U.S. SECURITIES AND
EXCHANGE COMMISSION

REPORT NO. 566
FEBRUARY 24, 2021

OFFICE OF
INSPECTOR
GENERAL

OFFICE OF AUDITS

The SEC Can Further Strengthen the Tips, Complaints, and Referrals Program

This report contains non-public information about the U.S. Securities and Exchange Commission's tips, complaints, and referrals program. We redacted the non-public information to create this public version. All redactions are pursuant to Freedom of Information Act exemption (b)(7)(E) unless otherwise stated.

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

OFFICE OF
INSPECTOR GENERAL

M E M O R A N D U M

February 24, 2021

TO: Melissa R. Hodgman, Acting Director, Division of Enforcement

Kelly L. Gibson, Acting Deputy Director, Division of Enforcement/Chair, TCR Oversight Board

FROM: Carl W. Hoecker, Inspector General

SUBJECT: *The SEC Can Further Strengthen the Tips, Complaints, and Referrals Program,* Report No. 566

Attached is the Office of Inspector General (OIG) final report detailing the results of our evaluation of the U.S. Securities and Exchange Commission's management of the tips, complaints, and referrals program. The report contains five recommendations that should help to further strengthen the program.

On February 17, 2021, we provided management with a draft of our report for review and comment. In its February 23, 2021, response, management concurred with our recommendations. We have included management's response as Appendix II in the final report.

Within the next 45 days, please provide the OIG with a written corrective action plan that addresses the recommendations. The corrective action plan should include information such as the responsible official/point of contact, timeframe for completing required actions, and milestones identifying how management will address the recommendations.

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

Attachment

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EXECUTIVE SUMMARY

The SEC Can Further Strengthen the Tips, Complaints, and Referrals Program

REPORT NO. 566 | FEBRUARY 24, 2021

WHY WE DID THIS EVALUATION

The U.S. Securities and Exchange Commission (SEC or agency) encourages the public to file complaints or submit tips related to possible securities law violations, broker or firm misconduct, or any unfair practices in the securities industry that pose a risk of harm to investors, collectively referred to as tips, complaints, and referrals (TCRs). Between fiscal year 2018 and quarter 1 of fiscal year 2020, the SEC received more than 40,000 TCRs, which are maintained in the agency's TCR system. Since 2012, the SEC's TCR Oversight Board has governed the TCR program.

We conducted this evaluation to assess the SEC's management of the TCR program. Specifically, we sought to determine whether (1) the SEC established an effective internal control system for collecting, triaging, and responding to credible allegations of violations of the federal securities laws; (2) the SEC safeguarded and maintained TCR source materials, as required; and (3) the TCR Oversight Board used effective tools, such as a risk management framework, to evaluate, respond to, and monitor TCR program risks and trends.

WHAT WE RECOMMENDED

We made five recommendations to further strengthen the SEC's TCR program. Management concurred with our recommendations, which will be closed upon completion and verification of corrective actions. This report contains non-public information about the SEC's tips, complaints, and referrals program. We redacted the non-public information to create this public version.

WHAT WE FOUND

Overall, the SEC's TCR program has established an effective internal control system for collecting, triaging, and responding to credible allegations of violations of the federal securities laws. Safeguards to maintain TCR source materials are in place, as well as a risk management framework to evaluate, respond to, and monitor TCR program risks and trends. Policies, procedures, and training are available to SEC staff, and generally, TCR Points of Contact are satisfied with the work performed by the current TCR business owner (the Office of Market Intelligence within the agency's Division of Enforcement). However, the TCR program could be strengthened by better ensuring compliance with established requirements.

For example, we found that some TCRs exceeded the prescribed number of business days for entry into the TCR system. Delays in this process could delay the identification and investigation of allegations of wrongdoing. Moreover, we determined that, for TCRs open 90 business days or more, required notes explaining the circumstances preventing timely resolution of these TCRs did not always exist or include sufficient detail. Ensuring that staff enter into the TCR system required notes explaining the circumstances preventing timely resolution of TCRs could help inform management of TCRs requiring additional work and could assist management in better monitoring the status of TCRs.

We also identified opportunities for improving communication within the TCR program. This includes communication related to policies and procedures for assigning TCRs to Points of Contact, the handling of certain TCRs, and work performed during early stage triage within the Office of Market Intelligence.

In addition, we found that the SEC has initiated a process to plan and develop a future TCR system. As the SEC engages in this planning process, we recommend that it:

- incorporate lessons learned from the existing system's development history, and consider end-user recommendations when gathering system requirements; and
- assess the benefits of a reporting function, available to end-users, within the TCR system and, if needed, include this reporting function in the requirements for the new TCR system.

Lastly, we identified two matters that did not warrant recommendations. The first matter involved TCR system downtime, and the second matter related to a consistent upward trend in the volume of TCRs submitted to the agency. We discussed these matters with agency management for their consideration.

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Abbreviations

BRO	Boston Regional Office
Enforcement	Division of Enforcement
Examinations	Division of Examinations
FY	fiscal year
GAO	U.S. Government Accountability Office
IRIS	Investor Response Information System
NFA	No Further Action
OIEA	Office of Investor Education and Advocacy
OIG	Office of Inspector General
OIT	Office of Information Technology
OMI	Office of Market Intelligence
POC	Point of Contact
SEC or agency	U.S. Securities and Exchange Commission
TCR	tips, complaints, and referrals

Background and Objectives

BACKGROUND

The U.S. Securities and Exchange Commission's (SEC or agency) mission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. In pursuing its mission, the SEC encourages the public to submit credible allegations or statements of concern about possible violations of the federal securities laws or conduct reasonably related to securities that poses a possible risk of harm to investors. The SEC also intakes referrals regarding possible securities law violations from other regulators. Such allegations and statements are collectively referred to as tips, complaints, and referrals (TCRs), and each year the SEC receives thousands of TCRs from the public, self-regulatory organizations, other federal and local agencies, and other entities. The SEC receives TCRs in a variety of ways, including: (1) submissions from the public to the SEC's website (TCR portal); (2) investor complaints submitted to the agency's Office of Investor Education and Advocacy (OIEA) that are selected to be imported into the TCR system; (3) by mail, fax, e-mail, or telephone, which SEC staff must manually enter into the TCR Intake and Resolution System (TCR system); and (4) from internal SEC activities and referrals (also manually entered into the TCR system).

As Table 1 shows, during the period we reviewed—that is, between fiscal year (FY) 2018 and the first quarter of FY 2020 (FY 2020 Q1)—the SEC received more than 40,000 TCRs.

TABLE 1. Summary of TCRs Received in FY 2018, FY 2019, and FY 2020 Q1

FY	No. of TCRs Submitted to TCR Portal	No. of TCRs Manually Entered by SEC Staff	No. of TCRs Transferred from OIEA	TOTAL
2018	12,897	4,608	1,575	19,080
2019	11,650	3,710	1,500	16,860
2020 Q1	2,841	1,007	410	4,258
Total	**27,388**	**9,325**	**3,485**	**40,198**

Source: Office of Inspector General (OIG)-generated based on SEC TCR data obtained on August 6, 2020.

TCR System and Triage Process

The TCR system collects TCRs, stores them in a central database and work flow system, and makes them accessible to authorized SEC staff.[1] The Office of Market Intelligence (OMI), within the SEC's Division of Enforcement (Enforcement), is the current TCR business owner[2] and employs a multi-stage

[1] TCR 3.0 is the current version of the TCR system and contains TCRs received by the SEC since March 14, 2011. The TCR system also stores documents, images, videos, and audio files submitted with TCRs; tracks the receipt, routing, and disposition of each TCR; and allows SEC users to create notes in individual TCRs reflecting staff's analysis and actions.

[2] In June 2019, business ownership of TCR 3.0 was formally transferred from the SEC's Division of Economic and Risk Analysis to OMI.

process for reviewing and triaging TCRs. OMI has 3 full-time equivalents assigned as early stage triagers, and 13 full-time and 2 part-time equivalents assigned as late stage triagers. The triage process is described in the SEC's *Commission-Wide Policies and Procedures for Handling Tips, Complaints and Referrals* (October 2017); Enforcement's *Policies and Procedures for Handling Tips, Complaints, and Referrals* (August 2018); and OMI's *Triage Manual* (September 2018).

During early stage triage, triagers review all TCRs and identify which ones should be: (1) assigned immediately for emergency investigation or examination; (2) closed immediately because they do not suggest a violation of the federal securities laws or fail to meet certain investigative thresholds; (3) referred to an outside agency or self-regulatory organization; (4) reviewed by another SEC division or office;[3] (5) assigned in connection with an open matter under investigation or investigation; or (6) assigned within OMI for further triage. According to the early stage triagers we interviewed, due to the volume of incoming TCRs, this review is cursory in nature and may take as little as 10 minutes depending on the TCR.

TCR users, triagers, and the system's reporting function rely significantly on structured data; therefore, TCRs undergo data quality review, entry, and correction within OMI. It is critical that the TCR system consistently captures core TCR information in structured fields. To avoid the unnecessary capture of low-value data, it is equally important to capture data from TCRs surviving early stage triage. As of the date of this report, five contractor employees perform data quality review for all TCRs that require it, along with other TCR program support activities.

TCRs that are recommended for closure in early stage triage are assigned to a secondary reviewer to review and confirm the recommendation. TCRs that are determined to warrant additional triage and review within OMI are assigned to OMI late stage triage staff based on topic or subject matter. As part of the late stage triage process, triagers develop the facts surrounding a TCR through research and analysis to determine whether the TCR should be considered for investigation, whether it should be referred elsewhere within or outside the SEC, or whether it should be closed within OMI with no further action. The purpose of late stage triage is not to conduct an investigation or develop an investigatory record, but rather to research and analyze information sufficient to determine whether a TCR should be closed in OMI or assigned forward for further consideration and potential response. OMI triage efforts also help investigative, examination, or other staff determine whether there is enough substance and credibility to an allegation to warrant the devotion of investigative, examination, or other resources.

The work performed by triagers is memorialized in the TCR system as part of each TCR record through workflow comments, notes, and attached documents. Workflow comments record the chronological progression each TCR makes from early stage triage to disposition.[4] These comments capture who has

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[3] The term "division or office" refers broadly to all SEC divisions, offices, other organizations within the agency, regional offices, and offices that exist within a division, and to supervisory groups within a division or office.

[4] There are two main types of disposition categories: (1) No Further Action dispositions, and (2) dispositions where further action is required. No Further Action dispositions include actions such as referring TCRs to another government agency or other regulatory authority, and no planned actions based on resource prioritizations, vague or insubstantial information, past statutes of limitation, or a failure to allege a violation of the federal securities laws. Dispositions requiring further action include actions such as opening investigations from a TCR, and examinations initiated or planned from a TCR.

been assigned to the TCR for each stage in the process, when they were assigned, whom they assigned to subsequent stages of review, and when. In addition, according to OMI's *Triage Manual*, notes should summarize the allegations in the TCR and describe the actions taken to process the TCR, such as the research undertaken, relevant communications with the source and among staff, and any recommended resolution. Although there is no prescribed format, the OMI *Triage Manual* makes clear that notes and comments in the TCR system should be written with enough clarity and detail so that any recommendation made or action taken, and the reasoning behind it, is clear to any person not closely familiar with the matter.

TCR POCs

When a TCR is assigned by OMI to an SEC division or office, the TCR is first routed to the appropriate TCR Point of Contact (POC) group within that division or office. The TCR is then handled in accordance with the protocols of that division or office.[5] As of September 2020, there were around 150 TCR POCs across all SEC divisions and offices.[6] Among other things, POCs are responsible for monitoring the status of TCRs to ensure they are resolved timely and appropriately. If a TCR cannot be dispositioned timely (generally, within 30 business days from the date assigned to the TCR POC group), a note describing the circumstances preventing timely resolution should be entered into the TCR system. The note should be updated at the expiration of each subsequent resolution period to describe the continued delay. To reduce the likelihood that TCRs warranting investigation, examination, or staff follow-up are not addressed, OMI management generates, daily, weekly and quarterly, TCR aging reports that are e-mailed to the TCR POCs. Additionally, OMI generates and provides to OMI management, POCs, and the TCR Oversight Board for review aging reports for TCRs that have exceeded 90 business days.

Table 2 shows the divisions and offices that dispositioned the 40,198 TCRs received during the period we reviewed.

[5] To evenly distribute the benefits and burdens of TCRs and use (to the maximum extent possible) resources and expertise, thereby ensuring TCRs are handled appropriately, Enforcement has established TCR allocation procedures and principles for those TCRs assigned within Enforcement. OMI distributes to all TCR POCs a daily report of assigned TCRs. Any group may seek the reassignment of a TCR by making a request to the current assignee.

[6] The main POC roles are Primary, Backup, and Entry.

TABLE 2. TCRs Received in FY 2018, FY 2019, and FY 2020 Q1 by Dispositioning SEC Division or Office

Division/Office	FY 2018	FY 2019	FY 2020 Q1	TOTAL
Enforcement (including OMI)	16,217	14,222	3,587	**34,026**
Division of Examinations (Examinations), formerly the Office of Compliance Inspections and Examinations[a]	1,118	1,027	243	**2,388**
OIEA	1,015	991	221	**2,227**
Division of Trading and Markets	279	189	107	**575**
Division of Corporation Finance	320	183	39	**542**
Division of Economic and Risk Analysis (including TCR Support)	65	155	40	**260**
Office of International Affairs	51	40	13	**104**
Office of Credit Ratings	8	12	1	**21**
Division of Investment Management	3	4	2	**9**
Office of General Counsel	4	1	0	**5**
Privilege Review POC	0	0	2	**2**
Other	0	36	3	**39**
Total	**19,080**	**16,860**	**4,258**	**40,198**

Source: OIG-generated based on TCR data obtained from OMI on August 6, 2020.
[a] In December 2020, the SEC renamed the Office of Compliance Inspections and Examinations the Division of Examinations.

Notably, Enforcement, Examinations, and OIEA accounted for about 96 percent of all TCRs dispositioned that were received during the period we reviewed. Of the 34,026 TCRs dispositioned by Enforcement that were received during the period, OMI dispositioned 22,116 of them (or about 65 percent).

TCR Oversight Board

The TCR Oversight Board—a decision-making body convened in October 2012 and composed of senior officers from across the SEC—provides strategic direction and oversight regarding the SEC's TCR-related policies, procedures, and risk assessment programs. The Board, which is chaired by the representative of the Office of the Chief Operating Officer, or the representative's designee, also oversees the development and operation of the TCR system. TCR Oversight Board objectives include ensuring the TCR program aligns with the SEC's mission; ensuring risks are appropriately assessed and monitored; and fostering collaboration, teamwork, and consensus among SEC divisions and offices. Among other responsibilities, the TCR Oversight Board establishes and revises the SEC's *Commission-wide Policies and Procedures for Handling Tips, Complaints and Referrals*; reviews division and office TCR supplemental policies and procedures; reviews and approves substantial changes to the TCR

system technological requirements; and provides the SEC Chairman periodic updates on the TCR program.[7]

OBJECTIVES

Our overall objective was to evaluate the SEC's management of the TCR program. Specifically, we sought to determine whether:

1. the SEC established an effective internal control system for collecting, triaging, and responding to credible allegations of violations of the federal securities laws;
2. the SEC safeguarded and maintained TCR source materials, as required; and
3. the TCR Oversight Board used effective tools, such as a risk management framework, to evaluate, respond to, and monitor TCR program risks and trends.

Our evaluation covered TCR program activities and controls during FY 2018, FY 2019, and FY 2020 Q1 (that is, between October 1, 2017, and December 31, 2019, referred to as the scope period). To address our objectives, we met with the then TCR Oversight Board Chair; OMI personnel (including senior leadership, branch chiefs, and triagers); and other SEC personnel. We also reviewed policies and procedures related to the TCR program, including the TCR Oversight Board charter, OMI guidance and training materials, and division- and office-specific policies for handling TCRs. To gain a better understanding of the TCR program across the agency, we developed and sent questionnaires to 77 POCs and 12 triagers, and conducted interviews to follow up on their responses.[8] We also sent questionnaires to all members of the TCR Oversight Board to get each member's perspective on the challenges and risks associated with the TCR program, as well as their thoughts on how the program could be improved. Lastly, we assessed the SEC's internal control activities and selected a non-statistical, random sample of 344 TCRs from our scope period to test the operating effectiveness of those controls and compliance with established requirements. The tests included:

1. reviewing the timeliness of TCR entry by SEC employees,
2. reviewing OMI triage timeliness,
3. determining whether closed TCRs were supported and documented,
4. assessing staff's review and follow-up of TCRs assigned outside of OMI, and
5. determining whether staff followed TCR record retention policies.

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

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[7] Last updated in August 2018, the TCR Oversight Board charter provides the objectives and responsibilities of the Board.

[8] Before developing questionnaires, we interviewed 3 of the 15 late stage triagers. Therefore, we did not send questionnaires to those three triagers. We received responses from 65 POCs (or about 84 percent of those we contacted) and all 12 triagers.

Results

FINDING 1. THE SEC HAS CONTROLS TO PROCESS TCRS, BUT ADDITIONAL EFFORTS COULD STRENGTHEN THE TCR PROGRAM

Overall, we found that the SEC's TCR program has established an effective internal control system for collecting, triaging, and responding to credible allegations of violations of the federal securities laws. Safeguards to maintain TCR source materials are in place, as well as a risk management framework to evaluate, respond to, and monitor TCR program risks and trends. Policies, procedures, and training are available to SEC staff, and generally, TCR POCs are satisfied with the work performed by OMI. However, as we further describe below, the TCR program could be strengthened by better ensuring compliance with requirements for timely entry of TCRs and timely documentation of the circumstances for TCRs requiring additional time for resolution. In addition, communication within the TCR program could be improved.

Some TCRs Exceeded the Prescribed Number of Business Days for Entry Into the TCR System

During our evaluation's scope period, SEC staff manually entered into the TCR system 9,325 TCRs (or about 23 percent of all TCRs received by the SEC during the period). We selected a non-statistical, random sample of 45 of these TCRs and compared the date that the TCR was received by SEC staff to the date the TCR was entered into the system. We found that 6 of the 45 TCRs we reviewed (or about 13 percent) were not entered into the TCR system within 4 business days, as required. Although two of these TCRs were entered within 10 business days, the remaining four TCRs were entered after 10 or more business days. One of these four TCRs was entered into the system 122 business days after SEC staff received it (during which time the staff considered whether the information should be combined with a known criminal matter).[9]

According to the SEC's *Commission-wide Policies and Procedures for Handling Tips, Complaints and Referrals*, all SEC staff are responsible for entering or forwarding TCRs in accordance with specified timeframes. Specifically, staff members must enter TCRs within 3 business days of receipt or forward TCRs to their TCR POC within 1 business day. POCs must enter TCRs within 3 business days of receipt. Therefore, the latest a TCR should be entered into the system is 4 business days after staff members receive a TCR.

Staff are responsible for entering TCRs within 3 business days of receipt, or forwarding TCRs to their TCR POC within 1 business day of receipt

[9] Enforcement records show that the staff later initiated a matter under investigation, which was subsequently closed upon completion of the investigation without enforcement action.

We obtained the following responses from some of the individuals who did not timely enter the six TCRs from our sample:

- One individual stated that the e-mail account to which TCRs in their office were sent may not have been checked every day, or the person who checked it may not have promptly forwarded TCRs when they were received.
- Another individual stated that a TCR entry was delayed pending a preliminary OMI review per a new process developed for certain referrals. OMI staff's review took 7 business days, thus the TCR was entered 8 business days after initial receipt.
- A TCR was forwarded to a POC while the POC was out of the country. The POC had a backlog of e-mails to catch up on upon return.

Furthermore, another individual submitted a TCR within the required timeframe; however, the individual stated that, until late summer/early fall of 2020, this individual was unaware of the requirement to enter TCRs within 4 business days. Communication within the TCR program is discussed further on page 9.

According to the *Commission-wide Policies and Procedures for Handling Tips, Complaints and Referrals,* the SEC's ability to effectively and timely respond to allegations of wrongdoing depends on the diligence and good judgment of those who enter, evaluate, and resolve TCRs. Although SEC management cannot be aware of when or by whom every TCR is initially received at the agency, processes did not exist to monitor the timing of TCRs manually entered by agency staff. As delays in this process could delay the identification and investigation of higher risk allegations of wrongdoing, the TCR program could be strengthened by better ensuring compliance with requirements for timely entry of TCRs.

Required Notes Explaining the Circumstances Preventing Timely Resolution of TCRs Did Not Always Exist or Include Sufficient Detail in TCRs Open 90 Business Days or More

Of the TCRs received by the SEC during our scope period, 1,259 TCRs (or about 3 percent) were dispositioned in 90 business days or more. As Table 3 shows, most of these TCRs were dispositioned within 150 business days, although some were open for 400 business days or more.

TABLE 3. TCRs Received Between FY 2018 and FY 2020 Q1 Dispositioned in 90 Business Days or More

Number of Business Days	Number of TCRs Dispositioned
90 – 100	247
101 – 150	658
151 – 200	189
201 – 250	90
251 – 300	43
301 – 350	19
351 – 400	7
400+	6
Total	**1,259**

Source: OIG-generated based on TCR data obtained from OMI on August 6, 2020.

We selected a non-statistical, random sample of 61 of these 1,259 TCRs to determine whether a POC or assigned SEC staff added a note in the TCR system at the end of each 30-day period to explain the circumstances that prevented the TCR's timely resolution.[10] We found that 9 of the 61 TCRs we reviewed (or about 15 percent) properly included a note after each 30-day period until the disposition of the TCR. However, 1 of the 52 remaining TCRs did not include any notes explaining why the TCR had not been resolved, and the other 51 TCRs (or about 84 percent) did not include one or more required notes after each 30-day period. For example, for one of these TCRs, staff did not add a note to the TCR until 80 business days had passed since the TCR was assigned to their group for consideration. For another TCR, 161 business days transpired before staff updated the status of the TCR in a note.

In addition, we found that, where notes did exist, some lacked specific details as to why the TCRs remained open. For example, one TCR contained four notes (one after each 30-day period), but each of those notes simply stated, "Additional time requested." Overall, we concluded that notes for 8 of the 61 TCRs we reviewed (or about 13 percent) were not sufficiently descriptive.

According to SEC policies and procedures for handling TCRs, if a TCR cannot be resolved within the resolution timeframe of the division or office handling the matter, a note describing the circumstances preventing timely resolution should be entered. The note should be updated at the expiration of each subsequent resolution period to describe the continued delay. Each division and office can determine its prescribed number of days to resolve a TCR. For example, Enforcement's policies for handling TCRs are more prescriptive and specifically state that TCRs must be resolved within 30 business days of assignment to the group POC, absent extraordinary extenuating circumstances. Enforcement's policies describe "extenuating circumstances" to include waiting for further information from a source needed to resolve the TCR, or waiting for advice or assistance from another division or office.

TCRs should include notes describing the circumstances preventing timely resolution

To inquire about the circumstances that prevented the TCRs we tested from being resolved timely, we contacted TCR assignees for which (1) not a single note regarding the TCRs' open status was added to the TCR, (2) an initial note was added but none after that, or (3) the TCR included some notes but not all notes that should have been added, and received the following responses:

- One individual noted a lack of resources when OMI assigns them a large amount of TCRs. The individual also noted that the two TCRs they were assigned indicated a type of historical conduct, rather than an ongoing securities issue, which was considered a lower priority.
- Another individual stated that the complex trading highlighted by the referral in question required careful review and extensive analysis. Before the TCR in question could be disposed of, two

[10] We used a 30-day period as a requirement given that Enforcement and Examinations both have a 30-day disposition requirement and disposition the majority of TCRs. From our sample of 61 TCRs, Enforcement disposed of 57, the Office of International Affairs disposed of 3, and Examinations disposed of 1.

trading analysts in Enforcement assisted in the effort. Other SEC staff were also consulted to determine whether the trading gave rise to alleged violations.

- An office branch chief stated that personnel were being shuffled to handle new responsibilities and that one TCR "fell through the cracks."
- Another TCR was temporarily lost track of after the individual to whom it was assigned was out on leave because of an injury.
- One individual noted that the review of one TCR was delayed primarily because of the holiday period in December 2018 and the Federal government shutdown thereafter. A review of supporting documentation and additional research was also necessary to determine whether there was any publicly available information to support the allegations in the TCR.

Based on these responses, some of these TCRs required additional time, resources, research, and expertise to resolve. However, the TCR that was temporarily lost track of did not include any notes and took 172 business days to resolve. The TCR that "fell through the cracks" took 457 business days to resolve with gaps of 175 business days and 272 business days between the first and second notes and second and third notes, respectively. Therefore, a monitoring mechanism to ensure that periodic, consistent notes are entered could identify TCRs needing action in a more timely manner.

An Enforcement senior officer we interviewed acknowledged that some staff notes are better than others and, although the notes reviewed were generally acceptable, that staff notes could be improved. In addition, OMI management explained that, since it began providing aging reports[11] to the TCR Oversight Board, the number of TCRs exceeding the resolution timeframe of the assigned division or office has decreased. Nevertheless, the Board believes it is the responsibility of each division and office to monitor its assigned TCRs.

As previously stated, the SEC's ability to effectively and timely respond to allegations of wrongdoing depends on the diligence and good judgment of those who enter, evaluate, and resolve TCRs. Policies that require assignees to enter notes in the TCR system could help inform management of TCRs requiring additional work and could assist management in monitoring the status of TCRs. Therefore, the TCR program could be strengthened by better ensuring compliance with requirements for timely documenting the circumstances for TCRs requiring additional time for resolution.

Communication Within the TCR Program Could Be Improved

Section 967 of the Dodd-Frank Wall Street Reform and Consumer Protection Act required the SEC to engage an independent consultant to study the internal operations, structure, and need for reform at the

[11] OMI monitors TCRs within OMI and facilitates the monitoring of the status of active TCRs outside of OMI, and facilitates monitoring of TCRs assigned to other groups, by generating weekly and quarterly aging reports that list TCRs that are open and more than 90 business days have elapsed since the assignment of the TCR to a POC. These reports are distributed to OMI management and to TCR POCs. In early 2020, OMI began providing a 90-day aging report to the TCR Oversight Board each quarter, which included TCR numbers and assignee office.

SEC.[12] Among other things, the study (published in 2011) found the need for the promotion of a culture of collaboration.[13] The SEC recognized this need for heightened collaboration, and stressed the importance of sharing information and ideas. Furthermore, the study cited the TCR program as an example of a successful cross-divisional project. However, we determined that communication within the TCR program could be improved. As we further describe below, this includes communication related to (1) policies and procedures for assigning TCRs to POCs; (2) the handling of TCRs with a geographic nexus to one SEC regional office; and (3) work performed during the early stage of triage within OMI.

Assignment of TCRs to POCs. During our scope period, OMI facilitated monthly POC meetings to discuss recent TCR developments, system enhancements, policies and procedures, and assigned 18,084 TCRs to SEC divisions and offices. However, some POCs told us that the meetings focused mainly on Enforcement-related matters and were not useful to their work. Furthermore, many division and office POCs we contacted indicated that they did not have a clear understanding of OMI's triage process or method for assigning TCRs.[14] OMI management stated that notes and other documentation in the TCR system were sufficient for POCs to have a clear understanding of the assignment; however, some POCs commented that they were not entirely sure of the reasons that certain TCRs had been assigned to them. For example:

- A POC provided an example of a TCR where the subjects of alleged wrongdoing were located in another regional office's territory.
- Another POC provided an example of a TCR that the POC asserted was beyond the resources and priorities of the POC's group.
- A POC referred to an assigned TCR and asserted that little additional triage by OMI would have resulted in knowing that the TCR involved identity theft and, therefore, should have been referred to the Federal Bureau of Investigation. The POC also noted that the conduct discussed in the TCR was not in the territory of the POC's regional office.
- Yet another POC provided an example of a TCR for which OMI determined no further action was necessary. The POC asserted that the TCR should have been referred to the POC's regional office given that there was an ongoing, related investigation and the TCR included documents that could have been useful to that investigation.

When asked about these issues, OMI management generally maintained that: (1) the TCRs warranted the assignments that OMI made, (2) the basis of the assignments were documented in the TCR system record, and (3) the assignments in question complied with applicable policies and procedures.

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[12] Pub. L. No. 111-203, 124 Stat. 1913 (2010).

[13] U.S. Securities and Exchange Commission, The Boston Consulting Group, Inc., *Organizational Study and Reform* (March 10, 2011).

[14] Assignments are made in accordance with internal allocation principles that consider multiple factors, including: (1) whether the TCR falls within the scope of one of Enforcement's Specialized Units or meets other resource priorities and parameters; (2) whether the conduct/victims/wrongdoers have ties to a particular geographic region; or (3) whether the TCR is sufficiently close to an investigation.

Nonetheless, it appears that POCs were not always aware of the rationale behind these decisions. Furthermore, the TCR program allows POCs to reassign TCRs between divisions and offices; however, this creates an additional need for coordination, which could delay TCR disposition.[15] One POC noted that it takes time to confirm that other staff will accept reassignment of a TCR. Another POC stated that some staff have refused to accept reassignment of a TCR, and that the process to reassign a TCR has never been straightforward.

Lack of Clarity Around Handling of TCRs With a Geographic Nexus to the Boston Regional Office. In 2012, management at the SEC's Boston Regional Office (BRO) requested to receive all TCRs with a geographic nexus to the region, regardless of whether OMI had already triaged the TCR and determined no further action, review, or assignment of the TCR was warranted. OMI management acknowledged having had an informal arrangement with BRO in 2012. However, OMI management stated that the informal practice from 2012 was superseded and replaced in May 2013 by formal TCR policies and procedures, which applied to all offices. In addition, OMI management stated it was no longer necessary or efficient to manually forward individual TCRs that OMI intended to close to other offices for informational purposes, and that this informal practice had been discontinued because of the current TCR system's search capabilities. However, during our testing of TCRs, we identified a TCR that was assigned to BRO in January 2018 based on this informal arrangement. Furthermore, based on a cursory review of TCRs assigned to BRO in the TCR system, we found that more than one triager was assigning TCRs to BRO, referencing this informal arrangement, as recently as June 2020. Lastly, according to a BRO POC, BRO personnel still believed the informal arrangement was in effect as of October 2020. Additionally, an OMI triager told us they had not been aware of, and therefore did not honor, BRO's informal request.[16]

Communication of Work Performed in Early Stage Triage Within OMI. It appears that there may be some benefit to better communicating the extent of work performed during OMI's early stage triage. Although late stage triagers perform their own independent research and do not rely on the work and research conducted at the previous stage, which is done for different purposes, some late stage triagers expressed interest in knowing more about the type of work and research that was performed before a TCR is assigned to them. We were also told that this interest has been expressed to management in the past.

As noted in the 2011 independent consultant's study on the internal operations, structure, and need for reform at the SEC, ". . . each division's internal structure is tailored to division-specific needs, and there are few formalized cross-divisional collaboration mechanisms. As a result, communication tends to be informal, ad hoc, and based on personal relationships." Moreover, the study found that collaboration is needed to enable communication between home (that is, SEC Headquarters) and regional offices. We also note that the U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the*

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[15] TCR reassignments must be mutually agreed on. The proposed receiving party must accept reassignment in the TCR system. Some POCs told us that staff in some divisions and offices are, at times, reluctant to accept reassignments. When reassignments are not accepted, the assignee is responsible to dispose of the TCRs.

[16] According to the triager, the triager first learned of the arrangement with BRO when OMI management informed triagers that the arrangement with BRO was no longer necessary and was being discontinued.

Federal Government states, "Effective information and communication are vital for an entity to achieve its objectives."[17] GAO's standards emphasize the need to communicate quality information down, across, up, and around reporting lines to all levels of the entity to enable personnel to perform key roles and achieve objectives, address risks, and support the internal control system. Furthermore, in the FY 2019 TCR Program Risk Control Matrix, the TCR Oversight Board identified as a risk the unavailability of processes and training over handling TCRs. This risk increases if SEC staff have not been informed of changes to TCR policies, procedures, or practices, as communication with and training of SEC staff are integral parts of the TCR program.

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

To further strengthen the SEC's TCR program, we recommend that the TCR Oversight Board:

Recommendation 1:

Develop and implement an oversight process, policies, or controls to ensure that TCRs received by SEC staff are timely entered into the TCR system in accordance with the *Commission-wide Policies and Procedures for Handling Tips, Complaints and Referrals*.

Management's Response. Management concurred with the recommendation. According to the TCR Oversight Board, working with OMI, it will further strengthen the oversight process by reviewing existing policies; developing and implementing additional processes, policies, or controls as appropriate; and providing training and guidance to ensure that TCRs received by SEC staff are timely entered into the TCR system in accordance with the *Commission-wide Policies and Procedures for Handling Tips, Complaints and Referrals*. 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:

Develop and implement an oversight process, policies, or controls to ensure divisions and offices adequately and timely describe in TCR notes circumstances preventing timely resolution in accordance with applicable division or office policy.

[17] U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014).

Management's Response. Management concurred with the recommendation. According to the TCR Oversight Board, working with OMI and SEC divisions and offices that receive TCRs, it will further strengthen the oversight process by reviewing existing policies; developing and implementing additional processes, policies, or controls as needed; and providing training and guidance to ensure that SEC staff timely enter into the TCR system adequate notes documenting circumstances preventing timely resolution. 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:

Assess the need to further communicate with and/or train SEC employees responsible for entering, triaging, and disposing of TCRs to improve awareness of their individual responsibilities and the Office of Market Intelligence triage process.

Management's Response. Management concurred with the recommendation. According to the TCR Oversight Board, working with OMI and SEC divisions and offices that receive TCRs, it will assess the need for further communication and/or training of SEC staff responsible for entering, triaging, and disposing of TCRs to improve awareness of their individual responsibilities and the OMI triage process. 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.

FINDING 2. OPPORTUNITIES EXIST TO STRENGHTEN THE SEC'S TCR SYSTEM MANAGEMENT AND DEVELOPMENT

The SEC has initiated a process to plan and develop a future TCR system. As described in the sections that follow, we identified opportunities to strengthen the agency's TCR system management and development by incorporating lessons learned from the existing system's development history, and considering end-users' recommendations when gathering system requirements. In addition, TCR program management relies on a contractor to develop TCR-related reports. Among other possible improvements, the SEC should assess whether the future TCR system should include a reporting function for end-users.

Existing System Development History and End-User Recommendations Can Help Inform Decision-Making

According to Enforcement personnel, under the direction of the TCR Oversight Board and as part of its FY 2021 funding request, the SEC budgeted for a strategic planning project for a future TCR system. As of the date of this report, initial planning for the future system was in the preliminary stages; however, management indicated a desire to develop a more robust TCR system, in less time and for less money than the current version, to increase efficiencies and meet the business needs of the TCR program and OMI, the current business owner.

Enforcement plans to develop a more robust TCR system in less time and for less money

As the OIG has previously reported, the existing TCR system was initially estimated to cost $7.2 million and be completed by July 2014;[18] however, the system did not go live until January 2018 and, according to an Enforcement official, cost about $20 million. As management continues planning for the future system, lessons learned from the existing system's development history can help inform the TCR Oversight Board's decision-making and ensure management meets its cost and schedule goals and avoids the overruns and delays previously experienced.

Also, while triagers and POCs told us they are generally content with the TCR system, some triagers, POCs, and TCR Oversight Board members believe certain additional system functionality could improve TCR processing and the TCR system workflow. For example, they cited the need for an improved search function, as well as e-mail alerts when new TCRs are added to their inboxes or when new TCRs related to a specific individual or firm are submitted. According to a triager, these improvements could minimize human error. In addition, triagers told us it would be more efficient to have the TCR system perform automatic searches within the system and other SEC applications, such as Enforcement's case management system and Examinations' exam system, using the data fields captured in the TCR system. POCs also suggested other improvements to the TCR system, including the need for more disposition categories and the ability to enter joint whistleblowers on a single TCR.

[18] U.S. Securities and Exchange Commission, Office of Inspector General, *Final Management Letter: Observations Noted During TCR System Audit Support Engagement* (May 20, 2015); and U.S. Securities and Exchange Commission, Office of Inspector General, *Final Management Letter: Progress on the SEC's Tips, Complaints, and Referrals Intake and Resolution System Redesign and Vulnerability Remediation Efforts* (May 31, 2017).

According to OMI management, such end-user recommendations are captured and maintained as technical requirements and evaluated as possible updates to the TCR system multiple times per year based on cost-benefit, feasibility, and the overall impact of the proposed change. We noted that, in December 2020, OMI sent a survey to all TCR system users as part of the strategic planning for the future TCR system, asking for feedback. OMI officials explained that the survey responses will be used to:

- develop high-level current and future use cases and requirements for functionality for a next generation system;
- develop a strategic plan and roadmap for a future system and proposed high-level architecture; and
- inform any future funding and procurement efforts and selection of technologies.

OMI should continue to collect and document needs and requirements for a future system and identify patterns and trends in previous and newly recommended system enhancements, which could help inform decision-makers, including the TCR Oversight Board.

According to GAO, information technology investments often suffer from a lack of disciplined and effective management, such as project planning, requirements definition, and program oversight and governance.[19] The SEC's TCR system, as an information technology investment, is critical to the agency's mission. Ensuring that plans for the future TCR system incorporate prior lessons learned and continuing to implement a process to routinely document the receipt and handling of end-user recommendations could further strengthen the SEC's TCR system management and development planning efforts.

The TCR System Does Not Contain a Reporting Function for End-Users

The TCR system contains a reports tab originally intended to provide users with template reports viewable within the TCR application. This feature, however, was disabled for the majority of end-users because template reports can rapidly become obsolete or unusable and the reports were inaccurate and error-prone. Therefore, the TCR Oversight Board endorsed the decision not to expend resources to fix faulty system-generated reports.

Nonetheless, end-users expressed to us an interest in having more reporting capabilities. For example, one POC said that a reporting tool would be beneficial for planning purposes. Another user told us that the reports tab used to work in a previous version of the TCR system, and the user thought that the reports that were developed specifically for that user's office were reliable.

One of the fundamental objectives for the existing TCR system was to develop a system that provides, among other things, comprehensive reporting functions. However, this requirement was modified in February 2015 to state that the system should support the ***development*** of reports (that is, by maintaining data that can be used to create reports), not the creation of reports by the TCR application

[19] U.S. Government Accountability Office, *High Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas* (GAO-19-157SP, March 2019).

itself. Instead of maintaining comprehensive reporting functions by the TCR system, as of at least April 2015, the SEC has relied on a separate report writer contract to generate TCR-related reports on an ad-hoc basis. According to OMI management, divisions and offices can request reports to be generated by the report writer. However, OMI must prioritize requests based on the limited report-writing resources available (namely, a single contractor employee).

The contract for the report writer states, "TCR reporting is a critical and essential requirement for OMI and [Examinations] and demands a skilled and experienced report writer who understands the functionality of the TCR system and then can produce reports that are accurate and timely." During our scope period, the SEC spent $548,557 for TCR report writing by a single contractor employee (or an average of $243,803 a year), and can reasonably expect to continue incurring additional costs as long as it relies on the services of a contractor.

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

To strengthen the SEC's TCR system management and development, we recommend that the TCR Oversight Board:

Recommendation 4:

Continue efforts to plan for the acquisition of technologies for a new TCR system, ensuring those plans incorporate new system requirements, including end-user recommendations, as appropriate, and lessons learned from the existing system's development history.

Management's Response. Management concurred with the recommendation. According to the TCR Oversight Board, working with OMI and the Office of Information Technology (OIT), it will support continuing comprehensive efforts to plan for the acquisition of technologies for a new system, which include gathering high level technical requirements and end-user feedback as well as consideration of the existing system's development history. 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 5:

Assess whether the future TCR system should include a reporting function for end-users, considering the costs and benefits of the current TCR reporting method and business needs, and, if needed, incorporate a reporting function into the requirements for the new TCR system.

Management's Response. Management concurred with the recommendation. According to the TCR Oversight Board, working with OMI and OIT, it will continue comprehensive planning efforts for new system technologies, including assessing and preparing high level requirements for business intelligence and reporting approaches and functionality, taking into consideration costs and benefits, as well as business needs. 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

During our evaluation, we identified two matters that did not warrant recommendations. We discussed these matters, described below, with agency management for their consideration.

Efforts to Minimize TCR System Downtime

Based on TCR system user feedback and system availability data, we determined that, since implementation, the TCR system has experienced periods of significant planned and unplanned downtime. In the FY 2019 TCR Program Risk Control Matrix, the TCR Oversight Board stated that, if the TCR system experiences performance issues or the system does not have proper functionalities, the SEC may be unable to collect, monitor, and report TCRs. Mitigating controls for this risk have included OIT providing the TCR business owner with a root cause analysis of performance issues and the steps that have been taken to prevent recurrence and ensure that the TCR system is not impacted by performance issues. OIT tracks system downtime for planned and unplanned outages, and provides quarterly reports to the TCR Oversight Board.

We met with OIT personnel and learned that there have been several steps taken to improve the availability of the TCR system. For example, OIT [redacted] to improve manageability in May 2019, [redacted] in April 2020, and [redacted] in April 2020. OIT personnel explained that, in combination, these changes may have resulted in fewer unplanned outages.

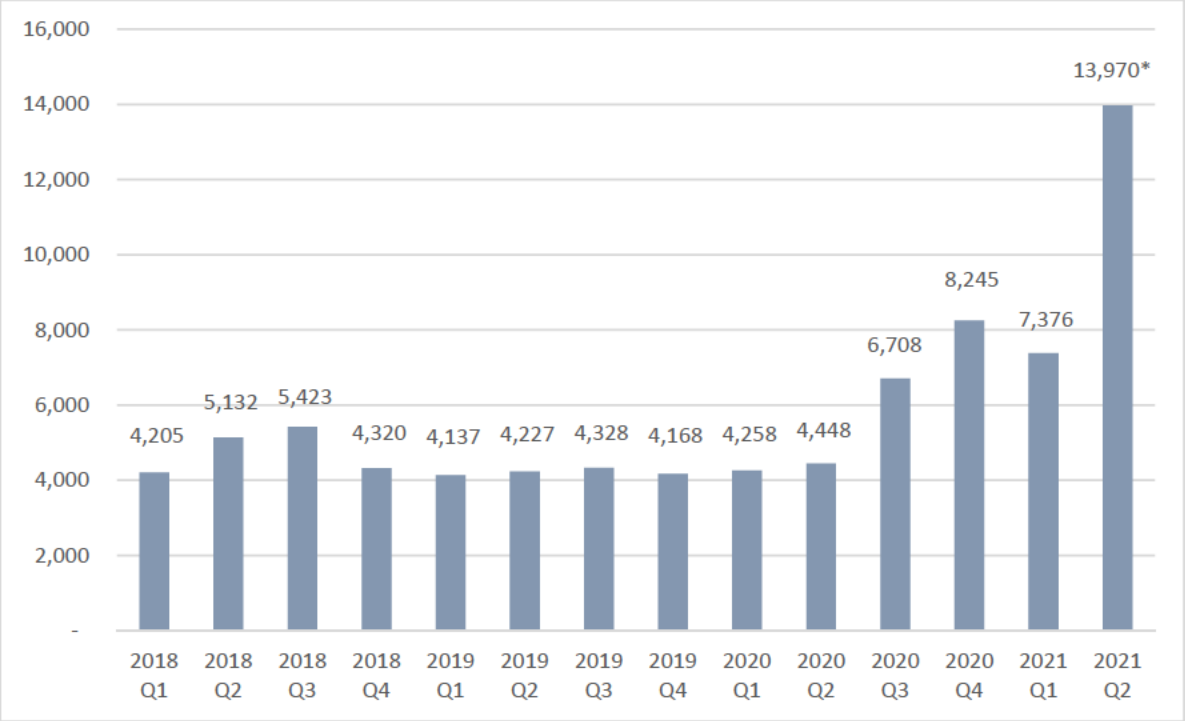
We reviewed the underlying data and noticed an overall improvement. Specifically, between January 2018 and December 2019, the TCR system was down due to unplanned outages for at least one of its functions for an average of about 43 hours each month. However, between January 2020 and September 2020, downtime decreased to an average of about 7 hours each month. Although we are not making a recommendation regarding TCR system downtime at this time, the OIG will consider this information, as appropriate, as part of an audit of the SEC's implementation of an enterprise architecture program, expected to be completed later in 2021.

Upward Trend in TCR Volume

Beginning in the third quarter of FY 2020, OMI experienced a significant increase in TCR submissions, specifically from the public. As the figure below shows, the SEC received 36,299 TCRs in the last four FY quarters, which was about 111 percent more than it had received during the prior four-quarter period.[20]

[20] As of February 20, 2021, OMI had received 13,970 TCRs for FY 2021 Q2. The higher number of TCRs for FY 2021 Q2 was driven in part by TCRs related to trading promoted on certain social media platforms.

FIGURE. TCRs Received Each Quarter Between FY 2018 and FY 2021 Q2



Source: OIG-generated based on TCR data obtained from OMI.

** TCRs received as of February 20, 2021.*

According to OMI management, in February 2021 they began using temporary SEC staff detailees and leveraging technology to process these recent increases in TCRs. As these increases occurred outside the scope period of our evaluation, we did not perform a detailed assessment of the causes. However, we encourage OMI to continue to monitor this upward trend and to determine whether it represents a new baseline for TCR submissions, and whether additional actions, resources, or staff allocations are needed.

Appendix I. Scope and Methodology

We conducted this evaluation from March 2020 through February 2021 in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation* (2012). Those standards require that we plan and perform the evaluation to obtain sufficient, competent, and relevant evidence to provide a reasonable basis for our findings, conclusions, and recommendations based on our evaluation objectives. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations based on our evaluation objectives.

Objectives and Scope

Our evaluation covered the TCR program and TCRs entered into the TCR system between October 1, 2017, and December 31, 2019. Our overall objective was to evaluate the SEC's management of the TCR program. Specifically, we sought to determine whether: (1) the SEC established an effective internal control system for collection, triaging, and responding to credible allegations of violations of the federal securities laws; (2) the SEC safeguarded and maintained TCR source materials, as required; and (3) the TCR Oversight Board used effective tools, such as a risk management framework, to evaluate, respond to, and monitor TCR program risks and trends.

Methodology

To address our objectives, among other work performed, we conducted fieldwork at the SEC's Headquarters in Washington, DC, and held virtual meetings with SEC staff from multiple field locations.

To assess whether the SEC established an effective internal control system for collecting, triaging, and responding to credible allegations of violations of the federal securities laws, we:

- interviewed OMI management and staff, the then TCR Oversight Board Chair and other leadership, and division and office POCs;
- sent questionnaires to all TCR Oversight Board members, all triagers that were not interviewed, and Primary and Back-Up POCs for all divisions and offices;
- reviewed applicable federal laws, regulations, and guidance; and SEC-wide, Enforcement, OMI, and Examinations policies and procedures; and
- performed walkthroughs of the TCR system.

Additionally, to further assess internal controls, we performed a variety of tests on a sample of 344 TCRs received during our scope period. We created subset universes, applicable to each of our testing objectives, and made a non-statistical, random sample selection for each of the subsets. Specifically, we tested for the following: (1) timeliness of TCR entry by SEC staff, and possible duplicate entries; (2) OMI TCR triage efforts; (3) OMI and Senior Officer No Further Action (NFA) audit results and actions taken to address the audit findings; (4) timeliness of TCR dispositions made by divisions and offices, and applicable notes related to potential delays; and (5) existence of TCRs in the TCR system and

completeness of supporting documents. We used an Excel random number generator to select sample items, and our sampling was non-statistical; therefore, our results cannot be projected.

To assess whether the SEC established safeguards and maintained TCR source materials, we gained an understanding of the TCR Record Retention Schedule, which we considered for the test described in item 5 above. We also interviewed SEC staff in OIT and OMI, as well as the then TCR Oversight Board Chair to understand the efforts and controls in place to safeguard information.

To assess whether the TCR Oversight Board used effective tools, such as a risk management framework to evaluate, respond to, and monitor TCR program risks and trends, we interviewed TCR Oversight Board members, sent a questionnaire to all TCR Oversight Board members, and reviewed the FY 2019 TCR Program Risk Control Matrix and all TCR Oversight Board meeting minutes and agendas during the scope of our evaluation.

Internal Controls

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

Control Environment. We assessed the control environment established by OMI's senior management. We reviewed OMI's organizational structure and interviewed staff responsible for reviewing and maintaining OMI's internal control documentation. We also met with those assigned responsibility for achieving OMI's objectives, including OMI's Chief, Deputy Chief, and an Assistant Director.

Risk Assessment. We obtained and reviewed the FY 2019 risk control matrices for divisions and offices that had TCR-related controls to identify risks and controls related to the SEC's TCR program and TCR system. We assessed risks identified by the SEC. We also identified risks we determined to be inherent to the TCR program and TCR system and received from OMI management responses explaining how each risk was mitigated. We also reviewed a security assessment report, system security plan, and system authorization to operate document for the TCR system.

Control Activities. We reviewed applicable federal guidance; SEC-wide policies and procedures; Enforcement, Examinations, and OMI standard operating procedures; and the FY 2019 TCR Program Risk Control Matrix to identify and test key control activities. We reviewed control activities for the handling of TCRs and tested related processes in our TCR sample testing. We also reviewed OMI NFA audits, the primary goals of which are to confirm that (a) the NFA decisions are sound and consistent with programmatic priorities, and (b) the underlying justifications for NFA decisions are properly documented in the TCR system. Lastly, we interviewed OMI management and staff and reviewed TCR standard operating procedures to understand the processes for ensuring that TCRs are properly handled. Our review of TCR standard operating procedures included reviewing reports, meeting materials, and TCR Oversight Board minutes.

Information and Communication. OMI internally communicates its policies and procedures related to the TCR program and TCR system in recurring OMI staff meetings, POC meetings, and materials posted

to its internal web site. The TCR program has an internal site with reference guides, job aides, and training materials. Furthermore, the TCR program externally communicates necessary information on *SEC.gov/TCR*, which includes relevant resources available to the public.

Monitoring. We reviewed Enforcement and OMI internal control documentation and standard operating procedures, and discussed with OMI management its roles and responsibilities for monitoring the SEC's TCR program.

As noted in this report, we found that, overall, the SEC's TCR program has established an effective internal control system. However, we identified areas for potential improvement related to internal controls within the context of our objectives. Our recommendations, if implemented, should help strengthen the SEC's TCR program.

Data Reliability

GAO's *Assessing Data Reliability* (GAO-20-283G, December 2019) states, "data reliability means that data are applicable for audit purposes 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 that 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 SEC's TCR system and Investor Response Information System (IRIS). To assess the reliability of data we:

- interviewed knowledgeable personnel, including TCR POCs, OMI triage staff, the OMI report writer, OIT primary contacts for the TCR system, OMI and OIEA management, and information technology specialists;
- reviewed the data dictionary for the TCR system and data documentation and reports, including security assessments and authorizations to operate reports for relevant agency systems; and
- tested a sample of 50 TCRs to determine whether there were duplicative entries or data was missing in key and required data fields from source documents, and reviewed the list of allegations of wrongdoing from the IRIS system to verify whether IRIS files transferred to the TCR system.

We identified the following two incidents that resulted in the loss of TCR data; however, based on the actions taken by the SEC, we concluded that these issues have been resolved:

- Following the retirement of TCR 2.0 in 2018, the SEC conducted a gap analysis to identify any data that had not been migrated to the new system. This analysis identified the loss of 202 out of 39,199 records (or about 0.5 percent). SEC staff reported the incident to the National Archives and Records Administration.
- In 2016, the SEC identified an issue related to the intake of certain TCRs, due to the size of attachments associated with those TCRs. In July 2016, the issue was resolved with a system update.

Based on the work we performed, we found the TCR data sufficiently reliable for the purpose of this evaluation.

Prior Coverage

Between 2015 and 2020, the SEC OIG and GAO issued the following reports of particular relevance to this evaluation:

SEC OIG:

- *Final Management Letter: Observations Noted During TCR System Audit Support Engagement* (May 20, 2015).
- *Final Management Letter: Progress on the SEC's Tips, Complaints, and Referrals Intake and Resolution System Redesign and Vulnerability Remediation Efforts* (May 31, 2017).

GAO:

- *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
100 F Street, NE Washington, DC 20549

MEMORANDUM

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

From: Kelly L. Gibson, TCR Oversight Board Chair and Acting Deputy Director, Division of Enforcement

Date: February 23, 2021

Re: Management's Response to the Office of Inspector General's February 17, 2021 Draft Report, *The SEC Can Further Strengthen the Tips, Complaints, and Referrals Program*

Thank you for the opportunity to review and provide a response on the Office of Inspector General's Draft Report: *The SEC Can Further Strengthen the Tips, Complaints, and Referrals Program*. We appreciate the courtesy your staff has extended to us and we welcome the benefit of your observations.

On behalf of the TCR Oversight Board (the Board) and the Division of Enforcement's Office of Market Intelligence (OMI, the system owner), we are pleased that your review determined that the program is operating appropriately, and has an effective internal control system related to the collection, triage, evaluation, and disposition of the thousands of tips, complaints, and referrals (TCRs) received each year alleging potential violations of the federal securities laws. We are also pleased that your review acknowledged that the program has a well-established risk management framework, and other safeguards, to evaluate, monitor, and respond to TCR program risks and trends.

The SEC's TCR Program plays a critical role in the agency's mission of investor protection by collecting, triaging, and disseminating tens of thousands of pieces of information across the agency each year. The agency is committed to the timely, effective, and responsible handling and evaluation of TCRs and related information. We appreciate the suggestions for ways to further strengthen the program, and we concur with the recommendations in the draft report. Our responses to each of the recommendations are included in Appendix A.

Thank you again for the opportunity to respond to the Draft Report. We plan to pursue any corrective actions in a timely fashion, and we look forward to working with your office to confirm our actions fully address the areas discussed in your report.

Cc: Kenneth A. Johnson, Chief Operating Officer
Melissa R. Hodgman, Acting Director, Division of Enforcement
TCR Oversight Board

Appendix A

Recommendation 1:
Develop and implement an oversight process, policies, or controls to ensure that TCRs received by SEC staff are timely entered into the TCR system in accordance with the *Commission-wide Policies and Procedures for Handling Tips, Complaints and Referrals*.

Response: We concur. Working with OMI, we will further strengthen the oversight process by reviewing existing policies; developing and implementing additional processes, policies, or controls as appropriate; and providing training and guidance to ensure that TCRs received by SEC staff are timely entered into the TCR system in accordance with the *Commission-wide Policies and Procedures for Handling Tips, Complaints and Referrals*.

Recommendation 2:
Develop and implement an oversight process, policies, or controls to ensure divisions and offices adequately and timely describe in TCR notes circumstances preventing timely resolution in accordance with applicable division or office policy.

Response: We concur. Working with OMI, and SEC divisions and offices that receive TCRs, we will further strengthen the oversight process by reviewing existing policies; developing and implementing additional processes, policies, or controls as needed; and providing training and guidance to ensure that SEC staff timely enter into the TCR system adequate notes documenting circumstances preventing timely resolution.

Recommendation 3:
Assess the need to further communicate with and/or train SEC employees responsible for entering, triaging, and disposing of TCRs to improve awareness of their individual responsibilities and the Office of Market Intelligence triage process.

Response: We concur. Working with OMI, and SEC divisions and offices that receive TCRs, we will assess the need for further communication and/or training of SEC staff responsible for entering, triaging, and disposing of TCRs to improve awareness of their individual responsibilities and the OMI triage process.

Recommendation 4:
Continue efforts to plan for the acquisition of technologies for a new TCR system, ensuring those plans incorporate new system requirements, including end-user recommendations, as appropriate, and lessons learned from the existing system's development history.

Response: We concur. Working with OMI and the Office of Information Technology (OIT), we will support continuing comprehensive efforts to plan for the acquisition of technologies for a new system, which include gathering high level technical requirements and end-user feedback as well as consideration of the existing system's development history.

Recommendation 5:
Assess whether the future TCR system should include a reporting function for end-users, considering the costs and benefits of the current TCR reporting method and business needs, and, if needed, incorporate a reporting function into the requirements for the new TCR system.

Response: We concur. Working with OMI and OIT, we will continue comprehensive planning efforts for new system technologies, including assessing and preparing high level requirements for business intelligence and reporting approaches and functionality, taking into consideration costs and benefits, as well as business needs.

Major Contributors to the Report

Colin Heffernan, Audit Manager
Louis Perez Berrios, Auditor
Matthew Fryer, Auditor

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. Comments and requests can also be mailed to the attention of the Deputy Inspector General for Audits, Evaluations, and Special Projects at the address listed below.

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