

# Securities and Exchange Commission

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

for the period April 1, 2011 through September 30, 2011



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November 2011

**U.S. SECURITIES AND EXCHANGE COMMISSION  
MANAGEMENT REPORT TO ACCOMPANY THE  
SEMIANNUAL REPORT OF THE INSPECTOR GENERAL**

(April 1, 2011 – September 30, 2011)

Section 5(b) of the Inspector General Act of 1978, as amended, requires the Commission to transmit to the appropriate committees or subcommittees of the U.S. Congress a Management Report, containing certain statistical tables and any comments deemed appropriate, to accompany the Office of Inspector General's (OIG's) Semiannual Report. This Management Report presents the required information for the reporting period between April 1, 2011 and September 30, 2011.

**I. OVERVIEW OF SEC's AUDIT FOLLOW-UP ACTIVITIES**

Timely completion of audit recommendations is a priority for the SEC. Over the last six months, the Office of the Chief Operating Officer (OCOO) assumed responsibility for managing the SEC's audit follow-up activity. This function was previously performed by the Office of the Executive Director, which was eliminated during the reporting period. The Chief Operating Officer held bi-weekly meetings with select SEC offices to ensure timeliness of resolution decisions and corrective actions, and received regular progress reports from all SEC offices. The OCOO also consulted with the OIG, as necessary, to facilitate the audit resolution process. For the six-month period ending September 30, 2011, SEC offices closed 100 recommendations with the OIG's concurrence. The closed recommendations include 76 audit report recommendations and 24 investigative report recommendations for improvements in policies, procedures and internal controls. In addition, OIG's closure decision was pending at period-end for another 21 recommendations completed during the period.

Also during the reporting period, OIG issued 96 new recommendations for management action, resulting from 6 audit reports and 4 investigations and preliminary investigations. As a result, the SEC ended the reporting period with 157 pending OIG recommendations.

Since the end of January 2009, SEC offices have completed corrective action and closed 526 OIG recommendations. This rate of audit follow-up activity is roughly double that of the comparable preceding period, during which the agency closed 265 OIG recommendations.

During the reporting period, SEC offices completed final action and closed the following 13 OIG reports:

- *Practices Related to Naked Short Selling Complaints & Referrals* (#450, Mar. 18, 2009)

- *SEC's Role Regarding Oversight of NRSROs* (#458, Aug. 27, 2009)
- *OAS Procurement and Contract Functions* (#471, Sept. 25, 2009)
- *Allegations of Conflict of Interest* (ROI-496, Jan. 8, 2010)
- *SEC's IT Investment Process* (#466, Mar. 26, 2010)
- *FedTraveler System* (#483, Sept. 22, 2010)
- *SEC's Proposed Settlement with Bank of America* (ROI-522, Sept. 30, 2010)
- *Abusive and Intimidating Behavior within the SEC Security Branch* (ROI-537, Nov. 10, 2010)
- *Improper Travel Expenditures and Lack of Supervisory Review* (PI-09-113, Nov. 23, 2010)
- *Allegation of Misappropriation of Funds from SEC Recreation and Welfare Association* (#PI-10-50, Dec. 16, 2010)
- *Improprieties in the Selection of IT/Award of Sole Source* (ROI-523, Dec. 14, 2010)
- *Unauthorized Disclosure* (ROI-558, Mar. 31, 2011)
- *Alleged False Statements and Misuse of Government Resources* (PI-11-15, May 13, 2011)

## **II. REPORTS WITH MONETARY SAVINGS**

Sections 5(b)(2) and (3) of the Inspector General Act require the SEC Management Report to include statistical tables summarizing the progress that the agency has made in responding to audit reports, inspection reports, and evaluation reports containing “disallowed costs” and “recommendations that funds be put to better use.”

*Disallowed Costs.* Whenever OIG questions whether costs incurred by the agency are necessary, supported by adequate documentation, or in accordance with law, regulation, or contracts governing the use of funds, SEC management will review the facts and determine 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.

*Funds Put to Better Use.* Whenever OIG recommends specific dollar amounts that it believes can be saved by improving the efficiency of agency operations, SEC management will review the facts and determine 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 through appropriate corrective action.

Table 2 (below) presents the required information on audit, inspection, and evaluation reports with disallowed costs or recommendations that funds be put to better use.

**Table 1. Status of Final Action on Audit, Inspection, and Evaluation Reports with Disallowed Costs or Funds Put to Better Use**

<b>Audit, Inspection, and Evaluation Reports</b>	<b>Number</b>	<b>Dollar Value of Disallowed Costs</b>	<b>Dollar Value of Funds Put to Better Use</b>
A. For which final action had not been taken by the beginning of the reporting period (4/1/11)	2	\$6,241	\$2,177,387
B. On which management decisions were made during the reporting period (4/1/11 –9/30/11)	1		\$108,000
C. For which final action was taken during the reporting period	1		
(i) Dollar value of disallowed costs that were recovered through collection, offsets, property in lieu of cash, or otherwise		\$0	---
(ii) Dollar value of disallowed costs that were written off by management		\$0	---
(iii) Dollar value of recommendations that were actually completed <ul style="list-style-type: none"> <li>• \$108,000 (HSPD-12, Audit 481)</li> <li>• 870,384 (IAAs, Audit 460)</li> </ul>		---	\$978,384
(iv) Dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed:		---	\$0
D. For which no final action has been taken by the end of the reporting period (9/30/11) <ul style="list-style-type: none"> <li>• \$6,241 (Student Loan Program, Audit 439)</li> <li>• \$1,307,003 (IAAs, Audit 460)</li> </ul>	2	\$6,241	\$1,307,003

In addition to the information required by the Inspector General Act, SEC management is providing supplemental information (see Tables 2 and 3, on the following pages) on the status of management's ongoing actions with respect to individual OIG reports with disallowed costs or funds put to better use and employee suggestions for potential cost savings. This additional information is, among other things, intended to make it easier to understand how management's actions on these reports relate to the summary data included in Table 2 of the OIG Semiannual Report, which includes cost savings identified not only in OIG audit, inspection, and evaluation reports but also in investigative reports and employee suggestions.

**Table 2. Status of Specific OIG Reports with Questioned Costs or Recommendations that Funds be Put to Better Use (Includes Investigative Reports)**

<b>Report</b>	<b>Potential Savings Identified by OIG</b>	<b>Amount Sustained by Management</b>	<b>Amount Collected, Written Off, or Put to Better Use as of 9/30/11</b>	<b>Amount Remaining as of 10/1/11</b>	<b>Status of Final Action</b>
439, Student Loan Program (3/27/08)	\$129,336	\$129,336	\$123,095	\$6,241	Management to date has taken final action with respect to \$123,095 (95%) of the disallowed costs, which included the collection of \$8,135 during the reporting period. The one remaining debt—totaling \$6,241—has been referred to Treasury for collection.
ROI-492 (3/18/09)	\$5,312	\$1,733	\$1,369.83	\$363.17	This Investigative Report uncovered instances of time and attendance abuse by an SEC employee. Management removed the employee from federal service, and in April 2011, SEC referred the debt to Treasury for collection. As of September 30, 2011, \$363.17 remains to be collected.
460, Interagency Acquisition Agreements (3/26/10)	\$6,945,831	\$6,832,414	\$5,525,411	\$1,307,003	Management concurred with OIG’s recommendation to deobligate unused funds remaining on 23 expired Interagency Acquisition Agreements (IAAs). Management has taken final action with respect to 22 of these IAAs, and has reduced balances by a total of \$5,525,411, including \$870,384 during the reporting period. Management is working with the General Services Administration (GSA) on the remaining IAA in order to determine the amount that can be deobligated. Under SEC policy, unused funds on expired IAAs cannot be deobligated until the acquisition closeout process is complete, final invoices have been paid, and the parties agree on the amounts to be deobligated. Per GSA, closure of the remaining IAA is pending GSA’s audit of underlying contracts.
PI-09-113 (11/23/10)	\$701	\$586	\$586	\$0	The questioned costs from this Preliminary Investigation are associated with improper reimbursement of travel costs by two Regional Office employees. During the reporting period, management collected \$586 as disallowed costs.
ROI-538 (2/15/11)	\$5,821	\$5,821	\$5,821	\$0	This Investigative Report concluded that an SEC employee overcharged the government for compensatory time for travel and reimbursement for telephone calls, meals, and incidental expenses. Management sustained the costs during the prior reporting period and collected the debt this past spring.

Report	Potential Savings Identified by OIG	Amount Sustained by Management	Amount Collected, Written Off, or Put to Better Use as of 9/30/11	Amount Remaining as of 10/1/11	Status of Final Action
ROI-523 (12/14/10)	\$1,080,835	\$0	\$0	\$0	This Investigative Report examined whether there were any improprieties in the selection and award of a \$1 million contract for computer equipment. In response to the report, management took disciplinary action against an SEC employee. Additionally, the Office of Information Technology issued a policy directive in April 2011 requiring that, before acquiring any significant new technology, a technical review be performed to evaluate its merits and compatibility with the agency's enterprise architecture. Because the SEC has made productive use of the equipment in question over the past three years, namely to provide backup storage capacity, management did not sustain the amount identified by the OIG.
487, Time & Materials Contracts (12/22/10)	\$156,532	*	*	*	As part of its audit of certain time-and-materials contracts, OIG asked the SEC to review \$156,532 in payments made in 2007 and 2008 to a contractor for eight invoices that did not contain the same level of supporting documentation that was provided for the other 47 invoices that OIG reviewed. Management reviewed the invoices to determine whether any payments were unjustified and submitted a closure request to OIG in the prior period. OIG has informed SEC that its closure decision is pending due to an ongoing investigation.
481, HSPD-12 (3/31/11)	\$108,000	\$108,000	\$108,000	\$0	This audit report questioned whether the Office of Information Technology needs to employ two full-time registrars to validate the identity of SEC employees and contractors and ensure the successful completion of background checks prior to issuance of a HSPD-12 badge. The SEC agreed that these funds could be put to better use and began realizing these savings in July 2011.
ROI-553, Improper Actions Relating to the Leasing of Office Space (6/15/11)	\$556,811,589	*	*	*	This Investigative Report questioned a \$556.8 million lease that the SEC signed for space in downtown Washington, D.C. As of September 30, 2011, SEC has released the bulk of the space, and two other federal tenants have entered into leases. The SEC is currently working with GSA regarding the remaining space. The SEC has not paid any rent to date on this property.
492, Employee Recognition Program (8/2/11)	\$2,000	\$2,000	\$0	\$2,000	This report questioned whether there were any improprieties in the granting of a cash award to an SEC Schedule C employee in fiscal year 2010 considering OPM guidance restricts awards, bonuses, and similar payments to political appointees. Management agreed with OIG's recommendation and cancelled the personnel action. Based on the cancellation, debt recovery is underway.

\* Indicates that a final management decision on the amount of cost savings to be sustained was pending as of September 30, 2011.

### III. EMPLOYEE SUGGESTIONS WITH MONETARY SAVINGS

Section 966 of the Dodd-Frank Act requires that the Office of Inspector General establish an employee suggestion program, consider suggestions, and recommend appropriate action. During the reporting period, the Office of Inspector General provided management with three employee suggestions that resulted in cost savings.

**Table 3. Employee Suggestions for Cost Savings**

Employee Suggestion	Estimated Savings	Status
HRES-17, Search State Databases for Unclaimed Property Possibly Payable to the SEC	\$6,520	In response to this suggestion, the Office of Financial Management has implemented a process for redeeming unclaimed property payable to the SEC. As of September 30, 2011, the SEC has received three checks totaling \$6,520 as a result of completing the claim process.
ES11-09, Discontinue Printing and Mailing Employee Leave and Earnings Statements	\$40,000 annually	The Office of Human Resources has discontinued the printing and mailing of leave and earnings statements (LES) for employees, except those who specifically request to receive it. LES are now available to staff electronically.
ES11-20, Discontinue Hard Copy Version of Code of Federal Regulation	\$3,320	The Office of Administrative Services has prepared procedures that will be implemented when the Government Printing Office next offers the Code of Federal Regulation for sale through its rider process.

### IV. REPORTS MORE THAN ONE YEAR OLD WITH PENDING CORRECTIVE ACTION

Section 5(b)(4) of the Inspector General Act requires the SEC 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.

Table 4 (on the following page) presents the required information on OIG audit reports with open recommendations that are more than one year old as of the end of the reporting period. The table lists 8 pending audit reports that contained a total of 109

recommendations. As of September 30, 2011, management had successfully closed 83 of these recommendations, had requested closure of 7 additional recommendations, and was taking corrective action on the remaining 19 recommendations.

Although the Inspector General Act does not require federal agencies to report on non-audit reports (such as inspections, evaluations, investigations, or memoranda to management) with open recommendations that are more than one year old, SEC management is also providing this supplemental information (see Table 5). The table lists 6 such pending reports that contained a total of 20 recommendations. As of September 30, 2011, management had successfully closed 7 of these recommendations, had requested closure of 2 additional recommendations, and was taking corrective action on the remaining 11 recommendations.

**Table 4. Audit Reports Open More Than One Year**

Audit Report No./Title	Report Date	Funds Put to Better Use	Disallowed Costs	Status of Final Action
439, Student Loan Program	3/27/08	\$0	\$129,336	18 of 19 recommendations from this report have been closed. Management is addressing the final recommendation, which asked that a plan be established for handling excess student loan funds, in the ongoing collective bargaining negotiations with the National Treasury Employees Union. Final action will take place after completion of those negotiations.
446B, Oversight of Bear Stearns and Related Entities: Broker-Dealer Risk Assessment Program	9/25/08	\$0	\$0	Nine of 10 recommendations from this report have been closed. To address the remaining recommendation, the Broker-Dealer Risk Assessment system has been updated to support program reporting requirements to the extent possible without revision to rule 17-H. Additional management reporting capabilities can be addressed once rule 17-H is revised to require that data be submitted in XBRL structured data format. Based on these completed actions, management submitted a closure request for OIG's consideration late in the reporting period.
456, Transit Benefits Program	3/27/09	\$0	\$549	Nine of 10 recommendations from this report have been closed. Corrective actions were completed after the period ended for the one remaining recommendation, and OIG agreed to close the recommendation.
460, Management and Oversight of Interagency Acquisition Agreements	3/26/10	\$6,945,831	\$0	13 of 15 recommendations from this report have been closed. To address the final two recommendations, management is working with the GSA to determine the amount that can be deobligated on a certain IAA. Under SEC policy, unused funds on expired IAAs cannot be deobligated until the acquisition closeout process is complete, final invoices have been paid, and the parties agree on the amounts to be deobligated. Per GSA, closure is pending final audit of GSA's underlying contract.
474, Assessment of SEC's Bounty Program	3/29/10	\$0	\$0	Significant actions have already been taken, including the adoption of rules to implement the new program and the creation of a new Whistleblower Office in the Division of Enforcement. The Division has submitted two recommendations to OIG for closure and currently anticipates that final action on this audit will be completed during the first quarter of FY13.
480, Review of SEC's Section 13(f) Reporting Requirements	9/27/10	\$0	\$0	11 of 12 recommendations from this report have been closed. The OIG is considering a closure request submitted for the one remaining recommendation.
484, Real Property Leasing Program	9/30/10	\$0	\$0	Eight of 14 recommendations from this report have been closed. The SEC's leasing program is going through a transition as a result of the agency's recent MOU with GSA to manage the SEC's leasing activities. Closure requests have been submitted to OIG for three additional recommendations.
485, Assessment of the SEC's Privacy Program	9/29/10	\$0	\$0	15 of 20 recommendations from this report have been closed. A closure request has been provided to OIG for one recommendation. OIT will address the remaining recommendations in FY12 by fully implementing oversight tools acquired in FY11 and providing training to SEC staff on portable media disposal.

**Table 5. Inspection, Evaluation, and Other Reports Open More Than One Year**

<b>Report No./Title (Type)</b>	<b>Report Date</b>	<b>Funds Put to Better Use</b>	<b>Disallowed Costs</b>	<b>Status of Final Action</b>
PI-09-05, Access Card Readers in Regional Offices (Preliminary Investigation)	2/22/10	\$0	\$0	The National Treasury Employees Union has raised concerns regarding the installation of card readers in the regional offices. Resolution is pending between the union and management.
ROI-470, Allegations of Conflict of Interest and Investigative Misconduct (Investigative Report)	2/24/10	\$0	\$0	One of two recommendations from this report has been closed. Management submitted a closure request to the OIG for the one remaining recommendation before the period ended.
ROI-505, Failure to Timely Investigate Allegations of Financial Fraud (Investigative Report)	2/26/10	\$0	\$0	One of six recommendations from this report has been closed. Closure of this audit will require significant development work on the TCR and HUB systems. Due to budget constraints, the timing of the development of those components is uncertain. Assuming sufficient funds become available, the Division of Enforcement hopes to complete action in FY13.
PI-09-07, Employee Recognition Program and Grants of Employee Awards (Preliminary Investigation)	3/10/10	\$0	\$0	One of five recommendations has been closed. Management has completed action on one additional recommendation identified by OIG in this preliminary investigation, and documentation is currently under review by OIG. To address the other three recommendations, management has resumed work on a revised employee recognition policy, which was deferred until the OIG issued its September 2011 audit report on the SEC's Employee Recognition Program.
ROI-491, Allegations of Fraudulently Obtained Award Fees (Investigative Report)	3/29/10	\$0	\$0	Two of three recommendations from this investigative report have been closed. With respect to the one remaining recommendation, management is evaluating documentation provided by the servicing agency (GSA) to determine whether any award fees can be recouped. The GSA Inspector General had previously investigated the same matter, but closed its investigation without producing any findings.
ROI-524, Improper Use of Leave Without Pay to receive Full-time Benefits (Investigative Report)	7/23/10	\$0	\$0	Two of three recommendations from this report have been closed. Management provided documentation to OIG to support closing the one remaining recommendation after the period ended.