

COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT  
OF THE

OFFICE OF THE  
INSPECTOR GENERAL



FOR THE PERIOD ENDING MARCH 31, 2008







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

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Office of the  
Inspector General

May 30, 2008

TO: Walter L. Lukken  
Acting Chairman

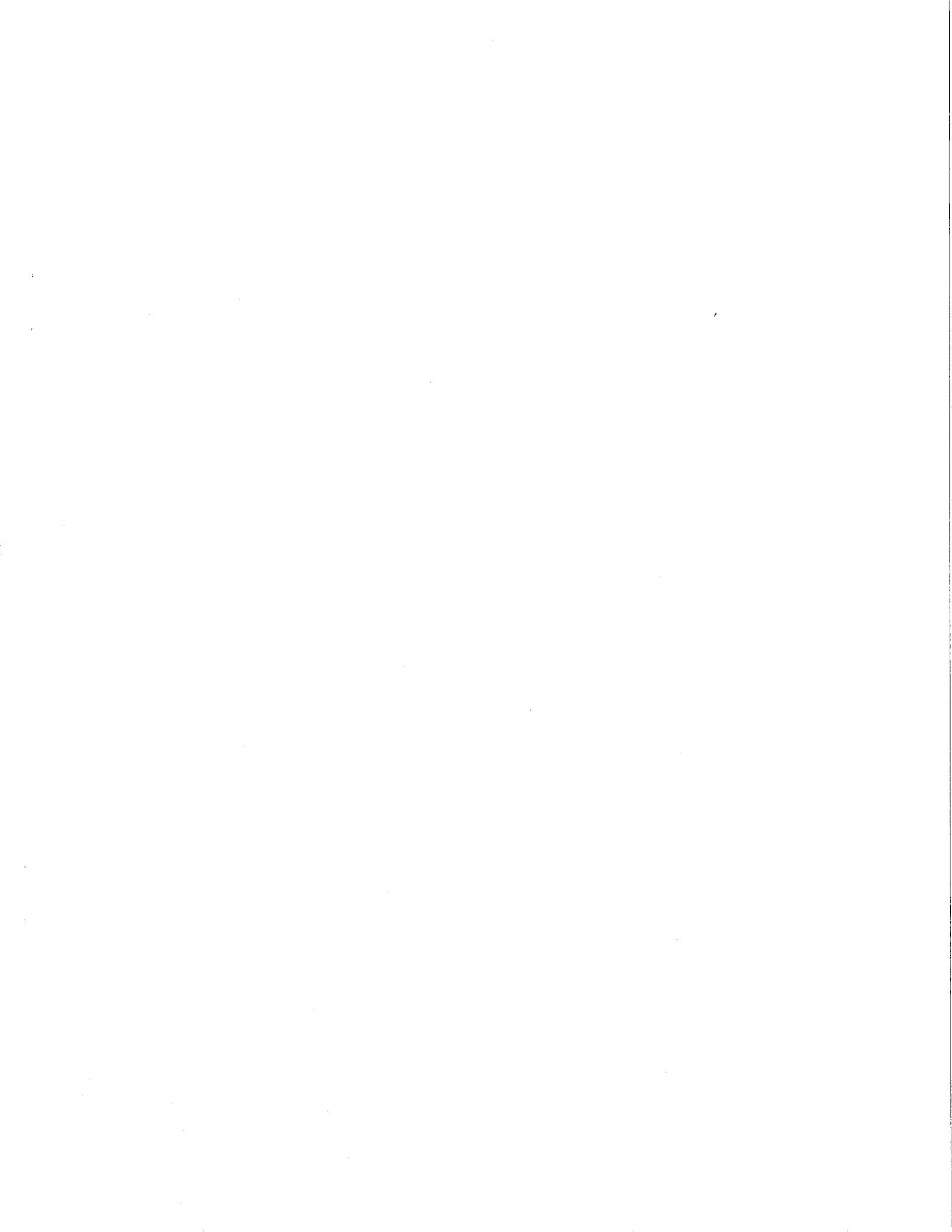
FROM: A. Roy Lavik *ARL*  
Inspector General

SUBJECT: Semiannual Report of the Office of the Inspector General

Attached is the Semiannual Report of the Office of the Inspector General for the period from October 1, 2007 through March 31, 2008. This report is submitted to you in accordance with the requirements of Section 5 of the Inspector General Act of 1978, as amended.

I appreciate your continuing support of this office.

Attachment



OFFICE OF THE INSPECTOR GENERAL  
 COMMODITY FUTURES TRADING COMMISSION  
 SEMIANNUAL REPORT  
 FOR THE PERIOD FROM  
 October 1, 2007 THROUGH March 31, 2008

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# SUMMARY OF OIG ACTIVITIES

## **AUDITS and REVIEWS**

The primary objectives of the Office of the Inspector General (OIG) of the Commodity Futures Trading Commission (Commission, Agency, 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. The OIG pursues these objectives through the completion of audits, reviews, and other projects. This reporting period's OIG audit and review activities, which are listed below, reflect these objectives. During this reporting period, the OIG audits resulted in recommendations, and a review reiterated one earlier recommendation.

### **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 10.)

Audit of CFTC Financial Statements for Fiscal Year 2008. 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 2008 in accordance with generally accepted auditing standards, Government Auditing Standards, and OMB Bulletin 01-02. (For additional details, see page 10.)

### **Current Reviews**

Review of Agency Use of Contractors. Over the past five fiscal years the Agency has increased its reliance on contractors to extend the capabilities of some CFTC employees and to replace others. The objectives of this review are to determine whether the Agency has effectively employed contractors to complement and replace its staff and to present the Chairman with a complete picture of the Commission's use of contractors. (For additional details, see page 12.)

### **Completed Audits**

The following audits have been completed during this reporting period. (For additional details, see the section on completed audits and reviews beginning on page 5.)

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 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 5.)

### **Completed Reviews**

The following reviews have been completed during this reporting period. (For additional details, see the section on completed audits and reviews beginning on page 5.)

Review of Agency Compliance with GPRA. The Government Performance and Results Act of 1993 (GPRA) requires federal agencies to develop strategic plans, prepare annual plans setting performance goals, and report annually on actual performance compared to goals. The first report was prepared in March 2000. The objective of this review is to determine how effectively the Commission is complying with GPRA's terms. This includes an examination of the performance measures devised by the Commission and the systems used for gathering the data to report on those performance measures.

The OIG reviewed the Commission's FY 2007 Annual Performance Plan before it was submitted to Congress. The Reports Consolidation Act of 2000 authorizes the CFTC to provide financial and performance information in a more meaningful and useful format for Congress, the President, and the public, through publication of the Performance and Accountability Report (PAR). Reports required under GPRA are also included in the PAR, and the Office of the Inspector General also reviewed the Commission's FY 2007 PAR report prior to submission to OMB and Congress. Based upon those reviews, the Office of the Inspector General submitted suggestions regarding the PAR, and determined that the Commission has complied with GPRA's terms. (For additional details, see page 6.)

Report of CFTC's Management Challenges. The Reports Consolidation Act requires the Inspector General to summarize the most serious management and performance challenges facing the CFTC and to assess the Agency's progress in addressing those challenges, all for inclusion in the PAR. During this reporting period, the OIG examined the work of the CFTC over the past year, as well as market developments and significant events impacting the futures industry, in order to determine the Agency's most serious management and performance challenges. The OIG identified two potential management challenges: The Modernization of Electronic Market Surveillance and Expansion of CFTC Oversight into New Markets (For additional details, see page 7.)

Update of the Review of the Need for a Los Angeles Office. The OIG report titled "Review of the Need for a Los Angeles Office" was completed in 2006. Because of budgetary constraints, the Chairman was not in a position to act on the recommendations in the report. In December, Congress increased the CFTC's budget for FY 2008. Also in December, the OIG received an inquiry from Congress regarding unresolved recommendations. In light of the budget situation and the Congressional inquiry, the OIG updated the 2006 report and expanded the scope of its original review. (For additional details, see page 7.)





## **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 and others 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. During this period the OIG did review investigative leads submitted by individuals and organizations. (See the section on investigations beginning on page 8.)

## **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, serving on the legislative committee of the Inspector Generals. Congressional staffs were briefed about the various IG issues, and the Inspector General responded to Congressional inquiries. (See the section on legislative and regulatory reviews beginning on page 8.)

## **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 legislative and regulatory proposals and the monitoring of internal CFTC operations.

## **OIG RESOURCES**

The OIG consists of the Inspector General, two professional staff members, and a secretary. During the preceding reporting period one professional staff member retired and 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 professional staff member who began in June 2007 is an attorney, the OIG is not utilizing the 1989 Memorandum.

## **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 Commission is currently working with the Administration and the Congress on issues related to the reauthorization of the Commission.

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 and REVIEWS

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.

The following audit reports and reviews have been issued during the reporting period.

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

##### Objective.

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 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.



## Status.

An unqualified independent auditor's report was issued on November 15, 2007. The independent auditor's report found that the CFTC's financial statements as of September 30, 2007 are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. However, with respect to internal control over financial reporting, one significant deficiency was identified: Improvement is needed over recording accruals. However, the independent auditor did not consider the significant deficiency above to be a material weakness. Management concurred with this finding and agreed with the recommendations.

The IG Act and the Federal Financial Management Improvement Act of 1996 (FFMIA) require the Inspectors General of certain agencies to report "instances and reasons" when the Agency has not met intermediate target dates established in a remediation plan to bring the agency's financial management system into substantial compliance with the Act. CFTC is not subject to the requirements of the FFMIA; however, it voluntarily seeks to comply with its requirements. During this reporting period, there were no events giving rise to a duty to report under FFMIA.

## **2. Review of Agency Compliance with GPRA**

### Objective.

The GPRA requires federal agencies to develop strategic plans, prepare annual plans setting performance goals, and report annually on actual performance compared to goals. The Reports Consolidation Act of 2000 authorized agencies to provide financial and performance information in a more meaningful and useful format for Congress, the President, and the public, through publication of the PAR. Beginning in FY 2004, in response to an OMB directive, the Agency began submitting an annual PAR. The PAR includes reports required under the GPRA.

The objective of this review is to determine how effectively the Commission is complying with GPRA's terms. This includes an examination of the performance measures devised by the Commission and the systems used for gathering the data to report on those performance measures.

### Status.

The OIG has been involved with the review of Agency compliance with the GPRA from its inception. In response to Congressional interest, OIG consulted with and advised the Commission's operating divisions concerning GPRA requirements. The Office of the Inspector General reviewed the Commission's FY 2001 through FY 2007 Annual Performance Plans required under GPRA before each was submitted to Congress. The OIG will continue to review the Annual Performance Plan that is included in the annual budget estimate which is submitted to the Office of Management and Budget.



Prior to the adoption of the Reports Consolidation Act, from FY 1999 through FY 2003 Congress required the Agency to submit a report on the Agency's performance results by strategic goal. The OIG selectively reviewed these reports after they were submitted to Congress.

In FY 2004 the Agency began issuing a yearly PAR, and the OIG has reviewed the Commission's PAR reports each year prior to submission to Congress, and submitted suggestions. Based upon those reviews, the OIG has determined that the Commission has complied with GPRA's terms.

### **3. Report of CFTC's Management Challenges**

#### Objective.

In addition to authorizing the agencies to provide financial and performance information in a more meaningful and useful format for Congress, the Reports Consolidation Act of 2000 also required the Inspector General to summarize the most serious management and performance challenges facing the CFTC and to assess the Agency's progress in addressing those challenges for inclusion in the PAR.

#### Status.

The OIG prepared the required summary of the Agency's most serious management and performance challenges in accordance with the Reports Consolidation Act of 2000 for inclusion in the FY 2007 PAR. The OIG concluded that the Agency had adequately addressed the most serious management and performance challenges identified by the Inspector General in FY 2006. Using information gathered during review of the draft FY 2007 PAR, as well as market developments and significant events impacting the futures industry over the past fiscal year, the Inspector General prepared its annual Assessment of the most serious management challenges facing the CFTC. In November 2007 the OIG submitted the report to the Agency for inclusion in the PAR, and the Agency transmitted the PAR to OMB and Congress. The OIG identified two potential management challenges: The Modernization of Electronic Market Surveillance and Expansion of CFTC Oversight into New Markets

For FY 2008, the OIG will review the CFTC's FY 2008 PAR and prepare its annual assessment of the most serious management challenges facing the CFTC.

### **4. Update of the Review of the Need for a Los Angeles Office.**

#### Objective.

Our report titled "Review of the Need for a Los Angeles Office" was completed in 2006. Because of budgetary constraints, the Chairman was not in a position to act on the recommendations in the report. In December, Congress increased the CFTC's budget for FY 2008. Also in December, the OIG received an inquiry from Congress regarding unresolved recommendations. In light of the budget situation and the Congressional inquiry, the OIG





updated the 2006 report and expanded the scope of its original review. Our objective was to obtain information regarding registration and compliance trends in the Western States, as well as information regarding opportunities for cooperative enforcement in the Los Angeles Area and the views of former CFTC employees.

#### Status.

The Office of Inspector General issued this report on March 12, 2008. The report reiterated the recommendation in the 2006 Report to reopen the Los Angeles Office, and was bolstered by information obtained through expanded inquiry.

### 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 no investigations were opened during the period, although several leads were received and none warranted formal investigation at this time.

### 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 has 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 and contact has been made with congressional staff on various IG issues. In addition, the Inspector General has responded to Congressional inquiries.

## **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.



## **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 – including reviews and progress summaries for each audit and review, 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 2008

### 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 2008 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 FMFIA, 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 Fiscal Year 2004 CFTC Financial Statement Audit. Their audit report was delivered on November 18, 2004. The same firm under an option year of the contract rendered an opinion on November 14, 2005 on the Agency's financial statements for Fiscal Year 2005, on November 15, 2006 performed the same tasks on the Fiscal Year 2006 financial statements, and on November 15, 2007 issued its independent audit report for Fiscal Year 2007.

On March 10, 2008, the Fiscal Year 2008 audit began with a meeting with senior Agency managers. The final audit report is to be delivered to the Office of the Inspector General on November 9, 2008.

**2. Review of Agency Use of Contractors.**

Objective.

Over the past five fiscal years the Agency has increased its reliance on contractors to extend the capabilities of some CFTC employees and to replace others. The objectives of this review are to determine whether the Agency has effectively employed contractors to complement its staff and replace others 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 to 2007. The OIG has reviewed and analyzed this data and attempted to determine whether the Agency has effectively employed contractors to complement and replace its staff. The OIG has sought to develop a complete picture of the Commission's use of contractors. During this reporting period, the OIG completed interviews, obtained further data on Agency contract employees, and began the process of formulating conclusions and recommendations and drafting the report.

<b>GAO LIAISON</b>
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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.

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

### **INTRODUCTION**

The CFTC OIG 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 and REVIEW**

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.

During the next reporting period, in addition to the mandatory audits, OIG will complete its review of the Agency's use of contractors. This review is motivated by and should respond to concerns expressed by some Agency employees regarding the growth of contractor employee use by the Agency, including concerns that Agency employees could perform the same tasks at less



cost. Our review will address these concerns and provide the Commission with an overview of the evolution of the use of contractors by the Agency.

In addition, the OIG will work on the development of new audits that are timely and useful to Agency administrative operations. Looking to the longer term, 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 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 would like to, 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 been following the Commission's development of measures and systems of measurement in response to the GPRA. As the Commission implements GPRA, the OIG will devote resources to monitoring Agency performance to insure that the data is accurately gathered and that the measures reported are the best available for demonstrating program performance.

## **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**

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 Program and Practices, FISMA**

The Federal Information Security Management Act (FISMA) 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 the design and implementation of audits that are timely and useful to Agency administrative operations. Looking to the longer term, the OIG intends to develop and implement audits designed to ensure 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 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 performance and compliance audits and reviews of the Agency's operations. 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 Three Lafayette Centre 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.



**Table 1**

**Reports Issued with Questioned Costs  
(October 1, 2007 – March 31, 2008)**

		Dollar Value Thousands		
	Number	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



**Table 2**

**Reports Issued with Recommendations  
That Funds be Put to Better Use  
(October 1, 2007 – March 31, 2008)**

	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











The Inspector General  
needs your help to  
assure the integrity of  
CFTC's programs.

Report **FRAUD, WASTE**  
or **ABUSE** to the  
**INSPECTOR GENERAL**  
**HOTLINE**  
**(202)418-5510**

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