

**Office of Inspector General**

# SEMIANNUAL REPORT TO CONGRESS

U.S. SECURITIES AND  
EXCHANGE COMMISSION

10.01.17 TO 03.31.18





OFFICE OF INSPECTOR GENERAL  
SEMIANNUAL REPORT TO CONGRESS

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OCTOBER 1, 2017 THROUGH MARCH 31, 2018



#### 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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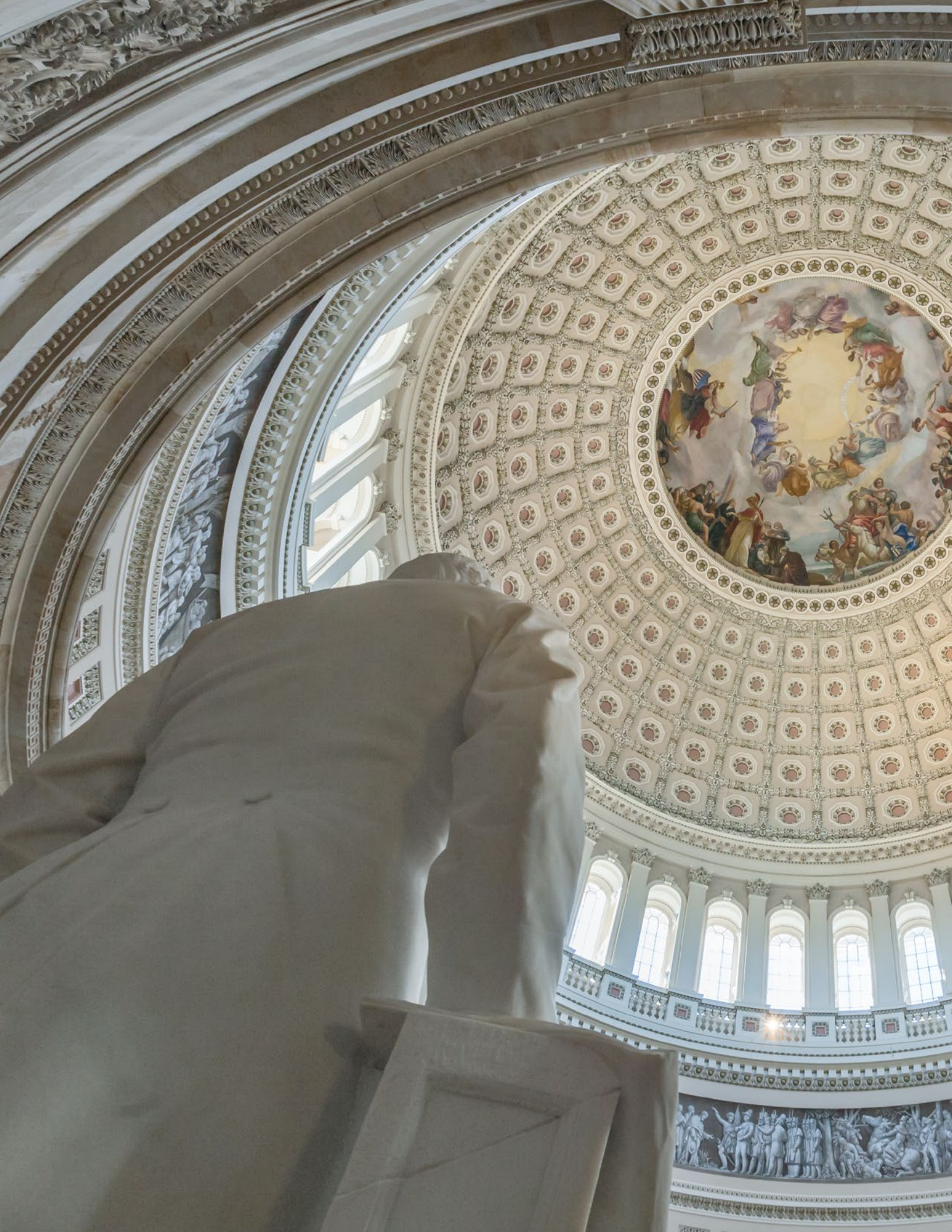
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# ABBREVIATIONS

Agency/SEC	U.S. Securities and Exchange Commission
ARP	Automation Review Policy
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
CO	Contracting Officer
CF	Division of Corporation Finance
DATA Act	Digital Accountability and Transparency Act
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOJ	Department of Justice
EAC	Employee Advisory Council
EDGAR	Electronic Data Gathering, Analysis, and Retrieval
EIS	Electronic Information Sources
ENF	Division of Enforcement
FISMA	Federal Information Security Modernization Act
FY	Fiscal Year
FY 17Q2	Fiscal Year 2017, Second Quarter
GAO	Government Accountability Office
GPC	Government Purchase Card
IG	Inspector General
Library	Information Services Branch
NARA	National Archives and Records Administration
NSF	National Science Foundation
OA	Office of Audits
OCIE	Office of Compliance Inspections and Examinations
OFM	Office of Financial Management
OI	Office of Investigations
OGE	Office of Government Ethics
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
PTCS	Personal Trading Compliance System
SCI	Systems Compliance and Integrity
TCP	Technology Controls Program
Treasury	Department of the Treasury
USAO	United States Attorney's Office
USC	United States Code





## MESSAGE FROM THE INSPECTOR GENERAL



I am pleased to present this Semiannual Report to Congress as Inspector General (IG) of the SEC. This report describes the work of the SEC OIG from October 1, 2017, to March 31, 2018, and reflects our responsibility to report independently to Congress and the Commission. The audits, evaluations, investigations, and other reviews that we describe illustrate the OIG's efforts to promote the efficiency and effectiveness of the SEC and demonstrate the impact that our work has had on the agency's programs and operations.

During this 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.

During this reporting period, the OIG's [Office of Audits](#) (OA) issued reports that recommended improvements in SEC programs and operations. For example, on November 7, 2017, we issued our [Audit of the SEC's Compliance With the Digital Accountability and Transparency Act for](#)

[Fiscal Year 2017 \(Report No. 545\)](#). Then, on March 30, 2018, we issued our [Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017 \(Report No. 546\)](#). The OA also worked with SEC management to close 26 recommendations made in 5 OIG reports issued during this and previous semiannual reporting periods.

In addition, the [Office of Investigations](#) (OI) completed or closed 32 investigations during this reporting period. The investigations involved a wide range of violations, including [allegations of fraudulent use of the SEC seal](#), [allegations of prohibited holdings](#), and [allegations of employee misconduct](#).

Our investigations resulted in 14 referrals to the Department of Justice (DOJ), 5 of which were accepted for prosecution, and 6 referrals to management for corrective administrative action.

During this reporting period, the OIG welcomed a Fellow from the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Interagency Fellows Program. A contracting officer (CO) from DOJ OIG, the Fellow worked closely with the Deputy IG for Audits, Evaluations, and Special Projects to develop an OIG-wide internal controls assessment and quality assurance program built on an Enterprise Risk Management framework. As a result, the SEC OIG is better able to assess existing management controls and, where necessary, implement improved controls to address organizational risks. I would like to thank the Fellow for her exemplary, thorough work and useful deliverables.

Also during this period, a steering committee was formed to develop a proposed structure for an OIG Employee Advisory Council (EAC). The EAC's goals are to focus on quality of work-life matters; facilitate increased job satisfaction; promote organizational effectiveness; enhance a cohesive team environment; and foster employee engagement with conversation, communication, and understanding. The EAC is now active and pursuing its goals.

I am also pleased to report that the OIG held its fourth annual OIG awards ceremony in March 2018 to honor service and outstanding achievements by OIG staff during 2017. At this ceremony, SEC Chairman Jay Clayton and I recognized the specific contributions of the award recipients. I would like to express my gratitude to the award recipients, as well as all the OIG staff, for their continued hard work and dedication to the OIG's mission.

In closing, I remain firmly committed to executing the OIG's mission of promoting the integrity, efficiency, and effectiveness of the SEC's programs and operations and to reporting our findings and recommendations to Congress and the Commission. We will continue to collaborate with SEC management to assist the agency in addressing the challenges it faces in its unique and important mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. I appreciate the significant support that the OIG has received from Congress and the agency. We look forward to continuing to work closely with the Commission and staff, as well as 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 a market environment that is worthy of the public's trust and characterized by transparency and integrity. Its core values consist of integrity, excellence, accountability, effectiveness, teamwork, and fairness. The SEC's goals are to establish and maintain an effective regulatory environment; foster and enforce compliance with the Federal securities laws; facilitate access to the information investors need to make informed investment decisions; and enhance the Commission's performance through effective alignment and management of human, information, and financial capital.

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 (CF), Enforcement (ENF), Investment Management, Trading and Markets, and Economic and Risk Analysis—and 25 functional offices. The SEC's headquarters are in Washington, DC, and the agency has 11 regional offices located throughout the country. As of March 2018, the SEC employed 4,486 full-time equivalent employees.

## OIG STAFFING, RESOURCES, AND ADMINISTRATION

During this semiannual reporting period, the OIG welcomed Christie M. Alvarez, a Fellow in the CIGIE Interagency Fellowship Program. The CIGIE Interagency Fellowship Program is designed to broaden perspectives of Federal employees in the IG community, preparing them for future challenges. The program provides each Fellow a temporary interagency assignment at another OIG to help develop or enhance specific leadership competencies. In addition, the CIGIE Interagency Fellowship Program supports the SEC OIG's strategic plan and performance objectives, allows for expansion or enhancement of employees' current jobs, enables employees to perform needed or potentially needed duties outside their current jobs, and meets both current and future organizational needs in response to human resources plans. A CO from DOJ OIG, Christie worked closely with the Deputy IG for Audits, Evaluations, and Special Projects to develop

an OIG-wide internal controls assessment and quality assurance program built on an Enterprise Risk Management framework, which focuses on identifying and addressing risks that may prevent the SEC OIG from successfully carrying out its strategic objectives (and thereby achieving its mission).

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 to encourage suggestions for improvements in the SEC's work efficiency, effectiveness, and productivity, and the use of its resources.



2017 Employee of the Year, John Gauthier, receives his award from SEC Chairman Jay Clayton and IG Carl W. Hoecker

## OIG ANNUAL AWARDS PROGRAM

The OIG held its annual awards ceremony on March 13, 2018, to honor service and outstanding achievements in 2017. The awardees were selected in various categories based on nominations submitted by their peers. The IG and the SEC Chairman presented the awards.

The Length of Service awardees included:

- Samuel Morris—20 years
- Holley Miller—20 years
- Bruce McLean—20 years
- K. Shane Breffitt—20 years
- Carrie Fleming—25 years
- Diane Baker—25 years

The 2017 award recipients included:

- Kelli Brown-Barnes—Leadership Award
- Leann Harrier—Mission Support Award
- Kelli Brown-Barnes, Carrie Fleming, Sumeer Ahluwalia, John Dettinger, Matthew Fryer, and Leann Harrier—Team Award for Audit of the Year
- K. Shane Breffitt, Kyle Lin, Samuel Morris, Bruce Quintero, and Roberta Raftovich—Team Award for Investigation of the Year
- Melissa Mulhollen—New Employee of the Year
- John Gauthier —Employee of the Year



## COORDINATION WITH OTHER AGENCIES

**D**uring 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 3 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 SEC IG also attended CIGIE meetings and continued to serve as the Chairman of the CIGIE Investigations Committee. The mission of the Investigations Committee is to advise the IG community

on issues involving criminal investigations and criminal investigations personnel and to establish criminal investigative guidelines. Additionally, the OI participated in the CIGIE Assistant IG for Investigations Subcommittee, whose members collaborate in areas that impact the OIG investigations community, such as updates to the investigative peer review process.

The OA continued to participate in activities of the CIGIE Federal Audit Executive Council, including the Council's Information Technology Committee. In addition to regularly attending working group meetings, two auditors worked with the Committee to update IG Federal Information Security Modernization Act (FISMA) metrics for fiscal year (FY) 2018 and develop a draft FY 2018 IG FISMA Evaluation Guide. Also, for the first time, the OA participated in the CIGIE Fellows Program and welcomed a Fellow from the DOJ OIG to our office. In addition, the Deputy IG for Audits, Evaluations, and Special Projects participated in a CIGIE Enterprise Risk Management working group, and volunteered to co-chair a sub-working group related to auditing Federal agency Enterprise Risk Management programs. Finally, the OA assisted other OIGs at their request, most recently obtaining and providing information to support an OIG's information technology benchmarking efforts.

In addition, the Office of Counsel and Management Support is participating in a CIGIE working group tasked to organize events to commemorate three milestones—the 40<sup>th</sup> anniversary of the Inspector General Act that created the first OIGs at the large Departments, the 30<sup>th</sup> anniversary of the amendments that extended the reach of the IG Act to the designated entities, and the 10<sup>th</sup> anniversary of the IG Act amendments that created CIGIE. The goal of these commemorative activities is to enhance the IG community’s effectiveness through increased awareness of the valuable contributions made by the IG community.

The Counsel to the IG served as the Chair of the Council of Counsels to the IGs as well as the Administrative Leave Act Working Group moni-

toring the U.S. Office of Personnel Management’s implementation of statutorily mandated regulations, participated on the New IG Attorney Course Working Group, and served as an instructor for the CIGIE Training Institute’s Audit, Inspection, and Evaluation Academy.

OIG staff also participated in the activities of the Deputy IGs group, the CIGIE Freedom of Information Act Working Group, the CIGIE Data Analytics Working Group, and the CIGIE Policy Working Group.





# AUDITS AND EVALUATIONS

## OVERVIEW

The OIG 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. The 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, the OA monitors the SEC's progress in taking corrective actions on recommendations in OIG audit and evaluation reports.

Each year, the OA prepares an annual work plan. The plan includes work that the Office 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.

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

## COMPLETED AUDITS AND EVALUATIONS

### Audit of the SEC's Compliance With the Digital Accountability and Transparency Act for Fiscal Year 2017 (Report No. 545)

When fully implemented, the Digital Accountability and Transparency Act of 2014 (DATA Act) will enable taxpayers and policy makers to track Federal spending more effectively. The DATA Act directs the Office of Management and Budget (OMB) and the Treasury to establish governmentwide financial data standards to ensure the reporting of reliable, consistent Federal spending data for public use. The DATA Act also requires the IGs of each Federal agency to select a sample of agency spending data and assess the completeness, timeliness, quality, and accuracy of the data and the agency's implementation and use of the governmentwide financial data standards. To meet the requirements of the DATA Act, we conducted an audit of the SEC compliance with the DATA Act, specifically related to the agency's fiscal year 2017, second quarter (FY 17Q2) data.

We determined that the SEC's Office of Financial Management (OFM) successfully prepared and submitted to Treasury the SEC's first set of agency-generated files (known as File A, File B, and File C) in accordance with the DATA Act. Specifically, the SEC's Senior Accountable Official certified the agency's FY 17Q2 files within 30 days of quarter-end;

therefore, the files were considered timely. In addition, we identified no concerns with the data's overall quality and found that the SEC's FY 17Q2 Files A through C were generally complete and accurate as described below, with one exception warranting corrective action.

The SEC's FY 17Q2 File A contained all required DATA Act elements, which were presented in accordance with the data standards. We compared the data in File A to information reported to OMB and found that all data matched, with no exceptions.

The SEC's FY 17Q2 File B also contained all required DATA Act elements, which were presented in accordance with the data standards. However, the SEC's shared service provider incorrectly mapped FY 17Q2 spending by the SEC's Office of Compliance Inspections and Examinations (OCIE) to the program activity code for the SEC's ENF. Although staff from the SEC's OFM and shared service provider learned of this discrepancy shortly after submitting to Treasury the agency's FY 17Q2 files, staff did not take corrective action to avoid repeating the discrepancy in the SEC's FY 2017, third quarter submission (completed on August 10, 2017).

The SEC's FY 17Q2 File C also contained all required DATA Act elements, which were presented in accordance with the data standards. We tested the accuracy of a statistically valid sample of 200 of the 414 File C detail award transactions and concluded that the sampled transactions were accurate, with no exceptions. In addition, we concluded that all 200 sampled transactions were appropriately linked to information reported in File D1 (a file generated by Treasury's system for DATA Act reporting).

Finally, we noted that OFM management created a DATA Act Reference Guide to establish, among other things, written data validation and reconciliation processes. However, at the time of our audit, management had not finalized the reference guide because the *USAspending.gov* beta site was not

yet fully operational to allow for a complete two-way reconciliation.

Although the SEC's first DATA Act submission generally met requirements, improvements can be made for future reporting periods. To improve the SEC's processes for complying with the DATA Act, we recommended that the Acting Chief Financial Officer (1) verify that the agency's FY 2017, fourth quarter File B properly maps all required program activities and codes before submitting the file to Treasury, and (2) finalize OFM's DATA Act Reference Guide and ensure it outlines processes for reviewing and correcting material exceptions identified in the agency's DATA Act submissions to date. Management concurred with the recommendations, which have been closed for reporting purposes..

The report is available on our website at <https://www.sec.gov/files/Audit-of-the-SECs-Compliance-with-the-DATA-Act-for-FY-17-Report-No-545.pdf>.

**Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017 (Report No. 546)**  
The SEC's information systems process and store significant amounts of sensitive, non-public information, including information that is personally identifiable, commercially valuable, and market-sensitive. The SEC's information security program protects the agency from the risk of unauthorized disclosure, modification, use, and disruption of this sensitive, non-public information. Without these controls, the agency's ability to accomplish its mission could be inhibited, and privacy laws and regulations that protect such information could be violated. To comply with FISMA, the SEC OIG assessed the SEC's implementation of FISMA information security requirements based on FY 2017 guidance issued to IGs by the U.S. Department of Homeland Security.

The SEC's Office of Information Technology (OIT) has overall management responsibility for the

SEC's information technology program, including information security. Since FY 2016, OIT improved aspects of the SEC's information security program. Among the actions taken, OIT implemented improved identification and authentication processes, finalized the SEC's information security continuous monitoring strategy, developed and delivered privacy and information security awareness training to SEC employees and contractors (achieving a 99-percent compliance rate), and conducted two incident response exercises and an annual test of the agency's enterprise disaster recovery plan.

Although the SEC strengthened its program since our last FISMA report, we found that the SEC's information security program did not meet the U.S. Department of Homeland Security's FY 2017 IG FISMA Reporting Metrics' definition of effective. We determined that the SEC's maturity level for the five Cybersecurity Framework security functions ("Identify," "Protect," "Detect," "Respond," and "Recover") was either Level 2 ("Defined") or Level 3 ("Consistently Implemented"). None of the functions reached Level 4 ("Managed and Measurable"), which the U.S. Department of Homeland Security's FY 2017 IG FISMA Reporting Metrics identified as the level reflective of an effective information security program.

The SEC has further opportunities to ensure that its information security program is effective across the FISMA domains in all five Cybersecurity Framework security functions. Acting on these opportunities for improvement will help minimize the risk of unauthorized disclosure, modification, use, and disruption of the SEC's sensitive, nonpublic information, and assist the SEC's information security program reach the next maturity level.

We issued our final report on March 30, 2018, and made 20 recommendations related to the 7 FY 2017 IG FISMA Reporting Metrics assessment domains. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

The report is available on our website at <https://www.sec.gov/files/Audit-of-the-SECs-Compliance-with-FISMA-for-Fiscal-Year-2017.pdf>.

## OTHER PROJECTS AND REPORTS

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

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

On November 28, 2017, the OIG reported to OMB that the OIG did not issue any reports regarding the SEC's Government Purchase Card (GPC) Program during FY 2017. The OIG further noted that, as reported to OMB in January 2017, the OIG had closed all recommendations from the OIG's most recent related audit report ([Controls Over the SEC's Government Purchase Card Program, Report No. 517](#), dated March 28, 2014) before the end of FY 2014.

The OIG's letter report is available on our website at [https://www.sec.gov/files/IGs-FY-2017-Letter-to-OMB-on-SECs-Implementation-of-Purchase-Card-Program-Audit-Recommendations\\_0.pdf](https://www.sec.gov/files/IGs-FY-2017-Letter-to-OMB-on-SECs-Implementation-of-Purchase-Card-Program-Audit-Recommendations_0.pdf).

### Inspector General's Report on the U.S. Securities and Exchange Commission's Fiscal Year 2017 Compliance With the Improper Payments Information Act

On March 23, 2018, the OIG reported the results of its review of the SEC's compliance with the Improper Payments Information Act of 2002, as amended and expanded by the Improper Payments Elimination and Recovery Act of 2010, and the

Improper Payment Elimination and Recovery Improvement Act of 2012. We conducted our review in accordance with OMB's implementing guidance.

The SEC's FY 2017 risk assessment determined that none of the SEC's programs and activities are susceptible to significant improper payments. In addition, according to the SEC's FY 2017 Agency Financial Report, the agency determined that implementing a payment recapture audit program is not cost effective. Nonetheless, the agency will continue to monitor for improper payments across all programs and activities the SEC administers, and assess whether implementing payment recapture audits would be cost-effective in the future. Based on our review of this information, we determined that the SEC is in compliance with the Improper Payments Information Act for FY 2017.

The OIG's letter report is available on our website at <https://www.sec.gov/files/IG-Report-on-SEC-FY-2017-Compliance-with-Improper-Payments-Info-Act.pdf>.

#### Results of the Inspector General's Fiscal Year 2017 Purchase Card Program Risk Assessment

The Government Charge Card Abuse Prevention Act of 2012 requires OIGs to conduct periodic assessments of agency purchase card or convenience check programs to identify and analyze the risks of illegal, improper, or erroneous purchases and payments. The risk assessments are used to determine the scope, frequency, and number of audits of purchase card or convenience check transactions. Pursuant to OMB guidance, risk assessments of agency purchase cards (including convenience checks) should be completed at least annually. The Government Charge Card Abuse Prevention Act also requires periodic audits or reviews of travel card programs for agencies with more than \$10 million in travel card spending, but does not require travel card program risk assessments.

On March 28, 2018, the OIG reported to the SEC Chairman on the results of its FY 2017 risk assess-

ment of the SEC's GPC program. To conduct the risk assessment, we assessed agency compliance with the Government Charge Card Abuse Prevention Act's requirements and evaluated the SEC's GPC program against an established enterprise risk management framework. We also interviewed Office of Acquisitions staff and reviewed applicable documents.

We found that the SEC has set program objectives, identified risks to the GPC program, and established controls and monitoring protocols to address those risks. We agreed with the SEC's assessment of how its controls and monitoring protocols affect the likelihood the risks could occur and the impact those risks would have on the GPC program. Given the objectives and size of the GPC program and its materiality to the SEC, we found that the SEC's risk response appeared reasonable and sufficient.

However, during our review of the SEC's FY 2017 GPC transactions, cardholders were unable to provide documentation to verify that employees attended GPC-paid external training events, as required by an SEC administrative regulation. According to SEC GPC personnel, employees could not verify attendance at external training events because the agency's *Learn, Engage, Achieve, Perform* training system was not properly configured. We brought this issue to management's attention, and management is contemplating action. In our FY 2018 risk assessment, we will reevaluate this issue.

As a result of our risk assessment, we determined that the overall risk of material illegal, improper, or erroneous purchases and payments in the SEC's GPC program is low. Additionally, because we audited the SEC's controls over its GPC program in March 2014, we do not plan to audit that program in FY 2018. However, we are conducting limited GPC testing as part of an ongoing audit of the SEC's management and purchase of electronic information sources, data sources, and print materials. We will issue a report on the audit's results when the review is complete.

Finally, we determined that in FY 2017, the SEC did not meet the \$10 million threshold for travel card spending, and we did not perform a travel card program risk assessment.

The OIG's memorandum on the results of the FY 2017 GPC risk assessment is available on our website at <https://www.sec.gov/files/Results-of-the-Inspector-Generals-FY-2017-Purchase-Card-Program-Risk-Assessment.pdf>.

## ONGOING AUDITS AND EVALUATIONS

**Audit of the Division of Enforcement's Use of External Experts and Foreign Counsel**  
SEC's ENF routinely retains outside experts and foreign counsel (collectively referred to as "experts") in its enforcement activities to fulfill a variety of roles. Between April 1, 2015, and March 31, 2017, the SEC awarded almost 200 contracts for expert services totaling over \$35 million. Without effective controls over ENF's contracts with and use of external experts, the SEC may not effectively review and approve requests for external experts, select external experts, or manage the funds spent on external experts' services, fees, and expenses.

The OIG has initiated an audit of ENF's use of external experts. The objective of the audit is to assess ENF's internal controls over its use of external experts between April 1, 2015, and March 31, 2017. Specifically, we will determine whether the SEC implemented effective controls for: (1) reviewing and approving requests for ENF's external experts, and for selecting individual external experts including—but not limited to—conducting cost-benefit and conflict of interest analyses, evaluating the technical approach, assessing the expertise of SEC employees, performing market research, and completing other pre-award requirements when contracting with external experts; and (2) managing its contracts with exter-

nal experts and the funds spent on external experts' services, fees, and expenses, as appropriate.

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

## **Audit of the Securities and Exchange Commission's Management of Electronic Information Sources, Data Sources, and Print Material Purchases**

The SEC's Office of Strategic Initiatives' Information Services Branch (Library) acquires and maintains electronic information sources (EIS), data sources, and print materials for SEC staff use. The Library contracts for new obligations to acquire new EIS, data sources, and print materials, and renewal obligations to extend or renew services and products already available. Between October 1, 2015, and September 30, 2017 (FYs 2016 and 2017), the Library obligated about \$40 million on subscription contracts for EIS, data sources, and print materials. In addition, any SEC division or office, including the Library, can purchase EIS, data sources, and print materials costing less than \$3,500 using a GPC. Before using a GPC for such purchases, divisions and offices must confirm with the Library that the service or product is not already available, or that it cannot be procured for less via an established contract. During FYs 2016 and 2017, GPC purchases of EIS, data sources, and print materials totaled \$184,409.

We initiated an audit to determine whether the SEC's Library, either directly or through SEC divisions, offices, and or working groups, has developed and implemented effective controls for acquiring, maintaining, and tracking information and data source subscriptions, including proper assessment of agency needs and associated costs.

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

### Evaluation of the SEC's Handling of, and Response to, Electronic Data Gathering, Analysis, and Retrieval System Vulnerabilities

On September 23, 2017, the SEC Chairman sent a letter to the SEC's IG, requesting that the OIG review the agency's handling of, and response to, a software vulnerability in the Commission's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system that the Chairman disclosed in his September 20, 2017, *Statement on Cybersecurity*.

The EDGAR system is central to the agency's mission and is critical to the functioning of the capital markets. The primary purpose of the EDGAR system is to increase the efficiency and fairness of the securities market for the benefit of investors, corporations, and the economy by accelerating the receipt, acceptance, dissemination, and analysis of time-sensitive corporate information filed with the agency. The EDGAR system is a complex system with multiple subsystems and components, which includes a test filing component. The test filing component of the EDGAR system allows companies to test their ability to create a filing in an EDGAR-acceptable format before submitting the companies' official filing.

In the *Statement on Cybersecurity*, the Chairman stated, "In August 2017, the Commission learned that an incident previously detected in 2016 may have provided the basis for illicit gain through trading. Specifically, a software vulnerability in the test filing component of [the] EDGAR system, which was patched promptly after discovery, was exploited and resulted in access to nonpublic information. It is believed the intrusion did not result in unauthorized access to personally identifiable information, jeopardize the operations of the Commission, or result in systemic risk." Later, however, in his October 4, 2017, testimony before the United States House of Representatives Committee on Financial Services, the Chairman testified that he was "informed that the EDGAR test filing accessed by third parties in connection with the 2016 intrusion contained the names, dates of birth, and social security numbers of two individuals."

In response to the Chairman's request, the OIG has initiated an evaluation of the SEC's handling of, and response to, EDGAR system vulnerabilities. Specifically, we will (1) determine whether the SEC established key controls to ensure EDGAR system incidents and vulnerabilities were identified and reported in a timely manner; (2) evaluate the operating effectiveness of the SEC's incident handling processes, including processes for detecting, analyzing, containing, and eradicating EDGAR system vulnerabilities; (3) determine whether the SEC adequately assessed the security of the EDGAR system, including security assessments conducted during the change management process; and (4) determine whether known EDGAR vulnerabilities were remediated in a timely manner.

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

### Evaluation of the Office of Compliance Inspections and Examinations' Technology Controls Program

In recent years, the U.S. securities markets have been transformed by technological advances, which have, among other things, substantially enhanced the speed, capacity, efficiency, and sophistication of the trading functions available to market participants. At the same time, technological advances have increased the risk of operational problems with automated systems, including failures, disruptions, delays, and intrusions.

This transformation of the U.S. securities markets occurred in the absence of a formal regulatory structure governing the automated systems of key market participants. Before 2015, the SEC's oversight of securities markets technology was conducted primarily pursuant to a set of voluntary principles known as the SEC's Automation Review Policy (ARP) Statements. Through the agency's ARP inspection program, the SEC oversaw about 25 entities, including securities exchanges, clearing organizations, and electronic communication networks. The SEC's Market Regulation Division (now

known as the Division of Trading and Markets) administered the ARP inspection program, yet at times had difficulty ensuring entities implemented recommendations for improvement because of the voluntary nature of the program.

In 2004, the GAO criticized the voluntary nature of the ARP inspection program and recommended that the SEC propose a rule to make the program mandatory. On February 3, 2015, the SEC adopted Regulation Systems Compliance and Integrity (SCI) to strengthen the technology infrastructure of the U.S. securities markets. Regulation SCI applies to 44 entities (referred to as “SCI entities”) that directly support the following 6 key securities market functions: (1) order routing, (2) trading, (3) clearance and settlement, (4) market data, (5) market regulation, and (6) market surveillance.

The SEC’s OCIE Technology Controls Program (TCP) oversees SCI entities’ compliance with Regulation SCI by performing risk- and initiative-based inspections. The SEC’s Technology Risk-Assurance, Compliance, and Examination Report system maintains documents related to these inspections.

The OIG has initiated an evaluation of OCIE’s TCP. The objective of the evaluation is to assess OCIE’s TCP and determine whether the program provided effective oversight of entities’ compliance with Regulation SCI. Specifically, we plan to review the controls, including systems, policies, and procedures, in place for monitoring Regulation SCI compliance; evaluate the TCP inspection process; and review OCIE’s management and oversight of one of its contractors.

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

### Evaluation of the SEC’s Progress Toward Addressing Human Capital Management Challenges

In 2016 and 2017, both the SEC OIG and the GAO identified issues related to the SEC’s management

of human capital. In October 2017, the SEC OIG reported that Ensuring Effective Human Capital Management was once again a management and performance challenge. Specifically, we reported that the Office of Human Resources did not have an effective method for assessing the timeliness of the SEC’s hiring process, including maintaining reliable hiring data and monitoring hiring actions according to established timelines. Furthermore, the Office of Human Resources did not analyze quality-of-new-hire survey results to improve the SEC’s hiring process. We urged the Office of Human Resources to implement an effective system based on reliable data to conduct comprehensive assessments of the SEC’s hiring process, further improve the agency’s hiring process, and increase the likelihood that SEC divisions and offices timely hire highly qualified candidates to meet mission requirements.

In addition, in December 2016, GAO issued its second triennial report on the SEC’s personnel management required under Dodd-Frank. GAO reported that the SEC had addressed two of seven recommendations from GAO’s 2013 report but faced added challenges in cross-divisional collaboration and hiring and promotion.

The OIG initiated an evaluation to determine the SEC’s progress toward addressing human capital management challenges. Specifically, we will assess the SEC’s implementation of applicable Federal internal control standards and plans for aligning the agency’s human capital management strategy with key elements of U.S. Office of Personnel Management’s Human Capital Framework to address human capital management challenges the SEC faces.

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.

The OI conducts investigations in accordance with the CIGIE *Quality Standards for Investigations* and applicable guidelines issued by the U.S. Attorney General. The office 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, and outside agencies, as well as coordination with the DOJ. The OI reports vulnerabilities and internal control deficiencies to SEC management for corrective administrative actions.

The 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.

## REPORT ON INSTANCES OF WHISTLEBLOWER RETALIATION

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

## STATUS OF PREVIOUSLY REPORTED INVESTIGATIONS

### Failure To Report or Pre-Clear Holdings and Transactions and Possession of Prohibited Holdings (Case No. 14-0011-I)

During this period, management responded to a report of investigation issued on this case. As reported in a previous semiannual report, the OIG investigated allegations that an employee had not reported or pre-cleared any of the securities holdings or transactions of the employee's spouse since the two married in 2007.

The investigation determined that the employee's spouse had two brokerage accounts and that the employee did not report these imputed financial interests to the SEC. Additionally, the employee did not pre-clear or report transactions in these accounts, which included securities that SEC employees are prohibited from owning and were prohibited margin accounts. The employee also had disqualifying financial conflicts of interest with respect to two matters to which the employee was assigned. Furthermore, the employee did not report

the employee's own personal accounts or the transactions in those accounts.

Moreover, the investigation discovered that the employee sent nonpublic information to a spouse's personal e-mail account on two occasions. Furthermore, the employee used access to a Government system for purposes that were not work-related.

The OIG referred the facts of the investigation to a United States Attorney's Office (USAO) on March 25, 2015, which on the same date declined prosecution. The OIG then reported the results of the investigation to SEC management to determine whether corrective administrative action may be warranted. In March 2018, management notified the OIG that the employee had been suspended for 7 days. Additionally, the employee agreed to donate 16 hours of annual leave to the voluntary leave bank program.

#### Allegations of Improperly Receiving Parking Permits, Mishandling Classified Information, and Instructing a Witness To Withhold Information From an OIG Investigation (Case No. 15-0105-I)

During this period, management responded to a report of investigation issued on this case. As reported in a previous semiannual report, the OIG investigated allegations that an employee was improperly receiving SEC-issued parking permits, which allowed the employee to park a personally-owned vehicle in the SEC headquarters parking garage without paying. The OIG subsequently received additional allegations that the employee mishandled classified information and instructed a former employee to withhold information from the OIG about an OIG investigation.

In addition, information emerged during the investigation that the former employee may have transmitted nonpublic information from the former employee's SEC e-mail account to the former employee's personal e-mail account and shared nonpublic information with the former employee's spouse.

The investigation developed no evidence that the employee improperly received SEC-issued parking permits or that another employee had improperly issued any such parking permits. Furthermore, the investigation developed no evidence that the employee instructed the former employee to withhold information from the OIG regarding an investigation. With respect to the mishandling of classified information, the employee stated that the employee may have failed to properly package and transport such materials between SEC facilities, but the employee could not recall specifics. Beyond this, the investigation did not discover any additional evidence to suggest that the employee did, in fact, mishandle classified information.

The investigation confirmed that the former employee transmitted nonpublic information from the former employee's SEC e-mail account to a personal e-mail account and shared nonpublic information with the former employee's spouse.

The OIG reported the results of its investigation to SEC management to determine whether corrective administrative action may be warranted. During this reporting period, management responded that the employee's supervisor discussed the proper handling and transportation of classified materials. Additionally, the employee completed annual Security Clearance and Insider Threat Training, which provides a refresher on the proper handling and safeguarding of classified information.

#### Financial Conflict of Interest by a Senior Employee (Case No. 15-0257-I)

During this period, management responded to a report of investigation issued on this case. As reported in a previous semiannual report, the OIG investigated allegations that an employee supervised two matters involving health care companies while maintaining in excess of \$50,000 in a health care sector fund.

The OIG determined that the employee's and the employee's spouse's financial interest in the health

care sector fund exceeded the \$50,000 threshold while the employee participated in ENF matters relating to seven health care stocks in the fund. The investigation did not identify evidence to indicate that the employee participated personally and substantially in these matters. However, the employee should not have had any involvement when the employee's financial interest in the fund exceeded the threshold (during 7 of 10 years between 2004 and 2014). The OIG also determined that the employee was not granted any waivers to participate in the ENF matters.

On December 22, 2015, the OIG presented the case to the DOJ Public Integrity Section for prosecution consideration, which on October 12, 2016, declined prosecution. The OIG reported the results of its investigation to management to determine whether corrective administrative action may be warranted. During this period, management responded that the employee was leaving the agency. In light of the employee's imminent departure from the agency, management determined not to take any further action.

## COMPLETED INVESTIGATIONS

### Allegations of Potential Conflicts of Interest (Case No. 14-0175-I)

The OIG investigated allegations that an SEC employee had a conflict of interest when the employee facilitated the SEC's procurement of services from a particular company (C1). C1 and a company (C2) where the employee had worked prior to joining the SEC were formed when another company split in 2012.

After joining the SEC, the employee allegedly facilitated the SEC's procurement of services of C1. The employee reportedly introduced C1's president to ENF staff and commented that C1's president was "someone [ENF staff] may be working for in the future." A few weeks afterward, C1 was announced

as a subcontractor to a SEC contract, and later became a contractor, giving rise to concerns about a potential conflict.

The investigation determined that C1 was a separate entity from C2 where the SEC employee had worked previously. No evidence was developed that the employee had a conflict of interest involving C1 or that the employee was involved in or improperly influenced the procurement process for C1 becoming a subcontractor, or the SEC's contract award to C1. However, the employee's involvement with an effort to procure C1 through a sole source award may have created the appearance of a conflict of interest.

During the investigation, the OIG received additional information that the employee may have provided false or misleading information to a municipal court about the employee's involvement with an ENF matter as a means to avoid appearing in court for a traffic violation. The investigation did not substantiate that the employee provided false or misleading information to the municipal court.

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

### Allegations of Disclosing Nonpublic Information, Providing Insider Information, and Padding Government Contracts (Case No. 14-0772-I)

The OIG investigated allegations that a senior employee disclosed nonpublic information to the senior employee's spouse. In addition, it was alleged that the senior employee's spouse padded Government contracts and purchased goods charged to a contract with another Federal agency. It was further alleged that a second senior employee provided the first senior employee with insider information.

The investigation did not find evidence that either senior employee improperly disclosed material nonpublic information. In addition, the investigation did not find evidence that the first senior employee's spouse padded Government contracts and purchased goods charged to a contract with another Federal agency.

However, the investigation determined that the first senior employee failed to report rental properties on the annual Office of Government Ethics (OGE) *Confidential Financial Disclosure Report* (Form 450) for calendar years 2009 through 2014; used office equipment in conjunction with the management of the aforementioned rental properties; and failed to declare holdings, pre-clear transactions and upload statements to the Personal Trading Compliance System (PTCS) despite prior notice from the Office of the Ethics Counsel.

On September 27, 2017, the OIG referred the facts of the investigation to a USAO, which on the same date declined prosecution. The OIG then reported the results of its investigation to management to determine whether corrective administrative action may be warranted. Management's response was pending at the end of the reporting period.

#### Allegations of Fraudulent Use of the SEC Seal (Case No. 14-0842-I)

The OIG investigated allegations received from ENF of fraudulent use of the SEC seal. ENF reported that a foreign-based investor had invested about \$230,000 through a purported broker-dealer based in the United States. The investor was instructed via e-mails, purportedly from representatives of the broker-dealer, to make payments for options contracts purchases through the SEC to "authorized option traders." The investor received payment instructions from the broker-dealer that contained the SEC seal and an SEC e-mail account and instructed the investor to transfer funds in relation to options investments to two banks, one of which was in Hong Kong.

The investigation also found that two individuals were reported to be affiliated with the Hong Kong-based bank as a director and shareholders. The investor was the only victim known who received requests from the broker-dealer to send money to the Hong Kong-based bank.

On September 25, 2017, the OIG referred facts and evidence developed in this investigation relative to the investor's payments to the Hong Kong-based bank to a USAO, which on the same date declined prosecution.

#### Allegations of Prohibited Holdings (Case No. 15-0106-I)

The OIG investigated allegations that an SEC employee held prohibited holdings and did not follow the proper procedures in the SEC's PTCS for divesting these holdings. Additionally, it was alleged that the employee did not report these holdings on the employee's annual OGE Form 450, *Confidential Financial Disclosure Report*, and did not file a new entrant OGE Form 450 upon the employee's appointment as a CO's Representative.

The investigation determined that the employee held prohibited holdings and violated the SEC's Supplemental Standards of Ethical Conduct. Additionally, the employee did not follow the appropriate procedures for the SEC's PTCS by failing to pre-clear certain transactions in the system, trading in securities after clearance was rejected, failing to hold securities for the required 6-month time period, not executing trades within the required 5 business days from receiving pre-clearance, entering false information in PTCS, and submitting false annual attestations in PTCS. The investigation also found that the employee filed false OGE Forms 450 and used official work time to conduct improper trading activities. The employee admitted using official work time to conduct improper trading activities.

On August 24, 2016, the OIG referred the facts of the investigation to a USAO, which on the same date declined prosecution. On September 6, 2016, after obtaining additional information, this matter was referred to a USAO, which declined prosecution on March 7, 2017. The OIG then reported the results of its investigation to management to determine whether corrective administrative action may be warranted. Management responded that the employee was given a 10-day suspension.

#### Allegations of Prohibited Holdings and Misuse of Computer Systems (Case No. 15-0518-I)

The OIG investigated allegations that a former student trainee may not have accurately reported financial holdings belonging to the student trainee and the student trainee's spouse. Furthermore, the student employee may have violated SEC Supplemental Ethics Rules if the spouse divested certain financial holdings without the student employee obtaining pre-clearance.

Additionally, information developed during this investigation revealed that another employee may have, at the student employee's request, used the employee's SEC credentials to obtain information from a public access website about student employee's spouse, and then provided the information to the student employee.

The investigation did not substantiate that the student employee and the student employee's spouse held financial assets that required disclosure during the student employee's employment at the SEC. Evidence developed by the OIG indicated that the student employee's spouse may have misrepresented holdings, including divestitures, to the student employee, leaving the student employee with the false impression that spouse had financial holdings and transactions that required disclosure to the SEC. In August 2015, the student employee voluntarily resigned from the SEC.

The investigation also determined that the employee's credentials were used to access public website, and searches for the student employee's spouse were conducted. The student employee stated that the employee provided the student employee with the public access website information regarding the student employee's spouse. The employee could not recall conducting the searches and denied sharing the employee's SEC public access website credentials with any other person.

On March 10, 2016, the OIG referred the facts of the investigation to a USAO, which on the same date declined prosecution. The OIG then reported the results of its investigation to management to determine whether corrective administrative action may be warranted. Management responded that it had orally counseled the employee on the SEC's Rules of the Road related to passwords, system access, and password maintenance.

#### Allegations of Employee Misconduct (Case No. 16-0049-I)

The OIG investigated allegations that an employee was parking in a reserved parking space, improperly used transit program benefits by providing them to the employee's daughter, appeared to have slept overnight in the office after being reprimanded for the same behavior, provided a username and password to an unauthorized person to access an SEC system, and sent an e-mail containing nonpublic information from a personal e-mail account to an SEC e-mail address.

The investigation determined that the employee used a photocopied parking permit to park a personal vehicle in a reserved parking space without paying the daily rate. In addition, the investigation identified the following: the employee entered and exited the SEC parking garage while receiving transit benefits and did not reduce the transit subsidy benefits claimed to reflect actual usage, keeping the excess benefits and providing the transit benefits to the

employee's daughter; on 19 occasions, the employee remained overnight in the office after arriving at work in the early morning and not leaving until the following day; violated the SEC's rules governing information technology by sharing a username and password for an SEC web-application system; and transmitted nonpublic information from a personal e-mail account to an SEC e-mail address.

On January 10, 2018, the OIG presented the case to a USAO, which on the same date declined prosecution. Because the employee left the agency during the investigation, the OIG did not present the results of its investigation to management.

#### Nonpublic Information Disclosure (Case No. 16-0144-I)

The OIG received and investigated allegations that nonpublic information associated with a company's settlement of an ENF investigation and the company's rule waiver request of CF was leaked to the media. In December 2015, an article was published that included details and nonpublic information about the company's tentative settlement with the Commission and its rule waiver request (available at <https://www.bloomberg.com/news/articles/2015-12-10/jpmorgan-said-to-win-relief-in-sec-case-on-sale-of-its-own-funds>).

The OIG investigation determined that the article contained nonpublic information related to the company's tentative settlement and its rule waiver request. However, the OIG found no evidence to corroborate that an SEC employee was responsible for disclosing the nonpublic information that appeared in the article. During the investigation, the OIG learned that several entities external to the SEC, along with other Federal agencies, had full or partial access to the nonpublic information that was published in the article, particularly the terms of the settlement and the pending waiver request.

#### Allegations of Transmitting Nonpublic SEC Information by a Senior Employee (Case No. 16-0211-I)

The OIG investigated allegations that a senior employee used a personal e-mail account to transmit nonpublic SEC information and used an SEC e-mail system for a separate job teaching at a university.

The investigation determined that the employee sent one e-mail message containing nonpublic information from the employee's personal e-mail account to the employee's SEC e-mail account. The employee's signature was required on a document. The employee said that the employee likely took the document home, signed it, scanned it using a personally-owned scanner, and then, using the employee's personal e-mail account, sent the document to the employee's SEC e-mail account. The OIG confirmed that the employee had deleted the document from the personal e-mail account.

The investigation also determined that the employee held an uncompensated part time teaching position at a university and was not required to have sought approval from the SEC for this position. The investigation found that the employee had appropriately reported the position on the employee's OGE Form 278, *Executive Branch Personnel Public Financial Disclosure Report*. Finally, there was no evidence indicating that any SEC employee misused official duty time or any SEC resources for this teaching position.

The OIG reported the results of the investigation to SEC management to determine whether corrective administrative action may be warranted. Management responded that it reminded the employee on the prohibition of using personal e-mail in connection with official business.

### Allegations of Exerting Significant Influence and Conflict of Interest (Case No. 16-0366-I)

The OIG investigated allegations that an OIT employee, serving as the chair of a technical evaluation panel, exerted significant influence over the other panel members to recommend a certain company for an award. It was also alleged that the employee had a conflict of interest because the employee had previously worked with two of the company's senior managers while they were employed together at a separate unrelated company. In addition to these initial allegations, the OIG received an additional allegation that the employee manipulated the results of another technical evaluation of a portfolio management tool used by OIT, which resulted in OIT's selection of the product preferred by the employee.

The investigation did not identify evidence that the employee had improperly exerted influence over the members of the panel during the selection of the company. Although the employee had served as the chairperson of the panel, the other panel members signed a consensus memorandum, which indicated their unanimous recommendation of the company. None of the other panel members identified specific actions by the employee that constituted pressure or influence to recommend the company for the award.

The investigation confirmed that the employee had previously worked with two of the company's senior managers at another company. The investigation did not find evidence, however, that the employee received or is receiving any financial benefit, while employed at the SEC, as the result of the employee's selection of the company, or of the employee's previous working relationships with the company's employees.

The investigation did not identify evidence that the employee had manipulated the results of the evalua-

tion of the OIT's replacement project and portfolio management tool.

On November 20, 2017, the OIG referred the facts of the investigation to a USAO, which declined prosecution on December 4, 2017. The OIG outlined the results of the investigation in a report of investigation to SEC management.

### Allegations of Making Harassing Phone Calls (Case No. 17-0395-I)

The OIG investigated allegations that a private citizen had made repeated harassing phone calls to various SEC divisions and offices. Specifically, the individual telephoned the SEC to complain about purported theft and fraud by two companies with whom the citizen and the citizen's mother had accounts. This is the second OIG investigation of this individual's calls.

The investigation determined that the individual made repeated calls to the SEC. Through call logs, the OIG determined that between June 2010 and August 2017, the individual had called the SEC about 600 times. Often, the individual called multiple times in succession, leaving voicemails that were up to 5 minutes in length, which is the maximum voicemail length allowed by the SEC's phone system.

The investigation also found that none of the SEC employees the individual contacted deemed the calls to be threatening in terms of violence. However, the length, volume, and repetitive nature of the calls did appear to negatively impact SEC operations.

On September 21, 2017, the OIG referred the facts of the investigation to a USAO, which on the same date declined prosecution; however, the USAO indicated it would reassess its declination if the individual resumed the harassing contact with the SEC.

### Allegations of a False Filing in the Electronic Data Gathering, Analysis, and Retrieval System (Case No. 17-0412-I)

The OIG investigated allegations that a false filing announcing a bid to take over a company was submitted in the SEC's EDGAR system and that the filing had the effect of manipulating the price of the company's stock.

The investigation determined that an individual submitted the false information to the SEC. On May 5, 2017, a criminal complaint was filed, charging the individual with violations of 15 United States Code (USC) §§ 78j(b) and 78ff, Securities Fraud, Manipulative and Deceptive Devices; 17 Code of Federal Regulations §240.10b-5, Securities and Exchange Act, Employment of Manipulative and Deceptive Devices; and 18 USC § 1343, Wire Fraud.

The individual pled guilty to criminal charges relating to the false EDGAR filing. As a result of the individual's guilty plea, the individual was sentenced to 24 months imprisonment and 24 months supervised release; the individual was also ordered to forfeit \$3,914.08 and pay a \$100.00 special assessment.

The DOJ press release regarding this matter is available at <https://www.justice.gov/usao-sdny/pr/virginia-man-arrested-and-charged-manhattan-federal-court-100-million-market>.

### Allegation of Found Ammunition (Case No. 17-0519-I)

The OIG investigated an allegation that a box of ammunition was found in an employee's desk.

The investigation confirmed that the box of ammunition belonged to the employee. The box contained nine rounds of blank ammunition (ammunition that contained gunpowder but no projectile and is often used for training and simulation). The employee accidentally brought the blank ammunition to the office after a military training exercise and forgot about the box of ammunition. Furthermore, the employee stated that the employee never showed the ammunition to anyone, never brought a firearm or live ammunition to the office, and did not have any plans to threaten, intimidate, or harass any person with the ammunition. The investigation did not identify any evidence to contradict these claims.

On November 6, 2017, the OIG referred the facts of the investigation to a USAO, which on the same date declined prosecution. The OIG then reported the results of the investigation to management to determine whether corrective administrative action may be warranted. Management responded that it had administered a written counseling to the employee.





## REVIEW OF LEGISLATION AND REGULATIONS

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

### Public Law 114-113

Consolidated Appropriations Act (enacted on December 18, 2015), Division N, Title I, Section 107(b) (requiring a biennial report to Congress from certain IGs, in consultation with the IG of the Intelligence Community and CIGFO, detailing executive branch compliance with the Act over the most recent 2-year period, with the first report due in 2018).

### Public Law 114-328

National Defense Authorization Act for FY 2017 (enacted on December 23, 2016), Division A, Title XI, Subtitle C, Section 1138 (amending Subchapter II of Chapter 63 of Title 5 of the USC to (1) prohibit an agency from placing an employee on administrative leave for more than a total of 10 work days during a calendar year; and (2) authorizes additional periods of administrative leave only for employees under investigation or in a notice period, subject to a determination by the

agency that the continued presence of the employee in the workplace may pose a threat to other employees, result in the destruction of evidence relevant to an investigation, result in loss of or damage to Government property, or otherwise jeopardize legitimate Government interests); and Section 1140 (amending Subchapter I of Chapter 33 of Title 5 of the USC to require agencies to make a permanent notation in an individual's personnel file if the individual resigns from Government employment while the subject of a personnel investigation and an adverse finding against the individual is made as a result of the investigation).

### Public Law 115-90

Continuing Resolution (through December 22, 2017) (enacted on December 8, 2017)

### Public Law 115-96

Continuing Resolution (through January 19, 2018) (enacted on December 22, 2017)

### Public Law 115-120

Continuing Resolution (through February 8, 2018) (enacted on January 22, 2018)

#### Public Law 115-123

Continuing Resolution (through March 23, 2018); also includes Further Additional Supplemental Appropriations for Disaster Relief Requirements Act (enacted on February 9, 2018).

#### Public Law 115-124

Amending the Continuing Appropriations Act, 2018 to: (1) compensate employees furloughed as a result of any lapse in appropriations which began on or about February 9, 2018; and (2) ratify and approve certain obligations incurred in anticipation of the appropriations and authority provided by the Continuing Appropriations Act, 2018 (Sec. 102). The bill also specifies that the time covered by the Continuing Appropriations Act, 2018 includes the period that began on or about February 9, 2018, during which there was a lapse in appropriations (enacted on February 9, 2018).

#### Public Law 115-141

Vehicle for Consolidated Appropriations Act 2018 (enacted March 23, 2018). Pub. Law 115-141 also created the “Clarifying Lawful Overseas Use of Data Act” (CLOUD Act). The Act amends Title 18 (the Stored Communications Act) by creating a new section requiring that “A provider of electronic communication service or remote computing service shall comply with the obligations of this chapter [Chapter 121 of Title 18] to preserve, backup, or disclose the contents of a wire or electronic communication and any record or other information pertaining to a customer or subscriber within such provider’s possession, custody, or control, regardless of whether such communication, record, or other information is located within or outside of the United States.”

Another section created under the CLOUD Act includes a provision that authorizes the Attorney General to enter into agreements with foreign

nations that have adequate due process and protections for privacy and United States persons. The law allows for comity with foreign governments where, if the abovementioned agreement has been entered into and other comity considerations are met, foreign electronic communication services and foreign remote computing services can seek to quash or modify a legal process in U.S. courts if the legal process would require the foreign electronic communication services or foreign remote computing services to disclose the content of a wire or electronic communication of a customer or subscriber who is not a United States person and the provider materially risks violating local laws by disclosing information.

#### H.R. 4043 and S. 1869

H.R. 4043, Whistleblower Protection Extension Act of 2017, and S. 1869, Whistleblower Protection Coordination Act. On March 6, 2018, H.R. 4043 passed the House. On March 15, 2018, an amended version of S.1869 passed the Senate by unanimous consent. Both bills reauthorize the Whistleblower Protection Ombudsman position under Section 3 of the IG Act while changing the title of the position to “Whistleblower Protection Coordinator” (the Coordinator). They also change the type of information that the Coordinator would provide, and the role of the Coordinator assisting the IG in ensuring the appropriate handling of protected disclosures. It adds a coordination role for CIGIE to develop best practices guidance and facilitate the work of the Coordinators. Additionally, Semiannual Reports to Congress would be required to also report any agency settlements of whistleblower retaliation complaints regardless of any confidentiality provisions.

### S. 2155

Economic Growth, Regulatory Relief, and Consumer Protection Act, (introduced November 16, 2017). This bill would amend the Truth in Lending Act to allow institutions that have less than \$10 billion in assets to waive ability-to-repay requirements for residential-mortgage loans that qualify; amend other mortgage-lending provisions pertaining to appraisals, mortgage data, licensing of loan originators, manufactured homes, escrow requirements, and transaction waiting periods; amend the Bank Holding Company Act of 1956 to exclude banks with less than \$10 billion in assets from the “Volcker Rule,” which proscribes banking agencies from partaking in proprietary trading or entering into certain relationships with hedge funds and private equity funds. The bill also exempts certain banks from specified capital and leverage ratios,

and directs Federal banking agencies to provide new requirements. It amends the United States Housing Act of 1937 to: (1) decrease inspection requirements and environmental review requirements for certain smaller, rural public-housing agencies; (2) revise the Family Self-Sufficiency program, including those provisions pertaining to eligibility requirements, entities allowed to administer Family Self-Sufficiency programs, and the scope of supportive services; (3) modify provisions pertaining to enhanced prudential regulation for financial institutions, including those related to stress testing, leverage requirements, and the use of municipal bonds for purposes of meeting liquidity requirements; and (4) seek to require credit reporting agencies to provide credit-freeze alerts, including consumer-credit provisions pertaining to minors and veterans.

# 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

Date and Report Number	Title
Information Security	
11/07/2017	Audit of the SEC's Compliance With the Digital Accountability and Transparency Act for Fiscal Year 2017
545	
Information Security	
03/30/2018	Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017
546	

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

Description	Number of Reports	Total		
		Questioned Costs	Unsupported Costs	Funds Put to Better Use
Reports for which no management decision had been made by the start of the reporting period	1	\$375,205	\$2,778,882	\$2,698,584
Reports issued during the reporting period	0	\$0	\$0	\$0
<b>Subtotals</b>	<b>0</b>	<b>\$375,205</b>	<b>\$2,778,882</b>	<b>\$2,698,584</b>
Reports for which a management decision had been made during the reporting period:	0	\$375,205*	\$2,778,882**	
Dollar value of recommendations agreed to by management		\$0	\$0	\$164,004
Dollar value of recommendations NOT agreed to by management		\$0	\$0	\$2,534,580
Reports with no management decision at the end of the reporting period	0	\$0	\$0	\$0

\*Management reviewed the questioned costs and did not identify any disallowed costs. Additionally, management determined that it would not seek recovery of the questioned costs.

\*\*Management agreed that the costs were unsupported at the time of the audit and has represented that it has since taken steps to appropriately document the costs.

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.

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 preaward reviews of contract or grant agreements; or (F) any other savings which are specifically identified.

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

During this semiannual reporting period, SEC management provided the OIG with documentation to support the implementation of OIG recommendations. In response, the OIG closed 26 recommendations related to 5 OA reports. The following table lists recommendations open 180 days or more.

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
539-Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	10	3/7/2017	Develop a process to document and track all users' initial access agreements and training before granting personnel access to agency information systems.
539-Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	15	3/7/2017	Fully implement a process to evaluate the skills of users with significant security and privacy responsibilities and provide additional security and privacy training content, or implement strategies to close identified skills gaps.
539-Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	19	3/7/2017	Update agency Security Operation Center Incident Management policies to include OIG incident notification requirements developed in coordination with the OIG.
541-Audit of the Office of Compliance Inspections and Examinations' Investment Adviser Examination Completion Process	1	7/27/2017	Design control activities related to the review and approval of examination work products to require segregation of duties, and update National Exam Program policies and procedures and the Tracking and Reporting Examination National Documentation System's controls and guidance, as needed, to reflect this requirement.
541-Audit of the Office of Compliance Inspections and Examinations' Investment Adviser Examination Completion Process	2	7/27/2017	Update National Exam Program policies and procedures to more clearly define the requirements for documenting in the Tracking and Reporting Examination National Documentation System's examination meetings and interviews, including preliminary exit interviews, and make corresponding revisions to the Tracking and Reporting Examination National Documentation System's controls and guidance, as needed.
541-Audit of the Office of Compliance Inspections and Examinations' Investment Adviser Examination Completion Process	3	7/27/2017	Develop and disseminate guidance for assigning final examination risk ratings, and notify all OCIE staff of the requirement and importance of selecting final examination risk ratings before closing examinations.

Table 3. Reports With Recommendations on Which Corrective Action Has Not Been Completed (*Continued*)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
542-Evaluation of the Division of Corporation Finance's Disclosure Review and Comment Letter Process	1	9/13/2017	Establish a mechanism or control for CF staff to trace all comments provided to companies—including comments received from support offices and management—to examiner and reviewer reports before issuing comment letters.
542-Evaluation of the Division of Corporation Finance's Disclosure Review and Comment Letter Process	2	9/13/2017	Establish a mechanism or control that ensures CF staff upload all examiner and reviewer reports to the internal workstation before issuing comment letters.
542-Evaluation of the Division of Corporation Finance's Disclosure Review and Comment Letter Process	3	9/13/2017	Establish a mechanism or control that ensures CF staff upload all examiner and reviewer reports to the internal workstation before issuing comment letters.
543-Audit of the SEC's Management of Its Data Centers	1	9/29/2017	Conduct comprehensive reviews of the D1 and D2 data center moves, requirements gathering efforts, and operations to identify lessons learned.
543-Audit of the SEC's Management of Its Data Centers	2	9/29/2017	Obtain an assessment of the D1 data center, performed by qualified internal or external personnel, to determine whether the data center meets current agency requirements, including requirements specified in the contract. If the data center does not meet requirements, take action(s) deemed necessary and appropriate.
543-Audit of the SEC's Management of Its Data Center	5	9/29/2017	(a) Review official data center contract files to identify any documents that should have been included and properly file any documents found; (b) establish a process for ensuring the contract files will be properly maintained for the remainder of the contracts; and (c) develop steps the CO will undertake to closely monitor the activities of the CO's Representatives for the remainder of the contracts, including regular meetings and file reviews, and establish a schedule for accomplishing each step.
543-Audit of the SEC's Management of Its Data Centers	6	9/29/2017	Validate the need to rent from the D1 data center contractor power distribution units, and consider purchasing the units instead; and validate all other monthly recurring costs in the contract to determine whether those costs are reasonable, necessary, and in the best interests of the Government.



Table 3. Reports With Recommendations on Which Corrective Action Has Not Been Completed (*Continued*)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
543–Audit of the SEC’s Management of Its Data Centers	7	9/29/2017	Assess all required contract deliverables and, where needed, work with the contractors to establish or clarify expectations for each deliverable’s format, content, and timeframe for submission to the agency.
543–Audit of the SEC’s Management of Its Data Centers	8	9/29/2017	Ensure assessors use a risk-based or comprehensive approach to data center physical and environmental control assessments that considers prior audits, assessments, and known vulnerabilities.
543–Audit of the SEC’s Management of Its Data Centers	9	9/29/2017	Develop a plan to timely address the physical and environmental vulnerabilities at the D2 data center identified by our contractor.
543–Audit of the SEC’s Management of Its Data Centers	10	9/29/2017	Ensure responsible personnel coordinate with stakeholders to identify data center vulnerabilities for which a plan of action and milestones should be created, and address existing plan of action and milestones items related to vulnerabilities at the D1 data center.
544–Audit of the SEC’s Progress in Enhancing and Redesigning the Electronic Data Gathering, Analysis, and Retrieval System	4	9/28/2017	Develop and implement a comprehensive earned value management policy specifying the requirements for implementing earned value management for information technology contracts, defining how contractors’ earned value management systems will be verified for compliance with the applicable standards, and how integrated baseline reviews will be conducted.
544–Audit of the SEC’s Progress in Enhancing and Redesigning the Electronic Data Gathering, Analysis, and Retrieval System	5	9/28/2017	Assess the EDGAR system engineering contractor’s earned value management system for compliance with applicable standards.
544–Audit of the SEC’s Progress in Enhancing and Redesigning the Electronic Data Gathering, Analysis, and Retrieval System	9	9/28/2017	Address constraints impacting the timely completion, review, and approval of contractor deliverables, commensurate with the EDGAR Redesign program’s strategic significance and importance to the agency.

Table 4. Summary of Investigative Activity for the Reporting Period of October 1, 2017, to March 31, 2018

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	51
Cases Completed but Not Closed* at Beginning of Period	4
Cases Opened During Period	10
Cases Closed During Period	28
Cases Completed but Not Closed at End of Period	4
Open Cases at End of Period	33
Investigative Reports Issued During the Reporting Period	9
*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	14
Accepted	5
Indictments/Informations	3
Arrests	4
Convictions	1
Referrals for Criminal Prosecution to State and Local Prosecuting Authorities	0
Referrals for Civil Prosecution to DOJ	0
Referrals for Civil Prosecution to State and Local Prosecuting Authorities	0
Monetary Results	Dollars
Criminal Fines/Restitutions/Recoveries/Assessments/Forfeitures	\$4,014.08
Civil Fines/Restitutions/Recoveries/Penalties/Damages/Forfeitures	\$0
Administrative Investigative Activities	Number
Removals, Retirements, and Resignations	1
Suspensions	2
Reprimands/Warnings/Other Actions	4
Complaints Received	Number
Hotline Complaints	243
Other Complaints	216
<b>Total Complaints During Period</b>	<b>459</b>

Table 5. 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	23-25
5(a)(1)	Significant Problems, Abuses, and Deficiencies	7-11, 15-22
5(a)(2)	Recommendations for Corrective Action	7-11
5(a)(3)	Prior Recommendations Not Yet Implemented	29-31
5(a)(4)	Matters Referred to Prosecutive Authorities	15-22, 32
5(a)(5)	Summary of Instances Where the Agency Unreasonably Refused or Failed to Provide Information to the OIG	26
5(a)(6)	List of OIG Audit and Evaluation Reports Issued During the Period	27
5(a)(7)	Summary of Significant Reports Issued During the Period	7-11, 15-22
5(a)(8)	Statistical Table on Management Decisions with Respect to Questioned Costs	28
5(a)(9)	Statistical Table on Management Decisions on Recommendations that Funds Be Put to Better Use	28
5(a)(10)(A)	Summary of Each Audit, Inspection or Evaluation Report Over Six Months Old for Which No Management Decision Has Been Made	26
5(a)(10)(B)	Summary of Each Audit, Inspection or Evaluation Report Over Six Months Old for Which No Establishment Comment Was Returned Within 60 Days of Providing the Report to the Establishment	26
5(a)(10)(C)	Summary of Each Audit, Inspection or Evaluation Report Over Six Months Old for Which There Are Any Outstanding Unimplemented Recommendations, Including the Aggregate Potential Cost Savings of Those Recommendations	26
5(a)(11)	Significant Revised Management Decisions	26

Table 5. References to Reporting Requirements of the Inspector General Act *(Continued)*

Section	Inspector General Act Reporting Requirement	Page(s)
5(a)(12)	Significant Management Decisions with Which the Inspector General Disagreed	26
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 the 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
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	15-22
5(a)(20)	Instances of Whistleblower Retaliation	15
5(a)(21)	Attempts by the Establishment To Interfere With the Independence of the OIG	26
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 3 years.

During the reporting period, the SEC OIG did not have an external peer review of its audit function. The National Archives and Records Administration (NARA) OIG conducted the most recent assessment of the SEC OIG OA's system of quality control for the 3-year period ending March 31, 2015. 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 December 29, 2015, the NARA 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 NARA 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 NARA OIG identified findings and recommendations that were not considered to be of sufficient significance to affect the peer review rating. All recommendations from the recent peer review have been addressed and closed. Furthermore, there are no outstanding recommendations from previous peer reviews of the SEC OIG's audit organization.

The peer review report is available on the SEC OIG website at <http://www.sec.gov/oig/reportspubs/Peer-Review---System-Review-Report-on-the-Securities-and-Exchange-Commissions-Office-of-Inspector-General-Audit-Organization.pdf>. The next peer review of the OIG's audit function is scheduled for FY 2018.

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

During the reporting period, an external peer review of the SEC OIG's investigative operations was completed by the National Science Foundation (NSF) OIG. The peer review covered the period FY 2016 through 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 issued its report on the SEC OIG's investigative operations in November 2017. In its report, 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 concluded 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.

# OIG GENERAL OFFICE CONTACT INFORMATION

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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, [www.reportlineweb.com/sec\\_oig](http://www.reportlineweb.com/sec_oig), or call (877) 442-0854. 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 ESP, 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 e-mail to [OIGESProgram@sec.gov](mailto: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](mailto:AUDPlanning@sec.gov).





This report is available on the Inspector General's website  
[www.sec.gov/oig](http://www.sec.gov/oig)