

# Securities and Exchange Commission

---

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

for the period October 1, 2012 through March 31, 2013



---

May 2013

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

(October 1, 2012 – March 31, 2013)

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 October 1, 2012 and March 31, 2013.

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

Timely completion of audit recommendations remains a priority for the SEC. For the six-month period ending March 31, 2013, management closed 51 recommendations with the OIG's concurrence. The closed recommendations include 47 audit report recommendations and 4 investigative report recommendations for improvements in policies, procedures and internal controls. Further, OIG was reviewing management's closure requests and documentation for 4 additional recommendations at period-end. Likewise, 17 more recommendations were submitted to OIG for closure in April, after the period ended.

Also during the reporting period, OIG issued 6 new audit reports and one investigative memorandum. None of the reports contain monetary findings.

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

- *Student Loan Program* (Audit 439, Oct. 1, 2007)
- *Examination of Issues Affecting the Office of Compliance Inspections and Examinations* (Audit 493, Oct. 14, 2010)
- *The Office of International Affairs Internal Operations and Travel Oversight* (Audit 508, Oct. 25, 2011)
- *Allegation of Theft and/or Improper Handling of SEC Blackberries* (Investigation #ROI-566, Sept. 12, 2011)

The Office of the Chief Operating Officer (OCCO) is responsible for the agency's systems of audit follow-up, resolution, and corrective action. During the reporting period, the OCCO held regular 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 maintained continuous liaison with the Office of the Inspector General to facilitate the resolution and closure process.

## **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 1 (below) presents the required information on audit, inspection, and evaluation reports with disallowed costs or recommendations that funds be put to better use. The SEC began and ended the period with no open reports with monetary findings.

**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 (10/1/12)	0	\$0	\$0
B. On which management decisions were made during the reporting period (10/1/12 – 3/31/13)	0	\$0	\$0
C. For which final action was taken during the reporting period	0		
(i) Dollar value of disallowed costs that were recovered through collection, offsets, property in lieu of cash, or otherwise	0	\$0	\$0
(ii) Dollar value of disallowed costs that were written off by management	0	\$0	\$0
(iii) Dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed	0	\$0	\$0
D. For which no final action has been taken by the end of the reporting period (3/31/13)	0	\$0	\$0

**III. 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 2 (on the following page) presents the required information on OIG reports with open recommendations that are more than one year old as of the end of the reporting period. The table lists 14 open reports that contained a total of 146 recommendations. As of March 31, 2013, management had successfully closed 116 (80%) of these recommendations with OIG’s concurrence.

**Table 2. Audit, Evaluation, Inspection and Other Reports Open More Than One Year**

Audit Report No./Title	Report Date	Funds Put to Better Use	Disallowed Costs	Status of Final Action
474, Assessment of SEC's Bounty Program	3/29/10	\$0	\$0	Eight of nine recommendations from this report have been closed. Management provided OIG with a formal request and documentation to close the remaining recommendation after the period ended.
480, Review of SEC's Section 13(f) Reporting Requirements	9/27/10	\$0	\$0	Eleven of twelve recommendations from this audit have been closed. The Division of Investment Management and Office of Information Technology are in the final stages of completing the project to address the remaining recommendation. Live testing is being conducted of the new Form 13F. In addition, the IT Office has publicly posted on its "Information for EDGAR Filers" webpage both draft Form 13F XML technical specifications and proposed revisions to the EDGAR Filer Manual. The Division similarly has alerted the public about the transition to the new form by publicly posting on its webpage a "Notice to EDGAR Form 13F Filers." The target completion date is FY13.
482, Compliance with Exemptive Orders	6/29/11	\$0	\$0	Three of five recommendations from this report have been closed. With respect to the two remaining recommendations, management continues to work on hiring staff to develop the procedures recommended by the OIG.
485, Assessment of the SEC's Privacy Program	9/29/10	\$0	\$0	Seventeen of twenty recommendations from this report have been closed. The Office of Information Technology submitted one recommendation to OIG for closure after the period ended. OIT is addressing the remaining recommendations by transitioning to new software, integrating a new object-level auditing package into network resources, and implementing new policy. The target completion date is December 2013.
489, Federal Information Security Management Act (FISMA) 2010 Assessment	3/3/11	\$0	\$0	Seven of eight recommendations from this report have been closed. The project to link HSPD-12 PIV cards to SEC's logical access systems is ongoing and dependent on several major upgrade projects. Major dependencies completed in 2012 and early 2013 include migration to Windows 7 desktops, Windows 2008 servers and Microsoft AD infrastructure. The target completion date is December 2013.
491, Review of Alternate Work Arrangements, Overtime Compensation, and COOP Related Activities at SEC	9/28/11	\$0	\$0	Twenty-five of twenty-seven recommendations from this audit have been closed. The two remaining recommendations are part of ongoing discussions with the Union on revisions to the collective bargaining agreement.
492, Employee Recognition Program	8/2/11	\$0	\$0	Eighteen of nineteen recommendations from this report have been closed. Management is in discussion with the Union on the remaining recommendation.
497, Continuous Monitoring	8/11/11	\$0	\$0	Ten of thirteen recommendations from this audit have been closed. Final action was delayed on the remaining recommendations while the SEC moved its Data Center. The final policy is pending publication, and final system configuration and testing will follow shortly. The target completion date is September 2013.

Audit Report No./Title	Report Date	Funds Put to Better Use	Disallowed Costs	Status of Final Action
500, Assessment of SEC's Systems and Network Logs	3/16/12	\$0	\$0	Six of eight recommendations from this report have been closed. Final action was delayed on the remaining recommendations while the SEC moved its Data Center. Final policy is awaiting formal publication. The target completion date is June 30, 2013.
501, Federal Information Security Management Act 2011 Assessment	2/2/12	\$0	\$0	Three of thirteen recommendations have been closed. The Office of Information Technology submitted three recommendations to OIG for preliminary review for closure after the period ended. The remaining recommendations are being addressed as part of a comprehensive OIT security policy review project. The target completion date is September 30, 2013.
PI-09-05, Access Card Readers in Regional Offices	2/22/10	\$0	\$0	Management completed the installation of entry and exit card readers in all SEC regional offices in 2012. However, management and the Union have been unable to reach agreement to turn on the card readers. Management plans to file this matter with the Federal Service Impasses Panel for resolution.
ROI-505, Failure to Timely Investigate Allegations of Financial Fraud	2/26/10	\$0	\$0	Five of six recommendations from this report have been closed. Closure of the remaining recommendation requires significant development relating to the Tips Complaints and Referral and HUB systems. The changes needed to complete the TCR/HUB interface are being assessed and prioritized against other development priorities for these applications. The Enforcement Division plans to complete action in FY13.
ROI-544, OIT Contract Employee Given Access to SEC Buildings and Computer Systems for Several Weeks before Background Investigation Clearance	1/20/11	\$0	\$0	Three of four recommendations from this report have been closed. Significant measures have been taken to address the remaining recommendation, including a review of all employee and contractor personnel security files and implementation of new policy and procedures. A verifying audit is underway and is scheduled to be completed in September 2013.
ROI-551, Allegations of Unauthorized Disclosure of Non-Public Information	3/30/11	\$0	\$0	The Office of Information Technology and OIG have considered the cost estimates for implementing the recommendation. The IT Office is presently working with the Office of Financial Management to obtain the required funding.