

U.S. SECURITIES AND
EXCHANGE COMMISSION
04.01.15 TO 09.30.15

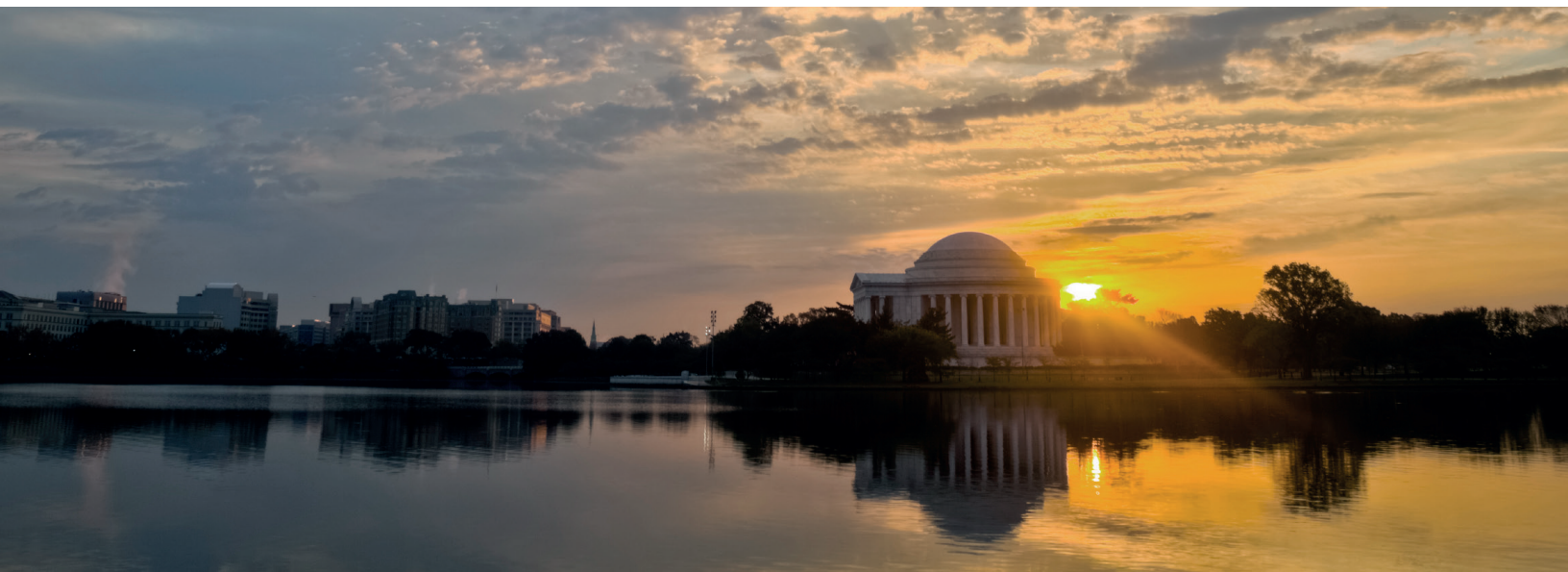
Office of Inspector General

SEMIANNUAL REPORT TO CONGRESS



OFFICE OF INSPECTOR GENERAL
SEMIANNUAL REPORT TO CONGRESS

APRIL 1, 2015 THROUGH SEPTEMBER 30, 2015



The mission of the Office of Inspector General (OIG) is to promote the integrity, efficiency, and effectiveness of the critical programs and operations of the U.S. Securities and Exchange Commission (SEC or agency). We accomplish this mission by:

- Conducting independent and objective audits, evaluations, and other reviews of SEC programs and operations;
- Conducting independent and objective investigations of potential criminal, civil, and administrative violations that undermine the ability of the SEC to accomplish its statutory mission;
- Preventing and detecting fraud, waste, and abuse in SEC programs and operations;
- Identifying vulnerabilities in SEC systems and operations and making recommendations to improve them;
- Communicating timely and useful information that facilitates management decision making and the achievement of measurable gains; and
- Keeping Congress and the Chair and Commissioners fully and currently informed of significant issues and developments.

CONTENTS

MESSAGE FROM THE INSPECTOR GENERAL	1
MANAGEMENT AND ADMINISTRATION	5
Agency Overview	5
OIG Staffing	5
OIG Outreach.	6
CONGRESSIONAL REQUESTS AND BRIEFINGS.	7
COORDINATION WITH OTHER OFFICES OF INSPECTOR GENERAL	8
AUDITS AND EVALUATIONS	9
Overview	9
Completed Audits and Evaluations.	9
<i>Audit of the SEC’s Contracting Officer’s</i>	
<i>Representative Program (Report No. 530)</i>	9
<i>Improvements Needed in the Division of Enforcement’s Oversight of Fund</i>	
<i>Administrators (Report No. 531)</i>	10
Management Letters Issued	11
<i>Observations Noted During TCR System Audit Support Engagement</i>	11
<i>Evaluation of the SEC’s Use of the Reserve Fund</i>	12
Review of Non-Career Officials’ Involvement in the SEC’s FOIA Response Process	13
Ongoing Audits and Evaluations	14
<i>Evaluation of the Office of Compliance Inspections and Examinations’</i>	
<i>Resource Allocation</i>	14
<i>Audit of the SEC’s Student Loan Repayment Program</i>	14
<i>Audit of the SEC’s Compliance With the</i>	
<i>Federal Information Security Management Act for Fiscal Year 2015</i>	15
<i>Audit of SEC-Sponsored Conferences</i>	15
<i>Audit of the SEC’s Process for Reviewing Self-Regulatory Organization</i>	
<i>Proposed Rule Changes</i>	15

INVESTIGATIONS	17
Overview	17
Status of Previously Reported Investigations	17
<i>Allegation of Manipulation of Financial Statements</i>	
<i>and Solicitation of Nonpublic Information (Case No. 14-0031-I)</i>	17
<i>Prohibited Holdings by an SEC Staff Accountant (Case No. 14-0050-I)</i>	18
<i>Prohibited Holdings by an SEC Attorney (Case No. 14-0142-I)</i>	18
<i>Unauthorized Transmission of Nonpublic Information by an SEC Attorney</i>	
<i>(Case No. 14-0552-I)</i>	18
<i>Theft by Regional Office Employee</i>	
<i>(Case No. 14-0584-I)</i>	18
Completed Investigations	19
<i>Possession of Prohibited Holdings and Possible Financial Conflict of Interest</i>	
<i>(Case No. 14-0001-I)</i>	19
<i>Allegations of Possible Falsification of Time and Attendance</i>	
<i>(Case No. 14-0010-I)</i>	19
<i>Misuse of Public Transportation Subsidy (Case No. 14-0014-I)</i>	20
<i>Alleged Violations of Travel Procedures (Case No. 14-0033-I)</i>	20
<i>Theft of SEC Property (Case No. 14-0075-I)</i>	20
<i>Disclosure of Nonpublic Information and Alleged Retaliation</i>	
<i>Against an Employee (Case No. 14-0210-I)</i>	21
<i>Alleged Witness Tampering and Intimidation (Case No. 14-0234-I)</i>	21
<i>Allegations of Sexual Harassment (Case No. 14-0523-I)</i>	21
<i>Alleged Misconduct Related to Rulemaking Comment Letters</i>	
<i>(Case No. 14-0538-I)</i>	22
<i>Possible Financial Conflict of Interest (Case No. 14-0539-I)</i>	22
<i>Improper Disclosure of Nonpublic Information (Case No. 14-0726-I)</i>	22
<i>Failure To Pre-Clear Securities Holdings (Case No. 14-0727-I)</i>	22
<i>Misuse of a Government-Issued Travel Card and Unauthorized</i>	
<i>Transmission of Nonpublic Information (Case No. 14-0814-I)</i>	23
<i>Misuse of Administrative Privileges (Case No. 14-0851-I)</i>	23
<i>Allegation of Improper Personnel Action (Case No. 14-0853-I)</i>	23
<i>Misuse of a Government-Issued Travel Card by an SEC Senior Officer</i>	
<i>(Case No. 15-0079-I)</i>	24
<i>Improper Transmission of Nonpublic Information via E-mail</i>	
<i>(Case No. 15-0273-I)</i>	24
<i>Allegation of a Firearm in the Workplace (Case No. 15-0455-I)</i>	24
Interim Report of Investigation	25
<i>Allegations of Bias on the Part of Administrative Law Judges</i>	
<i>(Case No. 15-0482-I)</i>	25

OVERSIGHT AND REVIEW	26
Overview	26
Ongoing Review	26
<i>Preliminary Review of the SEC's Pay Transition Program</i>	26
Completed Review	26
<i>Security Clearance Revocation Review Under</i> <i>Presidential Policy Directive 19</i>	26
 REVIEW OF LEGISLATION AND REGULATIONS.	 28
 MANAGEMENT DECISIONS	 30
 TABLES	 31
Table 1. List of Reports: Audits and Evaluations.	31
Table 2. Reports Issued with Costs Questioned or Funds Put to Better Use (Including Disallowed Costs)	31
Table 3. Reports With Recommendations on Which Corrective Action Has Not Been Completed	32
Table 4. Summary of Investigative Activity for the Reporting Period of April 1, 2015 to September 30, 2015.	34
Table 5. References to Reporting Requirements of the Inspector General Act	35
 APPENDIX A. PEER REVIEWS OF OIG OPERATIONS	 37
Peer Review of the SEC OIG's Audit Operations.	37
Peer Review of the SEC OIG's Investigative Operations	37
 APPENDIX B. OIG SEC EMPLOYEE SUGGESTION PROGRAM ANNUAL REPORT	 38
Overview	38
Summary of Employee Suggestions and Allegations	38
Update of Previously Received Suggestion	39
<i>Print Font Requiring Less Space (ES 14-0214)</i>	39
Examples of Suggestions Received	40
<i>Suggestion for Witness Travel Reimbursement Procedures (ES 15-0162)</i>	40
<i>Suggestion To Conserve Paper (ES 15-0348)</i>	40
Conclusion	40
 APPENDIX C. THE INSPECTOR GENERAL'S STATEMENT ON THE SEC'S MANAGEMENT AND PERFORMANCE CHALLENGES, SEPTEMBER 2015.	 41

ABBREVIATIONS

Agency/SEC	U.S. Securities and Exchange Commission
ALJ	Administrative Law Judge
<i>Attorney General Guidelines</i>	<i>Attorney General Guidelines for Offices of Inspectors General With Statutory Law Enforcement Authority</i>
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CO	contracting officer
COR	contracting officer's representative
DHS	Department of Homeland Security
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act
DOJ	Department of Justice
ESP	Employee Suggestion Program
FAEC	Federal Audit Executive Council
FHFA	Federal Housing Finance Agency
FISMA	Federal Information Security Management Act
FOIA	Freedom of Information Act
FSOC	Financial Stability Oversight Council
FY	fiscal year
GAGAS	generally accepted government auditing standards
GAO	U.S. Government Accountability Office
IG	Inspector General
IT	Information Technology
LSC	Legal Services Corporation
OA	Office of Acquisitions
OC	Office of Collections
OCIE	Office of Compliance Inspections and Examinations
OCOO	Office of the Chief Operating Officer
OD	Office of Distributions
OEC	Office of the Ethics Counsel
OFM	Office of Financial Management
OFS	Office of FOIA Services
OHR	Office of Human Resources
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
ONR	Office of Oversight and Review
OSO	Office of Support Operations
PII	personally identifiable information
PPD-19	Presidential Policy Directive 19
PPA	Prompt Payment Act
SLRP	Student Loan Repayment Program
SO	senior officer
SRO	self-regulatory organization
TCR	tips, complaints, and referrals
TCR System	TCR Intake and Resolution System
USAO-DC	United States Attorney's Office for the District of Columbia





MESSAGE FROM THE INSPECTOR GENERAL



I am pleased to present this Semiannual Report to Congress as Inspector General (IG) of the SEC. This report describes the work of the SEC OIG from April 1, 2015, to September 30, 2015. It also reflects our responsibility to report to Congress and the Chair and Commissioners. The audits, evaluations, investigations, and other reviews that we describe illustrate the OIG's efforts to promote the efficiency and effectiveness of the SEC and demonstrate the impact that our work has had on the agency's programs and operations.

During this reporting period, the OIG continued to build its staff to provide enhanced oversight of the SEC's programs and operations by hiring seven auditors and four criminal investigators, as well as additional support staff. One of the new criminal investigators is a computer forensics special agent. With this additional resource, we have begun to develop a computer forensic and cyber security capability, which is critical to help ensure that the SEC's sensitive systems and data are properly protected. We plan to enhance this capability during the next reporting period by adding additional expertise and establishing a computer forensics laboratory. I will continue to work with the Chair and Commissioners to ensure that the OIG has the necessary resources to carry out its mission of promoting the

integrity, efficiency, and effectiveness of the SEC's programs and operations.

We also maintained our focus on developing an OIG leadership culture that strives for consistency and continuity in the OIG's business practices and operations and helps ensure that the OIG is an effective and responsive entity. The OIG leadership continues to refine the OIG's internal processes and procedures and train new OIG staff on the framework and complexities of the SEC's mission.

In addition, we continued our important outreach efforts that are designed to enhance the OIG's visibility and educate SEC staff about the OIG's role and mission. Specifically, we rolled out the second

phase of the OIG's outreach program that focused on identifying trends and patterns and preventing fraud, waste, and abuse in agency programs and operations. In this reporting period, we conducted briefings for both staff and managers at six SEC regional offices. We plan to hold similar sessions at the five remaining regional offices and at SEC headquarters during the next reporting period.

During this reporting period, the OIG's Office of Audits issued two reports that recommended improvements in SEC programs. On September 18, 2015, we issued a report on our audit of the SEC's Contracting Officer's Representative (COR) Program, which assists the SEC's contracting officers (COs) in overseeing the SEC's contracts and ensuring that the Government's best interests are served. Although we found that the SEC's COR Program has aided the Office of Acquisition's (OA) contract management, we found that CORs did not always perform contract monitoring duties consistently and as required. We identified certain improvements that the SEC could make to improve its COR Program.

On September 30, 2015, we issued an audit report that identified improvements needed in the Division of Enforcement's oversight of the third party administrators that the SEC uses to distribute disgorgement and penalty amounts to harmed investors. While we found that the SEC had initiated a Fund Administrator Project to, among other things, improve the process for the appointment of fund administrators, we found that controls relating to the oversight of fund administrators, including controls over fund administrators' information security, could be improved. Accordingly, we made three recommendations designed to improve the SEC's oversight of fund administrators.

The Office of Audits also issued two management letters that summarized the results of other work performed during the reporting period. On May 20, 2015, the OIG reported to management observations about the SEC's Tips, Complaints, and Referrals (TCR) Intake and Resolution System (TCR

System) that were based on audit support work conducted by an OIG contractor. We found that an ongoing TCR System modernization project had experienced schedule delays and cost increases, but noted that management had taken action to address issues with the performance of the contractor working on the modernization project. On July 6, 2015, we issued a management letter that described the results of our evaluation of the SEC's use of the Reserve Fund established by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) for fiscal years (FYs) 2012, 2013, and 2014. We found that the SEC determined that it would use the Reserve Fund for information technology (IT) modernization efforts, reported this decision to Congress, and was authorized to make this decision. We further found that the SEC had reported all Reserve Fund obligations to Congress, as required.

The Office of Audits also worked with SEC management to close 21 recommendations made in OIG reports issued during this and previous reporting periods.

The Office of Investigations completed or closed 26 investigations during this reporting period. We investigated various allegations, including the improper transmission and disclosure of nonpublic information; misuse of Government-issued travel cards, the public transportation subsidy, and network administrative privileges; theft of Government property; bringing a firearm to the workplace; prohibited securities holdings; and possible financial conflicts of interest. Our investigations resulted in 13 referrals to the Department of Justice (DOJ), 3 of which were accepted for possible prosecution, and 9 referrals to management for corrective administrative action.

In addition, because of the heightened interests in ongoing SEC administrative proceedings, on August 7, 2015, we issued an interim report to the SEC Chair that described the results to date of our investigation into allegations of bias on the part of SEC Administrative Law Judges (ALJs). This interim

report stated that although we are still gathering additional facts and completing investigative steps, we had not developed any evidence to support the allegations of bias in ALJs' decisions in the Commission's administrative proceedings.

Furthermore, as required by the Reports Consolidation Act of 2000, we identified and reported on the most serious management challenges that the SEC faces, as of September 2015. We compiled *The Inspector General's Statement on the SEC's Management and Performance Challenges, September 2015*, Appendix C to this report, based on past and ongoing audit, evaluation, and investigative work; our knowledge of the SEC's programs and operations; and information received from SEC management and staff and U.S. Government Accountability Office (GAO) auditors.

In closing, I remain firmly committed to executing the OIG's mission of promoting the integrity, efficiency, and effectiveness of the SEC's programs and operations and to reporting our findings and recommendations to Congress and the Chair and Commissioners. We will continue our work to assist the agency in addressing the challenges it faces in its unique and important mission of protecting investors; maintaining fair, orderly, and efficient markets; and facilitating capital formation. I appreciate the significant support that the OIG has received from Congress and the agency. We look forward to continuing to work with the SEC Chair, Commissioners, and employees, as well as Congress, to increase efficiency and effectiveness in the SEC's programs and operations.



Carl W. Hoecker

Inspector General



...LY OVER THE MIND OF MAN ... I HAVE SW...

I AM NOT AN ADVOCATE FOR FREQUENT CHANGES IN LAWS AND CONSTITUTIONS. BUT LAWS AND INSTITUTIONS MUST GO HAND IN HAND WITH THE PROGRESS OF THE HUMAN MIND AS THAT BECOMES MORE DEVELOPED. MORE ENLIGHTENED AS NEW DISCOVERIES ARE MADE. NEW TRUTHS DISCOVERED AND MANNERS AND OPINIONS CHANGE WITH THE CHANGE OF CIRCUMSTANCES. INSTITUTIONS MUST ADVANCE ALSO TO KEEP PACE WITH THE TIMES. WE MIGHT AS WELL REQUIRE A MAN TO WEAR STILL THE COAT WHICH FITTED HIM WHEN A BOY AS CIVILIZED SOCIETY TO REMAIN EVER UNDER THE REGIMEN OF THEIR BARBAROUS ANCESTORS.

THOMAS JEFFERSON
1743-1826

Support the National Archives and Records Administration. We are the people's history.



MANAGEMENT AND ADMINISTRATION

AGENCY OVERVIEW

The SEC's mission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. The SEC strives to promote a market environment that is worthy of the public's trust and characterized by transparency and integrity. Its core values consist of integrity, accountability, effectiveness, teamwork, fairness, and commitment to excellence. The SEC's goals are to foster and enforce compliance with the Federal securities laws; establish an effective regulatory environment; facilitate access to the information investors need to make informed investment decisions; and enhance the SEC's performance through effective alignment and management of human resources, information, and financial capital.

Currently, the SEC is charged with overseeing over 25,000 market participants, including nearly 12,000 investment advisers, about 10,900 mutual funds and exchange traded funds, more than 4,200 broker-dealers, and about 425 transfer agents. The agency also oversees 18 national securities exchanges, 10 credit rating agencies, 6 active registered clearing agencies, and 1 active exempt clearing agency, as well as the Public Company Accounting Oversight Board, the Financial Industry Regulatory Authority, the Municipal Securities Rulemaking Board, the Securities Investor Protection Corporation, and the Financial Accounting Standards

Board. In addition, the SEC is responsible for selectively reviewing the disclosures and financial statements of about 9,000 reporting companies.

The SEC accomplishes its mission through 5 main divisions—Corporation Finance, Enforcement, Investment Management, Trading and Markets, and Economic and Risk Analysis—and 22 functional offices. The SEC's headquarters is in Washington, DC, and there are 11 regional offices located throughout the country. As of September 2015, the SEC employed 4,361 fulltime equivalent employees.

OIG STAFFING

During this reporting period, the OIG continued to add key staff to enhance its audit, investigative, and program support functions. The OIG hired seven auditors, four criminal investigators (including a computer forensics special agent), a supervisory management and program analyst, two management and program analysts, and a writer-editor. One program support specialist and one auditor departed the OIG.

OIG management has continued to develop an OIG leadership culture, which will ensure consistency and continuity in the OIG's business practices and operations. Also, new OIG staff completed an OIG-developed training program, which focuses on the framework and complexities of the SEC's regulatory

mission. This training provides new OIG staff with knowledge and tools that will assist in performing oversight work.

The OIG has made significant progress in filling key vacancies but continues to add resources as necessary to ensure the office has the staffing levels required to effectively perform its oversight responsibilities. The OIG plans to operate a computer forensics laboratory and add computer forensics and cyber security expertise in the next reporting period. This enhanced capability is critical to help ensure that the SEC's sensitive systems and data are properly protected.

OIG OUTREACH

The OIG continued to meet regularly with the Chair, Commissioners, and senior officers (SOs) from various SEC divisions and offices to foster open communication at all levels between the OIG and the agency. Through these efforts, the OIG kept up to date on significant, current matters that were relevant to the OIG's work. These regular communications also enabled the OIG to obtain management's input on what it believes are the most important areas for the OIG's future work. The OIG continually strives to keep apprised of changes to agency

programs and operations and keeps management informed of the OIG's activities and concerns raised during its work.

Furthermore, the OIG continued its SEC outreach program, the goal of which is to increase the OIG's visibility and further enhance SEC employees' understanding of the OIG's role and functions. The program also reminds employees of the applicable ethics requirements and their obligations to report fraud, waste, and abuse to the appropriate authorities. The SEC's biweekly new employee orientation sessions include an OIG outreach presentation.

In this reporting period, the OIG began to implement the second phase of its outreach program. This phase of the program includes outreach briefings that focus on identifying ongoing trends and patterns and preventing fraud, waste, and abuse in agency programs and operations. To date, the OIG conducted these briefings at six regional offices. The OIG plans to hold similar sessions at the five remaining regional offices and at SEC headquarters during the next reporting period. The OIG is also meeting with its law enforcement counterparts in the regional office locations.



CONGRESSIONAL REQUESTS AND BRIEFINGS

The OIG continued to keep Congress fully and currently informed of OIG activities through briefings, reports, meetings, and responses to Congressional inquiries. Throughout the reporting period, OIG staff briefed Congressional staff about OIG work and issues impacting the SEC.

For example, in June 2015, the OIG received a letter from the Chairman of the U.S. Senate Committee on Homeland Security and Governmental Affairs, requesting that the OIG analyze the involvement of SEC non-career officials in the Freedom of Information Act (FOIA) response process for the period from January 1, 2007, to the present.

In response, the OIG initiated the requested review, which is described in the Audits and Evaluations Section of this report. The OIG reported the results of its review to the Committee Chairman on September 25, 2015.

Furthermore, in August 2015, the OIG received a letter from the Chairman and Ranking Member of the U.S. House of Representatives Committee on Oversight and Government Reform, requesting information about whether the SEC IG was receiving timely, unfettered access to agency documents, information, and employees. The OIG responded to the request on September 25, 2015, noting that it had no access issues to report within the last 2 years.



COORDINATION WITH OTHER OFFICES OF INSPECTOR GENERAL

During this reporting period, the SEC OIG coordinated its activities with those of other OIGs, pursuant to Section 4(a)(4) of the Inspector General Act of 1978, as amended.

Specifically, the OIG participated in the meetings and activities of the Council of Inspectors General on Financial Oversight (CIGFO), which Dodd-Frank established. The Chairman of CIGFO is the IG of the Department of the Treasury. Other members of the Council, in addition to the IGs of the SEC and Department of the Treasury, are the IGs of the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission, the Department of Housing and Urban Development, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, and the National Credit Union Administration, and also the Special Inspector General for the Troubled Asset Relief Program. CIGFO meets at least once every 3 months, as required by Dodd-Frank. At CIGFO meetings, the members share information about their ongoing work, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight.

The SEC OIG's Office of Audits continued to participate in a CIGFO working group that assessed the Financial Stability Oversight Council's (FSOC) response to recommendations for continued oversight of interest rate risk. On July 27, 2015, CIGFO issued its final audit report summarizing the working group's findings and making a recommendation designed to increase transparency in FSOC's annual reports.

The SEC IG also attended meetings of the Council of the Inspectors General on Integrity and Efficiency (CIGIE) and continued to serve as the Chairman of the CIGIE Investigations Committee. The mission of the Investigations Committee is to advise the IG community on issues involving criminal investigations and criminal investigations personnel and to establish criminal investigative guidelines.

In addition, the Office of Audits continued to participate in the activities of the CIGIE Federal Audit Executive Council (FAEC), including attending training that FAEC provided. Lastly, OIG staff participated in the activities of the Council of Counsels to the Inspectors General and the CIGIE Training Institute's Audit, Inspection, and Evaluation Academy.



AUDITS AND EVALUATIONS

OVERVIEW

The OIG Office of Audits conducts, coordinates, and supervises independent audits and evaluations of the agency's programs and operations at the SEC's headquarters and 11 regional offices. The Office of Audits also hires, as needed, contractors and subject matter experts, who provide technical expertise in specific areas, to perform work on the OIG's behalf. In addition, the Office of Audits monitors the SEC's progress in taking corrective actions on recommendations in OIG audit and evaluation reports.

Each year, the Office of Audits prepares an annual audit plan. The plan includes work that the Office selects for audit or evaluation on the basis of risk and materiality, known or perceived vulnerabilities and inefficiencies, resource availability, and information received from Congress, internal SEC staff, the GAO, and the public.

The Office conducts audits in compliance with generally accepted government auditing standards (GAGAS) issued by the Comptroller General of the United States. OIG evaluations follow the CIGIE Quality Standards for Inspection and Evaluation. At the completion of an audit or evaluation, the OIG issues an independent report that identifies deficiencies and makes recommendations to correct those deficiencies or increase efficiencies or effectiveness in an SEC program or operation.

COMPLETED AUDITS AND EVALUATIONS

Audit of the SEC's Contracting Officer's Representative Program (Report No. 530)

Between 2012 and 2014, the SEC awarded 1,959 contracts valued at more than \$2 billion. Through these awards, the SEC purchased goods and services ranging from legal support services to operational support of the SEC's computer network. The SEC's OA is responsible for contracting within the SEC. OA's COs rely on CORs to provide contract oversight and ensure that the Government's best interests are served. CORs' effective contract monitoring is essential to proper, cost-effective, and efficient contracting within the SEC, thereby ensuring that the agency receives the goods and services needed to meet its mission.

We performed this audit (1) to determine whether SEC CORs complied with applicable Federal requirements and SEC policies and procedures; and (2) to evaluate the effectiveness and consistency of COR contract monitoring activities, as well as OA's oversight of CORs. We reviewed COR contract files, COR nomination/appointment forms, and other evidence of contract monitoring activities for a judgmentally selected sample of 68 of the SEC's 1,959 contracts awarded between 2012 and 2014. We found that the SEC's COR Program has aided

OA's contract management and includes internal controls to facilitate compliance with Federal requirements and agency policies and procedures. In addition, CORs generally maintained adequate records and complied with training-related requirements.

However, we found that CORs did not always perform contract monitoring duties consistently and as required. Specifically, CORs did not always (1) review and process contractor invoices in a timely manner, (2) evaluate contractor performance within the prescribed timeframe, or (3) use the SEC's contractor time management system to track certain contractor labor hours. These issues occurred, in part, because CORs did not always comply with applicable requirements and because COs and COR supervisors did not consistently ensure CORs' compliance. Other contributing factors included excessive COR workload and untimely communication between CORs and program managers. As a result of the issues we identified, the SEC incurred Prompt Payment Act (PPA) interest penalties of nearly \$10,000 for 2013 through 2014, contractor performance evaluations were not available in a timely manner for use by the SEC and other Federal agencies, and the SEC had an increased risk of making improper payments to contractors.

We also found that 151 SEC CORs who filed required financial disclosure reports in 2012, 2013, and 2014 filed the reports late, and a small number of CORs did not file the reports each year. Additionally, some CORs monitored SEC contracts without first disclosing their financial interests. This occurred because nominating officials and COs did not obtain or receive information about CORs' financial disclosure reports before the CORs were appointed. Although we did not identify any actual financial conflicts of interest, the lack of coordination between nominating officials, OA, and the Office of the Ethics Counsel (OEC) could result in CORs monitoring contractors with whom the CORs have a potential conflict of interest. Finally,

we determined that OA could better assess and document COR suitability for effective contract monitoring by collecting additional information on the COR nomination/appointment form.

We issued our final report on September 18, 2015, and made six recommendations for corrective action to improve the SEC's COR Program and help ensure that CORs perform their duties consistently and as required. Implementation of these recommendations will help the agency avoid PPA interest penalties, thereby putting about \$4,568 annually to better use, and reduce the likelihood that CORs receive appointments to monitor contractors with whom the CORs have a potential conflict of interest. Management concurred with all six recommendations. The recommendations were pending at the end of the reporting period, but will be closed upon completion and verification of corrective action.

The report is available on our website at www.sec.gov/oig/reportspubs/Audit-of-the-SECs-Contracting-Officers-Representative-Program.pdf.

Improvements Needed in the Division of Enforcement's Oversight of Fund Administrators (Report No. 531)

Protecting investors is a critical mission of the SEC. To meet this mission, the SEC collects disgorgement and penalty amounts from securities violators and returns monies to harmed investors. In some instances, the SEC uses third party fund administrators to distribute the monies collected. As of July 2015, 9 fund administrators were administering 77 distribution matters totaling over \$6.5 billion ordered. If internal controls over the collection and distribution process are not designed or are not operating effectively, harmed investors may not receive the monies owed to them or may not receive the monies in a timely manner.

We performed this audit to assess the Division of Enforcement's Office of Collections' (OC) and Office of Distributions' (OD) controls over collections and distributions to harmed investors, includ-

ing oversight of fund administrators used in the distribution process. We did not identify concerns related to OC's controls over its collection efforts and found that, in 2010, the SEC initiated a Fund Administrator Project to improve the efficiency and timeliness of the appointment of fund administrators. However, we determined that OD's oversight of fund administrators could be improved to more fully align with the *Standards for Internal Control in the Federal Government*.

Specifically, we determined that some distribution plans attached to court orders stated that fund administrators provide payment files for SEC staff's review and authorization or approval before distributing funds. Division of Enforcement officials stated that controls are in place to ensure that fund administrators are responsible for submitting accurate payment files. However, OD did not clearly document in its policies and procedures (1) the steps it takes to review and accept payment files submitted by fund administrators, and (2) its responsibilities for fund administrator oversight generally. Policies and procedures should address risks identified and, based on those risks, establish controls designed to ensure Federal requirements and the agency's goals and objectives are met. OD officials identified a limited number of instances, some of which occurred before FY 2010, in which fund administrators submitted and OD accepted inaccurate payments files and at least one case where a fund administrator made inaccurate payments. According to OD officials, corrective payments were made to the underpaid investors in that case. However, the SEC's oversight of fund administrators could be improved by fully assessing and documenting the risks involved when using fund administrators and updating policies and procedures for fund administrator oversight.

Additionally, in some instances where the SEC designed internal controls for oversight of fund administrators, the SEC did not implement the internal controls. For example, fund administra-

tors collect on the SEC's behalf harmed investors' personally identifiable information (PII). Despite Federal and agency requirements to assess fund administrators' information security controls, the agency did not complete required assessments of fund administrators' information technology environments before relying on the fund administrators. As a result, the agency lacks assurance that fund administrators adequately protect the investors' PII collected and maintained on the SEC's behalf. The SEC's Office of Information Technology (OIT) plans to complete the required assessments by December 31, 2015.

We issued our final report on September 30, 2015, and made three recommendations to improve oversight of fund administrators, comply with applicable laws and agency policy and requirements, and ensure that goals and objectives are met. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

The report is available on our website at www.sec.gov/oig/reportspubs/Improvements-Needed-in-the-Division-of-Enforcements-Oversight-of-Fund-Administrators.pdf.

MANAGEMENT LETTERS ISSUED

Observations Noted During TCR System Audit Support Engagement

The SEC's mission is to protect investors; to maintain fair, orderly, and efficient markets; and to facilitate capital formation. In pursuing its mission, the SEC encourages the public to submit TCRs of possible securities law violations, broker or firm misconduct, or any unfair practices in the securities industry that pose a risk of harm to investors. The SEC receives tens of thousands of TCRs annually in a variety of ways from multiple sources, including broker-dealers, investment advisers, self-regulatory organizations (SROs), and public companies.

The OIG contracted with an independent public accounting firm to assist the OIG in planning an audit of the SEC's TCR System. Neither the OIG nor the firm conducted an audit in conformance with GAGAS. However, based on the work performed, the OIG issued a management letter on May 20, 2015, which reported observations about the TCR System and an ongoing project to modernize this system.

As noted in the OIG's management letter, in September 2013, the SEC awarded a contract to a technology firm to bolster the adaptability, agility, and flexibility of the SEC's TCR System. According to SEC officials, although the current system is functional and meets the SEC's needs, system enhancements will provide more flexible and comprehensive intake, triage, resolution tracking, searching, and reporting functions.

We found that various factors, including unacceptable contractor performance and a lack of adequate contractor and Government resources to timely address concerns, have delayed schedules and increased the costs of the project. A board comprised of agency SOs has managed the project, and the SEC has taken action to address contractor performance, including issuing a cure notice to the firm, requiring a corrective action plan, and converting contract milestones from time and materials to firm fixed price. Despite these actions, as of the date of the management letter, the contract value had increased by nearly \$4 million, and the project was at least 10 months behind schedule.

We commended the SEC for addressing the project's development delays and minimizing the agency's financial risk in the event of continued contractor non-performance. However, we observed that as of the date of the management letter, the SEC had not accepted the redesigned TCR System and no final user acceptance date had been established, resulting in uncertainty about the timeframe for implementing the redesigned system. To help determine

whether additional OIG action is warranted, we requested that management provide the most current dates for user acceptance, quality control testing, and implementation of the redesigned system; explain why certain key milestone dates were missed; and describe what action(s) the SEC will take if these milestones are further delayed. Management responded to our request, and we are evaluating the information provided.

A public version of the OIG's management letter is available on our website at www.sec.gov/oig/reportspubs/tcr-system-audit-observations.pdf.

Evaluation of the SEC's Use of the Reserve Fund

Section 991e(i) of Dodd-Frank established the SEC Reserve Fund to be used as the SEC "determines is necessary to carry out the functions of the Commission." This section authorized the SEC to deposit into the Reserve Fund up to \$50 million per year from registration fees collected from SEC registrants, with a Reserve Fund balance limit of \$100 million. Given its discretion under Dodd-Frank, the SEC determined that for FYs 2012, 2013, and 2014, it would use the Reserve Fund for IT modernization efforts. The SEC generally defines "IT modernization" as "large-scale, enterprise-wide, multi-year efforts broad in scope," and the agency chose eight IT modernization program areas to receive funding. Additionally, Dodd-Frank requires the agency to notify Congress of the date, amount, and purpose of Reserve Fund obligations no later than 10 days after the date of each obligation.

The OIG completed an evaluation of the SEC's use of the Reserve Fund for FYs 2012, 2013, and 2014 and issued a management letter summarizing the results of our evaluation on July 6, 2015. We found the following:

- The SEC had authority to use the Reserve Fund for IT modernization efforts and did not exceed its authority in making this decision.

- The SEC obligated the Reserve Fund to the eight IT modernization program areas with increasing efficiency between FY 2012 and FY 2014.
- The SEC established a process to request, grant, use, and track the money in the Reserve Fund.
- The SEC reported to Congress all Reserve Fund obligations, as required, and the reports were generally accurate, complete, and timely.
- The SEC did not concurrently report to the Office of Management and Budget (OMB) obligations as required by agency policy.
- The availability of the Reserve Fund directly affects SEC's IT modernization efforts and the absence of the Reserve Fund would adversely impact those efforts and the OIT's ability to provide services.

We did not make any recommendations in our management letter. However, we noted that the SEC routinely prioritizes IT modernization projects during the planning process and suggested that the agency could use this process to decide on project funding if the Reserve Fund was unavailable.

The management letter is available on our website at www.sec.gov/oig/reportspubs/evaluation-of-sec-use-of-reserve-fund.pdf.

REVIEW OF NON-CAREER OFFICIALS' INVOLVEMENT IN THE SEC'S FOIA RESPONSE PROCESS

On June 23, 2015, the Chairman of the U. S. Senate Committee on Homeland Security and Governmental Affairs requested that the OIG analyze the involvement of non-career officials in the SEC's FOIA response process. Specifically, we were asked to analyze whether the involvement of non-career officials in the SEC's FOIA response process resulted in any undue delay of a response to any FOIA request, or the withholding of any document or portion of any document that would have otherwise been released but for the non-career officials' involvement in the process. In addition, we were asked to seek a written certification from the SEC's

Chief FOIA Officer about non-career officials' involvement in the agency's FOIA response process. In response to the June 23, 2015, letter, the OIG conducted a review to determine the extent, if any, of non-career officials' involvement in the SEC's FOIA response process between January 1, 2007, and June 30, 2015. We defined "non-career officials" as political appointees, including the agency head, presidential appointees, or lower level political appointees.

The OIG reported the results of its review to the Committee Chairman on September 25, 2015. The OIG found that some non-career officials are involved in the SEC's FOIA process. For example, one non-career official serves as a liaison to the SEC's Office of FOIA Services (OFS), and other non-career officials were consulted during the FOIA response process in their respective divisions or offices.

To determine whether non-career officials' involvement in the FOIA process impacted the timeliness of responses to the SEC's OFS or the disposition of FOIA requests, we analyzed FOIA request data from January 1, 2007, to June 30, 2015. We also interviewed SEC officials and staff involved in the agency's FOIA process, surveyed SEC FOIA liaisons identified by the OFS, and reviewed information provided by the Chief FOIA Officer, including the facts surrounding certain FOIA cases. We found no trends or other indications that non-career officials' involvement in the SEC's FOIA response process resulted in any undue delay of a response, or the withholding of any document or portion of any document that would have otherwise been released but for non-career officials' involvement.

In response to the Chairman's letter, the OIG also requested that the SEC's Chief FOIA Officer sign one of two proposed certifications about non-career officials' involvement in the agency's FOIA process. The Chief FOIA Officer declined to sign either certification and indicated that neither certification adequately described situations that may arise

during the processing of FOIA requests at the SEC. Nonetheless, the Chief FOIA Officer stated that to effectively assist the OIG with its review, he had provided as much information, including documents, as possible during an interview and also recommended that OIG staff meet with other SEC staff involved in processing FOIA requests.

The OIG's letter to the Committee Chairman is available on our website at www.sec.gov/oig/reportspubs/Review-of-Non-Career-Officials-Involvement-in-the-SECs-FOIA-Response-Process-9-25-15.pdf.

ONGOING AUDITS AND EVALUATIONS

Evaluation of the Office of Compliance Inspections and Examinations' Resource Allocation

The Office of Compliance Inspections and Examinations (OCIE) protects investors by administering the SEC's nationwide examination and inspection program. Examiners in Washington, DC, and the SEC's 11 regional offices conduct examinations of the nation's registered entities, including broker-dealers, transfer agents, investment advisers, investment companies, the national securities exchanges clearing agencies, SROs, and the Public Company Accounting Oversight Board. As noted in the *The Inspector General's Statement on the SEC's Management and Performance Challenges* as of September 2014 and September 2015, the SEC has identified an immediate and pressing need to ensure sufficient examination coverage of investment advisers.

During the previous reporting period, the OIG initiated an evaluation to assess OCIE's resource management to ensure that OCIE efficiently and effectively addresses mission priorities that the SEC Chair identified in Congressional testimony.

We expect to issue a report summarizing our findings during the next reporting period.

Audit of the SEC's Student Loan Repayment Program

Federal agencies are authorized to establish a student loan repayment program (SLRP) to recruit or retain highly qualified personnel. Furthermore, an agency may agree to repay all or part of outstanding student loans, within the parameters of statutory annual and lifetime limits. Traditionally, reimbursement programs are at high risk for misuse, fraud, waste, and abuse. The SEC's SLRP has grown each year in the number of participants, total dollars awarded, or both.

Under Federal regulation, SLRP benefits are to be used to recruit a candidate to fill an agency position that the SEC would otherwise encounter difficulty in filling with a highly qualified individual or to retain a current SEC employee who otherwise is likely to leave the SEC for employment outside Federal service. To be eligible for SLRP benefits, an SEC employee must be highly qualified, maintain an acceptable level of performance, be in an approved appointment type, and sign a service agreement. A participant who fails to fulfill his or her service agreement must reimburse the SEC for the total amount of student loan repayments received, unless the employee is leaving for employment with another Federal agency or obtains a waiver.

The OIG has initiated an audit of the SEC's SLRP. Our objectives are to (1) determine whether the Office of Human Resources (OHR) has developed and implemented SLRP policies and procedures that comply with applicable Federal statutes and regulations, (2) evaluate the operating effectiveness of SLRP internal controls designed and implemented by the OHR, and (3) determine whether the OHR has implemented or effectively addressed recommendations from prior SLRP audits and reviews.

We expect to issue a report summarizing our findings during the next reporting period.

Audit of the SEC's Compliance With the Federal Information Security Management Act for Fiscal Year 2015

The Federal Information Security Management Act (FISMA), as amended, provides a comprehensive framework to ensure the effectiveness of security controls over information resources that support Federal operations and assets. FISMA also requires IGs to annually assess the effectiveness of agency information security programs and practices and to report the results to the OMB and the Department of Homeland Security (DHS).

To comply with FISMA, the OIG has hired an independent public accounting firm to perform an audit of the SEC's information security programs and practices on the OIG's behalf. The overall objective of the audit is to assess the SEC's information security and privacy programs and provide the OIG with information to support our response to the FY 2015 Inspector General Federal Information Security Management Act Reporting Metrics. As required by FISMA, the audit will assess the SEC's information security posture based on guidance issued by the OMB, DHS, and National Institute of Standards and Technology.

We expect to issue a report summarizing our findings during the next reporting period.

Audit of SEC-Sponsored Conferences

The Consolidated Appropriations Act, 2014, and the Consolidated and Further Continuing Appropriations Act, 2015, mandate annual disclosure of conference expenses by the agency's head to each agency's IG for conferences costing more than \$100,000. The Acts also require agencies to (1) report to the agency's IG within 15 days any conference costing \$20,000 or greater, (2) use appropriated grant or contract funds only for conference costs that are related to the purpose of the grant or contract, and (3) comply with OMB Memorandum M-12-12 when using funds for travel or conference activities.

The OIG initiated an audit of SEC-sponsored conferences held in FY 2014 and the first 8 months of FY 2015. Our audit objectives are to determine whether the SEC (1) complied with the Consolidated Appropriations Act, 2014, for conferences during FY 2014, and the Consolidated and Further Continuing Appropriations Act, 2015, for conferences in the first 8 months of FY 2015; and (2) adhered to internal guidance on minimizing conference costs during October 2013 through May 2015 to ensure that all expenses for conferences in FY 2014 and the first 8 months of FY 2015 were legal, reasonable, and necessary.

We expect to issue a report summarizing our findings during the next reporting period.

Audit of the SEC's Process for Reviewing Self-Regulatory Organization Proposed Rule Changes

SROs are non-governmental entities that have the power to create and enforce industry regulations and standards. SROs establish rules that govern member activities, ensure market integrity and investor protection, and allow for disciplining members for improper conduct. The SEC—specifically, the Division of Trading and Markets and Office of Municipal Securities—is responsible for reviewing SROs' proposed rule changes. These proposed rule changes include new rules, as well as changes in, additions to, or deletions from existing rules.

The purpose of the SEC's review of SRO proposed rule changes is to ensure that they are consistent with the Securities Exchange Act of 1934 and applicable rules and regulations established to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. In 2010, Section 916 of Dodd-Frank streamlined the process for reviewing SRO proposed rule changes and defined specific timeframes for the SEC to review and publish proposed rule changes for public comment.

The OIG has initiated an audit of the SEC's process for reviewing proposed rule changes submitted by SROs. The objective of the audit is to assess the SEC's compliance with applicable laws, regulations, policies, and procedures for reviewing SROs' proposed rule changes, including requirements for communicating with SROs and other external stakeholders when the agency initiates proceedings to determine whether to disapprove an SRO's proposed rule change. We will also evaluate the

information security controls for the related filing and tracking systems. Finally, to the extent prior recommendations are relevant and applicable, we will follow up on corrective actions to address recommendations from the OIG's previous audit of the SRO rule filing process.

We expect to issue a report summarizing our findings upon completion of the audit.



INVESTIGATIONS

OVERVIEW

The Office of Investigations investigates allegations of criminal, civil, and administrative violations relating to SEC programs and operations by SEC employees, contractors, and outside entities. These investigations may result in criminal prosecutions, fines, civil penalties, administrative sanctions, and personnel actions.

The Office of Investigations conducts investigations in accordance with the CIGIE Quality Standards for Investigations. The Office of Investigations continues to enhance its systems and processes to meet the demands of the OIG and to provide high quality investigative work products.

Investigations require extensive collaboration with separate SEC OIG component offices, other SEC divisions and offices, and outside agencies, as well as coordination with the DOJ and state prosecutors. Through these efforts, the Office of Investigations is able to thoroughly identify vulnerabilities, deficiencies, and wrongdoing that could negatively impact the SEC's programs and operations.

The Office of Investigations manages the OIG Hotline, which is available 24 hours a day, 7 days a week, to receive and process tips and complaints about fraud, waste, or abuse related to SEC programs and operations. The Hotline allows individu-

als to report their allegations to the OIG directly and confidentially.

STATUS OF PREVIOUSLY REPORTED INVESTIGATIONS

Allegation of Manipulation of Financial Statements and Solicitation of Nonpublic Information (Case No. 14-0031-I)

As discussed in our previous Semiannual Report, the OIG investigated allegations of (1) manipulation of cost data by an SEC contractor, and (2) attempted solicitation of nonpublic information by another SEC contractor. While the OIG did not substantiate these allegations, the OIG discovered that a then current supervisory employee and a former employee had forwarded an e-mail containing pre-solicitation, nonpublic discussions about two contracts to a contractor.

The OIG reported the result of its investigation to SEC management for any action deemed appropriate. The OIG did not present the matter to the DOJ because the evidence did not substantiate a violation of Federal criminal law.

During this reporting period, management notified the OIG that the supervisory employee was issued a letter of reprimand before the employee transferred to another agency.

Prohibited Holdings by an SEC Staff Accountant (Case No. 14-0050-I)

As discussed in our previous Semiannual Report, an OIG investigation determined that an SEC staff accountant held shares of stock in various companies that SEC employees were prohibited from owning under the SEC's supplemental ethics regulation from 2011, when the staff accountant joined the SEC, until 2013. The investigation also revealed that the staff accountant had failed to pre-clear a purchase, executed in the staff accountant's spouse's account, of a security that SEC employees were prohibited from purchasing or selling at that time. The OIG did not find evidence that the staff accountant worked on examinations of entities in which the staff accountant or spouse held securities.

After obtaining a declination of criminal prosecution, the OIG reported the results of its investigation to SEC management to determine whether corrective administrative action might be warranted. During this reporting period, management notified the OIG that the staff accountant was issued a counseling memorandum.

Prohibited Holdings by an SEC Attorney (Case No. 14-0142-I)

As discussed in our previous Semiannual Report, the OIG investigated allegations that an SEC attorney held shares of several securities that the SEC's supplemental ethics regulation prohibited employees from owning. The OIG's investigation determined that the attorney's spouse had executed several trades in the prohibited holdings before they were added to the SEC's prohibited holdings list. The OIG found that the attorney did not pre-clear the transactions as required and did not accurately report holdings on the attorney's annual Office of Government Ethics Form 450s or in the SEC's current trading compliance system. However, the OIG did not develop evidence that the attorney worked on matters related to the prohibited holdings, relied on nonpublic information to invest in the holdings, or intentionally held the securities after they became prohibited to generate a greater profit.

After a United States Attorney's Office declined prosecution, the OIG reported the results of its investigation to SEC management to determine whether corrective action was warranted. In this reporting period, management notified the OIG that the employee was issued an official reprimand.

Unauthorized Transmission of Nonpublic Information by an SEC Attorney (Case No. 14-0552-I)

As discussed in previous semiannual reports, an OIG investigation revealed that an SEC senior attorney had transmitted a spreadsheet containing PII, as well as other nonpublic information, to the attorney's personal Internet e-mail account. The OIG also determined that during the period reviewed, the attorney had transmitted about 30 nonpublic or SEC-sensitive unencrypted documents to this same e-mail account. The OIG, however, did not find evidence that the attorney disseminated PII or other nonpublic documents to unauthorized persons or transmitted the documents for unauthorized purposes.

The OIG referred the results of its investigation to SEC management for any action deemed appropriate. The OIG did not present the matter to the DOJ because the evidence did not substantiate a violation of Federal criminal law.

During this reporting period, management notified the OIG that the attorney entered into a settlement agreement, which provided for a 14-day suspension without notice or appeal rights if the attorney was found to have engaged in any similar violation of SEC policies about PII within a 2-year period after the agreement's effective date.

Theft by Regional Office Employee (Case No. 14-0584-I)

As discussed in our previous Semiannual Report, the OIG investigated allegations of theft by an SEC regional office employee. Specifically, the employee was observed removing food without providing payment from the dining facility in the building

where the regional office is located. The investigation further determined that the employee stole supplies and equipment from the SEC's OIT.

In November 2014, the OIG and a local police department jointly arrested the employee on a felony complaint for violations of larceny and criminal possession of stolen property. In May 2015, the employee pled guilty to one count of petit larceny and was sentenced to a conditional discharge.

In June 2015, the OIG reported the results of its investigation to SEC management to determine whether corrective administrative action may be warranted. In response, management notified the OIG that, after receipt of the OIG's report, the SEC proposed the employee's removal. The employee retired from the SEC effective July 2015.

COMPLETED INVESTIGATIONS

Possession of Prohibited Holdings and Possible Financial Conflict of Interest (Case No. 14-0001-I)

The OIG investigated allegations that an SEC supervisory employee possessed prohibited holdings and may have engaged in a financial conflict of interest. Specifically, it was alleged that the employee (1) maintained a managed account that contained several prohibited holdings, (2) possessed another prohibiting holding outside the managed account, and (3) may have engaged in a financial conflict of interest because the managed account contained stocks of companies with which the employee may have official SEC dealings.

The OIG investigation determined that the employee disclosed the managed account upon joining the SEC and that the OEC instructed the employee to divest certain prohibited holdings in the account. However, the employee did not divest two of these prohibited holdings until more than 4 years later. The investigation also found that the employee

failed to pre-clear the 37 individual securities in the managed account.

Furthermore, although the employee's supervisor advised the employee to seek guidance from the OEC about any potential financial conflicts of interest given the employee's particular job responsibilities, the employee did not contact the OEC. However, the investigation determined that the employee did not hold financial interests with entities associated with the employee's official SEC duties.

On April 30, 2015, the OIG presented this matter to the U.S. Attorney's Office for the District of Columbia (USAO-DC). The USAO-DC declined prosecution on May 4, 2015, citing a lack of prosecutorial merit and the availability of administrative remedies.

In September 2015, the OIG reported the results of the investigation to SEC management to determine whether corrective administrative action may be warranted. Management's response was pending at the end of the reporting period.

Allegations of Possible Falsification of Time and Attendance (Case No. 14-0010-I)

The OIG investigated a complaint that an SEC employee may have falsified time and attendance records. Specifically, the complaint alleged that the employee claimed and was paid for overtime hours that the employee did not work.

The OIG determined that the employee claimed over 200 hours of overtime during an 8-month period. The work performed by the OIG indicated that the employee was authorized and approved to work overtime consistent with the SEC's Collective Bargaining Agreement. However, the OIG identified issues relating to the approval process and recording of the employee's overtime that would better be addressed by management.

Therefore, the OIG referred the complaint to management for any appropriate inquiry and/or corrective action. In response, management stated that the employee was counseled verbally and in writing about following proper time and attendance procedures.

Misuse of Public Transportation Subsidy (Case No. 14-0014-I)

The OIG opened an investigation after receiving information that an SEC employee received a public transportation subsidy but also had purchased a monthly pass to park in the privately-operated parking garage at SEC Headquarters. When questioned, the employee informed the SEC's OHR that the employee's spouse, who was not an SEC employee, parked in the SEC parking garage and that the employee used the transportation subsidy to commute to and from work on the Metrorail.

The OIG investigation confirmed that the employee both received a public transportation subsidy and had purchased a monthly parking pass for discounted parking in the garage at SEC Headquarters. The OIG also found that the employee allowed the employee's spouse to use the employee's public transportation subsidy benefit for portions of the spouse's commute, in violation of the subsidy program rules. In addition, the employee had previously signed a monthly parking agreement with the garage operator, agreeing to its terms and conditions, including that the parking permit was not transferable and that fraudulent use of the monthly parking permit would result in cancellation of the parking agreement. The employee had also certified that the requested subsidy did not exceed the employee's actual commuting costs, that the employee would use the subsidy for daily commuting and would not transfer it to anyone, and that the employee did not have SEC-provided or federally subsidized parking.

During this investigation, the employee resigned from the SEC. The OIG referred this matter to the

DOJ, which declined to pursue criminal prosecution. However, the USAO-DC accepted the matter for civil action. The USAO-DC agreed to accept a repayment of \$2,020 to resolve the matter, and this repayment was received in April 2015.

Alleged Violations of Travel Procedures (Case No. 14-0033-I)

The OIG investigated a complaint that an SEC senior attorney inappropriately purchased airline tickets without using the SEC's travel system and paid more than the Government fare for the tickets.

The OIG investigation determined that the attorney had a medical accommodation on file that allowed for travel upgrades to seats with extra legroom. In such circumstances, the Office of Financial Management's (OFM) process provides for the traveler to initially purchase a regular Government-fare ticket through the SEC's travel system and then purchase an upgrade directly from the airline. We found instances where the attorney did not follow these procedures and instead purchased travel tickets outside the SEC's travel system. However, after these instances, the OFM provided guidance to the attorney, who has made reservations properly since this guidance was provided. Additionally, there was no loss to the Government.

The OIG determined that the issues raised would be more appropriately handled by management and referred the complaint to management for any appropriate inquiry and/or corrective action. Management's response was pending at the end of the reporting period. The OIG did not present the matter to the DOJ because the evidence did not substantiate a violation of Federal criminal law.

Theft of SEC Property (Case No. 14-0075-I)

An OIG investigation determined that an SEC contractor had stolen three surplus laptops from the SEC's offices in Washington, DC. The contractor admitted removing laptops from an SEC OIT surplus bin on several occasions and selling the

stolen SEC laptops on *Craigslist*. Based on the evidence uncovered, the OIG referred the matter to the USAO-DC, which accepted the case for prosecution.

In April 2015, the contractor pled guilty to two counts of violating 18 U.S.C. § 641, *Public money, property or records*, with a value of less than \$1,000, in the U.S. District Court for the District of Columbia. In July 2015, the contractor was sentenced to 18 months' probation, assessed \$25 for each count, and ordered to complete 25 hours of community service within 1 year.

Disclosure of Nonpublic Information and Alleged Retaliation Against an Employee (Case No. 14-0210-I)

The OIG investigated allegations that an SEC supervisor improperly disclosed nonpublic SEC information to the supervisor's spouse and then retaliated against an employee for making the allegations.

The OIG investigation determined, by the supervisor's admission, that the supervisor had forwarded an e-mail containing nonpublic SEC information to the supervisor's spouse on one occasion several years earlier. The OIG investigation did not confirm any other instances where the supervisor improperly disclosed nonpublic information and did not substantiate the allegation of retaliation.

The OIG reported the results of its investigation to SEC management to determine whether corrective administrative action may be warranted. Management's response was pending at the end of the reporting period. The OIG did not present the matter to the DOJ because the evidence did not substantiate a violation of Federal criminal law.

Alleged Witness Tampering and Intimidation (Case No. 14-0234-I)

The OIG investigated a complaint alleging possible witness tampering and intimidation regarding an OHR investigation of an SEC employee. The alleged

intimidation was in the form of a text message sent to the personal cellphone of a coworker of the employee who was being investigated.

The OIG identified the carrier and subscriber of the cellphone number from which the text was sent. However, a review of the subscriber's records and text history did not reveal the text message that was allegedly sent to the coworker. Furthermore, the subscriber was not an SEC employee and the OIG did not uncover evidence that any SEC employee was involved with sending the text message. Therefore, the OIG closed the investigation.

Allegations of Sexual Harassment (Case No. 14-0523-I)

The OIG investigated an allegation that an SEC supervisor made inappropriate sexual comments and advances toward a former SEC contractor while the contractor was working at the SEC. Additionally, the OIG received information alleging unprofessional behavior and retaliation by this same supervisor.

The OIG's investigation determined that the former contractor and a former SEC employee claimed the supervisor made inappropriate sexual comments to them. However, the supervisor denied making those comments. Furthermore, although the investigation revealed that the supervisor interacted frequently with the contractor's project manager and staff, the OIG did not uncover evidence that the supervisor intimidated or retaliated against SEC employees or contractors or otherwise behaved unprofessionally while conducting SEC business with contractor officials.

The OIG reported the results of its investigation to management to determine whether any corrective administrative action may be warranted. In response, management notified the OIG that the supervisor was counseled. The OIG did not present the matter to the DOJ because the evidence did not substantiate a violation of Federal criminal law.

Alleged Misconduct Related to Rulemaking Comment Letters (Case No. 14-0538-I)

The OIG performed a preliminary investigation into a complaint alleging that an SEC SO directed certain outside parties to file comment letters expressing particular views in the course of SEC rulemakings.

The OIG determined that the SO met with outside parties about a proposed rule change in the course of the SO's normal duties and in an effort to solicit effective comments for the SEC's use. Furthermore, the OIG did not identify any policy that prevented the SO from initiating such meetings during the comment period. Therefore, the OIG closed the investigation. The OIG did not present the matter to the DOJ because the evidence did not substantiate a violation of Federal criminal law.

Possible Financial Conflict of Interest (Case No. 14-0539-I)

The OIG investigated an allegation that an SEC supervisory employee may have violated 18 U.S.C. § 208, *Acts affecting a personal financial interest*, by participating in a matter in which the employee had a financial interest. Specifically, information provided by the OEC indicated that after the employee was recused from participating in or reviewing certain matters based on the employee's financial holdings, the employee allegedly participated personally and substantially in one such matter.

The OIG determined that the employee contacted the OEC and was advised that, as a supervisor, the employee could generally participate in the overall matter at issue, but could not participate in certain specific matters. However, the OEC advised the employee to recuse from the matter to avoid the appearance of partiality. The OIG further determined that the employee divested the financial interests at issue shortly after assuming a supervisory role in the overall matter, and that the employee did not participate in the specific matters in a manner that was inconsistent with or conflicted with the guidance that the employee received from OEC staff.

The OIG presented the matter to the USAO-DC on July 14, 2014. The USAO-DC declined prosecution on July 15, 2014, because the facts of the case did not support prosecution. During this reporting period, the OIG provided the results of the investigation to management for informational purposes.

Improper Disclosure of Nonpublic Information (Case No. 14-0726-I)

The OIG investigated allegations that SEC information about certain companies under investigation by the SEC was leaked to an international news agency. The content of a published article mirrored that of an internal SEC e-mail.

The OIG determined that the published article contained nonpublic SEC information. However, the OIG was unable to determine which specific individual(s) improperly disclosed information to the news agency. All employees interviewed during the investigation stated that they were not the source of the alleged leak and were unaware of who had shared the nonpublic information. The OIG reported the results of its investigation to SEC management for informational purposes.

Failure To Pre-Clear Securities Holdings (Case No. 14-0727-I)

The OIG investigated a complaint that an SEC staff accountant failed to pre-clear securities holdings as required. Specifically, the OEC reported that the staff accountant had made several financial transactions involving mutual funds and one stock sale that violated the SEC's supplemental ethics regulation. After performing investigative work, the OIG determined that the issues raised in the complaint would be more appropriately handled by management and referred the complaint to management for any appropriate inquiry or corrective action.

In response to the OIG's referral, management notified the OIG that the staff accountant was issued a counseling memorandum, stating that any future violation of the supplemental ethics regulation may result in significant disciplinary action. Management

noted in its response that the staff accountant had an otherwise-positive performance and conduct record throughout the staff accountant's SEC tenure. Moreover, the OEC confirmed that since the pre-clearance violations were brought to the staff accountant's attention in June 2014, there was no indication that the staff accountant had failed to fully comply with the supplemental ethics regulation.

Misuse of a Government-Issued Travel Card and Unauthorized Transmission of Nonpublic Information (Case No. 14-0814-I)

The OIG investigated allegations that an employee inappropriately used the employee's Government-issued travel card by taking cash advances that were not associated with official travel. The OIG investigation revealed that during a period of official travel, the employee inappropriately used the travel card for unauthorized cash withdrawals of about \$1,000 and unsubstantiated personal phone charges. In addition, outside of periods of official travel, the employee used the travel card for 62 personal transactions that totaled over \$12,000. The employee acknowledged making these purchases with the travel card and confirmed that the charges were not related to any official travel.

In addition, the investigation revealed several instances of late payments, partial payments, or no payments on the account, as well as past-due balances. The employee admitted to having financial difficulties but ultimately paid all balances due on the account. During the investigation, the OIG also developed evidence that the employee sent nonpublic SEC information to the employee's personal e-mail account in violation of SEC policy.

The OIG presented the matter to the USAO-DC, which declined prosecution. The employee retired from the SEC during the investigation.

Misuse of Administrative Privileges (Case No. 14-0851-I)

The OIG investigated an allegation that an SEC contractor knowingly and willfully misused the contrac-

tor's SEC network administrative privileges to access visitor logs to obtain information about competitors for a contract, one of which was the contractor's employer. It was also alleged that the contractor forwarded the information that was improperly obtained to the contractor's employer. A subsidiary of the contractor's employer reported the contractor's improper access to the SEC.

The OIG's investigation confirmed that the contractor misused the contractor's administrative privileges to access visitor logs to obtain the information about contract competitors. Additionally, the OIG determined that the contractor had provided the identities of the competitors to the contractor's employer. However, the OIG found no evidence that the contractor's improper disclosure affected the procurement process for the contract, which was awarded to a competitor of the contractor's employer.

The OIG confirmed that the contractor's access to SEC facilities and information systems was terminated. The OIG reported the results of the investigation to SEC management for informational purposes and appropriate consideration in the future.

Allegation of Improper Personnel Action (Case No. 14-0853-I)

The OIG performed a preliminary investigation of a complaint that alleged misconduct by three SEC employees in connection with the conversion of a Schedule A position to a permanent career conditional position. The complaint further stated that these three employees were allegedly good friends.

The OIG's preliminary investigation determined that one of the subjects, a senior employee, unilaterally converted the employee in question to a permanent position based on the senior employee's belief that this was a technical action that did not require supervisory approval. The senior employee denied having a personal friendship with the other two subjects, and the OIG did not identify contrary information. All subjects of the investigation denied conspiring to convert the employee's Schedule A position to a per-

manent position. Additionally, the supervisor of the employee who was converted to a permanent position stated that the supervisor would have approved the conversion.

Based on the preliminary investigation conducted, the OIG determined that the issues raised would be more appropriately handled by management. Therefore, the OIG referred the matter to management for any appropriate inquiry and/or corrective action. In response, management reported that it had determined that the allegations were unsubstantiated and was taking no further action. The OIG did not present the matter to the DOJ because the evidence did not substantiate a violation of Federal criminal law.

Misuse of a Government-Issued Travel Card by an SEC Senior Officer (Case No. 15-0079-I)

The OIG investigated allegations that an SEC SO inappropriately used the SO's Government-issued travel card. A routine review of the SO's charges by the OFM had revealed unusual fuel charges, of which the SO claimed no knowledge. The OFM's further review of the SO's travel card records revealed unauthorized charges for fuel, meals, hotels, airfare, ground transportation, and rail expenses.

The OIG's investigation determined that the SO misused the travel card. The OIG's review of the SO's official travel card records revealed that from January 2007 through September 2014, the SO had 196 transactions, totaling over \$39,000, that were not associated with any official Government travel. The SO periodically made full or partial payments to the credit card company, and the account was paid in full. Although the SO initially provided conflicting statements about the misuse, the SO subsequently admitted misusing the travel card.

The OIG presented the matter to the USAO-DC on January 28, 2015. The USAO-DC declined prosecution on February 3, 2015, because there was no monetary loss to the Government and administra-

tive remedies were available. The SO resigned from the SEC during the investigation.

Improper Transmission of Nonpublic Information via E-mail (Case No. 15-0273-I)

The OIG investigated an allegation that an SEC senior attorney forwarded SEC nonpublic information from the attorney's work e-mail account to the attorney's personal e-mail account. The investigation determined that the information the attorney transmitted to the personal e-mail account contained nonpublic information. The attorney admitted forwarding the e-mail containing the nonpublic information and acknowledged that the attorney should not have done so. The attorney confirmed the deletion of the e-mail from the personal e-mail account. The OIG's cursory search of the attorney's personal e-mail account yielded negative results for any SEC-related e-mail messages.

The OIG reported the results of its investigation to SEC management to determine whether corrective administration action may be warranted. Management's response was pending at the end of the reporting period. The OIG did not present the matter to the DOJ because the evidence did not substantiate a violation of Federal criminal law.

Allegation of a Firearm in the Workplace (Case No. 15-0455-I)

The OIG opened an investigation after an anonymous complainant reported that an SEC regional office supervisory employee was in possession of a firearm in the office. The complainant reported having a conversation with the employee during which this employee made comments about firearms, including that the employee had a firearm that day and planned to bring one to an upcoming examination. The complainant also alleged that the fellow employee had then displayed a firearm.

The OIG interviewed the subject, who denied possessing a firearm or any related items on the subject's

person, in the subject's office, or in the subject's vehicle. The subject acknowledged having a valid license to carry a weapon but recognized that the license does not allow bringing a firearm into a federally owned or occupied building. Furthermore, the subject stated that the anonymous complaint was false and without merit.

Interviews of numerous coworkers of the subject yielded no evidence that the subject ever brought a weapon to work. The OIG reported the results of its investigation to SEC management for informational purposes. The OIG did not present the matter to the DOJ because the evidence did not substantiate a violation of Federal criminal law.

INTERIM REPORT OF INVESTIGATION

Allegations of Bias on the Part of Administrative Law Judges (Case No. 15-0482-1)

The OIG initiated an investigation on June 30, 2015, into allegations of bias on the part of ALJs in the

Commission's administrative proceedings, including those introduced in one particular ongoing matter. As a result of heightened interests in ongoing SEC administrative proceedings, on August 7, 2015, the OIG issued an interim report to the SEC Chair that provided the status of the OIG's investigation to date. The interim report noted that the OIG was still gathering additional facts and completing investigative steps and would report new information accordingly.

The interim report described the results of the OIG's investigative work as of August 5, 2015, including interviews of two SEC ALJs and two other SEC staff, and the review of numerous relevant documents. The OIG reported that as of the issuance of the interim report, the OIG had not developed any evidence to support the allegations of bias in ALJs' decisions in the Commission's administrative proceedings.

The interim report is available on the OIG's website at www.sec.gov/oig/reportspubs/oig-sec-interim-report-investigation-admin-law-judges.pdf.



OVERSIGHT AND REVIEW

OVERVIEW

The Office of Oversight and Review (ONR) conducts reviews of complex or high-profile matters involving SEC programs, operations, or employees. At this time, a small group of the ONR attorneys is continuing to set up the office and develop policies and procedures.

ONGOING REVIEW

Preliminary Review of the SEC's Pay Transition Program

The ONR initiated a preliminary review into a complaint about the implementation and anticipated high costs of the SEC's pay transition program. The pay transition program resulted from a compensation agreement reached between the SEC and the National Treasury Employees Union in August 2014. Under the pay transition program, all SEC SK (GS-equivalent) employees could apply to have their salary reviewed using the SEC's current onboarding pay-setting process, which takes into account an employee's years of relevant and specialized experience. Applicants who met certain criteria would be eligible to receive a pay increase, provided that the newly calculated salary exceeded their current salary by 5 percent or more.

After the ONR began its preliminary review, the OIG received additional complaints relating to pay

transition that were forwarded to the ONR for inclusion in its review. The ONR expects to complete its preliminary review during the next reporting period.

COMPLETED REVIEW

Security Clearance Revocation Review Under Presidential Policy Directive 19

The ONR reviewed a security clearance revocation in response to an employee's request. The request arose from the SEC Security Appeals Panel's decision to affirm the SEC's prior decision to revoke the employee's security clearance. The employee was subsequently terminated for failure to maintain a condition of employment.

The employee alleged specific acts of reprisal by certain SEC management officials in violation of Presidential Policy Directive 19 (PPD-19). PPD-19 prohibits retaliation against employees who are eligible for access to classified information for reporting waste, fraud, and abuse.

Specifically, the employee alleged that the SEC first suspended, and then ultimately revoked, the employee's security clearance based on a recommendation by the Transportation Security Administration; and that the SEC did so in retaliation for the employee's making protected disclosures

against three coworkers to the employee's immediate supervisor. According to the employee, these disclosures concerned suspected prohibited personnel practices and instances of SEC management misconduct. The employee also alleged that the SEC improperly suspended and revoked the employee's security clearance for non-national security reasons as a direct result of these protected disclosures in violation of PPD-19.

After reviewing information received from the employee and others at the SEC in accordance with PPD-19, we did not find evidence sufficient to conclude that SEC management retaliated against the employee for making protected disclosures by suspending and then revoking the employee's security clearance in violation of PPD-19.



REVIEW OF LEGISLATION AND REGULATIONS

During this reporting period, the OIG reviewed and monitored the following legislation and regulations:

Public Law 113-101

Digital Accountability and Transparency Act of 2014 (enacted May 9, 2014) (amending the Federal Funding Accountability and Transparency Act of 2006 to, among other things: (1) make specific classes of Federal agency spending data publicly available with more specificity than was previously reported, (2) require agencies to report this data on *USASpending.gov*, and (3) streamline agency reporting requirements).

S. 579

Inspector General Empowerment Act of 2015 (introduced February 26, 2015) (seeking to amend the Inspector General Act of 1978 to, among other things: (1) eliminate the role of Federal agencies as supervisors of IGs; (2) grant IGs additional subpoena authority to compel the attendance and testimony of certain witnesses, including current and former Federal Government contractors, subcontractors, or grantees, and former Federal employees, subject to certain conditions; (3) revise the membership structure of the CIGIE Integrity Committee and establish certain deadlines and procedural requirements for the Integrity Committee's review of allegations of wrongdoing against an

IG or OIG staff member; (4) authorize appropriations for CIGIE for FYs 2016 to 2021; and (5) add certain reporting requirements, including that each OIG submit to specified congressional committees reports of investigations of misconduct by Federal employees paid at level 15 of the General Schedule or above who were not prosecuted).

H.R. 1557

Federal Employee Antidiscrimination Act (introduced March 24, 2015) (seeking to amend the Notification and Federal Employee Antidiscrimination and Retaliation Act of 2002 to, among other things, prohibit the implementation or enforcement of any nondisclosure policy, form, or agreement that prohibits or restricts a Federal employee from making whistleblower disclosures to Congress, the Office of Special Counsel or an OIG).

H.R. 1938

Inspectors General Transparency Act of 2015 (introduced April 22, 2015) (seeking to amend the Inspector General Act of 1978 to require OIGs to send copies of reports or other work product to the head of the reviewed establishment, the U.S. House of Representatives and U.S. Senate oversight and appropriations committees, the person or entity that requested the work product, and any Member of Congress upon request).

H.R. 2395

Inspector General Empowerment Act of 2015 (introduced May 18, 2015) (seeking to amend the Inspector General Act of 1978 to, among other things: (1) grant IGs additional subpoena authority to compel the attendance and testimony of certain witnesses, including Federal contractors and former Federal employees necessary in the performance of the functions assigned by the Act; (2) assign CIGIE additional responsibilities for receiving, reviewing, and mediating any disputes involving the jurisdiction of more than one Federal agency or entity; (3) set forth procedures for considering allegations of wrongdoing against the Special Counsel or Deputy Special Counsel (officials appointed to investigate prohibited personnel practices and Government waste and abuse); and (4) require each IG to make publicly available any administrative investigation that confirms misconduct by any member of the Senior Executive Service, an employee in an excepted position, or a commissioned officer in the Armed Forces in pay grades O-6 and above and to include in semiannual reports a list and summary of any administrative investigation that confirms such misconduct).

H.R. 4937

Protection Against Wasteful Spending Act of 2014 (introduced June 23, 2014) (seeking to require, for FYs 2014-2020, Federal agency heads to implement report recommendations made by an IG regarding wasteful and excessive spending not later than four years after the submission of the report, unless the recommendation would be illegal under existing law).

H.R. 5170

Federal Records Accountability Act of 2014 (introduced July 23, 2014) (seeking to institute strict penalties, up to and including removal, for Federal employees found to have willfully and unlawfully concealed, removed, falsified or destroyed any government record; and also to prohibit an officer or an employee of a Federal agency from creating or sending a Federal record using a non-official messaging system unless certain precautions are taken).

MANAGEMENT DECISIONS

STATUS OF RECOMMENDATIONS WITH NO MANAGEMENT DECISIONS

Management decisions have been made on all audit reports issued before the beginning of this reporting period.

REVISED MANAGEMENT DECISIONS

No management decisions were revised during the period.

AGREEMENT WITH SIGNIFICANT MANAGEMENT DECISIONS

The OIG agrees with all significant management decisions regarding audit recommendations.

INSTANCES WHERE THE AGENCY REFUSED OR FAILED TO PROVIDE INFORMATION TO THE OIG

During this reporting period, there were no instances where the agency unreasonably refused or failed to provide information to the OIG.

TABLES

Table 1. List of Reports: Audits and Evaluations

Report Number	Title	Date Issued
530	Audit of the SEC's Contracting Officer's Representative Program	09/18/2015
531	Improvements Needed in the Division of Enforcement's Oversight of Fund Administrators	09/30/2015
Final Management Letter	Observations Noted During TCR System Audit Support Engagement	05/20/2015
Final Management Letter	Evaluation of the SEC's Use of the Reserve Fund	07/06/2015
Letter Report	Review of Non-Career Officials' Involvement in the SEC's FOIA Response Process	09/25/2015

Table 2. Reports Issued with Costs Questioned or Funds Put to Better Use (Including Disallowed Costs)

	No. of Reports	Value
A. Reports issued prior to this period		
For which no management decision had been made on any issue at the commencement of the reporting period	0	\$0
For which some decisions had been made on some issues at the commencement of the reporting period	0	\$0
B. Reports issued during this period	1	\$4,568
Total of Categories A and B	1	\$4,568
C. For which final management decisions were made during this period	1	\$4,568
D. For which no management decisions were made during this period	0	\$0
E. For which management decisions were made on some issues during this period	0	\$0
Total of Categories C, D, and E	1	\$4,568

Table 3. Reports With Recommendations on Which Corrective Action Has Not Been Completed

During this semiannual reporting period, SEC management provided the OIG with documentation to support the implementation of OIG recommendations. In response, the OIG closed 21 recommendations related to 7 Office of Audits reports. The following table lists recommendations open 180 days or more.

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
521 – Review of the SEC’s Practices for Sanitizing Digital Information System Media	8	05/30/2014	Provide oversight and implement internal controls to verify that media sanitization processes are properly followed.
522 – Federal Information Security Management Act: Fiscal Year 2013 Evaluation	3	03/31/2014	Require privileged users of an externally-hosted system to use multi-factor authentication for remote access and ensure multi-factor authentication is required for remote access to all other externally-hosted systems with privileged user accounts.
523 – Audit of the SEC’s Physical Security Program	2	08/01/2014	Conduct or update risk assessments and implement appropriate corresponding protective measures, in accordance with Interagency Security Committee standards.
523 – Audit of the SEC’s Physical Security Program	3	08/01/2014	Review the facility security plans for all SEC facilities and revise the plans as necessary, as required by Interagency Security Committee standards.
523 – Audit of the SEC’s Physical Security Program	7	08/01/2014	Conduct a thorough review of physical security controls and mitigate any vulnerabilities identified and assign facility security levels.
528 – Audit of the Representation of Minorities and Women in the SEC’s Workforce	3	11/20/2014	Complete the ongoing barrier analysis, aimed at determining whether there are particular barriers to equal employment opportunity at the SEC, as soon as practicable, and complete future barrier analyses as appropriate.
528 – Audit of the Representation of Minorities and Women in the SEC’s Workforce	4	11/20/2014	Ensure that the SEC responds to the findings of the ongoing barrier analysis by eliminating or modifying, where appropriate, any practice or procedure that creates a barrier to equality of opportunity, as required by the Equal Employment Opportunity Commission’s Management Directive 715.
528 – Audit of the Representation of Minorities and Women in the SEC’s Workforce	5	11/20/2014	Use GAO’s <i>Standards for Internal Control in the Federal Government and Performance Measurement and Evaluation</i> to develop (a) internal policies and procedures to guide the Office of Minority and Women Inclusion’s diversity efforts and programmatic activities, and (b) workforce diversity standards required by Dodd-Frank, including methods to monitor and evaluate its activities.

Table 3. Continued

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
529 - Federal Information Security Management Act: Fiscal Year 2014 Evaluation	1	02/05/2015	Take all required steps to determine whether systems in operation without a current authorization to operate should be re-authorized, and then either authorize or deactivate the systems as appropriate.
529 - Federal Information Security Management Act: Fiscal Year 2014 Evaluation	3	02/05/2015	Coordinate with the OIT to develop and implement the required insider threat training component of the agency's security awareness training program.
529 - Federal Information Security Management Act: Fiscal Year 2014 Evaluation	5	02/05/2015	Review and update documentation to ensure the method of access is defined for external systems.

Table 4. Summary of Investigative Activity for the Reporting Period of April 1, 2015 to September 30, 2015

Investigative Caseload	Number
Cases Open at Beginning of Period	50
Cases Completed but Not Closed* at Beginning of Period	4
Cases Opened During Period	20
Cases Closed During Period	20
Cases Completed but Not Closed at End of Period	6
Open Cases at End of Period	48

* A case is "completed" but not "closed" when the investigative work has been performed but disposition (e.g., corrective administrative action) is pending.

Criminal and Civil Investigative Activities	Number
Referrals for Prosecution	13
Accepted	3
Pending	6
Declined	4
Indictments/Informations	1
Arrests	0
Convictions	2

Monetary Results	Number
Criminal Fines/Restitutions/Recoveries/Assessments/Forfeitures	\$50
Civil Fines/Restitutions/Recoveries/Penalties/Damages/Forfeitures	\$2,020

Administrative Investigative Activities	Number
Removals, Retirements, and Resignations	1
Suspensions	0
Reprimands/Warnings/Other Actions	6

Complaints Received	Number
Hotline Complaints	165
Other Complaints	231
Total Complaints During Period	396

Table 5. References to Reporting Requirements of the Inspector General Act

Section	Inspector General Act Reporting Requirement	Pages
4(a)(2)	Review of Legislation and Regulations	28-29
5(a)(1)	Significant Problems, Abuses, and Deficiencies	9-12, 19-25
5(a)(2)	Recommendations for Corrective Action	9-11
5(a)(3)	Prior Recommendations Not Yet Implemented	32-33
5(a)(4)	Matters Referred to Prosecutive Authorities	19-25, 34
5(a)(5)	Summary of Instances Where the Agency Unreasonably Refused or Failed to Provide Information to the OIG	30
5(a)(6)	List of OIG Audit and Evaluation Reports Issued During the Period	31
5(a)(7)	Summary of Significant Reports Issued During the Period	9-14, 19-27
5(a)(8)	Statistical Table on Management Decisions with Respect to Questioned Costs	31
5(a)(9)	Statistical Table on Management Decisions on Recommendations that Funds Be Put to Better Use	31
5(a)(10)	Summary of Each Audit, Inspection or Evaluation Report Over Six Months Old for Which No Management Decision has been Made	30
5(a)(11)	Significant Revised Management Decisions	30
5(a)(12)	Significant Management Decisions with Which the Inspector General Disagreed	30
5(a)(14)(B)	Date of the Last Peer Review Conducted by Another OIG	37



PEER REVIEWS OF OIG OPERATIONS

PEER REVIEW OF THE SEC OIG'S AUDIT OPERATIONS

In accordance with GAGAS and CIGIE quality control and assurance standards, an OIG audit team assesses another OIG's audit functions approximately every 3 years. The National Archives and Records Administration OIG has begun an external peer review of the SEC OIG's audit organization, and we expect that peer review to be completed in the next reporting period. The last external peer review of the SEC OIG's audit operations was completed in FY 2012.

The Legal Services Corporation (LSC) OIG conducted an assessment of the Office of Audit's system of quality control for the period ending March 31, 2012. The review focused on whether the SEC OIG established and complied with a system of quality control that was suitably designed to provide the SEC OIG with reasonable assurance of conforming to applicable professional standards.

On August 23, 2012, the LSC OIG issued its report, concluding that the SEC OIG had complied with its system of quality control and that the system was suitably designed to provide the SEC OIG with reasonable assurance of performing and reporting in conformity with applicable government auditing standards in all material respects. Based on its review, the LSC OIG gave the SEC OIG a peer review rating of "pass." (Federal audit organizations can receive a rating of "pass," "pass with deficiencies," or "fail.") The LSC OIG did not make any recommendations. Furthermore, there are no outstanding recommendations from previous peer reviews of the SEC OIG's audit organization.

The LSC OIG's peer review report is available on our website at www.sec.gov/about/offices/oig/reports/reppubs/other/finalpeerreviewreport-sec.pdf.

PEER REVIEW OF THE SEC OIG'S INVESTIGATIVE OPERATIONS

During the reporting period, the SEC OIG did not have an external peer review of its investigative operations. The Federal Housing Finance Agency (FHFA) OIG conducted the most recent peer review of the SEC OIG's investigative operations in FY 2014. The FHFA OIG conducted its review in conformity with the *Quality Standards for Investigations* and the *Quality Assessment Review Guidelines for Investigative Operations of Federal Offices of Inspector General* established by CIGIE and the *Attorney General Guidelines for Offices of Inspectors General With Statutory Law Enforcement Authority (Attorney General Guidelines)*.

The FHFA OIG issued its report on the SEC OIG's investigative operations in August 2014. In its report, the FHFA OIG noted that the SEC OIG was granted statutory law enforcement authority on June 10, 2014, and that the *Attorney General Guidelines* were not applicable prior to that time. The report stated that the SEC OIG had achieved significant progress in strengthening and developing its policies and procedures since receiving statutory law enforcement authority and that the FHFA OIG observed solid implementation of these improved policies and procedures throughout the SEC OIG's investigative operations. The FHFA OIG concluded that the SEC OIG was in compliance with the *Attorney General Guidelines* for the period during which they were applicable.

APPENDIX B

OIG SEC EMPLOYEE SUGGESTION PROGRAM ANNUAL REPORT

OVERVIEW

The OIG established the OIG SEC Employee Suggestion Program (ESP) in September 2010, pursuant to Section 966 of Dodd-Frank. Section 966 required the IG to establish a suggestion program for SEC employees. In accordance with Dodd-Frank, the SEC OIG has prepared this fifth annual report describing suggestions and allegations received, recommendations made or action taken by the OIG, and action taken by the SEC in response to suggestions or allegations from October 1, 2014, through September 30, 2015.

Through the ESP, the OIG receives suggestions from agency employees concerning improvements in the SEC's work efficiency, effectiveness, and productiv-

ity, and use of its resources. The OIG also receives allegations by employees of waste, abuse, misconduct, or mismanagement within the SEC through the ESP. To facilitate employees' participation in the ESP, the OIG maintains an electronic mailbox and telephone hotline for employees to submit their suggestions or allegations to the OIG. The OIG has established formal policies and procedures for the receipt and handling of employee suggestions and allegations under the ESP.

SUMMARY OF EMPLOYEE SUGGESTIONS AND ALLEGATIONS

Between October 1, 2014, and September 30, 2015, the OIG received and analyzed 24 suggestions or allegations, details of which are shown below:

Nature and Potential Benefits of Suggestion*	Number
Increase efficiency or productivity	7
Increase effectiveness	11
Increase the use of resources or decrease costs	7

Nature and Seriousness of Allegation*	Number
Mismanagement and/or discrimination	7
Waste of SEC resources	8
Misconduct by an employee	3

Action Taken by the OIG in Response to Suggestion or Allegation*	Number
Memorandum to or communication with the SEC about the suggestion or allegation	16
Referred to OIG Office of Investigations	3
Referred to OIG Office of Oversight and Review	1
Referred to OIG Office of Audits	4
OIG Office of Investigations opened preliminary inquiry	0
Researched issue, but determined no further action was necessary	1
Other	1

Action Taken by SEC Management*	Number
SEC management took specific action to address the suggestion or allegation	4
The SEC decided to secure new technology in response to the suggestion	0
SEC management is considering the suggestion in context of existing procedures	1
SEC management initiated an internal review	0

*Some suggestions or allegations are included under multiple categories.

UPDATE OF PREVIOUSLY RECEIVED SUGGESTION

Print Font Requiring Less Space (ES 14-0214)

During FY 2014, the OIG received a suggestion from an SEC employee for potential cost savings by altering the printing preferences within the SEC, which generates a substantial amount of paperwork with multiple hard copies of documents distributed throughout the organization, especially at SEC Headquarters. According to a press article referenced by the employee, Federal agencies could substantially reduce their printing costs by using fonts that use less ink, such as Garamond. The employee suggested that the SEC could greatly reduce its printing expenses by asking all staff to change the font used to produce documents that are submitted to the Commissioners in hard copy.

The OIG forwarded this suggestion, along with a copy of a journal article supporting the suggested font change, to the SEC's Office of the Secretary and

Office of the Chief Operating Officer (OCCO) for response. The responses we received in FY 2014 indicated that the OCCO had already initiated many of the suggestions advocated by the General Services Administration's PrintWise campaign, which encourages the Federal Government to print less and save resources. The OCCO also informed us that it would consider additional printing initiatives as resources permitted during FY 2015.

During FY 2015, the OIG followed up with the Office of Support Operations (OSO) about implementation of the employee's specific suggestion for using more efficient print fonts. Thereafter, the OSO requested that the Government Printing Office conduct a study comparing the toner usage for various print fonts. Based on the results of this study, the OCCO decided that the best approach to address the suggestion was broad messaging to remind staff to print double-sided, print in color only when absolutely necessary, and use fonts such as Garamond that consume less ink. The

OSO then developed green-friendly tips, including “Print Documents with Toner-Efficient Fonts,” to be included in the SEC’s daily internal e-newsletter every 4 weeks.

EXAMPLES OF SUGGESTIONS RECEIVED

Suggestion for Witness Travel Reimbursement Procedures (ES 15-0162)

The OIG received a suggestion from an SEC employee about the paper forms used to reimburse witnesses for travel expenses. According to the employee, these forms were generally sent to SEC Headquarters in Washington, DC, by overnight mail service. The employee suggested that a separate e-mail address be created for each SEC form and that the scanned forms, along with any attachments, be submitted by e-mail to avoid overnight mail service fees. The employee also suggested that the forms could be saved electronically in a database.

After reviewing the suggestion and discussing it with the OFM staff, the OIG referred the suggestion to the OFM to assess whether any cost savings could be achieved by implementing an electronic process for the submission of witness travel reimbursement forms. In response, the OFM stated that it has been working to improve the witness travel reimbursement procedures, in conjunction with the deployment of the SEC’s new automated travel system. The OFM explained that as part of the implementation of the second phase of the travel system, the SEC would be eliminating the manual processing for witness travel, and the submission of paper forms for witness travel reimbursement would no longer be required.

Suggestion To Conserve Paper (ES 15-0348)

The OIG received a suggestion from an SEC employee that the OIT should set the default for the printers in all SEC buildings to two-sided printing. According to the employee, this would conserve resources by saving a significant amount of paper. The OIG reviewed the suggestion, as well as guidance previously issued to employees on two-sided printing.

The OIG then referred the suggestion to the OCOO to consider whether the default settings on SEC printers and copiers could be set to two-sided printing to conserve resources. In response, the OCOO stated that the OIT had reviewed the suggestion and that the OCOO agreed that making two-sided printing the default for most SEC printers and copiers would have a positive economic impact on the agency. Accordingly, the OIT intends to deploy the two-sided print queue as the default (which users may override if needed) and design an alternate single-sided print queue that IT specialists may request for offices that have a solid business need for single-sided printing. The OCOO stated that the OIT has begun the process to implement this new approach and expects to complete the implementation in early 2016.

CONCLUSION

The OIG remains pleased with the effectiveness of the ESP. We have received favorable responses from the agency on suggestions we have submitted for its consideration. Some of these suggestions have resulted, or may result, in positive changes that will improve the agency’s efficiency and effectiveness or conserve the agency’s resources. The OIG has included information about the ESP in the outreach presentations it conducts for SEC employees and looks forward to receiving additional suggestions for improvements in the SEC’s programs and operations.

APPENDIX C

THE INSPECTOR GENERAL'S STATEMENT ON THE SEC'S MANAGEMENT AND PERFORMANCE CHALLENGES, SEPTEMBER 2015




OFFICE OF
INSPECTOR GENERAL

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

MEMORANDUM

September 30, 2015

TO: Mary Jo White, Chair

FROM: Carl W. Hoecker, Inspector General 

SUBJECT: *The Inspector General's Statement on the SEC's Management and Performance Challenges, September 2015*

The Reports Consolidation Act of 2000 requires the U.S. Securities and Exchange Commission (SEC or agency) Office of Inspector General (OIG) to identify and report annually on the most serious management challenges that the SEC faces. In deciding whether to identify an issue as a challenge, we consider its significance in relation to the SEC's mission; its susceptibility to fraud, waste, and abuse; and the SEC's progress in addressing the challenge. We compiled this statement on the basis of past and ongoing audit, evaluation, and investigation work; our knowledge of the SEC's programs and operations; and information from SEC management and staff and the U.S. Government Accountability Office (GAO) auditors who conduct the SEC's annual financial statement audit. We previously provided a draft copy of this statement to SEC officials and considered all comments received when finalizing the statement. As we begin fiscal year (FY) 2016, we identified the following areas where the SEC faces management and performance challenges to varying degrees:

- Regulatory Oversight
- Information Security
- Acquisition Management
- Financial Management
- Human Capital Management

Each challenge and corresponding audit, evaluation, or investigation work is further discussed in the attachment. If you have any questions, please contact Rebecca L. Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects, at sharekr@sec.gov.

Attachment

cc: Andrew Donahue, Chief of Staff, Office of the Chair
Erica Y. Williams, Deputy Chief of Staff, Office of the Chair
Luis A. Aguilar, Commissioner
Paul Gumagay, Counsel, Office of Commissioner Aguilar
Daniel M. Gallagher, Commissioner
Michael C. Pawluk, Counsel, Office of Commissioner Gallagher
Michael S. Piwowar, Commissioner
Jaime Klima, Counsel, Office of Commissioner Piwowar
Kara M. Stein, Commissioner
Robert Peak, Advisor to the Commissioner, Office of Commissioner Stein
Jeffery Heslop, Chief Operating Officer
Darlene L. Pryor, Management and Program Analyst, Office of the Chief Operating
Officer

Attachment. THE INSPECTOR GENERAL'S STATEMENT ON THE SEC'S MANAGEMENT AND PERFORMANCE CHALLENGES, SEPTEMBER 2015

Regulatory Oversight

The increase in the SEC's responsibilities in recent years continues to present challenges for the agency as it carries out its mission to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. As a regulatory agency, the SEC must be able to keep pace with changes in the size and complexity of the securities markets and the market participants the SEC oversees and regulates. In her March 24, 2015, testimony before the United States House of Representatives Committee on Financial Services, the SEC Chair identified a lack of sufficient resources as a continuing challenge. Specifically, she stated:

Although improvements to technology and operations have made the agency more efficient and effective and recent growth in the SEC's budget has permitted the agency to begin to address gaps, more is needed to match our resources to our growing mandates and the increasing complexity of the markets. There continues to be an immediate and pressing need for additional resources to permit the agency to increase its examination coverage of registered investment advisers and investment companies so as to better protect investors and the nation's securities markets.¹

In 2014, we reported that the SEC (specifically, the SEC Chair and the Investor Advocate) had identified resource constraints and an immediate and pressing need for ensuring sufficient examination coverage of registered investment advisers as a challenge and a "substantial and continuing risk to investors."² As a result, in fiscal year (FY) 2015, we initiated an evaluation to assess the Office of Compliance Inspections and Examinations' efficiency and effectiveness in managing its human resources to address mission priorities and long-term goals, particularly for investment adviser examinations. Our work is ongoing and we anticipate issuing a report summarizing our findings in FY 2016.

The SEC also continues to recognize needed technological improvements to achieve its mission. In her Congressional testimony, the SEC Chair further stated that, in FY 2016, the SEC plans to build on the progress made over the past few years to modernize its technology systems, streamline operations, and increase the effectiveness of its programs. Key information technology (IT) initiatives she testified to included:

- implementing data analytics tools;
- continuing Electronic Data Gathering, Analysis and Retrieval (EDGAR) modernization;

¹ Chair Mary Jo White testimony on "Examining the SEC's Agenda, Operations and FY 2016 Budget Request," March 24, 2015, before the United States House of Representatives Committee on Financial Services. The Chair provided similar testimony before the United States House of Representatives Subcommittee on Financial Services and General Government Committee on Appropriations on April 15, 2015, and before the United States Senate Subcommittee on Financial Services and General Government Committee on Appropriations on May 5, 2015.

² U.S. Securities and Exchange Commission, Office of the Investor Advocate, [Report on Objectives Fiscal Year 2015](#).

- improving the examination workflow system and risk assessment and surveillance tools;
and
- establishing an Enterprise Data Warehouse.

The SEC Chair also testified that the Division of Enforcement continues to achieve significant results, filing 755 enforcement actions and obtaining orders for more than \$4.16 billion in disgorgement and penalties in FY 2014. Collecting disgorgement and penalty amounts from securities violators and returning monies to harmed investors helps protect investors and foster and enforce compliance with Federal securities laws. To assess the SEC's policies, procedures, and efforts for (1) collecting disgorgement and penalty funds and accurately and timely distributing those funds to harmed investors, and (2) overseeing the work of third party entities used in the distribution process, we conducted an audit of the Division of Enforcement's Office of Collections and Office of Distributions (OD) controls over collections and distributions. In our report titled [*Improvements Needed in the Division of Enforcement's Oversight of Fund Administrators*](#), Report No. 531, issued September 30, 2015, we reported that OD's oversight of fund administrators could be improved to more fully align with GAO's Standards for Internal Control in the Federal Government. Specifically, we determined that some distribution plans required fund administrators to provide payment files to Commission staff for the staff's review and authorization or approval before distributing funds. In response to a draft of our report, Division of Enforcement officials stated that fund administrators have the responsibility to submit accurate payment files. However, OD did not clearly document in its policies and procedures (1) the steps it takes to review and accept payment files submitted by fund administrators, and (2) its responsibilities for fund administrator oversight generally. Policies and procedures should address risks identified and, based on those risks, establish controls designed to ensure Federal requirements and the goals and objectives of the agency are met. OD officials told us about a limited number of instances, some of which occurred before fiscal year 2010, in which fund administrators submitted and OD accepted inaccurate payment files and at least one case where a fund administrator made inaccurate payments. According to OD officials, corrective payments were made to the underpaid investors in that case. However, the SEC's oversight of fund administrators could be improved by fully assessing and documenting the risks involved when using fund administrators and updating policies and procedures for fund administrator oversight. We made one related recommendation for corrective action. Management concurred with the recommendation, which will be closed upon completion and verification of corrective action.

For FY 2016, we are planning audit work to assess the SEC's approaches for addressing newly expanded responsibilities; improving investor access to material information; effectively targeting and monitoring market participants based on risk and available resources; establishing an effective approach to modernizing its IT infrastructure; and complying with the requirements governing reviews of rules filed by self-regulatory organizations.

Information Security

The SEC generates and collects commercially valuable, market-sensitive, proprietary, and other nonpublic information. To accomplish the SEC's mission, the agency shares sensitive information internally among its divisions and offices and externally with the regulated community and financial regulators. During FY 2015, we identified and assessed weaknesses in the agency's controls over information security.

For example, we completed our FY 2014 evaluation of the effectiveness of the SEC's information security programs and practices and whether the SEC's Office of Information Technology (OIT) has policies, procedures, and practices consistent with Federal Information Security Management Act (FISMA) requirements ([Federal Information Security Management Act: Fiscal Year 2014 Evaluation](#), Report No. 529, issued February 5, 2015). Overall, we found that OIT has made progress in key areas of information security, including the agency's management of its continuous monitoring controls, configuration controls, and identity and access controls. However, systems in production did not always have a current authorization to operate, and the SEC's security awareness training did not include the required insider threat component. In addition, OIT had not addressed several areas of potential risk identified in prior FISMA evaluations, including (1) failure to implement personal identity verification cards for logical access to the maximum extent practicable, (2) a lack of full implementation of continuous monitoring, (3) a lack of multi-factor authentication for external systems, (4) outdated procedures and inconsistencies with policy, and (5) improper review of user accounts. We also determined that the system security assessment may not be comprehensive or adequately address system and subsystem risks for one of the SEC's mission critical systems and that OIT did not take action to address some known vulnerabilities (recorded on plan of action and milestone documents) within established timeframes. In some cases, these items—which represent both moderate and low risk—have been open for 2 to 6 years beyond established remediation dates. The agency is taking steps to address our concerns and we have begun our FY 2015 audit of the SEC's compliance with FISMA.

In addition, in our audit report titled [Improvements Needed in the Division of Enforcement's Oversight of Fund Administrators](#), Report No. 531, issued September 30, 2015, we reported that the SEC did not ensure third party fund administrators' information security was assessed, as required by the E-Government Act, including FISMA, and certain agency policies and requirements. The SEC uses fund administrators to distribute disgorgement and penalty amounts to harmed investors. The fund administrators collect on the SEC's behalf harmed investors' personally identifiable information (PII), including investors' names, addresses, dates of birth, social security numbers, and bank information. Despite Federal and agency requirements to assess fund administrator's information security, the agency did not ensure that it completed required security assessments and privacy impact assessments of fund administrators' IT environments and did not obtain approval from an authorizing official before using the fund administrators. In addition, the fund administrators were required to demonstrate compliance with security and privacy regulations by providing an independent third party assessment of compliance. Although the SEC has obtained third party assessments of fund administrators' data security controls for all nine fund administrators currently in use, the SEC did not receive or thoroughly review the assessments before allowing the fund administrators into the agency's pool of administrators. As a result, the SEC lacks assurance that fund administrators are adequately protecting the confidentiality, integrity, and availability of investors' PII collected and maintained on behalf of the agency in the course of the distribution process. OIT has developed a plan to complete required assessments of all nine fund administrators by December 31, 2015 – more than 2 years after the SEC selected the fund administrators for the SEC's pool. We made two related recommendations for corrective action. Management concurred with the recommendations and plans to complete the required assessments of all nine fund administrators by December 31, 2015.

In FY 2015, the OIG also initiated or completed several investigations related to information security. For example, we investigated an allegation that an SEC contractor knowingly and

willfully misused his SEC network administrative privileges to access visitor logs to obtain information about competitors to a contract for which the contractor's employer was competing. Our investigation confirmed that the contractor misused his administrative privileges as alleged and had provided the identities of the competitors to his employer. However, we found no evidence that the contractor's improper disclosure affected the procurement process for the contract, which was awarded to a competitor of the contractor's employer. We reported the results of the investigation to SEC management for informational purposes and appropriate consideration in the future.

We also conducted at least three investigations that disclosed evidence that SEC employees sent PII and/or other nonpublic information to unsecure, personal e-mail accounts, in violation of SEC policy. However, we did not find evidence that employees disseminated PII to unauthorized persons or used the information for unauthorized purposes. We referred the results of our investigations to SEC management for any action deemed appropriate.

In its February 2015 biennial update to its list of high-risk areas needing attention by Congress and the executive branch, GAO expanded a prior high-risk area to include protecting the privacy of PII.³ Specifically, GAO stated that advances in technology which have dramatically enhanced the ability of both government and private sector entities to collect and process extensive amounts of PII pose challenges to ensuring the privacy of such information. Moreover, because Federal agencies and private companies collect detailed information about the activities of individuals and the number of reported security incidents involving PII at Federal agencies has increased dramatically in recent years, GAO raised concerns about the potential for significant erosion of personal privacy.

Finally, as part of its audit of the SEC's FY 2014 financial statements, GAO reported in November 2014 that the SEC sufficiently addressed the deficiencies in its information security identified in FY 2013 such that GAO no longer considers the remaining control deficiencies in this area, individually or collectively, to represent a significant deficiency as of September 30, 2014.⁴ However, in its accompanying April 2015 report, "*Management Report: Improvements Needed in SEC's Internal Controls and Accounting Procedures*," GAO stated:

During our fiscal year 2014 audit, we found that SEC did not consistently implement effective internal controls over its information systems operations, including those affecting financial systems that support financial reporting. Weaknesses in information security controls, as identified, relate to the maintenance and monitoring of SEC configuration baseline standards and implementation of security configurations based on these standards in the areas of password settings and network services.⁵

³ U.S. Government Accountability Office, [High-Risk Series An Update](#), GAO-15-290 (February 2015). Citing evolving high-risk issues since its last high-risk update in 2013, GAO expanded the high-risk area titled "Ensuring the Security of Federal Information Systems and Cyber Critical Infrastructure" to include the federal government's protection of PII. The new high-risk area is called "Ensuring the Security of Federal Information Systems and Cyber Critical Infrastructure and Protecting Personally Identifiable Information (PII)."

⁴ U.S. Government Accountability Office, [Financial Audit: Securities and Exchange Commission's Fiscal Years 2014 and 2013 Financial Statements](#), GAO-15-166R (November 17, 2014).

⁵ U.S. Government Accountability Office, [Management Report: Improvements Needed in SEC's Internal Controls and Accounting Procedures](#), GAO-15-387R (April 30, 2015).

Based on observations from prior work and the expansion of GAO's high-risk areas to include protecting the privacy of PII, in FY 2016, we will continue to assess the SEC's information security program, including cyber security and the protection of PII. We will leverage newly hired IT audit and investigative staff in these efforts.

Acquisition Management

The SEC has made progress in improving its acquisitions policies and procedures; however, the OIG continues to find improvements the SEC can make in the area of contract management. For example, during our [Audit of the SEC's Contracting Officer's Representative Program](#), Report No. 530, issued September 18, 2015, we observed that Contracting Officer's Representatives (CORs) did not always perform contract monitoring duties consistently and as required. Specifically, CORs did not always (1) review and process contractor invoices in a timely manner; (2) evaluate contractor performance within the prescribed timeframe; or (3) use the SEC's Contractor Time Management System to track certain contractor labor hours. Due, in part, to untimely invoice processing, the SEC incurred Prompt Payment Act interest penalties of nearly \$10,000 for 2013 through 2014. In addition, contractor performance evaluations were not available in a timely manner for use by the SEC and other Federal agencies when making contracting decisions. Finally, failure to use the Contractor Time Management System when appropriate reduces the SEC's contract oversight and increases its risk of making improper payments to contractors. We also found that 151 SEC CORs who filed required financial disclosure reports in 2012, 2013, and 2014 filed the reports late, and a small number of CORs did not file the reports each year. Additionally, some CORs monitored SEC contracts without first disclosing their financial interests. We made six recommendations to improve compliance with applicable requirements, address excessive COR workload, and strengthen controls over COR financial disclosures. The agency concurred with our recommendations for corrective action and is developing a corrective action plan.

Also, during an audit support engagement intended to assist the OIG in planning an audit of the SEC's Tips, Complaints, and Referrals Intake and Resolution System (TCR system), we identified various factors, including unacceptable contractor performance and a lack of adequate contractor and government resources to timely address concerns, that led to schedule delays and cost increases in the agency's project to (1) elicit requirements, (2) design, and (3) deploy a redesigned TCR system. Notwithstanding these issues, agency officials report that the current TCR system is functioning and meeting the SEC's needs. The Tips, Complaints, and Referrals Oversight Board—a decision-making body composed of senior officers from across the agency—has managed the project, and the SEC has taken action to address contractor performance, including issuing the vendor a cure notice, requiring a corrective action plan, and converting contract milestones from time and materials to firm fixed price. However, as of May 20, 2015, the contract value had increased by nearly \$4 million (from about \$7.2 million to about \$11.0 million) and the project was at least 10 months behind schedule. We commend the SEC for addressing the project's development delays and minimizing the agency's financial risk in the event of continued contractor non-performance. Doing so increases the chances of obtaining a redesigned TCR system that fully meets the agency's needs. However, as of May 20, 2015, the SEC had not accepted the redesigned TCR system and a final user acceptance date had not been established, resulting in uncertainty in the timeframe for implementing the redesigned TCR system. We reported our observations to management and requested updated information (received on May 27, 2015)

to help us determine whether further action by the OIG is warranted ([Final Management Letter: Observations Noted During TCR System Audit Support Engagement](#), issued on May 20, 2015).

In February 2015, GAO included “Improving the Management of Information Technology (IT) Acquisitions and Operations” as a new high-risk area needing attention by Congress and the executive branch.⁶ Specifically, GAO stated:

Congress has passed legislation and the administration has undertaken numerous initiatives to better manage IT investments. Nonetheless, federal IT investments too frequently fail to be completed or incur cost overruns and schedule slippages while contributing little to mission-related outcomes. GAO has found that the federal government spent billions of dollars on failed and poorly performing IT investments which often suffered from ineffective management, such as project planning, requirements definition, and program oversight and governance.

Based on (1) observations from our prior work, (2) GAO’s recognition of IT acquisition as a new high-risk area across the executive branch, and (3) the magnitude and criticality of the SEC’s ongoing and planned IT modernization efforts, we plan to perform work in FY 2016 to assess the SEC’s progress in improving its acquisitions management broadly and its IT acquisitions specifically. We will leverage newly hired IT audit and investigative staff in these efforts.

Financial Management

GAO’s audits of the FY 2014 and FY 2013 financial statements of the SEC and the Investor Protection Fund (IPF) found that the SEC’s and the IPF’s financial statements were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles.⁷ GAO reported that, although certain internal controls could be improved, the SEC maintained, in all material respects, effective internal control over financial reporting for the SEC and the IPF as of September 30, 2014, based on criteria established under the Federal Managers’ Financial Integrity Act.

However, during GAO’s FY 2014 audit, GAO identified continuing and new deficiencies in the SEC’s internal controls over disgorgement and penalty transactions that constituted a significant deficiency in the SEC’s internal control over financial reporting.⁸ GAO has reported deficiencies in the SEC’s controls over disgorgement and penalty transactions in prior years. In FY 2013, GAO concluded that these deficiencies did not individually or collectively represent a material weakness or significant deficiency but warranted SEC management’s attention. According to GAO, the SEC took action to address some of these deficiencies; however, GAO’s testing identified new deficiencies in accounting for disgorgement and penalty transactions, which, combined with the remaining control deficiencies from prior audits, are

⁶ U.S. Government Accountability Office, [High-Risk Series An Update](#), GAO-15-290 (February 2015).

⁷ U.S. Government Accountability Office, [Financial Audit: Securities and Exchange Commission’s Fiscal Years 2014 and 2013 Financial Statements](#), GAO-15-166R (November 17, 2014).

⁸ This significant deficiency pertained to the SEC’s overall financial reporting but not that of the IPF because the IPF does not include disgorgement and penalty transactions.

important enough to merit the attention of those charged with governance of the SEC. According to GAO, these continuing and new deficiencies related to:

- procedures for ensuring funds availability before transferring disgorgement and penalty-related funds to the U.S. Treasury;
- monitoring of disgorgement and penalty-related cases filed in courts to ensure all cases that should be recorded as receivables are timely identified;
- safeguarding controls at service providers that collect SEC cash receipts, including payments from violators for disgorgement, penalties, and related interest on the SEC's behalf; and
- controls to timely and accurately record disgorgement and penalty transactions in the SEC's general ledger, and timely detect and correct any errors.⁹

In addition to this significant deficiency, in April 2015, GAO reported other new deficiencies in the SEC's internal control over financial reporting. While not considered to be material weaknesses or significant deficiencies, either individually or collectively, according to GAO these deficiencies warrant SEC management's attention. The deficiencies relate to the following:

- reinvestment of disgorgement funds,
- maintaining ongoing accuracy of property and equipment inventory records,
- documenting disposal of property and equipment,
- ensuring existence of capitalized bulk purchases,
- identifying and summarizing uncorrected misstatements, and
- information security.

GAO made 13 new recommendations to address these deficiencies in the SEC's controls over financial reporting and noted that the SEC took action to fully address 14 of 25 prior years' recommendations that remained open at the beginning of the FY 2014 audit. Consequently, the SEC has 24 open recommendations that need to be addressed—the 11 prior recommendations as well as the 13 new ones from GAO's April 2015 report.¹⁰ Corrective action is in progress for all outstanding recommendations. We will continue to monitor the SEC's financial management and reporting controls and actions to address open recommendations.

⁹ U.S. Government Accountability Office, [Financial Audit: Securities and Exchange Commission's Fiscal Years 2014 and 2013 Financial Statements](#), GAO-15-166R (November 17, 2014).

¹⁰ U.S. Government Accountability Office, [Management Report: Improvements Needed in SEC's Internal Controls and Accounting Procedures](#), GAO-15-387R (April 30, 2015).

Human Capital Management

As an employer, the SEC seeks to hire and retain a skilled and diverse workforce, and to ensure that all decisions affecting employees and applicants are fair and ethical. Attracting, engaging, and retaining a technically proficient and diverse workforce is one of the agency's stated strategic objectives.¹¹ However, human capital management remains a challenge.

Section 342 of the Dodd-Frank Act required specific Federal financial agencies, including the SEC, to establish, by January 21, 2011, an Office of Minority and Women Inclusion (OMWI), responsible for matters relating to diversity in management, employment, and business activities. At the request of the U. S. House of Representatives Committee on Financial Services, we completed the [Audit of the Representation of Minorities and Women in the SEC's Workforce](#), Report No. 528, November 20, 2014, to help identify factors that may impact the SEC's ability to increase the representation of minorities and women at the SEC, in general, and in senior management positions, in particular. We assessed diversity at the SEC and compared the agency's workforce between FY 2011 and FY 2013 to U.S. civilian labor force, Federal, and securities industry workforce data. We reported that the SEC has made efforts to promote diversity. However, some minority groups and women (1) were underrepresented in the SEC workforce, (2) received relatively fewer and smaller cash awards and bonuses, (3) experienced statistically significant lower performance management and recognition scores, and (4) filed equal employment opportunity complaints at rates higher than their percentage of the workforce. These conditions may have occurred or may not have been remedied, in part, because the Office of Equal Employment Opportunity did not take required initial steps to identify areas where barriers may operate to exclude certain groups. Therefore, the SEC did not examine, eliminate, or modify, where appropriate, policies, practices, or procedures that create barriers to equal opportunity. As a result, the SEC lacks assurance that it has uncovered, examined, and removed barriers to equal participation at all levels of its workforce. We also found that OMWI lacks a systematic and comprehensive method of evaluating the effectiveness of its programs and diversity efforts. Agency management indicated that it expects an ongoing barrier analysis to be completed in early October 2015. The agency has sufficiently addressed two of our five recommendations for corrective action and is taking steps to address the remaining three recommendations.

In addition, in 2014, we reported that GAO assessed the SEC's organizational culture, its personnel management challenges, and its efforts to address those challenges. In its July 2013 report,¹² GAO made seven recommendations to improve the SEC's personnel management, including developing comprehensive workforce plans.¹³ In June 2014, the Office of Personnel Management found that the SEC still did not have a comprehensive workforce plan, although the agency had a workforce planning process conducted by the senior executive within each office. In its 2014 Agency Financial Report, the SEC stated that it is developing a comprehensive workforce plan, including a plan to assist the agency in identifying future leaders—an initial building block for the workforce plan. The agency further reported that additional steps were being taken in FY 2015 to finalize SEC-wide strategic initiatives and

¹¹ U.S. Securities and Exchange Commission Strategic Plan, Fiscal Years 2014 – 2018.

¹² U.S. Government Accountability Office, [Securities and Exchange Commission Improving Personnel Management Is Critical for Agency's Effectiveness](#), GAO-13-621 (July 2013).

¹³ GAO first recommended that the SEC develop such a plan in 2001. See [GAO-01-947](#).

incorporate all elements of effective workforce planning into the overall plan, to be completed by the end of FY 2015. However, as of September 30, 2015, the SEC did not expect to complete the comprehensive workforce plan until Spring 2016.

In FY 2016, we will continue to monitor the SEC's implementation of corrective actions from OIG, GAO, and OPM reviews and the steps taken to improve the agency's human capital management, including its efforts to hire and retain a skilled and diverse workforce.

OIG CONTACT INFORMATION

Help ensure the integrity of SEC operations. Report to the OIG suspected fraud, waste, or abuse in SEC programs or operations as well as SEC staff or contractor misconduct. Contact the OIG by:

PHONE Hotline 877.442.0854
 Main Office 202.551.6061

WEB-BASED www.reportlineweb.com/sec_oig
HOTLINE

FAX 202.772.9265

MAIL Office of Inspector General
 U.S. Securities and Exchange Commission
 100 F Street, NE, Washington, DC 20549-2977

Information received is held in confidence upon request. While the OIG encourages complainants to provide information on how they may be contacted for additional information, anonymous complaints are also accepted.



This report is available on the Inspector General's website
www.sec.gov/oig