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SEMIANNUAL REPORT TO CONGRESS

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OFFICE OF INSPECTOR GENERAL
SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2018 THROUGH MARCH 31, 2019



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 (SEC or Agency). We accomplish this mission by:

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

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

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ABBREVIATIONS

Acquisitions	Office of Acquisitions
Agency/SEC	U.S. Securities and Exchange Commission
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
DERA	Division of Economic and Risk Analysis
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOJ	Department of Justice
EDGAR	Electronic Data Gathering, Analysis, and Retrieval
ENF	Division of Enforcement
FISMA	Federal Information Security Modernization Act of 2014
FY	fiscal year
GAO	U.S. Government Accountability Office
GPC	Government Purchase Card
IG	Inspector General
ISS	infrastructure support services
IT	information technology
Kearney	Kearney and Company, P.C.
NICS	National Instant Criminal Background Check System
NSF	National Science Foundation
OA	Office of Audits
OI	Office of Investigations
OIG	Office of Inspector General
OMB	Office of Management and Budget





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, 2018, to March 31, 2019, 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.

The OIG continued to provide oversight even through the challenges of the Government shutdown of December 2018 through January 2019. Important oversight work that was essential to the protection of life and property continued. Moreover, immediately before the shutdown, the OIG added a new Deputy Inspector General for Investigations.

During this reporting period, the OIG's Office of Audits (OA) issued our [Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014 \(Report No. 552\)](#). The report includes 11 new recommendations to strengthen the SEC's information security program. In addition, OA continued ongoing audits of SEC programs and operations. For example, OA continued its audit of the SEC's infrastructure support services (ISS) contract—the agency's largest active contract—which provides information technology (IT) support for the SEC's Headquarters, data centers, and 11 regional offices. The overall objective of this audit is to determine whether the SEC effectively managed funds obligated to and spent on the ISS contract since contract award in January 2016. OA also continued its

evaluation of the analytics initiatives of the Division of Economic and Risk Analysis (DERA). The overall objective of this evaluation is to assess DERA's controls over integration of data analytics into the core mission of the SEC.

OA also worked with SEC management to close 26 recommendations made in 8 OIG reports issued during previous semiannual reporting periods.

In addition, the Office of Investigations (OI) completed or closed 12 investigations during this reporting period. The investigations involved a wide range of violations, including, for example, allegations of not fully recusing one's self, exercising improper influence, obstruction, and interfering in the hiring process. Our investigations resulted in 10 referrals to the Department of Justice (DOJ), 3 of which were accepted for prosecution, and 1 referral to management for corrective administrative action.

I am also pleased to report that the OIG held its fifth annual OIG awards ceremony in March 2019 to honor service and outstanding achievements by OIG staff during 2018. At this ceremony, the SEC Chairman 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 particular, the 2018 Project of the Year went to the team for the Evaluation of the [EDGAR System's Governance and Incident Handling Processes \(Report No. 550\)](#). After disclosing a vulnerability in the SEC's Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system that led to unauthorized access to nonpublic information, the SEC Chairman

requested that the OIG review the agency's handling of, and response to, the incident. This evaluation required professionalism and flexibility, and this cross-functional team delivered a high-quality product within the environment of multiple work streams requiring careful coordination. The team responded to stakeholder needs and worked in collaboration with internal SEC divisions and offices as well as external parties, including the U.S. Government Accountability Office (GAO). The team concluded that for certain fiscal years (FYs), the EDGAR system lacked adequate governance commensurate with the system's importance to the SEC's mission, that certain preventive controls either did not exist or did not operate as designed, and that the SEC lacked effective incident handling processes. The team worked as a cohesive unit, producing a final report that resulted in substantive, achievable recommendations for corrective action. The team's collective efforts personify teamwork, dedication, and determination and reflect the OIG's commitment to excellence and integrity.

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

The SEC is responsible for overseeing the nation’s securities markets and certain primary participants, including broker-dealers, investment companies, investment advisers, clearing agencies, transfer agents, credit rating agencies, and securities exchanges, as well as organizations such as the Financial Industry Regulatory Authority, the Municipal Securities Rulemaking Board, the Public Company Accounting Oversight Board, the Securities Investor Protection Corporation, and the Financial Accounting Standards Board. Under the Dodd-Frank Wall Street Reform and Consumer

Protection Act of 2010 (Dodd-Frank), the agency’s jurisdiction was expanded to include certain participants in the derivatives markets, private fund advisers, and municipal advisors.

The SEC accomplishes its mission through 5 main divisions—Corporation Finance, Enforcement (ENF), Investment Management, Trading and Markets, and Economic and Risk Analysis—and 25 functional offices. The SEC’s headquarters are in Washington, DC, and the agency has 11 regional offices located throughout the country. As of March 2019, the SEC employed 4,355 full-time equivalent employees.

OIG STAFFING, RESOURCES, AND ADMINISTRATION

During this semiannual reporting period, the OIG recruited to fill key vacancies integral to audit and investigative functions. Again, immediately before the shutdown, the OIG added a new Deputy Inspector General for Investigations. 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.

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



2018 Office of Counsel and Mission Support Employee of the Year, Ismael Serrano, 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 7, 2019, to honor service and outstanding achievements in 2018. The awardees were selected in various categories based on nominations submitted by their peers. The Inspector General and the SEC Chairman presented the awards at the ceremony.

The Length of Service awardees included:

- Sara Tete Nkongo—5 years
- Kyle Lin—10 years
- Melissa Mulhollen—15 years
- Tawana Edwards—25 years

The 2018 Outstanding Achievement award recipients included:

- Michael Burger—Leadership Award;
- Ismael Serrano—2018 SEC OIG Office of Counsel and Mission Support Employee of the Year;
- Sara Tete Nkongo—2018 SEC OIG Audit Employee of the Year; and
- Kelli Brown-Barnes, Michael Burger, John Dettinger, Sara Tete Nkongo, Sean Morgan, and David Witherspoon—Team Award for Audit, Investigation, or Project of the Year.



COORDINATION WITH OTHER AGENCIES

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

Specifically, the OIG participated in the meetings and activities of the Council of Inspectors General on Financial Oversight (CIGFO), which was established by Dodd-Frank. The chairman of CIGFO is the IG of the Department of the Treasury. 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, 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 meetings of the Council of the Inspectors General on Integrity and Efficiency (CIGIE) and continued to serve as the Chairman of

the CIGIE Investigations Committee. During this reporting period, after serving as Chairman of the CIGIE Investigations Committee for 10 years, the SEC IG was succeeded by the IG of the Department of Veterans Affairs. The mission of the Investigations Committee is to advise the IG community on issues involving criminal investigations and criminal investigations personnel and to establish criminal investigative guidelines. In addition, the OIG participated on a team to update CIGIE's *Quality Standards for Digital Forensics*, which provides a framework for performing high-quality digital forensics in support of investigations conducted by an OIG. The OIG also participated in the CIGIE Undercover Review Committee, which provided recommendations and approvals on the suitability of undercover operations that involved sensitive circumstances that were carried out in accordance with DOJ guidelines. Additionally, we collaborated with the OIG community to assist the Department of Justice in ensuring full reporting of required criminal history information to the National Instant Criminal Background Check System (NICS).

OA continued to participate in activities of the CIGIE Federal Audit Executive Council. In addition, OA staff participated in the CIGIE Enterprise

Risk Management working group. As part of this effort, the Deputy Inspector General for Audits, Evaluations, and Special Projects chaired one of the working group's sub-groups. The goal of the sub-group is to develop guidance for audit and evaluation teams responsible for assessing their agency's Enterprise Risk Management programs. The sub-group expects to finalize its guidance during the next semiannual reporting period.

The Counsel to the Inspector General served as the Chair of the Council of Counsels to the Inspectors General as well as the Administrative Leave Act Working Group, 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 Inspectors General group and the CIGIE Freedom of Information Act Working Group.



AUDITS AND EVALUATIONS

OVERVIEW

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

Each year, OA prepares an annual work plan. The plan includes work that 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, GAO, and the public.

OA conducts audits in compliance with generally accepted government auditing standards issued by the Comptroller General of the United States. OIG evaluations follow 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

Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014 (Report No. 552)

The SEC OIG contracted with Kearney and Company, P.C., (Kearney) to conduct an independent evaluation of the SEC's information security program and practices. The Federal Information Security Modernization Act of 2014 (FISMA) requires all Federal agencies to develop, document, and implement an agency-wide information security program to protect its information and information systems, including those provided or managed by another agency, contractor, or other source. Additionally, FISMA requires Federal agencies or a contracted independent external auditor to conduct an annual independent evaluation of its information security program and practices, as well as an assessment of its compliance with the requirements of FISMA.

Kearney conducted this independent evaluation of the SEC's information security program and practices on behalf of the SEC OIG in accordance with CIGIE's *Quality Standards for Inspection and Evaluation*. Kearney's evaluation included inquiries, observations, and inspection of SEC documents and records, as well as direct testing of controls.

Kearney reported that the SEC improved aspects of the agency's information security program, such as enhancing certain information security policies and procedures, strengthening authentication mechanisms, reducing the number of critical vulnerabilities, enhancing security awareness and training processes, and continuing efforts to enhance the agency's continuous monitoring program. However, Kearney identified opportunities for improvement in key areas and made 11 new recommendations to strengthen the SEC's information security program. Kearney noted that the agency's information security program did not meet the *FY 2018 IG FISMA Reporting Metrics*' definition of "effective" based on the current maturity model.

This report contains nonpublic information that we redacted to create a public version, which is available on our website at <https://www.sec.gov/files/FY-2018-Independent-Eval-SEC-Implementation-of-the-FISMA-of-2014-Report-No-552.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 the Office of Management and Budget (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 27, 2018, the OIG reported to OMB that the OIG identified two open purchase card recommendations, resulting from an audit report the OIG issued in September 2018 (*The SEC Should Take Action To Strengthen Its Management of*

Electronic Information Sources, Data Sources, and Print Materials, Report No. 548, dated September 11, 2018). The recommendations were to ensure SEC cardholders comply with established requirements when using a Government purchase card to purchase information and data sources and print materials. Specifically, we recommended:

- Acquisitions remind the agency's Government purchase cardholders of the importance of retaining support for purchases.
- The SEC Library take steps to ensure Government purchase cardholders in all agency divisions and offices are aware and knowledgeable of the Library's *Policy on Purchasing Books, Journals, Newspapers, & e-Information Licenses*.

SEC management concurred with both recommendations, and the recommendations are closed for reporting purposes.

The OIG's letter report is available on our website at <https://www.sec.gov/files/IGs-FY-2018-Letter-to-OMB-on-SECs-Implementation-of-Purchase-Card-Program-Audit-Recommendations.pdf>.

The U.S. Securities and Exchange Commission's Compliance With Improper Payments Requirements for Fiscal Year 2018

On February 14, 2019, the OIG reported the results of its review of the SEC's compliance with the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010, the Improper Payments Elimination and Recovery Improvement Act of 2012, and the Federal Improper Payments Coordination Act of 2015. We conducted our evaluation in accordance with OMB's implementing guidance and the CIGIE *Quality Standards for Inspection and Evaluation*.

For FY 2018, the SEC assessed its programs and activities and met each of the requirements that were applicable to the agency. The SEC was not required to, and thus did not, perform a risk assessment for FY 2018. In addition, 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 2018.

The OIG's letter report is available on our website at <https://www.sec.gov/files/SEC-FY-2018-Compliance-with-Improper-Payments-Information-Act.pdf>.

Results of the Inspector General's Fiscal Year 2018 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 4, 2019, the OIG reported to the SEC Chairman on the results of its FY 2018 risk assessment of the SEC's Government Purchase Card (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 Acquisitions staff and reviewed applicable documents. Additionally, we considered

the results of our periodic review of purchase card transactions.

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 2018 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. SEC Office of Human Resources personnel are working on a formal plan to communicate with employees who have not verified their training attendance. We brought this issue to management's attention, and in our FY 2019 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 2019.

Finally, we determined that in FY 2018, the SEC did not meet the \$10 million threshold for travel card spending, and therefore we did not perform a travel card program risk assessment.

The OIG's memorandum on the results of the FY 2018 GPC risk assessment is available on our website at <https://www.sec.gov/files/Results-of-IGs-FY-2018-Purchase-Card-Program-Risk-Assessment.pdf>.

ONGOING AUDITS AND EVALUATIONS

Evaluation of the Division of Economic and Risk Analysis' Data Analytics Initiatives

The SEC increasingly relies on data and analytics to guide its strategic and operational activities as well as to make more informed and effective decisions. In FY 2017, the agency spent about \$140 million on data analytics and management, and its Strategic Plan for FY 2018 through 2022 emphasizes the SEC's goal of enhancing and expanding analytics. DERA assists the agency in executing its mission by integrating analytics and economic analysis into the work of the SEC. DERA interacts with nearly every SEC division and office and provides sophisticated and data-driven economic and risk analyses to help inform the agency's policymaking, rulemaking, enforcement activities, and examinations.

Among other things, DERA develops customized analytics tools and analyses to proactively detect market risks that could indicate possible violations of Federal securities laws. Using data, DERA staff create analytics programs designed to detect patterns identifying risks, enabling the SEC's divisions and offices to target possible misconduct. DERA's Office of Risk Assessment and Office of Research and Data Services provide analytics support to other SEC divisions and offices, and support exam planning and other agency oversight programs related to issuers, broker-dealers, investment advisers, exchanges, and other trading platforms.

The OIG has begun an evaluation of DERA's analytics initiatives. The overall objective of this evaluation is to assess DERA's controls over integration of data analytics into the core mission of the SEC. We will focus on DERA's Office of Risk Assessment and Office of Research and Data Services. Specifically, we will assess the impact of both offices on the missions of ENF and the Office of Compliance Inspections and Examinations, examine the usage of data analytics developed by both offices, and assess

the interaction between DERA and the SEC's other divisions and offices.

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

Audit of the U.S. Securities and Exchange Commission's Infrastructure Support Services Contract

On January 25, 2016, the SEC awarded a combination-type contract (time-and-materials and fixed-price) for ISS for the SEC's Headquarters, data centers, and 11 regional offices. The contract (hereafter referred to as the ISS contract) provides for support in the following four task areas that compose the SEC's IT program: Enterprise Operations, Enterprise Infrastructure, Enterprise Architecture, and Common Services.

As of July 2018, the SEC's ISS contract was the agency's largest active contract. One contracting officer's representative, assigned to the Office of IT, oversees almost 300 contractor personnel. On June 29, 2018, the SEC exercised the contract's first option year. The contract's total value, if all options are exercised through 2026, is more than \$297 million.

The OIG has begun an audit of the SEC's ISS contract. The overall objective of this audit is to determine whether the SEC effectively managed funds obligated to and spent on the ISS contract. Specifically, we will (1) determine whether the SEC obtained and properly reviewed plans for converting any contract task area(s) from time-and-materials to fixed-price, (2) evaluate the SEC's decision to waive the requirement for the ISS contractor to use the agency's Contractor Time Management System, and (3) assess the agency's management of contractor time and approval of invoices.

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

Audit of the U.S. Securities and Exchange Commission's Fiscal Year 2018 Information Technology Investments

To accomplish its mission, the SEC increasingly harnesses technology to better identify risks, uncover frauds, sift through large volumes of data, inform policymaking, and streamline operations. According to the Chairman's June 2018 Congressional testimony, for FY 2018, Congress' funding for the agency would allow the SEC to make significant investments to modernize its IT infrastructure and improve its cybersecurity risk profile. In addition, according to SEC regulation, IT investments selection criteria should establish whether and how the proposed investments support the agency's mission, reduce costs or improve the effectiveness of current work processes, reduce or prevent redundancy, and meet the compliance requirements of applicable statutes, regulations, executive decisions, or agency policies.

The SEC funds IT investments through its annual appropriation from Congress and the agency's Reserve Fund. According to the *Spending Plan Required by Explanatory Statement to Accompany the Consolidated Appropriations Act, 2018*, the SEC planned to spend about \$244 million of the agency's \$1.652 billion FY 2018 appropriation (or about 15 percent) on IT investments. Specifically, the SEC planned to spend about \$198 million on operations and maintenance investments and about \$46 million for development, modernization, and enhancement investments. In addition to appropriated funds, the SEC planned to use \$1.5 million from the Reserve Fund to fund operations and maintenance investments in cybersecurity. The SEC planned to use another \$75 million from the Reserve Fund to fund development, modernization, and enhancement investments.

The OIG has begun an audit to assess the SEC's management of IT investments funded through the Consolidated Appropriations Act, 2018, and

the Reserve Fund. Specifically, we will identify the SEC's FY 2018 IT investments funded through the Consolidated Appropriations Act, 2018, and the Reserve Fund, and determine whether the agency increased funding for IT initiatives over the FY 2017 level, as required, and used funds allocated to IT investments for the funds' intended purposes; selected IT investments for funding in accordance with established processes; and had effective controls for ensuring IT investments meet established cost, schedule, and performance goals.

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

Audit of the U.S. Securities and Exchange Commission's Adoption of Cloud Computing Services

According to OMB, cloud computing offers a unique opportunity for the Federal Government to take advantage of cutting edge IT to dramatically reduce procurement and operating costs and greatly increase the efficiency and effectiveness of services provided to its citizens. In 2010, OMB directed Federal agencies to shift to a "Cloud First" policy. Then, in 2011, OMB issued its Federal Cloud Computing Strategy and a memorandum to agency Chief Information Officers titled *Security Authorization of Information Systems in Cloud Computing Environments* to further support agencies in migrating toward cloud computing. As part of these efforts, agencies are to default to cloud-based solutions whenever a secure, reliable, cost-effective cloud option exists, and re-evaluate technology sourcing strategies to include consideration and application of cloud computing solutions as part of the budget process.

According to the SEC's FY 2018 Agency Financial Report, the SEC leverages five cloud service providers that have been through the Federal Risk and Authorization Management Program, and is exploring opportunities to leverage additional cloud ser-

vice providers in accordance with emerging agency objectives. The SEC's Cloud Strategy SharePoint site identifies 34 cloud initial "pilot candidates" across various divisions and offices, and the agency's November 2017 Technology Strategic Plan includes specific cloud-related goals for 2018–2020.

The OIG has begun an audit to determine whether the SEC has effectively managed the planning,

implementation, and security of its cloud computing services. Specifically, we will assess the SEC's strategy for migrating IT services and applications to the cloud, and determine whether key security measures are in place to adequately protect SEC systems that use cloud computing services.

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



INVESTIGATIONS

OVERVIEW

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

OI conducts investigations in accordance with the CIGIE *Quality Standards for Investigations* and applicable guidelines issued by the U.S. Attorney General. 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. During the course of investigations, OI may discover vulnerabilities and internal control deficiencies and promptly

report these issues to SEC management for corrective actions.

OI manages the OIG Hotline, which is available 24 hours a day, 7 days a week, to receive and process tips and complaints about fraud, waste, or abuse related to SEC programs and operations. The hotline allows individuals to report their allegations to the OIG directly and confidentially.

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

REPORT ON INSTANCES OF WHISTLEBLOWER RETALIATION

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

STATUS OF PREVIOUSLY REPORTED INVESTIGATIONS

Allegations of Not Fully Recusing Oneself

As reported in a previous semiannual report, the OIG investigated allegations that two separate senior employees did not fully recuse themselves from a committee that evaluated applicants for a staff position, despite their spouses being candidates.

The OIG investigation determined that the employees were involved in the evaluation of other candidates, but neither employee reviewed their own spouse's resume, interviewed their spouse, or participated in the decision to hire their spouse. None of the individuals involved in the evaluation and hiring of the spouses reported being pressured or influenced to favorably evaluate or recommend them. Nevertheless, the employees' involvement in the vacancy announcement in any capacity is inconsistent with SEC policies.

On February 28, 2017, the OIG referred the facts of the investigation to a United States Attorney's Office, which declined prosecution for all identified subjects on March 17, 2017. The OIG reported the results of its investigation to management to determine whether corrective administrative action may be warranted. During this reporting period, management responded that one of the senior employees served a 14-day suspension and that the other employee served a 10-day suspension.

Allegations of Improper Influence

As reported in a previous semiannual report, the OIG investigated allegations that (1) an SEC employee had accepted "thousands of dollars" from an outside company to keep the company's contracts with the SEC; (2) the employee had influenced the employee's supervisor to provide \$500 to a charity; (3) an Acquisitions vacancy announcement was written to ensure that only one SEC internal

applicant would be promoted; (4) the employee may have failed to disclose that a family member was employed by a SEC Headquarters security contractor; and (5) the employee and a senior manager engaged in unethical behavior regarding the selection of the employee's friend as a contractor employee in the Office of Security Services.

In summary, allegations 1–4 were not substantiated. With respect to allegation no. 5, the OIG determined that the employee and the senior manager had some involvement in identifying the employee's friend as a candidate, and the friend was hired and assigned to the SEC contract. However, the OIG identified conflicting testimony among various witnesses regarding the nature and level of the involvement. We were unable to reconcile the differences through other witnesses or available documentation, and no independent corroborating evidence was found to support either version of events with certainty.

Separate and apart from the reported allegations, the OIG discovered that the employee had used the SEC e-mail system on one occasion to solicit SEC employees and others to make donations to a non-SEC-approved charity.

The OIG reported the results of the investigation to management to determine whether corrective administrative action may be warranted. In this reporting period, management responded that it had issued the employee and the senior manager letters of counseling.

Allegations of Interfering in the Hiring Process

As reported in a previous semiannual report, the OIG investigated allegations that an SEC employee provided confidential interview questions for an SEC position to a personal friend that resulted in the friend's hiring by the SEC. It was also alleged

that the employee participated on the hiring panel that interviewed and selected this personal friend. Additionally, it was alleged that the employee sent a copy of an e-mail exchange between the ENF hiring committee members in which they expressed concerns about hiring the employee's friend.

The OIG initiated an investigation concerning the allegations and did not substantiate that the employee provided the confidential interview questions to the employee's friend. The investigation was also unable to substantiate the allegation that the employee sent the friend information regarding the hiring committee members' concerns about hiring the friend.

However, the investigation found that after the SEC had hired the friend, the employee sent the friend an e-mail between the hiring committee members containing confidential information concerning a different candidate for a position with the SEC.

On November 21, 2017, the OIG referred the facts of the investigation to a United States Attorney's Office, which declined prosecution on that same date. The OIG then reported the results of the investigation to management to determine whether corrective administrative action may be warranted. During this reporting period, management responded that it had issued the employee a written reprimand.

OPEN AND COMPLETED INVESTIGATIONS

Allegations of Obstruction

In May 2018, the SEC OIG arrested a former Florida auditor, who pled guilty in the U.S. District Court, Southern District of New York, to one count of falsifying records in an investigation within the jurisdiction of a Federal agency. Specifically, the

former Florida auditor and owner of a registered public accounting firm pled guilty to knowingly submitting falsely backdated documents during an SEC investigation into the former auditor's auditing practices. The case was predicated on a referral to the OIG from ENF in 2015 concerning ENF's belief that the former Florida auditor may have obstructed an SEC proceeding. During this reporting period, the former Florida auditor was sentenced to 5 months imprisonment and 2 years of supervised release.

Allegations of False Statement and Misuse of Government Time

The OIG investigated an allegation that a former SEC employee failed to properly disclose a theft charge on pre-employment forms. It was also alleged that the former SEC employee and a supervisor misused Government time by allegedly engaging in sexual activity during the official work day. During the investigation, additional allegations were received, including that the electronic data examined during the course of the investigation was not forensically sound.

The investigation substantiated the allegation that the former SEC employee failed to disclose the theft charge when applying for a security clearance in 2005. However, the investigation found mitigating factors existed related to this finding, including the employee's understanding of the incident and the lack of definitive records.

The investigation also found insufficient evidence to support allegations of sexual activity by the former SEC employee and supervisor. The investigation found no evidence to support that the electronic data examined during the course of the investigation was not forensically sound.

On April 9, 2018, the facts of the investigation were referred to the United States Attorney's Office;

however, the matter was declined for prosecution on the same date. During this reporting period, the OIG reported the results of the investigation to management to determine whether any corrective administrative action may be warranted.

Allegations of Sharing Nonpublic Information

The OIG investigated allegations that in January 2018, a former contractor sent an e-mail to the former contractor's personal e-mail account: the e-mail had an attached zip file containing nonpublic SEC information as well as personally identifying information related to several ENF investigations. The former contractor resigned in May 2018.

In summary, the investigation determined that the former contractor's transmitting of nonpublic SEC information as well as personally identifying information related to several ENF investigations violated SEC rules of conduct. However, ENF determined that the transmitted information did not harm any of its investigations. In addition, the OIG did not find any evidence to support that the former contractor benefited personally from the transmission.

On October 10, 2018, the facts of the investigation were referred to the United States Attorney's Office; however, the matter was declined for prosecution on October 11, 2018.



REVIEW OF LEGISLATION AND REGULATIONS

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

Public Law 114-328

National Defense Authorization Act for Fiscal Year 2017, signed into law December 23, 2016. In particular, Division A, Title XI, Subtitle C, Section 1138 (amending Subchapter II of Chapter 63 of Title 5 of the United States Code 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) authorize 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 United States Code 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 115-4

Joint Resolution, signed into law February 14, 2017. This joint resolution nullified the "Disclosure of Payments by Resource Extraction Issuers" rule finalized by the SEC on July 27, 2016. The rule, mandated under Dodd-Frank, requires resource extraction issuers to disclose payments made to governments for the commercial development of oil, natural gas, or minerals.

Public Law 115-141

Consolidated Appropriations Act, 2018, signed into law March 23, 2018. Specifically, Section 628, preventing appropriated funds from being used to deny an OIG access to agency information. Section 739 requires the head of any executive branch department, agency, board, commission, or office funded by this or any other appropriations act to submit annual reports to the IG, or senior ethics official, for any entity without an IG, regarding the costs and contracting procedures related to each conference held by any such department, agency, board, commission, or office during FY 2018 for which the cost was more than \$100,000; and to require the head of any executive branch department, agency, board, commission, or office to notify the IG, or senior ethics official for any entity without an IG, within 15 days of any conference held during FY 2018 for which the cost was more than \$20,000; section 744

seeking to prohibit the use of appropriated funds for a contract, grant, or cooperative agreement with an entity that requires employees or contractors to sign confidentiality agreements or statements prohibiting or otherwise restricting such employees or contractors from lawfully reporting fraud, waste, or abuse to a designated investigative or law enforcement representative of a Federal department or agency authorized to receive such information; and section 744(b) prohibiting the use of appropriated funds to implement or enforce nondisclosure policies, forms or agreements that do not contain specified provisions.

The Act also includes the Fix NICS Act, which among other things, amends the Brady Handgun Violence Prevention Act to require each Federal agency to: (i) certify whether it has provided to NICS disqualifying records of persons prohibited from receiving or possessing a firearm, and (ii) establish and substantially comply with an implementation plan to maximize record submissions and verify their accuracy.

Public Law 115-192

Whistleblower Protection Coordination Act, signed into law May 25, 2018. The act permanently reauthorized the Whistleblower Protection Coordinator position in all Federal agencies. Furthermore, the act moved the coordinator position into the OIG.

Public Law 115-336

21st Century Integrated Digital Experience Act, signed into law December 20, 2018. The act requires that public-facing agency websites have a consistent design and functionality. The websites will need to achieve compliance with standards developed by the Technology Transformation Service of the General Services Administration. It requires that websites are usable by people with disabilities and are mobile-friendly.

Public Law 115-414

Good Accounting Obligation in Government Act, signed into law January 3, 2019. The act requires each Federal agency, in its annual budget justification, to include a report on: (1) each public recommendation of GAO that is classified as “open” or “closed, unimplemented”; (2) each public recommendation for corrective action from the agency’s OIG for which no final action has been taken; and (3) the implementation status of each such recommendation. Each agency shall also provide a copy of this information to its OIG and to the GAO.

Public Law 116-5

Further Additional Continuing Appropriations, 2019, signed into law January 25, 2019. This joint resolution provided continuing FY 2019 appropriations to several Federal agencies, including the SEC, through the earlier of February 15, 2019, or the enactment of the applicable appropriations legislation. The continuing resolution ended the partial Government shutdown that began after the existing continuing resolution expired on December 21, 2018, because seven of the remaining FY 2019 appropriations bills, including the bills covering financial services agencies, had not been enacted.

Public Law 116-6

Consolidated Appropriations Act, 2019, signed into law February 15, 2019. The measure allows the commission to spend \$1.71 billion in FY 2019. Additionally, the measure bars the commission from implementing a rule to require publicly traded companies to disclose political contributions made to tax-exempt groups or dues paid to trade associations.

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	
12/17/2018	Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014
552	

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	0	\$0	\$0	\$0
Reports issued during the reporting period	0	\$0	\$0	\$0
Subtotals	0	\$0	\$0	\$0
Reports for which a management decision had been made during the reporting period:	0			
Dollar value of recommendations agreed to by management		\$0	\$0	\$0
Dollar value of recommendations NOT agreed to by management		\$0	\$0	\$0
Reports with no management decision at the end of the reporting period	0	\$0	\$0	\$0

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 pre-award 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 8 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.
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.
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	1	3/30/2018	Redacted text.
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	2	3/30/2018	Redacted text.
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	3	3/30/2018	Redacted text.
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	5	3/30/2018	(a) Continue efforts to define and formalize a plan addressing how enterprise architecture program management will be integrated with other institutional management disciplines, such as organizational strategic planning, strategic human capital management, performance management, information security management, and capital planning and investment control; and (b) define and implement a process to ensure information technology initiatives undergo an enterprise architecture compliance review before funding.

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

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	7	3/30/2018	(a) Identify, review, and modify as necessary the agency’s existing information technology contracts (including those we reviewed) to ensure the contracts include specific contracting language, such as information security and privacy requirements, material disclosures, Federal Acquisition Regulation clauses, and clauses on protection, detection, and reporting of information; and (b) define and implement a process to ensure that future acquisitions of information technology services and products include such provisions.
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	8	3/30/2018	Redacted text.
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	9	3/30/2018	Redacted text.
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	10	3/30/2018	Update its existing processes to ensure that the Information Security Office consistently performs and documents security impact analyses for proposed configuration changes before implementation.
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	12	3/30/2018	Redacted text.
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	13	3/30/2018	Redacted text.
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	15	3/30/2018	Develop and implement a process to ensure that all individuals with significant security responsibilities receive required specialized training before gaining access to information systems or before performing assigned duties.

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

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	16	3/30/2018	Update the existing continuous monitoring strategy to define (a) qualitative and quantitative performance measures or data that should be collected to assess the effectiveness of the agency’s continuous monitoring program; (b) procedures for reviewing and modifying all aspects of the agency’s continuous monitoring strategy; and (c) the agency’s ongoing authorization process.
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	17	3/30/2018	Review and update incident response plans, policies, procedures, and strategies to (a) address all common threat and attack vectors and the characteristics of each particular situation; (b) identify and define performance metrics that will be used to measure and track the effectiveness of the agency’s incident response program; (c) develop and implement a process to ensure that incident response personnel obtain data supporting the incident response metrics accurately, consistently, and in a reproducible format; (d) define incident response communication protocols and incident handlers’ training requirements; and (e) remove outdated terminology and references.
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	18	3/30/2018	Fully implement processes to (a) consistently document and timestamp every step in the incident response process from detection to resolution; and (b) ensure a person other than the incident ticket creator reviews incident documentation (including logs and tickets), and confirms that consistent and complete information is maintained for every step in the incident response process.
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	19	3/30/2018	Redacted text.
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	20	3/30/2018	Perform an assessment of existing incident response reporting mechanisms, and develop a process to periodically measure and ensure the timely reporting of incidents to agency officials and external stakeholders.

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

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
547-Audit of the SEC's Internal Controls for Retaining External Experts and Foreign Counsel for the Division of Enforcement	6	6/15/2018	(a) Determine if the current contractual provisions regarding protection of personally identifiable information are the optimal processes for ensuring appropriate protection of such information, and (b) evaluate what other steps are needed to ensure contractors appropriately protect such information.
547-Audit of the SEC's Internal Controls for Retaining External Experts and Foreign Counsel for the Division of Enforcement	7	6/15/2018	Develop a process that ensures contracting officers enforce contract requirements related to personally identifiable information, when necessary, for any new contracts for expert services.
548-The SEC Should Take Action To Strengthen Its Management of Electronic Information Sources, Data Sources, and Print Materials	9	9/11/2018	Establish policies and procedures governing potentially underused Bloomberg resources.
549-The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework	1	9/11/2018	Continue working with the National Treasury Employees Union to finalize and initiate competency assessment surveys and develop a formal plan for recurring competency assessments.
549-The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework	2	9/11/2018	Finalize standard operating procedures for the agency's performance management program.
549-The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework	3	9/11/2018	Implement formal requirements for personnel to use the notes features in the Workforce Transformation and Tracking System to explain data anomalies when they occur.

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

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
549-The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework	4	9/11/2018	Consider reviewing the Office of Human Resource's processes for the steps related to pre-job posting consultation and issuing a certificate to identify and, as necessary, implement potential process improvements.
549-The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework	5	9/11/2018	Establish a process for completing regular evaluations of its accountability system, as required.
549-The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework	6	9/11/2018	Continue following up on and, as necessary, closing recommendations from Policy and Accountability Branch evaluations.
549-The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework	7	9/11/2018	Document the appropriate quality standards used to determine efficiency, effectiveness, impact, and/or sustainability of agency human capital management operations, programs, or policies.
549-The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework	8	9/11/2018	Formalize internal quality review procedures to ensure that (a) the checklists and other review tools used completely and accurately reflect the Policy and Accountability Branch's internal quality review process, and (b) reviewers perform reviews in a consistent manner.
549-The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework	9	9/11/2018	Develop appropriate metrics for human capital programs and develop related HRStat procedures to ensure that, going forward, the agency identifies and monitors human capital measures and targets that inform the progress towards meeting agency-specific goals.

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

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
550-Evaluation of the EDGAR System's Governance and Incident Handling Processes	1	9/21/2018	Redacted text.
550-Evaluation of the EDGAR System's Governance and Incident Handling Processes	2	9/21/2018	Redacted text.
550-Evaluation of the EDGAR System's Governance and Incident Handling Processes	3	9/21/2018	Redacted text.
550-Evaluation of the EDGAR System's Governance and Incident Handling Processes	4	9/21/2018	Redacted text.
550-Evaluation of the EDGAR System's Governance and Incident Handling Processes	5	9/21/2018	Redacted text.
550-Evaluation of the EDGAR System's Governance and Incident Handling Processes	6	9/21/2018	Redacted text.
550-Evaluation of the EDGAR System's Governance and Incident Handling Processes	7	9/21/2018	Redacted text.
550-Evaluation of the EDGAR System's Governance and Incident Handling Processes	8	9/21/2018	Redacted text.
550-Evaluation of the EDGAR System's Governance and Incident Handling Processes	9	9/21/2018	Redacted text.
550-Evaluation of the EDGAR System's Governance and Incident Handling Processes	10	9/21/2018	Redacted text.

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

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
550-Evaluation of the EDGAR System's Governance and Incident Handling Processes	11	9/21/2018	Redacted text.
550-Evaluation of the EDGAR System's Governance and Incident Handling Processes	12	9/21/2018	Redacted text.
550-Evaluation of the EDGAR System's Governance and Incident Handling Processes	13	9/21/2018	Redacted text.
550-Evaluation of the EDGAR System's Governance and Incident Handling Processes	14	9/21/2018	Redacted text.
551-TCP Established Method To Effectively Oversee Entity Compliance With Regulation SCI But Could Improve Aspects of Program Management	2	9/24/2018	Identify and document the risks and controls related to Technology Controls Program operations, and update the Office of Compliance Inspections and Examinations' risk and control matrix accordingly.
551-TCP Established Method To Effectively Oversee Entity Compliance With Regulation SCI But Could Improve Aspects of Program Management	3	9/24/2018	Ensure Technology Controls Program management properly plans and documents the transition to the Tracking and Reporting Examination National Documentation System, and retains in a central location all relevant materials, including contracts, system requirements, and plans.

Table 4. Summary of Investigative Activity for the Reporting Period of October 1, 2018, to March 31, 2019

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	28
Cases Completed but Not Closed* at Beginning of Period	4
Cases Opened During Period	18
Cases Closed During Period	11
Cases Completed but Not Closed at End of Period	1
Open Cases at End of Period	38
Investigative Reports Issued During the Reporting Period	3
* 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	10
Accepted	3
Indictments/Informations	4
Arrests	2
Convictions	4
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	\$100.00
Civil Fines/Restitutions/Recoveries/Penalties/Damages/Forfeitures	\$0
Administrative Investigative Activities	Number
Removals, Retirements, and Resignations	0
Suspensions	2
Reprimands/Warnings/Other Actions	4
Complaints Received	Number
Hotline Complaints	243
Other Complaints	241
Total Complaints During Period	484

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	17-18
5(a)(1)	Significant Problems, Abuses, and Deficiencies	7-9, 13-16
5(a)(2)	Recommendations for Corrective Action	7-9
5(a)(3)	Prior Recommendations Not Yet Implemented	22-28
5(a)(4)	Matters Referred to Prosecutive Authorities	14-16, 29
5(a)(5)	Summary of Instances Where the Agency Unreasonably Refused or Failed to Provide Information to the OIG	19
5(a)(6)	List of OIG Audit and Evaluation Reports Issued During the Period	20
5(a)(7)	Summary of Significant Reports Issued During the Period	7-9, 14-16
5(a)(8)	Statistical Table on Management Decisions with Respect to Questioned Costs	21
5(a)(9)	Statistical Table on Management Decisions on Recommendations that Funds Be Put to Better Use	21
5(a)(10)(A)	Summary of Each Audit, Inspection or Evaluation Report More Than 6 Months Old for Which No Management Decision Has Been Made	19
5(a)(10)(B)	Summary of Each Audit, Inspection or Evaluation Report More Than 6 Months Old for Which No Establishment Comment Was Returned Within 60 Days of Providing the Report to the Establishment	19
5(a)(10)(C)	Summary of Each Audit, Inspection or Evaluation Report More Than 6 Months Old for Which There Are Any Outstanding Unimplemented Recommendations, Including the Aggregate Potential Cost Savings of Those Recommendations	19
5(a)(11)	Significant Revised Management Decisions	19

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	19
5(a)(14)(B)	Date of the Last Peer Review Conducted by Another OIG	33
5(a)(16)	Peer Reviews Conducted by Another OIG	33
5(a)(17)(A)	Statistical Table Showing the Total Number of Investigative Reports Issued During the Reporting Period	29
5(a)(17)(B)	Statistical Table Showing the Total Number of Persons Referred to the DOJ for Criminal Prosecution During the Reporting Period	29
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	29
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	29
5(a)(18)	Description of the Metrics Used for Developing the Data for the Statistical Tables Under 5(a)(17)	29
5(a)(19)	Report on Each Investigation Conducted Involving a Senior Government Employee Where Allegations of Misconduct Were Substantiated	14-16
5(a)(20)	Instances of Whistleblower Retaliation	13
5(a)(21)	Attempts by the Establishment To Interfere With the Independence of the OIG	19
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. The Legal Services Corporation OIG conducted the most recent assessment of the SEC OIG Office of Audit's system of quality control for the 3-year period ending March 31, 2018. The review focused on whether the SEC OIG established and complied with a system of quality control that was suitably designed to provide the SEC OIG with a reasonable assurance of conforming to applicable professional standards.

On September 5, 2018, the Legal Services Corporation 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 Legal Services Corporation OIG gave the SEC OIG a peer review rating of "pass." (Federal audit organizations can receive a rating of "pass," "pass with deficiencies," or "fail.")

The peer review report is available on the SEC OIG website at <https://www.sec.gov/files/External-Peer-Review-Report-for-the-SEC-OIG-Audit-Org.pdf>. The next peer review of the OIG's audit function is scheduled for FY 2021.

PEER REVIEW OF THE SEC OIG'S INVESTIGATIVE OPERATIONS

In November 2017, an external peer review of the SEC OIG's investigative operations was completed by the National Science Foundation (NSF) OIG. The NSF OIG conducted its review in conformity with the *Quality Standards for Investigations* and the *Quality Assessment Review Guidelines for Investigative Operations of Federal Offices of Inspector General* established by CIGIE and the *Attorney General Guidelines for Offices of Inspectors General With Statutory Law Enforcement Authority*.

The NSF OIG concluded that the SEC OIG was in compliance with the quality standards established by CIGIE and other applicable guidelines and statutes listed above. Furthermore, the NSF 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.

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REPORT FRAUD, WASTE, OR ABUSE

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

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

EMPLOYEE SUGGESTION PROGRAM

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

COMMENTS AND IDEAS

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



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