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semiannual reports of the Office of the Inspector General
(OIG) 1996-1999

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FOIA Compliance Office
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581
[Online FOIA Request Form](#)

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U.S. COMMODITY FUTURES TRADING COMMISSION

Three Lafayette Centre
1155 21st Street, NW, Washington, DC 20581
www.cftc.gov

May 2, 2017

RE: 17-00078-FOIA

A digital/electronic copy of the following CFTC OIG Semi-Annual Reports for the time period covering March 1996 through September 1999. (Date Range for Record Search: From 03/01/1996 To 09/30/1999)

This is in response to your request dated February 21, 2017 under the Freedom of Information Act seeking access to a digital/electronic copy of the following CFTC OIG Semi-Annual Reports for the time period covering March 1996 through September 1999. In accordance with the FOIA and agency policy, we have searched our records, as of March 24, 2017, the date we received your request in our FOIA office.

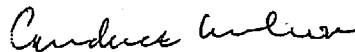
We have located 256 pages of responsive records. You are granted full access to the responsive records, which are enclosed.

You may contact the Office of Government Information Services (OGIS) at the National Archives and Records Administration to inquire about the FOIA mediation services they offer. The contact information for OGIS is as follows: Office of Government Information Services, National Archives and Records Administration, Room 2510, 8601 Adelphi Road, College Park, Maryland 20740-6001, email at ogis@nara.gov; telephone at 202-741-5770; toll free at 1-877-684-6448; or facsimile at 202-741-5769.

If you are not satisfied with this response to your request, you may appeal by writing to Freedom of Information Act Appeal, Office of the General Counsel, Commodity Futures Trading Commission, Three Lafayette Centre, 8th Floor, 1155 21st Street, N.W., Washington, D.C. 20581, within 90 days of the date of this letter. Please enclose a copy of your original request and a copy of this response.

If you have any questions about the way we handled your request, or about our FOIA regulations or procedures, please contact Tameka Tilliman at 202-418-5091.

Sincerely,

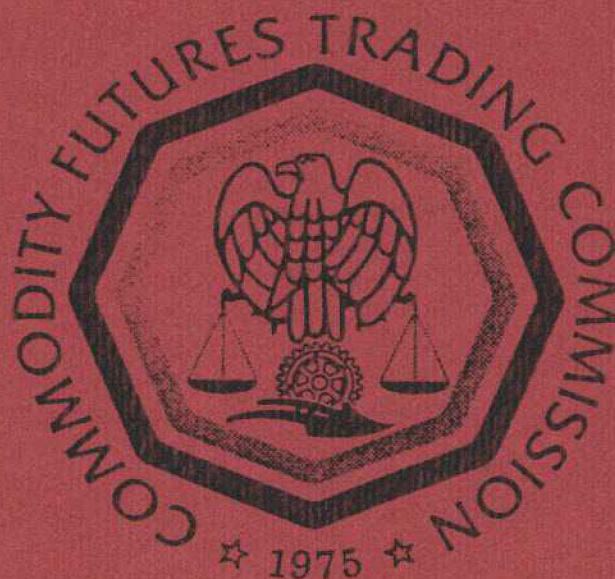
A handwritten signature in cursive script, appearing to read "Candace Ambrose".

Candace Ambrose
Counsel

COMMODITY FUTURES TRADING COMMISSION

**SEMIANNUAL REPORT
OF THE**

**OFFICE OF THE
INSPECTOR GENERAL**



FOR THE PERIOD ENDING MARCH 31, 1996



U.S. COMMODITY FUTURES TRADING COMMISSION

Three Lafayette Centre
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Telephone: (202) 418-5110
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April 30, 1996

OFFICE OF
INSPECTOR GENERAL

TO: John E. Tull
Acting Chairman

FROM: A. Roy Lavik *AL*
Inspector General

SUBJECT: Semiannual Report of the Office of the Inspector
General

Attached is the Semiannual Report of the Office of the Inspector General for the period from October 1, 1995 through March 31, 1996. This report is submitted to you in accordance with the requirements of Section 5 of the Inspector General Act of 1978, as amended.

I appreciate your support of this office.

Attachment

OFFICE OF THE INSPECTOR GENERAL
COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT
FOR THE PERIOD FROM
OCTOBER 1, 1995 THROUGH MARCH 31, 1996

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SUMMARY OF OIG ACTIVITIES

AUDITS

The primary objectives of the Office of the Inspector General (OIG) are to help promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse. This reporting period's OIG audit activities which are listed below reflect these objectives.

Current Audits

The following are the audits being conducted during the current reporting period and continuing into the next reporting period. (For additional details, see the section on current audits on page 15.)

Review of the Use of American Express Cards for Official Travel. The review of CFTC employees' use of the American Express Cards which were issued for official travel was initiated in February 1996 to determine if the cards were being used for other than official travel related purposes. (For additional details, see the section on current audits on page 16.)

Peer Review of a Designated Federal Entity. The OIG has agreed to undertake the peer review of a Designated Federal Entity Office of the Inspector General to determine whether an effective internal quality control system has been established which complies with the Government Auditing Standards promulgated by the Comptroller General of the United States and whether established policies, procedures, and applicable auditing standards are being followed in practice. (For additional details, see the section on current audits on page 16.)

Audit of Compliance with the Federal Managers' Financial Integrity Act. In support of OMB Circular A-123 (Revised), the Inspector General will evaluate, provide technical assistance, and advise the agency head as to whether the agency's review and evaluation process was conducted in accordance with the circular's requirements. (For additional details, see the section on current audits on page 17.)

Lobbying Restrictions. Public Law 101-121, Section 319, prohibits payment of appropriated funds for lobbying (representation). The IG is required to review compliance and report on the implementation and results of the

disclosure process. (For additional details, see the section on current audits on page 17.)

Imprest Funds. The OIG will review expenditures from the Chicago, Kansas City, New York, and Washington, D.C. imprest funds. (For additional details, see the section on current audits on page 18.)

Completed Audits

The following are the audits completed during this reporting period. (For additional details, see the section on completed audits on page 5.)

Review of the Rule Enforcement Review Program. The review resulted in findings in three areas: the time elapsed between initiation of rule enforcement reviews and the delivery of the reports to the Commission, the cost of staff hours associated with the reports, and the documentation supporting assertions contained in the reports. (For additional details, see the section on completed audits on page 5.)

Audit of Imprest Fund -- Los Angeles. The OIG determined that all funds were properly accounted for, the cashier was generally following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. (For additional details, see the section on completed audits on page 6.)

Cash Verification of Imprest Fund -- Washington, DC. The OIG found that all funds were accounted for. (For additional details, see the section on completed audits on page 7.)

INVESTIGATIONS

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

One investigation was pending as of the opening of the reporting period. The OIG opened no investigations during the reporting period and completed one investigation. No investigations remained open at the end of the period. (For a

more detailed description of this investigation, see the section on investigations on page 7.)

LEGISLATIVE AND REGULATORY REVIEWS

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

The Regulatory Flexibility Act requires the agency to evaluate the impact of its regulations on small entities. The Paperwork Reduction Act requires the agency to manage effectively and efficiently its information collections so that they are the least burdensome necessary to achieve the stipulated objectives. (For more detailed descriptions of these reviews, see the section on legislative and regulatory reviews on page 8.)

Rules more prominently reviewed during this period include:

- Audit Trail Review;
- A case appeal; and
- A proposed complaint.

OIG RESPONSIBILITIES

The Office of the Inspector General in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;

- o Conduct and supervise audits and, where necessary, investigations relating to the administration of CFTC programs and operations;
- o Review existing and proposed legislation and regulations and to make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- o Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Given that the CFTC does not have extensive contracts or grant making authority, the OIG's efforts have been focused on the review of legislative and regulatory proposals and the monitoring of internal CFTC operations.

OIG RESOURCES

The OIG consists of the Inspector General, two professional staff members, and a secretary. The present Inspector General assumed his position on October 7, 1990.

The OIG, on December 4, 1989, signed a Memorandum of Understanding with the Office of General Counsel (OGC). This Memorandum details the procedures that will be used to provide the OIG with OGC legal services. An OGC staff member has been assigned to provide such services to the OIG on an as-needed basis.

CFTC PROGRAMS AND OPERATIONS

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

The basic objectives of the CFTC are to prevent manipulation of the markets, abusive trade practices, and fraudulent activities; to maintain effective oversight of the markets and self-regulatory organizations; and to enforce the Commodity Exchange Act and Commission rules without hindering the futures markets' provision of price discovery and risk shifting services.

The CFTC regulates the futures activities of brokerage firms, salespersons, floor brokers, floor traders, commodity pool operators, commodity trading advisors, introducing brokers, and leverage transaction merchants. In addition, the agency ensures the effective enforcement of exchange rules, reviews the terms and conditions of proposed futures contracts and the registration of firms and individuals who provide advice or handle customer funds, and oversees the activities of the National Futures Association.

COMPLETED WORK

AUDITS

The OIG is required to conduct, supervise and coordinate audits of CFTC programs and operations and to ensure that the audits are conducted in accordance with generally accepted government auditing standards. The OIG is also required to recommend changes to existing and proposed CFTC programs and operations to promote economy, efficiency, and effectiveness and to prevent and detect fraud and abuse.

The purpose of these audits is to ensure that:

- Funds have been expended in a manner consistent with related laws, regulations, and policies;
- Resources have been managed effectively and efficiently;
- Stipulated program objectives have been achieved; and
- Resources have been safeguarded.

The following audit reports have been issued during the reporting period.

1. Review of the Rule Enforcement Review Program

Objectives.

The audit is designed to determine whether the Division of Trading and Markets (T&M), Contract Markets Section's rule enforcement review program is operating efficiently and to determine what changes, if any, should be made to the program.

Results.

On March 26, 1996, the OIG completed a review of the Division of Trading and Markets, Contract Markets Section's Rule Enforcement Review Program. After an extensive survey of the program, encompassing visits to four CFTC regional offices, the review was concentrated on three areas: the time elapsed between the initiation of the rule enforcement reviews and the delivery of the reports to the Commission, the cost of staff hours associated with the reports, and the documentation supporting assertions contained in the reports.

As a result of this review, the OIG found that the elapsed time from the initiation of the rule enforcement review until delivery of the reports to the Commission averaged approximately thirteen months and that the newly installed procedures delegating increased responsibility to the regional offices should continue to reduce the time taken to produce a report; the cost of the individual reviews is highly dependent on the size of the exchange being reviewed; and assertions contained in the rule enforcement review reports generally are supported by documentary or testimonial evidence but that evidence is not organized in a manner which allows it to be readily located in one place.

Accordingly, the OIG recommended that the Rule Enforcement Unit continue with its efforts to delegate responsibility for drafting major portions of the rule enforcement review report to the regional offices to continue the reduction in time between the initiation and completion of a review; organize and store the supporting documentation for the rule enforcement review reports in a manner which will allow the swift association of report assertions with the proper documents; and maintain documents relevant to report recommendations in the relating files until all action required to comply with the recommendations has been completed by the exchanges. T&M has undertaken to implement these recommendations.

2. **Audit of Imprest Fund -- Los Angeles.**

Objectives.

The purpose of the audit is to determine whether the imprest fund is being administered in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), the Treasury Financial Manual (I TFM 4-3000), and CFTC Instruction 344-1. The audit is designed to ensure that all funds are properly accounted for, the amount of the fund is not in excess of cash requirements, the cashier is following procedures that adequately protect the funds from loss or misuse, and the cashier is not making unauthorized

use of the funds. The audit covered the period from January 31, 1995 through January 29, 1996.

Results.

A report issued on March 22, 1996 disclosed that all funds are properly accounted for, the cashier was generally following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. However, in order to better protect the funds, OIG recommended that the cashier: 1) review the signature cards currently on hand and ensure that a signature card is on file for each authorizing official; 2) require that a signature be obtained from each authorizing official before disbursing money from the imprest fund; and 3) require that the alternate cashier return his cash advance when he expects to be absent for an extended period of time.

Although the fund continued to appear to be in excess of cash requirements, the OIG did not recommend that the amount of the fund be reduced.

3. Cash Verification of Imprest Fund -- Washington, D.C.

Objectives.

In accordance with the "Manual of Procedures and Instructions for Cashiers" distributed by the Department of the Treasury, the Commission is required to conduct an unannounced verification of the cash balance in each imprest fund at least once each quarter.

Results.

No deficiencies were noted in the December 15, 1995 cash verification of the Washington, D.C. imprest fund.

INVESTIGATIONS

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

One investigation was pending as of the opening of the reporting period. The OIG opened no investigations during the

reporting period and completed one investigation. No investigations remained open at the end of the period.

The investigation which was open at the beginning of the period related to an allegation that a CFTC employee had written a book that did not contain the standard disclaimer of attribution to the CFTC, that the employee had worked on the book on CFTC time, and had used CFTC resources. The OIG found that the standard disclaimer was not needed because of the brief nature of the references to the employee's association with CFTC as part of a biographical sketch in the dust jacket of the book. The OIG found no evidence that the employee did any substantial work on the book while on the CFTC payroll nor evidence that the employee converted other CFTC resources to personal use. Accordingly, the investigation was closed on October 6, 1996.

LEGISLATIVE AND REGULATORY REVIEWS

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

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

RULE REVIEWS INITIATED IN PREVIOUS REPORTING PERIODS

1. Proposed amendments to allow certain customer orders to be placed without specified customer account identification. (CFTC Rule 1.35(a-1)).

Summary of Rule.

The CFTC proposed amendments to Regulation 1.35 that would permit orders submitted on behalf of multiple customer accounts not to have individual identifying account numbers if the person placing the orders has investment discretion as to each account and the executing FCM has a single series designation for all the accounts. The designation has to contain a predetermined order allocation applicable to all listed individual accounts.

The amendments would also permit specified institutional accounts for certain futures and options orders to be exempt from the account identification requirement if executed as part of an intermarket strategy involving securities. Such orders would have to be allocated no later than the deadline for final submission of trade data to clearing on the day the order is executed.

OIG Review.

OIG commented on various sections of the rule and its accompanying explanation. The comments focussed on the coverage of the institutional accounts and the reach of disqualifying interest in the specified accounts. The proposed rule was published for comment in the Federal Register on May 3, 1993 with comments due by June 17, 1993. Staff continues to consider all comments received.

2. Exemption from Dual Trading Prohibition (CFTC Rule 155.5(d))

Summary of Rule.

Several exchanges submitted petitions for exemptions for various contracts from the dual trading prohibitions in Commission Regulation 155.5. The prohibition prevents a broker from trading for his own account and other specified accounts during the same trading session in which he has executed customers orders in an affected contract market.

OIG Review.

OIG discussed the issue with relevant staff and made comments and raised questions. Staff is examining a submission from the New York Cotton Exchange. Disposition of the dual trading petitions has been deferred pending resolution of audit trail issues.

RULE REVIEWS INITIATED THIS REPORTING PERIOD

1. Audit Trail Review

Summary of Action.

The CFTC continued its analysis of the sufficiency of two exchanges' audit trail constructions as required by the Futures Trading Practices Act of 1992. The CFTC prepared a follow-up test to determine such sufficiency.

OIG Review.

The OIG reviewed the follow-up test and had various suggestions about its design.

2. Case Appeal

Summary of Case.

An appeal was taken from a decision adverse to the CFTC involving the nonregistration of sellers of futures contracts.

OIG Review.

OIG suggested an alternative approach to an important issue in the appeal. Staff adopted the OIG position.

3. Proposed Complaint

Summary of Investigation.

A proposed complaint sought to decide if the respondents had engaged in manipulation affecting a futures market.

OIG Review.

OIG noted certain aspects of the complaint that merited amplification.

AUDIT REPORTS OVER SIX MONTHS OLD

CORRECTIVE ACTION NOT COMPLETED

1. Review of Information Systems of the Division of Economic Analysis

Findings and Recommendations.

On August 31, 1994, the OIG submitted a report entitled, "Review of the Information Systems of the Division of Economic Analysis -- Market Analysis Section" to the Chairman.

The report stated that the OIG had determined that the staff of the Market Analysis Section is using the manual and automated information resources and technology available to them to best advantage in carrying out their responsibilities. However, the OIG also found that in situations where the standard retrieval

system does not provide adequate information the staff of the Market Analysis Section relies on the sometimes fallible memories of long-time staff members to recall instances of the agency's past handling of issues in designations and rule reviews similar to those now being received by the Commission. These memories are then used to search paper files of past designations and rule reviews to find first the files, then the appropriate documents, and then the appropriate analyses and conclusions which may be relevant to the identification and resolution of current issues. The staff absorbs all of the successfully identified information and often uses the same approach to the analysis and sometimes the same reasoning and the same language to deal with current issues.

Document management technology currently available in the Commission provides an opportunity to greatly improve on this time-consuming and imperfect process. Accordingly, the OIG recommended that the Chairman direct the Director, Office of Information Resources Management, subject to the availability of resources and in consideration of existing OIRM priorities, to use available technology to provide the Market Analysis staff with access on their personal computers: to optical images of all paper contract market designation and rule review documents which can be searched by categories or key words input by Market Analysis staff at the time the documents were scanned; to optical character recognition (OCR) scans of all paper documents which can be searched by other words not identified at the time of scanning; to machine-readable, internally created, contract market designation and rule review documents which can be searched by categories or key words input by Market Analysis staff or by other words not identified at the time of scanning; and to the currently available machine-readable version of the Commodity Exchange Act. The OIG recommended that the Director, Division of Economic Analysis assign staff to scan the old, current, and prospective paper documents relating to designations and rule reviews and store them in the optical system; assign staff to associate categories or key words with each of the old, current, and prospective paper documents relating to designations and rule reviews which are scanned and stored in the optical system; and establish a system for insuring that newly created, internal contract market designation and rule review documents are transmitted in machine-readable form to OIRM for inclusion in an automated system which can be accessed by Market Analysis staff. If, at some future time, the exchanges and/or the Commission produce their rules and the updates to those rules in machine-readable form, the OIG recommended that they too be incorporated into the document management system and made available to the Market Analysis staff.

Status.

In a memorandum dated March 27, 1995, the Chairman concurred with the recommendations of the report and directed implementation of those recommendations.

OIRM staff completed development of the Market Regulation and Rule Review System for the Division of Economic Analysis (DEA). Current designations and rule review documents are being processed for DEA by the system and viewing and retrieval capability is available from all desktop workstations in the Market Analysis Section.

In addition, more than 50,000 documents have been scanned and added to the database of information. Work is underway to convert the scanned documents to a text format which can be accessed by the retrieval software. By the end of the Third Quarter 1996, OIRM expects to have completed this process and to have the system fully available to employees of the Market Analysis Section.

CORRECTIVE ACTION COMPLETED

1. Review of the CFTC Recruitment Process

Findings and Recommendations.

The OIG issued a report on May 8, 1992. The report recommended that the Chairman request that the Office of Personnel Management (OPM) delegate nation-wide examining authority to the Commission for all of the non-status applicants for all Futures Trading Specialist and Futures Trading Investigator vacancy announcements. (This delegation could be supplemented with delegated authority to hire economists and/or others at a future date.) The report recommended that the Director, Office of Personnel arrange that she, or a member of her staff, travel at least once each year to each Commission regional office to insure that all supervisors are aware of the recruitment options available to them. These trips should also be used to give supervisors feedback concerning the results of their decisions concerning selective placement factors, geographic limitations, and sources of recruitment. The report also recommended that the Director, Office of Personnel establish a position, within the Office of Personnel, devoted to carrying out the functions required by the delegation of examining authority from OPM.

Action.

The CFTC Office of Human Resources (OHR) now has the authority to fill all CFTC's General Schedule positions independently. As of March 13, 1996, OHR received authority and the needed training to begin operating its own Delegated Examining Unit. The Director of Human Resources will be traveling in the next few months to the New York and Chicago offices to brief managers on this new flexibility. An article has been published in the agency news letter, the "Link", in April notifying employees and managers about the new authority.

2. Review of Reparations Case Processing

Findings and Recommendations.

In an April 19, 1993 report, the OIG determined that: excessive backlogs of reparations cases have not, during the period of the review, existed in the Office of Proceedings; excessive backlogs of appealed reparations cases developed in the Office of General Counsel and the Offices of the Chairman and the Commissioners through the beginning of Fiscal Year 1992; backlogs in the Office of General Counsel and the Offices of the Chairman and the Commissioners were reduced significantly during FY 1992 as the result of high level attention to the problem; the Office of Proceedings and the Office of General Counsel count the number of appeals differently and these differences result in the reporting of inconsistent data; the reparations process can be improved by changes in the rules relating to timing of the filing of the response and the initiation of the discovery process; the automated systems available to track the progress of reparations cases in the Office of Proceedings, while labor intensive, costly to maintain, and antiquated, still function to produce accurate individual case and summary information; the overall automated systems available to track the progress of cases from receipt to completion are insufficient to provide all relevant program managers with the information necessary to determine if their programs are being operated effectively and efficiently.

As a result of this review, the Office of the Inspector General recommended that: subject to the availability of resources and in consideration of existing Office of Information Resources Management priorities, the Executive Director instruct the Director, OIRM to develop a unified reparations case tracking system to replace the existing systems; the Chairman, based upon advice from the General Counsel and the Executive Director, decide on a single method of counting appeals for management reporting purposes to insure consistency of reporting to the Commission, Congress, and the public and as a precursor to the development of a unified system; the Chairman authorize the Office of General Counsel to prepare a Commission sign-off sheet recommending changes in the reparations rules, relating to the

time for filing a response to a complaint and the initiation of discovery, along with the necessary documents for notice and comment for publication in the Federal Register; and the Chairman regularly monitor the level of the backlog of reparation appeals to insure that excessive backlogs do not reappear.

Action.

The Reparations Case Tracking System was placed in production in the Office of Proceedings on October 1, 1995. It is fully integrated into the work process of the office and has enhanced their ability to manage the myriad of activities associated with a reparations case filing.

In addition, in late November 1995 an integrated subsystem was developed for the Reparations Case Tracking System for the Office of the General Counsel to support the reparations case appeals process.

On March 20, 1996, the remaining piece of the Reparations Case Tracking System was completed and placed in operation for the Office of the Secretary. This subsystem supports the Commission approval process.

MANAGEMENT DECISION NOT MADE

There were no instances of reports issued before the commencement of the reporting period for which a management decision had not been made by the end of the reporting period.

SUMMARY OF MATTERS REFERRED TO
PROSECUTIVE AUTHORITIES

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

SUMMARY OF EACH REPORT MADE
TO THE AGENCY HEAD

No reports were made to the agency head under section 6(b)(2) concerning information or assistance unreasonably refused or not provided.

REVISED MANAGEMENT DECISIONS

No management decisions were revised during the reporting period.

INSPECTOR GENERAL DISAGREEMENT

The Inspector General does not disagree with any management decisions on OIG recommendations.

CURRENT AUDITS

The audit agenda and priorities for the OIG are determined based on the following factors:

- Statutory and regulatory requirements;
- Adequacy of internal control systems as indicated by vulnerability assessments and internal control reviews recommended by OMB Circular A-123;
- Changes in the program conditions or particular vulnerability of the organization, program, activity, or function to problems or deficiencies;
- Current and potential dollar magnitude and likely benefits of a review on the efficiency or effectiveness of CFTC programs and operations;
- Management priorities and improvements that may be possible;
- Results of audits of CFTC programs and operations by other Federal agencies; and
- Availability of audit resources and the potential opportunity costs to the agency.

The audit agenda and summary of progress for each audit which has not yet been completed is summarized below. New agenda items periodically will be added, as appropriate, along with a description of the audit objective for each.

1. Review of the Use of American Express Cards for Official Travel

Objectives.

The review of CFTC employees' use of the American Express Cards which were issued for use for official travel related expenses was begun following an inquiry by Congressman William F. Clinger, Jr., Chairman of the Committee on Government Reform and Oversight concerning whether the cards were being used for other than official travel related purposes. Following a conversation with a member of Mr. Clinger's staff about his inquiry, the OIG determined to review CFTC employees' use, over the period from July 1, 1995 through December 31, 1995, of the American Express cards issued under the American Express Government Travel Payment Program. The OIG determined to aggregate the findings under the following categories of employee: Executive Level, Senior Executive Service (Non-Career), Senior Executive Service (Career), Schedule C, General Schedule, and Wage Grade.

Status.

At the close of the reporting period, the basic data on all charges had been collected for all CFTC users of the American Express Cards. The uses of the cards were compared to the listings of official travel for each card user to identify questionable charges. In the coming weeks, the OIG will track down the questionable charges to determine if the cards have been used for purposes not related to official travel. The findings will then be arrayed into the categories of employees listed in the objectives above.

2. Peer Review of a Designated Federal Entity

Objectives.

The OIG has agreed to undertake the peer review of a Designated Federal Entity Office of the Inspector General to determine whether an effective internal quality control system has been established which complies with the Government Auditing Standards promulgated by the Comptroller General of the United States and whether established policies, procedures, and applicable auditing standards are being followed in practice.

Status.

The OIG has received the completed questionnaire on the organization's quality control policies and procedures. In the coming months, the OIG will conduct on-site interviews of the audit officials and select a sample of the work of the office.

The sample will be analyzed to determine if the office procedures reflect the design of the quality control system.

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

Objectives.

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.

Status.

The OIG participated in the 1996 planning meeting of the CFTC Internal Control Committee and offered its services as advisor and consultant on conducting and reporting on internal control reviews. In the next reporting period the OIG expects to review all draft internal control reviews produced by the Commission and provide guidance on perfecting the reviews. At the completion of the audit, the OIG will report the results of its review to the Chairman in its annual assurance letters.

4. Lobbying Restrictions

Objectives.

Public Law 101-121, Section 319, prohibits payment of appropriated funds for lobbying (representation). The law requires that persons receiving government funds in excess of \$100,000 certify that appropriated funds were not and will not be used for lobbying activities and disclose when non-appropriated funds are used for lobbying activities. The IG is required to review compliance and report on the implementation and results of the disclosure process.

Status.

The OIG will begin this review during the third quarter of FY 1996. It is scheduled for completion during the next reporting period.

5. Imprest Funds

Objectives.

The OIG will review expenditures from CFTC imprest funds to determine compliance with CFTC Instruction 344-1 and the Department of the Treasury Manual of Procedures and Instructions for Cashiers. Specifically, the audits are designed to verify that all funds are properly accounted for; the amount of each fund is not in excess of the cash requirements; the cashier is following procedures that will adequately protect the funds from loss or misuse; and the cashier is not making unauthorized use of the funds. The imprest funds are maintained in Washington, D.C.; Chicago, Illinois; New York, New York; Los Angeles, California; and Kansas City, Missouri.

In addition, the Department of the Treasury Manual of Procedures and Instructions for Cashiers requires CFTC to verify cash balances of imprest funds at least once each quarter.

Status.

The OIG has scheduled audits of the Chicago, Kansas City, New York, and Washington imprest funds for the next reporting period. Additionally, verifications of cash balances are scheduled for each fund during each quarter.

GAO LIAISON

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

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

INTRODUCTION

The Office of the Inspector General (OIG) in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- . Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- . Conduct and supervise audits and investigations relating to the administration of CFTC programs and operations;
- . Review existing and proposed legislation and regulations and to make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- . Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Accordingly, the OIG has established three programs to carry out its responsibilities: audit, investigation, and legislative and regulatory review. A summary of those programs follows.

AUDIT

The primary objectives of the OIG are to promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse.

The key to effectively and efficiently managing the Commodity Futures Trading Commission is information. Top level managers and decision makers require a steady stream of organized data on the effects of their policy decisions and resource

allocations on the operations of the Commission. Once having made the decision to change resource levels or policy, managers must receive accurate and timely reports of the operational effects of their decision so they can determine if the change is in the direction and of the magnitude predicted. In the absence of such information, top level managers cannot adequately perform their jobs.

A number of obstacles to acquiring and transmitting the desired information to decision makers may exist in some programs. Principal among them is the Commission's apparent difficulty in many instances in tracking the progress of a particular action across organizational lines within the Commission.

A simple example is the Reparations Program prior to the installation of an OIG recommended unified, Commission-wide tracking system. Complaints are received and processed and hearings are held in the Office of Proceedings; appeals of initial decisions in reparations cases are transmitted to the Office of General Counsel where proposed Commission opinions are drafted; and appeals are decided by the Commission with the paperwork being handled by the Office of the Secretariat. Each office involved in the process had a separate tracking system without ties to the tracking systems in the offices preceding them or following them in the process. Each office treated the case as if it were brand new to the Commission when they received it. As a result, there was no provision for tracking information across organizational lines. If the Chairman wanted to know how much time was spent on the average reparations case of a particular description at each stage in the process, that information was unavailable without an extensive expenditure of manual labor.

A related problem is the difficulty the Commission has in associating resources devoted to an activity with the results of that activity. The Commission does a good job of tracking resources expended. It can determine how much staff time and material at what cost was spent in a particular activity. Some Commission organizations can even associate costs with particular projects. What a program manager may have great difficulty doing, however, is telling a decision maker that for a specific level of increase in resources, the program manager will deliver a specific level of increased output. Without this information from all programs competing for limited resources, decision makers cannot make reasoned resource allocation judgements. Decision makers are forced to rely on intuition and anecdotal evidence.

To increase the efficiency and the effectiveness of the management of CFTC programs and operations, the OIG will, in addition to the conduct of mandatory audits, concentrate its

audit resources on the identification of information voids and the lack of continuity in the flow of information across organizational lines from the beginning of a process until its conclusion. The OIG will recommend the implementation of any system improvements where the benefits of implementing the changes exceed the costs.

INVESTIGATION

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

The OIG has to date conducted only a reactive investigative program relying on unsolicited employee complaints as the source of investigative leads. This reactive program has resulted in only a handful of investigations per year. This strategy was followed because the OIG believed that an independent regulatory agency such as CFTC without grant money or substantial contracts to award was not likely to generate a substantial investigative workload.

To insure that employee complaints could easily reach the OIG, a 24 hour hotline was established in February 1993 to receive complaints. The hotline's existence is publicized on the back cover of the agency-wide telephone book and in this semiannual report.

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

LEGISLATIVE AND REGULATORY REVIEW

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

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

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

AUDIT AGENDA

ANNUAL AUDITS

The Inspector General is required to complete annually the first audit listed. Others listed in this annual audit section are those which the OIG believes are best accomplished on an annual basis.

1. Lobbying Restrictions

Public Law 101-121, Section 319, prohibits payment of appropriated funds for lobbying (representation). The law requires that disclosure forms be filed with contracts, grants, cooperative agreements and other forms of government awards. The IG is required to review compliance and report on the implementation and results of the disclosure process.

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

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

3. Audit of Imprest Funds -- New York, Chicago, Kansas City, Los Angeles, and Washington

CFTC maintains imprest funds in Washington D.C., Chicago, Illinois, New York, N.Y., Kansas City, Missouri, and Los Angeles, California. These funds have been established primarily to make small purchases and travel advances. OIG has determined that an annual audit of funds is appropriate because of the detailed accountability requirements of the Treasury Manual, the personal risk of each cashier, and the potential for errors and irregularities.

4. Cash Verifications of Imprest Funds -- New York, Chicago, Kansas City, Los Angeles, and Washington.

Treasury requires that unannounced verifications of cash balances in imprest funds be made at least quarterly. Only the cash verifications of the imprest funds in Washington, D.C. will be completed by the Office of the Inspector General. Quarterly cash verifications at other locations will be completed by on site regional CFTC personnel who will send reports of their findings to the Office of the Inspector General.

OTHER AUDITS

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

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

If recommendations are successfully implemented, the proposed systems should allow the Chairman, the Commissioners, and concerned program managers to track progress of a particular program across organizational lines and to quickly determine the effects, if any, of changes in policy, procedure, or staffing.

The first step in accomplishing this goal will be to concentrate on documenting, and recommending the improvement and/or development of tracking systems in every program element throughout the Commission.

RESOURCES REQUIRED

The OIG estimates that approximately one and one-half staff years of effort will be devoted over each of the next five years to the audits described in "Other Audits" above. The "Annual Audits" are expected to consume approximately one-half staff year per year.

CONTACTING OFFICE OF THE INSPECTOR GENERAL

The OIG is located in Room 4092 at 1155 21st Street N.W., Washington, D.C. 20581. The telephone number is (202)418-5110. The facsimile number is (202)418-5522. The hotline number is (202)418-5510. Confidential mail may be sent to P.O. Box 33906, Washington, D.C. 20033-0906. Regular business hours are between 8:30 AM and 5:00 PM, Monday through Friday, except Federal holidays.

Table 1

Reports Issued with Questioned Costs (October 1, 1995 - March 31, 1996)

	Number	Dollar Value (Thousands)	
		Questioned Costs	Unsupported Costs
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	
(ii) dollar value of costs not disallowed.....	0	0	
D. For which no management decision has been made by the end of the reporting period.....	0	0	0

Table 2

Reports Issued with Recommendations That Funds be Put to Better Use (October 1, 1995 - March 31, 1996)

	Number -----	Dollar Value (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

COMMODITY FUTURES TRADING COMMISSION

**SEMIANNUAL REPORT
OF THE**

**OFFICE OF THE
INSPECTOR GENERAL**



FOR THE PERIOD ENDING SEPTEMBER 30, 1996




U.S. COMMODITY FUTURES TRADING COMMISSION

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

OFFICE OF
THE INSPECTOR GENERAL

October 30, 1996

TO: Brooksley Born
Chairperson

FROM: A. Roy Lavik 
Inspector General

SUBJECT: Semiannual Report of the Office of the Inspector
General

Attached is the Semiannual Report of the Office of the Inspector General for the period from April 1, 1996 through September 30, 1996. This report is submitted to you in accordance with the requirements of Section 5 of the Inspector General Act of 1978, as amended.

I look forward to working with you.

Attachment

OFFICE OF THE INSPECTOR GENERAL
COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT
FOR THE PERIOD FROM
APRIL 1, 1996 THROUGH SEPTEMBER 30, 1996

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SUMMARY OF OIG ACTIVITIES

AUDITS

The primary objectives of the Office of the Inspector General (OIG) are to help promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse. This reporting period's OIG audit activities which are listed below reflect these objectives.

Current Audits

The following are the audits being conducted during the current reporting period and continuing into the next reporting period. (For additional details, see the section on current audits beginning on page 14.)

Review of Enforcement Information Requirements. The objectives of this review are to determine what the information needs of all levels in the Division of Enforcement are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner. (For additional details, see the section on current audits on page 15.)

Audit of Compliance with the Federal Managers' Financial Integrity Act. In support of OMB Circular A-123 (Revised), the Inspector General will evaluate, provide technical assistance, and advise the agency head as to whether the agency's review and evaluation process was conducted in accordance with the circular's requirements. (For additional details, see the section on current audits on page 16.)

Audit of Imprest Fund -- Washington, D.C. On June 5, 1996, the OIG began an audit to determine whether all funds were properly accounted for, the amount of the fund was not in excess of cash requirements, the cashier was following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. (For additional details, see the section on current audits on page 16.)

Imprest Funds. The OIG will review expenditures from the Los Angeles imprest fund. (For additional details, see the section on current audits on page 17.)

Completed Audits

The following are the audits completed during this reporting period. (For additional details, see the section on completed audits on page 5.)

Review of the Use of American Express Cards for Official Travel. This review disclosed that 146 out of 185 Commission employees, who used their American Express Government Account Card during the period from late June 1995 through early January 1996, used the card only for official travel and travel related expenses. Thirty-nine employees used their American Express Cards for expenses other than those related to official travel. Of the 39 employees, 15 did not have any official travel related expenses during that period. (For additional details, see the section on completed audits on page 6.)

Peer Review of a Designated Federal Entity. The OIG concluded that the reviewed OIG has an effective internal quality control system in place. Audit work follows established policies, procedures, and standards. (For additional details, see the section on completed audits beginning on page 6.)

Audit of Imprest Fund -- Kansas City. The OIG determined that all funds were properly accounted for, the amount of the fund was not in excess of cash requirements, the cashier was generally following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. (For additional details, see the section on completed audits on page 7.)

Audit of Imprest Fund -- Chicago. The OIG determined that all funds were properly accounted for, the amount of the fund was not in excess of cash requirements, the cashier was generally following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. (For additional details, see the section on completed audits on page 7.)

Audit of Imprest Fund -- New York. The OIG determined that all funds were properly accounted for, the cashier was generally following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. (For additional details, see the section on completed audits on page 8.)

Cash Verification of Imprest Fund -- Washington, DC. The OIG found that all funds were accounted for. (For additional details, see the section on completed audits on page 8.)

INVESTIGATIONS

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

No investigations were pending as of the beginning of the reporting period. The OIG did not open any investigations during the reporting period. Therefore, no investigations remained open at the end of the period.

LEGISLATIVE AND REGULATORY REVIEWS

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

The Regulatory Flexibility Act requires the agency to evaluate the impact of its regulations on small entities. The Paperwork Reduction Act requires the agency to manage effectively and efficiently its information collections so that they are the least burdensome necessary to achieve the stipulated objectives. (For more detailed descriptions of these reviews, see the section on legislative and regulatory reviews beginning on page 9.)

Rules more prominently reviewed during this period include:

- o Proposed Amendments relating to correction of Trading records (CFTC Rule 1.35(d)(7); and
- o A proposed complaint.

OIG RESPONSIBILITIES

The Office of the Inspector General in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- o Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- o Conduct and supervise audits and, where necessary, investigations relating to the administration of CFTC programs and operations;
- o Review existing and proposed legislation and regulations and make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- o Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Given that the CFTC does not have extensive contracts or grant making authority, the OIG's efforts have been focused on the review of legislative and regulatory proposals and the monitoring of internal CFTC operations.

OIG RESOURCES

The OIG consists of the Inspector General, two professional staff members, and a secretary. The present Inspector General assumed his position on October 7, 1990.

The OIG, on December 4, 1989, signed a Memorandum of Understanding with the Office of General Counsel (OGC). This Memorandum details the procedures that will be used to provide the OIG with OGC legal services. An OGC staff member has been assigned to provide such services to the OIG on an as-needed basis.

CFTC PROGRAMS AND OPERATIONS

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

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

COMPLETED WORK

AUDITS

The OIG is required to conduct, supervise and coordinate audits of CFTC programs and operations and to ensure that the audits are conducted in accordance with generally accepted government auditing standards. The OIG is also required to recommend changes to existing and proposed CFTC programs and operations to promote economy, efficiency, and effectiveness and to prevent and detect fraud and abuse.

The purpose of these audits is to ensure that:

- o Funds have been expended in a manner consistent with related laws, regulations, and policies;
- o Resources have been managed effectively and efficiently;
- o Stipulated program objectives have been achieved; and
- o Resources have been safeguarded.

The following audit reports have been issued during the reporting period.

1. Review of the Use of American Express Cards for Official Travel

Objectives.

The purpose of the review was to determine whether Commission employees used the individually-billed American Express Card for personal use and whether they were meeting their contractual obligation to American Express. In accordance with the American Express cardholder agreement, the Government card may be used only for official travel and travel related expenses away from the official duty station. The card and the account are not to be used for personal purposes.

Results.

This review disclosed that 146 out of 185 Commission employees, who used their American Express Government Account Card during the period from late June 1995 through early January 1996, used the card only for official travel and travel related expenses. Thirty-nine employees used their American Express Cards for expenses other than those related to official travel. Of the 39 employees, 15 did not have any official travel related expenses during that period.

As a result of this review, the OIG recommended that management: 1) Continue to periodically remind employees of the nature of their contractual agreement with American Express; 2) Review the list of active cardholders in the American Express "Report of Accounts" to determine its accuracy; 3) Review procedures for canceling the American Express credit card accounts of departing employees to ensure that their individually billed accounts are being closed promptly; and 4) Develop a procedure for an annual supervisory certification to assure that each cardholder continues to be eligible because of the potential requirement to perform government travel on behalf of the Commission. In the event an employee's status has changed during the past year of coverage from that of a frequent traveler to that of a nontraveler, the procedure will give the supervisor an opportunity to direct the cancellation of the employee's American Express Card.

2. Peer Review of a Designated Federal Entity

Objectives.

To determine whether an effective internal quality control system has been established by a Designated Federal Entity's

Office of Inspector General which complies with the Government Auditing Standards promulgated by the Comptroller General of the United States and whether established policies, procedures, and applicable auditing standards are being followed in practice.

Results.

The OIG concluded that the reviewed OIG has an effective internal quality control system in place. Audit work follows established policies, procedures, and standards.

3. Audit of Imprest Fund -- Kansas City.

Objectives.

The purpose of the audit is to determine whether the imprest fund is being administered in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), the Treasury Financial Manual (I TFM 4-3000), and CFTC Instruction 344-1. The audit is designed to ensure that all funds are properly accounted for, the amount of the fund is not in excess of cash requirements, the cashier is following procedures that adequately protect the funds from loss or misuse, and the cashier is not making unauthorized use of the funds. The audit covered the period from May 1, 1995 through April 22, 1996.

Results.

A report issued on June 4, 1996 disclosed that all funds are properly accounted for, the amount of the fund was not in excess of cash requirements, the cashier was generally following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. However, in order to better protect the funds, OIG recommended that the cashier obtain signature cards from those individuals authorized to approve travel advances prior to disbursing money from the imprest fund.

4. Audit of Imprest Fund -- Chicago.

Objectives.

The purpose of the audit is to determine whether the imprest fund is being administered in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), the Treasury Financial Manual (I TFM 4-3000), and CFTC Instruction 344-1. The audit is designed to ensure that all funds are properly accounted for, the amount of the fund is not in excess of cash requirements, the cashier is following procedures that adequately protect the funds from loss or misuse, and the cashier is not making unauthorized

use of the funds. The audit covered the period from May 1, 1995 through April 24, 1996.

Results.

A report issued on July 26, 1996 disclosed that all funds are properly accounted for, the amount of the fund is not in excess of cash requirements, the cashier is generally following procedures that adequately protect the funds from loss or misuse, and the cashier is not making unauthorized use of the fund. However, in order to better protect the funds, OIG recommended that the cashier: 1) Require that a signature card be on file for each authorizing official before disbursing funds from the imprest fund; 2) Limit the amount of all travel advances to the estimated cost of meals, incidental expenses and miscellaneous transportation expenses; and 3) Limit cash travel advances to those instances when fewer than ten business days remain between trip authorization and the beginning date of travel.

5. Audit of Imprest Fund -- New York.

Objectives.

The purpose of the audit is to determine whether the imprest fund is being administered in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), the Treasury Financial Manual (I TFM 4-3000), and CFTC Instruction 344-1. The audit is designed to ensure that all funds are properly accounted for, the amount of the fund is not in excess of cash requirements, the cashier is following procedures that adequately protect the funds from loss or misuse, and the cashier is not making unauthorized use of the funds. The audit covered the period from August 1, 1995 through June 27, 1996.

Results.

A report issued on July 12, 1996 disclosed that all funds are properly accounted for, the cashier and alternate cashier are properly designated, and the cashier was following procedures that protect the funds from loss or misuse.

Although the fund continued to appear to be in excess of cash requirements, the OIG did not recommend that the amount of the fund be reduced.

6. Cash Verification of Imprest Fund -- Washington, D.C.

Objectives.

In accordance with the "Manual of Procedures and Instructions for Cashiers" distributed by the Department of the

Treasury, the Commission is required to conduct an unannounced verification of the cash balance in each imprest fund at least once each quarter.

Results.

No deficiencies were noted in the June 5, 1996 and September 6, 1996 cash verifications of the Washington, D.C. imprest fund.

INVESTIGATIONS

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

There were no investigations pending as of the beginning of the reporting period. The OIG did not open any investigations during the reporting period. Therefore, no investigations remained open at the end of the period.

LEGISLATIVE AND REGULATORY REVIEWS

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

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

RULE REVIEWS INITIATED IN PREVIOUS REPORTING PERIODS

1. **Proposed amendments to allow certain customer orders to be placed without specified customer account identification. (CFTC Rule 1.35(a-1)).**

Summary of Rule.

The CFTC proposed amendments to Regulation 1.35 that would permit orders submitted on behalf of multiple customer accounts not to have individual identifying account numbers if the person placing the orders has investment discretion as to each account and the executing FCM has a single series designation for all the accounts. The designation has to contain a predetermined order allocation applicable to all listed individual accounts.

The amendments would also permit specified institutional accounts for certain futures and options orders to be exempt from the account identification requirement if executed as part of an intermarket strategy involving securities. Such orders would have to be allocated no later than the deadline for final submission of trade data to clearing on the day the order is executed.

OIG Review.

OIG commented on various sections of the rule and its accompanying explanation. The comments focussed on the coverage of the institutional accounts and the reach of disqualifying interest in the specified accounts. The proposed rule was published for comment in the Federal Register on May 3, 1993 with comments due by June 17, 1993. Staff continues to consider all comments received.

2. **Exemption from Dual Trading Prohibition (CFTC Rule 155.5(d))**

Summary of Rule.

Several exchanges submitted petitions for exemptions for various contracts from the dual trading prohibitions in Commission Regulation 155.5. The prohibition prevents a broker from trading for his own account and other specified accounts during the same trading session in which he has executed customers orders in an affected contract market.

OIG Review.

OIG discussed the issue with relevant staff and made comments and raised questions. Staff is examining a submission

from the New York Cotton Exchange. Commencing with the COMEX in the Fall of 1996, the Commission will dispose of the exchanges' dual trading petitions.

3. Audit Trail Review

Summary of Action.

The CFTC continued its analysis of the sufficiency of two exchanges' audit trail constructions as required by the Futures Trading Practices Act of 1992. The CFTC prepared a follow-up test to determine such sufficiency.

OIG Review.

The OIG participated in commenting on the design of the retest. The Commission is taking action on audit trail as announced in its report on Audit Trail Status and Retest dated August 12, 1996.

RULE REVIEWS INITIATED THIS REPORTING PERIOD

1. Proposed Amendments relating to correction of Trading records (CFTC Rule 1.35(d)(7)).

Summary of Action.

Staff proposed to amend Rule 1.35(d)(7) to clarify a procedure for the correction of errors on trading cards and to apply that procedure to other trading records. The proposed amendment specified that corrections could only be made by a single line cross-out of the error.

OIG Review.

OIG suggested to staff that rather than specifying the means of correction, emphasis be given to the goal of continued legibility of the original error. After public comment, staff adopted this suggestion.

2. Proposed Complaint

Summary of Case.

Proposed complaints addressed new areas of Commission attention.

OIG Review.

OIG sought to clarify CFTC's legal ability to make prospective rulings only.

AUDIT REPORTS OVER SIX MONTHS OLD

CORRECTIVE ACTION NOT COMPLETED

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

CORRECTIVE ACTION COMPLETED

1. **Review of Information Systems of the Division of Economic Analysis**

Findings and Recommendations.

On August 31, 1994, the OIG submitted a report entitled, "Review of the Information Systems of the Division of Economic Analysis -- Market Analysis Section" to the Chairman.

The report stated that the OIG had determined that the staff of the Market Analysis Section is using the manual and automated information resources and technology available to them to best advantage in carrying out their responsibilities. However, the OIG also found that in situations where the standard retrieval system does not provide adequate information the staff of the Market Analysis Section relies on the sometimes fallible memories of long-time staff members to recall instances of the agency's past handling of issues in designations and rule reviews similar to those now being received by the Commission. These memories are then used to search paper files of past designations and rule reviews to find first the files, then the appropriate documents, and then the appropriate analyses and conclusions which may be relevant to the identification and resolution of current issues. The staff absorbs all of the successfully identified information and often uses the same approach to the analysis and sometimes the same reasoning and the same language to deal with current issues.

Document management technology currently available in the Commission provides an opportunity to greatly improve on this time-consuming and imperfect process. Accordingly, the OIG recommended that the Chairman direct the Director, Office of Information Resources Management, subject to the availability of resources and in consideration of existing OIRM priorities, to

use available technology to provide the Market Analysis staff with access on their personal computers: to optical images of all paper contract market designation and rule review documents which can be searched by categories or key words input by Market Analysis staff at the time the documents were scanned; to optical character recognition (OCR) scans of all paper documents which can be searched by other words not identified at the time of scanning; to machine-readable, internally created, contract market designation and rule review documents which can be searched by categories or key words input by Market Analysis staff or by other words not identified at the time of scanning; and to the currently available machine-readable version of the Commodity Exchange Act. The OIG recommended that the Director, Division of Economic Analysis assign staff to scan the old, current, and prospective paper documents relating to designations and rule reviews and store them in the optical system; assign staff to associate categories or key words with each of the old, current, and prospective paper documents relating to designations and rule reviews which are scanned and stored in the optical system; and establish a system for insuring that newly created, internal contract market designation and rule review documents are transmitted in machine-readable form to OIRM for inclusion in an automated system which can be accessed by Market Analysis staff. If, at some future time, the exchanges and/or the Commission produce their rules and the updates to those rules in machine-readable form, the OIG recommended that they too be incorporated into the document management system and made available to the Market Analysis staff.

Action.

In a memorandum dated March 27, 1995, the Chairman concurred with the recommendations of the report and directed implementation of those recommendations.

During the third quarter of FY 1996, OIRM staff completed and made operational the Market Regulation and Rule Review System for the Division of Economic Analysis (DEA). OIRM completed the process of converting the 50,000 scanned documents to a text format and indexed those documents. Since that conversion, DEA users have been able to conduct full-text searches of those documents and to retrieve, display and print the document images from a shared PC within their office.

DEA is currently updating the Image database with information to provide themselves the ability to retrieve images of documents using information maintained in the Market Regulation and Rule Review System. At the same time, OIRM is assisting DEA in the ongoing task of providing full-text search and retrieval capabilities for documents in word processing format as they are produced.

MANAGEMENT DECISION NOT MADE

There were no instances of reports issued before the commencement of the reporting period for which a management decision had not been made by the end of the reporting period.

**SUMMARY OF MATTERS REFERRED TO
PROSECUTIVE AUTHORITIES**

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

**SUMMARY OF EACH REPORT MADE
TO THE AGENCY HEAD**

No reports were made to the agency head under section 6(b)(2) concerning information or assistance unreasonably refused or not provided.

REVISED MANAGEMENT DECISIONS

No management decisions were revised during the reporting period.

INSPECTOR GENERAL DISAGREEMENT

The Inspector General does not disagree with any management decisions on OIG recommendations.

CURRENT AUDITS

The audit agenda and priorities for the OIG are determined based on the following factors:

- o Statutory and regulatory requirements;

- o Adequacy of internal control systems as indicated by vulnerability assessments and internal control reviews recommended by OMB Circular A-123;
- o Changes in the program conditions or particular vulnerability of the organization, program, activity, or function to problems or deficiencies;
- o Current and potential dollar magnitude and likely benefits of a review on the efficiency or effectiveness of CFTC programs and operations;
- o Management priorities and improvements that may be possible;
- o Results of audits of CFTC programs and operations by other Federal agencies; and
- o Availability of audit resources and the potential opportunity costs to the agency.

The audit agenda and summary of progress for each audit which has not yet been completed is summarized below. New agenda items periodically will be added, as appropriate, along with a description of the audit objective for each.

1. Review of Enforcement Information Requirements

Objectives.

The mission of the Division of Enforcement is to investigate and prosecute fairly and effectively violations of the Commodity Exchange Act and the Commission's regulations in order to safeguard the integrity of U.S. futures and options markets and to protect market participants and futures and options customers. In the course of its activities, the division, with headquarters and regional components, plans and follows an often complex course to achieve its objectives and receives and creates a huge volume of documents which must be logically stored and regularly accessed. To support the accomplishment of these tasks, the division is relying on a collection of very old manual and automated systems to track the progress of activities and to store and retrieve documents. The objectives of this review are to determine what the information needs of all levels in the division are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner.

Status.

As of the close of the reporting period, the survey phase of the review is underway. Various members of the Division of

Enforcement staff have been interviewed concerning their information requirements, and some of the manual and automated information systems have been studied. At the conclusion of the survey phase, an audit plan will be developed.

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

Objectives.

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.

Status.

The OIG has reviewed all of the draft internal control reviews produced by the Commission. At the completion of the audit, the OIG will report the results of its review to the Chairman in its annual assurance letters. The OIG will also attend the 1997 planning meeting of the CFTC Internal Control Committee and offer its services as advisor and consultant on conducting and reporting on internal control reviews.

3. Audit of Imprest Fund -- Washington, D.C.

Objectives.

The purpose of the audit is to determine whether the imprest fund is being administered in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers, the Treasury Financial Manual (I TFM 4-3000), and CFTC Instruction 344-1. The audit is designed to ensure that all funds are properly accounted for, the amount of the fund is not in excess of cash requirements, the cashier is following procedures that adequately protect the funds from loss or misuse, and the cashier is not making unauthorized use of the funds.

Status.

The audit began on June 5, 1996. Field work has been substantially completed and a draft report is currently being prepared. The draft report will be circulated for comments during October 1996.

4. Imprest Funds

Objectives.

The OIG will review expenditures from all five CFTC imprest funds to determine compliance with CFTC Instruction 344-1 and the Department of the Treasury Manual of Procedures and Instructions for Cashiers. Specifically, the audits are designed to verify that all funds are properly accounted for; the amount of each fund is not in excess of the cash requirements; the cashier is following procedures that will adequately protect the funds from loss or misuse; and the cashier is not making unauthorized use of the funds. The imprest funds are maintained in Washington, D.C.; Chicago, Illinois; New York, New York; Los Angeles, California; and Kansas City, Missouri.

In addition, the Department of the Treasury Manual of Procedures and Instructions for Cashiers requires CFTC to verify cash balances of imprest funds at least once each quarter. The OIG has accepted responsibility for verifying the cash balance of the Washington D.C. imprest fund.

Status.

The OIG has scheduled an audit of the Los Angeles imprest fund for the second quarter of the fiscal year. Additionally, verifications of cash balances are scheduled for each fund during each quarter. The other four imprest funds are expected to be audited in the second half of FY 1997.

GAO LIAISON

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

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

INTRODUCTION

The Office of the Inspector General (OIG) in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- . Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- . Conduct and supervise audits and investigations relating to the administration of CFTC programs and operations;
- . Review existing and proposed legislation and regulations and to make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- . Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Accordingly, the OIG has established three programs to carry out its responsibilities: audit, investigation, and legislative and regulatory review. A summary of those programs follows.

AUDIT

The primary objectives of the OIG are to promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse.

The key to effectively and efficiently managing the Commodity Futures Trading Commission is information. Top level managers and decision makers require a steady stream of organized data on the effects of their policy decisions and resource allocations on the operations of the Commission. Once having made the decision to change resource levels or policy, managers

must receive accurate and timely reports of the operational effects of their decision so they can determine if the change is in the direction and of the magnitude predicted. In the absence of such information, top level managers cannot adequately perform their jobs.

A number of obstacles to acquiring and transmitting the desired information to decision makers may exist in some programs. Principal among them is the Commission's apparent difficulty in many instances in tracking the progress of a particular action across organizational lines within the Commission.

A simple example is the Reparations Program prior to the installation of an OIG recommended unified, Commission-wide tracking system. Complaints are received and processed and hearings are held in the Office of Proceedings; appeals of initial decisions in reparations cases are transmitted to the Office of General Counsel where proposed Commission opinions are drafted; and appeals are decided by the Commission with the paperwork being handled by the Office of the Secretariat. Each office involved in the process had a separate tracking system without ties to the tracking systems in the offices preceding them or following them in the process. Each office treated the case as if it were brand new to the Commission when they received it. As a result, there was no provision for tracking information across organizational lines. If the Chairman wanted to know how much time was spent on the average reparations case of a particular description at each stage in the process, that information was unavailable without an extensive expenditure of manual labor.

A related problem is the difficulty the Commission has in associating resources devoted to an activity with the results of that activity. The Commission does a good job of tracking resources expended. It can determine how much staff time and material at what cost was spent in a particular activity. Some Commission organizations can even associate costs with particular projects. What a program manager may have great difficulty doing, however, is telling a decision maker that for a specific level of increase in resources, the program manager will deliver a specific level of increased output. Without this information from all programs competing for limited resources, decision makers cannot make reasoned resource allocation judgements. Decision makers are forced to rely on intuition and anecdotal evidence.

To increase the efficiency and the effectiveness of the management of CFTC programs and operations, the OIG will, in addition to the conduct of mandatory audits, concentrate its audit resources on the identification of information voids and the lack of continuity in the flow of information across

organizational lines from the beginning of a process until its conclusion. The OIG will recommend the implementation of any system improvements where the benefits of implementing the changes exceed the costs.

INVESTIGATION

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

The OIG has to date conducted only a reactive investigative program relying on unsolicited employee complaints as the source of investigative leads. This reactive program has resulted in only a handful of investigations per year. This strategy was followed because the OIG believed that an independent regulatory agency such as CFTC without grant money or substantial contracts to award was not likely to generate a substantial investigative workload.

To insure that employee complaints could easily reach the OIG, a 24 hour hotline was established in February 1993 to receive complaints. The hotline's existence is publicized on the back cover of the agency-wide telephone book and in this semiannual report.

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

LEGISLATIVE AND REGULATORY REVIEW

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

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

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

AUDIT AGENDA

ANNUAL AUDITS

The Inspector General believes that the following audits are best accomplished on an annual basis.

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

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

2. Audit of Imprest Funds -- New York, Chicago, Kansas City, Los Angeles, and Washington

CFTC maintains imprest funds in Washington D.C., Chicago, Illinois, New York, N.Y., Kansas City, Missouri, and Los Angeles, California. These funds have been established primarily to make small purchases and travel advances. OIG has determined that an annual audit of funds is appropriate because of the detailed accountability requirements of the Treasury Manual, the personal risk of each cashier, and the potential for errors and irregularities.

3. Cash Verifications of Imprest Funds -- New York, Chicago, Kansas City, Los Angeles, and Washington.

Treasury requires that unannounced verifications of cash balances in imprest funds be made at least quarterly. Only the cash verifications of the imprest funds in Washington, D.C. will be completed by the Office of the Inspector General. Quarterly cash verifications at other locations will be completed by on site regional CFTC personnel who will send reports of their findings to the Office of the Inspector General.

OTHER AUDITS

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

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

If recommendations are successfully implemented, the proposed systems should allow the Chairman, the Commissioners, and concerned program managers to track progress of a particular program across organizational lines and to quickly determine the effects, if any, of changes in policy, procedure, or staffing.

The first step in accomplishing this goal will be to concentrate on documenting, and recommending the improvement and/or development of tracking systems in every program element throughout the Commission.

RESOURCES REQUIRED

The OIG estimates that approximately one and one-half staff years of effort will be devoted over each of the next five years to the audits described in "Other Audits" above. The "Annual Audits" are expected to consume approximately one-half staff year per year.

CONTACTING OFFICE OF THE INSPECTOR GENERAL

The OIG is located in Room 4092 at 1155 21st Street N.W., Washington, D.C. 20581. The telephone number is (202)418-5110. The facsimile number is (202)418-5522. The hotline number is (202)418-5510. Confidential mail may be sent to P.O. Box 33906, Washington, D.C. 20033-0906. Regular business hours are between 8:30 AM and 5:00 PM, Monday through Friday, except Federal holidays.

Table 1

Reports Issued with Questioned Costs (April 1, 1996 - September 30, 1996)

	Number	Dollar Value (Thousands)	
		Questioned Costs	Unsupported Costs
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	
(ii) dollar value of costs not disallowed.....	0	0	
D. For which no management decision has been made by the end of the reporting period.....	0	0	0

Table 2

Reports Issued with Recommendations That Funds be Put to Better Use (April 1, 1996 - September 30, 1996)

	Number	Dollar Value (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.

Report **FRAUD, WASTE**
or **ABUSE** to the
INSPECTOR GENERAL
HOTLINE
(202)418-5510

Visit:

Office of the Inspector General
Commodity Futures Trading Commission
1155 21ST Street, N.W., Room 4092
Washington, D.C. 20581

or Write:

P.O. Box 33906
Washington, D.C. 20033-0906

COMMODITY FUTURES TRADING COMMISSION

**SEMIANNUAL REPORT
OF THE**

**OFFICE OF THE
INSPECTOR GENERAL**



FOR THE PERIOD ENDING MARCH 31, 1997



U.S. COMMODITY FUTURES TRADING COMMISSION

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

April 30, 1997

**OFFICE OF
THE INSPECTOR GENERAL**

TO: Brooksley Born
Chairperson

FROM: A. Roy Lavik *ARL*
Inspector General

SUBJECT: Semiannual Report of the Office of the Inspector
General

Attached is the Semiannual Report of the Office of the Inspector General for the period from October 1, 1996 through March 31, 1997. This report is submitted to you in accordance with the requirements of Section 5 of the Inspector General Act of 1978, as amended.

I appreciate your continuing support of this office.

Attachment

OFFICE OF THE INSPECTOR GENERAL
COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT
FOR THE PERIOD FROM
October 1, 1996 THROUGH March 31, 1997

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SUMMARY OF OIG ACTIVITIES

AUDITS

The primary objectives of the Office of the Inspector General (OIG) are to help promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse. This reporting period's OIG audit activities which are listed below reflect these objectives.

Current Audits

The following are the audits being conducted during the current reporting period and continuing into the next reporting period. (For additional details, see the section on current audits beginning on page 12.)

Review of Enforcement Information Requirements. The objectives of this review are to determine what the information needs of all levels in the Division of Enforcement are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner. (For additional details, see the section on current audits on page 13.)

Imprest Funds. The OIG will review expenditures from the Kansas City, Chicago, Washington, D.C., and New York imprest funds. (For additional details, see the section on current audits on page 14.)

Completed Audits

The following are the audits completed during this reporting period. (For additional details, see the section on completed audits on page 5.)

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

Audit of Imprest Fund -- Washington, D.C. The OIG determined that all funds were properly accounted for, the amount of the fund was not in excess of cash requirements, the cashier was generally following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. (For additional details, see the section on completed audits on page 6.)

Audit of Imprest Fund -- Los Angeles. The OIG determined that all funds were properly accounted for, the cashier was following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. (For additional details, see the section on completed audits on page 6.)

Cash Verification of Imprest Fund -- Washington, D.C. The OIG found that all funds were accounted for. (For additional details, see the section on completed audits on page 7.)

INVESTIGATIONS

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

No investigations were pending as of the beginning of the reporting period. The OIG opened three investigations during the reporting period and completed three investigations. No investigations remained open at the end of the period.

LEGISLATIVE AND REGULATORY REVIEWS

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

the long term; and (6) has met the requirements of the Regulatory Flexibility Act and the Paperwork Reduction Act.

The Regulatory Flexibility Act requires the agency to evaluate the impact of its regulations on small entities. The Paperwork Reduction Act requires the agency to manage effectively and efficiently its information collections so that they are the least burdensome necessary to achieve the stipulated objectives. (For more detailed descriptions of these reviews, see the section on legislative and regulatory reviews beginning on page 7.)

Legislation reviewed during this period include:

- Amendments to the Commodity Exchange Act, and the
- Inspector General Act.

OIG RESPONSIBILITIES

The Office of the Inspector General in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- Conduct and supervise audits and, where necessary, investigations relating to the administration of CFTC programs and operations;
- Review existing and proposed legislation and regulations and make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Given that the CFTC does not have extensive contracts or grant making authority, the OIG's efforts have been focused on the review of legislative and regulatory proposals and the monitoring of internal CFTC operations.

OIG RESOURCES

The OIG consists of the Inspector General, two professional staff members, and a secretary. The present Inspector General assumed his position on October 7, 1990.

The OIG, on December 4, 1989, signed a Memorandum of Understanding with the Office of General Counsel (OGC). This Memorandum details the procedures that will be used to provide the OIG with OGC legal services. An OGC staff member has been assigned to provide such services to the OIG on an as-needed basis.

CFTC PROGRAMS AND OPERATIONS

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

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

COMPLETED WORK

AUDITS

The OIG is required to conduct, supervise and coordinate audits of CFTC programs and operations and to ensure that the audits are conducted in accordance with generally accepted government auditing standards. The OIG is also required to recommend changes to existing and proposed CFTC programs and operations to promote economy, efficiency, and effectiveness and to prevent and detect fraud and abuse.

The purpose of these audits is to ensure that:

- Funds have been expended in a manner consistent with related laws, regulations, and policies;
- Resources have been managed effectively and efficiently;
- Stipulated program objectives have been achieved; and
- Resources have been safeguarded.

The following audit reports have been issued during the reporting period.

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

Objectives.

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.

Status.

The OIG reviewed all of the draft internal control reviews produced by the Commission and provided comments to the originating divisions. The OIG reported the results of its review of the final submissions to the Chairperson in its annual assurance letters. The OIG also attended the 1997 planning

meeting of the CFTC Internal Control Committee and offered its services as advisor and consultant on conducting and reporting on internal control reviews.

2. Audit of Imprest Fund -- Washington, D.C.

Objectives.

The purpose of the audit is to determine whether the imprest fund is being administered in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), the Treasury Financial Manual (I TFM 4-3000), and CFTC Instruction 344-1. The audit is designed to ensure that all funds are properly accounted for, the amount of the fund is not in excess of cash requirements, the cashier is following procedures that adequately protect the funds from loss or misuse, and the cashier is not making unauthorized use of the funds. The audit covered the period from April 11, 1994 through June 5, 1996.

Results.

A report issued on November 26, 1996 disclosed that all funds are properly accounted for, the amount of the fund was not in excess of cash requirements, the cashier was generally following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. OIG recommended that the cashier make a number of changes in operating procedures in order to ensure that controls are sufficient to protect the funds from loss or misuse.

3. Audit of Imprest Fund -- Los Angeles.

Objectives.

The purpose of the audit is to determine whether the imprest fund is being administered in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), the Treasury Financial Manual (I TFM 4-3000), and CFTC Instruction 344-1. The audit is designed to ensure that all funds are properly accounted for, the amount of the fund is not in excess of cash requirements, the cashier is following procedures that adequately protect the funds from loss or misuse, and the cashier is not making unauthorized use of the funds. The audit covered the period from February 1, 1996 through January 31, 1997.

Results.

A report issued on March 31, 1997 disclosed that all funds were properly accounted for, the amount of the fund was not in

excess of cash requirements, the cashier was following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. Use of the fund was discontinued effective February 3, 1997. Consequently no recommendations were made.

4. Cash Verification of Imprest Fund -- Washington, D.C.

Objectives.

In accordance with the "Manual of Procedures and Instructions for Cashiers" distributed by the Department of the Treasury, the Commission is required to conduct an unannounced verification of the cash balance in each imprest fund at least once each quarter.

Results.

No deficiencies were noted in the December 6, 1996 cash verification of the Washington, D.C. imprest fund.

INVESTIGATIONS

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

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

LEGISLATIVE AND REGULATORY REVIEWS

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

The OIG has notified the responsible Division as to any concerns with draft and final documents for the legislation, rules or investigations listed below. Formal comments were not

filed with the Commission. A summary of the principal legislation, regulations and investigations reviewed and the OIG review results follows.

RULE REVIEWS INITIATED IN PREVIOUS REPORTING PERIODS

1. **Proposed amendments to allow certain customer orders to be placed without specified customer account identification. (CFTC Rule 1.35(a-1)).**

Summary of Rule.

The CFTC proposed amendments to Regulation 1.35 that would permit orders submitted on behalf of multiple customer accounts not to have individual identifying account numbers if the person placing the orders has investment discretion as to each account and the executing FCM has a single series designation for all the accounts. The designation has to contain a predetermined order allocation applicable to all listed individual accounts.

The amendments would also permit specified institutional accounts for certain futures and options orders to be exempt from the account identification requirement if executed as part of an intermarket strategy involving securities. Such orders would have to be allocated no later than the deadline for final submission of trade data to clearing on the day the order is executed.

OIG Review.

OIG commented on various sections of the rule and its accompanying explanation. The comments focused on the coverage of the institutional accounts and the reach of disqualifying interest in the specified accounts. Staff drafted a proposed notice of interpretation and approval order interpreting regulation 1.35(a-1)(2)(i) account identification requirements as they pertain to bunched orders and approving an NFA interpretive notice. Staff continues to consider comments.

2. **Exemption from Dual Trading Prohibition (CFTC Rule 155.5(d))**

Summary of Rule.

Several exchanges submitted petitions for exemptions for various contracts from the dual trading prohibitions in Commission Regulation 155.5. The prohibition prevents a broker from trading for his own account and other specified accounts during the same trading session in which he has executed customers orders in an affected contract market.

OIG Review.

OIG discussed the issue with relevant staff and made comments and raised questions. Updates of the exchange petitions for exemptions have been published in the Federal Register. Staff continues to review the updated exchange petitions. The Commission will dispose of the exchanges' dual trading petitions in accordance with the August 1996 Audit Trail Report.

3. **Audit Trail Review**

Summary of Action.

The CFTC continued its analysis of the sufficiency of two exchanges' audit trail constructions as required by the Futures Trading Practices Act of 1992. The CFTC prepared a follow-up test to determine such sufficiency. After reviewing the results of the retest, the exchanges and the staff agreed to a number of improvements.

OIG Review.

The OIG participated in commenting on the design of the retest. The Commission is taking action on audit trail as announced in its Report on Audit Trail Status and Re-Test dated August 12, 1996.

RULE REVIEWS INITIATED THIS REPORTING PERIOD

1. **Proposed Amendments to the CEA Act**

Summary of Action.

Various bills have been introduced in Congress contemplating amendments to the CEA Act.

OIG Review.

The OIG advised that certain bill provisions might result in curtailment of the immunity of the Exchanges from antitrust liability.

2. Inspector General Act

Summary of Action.

A distillation of the Inspector General Act was prepared for briefing new agency heads.

OIG Review.

OIG noted that the description of the ability of agency heads to delegate general supervision of IG's was potentially confusing and should be clarified.

3. Proposed Investigation

Summary of Investigation.

Staff sought to delineate the responsibilities of Futures brokers to monitor the outside activities of their employees.

OIG Review.

The OIG raised questions about the extent of review called for under particular circumstances.

AUDIT REPORTS OVER SIX MONTHS OLD

CORRECTIVE ACTION NOT COMPLETED

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

CORRECTIVE ACTION COMPLETED

1. Review of the Use of American Express Cards for Official Travel

Findings and Recommendations.

On May 8, 1996, the OIG submitted a report entitled, "Review of CFTC Employee Use of American Express Cards" to the Acting Chairman.

The review disclosed that 146 out of 185 Commission employees, who used their American Express Government Account Card during the period from late June 1995 through early January 1996, used the card only for official travel and travel related expenses. Thirty-nine employees used their American Express Cards for expenses other than those related to official travel. Of the 39 employees, 15 did not have any official travel related expenses during that period.

As a result of this review, the OIG recommended that management: 1) Continue to periodically remind employees of the nature of their contractual agreement with American Express; 2) Review the list of active cardholders in the American Express "Report of Accounts" to determine its accuracy; 3) Review procedures for canceling the American Express credit card accounts of departing employees to ensure that their individually billed accounts are being closed promptly; and 4) Develop a procedure for an annual supervisory certification to assure that each cardholder continues to be eligible because of the potential requirement to perform government travel on behalf of the Commission. In the event an employee's status has changed during the past year of coverage from that of a frequent traveler to that of a nontraveler, the procedure will give the supervisor an opportunity to direct the cancellation of the employee's American Express Card.

Action.

In a memorandum dated May 15, 1996, the Acting Chairman reminded employees of the nature of the contractual agreement with American Express. On May 13, 1996, the Director, Office of Financial Management, requested supervisors to recertify active cardholders. The procedures for canceling the American Express credit card accounts of departing employees to ensure that their individually billed accounts are being closed promptly have been reviewed; and a procedure for an annual supervisory certification to assure that each cardholder continues to be eligible has been developed.

MANAGEMENT DECISION NOT MADE

There were no instances of reports issued before the commencement of the reporting period for which a management decision had not been made by the end of the reporting period.

SUMMARY OF MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

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

SUMMARY OF EACH REPORT MADE TO THE AGENCY HEAD

No reports were made to the agency head under section 6(b)(2) concerning information or assistance unreasonably refused or not provided.

REVISED MANAGEMENT DECISIONS

No management decisions were revised during the reporting period.

INSPECTOR GENERAL DISAGREEMENT

The Inspector General does not disagree with any management decisions on OIG recommendations.

CURRENT AUDITS

The audit agenda and priorities for the OIG are determined based on the following factors:

- Statutory and regulatory requirements;
- Adequacy of internal control systems as indicated by vulnerability assessments and internal control reviews recommended by OMB Circular A-123;

- Changes in the program conditions or particular vulnerability of the organization, program, activity, or function to problems or deficiencies;
- Current and potential dollar magnitude and likely benefits of a review on the efficiency or effectiveness of CFTC programs and operations;
- Management priorities and improvements that may be possible;
- Results of audits of CFTC programs and operations by other Federal agencies; and
- Availability of audit resources and the potential opportunity costs to the agency.

The audit agenda and summary of progress for each audit which has not yet been completed is summarized below. New agenda items periodically will be added, as appropriate, along with a description of the audit objective for each.

1. Review of Enforcement Information Requirements

Objectives.

The mission of the Division of Enforcement is to investigate and prosecute fairly and effectively violations of the Commodity Exchange Act and the Commission's regulations in order to safeguard the integrity of U.S. futures and options markets and to protect market participants and futures and options customers. In the course of its activities, the division, with headquarters and regional components, plans and follows an often complex course to achieve its objectives and receives and creates a huge volume of documents which must be logically stored and regularly accessed. To support the accomplishment of these tasks, the division is relying on a collection of very old manual and automated systems to track the progress of activities and to store and retrieve documents. The objectives of this review are to determine what the information needs of all levels in the division are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner.

Status.

The joint OIG/Enforcement team has produced and distributed for comment a narrative flow chart detailing the current operational functions and processes of the Division of

Enforcement. The effort to develop a narrative flow chart of the administrative processes of the Division of Enforcement is underway. These two flow charts are designed to inform the analysts of the Office of Information Resources Management of the inner workings of the Division of Enforcement and to serve as the base on which the information requirements of the Division of Enforcement will be defined.

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

Objectives.

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.

Status.

The OIG attended the 1997 planning meeting of the CFTC Internal Control Committee. It will serve as advisor and consultant on conducting and reporting on internal control reviews.

3. Imprest Funds

Objectives.

The OIG will review expenditures from all five CFTC imprest funds to determine compliance with CFTC Instruction 344-1 and the Department of the Treasury Manual of Procedures and Instructions for Cashiers. Specifically, the audits are designed to verify that all funds are properly accounted for; the amount of each fund is not in excess of the cash requirements; the cashier is following procedures that will adequately protect the funds from loss or misuse; and the cashier is not making unauthorized use of the funds. The imprest funds are maintained in Washington, D.C.; Chicago, Illinois; New York, New York; Los Angeles, California; and Kansas City, Missouri.

In addition, the Department of the Treasury Manual of Procedures and Instructions for Cashiers requires CFTC to verify cash balances of imprest funds at least once each quarter. The OIG has accepted responsibility for verifying the cash balance of the Washington D.C. imprest fund.

Status.

The OIG has scheduled audits of the Kansas City, Chicago, New York, and Washington, D.C. imprest funds for the second half of the fiscal year. Additionally, verifications of cash balances are scheduled for each fund during each quarter.

GAO LIAISON

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

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

INTRODUCTION

The Office of the Inspector General (OIG) in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- Conduct and supervise audits and investigations relating to the administration of CFTC programs and operations;
- Review existing and proposed legislation and regulations and to make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Accordingly, the OIG has established three programs to carry out its responsibilities: audit, investigation, and legislative and regulatory review. A summary of those programs follows.

AUDIT

The primary objectives of the OIG are to promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse.

The key to effectively and efficiently managing the Commodity Futures Trading Commission is information. Top level managers and decision makers require a steady stream of organized

data on the effects of their policy decisions and resource allocations on the operations of the Commission. Once having made the decision to change resource levels or policy, managers must receive accurate and timely reports of the operational effects of their decision so they can determine if the change is in the direction and of the magnitude predicted. In the absence of such information, top level managers cannot adequately perform their jobs.

A number of obstacles to acquiring and transmitting the desired information to decision makers may exist in some programs. Principal among them is the Commission's apparent difficulty in many instances in tracking the progress of a particular action across organizational lines within the Commission.

A simple example is the Reparations Program prior to the installation of an OIG recommended unified, Commission-wide tracking system. Complaints are received and processed and hearings are held in the Office of Proceedings; appeals of initial decisions in reparations cases are transmitted to the Office of General Counsel where proposed Commission opinions are drafted; and appeals are decided by the Commission with the paperwork being handled by the Office of the Secretariat. Each office involved in the process had a separate tracking system without ties to the tracking systems in the offices preceding them or following them in the process. Each office treated the case as if it were brand new to the Commission when they received it. As a result, there was no provision for tracking information across organizational lines. If the Chairman wanted to know how much time was spent on the average reparations case of a particular description at each stage in the process, that information was unavailable without an extensive expenditure of manual labor.

A related problem is the difficulty the Commission has in associating resources devoted to an activity with the results of that activity. The Commission does a good job of tracking resources expended. It can determine how much staff time and material at what cost was spent in a particular activity. Some Commission organizations can even associate costs with particular projects. What a program manager may have great difficulty doing, however, is telling a decision maker that for a specific level of increase in resources, the program manager will deliver a specific level of increased output. Without this information from all programs competing for limited resources, decision makers cannot make reasoned resource allocation judgments. Decision makers are forced to rely on intuition and anecdotal evidence.

To increase the efficiency and the effectiveness of the management of CFTC programs and operations, the OIG will, in addition to the conduct of mandatory audits, concentrate its audit resources on the identification of information voids and the lack of continuity in the flow of information across organizational lines from the beginning of a process until its conclusion. The OIG will recommend the implementation of any system improvements where the benefits of implementing the changes exceed the costs.

INVESTIGATION

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

The OIG has to date conducted only a reactive investigative program chiefly relying on unsolicited employee complaints as the source of investigative leads. This reactive program has resulted in only a handful of investigations per year. This strategy was followed because the OIG believed that an independent regulatory agency such as CFTC without grant money or substantial contracts to award was not likely to generate a substantial investigative workload.

To insure that employee complaints could easily reach the OIG, a 24 hour hotline was established in February 1993 to receive complaints. The hotline's existence is publicized on the back cover of the agency-wide telephone book and in this semiannual report.

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

LEGISLATIVE AND REGULATORY REVIEW

Because of the importance of this activity in an economic regulatory agency, the OIG reviews proposed and final CFTC regulations and legislation and selected exchange rules using five basic criteria: Whether the agency: (1) has identified specifically the problem(s) to be addressed by the proposal; (2) has defined through case study or data analysis a clear link between the proposed solution and the identified problem(s); (3) has specified clearly the means to effectively and efficiently enforce the proposal; (4) has assessed the likely efficiency and

effectiveness of alternative solutions; (5) can reasonably document that the proposal will yield positive net benefits over the long term; and (6) has met the requirements of the Regulatory Flexibility Act and the Paperwork Reduction Act.

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

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

AUDIT AGENDA

ANNUAL AUDITS

The Inspector General believes that the following audits are best accomplished on an annual basis.

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

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

2. **Audit of Imprest Funds -- New York, Chicago, Kansas City, Los Angeles, and Washington**

CFTC maintains imprest funds in Washington D.C., Chicago, Illinois, New York, N.Y., Kansas City, Missouri, and Los Angeles, California. These funds have been established primarily to make small purchases and travel advances. OIG has determined that an annual audit of funds is appropriate because of the detailed accountability requirements of the Treasury Manual, the personal risk of each cashier, and the potential for errors and irregularities.

3. Cash Verifications of Imprest Funds -- New York, Chicago, Kansas City, Los Angeles, and Washington.

Treasury requires that unannounced verifications of cash balances in imprest funds be made at least quarterly. Only the cash verifications of the imprest funds in Washington, D.C. will be completed by the Office of the Inspector General. Quarterly cash verifications at other locations will be completed by on site regional CFTC personnel who will send reports of their findings to the Office of the Inspector General.

OTHER AUDITS

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

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

If recommendations are successfully implemented, the proposed systems should allow the Chairman, the Commissioners, and concerned program managers to track progress of a particular program across organizational lines and to quickly determine the effects, if any, of changes in policy, procedure, or staffing.

The first step in accomplishing this goal will be to concentrate on documenting, and recommending the improvement and/or development of tracking systems in every program element throughout the Commission.

RESOURCES REQUIRED

The OIG estimates that approximately one and one-half staff years of effort will be devoted over each of the next five years to the audits described in "Other Audits" above. The "Annual Audits" are expected to consume approximately one-half staff year per year.

CONTACTING OFFICE OF THE INSPECTOR GENERAL

The OIG is located in Room 4092 at 1155 21st Street N.W., Washington, D.C. 20581. The telephone number is (202)418-5110. The facsimile number is (202)418-5522. The hotline number is (202)418-5510. Confidential mail may be sent to P.O. Box 33906, Washington, D.C. 20033-0906. Regular business hours are between 8:30 AM and 5:00 PM, Monday through Friday, except Federal holidays.

Table 1

Reports Issued with Questioned Costs (October 1, 1996 - March 31, 1997)

	Number	Dollar Value (Thousands)	
	-----	-----	-----
		Questioned Costs	Unsupported Costs
		-----	-----
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	
(ii) dollar value of costs not disallowed.....	0	0	
D. For which no management decision has been made by the end of the reporting period.....	0	0	0

Table 2

**Reports Issued with Recommendations
 That Funds be Put to Better Use
 (October 1, 1996 - March 31, 1997)**

	Number -----	Dollar Value (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.**

Report **FRAUD, WASTE**
or **ABUSE** to the
INSPECTOR GENERAL
HOTLINE
(202)418-5510

Visit:

Office of the Inspector General
Commodity Futures Trading Commission
1155 21ST Street, N.W., Room 4092
Washington, D.C. 20581

or Write:

P.O. Box 33906
Washington, D.C. 20033-0906

COMMODITY FUTURES TRADING COMMISSION

**SEMIANNUAL REPORT
OF THE**

**OFFICE OF THE
INSPECTOR GENERAL**



FOR THE PERIOD ENDING SEPTEMBER 30, 1997



U.S. COMMODITY FUTURES TRADING COMMISSION

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

OFFICE OF
THE INSPECTOR GENERAL

October 30, 1997

TO: Brooksley Born
Chairperson

FROM: A. Roy Lavik *ARL*
Inspector General

SUBJECT: Semiannual Report of the Office of the Inspector
General

Attached is the Semiannual Report of the Office of the Inspector General for the period from April 1, 1997 through September 30, 1997. This report is submitted to you in accordance with the requirements of Section 5 of the Inspector General Act of 1978, as amended.

I appreciate your continuing support of this office.

Attachment

OFFICE OF THE INSPECTOR GENERAL
COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT
FOR THE PERIOD FROM
April 1, 1997 THROUGH September 30, 1997

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SUMMARY OF OIG ACTIVITIES

AUDITS

The primary objectives of the Office of the Inspector General (OIG) are to help promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse. This reporting period's OIG audit activities which are listed below reflect these objectives.

Current Audits

The following are the audits being conducted during the current reporting period and continuing into the next reporting period. (For additional details, see the section on current audits beginning on page 16.)

Review of Enforcement Information Requirements. The objectives of this review are to determine what the information needs of all levels in the Division of Enforcement are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner. (For additional details, see the section on current audits on page 17.)

Audit of Compliance with the Federal Managers' Financial Integrity Act. In support of OMB Circular A-123 (Revised), the Inspector General will evaluate, provide technical assistance, and advise the agency head as to whether the agency's review and evaluation process was conducted in accordance with the circular's requirements. (For additional details, see the section on current audits on page 18.)

Imprest Funds. The OIG will conduct final audits of the Los Angeles, and Washington, D.C., imprest funds. (For additional details, see the section on current audits on page 18.)

Completed Audits

The following are the audits completed during this reporting period. (For additional details, see the section on completed audits on page 6.)

Audit of Imprest Fund -- Kansas City. The OIG determined that all funds were properly accounted for, the amount of the fund was not in excess of cash requirements, the cashier was generally following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. (For additional details, see the section on completed audits on page 6.)

Audit of Imprest Fund -- Chicago. The OIG determined that all funds were properly accounted for, the amount of the fund was not in excess of cash requirements, the cashier was generally following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. (For additional details, see the section on completed audits on page 7.)

Final Audit of Imprest Fund -- New York. The OIG determined that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the fund. The fund was properly liquidated on June 17, 1997. (For additional details, see the section on completed audits on page 8.)

Cash Verification of Imprest Fund -- Washington, D.C. The OIG found that all funds were accounted for. (For additional details, see the section on completed audits on page 8.)

Use of Commission Vehicles. The review disclosed that the vehicles were used to pick up and deliver supplies and transport Commission personnel. However, because several records were either missing or incomplete, OIG was unable to determine whether any misuse of the vehicles took place.

(For additional details, see the section on completed audits on page 9.)

INVESTIGATIONS

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

No investigations were pending as of the beginning of the reporting period. The OIG opened three investigations during the reporting period and completed three investigations. No investigations remained open at the end of the period. (For more detailed descriptions of these investigations, see the section on investigations beginning on page 9.)

LEGISLATIVE AND REGULATORY REVIEWS

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

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

(For more detailed descriptions of these reviews, see the section on legislative and regulatory reviews beginning on page 11.)

Regulations reviewed during this period include:

- Proposal to Permit Agricultural Trade Options, and the
- Proposed Rule Amendments Relating to Risk Disclosure Documents.

OIG RESPONSIBILITIES

The Office of the Inspector General in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- Conduct and supervise audits and, where necessary, investigations relating to the administration of CFTC programs and operations;
- Review existing and proposed legislation and regulations and make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Given that the CFTC does not have extensive contracts or grant making authority, the OIG's efforts have been focused on the review of legislative and regulatory proposals and the monitoring of internal CFTC operations.

OIG RESOURCES

The OIG consists of the Inspector General, two professional staff members, and a secretary. The present Inspector General assumed his position on October 7, 1990.

The OIG, on December 4, 1989, signed a Memorandum of Understanding with the Office of General Counsel (OGC). This Memorandum details the procedures that will be used to provide the OIG with OGC legal services. An OGC staff member has been assigned to provide such services to the OIG on an as-needed basis.

CFTC PROGRAMS AND OPERATIONS

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

The basic objectives of the CFTC are to prevent manipulation of the markets, abusive trade practices, and fraudulent activities; to maintain effective oversight of the markets and self-regulatory organizations; and to enforce the Commodity Exchange Act and Commission rules without hindering the futures markets' provision of price discovery and risk shifting services. The CFTC regulates the futures activities of brokerage firms, salespersons, floor brokers, floor traders, commodity pool operators, commodity trading advisors, introducing brokers, and leverage transaction merchants. In addition, the agency ensures

the effective enforcement of exchange rules, reviews the terms and conditions of proposed futures contracts and the registration of firms and individuals who provide advice or handle customer funds, and oversees the activities of the National Futures Association.

COMPLETED WORK

AUDITS

The OIG is required to conduct, supervise and coordinate audits of CFTC programs and operations and to ensure that the audits are conducted in accordance with generally accepted government auditing standards. The OIG is also required to recommend changes to existing and proposed CFTC programs and operations to promote economy, efficiency, and effectiveness and to prevent and detect fraud and abuse.

The purpose of these audits is to ensure that:

- Funds have been expended in a manner consistent with related laws, regulations, and policies;
- Resources have been managed effectively and efficiently;
- Stipulated program objectives have been achieved; and
- Resources have been safeguarded.

The following audit reports have been issued during the reporting period.

1. **Audit of Imprest Fund -- Kansas City.**

Objectives.

The purpose of the audit is to determine whether the

imprest fund is being administered in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), the Treasury Financial Manual (I TFM 4-3000), and CFTC Instruction 344-1. The audit is designed to ensure that all funds are properly accounted for, the amount of the fund is not in excess of cash requirements, the cashier is following procedures that adequately protect the funds from loss or misuse, and the cashier is not making unauthorized use of the funds. The audit covered the period from April 24, 1996 through April 28, 1997.

Results.

A report issued on June 11, 1997 disclosed that all funds were properly accounted for, the amount of the fund was not in excess of cash requirements, the cashier was following procedures that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. Use of the fund was discontinued effective February 3, 1997. Consequently no recommendations were made.

2. Audit of Imprest Fund -- Chicago.

Objectives.

The purpose of the audit is to determine whether the imprest fund is being administered in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), the Treasury Financial Manual (I TFM 4-3000), and CFTC Instruction 344-1. The audit is designed to ensure that all funds are properly accounted for, the amount of the fund is not in excess of cash requirements, the cashier is following procedures that adequately protect the funds from loss or misuse, and the cashier is not making unauthorized use of the funds. The audit covered the period from April 30, 1996 through April 30, 1997.

Results.

A report issued on June 30, 1997 disclosed that all funds were properly accounted for, the amount of the fund was not in excess of cash requirements, the cashier was following procedures

that adequately protect the funds from loss or misuse, and the cashier was not making unauthorized use of the fund. Use of the fund was discontinued effective June 2, 1997. Consequently no recommendations were made.

3. Final Audit of Imprest Fund -- New York.

Objectives.

The purpose of the audit was to determine whether the imprest fund was liquidated in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), and the Treasury Financial Manual (I TFM 4-3000). The audit was designed to ensure that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the funds during the period that the imprest fund was in operation. The audit covered the period from June 5, 1996 through June 17, 1997.

Results.

A report issued on July 18, 1997 disclosed that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the fund. On June 17, 1997, the fund was liquidated and the total amount was deposited to CFTC's account at the U.S Treasury.

4. Cash Verification of Imprest Fund -- Washington, D.C.

Objectives.

In accordance with the "Manual of Procedures and Instructions for Cashiers" distributed by the Department of the Treasury, the Commission is required to conduct an unannounced verification of the cash balance in each imprest fund at least once each quarter.

Results.

No deficiencies were noted in the May 13, 1997 cash verification of the Washington, D.C. imprest fund.

5. Use of Commission Vehicles

Objectives.

The purpose of this review was to determine whether the CFTC's Government leased motor vehicles were being used for official purposes only. The period covered by the review was from August 26, 1996, through July 7, 1997.

Results.

A report issued on August 22, 1997 disclosed that the vehicles were used to pick up and deliver supplies and transport Commission personnel. However, because several records were either missing or incomplete, OIG was unable to determine whether any misuse of the vehicles took place. OIG recommended a number of changes in procedures in order to assure that a complete record of vehicle usage is maintained.

INVESTIGATIONS

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

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

An anonymous letter alleging abuse of government time and telephone privileges by an employee of the Commission was referred to the OIG by the Chairperson. The subsequent OIG review of the pertinent telephone records disclosed a limited number of calls which could be personal. This matter was discussed with the employee who admitted the personal nature of those calls, acknowledged the violation of government rules, and agreed to cease making such calls. The OIG determined that the number and length of the calls and the minimal expense involved was not sufficient to require further action. Accordingly, this investigation was closed.

In response to an e-mail complaint by an employee that the CFTC process for dealing with requests for reasonable accommodation for disabled employees was not being properly followed in her case, the OIG obtained relevant documentation of the agency's dealings with the complaint. An analysis of this documentation indicated that the agency was following the prescribed course of action specified in its internal instruction. The OIG informed the employee that, in personnel matters, where there is a reasonable, functioning agency process established to deal with particular types of matters and there is no indication that the process is not being followed, the OIG, as a matter of policy, does not interfere with the process. The OIG informed the employee that our information was that there was a process in place and that the agency was following the requirements of the process to deal with her request. In the absence of information indicating a failure to follow the prescribed process, the OIG closed this investigation.

An employee of the Commission informed us that a former CFTC employee claimed that a current CFTC employee had sent him a lewd graphic via e-mail. This former employee had not provided any evidence to support his allegation. The OIG wrote an e-mail to the former employee asking him to help us to verify his claim by sending a copy of the offending e-mail to our office. In reply, the former employee repeated his unsubstantiated charge, did not supply the requested copy of the e-mail which led him to believe that a CFTC employee sent the offending graphic to him, and requested that the matter be dropped. In the absence of more complete information to be supplied by the former employee, the OIG closed the investigation.

LEGISLATIVE AND REGULATORY REVIEWS

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

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

RULE REVIEWS INITIATED IN PREVIOUS REPORTING PERIODS

1. **Proposed amendments to allow certain customer orders to be placed without specified customer account identification. (CFTC Rule 1.35(a-1)).**

Summary of Rule.

The CFTC proposed amendments to Regulation 1.35 that would permit orders submitted on behalf of multiple customer accounts not to have individual identifying account numbers if the person placing the orders has investment discretion as to each account and the executing FCM has a single series designation for all the accounts. The designation has to contain a predetermined order allocation applicable to all listed individual accounts.

The amendments would also permit specified institutional accounts for certain futures and options orders to be exempt from the account identification requirement if executed as part of an intermarket strategy involving securities. Such orders would have to be allocated no later than the deadline for final submission of trade data to clearing on the day the order is executed.

OIG Review.

OIG commented on various sections of the rule and its accompanying explanation. The comments focused on the coverage of the institutional accounts and the reach of disqualifying interest in the specified accounts. Staff drafted a proposed notice of interpretation and approval order interpreting regulation 1.35(a-1)(2)(i) account identification requirements as they pertain to bunched orders and approving an NFA interpretive notice.

2. Exemption from Dual Trading Prohibition (CFTC Rule 155.5(d))

Summary of Rule.

Several exchanges submitted petitions for exemptions for various contracts from the dual trading prohibitions in Commission Regulation 155.5. The prohibition prevents a broker from trading for his own account and other specified accounts during the same trading session in which he has executed customers orders in an affected contract market.

OIG Review.

OIG discussed the issue with relevant staff and made comments and raised questions. The Commission has approved unconditional exemptions for the COMEX Division of the New York Mercantile Exchange, the New York Cotton Exchange, and the Coffee Sugar & Cocoa Exchange. The Commission is currently considering exemptions for the Chicago Board of Trade and the Chicago Mercantile Exchange.

RULE REVIEWS INITIATED THIS REPORTING PERIOD

1. **Proposal to Permit Agricultural Trade Options**

Summary of Action.

The CFTC staff prepared a paper discussing various alternatives relating to agricultural trade options. Currently the trading of such options is prohibited except when executed on designated contract markets.

OIG Review.

The OIG raised questions about certain characterizations of political stability of foreign countries. The office also asked about the meaning of named market practices. Staff responded in a positive way to such questions.

2. **Proposed Rulemaking Relating to Rules 1.55, 1.65(a)(3), 30.6(a), and 33.7(a)**

Summary of Action.

The proposed rule amendments would relieve futures commission merchants and introducing brokers from providing risk disclosure documents to categories of financially accredited customers before opening an account for such customers.

OIG Review.

OIG raised issues about the interplay of the risk disclosure documents and the general obligation to provide material information.

3. **Description of the Office of the Inspector General's**

Summary of Action

A task force prepared a draft describing an Inspector General's Office for use by Congressional staff.

OIG Review

OIG noted an inaccuracy in the description of IG offices created by the 1988 amendments to the Inspector General Act. The requested changes were made.

4. **Audit Trail Review**

Summary of Action

Staff reviewed the audit trails of several exchanges seeking exemption from the ban on dual trading.

OIG Review

OIG made suggestions and raised questions with staff concerning its analysis. The Office referred staff to an OIG audit report of floor surveillance by CFTC staff for potential relevance. Staff took account of the report.

AUDIT REPORTS OVER SIX MONTHS OLD
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CORRECTIVE ACTION NOT COMPLETED

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

CORRECTIVE ACTION COMPLETED

There were no instances of reports issued before the commencement of the reporting period for which corrective action had been completed by the end of the reporting period.

MANAGEMENT DECISION NOT MADE

There were no instances of reports issued before the commencement of the reporting period for which a management decision had not been made by the end of the reporting period.

**SUMMARY OF MATTERS REFERRED TO PROSECUTIVE
AUTHORITIES**

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

**SUMMARY OF EACH REPORT MADE TO THE AGENCY
HEAD**

No reports were made to the agency head under section 6(b)(2) concerning information or assistance unreasonably refused or not provided.

REVISED MANAGEMENT DECISIONS

No management decisions were revised during the reporting period.

INSPECTOR GENERAL DISAGREEMENT

The Inspector General does not disagree with any management decisions on OIG recommendations.

CURRENT AUDITS

The audit agenda and priorities for the OIG are determined based on the following factors:

- Statutory and regulatory requirements;
- Adequacy of internal control systems as indicated by vulnerability assessments and internal control reviews recommended by OMB Circular A-123;
- Changes in the program conditions or particular vulnerability of the organization, program, activity, or function to problems or deficiencies;
- Current and potential dollar magnitude and likely benefits of a review on the efficiency or effectiveness of CFTC programs and operations;
- Management priorities and improvements that may be possible;
- Results of audits of CFTC programs and operations by other Federal agencies; and
- Availability of audit resources and the potential opportunity costs to the agency.

The audit agenda and summary of progress for each audit which has not yet been completed is summarized below. New agenda

items periodically will be added, as appropriate, along with a description of the audit objective for each.

1. Review of Enforcement Information Requirements

Objectives.

The mission of the Division of Enforcement is to investigate and prosecute fairly and effectively violations of the Commodity Exchange Act and the Commission's regulations in order to safeguard the integrity of U.S. futures and options markets and to protect market participants and futures and options customers. In the course of its activities, the division, with headquarters and regional components, plans and follows an often complex course to achieve its objectives and receives and creates a huge volume of documents which must be logically stored and regularly accessed. To support the accomplishment of these tasks, the division is relying on a collection of very old manual and automated systems to track the progress of activities and to store and retrieve documents. The objectives of this review are to determine what the information needs of all levels in the division are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner.

Status.

The joint OIG/Enforcement team produced extensive and detailed narrative flow charts of the current operational and administrative functions and processes of the Division of Enforcement and delivered them to the Division of Enforcement and the Office of Information Resources Management (OIRM). These products were designed to inform the analysts of OIRM of the inner workings of the Division of Enforcement and to serve as the base on which the information requirements of the Division of Enforcement will be defined.

In September 1997, in a joint meeting of representatives of the Division of Enforcement, the Office of the Inspector General, and the Office of Information Resources Management (OIRM), the principals made commitments of six staff years of effort from OIRM and approximately three staff years of effort from

Enforcement to define the system requirements of Enforcement. The agreed-upon plan calls for the development and implementation of a core system embracing the most vital functions of the Division of Enforcement and the progressive development and implementation over time of modular additions to the core system until all of the automation needs of the Division are met.

The development effort is expected to get underway in the middle of November 1997 with projected delivery of the first efforts at a core system within six months.

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

Objectives.

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.

Status.

The OIG reviewed all of the draft submissions of the various organizational entities assigned to produce internal control reviews by the CFTC Internal Control Committee. After a number of iterations, this review resulted in refocusing of some submissions and technical corrections of others. The OIG will review all of the final submissions and advise the Chairperson of the results of its review in its annual assurance letters.

3. **Imprest Funds**

Objectives.

The OIG will review expenditures from four CFTC imprest funds to determine compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers. Specifically, the audits are designed to verify that all funds were properly accounted for; the cashier followed procedures that adequately protected the funds from loss or misuse; the cashier

did not make unauthorized use of the funds, and appropriate closing procedures were followed. All four imprest funds have been closed. The funds were maintained in Washington, D.C.; Chicago, Illinois; Los Angeles, California; and Kansas City, Missouri.

Status.

The OIG has scheduled final audits of the Los Angeles, California, and Washington, D.C. imprest funds for the first half of the fiscal year.

GAO LIAISON

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

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

INTRODUCTION

The Office of the Inspector General (OIG) in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- Conduct and supervise audits and investigations relating to the administration of CFTC programs and operations;
- Review existing and proposed legislation and regulations and to make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Accordingly, the OIG has established three programs to carry out its responsibilities: audit, investigation, and legislative and regulatory review. A summary of those programs follows.

AUDIT

The primary objectives of the OIG are to promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse.

The key to effectively and efficiently managing the Commodity Futures Trading Commission is information. Top level managers and decision makers require a steady stream of organized data on the effects of their policy decisions and resource allocations on the operations of the Commission. Once having made the decision to change resource levels or policy, managers must receive accurate and timely reports of the operational effects of their decision so they can determine if the change is in the direction and of the magnitude predicted. In the absence of such information, top level managers cannot adequately perform their jobs.

A number of obstacles to acquiring and transmitting the desired information to decision makers may exist in some programs. Principal among them is the Commission's apparent difficulty in many instances in tracking the progress of a particular action across organizational lines within the Commission.

A simple example is the Reparations Program prior to the installation of an OIG recommended unified, Commission-wide tracking system. Complaints are received and processed and hearings are held in the Office of Proceedings; appeals of initial decisions in reparations cases are transmitted to the Office of General Counsel where proposed Commission opinions are drafted; and appeals are decided by the Commission with the paperwork being handled by the Office of the Secretariat. Each office involved in the process had a separate tracking system without ties to the tracking systems in the offices preceding them or following them in the process. Each office treated the case as if it were brand new to the Commission when they received it. As a result, there was no provision for tracking information across organizational lines. If the Chairman wanted to know how much time was spent on the average reparations case of a particular description at each stage in the process, that

information was unavailable without an extensive expenditure of manual labor.

A related problem is the difficulty the Commission has in associating resources devoted to an activity with the results of that activity. The Commission does a good job of tracking resources expended. It can determine how much staff time and material at what cost was spent in a particular activity. Some Commission organizations can even associate costs with particular projects. What a program manager may have great difficulty doing, however, is telling a decision maker that for a specific level of increase in resources, the program manager will deliver a specific level of increased output. Without this information from all programs competing for limited resources, decision makers cannot make reasoned resource allocation judgments. Decision makers are forced to rely on intuition and anecdotal evidence.

To increase the efficiency and the effectiveness of the management of CFTC programs and operations, the OIG will, in addition to the conduct of mandatory audits, concentrate its audit resources on the identification of information voids and the lack of continuity in the flow of information across organizational lines from the beginning of a process until its conclusion. The OIG will recommend the implementation of any system improvements where the benefits of implementing the changes exceed the costs.

INVESTIGATION

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

The OIG has to date conducted only a reactive investigative program chiefly relying on unsolicited employee complaints as the source of investigative leads. This reactive program has

resulted in only a handful of investigations per year. This strategy was followed because the OIG believed that an independent regulatory agency such as CFTC without grant money or substantial contracts to award was not likely to generate a substantial investigative workload.

To insure that employee complaints could easily reach the OIG, a 24 hour hotline was established in February 1993 to receive complaints. The hotline's existence is publicized on the back cover of the agency-wide telephone book and in this semiannual report.

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

LEGISLATIVE AND REGULATORY REVIEW

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

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

Because the OIG does not initiate legislation or, generally, regulations, the OIG legislative and regulatory review program is reactive to the legislative and regulatory proposals developed by

others. Accordingly, no independent legislative and regulatory review agenda has been established.

AUDIT AGENDA

ANNUAL AUDITS

The following audit is performed on an annual basis.

Audit of Compliance with the Federal Managers' Financial Integrity Act

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

OTHER AUDITS

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

These audits will entail a cataloging and description of all of the manual and automated systems used by an organization to gather information on its use of resources, the results of the devotion of those resources (including definitions of measurements of accomplishment), and the reporting of results and associated costs to the upper level managers in the Division and to the Chairman and the Commissioners. Cataloging of these decision support systems will be followed by an assessment of whether all concerned officials are timely receiving the information they require to efficiently allocate resources to

those uses which best accomplish the priorities of the Commission. If any elements are lacking in the information systems, they will be identified and improvements will be recommended if they can be implemented in a cost/beneficial manner.

If recommendations are successfully implemented, the proposed systems should allow the Chairman, the Commissioners, and concerned program managers to track progress of a particular program across organizational lines and to quickly determine the effects, if any, of changes in policy, procedure, or staffing.

The first step in accomplishing this goal will be to concentrate on documenting, and recommending the improvement and/or development of tracking systems in every program element throughout the Commission.

RESOURCES REQUIRED

The OIG estimates that approximately one and one-half staff years of effort will be devoted over each of the next five years to the audits described in "Other Audits" above. The "Annual Audits" are expected to consume approximately one-half staff year per year.

CONTACTING OFFICE OF THE INSPECTOR GENERAL

The OIG is located in Room 4092 at 1155 21st Street N.W., Washington, D.C. 20581. The telephone number is (202)418-5110. The facsimile number is (202)418-5522. The hotline number is (202)418-5510. Regular business hours are between 8:30 AM and 5:00 PM, Monday through Friday, except Federal holidays.

Table 1

**Reports Issued with Questioned Costs
(April 1, 1997 - September 30, 1997)**

	Number	Dollar Value (Thousands)	
		Questioned Costs	Unsupported Costs
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	
(ii) dollar value of costs not disallowed.....	0	0	
D. For which no management decision has been made by the end of the reporting period.....	0	0	0

Table 2

**Reports Issued with Recommendations
 That Funds be Put to Better Use
 (April 1, 1997 - September 30, 1997)**

	Number	Dollar Value (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.

Report **FRAUD, WASTE**
or **ABUSE** to the
INSPECTOR GENERAL
HOTLINE
(202)418-5510

Office of the Inspector General
Commodity Futures Trading Commission
1155 21ST Street, N.W., Room 4092
Washington, D.C. 20581

COMMODITY FUTURES TRADING COMMISSION

**SEMIANNUAL REPORT
OF THE**

**OFFICE OF THE
INSPECTOR GENERAL**



FOR THE PERIOD ENDING MARCH 31, 1998



U.S. COMMODITY FUTURES TRADING COMMISSION

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

OFFICE OF
THE INSPECTOR GENERAL

April 30, 1998

TO: Brooksley Born
Chairperson

FROM: A. Roy Lavik *ARL*
Inspector General

SUBJECT: Semiannual Report of the Office of the Inspector
General

Attached is the Semiannual Report of the Office of the Inspector General for the period from October 1, 1997 through March 31, 1998. This report is submitted to you in accordance with the requirements of Section 5 of the Inspector General Act of 1978, as amended.

I appreciate your continuing support of this office.

Attachment

OFFICE OF THE INSPECTOR GENERAL
COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT
FOR THE PERIOD FROM
October 1, 1997 THROUGH March 31, 1998

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SUMMARY OF OIG ACTIVITIES

AUDITS

The primary objectives of the Office of the Inspector General (OIG) are to help promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse. This reporting period's OIG audit activities which are listed below reflect these objectives.

Current Audits

The following are the audits being conducted during the current reporting period and continuing into the next reporting period. (For additional details, see the section on current audits beginning on page 12.)

Review of Enforcement Information Requirements. The objectives of this review are to determine what the information needs of all levels in the Division of Enforcement are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner. (For additional details, see the section on current audits on page 13.)

Imprest Funds. The OIG will conduct final audits of the Chicago and Kansas City imprest funds. (For additional details, see page 14.)

Completed Audits

The following are the audits completed during this reporting period. (For additional details, see the section on completed audits on page 5.)

Final Audit of Imprest Fund -- Washington, D.C. The OIG determined that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the imprest fund. The fund was properly liquidated on September 2, 1997. (For additional details, see page 5.)

Final Audit of Imprest Fund -- Los Angeles. The OIG determined that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the imprest fund. The fund was properly liquidated in August 1997. (For additional details, see page 6.)

Audit of Compliance with the Federal Managers' Financial Integrity Act. In support of OMB Circular A-123 (Revised), the Inspector General evaluated, provided technical assistance, and advised the agency head as to whether the agency's review and evaluation process was conducted in accordance with the circular's requirements. (For additional details, see page 6.)

INVESTIGATIONS

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

No investigations were pending as of the beginning of the reporting period. The OIG opened two investigations during the reporting period and completed two investigations. No investigations remained open at the end of the period. (For more detailed descriptions of these investigations, see the section on investigations beginning on page 7.)

LEGISLATIVE AND REGULATORY REVIEWS

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

The Regulatory Flexibility Act requires the agency to evaluate the impact of its regulations on small entities. The

Paperwork Reduction Act requires the agency to manage effectively and efficiently its information collections so that they are the least burdensome necessary to achieve the stipulated objectives. (For more detailed descriptions of these reviews, see the section on legislative and regulatory reviews beginning on page 8.)

Regulations reviewed during this period include:

- Regulation of Noncompetitive Transactions;
- Amendment to CFTC Rule 1.17(c) (5) (iii);
- Amendment to CFTC Rule 1.35(a-1); and
- Proposed repeal of CFTC Rule 33.4 (a) (2).

OIG RESPONSIBILITIES

The Office of the Inspector General in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- Conduct and supervise audits and, where necessary, investigations relating to the administration of CFTC programs and operations;
- Review existing and proposed legislation and regulations and make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Given that the CFTC does not have extensive contracts or grant making authority, the OIG's efforts have been focused on the review of legislative and regulatory proposals and the monitoring of internal CFTC operations.

OIG RESOURCES

The OIG consists of the Inspector General, two professional staff members, and a secretary. One professional position has been vacant since October 1997. The present Inspector General assumed his position on October 7, 1990.

The OIG, on December 4, 1989, signed a Memorandum of Understanding with the Office of General Counsel (OGC). This Memorandum details the procedures that will be used to provide the OIG with OGC legal services. An OGC staff member has been assigned to provide such services to the OIG on an as-needed basis.

CFTC PROGRAMS AND OPERATIONS

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

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

COMPLETED WORK

AUDITS

The OIG is required to conduct, supervise and coordinate audits of CFTC programs and operations and to ensure that the audits are conducted in accordance with generally accepted government auditing standards. The OIG is also required to recommend changes to existing and proposed CFTC programs and operations to promote economy, efficiency, and effectiveness and to prevent and detect fraud and abuse.

The purpose of these audits is to ensure that:

- Funds have been expended in a manner consistent with related laws, regulations, and policies;
- Resources have been managed effectively and efficiently;
- Stipulated program objectives have been achieved; and
- Resources have been safeguarded.

The following audit reports have been issued during the reporting period.

1. Final Audit of Imprest Fund -- Washington, D.C.

Objectives.

The purpose of the audit was to determine whether the imprest fund was liquidated in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), and the Treasury Financial Manual (I TFM 4-3000). The audit was designed to ensure that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the funds during the period that the imprest fund was in operation. The audit covered the period from May 29, 1996 through September 2, 1997.

Results.

A report issued on January 14, 1998 disclosed that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the

cashier did not make unauthorized use of the imprest fund. On July 10, 1997, the \$8,000 advance of the Washington, D.C. imprest fund was reduced to \$2,000. On September 2, 1997, the imprest fund was liquidated and the total amount was deposited to CFTC's account at the U.S Treasury, and the designations of the principal cashier and alternate were revoked.

2. Final Audit of Imprest Fund -- Los Angeles.

Objectives.

The purpose of the audit was to determine whether the imprest fund was liquidated in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), and the Treasury Financial Manual (I TFM 4-3000). The audit was designed to ensure that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the funds during the period that the imprest fund was in operation. The audit covered the period from February 3, 1997 through the August 1997 liquidation of the fund.

Results.

A report issued on November 7, 1997 disclosed that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the imprest fund. In August 1997, the imprest fund was liquidated, the total amount of the imprest fund was deposited to CFTC's account at the U.S Treasury, and the designations of the principal cashier and alternate were revoked.

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

Objectives.

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

Status.

The OIG reviewed all of the draft internal control reviews produced by the Commission and provided comments to the

originating divisions. The OIG reported the results of its review of the final submissions to the Chairperson in its annual assurance letters dated December 22, 1997. The OIG also attended the 1998 planning meeting of the CFTC Internal Control Committee on March 13, 1998 and offered its services as advisor and consultant on conducting and reporting on internal control reviews.

INVESTIGATIONS

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

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

In response to an employee allegation that a poor performance rating was motivated by his previous assistance to the Office of the Inspector General, the OIG opened an investigation. The OIG interviewed all relevant employees and determined that the subject employee's help in the matter under OIG investigation was mentioned approvingly in the employee's performance appraisal and that discussions of alleged poor performance on the part of the employee were held between the field office and headquarters prior to the initiation of the OIG investigation. This investigation was, therefore, closed.

When it was brought to our attention that there were apparently inconsistent employee signatures recorded on the Transit Subsidy Certifications for the period from May/June 1995 through January/February 1998, the OIG asked the Office of Financial Management (OFM) to review the documentation. In a January 16, 1998 memorandum, OFM reported their findings. Inconsistencies disclosed were reported to the responsible supervisors and the relevant employees were questioned. All employees contacted indicated that they had indeed made the questionable signatures and verified that they had consistently received their transit subsidy vouchers throughout the course of the transit subsidy program. No evidence of fraud was uncovered.

Accordingly, this investigation was closed.

LEGISLATIVE AND REGULATORY REVIEWS

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

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

RULE REVIEWS INITIATED IN PREVIOUS REPORTING PERIODS

1. Proposed amendments to allow certain customer orders to be placed without specified customer account identification. (CFTC Rule 1.35(a-1)).

Summary of Rule.

The CFTC proposed amendments to Regulation 1.35 that would permit orders submitted on behalf of multiple customer accounts not to have individual identifying account numbers if the person placing the orders has investment discretion as to each account and the executing FCM has a single series designation for all the accounts. The designation has to contain a predetermined order allocation applicable to all listed individual accounts.

The amendments would also permit specified institutional accounts for certain futures and options orders to be exempt from the account identification requirement if executed as part of an intermarket strategy involving securities. Such orders would have to be allocated no later than the deadline for final submission of trade data to clearing on the day the order is executed.

OIG Review.

OIG commented on various sections of the rule and its accompanying explanation. The comments focused on the coverage of the institutional accounts and the reach of disqualifying interest in the specified accounts. The Commission published a proposed two-part amendment on May 3, 1993. The first part, paragraph (5), proposed guidance for the execution and allocation of bunched orders generally by use of predetermined allocation methodology. Those provisions have since been addressed in the

Commission's Notice of Interpretation and Approval Order, effective June 9, 1997, which approved an NFA Interpretive Notice and provided additional regulatory guidance. Accordingly, the first part of the proposed amendment has been withdrawn. On the second part, old paragraph (6) now (5), the Commission, on January 7, 1998, published a Notice of Proposed Rulemaking requesting public comment on a proposal to amend Commission Regulation 1.35(a-1) to permit certain customer orders to be placed on a regulated futures exchange without individual customer account identification either at the time of order placement or at the time of report of execution. The comment period ended March 9, 1998. Comments have been received and are being reviewed.

2. Exemption from Dual Trading Prohibition (CFTC Rule 155.5(d))

Summary of Rule.

Several exchanges submitted petitions for exemptions for various contracts from the dual trading prohibitions in Commission Regulation 155.5. The prohibition prevents a broker from trading for his own account and other specified accounts during the same trading session in which he has executed customers orders in an affected contract market.

OIG Review.

OIG discussed the issue with relevant staff and made comments and raised questions. The Commission has approved unconditional exemptions for the COMEX Division of the New York Mercantile Exchange, the New York Cotton Exchange, and the Coffee Sugar & Cocoa Exchange. The Commission is currently considering exemptions for the Chicago Board of Trade and the Chicago Mercantile Exchange.

The Division of Trading and Markets is analyzing additional data submitted by the Chicago Board of Trade and Chicago Mercantile Exchange to assist the Commission in finalizing the disposition of both exchanges' dual trading exemption petitions, and the Division will draft appropriate documents.

RULE REVIEWS INITIATED THIS REPORTING PERIOD

1. Regulation of Noncompetitive Transactions

Summary of Action.

The CFTC sought comments on its approach to the regulation of noncompetitive transactions subject to the rules of a contract market.

OIG Review.

The OIG suggested clarification of potentially confusing discussions of duration relating to bonds and bills. Staff did appropriate clarification.

2. Amendment to CFTC Rule 1.17(c)(5)(iii)

Summary of Action.

The CFTC proposed an amendment eliminating a charge against an FCM's net capital based on the market value of options sold by its customers.

OIG Review.

The OIG suggested changes to the explanations of the lack of continued need for the rule.

3. Amendment to CFTC Rule 1.35(a-1)

Summary of Action

The CFTC proposed an amendment allowing eligible customer orders to be placed on a contract market without specific customer account identification either at the time of order placement or at the time of execution.

OIG Review

The OIG offered suggestions as to explanations for the proposed amendments.

4. Proposed repeal of CFTC Rule 33.4(a)(2).

Summary of Action

The CFTC proposed repeal of the rule to permit futures-style margining of commodity options.

OIG Review

The OIG raised questions about the explanation of the proposed costs of the repeal.

AUDIT REPORTS OVER SIX MONTHS OLD

CORRECTIVE ACTION NOT COMPLETED

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

CORRECTIVE ACTION COMPLETED

There were no instances of reports issued before the commencement of the reporting period for which corrective action had been completed by the end of the reporting period.

MANAGEMENT DECISION NOT MADE

There were no instances of reports issued before the commencement of the reporting period for which a management decision had not been made by the end of the reporting period.

SUMMARY OF MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

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

SUMMARY OF EACH REPORT MADE TO THE AGENCY HEAD

No reports were made to the agency head under section 6(b)(2) concerning information or assistance unreasonably refused or not provided.

REVISED MANAGEMENT DECISIONS

No management decisions were revised during the reporting period.

INSPECTOR GENERAL DISAGREEMENT

The Inspector General does not disagree with any management decisions on OIG recommendations.

CURRENT AUDITS

The audit agenda and priorities for the OIG are determined based on the following factors:

- Statutory and regulatory requirements;
- Adequacy of internal control systems as indicated by vulnerability assessments and internal control reviews recommended by OMB Circular A-123;
- Changes in the program conditions or particular vulnerability of the organization, program, activity, or function to problems or deficiencies;
- Current and potential dollar magnitude and likely benefits of a review on the efficiency or effectiveness of CFTC programs and operations;
- Management priorities and improvements that may be possible;
- Results of audits of CFTC programs and operations by other Federal agencies; and
- Availability of audit resources and the potential opportunity costs to the agency.

The audit agenda and summary of progress for each audit which has not yet been completed is summarized below. New agenda items periodically will be added, as appropriate, along with a description of the audit objective for each.

1. Review of Enforcement Information Requirements

Objectives.

The mission of the Division of Enforcement is to investigate and prosecute fairly and effectively violations of the Commodity Exchange Act and the Commission's regulations in order to safeguard the integrity of U.S. futures and options markets and to protect market participants and futures and options customers. In the course of its activities, the division, with headquarters and regional components, plans and follows an often complex course to achieve its objectives and receives and creates a huge volume of documents which must be logically stored and regularly accessed. To support the accomplishment of these tasks, the division is relying on a collection of very old manual and automated systems to track the progress of activities and to store and retrieve documents. The objectives of this review are to determine what the information needs of all levels in the division are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner.

Status.

The joint OIG/Enforcement team produced extensive and detailed narrative flow charts of the current operational and administrative functions and processes of the Division of Enforcement and delivered them to the Division of Enforcement and the Office of Information Resources Management (OIRM). These products were designed to inform the analysts of OIRM of the inner workings of the Division of Enforcement and to serve as the base on which the information requirements of the Division of Enforcement will be defined.

In September 1997, in a joint meeting of representatives of the Division of Enforcement, the Office of the Inspector General, and the Office of Information Resources Management (OIRM), the principals made commitments of six staff years of effort from OIRM and approximately three staff years of effort from Enforcement to define the system requirements of Enforcement.

The Division of Enforcement and OIRM have agreed that the first priority will be the development of a system to track documents in the Division in accordance with the Division's Enforcement Procedure Number 3. This initial system is expected to be delivered to Enforcement for testing on April 6, 1998. The second phase will be devoted to installing a system to track production within the Division and to report that information in the required formats to management of the Division. Phase two is expected to require approximately five months to complete after

the delivery of phase one. Phase three will concentrate on moving the functions of the attorneys and investigators from paper to computer screen and using the resulting information to improve the tracking of productivity information and the sharing of information within the Division.

2. Imprest Funds

Objectives.

The OIG will review expenditures from the two remaining CFTC imprest funds to determine compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers. Specifically, the audits are designed to verify that all funds were properly accounted for; the cashier followed procedures that adequately protected the funds from loss or misuse; the cashier did not make unauthorized use of the funds, and appropriate closing procedures were followed. Both the Kansas City and the Chicago imprest funds have been closed.

Status.

The OIG has scheduled final audits of the now liquidated Chicago and Kansas City imprest funds for the second half of the fiscal year.

GAO LIAISON

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

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

<p style="text-align: center;">STRATEGIC PLAN FOR THE OFFICE OF THE INSPECTOR GENERAL</p>
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INTRODUCTION

The Office of the Inspector General (OIG) in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- Conduct and supervise audits and investigations relating to the administration of CFTC programs and operations;
- Review existing and proposed legislation and regulations and to make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Accordingly, the OIG has established three programs to carry out its responsibilities: audit, investigation, and legislative and regulatory review. A summary of those programs follows.

AUDIT

The primary objectives of the OIG are to promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse.

The key to effectively and efficiently managing the Commodity Futures Trading Commission is information. Top level managers and decision makers require a steady stream of organized

data on the effects of their policy decisions and resource allocations on the operations of the Commission. Once having made the decision to change resource levels or policy, managers must receive accurate and timely reports of the operational effects of their decision so they can determine if the change is in the direction and of the magnitude predicted. In the absence of such information, top level managers cannot adequately perform their jobs.

A number of obstacles to acquiring and transmitting the desired information to decision makers may exist in some programs. Principal among them is the Commission's apparent difficulty in many instances in tracking the progress of a particular action across organizational lines within the Commission.

A simple example is the Reparations Program prior to the installation of an OIG recommended unified, Commission-wide tracking system. Complaints are received and processed and hearings are held in the Office of Proceedings; appeals of initial decisions in reparations cases are retransmitted to the Office of General Counsel where proposed Commission opinions are drafted; and appeals are decided by the Commission with the paperwork being handled by the Office of the Secretariat. Each office involved in the process had a separate tracking system without ties to the tracking systems in the offices preceding them or following them in the process. Each office treated the case as if it were brand new to the Commission when they received it. As a result, there was no provision for tracking information across organizational lines. If the Chairman wanted to know how much time was spent on the average reparations case of a particular description at each stage in the process, that information was unavailable without an extensive expenditure of manual labor.

A related problem is the difficulty the Commission has in associating resources devoted to an activity with the results of that activity. The Commission does a good job of tracking resources expended. It can determine how much staff time and material at what cost was spent in a particular activity. Some Commission organizations can even associate costs with particular projects. What a program manager may have great difficulty doing, however, is telling a decision maker that for a specific level of increase in resources, the program manager will deliver a specific level of increased output. Without this information from all programs competing for limited resources, decision makers cannot make reasoned resource allocation judgments. Decision makers are forced to rely on intuition and anecdotal evidence.

To increase the efficiency and the effectiveness of the management of CFTC programs and operations, the OIG will, in addition to the conduct of mandatory audits, concentrate its audit resources on the identification of information voids and the lack of continuity in the flow of information across organizational lines from the beginning of a process until its conclusion. The OIG will recommend the implementation of any system improvements where the benefits of implementing the changes exceed the costs.

In addition to our efforts to bring technology to bear on the information requirements of the Commission, the OIG has been following the Commission's development of measures and systems of measurement in response to the Government Performance and Results Act (GPRA). As the Commission implements GPRA, the OIG will devote significant resources to monitoring agency performance to insure that the data is accurately gathered and that the measures reported are the best available for demonstrating program performance.

INVESTIGATION

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

The OIG has to date conducted only a reactive investigative program chiefly relying on unsolicited employee complaints as the source of investigative leads. This reactive program has resulted in only a handful of investigations per year. This strategy was followed because the OIG believed that an independent regulatory agency such as CFTC without grant money or substantial contracts to award was not likely to generate a substantial investigative workload.

To insure that employee complaints could easily reach the OIG, a 24 hour hotline was established in February 1993 to receive complaints. The hotline's existence is publicized on the back cover of the agency-wide telephone book and in this semiannual report.

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

LEGISLATIVE AND REGULATORY REVIEW

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

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

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

AUDIT AGENDA

ANNUAL AUDITS

The following audit is performed on an annual basis.

Audit of Compliance with the Federal Managers' Financial Integrity Act

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

OTHER AUDITS

The OIG intends to focus the balance of its audit resources on insuring that the Chairperson, the Commissioners, and program managers have timely, useful information on the progress of

CFTC's programs in meeting their goals and objectives. For example, emphasis will be placed on determining whether all managerial levels engaged in a process can track the progress of their various programs. The tracking systems required in many, though not all, programs will cross formal organizational lines.

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

If recommendations are successfully implemented, the proposed systems should allow the Chairman, the Commissioners, and concerned program managers to track progress of a particular program across organizational lines and to quickly determine the effects, if any, of changes in policy, procedure, or staffing.

The first step in accomplishing this goal will be to concentrate on documenting, and recommending the improvement and/or development of tracking systems in every program element throughout the Commission.

RESOURCES REQUIRED

The OIG estimates that approximately one and one-half staff years of effort will be devoted over each of the next five years to the audits described in "Other Audits" above. The "Annual Audits" are expected to consume approximately one-half staff year per year.

CONTACTING OFFICE OF THE INSPECTOR GENERAL

The OIG is located at 1155 21st Street N.W., Washington, D.C. 20581. The telephone number is (202)418-5110. The facsimile number is (202)418-5522. The hotline number is (202)418-5510. Regular business hours are between 8:30 AM and 5:00 PM, Monday through Friday, except Federal holidays.

Table 1

**Reports Issued with Questioned Costs
(October 1, 1997 - March 31, 1998)**

	Number	Dollar Value (Thousands)	
		Questioned Costs	Unsupported Costs
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	
(ii) dollar value of costs not disallowed.....	0	0	
D. For which no management decision has been made by the end of the reporting period.....	0	0	0

Table 2

**Reports Issued with Recommendations
That Funds be Put to Better Use
(October 1, 1997 - March 31, 1998)**

	Number	Dollar Value (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.

Report **FRAUD, WASTE**
or **ABUSE** to the
INSPECTOR GENERAL
HOTLINE
(202)418-5510

Office of the Inspector General
Commodity Futures Trading Commission
1155 21ST Street, N.W., Room 4092
Washington, D.C. 20581

COMMODITY FUTURES TRADING COMMISSION

**SEMIANNUAL REPORT
OF THE**

**OFFICE OF THE
INSPECTOR GENERAL**



FOR THE PERIOD ENDING SEPTEMBER 30, 1998



U.S. COMMODITY FUTURES TRADING COMMISSION

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

October 30, 1998

**OFFICE OF
INSPECTOR GENERAL**

TO: Brooksley Born
Chairperson

FROM: A. Roy Lavik *ARL*
Inspector General

SUBJECT: Semiannual Report of the Office of the Inspector
General

Attached is the Semiannual Report of the Office of the Inspector General for the period from April 1, 1998 through September 30, 1998. This report is submitted to you in accordance with the requirements of Section 5 of the Inspector General Act of 1978, as amended.

I appreciate your continuing support of this office.

Attachment

OFFICE OF THE INSPECTOR GENERAL
COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT
FOR THE PERIOD FROM
April 1, 1998 THROUGH September 30, 1998

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SUMMARY OF OIG ACTIVITIES

AUDITS

The primary objectives of the Office of the Inspector General (OIG) are to help promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse. This reporting period's OIG audit activities which are listed below reflect these objectives.

Current Audits

The following are the audits being conducted during the current reporting period and continuing into the next reporting period. (For additional details, see the section on current audits beginning on page 12.)

Review of Enforcement Information Requirements. The objectives of this review are to determine what the information needs of all levels in the Division of Enforcement are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner. (For additional details, see page 13.)

Review of CFTC's Y2K Project. In response to growing Congressional and Office of Management and Budget concern, the OIG will review the agency's response to the difficulties inherent in the approach to the year 2000. This scope of this review will include both the internal and external implications of the Y2K problem. (For additional details, see page 14.)

Completed Audits

The following are the audits completed during this reporting period. (For additional details, see the section on completed audits on page 5.)

Final Audit of Imprest Fund -- Chicago. The OIG determined that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the imprest fund. The fund was properly liquidated on September 2, 1997. (For additional details, see page 6.)

Final Audit of Imprest Fund -- Kansas City. The OIG determined that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the imprest fund. The fund was properly liquidated on August 14, 1997. (For additional details, see page 7.)

INVESTIGATIONS

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

No investigations were pending as of the beginning of the reporting period. The OIG opened one investigation during the reporting period and completed no investigations. One investigation remained open at the end of the period. (See the section on investigations beginning on page 7.)

LEGISLATIVE AND REGULATORY REVIEWS

The OIG reviews proposed and final CFTC regulations and legislation and selected exchange rules using the following basic criteria: Whether the agency: (1) has identified specifically the problem(s) to be addressed by the proposal; (2) has defined through case study or data analysis a clear link between the proposed solution and the identified problem(s); (3) has specified clearly the means to effectively and efficiently

enforce the proposal; (4) has assessed the likely efficiency and effectiveness of alternative solutions; (5) can reasonably document that the proposal will yield positive net benefits over the long term; and (6) has met the requirements of the Regulatory Flexibility Act and the Paperwork Reduction Act.

The Regulatory Flexibility Act requires the agency to evaluate the impact of its regulations on small entities. The Paperwork Reduction Act requires the agency to manage effectively and efficiently its information collections so that they are the least burdensome necessary to achieve the stipulated objectives. (For more detailed descriptions of these reviews, see the section on legislative and regulatory reviews beginning on page 8.)

Regulations reviewed during this period include:

- Performance Data and Disclosure for Commodity Trading Advisors and Commodity Pools;
- Amendment to CFTC Rule 1.35(a-1); and
- Concept Release on the Placement of a Foreign Board of Trade's Computer Terminals in the U.S.

OIG RESPONSIBILITIES

The Office of the Inspector General in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;

- Conduct and supervise audits and, where necessary, investigations relating to the administration of CFTC programs and operations;
- Review existing and proposed legislation and regulations and make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Given that the CFTC does not have extensive contracts or grant making authority, the OIG's efforts have been focused on the review of legislative and regulatory proposals and the monitoring of internal CFTC operations.

OIG RESOURCES

The OIG consists of the Inspector General, two professional staff members, and a secretary. One professional position has been vacant since October 1997. The present Inspector General assumed his position on October 7, 1990.

The OIG, on December 4, 1989, signed a Memorandum of Understanding with the Office of General Counsel (OGC). This Memorandum details the procedures that will be used to provide the OIG with OGC legal services. An OGC staff member has been assigned to provide such services to the OIG on an as-needed basis.

CFTC PROGRAMS AND OPERATIONS

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

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

COMPLETED WORK

AUDITS

The OIG is required to conduct, supervise and coordinate audits of CFTC programs and operations and to ensure that the audits are conducted in accordance with generally accepted government auditing standards. The OIG is also required to recommend changes to existing and proposed CFTC programs and operations to promote economy, efficiency, and effectiveness and to prevent and detect fraud and abuse.

The purpose of these audits is to ensure that:

- Funds have been expended in a manner consistent with related laws, regulations, and policies;
- Resources have been managed effectively and efficiently;
- Stipulated program objectives have been achieved; and
- Resources have been safeguarded.

The following audit reports have been issued during the reporting period.

1. **Final Audit of Imprest Fund -- Chicago.**

Objectives.

The purpose of the audit was to determine whether the imprest fund was liquidated in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), and the Treasury Financial Manual (I TFM 4-3000). The audit was designed to ensure that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the funds during the period that the imprest fund was in operation. The audit covered the period from April 7, 1997 through September 2, 1997.

Results.

A report issued on June 5, 1998 disclosed that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the imprest fund. On September 2, 1997, the Chicago Imprest Fund of \$3,000 was liquidated, the total amount of the Fund was deposited to CFTC's account, and the designations of the principal cashier and alternate were revoked. As part of the liquidation of the fund, the Office of the Inspector General reviewed all travel and

miscellaneous payment subvouchers issued in the Chicago office since the date of the last audit.

2. Final Audit of Imprest Fund -- Kansas City.

Objectives.

The purpose of the audit was to determine whether the imprest fund was liquidated in compliance with the Department of the Treasury Manual of Procedures and Instructions for Cashiers (Treasury Manual), and the Treasury Financial Manual (I TFM 4-3000). The audit was designed to ensure that all funds were properly accounted for, the cashier followed procedures that adequately protected the funds from loss or misuse, and the cashier did not make unauthorized use of the funds during the period that the imprest fund was in operation. The audit covered the period from February 3, 1997 through the August 14, 1997 liquidation of the fund.

Results.

A report issued on August 21, 1998 disclosed that all funds were properly accounted for. By a document dated August 14, 1997, the Kansas City Imprest Fund of \$1,000 was liquidated and the designations of the principal cashier and alternate were revoked. The total amount of the Fund was deposited to CFTC's account on August 27, 1998. No travel and miscellaneous payment subvouchers were issued in the Kansas City office since the date of the last audit.

INVESTIGATIONS

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

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

In September, in response to an anonymous written allegation that an employee was wasting Government travel funds for his own personal benefit, the OIG opened an investigation. At the end of the reporting period, this investigation was still open.

LEGISLATIVE AND REGULATORY REVIEWS

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

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

RULE REVIEWS INITIATED IN PREVIOUS REPORTING PERIODS

1. Exemption from Dual Trading Prohibition (CFTC Rule 155.5(d))

Summary of Rule.

Several exchanges submitted petitions for exemptions for various contracts from the dual trading prohibitions in Commission Regulation 155.5. The prohibition prevents a broker from trading for his own account and other specified accounts during the same trading session in which he has executed customers orders in an affected contract market.

OIG Review.

OIG discussed the issue with relevant staff and made comments and raised questions. The Commission has approved unconditional exemptions for the COMEX Division of the New York Mercantile Exchange, the New York Cotton Exchange, and the Coffee Sugar & Cocoa Exchange. The Commission is currently considering exemptions for the Chicago Board of Trade and the Chicago Mercantile Exchange.

The Division of Trading and Markets is analyzing additional data submitted by the Chicago Board of Trade and Chicago Mercantile Exchange to assist the Commission in finalizing the disposition of both exchanges' dual trading exemption petitions, and the Division will draft appropriate documents. The Division of Trading and Markets is also considering an updated petition from the Coffee, Sugar and Cocoa Exchange for an exemption for its cocoa futures market.

RULE REVIEWS INITIATED THIS REPORTING PERIOD

1. **Performance Data and Disclosure for Commodity Trading Advisors and Commodity Pools.**

Summary of Action

The CFTC sought comments regarding computational and disclosure matters for participants in programs offered by commodity trading advisors and commodity pool operators.

OIG Review

The OIG offered specific suggestions to the proposals, but, more generally, suggested the use of focus groups to ascertain the impact of suggested disclosures. Staff said they would consider such use.

2. **Amendment to CFTC Rule 1.35 (a-1)**

Summary of Rule

The amendment allowed eligible customer orders to be placed on a contract market without specific customer account identification either at the time of the order placement or at the time of execution.

OIG Review

The OIG suggested certain clarifications of the explanatory material which staff adopted.

3. **Concept Release on the Placement of a Foreign Board of Trade's Computer Terminals in the U.S.**

Summary of Action

The concept release sought comment on issues relating to the placement by foreign boards of trade of computer terminals in the U.S. that would be used in trading the boards of trade contracts.

OIG Review

The OIG suggested comments and raised questions which the staff addressed.

AUDIT REPORTS OVER SIX MONTHS OLD
--

CORRECTIVE ACTION NOT COMPLETED

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

CORRECTIVE ACTION COMPLETED

There were no instances of reports issued before the commencement of the reporting period for which corrective action had been completed by the end of the reporting period.

MANAGEMENT DECISION NOT MADE

There were no instances of reports issued before the commencement of the reporting period for which a management decision had not been made by the end of the reporting period.

SUMMARY OF MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

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

SUMMARY OF EACH REPORT MADE TO THE AGENCY HEAD

No reports were made to the agency head under section 6(b)(2) concerning information or assistance unreasonably refused or not provided.

REVISED MANAGEMENT DECISIONS

No management decisions were revised during the reporting period.

INSPECTOR GENERAL DISAGREEMENT

The Inspector General does not disagree with any management decisions on OIG recommendations.

CURRENT AUDITS

The audit agenda and priorities for the OIG are determined based on the following factors:

- Statutory and regulatory requirements;
- Adequacy of internal control systems as indicated by vulnerability assessments and internal control reviews recommended by OMB Circular A-123;
- Changes in the program conditions or particular vulnerability of the organization, program, activity, or function to problems or deficiencies;
- Current and potential dollar magnitude and likely benefits of a review on the efficiency or effectiveness of CFTC programs and operations;
- Management priorities and improvements that may be possible;
- Results of audits of CFTC programs and operations by other Federal agencies; and
- Availability of audit resources and the potential opportunity costs to the agency.

The audit agenda and summary of progress for each audit which has not yet been completed is summarized below. New agenda

items periodically will be added, as appropriate, along with a description of the audit objective for each.

1. Review of Enforcement Information Requirements

Objectives.

The mission of the Division of Enforcement is to investigate and prosecute fairly and effectively violations of the Commodity Exchange Act and the Commission's regulations in order to safeguard the integrity of U.S. futures and options markets and to protect market participants and futures and options customers. In the course of its activities, the division, with headquarters and regional components, plans and follows an often complex course to achieve its objectives and receives and creates a huge volume of documents which must be logically stored and regularly accessed. To support the accomplishment of these tasks, the division is relying on a collection of very old manual and automated systems to track the progress of activities and to store and retrieve documents. The objectives of this review are to determine what the information needs of all levels in the division are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner.

Status.

The joint OIG/Enforcement team produced extensive and detailed narrative flow charts of the current operational and administrative functions and processes of the Division of Enforcement and delivered them to the Division of Enforcement and the Office of Information Resources Management (OIRM). These products were designed to inform the analysts of OIRM of the inner workings of the Division of Enforcement and to serve as the base on which the information requirements of the Division of Enforcement will be defined.

In September 1997, in a joint meeting of representatives of the Division of Enforcement, the Office of the Inspector General, and the Office of Information Resources Management (OIRM), the principals made commitments of six staff years of effort from

OIRM and approximately three staff years of effort from Enforcement to define the system requirements of Enforcement.

The Division of Enforcement and OIRM have agreed that the first priority is the development of a system to track documents in the Division in accordance with the Division's Enforcement Procedure Number 3. The second phase is devoted to installing a system to track production within the Division and to report that information in the required formats to management of the Division. Phase three will concentrate on moving the functions of the attorneys and investigators from paper to computer screen and using the resulting information to improve the tracking of productivity information and the sharing of information within the Division.

The final version of the first phase of what is now being called "the Enforcement Modernization Project" was delivered to the Division of Enforcement in May 1998. This Enforcement Procedure Number 3 System is now being used at all locations of the Division. The second phase, designing reports and data gathering mechanisms to track production within the Division, is currently under way. Test versions of the phase two system have been delivered to the Division. Review and updating are a constant process. Finalization of Phase two is currently projected for the end of 1998.

2. Review of CFTC's Y2K Project

Objectives.

In response to growing Congressional and Office of Management and Budget concern, the OIG will review the agency's response to the difficulties inherent in the approach to the year 2000. This scope of this review will include both the internal and external implications of the Y2K problem.

Status.

The OIG has interviewed the Director, Office of Information Resources Management and his Deputy about their activities in dealing with any Y2K issues for all CFTC internal systems and any systems which feed data to those systems. The OIG has also spoken with the Deputy Director, Division of Trading and Markets and members of his staff in Washington and in the field offices to keep abreast of the progress of the staff in dealing with the futures industry and the industry's efforts to insure that their systems and any systems which feed data to their systems are Y2K compliant. Trading and Markets has supplied the OIG with a briefing book on the steps taken to date and the schedule of expected actions designed to bring the industry systems into full compliance in a timely fashion.

GAO LIAISON

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

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

<p style="text-align:center">STRATEGIC PLAN FOR THE OFFICE OF THE INSPECTOR GENERAL</p>
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INTRODUCTION

The Office of the Inspector General (OIG) in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- Conduct and supervise audits and investigations relating to the administration of CFTC programs and operations;
- Review existing and proposed legislation and regulations and to make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Accordingly, the OIG has established three programs to carry out its responsibilities: audit, investigation, and legislative and regulatory review. A summary of those programs follows.

AUDIT

The primary objectives of the OIG are to promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse.

The key to effectively and efficiently managing the Commodity Futures Trading Commission is information. Top level managers and decision makers require a steady stream of organized data on the effects of their policy decisions and resource allocations on the operations of the Commission. Once having made the decision to change resource levels or policy, managers must receive accurate and timely reports of the operational effects of their decision so they can determine if the change is in the direction and of the magnitude predicted. In the absence of such information, top level managers cannot adequately perform their jobs.

A number of obstacles to acquiring and transmitting the desired information to decision makers may exist in some programs. Principal among them is the Commission's apparent difficulty in many instances in tracking the progress of a particular action across organizational lines within the Commission.

A simple example is the Reparations Program prior to the installation of an OIG recommended unified, Commission-wide tracking system. Complaints are received and processed and hearings are held in the Office of Proceedings; appeals of initial decisions in reparations cases are transmitted to the Office of General Counsel where proposed Commission opinions are drafted; and appeals are decided by the Commission with the paperwork being handled by the Office of the Secretariat. Each office involved in the process had a separate tracking system without ties to the tracking systems in the offices preceding them or following them in the process. Each office treated the case as if it were brand new to the Commission when they received it. As a result, there was no provision for tracking information across organizational lines. If the Chairman wanted to know how much time was spent on the average reparations case of a particular description at each stage in the process, that

information was unavailable without an extensive expenditure of manual labor.

A related problem is the difficulty the Commission has in associating resources devoted to an activity with the results of that activity. The Commission does a good job of tracking resources expended. It can determine how much staff time and material at what cost was spent in a particular activity. Some Commission organizations can even associate costs with particular projects. What a program manager may have great difficulty doing, however, is telling a decision maker that for a specific level of increase in resources, the program manager will deliver a specific level of increased output. Without this information from all programs competing for limited resources, decision makers cannot make reasoned resource allocation judgments. Decision makers are forced to rely on intuition and anecdotal evidence.

To increase the efficiency and the effectiveness of the management of CFTC programs and operations, the OIG will, in addition to the conduct of mandatory audits, concentrate its audit resources on the identification of information voids and the lack of continuity in the flow of information across organizational lines from the beginning of a process until its conclusion. The OIG will recommend the implementation of any system improvements where the benefits of implementing the changes exceed the costs.

In addition to our efforts to bring technology to bear on the information requirements of the Commission, the OIG has been following the Commission's development of measures and systems of measurement in response to the Government Performance and Results Act (GPRA). As the Commission implements GPRA, the OIG will devote significant resources to monitoring agency performance to insure that the data is accurately gathered and that the measures reported are the best available for demonstrating program performance.

INVESTIGATION

The Inspector General Act of 1978, as amended, provides that the Inspector General may receive and investigate complaints or

information from the Commission's employees concerning the possible existence of an activity constituting a violation of law, rules or regulations, or mismanagement, gross waste of funds, abuse of authority or a substantial and specific danger to the public health and safety.

The OIG has to date conducted only a reactive investigative program chiefly relying on unsolicited employee complaints as the source of investigative leads. This reactive program has resulted in only a handful of investigations per year. This strategy was followed because the OIG believed that an independent regulatory agency such as CFTC without grant money or substantial contracts to award was not likely to generate a substantial investigative workload.

To insure that employee complaints could easily reach the OIG, a 24 hour hotline was established in February 1993 to receive complaints. The hotline's existence is publicized on the back cover of the agency-wide telephone book and in this semiannual report.

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

LEGISLATIVE AND REGULATORY REVIEW

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

The Regulatory Flexibility Act requires the agency to evaluate the impact of its regulations on small entities. The

Paperwork Reduction Act requires the agency to manage effectively and efficiently its information collections so that they are the least burdensome necessary to achieve the stipulated objectives.

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

AUDIT AGENDA

ANNUAL AUDITS

The following audit is performed on an annual basis.

Audit of Compliance with the Federal Managers' Financial Integrity Act

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

OTHER AUDITS

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

These audits will entail a cataloging and description of all of the manual and automated systems used by an organization to gather information on its use of resources, the results of the

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

If recommendations are successfully implemented, the proposed systems should allow the Chairman, the Commissioners, and concerned program managers to track progress of a particular program across organizational lines and to quickly determine the effects, if any, of changes in policy, procedure, or staffing.

The first step in accomplishing this goal will be to concentrate on documenting, and recommending the improvement and/or development of tracking systems in every program element throughout the Commission.

RESOURCES REQUIRED

The OIG estimates that approximately one and nine-tenths staff years of effort will be devoted over each of the next five years to the audits described in "Other Audits" above. The "Annual Audits" are expected to consume approximately one-tenth staff year per year.

CONTACTING OFFICE OF THE INSPECTOR GENERAL

The OIG is located at 1155 21st Street N.W., Washington, D.C. 20581. The telephone number is (202)418-5110. The facsimile number is (202)418-5522. The hotline number is (202)418-5510. Regular business hours are between 8:30 AM and 5:00 PM, Monday through Friday, except Federal holidays.

Table 1

**Reports Issued with Questioned Costs
(April 1, 1998 - September 30, 1998)**

	Number	Dollar Value (Thousands)	
		Questioned Costs	Unsupported Costs
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	
(ii) dollar value of costs not disallowed.....	0	0	
D. For which no management decision has been made by the end of the reporting period.....	0	0	0

Table 2

**Reports Issued with Recommendations
 That Funds be Put to Better Use
 (April 1, 1998 - September 30, 1998)**

	Number	Dollar Value (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.

Report **FRAUD, WASTE**
or **ABUSE** to the
INSPECTOR GENERAL
HOTLINE
(202)418-5510

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

COMMODITY FUTURES TRADING COMMISSION

**SEMIANNUAL REPORT
OF THE**

**OFFICE OF THE
INSPECTOR GENERAL**



FOR THE PERIOD ENDING MARCH 31, 1999



U.S. COMMODITY FUTURES TRADING COMMISSION

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

April 30, 1999

OFFICE OF
INSPECTOR GENERAL

TO: Brooksley Born
Chairperson

FROM: A. Roy Lavik *ARL*
Inspector General

SUBJECT: Semiannual Report of the Office of the Inspector
General

Attached is the Semiannual Report of the Office of the Inspector General for the period from October 1, 1998 through March 31, 1999. This report is submitted to you in accordance with the requirements of Section 5 of the Inspector General Act of 1978, as amended.

I appreciate your continuing support of this office.

Attachment

OFFICE OF THE INSPECTOR GENERAL
COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT
FOR THE PERIOD FROM
October 1, 1998 THROUGH March 31, 1999

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SUMMARY OF OIG ACTIVITIES

AUDITS

The primary objectives of the Office of the Inspector General (OIG) are to help promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse. This reporting period's OIG audit activities which are listed below reflect these objectives.

Current Audits

The following are the audits being conducted during the current reporting period and continuing into the next reporting period. (For additional details, see the section on current audits beginning on page 11.)

Review of Enforcement Information Requirements. The objectives of this review are to determine what the information needs of all levels in the Division of Enforcement are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner. (For additional details, see page 12.)

Review of CFTC's Y2K Project. In response to growing Congressional and Office of Management and Budget concern, the OIG will review the agency's response to the difficulties inherent in the approach to the year 2000. This scope of this review will include both the internal and external implications of the Y2K problem. (For additional details, see page 13.)

Completed Audits

The following are the audits completed during this reporting period. (For additional details, see the section on completed audits on page 5.)

Audit of Compliance with the Federal Managers' Financial Integrity Act. In support of OMB Circular A-123 (Revised), the Inspector General evaluated, provided technical assistance, and advised the agency head as to whether the agency's review and evaluation process was conducted in accordance with the circular's requirements. (For additional details, see page 6.)

INVESTIGATIONS

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

One investigation was pending as of the beginning of the reporting period. The OIG opened three investigations during the reporting period and completed three investigations. One investigation remained open at the end of the period. (See the section on investigations beginning on page 6.)

LEGISLATIVE AND REGULATORY REVIEWS

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

The Regulatory Flexibility Act requires the agency to evaluate the impact of its regulations on small entities. The Paperwork Reduction Act requires the agency to manage effectively and efficiently its information collections so that they are the least burdensome necessary to achieve the stipulated objectives. (For more detailed descriptions of these reviews, see the section on legislative and regulatory reviews beginning on page 7.)

Regulations reviewed during this period include:

- Proposed Rules Concerning Automated Trading System Use in the United States;
- Petition for Exemption from Dual Trading Ban of the Coffee, Sugar, & Cocoa Exchange, Inc. ("CSCE");
- Petition for Exemption from Dual Trading Ban of the Chicago Mercantile Exchange ("CME"); and
- Petition for Exemption from Dual Trading Ban of the Chicago Board of Trade (CBT).

OIG RESPONSIBILITIES

The Office of the Inspector General in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- Conduct and supervise audits and, where necessary, investigations relating to the administration of CFTC programs and operations;

- Review existing and proposed legislation and regulations and make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Given that the CFTC does not have extensive contracts or grant making authority, the OIG's efforts have been focused on the review of legislative and regulatory proposals and the monitoring of internal CFTC operations.

OIG RESOURCES

The OIG consists of the Inspector General, two professional staff members, and a secretary. One professional position is currently vacant. The present Inspector General assumed his position on October 7, 1990.

The OIG, on December 4, 1989, signed a Memorandum of Understanding with the Office of General Counsel (OGC). This Memorandum details the procedures that will be used to provide the OIG with OGC legal services. An OGC staff member has been assigned to provide such services to the OIG on an as-needed basis.

CFTC PROGRAMS AND OPERATIONS

The CFTC was established in 1974 as an independent agency to regulate commodity futures and options trading in the United States. The CFTC is headquartered in Washington, D.C., with

additional offices in Chicago, New York, Kansas City, Los Angeles, and Minneapolis.

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

COMPLETED WORK

AUDITS

The OIG is required to conduct, supervise and coordinate audits of CFTC programs and operations and to ensure that the audits are conducted in accordance with generally accepted government auditing standards. The OIG is also required to recommend changes to existing and proposed CFTC programs and operations to promote economy, efficiency, and effectiveness and to prevent and detect fraud and abuse.

The purpose of these audits is to ensure that:

- Funds have been expended in a manner consistent with related laws, regulations, and policies;
- Resources have been managed effectively and efficiently;

- Stipulated program objectives have been achieved; and
- Resources have been safeguarded.

The following audit reports have been issued during the reporting period.

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

Objectives.

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

Status.

The OIG reviewed all of the draft internal control reviews produced by the Commission and provided comments to the originating divisions. The OIG reported the results of its review of the final submissions to the Chairperson in its annual assurance letters. The OIG offered its services to the CFTC Internal Control Committee as advisor and consultant on conducting and reporting on internal control reviews.

INVESTIGATIONS

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

There was one investigation pending as of the beginning of the reporting period. The OIG opened three investigations during

the reporting period and closed three investigations. One investigation remained open at the end of the period.

In response to an anonymous written allegation that an employee was wasting Government travel funds for his own personal benefit, the OIG opened an investigation. After a series of interviews and a review of the relevant documentation, the OIG concluded that there were no grounds to believe that Government funds were used for personal benefit. Accordingly, this investigation was closed.

In response to an anonymous complaint passed on to the Office of the Inspector General by a third party alleging discriminatory actions based on age and gender taken against eight employees in a particular office resulting in very low morale, the OIG opened an investigation. As a result of our investigation, we uncovered no basis for the allegation of discrimination. The interview established that morale was low. This information was communicated to the appropriate officials, and this investigation was closed.

In response to a telephone complaint lodged by an employee alleging inappropriate treatment, the OIG opened an investigation. As a result of this investigation, the OIG passed on to the complaining employee information on the appropriate methods of filing a formal complaint concerning the inappropriate treatment. This case was closed pending the receipt of additional information.

In response to a request from the Chairperson that the OIG look into the inappropriate release of a draft of the Commission staff's foreign terminals proposal, the OIG opened an investigation. As of the close of the reporting period, this investigation was still open.

LEGISLATIVE AND REGULATORY REVIEWS

As specified in Section 4(a)(2) of the Inspector General Act of 1978, the OIG reviews the impact of existing and proposed legislation and regulations on CFTC programs and operations and makes recommendations regarding more effective or efficient

alternatives or protections against fraud and abuse. The OIG also reviews exchange rule proposals and changes.

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

RULE REVIEWS INITIATED IN PREVIOUS REPORTING PERIODS

None.

RULE REVIEWS INITIATED THIS REPORTING PERIOD

1. **Proposed Rules Concerning Automated Trading System Use in the United States.**

Summary of Action

The CFTC proposed new rules regarding automated access to foreign boards of trade from within the United States.

OIG Review

The OIG made specific suggestions to the proposed rules which were generally accepted by staff.

2. **Petition for exemption from Dual Trading Ban of the Coffee, Sugar & Cocoa Exchange, Inc. ("CSCE").**

Summary of Action

The CSCE sought exemption for its Cocoa futures contract from the dual trading strictures.

OIG Review

The OIG raised certain issues with the staff to which the latter responded. The CFTC approved the exemption on December 23, 1998.

3. **Petition for exemption from Dual Trading Ban of the Chicago Mercantile**

Summary of Action

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

OIG Review

The OIG asked various questions which staff responded to and clarified.

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

Summary of Action

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

OIG Review

The OIG queried staff about various issues which staff responded to.

AUDIT REPORTS OVER SIX MONTHS OLD
--

CORRECTIVE ACTION NOT COMPLETED

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

CORRECTIVE ACTION COMPLETED

There were no instances of reports issued before the commencement of the reporting period for which corrective action had been completed by the end of the reporting period.

MANAGEMENT DECISION NOT MADE

There were no instances of reports issued before the commencement of the reporting period for which a management decision had not been made by the end of the reporting period.

**SUMMARY OF MATTERS REFERRED TO PROSECUTIVE
AUTHORITIES**

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

**SUMMARY OF EACH REPORT MADE TO THE AGENCY
HEAD**

No reports were made to the agency head under section 6(b)(2) concerning information or assistance unreasonably refused or not provided.

REVISED MANAGEMENT DECISIONS

No management decisions were revised during the reporting period.

INSPECTOR GENERAL DISAGREEMENT

The Inspector General does not disagree with any management decisions on OIG recommendations.

CURRENT AUDITS

The audit agenda and priorities for the OIG are determined based on the following factors:

- Statutory and regulatory requirements;
- Adequacy of internal control systems as indicated by vulnerability assessments and internal control reviews recommended by OMB Circular A-123;
- Changes in the program conditions or particular vulnerability of the organization, program, activity, or function to problems or deficiencies;
- Current and potential dollar magnitude and likely benefits of a review on the efficiency or effectiveness of CFTC programs and operations;
- Management priorities and improvements that may be possible;
- Results of audits of CFTC programs and operations by other Federal agencies; and
- Availability of audit resources and the potential opportunity costs to the agency.

The audit agenda and summary of progress for each audit which has not yet been completed is summarized below. New agenda

items periodically will be added, as appropriate, along with a description of the audit objective for each.

1. Review of Enforcement Information Requirements

Objectives.

The mission of the Division of Enforcement is to investigate and prosecute fairly and effectively violations of the Commodity Exchange Act and the Commission's regulations in order to safeguard the integrity of U.S. futures and options markets and to protect market participants and futures and options customers. In the course of its activities, the division, with headquarters and regional components, plans and follows an often complex course to achieve its objectives and receives and creates a huge volume of documents which must be logically stored and regularly accessed. To support the accomplishment of these tasks, the division is relying on a collection of very old manual and automated systems to track the progress of activities and to store and retrieve documents. The objectives of this review are to determine what the information needs of all levels in the division are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner.

Status.

The joint OIG/Enforcement team produced extensive and detailed narrative flow charts of the current operational and administrative functions and processes of the Division of Enforcement and delivered them to the Division of Enforcement and the Office of Information Resources Management (OIRM). These products were designed to inform the analysts of OIRM of the inner workings of the Division of Enforcement and to serve as the base on which the information requirements of the Division of Enforcement will be defined.

In September 1997, in a joint meeting of representatives of the Division of Enforcement, the Office of the Inspector General, and the Office of Information Resources Management (OIRM), the principals made commitments of six staff years of effort from

OIRM and approximately three staff years of effort from Enforcement to define the system requirements of Enforcement.

The Division of Enforcement and OIRM have agreed that the first priority is the development of a system to track documents in the Division in accordance with the Division's Enforcement Procedure Number 3. The second phase is devoted to installing a system to track production within the Division and to report that information in the required formats to management of the Division. Phase three will concentrate on moving the functions of the attorneys and investigators from paper to computer screen and using the resulting information to improve the tracking of productivity information and the sharing of information within the Division.

The final version of the first phase of what is now being called "the Enforcement Modernization Project" was delivered to the Division of Enforcement in May 1998. This Enforcement Procedure Number 3 System is now being used at all locations of the Division. The second phase, a system which produces the monthly status reports from all parts of the Division and maintains on screen data on the current status of all matters within the Division, has been completed. Training in the use of this system was completed during March 1999. Phase Three, designed to present the Enforcement Division with a litigation support system, to tie together the first two systems with the litigation support system, and to automate as many of the remaining Enforcement Division processes as possible, has begun with a survey of off-the-shelf litigation tracking systems and an investigation of currently available software and hardware which may meet the bulk of identified needs. A decision on the software to be used as the basis of the Phase Three system is expected by July 1999.

2. Review of CFTC's Y2K Project

Objectives.

In response to growing Congressional and Office of Management and Budget concern, the OIG will review the agency's response to the difficulties inherent in the approach to the year

2000. This scope of this review will include both the internal and external implications of the Y2K problem.

Status.

The OIG has interviewed the Director, Office of Information Resources Management and his Deputy about their activities in dealing with any Y2K issues for all CFTC internal systems and any systems which feed data to those systems. The OIG has also spoken with the Deputy Director, Division of Trading and Markets and members of his staff in Washington and in the field offices to keep abreast of the progress of the staff in dealing with the futures industry and the industry's efforts to insure that their systems and any systems which feed data to their systems are Y2K compliant. Trading and Markets has supplied the OIG with a briefing book on the steps taken to date and the schedule of expected actions designed to bring the industry systems into full compliance in a timely fashion.

The OIG has kept abreast of this issue by receiving continuing briefings and reviewing available documentation on the current state of CFTC's preparedness for dealing with the Y2K problem.

GAO LIAISON

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

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

<p style="text-align:center">STRATEGIC PLAN FOR THE OFFICE OF THE INSPECTOR GENERAL</p>
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INTRODUCTION

The Office of the Inspector General (OIG) in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- Conduct and supervise audits and investigations relating to the administration of CFTC programs and operations;
- Review existing and proposed legislation and regulations and to make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Accordingly, the OIG has established three programs to carry out its responsibilities: audit, investigation, and legislative and regulatory review. A summary of those programs follows.

AUDIT

The primary objectives of the OIG are to promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse.

The key to effectively and efficiently managing the Commodity Futures Trading Commission is information. Top level managers and decision makers require a steady stream of organized data on the effects of their policy decisions and resource allocations on the operations of the Commission. Once having made the decision to change resource levels or policy, managers must receive accurate and timely reports of the operational effects of their decision so they can determine if the change is in the direction and of the magnitude predicted. In the absence of such information, top level managers cannot adequately perform their jobs.

A number of obstacles to acquiring and transmitting the desired information to decision makers may exist in some programs. Principal among them is the Commission's apparent difficulty in many instances in tracking the progress of a particular action across organizational lines within the Commission.

A simple example is the Reparations Program prior to the installation of an OIG recommended unified, Commission-wide tracking system. Complaints are received and processed and hearings are held in the Office of Proceedings; appeals of initial decisions in reparations cases are transmitted to the Office of General Counsel where proposed Commission opinions are drafted; and appeals are decided by the Commission with the paperwork being handled by the Office of the Secretariat. Each office involved in the process had a separate tracking system without ties to the tracking systems in the offices preceding them or following them in the process. Each office treated the case as if it were brand new to the Commission when they received it. As a result, there was no provision for tracking information across organizational lines. If the Chairman wanted to know how much time was spent on the average reparations case of a particular description at each stage in the process, that

information was unavailable without an extensive expenditure of manual labor.

A related problem is the difficulty the Commission has in associating resources devoted to an activity with the results of that activity. The Commission does a good job of tracking resources expended. It can determine how much staff time and material at what cost was spent in a particular activity. Some Commission organizations can even associate costs with particular projects. What a program manager may have great difficulty doing, however, is telling a decision maker that for a specific level of increase in resources, the program manager will deliver a specific level of increased output. Without this information from all programs competing for limited resources, decision makers cannot make reasoned resource allocation judgments. Decision makers are forced to rely on intuition and anecdotal evidence.

To increase the efficiency and the effectiveness of the management of CFTC programs and operations, the OIG will, in addition to the conduct of mandatory audits, concentrate its audit resources on the identification of information voids and the lack of continuity in the flow of information across organizational lines from the beginning of a process until its conclusion. The OIG will recommend the implementation of any system improvements where the benefits of implementing the changes exceed the costs.

In addition to our efforts to bring technology to bear on the information requirements of the Commission, the OIG has been following the Commission's development of measures and systems of measurement in response to the Government Performance and Results Act (GPRA). As the Commission implements GPRA, the OIG will devote significant resources to monitoring agency performance to insure that the data is accurately gathered and that the measures reported are the best available for demonstrating program performance.

INVESTIGATION

The Inspector General Act of 1978, as amended, provides that the Inspector General may receive and investigate complaints or

information from the Commission's employees concerning the possible existence of an activity constituting a violation of law, rules or regulations, or mismanagement, gross waste of funds, abuse of authority or a substantial and specific danger to the public health and safety.

The OIG has to date conducted only a reactive investigative program chiefly relying on unsolicited employee complaints as the source of investigative leads. This reactive program has resulted in only a handful of investigations per year. This strategy was followed because the OIG believed that an independent regulatory agency such as CFTC without grant money or substantial contracts to award was not likely to generate a substantial investigative workload.

To insure that employee complaints could easily reach the OIG, a 24 hour hotline was established in February 1993 to receive complaints. The hotline's existence is publicized on the back cover of the agency-wide telephone book and in this semiannual report.

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

LEGISLATIVE AND REGULATORY REVIEW

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

The Regulatory Flexibility Act requires the agency to evaluate the impact of its regulations on small entities. The

Paperwork Reduction Act requires the agency to manage effectively and efficiently its information collections so that they are the least burdensome necessary to achieve the stipulated objectives.

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

AUDIT AGENDA

ANNUAL AUDITS

The following audit is performed on an annual basis.

Audit of Compliance with the Federal Managers' Financial Integrity Act

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

OTHER AUDITS

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

These audits will entail a cataloging and description of all of the manual and automated systems used by an organization to gather information on its use of resources, the results of the

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

If recommendations are successfully implemented, the proposed systems should allow the Chairman, the Commissioners, and concerned program managers to track progress of a particular program across organizational lines and to quickly determine the effects, if any, of changes in policy, procedure, or staffing.

The first step in accomplishing this goal will be to concentrate on documenting, and recommending the improvement and/or development of tracking systems in every program element throughout the Commission.

RESOURCES REQUIRED

The OIG estimates that approximately one and nine-tenths staff years of effort will be devoted over each of the next five years to the audits described in "Other Audits" above. The "Annual Audits" are expected to consume approximately one-tenth staff year per year.

CONTACTING OFFICE OF THE INSPECTOR GENERAL

The OIG is located at 1155 21st Street N.W., Washington, D.C. 20581. The telephone number is (202)418-5110. The facsimile number is (202)418-5522. The hotline number is (202)418-5510. Regular business hours are between 8:30 AM and 5:00 PM, Monday through Friday, except Federal holidays.

Table 1

**Reports Issued with Questioned Costs
(October 1, 1998 - March 31, 1999)**

	Number	Dollar Value (Thousands)	
	-----	-----	-----
		Questioned Costs	Unsupported Costs
	-----	-----	-----
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	
(ii) dollar value of costs not disallowed.....	0	0	
D. For which no management decision has been made by the end of the reporting period.....	0	0	0

Table 2

**Reports Issued with Recommendations
That Funds be Put to Better Use
(October 1, 1998 - March 31, 1999)**

	Number	Dollar Value (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.

Report **FRAUD, WASTE**
or **ABUSE** to the
INSPECTOR GENERAL
HOTLINE
(202)418-5510

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

COMMODITY FUTURES TRADING COMMISSION

**SEMIANNUAL REPORT
OF THE**

**OFFICE OF THE
INSPECTOR GENERAL**



FOR THE PERIOD ENDING SEPTEMBER 30, 1999



U.S. COMMODITY FUTURES TRADING COMMISSION

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

October 29, 1999

OFFICE OF
INSPECTOR GENERAL

TO: William J. Rainer
Chairman

FROM: A. Roy Lavik *ARL*
Inspector General

SUBJECT: Semiannual Report of the Office of the Inspector
General

Attached is the Semiannual Report of the Office of the Inspector General for the period from April 1, 1999 through September 30, 1999. This report is submitted to you in accordance with the requirements of Section 5 of the Inspector General Act of 1978, as amended.

I appreciate your support of this office.

Attachment

OFFICE OF THE INSPECTOR GENERAL
COMMODITY FUTURES TRADING COMMISSION

SEMIANNUAL REPORT
FOR THE PERIOD FROM
April 1, 1999 THROUGH September 30, 1999

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SUMMARY OF OIG ACTIVITIES

AUDITS

The primary objectives of the Office of the Inspector General (OIG) are to help promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse. This reporting period's OIG audit activities which are listed below reflect these objectives.

Current Audits

The following are the audits being conducted during the current reporting period and continuing into the next reporting period. (For additional details, see the section on current audits beginning on page 11.)

Review of Enforcement Information Requirements. The objectives of this review are to determine what the information needs of all levels in the Division of Enforcement are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner. (For additional details, see page 12.)

Review of CFTC's Y2K Project. In response to growing Congressional and Office of Management and Budget concern, the OIG is reviewing the agency's response to the difficulties inherent in the approach to the year 2000. This scope of this review includes both the internal and external implications of the Y2K problem. The objectives of this review are to insure that the Inspector General is prepared at all times to brief Congressional staff on the agency's progress and to assure the Inspector General that the CFTC is taking appropriate measures to deal with the Y2K issue. (For additional details, see page 13.)

Completed Audits

No audit reports were issued during this reporting period.

INVESTIGATIONS

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

One investigation was pending as of the beginning of the reporting period. The OIG opened two investigations during the reporting period and completed two investigations. One investigation remained open at the end of the period. (See the section on investigations beginning on page 6.)

LEGISLATIVE AND REGULATORY REVIEWS

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

The Regulatory Flexibility Act requires the agency to evaluate the impact of its regulations on small entities. The Paperwork Reduction Act requires the agency to manage effectively and efficiently its information collections so that they are the least burdensome necessary to achieve the stipulated objectives. (For more detailed descriptions of these reviews, see the section on legislative and regulatory reviews beginning on page 7.)

Regulations reviewed during this period include:

- Proposed Rules Regarding Direct Foreign Order Transmittals by U.S. Persons (Proposed Rule 30.12);
- Proposed Changes to the CFTC's Part 10 Rules of Practice; and
- Proposed Amendments regarding Performance Data and Disclosure for Commodity Trading Advisers(CTA).

OIG RESPONSIBILITIES

The Office of the Inspector General in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- Conduct and supervise audits and, where necessary, investigations relating to the administration of CFTC programs and operations;
- Review existing and proposed legislation and regulations and make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC

programs and operations and provide recommendations for correction of these problems or deficiencies.

Given that the CFTC does not have extensive contracts or grant making authority, the OIG's efforts have been focused on the review of legislative and regulatory proposals and the monitoring of internal CFTC operations.

OIG RESOURCES

The OIG consists of the Inspector General, two professional staff members, and a secretary. One professional position is currently vacant. The present Inspector General assumed his position on October 7, 1990.

The OIG, on December 4, 1989, signed a Memorandum of Understanding with the Office of General Counsel (OGC). This Memorandum details the procedures that will be used to provide the OIG with OGC legal services. An OGC staff member has been assigned to provide such services to the OIG on an as-needed basis.

CFTC PROGRAMS AND OPERATIONS

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

The basic objectives of the CFTC are to prevent manipulation of the markets, abusive trade practices, and fraudulent activities; to maintain effective oversight of the markets and self-regulatory organizations; and to enforce the Commodity Exchange Act and Commission rules without hindering the futures markets' provision of price discovery and risk shifting services. The CFTC regulates

the futures activities of brokerage firms, salespersons, floor brokers, floor traders, commodity pool operators, commodity trading advisors, introducing brokers, and leverage transaction merchants. In addition, the agency ensures the effective enforcement of exchange rules, reviews the terms and conditions of proposed futures contracts and the registration of firms and individuals who provide advice or handle customer funds, and oversees the activities of the National Futures Association.

COMPLETED WORK

AUDITS

The OIG is required to conduct, supervise and coordinate audits of CFTC programs and operations and to ensure that the audits are conducted in accordance with generally accepted government auditing standards. The OIG is also required to recommend changes to existing and proposed CFTC programs and operations to promote economy, efficiency, and effectiveness and to prevent and detect fraud and abuse.

The purpose of these audits is to ensure that:

- Funds have been expended in a manner consistent with related laws, regulations, and policies;
- Resources have been managed effectively and efficiently;
- Stipulated program objectives have been achieved; and
- Resources have been safeguarded.

No audit reports were issued during the reporting period.

INVESTIGATIONS

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

There was one investigation pending as of the beginning of the reporting period. The OIG opened two investigations during the reporting period and closed two investigations. One investigation remained open at the end of the period.

In response to a request from the Chairperson that the OIG look into the inappropriate release of a draft of the Commission staff's foreign terminals proposal, the OIG opened an investigation. The OIG talked with all relevant Commission personnel, outside of the immediate Office of the Chairperson, about their knowledge of the creation, distribution, and approval of the foreign terminals document and obtained and reviewed relevant documentation. Given the number of available copies of the released document, the Office of the Inspector General was not able to determine the source of the leaked document.

In a Hotline call, a member of the public stated that he had passed on overwhelming and conclusive evidence of manipulation of a particular market to a high CFTC official and that that official had ignored the evidence, given a dismissive response, and done nothing. The OIG reviewed the information provided by the complainant, checked with the Division of Enforcement and the Division of Economic Analysis for their official positions on the subject of the complaint. The OIG also consulted with an Economist to determine if the official positions were reasonable. The OIG's research indicated that the position taken by the CFTC official in response to the information provided by the complainant was reasonable. Accordingly, this investigation was closed.

In response to in-person complaints from CFTC employees, the OIG undertook an investigation of an alleged quota on "Exceeds with Distinction" ratings in the implementation of the CFTC performance appraisal program. The question was whether there was a limitation on the number or percentage of "Exceeds with Distinction" ratings which could be granted in any given rating cycle agency-wide or within a division, whether such a limitation violated Office of Personnel Management rules or regulations, and, if not, whether the CFTC instructions and forms should notify employees of such a limitation. As of the close of the reporting period, this investigation was still open.

LEGISLATIVE AND REGULATORY REVIEWS

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

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

RULE REVIEWS INITIATED IN PREVIOUS REPORTING PERIODS

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

Summary of Action

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

OIG Review

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

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

Summary of Action

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

OIG Review

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

RULE REVIEWS INITIATED THIS REPORTING PERIOD

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

Summary of Action

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

OIG Review

The OIG raised questions and offered suggestions. Staff provided clarifying answers and adopted several suggestions. OIG iterated the value of using relevant test groups in ascertaining the value of disclosure documents.

2. Proposed Changes to the CFTC's Part 10 Rules of Practice.

Summary of Action

The CFTC proposed certain corrections to its Rules of Practice and Appendix A to the rules.

OIG Review

OIG suggested an amplification of the need for notice and comment.

3. Proposed Amendments regarding Performance Data and Disclosure for Commodity Trading Advisers (CTA).

Summary of Action

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

OIG Review

The OIG urged staff to consider using a focus group to determine the relative values of disclosure of the two methods.

AUDIT REPORTS OVER SIX MONTHS OLD

CORRECTIVE ACTION NOT COMPLETED

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

CORRECTIVE ACTION COMPLETED

There were no instances of reports issued before the commencement of the reporting period for which corrective action had been completed by the end of the reporting period.

MANAGEMENT DECISION NOT MADE

There were no instances of reports issued before the commencement of the reporting period for which a management decision had not been made by the end of the reporting period.

SUMMARY OF MATTERS REFERRED TO PROSECUTIVE AUTHORITIES

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

SUMMARY OF EACH REPORT MADE TO THE AGENCY HEAD

No reports were made to the agency head under section 6(b)(2) concerning information or assistance unreasonably refused or not provided.

REVISED MANAGEMENT DECISIONS

No management decisions were revised during the reporting period.

INSPECTOR GENERAL DISAGREEMENT

The Inspector General does not disagree with any management decisions on OIG recommendations.

CURRENT AUDITS

The audit agenda and priorities for the OIG are determined based on the following factors:

- Statutory and regulatory requirements;
- Adequacy of internal control systems as indicated by vulnerability assessments and internal control reviews recommended by OMB Circular A-123;
- Changes in the program conditions or particular vulnerability of the organization, program, activity, or function to problems or deficiencies;
- Current and potential dollar magnitude and likely benefits of a review on the efficiency or effectiveness of CFTC programs and operations;
- Management priorities and improvements that may be possible;
- Results of audits of CFTC programs and operations by other Federal agencies; and
- Availability of audit resources and the potential opportunity costs to the agency.

The audit agenda and summary of progress for each audit which has not yet been completed is summarized below. New agenda items periodically will be added, as appropriate, along with a description of the audit objective for each.

1. **Review of Enforcement Information Requirements**

Objectives.

The mission of the Division of Enforcement is to investigate and prosecute fairly and effectively violations of the Commodity Exchange Act and the Commission's regulations in order to safeguard the integrity of U.S. futures and options markets and to protect market participants and futures and options customers. In the course of its activities, the division, with headquarters and regional components, plans and follows an often complex course to achieve its objectives and receives and creates a huge volume of documents which must be logically stored and regularly accessed. To support the accomplishment of these tasks, the division is relying on a collection of very old manual and automated systems to track the progress of activities and to store and retrieve documents.

The objectives of this review are to determine what the information needs of all levels in the division are, whether the information needs are being met, and if the required information can be created, stored, and retrieved in a more effective and efficient manner.

Status.

The joint OIG/Enforcement team produced extensive and detailed narrative flow charts of the current operational and administrative functions and processes of the Division of Enforcement and delivered them to the Division of Enforcement and the Office of Information Resources Management (OIRM). These products were designed to inform the analysts of OIRM of the inner workings of the Division of Enforcement and to serve as the base on which the information requirements of the Division of Enforcement will be defined.

In September 1997, in a joint meeting of representatives of the Division of Enforcement, the Office of the Inspector General, and OIRM, the principals made commitments of six staff years of effort from OIRM and approximately three staff years of effort from Enforcement to define the system requirements of Enforcement.

The Division of Enforcement and OIRM agreed that the first priority was the development of a system to track documents in the Division in accordance with the Division's Enforcement Procedure Number 3. The second phase was devoted to installing a system to track production within the Division and to report that information in the required formats to management of the Division. Phase three will concentrate on moving the functions of the attorneys and investigators from paper to computer screen and using the resulting information to improve the tracking of productivity information and the sharing of information within the Division.

The final version of the first phase of what is now being called "the Enforcement Modernization Project" was delivered to the Division of Enforcement in May 1998. This Enforcement Procedure Number 3 System is now being used at all locations of the Division. The second phase, a system which produces the monthly status reports from all parts of the Division and maintains on screen data on the current status of all matters within the Division, has been completed. Training in the use of this system was completed during March 1999. Refinements to the monthly status report system are expected to be completed before the end of the calendar year.

Phase Three, designed to present the Enforcement Division with a litigation support system, to tie together the first two systems with the litigation support system, and to automate as many of the remaining Enforcement Division processes as possible, began with a survey of off-the-shelf litigation tracking systems and an investigation of currently available software and hardware which may meet the bulk of identified needs. Difficulties maintaining contractor resource levels led to delays in the pursuit of Phase 3. These resource difficulties are expected to be resolved prior to the end of the calendar year.

2. Review of CFTC's Y2K Project

Objectives.

In response to growing Congressional and Office of Management and Budget concern, the OIG will review the agency's response to the difficulties inherent in the approach to the year

2000. This scope of this review will include both the internal and external implications of the Y2K problem. The objectives of this review are to insure that the Inspector General is prepared at all times to brief Congressional staff on the agency's progress and to assure the Inspector General that the CFTC is taking appropriate measures to deal with the Y2K issue.

Status.

The OIG has interviewed the Director of OIRM and his Deputy about their activities in dealing with any Y2K issues for all CFTC internal systems and any systems which feed data to those systems. The OIG has also spoken with the Deputy Director, Division of Trading and Markets and members of his staff in Washington and in the field offices to keep abreast of the progress of the staff in dealing with the futures industry and the industry's efforts to insure that their systems and any systems which feed data to their systems are Y2K compliant. Trading and Markets has supplied the OIG with a briefing book on the steps taken to date and the schedule of expected actions designed to bring the industry systems into full compliance in a timely fashion.

The OIG has kept abreast of this issue by receiving continuing briefings and reviewing available documentation on the current state of CFTC's preparedness for dealing with the Y2K problem.

GAO LIAISON

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

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

INTRODUCTION

The Office of the Inspector General (OIG) in the Commodity Futures Trading Commission (CFTC) was created in accordance with the Inspector General Act of 1978 (P.L. 95-452), as amended by the Inspector General Act Amendments of 1988 (P.L. 100-504). The OIG was established to create an independent unit to:

- Promote economy, efficiency, and effectiveness in the administration of CFTC programs and operations and to detect and prevent fraud and abuse in such programs and operations;
- Conduct and supervise audits and investigations relating to the administration of CFTC programs and operations;
- Review existing and proposed legislation and regulations and to make recommendations concerning their impact on the economy and efficiency of CFTC programs and operations or the prevention and detection of fraud and abuse; and
- Keep the Chairman and Congress fully informed about any problems or deficiencies in the administration of CFTC programs and operations and provide recommendations for correction of these problems or deficiencies.

Accordingly, the OIG has established three programs to carry out its responsibilities: audit, investigation, and legislative and regulatory review. A summary of those programs follows.

AUDIT

The primary objectives of the OIG are to promote long-term efficiency and effectiveness in the administration and operation of the Commission and to protect against fraud and abuse.

The key to effectively and efficiently managing the Commodity Futures Trading Commission is information. Top level managers and decision makers require a steady stream of organized data on the effects of their policy decisions and resource allocations on the operations of the Commission. Once having made the decision to change resource levels or policy, managers must receive accurate and timely reports of the operational effects of their decision so they can determine if the change is in the direction and of the magnitude predicted. In the absence of such information, top level managers cannot adequately perform their jobs.

A number of obstacles to acquiring and transmitting the desired information to decision makers may exist in some programs. Principal among them is the Commission's apparent difficulty in many instances in tracking the progress of a particular action across organizational lines within the Commission.

A simple example is the Reparations Program prior to the installation of an OIG recommended unified, Commission-wide tracking system. Complaints are received and processed and hearings are held in the Office of Proceedings; appeals of initial decisions in reparations cases are transmitted to the Office of General Counsel where proposed Commission opinions are drafted; and appeals are decided by the Commission with the paperwork being handled by the Office of the Secretariat. Each office involved in the process had a separate tracking system without ties to the tracking systems in the offices preceding them or following them in the process. Each office treated the case as if it were brand new to the Commission when they received it. As a result, there was no provision for tracking information across organizational lines. If the Chairman wanted to know how much time was spent on the average reparations case of a particular description at each stage in

the process, that information was unavailable without an extensive expenditure of manual labor.

A related problem is the difficulty the Commission has in associating resources devoted to an activity with the results of that activity. The Commission does a good job of tracking resources expended. It can determine how much staff time and material at what cost was spent in a particular activity. Some Commission organizations can even associate costs with particular projects. What a program manager may have great difficulty doing, however, is telling a decision maker that for a specific level of increase in resources, the program manager will deliver a specific level of increased output. Without this information from all programs competing for limited resources, decision makers cannot make reasoned resource allocation judgments. Decision makers are forced to rely on intuition and anecdotal evidence.

To increase the efficiency and the effectiveness of the management of CFTC programs and operations, the OIG will, in addition to the conduct of mandatory audits, concentrate its audit resources on the identification of information voids and the lack of continuity in the flow of information across organizational lines from the beginning of a process until its conclusion. The OIG will recommend the implementation of any system improvements where the benefits of implementing the changes exceed the costs.

In addition to our efforts to bring technology to bear on the information requirements of the Commission, the OIG has been following the Commission's development of measures and systems of measurement in response to the Government Performance and Results Act (GPRA). As the Commission implements GPRA, the OIG will devote significant resources to monitoring agency performance to insure that the data is accurately gathered and that the measures reported are the best available for demonstrating program performance.

INVESTIGATION

The Inspector General Act of 1978, as amended, provides that the Inspector General may receive and investigate complaints or

information from the Commission's employees concerning the possible existence of an activity constituting a violation of law, rules or regulations, or mismanagement, gross waste of funds, abuse of authority or a substantial and specific danger to the public health and safety.

The OIG has to date conducted only a reactive investigative program chiefly relying on unsolicited employee complaints as the source of investigative leads. This reactive program has resulted in only a handful of investigations per year. This strategy was followed because the OIG believed that an independent regulatory agency such as CFTC without grant money or substantial contracts to award was not likely to generate a substantial investigative workload.

To insure that employee complaints could easily reach the OIG, a 24 hour hotline was established in February 1993 to receive complaints. The hotline's existence is publicized on the back cover of the agency-wide telephone book and in this semiannual report.

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

LEGISLATIVE AND REGULATORY REVIEW

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

The Regulatory Flexibility Act requires the agency to evaluate the impact of its regulations on small entities. The Paperwork

Reduction Act requires the agency to manage effectively and efficiently its information collections so that they are the least burdensome necessary to achieve the stipulated objectives.

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

AUDIT AGENDA

ANNUAL AUDITS

The following audit is performed on an annual basis.

Audit of Compliance with the Federal Managers' Financial Integrity Act

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

OTHER AUDITS

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

These audits will entail a cataloging and description of all of the manual and automated systems used by an organization to gather information on its use of resources, the results of the devotion of

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

If recommendations are successfully implemented, the proposed systems should allow the Chairman, the Commissioners, and concerned program managers to track progress of a particular program across organizational lines and to quickly determine the effects, if any, of changes in policy, procedure, or staffing.

The first step in accomplishing this goal will be to concentrate on documenting, and recommending the improvement and/or development of tracking systems in every program element throughout the Commission.

RESOURCES REQUIRED

The OIG estimates that approximately one and nine-tenths staff years of effort will be devoted over each of the next five years to the audits described in "Other Audits" above. The "Annual Audits" are expected to consume approximately one-tenth staff year per year.

**CONTACTING OFFICE OF THE INSPECTOR
GENERAL**

The OIG is located at 1155 21st Street N.W., Washington, D.C. 20581. The telephone number is (202)418-5110. The facsimile number is (202)418-5522. The hotline number is (202)418-5510. Regular business hours are between 8:30 AM and 5:00 PM, Monday through Friday, except Federal holidays.

Table 1**Reports Issued with Questioned Costs
(April 1, 1999 – September 30, 1999)**

	Number	Dollar Value (Thousands)	
		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	
(ii) dollar value of costs not disallowed	0	0	
D. For which no management decision has been made by the end of the reporting period	0	0	0

Table 2

**Reports Issued with Recommendations
That Funds be Put to Better Use
(April 1, 1999 - September 30, 1999)**

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



*The Inspector General
needs your help to
assure the integrity of
CFTC's programs.*

Report **FRAUD, WASTE**
or **ABUSE** to the
INSPECTOR GENERAL
HOTLINE
(202)418-5510

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