

# SEMIANNUAL REPORT OF THE OFFICE OF THE INSPECTOR GENERAL



FOR THE PERIOD ENDING:  
MARCH 31, 2015




## U.S. COMMODITY FUTURES TRADING COMMISSION

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Office of the  
Inspector General

April 30, 2015

TO: Timothy G. Massad, Chairman  
Commissioner Mark P. Wetjen  
Commissioner Sharon Y. Bowen  
Commissioner J. Christopher Giancarlo

FROM: A. Roy Lavik   
Inspector General

SUBJECT: Semiannual Report of the Office of the Inspector General

Attached is the Office of the Inspector General's Semiannual Report for the period from October 1, 2014, through March 31, 2015. This report is submitted to you in accordance with the requirements of Section 5 of the Inspector General Act of 1978, as amended, and summarizes issued reports and ongoing projects during the reporting period.

I appreciate your continuing support of this office.

Attachment:  
Semiannual Report for the CFTC OIG



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Office of the  
Inspector General

May 28, 2015

TO: Timothy G. Massad, Chairman  
Commissioner Mark P. Wetjen  
Commissioner Sharon Y. Bowen  
Commissioner J. Christopher Giancarlo

FROM: Judith A. Ringle  
Deputy Inspector General and Chief Counsel



SUBJECT: Semiannual Report of the Office of the Inspector General

Today we learned that our Semiannual Report (SAR) for the period from October 1, 2014, through March 31, 2015, (previously issued to the Commission on April 30, 2015) contained an error regarding unimplemented recommendations in OIG audits over six months old. We originally reported two such audits totaling four unimplemented recommendations. CFTC staff recently notified us that they believe all four of the recommendations were implemented before March 31. We checked our records and agree that one recommendation was completed with notice to OIG before March 31, but we failed to close it out due to oversight. We have amended our report (at page 8) and reissue it today to reflect this change. The rest of the SAR remains unchanged.

We are pleased to learn that the Agency has implemented the other three recommendations and we respect their timely efforts, but we simply did not know of the Agency's work on March 31. We will carefully evaluate and close out these recommendations if possible during the current reporting period.

We apologize for the oversight, and appreciate your continuing support of this Office.

Attachment:  
Semiannual Report for the CFTC OIG  
Charts

# OFFICE OF THE INSPECTOR GENERAL COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT  
FOR THE PERIOD FROM  
October 1, 2014 THROUGH March 31, 2015

## EXECUTIVE SUMMARY

This semiannual report is issued by the Commodity Futures Trading Commission's (CFTC's) Office of Inspector General (OIG) pursuant to the Inspector General Act of 1978, as amended. It summarizes OIG's activities and accomplishments for the period October 1, 2014 through March 31, 2015. During this period, OIG completed 4 audits, one review, one personnel investigation, and issued 2 legislatively mandated assessments. OIG also continued work on one audit, 4 reviews, and a collaborative audit of interest rate risk with the Council of Inspectors General on Financial Oversight. No significant problems, abuses or deficiencies regarding CFTC programs and operations were identified for the reporting period.

OIG participated in training, visited CFTC field offices, and participated in Government-wide OIG professional and cooperative meetings and activities. The OIG appointed a Deputy Inspector General and an Assistant Inspector General for Audit, and added a Senior Auditor during the reporting period.

Highlights of OIG's completed and ongoing audits, evaluations, peer review activities, and other projects include:

- In accordance with the Accountability of Tax Dollars Act of 2002, OIG contracted for and completed the required fiscal year (FY) 2014 audit of the CFTC financial statements. The audit concluded that the CFTC financial statements were presented fairly, in all material respects, and were in conformity with the U.S. generally accepted accounting principles. A related management letter contained one information security recommendation.
- In accordance with the Dodd-Frank Act, OIG contracted for and completed the required FY 2014 audit of the CFTC Customer Protection Fund. The Customer Protection Fund financial statements as of September 30, 2014, were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.
- OIG completed a review to determine whether CFTC's evaluation of the system of internal accounting and administrative control is in conformance with the Office of Management and Budget Circular No. A-123, *Management's Responsibility for Internal Control*. Nothing came to our attention that would indicate that the CFTC is not complying with the above-mentioned circular.

- OIG contracted for and completed an audit of CFTC's FY 2014 implementation of the Federal Information Security Management Act of 2002 (FISMA), performed in accordance with generally accepted government auditing standards. The audit report concluded that the CFTC has made positive strides over the last year in addressing information security weaknesses and continues to make progress in becoming fully FISMA compliant; however, the CFTC still faces challenges to fully implement information security requirements as stipulated in various federal guidelines. The report contains 4 recommendations.
- OIG contracted an audit of CFTC's resource allocation on information technology for achieving its strategic regulatory goals of ensuring sound markets, mitigating systemic risk, and monitoring intermediaries. The audit concluded that CFTC management's use of funds targeted for the highest priority was generally consistent with its strategic and spend plans as updated for FY2011 through FY2013, and included no recommendations.
- In accordance with the Reports Consolidation Act of 2000, OIG completed a management letter that summarizes the Inspector General's opinion of the most serious management and performance challenges facing the CFTC in FY 2015, and assessed the agency's progress in addressing management challenges identified for FY 2014. OIG concluded that progress had been made in addressing the challenges identified for FY 2014. For FY2015, the most serious management challenge is delivering on Congressional expectations embedded in the Dodd-Frank Act while adhering to budgetary constraints.
- OIG completed a risk assessment of the CFTC's purchase card and convenience check program, concluding that the current risk of illegal, improper, or erroneous purchases is low.
- OIG completed an investigation into an allegation that a CFTC employee had engaged in illegal trading. We found no misconduct on the part of the employee.
- OIG contracted for and completed a performance audit of the Division of Market Oversight Compliance Section's Rule Enforcement Reviews, including an examination of staff size for the Rule Enforcement Review Unit. The audit is nearing completion.
- OIG initiated or continued reviews of leased space in the Chicago regional office, leased space in the New York City regional office, processes for approving administrative policies, and the Whistleblower Program. The latter is suspended due to competing priorities.
- OIG collaborated with the Council of Inspectors General on Financial Oversight to examine the extent to which FSOC is overseeing interest rate risk to the financial system.
- There was no peer review activity during the reporting period.

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# OFFICE OF THE INSPECTOR GENERAL COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT  
FOR THE PERIOD FROM  
October 1, 2014 THROUGH March 31, 2015

## **INTRODUCTION: MANAGEMENT AND ADMINISTRATION**

### **1. CFTC Programs and Operations**

Congress created the Commodity Futures Trading Commission in 1974 as an independent agency with the mandate to regulate commodity futures and options markets in the United States. The Commission's mandate was renewed and/or expanded in 1978, 1982, 1986, 1992 and 1995. In December 2000, the Commission was reauthorized by Congress and the President through Fiscal Year 2005 with the passage of the Commodity Futures Modernization Act of 2000 (CFMA). In May of 2008, Congress reauthorized the CFTC through Fiscal Year 2013. On July 21, 2010, the President signed into law the Dodd-Frank Act,<sup>1</sup> which expanded CFTC's jurisdiction and authorities.

The CFTC is 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. The recent Dodd-Frank Act authorized the CFTC to regulate swap dealers, increase transparency and improve pricing in the derivatives marketplace, and lower risk to the American public.

The CFTC operating divisions are: Office of the Chairman, Division of Clearing and Risk, Division of Swap Dealer and Intermediary Oversight, Division of Enforcement, Division of Market Oversight, Office of the Chief Economist, Office of the Executive Director, Office of General Counsel, Office of International Affairs, and Office of Data and Technology. In addition to its headquarters office in Washington, DC, the CFTC maintains offices in Chicago, Illinois; Kansas City, Missouri; and New York, New York.

### **2. OIG Responsibilities**

The CFTC OIG was created in 1989 in accordance with the 1988 amendments<sup>2</sup> to the Inspector General Act of 1978.<sup>3</sup> OIG was established as an independent unit to:

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<sup>1</sup> Dodd-Frank Wall Street Reform and Consumer Protection Act, P.L. 111-203, 124 Stat. 1376 (2010).

<sup>2</sup> Inspector General Act Amendments of 1988, P.L. 100-504, 102 Stat. 2515 (1988).

- 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;
- Recommend policies for, and conduct, supervise, or coordinate other activities carried out or financed by such establishment for the purpose of promoting economy and efficiency in the administration of, or preventing and detecting fraud and abuse in, its programs and operations; and
- Keep the Commission 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.

OIG is required to conduct, supervise and coordinate audits of CFTC programs and operations in accordance with generally accepted government auditing standards.<sup>4</sup> 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 OIG also conducts inspections, evaluations, and reviews in accordance with the *Quality Standards for Inspection and Evaluation* issued by the Council of Inspectors General for Integrity and Efficiency (CIGIE).

OIG investigations are performed in accordance with the *Quality Standards for Investigations* issued by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency and are performed in response to allegations and/or evidence indicating possible violations of law, regulations, or applicable standards, as well as other improper conduct in connection with the programs and operations of the Agency.<sup>5</sup>

OIG operates independently of the Agency and has not experienced any interference from the CFTC Chairman or Commissioners in connection with the conduct of any investigation, inspection, evaluation, review, or audit. Our investigations have been pursued regardless of the rank or party affiliation of the target. OIG also has conducted audits, inspections, evaluations, and reviews without interference where it has perceived the opportunity to recommend

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<sup>3</sup> P.L. 95-452, 92 Stat. 1101 (1978).

<sup>4</sup> The US Government Accountability Office issues the *Government Auditing Standards* (December 2011). The standards are available at <http://gao.gov/assets/590/587281.pdf>. (All links last accessed on April 29, 2015.)

<sup>5</sup> The publication titled *Quality Standards for Investigations* (December 2003) was issued by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency and subsequently adopted by the CIGIE. The standards are available at <https://www.ignet.gov/sites/default/files/files/invstds2011.pdf>.

improvement to futures regulation efforts, again without regard to the party affiliation of any Chairman or Commissioner.<sup>6</sup>

### 3. **OIG Resources**

At the end of the reporting period, the CFTC OIG consisted of the Inspector General, the Deputy Inspector General, an Attorney-Advisor, an Assistant Inspector General for Auditing, a Senior Auditor, a Senior Program Analyst, and an administrative assistant. The Deputy Inspector General and the Assistant Inspector General for Auditing were appointed during the reporting period. The Assistant Inspector General replaced the departing Acting Inspector General.

<h2 style="text-align: center;"><b>COMPLETED AUDITS, INSPECTIONS, EVALUATIONS, REVIEWS and OTHER PROJECTS</b></h2>
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### 1. [Audit of CFTC Financial Statements for Fiscal Year 2014](#)<sup>7</sup>

In FY 2002, Congress passed the Accountability of Tax Dollars Act (ATDA).<sup>8</sup> The ATDA requires the CFTC, along with numerous other Federal entities, to have its financial statements audited annually. The objective of this audit was to render an opinion on the CFTC's FY 2014 financial statements and report on the Agency's internal controls and compliance with laws and regulations.

The independent public accounting (IPA) firm reported that the CFTC financial statements were presented fairly in all material respects, and in conformity with the U.S. generally accepted accounting principles for Federal agencies. Furthermore, the CFTC financial management system is in substantial compliance with the Federal Financial Management Improvement Act of 1996.<sup>9</sup>

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<sup>6</sup> The Inspector General Act of 1978, as amended, states: "Neither the head of the establishment nor the officer next in rank below such head shall prevent or prohibit the Inspector General from initiating, carrying out, or completing any audit or investigation...." 5 U.S.C. App. 3 § 8G(d)(1).

<sup>7</sup> Links to CFTC Reports are furnished, and are available through the OIG website (<http://www.cftc.gov/About/OfficeoftheInspectorGeneral/index.htm>), unless otherwise noted.

<sup>8</sup> P.L. 107-289, 116 Stat. 2049 (2002).

<sup>9</sup> The IG Act and the Federal Financial Management Improvement Act of 1996 (FFMIA), P.L. 104-208, 110 Stat. 3009 (1996), require the Inspectors General of certain agencies to report "instances and reasons" when the Agency has not met intermediate target dates established in a remediation plan to bring the Agency's financial management system into substantial compliance with the FFMIA. CFTC is not subject to the FFMIA; however, it voluntarily seeks to comply with its requirements. During this reporting period, we were aware of no events giving rise to a duty to report under FFMIA.

## **2. Management Letter - CFTC Financial Statements for Fiscal Year 2014**

Pursuant to the audit effort required to render an opinion on the Agency's financial statements for FY 2014, the IPA procured on behalf of the Inspector General was required to identify any matters requiring the issuance of a management letter.

The objective of a management letter is to report deficiencies identified during the audit that did not materially impact the financial statements but require corrective action. The management letter, containing one recommendation, referenced an information security matter and is not published on our website.

## **3. [Audit of CFTC Customer Protection Fund for Fiscal Year 2014](#)**

Section 748 of the Dodd-Frank Act requires the Agency to submit to Congress a yearly report on the Commission's whistleblower award program that includes a complete set of audited financial statements, including a balance sheet, income statement, and cash flow analysis.

The objective of this audit was to render an opinion on the CFTC's Customer Protection Fund's financial statements and report on the Customer Protection Fund's internal controls and compliance with laws and regulations.

CFTC OIG contracted an independent public accounting firm (IPA) to perform this audit which opined that the Customer Protection Fund financial statements as of September 30, 2014, were presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

## **4. Review of Compliance with the Federal Managers' Financial Integrity Act, Section 2 and Section 4**

The Office of the Inspector General conducted a review to determine whether the evaluation of the system of internal accounting and administrative control, as described in Office of Management and Budget Circular No. A-123, *Management's Responsibility for Internal Control*, has been carried out in a reasonable and prudent manner at the Commodity Futures Trading Commission for the year ended September 30, 2014.

The Circular requires each agency to assess and report on the adequacy of internal controls over its programs and operations (Federal Managers' Financial Integrity Act of 1982<sup>10</sup> (FMFIA) Section 2), and to assess, document, and report on controls over financial management systems to ensure conformance with government-wide requirements (FMFIA Section 4). Nothing came to our attention that would indicate that the CFTC is not complying with the above-mentioned circular. This review is not published on our website.

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<sup>10</sup> P.L. 97-255, 96 Stat. 814 (1982).

**5. Audit of CFTC's FY2014 Implementation of the Federal Information Security Management Act of 2002**

The Federal Information Security Management Act of 2002 (FISMA)<sup>11</sup> outlines the information security management requirements for agencies, and includes an annual independent evaluation of an agency's information security program and practices to determine their effectiveness. FISMA requires the annual evaluation to be performed by the agency's Office of the Inspector General (OIG). The objective of this audit was to perform an independent evaluation of the CFTC's FY 2014 implementation of FISMA in accordance with generally accepted government auditing standards (GAGAS). As part of this audit, the OIG also assessed the CFTC's privacy program and privacy impact assessment processes as described in the Agency's FISMA package.

CFTC OIG contracted with an IPA to conduct the audit in accordance with GAGAS. The audit concluded that the CFTC has made positive strides over the last year in addressing information security weaknesses and continues to make progress in becoming fully FISMA compliant. However, the CFTC still faces challenges to fully implement information security requirements as stipulated in various federal guidelines and mandates. The report included 4 recommendations and is not posted on the OIG website.

**6. Performance Audit: Management's Use of Information Technology Resources in Support of its Strategic Plan and Regulatory Responsibilities**

OIG contracted an audit of CFTC's use of information technology resources in support of its strategic plan and regulatory responsibilities. The objective was to determine the highest IT priorities documented in CFTC's acquisition and spend plans for FY2011 through 2013. In addition, the auditors reviewed various categories the agency targeted for spending, evaluated the consistency of the prioritized IT activities with CFTC's strategic plan, and determined whether deliverables associated with IT projects were on schedule to meet contract objectives for FY2011 through 2013. The audit found that CFTC management's use of funds targeted for the highest priority was generally consistent with its strategic and spend plans.

**7. Inspector General's Assessment of CFTC's Management Challenges**

The Reports Consolidation Act of 2000<sup>12</sup> requires the Inspector General to summarize the most serious management and performance challenges facing the CFTC and to assess the Agency's progress in addressing those challenges. This memorandum summarizes the results of the CFTC's current financial statement audit, describes the Agency's progress on last year's management challenges, and finally discusses the most serious management challenges that we have identified.

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<sup>11</sup> P.L. 107-347, 116 Stat. 2899 (2002).

<sup>12</sup> P.L. 106-531, 114 Stat. 2537 (2000).

At the close of FY 2013, the OIG identified as the most serious management challenge: for the CFTC to deliver on congressional expectations in the implementation of Dodd-Frank, including expansion of the CFTC's regulatory footprint to the swaps market, while adhering to government wide budgetary constraints. We are repeating that challenge as the most serious management challenge facing CFTC in FY2015.

CFTC has promulgated over 67 rules, orders, and guidance responsive to the Dodd-Frank Act.<sup>13</sup> Now that these rules are in place, management must develop additional mechanisms to shift agency productivity from rule writing to rule implementation. As we have identified in the past, technological spending can increase staff productivity, but the sheer volume and complexity of industry-supplied data mandates that knowledgeable agency staff be on hand to provide the guidance necessary to efficiently monitor the markets.

Moreover, increased reportable data will increase stakeholders' expectation that CFTC will conduct a robust oversight of the swaps market. On January 1, 2013, certain swap market participants began reporting new and historical swap data to Swap Data Repositories pursuant to 17 CFR Part 45, and the Commission began the process of analyzing these new data and incorporating them into the weekly CFTC Swaps Report available on its website.<sup>14</sup> As a consequence, the agency must now devote labor to the continuous surveillance of the swaps markets. In addition, the agency is expanding its oversight of Swap Execution Facilities (SEFs) - trading platforms that must be registered with the CFTC. Such structural changes will require the CFTC to expand compliance reviews of SEFs as they come online. This reinforces our assessment that the agency, in the near future, will have to examine its current labor skill set and reallocate resources – a challenge during sequestration – towards compliance matters as opposed to rule making.

While CFTC made positive strides over the past year to meet this challenge, delivering on congressional expectations in the implementation of Dodd-Frank, including expansion of the CFTC's regulatory footprint to the swaps market, all while adhering to government wide budgetary constraints (notwithstanding recent budget increases) continues to be the most serious management challenge facing CFTC.

## **8. Inspector General's Risk Assessment of CFTC's Purchase Card and Convenience Check Program**

OIG completed a risk assessment of the CFTC's purchase card and convenience check program. CFTC recorded \$2,841,665 in charges on CFTC purchase cards in FY2014. In light of its positive assessment of current controls over the program, and the lack of allegations or findings of misconduct, OIG concluded that the current risk of illegal, improper, or erroneous purchases is low. This review is not published on our website.

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<sup>13</sup> See remarks of Chairman Gensler at the CME Global Financial Leadership Conference, Nov. 19, 2013 (available here: <http://www.cftc.gov/PressRoom/SpeechesTestimony/opagensler-153>).

<sup>14</sup> See <http://www.cftc.gov/MarketReports/SwapsReports/index.htm>.

## **CURRENT AUDITS, INSPECTIONS, EVALUATIONS, REVIEWS, and OTHER PROJECTS**

At the end of this reporting period the following projects were ongoing: one audit, four investigative reviews, and a collaborative audit of interest rate risk with the Council of Inspectors General on Financial Oversight (CIGFO).

### **1. Performance Audit of CFTC’s Rule Enforcement Reviews of Designated Contract Markets – FY2011 through FY2014**

As stated in its current strategic plan, “CFTC conducts regular Rule Enforcement Reviews (RERs) and System Safeguard Examinations (SSEs) to assess ongoing compliance by the exchanges with core principles through the self-regulatory programs operated by exchanges. This function represents a significant part of the regulatory oversight structure and serves to assess the soundness of the self-regulation program of the derivatives industry.”<sup>15</sup> The objective of this audit is to review DMO Market Compliance Section’s performance in conducting RERs during the period FY2011 through FY2014. This is the first audit performed by OIG in this program area. CFTC OIG contracted an independent public accounting firm to conduct the audit. Work on this audit was ongoing at the close of the reporting period.

### **2. Review of CFTC’s Use of Leased Space in Chicago**

CFTC OIG issued a review of leased space in the Kansas City during the prior reporting period. Interest in this issue in our view warrants warranted additional examination of CFTC’s leased space. In contrast to other CFTC offices, the Chicago regional office is currently occupied at near capacity. Our review acknowledges this achievement, analyzes the use of this leased space, and will make recommendations to increase efficiency as warranted. We delivered our discussion draft to relevant Agency management for comment. We were awaiting comment from CFTC at the close of the reporting period.

### **3. Review of CFTC’s Use of Leased Space in New York City**

The New York City regional office is currently less than 65% occupied. Our review analyzes the use of this leased space and will make recommendations to increase efficiency as warranted. Field work for this review was ongoing at the close of the reporting period.

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<sup>15</sup> CFTC, *Strategic Plan FY 2014-2018* (Oct. 16, 2014) (<http://www.cftc.gov/ucm/groups/public/@aboutcftc/documents/file/2018strategicplan.pdf>).

#### **4. Review of CFTC's Processes for Approving Policies**

During the reporting period, we were made aware of excessive timeframes for issuing administrative policies. Our review examines the policy approval timelines and will issue recommendations to streamline the process. Field work was ongoing as of the reporting period.

#### **5. Review of CFTC's Whistleblower Program**

The Dodd-Frank Act mandated the establishment of a Whistleblower Program Office and Consumer Outreach Program Office.<sup>16</sup> In the intervening years, CFTC has adopted regulations to implement the program,<sup>17</sup> and has made one whistleblower award (at the close of the reporting period).

This review examines the program from its inception to the present, will examine the statutory and regulatory background, will describe activities by the program, and make recommendations as deemed necessary. Due to competing workload demands, OIG delayed the completion of this review.

#### **6. Audit of the Financial Stability Oversight Council's (FSOC) Oversight of Interest Rate Risk**

Council of Inspectors General on Financial Oversight (CIGFO), of which CFTC OIG is a member, includes the Inspectors General (IG) of nine major government financial entities. The Council was established to facilitate information sharing among its IG members, provide a forum for discussion of IG member work as it relates to the broader financial sector, and evaluate the effectiveness and internal operations of FSOC. CFTC is a member of FSOC.

The purpose of the audit is to examine the extent to which FSOC is overseeing interest rate risk to the financial system and is led by the Inspector General for the Federal Housing Finance Agency (FHFA).

## **AUDIT REPORTS and REVIEWS OVER SIX MONTHS OLD**

### **1. Corrective Action not Completed**

There are two audit reports over six months old where corrective action had not been completed and closed out with OIG. These reports contained three information system related recommendations.

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<sup>16</sup> Section 748 of Dodd-Frank added to the Commodity Exchange Act new section 23, 7 U.S.C. sec. 26, establishing commodity whistleblower incentives and protection. P.L. 111-203, Title VII, Subtitle A, § 748, 124 Stat. 1739 (2010) (codified at 7 USC § 26).

<sup>17</sup> 17 CFR Part 165.



## **2. 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.

## **3. Management Decision not Made**

There are 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. However there is a longstanding recommendation for which a decision has not been made. In 2006, the CFTC OIG issued a report titled "Review of the Need for a Western Regional Office in Los Angeles." That report recommended, among other things, that the Commission review the feasibility of reestablishing the former Los Angeles field office. That recommendation was not carried out largely due to budget constraints. In January 2008, partially in response to a Congressional inquiry, CFTC OIG updated its analysis and on March 12, 2008, issued a follow-up report which reiterated the earlier recommendation. In January 2009, the Acting Chairman issued a decision declining to implement the recommendation generally due to cost considerations, but asked the Agency to revisit the issue on a yearly basis. We agree that this recommendation should be revisited, and implemented when feasible. We do not recommend closing any of the existing field offices.

# **INVESTIGATIONS**

The Inspector General Act of 1978, as amended, provides that the Inspector General may receive and investigate complaints or information from the Commission's employees and other sources 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 at the close of the prior period. One investigation was opened and completed during the reporting period. CFTC OIG received an allegation that a CFTC employee was engaged in illegal trading. After interviewing all relevant witnesses, reviewing relevant documents (including email), and examining the employees' trade documentation and work computer, the allegations resolved in favor of the employee. OIG concluded that the employee did not knowingly or intentionally engage in illegal trading activity. During the reporting period, allegations of management abuse were received. We are addressing the allegations in conjunction with our review of approving policies.

# **SUMMARY OF MATTERS REFERRED TO PROSECUTORIAL AUTHORITIES**

No matters were referred to prosecutorial authorities during the reporting period.

## CONGRESSIONAL INQUIRIES

OIG fielded multiple requests for assistance from members of Congress and staff during the reporting period. Issues addressed included recent OIG activities, recent Agency activities, and proposed and pending legislation affecting the OIG and the Agency.

## LEGISLATIVE, REGULATORY AND RULE REVIEWS

### 1. Introduction and Summary

As specified in Section 4(a)(2) of the Inspector General Act of 1978, 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. OIG also reviews exchange rule proposals circulated to senior staff at CFTC.

OIG 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 during this reporting period.

### 2. Rule Reviews Initiated in Previous Reporting Periods

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

### 3. Rule Reviews Initiated this Reporting Period

No rule reviews were initiated during this reporting period.

### 4. Legislative Activities

OIG tracked legislation impacting programs and operations of the CFTC, and made contact with Congressional staff concerning various Agency and IG issues as appropriate. The IG serves on the legislation committee for the Council of Inspectors General on Integrity and Efficiency, which comments on proposed amendments to the IG Act and other legislation affecting the IG community.

## PEER REVIEWS

An important function in each Agency OIG is the peer review process. The Council of Inspectors General on Integrity and Efficiency describes the processes for audits and investigative peer reviews on its [website](#) as follows:

- *Government Auditing Standards* require that audit organizations conducting audits of Federal agencies undergo peer reviews every 3 years. The IG community has implemented a process to meet this requirement. The purpose of the peer review is to determine whether the reviewed audit organization's internal quality control systems are adequate and provide reasonable assurance that applicable auditing standards, policies and procedures are met.
- Similarly, investigative peer reviews are conducted to ensure compliance with the requirements of the *Quality Standards for Investigations* and determine whether adequate internal safeguards and management procedures exist to ensure that law enforcement powers are properly exercised.

Section 989C of the Dodd-Frank Act implemented a requirement to include in each OIG semiannual report an appendix containing:

- the results of any peer review conducted by another Office of Inspector General during the reporting period; or if no peer review was conducted within that reporting period, a statement identifying the date of the last peer review conducted by another Office of Inspector General;
- a list of any outstanding recommendations from any peer review conducted by another Office of Inspector General that have not been fully implemented, including a statement describing the status of the implementation and why implementation is not complete; and
- a list of any peer reviews conducted by the Inspector General of another Office of the Inspector General during the reporting period, including a list of any outstanding recommendations made from any previous peer review (including any peer review conducted before the reporting period) that remain outstanding or have not been fully implemented.

In accordance with Section 989C of the Dodd-Frank Act, please be advised that no peer review activities took place during the reporting period and there are no outstanding recommendations from prior peer reviews that have not been implemented.

The most recent peer review of CFTC OIG's audit operations was completed on April 22, 2014. CFTC OIG received a rating of *pass with deficiencies*. The most recent peer review of the CFTC OIG's investigative function was completed on March 27, 2013. CFTC OIG received a rating of *pass*.

During this reporting period, OIG continued to monitor the government-wide OIG peer review schedules as communicated by the Council of the Inspectors General on Integrity and Efficiency.

## **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 (mandated under section 5(a)(5) of the Act).

## **REVISED MANAGEMENT DECISIONS**

No management decisions were revised during the reporting period.

## **INSPECTOR GENERAL DISAGREEMENT**

The Inspector General did not disagree with any management decisions on OIG recommendations during the reporting period.

## **GAO LIASON**

OIG is charged with providing policy direction for, and conducting, supervising, and coordinating audits and investigations relating to CFTC programs and operations. In addition, 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, inspections, evaluations, reviews, and investigations so as not to duplicate GAO's efforts. Moreover, OIG in its audit 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

## 1. Investigative Agenda

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.

OIG has to date conducted only a reactive investigative program chiefly relying on unsolicited employee complaints as the source of investigative leads. However, allegations and complaints are also received from the general public and Congress. This reactive program has resulted in only a handful of investigations per year. This strategy was followed because 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 ensure that employee complaints could easily reach OIG, a 24-hour hotline was established in February 1993 to receive complaints. The hotline phone number is (202)418-5510.

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

## 2. Legislative and Regulatory Review Agenda

Because of the importance of this activity in a financial and economic regulatory Agency, 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 OIG does not initiate legislation or, generally, regulations, 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.

### **3. Audit, Inspection, Evaluation and Review Agenda**

#### **a. Introduction**

The primary objectives of the OIG audit, inspection, evaluation and review agenda is to promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse. The audit, review, evaluation, and inspection agenda and priorities for OIG are determined based on the following factors:

- 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.

#### **b. Annual Audits**

The following required audits are performed on an annual basis.

##### 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, 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 07-04.

## Audit of CFTC Customer Protection Fund

Section 745(g)(5)(I) of the Dodd-Frank Act requires the Agency to submit to Congress a yearly report on the Commission's whistleblower award program that includes a complete set of audited financial statements, including a balance sheet, income statement, and cash flow analysis. To this end, OIG has engaged a contractor to perform the audit.

### **c. Annual Reviews and Evaluations**

We will perform the following reviews and evaluations on an annual basis:

#### Inspector General's Assessment of CFTC's Management Challenges

The Reports Consolidation Act of 2000 requires the Inspector General to summarize the most serious management and performance challenges facing the CFTC and to assess the Agency's progress in addressing those challenges.

#### Review of Compliance with the Federal Managers' Financial Integrity Act, FMFIA

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 Management Act, FISMA

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. This compliance may also be performed through an audit.

### **d. Other Audits, Inspections, Evaluations, Reviews and Projects**

Looking to the long term, the OIG intends to focus the balance of its resources on the review of the management and operation of the agency and compliance with Congressional mandates. OIG plans to concentrate its efforts in reviewing activities relating to the most serious management challenges facing the CFTC.

In addition, OIG is aware of the immense regulatory undertaking required under the Dodd-Frank Act. OIG will seek to identify issues and to conduct inspections, reviews, investigations and other activities relating to these management and regulatory challenges. Finally, OIG will stand ready to respond to issues and requests as they are received from Congress, the Agency and members of the public or any other source.

**e. Resources Required**

OIG estimates that approximately four staff years of effort will be devoted over each of the next five years to the annual audit, the annual review, and the annual evaluation described above. However, OIG continuously updates its audit universe in view of CFTC's increased responsibilities under the Dodd-Frank Act and will reevaluate its staffing needs once each update is complete. We estimate three to four staff years of effort will be devoted over each of the next five years to the investigative and legislative and regulatory review functions. Because OIG resources can be diverted at any time to an investigation, audit, inspection, evaluation, review, or other project that responds to current concerns or allegations, and must be completed in a timely fashion in order to be of assistance to the Agency or Congress, it is impossible to forecast with complete accuracy how resources will be utilized from year to year. So far during FY 2015, we have hired two additional full time staff to perform audit-related functions. We anticipate hiring one additional attorney during FY 2015 to perform legal and economic analysis of proposed and existing legislation and regulations, as well as investigative work. One staff year is anticipated for office administration. Due to staff size, we will continue to utilize outside independent auditors to perform OIG audits and other services as necessary.

<p style="text-align: center;"><b>CONTACTING THE OFFICE OF THE INSPECTOR GENERAL</b></p>
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OIG is located at 1155 21st Street, N.W., Washington, D.C. 20581. Regular business hours are between 8:30 AM and 5:00 PM, Monday through Friday, except Federal holidays. The telephone number is (202)418-5110. The facsimile number is (202)418-5522. The hotline number is (202)418-5510. The OIG web page is located at <http://www.cftc.gov/About/OfficeoftheInspectorGeneral/index.htm>.



<b>TABLE 1 – REPORTS ISSUED WITH QUESTIONED COSTS</b>
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**October 1, 2014 – March 31, 2015**

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

<b>TABLE 2 – REPORTS ISSUED WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE</b>
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**October 1, 2014 – March 31, 2015**

	Number	<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