

COMMODITY FUTURES TRADING COMMISSION

**SEMIANNUAL REPORT
OF THE**

**OFFICE OF THE
INSPECTOR GENERAL**



FOR THE PERIOD ENDING September 30, 2012



U.S. COMMODITY FUTURES TRADING COMMISSION

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

Office of the
Inspector General

October 31, 2012

TO: The Commission

FROM: A. Roy Lavik *ARL*
Inspector General

SUBJECT: Semiannual Report of the Office of the Inspector General

Attached is the Office of the Inspector General's Semiannual Report (SAR) for the period from April 1, 2012 through September 30, 2012. This report is submitted to you in accordance with the requirements of Section 5 of the Inspector General Act of 1978, as amended. 5 USC App. 3 sec. 5 and 8G.

Under section 5(b) of the IG Act, the SAR shall be transmitted to the appropriate committees or subcommittees of the Congress within thirty days after receipt of the Semiannual report, together with a report by the head of the establishment conforming to the requirements of section 5(b) of the IG Act.

I appreciate your continuing support of this office.

Recipients:

Gary Gensler
Chairman

Bart Chilton
Commissioner

Mark P. Wetjen
Commissioner

Scott D. O'Malia
Commissioner

Jill E. Sommers
Commissioner

Attachment:

Semiannual Report for the CFTC OIG

OFFICE OF THE INSPECTOR GENERAL COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT
FOR THE PERIOD FROM
April 1, 2012 THROUGH September 30, 2012

EXECUTIVE SUMMARY

This semiannual report is issued by the Office of the Inspector General (OIG) for the Commodity Futures Trading Commission (CFTC) pursuant to the Inspector General Act of 1978, as amended. It summarizes OIG's activities and accomplishments for the period April 1, 2012, through September 30, 2012. During this period completed a survey, completed an inspection, began one review, continued work on one review, and began audits of 1) agency controls over sensitive information, 2) the Fiscal Year (FY) 2012 contract audit of CFTC's financial statements, 3) the FY 2012 contract audit of the CFTC Customer Protection Fund's financial statements, and 4) a contract audit of CFTC's FY 2012 implementation of the federal Manager's Financial Integrity Act. OIG reviewed proposed enforcement actions and rules proposed by CFTC and by regulated entities, participated in training, visited CFTC field offices, and participated in Government-wide OIG professional and cooperative meetings and training. No investigations were opened, closed, or pending during this reporting period. No significant problems, abuses or deficiencies regarding CFTC programs and operations were identified during this reporting period.

Highlights of OIG's completed and ongoing audit, inspection, review, investigative and other projects include:

- OIG began its contract audit of CFTC's FY 2012 financial statements.
- In accordance with the Dodd-Frank Act¹, OIG began its FY 2012 contract audit of the CFTC Customer Protection Fund.
- OIG began its contract audit of CFTC's FY 2012 implementation of the Federal Managers' Financial Integrity Act.
- In conjunction with the Council of Inspectors General on Financial Oversight (CIGFO), OIG participated in a CIGFO Working Group to examine the Financial Stability Oversight Council's controls for ensuring that non-public information is properly safeguarded from unauthorized disclosure. OIG completed a survey of CFTC's controls for ensuring that its non-public information is properly safeguarded from unauthorized disclosure, and submitted this data for analysis by the Working Group and inclusion in the first CIGFO report, *Audit of Financial Stability Oversight Council's Controls over Non-Public Information*, issued in

¹ Dodd-Frank Wall Street Reform and Consumer Protection Act, P.L. 111-208.

- June 2012. OIG initiated a follow-on audit of the CFTC's Protection of Sensitive Information. Fieldwork for this audit is complete and a draft of the audit report will be circulated to management for comment.
- OIG completed an inspection into record retention practices by the Division of Enforcement pertaining to preliminary investigative records. This inspection found that the Division of Enforcement retained records of closed inspection files for the three year period as required under the CFTC's record retention policy approved by the National Archives and Records Administration (NARA).
- OIG began its FY 2012 review of CFTC's implementation of the Federal Information Security Management Act (FISMA).
- OIG began its contracted FY 2012 review of CFTC's implementation of the Federal Managers Financial Integrity Act (FMFIA).
- At the request of Senator Richard C. Shelby, in November 2011 OIG began a review of CFTC's oversight and regulation of MF Global, Inc. MF Global is now subject to a liquidation proceeding initiated by the Securities Investor Protection Corporation. Our review, as requested, will examine the CFTC's actions in the events leading up to the MF Global bankruptcy. At the end of the reporting period, our review was ongoing.
- At the request of Congressional staff, during this reporting period OIG began a review of CFTC small purchases. This review involves our examination of CFTC's documentation for 75 discreet small purchases for the period March 2011 through March 2012. Our objective is to ascertain whether the purchases are in compliance with applicable statutes, regulations, and policies. At the close of the reporting period, this review was ongoing.
- In a prior reporting period we received an allegation of misconduct by staff and management in the Office of Proceedings. Due to an internal conflict, as well as staff resource concerns, we consulted within the OIG investigative community and found another OIG willing to conduct the investigation. On March 15, 2012, the Treasury Inspector General for Tax Administration issued their report with no findings, but recommended that new allegations be referred to the Integrity Committee for the Council of Inspectors General on Integrity and Efficiency. The referral was made in March 2012, and in May 2012 the Integrity Committee determined not to investigate.

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OFFICE OF THE INSPECTOR GENERAL COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT
FOR THE PERIOD FROM
April 1, 2012 – September 30, 2012

INTRODUCTION

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 Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), P.L. 111-203, 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 new Dodd-Frank Act authorizes 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, Office of the Executive Director, Office of General Counsel, Office of the Chief Economist, Division of Clearing and Risk, Division of Data and Technology, Division of Enforcement, Office of International Affairs, Division of Market Oversight, and Division of Swap Dealer and Intermediary Oversight. 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 to the Inspector General Act of 1978 (P.L. 95-452). OIG was established as 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, inspections, evaluations, reviews, projects 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.

It is the duty and responsibility of the OIG to conduct, supervise and coordinate audits relating to CFTC programs and operations in accordance with generally accepted government auditing standards. OIG is also charged with the duty and responsibility 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 OIG audits, inspections, evaluations, reviews and projects generally 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;
- Agency operations have not been subject to improper influence or corruption; and
- Resources have been safeguarded.

OIG operates independent of the Agency and has not experienced any interference from the CFTC Chairman in connection with the conduct of any investigation, audit, inspection, evaluation, review or project, and our investigations have been pursued regardless of the rank or party affiliation of the target. In some instances, OIG has recommended improvement to futures regulation efforts

CFTC is a designated Federal entity (DFE) under the IG Act of 1978, as amended, 5 USC App. 3 sec. 8G(a)(2). The Dodd-Frank Wall Street Reform and Consumer Protection Act altered the relationship between the DFE Inspectors General and the agency head by clarifying that “head” of a DFE means “the board or commission of the designated Federal entity.” P.L. 111-203, Title IX, Subtitle I, sec. 989B, 124 Stat. 1945 (codified at 5 USC App. 3 sec. 8G(a)(4)). The effective date of this provision was July 22, 2010. The OIG has not experienced any interference from the head of the CFTC in the conduct of its official duties.

3. OIG Resources

OIG consists of the Inspector General, a part-time Supervisory Senior Auditor hired at the close of the prior reporting period, a full-time Senior Auditor, an Attorney-Advisor and a secretary. The Inspector General assumed his position on October 7, 1990. The part-time

Supervisory Senior Auditor joined the office in March 2011, the full-time Senior Auditor joined the office in 1999, and the Attorney-Advisor joined in 2007.

COMPLETED AUDITS, SURVEYS, INSPECTIONS, EVALUATIONS, REVIEWS and OTHER PROJECTS

1. Completed Audits

During the reporting period, CFTC OIG did not complete any audits.

2. Completed Inspections, Surveys Evaluations, Reviews and Other Projects

a. Survey of CFTC's Controls for Protecting Non-Public Information Destined for and/or Received from the Financial Stability Oversight Council.

Background

Section 989 E(a)(3) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act, Pub. L. No. 111-203) established the Council of Inspectors General on Financial Oversight (CIGFO). CFTC-OIG is one of nine member offices of Inspector General serving on CIGFO. The Council voted in December 2011 to initiate an audit of the Financial Stability Oversight Council's (FSOC) Controls over Non-public Information and formed a working group for this purpose. The CIGFO working group established a common data collection instrument that each member used to compile information at its respective agency.

Objective

To survey CFTC's existing controls over non-public information destined for and received from FSOC.

Status

The CFTC-OIG planned and executed a survey in order to complete the common data collection instrument developed by the CIGFO working group and submitted its findings to the Agency for comment. Subsequently, CFTC-OIG submitted its completed data collection instrument to the CIGFO Working Group, which issued its report on June 22, 2012.

b. Inspection of the Division of Enforcement’s Disposition of Preliminary Investigations Records

Background

The CFTC Division of Enforcement (DOE) is authorized to conduct investigations of industry participants for non-compliance with the Commodity Exchange Act. It is incumbent upon CFTC-DOE management to ensure that all enforcement records are retained and disposed of as authorized under record retention schedules approved by the National Archives and Records Administration (NARA). All complaints and leads must be collected, processed, and disposed of according to existing records policy. This inspection focused on DOE’s retention of closed preliminary investigation files.

Objective

This inspection sought to ascertain, over the review period (January 1, 2008 to August 1, 2011), whether DOE adhered to its policies and procedures approved by the National Archives and Records Administration for retention of closed preliminary investigation files.

Status

The inspection team randomly selected 174 out of 1722 total preliminary investigation matters stored in DOE’s database and found that all 174 were retained in the database for the three year period required by existing DOE policies previously approved by NARA. The inspection team also found that DOE management periodically informed and reminded staff of this policy.

<p style="text-align: center;">IN-PROCESS AUDITS, INSPECTIONS, SURVEYS EVALUATIONS, REVIEWS and OTHER PROJECTS</p>

1. In-process Audits

a. Audit of CFTC Financial Statements for Fiscal Year 2012

Background

In FY 2002, Congress passed the Accountability of Tax Dollars Act. The Act requires the CFTC, along with numerous other Federal entities, to obtain an independent financial statement audit each year. During the reporting period, the Inspector General selected an independent public accountant (IPA) to render an opinion on the agency’s financial statements for Fiscal Year 2012 in accordance with generally accepted auditing

standards, Government Auditing Standards, OMB Bulletin 01-02 and OMB Circular A-136.

Audit Objective

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

Status

The Fiscal Year 2012 audit began in May with an entrance conference with senior agency managers, the OIG and representatives from the IPA. Further meetings and reviews have taken place throughout this reporting period while work on the audit is ongoing. The final audit report is to be delivered to the Office of the Inspector General in November 2012.¹

b. Audit of CFTC Customer Protection Fund for Fiscal Year 2012

Background

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. The OIG is undertaking this required audit.

Audit Objective

The objective of this audit is 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. As part of this audit, the OIG will also review the agency's report to select Congressional committees on activities of the Customer Protection Fund during the previous year.

Status

Prior to the close of the reporting period CFTC OIG contracted with an independent public accounting firm to perform this audit, and the audit was in process at the close of the reporting period. The audit report will be issued by October 25, 2012.

¹ The IG Act and the Federal Financial Management Improvement Act of 1996 (FFMIA) 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, there were no events giving rise to a duty to report under FFMIA.

c. Audit of Compliance with Implementation of the Federal Managers' Financial Integrity Act (FMFIA) at CFTC for Fiscal Year 2012

Background

The Federal Managers' Financial Integrity Act of 1982 requires federal managers to establish a continuous process for evaluating, improving, and reporting on the internal control and accounting systems for which they are responsible. OMB Circular A-123, revised December 2004, "Management Accountability and Control," is the implementing guidance for FMFIA. Annually the Office of the Inspector General reviews the agency produced package of FMFIA related reports on internal controls and accounting for completeness.

Status

In FY 2012 the Office of the Inspector General engaged the services of an independent public accounting firm (IPA) to conduct an audit of the Agency's compliance with its stated goals for implementing FMFIA. The IPA is in the process of receiving and reviewing draft internal control reviews produced by agency staff, evaluating the agency's process for producing its management control reviews and will issue a report by the end of October. Results of the audit will aid the Office of the Inspector General in the completion of its annual review.

d. Follow-on Audit of the CFTC's Protection of Sensitive Information

Background

As a result of OIG's survey of the CFTC's controls for protecting sensitive and/or non-public information, the audit team identified several internal control weaknesses that merited review, beyond the scope of the CIGFO survey.

Status

The audit team held an entrance conference, completed its fieldwork, and prepared a draft of the audit report which is undergoing referencing. In the coming weeks the team will discuss findings with management, issue a draft report for written comment, and issue a final report.

2. In-process Inspections, Surveys, Evaluations, Reviews and Other Projects

a. Evaluation of Compliance with the Federal Information Security Management Act at CFTC

Background

The Federal Information Security Management Act (FISMA) was enacted on December 17, 2002. FISMA requires the Office of the Inspector General to perform annual independent evaluations of the information security program and practices of the agency and report the results to the Office of Management and Budget.

Status

The OIG is currently completing its evaluation of the agency's FISMA related documents and will submit its assessment along with the agency's documents to the Office of Management and Budget in November 2012.

b. Review of Oversight and Regulation by the Commodity Futures Trading Commission of MF Global, Inc.

Background.

On November 30, 2011, Senator Richard Shelby requested that OIG perform a "review of the oversight and regulation by the Commodity Futures Trading Commission of MF Global Inc. ("MF Global"). MF Global is subject to a liquidation proceeding initiated by the Securities Investor Protection Corporation ("SIPC"). The Senator requested the following:

- 1) A detailed account of the CFTC's role in overseeing and regulating MFGI, including an assessment of whether its oversight and regulation of MFGI differed in any material way from its oversight and regulation of other futures commission merchants;
- 2) A detailed account of how the CFTC coordinated with the Chicago Mercantile Exchange ("CME"), the designated self-regulatory organization for MFGI, in overseeing MFGI's customer segregated funds;
- 3) A summary of relevant examination manuals or other guidance for staff involved in overseeing and regulating MFGI or monitoring the CME's oversight of MFGI;
- 4) An analysis of whether and how the CFTC's oversight of MFGI changed after the CFTC's enforcement actions against MFGI in December 2007 and December 2009;
- 5) An analysis of the CFTC's role in the determination that caused MFGI to increase its net capital in August 2011;

- 6) An analysis of the CFTC's activities with respect to MFGI in the week prior to the liquidation;
- 7) An analysis of whether CFTC Chairman Gary Gensler's decision to recuse himself from matters relating to the MFGI investigation is consistent with the CFTC's official recusal policy; and
- 8) An analysis of whether and how a decision by CFTC Chairman Gary Gensler to recuse himself from previous matters relating to MFGI would have been consistent with the CFTC's official recusal policy.

Status.

At this time, we have reviewed document production by the Agency and representatives for the MF Global Trustee, and have interviewed over 25 individuals, including market professionals, current and former CFTC employees, and others. Work on this request was ongoing at the close of the reporting period.

c. Review of Small Purchases by CFTC

At the request of Congressional staff, during this reporting period OIG began a review of CFTC small purchases. This review involves our examination of CFTC's documentation for 75 specific small purchases during the period March 2011 through March 2012. Our objective is to ascertain whether the purchases accorded with applicable statutes, regulations, and policies. At this time we have received documentation for the small purchases selected for review, and have begun interviews as we examine this production. At the close of the reporting period, this review was ongoing.

AUDIT REPORTS and REVIEWS OVER SIX MONTHS OLD
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1. Corrective Action not Completed

There were no instances of audit reports over six months old where corrective action had not been completed.

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 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.

INVESTIGATIONS

1. Completed 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 as of the beginning of this reporting period. No investigations were opened during this period.

In a prior reporting period we received an allegation of misconduct by staff and management in the Office of Proceedings. Due to an internal conflict, as well as staff resource concerns, we consulted within the OIG investigative community and found another OIG willing to conduct the investigation. On March 15, 2012, the Treasury Inspector General for Tax Administration issued their report with no findings, but recommended that new allegations be referred to the Integrity Committee for the Council of Inspectors General on Integrity and Efficiency. The referral was made during the prior reporting period, and in May 2012 the Integrity Committee determined not to investigate.

2. Ongoing Investigations

The CFTC OIG does not comment on all ongoing investigations and may not disclose the existence of all investigations. Ongoing investigations that have become public, through the press or otherwise, will be discussed in semi-annual reports, absent exigent circumstances. At the close of the reporting period, there were no ongoing investigations.

SUMMARY OF MATTERS REFERRED TO PROSECUTORIAL AUTHORITIES

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

CONGRESSIONAL INQUIRIES

The Inspector General continues to be involved in legislative activities pertaining to both the CFTC and the IG community. The IG serves on the legislation committee for the Council of Inspectors General on Integrity and Efficiency, which discusses and provides guidance on pending legislation affecting the IG community.

Currently we have pending two requests for our review of Agency conduct. At the request of Senator Richard Shelby, in November 2011 OIG began a review of CFTC's oversight and regulation of MF Global, Inc. MF Global is now subject to a liquidation proceeding initiated by the Securities Investor Protection Corporation. Our review, as requested, will examine the CFTC's actions in the events leading up to the MF Global bankruptcy. At the close of the reporting period, our review was ongoing. In addition, at the request of Congressional staff, we are in the process of reviewing 75 specific small purchases made by CFTC during the period March 2011 through March 2012. These reviews are described in greater detail at pages 7-8.

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 notifies the responsible Divisions as to any concerns with draft and final documents relating to legislation, rules (including exchange rules) or investigations. Initial discussions are usually informal. The OIG actively monitors the proposed rules and regulations under development as a result of Dodd-Frank Act. Formal comments were not submitted to 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 of the Office of Inspector General, and made contact with Congressional staff concerning various agency and IG issues as appropriate. The IG served 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.

OTHER REVIEWS

An important function in each Agency OIG is the peer review process. The Inspector General community's annual report, *A Progress Report to the President, Fiscal Year 2007*,² described the processes for audits and investigative peer reviews 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.³

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

² <http://www.ignet.gov/randp/fy07apr.pdf>.

³ Id. at p.19.

- 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 Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”), Pub. L. 111-203, 124 Stat. 1376 (2010), please be advised that no peer review was conducted of the CFTC OIG during this reporting period. However, during the prior reporting period, the Federal Election Commission Office of Inspector General completed a peer review of CFTC OIG, as of March 31, 2011, that resulted in 35 recommendations for improving CFTC OIG's operations. As of September 30, 2011, CFTC OIG had fully implemented all of the recommendations. CFTC OIG did not conduct any peer reviews during this reporting period and there remain no outstanding recommendations from peer reviews previously conducted by CFTC OIG.

2. Other Reviews and Activities

No other review activity took place during this reporting period.

<p style="text-align: center;">SUMMARY OF EACH REPORT MADE TO THE AGENCY HEAD CONCERNING REQUESTS FOR INFORMATION OR ASSISTANCE</p>
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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).

<p style="text-align: center;">REVISED MANAGEMENT DECISIONS</p>
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No management decisions were revised during this reporting period.

<p style="text-align: center;">INSPECTOR GENERAL DISAGREEMENT</p>
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The Inspector General did not disagree with any management decisions on OIG recommendations during this reporting period. 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 required the Agency on a yearly basis to provide to OIG an analysis of regional case filing statistics and costs associated with cases in various regions of the country. The Division of Enforcement submitted their yearly analysis to OIG in March 2010. In light of increased funding for FY09, FY10 and FY 11 (anticipated), corresponding anticipated staffing increases and the enactment of legislation that expands CFTC jurisdiction, we renew the recommendation that the Commission consider opening an additional CFTC office on the West Coast.

GAO LIAISON

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, reviews 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 audit, review and inspection activities identifies the goals of each endeavor 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 insure 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, Survey, 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 Audit

The following required audit is 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 the CFTC Customer Protection Fund

Section 745(g)(5)(I) of the Dodd-Frank Act requires the CFTC 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 OIG is undertaking this required audit

c. Annual Reviews and Evaluations

We will perform the following review and evaluation on an annual basis:

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 Compliance with the Federal 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.

Review of Agency Compliance with the Improper Payment Act of 2002

On July 22, 2010, President Obama signed into law the Improper Payments Elimination and Recovery Act. IPERA directs each agency's Inspector General to review agency improper payment reporting in the agency's Annual Financial Report. The Office of the Inspector General will annually review the agency compliance with IPERA.

At the discretion of the Inspector General, the projects described above periodically may be performed as audits.

d. Other Audits, Inspections, Surveys, 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.

At the close of the last reporting period, OIG reported that a previously intended examination of communications between CFTC staff and large traders had been tabled due to our workload during this prior reporting period. This review continues to be tabled.

e. Resources Required

OIG estimates that approximately one staff year 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 is updating its audit universe in view of CFTC's increased responsibilities under the Dodd-Frank Act and will reevaluate its staffing needs once the update is complete. Revision of the CFTC OIG audit procedures and other remediation-related tasks, and all other investigations, inspections, evaluations, review and other projects will consume up to two and a half staff years. Because OIG resources can be diverted at any time to an investigation, audit, inspection, survey, 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. In accordance with a recommendation contained in our most recent peer review, we have hired an experienced auditor to assist with remediation and supervise all audit activity, including audits performed by independent public accountants obtained on a contract basis. In FY 2013 we anticipate hiring one additional full time staff. Due to staff size, we will continue to utilize outside independent auditors to perform OIG audits as necessary.

CONTACTING THE OFFICE OF THE INSPECTOR GENERAL

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>.

Table 1

**Reports Issued with Questioned Costs
(April 1, 2012 – September 30, 2012)**

		Dollar Value Thousands		
	Number	Questioned	Unsupported	
A.	For which no management decision has been made by the commencement of the reporting period	0	0	0
B.	Which were issued during the reporting period	0	0	0
	Subtotals (A + B)	0	0	0
C.	For which a management decision was made during the reporting period	0	0	0
(I)	dollar value of disallowed costs	0	0	0
(ii)	dollar value of costs not disallowed	0	0	0
D.	For which no management decision has been made by the end of the reporting period	0	0	0

Table 2

**Reports Issued with Recommendations
That Funds be Put to Better Use
(April 1, 2012 – September 30, 2012)**

	Number	<u>Dollar Value</u> Thousands
A. For which no management decision has been made by the commencement of the reporting period	0	0
B. Which were issued during the reporting period	0	0
Subtotals (A + B)	0	0
C. For which a management decision was made during the reporting period	0	0
(i) dollar value of recommendations that were agreed to by management	0	0
(ii) dollar value of recommendations that were not agreed to by management	0	0
D. For which no management decision has been made by the end of the reporting period	0	0



**THE INSPECTOR GENERAL
NEEDS YOUR HELP TO ASSURE
THE INTEGRITY OF CFTC'S
PROGRAMS AND OPERATIONS.**

**Report FRAUD, WASTE or ABUSE
in connection with
CFTC Programs and Operations
to the Office of the
INSPECTOR GENERAL.**

You may report ANONYMOUSLY.

**HOTLINE
(202) 418-5510**

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