

Securities and Exchange Commission

Office of Inspector General

During the first half of fiscal year 2005, the Office of Inspector General assisted the Commission in its efforts to:

- Strengthen Commission software management and controls,
- Improve the planning of investment management filing reviews,
- Enhance the integrity of the Commission and its staff by investigating allegations of misconduct,
- Improve contracting controls over task orders under agreements with other federal agencies,
- Enhance the management of information technology in Commission field offices,
- Ensure that required steps for reviewing disgorgement waivers are completed,
- Comply with the provisions of the Federal Information Security Management Act,
- Properly manage wireless communication devices,
- Complete an "As-Is" enterprise architecture in compliance with federal requirements, and
- Assure the effectiveness of field office administrative controls.

Executive Summary

During this period (October 1, 2004 to March 31, 2005), the Office of Inspector General (Office) issued ten audit reports and one special project report. These evaluations focused on information technology contractor billings; enterprise architecture; enforcement disgorgement waivers; the planning of investment management filing reviews; compliance with the Federal Information Security Management Act; information technology management in the Northeast and Southeast Regional Offices; software management; administrative controls in the Fort Worth and Salt Lake District Offices; and management of wireless communication devices. This work is described in more detail in the Audit Program section below.

Eleven investigations were closed during the period. Two subjects were referred to the Department of Justice, which declined prosecution of these subjects. Four subjects were referred to the Commission. One of these subjects was counseled; the other three subjects are awaiting disposition. In addition, one subject referred during a prior period resigned; another was removed; and a third was suspended. The Investigative Program section below describes the significant cases closed during the period.

Information technology (IT) management had been previously reported as a significant problem. During this period, the Commission continued to improve its IT management, but significant weaknesses remain. We intend to maintain our audit focus in this important area.

An audit completed in a prior period found that Commission financial management controls for fiscal year 2002 were effective in all material respects except for controls over property accountability, accounting and control of disgorgements, information system and security program controls, and the Disgorgement and Penalties Tracking System. Accordingly, we reported these exceptions, taken together, as a significant problem. Several high-level task forces have taken steps or are currently taking steps to correct these weaknesses. Also, the Government Accountability Office is following-up on these areas as part of its audit of the Commission's financial statements.

No management decisions were revised during the period. The Office of Inspector General agrees with all significant management decisions regarding audit recommendations.

Audit Program

The Office issued ten audit reports and one special project report during the reporting period. These documents contained a total of 38 recommendations, which are further summarized below. Management generally concurred with the recommendations, and in many cases took corrective actions during the audits.

IT CONTRACTOR BILLINGS (AUDIT 380)

An OIG contractor evaluated the Commission's internal controls for obtaining certain information technology (IT) support services. The IT support services were obtained under an agreement (task orders) with the Millennium Services Center (MSC) of the U.S. Department of Transportation, and were provided by an MSC contractor (Science Applications International Corporation or SAIC).

We found that for the period covered by the review, the Commission had not established adequate controls for obtaining IT support services using a customer service agreement with MSC. Commission officials indicated that the controls improved during the course of the contract, including improvements made subsequent to the review period.

Specific control weaknesses with respect to the MSC customer service agreements included:

- Task orders were not sufficiently detailed to fully describe the Commission's expectations and the oversight responsibilities of the MSC and the Commission.
- MSC applied a management fee on SAIC invoices before sending them to the Commission, but the Commission's Contracting Officer's Technical Representative (COTR) was unaware of the amount or basis for the fees.
- The Commission's COTR certified invoices without sufficient supporting documentation. This weakness related to the decision to have MSC be responsible for contract administration.

We recommended that the Commission enhance existing policies, procedures, and COTR training to improve the controls over task orders under agreements with other federal agencies. We also recommended that the Commission request that the Defense Contract Audit Agency (the cognizant audit agency for SAIC) perform an audit of specified task orders under the MSC agreement.

ENTERPRISE ARCHITECTURE (AUDIT 381)

We contracted with an independent accounting firm to perform a review of the Commission's progress in establishing an enterprise architecture as required by applicable guidance. The audit work was terminated early for contractual reasons.

The contractor prepared an Enterprise Architecture (EA) Management Maturity Scorecard (as of April 15, 2004) which showed the extent of the Commission's progress. We found that the Commission had taken several steps towards developing and documenting an "as-is" architecture in accordance for the most part with the Federal Enterprise Architecture (FEA).

We recommended that the Office of Information Technology (OIT) obtain business owner support for the "as-is" enterprise architecture; establish a communication strategy to introduce EA successfully throughout the Commission; establish a plan to ensure proper project management, configuration management, quality assurance, risk management, and security; and complete the "as-is" architecture in accordance with the FEA.

ENFORCEMENT DISGORGEMENT WAIVERS (AUDIT 384)

Disgorgements represent repayment of ill-gotten gains resulting from individuals violating the federal securities laws. The Commission seeks disgorgements to ensure that securities law violators do not profit from their illegal activity. Payment of a disgorgement can be either completely or partially waived based on a defendant's sworn representation of financial condition.

As a follow-up to a prior audit (No. 311), we evaluated the adequacy of Enforcement's written procedures for waivers and the extent of compliance with those procedures. In response to the prior audit, the Division of Enforcement (Enforcement) issued guidance and took other steps to improve the waiver process.

We found that further improvements in the controls and guidance for reviewing disgorgement waivers are needed. Our recommendations included implementing controls to ensure that required steps for waivers are completed; clarifying the guidance; and training the staff.

PLANNING INVESTMENT MANAGEMENT FILING REVIEWS (AUDIT 387)

The Division of Investment Management (IM) reviews investment company filings for compliance with disclosure rules. IM's general goals for this review include ensuring that investment companies fully disclose their policies, procedures and risk and that their proposed activities are consistent with the law. We evaluated the internal controls regarding filing review planning by IM.

We found that IM could improve controls over their planning of filing reviews by identifying and measuring outcomes from filing reviews. Our other recommendations included developing filing review objectives; considering ways to better analyze outcome data (*e.g.*, through a new or improved database); training staff on outcome measures; improving communication between offices within IM; and including compliance monitoring plans in action memoranda to the Commission.

FEDERAL INFORMATION SECURITY MANAGEMENT ACT-2004 (SPECIAL PROJECT NO. 391)

We hired an independent CPA firm to evaluate the Commission's information systems security program for compliance with the Federal Information Security Management Act (FISMA). We provided a response to Office of Management and Budget (OMB) in compliance with OMB Memorandum M-04-25.

We found that a material weakness and two significant deficiencies identified in a prior year remained unresolved. The material weakness related to weak security controls within the Commission's financial management systems. The two significant deficiencies related to failure to maintain a Plan of Actions and Milestones (POA&M) process, and IT security

costs not being properly identified by project, tracked, and reported in the Commission's Exhibits 53 and 300.

Also, we found that the Commission was not substantially in compliance with OMB Circular A-130, Appendix III; FISMA requirements; and National Institute of Standards and Technology guidance. Several information security issues from prior years had not yet been resolved.

The Government Accountability Office audited the Commission's financial statements for the first time in fiscal year 2004. During this audit, numerous findings relating to information security were identified, including not certifying and accrediting major systems and not creating contingency plans for major applications. These findings were considered during our evaluation.

NERO IT MANAGEMENT (AUDIT 392) SERO IT MANAGEMENT (AUDIT 400)

An OIG contractor reviewed Information Technology (IT) management at the Commission's Northeast and Southeast Regional Offices (NERO and SERO). Our objectives were to evaluate the adequacy of NERO's and SERO's internal controls for IT management and their compliance with applicable guidance. A primary focus of the review was IT security.

We briefed Commission management on our detailed findings and recommendations. We found that IT management at NERO and SERO needed to be improved, and brought into compliance with Commission guidance. The contractor identified numerous risks in the offices' IT security awareness, practices, and procedures; building security; organizational structure; and coordination with the Office of Information Technology (OIT). As part of its response, OIT has scheduled IT management reviews in the remainder of the Commission's field offices.

SOFTWARE MANAGEMENT (AUDIT 393)

Under a task order with our office, an OIG contractor reviewed the Commission's management of its software. The review found that some controls and best practices had been established, including a configuration management function and the tracking of some software.

We also found that the Commission's controls needed to be improved to meet accepted criteria (the Capability Maturity Model), and to be in full compliance with applicable laws and regulations. Our testing found numerous instances of unapproved software on Commission computers and file servers.

We recommended that the Office of Information Technology assign responsibility and improve processes for software management. Our findings related to policy guidance; controls; record keeping; inventories; training; contractors; and performance measures.

FORT WORTH DISTRICT OFFICE (AUDIT 396) SALT LAKE DISTRICT OFFICE (AUDIT 397)

We reviewed selected financial and administrative controls in the Commission's District Offices in Fort Worth, TX (FWDO) and Salt Lake City, UT (SLDO). The audit scope included the following financial and administrative functions: time and attendance; purchasing; travel; property management; and budgeting. The purpose of these audits was to provide the Commission with negative assurance that the internal controls were adequate, being implemented economically and efficiently, and in compliance with Commission policies and procedures.

During the limited audit described above, no material weaknesses in the FWDO's and the SLDO's financial and administrative controls came to our attention. We informally discussed a number of non-material control weaknesses with FWDO and the SLDO, who agreed to implement corrective actions.

MANAGEMENT OF WIRELESS COMMUNICATION DEVICES (AUDIT 398)

Commission Regulation SECR 24-5.2 governs the use of Personal Digital Assistants (PDAs) and similar technologies by Commission staff and contractors. We reviewed the adequacy of this regulation and the extent of compliance with certain parts of it. We also evaluated whether the management of wireless communication devices needed to be improved.

We found that the Commission can improve its management of wireless communication devices. The regulation covering PDAs can be expanded or supplemented to explicitly include cell phones and pagers, which are similar wireless devices.

Also, we found that the offices and divisions we surveyed had insufficient awareness of the PDA regulation, and had not done enough to implement it. Most users had not signed service agreements, office heads had not issued guidance on appropriate use of the devices, and unannounced audits of PDA use had not been performed. Also, the Office of Information Technology (which manages the program) did not have adequate inventory records for PDAs. The number of unassigned PDAs (which the Commission is paying for) could exceed Commission needs.

Investigative Program

Eleven investigations were closed during the period. Two subjects were referred to the Department of Justice, which declined prosecution of these subjects. Four subjects were referred to the Commission. One subject of these subjects was counseled; the other three subjects are awaiting disposition. In addition, one subject referred during a prior period resigned; another was removed; and a third was suspended.

The most significant cases closed during the period are described below.

TRAVEL FRAUD

An investigation found evidence that a staff member had submitted numerous false or inflated claims for expense reimbursement on travel vouchers. Other evidence disclosed that the employee failed to use a government credit card while on official travel, misused the government transportation subsidy, received gifts from outside sources in violation of the Government-wide Standards of Conduct, and abused time and attendance. The Department of Justice declined prosecution. Administrative action is pending.

MISUSE OF POSITION

An Office investigation developed evidence that a senior official had engaged in conduct that created the appearance that the official was using public office for the private gain of a relative. We referred the matter for consideration of administrative action.

UNAUTHORIZED DISCLOSURE

The Office investigated an allegation that a senior official had disclosed non-public information to an unauthorized person. The evidence developed during the investigation failed to substantiate the allegation.

INSIDER TRADING

The Office investigated an allegation that a staff member may have purchased stock based upon insider information. Evidence developed by a joint investigation conducted with Commission Enforcement staff failed to substantiate that the employee's trades were based on insider information.

POST-EMPLOYMENT VIOLATION

The Office investigated an allegation that a former staff member had communicated with a Commission attorney on behalf of a client concerning a matter in which the former employee had personally and substantially participated while employed at the Commission, in violation of the restrictions on post-employment communications with the employee's former agency. The evidence developed failed to substantiate that the former employee had violated the post-employment restrictions.

Significant Problems

No new significant problems were identified during the period.

Significant Problems Identified Previously

FINANCIAL MANAGEMENT SYSTEMS CONTROLS

An OIG contractor completed an audit of Commission financial management systems controls during a prior period (Audit No. 362). That audit found that Commission financial management controls for fiscal year 2002 were effective in all material respects except for three material weaknesses and one material non-conformance. The exceptions concerned property accountability, accounting and control of disgorgements, information system and security program controls, and the Disgorgement and Penalties Tracking System. We reported that, taken together, these financial management exceptions are a significant problem for the Commission.

Management concurred with our recommendations to strengthen these financial controls, and several high-level task forces have taken actions or are taking actions to correct the weaknesses. The Government Accountability Office reviewed the corrective actions taken by the task forces as part of its audit of the Commission's fiscal year 2004 financial statements.

INFORMATION TECHNOLOGY MANAGEMENT

Since April 1996, we have reported information technology (IT) management ¹ as a significant problem based on weaknesses identified by several audits, investigations, and management studies. Significant IT weaknesses of continuing concern include IT capital investment decision-making; information systems security; administration of IT contracts; IT project management; enterprise architecture management; strategic management of IT human capital; and management of software licenses.

During this period, we completed audits on IT management in two regional offices; software management; IT contractor billings; enterprise architecture; and wireless communication devices, as well as an evaluation of the Commission's information security program (required by the Federal Information Security Management Act). See the Audit Program section for more details.

During this semi-annual period, the Office of Information Technology (OIT) continued to correct the Commission's IT weaknesses. OIT indicated that, among other steps, it:

- Filled all of the 130 management and staff positions within the Office of Information Technology, including newly appointed senior managers and supporting staff overseeing capital planning and investment control, enterprise architecture, information security, and financial management;

¹ Formerly reported as Information Resources Management (IRM).

- Instituted an IT policy framework to facilitate implementing, managing, and enforcing Commission-wide and OIT-specific IT governance responsibilities, workflows, and activities;
- Instituted an integrated IT capital planning and investment control process to facilitate program-oriented budgeting, program planning and execution, and performance measurement;
- Established a Certification and Accreditation Team, which is performing certifications on major Commission applications; and
- Developed and implemented an integrated IT security monitoring capability, an employee security awareness program, and a detailed remediation plan to address a series of known security issues uncovered during a recent GAO audit.

Although OIT continues to take action to correct the identified IT weaknesses, we still consider IT management to be a significant problem. We intend to continue our oversight of this area.

Access to Information

The Office of Inspector General has received access to all information required to carry out its activities. No reports to the Chairman, concerning refusal of such information, were made during the period.

Other Matters

AUDIT OF COMMISSION FINANCIAL STATEMENTS

Under the Accountability of Tax Dollars Act of 2002, the Commission is now required to prepare audited financial statements. The Office of Management and Budget had waived this requirement for fiscal years 2002 and 2003.

The U.S. Government Accountability Office is performing the initial financial statement audit of the Commission for fiscal year 2004, and is expected to perform the audit for fiscal year 2005 and beyond.

EXTERNAL COORDINATION

The Office actively participates in the activities of the Executive Council on Integrity and Efficiency (ECIE). The Inspector General attends ECIE meetings, is an active member of

its Financial Institutions Regulatory Committee, and serves as the ECIE member on the Integrity Committee (established by Executive Order No. 12993).

The Deputy Inspector General is an active member of the Federal Audit Executive Council (FAEC). The FAEC considers audit issues relevant to the Inspector General community.

The Counsel to the Inspector General is an active member of the PCIE Council of Counsels. The Council considers legal issues relevant to the Inspector General community.

Questioned Costs

		DOLLAR VALUE (IN THOUSANDS)		
		<u>NUMBER</u>	<u>UNSUPPORTED COSTS</u>	<u>QUESTIONED COSTS</u>
A	For which no management decision has been made by the commencement of the reporting period	0	0	0
B	<i>Which were issued during the reporting period</i>	<u>0</u>	<u>0</u>	<u>0</u>
	Subtotals (A+B)	0	0	0
C	For which a management decision was made during the reporting period	0	0	0
	(i) Dollar value of disallowed costs	0	0	0
	(ii) Dollar value of costs not disallowed	0	0	0
D	For which no management decision has been made by the end of the period	0	0	0
	Reports for which no management decision was made within six months of issuance	0	0	0

Recommendations That Funds Be Put To Better Use

	<u>NUMBER</u>	<u>DOLLAR VALUE (IN THOUSANDS)</u>
A		
	For which no management decision has been made by the commencement of the reporting period	1 132
B		
	Which were issued during the reporting period	<u>0</u> <u>0</u>
	-	
	Subtotals (A+B)	1 132
C		
	For which a management decision was made during the period	0 0
	(i) Dollar value of recommendations that were agreed to by management	0 0
	- Based on proposed management action	0 0
	- Based on proposed legislative action	0 0
	(ii) Dollar value of recommendations that were not agreed to by management	0 0
D		
	For which no management decision has been made by the end of the reporting period	1 132
	Reports for which no management decision was made within six months of issuance	1 132

Reports with No Management Decisions

A management decision has not yet been made on our recommendation that \$132,000 be put to better use (Audit No. 376, *Telephone Card Program*, summarized in a previous semi-annual report).

Revised Management Decisions

No management decisions were revised during the period.

Agreement with Significant Management Decisions

The Office of Inspector General agrees with all significant management decisions regarding audit recommendations.

**MANAGEMENT RESPONSE OF
THE SECURITIES AND EXCHANGE COMMISSION
ACCOMPANYING THE SEMIANNUAL REPORT OF THE INSPECTOR GENERAL
FOR THE PERIOD OCTOBER 1, 2004 THROUGH MARCH 31, 2005**

Introduction

The Semiannual Report of the Inspector General (IG) of the Securities and Exchange Commission (SEC) was submitted to the Chairman on April 29, 2005 as required by the Inspector General Act of 1978, as amended. The report has been reviewed by the Managing Executive for Operations, Executive Director, General Counsel, and Director of the Division of Enforcement. The Management Response is based on their views and consultation with the Chairman.

The Management Response is divided into four sections to reflect the specific requirements listed in Section 5(b) of the Inspector General Act of 1978, as amended.

**Section I
Comments Keyed to Significant Sections of the IG Report**

A. Audit Program

During the reporting period, the IG issued ten audit reports, one special project report. Management generally concurred with the findings and recommendations in the IG's reports.

In addition to audits performed by the agency's IG, the Government Accountability Office (GAO) actively reviewed program and administrative functions of the SEC. A complete listing of all GAO audit activity involving the SEC is attached as Appendix A.

B. Response to Significant Problems

No new significant problems were identified by the IG during this reporting period.

C. Response to Significant Problems Previously Identified

Financial Management System Controls

The IG's Semiannual Report continues to identify the financial management exceptions reported in both the SEC's Federal Managers' Financial Integrity Act certification and a contractor's audit of Commission financial management system controls as a significant problem for the Commission. Most of the recommendations have been addressed in preparation for the Commission's financial statement audit. For example, the recommendations to strengthen internal controls and financial reporting on sensitive and

accountable property have been implemented. A brief description of recent SEC actions to strengthen IT security and accounting and control for disgorgement funds follows.

- The SEC continues to make progress in its IT security program. Over the past several months, the Office of Information Technology (OIT) has been working internally as well as consulting with the GAO to develop an action plan to further strengthen the agency's information security program. In addition, among other things, the office has established a certification and accreditation team, which is performing certifications on major Commission applications, and has developed and implemented an integrated security monitoring capability and a detailed remediation plan to address a series of known security issues uncovered during a recent GAO audit. By June 2006, the SEC will implement corrective actions for specific control weaknesses in the IT security area according to a quarter-by-quarter timeline.
- With respect to accounting and controls for disgorgement funds, the SEC has made significant progress in this area and continuing efforts to strengthen these operations remains an important programmatic and financial management initiative. During fiscal 2005 the staff will complete a comprehensive review of files and data and review and strengthen policies and procedures. It is anticipated that consistent application of strengthened internal controls and potentially some limited redesign of the program's existing management information system will be adequate to resolve the weakness in fiscal 2006. However, replacement of the current system and a more thorough reexamination of the relevant business processes will provide more effective assurance, and in fiscal 2006 the SEC will complete a requirements analysis as the first phase of the multi-year project to replace the system.

Information Resources Management

SEC management continues to make progress in its information resources management program. During the reporting period, among other things, OIT instituted (1) an IT policy framework to facilitate implementing, managing, and enforcing SEC-wide and OIT-specific IT governance responsibilities, workflows, and activities and (2) an integrated IT capital planning and investment control process to facilitate program-oriented budgeting, program planning and execution, and performance measurement.

D. IG Recommendations Concerning Use of Funds

On November 17, 2003, the IG issued a report concerning the Commission's telephone card program. During the review, the IG found that the General Services Administration had incorrectly billed the Commission approximately \$132,000 for unused telephone lines. The SEC's Office of Financial Management followed up on this matter and determined that equipment and programming changes requested by the SEC caused the increase in the cost of service. No refund is due to the Commission.

E. Reports with No Management Decisions

Management decisions have been made on all audits issued prior to the beginning of the reporting period (October 1, 2004).

F. Revised Management Decisions

No management decisions were revised during the reporting period.

SEC Management Response to
Semiannual IG Report
October 1, 2004 – March 31, 2005

SECTION II
Disallowed Costs
As of March 31, 2005

	<u>Number</u>	<u>Dollar Value (in thousands)</u>
A. For which final action has not been taken by the commencement of the reporting period	0	\$0
B. On which management decisions were made during the reporting period	<u>0</u>	<u>\$0</u>
(Subtotal A+B)	0	\$0
C. For which final action was taken during the reporting period	0	\$0
(i) Recovered by management	0	\$0
(ii) Disallowed by management	0	\$0
D. For which no final action has been taken by the end of the reporting period	0	\$0

SEC Management Response to
Semiannual IG Report
October 1, 2004 – March 31, 2005

SECTION III
Funds Put to Better Use
As of March 31, 2005

	<u>Number</u>	<u>Dollar Value (in thousands)</u>
A. For which final action has not been taken by the commencement of the reporting period	0	\$0
B. On which management decisions were made during the reporting period	0	\$0
C. For which final action was taken during the reporting period:		
(i) Dollar value of recommendations that were agreed to by management	0	\$0
(ii) Dollar value of recommendations that management has subsequently concluded should/could not be implemented or completed	1	\$132
D. For which no final action has been taken by the end of the reporting period	0	\$0

SECTION IV
Open Audit Reports Over One Year Old
As of March 31, 2005

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
220	IRM Planning and Execution	3/26/1996	\$0	\$0	New staff members are onboard and currently reviewing and revising, as appropriate, all IT-related policies. A capstone IRM regulation is expected to be developed by calendar year-end.
243	SECOA Local Area Network	3/21/1997	\$0	\$0	A major effort is underway to certify and accredit existing major applications and general support systems. This effort is expected to be completed in 2006.

SECTION IV
Open Audit Reports Over One Year Old
As of March 31, 2005

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
257	Client Server	9/9/1997	\$0	\$0	See explanation for audit #220 above.
309	Telecommunications Vulnerabilities	3/31/2000	\$0	\$0	Responsibility for telecommunications security has been reassigned to the Office of Information Technology. A baseline scan of telecommunications security will be conducted in August. The scan will be evaluated against policies and procedures. Needed improvements will be completed in fiscal 2006.
320	General Computer Controls	12/26/2000	\$0	\$0	The recommendations are being addressed as part of the remediation efforts underway as a result of the audit of the SEC's financial statements.

SECTION IV
 Open Audit Reports Over One Year Old
 As of March 31, 2005

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
327	General Computer Controls—Regions	2/28/2001	\$0	\$0	See explanation for audit #220.
330	Real Property Leasing	5/31/2001	\$0	\$0	The revised leasing regulation is being reviewed by the Office of General Counsel.
337	IT Project Management	1/24/2002	\$0	\$0	The Office of Information Technology has partnered with George Washington University to develop a more advanced methodology for performance acquisition analysis. Efforts are underway to collect baseline data.

SECTION IV
Open Audit Reports Over One Year Old
As of March 31, 2005

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
346	Commission Oversight of NAFI	3/7/2002	\$0	\$0	A policy document concerning the Recreation and Welfare Association is being reviewed by the Office of General Counsel.
350	Administration of IT Contracts	8/28/2002	\$0	\$0	See explanation for audit #337.
351	EDGAR Utility to Commission Staff	1/15/2003	\$0	\$0	Post-acceptance corrections will be addressed in 2005. The outcome will become part of the requirements for a follow-on contract, which should be signed in 2006.

SECTION IV
Open Audit Reports Over One Year Old
As of March 31, 2005

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
353	Regional Telecommuni- cations Security	8/20/2002	\$0	\$0	See explanation for audit #309.
354	Broker-dealer Risk Assessment Program	8/13/2002	\$0	\$0	The SEC's risk assessment rules are being revised to better reflect the current state of the industry and target those firms posing risks to investors and the broader financial financial system.
361	Commission Web Security	9/30/2002	\$0	\$0	See explanation for audit #320.

SECTION IV
Open Audit Reports Over One Year Old
As of March 31, 2005

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
362	Financial Management System Controls	3/27/2003	\$0	\$0	See explanation for #320.
365	IT Capital Investment Decision-making Followup	3/29/2004	\$0	\$0	A charter for the SEC's Capital Planning Committee and several policy documents are being reviewed by the Office of General Counsel.
368	SEC Recreation and Welfare Asso. Financial Management	7/31/2003	\$0	\$0	See explanation for audit #346.
371	Small Business Reg D Exemption Process	3/31/2004	\$0	\$0	Most of the recommendations have been implemented. The two remaining recommendations are being addressed as part of a rulemaking initiative.

SECTION IV
Open Audit Reports Over One Year Old
As of March 31, 2005

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
372	Regulation of Public Utility Companies	10/20/2003	\$0	\$0	The staff is evaluating the legal implications of posting certain information on a public website.
376	Telephone Card Program	11/17/2003	\$0	\$0	The audit findings and recommendations are being reviewed in light of recent changes to the SEC's telecommunications program.
377	Lost and Stolen Securities Program	3/31/2004	\$0	\$0	Certain issues related to the program are under review by the LSSP Advisory Board.
M22	Rural Office Location Policy	3/28/2002	\$0	\$0	See explanation for #330.

SECTION IV
Open Audit Reports Over One Year Old
As of March 31, 2005

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
M27	NRSI Password Management	1/29/2003	\$0	\$0	See explanation for audit #361.
M30	Rural Relocation Policy-- Followup	6/19/2003	\$0	\$0	See explanation for #330.
M33	Unclaimed Commission Property	11/12/2003	\$0	\$0	Efforts are underway to determine whether there are any legal restrictions to implementing the one remaining recommendation.

SECTION IV
Open Audit Reports Over One Year Old
As of March 31, 2005

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
M35	Commission-wide Use of X-Ray Scanners	2/10/2004	\$0	\$0	Funds have been budgeted for more training later this year on the use of the x-ray machines.
M36	Priority to Rural Areas of New Offices	3/29/2004	\$0	\$0	See explanation for audit #M22.

APPENDIX A

Government Accountability Office Audit Activity Involving the Securities and Exchange Commission

Reports Completed During the Reporting Period

1. *Financial Regulation: Industry Changes Prompt Need to Reconsider U.S. Regulatory Structure*, GAO-05-61 (10/2004)
2. *Loan Commitments: Issues Related to Pricing, Trading, and Accounting*, GAO-05-131 (2/2005)
3. *Tax Shelters: Services Provided by External Auditors*, GAO-05-171 (2/2005)
4. *Credit Reporting Literacy: Consumers Understood the Basics but Could Benefit from Targeted Educational Efforts*, GAO-05-223 (3/2005)
5. *Information Security: Securities and Exchange Commission Needs to Address Weak Controls Over Financial and Sensitive Data*, GAO-05-262 (3/2005)
6. *Securities and Exchange Commission Human Capital Survey*, GAO-05-118R (11/2004)

Projects Active as of March 31, 2005

1. Workforce Planning (250234). A review of the SEC's strategic workforce planning efforts, including the extent to which SEC has (1) established a workforce planning process that is aligned with its mission and programmatic goals and (2) developed and implemented long-term strategies for acquiring, developing, and retaining staff necessary to achieve these goals.
2. Social Security Numbers and Third Party Contracting (130395). A review of the uses and protections of social security numbers.
3. Whois Database (310724). A study to (1) determine the prevalence of patently false contact data in the Whois database for "legacy" generic top-level domains, (2) report the steps the Commerce Department and the Internet Corporation for Assigned Names and Numbers have taken to ensure the accuracy of contact data in the database, and (3) determine whether tools and technologies are available to help reduce the amount of false information that is entered into the database.
4. Industrial Loan Corporations (250202). To enrich its analysis of industrial loan corporations, GAO is consulting with SEC to obtain an understanding of the supervision of securities firms and their holding companies.
5. Military Insurance Sales (250166). A review of the financial products that are commonly marketed to military service members, the regulatory oversight associated with marketing and sale of these products on military installations, the regulatory oversight and consumer

protections afforded military personnel compared to those afforded the general public, and how regulators assess the suitability of such products.

6. Pay Systems (842157). A review of public and private sector organizations' experiences in designing and implementing pay systems that are intended to be performance-based and market sensitive. Through meetings with SEC, GAO plans to determine if SEC's pay system could be used as a possible example to illustrate how a specific design or implementation issue is being addressed.
7. Student Loan Repayment Program (450338). An examination of the reasons selected agencies are using or not using the program, how the agencies view the benefits of the program compared to other recruitment and retention flexibilities, how the program is being administered, and the results and lessons learned, if any from using the program.
8. EEO Leadership Survey (450307). A government-wide survey of (1) how agencies are structured to meet EEO, affirmative employment and workforce diversity requirements, (2) the extent to which human capital and EEO managers perceive that these requirements contribute to EEO, affirmative employment, and workforce diversity objectives, and (3) how human capital and EEO managers view the guidance and feedback central leadership agencies provide.
9. Information Security (250218). GAO is completing assessments at key financial market organizations of the information security used to control access to important information networks and systems. After completing the assessments, GAO plans to brief SEC on its findings and to provide SEC with an opportunity to comment on any products it prepares.
10. Federal Energy Programs (360415). A review of how the Federal Government is working to meet the nation's energy needs. GAO's contact with SEC will focus on issues relating to oversight of the Public Utility Holding Company Act and any involvement SEC has had with the National Energy Policy.
11. Effects of Sarbanes-Oxley on Small Business (250224). A review of (1) the effects of the Act on small companies, (2) the extent to which financial institutions and states are requiring small privately-held companies to comply with provisions of the Act and the corresponding impacts, and (3) the impact, if any, the Act has had on small accounting and auditing firms.
12. Disgorgement and Fines (250214). A follow-up on the status of various reform efforts, such as the SEC's efforts in improving and managing the disgorgements and fines data tracking system, and the status of collection rates. Also, an assessment of what extent the SEC has implemented Section 308 (Fair Funds Provision) of the Sarbanes-Oxley Act, and any other legislative or regulatory actions that assist efforts to collect penalties and disgorgements.

13. Global Social Responsibility (320271). A study of (1) the definition of corporate social responsibility and global corporate social responsibility, (2) the role, if any, that federal agencies have in promoting or monitoring global corporate social responsibility, and (3) whether federal programs or policies either promote or undermine U.S. company global corporate social responsibility efforts.
14. PUHCA (250213). A review of the SEC's administration and enforcement of the Public Utility Holding Company Act of 1935. Specifically, an assessment of the Office of Public Utility Regulation's processes for reviewing claims of exemptions, assessing registered holding companies, and issuing no-action letters, and how the Commission determines whether companies exert controlling influence over a public utility holding company.
15. Tax Treatment of Large Settlements (450296). A review of the tax treatment of large settlements reached by federal regulatory and oversight agencies.
16. Trading Abuse Detection (250200). A review of the information systems and methods securities regulators could use to detect late trading and market timing in mutual fund shares.
17. Mutual Fund Enforcement (250199). A review of the SEC's enforcement activities and capabilities related to the mutual fund industry.
18. Decimalization (250195). A review of the impact decimalization has had on the securities markets, securities market participants, and institutional and retail investors.
19. Mutual Fund Inspections (250185). A review to determine whether the scope and conduct of broker inspections is adequate with respect to the sales of mutual funds and other issues relating to broker-dealer sales of mutual funds.
20. Implementation of USA Patriot Act's Anti-money Laundering Provisions (250179). A review of (1) the status of implementation of sections 326 and 314, (2) the Treasury's and regulators' procedures for assessing compliance and enforcement, (3) plans to sustain efforts to educate the industry about the new regulations, and (4) extent to which regulators have revised examination guidance and applied it.
21. Career Appointments of Former Political Appointees (450274). A government-wide review of executive branch agencies and departments to assess career appointments of former political appointees.
22. FY 2004 Financial Statement Audit (198241). An audit of the SEC's fiscal year 2004 financial statements.