



U.S. COMMODITY FUTURES TRADING COMMISSION

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TO: J. Christopher Giancarlo, Chairman
Brian D. Quintenz, Commissioner
Rostin Behnam, Commissioner

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

DATE: November 14, 2017

SUBJECT: CFTC Financial Statements Audit Fiscal Year (FY) 2017

The Office of the Inspector General (OIG) has concluded an audit of the Commodity Futures Trading Commission's (CFTC) financial statements as of September 30, 2017. We contracted with the independent certified public accounting firm Allmond & Company, LLC (Allmond & Co.) to conduct this required audit. The contract required that the audit be done in accordance with U.S. generally accepted government auditing standards (GAGAS), the standards issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 15-02, Audit Requirements for Federal Financial Statements.

Allmond & Co. communicated an unqualified (clean) opinion on CFTC's financial statements as of September 30, 2017, and determined its net costs, changes in net position, custodial activity, and budgetary resources for the year then ended were presented fairly in accordance with U.S. generally accepted accounting principles (US GAAP).

Allmond & Co. also communicated that CFTC's internal controls over financial reporting and compliance are sufficiently designed to detect and correct material errors in its financial statements. However, they noted two additional matters in a separate management letter warranting management's attention which were not considered a significant deficiency and/or a material weakness. Specifically, they noted improvements are needed in maintaining:

1. Time and attendance records; and
2. Property, plant, and equipment inventory records.

In reference to compliance with laws and regulations, Allmond & Co. disclosed Anti Deficiency Act violations associated with the recording of lease obligations

and overpayments of pay to certain CFTC political appointees. Management concurred with the findings and recommendations made.

In connection with the contract, Allmond & Co. is responsible for the auditor's report dated November 13, 2017, and the conclusions expressed in the report. We do not express opinions on CFTC's financial statements or internal controls or on whether CFTC's financial management systems substantially complied with applicable laws and regulations over financial reporting.

Consistent with our responsibility under the Inspector General Act, we will post a copy of the report on our public website. Attached is a copy of Allmond & Co.'s independent auditor's report and their management letter. Please call me if any questions at (202) 418-5084.

cc: Michael Gill, Chief of Staff
Kevin S. Webb, Chief of Staff
John Dunfee, Acting Special Counsel
Anthony C. Thompson, Executive Director
Mary Jean Buhler, Chief Financial Officer
Keith A. Ingram, Accounting Officer
Melissa Jurgens, Acting Chief Privacy Officer
A. Roy Lavik, Inspector General
Judith A. Ringle, Deputy Inspector General and Chief Counsel



Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the U. S. Commodity Futures Trading Commission (CFTC), which comprise the balance sheet as of September 30, 2017 and 2016, and the related statements of net cost, statement of changes in net position, statement of custodial activity, and combined statements of budgetary resources for the year ended, and the related notes to the financial statements (hereinafter referred to as the financial statements).

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the fiscal year 2017 and 2016 financial statements of CFTC based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 17-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Commodity Futures Trading Commission as of September 30, 2017 and 2016, and its net costs, changes in net position, custodial activity, and budgetary resources for the year then ended in conformity with generally accepted accounting principles in the United States of America

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statement as a whole. The information contained within the introductory sections (presented before the Management's Discussion and Analysis section), the *Message from the Chief Financial Officer*, *Other Information*, and *Appendix* sections is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended September 30, 2017, we considered CFTC's internal control over financial reporting by obtaining an understanding of CFTC's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of control to determine auditing procedures for the purpose of expressing our opinion on the financial statements, but not to provide an opinion on the effectiveness of CFTC's internal control over financial reporting. Accordingly, we do not express an opinion on CFTC's internal controls over financial reporting. We limited internal control testing to those necessary to achieve the objectives described in OMB Bulletin No. 17-03. We did not test all internal control relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected, and corrected, on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit the attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose as described in the first paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be a material weakness or significant deficiency and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our fiscal year 2017 audit, we did not identify any deficiencies in internal control over financial reporting we considered to be a material weakness, as defined above.

However, we noted two additional matters that we will report to CFTC's management in a separate letter. Exhibit II presents the status of prior year findings and recommendations.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether CFTC's fiscal year 2017 financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws and regulations, with which noncompliance could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws specified in OMB Bulletin No.17-03. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance as described in the preceding paragraph, disclosed an instance of noncompliance or other matters that are required to be reported herein under Government Auditing Standards or OMB Bulletin No. 17-03 and which are described in Exhibit I.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by Government Auditing Standards section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of CFTC's internal control or on compliance. This communication is an integral part of an audit performed in accordance with U.S. generally accepted government auditing standards in considering internal controls and compliance with laws and regulations which could have a material effect on CFTC's financial statements. Accordingly, this communication is not suitable for any other purpose.

Allmond & Company, LLC

November 13, 2017
Landover, MD

Anti-Deficiency Act (ADA)

Various management reviews and OIG investigations are ongoing within the agency, which have or may identify ADA violations, as follows:

- In response to a GAO FY 2016 report, CFTC completed a review of budgetary obligations incurred for multi-year contracts to lease real property and the acceptance of voluntary services. Subsequently, CFTC prepared and submitted a package to officially report a violation of the ADA to the President.
- In FY 2014, CFTC did not freeze the pay of certain senior official pursuant to an FY 2014 government wide appropriation provision that has remained in each subsequent appropriation including FY 2017 appropriation. This issue is under management review.

Title 31 U.S. Code (U.S.C.) Section 1517 *Prohibited Obligations and Expenditures* states:

- (a) An officer or employee of the United States Government or of the District of Columbia government may not make or authorize an expenditure or obligation exceeding –
 - (1) An apportionment; or
 - (2) The amount permitted by regulations prescribed under section 1514(a) of this title.
- (b) If an officer or employee of an executive agency or of the District of Columbia government violates subsection (a) of this section, the head of the executive agency or the Mayor of the District of Columbia, as the case may be, shall report immediately to the President and Congress all relevant facts and a statement of actions taken. A copy of each report shall also be transmitted to the Comptroller General on the same date the report is transmitted to the President and Congress.

Recommendation: We recommend that CFTC's management complete the investigation into the potential ADA violation noted and report to the appropriate parties, as necessary.

MANAGEMENT'S RESPONSE

Management concurs with the recommendation.

Status of Prior Year Findings and Recommendations

The following table provides the fiscal year (FY) 2016 status of all recommendations included in the Independent Auditors' Report on the Commodity Futures Trading Commissions FY 2016 Financial Statements (November 11, 2016).

FY 2016 Finding	FY 2016 Recommendation	FY 2017 Status
Potential Anti-Deficiency Act Violation	Recommendation: (a) Complete the investigation into the potential ADA violation noted.	Open



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MANAGEMENT LETTER REPORT

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

We audited the Commodity Futures Trading Commission (CFTC) financial statements as of September 30, 2017 and issued our report dated November 13, 2017 to CFTC under separate cover.

In planning and performing our audit, we considered CFTC internal control to determine auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

During the audit, we noted certain matters involving internal control and CFTC's operation that we think warrant management's attention. A discussion of these matters forms the remainder of this report. The scope of this report is all matters not considered a significant deficiency and/or material weakness involving CFTC's operations.

This report is solely for the information and use of the CFTC management.

We appreciate your assistance and cooperation during the audit and look forward to serving you in the near future.

Sincerely,

Allmond & Company LLC

Allmond & Company audited the accompanying balance sheet of the Commodity Futures Trading Commission (CFTC) as of September 30, 2017 and 2016, and the related statements of net cost, changes in net position, and statements of budgetary resources for the years then ended (consolidated financial statements). We noted a certain matter involving the internal control and CFTC operation that we think warrant management's attention; however, it was not considered a significant deficiency and/or material weakness.

Under standards issued by the American Institute of Certified Public Accountants, a deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected, and corrected, on a timely basis. A significant deficiency is a deficiency or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit the attention by those charged with governance. We noted the following control deficiencies during our audit:

1. Improvements are needed in Maintaining Time and Attendance Records
2. Improvements Needed in Maintaining the Property, Plant, and Equipment

These conditions are discussed in detail in the findings outlined below:

FINDING 1: Improvements Needed in Maintaining Time and Attendance Records

Improvements are needed in CFTC's procedures for submitting and approving Requests for Leave. During our review of the Time and Attendance (T&A) files for the period October 01, 2016 to September 30, 2017, we noted that CFTC violated OPM's rules requesting and approving annual leave for three employees. We identified the following test-work exceptions:

1. The Time and Attendance report for sample #S2-42 revealed that a total of two hours were taken as Administrative/Excused Leave on May 1 and May 8, 2017 (1 hour each day); however, there were no Requests for Leave to support these absences. There was a Timesheet Validation warning on the T&A Report for each absence, which indicated that there was no corresponding approved request for each.
2. The Time and Attendance report for sample #S2-47 revealed that a total of four hours were taken as Annual Leave on January 17, 2017; however, there was no Request for Leave to support this absence. There was a Timesheet Validation warning on the T&A Report that indicated there was no corresponding approved request for the absence.
3. The T& A for Sample # S11-04 revealed that this employee took 40 hours of Annual Leave from July 24 to July 28, 2017 and one hour of Sick Leave on August 3, 2017; however no approved Requests for Leave to support these absences were provided. There was a Timesheet Validation warning on the T&A Report for each absence, which indicated that there was no corresponding approved request for each.

1. The Office of Personnel and Management (OPM) *Fact Sheet: Annual Leave (General Information)* states:

“Employees should request annual leave in a timely manner, and supervisors should provide timely responses to employees' requests.

When an employee makes a timely request for leave, the supervisor must either approve the request or schedule the leave at the time requested by the employee or, if that is not possible because of project related deadlines or the agency's workload, must schedule it at some other time.”

2. The CFTC *Human Resources Cycle Memo* states:

“In advance of their sick or annual leave, employees submit a leave request electronically in webTA. For each sick or annual leave request, the employee’s supervisor reviews the reasonableness and propriety of the request before evidencing their electronic approval in webTA.”

3. The Government Accountability Office (GAO) Internal Control Standards GAO-03-352G *T&A Guidance (Maintaining Effective Control over Employee Time and Attendance Reporting)* states:

The supervisor has primary responsibility for authorizing and approving T&A transactions. Supervisors and timekeepers should be aware of the work time and absence of employees for whom they are responsible. To help ensure proper recording of T&A information, completed T&A records should be reviewed and approved on an appropriate basis by the supervisor (or other equivalent official). It further states that the nature and extent of T&A approvals should be such that management has assurance that supervisors or other authorized officials know they are accountable for the approval of an employee’s work time and absences. Supervisory authorization and approval is a key part of ensuring the propriety of T&A information. The supervisor or other authorized official should review and authorize employee’s planned work schedules and applications for leave, and review and approve employee submissions of actual time worked and leave taken, as well as information in T&A reports, and any adjustments or corrections to T&A records. Approval of leave should be made by the employee’s supervisor, or other designated approving official, before the leave is taken.

4. The Government Accountability Office’s (GAO) *14-704G, Standards for Internal Control in the Federal Government*, states:

“Internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. The documentation should appear in management directives, administrative policies, or operating manuals and may be in paper or electronic form. All documentation and records should be properly managed and maintained.”

1. The employees did not submit Requests for the desired leave and did not obtain approval before proceeding on the leave.
2. Although the validation warning appeared on the T&A Reports, the webTA system allowed the supervisor to approve the Time and Attendance Report. The error was not identified by the supervisor.

Failure to properly record time and attendance increases the risk of misstatements in payroll expense and related liabilities.

RECOMMENDATION

We recommend that CFTC’s management:

1. Review its current policies and procedures related to preparation, submission and approval of Requests for Leave to ensure that they are aligned with OPM's and GAO's requirements.
2. Provide training to employees and supervisors on the process of preparing and approving Requests for Leave and how to verify that the leave that appears on the Time and Attendance Report has an accompanying approved leave request prior to approving employees' T&A's in webTA.
3. Coordinate with the service provider to enable the Time and Attendance system to prevent the supervisors from being able to approve T&A's when a Validation Warning appears on the T&A report.

MANAGEMENT RESPONSE

Management concurs with the recommendation.

AUDITORS' RESPONSE

We will conduct follow-up procedures in FY 2018 to determine whether corrective actions have been developed and implemented.

FINDING 2: Improvements Needed in Maintaining the Property, Plant, and Equipment

Improvements are needed in the Commodity Futures Trading Commission's (CFTC) procedures for maintaining the Property, Plant, and Equipment (PP&E) listing of assets. During our review of 10 assets selected from the PP&E listing for the period ending September 30, 2017, we compared the model number, serial number, asset code, description and category of each asset on the asset listing with the asset and identified the following two exceptions:

- One monitor was not found because it was not in the location stated on the CFTC Property Listing.
- The model number on a camera/camcorder was different from the model number stated on the Property Listing.

The Government Accountability Office's (GAO) Standards for Internal Control in the Federal Government, states:

“Physical control over vulnerable assets

Management establishes physical control to secure and safeguard vulnerable assets. Examples include security for and limited access to assets such as cash, securities, inventories and equipment that might be vulnerable to risk of loss or unauthorized use. Management periodically counts and compares such assets to control records.”

“Safeguarding of Assets

A subset of the three categories of objectives is the safeguarding of assets. Management designs an internal control system to provide reasonable assurance regarding prevention or prompt detection and correction of unauthorized acquisition, use or disposition of an entity's assets.”

CFTC management has not been ensuring that the PP&E listing is being maintained and updated as things change throughout the year.

A lack of accountability and control over capital and accountable property items increases the risks for possible theft or misuse of assets.

RECOMMENDATION

We recommend that CFTC's management updates there physical inventory records at the completion of the annual physical inventory.

MANAGEMENT RESPONSE

Management concurs with the recommendation

AUDITORS' RESPONSE

We will conduct follow-up procedures in FY 2018 to determine whether corrective actions have been developed and implemented.

Status of Prior Year Findings and Recommendations

The following table provides the fiscal year (FY) 2017 status of all recommendations included in the FY 2016 Management Letter Report.

FY 2016 Finding	FY 2016 Recommendation	FY 2017
Imputed Cost Computation	Recommendation: We recommend, FMB work with the Human Resource Branch (HRB) to update the database used to display the basic pay for employees enrolled in FERS regular, FERS RAE, and FERS FRAE.	Closed