

A close-up, high-angle photograph of a mechanical calculator's keyboard. The focus is on a metal slider mechanism with a dark, textured surface. Below the slider, a row of keys is visible, numbered 1 through 7 from right to left. The keys are made of metal and have a slightly worn appearance. The background is dark and out of focus, emphasizing the intricate mechanical details of the calculator.

**Office of the Inspector General  
Commodity Futures Trading Commission**

Review of Management Assurances  
for Internal Controls (2014-2015)

June 7, 2016



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

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## Introduction

The Commodity Futures Trading Commission (CFTC) relies on a certified Statement of Assurance (SOA) produced by each of its divisions/branches/offices (reporting units) as the basis for the CFTC overall SOA. For fiscal year (FY) 2015, CFTC management issued a qualified SOA, indicating that the agency's internal controls and financial management systems met the objectives of the Federal Managers' Financial Integrity Act (FMFIA),<sup>1</sup> with one exception. Other than an outstanding exception related to the recording of lease obligations,<sup>2</sup> the CFTC asserted its internal controls were operating effectively, and that no other reportable conditions presented throughout the year. For FY 2014, the CFTC declared that it conformed to FMFIA requirements without any exceptions.

## Office of the Inspector General (OIG) Determinations

While the CFTC documented support for FMFIA section 4 assurances<sup>3</sup> for FY 2014 and FY 2015, the CFTC can better document support for section 2 requirements<sup>4</sup> associated with certain mission operations and supporting reporting units. As detailed in Appendix A, seven of 14 reporting units<sup>5</sup> were not able to fully support the positive assertions made in their FY 2014 SOAs. For FY 2015, six of 14 reporting units, all repeating from the prior year,<sup>6</sup> were not able to fully support their SOAs. As such, the enterprise-wide assertions are also not fully supported. Currently, the CFTC Financial Management Branch (FMB), in coordination with a contracted subject matter expert, is deploying a benchmark enterprise risk management (ERM) process to establish an effective internal control system. As such, we are optimistic that in the near future the CFTC can serve as a best practice for other federal agencies. We noted three actions that would permit CFTC to create a structure as envisioned by the U.S. Government Accountability Office (GAO) Standards for Internal Control in the Federal Government (Green Book). We believe that the CFTC should:

1. Establish a Chief Risk Officer (CRO) and reporting unit champions,
2. Define roles and responsibilities for the CRO and reporting unit champions, and
3. Develop and communicate an implementation plan.

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<sup>1</sup> Pub. L. No. 97-255, 96 Stat. 814 (1982). FMFIA requires federal agencies to maintain administrative and financial controls and capable and secure financial systems. FMFIA further requires the agency head to issue the annual SOA.

<sup>2</sup> For an explanation of the outstanding lease issue, see the [FY 2015 Financial Statements Audit](#).

<sup>3</sup> [Section 4](#) assurances are relevant for reports of controls over financial management systems. FMFIA, sec. 4, Pub. L. No. 97-255, 96 Stat. 814 (1982) (codified at 31 USC 3512).

<sup>4</sup> [Section 2](#) requirements are relevant for reports of controls over programs and operations. FMFIA, sec. 2, Pub. L. No. 97-255, 96 Stat. 815 (1982) (codified at 31 USC 3512).

<sup>5</sup> The seven reporting units are: DCR, ESB, HR, OCO, ODT, OCE, and OED. See Appx. A for a guide to all acronyms.

<sup>6</sup> The six reporting units are: DCR, ESB, OCO, ODT, OCE, and OED.

## Summary of Management Comments

Management appreciated our internal control observations and committed to improving the basis for underlying statements of assurance provided by each division, branch, and office. Management agrees that a full-time position managing the CFTC's internal controls and risk management program would be beneficial for the Commission. Although the employment of a CRO would be beneficial at a large agency to consolidate the agency-wide risk management effort and ensure that the agency has a strategically-aligned portfolio view of its risks, management believes that, at a smaller agency such as the CFTC, the installation of an FMFIA Program Manager is more appropriate, given the size of the Commission and the level of maturity of our risk management program. Currently, the CFTC does not have the resources to hire an FMFIA Program Manager; however, the request has been included in the Office of the Executive Director's prioritization, should additional resources become available.

Management concurred with the concept of "reporting unit champions" and noted that the respective Business Managers for the Commission's divisions, branches, and offices are currently functioning in the described role referenced in the OIG's report. The implementation plan referenced in the OIG's report is currently underway as part of the annual FMFIA assessment program and is continuing to be refined as the Commission matures in its risk management practices.

## Evaluation of Management Comments

Given budgetary constraints, management's actions are responsive to the report recommendations. Management's response in its entirety is presented in [Appendix E](#).

## Objective, Scope, and Methodology

Our objective was to assess the CFTC's justification for its SOA for internal controls. Specifically, we assessed whether each CFTC reporting unit documented evidence for attributes of an effective internal control system and whether annual test results supported the reporting units' and enterprise-wide assertions. To do this, the Chief Financial Officer (CFO) office provided us with all of the 2014 and 2015 SOAs for each division. In addition, we requested that each division provide us the support used to certify their SOA. We also researched relevant benchmarks, and laws and regulations pertaining to the subject matter. See Appendix B and Appendix C for more detail about the benchmarks and legal requirements, respectively. We did not rely on system data to support our observations; our observations derive from in person interviews and document review. We conducted this review from February 2016 to April 2016 in accordance with the [Quality Standards for Inspection and Evaluation](#), as published by the Council of the Inspectors General on Integrity and Efficiency.

The report will be published on the OIG webpage and a synopsis will be presented in the September 30, 2016 *Semiannual Report to Congress*. If you have any questions, please contact me at (202) 418-5084 or Timothy Peoples, Lead Auditor, at (202) 418-5439.

A. Roy Lavik, Inspector General  
Judith A. Ringle, Deputy Inspector General  
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## Appendix A

### Acronyms and Abbreviations

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<b>BMP</b>	Business Management and Planning
<b>CA</b>	Control Activities
<b>CE</b>	Control Environment
<b>DCR</b>	Division of Clearing and Risk
<b>DMO</b>	Division of Market Oversight
<b>DOE</b>	Division of Enforcement
<b>DSIO</b>	Division of Swap Dealer Intermediary Oversight
<b>ERM</b>	Enterprise Risk Management
<b>ESB</b>	Executive Secretary Branch
<b>FMB</b>	Financial Management Branch
<b>HRB</b>	Human Resources Branch
<b>IC</b>	Information and Communication
<b>M</b>	Monitoring
<b>OCE</b>	Office of the Chief Economist
<b>OCE</b>	Office of the Executive Director
<b>OCO</b>	Office of Consumer Outreach
<b>ODT</b>	Office of Data and Technology
<b>OED</b>	Office of the Executive Director
<b>OGC</b>	Office of the General Counsel
<b>RA</b>	Risk Assessment
<b>WBO</b>	Whistleblower Office

## **Appendix B**

### **Evaluation of Statement of Assurances**

#### **FY 2014**

As illustrated in Table 1, all reporting units submitted a certified SOA for FY 2014. However, two of 14 CFTC reporting units (HRB and ESB) did not provide support for their attested statements. The HRB stated that documentation substantiating their affirmative assertion was not available because the person previously responsible is no longer in that position. The ESB stated that they did not have any management control reports, but that they relied on several types of information to answer the internal control questionnaire. However, we could not map the documents provided by ESB to the five attributes of an effective internal control system.

For the remaining 12 reporting units, four (DCR, OCO, ODT, and OED) did not provide support for statements made for RA, and four (OCE, OCO, ODT, and OED) did not provide support for monitoring activities. Given that the CA measures management responses to identified risks, we question whether the CA could accurately evaluate the adequacy of control activities without appropriate RA documentation. Therefore, for the four reporting units without RA support documentation, we could not evaluate the CA.

The ODT's CA acts to illustrate the issue. ODT's CA identified four control activities, all primarily associated with budget execution. However, it did not mention an Information Technology (IT) governance structure or a life cycle management practice for information systems, which are highly important for the office. In fact, ODT is supposed to comply with Principle 11 of the Green Book, which has specific instructions for the entity design of information systems and related control activities. Rule 11 is meant to aid in achieving objectives and responding to risks. Specifically, the following attributes contribute to the design, implementation, and operating effectiveness of an IT governance structure, but were not discussed in ODT's RA or CA:

- Design of the Entity's Information System
- Design of Appropriate Types of Control Activities
- Design of Information Technology Infrastructure
- Design of Security Management
- Design of Information Technology Acquisition, Development, and Maintenance

Divisions/Branches/Offices	Existence of SOA?	Certified w/o deficiencies?	Documentation provided supports affirmative assertions?				
			CE	RA	CA	IC	M
Business Management and Planning	Y	Y	Y	Y	Y	Y	Y
Division of Clearing and Risk	Y	Y	Y	N	Y	Y	Y
Division of Enforcement	Y	Y	Y	Y	Y	Y	Y
Division of Market Oversight	Y	Y	Y	Y	Y	Y	Y
Division of Swap Dealer Intermediary Oversight	Y	Y	Y	Y	Y	Y	Y
Executive Secretary Branch	Y	Y	N	N	N	N	N
Financial Management Branch	Y	Y	Y	Y	Y	Y	Y
Human Resources Branch	Y	Y	N	N	N	N	N
Office of the Chief Economist	Y	Y	Y	Y	Y	Y	N
Office of Consumer Outreach	Y	Y	Y	N	Y	Y	N
Office of Data and Technology	Y	Y	Y	N	Y	Y	N
Office of the Executive Director	Y	Y	Y	N	Y	Y	N
Office of the General Counsel	Y	Y	Y	Y	Y	Y	Y
Whistleblower Office	Y	Y	Y	Y	Y	Y	Y

**Table 1 (See Appendix A Acronyms and Abbreviations)**

**FY 2015**

Likewise for FY 2015, all reporting units submitted an affirmative SOA. However, we did not find much improvement in section 2 certifications from FY 2014 to FY 2015. As illustrated in Table 2, the results for FY 2015 remained very similar to those for FY 2014, with one exception; the HRB did fully support their SOA. For all reporting units where risk assessments were not supported, we express concern about the adequacy of documentation for control activities and cannot evaluate the adequacy of control activities.

Divisions/Branches/Offices	Existence of SOA?	Certified w/o deficiencies?	Documentation provided supports affirmative assertions?				
			CE	RA	CA	IC	M
Business Management and Planning	Y	Y	Y	Y	Y	Y	Y
Division of Clearing and Risk	Y	Y	Y	N	Y	Y	Y
Division of Enforcement	Y	Y	Y	Y	Y	Y	Y
Division of Market Oversight	Y	Y	Y	Y	Y	Y	Y
Division of Swap Dealer Intermediary Oversight	Y	Y	Y	Y	Y	Y	Y
Executive Secretary Branch	Y	Y	N	N	N	N	N
Financial Management Branch	Y	Y	Y	Y	Y	Y	Y
Human Resources Branch	Y	Y	Y	Y	Y	Y	Y
Office of the Chief Economist	Y	Y	Y	Y	Y	Y	N
Office of Consumer Outreach	Y	Y	Y	N	Y	Y	N
Office of Data and Technology	Y	Y	Y	N	Y	Y	N
Office of the Executive Director	Y	Y	Y	N	Y	Y	N
Office of the General Counsel	Y	Y	Y	Y	Y	Y	Y
Whistleblower Office	Y	Y	Y	Y	Y	Y	Y

**Table 2 (See Appendix A Acronyms and Abbreviations)**



## Appendix C

### ERM Benchmarks

In FY 2015, the FMB committed to the ERM principles communicated in the GAO's Green Book. They contracted Kearney & Company to review and update their internal controls process annually for FMFIA. Kearney & Company communicated findings and recommendations to better ensure that controls meet the ERM requirements of the Green book as well. Based on a draft revision of OMB Circular A-123, we note that:

- A CRO should be established to provide continuous leadership in risk management for the agency. The primary purpose of this position is to function as a senior expert advisor and technical advisor to senior executives. They champion agency-wide efforts to manage risk within the organization, and they advise on creation of a strategically-aligned portfolio view of risks at the organization. A CRO may serve as a strategic advisor to the Chief Operation Officer and other staff on the integration of risk management practices into day-to-day business operations and decision-making. CROs generally work with business unit managers within their organizations to identify issues in a timely manner to allow for proactive management of programs and to facilitate informed, data-driven decision-making.
- An implementation plan should be used to embed the ERM into management practices. The plan should cover, at a minimum, planned risk management governance structures, expected processes for developing risk awareness, methodologies for developing and completing risk profiles, key project phases, defined work streams, milestones, resources and timing.
- Reporting unit champions act as the primary liaison between the CRO and their respective units. Champions also perform substantive mission-oriented work, serve as the senior-level expert advisor and technical staff for the unit, and assist the CRO. They assume primary responsibility for ensuring that regulations and policies are followed, and that unit request are both justified and adequately supported by appropriate risk analysis.

## Appendix D

### Criteria Governing Internal Control for Federal Agencies

#### **Federal Managers Financial Integrity Act of 1982**

The FMFIA of 1982<sup>7</sup> requires executive agencies, including the CFTC, to provide reasonable assurance that management accountability and internal controls ensure that:

- Programs achieve their intended results;
- Resources are used consistently with the agency's mission;
- Resources are guarded against waste, fraud and mismanagement;
- Information reliably and timely supports decision making; and
- Laws and regulations are followed.

#### **Office of Management and Budget Circular A-123**

OMB Circular A-123, *Management's Responsibility for Internal Control* describes the requirements for compliance with FMFIA and defines management's responsibility for developing and monitoring an effective internal controls program. The Circular requires each agency to assess and report on the adequacy of internal controls over its programs and operations (FMFIA Section 2), and to assess, document, and report on controls over financial management systems to ensure conformance with government-wide requirements (FMFIA Section 4).

OMB A-123 Section III A, *Developing Internal Control*, also states that it is management's responsibility to develop and maintain effective internal control. As agencies develop and execute strategies for implementing or updating agency programs and operations, they should design management structures that help ensure accountability for results. As part of this process, agencies and individual Federal managers must take systematic and proactive measures to develop and implement appropriate, cost-effective internal controls. The degree to which studies and analysis are needed will vary depending on the complexity and risk associated with a given program or operation.

Further, Section IV, *Assessing Internal Control*, specifies that agency managers should continuously monitor and improve the effectiveness of internal controls associated with their programs. Continuous monitoring and other periodic assessments should provide the basis for the agency head's annual assessment of, and report on, internal controls as required by FMFIA. Agency management should determine the appropriate level of documentation needed to support this assessment. Documentation should be

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<sup>7</sup> 31 USC § 3512(b) requires "the head of each executive agency" to establish and maintain detailed accounting and internal control systems. 31 USC § 102 defines "executive agency" for purposes of Title 31 as: "a department, agency, or instrumentality in the executive branch of the United States Government."

appropriately detailed and organized, and should contain sufficient information to support management's assertion. Documentation should also include appropriate support from officials and personnel responsible for monitoring, improving and assessing internal controls.

***Standards for Internal Control in the Federal Government***

The U.S. GAO "[Green Book](#)" also provides managers criteria for designing, implementing, and operating an effective internal control system. The Green Book defines the standards through components and principles, and it explains why they are integral to an entity's internal control system. The Green Book clarifies what processes management should consider part of the agency's internal controls. In a mature and highly effective internal control system, internal controls may be indistinguishable from day-to-day activities that personnel perform. The Green Book identifies five components that represent the highest level of the hierarchy of standards for internal controls in the federal government. These five components are CE, RA, CA, IC, and M. The 2014 revisions to the Green Book are expected to be effective for fiscal year 2016 and the FMFIA reports covering the current fiscal year.

## **Appendix E**

### **Management Comments**



U.S. COMMODITY FUTURES TRADING COMMISSION

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FROM: Anthony C. Thompson  
Executive Director

Mary Jean Buhler  
Chief Financial Officer

DATE: June 2, 2016

SUBJECT: Management's Response to OIG Review of Management Assurances for Internal Controls

Thank you for the opportunity to comment on the Office of the Inspector General's (OIG) draft report, *Review of Management Assurances for Internal Controls (2015-2015)* regarding the underlying support of statements of assurance produced by each of the Commission's divisions/branches/offices as a basis for the CFTC overall Statement of Assurance (SOA). We appreciate the dialogue we have had about your observations and the OIG's recognition of the Commission's continued efforts to implement a best practices internal control system.

In the spirit of cooperation and good governance, and as noted below, OED will work collaboratively with the Commission's divisions/branches/offices to enhance current internal control procedures and activities and improve the basis of support underlying the statements of assurance provided by each division, branch, and office.

The draft report contains the following recommendations:

1. Establish a Chief Risk Officer (CRO) and reporting unit champions.
2. Define roles and responsibilities for the CRO and reporting unit champions.
3. Develop and communicate an implementation plan.

The Commission's leadership readily accepts its responsibility for establishing the CFTC risk culture and setting an appropriate overall attitude and approach to dealing with risks as financial stewards of the public purse. Risk maturity takes time to evolve as greater awareness and understanding, processes, and skills are steadily developed. We have made significant progress during the past two years in advancing the Commission's risk management processes through our existing FMFIA assessment program, with the assistance of a contracted subject matter expert, and are committed to advancing the program as we work towards implementing a best practices internal control system for CFTC.

Management agrees that a full-time position managing the CFTC's internal controls and risk management program would be beneficial for the Commission. Currently, the CFTC does not

have the resources to hire an FMFIA Program Manager; however, the request has been included in the Office of the Executive Director's FTE prioritization, should additional resources become available. Although the employment of a CRO would be beneficial at a large agency to consolidate the agency-wide risk management effort and ensure that the agency has a strategically-aligned portfolio view of its risks, Management believes that, at a smaller agency such as the CFTC, the installation of an FMFIA Program Manager is more appropriate, given the size of the Commission and the level of maturity of our risk management program. An FMFIA Program Manager would be responsible for similar functions as a CRO and would be scaled to the CFTC's organizational structure and control environment. Given this individual's defined role overseeing the Commission's internal control and risk management program, the Commission would be well positioned to effectively continue the significant progress achieved in advancing the Commission's risk management processes. In the interim, the program will continue to mature under the current oversight structure.

The expansion of the FMFIA assessment program into the Commission's operating divisions, branches, and offices during FY 2016, supported by risk management and internal control education and counselling of CFTC personnel, is the next phase in our commitment to advancing and implementing a best practices internal control system that addresses many of the objectives in the OIG's report. We concur with the concept of "reporting unit champions" and note that the respective Business Managers for the Commission's divisions, branches, and offices are currently functioning in the described role referenced in the OIG's report.

The implementation plan referenced in the OIG's report is currently underway as part of the annual FMFIA assessment program and is continuing to be refined as the Commission matures in its risk management practices.