




U.S. COMMODITY FUTURES TRADING COMMISSION

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July 11, 2024

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CC: Rob Schwartz, General Counsel
Jeffrey Sutton, Executive Director
Karrenthya Simmons, Risk Analyst, Division of Administration

FROM: Christopher Skinner, Inspector General 

SUBJECT: OIG Audit 24-A-03: CFTC's Compliance with the Payment Integrity Information Act of 2019 (PIIA)

This memo transmits the results of the Commodity Futures Trading Commission (CFTC) Office of Inspector General (OIG) fiscal year (FY) 2023 annual review of the CFTC's compliance with the Payment Integrity Information Act of 2019 (PIIA). The Office of Management and Budget (OMB) Circular A-123 requires that each agency's OIG annually review and evaluate whether the agency has published the appropriate improper payments information with the annual Performance and Accountability Report (PAR) or Annual Financial Report (AFR) and accompanying materials for the most recent fiscal year. In addition, the PIIA requires the Inspector General (IG) of each executive agency to determine whether the agency is compliant with the PIIA.

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) amended the Improper Payments Information Act of 2002 (IPIA) and required agencies to identify and review all programs and activities they administer that may be susceptible to *significant improper payments*¹ based on guidance provided by OMB. Additionally, section 3 of IPERA required IGs to review each agency's improper payment reporting and issue an annual report. On March 2, 2020, the PIIA repealed IPERA, IPIA, and the Improper Payments Elimination and the Recovery Improvement Act of 2012 (IPERIA), but set forth similar improper reporting requirements including an annual report.²

¹ Significant improper payments are gross annual improper payments (i.e., the total amount of overpayments and underpayments) in the program exceeding (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during the first year reported, or (2) \$100 million (regardless of the improper payment percentage of total program outlays).

² OMB A-123 Appendix C (as modified) implements requirements for the following: (1) IPIA; (2) IPERA; (3) IPERIA; (4) PIIA; and (5) Executive Order 13520 - Reducing Improper Payments, November 20, 2009.

For FY 2023 the OIG contracted with The Joachim Group CPAs and Consultants (Joachim Group) to conduct a compliance audit to assess CFTC's compliance with the PIIA. Accordingly, the Joachim Group determined that CFTC complied, in all material respects, with the PIIA compliance requirements and that the Commission is making proper threshold determinations for the year ended September 30, 2023. This audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of United States and as required under the contract with the OIG.³ There are no instances where the OIG disagrees with the conclusions stated in this audit report.

We provided management a copy of the draft audit report for their comments which is attached to the final report. Consistent with our responsibility under the Inspector General Act and the PIIA, we are providing copies of this report to the head of the executive agency, the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Accountability, and the Comptroller General of the United States. Additionally, we will publish a copy of the report on our website, to oversight.gov, and on the OMB Max.gov webpage.

The OIG thanks CFTC Human Resources and Financial Management personnel for their cooperation during the conduct of this audit. Please contact OIG Senior Program Analyst, Mr. Tony Baptiste (Tbaptiste@cftc.gov) if you have any questions regarding the contents of the enclosed report.

³ Our review identified no instances where The Joachim Group did not comply, in all material aspects, with generally accepted government auditing standards.

Commodity Futures Trading Commission (CFTC)
Office of Inspector General (OIG)
Report on OIG Evaluation of CFTC Compliance
with the
Payment Integrity Information Act Of 2019 (PIIA)
Compliance Report, together with
Independent Auditor's Report
for the year-ended September 30, 2023

Commodity Futures Trading Commission (CFTC)
Office of Inspector General (OIG)
Report on OIG Evaluation of CFTC Compliance
with the
Payment Integrity Information Act Of 2019 (PIIA)

Compliance Report

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER COMPLIANCE PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Commodity Futures Trading Commission
Office of Inspector General
Washington, D.C.

Report on Compliance

We have audited the Commodity Futures Trading Commission's (CFTC, Agency or the Commission) compliance with the Payment Integrity Information Act Of 2019 (PIIA) applicable to CFTC's payroll and nonpayroll disbursements (except for disbursements made under the whistleblowers awards program) for the year ended September 30, 2023.

In our opinion, CFTC complied, in all material respects, with the PIIA for disbursements referred to above for the year ended September 30, 2023.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in Generally Accepted Government Auditing Standards issued by the Comptroller General of the United States (GAGAS), also known as the Yellow Book, issued by the Comptroller General of the United States, 2018 Revision, Technical Update April 2021; and the PIIA. Our responsibilities under those standards and the PIIA are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Commission's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Commission's government programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Commission's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, GAGAS, and the Uniform Guidance issued by the Office of Management and Budget (OMB) will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Commission's compliance with the requirements of government program as a whole.

In performing an audit in accordance with GAAS, GAGAS, and the PIIA, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Commission's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Commission's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the PIIA, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the PIIA. Accordingly, this report is not suitable for any other purpose.

The Joachim Group, CPAs & Consultants, LLC

Roanoke, Virginia
July 9, 2024

BACKGROUND

The Office of the Inspector General (OIG) mission is to detect waste, fraud, and abuse and to promote integrity, economy, efficiency, and effectiveness in the Commodity Futures Trading Commission's (CFTC, Commission, and Agency) programs and operations. As such it has the ability to review all of the Commission's programs, activities, and records. OIG was established as an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations, and detect and prevent fraud, waste, and abuse in such programs and operations;
- Conduct and supervise audits and, where necessary, investigations relating to the administration of CFTC programs and operations;
- Review existing and proposed legislation and regulations, and make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse;
- Recommend policies for, and conduct, supervise, or coordinate other activities carried out or financed by such establishment for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in its programs and operations; and
- Keep the Commission and Congress fully informed regarding problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Agency and OIG Requirements under the PIIA

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) (Public Law 111-204) amended the Improper Payments Information Act of 2002 (Public Law 107-300) and required agencies to identify and review all programs and activities they administer that may be susceptible to significant improper payments (based on guidance provided by the OMB). For programs or activities with estimated improper payments above a certain threshold, each agency was required to prepare a report on actions it has taken or plans to take to recover improper payments and prevent future improper payments. In addition, section 3 of IPERA required Inspectors General to review each agency's improper payment reporting and issue an annual report evaluating agency compliance.

On March 2, 2020, the PIIA (Public Law 116-117) repealed IPERA (and other laws), but set forth similar improper payment reporting requirements, including an annual compliance report by Inspectors General.

Reporting Entity

The CFTC is an independent agency of the executive branch of the Federal government. Congress created the CFTC in 1974 under the authorization of the Commodity Exchange Act (CEA) with the mandate to regulate commodity futures and option markets in the United States. The agency's mandate was renewed and expanded under the Futures Trading Acts of 1978, 1982, and 1986; the Futures Trading Practices Act of 1992; the CFTC Reauthorization Act of 1995; the Commodity Futures Modernization Act of 2000; and the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act, or the Act). Congress passed the Food, Conservation, and Energy Act of 2008, which reauthorized the Commission through FY 2013. In the absence of formal reauthorization, the CFTC has continued to operate through annual appropriations.

The CFTC is responsible for ensuring the economic utility of futures markets by encouraging their competitiveness and efficiency, ensuring their integrity, and protecting market participants against manipulation, abusive trade practices, and fraud.

OBJECTIVES AND SCOPE

Our objective was to determine whether CFTC complied with the PIIA for Fiscal Year (FY) 2023. Specifically, we were engaged by the OIG to:

- 1) conduct an audit of CFTC's FY2023 payments (payroll and nonpayroll) to identify erroneous payment transactions in CFTC's population of payments made during FY2023 and present results in a stratified dollar unit sampling and report out substantive results separately, and
- 2) test CFTC's compliance with the PIIA, including CFTC's determinations regarding thresholds (> \$10M and 1.5% total payments).

Required Regulatory and Other Applicable Standards

We conducted our audit in accordance with GAAS and GAGAS. We also utilized the Council of the Inspectors General on Integrity and Efficiency (CIGIE), applicable Executive Orders, Office of Management and Budget (OMB) and GAO guidance; and the PIIA.

Our compliance review for FY2023 also used a combination of the requirements in OMB Circular A-123, Appendix C (M-21-19, March 2021), OMB Circular A-136 (May 19, 2023), OMB Annual Data Call Instructions (on the max.gov improper payment page), OMB Payment Integrity Question and Answer Platform, and other applicable guidance.

Our Independent Auditor's Report on CFTC's compliance with the PIIA was prepared in accordance with *AU-C Section 935 Compliance Audits*. This section is applicable when an auditor is engaged, or required by law or regulation, to perform a compliance audit in accordance with all of the following:

- GAAS;
- GAGAS; and
- A governmental audit requirement that requires an auditor to express an opinion on compliance.

Legal Requirements/Compliance with PIIA

Significant erroneous payments are defined as annual erroneous payments in the program exceeding both \$10 million and 1.5 percent, or \$100 million of total annual program payments.

The CIGIE *Guidance for Payment Integrity Information Act Compliance Reviews, October 2023*, states the following:

The term "compliance" with PIIA and OMB guidance means that the agency complied with the 10 items listed in 1a through 6 below. If the agency does not meet one or more of these requirements, then it is not compliant.

1a. Published payment integrity information with the annual financial statement and in the accompanying materials to the annual financial statement of the agency for the most recent FY in accordance with OMB guidance;

1b. Posted the annual financial statement and accompany materials required under guidance of OMB on the agency website;

2a. Conducted improper payment risk assessments for each program with annual outlays greater than \$10,000,000 at least once in the last three years;

2b. Adequately concluded whether the program is likely to make improper payment (IP) and unknown payments (UP) above or below the statutory threshold;

3. Published IP and UP estimates for programs susceptible to significant IPs and UPs in the accompanying materials to the annual financial statement;

4. Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement;

5a. Published an IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement;

5b. Demonstrated improvements to payment integrity or reached a tolerable IP and UP rate;

5c. Developed a plan to meet the IP and UP reduction target; and

6. Reported an IP and UP estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the annual financial statement.

As part of our planning procedures, we evaluated CFTC's compliance with the above list and presented our results below.

AUDIT APPROACH

We employed a risk-based approach that is based on a sound and proven methodology that has been successfully used in the past on other GAGAS Yellow Book Audits and Federal OIGs. Our approach was refined during our audit based on:

1. CFTC's history of improper payments;
2. Previous improper payment deficiencies, and findings and recommendations.;
3. The structure of the payment integrity monitoring function within CFTC;
4. CFTC's extent of monitoring policies and procedures to comply with PIIA; and
5. CFTC's volume of payments and payment types.

Phase 1 – Planning Procedures and Results

We developed a customized audit work plan that focused on the most efficient and effective way to accomplish the stated objectives. Tasks performed during this phase included, but were not limited to:

- Conducting initial interviews with CFTC OIG to clearly define the scope of the engagement;
- Discussing audit objectives and the agency's approach to recognizing where the potential for improper and unknown payments can arise;
- Reviewing existing agency policies and procedures;
- Interviewing key personnel and documenting the internal control process and procedures over the following areas to include but not limited to:
 - ✓ Payment integrity functions including efforts to prevent improper and unknown payments;
 - ✓ Payments to Federal versus non-Federal entities;
 - ✓ Monitoring of payment integrity risks to the Commission;
 - ✓ Payment eligibility and approval process;
 - ✓ Relevant information and data systems;
 - ✓ Major changes in practice or procedures;
 - ✓ Level, experience and quality of training for personnel responsible for making program eligibility determinations or certifying that the payments are accurate; and
 - ✓ Performed walk-throughs of selected transactions from initiation to completion and reviewed supporting documentation for propriety, allowability and proper payment.

- Reviewing CFTC’s most recent Annual Financial Report and following up on any Notice of Findings and Recommendations or recommendations pertaining to PIIA compliance; and
- Reviewing and following up on any outstanding recommendations made in prior OIG reports addressing PIIA compliance.

As part of the planning phase, our risk-based approach included performing a risk analysis to identify and categorize risks (high, moderate, low) and ensuring that testing coverage in these areas were sufficient. Based on our knowledge of the PIIA, the following are potential payment integrity risk areas but are not limited to:

1. History of improper payments
2. Volume of payments;
3. Outlays that exceed the statutory threshold dollar amount that may be susceptible to significant improper payment;
4. Payments lacking sufficient documentation;
5. Incomplete or inaccurate transaction data and reporting;
6. Inadequate controls, control environment, data systems and IT application controls;
7. Inexperienced personnel;
8. Previous improper payment deficiencies, and findings and recommendations;
9. The accuracy and reliability of (IP and UP estimates previously reported for the program, or other indicator of potential susceptibility to IPs and UPs identified by the OIG of the executive agency, the GAO, other audits performed by or on behalf of the Federal, State, or local government, disclosures by the executive agency, or any other means;
10. Whether the program lacks information or data systems to confirm eligibility or provide for other payment integrity needs; and
11. The risk of fraud as assessed by the agency under the Standards for Internal Control in the Federal Government published by the Government Accountability Office (commonly known as the “Green Book”).

We performed the below procedures as part of our planning phase:

Procedure/Results #1: We reviewed existing agency policies and procedures and interviewed key personnel to develop our understanding of the internal control process and procedures over disbursements and payment integrity functions.

Per discussion with the Agency and review of the agency’s policies and procedures, *Management is responsible for establishing and maintaining internal control to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations and guided by OMB Circular 123 and the Federal Managers' Financial Integrity Act. The integrity of CFTC’s control environment are policies and procedures that are integral to ensure overall integrity of CFTC’s internal control structure.*

We noted within ten days of ESC/iSupplier receipt of each compliant contractor invoice in Delphi, the COR reviews the propriety, accuracy, and completeness of the invoice/IPAC charges for the following attributes:

- i. Invoiced charges are in compliance with the contract or Interagency Agreement (IAA) including the billing rates, amounts, and other information;*
- ii. The invoiced goods and/or services rendered have been received and accepted;*
- iii. Total cost-reimbursement amount(s) are correctly itemized and agree to appropriate supporting documentation (i.e., monthly report, detailed time charges);*
- iv. Invoiced charges for Contractor Acquired Property are supported by Transfer and Acceptance form evidencing transfer of ownership;*
- v. No other invoices/payments associated with the billing period have been received/paid already;*

and

- vi. As applicable, travel costs conform to the requirements of the Federal Travel Regulation (FTR).

Once completed and satisfied with the contractor's invoice/IPAC, the COR electronically certifies their approval of the invoice/IPAC within Delphi.

As it relates to payroll disbursements, payments of regular employee payroll, incentive awards, and special disbursements are approved by supervisors and the Commission's designated personnel, divisions, and systems. Employees complete and validate their timesheets via webTA, the system's workflow protocol automatically sends a notification to the respective supervisor through email informing them to review and certify or approve the employee's T&A record. In the absence of an employee, the respective Timekeeper has the authority to fill out and submit the timesheet for the employee to NFC to process payroll on time.

Procedure/Results #2: We obtained and inspected CFTC's FY2023 Agency Financial Report (AFR) and FY2023 Audited Financial Statements and did not note any notice of findings or recommendations pertaining to PIIA compliance within the FY2023 AFR or annual financial statements.

Procedure/Results #3: We obtained and inspected the *OIG FY2022 Compliance with Payment Integrity Information Act of 2019 Management Letter* and noted no outstanding recommendations addressing PIIA compliance for the current period. We did note the following recommendations identified by the OIG in FY2021; however, the recommendations were closed in FY2022:

1. Include payment integrity analysis with relevant links and estimates in future AFRs as required by OMB M-21-19.
2. Seek counsel for interpreting general law matters such as PIIA compliance.

Procedure/Results #4: We performed an independent risk assessment of CFTC payments to determine whether CFTC improper payments remain below improper payment thresholds (Phase 1 agency) and evaluated payment risk reporting in CFTC's FY 2023 AFR under *OMB M-21-19 Appendix C-IV-A* and under the *CIGIE Guidance for Payment Integrity Information Act Compliance Reviews*. We completed the CIGIE PIIA Checklist and based on our results, the agency complied with the 10 items listed in 1a through 6 listed in the "Legal requirements/Compliance with PIIA" section above. Therefore, we determined that there were no additional areas of risk of noncompliance or concern that would cause our risk assessment to be higher.

Procedure/Results #5: Per review of OMB M-21-19, Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement, *Agencies should assess all programs with annual outlays greater than \$10,000,000 for IP risk at least once every three years*. We obtained and inspected CFTC's IP Risk Assessment and Risk Score Card and Surveys completed in FY2022 for the period October 1, 2020 - September 30, 2021 and submitted in October 2023. Based on the analysis, we noted the Commission's total outlays for the period of \$526M exceeded the IP Risk Assessment threshold of \$10,000,000. Based on the Agencies risk assessment, it was determined that the total annual IPs PLUS the UPs for the programs are collectively likely to be below the statutory threshold, therefore, resulting in the programs being in *Phase 1*. In accordance with Appendix C of Circular A-123, the Commission is not required to determine a statistically valid estimate of erroneous payments or develop a corrective action plan if the program is not susceptible to significant improper payments.

Procedure/Results #6: We considered other potential risks related to the governmental unit’s structure, governance, and related-party relationships and transactions and any history of noncompliance and the risks that could result in noncompliance. During our planning phase, we met with CFTC management and developed an understanding of PIIA integrity functions and other relevant key internal controls. We also obtained and inspected key cycle memos and conducted walk throughs to understand the governmental unit’s structure, governance, and PIIA risk management functions.

Risk Assessment Rating

Based on the results of our procedures above, we have assessed CFTC’s risk of noncompliance as **Low**.

Phase 2 – Fieldwork Procedures and Results

During this phase, we developed a detailed test program and incorporated specific testing strategies to identify any erroneous payments and to determine whether the agency is making threshold determinations properly. Our understanding of the data set populations, sampling methodology, procedures and results are as follows:

Analyzing the Populations/Data Set

Per discussion with CFTC Management and review of the FY2023 annual financial report, *“The Commission does not administer grant, benefit or loan programs. For FY 2023, CFTC’s most significant payments were for payroll and benefits for its employees, which are administered by the U.S. Department of Agriculture’s National Finance Center (NFC) and OPM, and payments to vendors for goods and services used during the course of normal operations. CFTC’s other most significant payments are for monetary awards to eligible whistleblowers who voluntarily provided the CFTC with original information about violations of the CEA that led the CFTC to bring enforcement actions that resulted in monetary sanctions exceeding \$1 million. However, in FY 2023, CFTC disbursed only \$670,000 to a handful of whistleblowers.”* Due to the protection of the whistleblowers, the disbursement made under the whistleblower’s awards program were not included in the scope of this compliance audit.

For the nonpayroll disbursements, we obtained the following from CFTC Management:

1. *FY23 PIIA Disbursement Validation* – this file contained an Excel summary of all payroll disbursements by month and nonpayroll disbursements by quarter. The total of the payroll and nonpayroll disbursements was validated and reconciled to the CFTC trial balance as of 9/30/2023.
2. *FY23 Quarterly Non-Payroll Disbursements* – there were a total of 4 Excel files that contained all disbursements for each quarter for the following Standard General Ledger (SGL) accounts:
 - a. 48020000 - undelivered orders - obligations, prepaid/advanced.
 - b. 48720000 - downward adjustments of prior-year prepaid/advanced undelivered orders - obligations, refunds collected.
 - c. 49020000 - delivered orders - obligations, paid.
 - d. 49720000 - downward adjustments of prior-year paid delivered orders - obligations, refunds collected.
 - e. 49820000 - upward adjustments of prior-year delivered orders - obligations, paid.

Upon receiving the data, we analyzed the data to identify trends, patterns, anomalies, and exceptions within the data to identify indicators of IPs. Across each of the quarterly nonpayroll populations, “Treasury Confirmation” payments accounted for >90% of the total transactions. The unique identifier for the nonpayroll payments was the PO# or the AP invoice #. The table below is a summary of the nonpayroll population and data sets by SGL subject to testing as part of the FY2023 CFTC PIIA compliance audit:

Table 1: Summary of Nonpayroll Population and Data Sets by SGL Subject to Testing

FY2023 Population by Quarter and SGL						
SGL	SGL Name	Q1	Q2	Q3	Q4	Total
48020000	UNDELIVERED ORDERS - OBLIGATIONS, PREPAID/ADVANCED	\$1,791,527	\$(12,471,652)	\$(529,805)	\$673,177	\$(10,536,753)
48720000	DOWNWARD ADJUSTMENTS OF PRIOR-YEAR PREPAID/ADVANCED UNDELIVERED ORDERS - OBLIGATIONS, REFUNDS COLLECTED	79,826	-	1,460,066	(1,402,687)	137,205
49020000	DELIVERED ORDERS - OBLIGATIONS, PAID	(34,296,130)	(31,042,435)	(30,076,212)	(29,723,324)	(125,138,101)
49720000	DOWNWARD ADJUSTMENTS OF PRIOR-YEAR PAID DELIVERED ORDERS - OBLIGATIONS, REFUNDS COLLECTED	1,351,120	17,856	(553,422)	(709)	814,844
49820000	UPWARD ADJUSTMENTS OF PRIOR-YEAR DELIVERED ORDERS - OBLIGATIONS, PAID	(1,261,526)	(35,131)	569,503	(11,122)	(738,277)
	Total	\$(32,335,183)	\$(43,531,362)	\$(29,129,870)	\$(30,464,665)	\$(135,461,082)
	Transaction Count by Quarter	6,057	3,258	4,157	3,515	16,987

For the payroll disbursements, we obtained the following from CFTC Management:

1. *FY23 PIIA Disbursement Validation* - this file contained an Excel summary of all payroll disbursements by month and nonpayroll disbursements by quarter. The total of the payroll and nonpayroll disbursements was then reconciled to the CFTC trial balance as of 9/30/2023.
2. *Monthly FY23 Payroll Disbursements* - there were a total of 12 Excel files that contained disbursements by month.
3. *Payroll by PayPeriod FY2023* - this file contained a data dump of all payroll disbursements for FY2023. The data file included the same fields as described above.

The payroll file contained approximately 835 employees and 329,000 transactions across each of the object classes list above. Full-time appointments represented 70% of the payroll outlays, making those disbursements the strata used in our sampling methodology. The total nonpayroll and payroll disbursements for FY2023 amounted to \$346,339,868 (absolute value). Tables 1 & 2 below s are a summary of the payroll population and data sets by Grade and Object Class subject to testing as part of the FY2023 CFTC PIIA compliance audit which was agreed to the trial balance:

Table 1: Summary of Payroll Population

Grade	Sum of Gross Pay
0	(380.46)
00	54,625.04
03	239,664.24
04	888,302.89
07	466,542.36
08	508,372.10
09	925,951.35
10	467,648.44
11	2,102,784.29
12	5,479,705.76
13	16,733,600.01
14	108,710,804.51
15	57,270,661.57
16	12,936,053.51
17	1,397,596.41
18	2,697,912.51
4	(147.13)
5	(47.53)
7	(778.28)
9	(86.25)
Grand Total	210,878,785.34

Table 2: Summary of Data Sets by Grade and Object Class

Object Class	Object Class Name	Sum of Gross Pay
0199	MISCELLANEOUS -PAYROLL BENEFITS	\$ 236.88)
1100	FULL-TIME PERMANENT APPOINTMENTS	(18,180.41)
1101	FULL-TIME PERMANENT APPOINTMENTS	148,592,669.22
1105	EMPLOYEE INDEBTEDNESS	(13,839.60)
1109	TIME-OFF AWARDS	645,483.43
1119	FULL-TIME PERMANENT APPOINTMENTS	50,395.13
1121	TEMPORARY APPOINTMENTS	2,288,979.57
1131	TEMPORARY APPOINTMENTS	564,914.66
1153	MERIT PERFORMANCE AWARDS	1,786,278.00
1160	Night Differential	456.73
1170	OVERTIME	573.70
1180	HOLIDAY	17,054.26
1183	TERMINAL LEAVE PAYMENTS	1,145,822.19
1195	FULL-TIME PERMANENT APPOINTMENTS	(464.39)
1201	FICA TAXES	33,193.96
1202	FEGLI	246,901.52
1203	FEHB	10,512,894.04
1204	CIVIL SERVICE RETIREMENT SYSTEM (CSRS) AGENCY CONTRIBUTION	116,071.22
1205	HEALTH BENEFITS INDEBTEDNESS & REPAYMENTS	(133.24)
1213	HOSPITAL INSURANCE TAX (HIT) AGENCY CONTRIBUTION	2,225,334.94
1214	CIVIL SERVICE RETIREMENT SYSTEM (CSRS) TRANSITIONAL CONTRIBUTION	18,900.08
1239	RELOCATION SERVICES & RELATED EMPLOYEE BENEFITS - MISCELLANEOUS PCS	1,354,000.00
1251	OASDI FICA - CSRS - TRANSITIONAL CONTRIBUTION	16,597.03
1260	SUPPLEMENTAL DENTAL	8,646.94
1262	NOT FOUND	24,001.08

Object Class	Object Class Name	Sum of Gross Pay
1264	FEDERAL EMPLOYEE RETIREMENT SYSTEM (FERS)	26,784,082.71
1269	OASDI FICA - FERS - FULL CONTRIBUTION	6,728,500.05
1274	THRIFT SAVINGS PLAN (TSP) BASIC	1,496,068.81
1275	THRIFT SAVINGS PLAN (TSP) MATCHING	5,703,529.76
1282	RETENTION ALLOWANCE	118,223.20
1296	RELOCATION SERVICES & RELATED EMPLOYEE BENEFITS - MISCELLANEOUS PCS	2,000.00
1298	STUDENT LOAN REPAYMENT GROSS AMOUNT	430,021.49
4315	NOT FOUND	19.10
4350	LOST EARNINGS TSP	27.04
Grand Total		\$210,878,785.34

Sampling Methodology

Sampling stratification is a methodology that establishes subgroups within a sampling population to place priority on subgroups of interest. Stratification can also produce smaller margins of error on population estimates. By stratifying, we can “guide” the randomness of the sample in such a way to achieve audit objectives.

We stratified the payroll and non-payroll samples to ensure sufficient coverage of the sampling population of payments. Non-payroll payments were distributed differently from payroll payments and, as explained below, we stratified the non-payroll sample to correspond to account for that different distribution. The sampling design for our audit of CFTC disbursements will provide an estimate of the number of improper payments in the population and whether the program complied with PIIA. Per *OMB Circular A-123 M-21-19* (“OMB Guidelines”), statistically valid estimates of improper payments must have “an associated point estimate and confidence interval.”

The sampling design described below exhibits the statistical qualities necessary to produce a point estimate and confidence interval. Further, the sampling design is constructed to incorporate the variations of the payments and the feasibility constraints of the auditors.

Payroll Data

Payroll data exhibited a fairly normal distribution:

- 90% of the payments were between \$5,129 and \$10,430.
- Only three payments, out of 17,831 total payments, were either less than zero or greater than \$12,000 (i.e., there were exceptionally few outliers).

Accordingly, we stratified the payments into eight equal-sized buckets, defined on the percentiles of the payments: 0 – 12.5th percentile, 12.5th – 25th percentile, etc. This stratification method ensures that there is equal emphasis on all payroll payments.

Non-Payroll Data

Non-payroll data exhibited a *non-normal* distribution:

- Half of the payments were below \$1,000 (i.e., the majority of payments were relatively “small”).
- 10% of the payments were greater than \$83,980.
- More than 125 payments, out of 2,692 total payments, were greater than \$207,530 (i.e., there were many large-payment outliers).

Accordingly, we stratified the payments into eight buckets, but this time we placed emphasis on the inordinate number of large payments. One stratum includes 99th percentile payments and above. The

next stratum is 90th to 99th percentile payments. The next four strata are defined on descending deciles (80th-89th, 70th-79th, 60th-69th, and 50th-59th). The final two strata include the smallest payments – 25th to 49th percentile payments, and 0 to 24th percentile payments.

Our stratification approach to non-payroll payments ensures that large payments receive extra focus. This is important, as the final point estimate of the population number of improper payments could be greatly influenced by a single, large improper payment.

Sample Size Determination

We determined the CFTC audit sample size based on data-driven assumptions and feasibility constraints. The first major assumption was that the improper payment rate (or error rate) would be no greater than 2.5%. We applied this expected error rate to all payroll and non-payroll strata. Based on the CFTC audit in FY22, this assumption was conservatively high.

Next, our desired margin of error on the improper payment rate was no greater than +/- 5%.¹ To achieve this margin of error in the population we used the following sample size formula:²

$$n \geq \left[\frac{2.706(1 - P)}{\left(\frac{0.05}{P}\right)^2 P} \right]$$

Here, P is the improper payment rate, assumed at 2.5%. The 0.05 represents our desired 5% margin of error, and 2.706 is 1.645^2 , which corresponds to a 90% confidence interval. We found that our assumptions and statistical parameters produce a sample size of 27. In other words, to achieve a 5% margin of error on population estimates (with 90% confidence), we would need to pull a sample of at least 27 payroll and 27 non-payroll payments.

Our final check was a feasibility constraint. How many CFTC payment audits could auditors feasibly conduct within the timeframe required in the statement of work? Upon consultation with the auditing team, the feasible number of audits was between 60 and 80.

With eight sampling strata in both the payroll and non-payroll sampling populations, we chose to select four sample payments from each stratum. Thus, our total sample size for payroll and non-payroll would be 32, with 4 in each stratum. Since the total sample size is larger than 27 in each sampling population (payroll and non-payroll); if our expected error rate holds, we will have a margin of error in our population estimate that is 5% or smaller.

Sampling Productions

Our sampling design is available for review and replication, and is contained in two main products (which will ultimately be delivered at the end of the project to CFTC):

- We produced a margin of error calculator in Microsoft Excel that allows users to test the sensitivity of the sampling design against alternative assumptions and parameters.
- We programmed the sampling design into Stata, a software used for statistical analyses and data management, to pull the samples.

¹ Although the margin of error is often reported as “%”, it is actually a percentage-*point* deviation, not a percentage deviation.

² This sample size determination formula is found in *OMB Circular A-123 M-10-13*. This formula produces a sample size with a margin of error of 5% and a confidence interval of 90%.

Table 3: Summary of Payroll and Non-Payroll Data

	Payroll Data	Non-Payroll Data
Record-level	Employee pay-period line items	Invoice or purchase order
Inclusions	Object class = 1101 (full - time equivalent)	Amount >= \$1.00
Fields	Year, pay-period, object class, grade, payment amount	Invoice or PO number, payment amount
Payment Statistics	Max: \$31,368 Mean: \$8,333 Median: \$8,688 Min: (\$11,152); the only negative payment	Max: \$5,223,817 Mean: \$56,736 Median: \$956 Min: \$1.85
Payment Quartiles (25th/75th)	25 th : \$7,474 75 th : \$9,222	25 th : \$294.48 75 th : \$11,627
Other	More than 85% of payments were to employees in grades 13 through 15	

Payroll and Nonpayroll Transactions Selected for Testing

Table 4 is a summary of the statistical sample selected for testing by category:

Table 4: Summary of the Statistical Sample Selected for Testing

Category	Total Transactions Tested	Total \$ Value of Transactions Tested (Net Figures)
Nonpayroll - Treasury Confirmation Transactions	32	\$11,226,073
Payroll - OBJ Class 1101	32	262,802
Total	64	\$ 11,488,875

In addition to the sample selected by the Statistician, we used auditor judgement and selected an additional payroll and nonpayroll sample that did not meet the criteria for statistical sampling for further testing. Tables 5 & 5a below are a summary of the additional samples selected for testing by category:

Table 5: Summary of Additional Samples Selected for Testing

Category	Total Transactions Tested	Total \$ Value of Transactions Tested (Absolute Value)
Employees with Grade 0 or 00	6	\$7,158
Negative Pay Transactions	1	(145,195)
Employees with One Payment	8	25,955
Temporary Appointments	10	65,956
Total	25	\$244,264

Table 5a: Summary of Additional Samples Selected for Testing

JE Source	Total Transactions Tested	Total \$ Value of Transactions Tested (Absolute Value)
Payables	4 quarters	\$2,365,980
Spreadsheet	4 quarters	4,048,570
Total	8	\$ 6,414,550

Testing Procedures and Results:

Internal Control Over Compliance and Compliance Testing

For purposes of this audit, we elected to perform dual purpose testing of our sample selections. A dual-purpose test is an audit procedure that is used as both a test of internal control over compliance and compliance test. Based upon our sampling approach, we selected an appropriate sample size of payments by type and requested CFTC to compile all documents necessary to support the propriety of the payment made by CFTC.

We then performed the following procedures:

Procedure/Results #1: Through inquiry, observation, and review of CFTC's policies and procedures, we determined the Commission's applicable agency policies, procedures, and controls are adequate. During our testing we also did not note any internal control deficiencies as a result our procedures.

Procedure/Results #2: For our sample selection, we obtained and inspected supporting documentation and verified the payment was 'proper' (made to the right recipient for the right amount). Specifically, for each disbursement category we performed the following procedures:

1. Payroll Disbursements:

- a. Timesheet Approval - We obtained and inspected a copy of the employees' timesheet from webTA and verified the timesheet was validated by the employee then routed for approval/certification by their respective supervisor. We then verified each timesheet was properly certified by the supervisor. We noted no exceptions as a result of our test work.
- b. Recalculation of Gross Pay – We obtained and inspected a copy of the employees *Statement of Earnings and Leave* statement from NFC's PPS and recalculated gross pay based on approved hours worked for the pay period and the approved employee hourly rate. We then compared the recalculated amount to the Gross Pay per the payroll data file and inquired of management for any variances. We noted no exceptions as a result of our test work.
- c. Existence of Employee – Due to PII, we were unable to obtain the employees W-2 or personnel file; however, we did verify that for each employee tested, their paycheck was direct deposited. We noted no exceptions as a result of our test work.
- d. Other Payroll Testing – For our testing of negative pay transaction, we noted this was an error related to a prior employee, where the Agency determined the employee was recorded into the incorrect retirement code and therefore the incorrect retirement withholdings were lower than they should have been causing the employee to receive higher "take home" pay than the employee should have. The pay represents indebtedness, what was held vs what should have been held. The Agency determined the error was on their behalf and did not require the employee to pay back the funds. We determined this to be an exception and performed additional test work to test the accuracy of a sample of employees into the correct retirement plan.
- e. Additional Payroll Testing – As a result of the finding noted above, using the payroll sample selected by the Statistician, we performed some additional procedures to determine if employees are appropriately classified under the appropriate retirement plan and the appropriate contributions are deducted for the Agency and employees. We noted no exceptions as a result of our test work.

2. Nonpayroll disbursements

Invoice Approval – We obtained and inspected the contractor/vendor invoice and Status History report from PRISM or Delphi and verified the invoice was approved by the COR verifying the propriety, accuracy, and completeness of the invoice/ Intra-Governmental Payment and Collection (IPAC) charges. We also obtained print screens from ESC verifying the payment was made in the proper amount and to the proper vendor. We noted no exceptions as a result of our test work.

Other Procedures / Results:

Procedure/Results #1: Through inquiry, observation, and review of relevant support to include results of testing, we determined that staff training pertinent to payment integrity is adequate.

Sampling Results

In our analysis of the payroll and non-payroll statistical samples selected, none was found to have improper payments. All transactions complied with the relevant laws, regulations, and internal guidelines, indicating a high level of process integrity and accuracy.

See Figure 1 for each category's placement on the OMB statutory threshold determination.

Figure 1: Statutory Thresholds Determinations for Improper Payment Amounts and Rate

		IP and UP Rate				
		0.00%	0.50%	1%	1.6%	2%
IP and UP Dollar Amount	\$0					
	\$9,000,000		Below the Statutory Threshold	Below the Statutory Threshold	Below the Statutory Threshold	Below the Statutory Threshold
	\$11,000,000		Below the Statutory Threshold	Below the Statutory Threshold	Above the Statutory Threshold	Above the Statutory Threshold
	\$99,000,000		Below the Statutory Threshold	Above the Statutory Threshold	Above the Statutory Threshold	Above the Statutory Threshold
	\$101,000,000		Above the Statutory Threshold	Above the Statutory Threshold	Above the Statutory Threshold	Above the Statutory Threshold

Although retirement contributions had no exceptions (improper payments), we did find one individual among the thirty-two that was incorrectly classified on the *Notification of Personnel Action* (SF-50) as not having any prior retirement coverage. Further investigation revealed that this individual had prior creditable service and previous retirement coverage. Although the retirement contribution was calculated correctly, as a result of our audit, the SF-50 is being updated to reflect the appropriate coverage.

In addition to the sample selected by the Statistician, we used auditor judgment and randomly selected a sample of anomaly payroll transactions for further review. Per the sampling design, we selected a non-statistical sample of anomaly transactions for audits. We selected 15 transactions from a population of 331 anomaly transactions (4.5% sample). We found that one of the 15 transactions had an improper payment, in the amount of \$14,078.55. Because we selected the sample using auditor expertise, we expected that these transactions were among the highest risks for improper payments (and they are not statistically representative of the population at large). The non-statistical nature of the sample precludes us from providing a total dollar amount estimate of improper payments. We know, however, that the anomalies population represents less than 0.1% of total payroll population; a miniscule amount. Thus, even accounting for anomalies, CFTC is well below statutory thresholds for compliance with PIIA.

To enhance the accuracy of personnel records and future payments, we recommend that management enhance control for secondary review of all newly hired or transferred employees. This should involve the Benefits Specialist reviewing the payroll records and retirement benefit assignment made by the Staffing Specialist to ensure that they are both accurate and complete.

Conclusion

Based on the results of our testing of payroll and non-payroll disbursements (except for disbursement made under the whistleblowers awards program), we have determined that CFTC complied, in all material respects, with the PIIA of 2019 compliance requirements that are applicable to the Commission and that the Commission is making proper threshold determinations for the year ended September 30, 2023.



U.S. COMMODITY FUTURES TRADING COMMISSION

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MEMORANDUM

TO: Christopher Skinner
Inspector General
Office of the Inspector General

FROM: Jeffrey Sutton
Executive Director
Division of Administration

DATE: July 10, 2024

SUBJECT: Commodity Futures Trading Commission (CFTC) Management's Response to draft report on the Office of the Inspector General's Evaluation of CFTC Compliance with the Payment Integrity Information Act of 2019 (PIIA) Compliance Report for the year-ended September 30, 2023

Thank you for the opportunity to comment on the Office of the Inspector General's draft FY 2024 PIIA report. We appreciate the opportunity to review the draft report that expresses the Commission's full compliance with PIIA. Management concurs with the report as written and will forgo an exit conference.

We appreciate the dialogue we have had throughout this review. If you require further assistance, please contact Karrenthya Simmons, Acting, Chief Risk Officer at (202) 418-5134.

CC:
Joel Mattingley
Chief Financial Officer
Division of Administration