

Inspector General Semiannual Report To Congress and Management Response

**For the Period
April 1, 2001 to September 30, 2001**

**The three components of the Semiannual Report are available
by selecting below:**

- **Inspector General Semiannual Report to Congress**
- **FY 2001 OIG Performance Measures**
- **Management Response to the IG Semiannual Report**

Securities and Exchange Commission

Office of Inspector General

Executive Summary

During this reporting period (April 1 to September 30, 2001) the Office of Inspector General (Office) issued eight audit reports, two investigative memorandum on management issues, and three memoranda on special projects. These documents focused on compliance examination referrals; disclosure comment letter follow-up; real property leasing; security of personnel files; staff and contractor background investigations; broker dealer registration; administrative controls in the Salt Lake District Office; Intranet website content; the public transportation subsidy program; information technology (IT) decision-making; assessment of IT risks; and our response under the Government Information Security Reform Act. The Audit Program and Special Projects sections below describe this work further.

Nine investigations were closed during the period. Eight subjects were referred to the Commission; four cases were referred to the Department of Justice. During the period, two subjects resigned and one received a reprimand. In addition, three subjects (two referred in a prior period) were counseled. Five subjects, referred to Commission management during this and prior periods, are awaiting disposition. The Investigation Program section below describes the significant cases further.

In a prior period, we reported controls over disgorgement¹ waivers as a significant problem, based on an audit. The Division of Enforcement has taken actions to improve the waiver process. It has issued written procedures on waivers and is using an external database to check information in waiver requests. It also hired a contractor to identify further improvements in its waiver procedures.

We also previously reported the safeguarding of sensitive information as a significant problem. Since then, management has established a task force to implement corrective actions, issued an agency-wide policy, and hired a consultant to assist in a comprehensive review of the matter.

¹ Disgorgements represent ill-gotten gains (or losses avoided) resulting from individuals violating the federal securities laws. The Commission seeks disgorgement to ensure that securities law violators do not profit from their illegal activity. When appropriate, the disgorged funds are returned to injured investors.

The Commission is now implementing the consultant's most significant recommendations. We are currently performing a follow-up audit on the controls over sensitive information

Management of information resources was also previously reported as a significant problem. During this period, we performed a business process review of information technology decision-making, an assessment of Commission information technology risks, and prepared a response in accordance with the Government Information Security Reform Act. We intend to maintain our oversight of the Commission's management of information resources.

The Commission has taken many positive steps in recent periods to improve information resources management (e.g., moving to integrate information technology planning, budgeting, and performance measurement, and link plans and budgets to the Commission's mission and strategic direction) and is making progress in complying with federal statutes and regulations regarding IRM. However, pending management actions need to be completed to fully implement recommendations made in our prior audits. During this period, the Office of Information Technology reassigned responsibility for implementing the remaining outstanding recommendations to improve its performance.

Another previously reported significant problem involves lack of adequate controls over the collection of fees. Since first reported, statutory changes have eliminated many of the fees most at risk. Moreover, Commission management has made significant progress in correcting the most serious weaknesses. A new automated filing fee system was implemented this period, which we plan to review.

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

The Commission, like other government agencies, was significantly affected by the terrorist attacks on September 11, 2001. In addition to the Commission's emergency responses to the disruptions in the securities markets, the offices of the Northeast Regional Office (NERO) at 7 World Trade Center were destroyed. We cancelled an audit that was underway of administrative controls at the NERO and suspended all audits until October 1, 2001.

Audit Program

The Office issued eight audit reports and two investigative memoranda on management issues during the reporting period. These documents contained a total of 46 recommendations, which are further described below. Management generally concurred with the recommendations.

COMPLIANCE EXAMINATION REFERRALS TO ENFORCEMENT (AUDIT 322)

The Office of Compliance Inspections and Examinations (OCIE) and the field offices administer the Examination Program. The staff perform approximately 650 broker dealer and 1,450 investment advisor examinations each year, besides other types of examinations (*e.g.*, Investment Companies, Transfer Agents, Self-Regulatory Organizations, etc.).

Approximately 20% of broker dealer and 5% of investment advisor examinations result in Enforcement referrals. Most of these referrals come from cause examinations (*i.e.*, examinations triggered by an apparent problem).

Our audit objective was to determine whether referrals of alleged deficiencies (in the compliance with the securities laws) from the Compliance Inspection and Examination Program (Examination Program) to the Enforcement Program were efficient and effective.

During the audit, we interviewed and surveyed Commission staff, visited three regional offices, analyzed the broker dealer (BD) and investment adviser (IA) referrals from fiscal year 1998, and reviewed supporting data in the Commission's computer systems, among other procedures. We limited our analysis to BD and IA referrals because they constitute most of the Enforcement referrals made.

We found that referrals of alleged deficiencies from the Compliance Inspection and Examination Program (Examination Program) to the Enforcement Program were generally efficient and effective. Several improvements could enhance the referral process including improving communication with the Enforcement Program, the interested divisions (*i.e.*, Market Regulation, Investment Management, and Corporation Finance), and the alleged violator.

During the audit, the Office of Compliance Inspections and Examinations issued guidance that addressed many of our recommendations.

COMMENT LETTER FOLLOW-UP (AUDIT NO. 326)

The Division of Corporation Finance (Division) reviews disclosure filings as one means to accomplish its mission. As a result of these filing reviews, the Division issues comment letters to registrants to identify disclosures to investors needing improvement. In response to these comments, registrants generally send the Division a letter addressing each comment and an amended filing marked to identify the changes. The issuance of the comment letter starts a process of communication between registrants and the Division to resolve the disclosure issues raised in the comment letters (comment letter follow-up process).

Our audit objective was to evaluate the effectiveness of the comment letter follow-up process in enabling the Division to accomplish its mission. We interviewed staff in the Division of Corporation Finance, the Office of Filings and Information Services (OFIS), and the Office of

Information Technology (OIT). Also, we reviewed applicable documents and analyzed data related to comment letters issued in fiscal year 2000.

We concluded that the Division's follow-up process was generally effective in helping the Division accomplish its mission. To enhance the process, we recommended that the Division consistently use the timeframes for registrant responses included in their operating procedures; request that registrants file amendments and supplemental information together; consult with the Office of Information Technology on improving the usefulness of EDGAR (the Commission automated filing system) redlining; broaden distribution of the 10-K follow-up report to include staff; and ensure that staff upload review documents to EDGAR.

REAL PROPERTY LEASING (AUDIT 330)

The Commission has independent leasing authority to lease space directly, without using the services of the General Services Administration (GSA). The Associate Executive Director in OAPM has overall responsibility for the leasing program, and signs all agency leases. The OAPM Operations Officer, assisted by a leasing specialist, manages day-to-day leasing activities. In addition, attorneys in the Office of General Counsel (OGC) review all lease agreements for legal sufficiency. OAPM supplements its expertise by using the services of real estate brokers.

Our audit objectives were to determine whether the Commission had the capability to process the major leases that were expiring in the near future and if real property leasing procedures complied with applicable guidance and were efficient and effective. During the audit, we reviewed lease documentation, interviewed OAPM, OGC, and regional staff, and surveyed administrative contacts in the field offices. We did not review any procurement sensitive documents.

Generally, we found that leasing procedures were efficient and effective, and complied with the guidance. We made several recommendations to enhance leasing, including updating Commission guidance; documenting OGC review of leasing documentation; enhancing analysis of lease billings; and providing additional training to leasing staff.

SECURITY OF PERSONNEL DATA FILES (AUDIT 338)

The Office of Administrative and Personnel Management (OAPM) maintains the Commission's official personnel files and related personnel documentation. These files, which are maintained for every employee, document significant events during an employee's federal employment (*e.g.*, appointment, promotion, transfer, separation). The file is in the custody of the employing agency (the Commission), but the Office of Personnel Management (OPM) owns it.

OPM has established security requirements and retention standards for the permanent records in the file. According to the guidance, agencies should secure personnel records against unauthorized access by keeping them in locked metal file cabinets or in a secure room.

Our objective was to evaluate the adequacy of controls over official personnel files and personnel documentation. During the review, we interviewed staff in the Office of Administrative and Personnel Management, identified and tested management controls, and reviewed a statistical sample of 45 official personnel files, among other procedures.

We found that the Commission generally complied with OPM guidance regarding file organization. We identified improvements to the security of files; use of sign-out cards; and the filing of personnel documents.

STAFF BACKGROUND INVESTIGATIONS (AUDIT 339)

The Office of Administrative and Personnel Management (OAPM) administers the Commission's staff background investigation process. OAPM has developed internal policies and procedures that describe the process, including assigning position risk designations, securing investigation files, and making suitability determinations.

The Office of Personnel Management (OPM) or one of its contractors is responsible for performing the background investigation. The position designation and the assigned risk level determine the investigation's scope.

Based on a request from the Subcommittee on Oversight and Investigations (Subcommittee) of the House Committee on Financial Services, we reviewed the Commission's staff background investigation process. The Subcommittee asked several specific questions about Commission policies and procedures for processing staff background investigations. Our audit was designed to obtain answers to those questions, as well as to identify other needed improvements.

During the audit, we interviewed Commission and OPM staff, reviewed applicable documentation, and performed tests of the background investigation process, among other procedures.

We found that the staff background investigation process needed improvement in several respects, including timely initiation or completion of initial background investigations; timely reinvestigations of staff in National Security positions; determinations that staff who transferred from other federal agencies (including the military and US Courts) were previously investigated; and determination of position risk.

CONTRACTOR BACKGROUND INVESTIGATIONS (AUDIT 340)

Based on a request from the Subcommittee on Oversight and Investigations of the House Committee on Financial Services, we conducted a survey of the Commission's contractor background investigation process. The scope of our survey consisted primarily of interviewing

Commission and Office of Personnel Management staff, and reviewing supporting documentation, among other procedures. We did not review contract files.

Our primary objective was to assess the adequacy of the Commission's written policies and procedures for initiating, reinvestigating, adjudicating, and documenting background investigations for contractors.

The Commission occasionally requests background investigations for contractors, partly to safeguard information under OMB Circular A-130. However, without adequate policies and procedures, sensitive Commission information may not be adequately safeguarded. We found that the Commission's written policies and procedures needed improvement, and suggested several issues that they should address.

B/D REGISTRATION PROCESS (AUDIT 341)

Broker dealers (B/D) register with the Commission, a self-regulatory organization (SRO), and a jurisdiction (state) by filing a Form BD through the Central Registration Depository (CRD) operated by the National Association of Securities Dealers (NASD). The form contains information on the applicant's background, controlling persons, principals, and employees.

Our audit objectives were to evaluate the efficiency and effectiveness of the Commission's broker dealer registration process, determine compliance with applicable laws and regulations, and assess communication among the Division of Market Regulation (MR), the Office of Filings and Information Services (OFIS), the SROs, and the states.

During the audit, we interviewed Commission and non-Commission staff. We also reviewed documentation and internal controls.

We found that the Commission's process for registering broker dealers is generally effective and in compliance with regulations. We also found communication among involved parties to be effective.

We recommended certain improvements that would help ensure that broker dealer withdrawals are implemented in 60 days as required by regulation; relevant computer systems are promptly updated when a broker dealer's registration with the Commission is revoked due to an administrative proceeding; administrative proceedings are timely recorded on the intranet; data recorded in various databases are accurate and consistent; and written policies and procedures for the broker dealer registration process are established.

SALT LAKE DISTRICT OFFICE (AUDIT NO. 343)

The Salt Lake District Office (SLDO) exercises a range of financial and administrative functions, including time and attendance; purchasing; staff travel; property management; and budgeting.

The Office of Inspector General conducted a limited audit of the financial and administrative internal controls of the office. The purpose of the audit was to provide the Commission with negative assurance² that the internal controls were adequate, being implemented economically and efficiently, and in compliance with Commission policies and procedures. The audit procedures were limited to analyzing representations made by staff, reviewing supporting documentation, and conducting some tests of transactions.

During the limited audit described above, we made one recommendation to improve physical security at the SLDO. Otherwise, no material weaknesses in the office's financial and administrative controls came to our attention. We discussed some minor problems verbally with management, which is taking corrective action.

INTRANET WEBSITE (INVESTIGATIVE MEMORANDUM ON MANAGEMENT ISSUES G332)

A recent investigation found that an office's website on the Commission's Intranet contained links to websites that were unrelated to official Commission duties and were not appropriate for a government website. During our investigation, we learned that no one other than the web site manager had reviewed the individual links included on the site.

Our investigation revealed a need for improvement in management controls and guidance over the content of division and office websites. We recommended that the Web Advisory Panel: require all divisions and offices to review the content on their Intranet websites to ensure that it is related to official Commission business and otherwise appropriate; prepare guidance on division and office website content; and develop a charter for its activities.

PUBLIC TRANSPORTATION SUBSIDY PROGRAM (INVESTIGATIVE MEMORANDUM ON MANAGEMENT ISSUES G-335)

In a recent investigation, we found some apparent confusion concerning how employees in certain regional and district offices should complete Form SEC 2445, Application for Transit Benefit. Currently, all Commission employees use this form to apply for transportation subsidy benefits. Employees are required to certify on the form that they will use the fare benefit for their regular daily commute to and/or from work and that the monthly benefit the employee receives will not exceed the employees' average monthly commuting costs.

However, some regional and district offices participate in transit benefit programs that may require 100% employee participation and provide a transit benefit annually rather than monthly. Under these programs, employees receive an annual pass (paid for entirely by the Commission)

² Negative assurance means that no material internal control weaknesses came to our attention during our limited audit.

that allows them unlimited use of the local public transportation system. Form SEC 2445 does not appear well suited to these types of annual programs.

We recommended that alternative procedures and forms be developed for applying for transit benefits in these annual programs. Also, we recommended that the relevant transit benefit regulations be reviewed to determine whether any modifications are necessary.

Special Projects

During the period, the Office issued three memoranda on special projects, which are summarized below.

RISK ASSESSMENT OF OFFICE OF INFORMATION TECHNOLOGY

During this reporting period, we completed a risk assessment of the Office of Information Technology (OIT). The objective of the risk assessment was to identify operational risks in information technology at the Commission as part of our audit planning. The assessment used a variety of methodologies, including control self-assessment, and reviewed a range of functions within and external to OIT.

We provided oral briefings to OIT management on our results. Based on these results, we initiated a business process review of IT decision-making (see below), as well as an audit of project management (in process). Other risks identified will be addressed in future audits.

IT DECISION MAKING PROCESS (REPORT NO. 334)

This business process review (BPR) focused on identifying improvements to Information Technology (IT) capital investment decision-making. Using workshops and discussions with management, we developed a proposal for an Information Officer Council (IOC).

The IOC would be composed of senior managers from Commission divisions and major offices. Its duties would include: recommending projects and IT rules to the IT Capital Planning Committee; directing preparation of IT proposals from their components; and working with the Office of Information Technology (OIT) in managing ongoing IT projects.

The Commission agreed to implement this proposal. In concert with OIT staff, we helped draft minimum evaluation criteria applicable to federal IT capital investment decisions. Office personnel made presentations at training sessions on the new proposal and on laws and regulations applicable to IT capital investment decision making. We also helped identify a group decision-making methodology, using OIT personnel and commercial off-the-shelf software, to assist the IOC in making its decisions.

We plan to evaluate the operation of the revised process in FY 2002.

INFORMATION SECURITY ACT REVIEW (REPORT NO. 344)

The Government Information Security Reform Act (Security Act) requires Inspectors General to perform an annual independent evaluation of the information security program and practices of their agency. In fulfillment of the Security Act's requirements, we responded to specific questions from the Office of Management and Budget (OMB) concerning the Commission's information security program and practices. Our response was combined with management's responses to the OMB questions, and forwarded to OMB in October 2001.

We used the results of four independent evaluations completed during fiscal year 2001 (general computer controls at headquarters and the Operations Center, general computer controls in the regions, contractor background investigations, and staff background investigations); evaluations completed in previous years; on-going audit work; and an independent review of the steps taken by management to implement the Security Act.

In general, we agreed with management's assessment that many significant improvements in information security have been made in the last several years. We also agreed with management that additional improvements are necessary to achieve a mature security program in full compliance with all federal requirements.

Necessary additional improvements include, but are not limited to, completion of risk assessments and security plans for Commission operations and assets; security awareness training for all Commission staff; implementation of an agency-wide organizational structure to implement the Security Act; and finalizing technical bulletins and other security guidance.

We have reported ADP security as a significant problem in our Semiannual Reports to Congress since April 1996 (under the heading information resources management), and have also reported security concerns over sensitive information as a significant problem since October 1999.

Investigative Program

Nine investigations were closed during the period. Eight subjects were referred to the Commission; four cases were referred to the Department of Justice. During the period, two subjects resigned and one received a reprimand. In addition, three subjects (two referred in a prior period) were counseled. Five subjects, referred to Commission management during this and prior periods, are awaiting disposition.

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

FALSIFICATION OF TIME AND ATTENDANCE AND FORGERY

The Office's investigation disclosed that two employees had falsified their time and attendance over a substantial period of time. The employees falsely reported earning credit hours for time they had not actually worked and then used those credit hours to take time off work. We also found evidence that one of the employees had forged a supervisor's signature on credit hour forms and leave slips. Both employees resigned after their removal was proposed.

TRAVEL ABUSE

We investigated an allegation that a Commission manager had engaged in abusive travel practices by taking unnecessary trips at government expense for the manager's personal convenience. It was also alleged that the manager pressured staff to change meeting dates and demanded that industry personnel meet at particular times in order to accommodate the staff member's personal schedule.

The evidence developed in the investigation failed to substantiate the allegations.

ACCEPTANCE OF GIFT

The Office found evidence that a Commission staff member had violated the ethical standards applicable to government employees by accepting a gift (i.e., a favor) from a prohibited source. We also found that the employee's conduct created an appearance of impropriety and was inconsistent with agency policies concerning staff conduct. The employee received a written reprimand.

Significant Problems

No new significant problems were identified, based on the work completed during the period.

Significant Problems Identified Previously

DISGORGEMENTS

In a prior reporting period, we completed an audit of disgorgements³. We found that improvements could be made to the disgorgement waiver process to achieve greater assurance that waivers were justified.

The Division of Enforcement concurred and has taken actions to improve the waiver process. It issued written procedures (currently being updated) relating to waivers, hired a contractor to identify further improvements, and is using an external database to verify information submitted in waiver requests, as well as to identify omitted information.

While the Division intends to continue to improve the waiver process, it does not believe the process is currently a significant problem. We intend to conduct a follow-up review at a later date.

SENSITIVE INFORMATION

In a previous period, we reported the safeguarding of sensitive information as a significant problem. Since then, management established a task force to implement corrective actions, issued agency-wide policy, and hired a security consultant to assist in a more comprehensive review of overall security. The Commission is now implementing the consultant's most significant recommendations.

We recently began a follow-up audit on certain controls over sensitive information. The audit will assess the adequacy of the Commission's new procedures, and the extent of compliance with them.

During this reporting period, we also completed audits on staff and contractor background investigations (see Audit Program above), which act as a control over sensitive information. The audits found that certain improvements were necessary in the background investigation process.

³ Disgorgements represent ill-gotten gains (or losses avoided) resulting from individuals violating the federal securities laws. The Commission seeks disgorgement to ensure that securities law violators do not profit from their illegal activity. When appropriate, the disgorged funds are returned to injured investors.

INFORMATION RESOURCES MANAGEMENT

We previously identified information resources management as a significant problem based on prior audits, investigative work, and management studies that identified significant weaknesses in many aspects of the Commission's management of information resources.

Since then, the Commission has taken many positive steps to improve the management of information resources throughout the Commission. Over the past six months, the Office of Information Technology (OIT) finalized many policies and procedures to implement its Project Management Methodology; initiated contracting actions to obtain contractor support to assess and improve its project management support capability; and took actions to implement repeatable information resources management processes.

Although the Commission has made significant progress in complying with the requirements of information technology (IT) statutes and regulations, many audit recommendations remain pending. To improve its performance in closing open audit recommendations, OIT reassigned responsibility for ensuring closures and established a new system for tracking the status of IT related audits and resultant recommendations

During this period, we completed a risk assessment of the Office of Information Technology, a business process review of IT decision-making, and a response to the Office of Management and Budget under the Government Information Security Reform Act (see above). Reviews of the security over the Commission's public web site and of IT project management are ongoing. In future periods, we intend to maintain our oversight of the Commission's management of information resources.

COLLECTION OF FILING FEES

Starting in 1996, we have identified the Commission's collection of filing fees as a significant problem. Since then, statutory changes have eliminated many of the fees most at risk. Moreover, Commission management has made significant progress in correcting the most serious weaknesses.

The strengthening of automated controls, related to filing fee collection, has been awaiting modernization of the EDGAR system (which receives and disseminates filings from public companies). According to Commission officials, EDGAR Releases 7.5 and 8.0 have been issued, implementing a new filing fee collection system. The new system is designed to contain adequate financial controls.

Commission officials believe that the collection of filing fees is no longer a significant problem. We are planning a review of the new system's controls over the collection of filing fees.

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

SUSPENSION OF AUDITS RE: EVENTS OF SEPTEMBER 11TH

The tragedy in New York City had two immediate and direct impacts on the Commission. First, although none of its 334 staff were seriously injured (physically), the Commission lost its largest regional office in the collapse of the 7 World Trade Building. In addition, the Commission had to facilitate the reopening of the nation's securities markets.

The response involved a wide range of Commission organizations. The Commission's reaction entailed procuring new office space⁴, furniture, equipment and communications; recovering lost evidence and information from back up systems and original sources; testing market systems and communications; and issuing emergency rules and interpretive releases.

To avoid unintentionally interfering with these emergency recovery efforts, the Inspector General suspended the audit program. The audit program resumed October 1st with special sensitivity to continuing recovery efforts.

EXECUTIVE COUNCIL ON INTEGRITY AND EFFICIENCY

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 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.

⁴ On October 15th, the Commission officially reopened its Northeast Regional Office in the historic Woolworth Building (233 Broadway) in the lower Manhattan financial district.

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	0	0
B	Which were issued during the reporting period	-	-
		<u>0</u>	<u>0</u>
	Subtotals (A+B)	0	0
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	0	0
	Reports for which no management decision was made within six months of issuance	0	0

Reports with No Management Decisions

Management decisions have been made on all audit reports issued before the beginning of this reporting period (April 1, 2001).

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.

FY 2001 OIG PERFORMANCE MEASURES

AUDITING

Strategic Goal: Identify and mitigate impediments to achieving Commission objectives (i.e., operational risks)

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>1. Assess operational impediments to achieving Commission objectives</p> <p>A. Identify significant operational risks</p>	<p>Develop an enhanced qualitative evaluation capacity</p> <p><i>During FY 2001, the Office conducted a risk assessment of the Commission's Office of Information Technology (OIT) in order to identify significant operational risks. The risk assessment incorporated a variety of methodologies (including control self-assessment) that were designed to enhance the Office's qualitative evaluation capacity.</i></p> <p><i>Based upon an assessment of the costs/benefits of the qualitative operational risk assessment approach, the Office has decided to assign risk assessment responsibility for program areas to the auditors assigned to those areas. The auditors will be responsible for determining the methodology to be employed to assess risks in particular program areas.</i></p> <p>Number of risk assessment workshops and surveys</p> <p><i>The Office conducted 7 risk assessment workshops during FY 2001. Two additional workshops were conducted as part of a Business Process Review of IT Capital Decision Making, in order to identify issues and recommendations for improvements.</i></p>	<p>The Commission achieves its strategic program and support objectives</p> <p>Commission management has an enhanced understanding of operational risks</p> <p>Commission management is better able to manage, share, control, transfer, avoid, or accept operational risks</p> <p><i>In connection with the OIT risk assessment, the Office provided two briefings to OIT management concerning the results of the risk assessment. The workshops and briefings were well received by OIT management. Based upon the results of the risk assessment, the Office initiated a Business Process Review of IT Capital Decision Making and an audit of project management. An audit of IT contract administration is also being planned.</i></p> <p><i>During the Business Process Review of IT Capital Decision Making, the Office worked closely with OIT management to</i></p>
<p>1. Assess operational impediments to</p>	<p>Number of Commission staff participating in risk assessment</p>	<p><i>create an Information Officer Council</i></p>

FY 2001 OIG PERFORMANCE MEASURES

AUDITING

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>achieving Commission objectives (CONTINUED)</p> <p>A. Identify significant operational risks (CONTINUED)</p>	<p>workshops and surveys</p> <p><i>Approximately 50 Commission managers and staff participated in risk assessment workshops during FY 2001. Approximately 20 additional Commission staff participated in the workshops conducted as part of the Business Process Review of IT Capital Decision Making.</i></p> <p>Number of significant operational risks identified</p> <p><i>The risk assessment conducted within OIT identified 5 major risk areas: developing and mentoring staff; establishing better communication methods; management and leadership skills; finalizing, communicating and linking strategic direction to daily activities; and streamlining, formalizing and enforcing policies, practices and procedures. Within these five major risk areas, the Office identified 22 operational impediments to achieving management's objectives.</i></p>	<p><i>(IOC), consisting of senior managers from various Commission divisions and offices. The IOC will be responsible for evaluating and recommending projects and IT rules to the IT Capital Planning Committee. It will also direct the preparation of IT proposals and work with OIT project managers and contractors in managing IT projects. Office staff provided presentations on the IOC concept, applicable IT laws and regulations, and minimum evaluation criteria for IT capital investment decisions. The Office plans to evaluate the operation of the IOC in 2002 using the GAO Framework for Assessing and Improving Process Maturity.</i></p> <p><i>In addition, in response to the IT risk assessment, OIT management requested that the Office perform several evaluations of OIT operations. These reviews are expected to address topics such as the interaction between short-term tactical plans and strategic goals, the adequacy of operating procedures for sub-offices within</i></p>
<p>1. Assess operational impediments to achieving Commission objectives (CONTINUED)</p>	<p>The 2001-2002 annual audit plan is based primarily on risks to the achievement of Commission objectives</p>	<p><i>OIT, and the linkage between performance plans for staff and OIT goals.</i></p>

FY 2001 OIG PERFORMANCE MEASURES

AUDITING

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>B. Incorporate “operational risk” as the primary audit planning criterion</p>	<p><i>The 2001-2002 annual audit plan includes audits that were identified by risk assessment methodologies, prior audits, and Commission management and staff; audits resulting from new legislation and Congressional requests; and audits of areas that the Office had not previously reviewed.</i></p> <p>Percentage of performance audits in high-risk programs or support functions – planned</p> <p><i>100% of all performance audits were planned in high-risk programs or support functions.</i></p> <p>Percentage of audits, suggested by the Commission or senior management, scheduled in annual audit plans</p> <p><i>100% of audits suggested by Commission management have been scheduled in annual audit plans.</i></p>	
<p>2. Mitigate operational risks and add value to Commission operations</p> <p>A. Conduct performance audits of operational risks in Commission</p>	<p>Number of audit reports (including audit memoranda and reports on management issues arising from investigations)</p> <p><i>The Office issued 18 audit reports, 1 audit memorandum and 3 reports on management issues arising from</i></p>	<p><i>The Office also continued to monitor the status of significant problems identified in the Office’s Semiannual Reports to Congress, including automated data processing (ADP) security and security over</i></p>

FY 2001 OIG PERFORMANCE MEASURES

AUDITING

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>programs and support functions</p> <p>2. Mitigate operational risks and add value to Commission operations (CONTINUED)</p> <p>A. Conduct performance audits of operational risks in Commission programs and support functions</p>	<p><i>investigations during FY 2001. Jointly, these reports contained 119 recommendations for improvement in Commission operations.</i></p> <p>Percentage of performance audits directly related to high-risk programs or support functions -- conducted</p> <p><i>100% of performance audits conducted were directly related to high-risk programs or support functions.</i></p> <p>Number of significant audit findings and recommendations</p> <p><i>The Office made a total of 97 significant audit findings and recommendations during FY 2001.</i></p> <p>Percentage of significant findings and recommendations communicated to management before obtaining formal comments on draft audit reports</p> <p><i>100% of significant findings and recommendations were communicated to management before obtaining formal comments on draft audit reports.</i></p> <p>Percentage of audit recommendations Commission management accepts</p> <p><i>Commission management accepted 100% of the Office's FY 2001 audit recommendations on which a decision has been made.</i></p>	<p><i>sensitive information. With respect to ADP security, the Office responded to Office of Management and Budget (OMB) questions pursuant to the Government Information Security Reform Act (GISRA). In its response to OMB, the Office reported that management has made significant improvements in information security over the last few years. However, the Office pointed out that additional improvements were necessary to achieve a mature security program in full compliance with all federal requirements. With respect to sensitive information, the Office is conducting a follow-up audit of certain controls over sensitive information.</i></p>

FY 2001 OIG PERFORMANCE MEASURES

AUDITING

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>(CONTINUED)</p> <p>B. Encourage independent management actions to mitigate operational risks identified</p> <p>2. Mitigate operational risks and add value to Commission operations (CONTINUED)</p> <p>B. Encourage independent management actions to mitigate operational risks identified (CONTINUED)</p>	<p>Percentage of audit recommendations the Commission implements</p> <p><i>Commission management implemented 15% of the Office's FY 2001 audit recommendations, as of October 23, 2001. Management is working on implementing the remaining recommendations.</i></p> <p>Number of material risks reported to management</p> <p><i>The Office reported to management on the 5 major risk areas that were identified through the OIT risk assessment: developing and mentoring staff; establishing better communication methods; management and leadership skills; finalizing, communicating and linking strategic direction to daily activities; and streamlining, formalizing and enforcing policies, practices and procedures. The Office also informed management of the 22 operational impediments contained within these 5 major risk areas.</i></p> <p>Percentage of material operational risks identified by the Office that are subsequently mitigated by management without further Office action</p> <p><i>Management has requested additional operational evaluations by the Office to assist in mitigating the 5 significant IT risks identified.</i></p>	

FY 2001 OIG PERFORMANCE MEASURES

INVESTIGATIONS

Strategic Goal: Identify and mitigate impediments to high individual and agency integrity (i.e., integrity risks)

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>1. Assess integrity risks and prevent and deter misconduct</p> <p>A. Conduct integrity workshops</p>	<p>Develop a qualitative evaluation capacity</p> <p><i>During FY 2000 and FY 2001, the Office conducted an audit of the Commission's integrity program, as a follow-up to two audits performed in 1996-97. The follow-up audit was conducted using control self-assessment methodology. Under this methodology, workshops were convened to discuss and rate identified management objectives. Electronic voting technology was employed in several of the workshops.</i></p> <p>Number of material integrity risks identified through integrity workshops and surveys</p> <p><i>The integrity audit conducted during FY 2000 and FY 2001 identified no material integrity risks, a result that reflected the high level of integrity among Commission staff. The Office made some recommendations for improvements to management in the areas of available general ethics guidance and resources and written guidance on the limitations to confidentiality of ethics counseling.</i></p>	<p>Commission staff readily refer allegations of misconduct to the Office</p> <p><i>Approximately 45% of the allegations the Office received during FY 2001 were from Commission employees or managers. The integrity audit performed during FY 2000 and FY 2001 found that Commission employees placed a high premium on integrity. In addition, with almost no exceptions, staff participating in the integrity workshops indicated that they felt a personal sense of responsibility for maintaining the integrity of the Commission.</i></p>

FY 2001 OIG PERFORMANCE MEASURES

INVESTIGATIONS

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>1. Assess integrity risks and prevent and deter misconduct (CONTINUED)</p> <p>B. Issue reports to management on control deficiencies identified during investigations</p>	<p>Number of investigative reports on management issues</p> <p><i>The Office issued 3 investigative reports on management issues during FY 2001, which contained 8 recommendations to prevent or deter staff misconduct.</i></p> <p>Number of significant recommendations made to prevent or deter misconduct</p> <p><i>The Office made 6 significant recommendations to prevent or deter staff misconduct in investigative reports on management issues during FY 2001. These recommendations pertained to use of personal resources, Intranet website content and the public transportation subsidy program.</i></p> <p>Number of management actions taken in response to OIG recommendations made to prevent or deter misconduct</p> <p><i>Management has implemented 2 of the 8 recommendations made to prevent or deter staff misconduct and is working to implement the remaining 6 recommendations.</i></p>	
<p>1. Assess integrity risks and prevent and deter misconduct (CONTINUED)</p>	<p>Number of consultations with Office of Ethics Counsel staff</p>	

FY 2001 OIG PERFORMANCE MEASURES

INVESTIGATIONS

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>C. Maintain effective communications with the Office of Ethics Counsel</p>	<p><i>The Office consulted with the Office of Ethics Counsel concerning the Office's investigations, as appropriate. Further, the Ethics Counsel received copies of all final investigative reports issued during FY 2001.</i></p>	
<p>2. Solicit allegations of misconduct</p>	<p>Percentage of new employees receiving Office material soliciting allegations of misconduct</p> <p><i>100% of new Commission employees received Office material soliciting allegations of misconduct during FY 2001.</i></p> <p>Percentage of departing employees receiving Office material soliciting allegations of misconduct</p> <p><i>100% of departing Commission employees received Office material soliciting allegations of misconduct during FY 2001.</i></p> <p>Number of allegations of misconduct received</p> <p><i>The Office received 101 allegations of misconduct during FY 2001 (excluding misdirected phone calls, e-mails or letters that were transferred to other agency</i></p>	
<p>2. Solicit allegations of misconduct (CONTINUED)</p>	<p><i>components). These allegations came from a variety of sources, including Commission management and staff, members of the public, and anonymous sources.</i></p>	

FY 2001 OIG PERFORMANCE MEASURES

INVESTIGATIONS

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>3. Assign allegations of misconduct timely</p>	<p>Number of allegations assigned (<i>i.e.</i>, investigation, preliminary inquiry, monitoring, or transmittal to appropriate other organization without Office investigation)</p> <p><i>The allegations received were assigned as follows: 19 investigations were opened; 43 preliminary inquiries were opened; 14 referrals were made to management or other Commission components; 7 referrals were made to the Office's auditors for inquiry or audit planning; and 4 referrals were made outside the Commission. With regard to the remaining allegations, no action was considered necessary, the allegation was responded to or resolved without assignment, or additional information was requested from the complainant.</i></p> <p>Percentage of allegations assigned within 3 workdays of receipt</p> <p><i>94% (95 of 101) of allegations received during FY 2001 were assigned or otherwise resolved within 3 workdays of receipt.</i></p>	
<p>4. Investigate allegations objectively, competently, and timely, and refer violations appropriately</p>	<p>Number of preliminary inquiries conducted</p> <p><i>The Office completed 41 preliminary inquiries during FY 2001. One investigation was opened as the result of a preliminary inquiry. Six preliminary inquiries led to referrals of matters to other agencies. Two preliminary</i></p>	<p>Commission staff have an enhanced understanding of desired and prohibited conduct</p> <p>Commission program operations are enhanced by the public's trust in Commission staff</p>

FY 2001 OIG PERFORMANCE MEASURES

INVESTIGATIONS

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>4. Investigate allegations objectively, competently, and timely, and refer violations appropriately (CONTINUED)</p>	<p><i>inquiries remained pending at the end of FY 2001.</i></p> <p>Percentage of preliminary inquiries completed within one month</p> <p><i>Of the preliminary inquiries completed during FY 2001, 90% (37 of 41) were completed within one month.</i></p> <p>Number of investigations conducted</p> <p><i>Five investigations were pending at the beginning of FY 2001. The Office closed 21 investigations during FY 2001. Three investigations remained pending at the end of FY 2001.</i></p> <p>Percentage of investigations in which the rights of subjects, complainants, and witnesses were adequately protected</p> <p><i>The rights of subjects, complainants and witnesses were adequately protected in 100% of the investigations</i></p> <p><i>conducted during FY 2001. Subjects were generally provided with written notice of their rights before being asked to provide evidence. In addition, where complainants requested confidentiality, every effort was made to comply with these requests.</i></p> <p>Percentage of investigations completed within 6 months</p>	<p>The Commission's integrity objective (<i>i.e.</i>, to promote high individual and agency integrity) is achieved</p> <p><i>The Commission continues to have a high degree of individual and agency integrity. The Office's integrity audit completed in FY 2001 found that the Commission was achieving its primary objective of promoting high individual and agency integrity. The audit identified no material weaknesses and found that Commission employees placed a high premium on integrity.</i></p>

FY 2001 OIG PERFORMANCE MEASURES

INVESTIGATIONS

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>4. Investigate allegations objectively, competently, and timely, and refer violations appropriately (CONTINUED)</p>	<p><i>95% (20 of 21) of investigations were completed within 6 months.</i></p> <p>Number of allegations investigated</p> <p><i>The Office investigated a total of 32 allegations during FY 2001. In addition, 41 other allegations were reviewed during preliminary inquiries completed during FY 2001.</i></p> <p>Number of subjects investigated</p> <p><i>The Office investigated a total of 27 subjects during FY 2001. In addition, 47 other subjects were involved in preliminary inquiries completed during FY 2001.</i></p> <p>Number of investigations in which the evidence failed to substantiate the allegations</p> <p><i>The evidence failed to substantiate the allegations in 11 investigations closed during FY 2001. One investigation was closed because the Office decided not to pursue the matter further due to ongoing investigations by other Commission components. In addition, 35 preliminary inquiries were closed because the allegation appeared to lack merit, there was insufficient evidence to pursue the</i></p>	

FY 2001 OIG PERFORMANCE MEASURES

INVESTIGATIONS

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>4. Investigate allegations objectively, competently, and timely, and refer violations appropriately (CONTINUED)</p>	<p><i>matter further, or the matter was referred to management or other agency components.</i></p> <p>Number of referrals to the Commission</p> <p><i>The Office referred 8 cases to the Commission during FY 2001. These cases included evidence of misuse of computer resources, false statements, falsification of time and attendance, forgery, assault, abusive conduct, making and acceptance of gifts, appearance of impropriety and use of Commission time for outside businesses.</i></p> <p>Number of referrals to the Department of Justice</p> <p><i>The Office referred 5 cases to the Department of Justice during FY 2001. These cases involved evidence of misuse of computer resources, false statements, falsification of time and attendance, forgery and violation of conflict of interest statutes. Prosecution was declined in 4 matters; one matter is still pending.</i></p> <p>Number of personnel actions or convictions resulting from investigations</p>	

FY 2001 OIG PERFORMANCE MEASURES

INVESTIGATIONS

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
	<i>One employee was reprimanded, three employees were counseled, and two employees resigned as a result of Office investigations. In addition, two employees resigned in connection with matters referred during FY 2000. Five matters remained pending at the end of FY 2001.</i>	

FY 2001 OIG PERFORMANCE MEASURES

REPORTING

Strategic Goal: Keep the Chairman and Congress fully and currently informed of Office activities and significant issues

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>1. Report to Congress</p>	<p>Semiannual reports (SARs) comply with all reporting requirements of the Inspector General Act</p> <p><i>Both SARs for FY 2001 complied with all reporting requirements of the Inspector General Act.</i></p> <p>Percentage of audit reports summarized in the SARs</p> <p><i>100% of the audit reports, audit memoranda and reports on management issues arising from investigations issued during the reporting period were summarized in the SARs for FY 2001.</i></p> <p>Percentage of significant investigations summarized in the SARs</p> <p><i>100% of significant investigations were summarized in the SARs for FY 2001.</i></p> <p>Office performance is reported annually in every other SAR</p> <p><i>Office performance for FY 2001 is being reported in the SAR for the second half of FY 2001.</i></p>	<p>The Congress is fully and currently informed of office activities and material issues</p> <p><i>The Office strives to keep the Congress fully and currently informed of Office activities and material issues through its SARs and other efforts. During FY 2001, the Office performed three audits in response to a request from a Congressional subcommittee that the Office conduct an evaluation of background investigations of Commission employees and contractors. The Inspector General provided the subcommittee with the three audit reports. In addition, the Inspector General responded to specific questions asked by the subcommittee concerning the Commission's policies and procedures for background investigations of current and prospective employees and the implementation of those procedures.</i></p>

FY 2001 OIG PERFORMANCE MEASURES

REPORTING

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
1. Report to Congress (CONTINUED)	<p>Number of testimonies, meetings, or other communications with the Congress or its staff</p> <p><i>The Inspector General and Office staff had several meetings and telephone calls with Congressional staff concerning a variety of issues. The Office also provided written reports to Congressional committees and subcommittees on employee and staff background investigations, collection of personally identifiable information on Internet sites, and payments for water and sanitary sewer services provided by the District of Columbia.</i></p>	
2. Report to the Chairman and Commission management	<p>Number of meetings with, and reports to, the Chairman or senior Commission management on the Office's activities and significant issues</p> <p><i>The Inspector General provided written monthly reports to the Chairman on Office activities and had frequent contacts with the Chairman's staff. In addition, the Inspector General and Office staff routinely met with senior Commission management on the Office's activities and significant issues. In September 2001, the Executive Director made a presentation to the Office's staff concerning recent developments and areas of concern.</i></p>	<p>The Chairman and senior Commission management are fully and currently informed of office activities and material issues</p> <p><i>Through the monthly reports to the Chairman, the quarterly Inspector General Advisory Committee meetings and other periodic briefings, the Chairman and senior management are adequately informed on a timely basis of Office activities and significant issues arising from those activities.</i></p>
2. Report to the Chairman and Commission management	<p>Number of Inspector General Advisory Committee meetings conducted</p>	

FY 2001 OIG PERFORMANCE MEASURES

REPORTING

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
(CONTINUED)	<p><i>In FY 2001, the Inspector General met quarterly with the Inspector General Advisory Committee. Members of the Inspector General Advisory Committee include the Chief of Staff, the Executive Director, the General Counsel, and the Director of the Division of Enforcement. At these meetings, the Inspector General brought significant issues and developments to the Advisory Committee's attention. Advisory Committee members also voiced their concerns and priorities during these meetings.</i></p>	

FY 2001 OIG PERFORMANCE MEASURES

WORK QUALITY

Strategic Goal: Continuously improve Office staff, work products, and administration

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>1. Arrange for triennial peer reviews</p>	<p>Arrange for a peer review of the audit program</p> <p><i>The Office has arranged for the Federal Reserve Board of Governors OIG to conduct a peer review of the Office's audit program in 2003.</i></p> <p>Number of peer reviews of other OIGs conducted by Office staff</p> <p><i>The Office is scheduled to conduct a peer review of the National Archives and Records Administration OIG beginning in October 2001.</i></p>	<p>The Congress, Commission, and public have confidence in the competence and professionalism of our staff</p> <p><i>The Office has received favorable comments on the competence and professionalism of its staff from several sources within the Commission.</i></p>
<p>2. Obtain input from clients and Commission management on the value of Office activities</p>	<p>Percentage of audit clients surveyed</p> <p><i>Beginning in September 2001, the Office implemented a new procedure for soliciting comments from audit customers on each audit report issued by the Office.</i></p>	<p>Office staff, operations, and administration are more efficient and effective</p> <p><i>The Office constantly strives to improve its efficiency and effectiveness. The auditors have recently been assigned responsibility for identifying and assessing operational risks in their program areas. It is anticipated that these risk assessment efforts will result in an</i></p>

FY 2001 OIG PERFORMANCE MEASURES

WORK QUALITY

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>2. Obtain input from clients and Commission management on the value of Office activities (CONTINUED)</p>	<p>Percentage of investigative clients surveyed</p> <p><i>The Office requested client feedback on all investigative reports issued during FY 2001.</i></p> <p>Customer feedback is used to improve Office products and services</p> <p><i>The Office reviews and evaluates all comments received in an effort to enhance the Office's audit and investigative programs.</i></p>	<p><i>increased audit focus on areas of significant operational risk.</i></p>
<p>3. Maintain and improve the technical proficiency of Office staff</p>	<p>Percentage of audit staff who meet or exceed the Government Auditing Standard's training requirements</p> <p><i>100% of the audit staff members met or exceeded the Government Auditing Standard's training requirements.</i></p> <p>Percentage of legal staff who maintain Bar memberships and obtain training to keep current professionally</p> <p><i>The Office currently has one attorney, who maintains Bar memberships and attends periodic professional training in subjects pertinent to the Office.</i></p> <p>.</p> <p>Percentage of audit staff who have professional certification</p>	<p><i>The Office is committed to education and training of its staff to ensure that staff maintain their skills, are aware of new developments and are able to adapt to changes in the environment in which the Commission operates. Staff members generally exceed the minimum CPE requirements. As a result of the Office's commitment to education and training, Office staff are perceived as competent professionals who are qualified to achieve the Office's mission.</i></p>

FY 2001 OIG PERFORMANCE MEASURES

WORK QUALITY

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
proficiency of Office staff (CONTINUED)	<p style="text-align: center;"><i>The Inspector General, the Deputy Inspector General and 4 of the 5 auditors have professional certifications.</i></p> <p>Number of professional certifications maintained</p> <p style="text-align: center;"><i>The Office's 8 staff members have a total of 14 professional certifications and 6 advanced degrees.</i></p>	

FY 2001 OIG PERFORMANCE MEASURES

GOVERNMENT-WIDE ISSUES

Strategic Goal: Participate with the IG Community in addressing government-wide issues

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>1. Actively participate in ECIE/PCIE activities</p>	<p>Participation in bi-monthly ECIE meetings</p> <p><i>The Office participated in 100% of all ECIE meetings during FY 2001.</i></p> <p>Participation in PCIE Council of Counsel's (CCIG) meetings</p> <p><i>The Office participated in approximately 70% of the CCIG meetings during FY 2001.</i></p> <p>Participation in joint PCIE/ECIE meetings</p> <p><i>The Office participated in all joint ECIE/PCIE meetings, including the annual Inspector General retreat.</i></p> <p>Participation in other ECIE or PCIE Committees</p> <p><i>The Inspector General is a member of the Integrity Committee of the PCIE and ECIE. Pursuant to executive order, the Integrity Committee is tasked with reviewing and investigating administrative allegations against Inspectors General and other senior staff. The Inspector General attended all Integrity Committee meetings during</i></p>	<p>The Office benefits from the resolution of government-wide issues and the transfer of audit and investigative techniques and knowledge</p> <p><i>Through its participation in PCIE/ECIE and CCIG activities, the Office has obtained valuable information concerning Congressional interests, new government policies, and the impact of new laws and court decisions.</i></p> <p>The Office timely incorporates Congressional and administration policies and concerns into its operations</p> <p><i>The Office performed three audits in response to a Congressional subcommittee's request that the Office conduct an evaluation of background investigations of Commission employees and contractors. These audits addressed Staff Background Investigations, Contractor Background Investigations, and Security of Personnel</i></p>

FY 2001 OIG PERFORMANCE MEASURES

GOVERNMENT-WIDE ISSUES

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
1. Actively participate in ECIE/PCIE activities (CONTINUED)	<i>FY 2001. In addition, the Inspector General met monthly with the financial regulatory agency Inspector General committee.</i>	<i>Data Files. Each report contained recommendations for improvements in policies and procedures.</i>
2. Participate in organizations that directly contribute to the IG community	<p>Number of professional organizations and activities related to Office work in which staff participate</p> <p><i>Staff are members of and participate in the activities of several professional organizations, including the Institute of Internal Auditors, Association of Directors of Investigations, Information Systems Audit and Control Association, and American Institute of Certified Public Accountants.</i></p>	<p>Congress and OMB recognize benefits from ECIE/PCIE activities</p> <p><i>The IG Community has achieved considerable results, which are described in the PCIE/ECIE Annual Report. In addition, the report of the Senate Governmental Affairs Committee entitled, Government at the Brink, issued in June 2001, discussed much of the work performed by the IG community.</i></p>

**MANAGEMENT RESPONSE OF
THE SECURITIES AND EXCHANGE COMMISSION
ACCOMPANYING THE SEMIANNUAL REPORT OF THE INSPECTOR GENERAL
FOR THE PERIOD APRIL 1, 2001 THROUGH SEPTEMBER 30, 2001**

Introduction

The Semiannual Report of the Inspector General (IG) of the Securities and Exchange Commission (SEC) was submitted to the Chairman on October 31, 2001 as required by the Inspector General Act of 1978, as amended. The report has been reviewed by the Chief of Staff, General Counsel, Executive Director, 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 eight audit reports, two investigative memoranda on management issues, and three audit memoranda. Management generally concurred with the findings and recommendations in the IG's reports.

In addition to audits performed by the agency's IG, the General Accounting 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 problems were reported.

C. Response to Significant Problems Previously Identified

The IG's Semiannual Report identifies four significant problem areas: (1) sensitive information, (2) collection of filing fees, (3) information resources management, and (4) disgorgement waiver process. The IG's Semiannual Report provides an updated description of the actions SEC management has taken to strengthen these areas. Based on those actions, SEC management no longer considers sensitive information, the collection of filing fees, and the disgorgement waiver process significant problem areas. With respect to IRM, management is continuing to work aggressively to strengthen this area, as reflected in the IG's Semiannual Report.

D. IG Recommendations Concerning Use of Funds

None.

E. Reports with No Management Decisions

Management decisions have been made on all audits issued prior to the beginning of the reporting period (April 1, 2001).

F. Revised Management Decisions

No management decisions were revised during the reporting period.

SEC Management Response to
Semiannual IG Report
April 1, 2001 – September 30, 2001

SECTION II
Disallowed Costs
As of September 30, 2001

	<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
April 1, 2001 – September 30, 2001

SECTION III
Funds Put to Better Use
As of September 30, 2001

	<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	0	\$0
(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	0	\$0
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 September 30, 2001

<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>
130	Management of the Data Center	11/18/89	\$0	\$0	A number of policies and procedures are being documented and adopted, including a strategic plan for the Office of Information Technology.
143	Information Resources Management	3/27/91	\$0	\$0	Same as above.
159	Audit of Local Area Networks	2/16/93	\$0	\$0	The remaining pending recommendation concerns the implementation of prior audit and contractor recommendations. Each of the prior recommendations is being addressed under its original report.

SECTION IV
Open Audit Reports Over One Year Old
As of September 30, 2001

<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	3/26/96	\$0	\$0	See explanation for audit #130.
225	Collection of Filing Fees	2/8/96	\$0	\$0	A replacement fee collection system was implemented in September 2001. SEC management completed corrective actions for this audit after the end of this reporting period.
238	International Telephone Service	8/27/96	\$0	\$0	The one remaining pending recommendation focuses on the review of telephone records. SEC management is continuing consultations with agency's General Counsel's Office. The recommendation is expected to be satisfied by June 2002.

SECTION IV
Open Audit Reports Over One Year Old
As of September 30, 2001

<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>
243	SECOA Local Area Network	3/21/97	\$0	\$0	See explanation for audit #130.
250	Enhancing Excellence-- Integrity Program	1/22/97	\$0	\$0	A substantial number of the recommendations have been implemented. Several policy documents are on hold until union contract issues are resolved.
253	Administrative Proceedings	11/7/97	\$0	\$0	An adjudicatory conference will be held once there is an experience factor to measure the overall results of the NASD's revised disciplinary procedures.

SECTION IV
Open Audit Reports Over One Year Old
As of September 30, 2001

<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	9/9/97	\$0	\$0	See explanation for audit #130.
260	Value Engineering Program	5/2/97	\$0	\$0	Value engineering plans are expected to be completed by January 2002.
269	Database Administration	1/5/98	\$0	\$0	See explanation for audit #130.
271	Property System	9/25/98	\$0	\$0	Positions are being staffed in a new infrastructure unit created to coordinate deployment of new technology assets, manage physical moves of computer equipment, and maintain an inventory of technology assets. Also, a contractor has been hired to assess and recommend more efficient approaches to asset tracking.

SECTION IV
Open Audit Reports Over One Year Old
As of September 30, 2001

<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>
272	Commission Review of SRO Rules	7/14/98	\$0	\$0	The SEC's IT Capital Planning Committee consolidated several requests for optical disk systems into an agency-wide package. Efforts are underway to identify a solution that meets several needs.
273	Review of Investment Company Filings	6/26/98	\$0	\$0	A contractor is conducting a requirements analysis.
274	Year 2000—Internal Systems (OIT)				See explanation for audit #159.
275	Year 2000—EDGAR	12/21/99	\$0	\$0	See explanation for audit #159.

SECTION IV
Open Audit Reports Over One Year Old
As of September 30, 2001

<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>
282	Year 2000—Internal Systems (Non-OIT)	12/21/99	\$0	\$0	See explanation for audit #159.
287	Boston District Office	10/23/98	\$0	\$0	See explanation for audit #250.
293	Y2K Status Report-- January 1999	1/25/99	\$0	\$0	See explanation for audit #250.
296	UNIX Security	9/14/99	\$0	\$0	See explanation for audit #130.
297	EDGAR Y2K Status-- March 1999	3/19/99	\$0	\$0	See explanation for audit #130.

SECTION IV
Open Audit Reports Over One Year Old
As of September 30, 2001

<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>
298	Commission Review of Periodic Reports	2/23/2000	\$0	\$0	Management is attempting to identify review goals that include areas such as quality and complexity of reviews in addition to number of reviews.
299	Data Backup Procedures	3/31/2000	\$0	\$0	See explanation for audit #130.
301	Oversight of SIPC	3/31/2000	\$0	\$0	The SEC is conducting an examination of SIPC. The staff has completed the field work and is drafting the report.

SECTION IV
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308	EDGAR Hardship Exemptions	3/30/2000	\$0	\$0	The recommendations are being considered in connection with the next EDGAR modernization rulemaking initiative.
309	Telecommunication Vulnerabilities	3/31/2000	\$0	\$0	The issue of establishing an audit system for SEC telephone activity is under review by the agency's Office of General Counsel. Corrective actions are expected to be completed in June 2002.
312	Year 2000 Audits— Summary Closing	12/21/99	\$0	\$0	See explanation for audit #130.

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314	Payroll Conversion	9/22/2000	\$0	\$0	See explanation for audit #250.
323	Clearance Process	9/29/2000	\$0	\$0	Several recommendations have been implemented. Work on the remaining recommendations is in progress and is expected to be completed in March 2002.
M11	Part-time Employment Program	10/21/98	\$0	\$0	See explanation for audit #250.
M12	Control of Computer Equipment	12/29/98	\$0	\$0	See explanation for #271.
M14	Contingency Testing	3/15/99	\$0	\$0	See explanation for audit #130.
G314	Voluntary Contributions Guidance	8/8/2000	\$0	\$0	Guidance is expected to be issued in February 2002.

APPENDIX A

General Accounting Office Audit Activity Involving the Securities and Exchange Commission

Reports Issued During the Reporting Period

1. *Evaluation of Steps Taken to Address the Problem of Unpaid Arbitration Awards*, GAO-01-654R (April 2001)
2. *Financial Privacy: Too Soon to Assess the Privacy Provisions in the Gramm-Leach-Bliley Act of 1999*, GAO-01-617 (May 2001)
3. *Securities Investor Protection: Steps Needed to Better Disclose SIPC Policies to Investors*, GAO-01-653 (May 2001)
4. *SEC's Report on Mutual Fund Fees*, GAO-01-655R (May 2001)
5. *Securities and Exchange Commission: Reviews of Accounting Matters Related to Public Filings*, GAO-01-718 (June 2001)
6. *On-line Trading: Investor Protections Have Improved but Continued Attention is Needed*, GAO-01-858 (July 2001)
1. *SEC and CFTC: Most Fines Collected, but Improvements Needed in the Use of Treasury's Collection Service*, GAO-01-900 (July 2001)
8. *On-line Trading: Investor Protections Have Improved but Continued Attention is Needed*, GAO-01-858 (July 2001)
9. *Information Systems: Opportunities Exist to Strengthen SEC's Oversight of Capacity and Security* (July 2001)
10. *Budget Scoring: Budget Scoring Affects Some Lease Terms, but Full Extent Is Uncertain*, GAO-01-929 (August 31, 2001)
11. *Lost Security Holders: SEC Should Use Data to Evaluate Its 1997 Rule*, GAO-01-978 (September 2001)

Audits in Progress as of September 30, 2001

1. **SRO Structure**. A study of the effect of changes in the securities and futures markets on the self-regulatory structure.

2. Human Capital Management. A study of the human capital management policies and practices of the Securities and Exchange Commission.
3. Amex Listing. A review of the American Stock Exchange's process for listing securities.
4. Money Laundering. A continuation of GAO's review of issues related to money laundering and the securities industry.
5. Unpaid Arbitration Awards. A review of the status of certain issues addressed in GAO's June 2000 report, *Securities Arbitration: Actions Needed to Address the Problem of Unpaid Awards*.
6. Foreign Entities of Proliferation Concern. A review of the U.S. Government's monitoring of foreign entities of proliferation concern operating in the U.S. capital markets.
7. Exchange Outages. A review of four separate market outages that occurred in June 2001 at the New York Stock Exchange, Nasdaq Market, and International Securities Exchange.
8. Small Entity Compliance Guides. A review of certain agencies' implementation of section 212 of the Small Business Regulatory Enforcement Fairness Act of 1996.
9. Financial Statement Audit Requirements. A review of whether financial statement audit requirements should be expanded to include certain agencies that are not required to have annual financial statement audits under the Chief Financial Officers Act or other laws.
10. Day Trading Update. A review of the progress made by the SEC, New York Stock Exchange, NASDR, Inc., and the day trading firms to address certain issues identified in the industry.
11. SEC Resources. A review of whether the SEC has sufficient resources to fulfill its statutory mission.
12. Extensible Markup Language. A review of federal activities and plans for implementing the Extensible Markup Language.
13. Enterprise Architectures. A review of enterprise architectures across the Federal Government.

14. Fraudulent Tax Schemes. A review of the IRS's efforts to ensure that fraudulent tax schemes are identified and properly dealt with and that taxpayers fulfill their tax obligations. While most of the work is being conducted at IRS, GAO was asked to look into how IR coordinates its efforts to combat tax schemes with other relevant federal enforcement agencies such as the SEC, DOJ, and FTC.