

Office of Inspector General

U.S. SECURITIES AND  
EXCHANGE COMMISSION

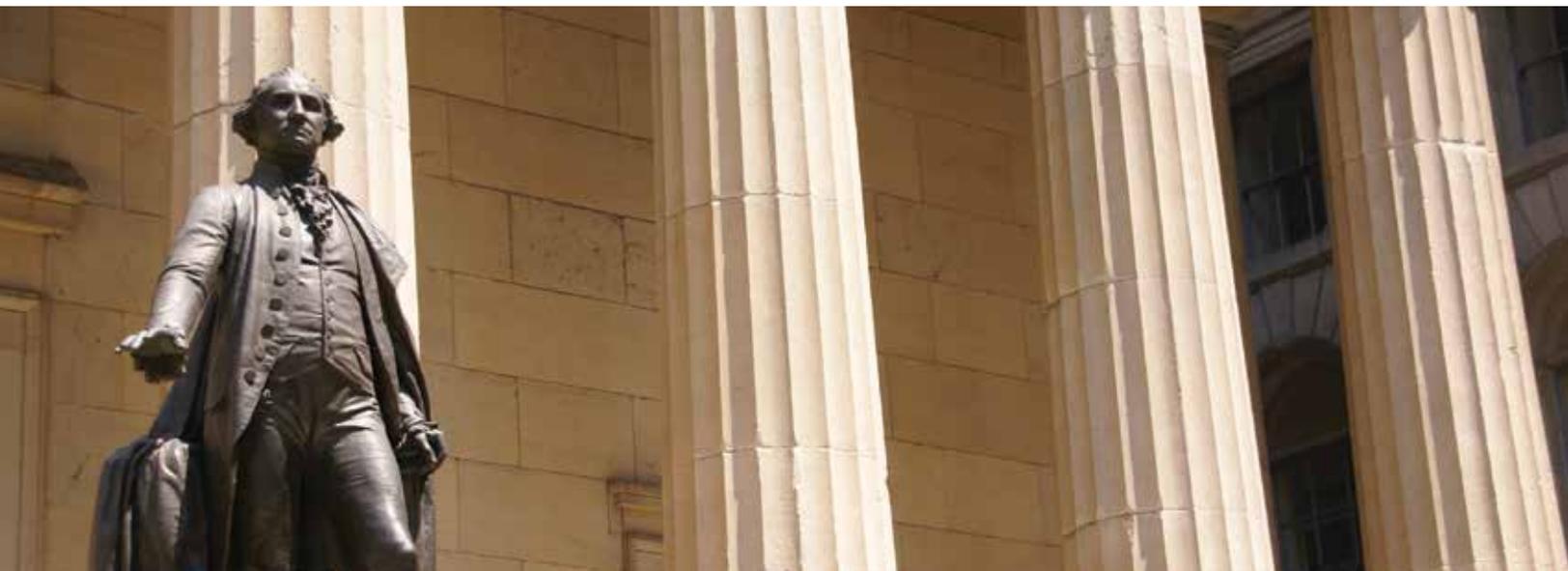
# SEMIANNUAL REPORT TO CONGRESS

► 10.01.14 TO 03.31.15

OFFICE OF INSPECTOR GENERAL  
SEMIANNUAL REPORT TO CONGRESS

---

OCTOBER 1, 2014 THROUGH MARCH 31, 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.

The OIG leadership team continued to improve the OIG's internal processes and procedures to ensure we are an effective, responsive entity and to enhance the knowledge and expertise of our staff.

# CONTENTS

MESSAGE FROM THE INSPECTOR GENERAL . . . . .	1
MANAGEMENT AND ADMINISTRATION . . . . .	3
Agency Overview . . . . .	3
OIG Staffing . . . . .	3
OIG Outreach . . . . .	4
OIG Annual Awards Program . . . . .	4
CONGRESSIONAL REQUESTS AND BRIEFINGS . . . . .	5
COORDINATION WITH OTHER OFFICES OF INSPECTOR GENERAL . . . . .	6
AUDITS AND EVALUATIONS . . . . .	7
Overview . . . . .	7
Completed Audits and Evaluations . . . . .	7
<i>Audit of the Office of the Ethics Counsel's Oversight of</i> <i>Employee Security Holdings (Report No. 527)</i> . . . . .	7
<i>Audit of the Representation of Minorities and Women in the</i> <i>SEC's Workforce (Report No. 528)</i> . . . . .	8
<i>Federal Information Security Management Act:</i> <i>Fiscal Year 2014 Evaluation (Report No. 529)</i> . . . . .	9
Purchase Card Reporting and Risk Assessment . . . . .	10
<i>Inspector General's Letter to OMB on the SEC's Implementation of</i> <i>Purchase Card Program Audit Recommendations</i> . . . . .	10
<i>Inspector General's Fiscal Year 2014 Purchase Card Program Risk Assessment</i> . . . . .	11
Inspector General's Review of the U.S. Securities and Exchange Commission's Fiscal Year 2014 Compliance with the Improper Payments Information Act . . . . .	11
Ongoing Audits and Evaluations . . . . .	12
<i>Audit of the SEC's Contracting Officer's Representative Program</i> . . . . .	12
<i>Evaluation of the Office of Compliance Inspections and</i> <i>Examinations' Resource Allocation</i> . . . . .	12
<i>Audit of Controls Over Distributions to Harmed Investors</i> . . . . .	13
<i>Evaluation of the SEC's Use of the Reserve Fund</i> . . . . .	13

INVESTIGATIONS . . . . .	14
Overview . . . . .	14
Status of Previously Reported Investigations . . . . .	14
<i>Unauthorized Transmission of Personally Identifiable Information</i>	
<i>by an SEC Employee (Case No. 14-0516-I)</i> . . . . .	14
<i>Allegation of Misconduct by an SEC Manager (Case No. 14-0543-I)</i> . . . . .	15
<i>Unauthorized Transmission of Nonpublic Information</i>	
<i>by an SEC Attorney (Case No. 14-0552-I)</i> . . . . .	15
Completed Investigations . . . . .	15
<i>Allegation of Improper Disclosure of Nonpublic Information</i>	
<i>(Case No. 14-0005-I)</i> . . . . .	15
<i>Financial Conflict of Interest on the Part of a Contracting</i>	
<i>Officer's Representative (Case No. 14-0024-I)</i> . . . . .	15
<i>Allegations of Manipulation of Financial Statements and</i>	
<i>Solicitation of Nonpublic Information (Case No. 14-0031-I)</i> . . . . .	16
<i>Financial Conflict of Interest (Case No. 14-0037-I)</i> . . . . .	16
<i>Prohibited Holdings by an SEC Staff Accountant (Case No. 14-0050-I)</i> . . . . .	16
<i>Prohibited Holdings by an SEC Attorney (Case No. 14-0142-I)</i> . . . . .	17
<i>Theft by Regional Office Employee (Case No. 14-0584-I)</i> . . . . .	17
 OVERSIGHT AND REVIEW . . . . .	 18
Overview . . . . .	18
Completed Review . . . . .	18
<i>Preliminary Review of the Division of Enforcement's Technology</i>	
<i>Forensics Laboratory's Internal Controls (Case No. 15-0164-R)</i> . . . . .	22
 REVIEW OF LEGISLATION AND REGULATIONS. . . . .	 19
 MANAGEMENT DECISIONS . . . . .	 20
Status of Recommendations with No Management Decisions. . . . .	20
Revised Management Decisions . . . . .	20
Agreement with Significant Management Decisions . . . . .	20
Instances Where the Agency Refused or Failed to Provide	
Information to the OIG . . . . .	20

TABLES . . . . .	21
Table 1 List of Reports: Audits and Evaluations. . . . .	21
Table 2 Reports Issued with Costs Questioned or Funds Put to Better Use (Including Disallowed Costs) . . . . .	21
Table 3 Reports with Recommendations on Which Corrective Action Has Not Been Completed. . . . .	22
Table 4 Summary of Investigative Activity for the Reporting Period of October 1, 2014 to March 31, 2015 . . . . .	25
Table 5 References to Reporting Requirements of the Inspector General Act. . . . .	26
APPENDIX A. PEER REVIEWS OF OIG OPERATIONS . . . . .	27
Peer Review of the SEC OIG’s Audit Operations . . . . .	27
Peer Review of the SEC OIG’s Investigative Operations . . . . .	27

# ABBREVIATIONS

AFR	Agency Financial Report
Agency	U.S. Securities and Exchange Commission
ATO	authorization to operate
Attorney General's Guidelines	Attorney General's Guidelines for Offices of Inspectors General with Statutory Law Enforcement Authority
Charge Card Act	Government Charge Card Abuse Prevention Act of 2012
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
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOJ	Department of Justice
FAEC	Federal Audit Executive Council
FHFA	Federal Housing Finance Agency
FISMA	Federal Information Security Management Act of 2002
FOIA	Freedom of Information Act
FY	fiscal year
GAGAS	generally accepted government auditing standards
GAO	U.S. Government Accountability Office
GPC	Government Purchase Card
IG	Inspector General
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
ITFL	Information Technology Forensics Laboratory
LSC	Legal Services Corporation
OA	Office of Acquisitions
OCIE	Office of Compliance Inspections and Examinations
OEC	Office of the Ethics Counsel
OEEEO	Office of Equal Employment Opportunity
OGE	Office of Government Ethics
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
ONR	Office of Oversight and Review
PCAOB	Public Company Accounting Oversight Board
PII	personally identifiable information
PIV	personal identity verification
P.L.	Public Law
SEC	U.S. Securities and Exchange Commission
Treasury	Department of the Treasury
USAO	United States Attorney's Office





## 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 October 1, 2014, to March 31, 2015. It also reflects our responsibility to report independently to Congress and the Chair and Commissioners. The audits, evaluations, and investigations 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 semiannual reporting period, the OIG rounded out its management team by hiring three new managers—a Special Agent in Charge and two Audit Managers. We began developing an OIG leadership culture to ensure consistency and continuity in the OIG's business practices and operations. Also, I will continue to work closely with the Chair and Commissioners to ensure 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. In this regard, we will be adding computer forensic and cyber security capabilities, as well as additional audit staff to provide adequate oversight of agency programs and operations.

The OIG leadership team continued to improve the OIG's internal processes and procedures to ensure we are an effective, responsive entity and to enhance the knowledge and expertise of our staff. For example, the OIG worked with the SEC's training component, SEC University, to develop a comprehensive training program for OIG staff that focused on the framework and complexities of the SEC's mission. All OIG staff members attended this training, which I believe will significantly enhance their ability to effectively perform their important oversight work.

During this reporting period, the Office of Audits issued several reports that recommended improvements in SEC programs. On November 20, 2014,

we issued a report on our audit of the representation of minorities and women in the SEC's workforce. We performed this audit in response to a request from several members of the U.S. House of Representatives Committee on Financial Services. While we found that the SEC had made efforts to promote diversity, we identified certain improvements the SEC could make to better identify and eliminate potential barriers to equal opportunity.

Further, on December 10, 2014, we issued a report on our audit of the Office of the Ethics Counsel's (OEC) oversight of employee security holdings. Recent OIG investigations had disclosed employee securities transactions that violated the SEC's rules on personal trading and the Office of Investigations had referred pertinent information to the Office of Audits. The OIG performed this audit to evaluate OEC's effectiveness in ensuring employees comply with the ethics regulations pertaining to employees' securities transactions and identified several improvements that could be made to enhance OEC's oversight.

The Office of Audits also worked with SEC management to close 16 recommendations made in OIG reports issued during this and previous semiannual reporting periods.

The Office of Investigations completed or closed 15 investigations during this reporting period. We investigated various allegations, including the improper disclosure of nonpublic information, manipulation of cost data and solicitation of nonpublic information, financial conflicts of interest, prohibited securities holdings by SEC employees, and theft of government property. Our investigations resulted in ten referrals to the Department of Justice (DOJ), one of which was accepted for

possible prosecution. Additionally, a subject referred to DOJ during the previous semiannual reporting period was arrested during this period.

I am also pleased to announce that the OIG held its first-ever annual OIG awards ceremony in February 2015 to honor service and outstanding achievements by OIG staff during 2014. At this ceremony, the SEC Chair and I recognized the particular accomplishments of the award recipients, who were selected based on nominations submitted by their peers. I would like to personally thank the award recipients, as well as all the OIG staff, for their hard work and dedication in pursuit of the OIG's mission.

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. The OIG will continue to strive to improve its efficiency and effectiveness by making organizational and procedural changes and increasing its staffing levels as necessary. We will also continue to work collaboratively with SEC management 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 closely 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*



# 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 effective oversight. Its core values consist of integrity, effectiveness, fairness, accountability, teamwork, and excellence. The SEC's strategic goals are to establish and maintain an effective regulatory environment; foster and enforce compliance with the Federal securities laws; 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, approximately 10,500 mutual funds and exchange traded funds, nearly 4,500 broker-dealers, and about 450 transfer agents. The agency also oversees 18 national securities exchanges, 10 credit rating agencies, and 8 active registered clearing agencies, as well as the Public Company Accounting Oversight Board (PCAOB), the Financial Industry Regulatory Authority, the Municipal Securities Rulemaking Board, the Securities Investor Protection Corpo-

ration, and the Financial Accounting Standards Board. In addition, the SEC is responsible for selectively reviewing the disclosures and financial statements of some 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 March 2015, the SEC employed 4,326 fulltime equivalent employees.

## OIG STAFFING

During this semiannual reporting period, the OIG hired three new managers—one Special Agent in Charge and two Audit Managers. With the additional members of the leadership team in place, OIG management has implemented a program to develop an OIG leadership culture. The purpose of this program is to ensure consistency and continuity in the OIG's business practices and operations.

In addition, the OIG plans to add several auditors during the next reporting period. The additional audit staff will provide sufficient oversight of agency programs and operations and enable the OIG to more fully address areas in which the agency faces

management and performance challenges. The OIG also plans to enhance its investigative capabilities by adding resources that will provide expertise in computer forensics and cyber security.

Also during the period, all OIG staff completed a comprehensive training program, conducted in two-day segments over several weeks, that the OIG developed in coordination with SEC University. This program, which focused on the framework and complexities of the SEC's regulatory mission, provided OIG staff with additional knowledge and tools that will assist staff in performing their oversight work.

While the OIG has made significant progress in filling key vacancies, we continue to add personnel to ensure we have the necessary staffing levels to effectively perform our oversight responsibilities.

### OIG Outreach

The IG continued to meet regularly with the Chair, Commissioners, and senior officers from various SEC divisions and offices to sustain open communication at all levels between the OIG and the agency. Through these efforts, the OIG was kept current on significant matters that were relevant to the OIG's work. These regular communications also enabled the OIG to obtain agency 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 SEC management informed of the OIG's activities and concerns raised during its work.

Further, the OIG completed the first phase of its SEC outreach program, which was initiated during previous semiannual reporting periods. The goal of this program is to increase the OIG's visibility and further enhance SEC employees' understanding of the OIG's role and functions. The program also educates employees on the applicable ethics requirements and their obligations to report fraud, waste, and abuse to the appropriate authorities. In this period, the

OIG met with the staff of ten headquarters divisions or offices. Also, the OIG's outreach presentation is included in the SEC's biweekly new employee orientation sessions.

During the next semiannual reporting period, the OIG plans to implement the second phase of its outreach program. This phase of the program will include outreach briefings that focus on identifying ongoing trends and patterns and preventing future fraud, waste, and abuse in agency programs and operations.



2014 OIG Employee of the Year Tawana Edwards receives her award from Chair White and IG Hoecker.

### OIG Annual Awards Program

The OIG developed an annual awards program to recognize the Federal service of OIG staff and outstanding achievements during the year. The first OIG annual awards ceremony was held on February 25, 2015, for activities and results in 2014. The awardees were selected in various categories based on nominations submitted by their peers. The IG and SEC Chair presented the awards at the ceremony. The 2014 award recipients included Kelli Brown-Barnes, Leadership Award; Robert Lewis, Jr., Mission Support Award; Roberta Raftovich, Mission Support Award; Kelli Brown-Barnes, Colin Heffernan, Kamran Beikmohamadi, and Steve Kaffen, Team Award for Audit, Investigation, or Project of the Year; and Tawana Edwards, Employee of the Year.



## 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 semiannual reporting period, OIG staff briefed Congressional staff about OIG work and issues impacting the SEC.

Specifically, during the reporting period, the OIG completed an audit performed in response to a letter received in March 2014 from several members of the U.S. House of Representatives Committee on Financial Services. This letter asked the OIG to review whether any of the SEC's personnel practices have created a discriminatory workplace or otherwise systematically disadvantaged minorities from obtaining senior management positions. In November 2014, the OIG provided a copy of its report, *Audit of the Representation of Minorities and Women in the SEC's Workforce (Report No. 528)*, to the members who had requested the review.

The results of the OIG's audit are described in the Completed Audits and Evaluations section of this report.

Further, on March 11, 2015, the OIG responded to a request from the U.S. House of Representatives Committee on Oversight and Government Reform for updated information on open and unimplemented IG recommendations; closed investigations, evaluations, and audits that were not disclosed to the public; and access to agency records. On March 27, 2015, the OIG responded to a request from the Chairmen of the U.S. Senate Committee on Homeland Security and Governmental Affairs and U.S. Senate Committee on the Judiciary for similar and additional information to be provided on a semiannual basis. Finally, on March 31, 2015, the OIG responded to a request from the Chairman of the U.S. Senate Committee on Banking, Housing, and Urban Affairs for information relating to IG responsiveness to Congressional requests.



## COORDINATION WITH OTHER OFFICES OF INSPECTOR GENERAL

**D**uring this semiannual 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 was established by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank), Public Law (P.L.) 111-203. The Chairman of CIGFO is the IG of the Department of the Treasury (Treasury). Other members of the Council, in addition to the IGs of the SEC and 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, the National Credit Union Administration, and also the Special Inspector General for the Troubled Asset Relief Program. As required by Dodd-Frank, CIGFO meets at least once every 3 months. 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 is assessing the Financial Stability Oversight Council's response to recommendations for continued oversight of interest rate risk. The working group expects to issue a final report summarizing its findings in July 2015.

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 activities of the CIGIE Federal Audit Executive Council (FAEC), including attending training that FAEC provided. Lastly, OIG staff participated in the activities of the Deputy Inspectors General group; the Council of Counsels to the Inspectors General; the CIGIE Training Institute's Audit, Inspection and Evaluation Academy; and the CIGIE Records Management Working Group.



# 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 U.S. Government Accountability Office (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 applicable CIGIE Quality Standards for Inspection and Evaluation and GAGAS. At the completion of an audit or evaluation, the OIG issues an independent report in which it identifies deficiencies and makes recom-

mendations to correct those deficiencies or increase efficiencies in an SEC program.

## COMPLETED AUDITS AND EVALUATIONS

### *Audit of the Office of the Ethics Counsel's Oversight of Employee Security Holdings (Report No. 527)*

The SEC is responsible for oversight of the securities industry and the protection of investors. To protect the public interest, SEC employees must maintain high standards of conduct. To that end, in August 2010, the SEC adopted a regulation that supplements the government-wide ethics standards. The supplemental ethics regulation addresses what investments SEC employees are allowed to make, as well as when and how they conduct such transactions. The SEC's OEC is responsible for advising and counseling SEC members and employees on personal and financial conflicts of interest, financial disclosure, and securities holdings.

In recent years, the OIG has investigated several employees for conducting securities transactions that violate the SEC's personal trading rules and regulations. During these investigations, the OIG Office of Investigations identified potential issues related to the manner in which OEC oversees employee securities holdings.

We performed this audit to evaluate OEC's effectiveness in ensuring employees comply with ethics regulations on prohibited holdings and temporarily restricted trades. Specifically, we sought to (1) determine whether OEC has developed and implemented policies and procedures in accordance with Federal laws and regulations, including 5 CFR § 4401.102, Prohibited and restricted financial interests and transactions; (2) evaluate the operating effectiveness of internal controls that OEC designed and implemented over the process for clearing and reporting employee securities transactions and holdings; and (3) determine whether OEC has established a mechanism to ensure employees comply with 5 CFR § 4401.102.

We found that OEC has developed and implemented policies and procedures in accordance with Federal laws and regulations, and has voluntarily implemented additional compliance processes. However, we identified areas for improvement in OEC's oversight of employee securities holdings and transactions.

First, we identified improvements that are needed in OEC's review of the forms employment candidates file before beginning employment with the SEC to ensure they divest any prohibited holdings. Second, we found that the SEC's system for clearing employee securities trades lacked a mechanism to identify and alert employees who hold securities that become prohibited. The system also relied on incomplete information from the SEC's Division of Enforcement to process pre-trade requests. Third, we determined that improvements were needed in OEC's annual compliance testing. Specifically, the sampling methodology chosen for OEC's 2014 annual compliance review will not enable OEC to gauge the compliance of all employees because the methodology does not allow the sample results to be projected.

We issued our final report on December 10, 2014, and made nine recommendations to improve the SEC's oversight of employee securities holdings.

The recommendations addressed improvements in the review of employment candidates' securities holdings, the functionality of the trading clearance system, and OEC's annual compliance testing. Management concurred with all of the recommendations and eight recommendations were closed before the end of the reporting period. The remaining recommendation was pending but will be closed upon completion and verification of corrective action.

The report is available on our website at [www.sec.gov/oig/reports/pubs/527.pdf](http://www.sec.gov/oig/reports/pubs/527.pdf).

### Audit of the Representation of Minorities and Women in the SEC's Workforce (Report No. 528)

Embracing diversity increases the SEC's ability to attract the best and the brightest in the securities industry, thereby empowering the agency to achieve professional excellence and remain steadfast in its commitment to protect the investing public. In March 2014, members of the U.S. House of Representatives Committee on Financial Services, affirming the importance of diversity, asked the OIG to review the SEC's internal operations to determine whether any personnel practices have created a discriminatory workplace or otherwise systematically disadvantaged minorities. The members also asked the OIG to assess the operations of the SEC's Office of Minority and Women Inclusion (OMWI), which was established pursuant to Section 342 of Dodd-Frank.

We performed this audit to assess the SEC's personnel operations and other efforts to (1) increase the agency's representation of minorities and women; (2) create a workplace free of systemic discrimination against minorities and women; and (3) provide equal opportunity for minorities and women to obtain senior management positions. We also sought to 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 fiscal year (FY) 2011 and FY 2013 to U.S. civilian labor force, Federal, and securities industry workforce data. We found that the SEC has made efforts to promote diversity. For example, the SEC's annual reports for the years reviewed state that the SEC will maintain an environment that attracts, engages, and retains a technically proficient and diverse workforce. Also, the SEC's Office of Equal Employment Opportunity (OEEO) did not identify any proven employment discrimination in cases closed between FY 2011 and FY 2013. However, we found that some minority groups and women (1) were underrepresented in the SEC's 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.

The conditions we observed may have occurred or may not have been remedied, in part, because OEEO 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 for evaluating the effectiveness of its programs and diversity efforts. Specifically, we noted that OMWI has not fully established internal policies and procedures or required workforce diversity standards to monitor, evaluate, and, as necessary, improve its operations and comply fully with Section 342 of Dodd-Frank.

We issued our final report on November 20, 2014, and made five recommendations for corrective action designed to identify and eliminate potential barriers to equal opportunity. The recommenda-

tions addressed OEEO policies and procedures; review and submission of required data to the U.S. Equal Employment Opportunity Commission; performance of barrier analyses; and OMWI policies, procedures, and workforce diversity standards. Management concurred with all of the recommendations and one recommendation was closed before the end of the reporting period. The remaining recommendations were pending but will be closed upon completion and verification of corrective action.

The report is available on our website at [www.sec.gov/oig/reportspubs/528.pdf](http://www.sec.gov/oig/reportspubs/528.pdf).

#### Federal Information Security Management Act: Fiscal Year 2014 Evaluation (Report No. 529)

The SEC's information systems process and store significant amounts of sensitive, nonpublic information, including information that is personally identifiable, commercially valuable, and market-sensitive. The SEC's information security program protects the agency from the risk of unauthorized disclosure, modification, use, and disruption of sensitive, nonpublic information. Without these protections, the SEC's ability to accomplish its mission could be inhibited, and privacy laws and regulations that protect this information could be violated.

To comply with the Federal Information Security Management Act of 2002 (FISMA), the OIG retained a contractor to independently evaluate the SEC's implementation of FISMA's requirements. The overall objective of the evaluation was to assess the SEC's implementation of the FY 2014 FISMA OIG Reporting Metrics issued by the Office of Management and Budget (OMB) and the Department of Homeland Security.

We found that the SEC's Office of Information Technology (OIT), which has overall responsibility for the SEC's information technology program, has made significant progress during the past year in key

areas of information security, including the management of continuous monitoring, configuration, and identity and access controls. However we found that three production systems did not always have a current authorization to operate (ATO) and the SEC's security awareness training did not include the required insider threat component. We also found that OIT has not addressed several areas of potential risk identified in prior FISMA evaluations, including: (1) failure to implement personal identity verification (PIV) cards for logical access, to the maximum extent practicable; (2) lack of full implementation of continuous monitoring; (3) lack of multi-factor authentication of external systems; (4) outdated procedures and inconsistencies with policy; and (5) improper review of user accounts.

The OIG issued a final report to the agency on February 5, 2015. To provide reasonable assurance that the SEC's information security program is effective, we urged management to take action on all outstanding recommendations from the OIG's prior FISMA evaluations. We also made seven new recommendations that address (1) outdated ATOs and controls over the ATO process; (2) developing and implementing insider threat training; (3) developing a PIV card policy; (4) ensuring the method of access is defined for external systems; and (5) conducting reviews of user accounts. Management concurred with these recommendations. The recommendations will be closed upon completion and verification of corrective action, but were pending at the close of this reporting period.

In addition, while evaluating the SEC's compliance with FISMA, we identified two other matters of interest related to the agency's information technology environment. First, we noted that the system security assessment for one SEC system may not be comprehensive or adequately address system and subsystem risks. Second, OIT did not address some known vulnerabilities, which were recorded on plan of action and milestone documents, within established timeframes. While these matters did not

result in findings, we encouraged OIT management to consider them and ensure sufficient controls exist in these areas.

A summary of the report is available on our website at [www.sec.gov/oig/reportspubs/oig-information-security-fy-2014-evaluation-report-529.pdf](http://www.sec.gov/oig/reportspubs/oig-information-security-fy-2014-evaluation-report-529.pdf).

## PURCHASE CARD REPORTING AND RISK ASSESSMENT

The Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act), P.L. 112-194, requires that IGs report to the Director of OMB on the implementation of recommendations made to the head of an executive agency to address findings of any analysis or audit of purchase card and convenience check transactions or programs. OMB's implementing guidance requires IGs to report to the Director of OMB 120 days after the end of each FY on agency progress in implementing such recommendations.

The Charge Card Act further requires IGs to conduct periodic assessments of agency purchase card or convenience check programs to identify and analyze the risks of illegal, improper, or erroneous purchases and payments. The risk assessments are used to determine the scope, frequency, and number of audits of purchase card or convenience check transactions. Pursuant to OMB guidance, risk assessments of agency purchase cards (including convenience checks) should be completed at least annually. The Charge Card Act also requires periodic audits or reviews of travel card programs for agencies with more than \$10 million in travel card spending.

### Inspector General's Letter to OMB on the SEC's Implementation of Purchase Card Program Audit Recommendations

On January 13, 2015, the OIG reported to OMB on agency progress during FY 2014 in implementing recommendations arising from the OIG's audit report, "Controls Over the SEC's Government

Purchase Card Program,” issued on March 28, 2014. This report made 11 recommendations, all of which were closed before the end of FY 2014. The OIG found that the SEC Office of Acquisitions (OA), which is responsible for managing the SEC’s Government Purchase Card (GPC) program, has established internal controls that reduce the risk of fraud, waste, and abuse in the use of purchase cards and convenience checks.

Moreover, we found no instances of illegal or erroneous use of purchase cards or convenience checks, although we determined that certain areas of the GPC program needed strengthening. OA addressed our recommendations by, among other things (1) initiating purchase card reviews for FY 2014; (2) awarding an agency-wide contract for a commonly-purchased service; (3) reviewing cardholder spending levels and adjusting them as needed; and (4) issuing guidance on reconciliation requirements.

The letter report is available on our website at [www.sec.gov/oig/reportspubs/sec-oig-fy-2014-letter-audit-recommendations.pdf](http://www.sec.gov/oig/reportspubs/sec-oig-fy-2014-letter-audit-recommendations.pdf).

#### Inspector General’s Fiscal Year 2014 Purchase Card Program Risk Assessment

On February 24, 2015, the OIG reported to the SEC Chair on the results of its FY 2014 risk assessment of the SEC’s GPC program. To conduct the risk assessment, we assessed agency compliance with the Charge Card Act’s requirements and evaluated the SEC’s GPC program against an established enterprise risk management framework. We also interviewed OA staff and reviewed applicable documents.

We found that the SEC has set program objectives, identified risks to the GPC program, and established controls and monitoring to address those risks. Given the objectives and size of the GPC program and its materiality to the SEC, we found that the SEC’s risk response appeared reasonable and sufficient. However, we determined that ten individuals, who were both cardholders and approving officials, could

approve their own purchases in the GPC online system. Our review of data for a 2-year period did not identify any instances of individuals approving their own purchases. Also, when notified of the issue, the SEC’s Agency/Organization Program Coordinator immediately began to work to eliminate this risk.

As a result of our risk assessment, we determined that the overall risk of illegal, improper, or erroneous purchases and payments in the SEC’s GPC program is low. Moreover, because we recently audited the SEC’s controls over its GPC program (in March 2014), we do not plan to audit that program in FY 2015. Finally, we determined that in FY 2014, the SEC did not meet the \$10 million threshold for travel card spending, and we did not perform a travel card program risk assessment.

The memorandum on the results of the OIG’s FY 2014 GPC risk assessment is available on our website at [www.sec.gov/oig/reportspubs/sec-oig-fy-2104-purchase-card-program-risk-assessment.pdf](http://www.sec.gov/oig/reportspubs/sec-oig-fy-2104-purchase-card-program-risk-assessment.pdf).

#### INSPECTOR GENERAL’S REVIEW OF THE U.S. SECURITIES AND EXCHANGE COMMISSION’S FISCAL YEAR 2014 COMPLIANCE WITH THE IMPROPER PAYMENTS INFORMATION ACT

On January 21, 2015, the OIG reported the results of its review of the SEC’s compliance with the Improper Payments Information Act of 2002 (IPIA), as amended and expanded by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA). We conducted our review in accordance with OMB’s implementing guidance.

To determine whether the SEC complied with IPIA for FY 2014, we reviewed the SEC’s “Improper Payments Elimination and Recovery Improvement Act of 2012 Risk Assessment Summary Report,” dated July 18, 2014, and supporting documentation. We also reviewed relevant disclosures in the SEC’s

FY 2014 Agency Financial Report (AFR), dated November 14, 2014.

The SEC's FY 2014 risk assessment determined that none of the SEC's programs and activities are susceptible to significant improper payments. In addition, according to the SEC's FY 2014 AFR, the agency determined that implementing a payment recapture audit program is not cost effective; nonetheless, the agency strives to recover overpayments identified through other sources. Based on our review of this information, we determined that the SEC was in compliance with IPFA for FY 2014.

The letter report is available on our website at [www.sec.gov/oig/reportspubs/oig-review-2014-compliance-improper-payments-information-act012115.pdf](http://www.sec.gov/oig/reportspubs/oig-review-2014-compliance-improper-payments-information-act012115.pdf).

## ONGOING AUDITS AND EVALUATIONS

### Audit of the SEC's Contracting Officer's Representative Program

The OIG initiated an audit of the SEC's contracting officer's representative (COR) program. Under the Federal Acquisition Regulation, contracting officers (CO) designate CORs to assist in the technical monitoring and administration of a contract. CORs are responsible for (1) ensuring that the CO is kept informed of the status of the contract; and (2) effectively monitoring contract activities by ensuring supplies are delivered or services are performed according to the contractual provisions. The SEC's OA develops and executes programs for procurement and contract administration, training, and certification for members of the acquisition workforce, including CORs.

The overall objective of the audit is to determine whether the SEC's CORs comply with applicable Federal and agency requirements, policies, and procedures. We will also evaluate OA's oversight of CORs. Our specific objectives are to determine whether (1) OA adequately oversees CORs' contract

monitoring activities and takes corrective actions as necessary; (2) OA has adequate policies and procedures that give guidance to CORs to ensure effective contract oversight; (3) OA has adequate controls to ensure CORs comply with all applicable Federal and agency requirements; and (4) CORs' contract monitoring practices and activities are effective and consistent across the SEC.

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

### 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, self-regulatory organizations, and the PCAOB. As noted in the OIG's Statement of the SEC's Management and Performance Challenges for FY 2014, the SEC has identified an immediate and pressing need to ensure sufficient examination coverage of investment advisers.

The OIG initiated an evaluation of OCIE's resource allocation. The overall objective of the evaluation is to assess OCIE's human resources management to ensure it efficiently and effectively addresses mission priorities that the SEC Chair identified in recent Congressional testimony. Specifically, we will evaluate OCIE's methodology for establishing staffing requests, personnel allocations, and examination priorities by program area. We will also determine how OCIE adjusted its examination priorities or resource allocations based on the FY 2015 approved budget.

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

### Audit of Controls Over Distributions to Harmed Investors

Investors who are harmed by securities fraud or other securities law violations may be eligible, in some instances, to receive money recovered by the SEC. For example, when the SEC brings a successful enforcement action, either in court or in an administrative proceeding, the court or the SEC may order an individual or entity to disgorge the funds (i.e., give up the ill-gotten gains) resulting from the illegal conduct. The disgorged funds may be distributed to investors who were harmed by the securities violation. A court or the SEC may also impose a monetary penalty to punish the party and to deter others from committing similar misconduct. The monetary penalty may be distributed to investors if the court or the SEC orders that any penalty collected be placed in a “fair fund” for distribution to harmed investors. Typically, a third party, such as a fund administrator or distribution agent, assists with the distribution process.

The OIG initiated an audit of the SEC’s controls over distributions to harmed investors. Our audit objectives are to assess (1) the SEC’s policies, procedures, and efforts to collect disgorgement and penalty funds and to accurately and timely distribute those funds to harmed investors; and (2) the SEC’s policies, procedures, and controls for overseeing the work of third-party entities used in the distribution process.

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

### Evaluation of the SEC’s Use of the Reserve Fund

Section 991(e) of Dodd-Frank, P.L. 111-203, authorized the Treasury to create an SEC Reserve Fund, which is funded from fees paid under Section 6(b) of the Securities Act of 1933 and Section 24(f) of the Investment Company Act of 1940, subject to certain limits. Section 991(e) specifies that the SEC can use the Reserve Fund as the SEC determines is necessary to carry out its functions. This section also requires the SEC to notify Congress, within 10 days of the obligation of amounts from the Reserve Fund, of the date, amount, and purpose of the obligation. In Congressional testimony, the SEC Chair has identified a number of key information technology modernization initiatives that are being supported by the use of the Reserve Fund.

The OIG initiated an evaluation of the SEC’s use of the Reserve Fund. Our objective is to assess how the Reserve Fund was used during FYs 2012, 2013, and 2014. We expect to complete and report on the results of our evaluation during the next semiannual reporting period.



## 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 adheres to the CIGIE Quality Standards for Investigations and the U.S. Attorney General's Guidelines for Offices of Inspectors General with Statutory Law Enforcement Authority (Attorney General's Guidelines). 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 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 individuals to report their allegations to the OIG directly and confidentially.

### STATUS OF PREVIOUSLY REPORTED INVESTIGATIONS

#### Unauthorized Transmission of Personally Identifiable Information by an SEC Employee (Case No. 14-0516-1)

As discussed in our previous semiannual report, the OIG initiated an investigation upon learning that an SEC headquarters employee had sent a spreadsheet containing personally identifiable information (PII) of SEC employees to his personal Internet email account. The OIG's investigation revealed that the employee sent approximately 40 work-related and sensitive emails to his personal Internet email account over a 2-year period. The OIG did not find evidence that the employee disseminated PII to unauthorized persons or used the documents for unauthorized purposes.

The OIG referred the results of its investigation to SEC management for any action deemed appropriate. In November 2014, before management finalized administrative action, the employee resigned from the SEC.

#### Allegation of Misconduct by an SEC Manager (Case No. 14-0543-I)

Our previous semiannual report also described an OIG investigation that substantiated allegations that an SEC manager had asked a former subordinate to retract a complaint the employee had previously made against the manager. This complaint had been included, along with other complaints, in an official reprimand of the manager. The OIG also found evidence that the manager had requested retraction of the complaint around the same time the employee sought reassignment to the manager's office and the manager had advocated on the employee's behalf. However, the OIG did not develop evidence that the manager requested the retraction in exchange for facilitating the employee's return to the manager's office.

The OIG referred the results of its investigation to SEC management for any action deemed appropriate. During this semiannual reporting period, management notified the OIG that, pursuant to a settlement agreement, the manager was demoted to a non-supervisory position and waived the right to compete for any SEC supervisory position.

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

As discussed in our previous semiannual report, an OIG investigation disclosed that an SEC attorney had transmitted a spreadsheet containing PII, as well as other nonpublic information, to his personal Internet email account. The OIG also determined that during the period reviewed, the attorney had transmitted about 30 nonpublic or SEC-sensitive unencrypted documents to this Internet email account. The OIG, however, did not find evidence

that the employee disseminated PII or other non-public 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. Management's response was still pending at the end of this semiannual reporting period.

## COMPLETED INVESTIGATIONS

#### Allegation of Improper Disclosure of Nonpublic Information (Case No. 14-0005-I)

The OIG investigated an allegation that an employee may have disclosed nonpublic information about a contract solicitation to a personal friend. The OIG's investigation determined that the employee did not disclose nonpublic information. The evidence obtained showed that the alleged disclosure was made after the information about the solicitation was made available to the public. Additionally, during the investigation, the employee retired from the SEC. The OIG reported its findings to management for informational purposes.

#### Financial Conflict of Interest on the Part of a Contracting Officer's Representative (Case No. 14-0024-I)

The OIG investigated an allegation that an employee who served as a COR for an SEC contract had a conflict of interest because he owned securities of the contracting firm. The employee had disclosed in his Office of Government Ethics (OGE) Form 450, Confidential Financial Disclosure Report, that he held the firm's stock, during the same time he served as COR on the contract.

The OIG investigation confirmed that the employee held shares of the firm's stock while he served as COR for the firm's contract. Based on the highest market value of the employee's shares while he was COR for the contract, the OIG determined that his

stock holdings in the firm fell within the *de minimis* exemption to the financial conflict of interest prohibition found at 5 CFR § 2640.202. However, the OIG found that the employee failed to comply with his responsibilities under 5 CFR § 2640.205, which required him, before taking any official action on the contract, to determine if his financial interests in the firm disqualified him from working on the particular matter.

The OIG reported the results of its investigation to SEC management to determine whether corrective administrative action may be warranted. In response, SEC management notified the OIG that the employee was counseled.

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

The OIG investigated allegations that (1) an SEC contractor manipulated cost data resulting in the misstatement of costs in the SEC's financial statements; and (2) another SEC contractor attempted to solicit nonpublic, procurement-related information from his subordinate employees and encouraged a subordinate employee to increase the hours he was working on SEC task orders. The OIG investigation did not substantiate these allegations. However, during the investigation, the OIG discovered that a current SEC employee and a former SEC employee had forwarded an email to a contractor that contained internal, pre-solicitation discussions about two contracts that were ultimately awarded to a company affiliated with the contractor's firm. The OIG did not find evidence that the disclosure affected the contract awards.

The OIG reported the results of its investigation to SEC management for any action deemed appropriate. Management's response was pending at the end of the semiannual reporting period.

#### Financial Conflict of Interest (Case No. 14-0037-I)

The OIG investigated allegations that an employee may have violated a criminal conflict of interest statute, 18 U.S.C. § 208, Acts affecting a personal financial interest, by personally and substantially participating in matters related to an SEC contracting firm that employed her husband.

The OIG investigation disclosed that the employee participated personally and substantially in particular matters involving the contracting firm in which she had imputed financial interests due to her husband's position and compensation from the company. In addition, the OIG found evidence that the employee had omitted her husband's stock holdings in the contracting firm and a sector fund from an OGE Form 450, Confidential Financial Disclosure Report, she filed. The OIG further found evidence that the employee inaccurately portrayed her work on matters involving the contracting firm in a memorandum she wrote to the SEC's OEC.

The OIG referred this matter to a U.S. Attorney's Office (USAO), which accepted the matter for civil action. In October 2014, the USAO entered into a settlement agreement with the employee. Under the terms of that agreement, the employee agreed to pay \$25,000 to the government. Additionally, the employee retired from the SEC.

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

The OIG investigated allegations that an SEC staff accountant held shares of stock in various companies that she was prohibited from owning under the SEC's supplemental ethics regulation when she joined the SEC. The OIG investigation determined that the staff accountant held prohibited stocks for a 2-year period. The staff accountant admitted that she knew these holdings were prohibited and that she knowingly failed to disclose them to the SEC's OEC for two years, after which she divested

the holdings and realized a gain of approximately \$1,500.

The investigation further revealed that the staff accountant failed to pre-clear a purchase, executed in her husband'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 she or her husband held securities.

The OIG referred the matter to a USAO, which declined criminal prosecution. The OIG then 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 semiannual reporting period.

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

The OIG investigated allegations that an SEC attorney held shares of several securities that the SEC's supplemental ethics regulation prohibited her from owning. Specifically, the attorney disclosed on an annual OGE Form 450, Confidential Financial Disclosure Report, she filed that she owned two prohibited holdings. The employee had also reported in the SEC's previous trading compliance system that she owned another prohibited holding that was not disclosed on her annual OGE Form 450.

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 and did not accurately report her holdings on her annual OGE Forms 450 or in the SEC's current trading compliance system. After the OEC and OIG contacted the attorney during the investigation, she divested the prohibited shares, generating a gain of approximately \$7,000 more than if she had sold

these securities when they became prohibited. However, the OIG did not find 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.

The OIG referred the facts developed during the investigation to a USAO, which declined prosecution. The OIG then 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 semiannual reporting period.

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

The OIG investigated allegations of theft by an SEC regional office employee. Specifically, the employee was observed removing food from the dining facility in the building where the regional office is located without providing payment. The investigation further determined that the employee stole supplies and equipment from the SEC's OIT.

As a result, on November 12, 2014, the employee was arrested jointly by the OIG and the local police department on a Felony Complaint for Larceny and Criminal Possession of Stolen Property filed by the local district attorney's office. Criminal proceedings were pending at the end of the semiannual reporting period.



## OVERSIGHT AND REVIEW

### OVERVIEW

The OIG has created an Office of Oversight and Review (ONR) to conduct reviews of complex high-profile matters involving SEC programs, operations, or employees. At this time, a small staff of ONR attorneys is developing policies and procedures for ONR reviews.

### COMPLETED REVIEW

#### Preliminary Review of the Division of Enforcement's Technology Forensics Laboratory's Internal Controls (Case No. 15-0164-R)

In response to a request received from an SEC official, ONR conducted a preliminary review into whether the Division of Enforcement's Information Technology Forensics Laboratory (ITFL) had suf-

ficient internal controls to mitigate the risk associated with certain technology it had purchased using the SEC's Reserve Fund established under Dodd-Frank. During this preliminary review, ONR staff interviewed the ITFL Branch Chief, toured the ITFL facility, and reviewed the ITFL's Standard Operating Procedures. Based on our preliminary review, it appeared that the ITFL had sufficient internal controls in place to protect against the misuse of its technologies.

In addition, we confirmed that the technology purchased with the Reserve Fund had been received and that the SEC had notified Congress of the related obligation of funds as required by Section 991(e) of Dodd-Frank. We provided the information obtained during our preliminary review to the OIG's Office of Audits for consideration in its Evaluation of the SEC's Use of the Reserve Fund.



## REVIEW OF LEGISLATION AND REGULATIONS

**D**uring this semiannual reporting period, the OIG reviewed and monitored the following legislation and regulations:

### P.L. 113-235

Consolidated and Further Continuing Appropriations Act, 2015, Section 746 (enacted December 16, 2014)(requiring OMB, in consultation with CIGIE, GAO and other stakeholders to develop (1) criteria for an agency to qualify for a consolidated department level financial statement audit rather than an agency level audit, and (2) recommendations to improve current financial reporting requirements to increase government transparency);

### P.L. 113-283

Federal Information Security Modernization Act of 2014 (enacted December 18, 2014)(Amending FISMA in various respects, including clarifying the responsibilities of OMB and the Department of Homeland Security and requiring federal agencies to notify Congress of major security incidents within 7 days);

### S. 2927

Inspectors General Streamlining Act (introduced November 13, 2014)(seeking to strengthen IG audits and investigations by streamlining computer matching agreements);

### 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) strengthen IG independence, (2) give IGs testimonial subpoena authority subject to certain conditions, and (3) create an exception for IGs to the computer matching restrictions of current law); and

### H.R. 653

FOIA Oversight and Implementation Act of 2015 (introduced February 2, 2015)(seeking to amend the Freedom of Information Act (FOIA) to provide the public with greater access to information; would require each IG to (1) periodically review compliance with FOIA requirements, and (2) make recommendations to the agency head, including recommendations for disciplinary action).

# 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
527	Audit of the Office of the Ethics Counsel's Oversight of Employee Security Holdings	12/10/2014
528	Audit of the Representation of Minorities and Women in the SEC's Workforce	11/20/2014
529	Federal Information Security Management Act: Fiscal Year 2014 Evaluation	02/5/2015
Letter Report	Inspector General's Report to OMB on the SEC's Implementation of Purchase Card Program Audit Recommendations	01/13/2015
Letter Report	Inspector General's Review of the SEC's Fiscal Year 2014 Compliance with the Improper Payments Information Act	01/21/2015
Memorandum	Results of Inspector General's Fiscal Year 2014 Purchase Card Program Risk Assessment	02/24/2015

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	0	\$0
<b>Total of Categories A and B</b>	0	\$0
C. For which final management decisions were made during this period	0	\$0
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
<b>Total of Categories C, D, and E</b>	0	\$0

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 16 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	2	5/30/2014	Ensure the SEC improves controls over laptop encryption by reviewing the processes in place and identifying and correcting weaknesses detected.
521 - Review of the SEC's Practices for Sanitizing Digital Information System Media	3	5/30/2014	Develop and implement internal controls and provide oversight and guidance to ensure the accuracy of the SEC's inventory records for hard drives.
521 - Review of the SEC's Practices for Sanitizing Digital Information System Media	4	5/30/2014	Develop and implement processes for removing data from hard disks used in disk arrays before returning disks to the disk array vendors.
521 - Review of the SEC's Practices for Sanitizing Digital Information System Media	6	5/30/2014	Coordinate with designated agency officials to review the SEC's media sanitization policies and procedures and revise them as necessary, clarify organizational roles and responsibilities for media sanitization and disposal processes, and require the disposal of media awaiting sanitization on a frequent basis.
521 - Review of the SEC's Practices for Sanitizing Digital Information System Media	8	5/30/2014	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	1	3/31/2014	Identify, evaluate, and document security controls for an externally-hosted system.
522 - Federal Information Security Management Act: Fiscal Year 2013 Evaluation	3	3/31/2014	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.
522 - Federal Information Security Management Act: Fiscal Year 2013 Evaluation	4	3/31/2014	Review certain user accounts to determine whether users still require access.

Table 3. Continued

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
522 - Federal Information Security Management Act: Fiscal Year 2013 Evaluation	5	3/31/2014	Implement a centralized management tool that can automatically generate a list of user accounts.
522 - Federal Information Security Management Act: Fiscal Year 2013 Evaluation	6	3/31/2014	Periodically review and reconcile user accounts for a particular system, remove all accounts that do not require access, and then recertify the user accounts for the system.
522 - Federal Information Security Management Act: Fiscal Year 2013 Evaluation	8	3/31/2014	Conduct regularly scheduled scans of the SEC's workstations and laptops to identify unapproved software and take remedial action, such as removing software or obtaining approval for the software from the change control board.
523 - Audit of the SEC's Physical Security Program	2	8/1/2014	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	8/1/2014	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	4	8/1/2014	Verify that (a) only authorized personnel have been provided SEC-issued badges; and (b) badge expiration dates have not exceeded 180 days from the date of issuance, and take corrective action to address any discrepancies found.
523 - Audit of the SEC's Physical Security Program	6	8/1/2014	Assess and revise the SEC's physical security contract to (a) ensure that the contract meets the SEC's business needs, provides adequate protection of SEC personnel and assets, and reflects facility security level determinations; and (b) provide any required onsite monitoring of SEC facilities.
523 - Audit of the SEC's Physical Security Program	7	8/1/2014	Conduct a thorough review of physical security controls and mitigate any vulnerabilities identified and assign facility security levels.
523 - Audit of the SEC's Physical Security Program	8	8/1/2014	Coordinate with OA and OIT to ensure that all physical security contract requirements are being met.
524 - Controls Over the SEC's Inventory of Laptop Computers	2	9/22/2014	Ensure that SEC personnel have the ability to search for and track unaccounted-for laptops and provide periodic status updates on laptops that have been reported lost or stolen so that the inventory can be updated.

Table 3. Continued

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
524 - Controls Over the SEC's Inventory of Laptop Computers	3	9/22/2014	Complete the SEC's ongoing agencywide inventory, promptly update the inventory system, and report unaccounted-for laptops to the proper entity.
524 - Controls Over the SEC's Inventory of Laptop Computers	4	9/22/2014	Ensure that the SEC's replacement IT service management system includes segregation of duty controls, minimizes the number of user accounts that have permission to delete assets from the inventory, and includes an audit trail.

Table 4. Summary of Investigative Activity for the Reporting Period of October 1, 2014 to March 31, 2015

Investigative Caseload	Number
Cases Open at Beginning of Period	37
Cases Completed but Not Closed* at Beginning of Period	3
Cases Opened During Period	25
Cases Closed During Period	11
Cases Completed but Not Closed at End of Period	4
Open Cases at End of Period	50

\* 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	10
Accepted	1
Pending	2
Declined	7
Indictments/Informations	1
Arrests	1

Monetary Results	Number
Criminal Fines/Restitutions/Recoveries/Assessments/Forfeitures	\$0
Civil Fines/Restitutions/Recoveries/Penalties/Damages/Forfeitures	\$25,000

Administrative Investigative Activities	Number
Removals, Retirements, and Resignations	4
Suspensions	1

Complaints Received	Number
Hotline Complaints	105
Other Complaints	172
Total Complaints During Period	277

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	19
5(a)(1)	Significant Problems, Abuses, and Deficiencies	7-11, 14-17
5(a)(2)	Recommendations for Corrective Action	7-10
5(a)(3)	Prior Recommendations Not Yet Implemented	22-24
5(a)(4)	Matters Referred to Prosecutive Authorities	16-17, 25
5(a)(5)	Summary of Instances Where the Agency Unreasonably Refused or Failed to Provide Information to the OIG	20
5(a)(6)	List of OIG Audit and Evaluation Reports Issued During the Period	21
5(a)(7)	Summary of Significant Reports Issued During the Period	7-12, 15-18
5(a)(8)	Statistical Table on Management Decisions with Respect to Questioned Costs	21
5(a)(9)	Statistical Table on Management Decisions on Recommendations that Funds Be Put to Better Use	21
5(a)(10)	Summary of Each Audit, Inspection or Evaluation Report Over Six Months Old for Which No Management Decision has been Made	20
5(a)(11)	Significant Revised Management Decisions	20
5(a)(12)	Significant Management Decisions with Which the Inspector General Disagreed	20
5(a)(14)(B)	Date of the Last Peer Review Conducted by Another OIG	27

# 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 most recent external peer review of the SEC OIG's audit operations was conducted 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 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. Further, there are no outstanding recommendations from previous peer reviews of the SEC OIG's audit organization.

The peer review report is available on our website at [www.sec.gov/about/offices/oig/reports/reppubs/other/finalpeerreviewreport-sec.pdf](http://www.sec.gov/about/offices/oig/reports/reppubs/other/finalpeerreviewreport-sec.pdf).

We expect the next external peer review of the Office of Audit's system of quality control to occur in calendar year 2015.

## PEER REVIEW OF THE SEC OIG'S INVESTIGATIVE OPERATIONS

During the semiannual reporting period, the SEC OIG did not have an external peer review of its investigative operations. The most recent peer review of the SEC OIG's investigative operations was conducted by the Federal Housing Finance Agency (FHFA). The FHFA OIG conducted its review in conformity with the Quality Standards for Investigations and the Quality Assessment Review Guidelines established by CIGIE and the Attorney General's 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's 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's Guidelines for the period during which they were applicable.

# 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.sec.gov/about/offices/oig/inspector\\_general\\_investigations\\_hotline.shtml](http://www.sec.gov/about/offices/oig/inspector_general_investigations_hotline.shtml)  
**HOTLINE**

**FAX**                202.772.9265

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

**EMAIL**            [oig@sec.gov](mailto:oig@sec.gov)

*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/about/offices/inspector\\_general.shtml](http://www.sec.gov/about/offices/inspector_general.shtml)