

COMMODITY FUTURES TRADING COMMISSION

**SEMIANNUAL REPORT  
OF THE**

**OFFICE OF THE  
INSPECTOR GENERAL**



FOR THE PERIOD ENDING SEPTEMBER 30, 2000



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

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October 30, 2000

**OFFICE OF  
INSPECTOR GENERAL**

**TO: William J. Rainer  
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 April 1, 2000 through September 30, 2000. 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  
April 1, 2000 THROUGH September 30, 2000

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## 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 10.)

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 11.)

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 13.)

Review of CFTC's Civil Monetary Penalties Collection Program. The Debt Collection Act of 1982 and the Debt Collection Improvement Act of 1996 (DCIA) direct Federal agencies to collect debts owed to the United States. The objective of this review is to verify total outstanding debts owed to the Commission, examine the Commission's procedures for collecting outstanding debts, determine Commission's compliance with the DCIA and recommend improvements, if necessary, to the debt collection process. (For additional details, see page 13.)

## Completed Audits

Audit of CFTC's Lease of Space - Washington, D.C. The objective of this audit was to determine if the Commission is complying with the requirements of the lease of space for its office in Washington, D.C. The particular focus was on the appropriateness of all base rental and escalation payments made under the lease. The audit covered lease payments from the inception of the lease to July 31, 2000. (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 one investigation during the reporting period and completed one investigation. No investigations remained open at the end of the period. (See the section on investigations beginning on page 6.)

## LEGISLATIVE AND REGULATORY REVIEWS

The OIG reviews proposed and final CFTC regulations and 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. (For more detailed descriptions of these reviews, see the section on legislative and regulatory reviews beginning on page 6.)

Regulations reviewed during this period include:

- Proposed Consumer Advisory about Internet Websites' Promotion of Trading Systems;
- Relevant Considerations for Default Judgements; and
- Proposed New Regulations for the Futures Industry.

### **Legislative Activities**

The Inspector General has been heavily involved in legislative activities as a member of the IG's Legislation Committee. The 20<sup>th</sup> anniversary of the IG Act occasioned many Congressional bills such as ones enhancing independence. Congressional staff and, in some instances, members were briefed about the various proposals.

## **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 to detect and prevent fraud, waste, and abuse in such programs and operations;
- Conduct and supervise audits and, where necessary, investigations relating to the administration of CFTC programs and operations;
- Review existing and proposed legislation and regulations and make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; 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 General Counsel (OGC). This Memorandum details the procedures that will be 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**

The CFTC was established in 1974 as an independent agency to regulate commodity futures and options trading in the United States. The CFTC is headquartered in Washington, D.C., with additional offices in Chicago, New York, Kansas City, Los Angeles, and Minneapolis.

The basic objectives of the CFTC are to prevent manipulation of the markets, abusive trade practices, and fraudulent activities; to maintain effective oversight of the markets and self-regulatory organizations; and to enforce the Commodity Exchange Act and Commission rules without hindering the futures markets' provision of price discovery and risk shifting services. The CFTC regulates the futures activities of brokerage firms, salespersons, floor brokers, floor traders, commodity pool operators, commodity trading advisors, introducing brokers, and leverage transaction merchants. In addition, the agency ensures the effective enforcement of exchange rules, reviews the terms and conditions of proposed futures contracts and the registration of firms and individuals that provide advice or handle customer funds, and oversees the activities of the National Futures Association.

## 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 report was issued during the reporting period:

#### **1. Audit of CFTC's Lease of Space - Washington, D.C.**

##### Objective.

The objective of this audit was to determine if the Commission is complying with the requirements of the lease of space for its headquarters office in Washington, D.C. The particular focus was on the appropriateness of all base rental and escalation payments made under the lease. The audit covered lease payments from the inception of the lease to July 31, 2000.

##### Results.

On September 26, 2000, the OIG issued an audit report finding that the system of internal controls for the procedure for receiving invoices, approving, and paying lease invoices and documenting each stage of the process has been functioning properly since May 1999. However, we also concluded from the absence of some key records that more attention was needed to oversee the creation and retention of records.

As a result of this audit, the OIG recommended that the Office of Financial Management (OFM) consistently follow its established internal control procedures for receiving, approving, and paying lease invoices. We also recommended that OFM make a concerted effort to find the missing records identified in this audit or to reconstruct those records in cooperation with the landlord. OFM has informed the OIG that more attention will be given to the identified recordkeeping problems.

## 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.

There were no investigations pending as of the beginning of the reporting period. The OIG opened one investigation during the reporting period and closed one investigation. No investigations remained open at the end of the period.

On May 16, 2000, the OIG reported to the Chairman on a recently completed review of the legal advice given to a senior level employee on the requirements under the ethics rules for recusal from matters in which he had an interest, for divestiture of prohibited holdings, and of his compliance with that advice. Although the OIG found that the official immediately complied in good faith with the legal advice he received, his experience pointed to the absence of a comprehensive system to insure the proper execution of the CFTC Ethics program. The Office of General Counsel indicated that it was in the process of redefining the administration of the ethics program to insure that, in the future, employees are promptly and correctly informed of their ethical obligations, that records of advice given are created and maintained in a manner which permits secure storage and easy retrieval, and that responsibility for carrying out the program is fixed on identified individuals. The OIG concurred that such an effort is needed.

## 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 Division as to any concerns with draft and final documents for the legislation, rules or investigations listed below. Formal comments were not filed with the Commission. A summary of the principal legislation, regulations and investigations reviewed and the OIG review results follows.

## RULE REVIEWS INITIATED IN PREVIOUS REPORTING PERIODS

### **1. Petition for exemption from Dual Trading Ban of the Chicago Mercantile Exchange (CME).**

#### Summary of Action

The CME sought exemption for several of its contracts from the dual trading prohibitions.

#### OIG Review

The OIG asked various questions which staff responded to and clarified. Draft orders have been prepared by Trading and Markets staff.

### **2. Petition for exemption from Dual Trading Ban of the Chicago Board of Trade (CBT).**

#### Summary of Action

The CBT sought exemption for several of its contracts from the dual trading prohibitions.

#### OIG Review

The OIG queried staff about various issues to which staff responded. Draft orders have been prepared by Trading and Markets staff.

### **3. Proposed Rules Regarding Direct Foreign Order Transmittals by U.S. Persons (Proposed Rule 30.12).**

#### Summary of Action

Staff of the CFTC proposed a rule that would allow certain foreign futures and options brokers to receive directly foreign futures and options orders from sophisticated U.S. customers.

#### OIG Review

The OIG raised questions and offered suggestions. Staff provided clarifying answers and adopted several suggestions. Final rules were published in the Federal Register on August 2, 2000 (65FR47275).

#### **4. Proposed Amendments regarding Performance Data and Disclosure for Commodity Trading Advisers (CTA).**

##### **Summary of Action**

Staff proposed amendments that would require rate of return performance measures used by a CTA to be computed by dividing net performance by the nominal account size. Previously the CFTC had required that actual deposited funds be used in the denominator.

##### **OIG Review**

The OIG urged staff to consider using a focus group to determine the relative values of disclosure of the two methods. Trading and Markets staff is currently reviewing public comments.

#### **5. Proposed Amendment to CFTC Rule 1.41.**

##### **Summary of Action**

CFTC staff proposed an amendment to Rule 1.41 permitting contract markets to place new rules and rule amendments into effect on the business day following their receipt by the CFTC subject to certain conditions.

##### **OIG Review**

OIG supported the staff action and recommended approval to the Commission.

#### **RULE REVIEWS INITIATED THIS REPORTING PERIOD**

#### **1. Proposed Consumer Advisory about Internet Websites' Promotion of Trading Systems.**

##### **Summary of Action**

The Division of Enforcement recommended that the Commission issue a consumer advisory urging the public to use caution when evaluating performance claims made by promoters of trading systems and advisory services.

##### **OIG Review**

OIG reviewed the advisory and raised certain questions which were resolved.

## **2. 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 is currently conducting legal research to determine the criteria relevant to a default judgement.

## **3. Proposed New Regulations for the Futures Industry.**

### **Summary of Action**

CFTC staff has proposed new regulations that increase legal certainty for derivative transactions and provide alternative regulatory systems depending on the commodity traded and the nature of the participant.

### **OIG Review**

OIG has reviewed the proposals which represent progress over the existing system.

### **Legislative Activities**

The IG continues to be involved in legislative activities as a member of the IG's Legislative Committee. Attention has been given to various issues such as IG independence with several contacts with Congressional staff.

<b>AUDIT REPORTS OVER SIX MONTHS OLD</b>
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### **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/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 Enforcement to define the system requirements of Enforcement.

The Division of Enforcement and OIRM agreed that the first priority was the development of a system to track documents in the Division 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 is now 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. Refinements to the monthly status report system are expected to be completed before the end of the calendar year.

Phase Three, designed to present the Enforcement Division 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 has been engaged in a review of available off-the-shelf case management, litigation support, and document management software since 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. Responses were due by August 9, 2000. The Technical Evaluation Committee is currently in the process of reviewing the proposals.

## **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 the GPRA requirements. The OIG reviewed the Commission's FY 2001 Annual Performance Plan before its submission to Congress. In conjunction with other federal agencies' Inspectors General, the OIG is participating in the development of "best practices" for adhering to requirements of GPRA. Presently, the Commission is undergoing a thorough reexamination of its regulatory mission. The OIG is participating in the evaluation of comments received by interested parties as well as examining how best to modify the Commission's GPRA related goals and measures under the new regulatory paradigm.

## **3. Review of CFTC's Civil Monetary Penalties Collection Program**

### **Objective.**

The Debt Collection Act of 1982 and the Debt Collection Improvement Act of 1996 (DCIA) direct Federal agencies to collect debts owed to the United States. During Fiscal Year 1999, twenty-eight civil monetary penalties (totaling \$37,633,977) assessed by the Commission in administrative proceedings became due. Eight civil monetary penalties (totaling \$49,806,186) assessed by court orders in injunctive proceedings also became due.

The U.S. Department of the Treasury requires a quarterly report which includes information about penalties assessed by the Commission and federal courts as well as other non-penalty debt owed to the Commission. The objectives of this review are to verify the accuracy of the accounting for civil monetary penalties, examine the Commission's procedures for collecting outstanding debts, determine Commission's compliance with the DCIA, and recommend improvements, if necessary, to the debt collection process.

### **Status.**

The OIG has begun reviewing the Civil Monetary Penalties Collection program and developing its audit program. Program documents have been gathered and initial interviews of

knowledgeable personnel have been conducted. This audit is expected to be completed before the close of the next reporting period.

## GAO LIAISON

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

GAO also conducts audits of CFTC activities, and OIG plans its audits so as not to duplicate GAO's efforts. Moreover, OIG in its 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 to 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 and regulations and to 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 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 the conduct of 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.

## **INVESTIGATION**

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 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 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 and 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 Chairperson, the Commissioners, and program managers have timely, useful information on the progress of 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. 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 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.

## **RESOURCES REQUIRED**

The OIG estimates that approximately one and nine-tenths staff years of effort will be devoted over each of the next five years to the audits described in "Other Audits" 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 21<sup>st</sup> Street, N.W., Washington, D.C. 20581. The telephone number is (202)418-5110. The facsimile number is (202)418-5522. The hotline number is (202)418-5510. Regular business hours are between 8:30 AM and 5:00 PM, Monday through Friday, except Federal holidays.

<b>Table 1</b>
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**Reports Issued with Questioned Costs  
(April 1, 2000 - September 30, 2000)**

	<u>Number</u>	<u>Dollar Value (Thousands)</u>	
		<u>Questioned</u>	<u>Unsupported</u>
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
<u>Subtotals (A + B)</u>	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	
( ii ) dollar value of costs not disallowed	0	0	
D. For which no management decision has been made by the end of the reporting period	0	0	0

<b>Table 2</b>
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**Reports Issued with Recommendations  
That Funds be Put to Better Use  
(April 1, 2000 - September 30, 2000)**

	<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**

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