

U.S. Securities and Exchange Commission



Semiannual Management Report to Accompany the Semiannual Report of the Inspector General

for the period

October 1, 2009 through March 31, 2010

U.S. SECURITIES AND EXCHANGE COMMISSION

MANAGEMENT REPORT TO ACCOMPANY THE SEMIANNUAL REPORT OF THE INSPECTOR GENERAL (OCTOBER 1, 2009 – MARCH 31, 2010)

Section 5(b) of the Inspector General Act of 1978, as amended, requires the Chairman to transmit to the appropriate committees of Congress the Office of Inspector General's ("OIG's") Semiannual Report, along with certain statistical tables and any comments deemed appropriate. This Management Report presents this required information for the reporting period between October 1, 2009 and March 31, 2010.

I. OVERVIEW OF AUDIT FOLLOW-UP ACTIVITIES

This section provides a summary of actions taken by the U.S. Securities and Exchange Commission ("SEC") to follow up on OIG recommendations during the six-month reporting period.

Timely completion of audit recommendations is a priority for the SEC. In keeping with that focus, regular meetings and reports were provided to agency management on the status of audit resolution and corrective actions. In addition, the Office of the Executive Director ("OED") worked closely with division and office audit liaisons in obtaining supporting documentation to close numerous audit recommendations.

Table 1. Summary of SEC Audit Follow-Up Activity

<i>OIG Recommendations</i>	<i>Total</i>
Pending at the start of the period	202
Completed ¹ during the period	- 133
Issued during the period	+ 85
Pending at the end of the period	= 154

The SEC began the reporting period with 202 pending OIG recommendations.² During the reporting period, SEC offices completed corrective action on 133

¹ A completed recommendation is a recommendation on which management has completed corrective action. The SEC's established audit follow-up procedures require management to submit appropriate documentation of completed actions to OIG for review, and require concurrence by OIG or by the agency's designated audit follow-up official before a recommendation is formally closed in the agency's audit recommendation tracking system.

² Of the 208 recommendations reported as active in the Management Report for the period ending September 30, 2009, corrective action had already been completed on 11 of those recommendations as of

recommendations. Also during the period, OIG issued 85 new recommendations. As a result, the SEC ended the reporting period with 154 pending OIG recommendations, about 25% fewer than at the end of the previous reporting period.

In total, SEC offices have completed corrective action on 236 OIG recommendations over the past 12 months (April 1, 2009 to March 31, 2010).

Of the 133 recommendations on which corrective action was completed during the reporting period, 83 have to date been closed with OIG concurrence. The other 50 have been sent to OIG and a final closure decision is pending. Any disagreements would be resolved according to the agency's established audit follow-up procedures (SEC-R 30-2).

In addition to recommendations completed during this reporting period, OIG has to date affirmed management's decision to close 10 of the 11 remaining recommendations on which corrective action had been completed in the prior semiannual reporting period (ending September 30, 2009) and that were under OIG review as of October 1, 2009.

SEC management has made it a particular priority to take timely action with respect to lessons learned from the agency's failure to detect Bernard L. Madoff's ponzi scheme prior to 2008. In addition to the independent actions that SEC management has taken (detailed at www.sec.gov/spotlight/secpostmadoffreforms.htm) to reduce the chances that such frauds will occur or be undetected in the future, the SEC is also taking appropriate corrective action with respect to the 69 recommendations suggested by OIG in three audit reports issued between September and November 2009. As of March 31, 2010, SEC offices had completed corrective action on 35 of these recommendations, including 21 that have been closed by OIG and another 14 for which documentation of completed actions is under review by OIG. Since March 31, SEC offices completed corrective action on three additional recommendations contained in these three audit reports. As a result, in total, corrective action has to date been completed on 55% of the Madoff-related recommendations.

Of the 85 new recommendations issued by OIG in the reporting period, 48 of these resulted from six audit reports issued by OIG's Office of Audits. The other 37 recommendations, which were issued by OIG's Office of Investigations, arose out of work done in connection with nine investigations and preliminary investigations.

September 30 and were under review by OIG, leaving corrective action pending on 197 recommendations as of that date. In addition, during the reporting period, OED made a policy change to strengthen tracking of certain OIG investigative recommendations, which resulted in the tracking of five pending investigative recommendations issued prior to September 30, 2009 that had not been previously been tracked according to audit follow-up rules. These five investigative recommendations are now reflected in the totals for the September 30, 2009 period, and account for the difference in the number of pending recommendations previously reported.

II. REPORTS WITH MONETARY SAVINGS

Disallowed Costs

From time to time, OIG may find reason to question whether certain costs incurred by the agency are necessary, supported by adequate documentation, or in accordance with law, regulation, or contracts governing the use of funds. When such questioned costs are identified in OIG reports, SEC management is responsible for reviewing the facts in each such instance and determining, as part of its management decision, whether such costs should be officially disallowed. If the SEC agrees that such costs should not be charged to the government, the agency will then take appropriate action, such as commencing collection efforts, to recover the disallowed costs.

The Inspector General Act, at Section 5(b)(2), requires the SEC's semiannual Management Report to include statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the dollar value of disallowed costs. This table is provided below (see Table 2).

Table 2. Status of Final Action on Audit, Inspection, and Evaluation Reports with Disallowed Costs

<i>Audit, Inspection, and Evaluation Reports...</i>	<i>Number</i>	<i>Dollar Value</i>
A. For which final action had not been taken by the beginning of the reporting period (10/1/09)	1	\$23,566
B. On which management decisions were made during the reporting period (10/1/09 – 3/31/10)	0	\$0
C. For which final action was taken during the reporting period		
(i) Dollar value of disallowed costs that were recovered through collection, offsets, property in lieu of cash, or otherwise	1	\$3,490
(ii) Dollar value of disallowed costs that were written off by management	0	\$0
D. For which no final action has been taken by the end of the reporting period (3/31/10)	1	\$20,076

The table above reports on progress during the reporting period on the one pending audit report (Report No. 439) with disallowed costs. In addition to this audit report, OIG's Semiannual Report includes in its statistical summary an additional \$30,532 in monetary savings recommended by two OIG investigative reports. Information on management's actions with respect to these two investigative reports is

provided in the section that begins on the following page (“Status of Specific Reports, Including Investigative Reports”).

Funds Put to Better Use

From time to time, OIG may recommend specific dollar amounts that it believes the agency can save by improving the efficiency of agency operations. When such funds are identified in OIG reports, SEC management is responsible for reviewing the facts in each such instance and determining, as part of its management decision, whether to implement such recommendations. “Funds put to better use” refers to the specific dollar value of cost savings that the SEC has agreed can and should be implemented. If SEC management agrees, the agency will then take appropriate corrective action to address the specific recommendation.

The Inspector General Act, at Section 5(b)(3), requires the SEC’s semiannual Management Report to include statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the dollar value of recommendations that funds be put to better use by management agreed to in a management decision. This table is provided below (see Table 3).

Table 3. Status of Final Action on Audit, Inspection, and Evaluation Reports with Funds Put to Better Use

<i>Audit, Inspection, and Evaluation Reports...</i>	<i>Number</i>	<i>Dollar Value</i>
A. For which final action had not been taken by the beginning of the reporting period (10/1/09)	0	\$0
B. On which management decisions were made during the reporting period (10/1/09 – 3/31/10)	0	\$0
C. For which final action was taken during the reporting period		
(i) Dollar value of recommendations that were actually completed	0	\$0
(ii) Dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed	1	\$386,238
D. For which no final action has been taken by the end of the reporting period (3/31/10)	0	\$0

The table above summarizes the progress during the reporting period on the one pending audit report (Report No. 452) with funds put to better use, which was closed during the reporting period. Also during the reporting period, OIG issued a new audit report (Report No. 460) containing \$6,945,831 in recommended cost savings. A

management decision—on whether to sustain these recommended cost savings as funds put to better use—was pending as of the end of the reporting period. Once management issues a decision, OIG will then report the results of that decision (both the dollar value of recommendations agreed to by management and any costs not agreed to) in the statistical tables that are part of its Semiannual Report, and management for its part will report on its progress in addressing those funds put to better use in future Management Reports as part of this table.

Status of Specific Reports, Including Investigative Reports

In addition to the statistical tables provided above, which fulfill the requirements of the Inspector General Act, SEC management wishes to provide supplemental information on each of the pending OIG reports with disallowed costs or funds put to better use. This table appears on the following page (see Table 4). This table also includes supplemental information on cost savings recommended by the two OIG investigative reports that are identified in Table 2 of OIG’s Semiannual Report (“Reports Issued with Costs Questioned or Funds Put to Better Use”). This supplemental information is intended to make it easier to understand how management’s follow-up actions relate to the reports specifically mentioned in this table from OIG’s Report.

Table 4. Status of OIG Reports with Monetary Savings

<i>Report</i>	<i>Savings Identified by OIG</i>	<i>Amount Sustained by Management</i>	<i>Amount Collected or Written Off as of 3/31/10</i>	<i>Amount Remaining as of 4/1/10</i>	<i>Status of Final Action</i>
439, Student Loan Program (3/27/08)	\$129,336	\$129,336	\$109,260	\$20,076	Management to date has taken final action with respect to \$109,260 (85%) of the disallowed costs, which included the collection of \$3,490 during the reporting period. Of the five remaining former employees with balances due, the SEC has referred two to Treasury for debt collection, and has entered into payment plans with the other three to collect the remaining debt by 2011.
452, Disgorgement Waivers (2/3/09)	\$386,238	\$0	\$0	\$0	The Division of Enforcement conducted additional analysis to assess the collectability of \$386,238 from two defendants who had been previously required to pay disgorgement, but ultimately determined against further action because of the age of the case and the low likelihood of recovering any additional funds. This assessment was shared with the Inspector General during the period, and the matter was closed.
ROI-492 (3/18/09)	\$5,312	*	*	*	This Investigative Report uncovered instances of time and attendance abuse by an SEC employee. During the reporting period, management removed the employee from federal service, and a decision on whether to also sustain all or part of the \$5,312 in monetary savings was pending as of the end of the period.
ROI-504 (9/30/09)	\$25,000	*	*	*	This Investigative Report centered on allegations of misconduct by an SEC employee who received an early retirement buyout payment, and found that the former employee had violated SEC rules and policies regarding the use of SEC office equipment. A management decision on whether to pursue revocation of the buyout payment was pending as of the end of the period.
460, Interagency Acquisition Agreements (3/26/10)	\$6,945,831	*	*	*	This report was issued on March 26, several days before the end of the reporting period. Management in its comment letter concurred with recommendations 8 and 9, which ask the SEC to deobligate \$6.9 million in unused funds remaining on 23 closed Interagency Acquisition Agreements. As of the end of the reporting period, management was working to validate the exact amount of funds to be deobligated before issuing a final management decision.

* Indicates that a management decision on the amount of cost savings to be sustained was pending as of March 31, 2010.

III. REPORTS WITH PENDING CORRECTIVE ACTION

Reports More Than Six Months Old

The Inspector General Act, at Section 5(a)(3), requires OIG in its Semiannual Report to identify each significant recommendation more than six months old on which corrective action has not been completed. This information is presented in Table 3 of OIG's Semiannual Report.

We appreciate that OIG's presentation of these recommendations in Table 3 accurately indicates that SEC offices had, in fact, completed corrective action by March 31, 2010 on 65 of the 147 recommendations listed. As OIG notes in its report, 19 of these completed recommendations have to date been affirmed for closure by OIG; 39 are currently under OIG review; and seven are under discussion between management and OIG regarding closure.

Reports More Than One Year Old

The Inspector General Act, at Section 5(b)(4), requires the SEC's semiannual Management Report to include a statement with respect to audit reports on which management decisions have been made but final action has not been taken, other than audit reports on which a management decision was made within the preceding year.

At the start of the reporting period, there were 98 pending recommendations that were more than one year old or would become more than one year old if not completed by March 31, 2010. SEC offices completed corrective action on 75 (77%) of these during the reporting period. This includes 51 recommendations for which OIG has to date affirmed management's decision to close, and 24 recommendations that have been sent to OIG and for which a final closure decision is pending. The SEC ended the reporting period with 23 pending recommendations that are more than one year old.

Table 5 presents the required information on open audit reports that are more than one year old as of the end of the reporting period. The table lists 10 reports that contained 131 recommendations. Corrective action on 14 of these recommendations was pending as of March 31, 2010. With respect to the remaining 117 (89%), 101 have to date been closed with OIG concurrence, while 16 others were completed by March 31 and a final closure decision is pending.

Although the Inspector General Act does not require federal agencies to report on pending non-audit reports (such as inspections, evaluations, investigations, or memoranda to management) that are more than one year old, SEC management is also providing this supplemental information at Table 6. The table lists nine such reports that contained 56 recommendations. Corrective action on nine of these recommendations was pending as of March 31, 2010. With respect to the remaining 47 (84%), 38 have to date been closed with OIG concurrence, while nine others were completed by March 31 and a final closure decision is pending.

Table 5. Audit Reports Open More Than One Year

<i>Audit Report No./Title</i>	<i>Report Date</i>	<i>Funds Put to Better Use</i>	<i>Disallowed Costs</i>	<i>Status of Final Action</i>
412, Oversight of Public Company Accounting Oversight Board	9/28/06	\$0	\$0	Six of seven recommendations from this report have been closed. Management completed corrective action on the remaining recommendation in July 2009, and is presently in discussion with OIG regarding closure.
439, Student Loan Program	3/27/08	\$0	\$129,336	18 of 19 recommendations from this report have been closed. To address the one remaining recommendation, management is holding discussions with the National Treasury Employees Union on the process for handling excess Student Loan Program funds. The target completion date is calendar year-end.
438, Self Regulatory Organization (SRO) Rule Filing Process	3/31/08	\$0	\$0	18 of 19 recommendations have been closed. Management completed corrective action on the remaining recommendation in March 2010 and submitted documentation to OIG.
446A, Oversight of Bear Stearns and Related Entities: Consolidated Supervised Entities (CSE) Program	9/25/08	\$0	\$0	24 of 26 recommendations from this report have been closed. Management completed corrective action on the two remaining recommendations in October 2009 and March 2010, and is presently in discussion with OIG regarding closure.
446B, Oversight of Bear Stearns and Related Entities: Broker-Dealer Risk Assessment Program	9/25/08	\$0	\$0	Seven of 10 recommendations from this report have been closed. Management completed action on another recommendation, which relates to a new rulemaking. To address the remaining recommendations, the Broker-Dealer Risk Assessment system is being completely overhauled.
452, Disgorgement Waivers	2/3/09	\$0	\$0	Management completed corrective action on all eight recommendations and submitted documentation to OIG in March 2010.
450, Practices Related to Naked Short Selling Complaints and Referrals	3/18/09	\$0	\$0	Five of 11 recommendations from this report have been closed. The future-state Tips, Complaints, and Referrals system will permit the agency to close the remaining recommendations. Target completion date is June 30, 2010.
456, Transit Benefits Program	3/27/09	\$0	\$549	Nine of 10 recommendations from this report have been closed. To address the final recommendation, new Transit Benefit Subsidy policy and procedures have been developed for Headquarters employees, and are expected to be implemented by June 30, 2010.

<i>Audit Report No./Title</i>	<i>Report Date</i>	<i>Funds Put to Better Use</i>	<i>Disallowed Costs</i>	<i>Status of Final Action</i>
459, Regulation D Exemption Process	3/31/09	\$0	\$0	13 of 17 recommendations from this report have been closed. The Division of Corporation Finance completed corrective action on two recommendations in October 2009 and January 2010, and is presently in discussion with OIG regarding closure. To address the final two recommendations, an evaluation of authentication processes for the EDGAR system is underway. Any solution proposed may require a fundamental change in EDGAR's unique requirements. The estimated completion date is December 2010.
461, Review of Commission's Restacking Project	3/31/09	\$0	\$0	One of four recommendations from this report has been closed. Management completed corrective action on another recommendation in February 2010, and is presently in discussion with OIG regarding closure. With regard to the remaining two recommendations, management is preparing a new policy and procedures for issuance in June 2010.

Table 6. Inspection, Evaluation, and Other Reports Open More Than One Year

<i>Report No./Title (Type)</i>	<i>Report Date</i>	<i>Funds Put to Better Use</i>	<i>Disallowed Costs</i>	<i>Status of Final Action</i>
428, Electronic Documents Program (Evaluation)	7/25/07	\$0	\$0	17 of 19 recommendations from this report have been closed. To address the two remaining recommendations, the Division of Enforcement plans to issue new program guidance and standard operating procedures in conjunction with the deployment of the Commission's new e-Discovery system, which is scheduled for initial deployment at the end of the calendar year.
430, Contract Ratifications (Inspection)	9/25/07	\$0	\$0	Nine of 10 recommendations from this report have been closed. After the close of the reporting period, management provided documentation to OIG to close the final recommendation.
442, Enterprise Architecture (Inspection)	3/31/08	\$0	\$0	Five of seven recommendations from this report have been closed. To address the remaining recommendations, the process of measuring, analyzing, and reporting on the compliance of projects against the SEC Enterprise Architecture is expected to be completed by June 30, 2010.
455, Attorney Annual Certification of Bar Membership (Memorandum)	9/9/08	\$0	\$0	Management provided documentation in March 2010 to OIG to close the recommendation in this memorandum.

<i>Report No./Title (Type)</i>	<i>Report Date</i>	<i>Funds Put to Better Use</i>	<i>Disallowed Costs</i>	<i>Status of Final Action</i>
454, Enforcement's Draft Policies and Procedures Governing the Selection of Receivers, Fund Administrators, et al (Memorandum)	9/16/08	\$0	\$0	Management provided documentation in March 2010 to close the three recommendations in this memorandum.
464, Notification to OIG of Decisions on Disciplinary Action and Settlement Agreements Involving Subjects of OIG Investigations (Memorandum)	1/23/09	\$0	\$0	Management provided documentation to OIG in March 2010 to close the two recommendations in this memorandum.
ROI-431, Reinvestigation of Claims of Preferential Treatment (Investigative Report)	9/30/08	\$0	\$0	Management provided documentation to OIG in March 2010 to close the two recommendations in this investigative report.
ROI-477, Allegation of Perjury and Obstruction of Justice (Investigative Report)	3/17/09	\$0	\$0	Management provided documentation to OIG in March 2010 to close the recommendation in this investigative report.
ROI-481, Employee Securities Transactions (Investigative Report)	3/3/09	\$0	\$0	Seven of 11 recommendations from this investigative report have been closed. The agency is continuing its work with the Office of Government Ethics on a new regulation regarding employee securities transactions and to provide training to employees on the new Ethics Program System. Final action is expected to occur in July 2010.