



**U.S. COMMODITY FUTURES TRADING COMMISSION  
OFFICE OF INSPECTOR GENERAL**

Three Lafayette Centre  
1155 21st Street, NW, Washington, DC 20581  
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March 6, 2017

Hubert Sparks  
Inspector General  
Appalachian Regional Commission Office of Inspector General  
1666 Connecticut Avenue, NW  
Washington, DC 20009

Dear Hubie,

Attached is the *External Modified Audit Peer Review Report of the Appalachian Regional Commission Office of the Inspector General*, (OIG Report: 16-O-01). This peer review was conducted in accordance with *Generally Accepted Government Auditing Standards* and the *Council of the Inspectors General on Integrity and Efficiency Guide* for conducting modified peer reviews.

We thank you and all of your staff that we dealt with for your assistance and cooperation during the conduct of the review. If you have any questions, please contact Miguel Castillo at (202) 418-5084 or [mcastillo@cftc.gov](mailto:mcastillo@cftc.gov).

Sincerely,

A. Roy Lavik  
Inspector General  
U.S. Commodity Futures Trading Commission



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**TO:** Hubert Sparks  
Inspector General  
Appalachian Regional Commission Office of the Inspector  
General

**FROM:** Miguel A. Castillo, *CPA, CRMA*  
Assistant Inspector General for Auditing

**DATE:** March 6, 2017

**SUBJECT:** System Review Report - External Modified Audit Peer Review  
Discussion Draft Report of the Appalachian Regional  
Commission Office of the Inspector General  
(OIG Report: 16-O-01)

We have reviewed the system of quality control for the audit organization of the Appalachian Regional Commission (ARC) Office of the Inspector General (OIG) in effect for the three years ended September 30, 2016. A system of quality control encompasses ARC OIG's organizational structure and the policies adopted and procedures established to provide it with reasonable assurance of conforming to *Generally Accepted Government Auditing Standards* (GAGAS). The elements of quality control are described in GAGAS. ARC OIG is responsible for establishing and maintaining a system of quality control that is designed to provide ARC 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 ARC OIG's compliance therewith based on our modified review.

Our review was conducted in accordance with GAGAS and the *Council of the Inspectors General on Integrity and Efficiency (CIGIE) Guide for Conducting Modified Peer Review* of the audit organizations of federal offices of Inspector General. During our review, we met with ARC OIG personnel and obtained an understanding of the nature of the ARC OIG audit organization, and the design of ARC OIG's system of quality control sufficient to assess the risks implicit in its audit function. Based on our assessments, we selected audits and attestation engagements, collectively referred to as "audits", and administrative files to test for conformity with professional standards and compliance with ARC OIG's system of quality control. The

audits selected represented a reasonable cross-section of ARC OIG’s audit organization. Prior to concluding the peer review, we reassessed the adequacy of the scope of the modified peer review procedures and met with ARC 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 ARC OIG audit organization. In addition, we tested compliance with ARC OIG's quality control policies and procedures to the extent we considered appropriate. These tests covered the application of ARC 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.

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. [Appendix A](#) to this report identifies scope and methodology, and a list ARC OIG audits peer reviewed.

In our opinion, the system of quality control for the audit organization of ARC OIG in effect for the year ending September 30, 2016 has been suitably designed and provides ARC 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. ARC OIG has received an external peer review rating of “pass”. However as an observation, we note ARC OIG transmittal letters need to clearly delineate responsibilities between the ARC OIG and contractor reports. Therefore, we make the following suggestion for inclusion in the transmittal letters.

*“In connection with the contract, we reviewed [contractor’s] report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on report findings. [Contractor] is*

*responsible for the attached report dated [Month, Day, Year] and the conclusions expressed in the report. However, our review disclosed no instances where [contractor] did not comply, in all material respects, with U.S. Generally Accepted Government Auditing Standards.”*

[Appendix B](#) to this report identifies ARC OIG response to our suggested statement for inclusion in transmittal letters. In addition to reviewing its system of quality control to ensure adherence with GAGAS, we applied certain limited procedures in accordance with guidance established by CIGIE related to ARC OIG's monitoring of audits performed by independent public accountants (IPAs) under contract where the IPAs 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 GAGAS. We also note ARC OIG audit organization utilizes inspections and evaluations to address ARC management and headquarters issues such as implementation of applicable regulations and grant program objectives. The purpose of our limited procedures was to determine whether ARC 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 ARC OIG's monitoring of work performed by IPAs.

Cc: A. Roy Lavik, Inspector General  
Judith A. Ringle, Deputy Inspector General and Chief Counsel

## Appendix A

### Scope and Methodology

We tested compliance with the ARC OIG audit organization's system of quality control to the extent we considered appropriate. ARC OIG did not perform audits or attestation engagements but rather only reviews. It is ARC OIG's current policy not to perform audit or any other work under *Generally Accepted Government Auditing Standards* (GAGAS). ARC OIG management contract independent public accountants (IPAs) to conduct financial statements audits, attestation engagements, and other GAGAS engagements. Therefore, we did not test compliance with certain ARC OIG's system of quality controls, but note ARC OIG utilizes inspections and evaluations to address ARC management and headquarters issues.

We reviewed the ARC OIG's monitoring of audits performed by IPAs where the IPA served as the principal auditor during the period October 1, 2015 through September 30, 2016. During the period, ARC OIG management contracted for the audit of its agency's Fiscal Year 2015 financial statements (OIG Report Number: 16-04) and ARC OIG monitored the IPA's work. ARC OIG also contracted for certain other types of engagements that were to be performed in accordance with GAGAS.

We visited the ARC OIG office in Washington DC.

### ARC OIG Audits Peer Reviewed

ARC OIG does not perform audits or attestation engagements. Thus, we tested compliance with relevant aspects of ARC OIG's system of quality controls.

#### Contract Audits Peer Reviewed

<b>OIG Report Number</b>	<b>Grant Number (if applicable) Name of Audit/Grant</b>	<b>Date Issued</b>
<b>16-04</b>	FY 2015 Financial Statements Audit	11/30/2015
<b>16-11</b>	IT Security Evaluation	03/22/2016
<b>16-14</b>	Applications, Approvals and Obligations	03/31/2016
<b>16-15</b>	KY-17957 University of Pikeville KY College of Optometry	05/19/2016
<b>16-29</b>	NC-17980 Rutherford County Comprehensive Applied Sciences	09/12/2016

## Appendix B

### ARC OIG Response to “Suggestion” statement in transmittal letter(s)



APPALACHIAN  
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*A Proud Past,  
A New Vision*

*Office of Inspector General*

February 10, 2017

Mr. Miguel A. Castillo  
Assistant Inspector General for Audit  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street, N.W.  
Washington, D.C. 20581

Dear Mr. Castillo;

Thank you for the draft report pertaining to the External Modified Audit Peer Review report of the Appalachian Regional Commission Office of Inspector General, (OIG Report 16-0-01).

We concur with suggestions with respect to language to be included in transmittal letters dealing with contractor reports.

Sincerely,

A handwritten signature in black ink that reads 'Hubert Sparks'.

Hubert Sparks  
Inspector General  
Appalachian Regional Commission

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