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SEMIANNUAL REPORT TO CONGRESS

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U.S. SECURITIES AND
EXCHANGE COMMISSION



OFFICE OF INSPECTOR GENERAL
SEMIANNUAL REPORT TO CONGRESS

APRIL 1, 2020 THROUGH SEPTEMBER 30, 2020



OIG MISSION

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 (agency or SEC). 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 Chairman and Commissioners fully and currently informed of significant issues and developments.

“We continued our efforts to meet our strategic goals of (1) delivering results that promote integrity, efficiency, and effectiveness in the SEC’s programs and operations; (2) advancing an inclusive and dynamic OIG culture that inspires high performance; and (3) improving the effectiveness and efficiency of OIG processes through continuous innovation, collaboration, and communication.”

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ABBREVIATIONS

Acquisitions	Office of Acquisitions
Agency/SEC	U.S. Securities and Exchange Commission
CEO	Chief Executive Officer
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
DERA	Division of Economic and Risk Analysis
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOJ	Department of Justice
ENF	Division of Enforcement
ESP	Employee Suggestion Program
Facebook	Facebook, Inc.
FBI	Federal Bureau of Investigation
FISMA	Federal Information Security Modernization Act of 2014
FRB/CFPB	Federal Reserve Bank/Consumer Finance Protection Bureau
FY	fiscal year
GAO	Government Accountability Office
IG	Inspector General
IPERA	Improper Payments Elimination and Recovery Act of 2010
ISS	infrastructure support services
IT	Information Technology
LSC	Legal Services Corporation
NSF	National Science Foundation
OA	Office of Audits
OFM	Office of Financial Management
OI	Office of Investigations
OIEA	Office of Investor Education and Advocacy
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
Pixar	PixarBio Corporation
SRA	SRA International Inc.
TCR	tips, complaints, and referrals
Treasury	Department of the Treasury
U.S.C.	United States Code
USAO	U.S. Attorney's Office
WSJ	<i>Wall Street Journal</i>





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, 2020, to September 30, 2020, and reflects our responsibility to report independently to Congress and the Commission. The audits, evaluations, investigations, and other reviews that we describe in this report illustrate the OIG's efforts to promote the efficiency and effectiveness of the SEC and to demonstrate the impact that our work has had on the agency's programs and operations.

During this semiannual reporting period, we continued our efforts to meet our strategic goals of (1) delivering results that promote integrity, efficiency, and effectiveness in the SEC's programs and operations; (2) advancing an inclusive and dynamic OIG culture that inspires high performance; and (3) improving the effectiveness and efficiency of OIG processes through continuous innovation, collaboration, and communication.

In the course of this reporting period, on April 27, 2020, the OIG's Office of Audits (OA) issued its *Evaluation of the SEC's FY 2019 Compliance with the Improper Payments Elimination and Recovery Act of 2010 (Report No. 561)*, which includes recommendations that the Office of Financial Management (OFM) (1) update OFM Reference

Guide Chapter 60.08 to ensure risk assessments include for consideration deficiencies and improper payments identified, even if not considered significant, and (2) develop a risk-based approach for routinely selecting and testing vendor invoice transactions. Next, on September 30, 2020, we issued *Opportunities Exist To Improve the SEC's Management of Mobile Devices and Services (Report No. 562)*, which includes seven recommendations to improve the SEC's management of mobile devices and services.

OA also worked with SEC management to close 21 recommendations made in 9 OIG reports issued during this and previous semiannual reporting periods.

In addition, the Office of Investigations (OI) completed or closed 18 investigations during this reporting period. Our investigations resulted in 9 referrals to the Department of Justice (DOJ), 7 of which were accepted for prosecution, and 2 referrals to management for administrative action.

The OIG is in the midst of building out the information technology (IT) functions of the office. A new Supervisory IT Specialist was hired and will lead the new IT team. The OIG IT function will have four broad areas of responsibilities: maintain OIG systems, maintain OIG hardware and software to enable and enhance mission productivity, shepherd the IT data analytics function, and be the OIG IT knowledge and resource center.

In the last few months, we established two special working groups: a Diversity, Equity, and Inclusion Working Group and an Employee Engagement Working Group. The Diversity, Equity, and Inclusion Working Group developed a framework to discuss, explore, and coordinate activities for OIG personnel to promote a culture of trust where diversity is championed and celebrated, where all employees are treated equitably, and where all employees feel included. Seeking to improve employees' experiences during their tenure at the OIG, the Employee Engagement Working Group formulated an action plan based on recommendations from an indepen-

dent consultant who conducted an in-depth analysis of the previous year's Federal Employee Viewpoint Survey data and interviewed OIG staff.

Because remote operations during this pandemic period have presented some challenges to both businesses and governmental agencies, I am proud of how the SEC OIG has performed during this time of uncertainty and has operated and produced in an outstanding manner. We have accomplished our mission to provide oversight that is essential to the Commission and to the American taxpayer and have capably progressed on our mandate.

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 to the Commission. We will continue to work 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 our efforts with the Commission and staff, as well as with Congress, to accomplish our mission.



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 capital markets that inspire public confidence and provide a diverse array of financial opportunities to retail and institutional investors, entrepreneurs, public companies, and other market participants. Its core values consist of integrity, excellence, accountability, teamwork, fairness, and effectiveness. The SEC's goals are (1) focus on the long-term interests of our Main Street investors; (2) recognize significant developments and trends in our evolving capital markets and adjusting our efforts to ensure we are effectively allocating our resources; and (3) elevate the SEC's performance by enhancing our analytical capabilities and human capital development.

The SEC is responsible for overseeing the nation's securities markets and certain primary participants, including broker-dealers, investment companies, investment advisers, clearing agencies, transfer agents, credit rating agencies, and securities exchanges, as well as organizations such as the Financial Industry Regulatory Authority, Municipal Securities Rulemaking Board, and the Public Company Accounting Oversight Board. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank), the agency's jurisdiction was expanded to include certain

participants in the derivatives markets, private fund advisers, and municipal advisors.

The SEC accomplishes its mission through 5 main divisions—Corporation Finance, Enforcement (ENF), Investment Management, Trading and Markets, and Economic and Risk Analysis—and 25 functional offices. With headquarters in Washington, DC, the agency has 11 regional offices located throughout the country. As of September 2020, the SEC employed 4,411 full-time equivalent employees.

OIG STAFFING, RESOURCES, AND ADMINISTRATION

During this semiannual reporting period, the OIG recruited to fill key vacancies integral to the OIG's functions. For example, we hired a criminal investigator, and to meet increased IT demands, we created an IT branch, promoting an IT Specialist to a Supervisory IT Specialist. We also continued our efforts to meet our strategic goals of (1) delivering results that promote integrity, efficiency, and effectiveness in the SEC's programs and operations; (2) advancing an inclusive and dynamic OIG culture that inspires high performance; and (3) improving the effectiveness and efficiency of OIG processes through continuous innovation, collaboration, and communication.

OIG OUTREACH

The IG regularly met with the Commissioners and senior officers 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 agency management's input on what it believes are the areas presenting the greatest risks or challenges, facilitating the OIG's identification and planning for 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.

The OIG also continued its efforts to educate SEC employees on the roles and responsibilities of the OIG. The OIG participates in the SEC's new employee orientation sessions and gives an overview

of the OIG and its various functions. Additionally, the OIG continued to educate staff on and promote the OIG's SEC Employee Suggestion Program (ESP), to encourage suggestions for improvements in the SEC's work efficiency, effectiveness, and productivity, and the use of its resources.

OI continued delivering its fraud awareness briefing program throughout the SEC. These briefings serve to educate SEC employees on the activities of the OIG as well as specific vulnerabilities in the programs they oversee. The briefings also enhance the OIG's "eyes and ears," with the goal of achieving more timely and complete reporting of possible fraud, waste, and abuse in SEC programs and operations. Additionally, the OIG continued its collaboration with the SEC's OFM and Office of Acquisitions (Acquisitions) to provide a fraud awareness training module during annual training for contracting officials.



COORDINATION WITH OTHER AGENCIES

During this semiannual reporting period, the SEC OIG coordinated its activities with those of other agencies, pursuant to Section 4(a)(4) of the IG 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 Dodd-Frank. 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 IG for the Troubled Asset Relief Program. As required by Dodd-Frank, CIGFO meets at least once every three months. At the 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 IGs within CIGFO report annually on the Top Management and Performance Challenges facing their respective Financial-Sector Regulatory Organizations. This report reiterates the six challenges from the CIGFO 2018 report and included an additional challenge for 2019—Improving Contract and Grant Management.

- Enhancing Oversight of Financial Institution Cybersecurity
- Managing and Securing IT at Regulatory Organizations
- Sharing Threat Information
- Ensuring Readiness for Crises
- Strengthening Agency Governance
- Managing Human Capital
- Improving Contract and Grant Management

The SEC IG also attended meetings of the Council of the Inspectors General on Integrity and Efficiency (CIGIE). In addition, the OIG participated on a team to update CIGIE Quality Standards for Digital Forensics, which provide a framework for performing high-quality digital forensics in support of investigations conducted by an OIG.

The OIG also participated and served as the Chairman of the CIGIE Undercover Review Committee, which provided recommendations and approvals on the suitability of undercover operations that involved sensitive circumstances that were carried out in accordance with DOJ guidelines. The OIG also successfully sponsored its first “all-virtual” CIGIE peer review training program for about 165 OIG representatives, which was designed to ensure the peer reviews were conducted in accordance with the CIGIE Qualitative Assessment Review guidelines as well as the reviewed agency’s policies. Additionally, we collaborated with the OIG community to assist DOJ in ensuring full reporting of required criminal history information to the National Instant Criminal Background Check System.

In July 2020, OA coordinated with and provided assistance to the Federal Reserve Bank/Consumer Finance Protection Bureau (FRB/CFPB) OIG. FRB/CFPB OIG was conducting a workforce planning effort for its IT Audit function. In conducting this effort, FRB/CFPB OIG wanted to benchmark with several other OIGs, including the SEC OIG, on how other IT Audit functions are organized. This effort included providing workforce data related to the SEC OIG’s IT Audit function. We provided details about OA’s organizational structure and our staffing approach to conducting our annual evaluations of the SEC’s compliance with the Federal Information Security Modernization Act of 2014 (Public Law 113-283). In September 2020, OA assisted the National Credit Union Administration

OIG, which was benchmarking other agency IT governance frameworks. Specifically, the National Credit Union Administration OIG sought to obtain, and OA helped to provide, information about IT governance bodies’ authority, oversight, thresholds, and charters.

In addition, OA is representing the SEC OIG on the most recent CIGFO working group effort, which seeks to compile forward-looking guidance for the Financial Stability Oversight Council and its members to consider in preparing for a crisis. This project will be coordinated by CIGFO members and the guidance compiled will be transmitted to the Financial Stability Oversight Council. The forward-looking guidance is intended to be a compilation of lessons learned drawn from the experiences of federal agencies (during prior crises and any learned during the recent COVID-19 pandemic), and to facilitate effective crisis response as the Financial Stability Oversight Council fulfills its mission to identify threats to the financial stability of the country, promote market discipline, and respond to emerging threats to the stability of the U.S. financial system.

Finally, OIG staff also participated in the activities of the Deputy Inspectors General group and the CIGIE Freedom of Information Act Working Group, the CIGIE Inspection and Evaluation peer review working group, and the CIGIE Diversity, Equity, and Inclusion efforts.



AUDITS AND EVALUATIONS

OVERVIEW

OA conducts, coordinates, and supervises independent audits and evaluations of the agency's programs and operations at the SEC's headquarters and 11 regional offices. OA 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, OA monitors the SEC's progress in taking corrective actions on recommendations in OIG audit and evaluation reports.

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

OA conducts audits in compliance with generally accepted government auditing standards issued by the Comptroller General of the United States. OIG evaluations follow CIGIE's *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, as necessary, to correct those deficiencies or increase efficiencies in an SEC program or operation.

COMPLETED AUDITS AND EVALUATIONS

Evaluation of the SEC's FY 2019 Compliance With the Improper Payments Elimination and Recovery Act of 2010 (Report No. 561)

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) requires executive branch agencies to review all programs and activities; identify those susceptible to significant improper payments (that is, improper payments over specific dollar value thresholds); and, if necessary, submit to Congress an estimate of the annual amount of improper payments from susceptible programs. IPERA also requires that each agency IG determine annually whether his or her respective agency complied with those requirements.

We conducted this evaluation to determine whether the SEC complied with the requirements of IPERA for fiscal year (FY) 2019. We found that the SEC complied with IPERA for FY 2019 and has consistently reported that its programs are not susceptible to significant improper payments; however, the agency can improve its risk assessment and testing methodology by making better use of available information.

Between FY 2017 and FY 2019, seven OIG audit and evaluation reports and OFM's own monthly vendor invoice transaction testing identified improper payments and conditions that increased the risk of improper payments. Although the SEC's FY 2019 risk assessment summary report stated that its risk assessment included a review of information from OIG audits, the report and accompanying information did not address or acknowledge specific OIG findings. In addition, OFM personnel did not alter their methodology for routinely selecting and testing vendor invoice transactions despite the repeated, albeit small, improper payments they had previously identified. These conditions occurred because, in accordance with OFM policy, the organization only considered the results of relevant audit findings categorized as "significant deficiencies." In addition, the methodology OFM's Accounts Analysis Branch personnel used to test monthly vendor invoice transactions was not risk-based and therefore was not updated based on prior results.

We issued our final report on April 27, 2020, and made two recommendations to improve the SEC's risk assessment and testing methodology. The SEC concurred with these recommendations and has already taken necessary actions to close them. This report is available on our website at <https://www.sec.gov/files/Evaluation-of-the-SEC-FY-2019-Compliance-with-the-IPERA-of-2010-Report-No-561.pdf>.

Opportunities Exist To Improve the SEC's Management of Mobile Devices and Services (Report No. 562)

Executive Order 13589 directed federal agencies to assess IT device inventories and usage, and to establish controls to ensure agencies do not pay for unused or underused IT equipment, including smartphones and tablets (collectively referred to as mobile devices). The Office of Management and Budget (OMB) also published guidance for acquiring and managing mobile devices and services. Although mobile devices offer greater workplace

flexibilities, they are susceptible to security compromise; are vulnerable to theft, loss, or damage; and create challenges for ensuring the confidentiality, integrity, and availability of the information they access, store, and process.

We conducted this audit to evaluate the SEC's management of mobile devices and services. Specifically, we assessed the agency's (1) controls for managing costs associated with SEC-issued mobile devices in FY 2019 and in the first quarter of FY 2020 (that is, between October 2018 and December 2019); and (2) efforts to safeguard SEC information accessed, stored, or processed on mobile devices with access to the agency's network in FY 2020.

The SEC's employees and contractors use mobile devices to perform their work and access SEC information. According to agency usage reports, between October 2018 and December 2019, the SEC spent nearly \$5 million on about 6,300 mobile devices and associated services. The agency used enterprise-wide contracts and a mobile device management system to implement safeguards. However, the SEC has not effectively managed its mobile devices and associated costs.

Specifically, about half of the devices on the SEC's primary wireless service provider usage reports during the period we reviewed were either unused or appeared to be underused, while other devices appeared to have high data usage, in some cases for potentially unauthorized purposes. In addition, the SEC did not (1) provide evidence to support and justify international charges; (2) consistently maintain documentation to demonstrate the continued business need for devices; and (3) adequately plan for the replacement of mobile devices and services. These conditions occurred because the agency's Office of Information Technology (OIT) did not establish and/or implement controls, including comprehensive processes and procedures, to effectively oversee the SEC's mobile devices and services.

As a result, the SEC:

- did not leverage available information to effectively manage mobile devices and services, thereby wasting almost \$732,000 on 1,567 devices with zero usage between October 2018 and December 2019;
- spent nearly \$160,000 on international charges between July and December 2019 without documented justifications to support that those costs were for valid business needs; and
- spent about \$1 million in FY 2019 to replace mobile devices at a higher price instead of procuring mobile device models available at no or lower additional cost without a documented justification.

To safeguard information accessed, stored, and processed on mobile devices, the SEC took steps to improve mobile device security controls during our audit. For example, in FY 2020, OIT assessed the security of mobile devices enrolled in the mobile device management system, made progress to ensure those devices used more recent operating system versions, and incorporated mobile device security into the SEC's annual privacy and information security awareness training program. However, additional safeguards are needed to adequately document security controls applicable to mobile devices and improve policies and procedures addressing mobile device inventory controls, provisioning, applications, sanitization, and operating system updates.

Also, OIT should implement controls to effectively mitigate the risk of allowing certain mobile devices to access the SEC's network. Because OIT had not developed comprehensive policies and procedures specific to mobile device security or adequate processes to ensure compliance with recognized major controls affecting enterprise mobile device security, the SEC's processes did not adequately ensure compliance, assess risk, identify issues, or mitigate vulnerabilities specific to mobile device security. We issued our final report on September 30, 2020, and made seven recommendations to improve the

SEC's management of mobile devices and services. We also identified a matter related to the effectiveness of the SEC's mobile device sanitization process that did not warrant recommendations. Because this report contains sensitive information, we released a redacted version on our website at <https://www.sec.gov/files/Opportunities-Exist-To-Improve-the-SECs-Management-of-Mobile-Devices-and-Services-Report-No-562.pdf>.

ONGOING AUDITS AND EVALUATIONS

Audit of the U.S. Securities and Exchange Commission's Oversight of the Infrastructure Support Services Contractor Performance

On January 25, 2016, the SEC awarded a combination-type contract (time-and-materials and fixed-price) to SRA International Inc. (SRA) to provide infrastructure support services (ISS) for all SEC divisions and offices, including regional offices. Specifically, the contract (hereafter referred to as "the ISS contract") called for SRA to support the SEC's OIT in the following four task areas that compose the SEC's IT program: Enterprise Operations, Enterprise Infrastructure, Enterprise Architecture, and Common Services. As of August 2020, the SEC's ISS contract was the agency's largest active contract.

The OIG has begun an audit of the SEC's oversight of SRA's performance. The overall objective of this audit is to assess the SEC's oversight and monitoring of the ISS contractor's performance. Specifically, we will (1) determine whether the SEC developed and leveraged a quality assurance surveillance plan, service level agreements, contractor performance reports, or other methods to monitor and document SRA's performance, address areas in need of improvement, and drive desired performance outcomes in accordance with the Federal Acquisition Regulation, OMB guidance, and SEC policy; (2) evaluate SRA's submission of contract deliverables and the SEC's use of those deliverables to assess the contractor's performance; and (3) assess the SEC's monitoring of the contractor's corrective action plans for known performance issues.

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

Evaluation of the U.S. Securities and Exchange Commission's Tips, Complaints, and Referrals Program

The SEC's mission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. In pursuing its mission, the SEC encourages the public to file complaints or submit tips 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 (collectively referred to as tips, complaints, and referrals [TCR]). Each year, the SEC receives thousands of TCR from members of the public, including industry professionals and attorneys, as well as referrals from self-regulatory organizations and exchanges, foreign and domestic federal and local agencies, and law enforcement and other entities.

The OIG has initiated an evaluation of the SEC's TCR program. The overall objective of this evaluation is to assess the SEC's management of the TCR program, including reviewing controls for collecting, triaging, and responding to credible allegations of violations of the federal securities laws; safeguarding and maintaining TCR source materials, as required; and monitoring TCR program risks and trends.

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

Evaluation of the Office of Investor Education and Advocacy

The federal securities laws task the SEC with a broad and diverse set of responsibilities, including engaging and interacting with the investing public through a variety of channels such as investor roundtables and education programs and alerts on the agency's SEC.gov website. The SEC's Office of

Investor Education and Advocacy (OIEA), which each year has contact with millions of individuals, plays an important role in accomplishing the SEC's mission of protecting investors. Among other things, OIEA seeks to provide Main Street investors with the information they need to make sound investment decisions and administers two programs to promote the SEC's mission. Specifically, OIEA's Office of Investor Assistance helps investors who contact the SEC with questions or complaints about perceived mishandling of their investments by investment professionals and others. In addition, OIEA's Office of Investor Education produces and distributes educational materials, leads educational seminars and investor-oriented events, and partners with other federal agencies, state regulators, consumer groups, and self-regulatory organizations on financial literacy initiatives on behalf of the SEC in support of the agency's goals, the nation's Financial Literacy and Education Commission, and the National Strategy for Financial Literacy. OIEA's activities align with the SEC's strategic goal of enhancing outreach, education, and consultation efforts, including in ways that are reflective of the diversity of investors and businesses.

The OIG has initiated an evaluation of the SEC's OIEA. The overall objective of this evaluation is to assess OIEA's processes and controls for reviewing, referring, and responding to investor complaints and other investor assistance matters, and managing the SEC's investor education and outreach activities in support of the agency's mission and strategic goals and the National Strategy for Financial Literacy.

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

Fiscal Year 2020 Independent Evaluation of the SEC's Implementation of the Federal Information Security Modernization Act of 2014

Amending the Federal Information Security Management Act of 2002, the Federal Information Security Modernization Act of 2014 (FISMA) provides (1) a comprehensive framework to ensure the effectiveness of security controls over information resources that support federal operations and assets; and (2) a mechanism for oversight of federal information security programs. FISMA also requires agencies to develop, document, and implement an agency-wide information security program to provide information security for the data and information systems that support the operations and assets of the agency.

In addition, FISMA requires IGs to annually assess the effectiveness of agency information security programs and practices and to report the results to OMB and the Department of Homeland Security. This assessment includes testing and assessing the effectiveness of agency information security policies, procedures, practices, and a subset of agency information systems.

To comply with FISMA, the OIG initiated an audit of the SEC's information security programs and practices. We contracted with Kearney & Company, P.C., to conduct this independent evaluation. The objective is to assess the SEC's compliance with FISMA for FY 2020 based on guidance issued by OMB, the Department of Homeland Security, and the National Institute of Standards and Technology.

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





INVESTIGATIONS

OVERVIEW

The OIG OI investigates allegations of criminal, civil, and administrative violations relating to SEC programs and operations.

The subject of an OIG investigation can be an SEC employee, contractor, consultant, or any person or entity involved in alleged wrongdoing affecting the agency. Substantiated allegations may result in criminal prosecutions, fines, civil penalties, administrative sanctions, or personnel actions.

OI conducts investigations in accordance with the CIGIE *Quality Standards for Investigations* and applicable guidelines issued by the U.S. Attorney General. OI continues to enhance its systems and processes to ensure investigations are conducted in an independent, fair, thorough, and timely manner.

Investigations require extensive collaboration with separate SEC OIG component offices, other SEC divisions and offices, outside agencies, and law enforcement agencies, as well as coordination with DOJ and other prosecutorial agencies. During the course of investigations, OI may discover vulnerabilities and internal control deficiencies and via

Management Implication Reports, promptly report these issues to SEC management for corrective actions.

OI 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.

Staffed by Special Agents and an IT Specialist, the OIG's Digital Forensics and Investigations Unit performs digital forensic acquisitions, extractions, and examinations in support of SEC OIG operations, and conducts network intrusion and exploitation investigations as well as other investigations involving threats to the SEC's IT infrastructure.

REPORT ON INSTANCES OF WHISTLEBLOWER RETALIATION

For this semiannual reporting period, the OIG found no instances of whistleblower retaliation to report.

COMPLETED INVESTIGATIONS

Leak of Nonpublic Information (Reuters)

The OIG investigated an allegation involving the potential release of nonpublic information to the media. Specifically, on December 19, 2018, Reuters published an article entitled, “Data Problems Complicate U.S. Regulator’s Watch Over Ratings Firms,” authored by Katanga Johnson. It was alleged that five unidentified current and former Division of Economic and Risk Analysis (DERA) employees contributed to the article by showing nonpublic emails and internal reports to Johnson that related to concerns some SEC staff had about the Office of Credit Ratings’ oversight of Nationally Recognized Statistical Rating Organizations.

The investigation identified two former DERA employees who had provided the reporter with nonpublic information for the article. Specifically, one former employee admitted providing information to the reporter, and the investigation found that the other former employee also provided information. The investigation did not identify the remaining alleged three current or former DERA employees mentioned in the article.

The facts and evidence developed during this investigation were referred to the U.S. Attorney’s Office (USAO) for the District of Columbia for consideration of prosecution; however, the matter was declined on April 6, 2020.

Corporation Obstruction of an SEC Proceeding

Based on a referral from the Boston Regional Office, the OIG jointly investigated with the Federal Bureau of Investigation (FBI) the alleged obstruction of an SEC investigative proceeding by PixarBio Corporation (Pixar). The investigation determined that Pixar’s chief executive officer (CEO), former chief

information officer, and a friend of the company’s CEO deceived investors, falsely reported information in the company’s SEC filings, manipulated the company’s stock, and obstructed the SEC’s investigation of Pixar. The facts and evidence developed during this investigation were referred to the USAO for the District of Massachusetts and were accepted for criminal prosecution on October 23, 2017.

In April 2018, all three individuals were arrested pursuant to a criminal complaint for their roles in the securities fraud scheme. In May 2018, the CEO and his friend were indicted for securities fraud and manipulative trading.

In September 2018, the former chief information officer pled guilty to violations of securities fraud and obstruction of an official proceeding. In February 2020, the former chief information officer was sentenced to 6 months home confinement, 3 years supervised release with 200 hours of community service each year, and ordered to pay a fine of \$60,000, a forfeiture of \$27,500, and a \$200 assessment fee.

In February 2019, the CEO’s friend pled guilty to violations of securities fraud and obstruction. In February 2020, the CEO’s friend was sentenced to 6 months imprisonment, 3 years supervised release with 400 hours of community service per year, and ordered to pay restitution of \$120,000 jointly and severally with the former CEO, and a \$200 assessment fee.

In February 2019, a superseding indictment was issued for the CEO for securities fraud and obstruction. In October 2019, the CEO was convicted of all charges by a jury. In February 2020, the CEO was sentenced to 7 years imprisonment, 3 years supervised release, and ordered to pay restitution of \$7,551,757, a forfeiture of \$280,000, and a \$400 assessment fee.

SEC Employee Sexual Harassment

The OIG initiated an investigation related to allegations of sexual harassment by an employee in the SEC's ENF. Specifically, it was alleged that on January 8, 2020, while a female employee held a stairwell door open, a male employee sexually harassed the female employee by touching her side between her waist and breast without her consent.

The investigation substantiated through the male employee's admission that on January 8, 2020, he inappropriately touched the female's side between her waist and breast without her consent. The investigation also determined that prior to this incident, the male employee completed mandatory and supplemental detailed training related to harassment.

Accordingly, the OIG referred the facts and evidence developed during this investigation to the USAO for the District of Columbia for consideration of prosecution; however, on January 24, 2020, the matter was declined. The OIG reported the results of the investigation to management to determine whether corrective administration action may be warranted. As a result of the investigation, the SEC disciplined the employee, to include a suspension.

False Statements Made to SEC's Division of Enforcement

The OIG, jointly with the FBI, investigated an allegation that a private citizen had made false statements to ENF pertaining to allegations of insider trading and obstruction of an ENF investigation concerning her ex-boyfriend.

The investigation determined that the private citizen made multiple false statements to ENF staff, the OIG, and the FBI regarding her ex-boyfriend, his uncle, and another individual illegally trading a company's stock and obstructing an ENF investigation involving the company. The facts and evidence developed during this investigation were referred

to the USAO for the District of Massachusetts for consideration of prosecution and were initially accepted on August 2, 2018; however, the matter was declined on January 23, 2020.

Contract Improprieties

The OIG investigated an allegation of wrongdoing involving the SEC's management of its digital media destruction contracts. Specifically, it was alleged that the SEC may have duplicate contracts for digital media destruction services and another contract, and as a result may have paid for duplicate services. The duplicate contract requirements were discovered when the SEC was re-competing its records management contract and determining whether digital media destruction should be included in the new contract or if the requirement was handled elsewhere. When discovered, Office of Records Management Services staff were allegedly told not to disclose the duplicate contracts to Acquisitions because an agreement about digital media destruction existed between the Office of Support Operations and OIT.

The OIG investigation did not identify evidence to support that (1) the SEC awarded duplicate contracts for digital media destruction or paid for services it did not receive; or (2) that Office of Records Management Services staff were forbidden from disclosing the duplicate contract requirements and services to Acquisitions.

The investigation found that Acquisitions was aware of, and included in, discussions of the SEC's media destruction contracts. Furthermore, OIT was aware of conflicting information regarding the proper channels to destroy removable digital media while the agency transitioned the services to reduce the overall number of contracts.

As a result of the investigation, the OIG issued a Management Implication Report to the agency related to our investigative observations in which

the OIG recommended resolving the conflicting information related to the appropriate disposal or destruction of digital media. The SEC responded that a corrective action plan has been initiated to update and clarify the policy and procedures concerning the disposal or destruction of digital media.

Hiring Improprieties

The OIG investigated allegations involving two employees and a hiring action. Specifically, it was alleged that an employee gave another employee access to the list of applicants against whom he was competing for a position. It was also alleged that the internal applicant was provided the interview questions for the position to give him an advantage over the other candidates. At the time the complaint was made, the position had not been filled.

The OIG's investigation did not substantiate any of the allegations against the two employees. There was no evidence to support the allegation that the employee provided candidate names or interview questions to the internal applicant, or that the internal applicant received a list of candidates or interview questions for the position for which he was competing.

The investigation found that the internal applicant had assisted with interview panels for other positions for which the office was hiring around the same time-frame that the internal applicant was competing for another position. Although two employees communicated about candidates' interviews and interview questions for other positions in which the internal applicant participated, the communication did not pertain to the position for which the internal applicant had applied. Furthermore, the internal applicant was not selected for the position.

Leak of Nonpublic Information (*Wall Street Journal*)

The OIG investigated an alleged leak of nonpublic information related to an ENF investigation. Specifically, it was alleged that there was a prohibited

disclosure of material nonpublic information to the media related to the ENF's San Francisco Regional Office investigation of Facebook, Inc. (Facebook). On July 12, 2018, *The Wall Street Journal* (*WSJ*) published an article titled, "SEC Probes Why Facebook Didn't Warn Sooner on Privacy Lapse."

The investigation determined that after ENF had commenced an investigation into Facebook in April 2018, the article appeared to contain nonpublic information about the existence of ENF's inquiry and the specific information that ENF was investigating. However, the OIG did not determine who provided the information to the *WSJ*, or that any SEC employee improperly disclosed any nonpublic information that was included in the article.

This investigation also revealed that ENF had by late April 2018 granted access to the Facebook investigation to the FBI, the Federal Trade Commission, and the USAO for the Northern District of California. Furthermore, some of the article's details were also contained in publicly-available annual reports previously filed by Facebook.

Hatch Act Allegations

The OIG investigated an allegation of an employee violating the Hatch Act when the employee posted a photograph of a Congressional U.S. House of Representative on the employee's office door. The investigation determined that the employee posted the photograph in December 2019. The employee claimed doing so in support of the passage of the 19th Amendment to the Constitution of the United States entering into its centennial year, which prohibits the states and the federal government from denying the right to vote to citizens of the United States on the basis of sex. Because the employee did not want to make anyone uncomfortable or for there to be conflict in the office, the employee claimed to have removed the photograph from the office door on January 16, 2020, after being contacted by the OIG.

The SEC's Office of the Ethics Counsel opined that the employee had not committed a Hatch Act violation when the employee posted the Congressional U.S. House of Representative photograph on the office door.

SEC Employee Impersonation

The OIG investigated an allegation involving the impersonation of an SEC employee that was reported in Bloomberg. Specifically, Bloomberg published an article titled, "Imposter Posed as SEC to Tank Shares, Penny-Stock Pot Firm Says," about an individual who may have impersonated an SEC official during a company's shareholders' conference call that may have affected the company's stock price.

The investigation determined that during the company's August 14, 2018, shareholders' conference call, a former employee for the company called and impersonated an SEC official using the fictitious name "John Wallace." When the OIG interviewed the individual, he admitted to making the call and using a fictitious name to scare the company's CEO because the individual had an ongoing dispute with the company.

The OIG consulted with DERA, which determined that the day after the conference call, the company's stock price experienced "abnormal" losses that were "statistically significant." DERA estimated that the losses were about 21.3 percent of the stock price value.

The facts and evidence developed during this investigation were referred to the USAO for the District of Colorado for consideration of prosecution; however, on March 19, 2020, the matter was declined.

Findings of Alleged Fraudulent SEC Rulemaking Comment Letters

The OIG investigated an allegation concerning fraudulent comment letters submitted in the course of the rulemaking process reported in a Bloomberg

article. Specifically, the article reported that SEC Chairman Jay Clayton, in his remarks after a public roundtable about proposed rule changes to the proxy voting process, cited seven comment letters submitted to the SEC from "long-term Main Street investors...all of whom expressed concerns about the current proxy process." The article claimed, however, that when contacted, many of the investors who Chairman Clayton cited told the reporters that 1) they did not author any such letters, and 2) they had ties to an advocacy group.

During the investigation, the OIG reviewed the 7 letters Chairman Clayton cited as well as 21 additional letters with similar profile. Additionally, the OIG interviewed 19 of the 28 authors of the letters; the remaining 9 individuals did not respond or did not consent to be interviewed. Each person interviewed stated that he or she had willingly submitted a letter to the SEC and did not receive any compensation or benefit from anyone for doing so.

Furthermore, the investigation determined that an advocacy association for seniors solicited its members, current and former employees, and friends of the association's employees to submit comment letters in response to proxy rulemaking proposals.

The investigation also determined that a public affairs company working on behalf of another advocacy group solicited individuals to submit letters to the SEC about the proposed rule change. The investigation did not identify any author who did not in fact submit a letter to the SEC or who disagreed with the content in the letter they submitted to the SEC.

Although the USAO for the Northern District of California and the USAO for the Eastern District of Virginia were initially interested in this matter, no evidence was found to indicate any criminal violation. As such, those offices declined to pursue any criminal actions, and the OIG closed this investigation.



REVIEW OF LEGISLATION AND REGULATIONS

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

Public Law 115-336, 21st Century Integrated Digital Experience Act

The act requires public-facing agency websites to have a consistent design and functionality. The websites will need to achieve compliance with standards developed by the Technology Transformation Service of the General Services Administration. The act requires that websites are mobile-friendly and usable by people with disabilities.

Public Law 115-414, Good Accounting Obligation in Government Act

The act requires each federal agency, in its annual budget justification, to include a report on: (1) each public recommendation of the GAO that is classified as “open” or “closed, unimplemented;” (2) each public recommendation for corrective action from the agency’s OIG for which no final action has been taken; and (3) the implementation status of each such recommendation. Each agency shall also provide a copy of this information to its OIG and to GAO.

Public Law 116-92, National Defense Authorization Act for FY 2020

Section 1710 creates a new semiannual reporting requirement by amending Section 5(a)(19) of the IG Act. When reporting on substantiated misconduct investigations involving senior government employees, OIGs are now required to include “the name of the senior government official (as defined by the department or agency) if already made public by the Office.” Section 6711, a technical correction, amends the “Enhanced Personnel Security Program” to allow covered IGs to conduct a “review” (instead of the currently required “audit”) of agency security clearance review practices (5 United States Code [U.S.C.] 11001). Section 5332 creates an “External Review Panel” for claims of whistleblower reprisals affecting security clearances under 50 U.S.C. 3234 (relating to Intelligence Community elements) or 50 U.S.C. 3341(j) (relating to agencies under 5 U.S.C. 105).

Public Law 116-93, Consolidated Appropriations Act, 2020

The act provides \$1,815,000,000, to remain available until expended, of which not less than \$15,662,000 shall be for the OIG. Section 530

requires that within 1 year of the enactment of this act, the SEC shall submit to the Committees on Appropriations of the House of Representatives and the Senate, the Committee on Financial Services of the House of Representatives, and the Committee on Banking, Housing, and Urban Affairs of the Senate, a report concerning the Municipal Securities Rulemaking Board. Section 626 establishes that no funds provided in this act shall be used to deny an IG funded under this act timely access to any records, documents, or other materials available to the department or agency over which that IG has responsibilities under the IG Act, or to prevent or impede that IG's access to such records, documents, or other materials, under any provision of law, except a provision of law that expressly refers to the IG and expressly limits the IG's right of access. Each IG covered by this section shall report to the Committees on Appropriations of the House of Representatives and the Senate within five calendar days any failures to comply with this requirement. Section 634 of the act prohibits funds made available by this to be used by the SEC to finalize, issue, or implement any rule, regulation, or order regarding the disclosure of political contributions, contributions to tax exempt organizations, or dues paid to trade associations.

Public Law 116-94, Further Consolidated Appropriations Act, 2020

This act makes further consolidated appropriations for the FY ending September 30, 2020, and for other purposes. Section 171 requires a briefing on the impact of Cryptocurrencies on United States Sanctions. Not later than 180 days after the date of the enactment of this act, the Secretary of State and

the Secretary of Treasury, after consultation with the Chairman of the SEC and the Chairman of the Commodity Futures Trading Commission, shall develop a methodology to assess how any digital currency, digital coin, or digital token, that was issued by, for, or on behalf of the Nicolás Maduro regime is being used to circumvent or undermine U.S. sanctions. Not later than 180 days after the date of the enactment of this act, the Secretary of State and the Secretary of Treasury shall brief the appropriate congressional committees on the methodology developed under subsection (b).

Public Law 116-117, Payment Integrity Information Act of 2019

The act reorganizes and revises existing improper payments statutes, which establish requirements for federal agencies to cut down on improper payments. Additionally, the act establishes an interagency working group on payment integrity.

Public Law 166-136, CARES Act

Section 3 of this law exempts the budgetary effects of this act from the Pay-As-You-Go scorecards maintained under the Statutory Pay-As-You-Go Act of 2010 or by the Senate under the FY 2018 congressional budget resolution. Section 15010 requires that a Pandemic Response Accountability Committee be established within CIGIE. The Pandemic Response Accountability Committee is established to (1) prevent and detect fraud, waste, abuse, and mismanagement; and (2) mitigate major risks that cut across program and agency boundaries. Much of the legislative text is similar to that which established the Recovery Accountability Transparency Board in 2009.

MANAGEMENT DECISIONS

STATUS OF RECOMMENDATIONS WITH NO MANAGEMENT DECISIONS

Management decisions have been made on all audit and evaluation 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 and evaluation recommendations.

REPORTS FOR WHICH NO AGENCY COMMENT WAS RETURNED WITHIN 60 DAYS

There were no audit or evaluation reports issued before the beginning of this reporting period for which no agency comment was returned within 60 days of providing the report to the agency.

INSTANCES WHERE THE AGENCY UNREASONABLY REFUSED OR FAILED TO PROVIDE INFORMATION TO THE OIG OR ATTEMPTED TO INTERFERE WITH OIG INDEPENDENCE

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

TABLES

Table 1. List of Reports: Audits and Evaluations

Financial Management	
4/27/2020	Evaluation of the SEC's FY 2019 Compliance With the Improper Payments Elimination and Recovery Act of 2010
561	
Acquisition Management and Information Security	
9/30/2020	Opportunities Exist To Improve the SEC's Management of Mobile Devices and Services
562	

Table 2. Reports Issued With Questioned Costs (Including Disallowed Costs)

Description	Number of Reports	Questioned Costs	Unsupported Costs
Reports for which no management decision had been made by the start of the reporting period (Reports No. 554 and 560)	2	\$43,010	\$3,087,261
Reports issued during the reporting period (Report No. 562)	1	\$0	\$157,605
Subtotals	3	\$43,010	\$3,244,866
Line 1. Reports for which a management decision had been made during the reporting period:			
Dollar value agreed to by management (Report No. 560)	1	\$209	\$109,882
Dollar value NOT agreed to by management	0	\$0	\$0
Line 2. Reports with no management decision at the end of the reporting period (Reports No. 554 and 562)	2	\$42,801	\$3,134,984
Total (Line 1 and Line 2)	3	\$43,010	\$3,244,866

The term “questioned cost” means a cost that is questioned because of (A) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (B) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (C) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

The term “unsupported cost” means a cost that is questioned because the Office found that, at the time of the audit, such cost is not supported by adequate documentation.

The term “disallowed cost” means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the government.

Table 3: Reports Issued With Recommendations That Funds Be Put to Better Use

Description	Number of Reports	Dollar Value
Reports for which no management decision had been made by the start of the reporting period	1	\$124,773
Reports issued during the reporting period	0	\$0
Subtotals	1	\$124,773
Line 1. Reports for which a management decision had been made during the reporting period: (Report No. 560)	1	\$124,773
Dollar value agreed to by management	1	\$124,773
Dollar value NOT agreed to by management	0	\$0
Line 2. Reports with no management decision at the end of the reporting period	0	\$0
Total (Line 1 and Line 2)	1	\$124,773

The term “recommendation that funds be put to better use” means a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including (A) reductions in outlays; (B) deobligation of funds from programs or operations; (C) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (D) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee; (E) avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or (F) any other savings which are specifically identified. Consistent with §5 of the IG Act, as amended, dollar amounts shown in this category reflect the dollar value of recommendations that funds be put to better use by management.

Table 4. Reports With Recommendations On Which Corrective Action Has Not Been Completed

During this most recent 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 9 OA reports. The following table lists recommendations issued before the commencement of this semiannual reporting period that remain open. (“Redacted text” indicates recommendations that include one or more redactions of nonpublic information.)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	3	3/30/2018	Redacted Text
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	5	3/30/2018	(a) Continue efforts to define and formalize a plan addressing how enterprise architecture program management will be integrated with other institutional management disciplines, such as organizational strategic planning, strategic human capital management, performance management, information security management, and capital planning and investment control; and (b) define and implement a process to ensure information technology initiatives undergo an enterprise architecture compliance review before funding.
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	7	3/30/2018	Improve the agency's acquisition of information systems, system components, and information system services by coordinating with the Office of Acquisitions to (a) identify, review, and modify as necessary the agency's existing information technology contracts (including those we reviewed) to ensure the contracts include specific contracting language, such as information security and privacy requirements, material disclosures, Federal Acquisition Regulation clauses, and clauses on protection, detection, and reporting of information; and (b) define and implement a process to ensure that future acquisitions of information technology services and products include such provisions.
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	8	3/30/2018	Redacted Text

Table 4. Reports With Recommendations On Which Corrective Action Has Not Been Completed
(Continued)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	9	3/30/2018	Redacted Text
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	12	3/30/2018	Redacted Text
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	15	3/30/2018	Develop and implement a process to ensure that all individuals with significant security responsibilities receive required specialized training before gaining access to information systems or before performing assigned duties.
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	16	3/30/2018	Update the existing continuous monitoring strategy to define (a) qualitative and quantitative performance measures or data that should be collected to assess the effectiveness of the agency's continuous monitoring program; (b) procedures for reviewing and modifying all aspects of the agency's continuous monitoring strategy; and (c) the agency's ongoing authorization process.
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	17	3/30/2018	Review and update incident response plans, policies, procedures, and strategies to (a) address all common threat and attack vectors and the characteristics of each particular situation; (b) identify and define performance metrics that will be used to measure and track the effectiveness of the agency's incident response program; (c) develop and implement a process to ensure that incident response personnel obtain data supporting the incident response metrics accurately, consistently, and in a reproducible format; (d) define incident response communication protocols and incident handlers' training requirements; and (e) remove outdated terminology and references.
549 - The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework	2	9/11/2018	Finalize standard operating procedures for the agency's performance management program.

Table 4. Reports With Recommendations On Which Corrective Action Has Not Been Completed
(Continued)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
550 - Evaluation of the EDGAR System's Governance and Incident Handling Processes	5	9/21/2018	Redacted Text
550 - Evaluation of the EDGAR System's Governance and Incident Handling Processes	14	9/21/2018	Redacted Text
552 - Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	1	12/17/2018	Redacted Text
552 - Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	2	12/17/2018	Redacted Text
552 - Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	3	12/17/2018	Redacted Text
552 - Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	4	12/17/2018	Redacted Text
552 - Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	8	12/17/2018	Redacted Text

Table 4. Reports With Recommendations On Which Corrective Action Has Not Been Completed
(Continued)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
552 - Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	9	12/17/2018	Redacted Text
553 - Although Highly Valued by End Users, DERA Could Improve Its Analytics Support by Formally Measuring Impact, Where Possible	3	4/29/2019	Incorporate the results of analytics impact measurements in the Division's outreach efforts.
555 - The SEC Has Processes to Manage Information Technology Investments But Improvements Are Needed	2	9/19/2019	Ensure its capital planning and investment control policies meet the intent of Office of Management and Budget guidance on information technology investment baseline management policies, to include procedures that: (a) clarify the specific information needed to support change requests for deviations from approved investment baselines; (b) specify the minimum documentation necessary to demonstrate the analysis of alternatives performed to support decisions to improve, enhance, or modernize existing information technology investments, or to implement changes to investment baselines; and (c) establish the circumstances under which a new investment proposal is warranted in lieu of a change request.
555 - The SEC Has Processes to Manage Information Technology Investments But Improvements Are Needed	4	9/19/2019	Update its capital planning and investment control policies and procedures and implement processes to: (a) establish a uniform refresh plan or a strategic approach for the replacement of hardware assets, and document performance against planned cost, quantities, and type of hardware assets to be replaced annually; and (b) monitor investments in hardware asset purchases beyond receipt of the assets to ensure the assets are efficiently and effectively deployed and the investments achieve expected outcomes or goals and provide requested capabilities.
556 - The SEC Can More Strategically and Securely Plan, Manage, and Implement Cloud Computing Services	2	11/7/2019	Develop a roadmap and implementation plan for cloud migration that provides for evaluating the agency's information technology portfolio; prioritizing systems and services for migration to the cloud, as appropriate, based on potential benefits and risks; and tracking of cloud-related goals.

Table 4. Reports With Recommendations On Which Corrective Action Has Not Been Completed
(Continued)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
556 - The SEC Can More Strategically and Securely Plan, Manage, and Implement Cloud Computing Services	3	11/7/2019	Develop policies and procedures to ensure the following for all new and existing cloud computing services: (a) Applicable cloud system security controls and enhancements are included in the respective SEC cloud-based system security plan. (b) Applicable cloud system security controls and enhancements are assessed and supported by sufficient evidence in the respective SEC cloud-based system security assessment report. (c) The SEC authorizing official is provided with complete and appropriate information necessary to make risk-based decisions on whether to authorize the agency's cloud systems to operate.
Final Management Letter: Evaluation of the U.S. Securities and Exchange Commission's Delinquent Filings Program	1	12/17/2019	We recommend that the Division of Corporation Finance formalize its plan for any changes that may impact the Delinquent Filings Program, and as appropriate, coordinate with the Division of Enforcement: (a) any changes that may impact the Delinquent Filings Program, and (b) updates to training, policies, and procedures that are reflective of the program as it evolves.
Final Management Letter: Evaluation of the U.S. Securities and Exchange Commission's Delinquent Filings Program	2	12/17/2019	We recommend that the Office of General Counsel and the Division of Enforcement consider whether to pursue or not pursue delegated authority related to the Delinquent Filings Program.
558 - Fiscal Year 2019 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	1	12/18/2019	(a) Develop and document a formal process to maintain a comprehensive inventory of information systems, including a process to review and update the inventory on a periodic basis; (b) Perform a review of Federal Information Systems Modernization Act of 2014-reportable systems to ensure all systems have a documented system categorization, with appropriate justification in accordance with National Institute of Standards and Technology Special Publication 800-60 Volume 1 and Federal Information Processing Standards Publication 199; and (c) Implement monitoring procedures to validate that security categorizations are consistent with U.S. Securities and Exchange Commission guidance.

Table 4. Reports With Recommendations On Which Corrective Action Has Not Been Completed
(Continued)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
558 – Fiscal Year 2019 Independent Evaluation of SEC’s Implementation of the Federal Information Security Modernization Act of 2014	2	12/18/2019	Redacted Text
558 – Fiscal Year 2019 Independent Evaluation of SEC’s Implementation of the Federal Information Security Modernization Act of 2014	3	12/18/2019	Define and communicate Information System Owner and Information System Security Officer roles and responsibilities.
558 – Fiscal Year 2019 Independent Evaluation of SEC’s Implementation of the Federal Information Security Modernization Act of 2014	4	12/18/2019	Redacted Text
558 – Fiscal Year 2019 Independent Evaluation of SEC’s Implementation of the Federal Information Security Modernization Act of 2014	5	12/18/2019	(a) Develop a methodology to demonstrate the control assignments from National Institute of Standards and Technology Special Publication 800-53, Revision 4, including control tailoring and inheritance; and (b) Update the Securities and Exchange Commission’s System Security Plan templates to ensure control tailoring justification corresponds to the methodology covered in part (a).
558 – Fiscal Year 2019 Independent Evaluation of SEC’s Implementation of the Federal Information Security Modernization Act of 2014	6	12/18/2019	Redacted Text
558 – Fiscal Year 2019 Independent Evaluation of SEC’s Implementation of the Federal Information Security Modernization Act of 2014	7	12/18/2019	Redacted Text

Table 4. Reports With Recommendations On Which Corrective Action Has Not Been Completed
(Continued)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
558 - Fiscal Year 2019 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	8	12/18/2019	(a) Determine the need for privacy official signoff on the Privacy Analysis Worksheet and Privacy Impact Assessment prior to system go-live as part of the SEC's change management processes; and (b) Perform an assessment of the status of existing systems' Privacy Analysis Worksheets and Privacy Impact Assessments to confirm the Securities and Exchange Commission has publically posted the required information in accordance with Section 208 of the E-Government Act.
559 - The SEC's Office of Broker-Dealer Finances Provides Effective Oversight, But Opportunities To Improve Efficiency Exist	2	2/26/2020	Finalize steps deemed feasible and prudent and, as necessary, (a) require broker-dealers to electronically file with the Commission annual reports and risk assessment reports, and (b) raise the capital threshold for reporting under the 17-H rules.
559 - The SEC's Office of Broker-Dealer Finances Provides Effective Oversight, But Opportunities To Improve Efficiency Exist	3	2/26/2020	Finalize efforts to develop or support the development of plans that coherently link the organization's programs and resources, including its future executive resource and other workforce needs, to organizational goals and objectives.
560 - Controls Over the SEC's Travel Charge Card Program Could Be Strengthened To More Fully Comply With Requirements and Maximize Benefits	1	3/30/2020	Increase outreach efforts to make SEC employees aware of their obligation to use their government travel charge cards, and the benefits to the agency from their use of government travel charge cards.
560 - Controls Over the SEC's Travel Charge Card Program Could Be Strengthened To More Fully Comply With Requirements and Maximize Benefits	2	3/30/2020	Update Office of Financial Management Reference Guide Chapter 91.03, Travel Payments Process Document; SEC Administrative Regulation 14-3, Travel Charge Card Monitoring Policy; and the SEC Travel Policy. The updates should (a) be consistent and compliant with the Travel and Transportation Reform Act of 1998, the Federal Travel Regulation, the Government Charge Card Abuse Prevention Act of 2012, and the 2019 revision to Office of Management and Budget Circular No. A-123, Appendix B; and (b) provide clear and consistent guidance on the need for and use of government travel charge cards.

Table 4. Reports With Recommendations On Which Corrective Action Has Not Been Completed
(Continued)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
560 - Controls Over the SEC's Travel Charge Card Program Could Be Strengthened To More Fully Comply With Requirements and Maximize Benefits	3	3/30/2020	Identify those SEC employees who are considered "frequent travelers" but who do not have Individually Billed Accounts, and either (a) seek an exemption to Federal requirements regarding such accounts, or (b) require those employees to apply for and use Individually Billed Accounts or Tax Advantage Travel Card Accounts, as discussed in Finding 2.
560 - Controls Over the SEC's Travel Charge Card Program Could Be Strengthened To More Fully Comply With Requirements and Maximize Benefits	5	3/30/2020	Ensure explanations and justifications for premium-class air travel, above per diem lodging, and usage of personal vehicles are documented and included in travel authorization files.
560 - Controls Over the SEC's Travel Charge Card Program Could Be Strengthened To More Fully Comply With Requirements and Maximize Benefits	10	3/30/2020	Update the Office of Financial Management Reference Guide Chapter 91.05, Expenses and Costs - Travel: Government Travel Credit Cards, to address the requirement and process for conducting alternative creditworthiness assessments in accordance with the 2019 revision to Office of Management and Budget Circular No. A-123, Appendix B, and the Government Charge Card Abuse Prevention Act of 2012.
560 - Controls Over the SEC's Travel Charge Card Program Could Be Strengthened To More Fully Comply With Requirements and Maximize Benefits	11	3/30/2020	Determine which employees with Individually Billed Accounts opted out of the creditworthiness evaluation, as of the date of this report, and ensure these employees undergo an alternative creditworthiness assessment.

Table 5. Summary of Investigative Activity for the Reporting Period of April 1, 2020, to September 30, 2020

The data contained in this table was compiled from the OIG’s investigations case management system.

Investigative Caseload	Number
Cases Open at Beginning of Period	53
Cases Completed but Not Closed* at Beginning of Period	2
Cases Opened During Period	18
Cases Closed During Period	18
Cases Completed but Not Closed at End of Period	0
Open Cases at End of Period	55
Investigative Reports Issued During the Reporting Period	12
* A case is “completed” but not “closed” when the investigative work has been performed but disposition (such as corrective administrative action) is pending.	
Criminal and Civil Investigative Activities	Number
Referrals for Criminal Prosecution to DOJ	8
Accepted	6
Indictments/Informations	2
Arrests	0
Convictions	1
Referrals for Criminal Prosecution to State and Local Prosecuting Authorities	0
Referrals for Civil Prosecution to DOJ	1
Accepted	1
Referrals for Civil Prosecution to State and Local Prosecuting Authorities	0
Monetary Results	Number
Criminal Fines/Restitutions/Recoveries/Assessments/Forfeitures	\$0
Criminal Seizures	\$0
Civil Fines/Restitutions/Recoveries/Penalties/Damages/Forfeitures	\$0
Administrative Investigative Activities	Number
Removals, Retirements, and Resignations	0
Suspensions	1
Reprimands/Warnings/Other Actions	2
Complaints Received	Number
Hotline Complaints	105
Other Complaints	187
Total Complaints During Period	292

Table 6. References to Reporting Requirements of the Inspector General Act

Section	Inspector General Act Reporting Requirement	Page(s)
4(a)(2)	Review of Legislation and Regulations	18-19
5(a)(1)	Significant Problems, Abuses, and Deficiencies	7-9, 13-17
5(a)(2)	Recommendations for Corrective Action	7-9
5(a)(3)	Prior Recommendations Not Yet Implemented	24-31
5(a)(4)	Matters Referred to Prosecutive Authorities	13-17, 32
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	7-9, 13-17
5(a)(8)	Statistical Table on Management Decisions with Respect to Questioned Costs	22
5(a)(9)	Statistical Table on Management Decisions on Recommendations That Funds Be Put to Better Use	23
5(a)(10)(A)	Summary of Each Audit, Inspection or Evaluation Report More Than 6 Months Old for Which No Management Decision Has Been Made	20
5(a)(10)(B)	Summary of Each Audit, Inspection or Evaluation Report More Than 6 Months Old for Which No Establishment Comment Was Returned Within 60 Days of Providing the Report to the Establishment	20
5(a)(10)(C)	Summary of Each Audit, Inspection or Evaluation Report More Than 6 Months Old for Which There Are Any Outstanding Unimplemented Recommendations, Including the Aggregate Potential Cost Savings of Those Recommendations	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	35
5(a)(16)	Peer Reviews Conducted by Another OIG	35
5(a)(17)(A)	Statistical Table Showing the Total Number of Investigative Reports Issued During the Reporting Period	32
5(a)(17)(B)	Statistical Table Showing the Total Number of Persons Referred to DOJ for Criminal Prosecution During the Reporting Period	32
5(a)(17)(C)	Statistical Table Showing the Total Number of Persons Referred to State and Local Prosecuting Authorities for Criminal Prosecution During the Reporting Period	32
5(a)(17)(D)	Statistical Table Showing the Total Number of Indictments and Criminal Informations During the Reporting Period That Resulted From Any Prior Referral to Prosecuting Authorities	32

Table 6. References to Reporting Requirements of the Inspector General Act (Continued)

Section	Inspector General Act Reporting Requirement	Page(s)
5(a)(18)	Description of the Metrics Used for Developing the Data for the Statistical Tables Under 5(a)(17)	32
5(a)(19)	Report on Each Investigation Conducted Involving a Senior Government Employee Where Allegations of Misconduct Were Substantiated	13-17
5(a)(20)	Instances of Whistleblower Retaliation	13
5(a)(21)	Attempts by the Establishment To Interfere With the Independence of the OIG	20
5(a)(22)(A)	Each Inspection, Evaluation, and Audit Conducted by the OIG That Is Closed and Was Not Disclosed to the Public	n/a
5(a)(22)(B)	Each Investigation Conducted by the OIG Involving a Senior Government Employee That Is Closed and Was Not Disclosed to the Public	n/a

PEER REVIEWS OF OIG OPERATIONS

PEER REVIEW OF THE SEC OIG'S AUDIT OPERATIONS

In accordance with generally accepted government auditing standards and CIGIE quality control and assurance standards, an OIG audit team assesses another OIG's audit function every three years. During this reporting period, the SEC OIG did not have an external peer review of its audit function and did not conduct any audit peer reviews.

The Legal Services Corporation (LSC) OIG conducted the most recent assessment of the SEC OIG Office of Audit's system of quality control for the 3-year period ending March 31, 2018. 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 a reasonable assurance of conforming to applicable professional standards. On September 5, 2018, 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. On the basis of 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 peer review report is available on the SEC OIG website at <https://www.sec.gov/files/External-Peer-Review-Report-for-the-SEC-OIG-Audit-Org.pdf>. The next peer review of the OIG's audit function is scheduled for FY 2021.

The peer review of our evaluations work is ongoing and is scheduled to be completed in FY 2021. The SEC OIG participated in a peer review of the Peace Corps OIG's Evaluation Unit during the reporting period. The final report was issued on July 22, 2020.

PEER REVIEW OF THE SEC OIG'S INVESTIGATIVE OPERATIONS

The Investigative Operations did not undergo a peer review this reporting period. The most recent peer review was performed by the National Science Foundation (NSF) OIG in November 2017. The NSF 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*.

The NSF OIG concluded that the SEC OIG was in compliance with the quality standards established by CIGIE and other applicable guidelines and statutes listed above. Furthermore, the NSF OIG concluded that the SEC OIG's system of internal policies and procedures provide reasonable assurance that the SEC OIG is conforming with professional standards in the planning, execution, and reporting of its investigations.

APPENDIX B

OIG SEC EMPLOYEE SUGGESTION PROGRAM REPORT FY 2020

OVERVIEW

The OIG established the OIG SEC ESP in September 2010, pursuant to Section 966 of Dodd-Frank. Section 966 requires the IG to establish a suggestion program for SEC employees. In accordance with Dodd-Frank, the SEC OIG has prepared this annual report describing suggestions and allegations received, recommendations made or actions taken by the OIG, and actions taken by the SEC in response to suggestions for the period October 1, 2019, through September 30, 2020.

Through the ESP, the OIG receives suggestions from agency employees concerning improvements in the SEC's work efficiency, effectiveness, and productivity, 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 established formal policies and procedures for the receipt and handling of employee suggestions and allegations under the ESP.

The OIG closed a suggestion (ES-19-0035) during this reporting period from an employee regarding the process for Commission seriatim rulemaking. Specifically, the employee suggested that the agency eliminate the paper distribution of rule releases and distribute them via email only. The employee stated that currently the Office of the Secretary requests that an office make 12 copies of the seriatim cover sheet, the action memorandum, and the rule release for distribution to the Commissioners and the Office of the Secretary. The employee informed the OIG that for a recent rulemaking, the rule release was 738 pages long. Making 12 copies uses nearly 9,000 pieces of paper. The employee noted that his/her office customarily sends a copy of the rule release to the Commissioners via email as well. In order to preserve staff time and materials resources, the employee suggests that the agency eliminate the paper distribution of the rule release and instead distribute it via email only.

In March 2020, the agency implemented a new paperless seriatim process as a direct result of the employee's suggestion.

SUMMARY OF EMPLOYEE SUGGESTIONS AND ALLEGATIONS

Between October 1, 2019, and September 30, 2020, the OIG received and analyzed 15 suggestions or allegations, details of which appear below.

Nature and Potential Benefits of Suggestion*	Number
Increase efficiency or productivity	6
Increase effectiveness	7
Increase the use of resources or decrease costs	2
Nature and Seriousness of Allegation*	Number
Mismanagement and/or discrimination	0
Waste of SEC resources	0
Misconduct by an employee	2
Action Taken by the OIG in Response to Suggestion or Allegation*	Number
Memorandum to or communication with the SEC about the suggestion or allegation	13
Referred to OIG Office of Investigations	2
Referred to OIG Office of Council to the IG	0
Referred to OIG Office of Audit	0
Researched issues, but determined no further action was necessary	8
Other	0
Action Taken by SEC Management*	Number
SEC management took action to address the suggestion or allegation	2
SEC decided to secure new technology in response to the suggestion	0
SEC management is considering the suggestion in context of existing procedures	0
SEC management initiated an internal review	0

* Some suggestions or allegations are included under multiple categories.

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REPORT FRAUD, WASTE, OR ABUSE

To report suspected fraud, waste, or abuse in SEC programs or operations, as well as SEC staff or contractor misconduct, use our online OIG hotline complaint form, <https://sec.govcomhotline.com>, or call (833) 732-6441. This number is answered 24 hours, 7 days a week.

Information received through the hotline is held in confidence upon request. Although the OIG encourages complainants to provide information on how we may contact them for additional information, we also accept anonymous complaints.

EMPLOYEE SUGGESTION PROGRAM

The OIG SEC Employee Suggestion Program, established under Dodd-Frank, welcomes suggestions by all SEC employees for improvements in the SEC's work efficiency, effectiveness, productivity, and use of resources. The OIG evaluates all suggestions received and forwards them to agency management for implementation, as appropriate. SEC employees may submit suggestions by calling (202) 551-6062 or sending an email to OIGESProgram@sec.gov.

COMMENTS AND IDEAS

The SEC OIG also seeks ideas for possible future audits, evaluations, or reviews. We will focus on high-risk programs, operations, and areas where substantial economies and efficiencies can be achieved. Please send your input to AUDPlanning@sec.gov.



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