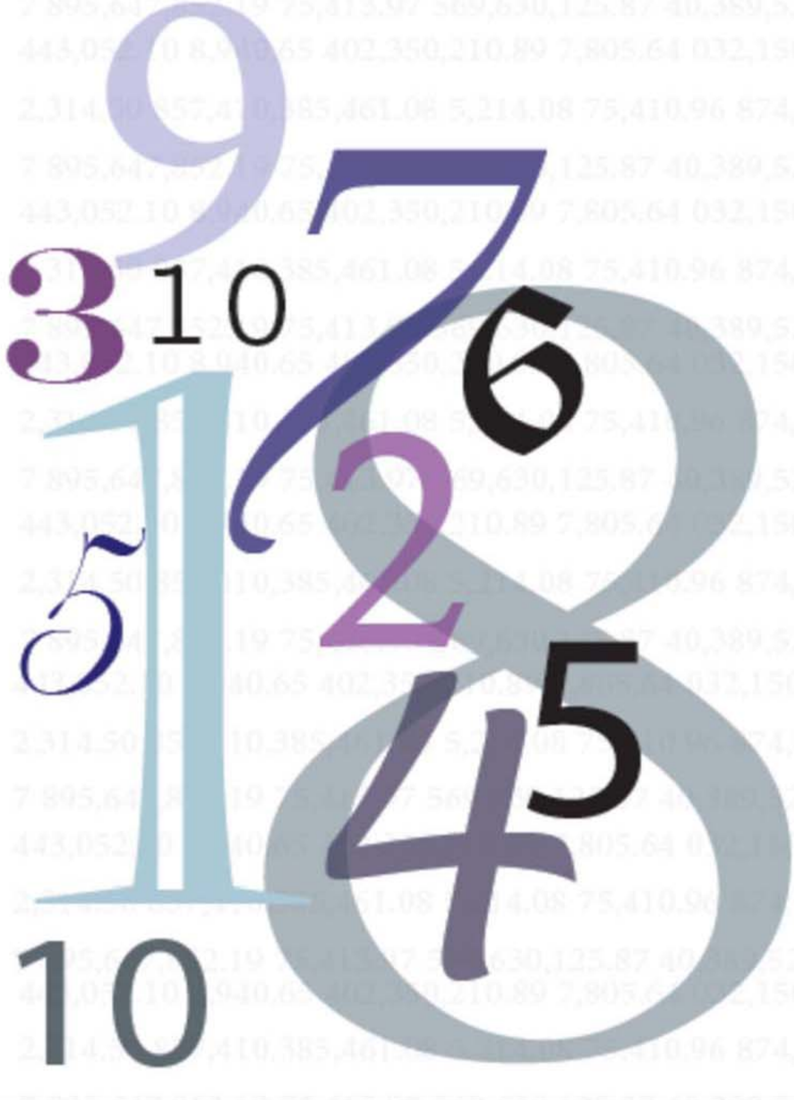
Office of the Inspector General
Commodity Futures Trading Commission

FY 2017 Compliance with the Improper Payments Elimination and Recovery Improvement Act



EXECUTIVE SUMMARY

For the fiscal year ended September 30, 2017, the Office of the Inspector General (OIG) audited the Commodity Futures Trading Commission's (CFTC) compliance with:

- Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements* as they relate to the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA);

- OMB Circular A-123, *Management's Responsibility for Internal Control*, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments*; and

- Public Law 114-186, *Fraud Reduction and Data Analytics Act of 2015.*

Management is responsible for the agency's compliance with these requirements. OIG's responsibility is to express an opinion on the agency's compliance with these requirements.

In our opinion, the CFTC complied, in all material respects, with the aforementioned requirements for the fiscal year ended September 30, 2017, and its improper payment assertion for reporting made in its respective agency financial report is fairly stated. Our audit was conducted in accordance with the standards contained in Government Accountability Office's Government Auditing Standards. We believe that our audit provides a reasonable basis for our opinion.

A. Roy Lavik
Inspector General

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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: May 18, 2018

SUBJECT: Audit of Commodity Futures Trading Commission Compliance with the Improper Payments Elimination and Recovery Improvement Act of 2012

Introduction

The Office of Management and Budget guidance provided in Circular A-136, *Financial Reporting Requirements*, and Appendix C of Circular A-123, *Management's Responsibility for Internal Control*, require agencies to report detailed information on their efforts to eliminate improper payments. The Improper Payments Elimination & Recovery Improvement Act (IPERIA) of 2012[1] requires agencies to include all identified improper payments in the reported estimate, regardless of whether the improper payment has been or is being recovered (among other requirements). An improper payment is any payment that should not have been made or that was made in an incorrect amount or with insufficient documentation, such as:

- Incorrect amounts paid to eligible recipients,
- Payments made to ineligible recipients,
- Payments for goods or services not received,
- Duplicate payments, and
- Payments with insufficient or no supporting documentation.

CFTC Improper Payments Assertions

In its FY 2017 Agency Financial Report[2] (AFR), the CFTC asserted that it does not administer grant, benefit or loan programs. CFTC's most significant expenses are payroll and benefits for its employees, which are administered by the U.S. Department of Agriculture's National Finance Center and the Office of Personnel Management.

[1] Improper Payments Elimination and Recovery Improvement Act of 2012, Pub. L. No. 112-248, 126 Stat. 2390 (2013).
[2] See page 109

CFTC's most significant non-payroll expenses are its payments to vendors for goods and services used during the course of normal operations and monetary awards to eligible whistleblowers who voluntarily provide the CFTC with original information about violations of the CEA. Based on the results of transaction testing applied to a sample of FY 2017 vendor payments, consideration of risk factors, and reliance on the internal controls in place over the payment and disbursement processes, the CFTC has determined that none of its programs and activities are susceptible to significant improper payments at or above the threshold levels set by OMB.

The CFTC also asserted that implementing a payment recapture audit program for contract payments is not cost effective and notified OMB of this determination in September 2017. In making this determination, the Commission considered its low improper payment rate based on testing conducted over the previous three years and determined that benefits or recaptured amounts associated with implementing and overseeing the program would not exceed the costs of a payment recapture audit program, including staff time and payments to contractors.

Fraud

The Fraud Reduction and Data Analytics Act of 2015[3] requires agencies to annually report their progress implementing financial and administrative controls to identify and assess fraud risks; and design and implement control activities in order to prevent, detect, and respond to fraud, including improper payments. In addition to assessing fraud risk, the CFTC also conducted tests of transactions in FY 2016 and FY 2017 to detect fraudulent activity, such as:

- Selecting purchase card transaction samples based on unusual merchant names;
- Selecting random samples for various control activities in the human resources transaction cycle to include time and attendance records and Special Payment Processing System transactions; and
- Performing testing for various control activities in the procurement transaction cycle to include completeness, accuracy and validity of contract awards, invoices, and contract closeouts.

The results of the Commission's testing identified areas for improvement in the design and/or operation of internal controls, but did not detect any fraudulent activity.

Program or Activity	Confirmed Fraud
Purchase Cards	$ 0
Payroll	0
Non-Payroll Payments	0
Total	$ 0

[3] Fraud Reduction and Data Analytics Act of 2015, Pub. L. No. 114-186, 130 Stat. 546

OIG Opinion

OMB Guidance A-123, Appendix C, established an agency's improper payment reporting threshold as annual erroneous payments exceeding both 1.5 percent of program payments and $10 million. CFTC's assertion that none of its programs [payroll and vendor payments] are susceptible to significant improper payments at or above the threshold levels set by OMB is in our opinion fairly stated. Based on independent tests conducted by the agency's public accountants, our independent transaction testing and the agency's Do Not Pay (DNP) adjudication report, the CFTC complied, in all material respects, with the aforementioned improper payment reporting requirements for the fiscal year ended September 30, 2017.

Objective, Scope, Methodology

The OIG conducted an audit to determine CFTC's compliance with improper payment requirements, as set forth in OMB Circular A-123, Appendix C, and OMB Circular A-136, for the fiscal year ended September 30, 2017.

To meet our objective, we gained an understanding of component-level controls through inquiry procedures and reviewed documentation supporting the information published in CFTC's FY 2017 Agency Financial Report. In addition, we reviewed work papers of the agency's public accountants and the improper payment Do Not Pay (DNP) adjudication report results. The Do Not Pay (DNP) Business Center identified high-risk vendor records which the CFTC deactivated, thereby decreasing the likelihood of improper payments to deceased individuals. The independent auditors' work papers did not identify instances of improper payments.

We used the U.S. General Accountability Office *Financial Audit Manual* Section 650 testing methods to identify our samples. It states that the auditor should select a sample that the auditor expects to be representative of the population. For tests of controls, attribute sampling achieves this objective. Attribute sampling requires random or systematic, if appropriate, selection of sample items without considering the transactions' dollar amount or other special characteristics. To determine our sample size of 45 (payroll) and 78 (purchase), we used professional judgment based on the following three factors:

- confidence level;
- tolerable rate (maximum rate of deviations from the prescribed control that the auditor is willing to accept without altering the preliminary control risk); and
- expected population deviation rate (expected error rate).

Our audit was conducted in accordance with the standards contained in Government Accountability Office's *Government Auditing Standards*. We relied on payroll data extracted from the National Finance Center and vendor payment data recorded in the agency's general ledger. The agency's independent public accountant annual report and work papers did not express deficiencies associated with payroll and vendor payments. As such, we believe the data used to support our conclusion is reliable.

We provided a draft copy of the report to management for comments. Management concurred with the report.

We appreciate the courtesies provided by CFTC staff. If you any questions, please contact me at (202) 418-5084 or Timothy Peoples, lead auditor, at (202) 418-5439.

CC:

The Honorable Trey Gowdy,
Chairman,
Committee on Oversight and Government Reform;

The Honorable Elijah Cummings,
Ranking Member
Committee on Oversight and Government Reform;

The Honorable Mark Meadows,
Chairman
Subcommittee on Government Operations
Committee on Oversight and Government Reform;

The Honorable Gerald E. Connolly
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Mr. Gene L. Dodaro
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