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Introduction

Mister Chairman and Members of the Subcommittee, today it is my privilege to introduce myself as the newly appointed Inspector General of the U.S. Securities and Exchange Commission ("SEC"). In my testimony, I am representing the Office of Inspector General ("OIG"). The views expressed are those of myself and my office, and do not necessarily reflect the views of the Commission or any Commissioners.

Despite the constrained fiscal environment facing our nation, we feel our aggregate budget request for the operations of the OIG for Fiscal Year 2014 ($7.848 million) is justified as we continue to focus on improving agency programs and operations through audits, evaluations, and reviews, while emboldening staff and agency integrity by investigating allegations of employee and contractor misconduct. As the SEC strives to ensure confidence in our capital markets, we continue working with the Commission to assist in its mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. I envision that with my experience in investigations and forensic accounting, I will effectively be the "eyes and ears" for Congress and be a steadfast and independent advisor for the Commission.

Role of the OIG

I would like to begin my remarks by briefly discussing the role of my office and the oversight efforts we anticipate for the next few years. The OIG is an independent office within the SEC that conducts audits of programs and operations of the Commission and investigations into allegations of misconduct by agency staff and contractors. Our office, in accordance with the Inspector General Act of 1978, as amended, does not set policy for the SEC nor make substantive determinations regarding the Commission's program functions or budgetary process. Rather, our mission is to promote the integrity, efficiency, and effectiveness of the programs and operations of the SEC, and to report our findings and recommendations to the agency and Congress. Since my appointment as Inspector General of the SEC last month, the OIG's investigative and audit units have continued vigorous oversight of the SEC.

SEC OIG Audits, Including Audits of Rulemaking Cost-Benefit Analyses

The Office of Inspector General's Office of Audits is comprised of six auditors who report to the Assistant Inspector General for Audits. During Fiscal Year 2012, the OIG issued eight audit and evaluation reports involving matters critical to SEC programs and operations, including the cost-benefit analyses conducted for six rulemakings made pursuant to the Dodd-Frank Act (as discussed further below), the SEC's continuity of operations program, and records management practices. The reports issued contained 102 recommendations with which the agency fully concurred. We also saw the closure of 155 recommendations, from OIG reports issued during and prior to Fiscal Year 2012.

On June 13, 2011, the OIG released an audit report entitled, "Report of Review of Economic Analyses Performed by the Securities and Exchange Commission in Connection with Dodd-Frank Act Rulemakings. In that report, the OIG reviewed the cost-benefit analyses performed by the SEC in connection with six specific rulemaking initiatives pursuant to the Dodd-Frank Act. The OIG concluded that the SEC had conducted a systematic cost-benefit analysis for each of the six rules, but found that the level of involvement of the Division of Risk, Strategy and Financial Innovation (RiskFin) varied considerably from rulemaking to rulemaking.

On January 27, 2012, the OIG issued an additional report entitled, "Follow-up Review of Cost-Benefit Analyses in Selected Dodd-Frank Act Rulemakings." In the second review, the OIG's objectives were to assess whether the SEC was performing cost-benefit analyses for rulemaking initiatives that were statutorily required under the Dodd-Frank Act in a reliable manner, and to determine whether areas existed where rigorous cost-benefit analyses were not performed and where best practices could be identified to enhance the overall methodology used to perform cost-benefit analyses. In the follow-up report issued on January 27, 2012, the OIG found that although the SEC is not subject to a specific statutory requirement to conduct cost-benefit analyses for its rulemakings, it is subject to various statutory requirements to consider factors such as the proposed rule's effects on competition and the needs of small entities.

The second report also noted that the previous SEC Chairmen had committed to Congress that the SEC would conduct cost-benefit analyses in connection with its rulemaking activities, and that the agency had made a practice of performing such analyses in its rulemakings. Furthermore, the OIG found that to the extent that the SEC performs cost-benefit analyses only for discretionary rulemaking activities without a pre-statute baseline, the SEC may not be providing a full picture of whether the benefits of a regulatory action are likely to justify its costs and which regulatory alternatives would be the most cost-effective. We also noted that some SEC Dodd-Frank Act rulemakings lacked clear, explicit explanations of the justification for regulatory action. The report found that a more focused discussion of market failure in cost-benefit analyses would identify the rationale for regulation more clearly to Congress, the general public, and the SEC itself. Finally, the review found that although some of the SEC's Dodd-Frank Act rulemakings may result in significant costs or benefits to the Commission itself, internal costs and benefits were rarely addressed in the cost-benefit analyses.

Based on the results of the review, the report made several recommendations for improvements to the SEC's practices. SEC management concurred with all but one of the report's recommendations; however, they took actions sufficient for OIG to close all the recommendations in the report.

SEC OIG Investigations

The SEC OIG's Office of Investigations is comprised of six investigators who report to the Assistant Inspector General for Investigations. Notwithstanding the small size of the investigative staff, the Office of Investigations has conducted numerous investigations and inquiries into alleged violations of statutes, rules and regulations, and other misconduct by Commission staff and contractors. In Fiscal Year 2012, the OIG received approximately 535 complaints, and opened 10 investigations and 42 preliminary inquiries based upon those complaints. In this same time period, the OIG concluded 15 investigations and 75 preliminary inquiries, resulting in 5 referrals to the Department of Justice and 11 referrals to agency management for consideration of administrative action. To date in Fiscal Year 2013, the OIG has received approximately 220 complaints, has opened 7 investigations and 8 preliminary inquiries, and has concluded 3 investigations and 20 preliminary inquiries.

The investigative reports issued by the OIG during FY 2012 and FY 2013 have addressed a wide variety of allegations, including alleged procurement violations and conflicts of interest, misuse of government resources, security violations, fraud and falsification of benefits documents, unauthorized disclosure of nonpublic information, and prohibited personnel practices. Most significantly, in August 2012, the OIG issued a report of investigation concerning various information technology security violations and mismanagement within a lab in the SEC's Division of Trading and Markets. Specifically, the OIG's investigation found that since 2006, lab staff had spent over $1 million dollars on computer equipment and software with little oversight or planning, and that a significant portion of the equipment and software purchased was unnecessary or never used. We also found that some of the lab's equipment was taken home by lab employees and used primarily for personal purposes, and that some equipment was purchased based on misrepresentations made by lab staff in contacting documents. The OIG investigation further found that lab staff violated SEC information technology security policies and took laptops without proper encryption and virus protections on inspections. SEC management promptly began to take action to address the OIG's findings. We are currently completing a follow-up investigation to review management's response to the OIG's report and to determine whether any sensitive information was compromised as a result of the identified security violations.

Conclusion

I believe that the SEC's mission of protecting of investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation is more important than ever. As our nation's securities exchanges mature into global, for-profit competitors, there is even greater need for sound market regulation. At the same time, the SEC has a responsibility to utilize government funds in an efficient and effective manner. The OIG intends to remain vigilant to ensure that scarce government resources are utilized wisely and cost-effectively, and that instances of waste and abuse are eliminated.

I appreciate the interest of the Subcommittee in the SEC and my Office. I believe that the Subcommittee's and Congress's continued involvement with the SEC is helpful to strengthen the accountability and effectiveness of the Commission. Thank you.