



**U.S. COMMODITY FUTURES TRADING COMMISSION**

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**Office of the  
Inspector General**

**MEMORANDUM**

**TO:** Mark Carney  
**FROM:** Tony Baptiste *TB by DM*  
**DATE:** November 16, 2012  
**SUBJECT:** Final Audit Report FMFIA - Section 2

Attached is the final audit report on FMFIA – Section 2 performed by the OIG contracted independent public accounting firm, and we concur with this report. A management letter containing additional findings will follow on Monday, November 19, 2012.

Thank you for your assistance during the conduct of this audit.

TB/dm

cc: Edward Kelley

Attachment



**CliftonLarsonAllen**

**U.S. COMMODITY FUTURES TRADING COMMISSION**

**Independent Auditor's Report  
on Internal Control Assessment Process Used by Management  
in Support of its FY 2012 Federal Managers' Financial Integrity Act  
(FMFIA), Section 2, Statement of Assurance**

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### **ABBREVIATIONS**

CFTC	U.S. Commodity Futures Trading Commission
CLA	CliftonLarsonAllen LLP
FMFIA	Federal Managers' Financial Integrity Act
FY	Fiscal Year
OMB	Office of Management and Budget

## **INTRODUCTION**

The U.S. Commodity Futures Trading Commission (CFTC) was created by the Congress in 1974 as an independent agency with a mandate to regulate commodity futures and option markets in the United States. CFTC consists of five commissioners appointed by the President, with the advice and consent of the Senate, to serve staggered 5-year terms. One of the commissioners is designated by the President to serve as the Chairman of CFTC. CFTC's fiscal year (FY) 2012 budget was about \$205 million.

CliftonLarsonAllen LLP (CLA) was engaged by CFTC's Office of the Inspector General (OIG) to conduct a compliance audit related to CFTC's FY 2012 Federal Manager's Financial Integrity Act of 1982 (FMFIA), Section 2 statement of assurance regarding the effectiveness of its internal control and compliance with applicable laws and regulations. The compliance audit objective was to evaluate the reasonableness of the processes that CFTC followed, including management control reviews that it conducted, in support of CFTC's FY 2012 FMFIA, Section 2 statement of assurance.

## **BACKGROUND**

FMFIA and its implementing guidance, OMB Circular A-123, *Management's Responsibility for Internal Control*, require heads of federal executive agencies to annually report to the President and the Congress on the adequacy of their agency's internal control and financial systems that protect the integrity of federal programs. Pursuant to FMFIA Section 2, agency heads are to provide a statement of assurance on the overall adequacy and effectiveness of internal control within the agency and compliance with applicable laws and regulations. In the event that internal control is ineffective, the agency head is to include with the statement of assurance a report in which any material weaknesses in the agency's systems of internal accounting and administrative control are identified and the plans and schedule for correcting such weaknesses.

## **SUMMARY OF RESULTS**

We obtained and reviewed CFTC management's process narratives and cycle memos documenting key internal controls for significant processes. We reviewed and evaluated management's assessment process, including its test plan, evidence of performance of internal control test procedures and their results, and the list of daily, monthly, quarterly and annual control and monitoring activities. Also, we reviewed the adequacy of CFTC's management control reviews (MCRs) of 18 internal controls. Furthermore, we verified if any material weaknesses in internal control were identified by CFTC's external auditors performing the FY 2012 financial statements and the Customer Protection Fund audits.

Our review found that CFTC followed reasonable processes, including management control reviews that it conducted, to support its FY 2012 FMFIA, Section 2 statement of assurance. We did not find instances which would indicate that CFTC does not have a basis for the assurance statement included in the Management Discussion and Analysis (MD&A) section of the Agency Financial Report (AFR).

We did identify and communicate separately to management certain matters in CFTC's assessment process and management control reviews that are not considered reportable but for which CFTC could take measures to strengthen its overall process.

## SCOPE AND METHODOLOGY

CFTC management is responsible for (1) establishing and maintaining effective internal control, and (2) complying with applicable laws and regulations. CFTC management evaluated the effectiveness of its internal control as of September 30, 2012, based on criteria established under OMB Circular A-123. CFTC management's assurance statement is included in the MD&A section of the FY 2012 AFR.

We conducted this compliance audit in accordance with auditing standards established by the Government Accountability Office (GAO) Government Auditing Standards prescribed by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our conclusion based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our conclusion. However, the objective of our audit was not to provide an opinion on CFTC's compliance with FMFIA and other laws and regulations. Accordingly, we do not express such an opinion. Because of inherent limitations in internal control and compliance, a study and evaluation made for the limited purposes of our review would not necessarily disclose all weaknesses in CFTC's internal controls and non-compliance with applicable laws and regulations. We also caution that noncompliance with FMFIA may occur and not be detected by our review of management's processes and that our review may not be sufficient for other purposes.

Our audit scope was limited to evaluating the reasonableness of the processes that CFTC followed, including management control reviews that it conducted, in support of CFTC's FY 2012 FMFIA, Section 2 statement of assurance.

This report is intended solely for the information and use of CFTC's management and Office of the Inspector General, and is not intended to be, and should not be, used by anyone other than these specified parties.

The image shows a handwritten signature in cursive script that reads "CliftonLarsonAllen LLP". The signature is written in black ink and is positioned above the typed name and date.

Calverton, Maryland  
October 26, 2012



CliftonLarsonAllen

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[www.cliftonlarsonallen.com](http://www.cliftonlarsonallen.com)

Chairman and Inspector General  
U.S. Commodity Futures Trading Commission

We have completed a compliance audit related to the U.S. Commodity Futures Trading Commission's (CFTC's) fiscal year (FY) 2012 Federal Managers' Financial Integrity Act of 1982 (FMFIA), section 2, statement of assurance regarding the effectiveness of its internal control and compliance with applicable laws and regulations. The objective of our audit was to evaluate the reasonableness of the processes that CFTC followed, including management control reviews that it conducted, in support of its FY 2012 FMFIA, section 2, statement of assurance. We have issued our report to the Inspector General thereon dated October 26, 2012.

During the course of our audit, we had the opportunity to observe CFTC's documentation and process for assessing its internal controls and the 18 management control reviews (MCRs) that it conducted for its FY 2012, section 2, statement of assurance. Based on our audit, we would like to make the following recommendations. Although the matters described in this letter (referred to as the Management Letter - ML) are not consider "Significant Deficiencies" as defined by standards issued by the American Institute of Certified Accountants, these matters are still important in the overall internal control structure of CFTC and require management's attention. Exhibit I to this letter provides details of the findings.

This letter is intended solely for the information and use of CFTC's Office of the Inspector General and CFTC's management, and is not intended to be, and should not be, used by anyone other than these specified parties.

*CliftonLarsonAllen LLP*

Calverton, Maryland  
October 26, 2012

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MANAGEMENT LETTER COMMENTS  
September 30, 2012

## 1. OVERALL FMFIA ASSURANCE PROCESS DOCUMENTATION

**Conditions** – During our review of the Commodity Futures Trading Commission’s (CFTC’s) assessment process used in support of its fiscal year (FY) 2012 Federal Managers’ Financial Integrity Act (FMFIA), section 2, statement of assurance, we noted that CFTC has no formal, documented policies or procedures governing its assessment process from planning to testing conclusion, including its management control reviews (MCRs)—one component of the internal control assessment process. Specifically, CFTC lacks formal documentation of its organizational structure and senior assessment team; formal assessment of its entity level controls; scope of the assessment process; inventory of key internal controls and cycles; plan or priorities for testing key controls; and key decisions related to the assessment process scope, materiality, testing, and methodology.

We also were not provided the following assessment process documentation used in support of CFTC’s FY 2012 FMFIA, section 2, statement of assurance:

- an inventory of internal controls,
- divisions’ and offices’ survey response and their related statements of assurance,
- CFTC overall draft statement of assurance, and
- corrective actions.

**Recommendations** – We recommend that CFTC’s Office of Financial Management (OFM) develop, disseminate, and provide training on written policies and procedures governing the assessment process used in support of CFTC’s FMFIA, section 2, statement of assurance and conduct its management control reviews based on those policies and procedures. These policies and procedures should include documentation of CFTC’s organizational structure, entity level control review, and senior assessment team overseeing the assessment process; the scope of the assessment process; inventory of key internal controls and cycles; plan or priorities for testing key controls; and key decisions related to the assessment process scope, materiality, testing, and methodology.

## 2. DOCUMENTATION FOR MANAGEMENT CONTROL REVIEWS

**Conditions** – During our review of the 18 MCRs that CFTC conducted for FY 2012, we noted the following.

Exception 1 - A sampling plan and/or methodology was not established or adequately defined

- For 12 of the 18 MCRs, a sampling plan and/or methodology was not established or adequately defined. CFTC management did not provide reconciliation to document the verification or completeness of the population sampled. Also, there was no documentation that provided an explanation for the determination of the sample size.

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Exception 2 – Testing procedures for key controls were not listed within the testing documentation provided by management

- For 2 of the 18 MCRs, management provided summary results; however, there were no specific details on the key controls tested.

Exception 3 - There was no evidence of review by an Office of Financial Management or other appropriate official

- For 4 of the 18 MCRs, an approving signature by Office of Financial Management official or other appropriate personnel was not evident to support management's review of the MCR test results.

Exception 4 - No details of reported findings were provided within the MCR

- For 3 of the 18 MCRs, management provided general summary statements of the internal control issues found, but no details identifying the specific nature of the issues. For example, on a review of travel charge cards, the findings stated that "there were 89 incidents (less than 1.9 percent) of possible misuse of cards which require explanation from the cardholder." There were no further details or documentation provided that explained the misuse of the purchase cards or the follow up procedures performed. Similarly, an MCR review of purchase cards states that "overall, cardholders are complying with procurement regulations and agency policy." However, two issues were identified during the review. The MCR provided a broad description of the issues and no further details on the number of findings.

Exception 5 - Final assessments (i.e., satisfactory, needs improvements, or inadequate) were not supported by testing results

- For 3 of 18 MCRs, the final assessment of the effectiveness of the internal control was not consistent or supported by the test results. For example, in management's review of fixed asset existence, the review identified a 25 percent error rate in its fixed asset existence reporting and review. However, the finding was categorized as "needs improvement." During its review of the Accounts Payable accruals, management identified two exceptions among 20 accruals tested and classified the finding as "needs improvement."

Exception 6 - Testing performed was insufficient to fully assess the operating effectiveness of the internal control

- For 3 of the 18 MCRs, the testing performed was insufficient to fully assess the effectiveness of the internal control and achieve the stated review objective. For example, the stated objective for assessing property management internal control was to ensure that CFTC is engaged in effective property and asset management. Management performed a review of CFTC's property management policies and procedures and held meetings with personnel within two offices responsible for such controls—Logistics and Operations and Office of Data Technology. However, there was no evidence that any testing of a specific control was performed. Additionally, management did not provide documentation to support

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the testing attributes or results. The findings for the information technology property management and transit subsidy MCRs were similar to that of the property management MCR.

Exception 7 - Scope of the testing did not cover at least three-quarters of FY 2012 (i.e., June 30)

- For 13 of the 18 MCRs, the scope of the review was conducted through March 31, 2012, about six months of the fiscal year. CFTC's management did not provide any documented rationale for testing only six months of the fiscal year for certain MCRs and whether the six months coverage provides a reasonable basis for management's conclusion on its controls versus testing through June 30 for others.

**Recommendations** – We recommend that that the OFM:

1. Define testing objectives and design its management control review testing to fully achieve its stated objectives.
2. Ensure that the sampling approach and methodology is fully explained and testing attributes for key controls are clearly identified and documented to sufficiently assess the effectiveness of the internal control.
3. Summarize its test results, including findings and incorporate within its definitions of finding classifications quantitative, as well as qualitative, criteria in classifying the overall results of its reviews.
4. Ensure that each review is complete, reviewed and approved by a management official knowledgeable about the standards for internal control and the application of CFTC's MCRs.
5. Expand the scope of its MCR testing through June 30<sup>th</sup> to provide sufficient coverage regarding internal controls' operating effectiveness for the fiscal year under its review.
6. Establish a process to develop corrective actions for findings and ensure proper follow up of implementation efforts related to those corrective actions in its subsequent year's MCR.

### **3. RECORDING OF CIVIL MONETARY PENALTIES**

**Conditions** – CFTC's OFM identified that four civil monetary penalties (CMPs) in FY 2011 and 2012, amounting to about \$275 million, were not recorded in CFTC's accounting system. The Division of Enforcement (DOE) has the primary responsibility for reviewing the status of the CMPs and provide the final orders to OFM for recording in CFTC's financial statements.

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**Recommendations** – We recommend that DOE establish a systematic and quarterly follow up process and work jointly with OFM personnel to ensure the completeness and timely recording of civil monetary penalties as receivables on CFTC’s financial statements. In addition, CFTC should consider incorporating this control review as part of its annual management control reviews due to its materiality on CFTC’s financial statements. One technique could include the DOE Director’s quarterly certification of the reported CMP balance to ensure effective implementation and compliance.



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**Office of the  
Inspector General**

### **OIG audit AU-12-04**

*Audit Related To The U.S. Commodity Futures Trading Commission's (CFTC's) Fiscal Year (FY) 2012 Federal Managers' Financial Integrity Act of 1982 (FMFIA), Section 2, Statement Of Assurance Regarding The Effectiveness Of Its Internal Control And Compliance With Applicable Laws And Regulations.*

### **APPENDIX A MANAGEMENT'S RESPONSE LETTER**

**To:** Ingram, Keith A  
**Cc:** Wu, Denise; Bixler, David; Baptiste, Tony; Carney, Mark  
**Subject:** CFTC management letter on FMFIA Compliance Audit

Keith-

Hope all is well and you had a Happy Thanksgiving. Attached for your review is the **draft** FY 2012 CFTC Management Letter (ML) related to our Compliance Audit related to CFTC, FMFIA, section 2 assurance statement. During our review of your latest edits to the Notice of Findings and Recommendations dated 11/154/12, we noted that management did not dispute the conditions or the recommendations. This management letter is based primarily on those NFRs. Please provide management's response to this ML by COB, **December 5<sup>th</sup>**. If you have any concerns with the factual content of this ML, please do not hesitate to contact myself at 301-807-9776 or Denise Wu at 301-931-2050. Thanks in advance.



**Marlon Perry, CPA, Senior Manager**

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**CliftonLarsonAllen LLP**  
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**From:** [Ingram, Keith A](#)  
**To:** [Perry, Marlon](#)  
**Cc:** [Wu, Denise](#); [Bixler, David](#); [Baptiste, Tony](#); [Carney, Mark](#)  
**Subject:** RE: CFTC management letter on FMFIA Compliance Audit  
**Date:** Thursday, December 06, 2012 2:21:02 PM  
**Attachments:** [image002.png](#)  
[image003.png](#)

Marlon – As we discussed in our phone conversation on November 14, 2012, the Commission does not have an issue with the recommendations being made. However, we feel our current internal control process does support the FMFIA Assurance Statement. Specifically, CFTC’s internal controls provide management with levels of assurance utilizing the following:

**Control Activities** – The Commission utilizes process cycle memo, desk top procedures, and process flows.

**Risk Assessment** – The Commission performs materiality threshold calculations, and other analytics to assess the risk for its key processes.

**Information** – Commission management has standing meetings, correspondence and communications related to its controls that affect financial reporting. This information is used by management to make informed judgments about the design and operating effectiveness of the agency’s internal controls over financial reporting.

**Monitoring** – The Commission’s Financial Management Branch performs continuous monitoring of key processes within the agency. Accounting errors, process oversight, delegations of authority and budget execution monitoring are examples of the daily activities performed as a part of the monitoring and oversight functions within the OCFO.

**Environment** – CFTC management has continually demonstrated its intent to improve on the internal controls for the agency. This is reflected in the results of the agency’s independent audits for the past six years. In addition both Commission management and its independent auditors have agreed that the CFTC is in compliance with all applicable laws and regulations, including in FY 2009 in which Clifton Gunderson performed the audit.

### Summary of FY 2007 - 2012 Financial Statement Audits

<b>Audit Opinion</b>	<b><i>Unqualified</i></b>				
<b>Restatement</b>	<b><i>No</i></b>				
<b>Material Weakness</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balance</b>
	<i>0</i>	<i>0</i>			<i>0</i>

### Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA 2)						
<b>Statement of Assurance</b>	<b><i>Unqualified</i></b>					
<b>Material Weakness</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
	<i>0</i>	<i>0</i>				<i>0</i>

Effectiveness of Internal Control over Operations (FMFIA 2)						
Statement of Assurance	<i>Unqualified</i>					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0				0
Conformance with financial management system requirements (FMFIA 4)						
Statement of Assurance	<i>Systems conform to financial management system requirements</i>					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0				0
Compliance with Federal Financial Management Improvement Act (FFMIA)						
	Agency			Auditor		
Overall Substantial Compliance	<i>Yes</i>			<i>Yes</i>		
1. System Requirements	<i>Yes</i>					
2. Accounting Standards	<i>Yes</i>					
3. USSGL at Transaction Level	<i>Yes</i>					

### Conclusion

Although the Commission does not have a statutory requirement to comply with FMFIA and OMB Circular A-123, management takes its stewardship responsibilities seriously. To this end, management appreciates the observations made during this process; and on a broader scale, will implement to the extent resources allow. Please do not construe this as an concurrence with the Management Letter Comments as written. Thanks,

Keith A. Ingram, CPA

Accounting Officer

Financial Management Branch

**Office of the Executive Director, U.S. Commodity Futures Trading Commission**

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**From:** Perry, Marlon [mailto:Marlon.Perry@cliftonlarsonallen.com]

**Sent:** Thursday, November 29, 2012 3:18 PM