



U.S. Securities and Exchange Commission
Office of Inspector General
Office of Audits

Audit of the SEC's Filing Fees Program



March 29, 2013
Report No. 514



OFFICE OF
INSPECTOR GENERAL

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

MEMORANDUM

March 29, 2013

To: Kenneth Johnson, Chief Financial Officer, Office of Financial Management

From:  Carl W. Hoecker, Inspector General, Office of Inspector General

Subject: *Audit of the SEC's Filing Fees Program*, Report No. 514

This memorandum transmits the U.S. Securities and Exchange Commission (SEC), Office of Inspector General's (OIG) final report on our audit of the SEC's filing fees program. The audit was conducted as part of our continuous effort to assess management of the Commission's programs and operations and as a part of our annual audit plan.

The report contains four recommendations which, if fully implemented, should strengthen the Office of Financial Management's (OFM) internal controls over filing fees policies and procedures. OFM concurred with all the recommendations. Your written response to the draft report is included in Appendix V.

Within the next 45 days, please provide the OIG with a written corrective action plan that is designed to address the recommendations. The corrective action plan should include information such as the responsible official/point of contact, timeframes for completing required actions, and milestones identifying how you will address the recommendations.



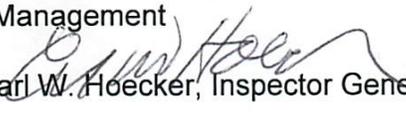
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The report contains four recommendations which, if fully implemented, should strengthen the Office of Financial Management's (OFM) internal controls over filing fees policies and procedures. OFM concurred with all the recommendations. Your written response to the draft report is included in Appendix V.

Within the next 45 days, please provide the OIG with a written corrective action plan that is designed to address the recommendations. The corrective action plan should include information such as the responsible official/point of contact, timeframes for completing required actions, and milestones identifying how you will address the recommendations.

Should you have any questions regarding this report, please do not hesitate to contact me. We appreciate the courtesy and cooperation you and your staff extended to our office.

Attachment

cc: Elisse B. Walter, Chairman
Erica Y. Williams, Deputy Chief of Staff, Office of the Chairman
Luis A. Aguilar, Commissioner
Troy A. Paredes, Commissioner
Daniel Gallagher, Commissioner
Jeff Heslop, Chief Operating Officer, Office of Chief of Operations
Kay Levy, Assistant Director, Disgorgements and Operations, Office of
Financial Management

Audit of the SEC's Filing Fees Program

Executive Summary

Background. The U.S. Securities and Exchange Commission (SEC or Commission), Office of Inspector General (OIG) contracted with Williams Adley, an Independent Public Accountant, to conduct an audit of the SEC's refund request processes and management of dormant accounts. The SEC receives monies through the collection of securities registration, tender offer, merger, and other fees (filing fees) from registrants. The SEC records the filing fees it collects as revenue. However, if registrants submit payments to the SEC that are in excess of the actual fee that is due for a filing, the SEC records the excess payment in the registrant's deposit liability account until it is earned by the SEC for future registrant filings. The SEC returns amounts in the deposit liability account to the registrant if the account has not had any activity against it for three years, or upon request from the registrant.

According to the fiscal years 2009 to 2011 U.S. Government Accountability Office's (GAO) financial statement audits of the SEC, GAO identified amounts recorded in registrant's deposit liability accounts that were not properly returned to registrants and amounts that were not properly recognized as revenue in the correct fiscal year. As a result GAO concluded that the SEC's controls over registrant deposits and filing fees collectively represented a significant deficiency.

Subsequently, GAO's fiscal year 2012 financial statement audit concluded that the SEC made notable progress in addressing previously reported internal control deficiencies. As a result of the SEC's increased controls and significant efforts to review and return amounts in dormant registrant accounts, as of September 30, 2012, GAO no longer considered the remaining control deficiencies in this area, individually or collectively, as a significant deficiency.

Objectives. Williams Adley's overall audit objectives were to determine whether (1) OFM had developed written policies and standard operating procedures covering oversight of the filing fees program; (2) filing fees staff are adequately trained and have the requisite skills needed to carry out their duties and responsibilities; (3) the EDGAR Momentum system used to track filing fees refund requests is appropriate; (4) filing fees backlogs and dormant accounts are properly administered and managed; and (5) filing fees refunds are disbursed by Treasury to the appropriate registrants as requested.

Results. Williams Adley identified areas where the SEC can strengthen its internal controls over the office's current filing fees policies and procedures. Specifically, the audit found that OFM needs to strengthen its guide, *OFM*

Reference Guide, Chapter 80.03, Filing Fee Revenue, August 2012, in the area of filing fees. During our system walk through, we found that OFM does not have a process for confirming registrant bank information. As a result, there is a risk for unauthorized requests for refunds. In addition, the office needs to strengthen its policies and procedures related to clearing cancelled refund checks to ensure a reasonable timeline is established. The lack of a reasonable timeline could delay refunding registrant refunds.

Further, the SEC needs to complete an analysis of older filing fee registrant transactions to ensure revenue is properly recognized in its financial reports. OFM has begun reviewing non-dormant registrant accounts, based on the expected costs and benefits for each account. However, OFM's review of non-dormant registrant accounts has not been fully completed. Completing this task would strengthen its internal controls over matching revenues to expenses in its financial reports.

Summary of Recommendations. Based on the results of our audit we recommended that within its budget constraints, the OFM should modify EDGAR usage to prevent unauthorized requests for refunds. We also recommended OFM implement a policy that includes a definitive and reasonable timeline for reconciling cancelled refund transactions. In addition, OFM should complete its review of non-dormant registrant accounts based on the cost-benefit analysis the office has devised.

Management's Response to the Report's Recommendations. OIG provided OFM with the formal draft report on March 20, 2013. OFM concurred with all recommendations in this report. OIG considers the report recommendations resolved. However, the recommendations will remain open until documentation is provided to OIG that supports each recommendation has been fully implemented.

OFM's response to each recommendation and OIG's analysis of their responses are presented after each recommendation in the body of this report.

TABLE OF CONTENTS

Executive Summary	iii
Table of Contents	v
Background and Objectives	1
Background	1
Objectives	3
Findings and Recommendations	4
Finding 1: Filing Fees Policies and Procedures Can be Improved	4
Recommendation 1	6
Recommendation 2	6
Recommendation 3	6
Finding 2: Review Procedures over Registrant Deposit Accounts Should be Completed	7
Recommendation 4	8
Appendices	
Appendix I: Abbreviations	10
Appendix II: Scope and Methodology	11
Appendix III: Criteria	13
Appendix IV: List of Recommendations	14
Appendix V: Management Comments	15

Background and Objectives

Background

The U.S. Securities and Exchange Commission (SEC or Commission), Office of Inspector General (OIG) contracted with Williams Adley, an Independent Public Accountant, to conduct an audit of the SEC's refund request processes and management of dormant accounts. The SEC receives monies through the collection of securities registration, tender offer, merger, and other fees (filing fees) from registrants. The SEC records the filing fees it collects as revenue. However, if registrants submit payments to the SEC that are in excess of the actual fee that is due for a filing, the SEC records the excess payment in the registrant's deposit liability account until it is earned by the SEC for future registrant filings. The SEC returns amounts in the deposit liability account to the registrant if the account has not had any activity against it for three years. These are known as dormant accounts. Conversely, non-dormant accounts had activity within the past three years. SEC also returns amounts upon request from the registrant.

In May 2011, the SEC changed the length of time that funds could remain inactive in the registrants' deposit liability account from six months to three years. The SEC stated that this was done to reduce inefficiency and the administrative burden for both account holders and SEC staff. Increasing this time also allows greater flexibility to registrants who overpaid the SEC for filings, owe future fees, and want to apply the overpayment to future registrant filing payments that are due to the SEC.

Section 6(b)(1) of the Securities Act of 1933 provides that "at the time of filing a registration statement, the applicant shall pay to the Commission a fee Section 6(b)(2) states that "[f]or each fiscal year, the Commission shall . . . adjust the rate required by" Section 6(b)(1). As of October 2012, the filing fees pursuant to Sections 6(b), 13(e) (repurchases of securities) or 14(g) (proxy solicitations and statements in corporate control transactions) of the Securities Act of 1933 – as well as for transaction filings pursuant to the Securities Exchange Act of 1934 – amount to \$136.40 per \$1,000,000 of the maximum aggregate price at which an applicant's securities are proposed to be offered. For aggregate prices below \$1,000,000, the filing fees are prorated (i.e., the amount of fees is calculated by multiplying the aggregate offering amount by .00013640).

The Office of Financial Management (OFM) is under the Office of the Chief Operating Officer and is led by the Chief Financial Officer. OFM provides assistance to the Office of the Chief Operating Officer in formulating the SEC's budget and authorization requests, monitoring the utilization of agency resources, and developing, overseeing, and maintaining the SEC's financial

systems. OFM's activities include cash management, accounting, fee collections, travel policy deployment, and oversight of budget justifications and budget execution. Returning excess filing fees is also an OFM activity. OFM's Filing Fees Branch (FFB) administers this function for the SEC. The FFB is headed by the Chief of Filing Fees and has 14 government employees and 12 contractor workers. According to prior U.S. Government Accountability Office's (GAO) financial statement audits of the SEC, GAO identified amounts that were recorded in registrant's deposit liability accounts that were not properly returned to registrants and amounts that were not properly recognized as revenue in the correct fiscal year. As a result, GAO concluded in the 2009 and 2010 financial statement audits that the untimely review and recognition of revenue in the incorrect period represented a significant deficiency in the SEC's internal control over the registrant deposit account balances, which resulted in misstating filing fees revenue and related registrant deposit liability account amounts in the current period. The SEC uses the EDGAR¹ system to collect, validate, index and accept the submissions of forms filed by registered companies. EDGAR Momentum, also known as Fee Momentum, is a financial system that maintains accounting information pertaining to filing fees. This system also interfaces with EDGAR.

As in prior years, the GAO fiscal year 2011 financial statement audit testing of filing fees transactions identified amounts recorded in the registrant deposit liability account that had not been properly returned to registrants and amounts that had not been properly recognized as revenue in the correct fiscal year. As a result GAO concluded that the SEC's controls over registrant deposits and filing fees collectively represented a significant deficiency.

Subsequently, the fiscal year 2012 financial statement audit concluded that the SEC made notable progress in addressing internal control deficiencies GAO previously reported. Specifically, OFM eliminated the backlog of registrant accounts that had no activity for three years by reviewing the account history, and where appropriate, returning funds to registrants or to the U.S. Department of the Treasury (Treasury). OFM developed additional controls that were put in place to monitor and review accounts that were approaching three years and had no activity. In addition, OFM implemented new controls such as strengthening review procedures over fee-bearing filings and testing procedures to estimate financial statement risk resulting from unrecorded revenues. As a result of the SEC's increased controls and significant efforts to review and return dormant registrant accounts, as of September 30, 2012 GAO no longer considered the remaining control deficiencies in this area, individually or collectively, as a significant deficiency. Also, we reviewed OFM's schedule of dormant accounts and interviewed FFB staff regarding the status of those accounts classified as dormant and concluded this issue is no longer a problem.

¹ EDGAR - Electronic Data Gathering Analysis and Retrieval System.

We identified some insignificant issues related to training in which improvements could be made. However, we believe that overall training of FFB staff is adequate and they have the requisite skills needed to carry out their duties and responsibilities.

Finally, we performed refund disbursement confirmation testing to achieve the goal of determining whether the disbursements from Treasury are sent to the right registrant as requested. Based on our testing and review, we did not identify any exceptions. The sample disbursements that were selected for our testing were sent to the appropriate registrants as requested.

Objectives

Objectives. Williams Adley's overall audit objective was to determine whether OFM's current filing fees policies and procedures are appropriate and internal controls exist to ensure filing fees to related assets and liabilities are safeguarded and properly accounted in the SEC's financial reports.

Specifically, our objectives were to determine whether:

- OFM had developed written policies and standard operating procedures covering oversight of the filing fees program;
- Filing fees staff are adequately trained and have the requisite skills needed to carry-out their duties and responsibilities;
- The EDGAR Momentum system used to track filing fees refund requests is appropriate;
- Filing fees backlogs and dormant accounts are properly administered and managed; and
- Filing fees refunds are disbursed by Treasury to the appropriate registrants as requested.

Additionally, Williams Adley was asked to identify best practices and suggest areas for improving the filing fees process, where appropriate.

Findings and Recommendations

Finding 1: Filing Fees Policies and Procedures Can be Improved

OFM should strengthen internal controls over policies and procedures to prevent unauthorized requests for filing fees refunds. Specifically, OFM's internal guide *OFM Reference Guide, Chapter 80.03, Filing Fee Revenue* (OFM Reference Guide), August 2012, for filing fees does not require FFB staff verify registrant's bank account information or that EDGAR sends an automated electronic notice to registrants indicating a request for a filing fee refund has been received. As a result, there is a risk that an unauthorized request for refunds could occur. In addition, OFM has not established timelines for clearing cancelled refund checks.

OFM Should Strengthen Internal Controls to Prevent Unauthorized Requests for Refunds

OFM does not have a process for confirming registrant bank information. A registrant can send a letter on the firm's letterhead to OFM to request a refund be sent to a physical address, or deposited into the registrant's bank account. A registrant can also initiate a written request in response to a letter/notice that OFM sends informing them their account will become dormant within 30 days, unless the registrant responds within 30 days to claim the refund. An account is considered dormant when there has been no deposit, withdrawal or other adjustment to it for three or more years.

When written requests are received from registrants seeking a refund, FFB staff verifies the letterhead of the request, Central Index Key (CIK) and address matches the registrant's information in the EDGAR system. However, our audit found that FFB staff does not verify the registrant's bank account information that is provided to process the refund payment, and EDGAR does not send an automated electronic notice to the registrant indicating a filing fees refund request was received, because OFM's Reference Guide covering FFB's policies and procedures does not require these procedures. Our audit determined that if registrants could initiate on-line requests through EDGAR using their CIK and a password, the risk that refunds could go to an unauthorized person or to an incorrect bank account would be reduced.

17 C.F.R. § 202.3a (e) provides guidance for processing registrants' refund requests. Specifically, the guidance states that,

Funds held in any filing fees account in which there has not been a deposit, withdrawal or other adjustment for more than three years will be returned to the account holder, and account statements will not be sent again until a deposit, withdrawal or other adjustment is made with respect to the account. Filers must maintain a current account address to assure the timely return of funds. It may not be possible to return funds from inactive accounts if the Commission is unable to identify a current account address of an account holder after making reasonable efforts to do so.

Because the OFM Reference Guide does not have policies and procedures related to confirming registrant bank information, OFM could be exposed to embezzlement or other fraudulent activities by paying a refund to an unauthorized individual. However, it should be noted that our audit did not reveal any instances of fraud.

OFM Lacks Established Timelines for Clearing Cancelled Refund Checks

OFM should strengthen its policies and procedures related to clearing cancelled refund checks to ensure a reasonable timeframe is established to reconcile cancelled checks. Cancelled refund checks typically are the result of bank closures, stale and dated checks, and changes to the registrant's banking account data.

We tested a sample universe of 18,181 refund transactions and found OFM's procedures to account for cancelled checks did not include a definitive timeframe for reconciling cancelled checks. This lack of policy resulted in OFM not reconciling and clearing \$3,096,706 in payments for cancellation transactions during fiscal years 2004 to 2010. The results of a GAO recommendation in the SEC's fiscal year 2010 financial statement audit resulted in OFM hiring contractors to reconcile the accounts. OFM returned the funds related to these cancelled refund checks to the registrant's accounts or to Treasury in fiscal years 2010 and 2011.

The OFM Reference Guide, Section 5.17, discusses refund cancellations and reissues. However, the procedures do not address the timeframe for clearing transactions. OFM not having a reasonable timeframe for clearing transactions could contribute to delays in refunding registrant funds and/or increases the risk the SEC could improperly account for refund cancellations and reissues.

Recommendation 1:

The Office of Financial Management should, within budget constraints, modify the Electronic Data Gathering and Retrieval System (EDGAR) to generate an electronic confirmation letter or notice to registrants when a request for a refund is made.

Management Comments. OFM concurred with this recommendation. See Appendix V for management's full comments.

OIG Analysis. We are pleased OFM concurred with this recommendation. OIG considers this recommendation resolved. However, the recommendation will remain open until documentation is provided to OIG that supports it has been fully implemented.

Recommendation 2:

The Office of Financial Management (OFM) should, within budget constraints, implement a policy requiring registrants initiate refunds on-line through the Electronic Data Gathering and Retrieval System (EDGAR) using a Central Index Key and password. Once this is done, OFM should phase out accepting written refund requests from registrants.

Management Comments. OFM concurred with this recommendation. See Appendix V for management's full comments.

OIG Analysis. We are pleased OFM concurred with this recommendation. OIG considers this recommendation resolved. However, the recommendation will remain open until documentation is provided to OIG that supports it has been fully implemented.

Recommendation 3:

The Office of Financial Management should include in its processes and procedures a definitive and reasonable timeline for reconciling cancelled refund transactions.

Management Comments. OFM concurred with this recommendation. See Appendix V for management's full comments.

OIG Analysis. We are pleased OFM concurred with this recommendation. OIG considers this recommendation resolved. However, the recommendation will remain open until documentation is provided to OIG that supports it has been fully implemented.

Finding 2: Review Procedures over Registrant Deposit Accounts Should Be Completed

OFM's review of non-dormant registrant accounts² has not been fully completed. In fiscal year 2013, OFM implemented a review process for non-dormant registrant accounts that is based primarily on conducting a cost-benefit analysis. While this process identifies unrecognized revenue and estimates the financial statement risk, the agency is still at risk of not properly reporting revenue because the review process for some older accounts have not been fully completed.

Filing Fees Backlog

GAO's fiscal year 2011 financial statement audit found the SEC had not effectively addressed previously reported internal control deficiencies in its process to timely recognize filing fees revenue. The fiscal year 2011 and 2010 financial audits identified \$2.3 million and \$1.9 million, respectively, in revenue that was not properly recognized.

During fiscal year 2011, OFM performed a risk assessment and identified the following risks related to filing fee transactions:

Risk 1 - Filing fee revenue is not complete because the registrant filed using the wrong form and, therefore, no fee was paid or a lower fee rate was used resulting in understated revenue.

Risk 2 - Revenue presented on the financial statements does not exist either because; (1) recorded revenue is not consistent with EDGAR or (2) revenue was recognized for filings that were not effective or revenue was recognized for an incorrect amount.

Risk 3 – Revenue is not complete because some amounts included in the registrant deposit liability should have been recognized as revenue in the current or a prior period.

In fiscal year 2012, OFM tested these risk areas and based on a statistical sample found that any errors would be within a tolerable limit for financial statements.

OFM is in the process of reviewing non-dormant registrant accounts, based on the estimated costs and benefits for reviewing each one. Specifically, for non-

² Non-dormant registrant accounts are accounts that had activity within the past three years.

dormant accounts with balance equal to or greater than \$1,000 or billings over \$100,000, FFB staff performs an audit of the account balance to identify and correct any errors in recording revenue over the life of the account. Phase one of this process is expected to be completed by the end of March 2013. Phase two is expected to be completed in March 2014. While OFM believes any errors that may be found in the registrant accounts will not be material to financial reporting, completing a review of cost-beneficial non-dormant accounts could confirm the amount of any errors.

For dormant registrant deposit accounts³ with balances equal to or greater than \$1,000, FFB staff performs an audit of the account balance to identify and correct any errors in recording revenue over the life of the account. For registrant deposit accounts with balances of less than \$1,000, an audit of the account balance is not performed.

FFB staff performs a number of steps to ensure revenue is presented fairly in the financial reports. For example, they will validate the:

- (1) Fee calculation in EDGAR,
- (2) Information in the official filings is correct and consistent with SEC rules, and
- (3) Filers have filed the appropriate forms for their business purpose.

In addition, they perform a number of compensating controls, such as reviewing unapplied cash receipts, monitoring accounts receivables, and performing a third review of transactions on a sample basis.

The SEC's *Staff Accounting Bulletin No. 101*, December 3, 1999 (SAB 101) provides guidance to auditors and public companies on recognizing, presenting and disclosing revenue in financial statements. According to SAB 101, revenue is recognized once the following criteria are met:

- There is persuasive evidence of an arrangement.
- Delivery has occurred or services have been rendered.
- The seller's price to the buyer is fixed or determinable.
- Collectability is reasonably assured.

FFB's staff completion of the independent reviews will help to ensure timely and accurate financial statement reporting of revenues.

Recommendation 4:

The Office of Financial Management should complete its review of non-dormant registrant accounts based on the cost-benefit analysis the office devised.

³ Dormant registrant accounts had no activity within the past three years.

Management Comments. OFM concurred with this recommendation. See Appendix V for management's full comments.

OIG Analysis. We are pleased OFM concurred with this recommendation. OIG considers this recommendation resolved. However, the recommendation will remain open until documentation is provided to OIG that supports it has been fully implemented.

Abbreviations

CIK	Central Index Key
EDGAR	Electronic Data Gathering Analysis and Retrieval System
FFB	Filing Fees Branch
GAO	U.S. Government Accountability Office
OFM	Office of Financial Management
OIG	Office of Inspector General
SAB 101	Staff Accounting Bulletin 101
SEC or Commission	U.S. Securities and Exchange Commission
Treasury	U.S. Department of the Treasury

Scope and Methodology

Williams Adley conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We determined that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Scope. The OIG contracted with Williams Adley to conduct a performance audit to identify weaknesses and areas for improvement with regard to the filing fees refund request process. We were asked to determine whether OFM's current internal controls, safeguards and verification requests for the filing fees refund process were in place and operating effectively. The scope of our audit covered filing fees refund requests that were made to the OFM's fee account services branch and were paid for the period January 2008 to March 2012. Williams Adley conducted its fieldwork at SEC Headquarters in Washington, D.C. from July 2012 to February 2013.

Methodology. To determine if OFM had developed written policies and standard operating procedures covering oversight of the filing fees program, Williams Adley reviewed SEC's regulations and policies and procedures pertaining to the Filing Fees Refund process. We also reviewed relevant federal laws, regulations and guidance. We reviewed SEC's Performance and Accountability Reports to determine the impact of GAO's findings on our audit procedures and to determine the status of applicable recommendations. We conducted interviews with select personnel in the Filing Fees and General Accounting Branch who had responsibilities related to the filing fees refund process. Williams Adley performed a walkthrough of the filing fees refund process including obtaining documentation used in the process. We identified areas in which improvements could be made.

To determine if filing fees staff are adequately trained and have the requisite skills needed to carry out their duties and responsibilities, Williams Adley reviewed OFM's staff training policies and plan. We conducted interviews with select personnel in the Filing Fees and General Accounting Branch who had responsibilities related to the OFM training process. We obtained, reviewed and analyzed the training material to determine if it was sufficient. We also reviewed and analyzed the FFB staff backgrounds and qualifications to determine their adequacy for the positions they held. Williams Adley identified some insignificant areas in which improvements could be made. However, we believe that overall training of FFB staff is adequate and that they have the requisite skills needed to carry out their duties and responsibilities.

To determine if the EDGAR Momentum system used to track filing fees refund requests is appropriate, Williams Adley reviewed related OFM and OIG documentation to help us obtain an understanding of the system used to track filing fees refund requests. We prepared a system process memorandum and conducted a system walkthrough with the FFB. We conducted interviews with the staff in FFB and select GAO personnel who had responsibilities related to the EDGAR Momentum system. We reviewed the system reference materials, the EDGAR documents, and sample reports. We reviewed and analyzed the EDGAR Momentum user roles. Williams Adley performed system access and change testing. We analyzed the Statement on Standards for Attestation Engagements No. 16 report for U.S. Bancorp Lockbox system and the potential impact on the audit. We did not identify areas in which improvements could be made.

To determine if filing fees backlogs and dormant accounts are properly administered and managed, Williams Adley conducted interviews with FFB select personnel who had responsibilities related to the administration of the filing fees backlogs and dormant accounts. We randomly selected three samples for testing from the population of refund transactions for the period January 2008 to March 2012: 45 refund transactions greater than \$1,000; 45 refund transactions less than \$1,000; and 15 negative refund transactions. We also judgmentally selected a sample of what appeared to be 20 duplicate transactions. We obtained, reviewed and analyzed the filing fees refund packet for the selected transactions. According to the SEC's fiscal year 2011 Performance and Accountability Report, as of September 30, 2011, there were 2,042 dormant registrant accounts that totaled over \$12 million. As of February 28, 2013, there were 22 dormant accounts that were more than 30 days past the three-year cutoff that amounted to \$129,000. Also, there were 69 accounts that became dormant that were less than 30 days past the three-year cutoff that amounted to \$51,000 and there were 118 accounts nearing dormancy that amounted to \$105,000. SEC hired contractors to assist in reducing the number of dormant accounts to a level that we no longer consider this issue to be a problem. We identified areas where improvements could be made.

To determine whether the disbursements from Treasury are sent to the appropriate registrants as requested, Williams Adley performed refund disbursement confirmation testing. From the population of the samples that were selected for testing, we identified 25 registrant initiated refund requests and used those 25 as our sample for Refund Disbursement Confirmation Testing. We compared the refund request packages and SEC reviews provided by EDGAR Momentum to Secure Payment System confirmations from Treasury to determine if the refund disbursements have been processed and sent to the registrants with the same name, address/bank account, amount and the disbursement dates that are after EDGAR Momentum submission dates.

Criteria

17 C.F.R. § 202.3a (e). “Funds held in any filing fees account in which there has not been a deposit, withdrawal or other adjustment for more than three years will be returned to the account holder, and account statements will not be sent again until a deposit, withdrawal or other adjustment is made with respect to the account. Filers must maintain a current account address to assure the timely return of funds. It may not be possible to return funds from inactive accounts if the Commission is unable to identify a current account address of an account holder after making reasonable efforts to do so.”

U.S. Securities and Exchange Commission SAB 101. Provides guidance to auditors and public companies on recognizing, presenting and disclosing revenue in financial statements. According to SAB 101 revenue is recognized once the following criteria are met:

- There is persuasive evidence of an arrangement.
- Delivery has occurred or services have been rendered.
- The seller’s price to the buyer is fixed or determinable.
- Collectability is reasonably assured.

List of Recommendations

Recommendation 1:

The Office of Financial Management should, within budget constraints, modify the Electronic Data Gathering and Retrieval System (EDGAR) to generate an electronic confirmation letter or notice to registrants when a request for a refund is made.

Recommendation 2:

The Office of Financial Management (OFM) should, within budget constraints, implement a policy requiring registrants initiate refunds on-line through the Electronic Data Gathering and Retrieval System (EDGAR) using a Central Index Key and password. Once this is done, OFM should phase out accepting written refund requests from registrants.

Recommendation 3:

The Office of Financial Management should include in its processes and procedures a definitive and reasonable timeline for reconciling cancelled refund transactions.

Recommendation 4:

The Office of Financial Management should complete its review of non-dormant registrant accounts based on the cost-benefit analysis the office devised.

Management Comments



OFFICE OF
FINANCIAL MANAGEMENT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

MEMORANDUM

TO: Carl Hoecker, Inspector General, Office of Inspector General

FROM: Kenneth Johnson, Chief Financial Officer, Office of Financial Management 

SUBJECT: Response to Draft, *Review of the SEC's Filing Fees Program, Report No. 514*

DATE: March 26, 2013

Thank you for the opportunity to respond to the draft report entitled *Review of the SEC's Filing Fees Program, Report No. 514*. The report included four recommendations for the Office of Financial Management (OFM). As described more fully below, we concur with all the recommendations in the report.

Recommendation 1: *The Office of Financial Management should, within budget constraints, modify the Electronic Data Gathering and Retrieval System to generate an electronic confirmation letter or notice to registrants when a request for a refund is made.*

OFM concurs with this recommendation. We believe that existing functionality within the Electronic, Data Gathering, and Retrieval (EDGAR) system can be leveraged to electronically notify registrants when a refund request is made. We will work with the relevant divisions and offices to implement this process.

Recommendation 2: *The Office of Financial Management (OFM) should, within budget constraints, implement a policy requiring registrants initiate refunds on-line through the Electronic Data Gathering and Retrieval System using a Central Index Key and password. Once this is done, OFM should phase out accepting written refund requests from registrants.*

OFM concurs with this recommendation. We will work with the relevant divisions and offices to implement a policy that requires registrants to initiate refund requests online through EDGAR.

Recommendation 3: *The Office of Financial Management should include in its processes and procedures a definitive and reasonable timeline for reconciling cancelled refund transactions.*

OFM concurs with this recommendation. We will refine our policy and procedures to establish a definitive and reasonable timeline for reconciling cancelled refund transactions.

Recommendation 4: *The Office of Financial Management should complete its review of non-dormant registrant accounts based on the cost-benefit analysis the office devised.*

OFM concurs with this recommendation. To implement this recommendation, OFM will need to review approximately 55,600 filings for about 4,800 non-dormant accounts. Given the large number of filings and accounts to review, we expect to be able to complete the review of these accounts by March 2014.

If you have any questions please feel free to contact me at (202) 551-4306 or Andrew Grimaldi, Chief of the Filing Fees Branch, at (202) 551-7304.

Audit Requests and Ideas

The Office of Inspector General welcomes your input. If you would like to request an audit in the future or have an audit idea, please contact us at:

U.S. Securities and Exchange Commission
Office of Inspector General
Attn: Assistant Inspector General for Audits (Audit Request/Idea)
100 F Street, N.E.
Washington D.C. 20549-2736

Tel. #: 202-551-6061
Fax #: 202-772-9265
Email: oig@sec.gov

SEC OIG Hotline

To report fraud, waste, abuse, and mismanagement at SEC,
contact the Office of Inspector General at:

Phone: 877.442.0854

Web-Based Hotline Complaint Form:
www.reportlineweb.com/sec_oig