



Office of Inspector General

Law Student Observer Program

June 29, 2006

Investigative Memorandum No. G-444

INVESTIGATIVE MEMORANDUM ON MANAGEMENT ISSUES (G-444)

June 29, 2006

To: Jeffrey Risinger
Linda Thomsen

From: Walter Stachnik



Re: Law Student Observer Program (OIG-444)

During an investigation recently conducted by the Office of Inspector General (OIG-444), we learned that unpaid interns who are not U.S. citizens work at the Commission through the SEC's Law Student Observer Program. The Division of Enforcement administers this program, although the interns work in various Commission divisions and offices. The interns are not SEC employees, but are required to abide by certain portions of the Commission's conduct regulations, including those pertaining to securities transactions, conflicts of interest and confidential information.¹

We found that improvements could be made in the procedures for selecting non-U.S. citizen interns and determining what access these individuals are given to non-public Commission information and databases.

The Office of Human Resources (OHR) processes the background check for the interns selected through the Law Student Observer Program. Currently, a three-step background check is performed for unpaid interns: a fingerprint check, FBI name check, and credit check.² No inquiry is performed into potential conflicts of interest, *e.g.*, whether the individual is an agent of, or is paid by, a foreign government.

¹ The number of interns has varied in the past. The fall 2006 program will include 48 interns, nine who are not U.S. citizens.

² Homeland Security Presidential Directive (HSPD) 12 and Federal Information Processing Standard (FIPS) 201 established a government-wide standard for the background investigations to be performed for employees and contractors who require long-term access to federally controlled facilities and/or information systems. According to the Office of Management and Budget (OMB) guidance on the implementation of HSPD 12 (M-05-24), applicability of the standard to volunteers is an agency risk-based decision.

Once they begin work, non-U.S. citizen interns are given access to the Commission's computer network, in the same manner as other interns and paid staff. These interns are also given access to non-public databases, as requested by the divisions or offices where they work. The unpaid interns do complete OIT security awareness training, and certify that they are subject to the Commission's rules concerning confidential or non-public information.

The Office of International Affairs (OIA) provided information regarding an informal "secondment" program for hosting professional staff from foreign securities authorities that might assist the OED and the Division of Enforcement in enhancing controls over the Law Student Observer Program. In particular, OIA has drafted guidelines for consideration of secondments that, among other things, require foreign professional interns to undergo a comprehensive background check conducted by the Department of State. In addition, OIA has begun to draft individual terms and conditions for professional foreign staff coming to the SEC on an unpaid basis, which address confidentiality and conflicts concerns.

In order to prevent possible conflicts of interest and to further protect the Commission's confidential and non-public information, Commission controls pertaining to non-U.S. citizen interns selected through the Law Student Observer Program should be improved.

Recommendation A

The OED, in consultation with the Division of Enforcement, OHR and OIA, should consider performing additional background and conflict of interest checks for unpaid interns, particularly those who are not U.S. citizens. In determining what background investigation will be performed for these interns, the provisions of Homeland Security Presidential Directive (HSPD) 12 and Federal Information Processing Standard (FIPS) 201 should be considered.

Recommendation B

Once the interns have been selected for a semester, the Division of Enforcement should provide the OED with a list of all incoming unpaid interns who are not U.S. citizens, and the divisions or offices where these interns will be working.

Recommendation C

The OED, in consultation with the Office of Information Technology (OIT), OIA, and the divisions and offices where non-U.S. citizen interns work, should determine what, if any, access these interns will be given to confidential or non-public Commission information and databases, and whether any additional controls should be implemented in this area.

Management Response

The OED agrees that better oversight of the background investigation process and a review of information access would strengthen the Law Student Observer Program and provide a better level of protection for the agency.

cc: Corey Booth
Peter Bresnan
Brian Cartwright
Scott Friestad
Joseph Gerrity
Darlene Pryor
Carol Smith
Ethiopsis Tafara
Peter Uhlmann
John Walsh