

2017

Lean Labor: A Case Study --WHITEPAPER--

The Office of the Inspector General explored whether Lean Labor principles would be useful for the Commodity Futures Trading Commission.

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



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**U.S. COMMODITY FUTURES TRADING COMMISSION
OFFICE OF INSPECTOR GENERAL**

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TO: J. Christopher Giancarlo, Acting Chairman
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FROM: Miguel A. Castillo, *CPA, CRMA*
Assistant Inspector General for Auditing

DATE: September 22, 2017

SUBJECT: Lean Labor: A Case Study

What is Lean Labor?

“Lean labor” (Lean) is a workforce evaluation methodology that seeks to improve productivity through continuous examination of the workforce. Lean is built upon three pillars: purpose, process, and people. In order to maximize the value of human capital assets, Lean seeks out inefficiencies such as overproduction, waiting, and unused employee potential. Originally and most clearly designed to assist manufacturing industry,¹ Lean has been applied in other commercial settings,² including law firms,³ as well as the public sector.⁴ From a Lean Labor perspective, identifying repetitive processes, even in a complex regulatory setting, may increase efficiencies if it leads to the creation of useful work standardization or the establishment of time and performance standards. Implementing Lean may help the Commodity Futures Trading Commission (CFTC) to respond to President Trump’s executive order⁵ to improve the efficiency, effectiveness, and accountability of the executive branch and realize its desire to reform CFTC management to achieve operational excellence.⁶

¹ At least one commentator has recognized that Lean Labor’s “roots really go back to Frederick Winslow Taylor of Bethlehem Steel in the 1880s and 1890s.” The Folk Group, [Lean Manufacturing, 5S and Six Sigma](#) (2009). Frederick Winslow Taylor wrote: “Maximum prosperity for each employee means not only higher wages than are usually received by men of his class, but, of more importance still, it also means the development of each man to his state of maximum efficiency... .” Frederick Winslow Taylor, *The Principles of Scientific Management 1* (Harper & Brothers Publishers 1911).

² Kronos, [Extending Lean Labor to the Back Office: How Workforce Management Technology Applies Lean Principles to Improve the Productivity of Back-Office Processes](#) (2012).

³ Roy Strom, [In Lean Times, a Lean Approach to Legal Work](#), Chicago Lawyer (June 1, 2015).

⁴ See, Nina Bhatia and John Drew, [Applying Lean Production to the Public Sector](#), McKinsey & Company, June 2006; Patrick Mungovan, [Lean Performance Management for the Public Sector](#), Oracle, August 2009.

⁵ Executive Order 13781, [Comprehensive Plan for Reorganizing the Executive Branch](#), March 13, 2017.

⁶ Proposed 2018-2022 CFTC Strategic Plan- Strategic Goal V.

What Did the Inspector General Evaluate?

Initially, our objective was to assess the effectiveness of the current balance of labor and workload for the Division of Market Oversight (DMO) and the Division of Clearing and Risk (DCR), in order to identify possible redundancies. After our initial research, we decided to limit our scope to just DMO due the lack of similarities found in the DMO and DCR mission statements and tasks. We also narrowed our objective to evaluate purpose, process, and people for each DMO unit to evaluate whether efficiency principles such as Lean Labor can be useful at the CFTC.

DMO therefore is the first CFTC Division to be evaluated for Lean processes. We do not mean to give the impression that DMO might be at all remiss if they have not fully implemented a program they previously have not been required or asked to implement. We have not fully implemented a Lean culture within OIG.

What are the Responsibilities of DMO?

DMO oversees the derivatives markets to ensure that prices reflect the forces of supply and demand. DMO examines exchanges and data repositories to ensure compliance with applicable core principles. DMO evaluates new applications for designated contract markets (DCMs), swap execution facilities (SEFs), and swap data repositories (SDRs), and foreign boards of trade (FBOTs), and makes recommendations to the Commission to approve or deny applications. DMO also periodically examines existing designated DCMs, SEFs, and SDRs, to ensure compliance with applicable core principles, as well as CEA and Commission regulatory requirements. DMO evaluates new DCM and SEF products to ensure they are not susceptible to manipulation as well as proposed DCM and SEF rules to ensure compliance with applicable provisions of the Commodity Exchange Act (CEA) and Commission regulations. DMO is also responsible for all aspects of swap data reporting, including ensuring compliance with reporting requirements by registered entities and swap counterparties.

What Did We Observe?

We examined five DMO operating units: Data and Reporting, Product Review, Market Review, Compliance, and Chief Counsel. We observed that each DMO unit specified a purpose directly linked to the Commodity Exchange Act (CEA) and CFTC mission statement.⁷ We also observed that DMO units follow purpose as described by DMO management. See [Appendix A](#) for each unit’s purpose statements and our observations.

We believe DMO activities such as reviewing applications for and issuing no action letters, reviewing and summarizing comments received on proposed rules, preparing proposed rules for the Federal Register, as well as conducting rule enforcement reviews, and other broadly repetitive tasks (as identified by management) may benefit from Lean. Specifically with regard to repetitive tasks, and as depicted in Table 1, DMO may have an opportunity to enhance project management competencies within budgets through increased use of available common project management software, and through the adoption of standard operating procedures (tasks) and timelines for project completion (schedule and actual time).

DMO Unit	Project Management Software	Standard Operating Procedures	Standards for Time
Data and Reporting	✓	CSL	✗
Product Review	✓	FILAC	✗
Market Review	✓	FILAC	✗
Compliance	✓	CSL	✗
Chief Counsel	✓	CSL	✗

Table 1. DMO Process Opportunities by Unit (green check denotes existence; red “x” nonexistence).

All DMO units currently use project management software. Opportunities for greater use of project management software are discussed in [Appendix B](#).

We learned that only Compliance had written standard operating procedures. However, DMO routinely uses other documents that could be used to support a Lean culture, such as check lists for quality control, individual memos detailing project plans, and

⁷ On its official website, CFTC states: “The mission of the Commodity Futures Trading Commission (CFTC) is to foster open, transparent, competitive, and financially sound markets. By working to avoid systemic risk, the Commission aims to protect market users and their funds, consumers, and the public from fraud, manipulation, and abusive practices related to derivatives and other products that are subject to the Commodity Exchange Act (CEA)” <http://www.cftc.gov/About/MissionResponsibilities/index.htm>.

manually prepared status reports. DMO management otherwise conveys work processes to staff and management verbally. Written processes or standard operating procedures (in such detail as determined necessary by management), continuously updated and improved by staff and management, could enhance efficiency.

Currently none of the DMO units have written standards for time. Deadlines for certain tasks are set by statute or regulation, but for other tasks they are set internally. In any event, intermediate deadlines for project milestones (as detailed in standard operating procedures) may assist overall project management; deadlines required by statute or regulation may benefit from supplementation to assist compliance.

DMO management states they are already looking into ways to increase documentation of processes and increase use of project management software. Please see [Appendix B](#) for further details of process opportunities.

Finally, our analysis of unit staffing noted opportunities for lowering costs. Most notable were opportunities to reevaluate staffing mix as it relates to unit purpose. Specifically, we noted the absence of entry level career ladder⁸ staff, management analysts, paralegals, or other suitable professionals who may complete tasks currently performed by higher paid attorneys.⁹ See [Appendix C](#) for each unit's staffing profile and opportunities.

What Did We Conclude?

DMO currently does not follow Lean, but previously it has not been asked to. Certain current DMO practices (such as check lists) support Lean. We believe that by further implementing Lean, that is, methodically rooting out process and staffing inefficiencies while continuously improving processes and staff utilization, CFTC may increase productive time and/or reduce costs. Given the President's and Commission's efficiency desire, principles such as Lean Labor, introduced with discipline, may help CFTC do more at lesser cost over time.

⁸ Career ladder is defined as the grade levels that represent the normal line of progression or promotion for nonsupervisory positions in a given occupation, which every incumbent can expect to obtain, assuming that normal performance and qualification (experience & education) requirements are met. "Full performance level," "journeyman level", and "top of the career ladder" are terms which are used interchangeably to identify the highest grade in the career ladder. Source: <http://cftcnet/Career/Pay-and-Benefits/Pay-and-Benefits-Archive/Documents/ppgccareerladdersreport0210.pdf>.

⁹ <https://www.federalpay.org/employees/occupations>.

Suggestions

Consider the following changes for pursuing greater efficiency:

1. Establish leadership commitment to develop a Lean culture;
2. Seek Lean/project management early adopters, support with training, and share their experience;
3. Standardize project management and metadata requirements. Deployed tools such as SharePoint and/or MicroStrategy that can be used more robustly to monitor work;
4. Define useful standard operating procedures for work units;
5. Require the use of payroll project codes to capture actual work time for outputs, and review the results in order to establish performance expectations;
6. Reevaluate and restructure unit workforce staffing through attrition and/or retirement options to lower costs.¹⁰

Brief Summary of Management's Comments

The Executive Director responded on behalf of the Chairman and stated: “before we can ask the people's representatives for more of our citizen's hard-earned dollars, we must first know where we're spending every nickel and dime and how we might manage to save a few.” The Agency appears fully committed to improving efficiency as detailed in their response (See [Appendix E](#)) and abbreviated below:

Suggestion 1: CFTC will adopt recognized evidence-based methodologies including a corporate reform strategy based on mission, people, process, and budget integration.

¹⁰ DMO management pointed out that hiring, when permitted, is subject to numerous considerations, often imposed by budget constraints, and as a result DMO management cannot always make work force decisions that serve the long term goals of DMO. Specifically, DMO management stated anecdotally that they have been constrained to forgo entry level hires in favor of experienced hires on occasion. This issue is unfortunately beyond the scope of our work here; nevertheless, we feel it appropriate to urge CFTC management to seek to accommodate the needs of Division management to the greatest extent possible in connection with hiring and staffing issues.

Suggestion 2: CFTC will consider using the Lean Labor evaluation methodology where it fits into the Commission's commitment to establishing a performance and process improvement effort.

Suggestion 3: CFTC will continue to provide tools that can be used to monitor knowledge workers. It will consider expanding project management and training to enhance employee competencies.

Suggestion 4: CFTC stresses that many work projects are “unique and unstructured, requiring a high degree of extrapolation from what has been done in the past or requires an analysis of legislative intent.” Nevertheless, CFTC states it will continue to define useful standard operating procedures for work that lends itself to standard practices.

Suggestion 5: CFTC states: “A change to CFTC's business process to require all employees to use project codes to capture actual work time would require a transformational effort in people, process, and IT infrastructure. Any decision to proceed in this area would require a thoughtful cost/benefit analysis.”

Suggestion 6: While CFTC agrees and plans to conduct workforce planning efforts as part of reform, its focus will be on where the CFTC may need to restructure to meet mission changes. CFTC believes our report does not take into account their funding realities and current low attrition rate, stating:

During the hiring surge of 2015, many of the new employees were brought in below the highest grade on the career ladder. Two years later, these employees have progressed to the top of the career ladder. Since the surge ended, the CFTC has been unable to recruit for many positions outside of its own workforce. In fiscal year 2017, only four positions have been externally recruited outside of the transition hires the Chairman made. Additionally, our current attrition rate is at 6.5% and, combined with funding realities, does not afford CFTC the ability to hire new employees at any grade level.

We prepared this whitepaper in accordance with *Standards for Evaluations* issued by the Council of the Inspectors General on Integrity and Efficiency (CIGIE). [Appendix D](#) provides the objective, scope, and methodology for our whitepaper. If you have any questions, please contact me at (202) 418-5084 or Timothy Peoples, lead auditor, at (202) 418-5439.

Cc:

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Chief Counsel

Appendix A - Purpose

We evaluated five DMO units and affirmed their work activities tie to the Commodity Exchange Act (CEA) and/or the Commission regulations, but ultimately concluded their processes could benefit from Lean. We describe each DMO unit we evaluated below.

Data and Reporting Unit

The Data and Reporting unit oversees swap data repositories (SDRs) and the mandated data reporting requirements for swap dealers (SD), Major Swap Participants (MSPs) swap execution facilities (SEFs), derivatives clearing organizations (DCOs), and other market participants. This unit:

- Reviews pending SDR applications for registration;
- Provides compliance oversight of SDRs and all reporting counterparties, including recordkeeping and reporting requirements;
- Analyzes all submissions for compliance with CEA and regulatory requirements related to swap data repository registration and compliance and compliance with reporting requirements for all market participants;
- Drafts swap reporting and other rules and rule amendments (generally Parts 43, 45, and 49 of the Commission regulations);
- Determines appropriate minimum block trading sizes for swap contracts;
- Analyzes all reporting-related rule certifications and amendments for DCMs and SEFs for compliance with *CEA* and regulatory requirements;
- Analyzes all rule certifications and amendments for SDRs for compliance with the *CEA* and regulatory requirements;
- Issues no-action letters and interpretive guidance related to swap data reporting requirements;
- Recommends Commission rulemakings related to swap data reporting;
- Analyzes proposed legislation that impacts the unit's mission; and
- Evaluates and provides feedback for rulemakings and documents originating with other CFTC divisions and offices.

Product Review Unit

The Product Review unit has two sections: (1) the Market and Contract Analysis Section, and (2) the Market Research and Policy Review Section. The work of this unit generally relates to exchange listing of derivatives contracts such as:

- Reviews new contract offerings and amendments to existing contracts for regulatory compliance with CEA and regulatory requirements consistent with approach for the Data and Reporting Unit;
- Reviews exchange and Commission position limit levels;
- Determines appropriate minimum block trading sizes for swap contracts; and
- Assists economic analysis relating to proposed rulemakings and marketplace developments (related to product offerings).

Market Review Unit

This unit oversees the designation and registration processes for designated contract markets (DCMs), SEFs, and foreign board of trade (FBOTs). In addition to this primary responsibility, this branch:

- Analyzes all rule certifications and amendments for DCM and SEFs (new contracts and contract amendments are not included) for compliance with CEA and regulatory requirements;
- Issues no-action letters and interpretive guidance related to exchanges;
- Recommends and drafts Commission rulemakings related to exchanges;
- Analyzes proposed legislation that impacts the unit's mission;
- Evaluates and provides feedback for rulemakings and documents originating with other divisions and offices;
- Reviews FBOTs to ensure ongoing compliance with registration requirements and conditions; and,
- In conjunction with the Product Review unit, reviews the terms and conditions of FBOT contracts proposed to be made available to trade by direct access by U.S. persons.

Compliance Unit

The Compliance unit ensures that designated and registered entities maintain appropriate robust compliance and systems safeguard programs by conducting periodic enforcement reviews and examinations in support of DMO's market oversight function.

The essential responsibilities of this branch include:

- Conducting rule enforcement reviews (RERs) of self-regulatory programs at DCMs, SDRs and SEFs, which assess compliance with Core Principles and Commission regulations, and examine areas that include the audit trail, trade practice surveillance, market surveillance, and disciplinary and dispute resolution programs;
- Conducting system safeguard examinations, and reviewing automated systems and business continuity and disaster recovery programs to ensure they are secure and resilient, and have adequate functionality and capacity.
- Recommending and drafting Commission rulemakings;
- Evaluating and providing feedback for rulemakings and documents originating with other CFTC divisions and offices; and
- Serving as a key contributor to DCM designation and SEF Registration teams;

While the Division of Clearing and Risk (DCR) also perform examinations, we noted that the mission statements were distinct and were not overlapping. Specifically, the mission of the Compliance unit within DCR is to assess compliance with the core principles for derivatives clearing organizations (DCOs), implementing regulations, and the Commodity Exchange Act for DCOs.

Chief Counsel

The Office of the Chief Counsel advises DMO's director, senior management, and staff on legal and policy issues. In addition to this primary responsibility, this office also:

- Serves as the Division point of contact for providing recommendations and opinions on materials related to the CFTC Office of International Affairs. Chief Counsel provides subject-matter expertise on a number of items related to CFTC's international counterparts.
- Provides Division-level responses to Congressional inquiries.
- Issues no-action letters and interpretive guidance;
- Recommends and drafts Commission rulemakings;

- Analyzes and recommends proposed legislation which impacts the Division's mission;
- Provides particular legal support to DMO units which lack embedded attorneys, such as the Product Review Unit and the Market Surveillance Unit/Market Intelligence Branch; and
- Considers and advises regarding sign off on legal documents originating in other CFTC divisions.

Appendix B -Process

Project Management Tools

A common project management software platform could allow DMO to readily measure and monitor activity to methodically capture efficiencies (and identify inefficiencies). DMO used 2 in-house developed applications, Filings and Actions System (FILAC) and Commission and Staff Letters (CSL), primarily to manage its workflow. Microsoft SharePoint, while project management capable and deployed CFTC-wide, was used sparingly for collaboration and document storage purposes. Director and Commission status reports were prepared manually by administrative staff.

DMO already possesses the capability to centralize project status reporting. For example, it could fully use SharePoint’s “task” feature requiring specific metadata such as project description, start and completion dates, assignments, and status. The cost of this solution would be limited to training as the “task” feature is part of the current software license. DMO could also use MicroStrategy that is dashboard centric and can ingest a variety of database feeds for required metadata. The cost of this solution would also be limited to training as MicroStrategy has already been deployed. Either solution permits status updates and facilitates supervisory monitoring.

Standard Operating Procedures

Standard operating procedures (SOP) provide a baseline that can be used to measure quality. Standard procedures can provide step-by-step instructions to assist completion of routine operations, and potentially avoid inappropriate variations. As a benchmark, CFTC’s Division of Enforcement uses SharePoint to host its Standard Operating Procedures. As depicted in illustration 1, workflow is categorized by stages and description and well defined procedures follow-suit. The version and effective date for each procedure is clearly communicated.

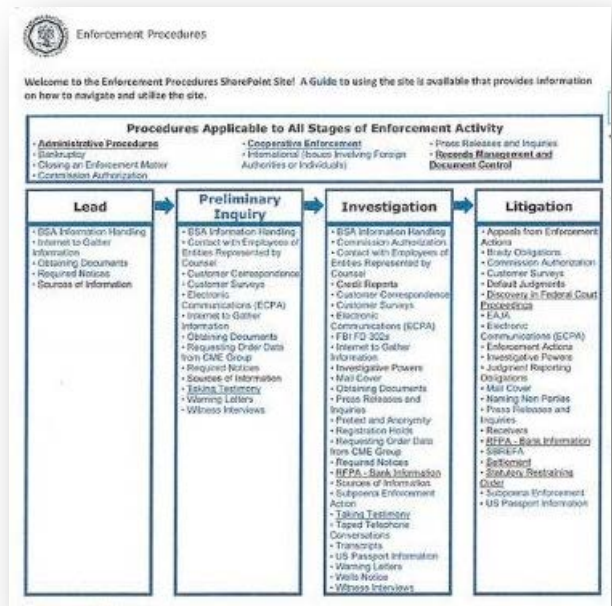


Illustration 1 – Enforcement Procedures

DMO’s procedures are not as detailed as those of the Division of Enforcement. DMO relies on informal checklists to manage workflow. While these checklists are admirable

for the purposes they do serve, with the exception of Compliance, these checklists do not describe workflow by stages that can facilitate the establishment of recommended intermediate deadlines and the communication of project status updates.

Standard Time for Work

Standard timeframes provide a baseline that can be used to measure project efficiency. When time is not continuously measured and monitored, organizations risk wasting labor. None of the DMO units followed established standard deadlines for projects that linked to their work flow or to a work breakdown structure.

As it relates to tracking actual time, our evaluation of payroll records from October 2015 to May 2017 show that descriptive project codes were not used about 90% of the time by DMO employees as with CFTC as a whole.¹¹ This occurs because the payroll policy¹² requires the use of project codes only for revenue generating activity. Otherwise, the tracking of project time is optional.

By way of example, we note that our 2015 audit of DMO's processes for rule enforcement reviews¹³ documented that the average time to complete a product was 591 days, ranging from 336 to 1,026 days. The Compliance unit did not document a standard completion cycle for rule enforcement reviews and the hours reported by employees were self-reported; therefore DMO management could not confirm the accuracy of the hours entered into the payroll system. The independent auditors recognized inadequate staffing but nevertheless recommended DMO take steps to reduce average time between rule enforcement reviews.

¹¹ WebTA captures project time in a project/matter data field. Payroll historical records including project codes used are recorded in the MAEDB BPAC field.

¹² <http://cftcnet/Operations/Financial-Management/BPAC/Time%20and%20Attendance%20FAQ.pdf>

¹³ [*Performance Audit of the Division of Market Oversight's Rule Enforcement Reviews*](#), August 5, 2015. This contracted audit was performed by an Independent Public Accounting firm with OIG oversight.

Appendix C - People

Staffing Profiles

As of April 2017, the DMO units we examined consisted of 59 employees in the following series:

Series	Position Title	Staff Count
0110	Economist	13
0301	Miscellaneous Administration and Program	2
0905	General Attorney	33
0950	Paralegal Specialist	1
1101	General Business and Industry	5
1801	General Inspection, Investigation, Enforcement, and Compliance	5
Total Count		59

Based on our analysis of staffing profiles that follow, we believe DMO units could lower compensation costs by introducing more entry level employees and/or Program and Management Analysts,¹⁴ Paralegal Specialists,¹⁵ or other suitable non-attorney professionals into the staffing mix. This can be accomplished through the Office of Personnel Management's workforce reshaping, restructuring, or phased retirement programs,¹⁶ as well as through attrition (hiring entry level staff upon the departure of higher graded staff).

¹⁴ GS-0343 - This series includes positions that primarily serve as analysts and advisors to management on the evaluation of the effectiveness of government programs and operations or the productivity and efficiency of the management of Federal agencies or both. The work requires skill in: application of fact finding and investigative techniques; oral and written communications; and development of reports.

¹⁵ GS-0950 - This series includes positions not requiring professional legal competence which involve various legal assistance duties, of a type not classifiable in some other series in the Legal and Kindred Group, in connection with functions such as hearings, appeals, litigation, or advisory services. The specialists analyze the legal impact of legislative developments and administrative and judicial decisions, opinions, determinations, and rulings on agency programs; conduct research for the preparation of legal opinions on matters of interest to the agency; perform substantive legal analysis of requests for information under the provisions of various acts; or other similar legal support functions which require discretion and independent judgment in the application of a specialized knowledge of laws, precedent decisions, regulations, agency policies and practices, and judicial or administrative proceedings.

¹⁶<https://www.opm.gov/policy-data-oversight/workforce-restructuring/reshaping/>
<https://www.opm.gov/policy-data-oversight/workforce-restructuring/>
<https://www.opm.gov/retirement-services/phased-retirement/d>

Data and Reporting Unit

Staffing records as of June 2017 showed the Data and Reporting unit had 8 employees. Annual salaries totaled of \$1,343,935 and averaged \$167,992. Staffing included one grade 16, six grade 14s, and one grade 13s. There were six series 0905 Attorneys, one series 1101 General Business and Industry, and one series 0301 Miscellaneous Administration and Program.

As presented in Figure 1, absent were career ladder staff below grade 13. Management and Program Analysts (GS-0343), which we believe complement the unit's purpose, were also absent from the staffing mix. Introducing entry level career ladder employees and Management and Program Analysts (or other suitable series) could lower compensation costs.

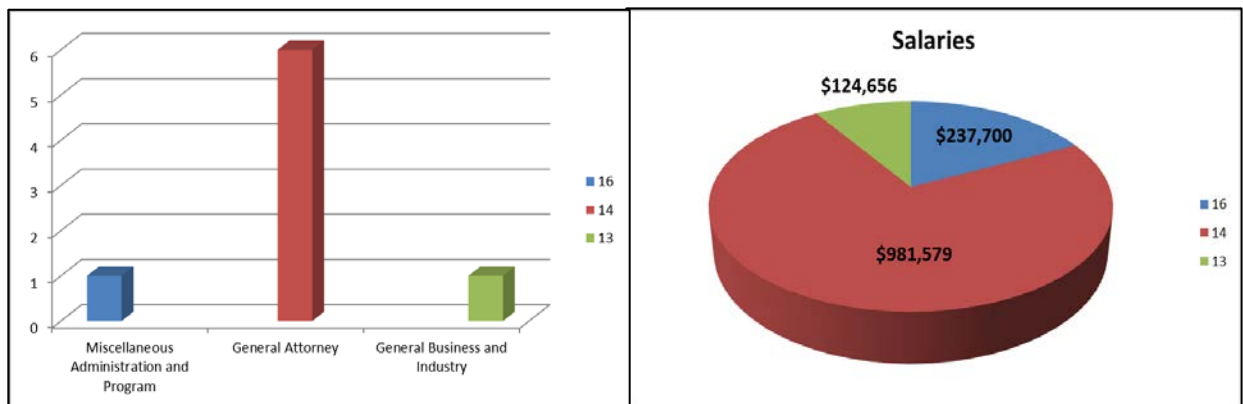


Figure 1

Product Review Unit

The Product Review unit was supported by 14 employees with total salaries of \$2,280,477 averaging \$162,891. The unit employs one leadership level position at grade 16, one grade 15 employee, nine grade 14 employees, and three 13s. With the exception of one series 0301 Miscellaneous Administration and Program, 13 were series 0110 Economists.

While economist series staff aligns with the unit's requirement for performing economic analysis, as presented in Figure 2, absent were career ladder staff below grade 13. Introducing entry level career ladder employees into the staffing mix could lower compensation cost.

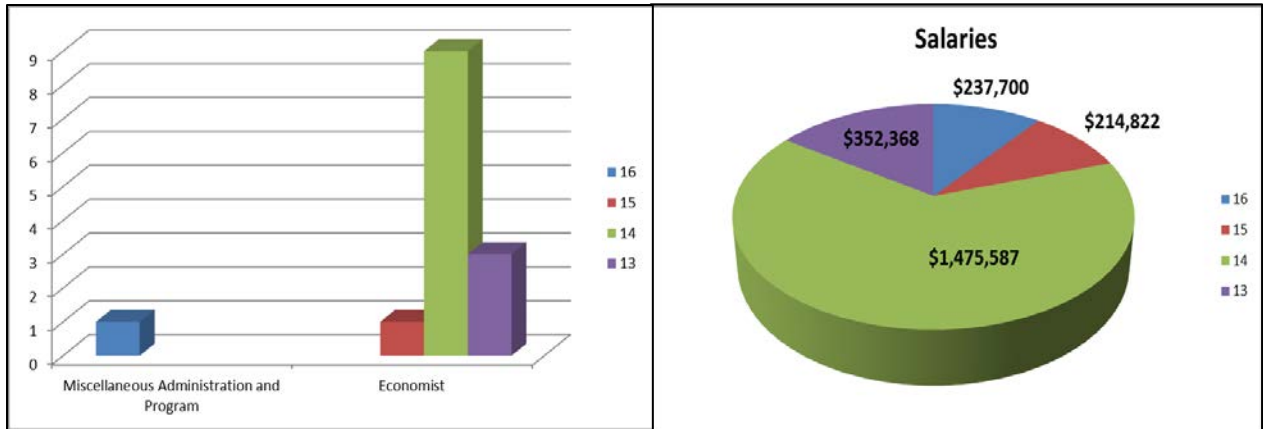
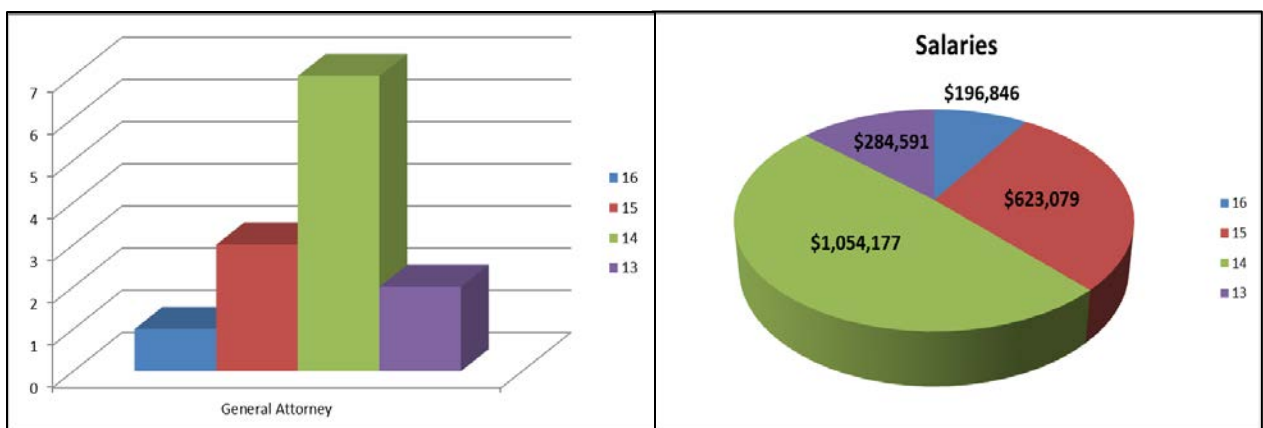


Figure 2

Market Review Unit

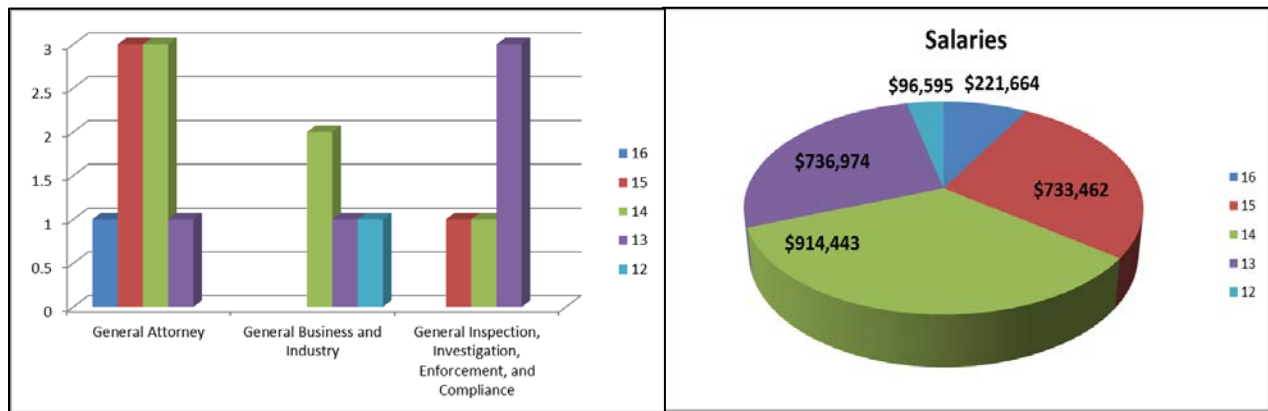
The Market Review unit had 13 employees with salaries totaling \$2,158,693 and averaging \$166,053. The staff was made up of one grade 16 employee, three grade 15s, seven grade 14s, and two grade 13s. All were series 0905 Attorneys.

As presented in Figure 3, absent was career ladder staff below grade 13. Management and Program Analysts (GS-0343) and/or Paralegal Specialists (GS-0950) (or other suitable non-attorney professional series), which we believe could complement the unit's purpose, were also absent from the staffing mix. Introducing entry level career ladder employees and/or Management and Program Analysts or Paralegal Specialists (or other suitable non-attorney professional series) into the staffing mix could lower compensation costs.



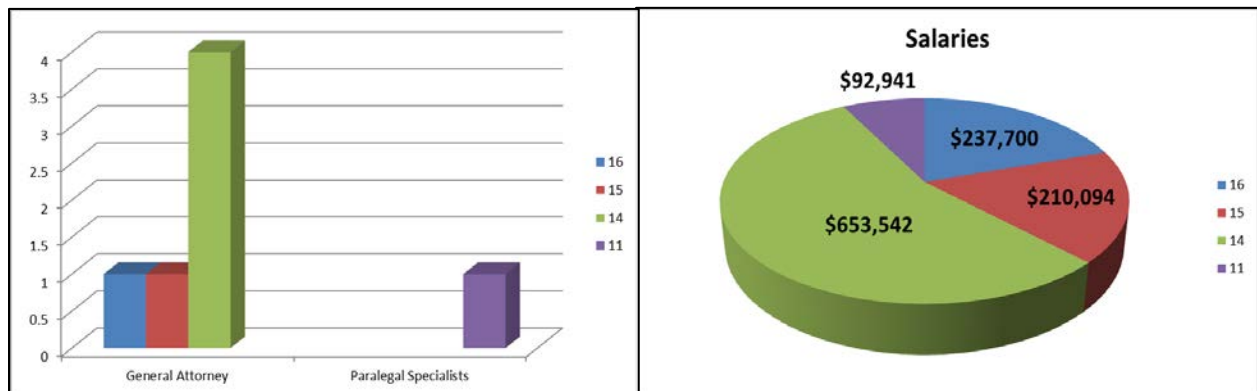
Compliance Unit

As presented in Figure 4, the Compliance unit had 17 staff with salaries totaling \$2,703,138 and averaging \$162,909. The staff was made up of one grade 16, four grade 15s, six grade 14s, five 13s, and one grade 12. There were eight series 0905 Attorneys; four series 1101 General Business and Industry; and five series 1801 General Inspection, Investigation, Enforcement, and Compliance. Collectively staff appears to match the competencies associated with the unit's purpose. We noted an absence of entry level career ladder staff.



Chief Counsel

As presented in Figure 5, the Chief Counsel employed 7 staff with salaries totaling \$1,194,227 and averaging \$170,611. The staff – six 0905 Attorneys and one 0950 Paralegal – included one grade 16, one grade 15, four 14s, and one grade 11 (the paralegal). Staff competencies match the responsibilities of the unit's purpose. Introducing additional Paralegal Specialists into the staffing mix could lower compensation costs.



Appendix D

Objective, Scope and Methodology

We prepared this whitepaper in accordance with the Council of the Inspectors General on Integrity [*Quality Standards for Inspection and Evaluation*](#). Those standards require that we plan and perform our work to obtain sufficient, appropriate evidence to provide a reasonable basis for our observations. We believe that the evidence obtained provides a reasonable basis for conclusions based on our objectives.

Initially, our objective was to assess the effectiveness of the current balance of labor and workload for DMO and the Division of Clearing and Risk, in order to identify redundancies. After our initial research, we decided to limit our scope to only DMO due the lack of similarities found in their mission statements and tasks. We also narrowed our objective to evaluate purpose, process, and people for each DMO unit to answer whether efficiency principles such as Lean Labor can be introduced into the CFTC.

To complete this whitepaper, we assessed DMO mission statements for each unit and conducted interviews with key unit personnel to gain an understanding of their process. To document our understanding of business operations, we utilized the lean principle of value stream mapping.

We used Management and Administrative Enterprise Database (MAEDB) data to build unit employee profiles. MAEDB is the database used by the Office of Data and Technology to maintain payroll histories as processed by the agency's service provider; the National Finance Center (NFC). To assess reliability to we traced data to personnel files and considered NFC's independent auditor's unqualified report.

During our period of evaluation, CFTC management reorganized the Business Management and Planning (BMP) unit and the Surveillance unit into another reporting structure. With respect to BMP, in March 2017, the impacted DMO employees were informed of the reorganization plan to report to the Office of the Executive Director. With respect to Surveillance, restructuring resulted in a new DMO unit "Market Intelligence" and the reassigning of some employees to the Division of Enforcement. Thus, we did not evaluate these units since their purpose and process are evolving.

Appendix E
Management Comments




Office of the
Executive Director

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MEMORANDUM

TO: A. Roy Lavik, Inspector General

FROM: Anthony C. Thompson 

DATE: September 18, 2017

SUBJECT: Management Response to the Draft OIG Whitepaper on Lean Labor: A Case Study

Thank you for the opportunity to respond to the recommendations in the OIG Lean Labor: A Case Study Whitepaper. I am responding on behalf of the Chairman. As the Chairman said to the Futures Industry Association conference this spring, he firmly believes that “before we can ask the people’s representatives for more of our citizen’s hard-earned dollars, we must first know where we’re spending every nickel and dime and how we might manage to save a few.” In that spirit, please find our responses below.

1. Establish leadership commitment to develop a Lean culture.

We are committed to a performance and process improvement culture. As the Chairman pledged to the House Appropriations Subcommittee earlier this year, he has “plans to review additional opportunities to streamline operations and further maximize the effective use of our resources. The Commission’s organizational structure must evolve to support the changing times. These types of organizational reviews are critical to ensure that resources and staff are used for the most important priorities in the CFTC’s mission to oversee the nation’s derivatives markets.” In doing so, we will adopt recognized, evidence-based methodologies to improve CFTC operational and business processes. Earlier this month, the Chairman began developing a framework for corporate reform. As the report suggests, offices often make decisions within the context of budget constraints. The Chairman’s corporate reform strategy will be based on four pillars: mission, people, process, and budget integration.

When looking at people and process, we need to recognize that much of the work of CFTC requires knowledge workers. The tools necessary to support the work of knowledge workers may be different from what is envisioned in a Lean culture. As

opposed to manufacturing workers who perform repetitive processes that allow for work standardization and time studies, knowledge workers perform non-routine problem solving that require tools and infrastructure that enable communication and information sharing. The Chairman is committed to securing the tools and infrastructure necessary to allow our knowledge workers to, among other things:

- Analyze data to establish relationships
- Assess data to evaluate complex or conflicting priorities
- Identify and understand trends
- Understand cause and effect
- Brainstorm, think broadly
- Drill down, create more focus
- Create or modify a strategy

The CFTC will consider using the lean labor evaluation methodology where it fits into the Commission's commitment to establishing a performance and process improvement effort and where we identify repetitive processes that are standardized. That being said, as any individual who has made a study of management knows, there is no single, right way to manage a workforce and there is no single, right way to improve productivity. Some public policy experts would argue that the overarching goal of government is not to work efficiently, but to implement good public policy that may take time and may be implemented incrementally. This Whitepaper does not discuss the methods used or explain how the Office of Inspector General decided that Lean Labor is the methodology that should be piloted. How many other methodologies were considered before making this recommendation and how is Lean Labor better able to meet the CFTC's needs than other methodologies? The Chairman is committed to looking for efficiencies and making effective use of the resources we have to accomplish our mission using a variety of tools currently available to us.

2. Seek Lean/project management early adopters, support with training, and share their experience.

As mentioned above, we will provide the tools and infrastructure necessary to support our knowledge workers, whose ability to think through issues and know when to deviate from the past or to identify emerging industry or market trends is the key to CFTC's success. We will also provide the tools and infrastructure necessary to support workers who have roles that are seemingly routine but that require deeper technology or subject-matter knowledge to fulfill the function. Where the Lean Labor workforce evaluation methodology would be most effective would be in transaction processing or routine tasks. There is little of this type of work performed by CFTC employees as most of the processing work and routine tasks have either been contracted out or handled through shared services provided by other federal agencies.

3. Standardize project management and metadata requirements. Deployed tools such as SharePoint and/or MicroStrategy that can be used more robustly to monitor work.

When the Chairman spoke to the Futures Industry Association this spring, he made a public commitment to draw on his executive experience “to utilize managerial skill and business experience to bring best operational practices from the private sector to the CFTC.” We recognize the need to adopt a consistent methodology for project management, to leverage existing information technology tools to improve processes, and to enhance productivity. Some Divisions and Offices have deployed SharePoint as a means to monitor work and also to collaborate on work. The Division of Market Oversight (DMO) is one such Division. They use SharePoint in every rulemaking to coordinate documents and to serve as a document repository, managing project files in subfolders. DMO also uses the Commission Staff Letters system to track incoming relief requests and outgoing responses. We will continue to provide tools that can be used to monitor knowledge work, which is less standardized and structured and which may not fit neatly into traditional project management tools. We will also consider expanding project management and training to enhance employee competencies in these areas.

4. Define useful standard operating procedures for work units.

CFTC will continue to define useful standard operating procedures for work that lends itself to standard practices. As mentioned above, CFTC’s work is not factory or manufacturing work and, as such, many of our projects are unique and unstructured, requiring a high degree of extrapolation from what has been done in the past or requires an analysis of legislative intent. As an example, the Division of Clearing and Risk (DCR) is responsible for regulatory oversight and actions concerning derivatives clearing organizations (DCOs), among other things. The 16 DCOs currently registered with the CFTC are themselves diverse: two have been designated as systemically important by the Financial Stability Oversight Council (FSOC), including one that clears only credit default swaps and the other that clears a wide variety of product classes (agricultural, metals, energies, interest rates, equities); six are located outside the United States and subject to the laws of their home countries; and one is a startup that clears options on bitcoin, a relatively recent innovation in financial technology. The approaches that each of these DCOs takes to meeting legal requirements, such as sound risk management, are necessarily tailored to the product classes cleared and involve the application of discretion and judgment by the DCO – and thus, require a similarly tailored and thoughtful approach by DCR staff in terms of oversight and regulation.

In addition to the Division and Office Directors defining useful and appropriate standard operating procedures, the CFTC encourages our employees to recommend policies and procedures that will support the accomplishment of CFTC’s work and mission. In

support of this effort, a CFTC [Policy](#) and [Procedure](#) on the Administrative Policy Program was implemented in late 2015 and is posted on the intranet.

5. Require the use of payroll project codes to capture actual work time for outputs, and review the results in order to establish performance expectations.

A change to CFTC's business process to require all employees use project codes to capture actual work time would require a transformational effort in people, process, and IT infrastructure. Any decision to proceed in this area would require a thoughtful cost/benefit analysis.

6. Reevaluate and restructure unit workforce staffing through attrition and/or retirement options to lower costs.

While we agree and plan to conduct workforce planning efforts as part of our Agency Reform efforts, our focus will be on where the CFTC may need to restructure to meet mission changes. Workforce planning is a systematic process for identifying and addressing any gaps between the workforce of today and the human capital needs of tomorrow. Agencies have to be very careful with efforts such as this so that it does not appear that the agency is targeting the higher graded and paid staff (who tend to be older) in favor of hiring lower graded and paid staff (who tend to be younger).

The Whitepaper does not take into account our funding realities and the low attrition rate currently experienced by the CFTC. During the hiring surge of 2015, many of the new employees were brought in below the highest grade on the career ladder. Two years later, these employees have progressed to the top of the career ladder. Since the surge ended, the CFTC has been unable to recruit for many positions outside of its own workforce. In fiscal year 2017, only four positions have been externally recruited outside of the transition hires the Chairman made. Additionally, our current attrition rate is at 6.5% and, combined with our funding realities, does not afford us much of an ability to hire new employees at any grade level.