

OFFICE OF THE INSPECTOR GENERAL  
COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT  
FOR THE PERIOD FROM  
April 1, 2007 THROUGH September 30, 2007

**TABLE OF CONTENTS**

SUMMARY OF OIG ACTIVITIES [including a description of any significant problems, abuses, and deficiencies and a description of OIG recommendations for corrective action (Mandated by Section 5(a) (1) and (2) of the Act)] .....1  
AUDITS .....1  
INVESTIGATIONS .....2  
LEGISLATIVE AND REGULATORY REVIEWS .....2  
OTHER REVIEWS .....3

OIG RESPONSIBILITIES .....3

OIG RESOURCES .....4

CFTC PROGRAMS AND OPERATIONS .....4

COMPLETED WORK .....4  
AUDITS [including a list of each audit report issued and a summary of each particularly significant report (Mandated by Section 5(a)(6) and (7) of the Act)].....4  
INVESTIGATIONS .....6  
LEGISLATIVE AND REGULATORY REVIEWS .....6  
OTHER REVIEWS .....7

AUDIT REPORTS OVER SIX MONTHS OLD .....8

CORRECTIVE ACTION NOT COMPLETED [including an identification of each significant recommendation described in previous semiannual reports on which corrective action has not been completed (Mandated by Section 5(a)(3) of the Act)] .....8

CORRECTIVE ACTION COMPLETED .....8

MANAGEMENT DECISION NOT MADE [including a summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of the reasons such a management decision has not been made, and statement concerning the desired timetable for achieving a management decision on each such report (Mandated by Section 5(a)(10) of the Act)].....	8, 11
SUMMARY OF MATTERS REFERRED TO PROSECUTIVE AUTHORITIES and the prosecutions and convictions which have resulted (Mandated by Section 5(a)(4) of the Act) .....	8
SUMMARY OF EACH REPORT MADE TO THE AGENCY HEAD under Section 6(b)(2) concerning information or assistance unreasonably refused or not provided (Mandated by Section 5(a)(5) of the Act) .....	8
REVISED MANAGEMENT DECISIONS [including description and explanation of the reasons for any significant revised management decision made during the reporting period (Mandated by Section 5(a)(11) of the Act)].....	8
INSPECTOR GENERAL DISAGREEMENT [including information concerning any significant management decision with which the Inspector General is in disagreement (Mandated by Section 5(a)(12) of the Act)] .....	9
CURRENT AUDITS .....	9
GAO LIAISON.....	12
STRATEGIC PLAN.....	12
CONTACTING THE OFFICE OF THE INSPECTOR GENERAL.....	17
TABLE 1 -- REPORTS ISSUED WITH QUESTIONED COSTS (Mandated by Section 5(a)(8) of the Act).....	18
TABLE 2 -- REPORTS ISSUED WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE (Mandated by Section 5(a)(9) of the Act).....	19

## INDEX OF IG ACT REPORTING REQUIREMENTS

Section 4(a)(2) .....	Review of legislation and regulations.....	6
Section 5(a)(1) .....	Significant problems, abuses, and deficiencies.....	1
Section 5(a)(2) .....	Recommendations with respect to significant problems.....	1
Section 5(a)(3) .....	Significant recommendations that have not been completed.....	8
Section 5(a)(4) .....	Matters referred to prosecutorial authorities.....	8
Section 5(a)(5) .....	Summary of instances where information was refused.....	8
Section 5(a)(6) .....	Completed audit reports.....	4
Section 5(a)(7) .....	Significant audit reports.....	4
Section 5(a)(8) .....	Statistical Table—Questioned Costs.....	18
Section 5(a)(9) .....	Statistical Table—Funds Recommended for Better Use.....	19
Section 5(a)(10) .....	Audit reports lacking management decision.....	8, 11
Section 5(a)(11) .....	Significant revised management decisions.....	8
Section 5(a)(12) .....	Significant management decisions where the IG disagrees.....	9
Section 5(a)(13) .....	Information described under the Federal Financial Management..... Improvement Act of 1996.....	5
Section 6(b)(2) .....	Summary of reports to Chairman where assistance was refused.....	8

# SUMMARY OF OIG ACTIVITIES

## **AUDITS**

The primary objectives of the Office of the Inspector General (OIG) of the Commodity Futures Trading Commission (Commission, CFTC) are to help promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud, waste, and abuse. This reporting period's OIG audit activities, which are listed below, reflect these objectives. During this reporting period, the OIG audits uncovered no significant problems requiring recommendations.

### **Completed Audits**

Audit of Compliance with the Federal Managers' Financial Integrity Act, FMFIA. In support of OMB Circular A-123 (Revised), the Inspector General evaluates, provides technical assistance, and advises the agency head as to whether the agency's review and evaluation process was conducted in accordance with the circular's requirements. (For additional details, see page 5.)

Evaluation of the CFTC Information Security Management Act, FISMA. The Federal Information Security Management Act requires the Inspector General or his designee to perform annual independent evaluations of the information security program and practices of the agency. (For additional details, see page 5.)

### **Current Audits**

The following are the audits being conducted during the current reporting period and continuing into the next reporting period. (For additional details, see the section on current audits beginning on page 9.)

Audit of CFTC Financial Statements for Fiscal Year 2007. In FY 2002, Congress passed the Accountability of Tax Dollars Act. The Act requires the CFTC, along with numerous other Federal entities, to have its financial statements audited annually. To this end, the OIG has engaged a contractor to provide the audit effort required to enable the contractor to render an opinion on the agency's financial statements for Fiscal Year 2007 in accordance with generally accepted auditing standards, Government Auditing Standards, and OMB Bulletin 01-02. (For additional details, see page 9.)

Updating of the Review of the Need for a Los Angeles Office. The Review of the Need for a Los Angeles Office was completed approximately one year ago. Because of budgetary constraints, the Chairman was not in a position to act on the recommendations in the report. Now that the budgetary situation may be easing, opportunity for a decision could be forthcoming. To facilitate this decision, the Office of the Inspector General has continued to update the information it gathered for the initial report. (For additional details, see page 11.)

Review of Agency Use of Contractors. Over the past five fiscal years, the agency has increased its reliance on contractors to replace some CFTC employees and to extend the capabilities of others. The objectives of this review are to determine whether the agency has effectively employed contractors to complement its staff, and to present the Chairman with a complete picture of the Commission's use of contractors. During this reporting period, the OIG completed its review of current contracts and contracting information, and began conducting interviews with relevant individuals. (For additional details, see page 11.)

## **INVESTIGATIONS**

The Inspector General Act of 1978, as amended, provides that the Inspector General may receive and investigate complaints or information from the Commission's employees concerning the possible existence of an activity constituting a violation of law, rules or regulations, or mismanagement, abuse of authority, or gross waste of funds, or a substantial and specific danger to the public health and safety.

No investigations were pending as of the beginning of the reporting period, and the OIG opened no investigations during the period. (See the section on investigations beginning on page 6.)

## **LEGISLATIVE AND REGULATORY REVIEWS**

The OIG reviews proposed and final CFTC regulations, legislation, and selected exchange rules using the following basic criteria: whether the agency: (1) has identified specifically the problem(s) to be addressed by the proposal; (2) has defined through case study or data analysis a clear link between the proposed solution and the identified problem(s); (3) has specified clearly the means to effectively and efficiently enforce the proposal; (4) has assessed the likely efficiency and effectiveness of alternative solutions; (5) can reasonably document that the proposal will yield positive net benefits over the long term; and (6) has met the requirements of the Regulatory Flexibility Act and the Paperwork Reduction Act.

The Regulatory Flexibility Act requires the agency to evaluate the impact of its regulations on small entities. The Paperwork Reduction Act requires the agency to manage effectively and efficiently its information collections so that they are the least burdensome necessary to achieve the stipulated objectives.

### **Legislative Activities**

The Inspector General continues to be involved in legislative activities pertaining to both the CFTC and the IG community. The IG serves on the legislation committee for the Executive Council on Integrity and Efficiency, which discusses and provides guidance on pending legislation affecting the IG community. During this reporting period Congressional staffs were contacted about various CFTC and IG related issues.

## **OTHER REVIEWS**

Review of the CFTC Exchange Data Base System, EDDBS The Exchange Data Base System, a system developed in the mid-1980s, processes and maintains information concerning trading activity on designated contract markets. We reviewed EDDBS in conformance with standards promulgated by the National Institute of Standards and Technology. Our field work was completed in September 2007 (For additional details, see page 7).

Peer Review During this period, the National Endowment for the Humanities Office of the Inspector General completed a review of the system of quality control for the audit function within the OIG. The peer review was completed in September 2007 (For additional details, see page 7).

## **OIG RESPONSIBILITIES**

The Office of the Inspector General in the Commodity Futures Trading Commission was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create 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, regulations, and exchange rules 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; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Given that the CFTC does not have extensive contracts or grant making authority, the OIG's efforts have been focused on the review of internal CFTC operations and the monitoring of legislative and regulatory proposals.

## **OIG RESOURCES**

The OIG consists of the Inspector General, two professional staff members, and a secretary. In April 2007, one professional staff member retired. A new professional staff member was hired, and began work on June 11, 2007. The present Inspector General assumed his position on October 7, 1990.

The OIG, on December 4, 1989, signed a Memorandum of Understanding with the Office of the General Counsel (OGC). This Memorandum details the procedures that are used to provide the OIG with OGC legal services. Because the new professional staff member who began in June 2007 is an attorney, the OIG will not be utilizing the 1989 Memorandum for the time being.

## **CFTC PROGRAMS AND OPERATIONS**

Congress created the Commodity Futures Trading Commission in 1974 as an independent agency with the mandate to regulate commodity futures and options markets in the United States. The Commission's mandate was renewed and/or expanded in 1978, 1982, 1986, 1992, and 1995. In December 2000, the Commission was reauthorized by Congress and the President through Fiscal Year 2005 with the passage of the Commodity Futures Modernization Act of 2000 (CFMA).

The CFMA transformed the Commission from a front-line regulatory agency to an oversight regulator. Although the Commission's approach to regulation has changed, the CFTC's mission has not. The CFTC continues to be responsible for fostering 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. Through effective oversight regulation, the CFTC enables the commodity futures markets better to serve their vital function in the nation's economy -- providing a mechanism for price discovery and a means of offsetting price risks.

## **COMPLETED WORK**

### AUDITS

The OIG is required to conduct, supervise and coordinate audits of CFTC programs and operations and to ensure that the audits are conducted in accordance with generally accepted government auditing standards. The OIG is also required to recommend changes to existing and

proposed CFTC programs and operations to promote economy, efficiency, and effectiveness and to prevent and detect fraud and abuse.

The purpose of these audits is to ensure that:

- Funds have been expended in a manner consistent with related laws, regulations, and policies;
- Resources have been managed effectively and efficiently;
- Stipulated program objectives have been achieved; and
- Resources have been safeguarded.

1. Audit of Compliance with the Federal Managers' Financial Integrity Act, FMFIA

Objective.

In support of OMB Circular A-123 (Revised), the Inspector General evaluates, provides technical assistance, and advises the agency head as to whether the agency's review and evaluation process was conducted in accordance with the circular's requirements.

Status.

The OIG reviewed all of the draft internal control reviews produced by agency staff and provided comments to the originating divisions. The OIG offered its services to the CFTC Internal Control Committee as advisor and consultant on conducting and reporting on vulnerability assessments and internal control reviews. The OIG reported the results of its review of the final submissions to the Chairman in its annual assurance letters to the Chairman.

2. Evaluation of the CFTC Information Security Management Act, FISMA

Objective.

The Federal Information Security Management Act requires the Inspector General or his designee to perform annual independent evaluations of the information security program and practices of the agency.

Status.

To provide a comprehensive review of the Commission's security program, Office of Information Technology Services (OITS) and OIG worked jointly in gathering and interpreting information relating to the CFTC information security program. Using the information supplied by OITS staff, a contractor, and the program managers, the Inspector General reviewed and analyzed the information and responded in tabular form to the questions raised by the OMB Guidance. Results of this effort were transmitted to the CFTC's Chief Information Officer (CIO)



on September 6, 2007, for combination with the CIO's assessment and inclusion in the Chairman's report to OMB.

## INVESTIGATIONS

The Inspector General Act of 1978, as amended, provides that the Inspector General may receive and investigate complaints or information from the Commission's employees concerning the possible existence of an activity constituting a violation of law, rules or regulations, or mismanagement, abuse of authority, or gross waste of funds, or a substantial and specific danger to the public health and safety.

No investigations were pending as of the beginning of the reporting period, and the OIG opened no investigations during the period.

## LEGISLATIVE AND REGULATORY REVIEWS

As specified in Section 4(a)(2) of the Inspector General Act of 1978, the OIG reviews the impact of existing and proposed legislation and regulations on CFTC programs and operations and makes recommendations regarding more effective or efficient alternatives or protections against fraud and abuse. The OIG also reviews selected exchange rule proposals and changes.

The OIG notified the responsible Divisions as to any concerns with draft and final documents relating to legislation, rules or investigations. Formal comments were not filed with the Commission.

### **Rule Reviews Initiated In Previous Reporting Periods**

There were no rule reviews initiated in previous reporting periods which were continued into this reporting period.

### **Rule Reviews Initiated This Reporting Period**

The OIG has reviewed the numerous rules required by the CFMA. The CFMA altered the relationship of the Commission to the futures industry in many regards and the rules sought to reflect this change.

### **Legislative Activities**

The Inspector General continues to be involved in legislative activities. The IG serves on the legislation committee for the Executive Council on Integrity and Efficiency, which comments on proposed amendments to the IG Act, and other legislation affecting the IG community. In addition, contact has been made with Congressional staff concerning various agency and IG issues.

## OTHER REVIEWS

### 1. Review of the CFTC Exchange Data Base System, EDBS.

The Exchange Data Base System, a system developed in the mid-1980s, processes and maintains information concerning trading activity on designated contract markets. EDBS daily receives trade data from various exchanges, and is used by both the Division of Market Oversight and the Division of Enforcement for trading analysis and surveillance. It is also used by other divisions to respond to Commission and Congressional requests.

We reviewed EDBS in conformance with standards promulgated by the National Institute of Standards and Technology. Specifically, we examined controls relating to: boundary protection (i.e., assuring that the information system monitors and controls communications at the external boundary of the system and at key internal boundaries within the system); security assessments; system security plan updates; contingency plans; and periodic maintenance. Our field work was completed in September 2007.

### 2. Peer Review.

During this reporting period, the National Endowment for the Humanities Office of Inspector General (NEH OIG) reviewed the OIG's system of quality control for its audit function. The NEH OIG concluded that

...the system of quality control for the audit function of CFTC OIG in effect for the year ended September 30, 2006, has been designed to meet the requirements of the quality control standards established by the Comptroller General of the United States for a Federal Government audit organization and was substantially complied with during the year ended to provide the OIG with reasonable assurance of conforming with applicable auditing standards, policies, and procedures.

The NEH OIG made four suggestions for improvement that "did not impact on our opinion." First, NEH OIG suggested that training documentation be centrally maintained within CFTC OIG and that all audit staff take care to attain 80 hours of continuing professional education (on a bi-yearly basis). All CFTC OIG staff did not complete this requirement due in part to budgetary constraints, and retirement. Second, the NEH OIG recommended that the CFTC OIG should document the applicability of and work performed relating to internal controls, relevant to each audit. Third, the NEH OIG recommended that CFTC OIG amend its internal policy on audit workpapers to identify that independent referencing is completed during supervisory review of audit workpapers. Fourth and finally, the NEH-OIG recommended enhancements to the process by which CFTC OIG utilizes OGC attorneys.

CFTC OIG implemented the first three recommendations immediately. The hiring of legal counsel in June 2007 essentially mooted the fourth recommendation.

## **AUDIT REPORTS OVER SIX MONTHS OLD**

### **CORRECTIVE ACTION NOT COMPLETED**

There were no instances of audit reports over six months old where corrective action had not been completed.

### **CORRECTIVE ACTION COMPLETED**

There were no instances of reports issued before the commencement of the reporting period for which corrective action had been completed by the end of the reporting period.

### **MANAGEMENT DECISION NOT MADE**

There is one instance of a report issued before the commencement of the reporting period for which a management decision had not been made by the end of the reporting period. The Chairman is continuing to examine the issue.

## **SUMMARY OF MATTERS REFERRED TO PROSECUTIVE AUTHORITIES**

No matters were referred to prosecutive authorities during the reporting period.

## **SUMMARY OF EACH REPORT MADE TO THE AGENCY HEAD**

No reports were made to the agency head under section 6(b)(2) concerning information or assistance unreasonably refused or not provided (mandated under section 5(a)(5) of the Act).

## **REVISED MANAGEMENT DECISIONS**

No management decisions were revised during the reporting period.

## INSPECTOR GENERAL DISAGREEMENT

The Inspector General does not disagree with any management decisions on OIG recommendations.

## CURRENT AUDITS

The audit agenda and priorities for the OIG are determined based on the following factors:

- Statutory and regulatory requirements;
- Adequacy of internal control systems as indicated by vulnerability assessments and internal control reviews recommended by OMB Circular A-123;
- Changes in the program conditions or particular vulnerability of the organization, program, activity, or function to problems or deficiencies;
- Current and potential dollar magnitude and likely benefits of a review on the efficiency or effectiveness of CFTC programs and operations;
- Management priorities and improvements that may be possible;
- Results of audits of CFTC programs and operations by other Federal agencies; and
- Availability of audit resources and the potential opportunity costs to the agency.

The audit agenda and summary of progress for each audit, which has not yet been completed, is summarized below. New agenda items periodically will be added, as appropriate, along with a description of the audit objective for each.

### **1. Audit of CFTC Financial Statements for Fiscal Year 2007.**

#### Objectives.

In FY 2002, Congress passed the Accountability of Tax Dollars Act. The Act requires the CFTC, along with numerous other Federal entities, to have its financial statements audited annually. To this end, the OIG has engaged a contractor to provide the audit effort required to enable the contractor to render an opinion on the agency's financial statements for Fiscal Year 2007 in accordance with generally accepted auditing standards, Government Auditing Standards, and OMB Bulletin 01-02.

The specific objectives of this audit are to determine whether:

(1) The financial statements present fairly the financial position of the Commodity Futures Trading Commission in accordance with generally accepted accounting principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB). The six financial statements, along with all corresponding notes to be audited include: (a) Balance Sheet; (b) Statement of Net Cost; (c) Statement of Changes in Net Position; (d) Statement of Budgetary Resources; (e) Statement of Financing; and (f) Statement of Custodial Activity.

(2) Management's assertions about the effectiveness of its internal controls for achieving internal control objectives described in AU Section 319 and the Federal Managers Financial Integrity Act (FMFIA) are fairly stated in all material respects. The contractor shall make this determination in part by obtaining an understanding of the internal control policies and procedures and assessing the level of control risk relevant to all significant cycles, classes of transactions, and account balances. For those significant control policies and procedures that have been properly designed and placed in operation, the contractor shall perform sufficient tests to provide reasonable assurance as to whether the controls are effective and working as designed.

The independent public accountant (IPA) will limit its internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 01-02. Further, the IPA is not required to test all internal controls relevant to operating objectives as broadly defined by the Federal Manager's Financial Integrity Act of 1982, such as those controls relevant to achieving efficient operations.

With respect to internal controls related to performance measures reported in the accountability report, the IPA will obtain an understanding of the design of significant internal controls relating to the existence and completeness assertions, as required by OMB Bulletin 01-02. The procedures are not required to provide assurance on internal controls over reported performance measures.

(3) The agency has complied with selected provisions of laws and regulations identified by OMB Bulletin 01-02 or the Inspector General, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. The IPA will limit its tests of compliance to these provisions and need not test compliance with all laws and regulations applicable to the CFTC.

(4) The information in the "Overview of the Reporting Entity" is consistent in content and presentation with the information in the principal statements and the related notes consistent with Statements on Auditing Standards (SAS) No. 8, *Other Information in Documents Containing Audited Financial Statements*.

Status.

An independent public accounting firm was first selected on January 15, 2004 to complete the CFTC Financial Statement Audits for up to five successive years. On March 19, 2007, the Fiscal Year 2007 audit began with a meeting with senior agency managers. Further meetings and reviews have taken place throughout this reporting period, while work on the audit is ongoing. The final audit report is to be delivered to the Office of the Inspector General on November 9, 2007.

**2. Updating of the Review of the Need for a Los Angeles Office.**

Objective.

The Review of the Need for a Los Angeles Office was completed over one year ago. Because of budgetary constraints, the Chairman was not in a position to act on the recommendations in the report. With the arrival of new Commissioners and anticipated appointment of a new chairman, and now that the budgetary situation may be easing, opportunity for a decision could be forthcoming. To facilitate this decision, the Office of the Inspector General decided to update the information it gathered for the initial report.

Status.

To update the information in the report, the Office of the Inspector General collected and analyzed staffing and workload data for the Division of Enforcement for eight months in 2006 and 2007.

The Office of the Inspector General also interviewed current and former CFTC Western Regional Office (WRO) staff members to determine if the opinions expressed on the availability of CFTC-related work during their tenures in the WRO and their opinions of the current availability of CFTC-related work in the area formerly serviced by WRO had changed. We found no change in status to indicate a reduced need for a revived WRO in Los Angeles.

**3. Review of Agency Use of Contractors.**

Objective.

Over the past five fiscal years the agency has increased its reliance on contractors to replace some CFTC employees and to extend the capabilities of others. The objectives of this review are to determine whether the agency has effectively employed contractors to complement its staff and to present the Chairman with a complete picture of the Commission's use of contractors.

Status.

The Office of Financial Management has supplied the OIG with extensive data on contracts employed by CFTC during FY 2002, 2005, 2006, and 2007. The Office of the

Inspector General reviewed and analyzed this data to determine whether the agency has received the services for which it contracted, and has selected two contracts for detailed review. In addition, the Office of the Inspector General has conducted numerous interviews during this reporting period to obtain background information on the contracts and staff opinions on the effectiveness of the contract process, as well as contractor performance. Interviews will be ongoing during the remainder of this year, and we anticipate issuance of our final report during the next reporting period.

## **GAO LIAISON**

The OIG is charged with providing policy direction for, and conducting, supervising, and coordinating audits and investigations relating to CFTC programs and operations. In addition, the OIG is required to recommend policies for, and conduct, supervise, and coordinate with other Federal agencies, state and local governmental agencies, and nongovernmental entities, audits, investigations, and evaluations regarding the economy, efficiency, and effectiveness of CFTC programs and operations.

GAO also conducts audits of CFTC activities, and OIG plans its audits so as not to duplicate GAO's efforts. Moreover, OIG in its audit activities identifies the goals of each audit and the methods of reaching the goals so as to minimize the requirements placed on CFTC resources. During this reporting period the CFTC-OIG collaborated with GAO on several reviews of agency activities.

## **STRATEGIC PLAN FOR THE OFFICE OF THE INSPECTOR GENERAL**

### **INTRODUCTION**

The Office of the Inspector General in the Commodity Futures Trading Commission was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create 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 investigations relating to the administration of CFTC programs and operations;

- Review existing and proposed legislation, regulations, and exchange rules 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; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Accordingly, the OIG has established three programs to carry out its responsibilities: audit, investigation, and legislative and regulatory review. A summary of those programs follows.

## AUDIT

The primary objectives of the OIG are to promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse.

The key to effectively and efficiently managing the CFTC is information. Top level managers and decision makers require a steady stream of organized data on the effects of their policy decisions and resource allocations on the operations of the Commission. Once having made the decision to change resource levels or policy, managers must receive accurate and timely reports of the operational effects of their decision so they can determine if the change is in the direction and of the magnitude predicted. In the absence of such information, top level managers cannot adequately perform their jobs.

A number of obstacles to acquiring and transmitting the desired information to decision makers may exist in some programs. Principal among them is the Commission's apparent difficulty in many instances in tracking the progress of a particular action across organizational lines within the Commission.

A simple example is the Reparations Program prior to the installation of an OIG recommended unified, Commission-wide tracking system. Complaints are received and processed and hearings are held in the Office of Proceedings; appeals of initial decisions in reparations cases are transmitted to the Office of the General Counsel where proposed Commission opinions are drafted; and appeals are decided by the Commission with the paperwork being handled by the Office of the Secretariat. Each office involved in the process had a separate tracking system without ties to the tracking systems in the offices preceding them or following them in the process. Each office treated the case as if it were brand new to the Commission when they received it. As a result, there was no provision for tracking information across organizational lines. If the Chairman wanted to know how much time was spent on the average reparations case of a particular description at each stage in the process, that information was unavailable without an extensive expenditure of manual labor.

A related problem is the difficulty the Commission has in associating resources devoted to an activity with the results of that activity. The Commission does a good job of tracking



resources expended. It can determine how much staff time and material at what cost was spent in a particular activity. Some Commission organizations can even associate costs with particular projects. What a program manager may have great difficulty doing, however, is telling a decision maker that, for a specific level or increase in resources, the program manager will deliver a specific level of increased output. Without this information from all programs competing for limited resources, decision makers cannot make reasoned resource allocation judgments. Decision makers are forced to rely on intuition and anecdotal evidence.

To increase the efficiency and the effectiveness of the management of CFTC programs and operations, the OIG has, and will continue, in addition to conducting mandatory audits, concentrate its audit resources on the identification of information voids and the lack of continuity in the flow of information across organizational lines from the beginning of a process until its conclusion. The OIG will recommend the implementation of any system improvements where the benefits of implementing the change exceed the costs.

In addition to our efforts to bring technology to bear on the information requirements of the Commission, the OIG has begun to focus on the CFTC's use of contractors. As budgetary issues have reduced the CFTC's ability to acquire new full time employees (FTEs), it has become more expedient in some situations to hire contractors to perform work formerly performed by agency staff. This trend toward using contractors, rather than FTEs, appears especially prevalent in the area of information technology (i.e., telecommunications and network-related services). The Office of the Inspector General believes that ongoing, independent review will be useful to assure that the use of contractors is cost-effective, that the use of contractors does not compromise information privacy and security, and that the use of contractors improves agency performance. As the Commission continues to update and expand its IT systems, the OIG will devote resources to monitoring agency performance in this area to insure these concerns are examined and addressed as appropriate.

## **INVESTIGATIONS**

The Inspector General Act of 1978, as amended, provides that the Inspector General may receive and investigate complaints or information from the Commission's employees concerning the possible existence of an activity constituting a violation of law, rules or regulations, or mismanagement, gross waste of funds, abuse of authority or a substantial and specific danger to the public health and safety.

The OIG has to date conducted only a reactive investigative program chiefly relying on unsolicited employee complaints as the source of investigative leads. This reactive program has resulted in only a handful of investigations per year. This strategy was followed because the OIG believed that an independent regulatory agency such as the CFTC, without grant money or substantial contracts to award, was not likely to generate a substantial investigative workload.

To insure that employee complaints could easily reach the OIG, a 24-hour hotline was established in February 1993 to receive complaints. The hotline's existence is publicized on the back cover of this semiannual report.

Because of the reactive nature of the OIG's investigative program, no investigative agenda has been established.

## **LEGISLATIVE AND REGULATORY REVIEW**

Because of the importance of this activity in an economic regulatory agency, the OIG reviews proposed and final CFTC regulations, legislation, and selected exchange rules using six basic criteria: Whether the agency: (1) has identified specifically the problem(s) to be addressed by the proposal; (2) has defined through case study or data analysis a clear link between the proposed solution and the identified problem(s); (3) has specified clearly the means to effectively and efficiently enforce the proposal; (4) has assessed the likely efficiency and effectiveness of alternative solutions; (5) can reasonably document that the proposal will yield positive net benefits over the long term; and (6) has met the requirements of the Regulatory Flexibility Act and the Paperwork Reduction Act.

The Regulatory Flexibility Act requires the agency to evaluate the impact of its regulations on small entities. The Paperwork Reduction Act requires the agency to manage effectively and efficiently its information collections so that they are the least burdensome necessary to achieve the stipulated objectives.

Because the OIG does not initiate legislation or, generally, regulations, the OIG legislative and regulatory review program is reactive to the legislative and regulatory proposals developed by others. Accordingly, no independent legislative and regulatory review agenda has been established.

## **AUDIT AGENDA**

### **ANNUAL AUDITS**

The following audits are performed on an annual basis.

#### **Audit of Compliance with the Federal Managers' Financial Integrity Act, FMFIA.**

In support of OMB Circular A-123 (Revised), the Inspector General will evaluate, provide technical assistance, and advise the agency head as to whether the agency's review and evaluation process was conducted in accordance with the circular's requirements.

#### **Evaluation of the CFTC Information Security Management Act, FISMA.**

The Federal Information Security Management Act requires the Inspector General or his designee to perform annual independent evaluations of the information security program and practices of the agency.

## **Audit of CFTC Financial Statements.**

In FY 2002, Congress passed the Accountability of Tax Dollars Act. The Act requires the CFTC, along with numerous other Federal entities, to have its financial statements audited annually. To this end, the OIG has engaged a contractor to provide the audit effort required to enable the contractor to render an opinion on the agency's financial statements for each fiscal year in accordance with generally accepted auditing standards, Government Auditing Standards, and OMB Bulletin 01-02.

## **OTHER AUDITS**

The OIG intends to focus the balance of its audit resources on insuring that the Chairman, the Commissioners, and program managers have timely, useful information on the progress of the CFTC's programs in meeting their goals and objectives. For example, emphasis will be placed on determining whether all managerial levels engaged in a process can track the progress of their various programs. The tracking systems required in many, though not all, programs will cross formal organizational lines.

These audits will entail a cataloging and description of all of the manual and automated systems used by a program to gather information on its use of resources, the results of the devotion of those resources (including definitions of measurements of accomplishment), and the reporting of results and associated costs to the upper level managers in the Division and to the Chairman and the Commissioners. The cataloging of these decision support systems will be followed by an assessment of whether all concerned officials are timely receiving the information they require to efficiently allocate resources to those uses which best accomplish the priorities of the Commission. If any elements are lacking in the information systems, they will be identified and improvements will be recommended if they can be implemented in a cost/beneficial manner.

If recommendations are successfully implemented, the proposed systems should allow the Chairman, the Commissioners, and concerned program managers to track the progress of a particular program across organizational lines and to quickly determine the effects, if any, of changes in policy, procedure, or staffing.

The first step in accomplishing this goal will be to concentrate on documenting, and recommending the improvement and/or development of tracking systems in every program element throughout the Commission.

In addition to our focus on facilitating the development of an efficient flow of information throughout the agency, the OIG intends to continue to monitor the agency's use of contractors, with emphasis on contracts for IT services, to assure that the use of contractors is cost effective, that the contracts are managed effectively to improve agency performance.

Finally, the OIG will devote resources to the review of the management and operation of the agency and compliance with Congressional mandates.

## **RESOURCES REQUIRED**

The OIG estimates that approximately one staff year of effort will be devoted over each of the next five years to the development of an efficient flow of information throughout the agency. One staff year will be devoted over each of the next five years to the review of the agency's use of contractors. One-half staff year of effort will be devoted over each of the next five years to the compliance audits described above. The "Annual Audits" are expected to consume approximately one-half staff year per year.

<p style="text-align: center;"><b>CONTACTING THE OFFICE OF THE INSPECTOR GENERAL</b></p>
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The OIG is located at 1155 21st Street, N.W., Washington, D.C. 20581. The telephone number is (202)418-5110. The facsimile number is (202)418-5522. The hotline number is (202)418-5510. Regular business hours are between 8:30 AM and 5:00 PM, Monday through Friday, except Federal holidays.

<b>Table 1</b>
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**Reports Issued with Questioned Costs  
(April 1, 2007 – September 30, 2007)**

	Number	Dollar Value Thousands	
		Questioned	Unsupported
A. For which no management decision has been made by the commencement of the reporting period	0	0	0
B. Which were issued during the reporting period	0	0	0
Subtotals (A + B)	0	0	0
C. For which a management decision was made during the reporting period	0	0	0
(I) dollar value of disallowed costs	0	0	0
(ii) dollar value of costs not disallowed	0	0	0
D. For which no management decision has been made by the end of the reporting period	0	0	0

<b>Table 2</b>
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**Reports Issued with Recommendations  
That Funds be Put to Better Use  
(April 1, 2007 – September 30, 2007)**

	Number	<u>Dollar Value</u> Thousands
A. For which no management decision has been made by the commencement of the reporting period	0	0
B. Which were issued during the reporting period	0	0
Subtotals (A + B)	0	0
C. For which a management decision was made during the reporting period	0	0
(i) dollar value of recommendations that were agreed to by management	0	0
(ii) dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision has been made by the end of the reporting period	0	0