

U.S. SECURITIES AND
EXCHANGE COMMISSION

REPORT NO. 586

AUGUST 26, 2025

OFFICE OF
**INSPECTOR
GENERAL**

OFFICE OF AUDITS

Improved Documentation and
Guidance Can Help Strengthen
Corporation Finance's Disclosure
Review Program



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

M E M O R A N D U M

August 26, 2025

TO: Cicely LaMothe, Acting Director, Division of Corporation Finance

FROM: Kevin Muhlendorf, Inspector General **KEVIN MUHLENDORF** Digitally signed by KEVIN MUHLENDORF
Date: 2025.08.25 15:44:54 -04'00'

SUBJECT: *Improved Documentation and Guidance Can Help Strengthen Corporation Finance's Disclosure Review Program, Report No. 586*

Attached is the Office of Inspector General final report detailing the results of our audit of the U.S. Securities and Exchange Commission's Division of Corporation Finance's Disclosure Review Program. The report contains three recommendations that should help the Disclosure Review Program support its risk-based decisions and face uncertain challenges.

On July 17, 2025, we provided management with a draft of our report for review and comment. In its August 15, 2025, response, management concurred with our recommendations and included planned corrective actions with timeframes. We have included management's response as Appendix II in the final report.

We appreciate the courtesies and cooperation extended to us during the audit. If you have questions, please contact me or Rebecca Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects.

Attachment

cc:

Paul S. Atkins, Chairman
Gabriel Eckstein, Chief of Staff, Office of Chairman Atkins
Mark Berman, Deputy Chief of Staff, Office of Chairman Atkins
Peter Gimbrere, Managing Executive, Office of Chairman Atkins
Hester M. Peirce, Commissioner
Benjamin Vetter, Counsel, Office of Commissioner Peirce
Caroline A. Crenshaw, Commissioner
Malgorzata Spangenberg, Counsel, Office of Commissioner Crenshaw
Mark T. Uyeda, Commissioner
Ivan V. Griswold, Counsel, Office of Commissioner Uyeda
Jeffrey Finnell, Acting General Counsel
Elizabeth McFadden, Deputy General Counsel General Law, Office of the General Counsel
Erik Hotmire, Director, Office of Public Affairs
Natalia Díez Rigin, Director, Office of Legislative and Intergovernmental Affairs

Kenneth Johnson, Chief Operating Officer

Shelly Luisi, Chief Risk Officer

Jim Lloyd, Assistant Chief Risk Officer/Audit Coordinator, Office of the Chief Risk Officer

Duc Dang, Associate Director, Division of Corporation Finance

Yolanda Trotter, Deputy Chief Risk Officer, Division of Corporation Finance



EXECUTIVE SUMMARY

Improved Documentation and Guidance Can Help Strengthen Corporation Finance's Disclosure Review Program

REPORT NO. 586 | AUGUST 26, 2025

WHY WE DID THIS AUDIT

Companies that offer securities, such as stocks or bonds for public sale, must truthfully disclose information about those securities and associated risks. To protect investors and facilitate capital formation, the Disclosure Review Program (DRP) in the U.S. Securities and Exchange Commission's (SEC) Division of Corporation Finance selectively reviews the disclosures—typically the annual reports—of more than 7,400 companies required to regularly file financial reports with the SEC. The DRP reviews each company's annual report at least once every three years or more often based on risk factors. The DRP also selects transactional filings for review.

We conducted this audit to assess whether the DRP (1) concentrated its resources on critical disclosures by implementing a risk-based process for selecting and reviewing filers' periodic reports and transactional filings, and (2) met its statutory requirements for reviewing filers' financial statements within the most recent three-year period.

AGENCY'S RESPONSE

Management concurred with our three recommendations and provided responsive corrective actions with estimated timeframes. The recommendations are resolved and will be closed upon verification of the actions taken. Management's complete response is reprinted in Appendix II.

WHAT WE FOUND AND RECOMMENDED

Although the DRP has a risk-based process for selecting and reviewing filings and met its statutory requirement for reviewing filers' financial statements during the period we reviewed, documentation of and guidance on the annual report selection and scoping processes were lacking. Documenting how and why the DRP selects and scopes its reviews is important for investor protection because it ensures that the DRP appropriately considers and incorporates risk into its decision-making by providing transparency that would contribute to effective oversight. Federal internal control standards also support the need for and value of documentation. Yet, in fiscal years 2023 and 2024, it was often unclear why DRP staff selected companies for elective annual report reviews and how staff decided to scope both required and elective reviews. Staff documented information inconsistently due to a lack of comprehensive guidance in selecting annual reports for elective review and documenting the scope for both required and elective reviews. Additionally, internal guidance (which has been in draft form since May 2017) did not address five of the six risk factors the SEC must consider when selecting companies to review. The guidance includes the DRP's interpretation of the minimum review period, which should also be finalized.

Changes in the DRP workforce may lead to a loss of institutional knowledge, and potential new rules related to crypto assets and other issues may create additional disclosure requirements warranting the DRP's attention. Further, the current regulatory environment may increase new issuer transactional filings. Improved documentation and guidance related to key DRP selection and scoping decisions can help management face these challenges and ensure the DRP uses a risk-based process to make the best use of its limited resources. Accordingly, we recommended that DRP management:

- Require that important information about how annual reports are selected for elective review and scoped, including any relevant risk factors, be documented, among other actions.
- Coordinate with the SEC's Office of the General Counsel to finalize Sarbanes-Oxley Act of 2002 section 408 guidance, including a description of all six factors to be considered and an interpretation of the minimum review period mandate.
- Consider developing a plan that prioritizes DRP goals and requirements in the event of significant staffing decreases and/or significant workload increases.

We also inquired about automating aspects of the DRP. While we are not making formal recommendations related to this topic, we encourage management to continue considering opportunities and to leverage available resources to implement automation where feasible and advisable.

Finally, we identified a potential opportunity to consolidate the SEC's disclosure review information technology systems. Because the matter was outside the scope and objectives of this audit, we reported it separately.

Contents

Executive Summary	i
Introduction and Objectives	1
Results	4
Finding 1. Comprehensive Guidance For Annual Report Reviews Is Needed to Support Risk-Based Decisions	4
Recommendations, Management's Response, and Evaluation of Management's Response	7
Other Matters of Interest	9
Appendices	10
Appendix I. Scope and Methodology	10
Appendix II. Management Comments	14

Tables and Figure

Figure. DRP Organization	1
Table 1. Numbers of Annual Report Reviews and DRP Employees	6
Table 2. Summary of DRP Reviews and Screenings Sampled (FY 2023 and FY 2024)	11

Abbreviations

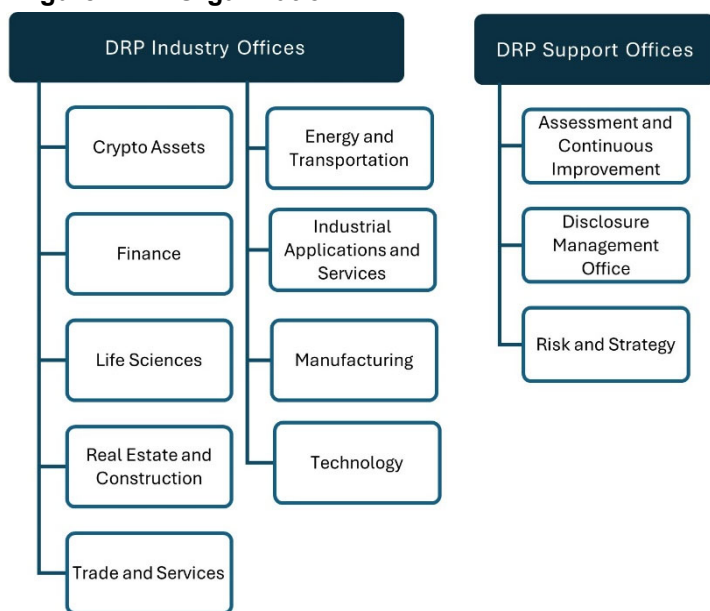
CF	Division of Corporation Finance
DRP	Disclosure Review Program
FY	fiscal year
GAO	U.S. Government Accountability Office
OIG	Office of Inspector General
SEC or Commission	U.S. Securities and Exchange Commission
SOX	Sarbanes-Oxley Act of 2002

Introduction and Objectives

INTRODUCTION

Companies that offer securities, such as stocks or bonds for public sale, must provide truthful information (*i.e.*, disclosures) about those securities and the risks of investing in them to help investors make informed decisions. Disclosures are made in periodic and transactional filings. Examples of filings made on a periodic and ongoing basis include annual reports of company business, financial conditions, and audited financial statements; quarterly reports of unaudited financial statements and financial conditions; and current reports that announce major events which shareholders should know about.¹ To protect investors, the Sarbanes-Oxley Act of 2002 (SOX) requires the U.S. Securities and Exchange Commission (SEC or Commission) to review “on a regular and systematic basis” disclosures made by each company that regularly files financial reports with the Commission.² These reviews also help facilitate capital formation. Accordingly, the SEC’s Division of Corporation Finance (CF) Disclosure Review Program (DRP) selectively reviews the disclosures and financial statements of more than 7,400 reporting companies, to identify those that appear noncompliant or materially deficient.

Figure. DRP Organization



Source: Office of Inspector General (OIG)-generated based on the DRP portion of CF’s larger organizational chart as of April 2025.

The DRP is staffed with just under 300 employees, most of which are accountants or attorneys with specialized knowledge, organized in 9 industry offices and 3 support offices, including an office focused on risk and strategy.

Annual Reports Reviews. Each year, DRP staff compile lists of public companies “required” for review or eligible for selection as “elective” reviews of companies’ annual reports. To comply with SOX requirements, the DRP must review each company’s annual report at least once during any three-year period.³ However, based on a variety of risk factors, DRP staff may choose to perform more frequent elective annual report reviews.

¹ The Securities Act of 1933 requires companies “[t]o provide full and fair disclosure of the character of securities sold” by issuing a “registration statement” to the Commission. The Securities Exchange Act of 1934 requires companies registered with the Commission to file quarterly and annual periodic reports to help ensure investor protection. See Securities Act of 1933, P.L. No. 73-22, 48 Stat. 74 (1933) (codified as amended at 15 U.S.C. §§ 77a -77aa); and Securities Exchange Act of 1934, P.L. No. 73-291, 48 Stat. 881 (1934) (codified as amended at 15 U.S.C. §§ 78a -78rr). Regulation S-K, codified at 17 C.F.R. Part 229, provides instructions for filings required by these Acts.

² P.L. No. 107-204, § 408, 116 Stat. 745, 790 (codified at 15 U.S.C. § 7266(a)).

³ Years are calculated on the government fiscal year basis, beginning on October 1 and ending on September 30 of the next calendar year. Elective reviews count towards the SOX section 408(c) requirement to review companies at least once every three years.

At a minimum, DRP accountants who perform required and elective annual report reviews assess company compliance with accounting standards and disclosure requirements by reviewing company financial statements and related disclosures from the most recently filed annual report and subsequently filed periodic and current reports. In limited cases, DRP accountants and attorneys conduct full reviews of annual reports by considering the entirety of a company's disclosure rather than just the financial statements and supporting information.

Transactional Filing Reviews. The DRP also reviews companies' transactional filings (*i.e.*, those documents companies file when they engage in public offerings, business combination transactions, and proxy solicitations). As part of these reviews, DRP attorneys and/or accountants consider either complete transactional filings (a "full review") or address discrete issues identified while screening transactional filings (a "targeted review").

To preserve the integrity and effectiveness of the review process, CF does not publicly disclose the criteria used to identify companies and disclosures for review beyond those factors listed in section 408(b) of SOX.⁴ Generally, however, CF considers trends and emerging risks where additional focus could significantly improve disclosures.

Review Outcomes. The DRP helps companies enhance their disclosure and deters companies from insufficient or noncompliant disclosure, in part, by issuing comment letters, which communicate to reviewed companies the SEC's questions, concerns, and suggestions for improved disclosure. When deciding whether to issue a comment letter, DRP staff assess whether additional information or clarification would (1) be material to understanding the company's circumstances, and (2) have a material impact on an investment decision. When staff determine that a company's registration or offering statement is materially noncompliant, they may defer further review and issue a "significant deficiencies letter."

In comment letters issued as a result of annual report reviews completed in fiscal year (FY) 2023 and FY 2024, staff most frequently commented on:

- management discussion and analysis disclosures that supplement company financial statements,
- disclosures of financial measures related to non-Generally Accepted Accounting Principles, and
- disclosures of foreign ownership and consolidation of additional foreign entities by China-based issuers.

⁴ When deciding whether to schedule an elective review, section 408(b) of SOX requires the SEC to consider (1) issuers that have issued material restatements of financial results; (2) issuers that experience significant volatility in their stock price as compared to other issuers; (3) issuers with the largest market capitalization; (4) emerging companies with disparities in price to earnings ratios; (5) issuers whose operations significantly affect any material sector of the economy; and (6) any other factors considered relevant.

OBJECTIVES

Our objectives were to assess whether CF's DRP (1) concentrated its resources on critical disclosures by implementing a risk-based process for selecting and reviewing filers' periodic reports and transactional filings, and (2) met its statutory requirements for reviewing filers' financial statements within the most recent three-year period. Our scope included DRP reviews completed in FY 2023 and FY 2024.

Appendix I of this report includes information about our scope and methodology, relevant internal controls, and prior coverage.

Results

FINDING 1. COMPREHENSIVE GUIDANCE FOR ANNUAL REPORT REVIEWS IS NEEDED TO SUPPORT RISK-BASED DECISIONS

Although the DRP has a risk-based process for selecting and reviewing filings and met its statutory requirement for reviewing filers' financial statements during the period we reviewed, documentation of and guidance on the annual report selection process for companies receiving an elective review and the scoping process of both required and elective reviews were lacking. Documenting how and why the DRP selects and scopes its reviews is important for investor protection because it ensures that the DRP appropriately considers and incorporates risk into its decision-making by providing transparency that would contribute to effective oversight. Federal internal control standards also support the need for and value of documentation. Yet, in FY 2023 and FY 2024, it was often unclear why DRP staff selected companies for elective annual report reviews and how staff decided to scope both required and elective annual report reviews. Staff documented information inconsistently due to a lack of comprehensive guidance for selecting annual reports for elective review and scoping both required and elective reviews.

Changes in the DRP workforce may lead to a loss of institutional knowledge, and potential new rules related to crypto assets and other issues may create additional disclosure requirements warranting the DRP's attention. Further, the current regulatory environment may increase new issuer transactional filings. Improved documentation and guidance related to key DRP selection and scoping decisions, as well as a plan that prioritizes DRP goals, can help management face these challenges and ensure the DRP makes the best use of its limited resources based on risk.

Staff Generally Did Not Indicate Why Elective Annual Report Reviews Were Selected

Federal internal control standards emphasize that documentation of significant events and transactions is important to demonstrate the performance of controls.⁵ We assessed annual report reviews completed in FY 2023 and FY 2024 and found that staff from only one of nine DRP industry offices consistently documented the risk factors that led them to select elective reviews, including factors listed in section 408(b) of SOX. Staff from the remaining eight industry offices either did not document this information or documented it only occasionally. While most DRP employees who responded to a survey we issued (about 68 percent) knew why they elected to examine company annual reports more frequently than required by SOX, nearly 30 percent stated that either such decisions were not documented, or they did not know whether decisions were documented.⁶ Although not currently required, documenting why a company was selected for elective review would improve transparency in the selection process and further ensure a risk-based approach.

⁵ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014); Attribute 10.03.

⁶ We issued an optional, web-based survey to 274 DRP employees and 109 responded. Appendix I of this report describes our survey methodology.

When determining which companies to electively review, SOX section 408(b) and DRP policy require consideration of six risk factors. However, the DRP lacked finalized, comprehensive guidance on how to consider all six factors. As of June 2025, the DRP's guidance on this topic, developed in May 2017, was still in draft form and was limited to consideration of the market capitalization factor. The DRP has not established how staff are to assess the other five factors, including providing data or prescribing what data should be used. For example, the DRP has not documented what constitutes "significant volatility" in issuer stock price. While we found some evidence that the other five risk factors were considered as part of some of the reviews we assessed, the evidence was inconsistent.

According to DRP leadership, industry office management (including the office chief and branch chiefs) have extensive experience performing reviews and considering risks when selecting elective reviews. While this may be the case, providing guidance on all risk factors listed in SOX 408(b) would promote consistency among the DRP industry offices and establish a baseline and shared understanding when considering those factors.

We also found that the DRP met the statutory requirement to review companies' filings no less frequently than "once every three years" based on SOX section 408(c).⁷ CF interprets the requirement to mean at least once during any three consecutive government fiscal years and follows this draft interpretation in practice but has yet to finalize it. Finalizing its interpretation of SOX section 408(c), with concurrence from the SEC's Office of the General Counsel, would solidify the DRP's position regarding its interpretation and officially align policy with practice.

Staff Inconsistently Documented Scoping Information for Required and Elective Annual Report Reviews

Staff across all nine DRP industry offices documented the scope of annual report reviews for only about 40 percent of the 43 reviews we assessed.⁸ Scoping information that was documented varied and referred to different sections of CF policy to explain how staff decided what would be included in each review. Contributing to this was CF's August 2024 policy guide, which was duplicative and unclear on what to review and when to review it. Some industry offices also developed their own guidance, leading to further inconsistencies in staff's understanding and approach to scoping reviews. Notably, a contractor-led evaluation of the DRP completed in December 2022 also identified inconsistent methodologies for selecting company reports for elective review, monitoring staff workload, and documenting filing reviews.

Guidance developed by one industry office permitted the office's staff to scale their efforts by suggesting that examiners align their review approach with certain company characteristics. This practice allows staff to manage and deploy resources efficiently and effectively according to risk. However, this guidance has not been adopted by other industry offices.

⁷ P.L. No. 107-204, § 408(c), 116 Stat. 745, 791 (codified at 15 U.S.C. § 7266(c)).

⁸ Appendix I of this report describes our sampling methodology and notes that our sample also included transactional filing reviews; however, we did not identify similar documentation concerns with those reviews.

Improvements Can Help Management Face Challenges

Several factors outside the DRP's control, including changes in its workforce and an uncertain regulatory environment, create challenges for DRP management and make knowledge and resource management increasingly important. Comprehensive guidance for annual report reviews can help management face these challenges.

Changes In the DRP Workforce. To align with recent executive orders, the SEC has taken steps to reduce costs and/or increase efficiencies, including reducing staff. In February 2025, over a third of all DRP managers and staff were retirement or early retirement eligible. Since that time, 27 of 299 DRP employees have left or agreed to leave the SEC through voluntary early retirement, the Deferred Resignation Program,⁹ or resignation. As the SEC contemplates further organizational changes, additional employee departures may occur and lead to a loss of institutional knowledge. When the DRP is able to hire again, inconsistent documentation and a lack of comprehensive guidance may pose challenges for newly hired staff.

Additionally, as Table 1 shows, the larger the DRP workforce is, the more annual report reviews it generally completes each year. Consequently, reductions in the DRP workforce may require trade-offs, informed by documented historical information, to manage the DRP's workload and best allocate resources to address risk.

Table 1. Numbers of Annual Report Reviews and DRP Employees

	FY 2022	FY 2023	FY 2024
Annual Reports Reviewed	3,000	3,290	3,400
Number of DRP Employees	286	290	298

Source: OIG-generated based on annual SEC congressional budget justifications and CF staff justifications. Numbers for annual reports reviewed are rounded.

Uncertain Regulatory Environment. In April 2025, the SEC's Chairman stated that developing a regulatory framework for digital assets was a top priority.¹⁰ This was in line with Executive Order 14178, which included the SEC in a multiagency working group on digital assets,¹¹ and the SEC's creation of a crypto task force. The task force seeks to provide clarity on the application of the federal securities laws to the crypto asset market and to recommend practical policy measures that aim to foster innovation and protect investors. CF has an industry office solely dedicated to reviewing filings of crypto-related public companies. With the industry and the regulatory environment surrounding it still developing, there is a potential that DRP's work may expand.

The SEC also increased access for nonpublic companies to submit draft registration statements in March 2025. Then, in June, the Chairman said that the Commission will focus on supporting entrepreneurs in

⁹ The Deferred Resignation Program is a voluntary program established by the U.S. Office of Personnel Management that allows eligible employees to voluntarily resign from federal service (or retire, if eligible), during which they will be paid their full salary and benefits through September 30, 2025, and will generally not be expected to work, are exempted from in-person work requirements, and will be exempt from any reductions in force planned for the federal workforce.

¹⁰ Remarks of Chairman Paul S. Atkins at the White House, Oval Office (April 22, 2025), available at <https://www.sec.gov/newsroom/speeches-statements/atkins-white-house-042225>.

¹¹ Executive Order 14178, *Strengthening American Leadership in Digital Financial Technology* (January 23, 2025).

obtaining capital for their companies to innovate and grow.¹² The SEC's FY 2026 Congressional Budget Justification echoed this sentiment, pledging to ensure regulations are not overly burdensome:

Capital formation is at the root of what we do. It is building a direct, economical route for investors' capital to find its way to entrepreneurs and industries that put capital to work to create products, services, and jobs. ...[A]s it relates to fair, orderly, and efficient markets, Congress calls on the SEC to ensure that our regulations balance costs and benefits, and that they do not become too burdensome.¹³

This posture has the potential to increase new issuer offerings, which could impact the DRP's ability to review elective annual report filings. The DRP could prepare for this uncertainty by developing a plan that prioritizes DRP goals and requirements in the event of significant staffing decreases and/or significant workload increases.

RECOMMENDATIONS, MANAGEMENT'S RESPONSE, AND EVALUATION OF MANAGEMENT'S RESPONSE

To support its risk-based decisions and help management face uncertain challenges, we recommend that DRP management:

Recommendation 1:

Update policies and internal guidance to (a) require that staff document the reasons and relevant risk factors for conducting elective annual report reviews, (b) provide clear direction for scoping annual report reviews, and (c) require that staff document scoping decisions.

Management's Response. Management concurred with the recommendation, stating that the DRP will update its policies to require staff to document their rationale for selecting annual reports as elective reviews. In addition, the DRP will assess its internal guidance related to the scoping of annual report reviews and determine whether scoping of annual report reviews remains necessary. The DRP will use this assessment to inform updates to internal policies. Management plans to complete these actions by February 2026. Management's complete response is reprinted in Appendix II.

OIG's Evaluation of Management's Response. Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

Recommendation 2:

Coordinate with the SEC Office of the General Counsel to finalize the Sarbanes-Oxley Act of 2002 section 408(b) guidance, including a description of all six factors to be considered when selecting issuer

¹² Chairman Paul S. Atkins, Testimony Before the United States Senate Appropriations Subcommittee on Financial Services and General Government (June 3, 2025), available at <https://www.sec.gov/newsroom/speeches-statements/testimony-atkins-060325>.

¹³ U.S. Securities and Exchange Commission, *Fiscal Year 2026 Congressional Budget Justification Annual Performance Plan: Fiscal Year 2024 Annual Performance Report*, May 30, 2025.

filings for elective reviews, and finalize its interpretation of the minimum review period mandate from section 408(c) of the Act.

Management's Response. Management concurred with the recommendation, stating that the DRP will engage with the Office of the General Counsel to assess and formalize the DRP's interpretation of sections 408(b) and (c) of the Sarbanes-Oxley Act of 2002. Management plans to complete these actions by November 2025. Management's complete response is reprinted in Appendix II.

OIG's Evaluation of Management's Response. Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

Recommendation 3:

Consider developing a plan that prioritizes Disclosure Review Program goals and requirements in the event of significant staffing decreases and/or significant workload increases.

Management's Response. Management concurred with the recommendation, acknowledging potential operational challenges resulting from the recent loss of approximately 10 percent of its staff, the potential for further attrition, and an evolving regulatory landscape. The DRP recognized the importance of considering the development of a broader, proactive plan to help mitigate the impact of potential workload balances and continued attrition. Management will consider and, if deemed necessary, formulate the recommended plan by December 2025. Management's complete response is reprinted in Appendix II.

OIG's Evaluation of Management's Response. Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

Other Matters of Interest

Potential for Automating Aspects of the DRP. The SEC seeks to modernize its technology to enable its mission in a cost-effective, secure, and resilient manner.¹⁴ During our audit, we inquired about automating aspects of the DRP. We learned that, in 2022, a contractor analyzed how disclosures are allocated to staff for review, repeat issuer registration statements are screened, and annual report reviews are documented. The contractor recommended DRP's use of machine learning and artificial intelligence in these areas.¹⁵ While some of the contractor's recommendations were described as "Quick Wins," others require significant investment of resources. As of June 2025, many of the recommendations were still under consideration, though CF personnel told us that some steps had already been taken.

We surveyed DRP employees and noted that only 22 percent of those who responded (or 24 of 109) to a question asking whether the filing process in whole or in part could be automated believed that was possible. The remaining 78 percent of employees either did not believe or did not know whether automation was feasible. When asked for additional information to explain their responses to this question, over half of the employees who responded (49 of 91) provided examples of potential automation.¹⁶ Nonetheless, employees were clear that human involvement in the DRP could not be replaced, and automation should be limited to aspects of the program that do not require professional judgment.

We encourage SEC and CF management to continue considering opportunities to automate DRP processes and leverage available resources to implement automation where feasible and advisable. Management should consider that successfully implementing the potential large-scale structural and cultural change that may result from automation will require significant commitment, communication, and collaboration across the workforce and plan accordingly.¹⁷

Potential Opportunity to Consolidate the SEC's Disclosure Review Information Technology Systems. During simultaneous audits of CF and Division of Investment Management disclosure review programs, the OIG identified four SEC information technology systems relied on to perform disclosure reviews. These systems have some similar functionality and store some similar data, presenting a potential opportunity for consolidation, potential cost savings, and improved compliance with federal efficiency requirements. Because the matter was outside the scope and objectives of this audit, we reported it separately (see [Final Management Letter: Potential Opportunity to Consolidate the SEC's Disclosure Review Information Technology Systems](#), dated June 24, 2025).

¹⁴ U.S. Securities and Exchange Commission, *Fiscal Year 2024 Agency Financial Report* (November 12, 2024); Strategic Initiative 3.4.

¹⁵ In 2020, the SEC hired a contractor to provide change management support, develop performance metrics and measures, and recommend business process improvements, among other services, for CF. The contractor delivered its final report on CF process improvement opportunities, including recommendations for automation, in December 2022.

¹⁶ Staff suggested automating (1) the selection of filer status (e.g., a smaller reporting company or an accelerated filer), (2) SEC system searches for information relevant to a filing review, and (3) gathering and presenting data such as financial ratios for analysis.

¹⁷ U.S. Office of Personnel Management, *Guidance for Change Management in the Federal Workforce: Accelerating the Gears of Transformation*; May 22, 2019; pp. 12-14.

Appendix I. Scope and Methodology

We conducted this performance audit from September 2024 to August 2025 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives and Scope

Our objectives were to assess whether CF's DRP (1) concentrated its resources on critical disclosures by implementing a risk-based process for selecting and reviewing filers' periodic reports and transactional filings, and (2) met its statutory requirements for reviewing filers' financial statements within the most recent three-year period. Our audit scope included DRP reviews completed in FY 2023 and FY 2024. We reviewed historical data as needed.

Methodology

To address our objectives, we conducted fieldwork at the SEC's headquarters in Washington, DC, and met with CF personnel from each of the DRP's industry offices and support offices. We also reviewed:

- applicable federal laws, regulations, and guidance, and CF policies and procedures for reviews of company registration statements, offering statements, and annual reports;
- DRP industry office guidance and documentation;
- the DRP's process for selecting annual reports to review;
- a 2022 business process improvement project performed by a contractor; and
- other documentation related to SOX compliance.

To assess whether the DRP implemented a risk-based process for selecting and reviewing company disclosures, we sampled and tested FY 2023 and FY 2024 reviews of annual reports and transactional filings. During that time, the DRP completed 6,695 annual report reviews, screened 9,531 transactional filings, and reviewed 3,352 of those filings. Using system-generated reports, we judgmentally selected a nonstatistical, stratified sample, ensuring that we tested each type of disclosure review performed by each of the DRP's nine industry offices. As Table 2 shows, this yielded a total sample of 43 annual report reviews, 19 transactional filings screened but not reviewed, and 36 transactional filings screened and reviewed. Tests of sampled items sought to determine whether the DRP: (1) screened each sampled filing, if applicable; (2) documented the scope and results of each review; (3) performed secondary reviews; (4) issued comment letters and posted them publicly, if applicable; and (5) followed other administrative requirements. We also used the sample to determine whether the DRP maintained corrective actions we recommended in September 2017.¹⁸

¹⁸ U.S. Securities and Exchange Commission, Office of Inspector General, *Evaluation of the Division of Corporation Finance's Disclosure Review and Comment Letter Process* (Report No. 542; September 13, 2017).

Table 2. Summary of DRP Reviews and Screenings Sampled (FY 2023 and FY 2024)

DRP Industry Office	Items Sampled			
	Annual Report Reviews ^a	Transactional Filings – Screened/Not Reviewed	Transactional Filings– Screened/Reviewed	Total
Crypto Assets	5	2	4	11
Energy and Transportation	4	2	4	10
Finance	5	2	4	11
Industrial Applications and Services	5	2	4	11
Life Sciences	4	2	4	10
Manufacturing	5	2	4	11
Real Estate and Construction	5	2	4	11
Technology	5	2	4	11
Trade and Services	5	3	4	12
Total	43	19	36	98

Source: OIG-generated based on screening and review data obtained from CF's system of record.

^a Samples of annual report reviews completed by each industry office included two required reviews, two elective reviews, and one full review except for the Energy and Transportation and the Life Sciences industry offices, which did not complete any full reviews during our scope period.

Finally, we issued an optional, web-based survey to 274 DRP employees.¹⁹ The survey included multiple choice questions and optional comment fields to gather information about DRP policies, processes for selecting disclosures for review and for scoping reviews, and additional topics such as review consistency, efficiency, and automation. We distributed the survey on March 3, 2025, and closed it on March 19, 2025. Of the 274 survey recipients, 109 completed the survey for a response rate of about 40 percent. When appropriate, survey results are discussed in the Results section of this report.

Internal Controls

We identified and assessed internal controls, applicable internal control components, and underlying principles significant to our objectives, as described below.

Control Environment. To assess the control environment established by DRP management, we reviewed the organizational structure and interviewed staff responsible for internal control documentation and annually reviewing and testing internal controls.

Risk Assessment. We reviewed CF's management assurance statements and risk and control matrices to identify risks and controls related to the DRP. We assessed risks identified by CF and reviewed annual testing documentation and reports. We also identified the primary system related to our audit objectives

¹⁹ We relied on DRP employee listings from March 2025 to establish our survey population.

and reviewed the system security plan, annual system review memorandum, privacy analysis worksheet, and authorization to operate.

Control Activities. We identified and reviewed control activities related to our objectives, interviewed DRP personnel, and tested key internal controls, including those related to disclosure review documentation and supervisory oversight. As this report describes, we determined that DRP management should update its guidance on selecting and scoping reviews to promote consistency and support its risk-based decisions.

Information and Communication. CF established policies and procedures that guide DRP reviews of company registration statements, offering statements, and annual reports. CF also maintains in a centralized intranet site supplemental guidance, applicable statutes and SEC rules and regulations, review guides and manuals, the reference library for the DRP's system of record, and a financial reporting manual, among other things. On an annual basis, the DRP internally reports on the outcomes of the program, including information about disclosure review outcomes, types of staff comments, performance goals by industry office, actions taken or planned by filers, and the results of focused assessments.

Monitoring. The DRP routinely monitors program outcomes and regularly reports on its results, including compliance with section 408 of SOX. Additionally, the Office of Risk and Strategy monitors both the DRP control environment and annual reviews and tests for compliance with documented internal controls. DRP management also uses a dashboard to monitor program results in real time. We obtained and reviewed evidence of internal control assessments from FY 2023 and FY 2024 and we interviewed responsible personnel.

Data Reliability

The U.S. Government Accountability Office's (GAO) *Assessing Data Reliability* (GAO-20-283G, December 2019) states reliability of data means that data are applicable for audit purpose and are sufficiently complete and accurate. Data primarily pertains to information that is entered, processed, or maintained in a data system and is generally organized in, or derived from, structured computer files. Furthermore, GAO-20-283G defines "applicability for audit purpose," "completeness," and "accuracy" as follows:

"Applicability for audit purpose" refers to whether the data, as collected, are valid measures of the underlying concepts being addressed in the audit's research objectives.

"Completeness" refers to the extent to which relevant data records and fields are present and sufficiently populated.

"Accuracy" refers to the extent that recorded data reflect the actual underlying information.

To address our objectives, we relied on computer-processed data from the DRP's system of record. To assess the reliability of the data, we:

- Interviewed knowledgeable personnel, including CF senior management, the Acting DRP Chief Risk Officer, CF Business Solutions Office management, DRP industry office chiefs, and those responsible for internal controls within the DRP.

- Performed system and dashboard walkthroughs.
- Tested data from our scope period to determine whether there were duplicate entries or data was missing in key and required fields.

Based on our assessment, we found the data sufficiently reliable for the purpose of this audit.

Prior Coverage

Between 2017 and 2022, the SEC OIG and GAO issued the following reports of particular relevance to this audit:

SEC OIG:

- *Evaluation of the Division of Corporation Finance's Disclosure Review and Comment Letter Process* (Report No. 542, September 13, 2017).

GAO:

- *Securities and Exchange Commission: Additional Guidance Needed for Assessing Staff Procedures* (GAO-23-105465, November 2022).
- *Securities and Exchange Commission: Systematically Assessing Staff Procedures and Enhancing Control Design Would Strengthen Internal Oversight* (GAO-20-115, December 2019).

These reports can be accessed at <https://www.sec.gov/oig> (SEC OIG) and <https://www.gao.gov> (GAO).

Appendix II. Management Comments



UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

MEMORANDUM

TO: Rebecca L. Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects, Office of Inspector General

FROM: Duc Dang, Associate Director, Division of Corporation Finance **Dang, Duc**

RE: Management Response to *Improved Documentation and Guidance Can Help Strengthen Corporation Finance's Disclosure Review Program*

DATE: August 15, 2025

Digitally signed by Dang, Duc
Date: 2025.08.15
14:00:20 -04'00'

The Division of Corporation Finance ("Division") appreciates the Office of Inspector General's ("OIG") efforts in conducting its evaluation of the Division's Disclosure and Review Program ("DRP"), and providing recommendations intended to enhance the Division's operations. We value the feedback and have carefully considered each of the recommendations as outlined in the OIG's report titled, *Improved Documentation and Guidance Can Help Strengthen Corporation Finance's Disclosure Review Program*.

The Division concurs with your recommendations and will take appropriate steps to address each matter. We believe the planned actions will further enhance the transparency of our processes, strengthen operational consistency, and support the Division's ongoing efforts in reviewing public companies' disclosures in order to protect investors and facilitate capital formation.

While we do not believe that the observations underpinning the recommendations indicated any material issues with the overall effectiveness of the Division's existing controls or procedures, we recognize the importance of continuous improvement in meeting evolving challenges and expectations. The Division maintains a strong foundation of internal processes and oversight that supports its mission effectively. Nonetheless, we remain committed to continuous improvement and will continue to evaluate opportunities to refine and strengthen our processes, as appropriate.

Our detailed responses to each of the OIG's recommendations are provided in Appendix A.

Appendix A: Management's Responses to OIG's Recommendations

The following are management's responses to each of the recommendations provided in the OIG report.

Recommendation 1: Update policies and internal guidance to (a) require that staff document the reasons and relevant risk factors for conducting elective annual report reviews, (b) provide clear direction for scoping annual report reviews, and (c) require that staff document scoping decisions.

Response: We concur. The DRP will update its policies to require staff to document their rationale for selecting annual reports as elective reviews. In addition, the DRP will undertake an assessment of its existing internal guidance related to the scoping of annual report reviews. As part of this assessment, the DRP will consider how anticipated developments, including those reflected in the Regulatory Flexibility Act Agenda, may impact our scoping policies. This review will help determine whether scoping of annual report reviews remains necessary in the context of elective and required reviews and, if so, how it should be consistently and effectively applied. The DRP will use the results of this assessment to inform updates to internal policies, including the incorporation of clear documentation requirements. We plan to complete all actions by February 2026.

Recommendation 2: Coordinate with the SEC Office of the General Counsel ("OGC") to finalize the Sarbanes-Oxley Act of 2002 ("SOX") section 408(b) guidance, including a description of all six factors to be considered when selecting issuer filings for elective reviews, and finalize its interpretation of the minimum review period mandate from section 408(c) of the Act.

Response: We concur. The current interpretation of SOX is grounded in a framework established nearly two decades ago at the time of the Act's enactment and reflected in a CF memo that was still in draft form, even as recently as 2017. Given the passage of time, management cannot confirm whether this interpretation was formally reviewed or documented in consultation with OGC. Nonetheless, the DRP will engage with OGC to assess and formalize the DRP's interpretation of Sections 408(b) and (c) to ensure the continued appropriateness and legal soundness of this longstanding approach by November 2025.

Recommendation 3: Consider developing a plan that prioritizes Disclosure Review Program goals and requirements in the event of significant staffing decreases and/or significant workload increases.

Response: We concur. The DRP has consistently demonstrated adaptability when confronted with internal and market driven challenges. For example, during the banking crisis and periods of heightened volatility in the crypto asset market, management identified the need for increased focus and oversight. In response, the DRP executed an internal office realignment to ensure designated staff were in place to monitor and evaluate disclosure-related issues arising from these developments. Similarly, when the volume of transactional filings significantly increased, in significant part due to the increase in filings by Special Purpose Acquisition Companies, the DRP modified its procedures to prioritize reviews of filings most likely to have a material impact on investors and the market. These actions, among others, reflect the DRP's continued commitment to operational agility and informed oversight.

That said, DRP leadership acknowledges potential operational challenges resulting from the recent loss of approximately 10% of its staff due to agency-wide separation initiatives and other voluntary departures. As the agency continues to assess potential budgetary and hiring constraints, further attrition remains a possibility, which could place additional strain on existing resources and result in a loss of valuable institutional knowledge. These challenges may be compounded by an evolving regulatory landscape, especially if there is a significant increase in transactional filings in response to potential initiatives that promote capital formation.

In light of such potential challenges, the DRP recognizes the importance of considering the development of a broader, proactive plan to help mitigate the impact of potential workload balances and continued attrition. We will consider and, if deemed necessary, formulate the plan by December 2025. This forward-looking approach will help ensure the DRP remains well-positioned to fulfill its mission effectively under varying conditions.

Comments and Suggestions

If you wish to comment on the quality or usefulness of this report or suggest ideas for future audits, evaluations, or reviews, please send an e-mail to OIG Audit Planning at AUDplanning@sec.gov.

TO REPORT

fraud, waste, and abuse

Involving SEC programs, operations, employees,
or contractors

FILE A COMPLAINT ONLINE AT

www.sec.gov/oig



CALL THE 24/7 TOLL-FREE OIG HOTLINE

833-SEC-OIG1

