, DC 20571

Re: CFTC-OIG Comments On the Report And Comment Letter on the U.S. Commodity Futures Trading Commission Office of the Inspector General Audit Organization System of Quality Control

Dear Mr. Gratacos:

We have completed our review of the subject documents prepared by your office. Corrective actions have been completed for those findings with which we are in agreement. However, as pointed out to your staff before and during the exit conference, the report and comment letter include several inaccurate findings for which we believe no corrective action is required. Our comments on the report, the comment letter, and these inaccuracies are enclosed.

Thank you for your assistance in identifying areas of our operations that needed improving. If you have any questions, please contact me at (202) 418-5110.

Sincerely,

Roy Lavik
Inspector General

Enclosure

Comments on Export-Import Bank OIG Peer Review Report

1. Deficiency – Continuing Professional Education (CPE) (repeat finding)

We disagree with this finding, conclusion, and resulting recommendation because the supporting information is not accurate. Specifically, the CPE requirement for the Acting AIGA for calendar years 2011 thru 2012 was 40 hours – not 80 hours. Consistent with Government Auditing Standards, 2011 Revision, the Acting AIGA completed 41.5 hours of CPEs during the CPE period. The Acting AIGA performed no GAGAS related duties during calendar year 2011. During calendar year 2011, CFTC-OIG only performed contract GAGAS audits under the technical supervision of the GS-15 Supervisory Auditor. The Acting AIGA initially participated in GAGAS audits in March 2012. Consequently, the Acting AIGA participated in GAGAS audits for only half (50%) of the 2-year CPE period. The Government Auditing Standards section 3.76 state that “Auditors hired or initially assigned [underline added] to GAGAS audits after the beginning of an audit organization’s 2-year CPE period should complete a prorated number of CPE hours.” Consequently, as we advised your staff prior to and during the exit conference, the CPE requirement for the Acting AIGA was 40 hours – not 80 hours.

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We agree that CFTC-OIG policies and procedures should be finalized and we have done so. However, any suggestion that the audit function was operating without guidance is not accurate. First, as we advised your staff, the CFTC Inspector General issued a memorandum on October 7, 2011 that stated that the audit related portions of the draft policies and procedures were final. The Inspector General affirmed this in a memorandum to your staff on November 26, 2013. Secondly, CFTC-OIG has an audit staff of two. Both staff were involved in revising the audit policies and procedures after the 2011 peer review and as a result are both thoroughly familiar with its contents. Finally, the copy of the policies and procedures provided your staff did not include “editing marks”. It only contained cross references to the 2011 CFTC-OIG Peer Review

remediation plan. These cross references were included to facilitate your staff's review of CFTC-OIG's efforts to revise the audit policies and procedures as we committed to in the remediation plan.

Comments on Export-Import Bank OIG Peer Review Comment Letter

The six comments provided by Ex/Im-OIG, all address CFTC-OIG audit policies and procedures manual. Four of the issues raised were not presented to us before issuance of the draft peer review report. We agree with one of the four issues along with the two other issues raised. Changes have been made to our policies and procedures manual to address these three issues.

Three of the comments in the letter incorrectly state that the policies and procedures manual we provided was missing certain guidance. During the exit conference Ex/Im-OIG staff was advised where the guidance was located in the policies and procedures manual we had provided them. However the letter was not corrected. Specifically: 1) guidance on summarizing CFTC-OIG monitoring process is located at sections 402.00 and 900.06; 2) guidance on auditors' reliance on electronic information systems is located at section 400.06; and 3) guidance on documenting the termination of a GAGAS audit is located at 400.07.