

DECEMBER 4, 2025

OFFICE OF
**INSPECTOR
GENERAL**

The Inspector General's
Statement on the SEC's
Management and
Performance Challenges

CONTENTS

INTRODUCTION	1
CHALLENGE: Meeting Regulatory Oversight Responsibilities	2
Navigating a Changing Regulatory Landscape	2
Overseeing Market Participants.....	3
CHALLENGE: Human Capital Management	4
CHALLENGE: Protecting Systems and Data	5
Maturing the SEC's Information Security Program	6
CHALLENGE: Contract Management	7

ABBREVIATIONS

AI	artificial intelligence
CF	Division of Corporation Finance
EXAMS	Division of Examinations
FISMA	Federal Information Security Modernization Act of 2014
FY	fiscal year
IG	Inspector General
IT	information technology
OIG	Office of Inspector General
OIT	Office of Information Technology
SEC, agency, or Commission	U.S. Securities and Exchange Commission

Introduction

The Reports Consolidation Act of 2000 requires the U.S. Securities and Exchange Commission's (SEC) Inspector General (IG) to identify and report annually on the most serious management and performance challenges facing the SEC.¹ This report represents the SEC IG's independent perspective on the top management challenges facing the SEC in fiscal year (FY) 2026 and beyond.

To identify this year's top management challenges, we reviewed prior years' Top Management Challenges reports and assessed potential challenges based on the significance of the challenge in relation to the SEC's mission; the potential of the challenge to lead to fraud, waste, and abuse; and the agency's progress in addressing the challenge. Furthermore, we considered our recent oversight work (audits, evaluations, and investigations); changes in the federal landscape; general knowledge of the SEC's operations; and information from the U.S. Government Accountability Office. We also conducted significant outreach to the SEC's leadership, senior officials, and staff across the agency to gain their perspectives on the challenges the agency continues to face, and we deeply appreciate their candor in sharing their perspectives with us. We will use the information we gathered to inform our work in the coming months. We provided a draft version of this report to SEC senior leadership and considered their comments.

This year is a year of transition for the SEC. The Commission has a new Chairman with a new regulatory agenda. In conjunction with the various executive orders issued by the new administration, new procedures are in place for promulgating SEC regulations, hiring and evaluating SEC staff, and managing the federal government contractors that help support the SEC's mission. Like many other federal agencies, in 2025, the SEC experienced attrition of the federal employee workforce as well as reductions in contract staff, which together impact each of the challenge areas we identified. Consequently, the main challenges for the SEC involve navigating this changing landscape.

Through our work, we have identified the following as the SEC's top management and performance challenges in this new fiscal year:

- Meeting Regulatory and Oversight Responsibilities
- Human Capital Management
- Protecting Systems and Data
- Contract Management

¹ Pub. L. No. 106-531, § 3a, 114 Stat. 2537-38 (November 22, 2000).

CHALLENGE: Meeting Regulatory and Oversight Responsibilities

The U.S. Securities and Exchange Commission (SEC, agency, or Commission) is charged with protecting investors; maintaining fair, orderly, and efficient markets; and facilitating capital formation. This includes overseeing the \$120 trillion capital markets, as well as the activities of approximately 40,000 entities—including more than 13,500 registered funds, 15,900 investment advisers, 7,400 reporting companies, and 3,200 broker-dealers. The SEC also oversees 29 national securities exchanges, 111 alternative trading systems, 10 credit rating agencies, 6 active registered clearing agencies, and other self-regulatory organizations.

We describe below the continuing challenges of (1) navigating a changing regulatory landscape and (2) overseeing market participants.

Navigating a Changing Regulatory Landscape

This year, the SEC is challenged by a shift in the regulatory landscape:

- A new Chairman has new priorities for the SEC.
- The SEC, like most federal agencies, now participates in centralized regulatory review by the Office of Management and Budget's Office of Information and Regulatory Affairs.
- The SEC is working to bring clarity to how federal securities laws apply to digital assets, the regulation of which may be affected by actual and potential Congressional legislation.

As these changes continue to take shape, including the SEC's role in digital asset regulation and implications for the securities markets and participants, a key consideration for the agency will be articulating and applying logical and consistent responses to market participants.

Completed Office of Inspector General (OIG) Work

We recently completed an audit of the SEC's rulemaking process during which we determined that:

- Some SEC divisions and offices were not always involved in rulemakings within their subject matter expertise.
- Some SEC staff expressed concerns about limited data and time to perform economic analyses.

- Technological errors impacted the receipt of public comments.²

Our audit covered SEC rulemaking that occurred from 2018 to 2022. While we made no formal recommendations, we encouraged management to consider our observations as the agency updates rulemaking processes to comply with recent executive directives, some of which directly address the process and substance of federal agency rulemaking.

Overseeing Market Participants

The SEC is the primary overseer of the U.S. \$120 trillion capital markets, including approximately 40,000 entities from public companies and investment advisers to credit agencies and self-regulatory organizations. One of the continuing challenges facing the SEC is properly managing its resources to effectively oversee market participants and protect investors.

Completed OIG Work

In August 2025, we issued a report that examined the Division of Corporation Finance's (CF) Disclosure Review Program. While we found that CF has a risk-based process for selecting and reviewing filings and met its statutory requirement for reviewing filers' financial statements, we:

- Recommended that CF require staff to document the reasons for electively selecting company annual reports to review and the scope of annual report reviews.
- Recommended that CF update its guidance around these issues.
- Encouraged SEC and CF management to continue considering opportunities to automate processes and leverage available resources to implement automation where feasible and advisable.³

Similarly, in 2024 we issued a report on the Division of Examinations' (EXAMS) oversight of broker-dealers. As part of this report, we reviewed EXAMS' risk-based program, which is intended to focus on firms, market participants, and practices that pose the greatest potential risk of harm to investors and the markets. We likewise found that the metrics for

² U.S. Securities and Exchange Commission, Office of Inspector General, *Observations on the SEC's Rulemaking Process* (Report No. 588; September 29, 2025).

³ U.S. Securities and Exchange Commission, Office of Inspector General, *Improved Documentation and Guidance Can Help Strengthen Corporation Finance's Disclosure Review Program* (Report No. 586; August 26, 2025).

planning the selection and scoping of broker-dealer examinations were too focused on numerical targets, which may have led to EXAMS unintentionally not focusing on risk.⁴

Ongoing and Anticipated OIG Work

In FY 2026, we will initiate reviews of (1) the Division of Enforcement's collection and distribution of disgorgement and penalties, (2) the SEC's oversight of the Public Company Accounting Oversight Board annual budget, (3) the agency's financial market surveillance processes, and (4) the SEC Ombuds' handling and reporting of investor concerns. We will also complete ongoing reviews of the Division of Investment Management's disclosure review program, the Office of Chief Accountant's accounting consultations process, and the EDGAR Business Office's review processes, as well as follow up on open recommendations related to CF and EXAMS.

CHALLENGE: Human Capital Management

Beginning in January 2025, the SEC and many other federal agencies offered resignation and retirement incentives—such as the Deferred Resignation Program, Voluntary Early Retirement Authority, and Voluntary Separation Incentive Payments. Thirteen percent of SEC staff took advantage of those programs and departed the agency in early 2025, with some smaller offices losing as much as 26 percent of their staff. Coupled with the hiring freeze and changes to the federal government hiring process, in FY 2025, the agency experienced an attrition rate of 17.8 percent—which is over five times higher than the previous year—in addition to an approximately 27 percent reduction of contract personnel.⁵ SEC officials told us that, despite attrition, the SEC is still able to conduct its regulatory oversight mission with current staffing, although they noted that the impacts from skills gaps may not be immediately apparent.

Managing the new composition of the SEC's workforce by properly deploying and training staff and, where needed, recruiting staff to address knowledge gaps left by departing employees and contractor personnel will be a challenge for the agency. In addition, the SEC must begin implementing changes to its performance management system, which will take additional time and resources. The SEC currently has a pass-fail performance system, which was negotiated between SEC management and the National Treasury Employees Union. In June 2025, the Office of Personnel Management required agencies to transition

⁴ U.S. Securities and Exchange Commission, Office of Inspector General, *Enhanced Planning, Performance Measurement and Evaluation, and Information Can Improve Oversight of Broker-Dealer Examinations* (Report No. 583; September 23, 2024).

⁵ Executive Order 14170, *Reforming the Federal Hiring Process and Restoring Merit to Government Service* (January 20, 2025); Executive Order 14210, *Implementing the President's "Department of Government Efficiency" Workforce Optimization Initiative* (February 11, 2025); Presidential Memorandum, *Ensuring Accountability and Prioritizing Public Safety in Federal Hiring* (July 7, 2025); Presidential Memorandum, *Extension of Hiring Freeze* (April 17, 2025); Presidential Memorandum, *Hiring Freeze* (January 20, 2025); U.S. Office of Personnel Management Memorandum, *Merit Hiring Plan* (May 29, 2025).

by October 1, 2026, to a multi-tiered, fiscal-year performance system that ensures that a disproportionate number of employees are not rated at the highest performance levels.⁶

Completed OIG Work

In May 2025, we issued a management letter with recommendations to help the SEC attract and onboard highly skilled staff quickly and cost effectively. Specifically, we recommended that the SEC's Office of Human Resources:

- Define processes to consistently monitor the cost effectiveness of recruitment sources used, including processes to improve the accuracy and reliability of SEC recruitment data.
- Establish processes to consistently calculate and assess SEC time-to-hire for the end-to-end hiring process in alignment with government-wide time-to-hire metrics.⁷

Ongoing and Anticipated OIG Work

In FY 2026, we will initiate an audit of the SEC's employee and contractor off-boarding process. We will also continue to monitor for material impacts on SEC programs and operations as a result of changes to the agency's workforce.

CHALLENGE: Protecting Systems and Data

The SEC's information systems contain significant and increasing amounts of sensitive, nonpublic, and/or market-moving information which must be protected from unlawful access and disclosure. As bad actors—and the technologies they employ—become more sophisticated, the magnitude of threats to information security grows, posing significant risk to investors and financial markets. Therefore, information security remains a top priority and perennial challenge for the SEC.

Among the challenges the SEC faces is effectively and efficiently adopting and utilizing artificial intelligence (AI).⁸ Adding to that challenge is the fact that many vendors in the AI arena are new to government contracting and federal information technology (IT) security requirements. The SEC has recently launched an AI Task Force⁹ and identified a Chief Artificial Intelligence Officer who is surveying how the agency's various divisions and

⁶ Office of Personnel Management, *Performance Management for Federal Employees* (June 17, 2025).

⁷ U.S. Securities and Exchange Commission, Office of Inspector General, *Final Management Letter: Audit of the SEC's Efforts to Recruit and Retain a Highly Skilled Workforce and Address Related Challenges* (May 14, 2025).

⁸ For example, Executive Order 14179, *Removing Barriers to American Leadership in Artificial Intelligence* (January 23, 2025); Office of Management and Budget Memorandum No. M-25-21, *Accelerating Federal Use of AI through Innovation, Governance and Public Trust* (April 3, 2025); and Office of Management and Budget Memorandum No. M-25-22, *Driving Efficient Acquisition of Artificial Intelligence in Government* (April 3, 2025).

⁹ The AI Task Force leads the SEC's efforts to enhance innovation and efficiency in its operations through responsible use of AI.

offices use AI resources. However, uncertainty remains across the federal government regarding budgetary resources, acquiring AI expertise, and meeting new and existing federal requirements.¹⁰

Amid ongoing organizational change, including government-wide and SEC Office of Information Technology (OIT)-specific retirement and resignation incentives, OIT has reorganized and is working to identify and train qualified staff or recruit necessary skill sets to maintain current controls and data protection.

Maturing the SEC's Information Security Program

By statute, the OIG evaluates annually the SEC's implementation of the Federal Information Security Modernization Act of 2014 (FISMA). Over the last several years, the SEC has made progress in improving and maturing its information security program. Remaining challenges prevent its program from being rated "effective" as reported,¹¹ though this is not unique to the SEC.

Table. The SEC's Assessed Maturity Level for FY 2024

Security Function	FY 2024 Assessed Maturity Level
Identify	Level 3: <i>Consistently Implemented</i>
Protect	Level 3: <i>Consistently Implemented</i>
Detect	Level 2: <i>Defined</i>
Respond	Level 4: <i>Managed and Measurable</i>
Recover	Level 3: <i>Consistently Implemented</i>
Overall Maturity	Level 3: <i>Consistently Implemented</i>

Source: *Fiscal Year 2024 Independent Evaluation of the U.S. Securities and Exchange Commission's Implementation of the Federal Information Security Modernization Act of 2014; Report No. 584* (November 25, 2024).

The SEC has not completed all corrective actions to address prior year recommendations, including the results of the 2024 FISMA evaluation, and continues to face challenges with regard to managing vulnerabilities. In addition, during our ongoing 2025 FISMA evaluation, we noted that the agency has not met all zero trust architecture compliance milestones and was challenged to provide us relevant information in a timely manner.

¹⁰ U.S. Government Accountability Office, *ARTIFICIAL INTELLIGENCE Generative AI Use and Management and Federal Agencies* (GAO-25-107653; July 2025).

¹¹ U.S. Securities and Exchange Commission, Office of Inspector General, *Fiscal Year 2024 Independent Evaluation of the U.S. Securities and Exchange Commission's Implementation of the Federal Information Security Modernization Act of 2014* (Report No. 584; November 25, 2024).

Completed OIG Work

We recently published a report in which we found that OIT implemented a poorly understood and automated policy that caused an enterprise wipe of former Chair Gary Gensler's government-issued mobile device, and the loss of federal records. We recommended that OIT:

- Update applicable system security plans and relevant policies and procedures, including those for change management, mobile device inventory, troubleshooting activities, and notifications from the system used to manage mobile devices.
- Ensure Capstone officials' devices¹² are properly backed up.
- Develop procedures to verify proper logging of relevant data.¹³

Ongoing and Anticipated OIG Work

In FY 2026, we will initiate audits of the SEC's controls over Blue Sheet data in the agency's environment, SharePoint security, and records management processes. We also plan to complete ongoing reviews of the SEC's change control process and FY 2025 compliance with FISMA.

CHALLENGE: Contract Management

Although the SEC procures a wide range of services and supplies, most of its contract obligations are for IT services. Of the approximately \$498 million obligated to contract actions in FY 2025, the SEC obligated about 82 percent (or about \$407 million) to vendors doing business under three IT service-related North American Industry Classification System codes: (1) computer systems design and related services; (2) computing infrastructure providers, data processing, web hosting, and related services; and (3) software publishers.

The agency has sought to implement cost efficiency and procurement consolidation initiatives related to recent Executive Orders. Specifically, the SEC increased the volume of change order or termination for convenience requests to the Office of Acquisitions and de-obligated approximately \$67 million in contract funding in FY 2025, which is substantially more than in previous years. Of this amount, approximately 57 percent, or \$38 million, was for IT-related contracts.

¹² The SEC's Capstone officials include the Chairman, the Commissioners, and their staff; the agency's division directors, their deputies, and their chief counsels; the heads of designated program offices and their chief counsels; the General Counsel and the General Counsel's deputies; principal regional officials; and other designated federal employees and political appointees serving in equivalent or comparable positions.

¹³ U.S. Securities and Exchange Commission, Office of Inspector General, *Special Review: Avoidable Errors Led to the Loss of Former SEC Chair Gary Gensler's Text Messages* (Report No. 587; September 3, 2025).

The SEC's FY 2026 budget request included almost \$745 million for contractual services and supplies,¹⁴ which represented about 34 percent of the total \$2.174 billion requested for agency operations. Given the SEC's recent cost savings initiatives, decreases in the agency's reliance on contractual services and supplies are likely and may require additional preparation to minimize impacts on programs and operations.

Completed OIG Work

In June 2025, during reviews of the SEC's disclosure review programs in CF and the Division of Investment Management, we identified a potential opportunity for IT-related cost savings. We:

- Reported a potential opportunity for consolidation, potential cost savings, and improved compliance with federal efficiency requirements and that the SEC aim to reduce duplicative systems to enhance efficiency and reduce costs.
- Encouraged the agency to analyze the costs and benefits of consolidating its disclosure review systems.¹⁵

Ongoing and Anticipated OIG Work

In FY 2026, we will initiate an audit of the SEC's use of contract discounts. We will also complete an evaluation to determine whether the SEC effectively manages software license costs and prevents wasteful spending on unused or underused software licenses.

¹⁴ According to the Office of Management and Budget Circular No. A-11, *Preparation, Submission, and Execution of the Budget* (August 2025), the contractual services and supplies object class covers purchases in object classes 21.0 through 26.0 (Travel and transportation of persons; Transportation of things; Rent, Communications, and Utilities; Printing and reproduction; Other contractual services; and Supplies and materials).

¹⁵ U.S. Securities and Exchange Commission, Office of Inspector General, *Final Management Letter: Potential Opportunity to Consolidate the SEC's Disclosure Review Information Technology Systems* (June 24, 2025).

OIG General Office Contact Information

EMPLOYEE SUGGESTION PROGRAM

The OIG SEC Employee Suggestion Program, established under the Dodd-Frank Wall Street Reform and Consumer Protection Act, welcomes suggestions by all SEC employees for improvements in the SEC's work efficiency, effectiveness, productivity, and use of resources. The OIG evaluates all suggestions received and forwards them to agency management for implementation, as appropriate. SEC employees may submit suggestions by calling the OIG Hotline at (833) SEC-OIG1 or by filing a complaint online as indicated below.

COMMENTS AND IDEAS

The SEC OIG also seeks ideas for possible future audits, evaluations, or reviews. We will focus on high-risk programs, operations, and areas where substantial economies and efficiencies can be achieved.

Please send your input to AUDPlanning@sec.gov.

TO REPORT

fraud, waste, and abuse

Involving SEC programs, operations, employees, or contractors

FILE A COMPLAINT ONLINE AT

SEC OIG Hotline



CALL THE 24/7 TOLL-FREE OIG HOTLINE

833-SEC-OIG1

