

COMMODITY FUTURES TRADING COMMISSION

**SEMIANNUAL REPORT
OF THE**

**OFFICE OF THE
INSPECTOR GENERAL**



FOR THE PERIOD ENDING MARCH 31, 2003



U.S. COMMODITY FUTURES TRADING COMMISSION

Three Lafayette Centre
1155 21st Street, NW, Washington, DC 20581
Telephone: (202) 418-5110
Facsimile: (202) 418-5522
www.cftc.gov

Office of the
Inspector General

April 30, 2003

TO: James E. Newsome
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, 2002 through March 31, 2003. 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, 2002 THROUGH MARCH 31, 2003

TABLE OF CONTENTS

SUMMARY OF OIG ACTIVITIES [including a description of 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
AUDITS1
INVESTIGATIONS2
LEGISLATIVE AND REGULATORY REVIEWS2

OIG RESPONSIBILITIES3

OIG RESOURCES4

CFTC PROGRAMS AND OPERATIONS4

COMPLETED WORK4
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
INVESTIGATIONS5
LEGISLATIVE AND REGULATORY REVIEWS6

AUDIT REPORTS OVER SIX MONTHS OLD7

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)]7
CORRECTIVE ACTION COMPLETED7

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)].....7

SUMMARY OF MATTERS REFERRED TO PROSECUTIVE AUTHORITIES and the prosecutions and convictions which have resulted (Mandated by Section 5(a)(4) of the Act)7

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)7

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)].....7

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)]8

CURRENT AUDITS8

GAO LIAISON.....13

STRATEGIC PLAN14

CONTACTING THE OFFICE OF THE INSPECTOR GENERAL.....19

TABLE 1 -- REPORTS ISSUED WITH QUESTIONED COSTS (Mandated by Section 5(a)(8) of the Act).....20

TABLE 2 -- REPORTS ISSUED WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE (Mandated by Section 5(a)(9) of the Act).....21

INDEX OF IG ACT REPORTING REQUIREMENTS

Section 5(a)(1)	1
Section 5(a)(2)	1
Section 5(a)(3)	7
Section 5(a)(4)	7
Section 5(a)(5)	7
Section 5(a)(6)	4
Section 5(a)(7)	4
Section 5(a)(8)	20
Section 5(a)(9)	21
Section 5(a)(10)	7
Section 5(a)(11)	7
Section 5(a)(12)	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.

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 8.)

Review of Enforcement Information Requirements. The objectives of this review are to determine what the information needs of all levels in the Division of Enforcement are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner. (For additional details, see page 8.)

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 will include an examination of the performance measures devised by the Commission and the systems used for gathering the data to report on those performance measures. (For additional details, see page 10.)

Review of Employee Usage of Government Issued Purchase Cards. Government contractor issued credit cards are issued to employees for facilitating the efficient acquisition of small dollar amount items for the agency. The objective of this audit is to ascertain compliance with existing policies for the use of purchase cards by designated employees. An initial review of the agency's policy regarding purchase card usage was completed, an audit plan was formulated, and fieldwork was initiated. Issues for further review were identified. (For additional details, see page 11.)

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 objective of this audit is to acquire a contractor who will provide the audit effort required to enable the contractor to render an opinion on the agency's financial statements for fiscal year 2004 in accordance with generally accepted auditing standards, Government Auditing Standards, and OMB Bulletin 01-02. (For additional details, see page 11.)

Completed Audits

The following audit has been completed during this reporting period. (For additional details, see the section on completed audits beginning on page 4.)

Review of Employee Usage of Government Issued Travel Cards. This audit completed during this reporting period had two objectives. The first objective of this audit was to ascertain whether the use of travel cards by employees of the CFTC complied with established policies. The second objective was to document the delinquency rate, by month, to determine whether management had adopted a policy to address the delinquency rate associated with employees' use of the travel cards. The audit found that some employees' usage of their travel card failed to comply with existing policies. (For additional details, see page 5.)

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. The OIG opened no investigations during the reporting period and completed no investigations. No investigations remained open at the end of the period. (See the section on investigations beginning on page 5.)

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 heavily involved in legislative activities. Congressional staff were briefed about the various IG issues.

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. All positions have been filled since January 2, 2000. 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. An OGC staff member has been assigned to provide such services to the OIG on an as-needed basis.

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 (FY) 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.

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

1. Review of Employee Usage of Government Issued Travel Cards

Objectives.

Government authorized credit cards are issued to employees for use during authorized Government travel. The first objective of this audit was to ascertain whether the use of travel cards by employees of the CFTC complied with established policies. The second objective was to document the delinquency rate, by month, to determine whether management had adopted a policy to address the delinquency rate associated with employees' use of the travel cards.

Status.

In an audit report issued on March 24, 2003, the OIG reported that the audit found that some employees' usage of their travel cards failed to comply with existing policies. For example, the audit found that some employees engaged in unauthorized usage of their travel cards, some employees underutilized their issued travel cards during official travel, and a small number of employees engaged in unwarranted use of the cards. These and other administrative issues identified were presented to the Office of Financial Management, which has agreed to adopt a plan to resolve all issues identified during the course of this audit.

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. The OIG opened no investigations during the reporting period and completed no investigations. No investigations remained open at the end of 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 exchange rule proposals and changes.

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

RULE REVIEWS INITIATED IN PREVIOUS REPORTING PERIODS

1. Relevant Considerations for Default Judgements.

Summary of Action

A question has been raised about the appropriate circumstances for the entry of default judgements.

OIG Review

OIG concluded its review of the issue and made recommendations. Staff is currently reviewing the issue.

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. 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.

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 were no instances of reports issued before the commencement of the reporting period for which a management decision had not been made by the end of the reporting period.

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 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. **Review of Enforcement Information Requirements**

Objectives.

The mission of the Division of Enforcement is to investigate and prosecute fairly and effectively violations of the Commodity Exchange Act and the Commission's regulations in order to safeguard the integrity of U.S. futures and options markets and to protect market participants and futures and options customers. In the course of its activities, the Division, with headquarters and regional components, plans and follows an often complex course to achieve its objectives and receives and creates a huge volume of documents which must be logically stored

and regularly accessed. To support the accomplishment of these tasks, the Division is relying on a collection of very old manual and automated systems to track the progress of activities and to store and retrieve documents. The objectives of this review are to determine what the information needs of all levels in the Division are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner.

Status.

The joint OIG/Division of Enforcement team produced extensive and detailed narrative flow charts of the current operational and administrative functions and processes of the Division of Enforcement and delivered them to the Division of Enforcement and the Office of Information Resources Management (OIRM). These products were designed to inform the analysts in OIRM of the inner workings of the Division of Enforcement and to serve as the base on which the information requirements of the Division of Enforcement will be defined.

In September 1997, in a joint meeting of representatives of the Division of Enforcement, the OIG, and OIRM, the principals made commitments of six staff years of effort from OIRM and approximately three staff years of effort from the Division of Enforcement to define the system requirements of the Division.

The Division of Enforcement and OIRM agreed that the first priority was the development of a system to track documents in the Division of Enforcement in accordance with the Division's Enforcement Procedure Number 3. The second phase was devoted to installing a system to track production within the Division and to report that information in the required formats to management of the Division. Phase three will concentrate on moving the functions of the attorneys and investigators from paper to computer screen and using the resulting information to improve the tracking of productivity information and the sharing of information within the Division.

The final version of the first phase of what was being called "the Enforcement Modernization Project" was delivered to the Division of Enforcement in May 1998. This Enforcement Procedure Number 3 System is now being used at all locations of the Division. The second phase, a system which produces the monthly status reports from all parts of the Division and maintains on screen data on the current status of all matters within the Division, has been completed. Training in the use of this system was completed during March 1999.

Phase Three, designed to present the Division of Enforcement with a case management, litigation support, and document management system, to tie together the first two systems with this new system, and to automate as many of the remaining Enforcement Division processes as possible, began with a survey of appropriate off-the-shelf systems and an investigation of currently available software and hardware which may meet the bulk of identified needs. Difficulties in maintaining contractor resource levels led to delays in the pursuit of Phase 3. A team consisting of staff from the Division of Enforcement, OIRM, and contractor personnel was engaged in a review of available off-the-shelf case management, litigation support, and document management software from the beginning of Calendar Year 2000.

As a result of this review of available off-the-shelf software, the Division of Enforcement and OIRM developed a list of requirements. A Request for Proposals reflecting those requirements was issued on July 19, 2000. None of the responses received fully met the requirements specified in the Request for Proposals.

In FY 2001, the agency's Executive Management Council (EMC) formed an Integrated Project Team (IPT) to define the systems requirements of the Division of Enforcement, examine alternative methods for meeting the requirements and recommend a solution. The solution, defined by the IPT and known as the eLaw project, assumed the availability of \$3.7 million to fund the purchase and maintenance of all elements of the proposed solution over a number of fiscal years.

A total of \$1.15 million of FY 2001 money was set aside for the implementation of the eLaw project defined by the IPT. Congress added \$2.6 million to the eLaw project to insure the availability of Division of Enforcement records in the event of a repeat of the September 11, 2001 terrorist attack. With the full \$3.7 million now available for implementation, the agency expects to move forward expeditiously with the purchase of all of the elements of the eLaw system. A Statement of Work (SOW) for a Request for Quote (RFQ) has been prepared. The RFQ is expected to result in the award of a GSA Blanket Purchase Agreement to the winning bidder. This contractual agreement will allow the Commission to issue/award individual tasks for support as the project progresses. The first task will include the requirements analysis phase of the project. The RFQ is expected to be issued for comment by the third week in April 2003.

2. Review of Agency Compliance with GPRA

Objective.

The Government Performance and Results Act of 1993 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 will include 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.

In response to Congressional interest, the 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, FY 2002 and FY 2003 Annual Performance Plan before each was submitted to Congress. Subsequently, the OIG selectively reviewed the FY 1999, FY 2000 and FY 2001 Annual Performance Reports after they were submitted to Congress. The OIG concluded that the agency had made improvements in defining its goals and identifying measures for reaching its stated goals.

The CFMA, which was enacted in fiscal year 2001, fundamentally changed the regulatory structure for the commodity futures markets. The Commission adopted new rules and procedures consistent with the regulatory reforms presented in that Act. This wholesale change in approach challenged each operating division to redefine its service goals under GRPA. The agency implemented a reorganization that allows the Commission to more effectively respond to the new Act.

The OIG participated in a number of discussions on how to best reflect the agency's new regulatory paradigm in structuring future goals and measures under GPRA. In conjunction with other federal agencies' Inspectors General, the OIG is participating in the development of best practices for measuring compliance with the requirements of GPRA. The OIG is reviewing the goals and objectives prepared by senior managers for adherence to the requirements of GPRA. After this review, the OIG will verify and validate a subset of the data submitted in the GPRA report.

3. Review of Employee Usage of Government Issued Purchase Cards

Objective.

Government contractor issued credit cards are issued to employees for facilitating the efficient acquisition of small dollar amount items for the agency. The objective of this audit is to ascertain compliance with existing policies for the use of purchase cards by designated employees.

Status.

An initial review of the agency's existing policy regarding purchase card usage was completed, an audit plan was formulated, and initial fieldwork was completed. Issues for further investigation were identified.

4. Audit of CFTC Financial Statements

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 objective of this audit is to acquire a contractor who will provide the audit effort required to enable the contractor to render an opinion on the agency's financial statements for fiscal year 2004 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 No. 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 No. 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 No. 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 SAS No. 8, *Other Information in Documents Containing Audited Financial Statements*.

Status.

The OIG has attended briefings on the requirements of the Accountability of Tax Dollars Act and OMB Bulletin 01-02 and developed a strategy for complying with the requirement for fiscal year 2004. A Statement of Work is being developed to acquire an independent public accounting firm to conduct the audit of CFTC financial statements and provide an opinion as to whether the principal statements, required supplemental information (if any) and notes to the financial statements are fairly presented in all material respects in accordance with generally

accepted accounting principles, guidance set forth in OMB Bulletin 01-09, and any subsequent guidance issued by OMB on financial statement form and content.

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 audits activities identifies the goals of each audit and the methods of reaching the goals so as to minimize the requirements placed on CFTC resources.

STRATEGIC PLAN FOR THE OFFICE OF THE INSPECTOR GENERAL

INTRODUCTION

The Office of the Inspector General (OIG) in the Commodity Futures Trading Commission (CFTC) 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 judgements. 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 will, 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 Government Performance and Results Act (GPRA). As the Commission implements GPRA, the OIG will devote significant 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 in the agency-wide telephone book and in 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 five 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 audit is 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.

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 an organization 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 audit of compliance with the terms of agency contracts (such as, leases of space in New York, Chicago, and Washington, D.C.), the collection of funds (such as, compliance with the terms of the Debt Collection Improvement Act of 1996 and the resultant Memorandum of Understanding with

Treasury), and agency compliance with Congressional mandates (such as, the Government Performance and Results Act and the Government Information Security Reform Act).

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. Nine-tenths of a 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-tenth staff year per year.

**CONTACTING THE OFFICE OF THE
INSPECTOR GENERAL**

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.

Table 1

**Reports Issued with Questioned Costs
(October 1, 2002 – March 31, 2003)**

	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

Table 2**Reports Issued with Recommendations
That Funds be Put to Better Use
(October 1, 2002 – March 31, 2003)**

	<u>Number</u>	<u>Dollar Value Thousands</u>
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

Office of the Inspector General
Commodity Futures Trading Commission
1155 21ST Street, N.W.
Washington, D.C. 20581