COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT OF THE

OFFICE OF THE INSPECTOR GENERAL

FOR THE PERIOD ENDING SEPTEMBER 30, 2006

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Office of the
Inspector General

October 30, 2006

TO: Reuben Jeffery III
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, 2006 through September 30, 2006. 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, 2006 THROUGH September 30, 2006

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
AUDITS 1
INVESTIGATIONS 2
LEGISLATIVE AND REGULATORY REVIEWS 2

OIG RESPONSIBILITIES 3

OIG RESOURCES 3

CFTC PROGRAMS AND OPERATIONS 4

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

AUDIT REPORTS OVER SIX MONTHS OLD 8

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

MANAGEMENT DECISION NOT MADE [including a summary of each audit report issued before the commencement of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of the reasons such a management decision has not been made, and statement concerning the desired timetable for achieving a management decision on each such report (Mandated by Section 5(a)(10) of the Act)] 8

SUMMARY OF MATTERS REFERRED TO PROSECUTIVE AUTHORITIES and the prosecutions and convictions which have resulted (Mandated by Section 5(a)(4) of the Act) 8

SUMMARY OF EACH REPORT MADE TO THE AGENCY HEAD under Section 6(b)(2) concerning information or assistance unreasonably refused or not provided (Mandated by Section 5(a)(5) of the Act) 8

REVISED MANAGEMENT DECISIONS [including description and explanation of the reasons for any significant revised management decision made during the reporting period (Mandated by Section 5(a)(11) of the Act)] 8

INSPECTOR GENERAL DISAGREEMENT [including information concerning any significant management decision with which the Inspector General is in disagreement (Mandated by Section 5(a)(12) of the Act)] 8

CURRENT AUDITS 9

GAO LIAISON 12

STRATEGIC PLAN 13

CONTACTING THE OFFICE OF THE INSPECTOR GENERAL 18

TABLE 1 -- REPORTS ISSUED WITH QUESTIONED COSTS (Mandated by Section 5(a)(8) of the Act) 19

TABLE 2 -- REPORTS ISSUED WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE (Mandated by Section 5(a)(9) of the Act) 20

INDEX OF IG ACT REPORTING REQUIREMENTS

Section 5(a)(1) 1

Section 5(a)(2) 1

Section 5(a)(3) 8

Section 5(a)(4) 8

Section 5(a)(5) 8

Section 5(a)(6) 4

Section 5(a)(7) 4

Section 5(a)(8) 19

Section 5(a)(9) 20

Section 5(a)(10) 8

Section 5(a)(11) 8

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 9.)

Audit of CFTC Financial Statements for Fiscal Year 2006. In FY 2002, Congress passed the Accountability of Tax Dollars Act. The Act requires the CFTC, along with numerous other Federal entities, to have its financial statements audited annually. To this end, the OIG has engaged a contractor to provide the audit effort required to enable the contractor to render an opinion on the agency's financial statements for fiscal year 2006 in accordance with generally accepted auditing standards, Government Auditing Standards, and OMB Bulletin 01-02. (For additional details, see page 9.)

Review of Agency Compliance with GPRA. The Government Performance and Results Act of 1993 (GPRA) requires federal agencies to develop strategic plans, prepare annual plans setting performance goals, and report annually on actual performance compared to goals. The first report was prepared in March 2000. The objective of this review is to determine how effectively the Commission is complying with GPRA's terms. This includes an examination of the performance measures devised by the Commission and the systems used for gathering the data to report on those performance measures. (For additional details, see page 11.)

Completed Audits

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

Review of the Need for a Los Angeles Office. In the three years since the closing of the Western Regional Office of the Commodity Futures Trading Commission in Los Angeles, civil injunctive and administrative cases arising in the states formerly served by

the Western Regional Office have been handled by staff from CFTC's Washington, Chicago and Kansas City offices. The objective of this review was to determine whether similar cases which may arise in that area in the future could more efficiently and effectively be handled by a CFTC office in Los Angeles. (For additional details, see page 5.)

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

Evaluation of the CFTC Information Security Program and Practices, FISMA. The Federal Information Security Management Act (FISMA) requires the Inspector General or his designee to perform annual independent evaluations of the information security program and practices of the agency. (For additional details, see page 6.)

Assessing CFTC Efforts to Protect Sensitive Information. As part of a government-wide effort, the Inspector General assessed the CFTC's compliance with OMB Memorandum M-06-16, Protection of Sensitive Agency Information, relating to security controls for personally identifiable information. (For additional details, see page 6.)

INVESTIGATIONS

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

No investigations were pending as of the beginning of the reporting period, and the OIG opened no investigations during the period. (See the section on investigations beginning on page 7.)

LEGISLATIVE AND REGULATORY REVIEWS

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

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

Legislative Activities

The Inspector General continues to be involved in legislative activities. 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 the Need for a Los Angeles Office

Objective.

In the three years since the closing of the Western Regional Office (WRO) of the Commodity Futures Trading Commission in Los Angeles, civil injunctive and administrative cases arising in the states formerly served by the Western Regional Office have been handled by staff from CFTC's Washington, Chicago and Kansas City offices. The objective of this review was to determine whether similar cases which may arise in that area in the future could more efficiently and effectively be handled by a CFTC office in Los Angeles.

Status.

This review has disclosed that from FY 1993 through FY 2003, WRO, with approximately 12 percent of the Division of Enforcement Staff, filed 53 (13.15%) of the Division of Enforcement's 403 injunctive and administrative cases; that the variety of cases, as represented by the MASC assigned, was roughly comparable in WRO to that of the entire division; that the number of injunctive cases filed by the Division of Enforcement in California since the closing of WRO is comparable to the number filed prior to the closure; that the quality of staff in WRO was comparable to that found in the other CFTC regional offices; and that the principal problems faced by WRO were a lack of capable local Enforcement leadership and the centralization of the headquarters review process.

As a result of this review, the Office of the Inspector General recommended that the Commission consider reestablishing a Western Regional Office in Los Angeles and involve the Chairman and the Chief of Staff in the selection of the head of the office to insure that all prospective Regional Counsels have, in addition to litigation expertise, experience in and an aptitude for managing people and other resources.

2. Audit of Compliance with the Federal Managers' Financial Integrity Act

Objective.

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

Status.

For the fifth year, the Commission has been working on a new approach to satisfying the requirements of Circular A-123 (Revised). The OIG reviewed internal control materials produced by the Commission and provided comments. The OIG reported the results of its review of the submissions to the Chairman in its annual assurance letters. The OIG offered its services to the Commission as advisor and consultant on conducting and reporting on internal control reviews.

3. Evaluation of the CFTC Information Security Program and Practices, FISMA

Objective.

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

Status.

To provide a comprehensive review of the Commission's security program, the Office of Information and Technology Services (OITS) and OIG worked jointly in gathering and interpreting information relating to the CFTC information security program. Using the information supplied by OITS staff and the program managers, the Inspector General reviewed and analyzed the information and responded in tabular form to the questions raised by the OMB Guidance. Results of this effort were transmitted to the CFTC's Chief Information Officer (CIO) on September 13, 2006 for combination with the CIO's assessment and inclusion in the Chairman's report to OMB.

4. Assessing CFTC Efforts to Protect Sensitive Information

Objective.

As part of a government-wide effort, the Inspector General assessed the CFTC's compliance with OMB Memorandum M-06-16, Protection of Sensitive Agency Information, relating to security controls for personally identifiable information.

Status.

The Office of the Inspector administered a PCIE/ECIE developed data collection instrument designed to assess the agency's compliance with OMB Memorandum M-06-16, Protection of Sensitive Agency Information. A final report containing the results of the data collection process were transmitted to the PCIE/ECIE on September 13, 2006 for inclusion in the government wide data collection effort.

INVESTIGATIONS

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

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

LEGISLATIVE AND REGULATORY REVIEWS

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

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

RULE REVIEWS INITIATED IN PREVIOUS REPORTING PERIODS

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

RULE REVIEWS INITIATED THIS REPORTING PERIOD

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

Legislative Activities

The Inspector General continues to be involved in legislative activities and contact has been made with congressional staff on various IG issues.

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 a report issued before the commencement of the reporting period for which a management decision had not been made by the end of the reporting period.

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. Audit of CFTC Financial Statements for Fiscal Year 2006

Objectives.

In FY 2002, Congress passed the Accountability of Tax Dollars Act. The Act requires the CFTC, along with numerous other Federal entities, to have its financial statements audited annually. To this end, the OIG has engaged a contractor to provide the audit effort required to enable the contractor to render an opinion on the agency's financial statements for Fiscal Year 2006 in accordance with generally accepted auditing standards, Government Auditing Standards, and OMB Bulletin 01-02.

The specific objectives of this audit are to determine whether:

(1) The financial statements present fairly the financial position of the Commodity Futures Trading Commission in accordance with generally accepted accounting principles (GAAP) as promulgated by the Federal Accounting Standards Advisory Board (FASAB). The six financial statements, along with all corresponding notes to be audited

include: (a) Balance Sheet; (b) Statement of Net Cost; (c) Statement of Changes in Net Position; (d) Statement of Budgetary Resources; (e) Statement of Financing; and (f) Statement of Custodial Activity.

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

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

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

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

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

Status.

An independent public accounting firm was first selected on January 15, 2004 to complete the Fiscal Year 2004 CFTC Financial Statement Audit. Their audit report was delivered on November 18, 2004. The same firm under an option year of the contract rendered an opinion on November 14, 2005 on the agency's financial statements for Fiscal Year 2005.

On February 1, 2006, the Fiscal Year 2006 audit plan was delivered to the Office of the Inspector General. The audit plan was reviewed, modified, and accepted on February 17, 2006.

On March 6, 2006, the Fiscal Year 2006 audit began with a meeting with senior agency managers. The final audit report is to be delivered to the Office of the Inspector General on November 10, 2006.

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 includes an examination of the performance measures devised by the Commission and the systems used for gathering the data to report on those performance measures.

Status.

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 through FY 2005 Annual Performance Plans before each was submitted to Congress. The OIG will continue to review the Annual Performance Plan that is included in the annual budget estimate which is submitted to the Office of Management and Budget.

From FY 1999 through FY 2003, Congress each year required the agency to submit a report on the agency's performance results by strategic goal. The OIG selectively reviewed these reports after they were submitted to Congress.

Beginning in FY 2004, in response to an OMB directive, the agency submitted a report combining the information contained in the annual performance reports with the agency's audited financial statements. This combined report is entitled the Performance and Accountability Report (PAR). The OIG reviewed the Peformance and Accountability Report prior to its being submitted to the Office of Management and Budget and the Congress.

For FY 2005, the OIG concluded that the agency had made improvements in defining its goals and identifying measures for reaching its stated goals. Using information gathered during the review of these documents, the Inspector General prepared and submitted in November 2005 its annual Assessment of the Most Serious Management Challenges Facing the CFTC to the Office of Management and Budget.

For FY 2006, the OIG will review the agency's FY 2006 PAR and prepare its annual assessment of the most serious management challenges facing the CFTC.

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 on the back cover of this semiannual report.

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

LEGISLATIVE AND REGULATORY REVIEW

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

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

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

AUDIT AGENDA

ANNUAL AUDITS

The following audits are performed on an annual basis.

Audit of Compliance with the Federal Managers' Financial Integrity Act

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

Evaluation of the CFTC Information Security Program and Practices, FISMA

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

Audit of CFTC Financial Statements

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

OTHER AUDITS

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

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