



Office of the
Inspector General

U.S. COMMODITY FUTURES TRADING COMMISSION

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TO: Reuben Jeffery III
Chairman

FROM: A. Roy Lavik *ARL*
Inspector General

DATE: November 10, 2005

SUBJECT: Inspector General's Assessment Of The Most Serious Management Challenges Facing CFTC.

On January 24, 2000, Congress enacted the *Reports Consolidation Act of 2000* to provide financial and performance information in a more meaningful and useful format for Congress, the President, and the public. Included in the Act is the requirement that the Inspector General of each Federal agency summarize what he or she considers to be the most serious management and performance challenges facing the agency and assess the agency's progress in addressing those challenges. In accordance, with the *Reports Consolidation Act of 2000*, we are submitting an annual assessment of the major management challenges confronting the Commodity Futures Trading Commission (CFTC).

Congress left the determination and threshold of what constitutes a most serious challenge to the discretion of the Inspector General. As a result, we applied the following definition in preparing this statement:

Serious management challenges are mission critical areas or programs that have the potential for a perennial weakness or vulnerability that, without substantial management attention, would seriously impact agency operations or strategic goals.

In Fiscal Year 2002, Congress passed the Accountability of Tax Dollars Act. This Act requires CFTC, along with numerous other federal entities, to have its financial statements audited annually. On January 15, 2004, the Office of the Inspector General (OIG) hired an independent public accounting firm, KPMG LLP, to conduct an audit of the CFTC's financial statements. Fiscal year 2004 was the first fiscal year that the CFTC's financial statements were audited. I am pleased to say that, for fiscal year 2005, the financial statement audit resulted in an unqualified audit opinion. This letter relied on the data contained in the audited financial statements as well as the agency's Performance and Accountability Report (PAR).



Serious Management Challenges

The OIG reviewed all the management challenges listed by program areas as well as external challenges mentioned in the PAR. As a result of our review, the OIG concludes that management fairly stated the challenges faced by the agency and identified in the PAR. Nonetheless, the OIG identifies two management challenges that we consider to be the most serious management challenges facing the agency. Although the PAR identified challenges by program areas, the OIG adopted a broader, agency-wide perspective in selecting two summary management challenges.

We remain steadfast in our concern over Human Resource Planning and attentiveness to Challenges in the Marketplace as the two key management challenges faced by the agency in the near future. These two management challenges in no way diminish other challenges identified by the agency but they ought to guide the agency's efforts in the near future.

I. Human Resource Planning

Last year, we highlighted the forthcoming human resource challenge likely to be faced by the agency in Fiscal Year 2006. This year that challenge is ever more apparent. By March 2006, current estimates are that over twenty percent of CFTC staff including twenty-eight percent of the agency's leadership positions will be eligible for retirement. Consequently, based on these factors, this is a significant challenge faced by a relatively small federal agency which will necessitate careful planning by management. The OIG is heartened by the agency's decision to establish a Human Capital Team to catalogue current skills of existing employees and propose possible pathways for meeting this potential deficit that is likely to occur in the next six months. We look forward to the agency successfully accommodating the approaching wave of employee retirements without materially disrupting the performance of the agency.

II. Challenges in the Marketplace

The Commodity Futures Modernization Act of 2000 (CFMA) transformed the agency from a prescriptive regulator into an oversight regulatory agency. The agency's regulatory mission over the futures industry is guided by core principles stated in the CFMA. Recent innovations in the industry such as the initial public offerings of major Chicago based futures exchanges and futures commission merchants (FCM) have broadened the impact of any malfeasance within the futures industry. How the agency handles unanticipated events such as market disruptions and FCM bankruptcies will be closely watched by a worldwide audience. To date management has handled major turbulences that have occurred during this fiscal year.

When necessary, the OIG has worked with the Government Accountability Office to examine aspects of the agency's operations that members of Congress have expressed a particular interest in understanding, such as the agency's handling of Civil Monetary Penalties and its surveillance of the energy markets. The OIG will continue to provide an independent and constructive review of agency operations so that the agency can continue to improve on its performance in maintaining the integrity and usefulness of the financial products offered by the futures industry.



We take our mission and authority seriously and remain committed to promote integrity, accountability, and transparency within this agency.