

# COMMISSION RESPONSES TO INVESTOR INQUIRIES

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## **EXECUTIVE SUMMARY**

*Our audit of Commission responses to investor inquiries found that the staff responds to investor inquiries timely. We did not identify any instances of the Office of Investor Education and Assistance (OIEA) providing investors with inaccurate information.*

*We are making several recommendations to improve the inquiry response process including: evaluating the effectiveness of the inquiry response process, improving search results, increasing the use of technology, quality assurance reviews, and separation of duties. During the audit, we also discussed other issues with senior management.*

*Commission management generally concurred with our recommendations.*

## **SCOPE AND OBJECTIVE**

Our audit objective was to evaluate the effectiveness and efficiency of Commission responses to investor inquiries. During the audit, we interviewed and surveyed Commission staff, reviewed Commission web pages, conducted research on best practices for responding to customer inquiries, and analyzed judgment samples of investor inquiries received by OIEA and the related responses. We did not review responses to investor inquiries received by the field offices.<sup>1</sup> We also did not evaluate responses to investor complaints.<sup>2</sup>

The audit was performed from April 2003 to September 2003 in accordance with generally accepted government auditing standards.

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<sup>1</sup> We did not review responses from the field offices because OIEA receives the vast majority (approximately 81%) of investor inquiries.

<sup>2</sup> Our most recent audit on the Investor Education and Assistance Program (IEAP) primarily focused on the complaint process (Audit No. 288 issued in April 2000).

# BACKGROUND

## General Information

The Investor Education and Assistance Program (IEAP) consists of 35 staff in OIEA and 14 Investor Assistance Specialists in the field offices. The IEAP:

- Responds to investor inquiries,
- Assists investors with complaints, and
- Conducts investor educational activities.

Investors can obtain answers to their questions either by using the Commission's web site to locate information that the staff has posted<sup>3</sup>, or by asking questions to the staff by telephone calls, letters, faxes, and e-mails.

In fiscal year 2003, according to the IEAP's tracking system (Agency Correspondence Tracking System ACTS+), the IEAP staff received approximately 47,500 investor inquiries. OIEA received approximately 81% of these inquiries; the field offices received the remainder. Agency wide, the inquiries were mainly received by telephone calls (54%) and e-mail (42%).

## Investors Researching Answers On-Line

In addition to numerous online publications, investor alerts, interactive tools, and other materials in the "Investor Information" section of the Commission's web site, OIEA has posted and maintains two web pages specifically designed to help investors find instant answers to securities-related questions by themselves.<sup>4</sup> Investors can access both of these web pages through the "Fast Answers" link on the Commission's home page and other links on various OIEA web pages. These two pages can be described as follows:

- **Key Topics:**  
This is an alphabetical listing of approximately 300 subjects. An example of this web page can found in Appendix A. The web address for this web page is <http://www.sec.gov/answers.shtml>; and
- **Frequently Asked Questions (FAQ):**  
This is a database of approximately 1,200 frequently asked questions and answers. Investors submit a question and receive instant answers. If an investor cannot find an answer or wishes to ask a follow-up question, he or she has the option of submitting an e-mail to OIEA. An example of this web page can be found in Appendix B. The web address for this web page is <http://sec.broaddaylight.com/sec/index.html>.

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<sup>3</sup> In these situations, there is no staff involvement once the information is posted, except for periodic monitoring to ensure that the information is current.

<sup>4</sup> In addition, the Commission's Home page ([www.sec.gov](http://www.sec.gov)) provides a research capability, as discussed later in the report.

According to the Commission's Office of Information Technology, in fiscal year 2003, the Key Topics web page received 34,158 hits.

Because of security concerns, when investors use FAQ, they are actually on a vendor's web page and are using the vendor's software. According to the vendor, the FAQ web page received 698,297 hits and 124,164 unique visitors in fiscal year 2003.

During the audit, OIEA began to reorganize its web pages to make it easier for investors to find information. For example, OIEA revised the "Online Publications" page so that it not only gave investors an alphabetical listing of the Commission's investor publications, but also allowed investors to browse publications by subject and to conduct a key word search solely within the "Investor Information" section of the Commission's website.

## **Staff Processing of Investor Inquiries**

### ***Telephone Calls***

Two telephone numbers are provided for investors to contact OIEA: (800) SEC-0330, and (202) 942-7040. A telephone tree (*e.g.*, press "3" for educational publications) and an Automatic Call Distribution (ACD) System manage the incoming telephone calls.

The 800 telephone number provides general information to the public. Upon selecting the inquiry option, investors are transferred to the 942-7040 telephone number, where they can speak with an Investor Assistance Specialist.

The field offices also have telephone numbers for investors. OIEA is considering requesting a Commission-wide telephone system for inquiries.

### ***E-Mails***

Investors submit e-mails to OIEA by writing directly to help@sec.gov or sending their questions indirectly through the Fast Answers FAQ feature. On a daily rotating basis, one of four staff attorneys answer the e-mails. E-mails are typically answered the day that they are received. After responding, the attorneys forward a copy of the inquiry and the response to their Branch Chief for review. Senior OIEA management also periodically reviews selected inquiries and responses. Investors also send e-mails to the field offices.

### ***Letters and Faxes***

On a daily rotating basis, OIEA Branch Chiefs receive investor letters and faxes and assign them to an Investor Assistance Specialist for a response. The Branch Chief reviews the response before it is sent to the investor.

OIEA attempts to respond to letters and faxes received by the Chairman's Office (and subsequently forwarded to OIEA) within 5 days. The goal for other letters and faxes is 30 days.

The field offices also respond to investor letters and faxes and have set various time goals for the response. The quality assurance review process varies by field office (this issue is discussed later in this report).

## AUDIT RESULTS

We found that the staff generally responds to investor inquiries timely. We did not identify any instances of OIEA providing investors with inaccurate information.

We are making several recommendations to improve the inquiry response process including: evaluating the effectiveness of the inquiry response process, improving search results, increasing the use of technology, quality assurance reviews, and separation of duties.

### MEASURING THE EFFECTIVENESS OF THE INVESTOR RESPONSE PROCESS

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OIEA needs additional management information to evaluate the effectiveness of the Fast Answers web pages. For instance, important measures of effectiveness that OIEA cannot currently evaluate include:

- How often investors research Fast Answers and successfully obtain answers to their questions;
- How often investors submit a question to the staff because a Fast Answer response was not adequate or available; and
- How often investors submit a question to the staff even though a Fast Answer was available and adequate.

Because of technology and other issues, OIEA does not have information on the number of investor questions submitted to FAQ. Instead, the vendor provides OIEA with the number of answers provided. However, one question can generate up to 30 answers (some of these answers may not be applicable, as discussed later in our report). During the audit, OIEA requested that its vendor provide additional data concerning the raw number of questions that investors submit to FAQ and the number of e-mails generated through FAQ.

Also, OIEA does not ask investors to rate their satisfaction with either the Fast Answers web pages or responses provided by the staff. According to OIEA, the FAQ web page previously allowed investors to submit comments. However, many investors used this space to ask additional questions rather than provide feedback. OIEA and the field office Investor Assistance Specialists stated that they sometimes receive unsolicited feedback from investors. This feedback, while valuable, is not systematic.

### **Recommendation A**

OIEA, in consultation with the field offices and the vendor, should develop methods to obtain additional management information on the effectiveness of the Fast Answers web pages, as well as overall investor satisfaction with the investor response process.

During the audit, OIEA began to implement this recommendation.

## **AUTOMATING SEARCH RESULTS**

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### **FAQ Web Page**

We believe that the process for providing useful online information for investors could be improved. We estimated that approximately 50% of the e-mails OIEA receives come from investors who first visited the FAQ web page.

According to our research into online databases, the most effective “instant answers” systems provide only responses that pertain to the inquiry. We found that the FAQ system can often provide irrelevant responses to inquiries, depending on the question asked and whether the search is limited to a specific category (*e.g.*, About the SEC, SEC Rules & Laws, Terms & Definitions).

We believe that the current FAQ categories and page layout might confuse some investors. Further, the FAQ system does not allow smart searches (*e.g.*, using symbols “\*” and words “and, or”) to improve the accuracy of searches. During the audit, OIEA began working with the vendor to improve the layout of the FAQ page.

### **Recommendation B**

OIEA, in consultation with the vendor and others (*e.g.*, web page designers), should consider ways to improve the automated search capabilities, as discussed above.

### **Commission Home Page**

Investors seeking information can also use the main search field on the Commission’s home page to locate information. We found that the results provided on the Commission’s home page were not user friendly. Depending on the topic searched, hundreds of results were given. Moreover, the results were not categorized (*e.g.*, all search results involving litigation releases were not grouped together).

During the audit, the Commission’s Web Committee implemented a more user-friendly approach for using the main search field on the Home Page. Searches can now be performed within certain categories (*e.g.*, Corporation Finance). Thus, we are not making a recommendation regarding this issue.

## ACTS+ CODING

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ACTS+ is the database that the IEAP uses to record information about the investor and the topic of the inquiry. Before the audit, IEAP staff had only a limited number of inquiry codes from which to select, including a “general” code that the staff used when a more specific code did not exist or the staff thought it most appropriate. As a result, inquiry information could not be effectively used to identify:

- When new online information is needed because the staff is receiving questions about a topic for which there is no information available on the Fast Answers web pages. Currently, OIEA relies on non-quantitative observations to identify when new or modified information is needed on the web pages.
- When investor questions are received on a topic, even though relevant information is available on the Fast Answers web pages. This situation could indicate that the online information is not adequate or that an opportunity to use online research was missed.
- When additional education efforts are appropriate (*e.g.*, a new educational brochure).

During the audit, OIEA revised its ACTS+ codes for complaints and inquiries to make them more specific, useful, and current. As a result, the codes can now be used to identify opportunities to increase investor use of the Fast Answers web pages (this issue is discussed below).

### ***Recommendation C***

OIEA should complete its revisions to the complaint and inquiry codes and discuss the codes with the field offices when the revisions are complete.

OIEA did not record most telephone inquiries in ACTS+. However, these inquiries were reflected in OIEA’s workload data because the ACD system tracks the number of telephone calls received.

### ***Recommendation D***

OIEA should consider the costs (*e.g.*, staff resources) and benefits (*e.g.*, improved intelligence) for recording telephone inquiries in ACTS+.

During the audit, OIEA implemented this recommendation.

## INCREASING THE USE OF TECHNOLOGY

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According to our research, many companies in a variety of industries have used web-based approaches to achieve a significant reduction in questions submitted to company representatives. However, the IEAP has not experienced a similar reduction in the number of inquiries received by the staff after the introduction of the Fast Answers web pages.

During fiscal years 2000 to 2003, according to OIEA, the IEAP received approximately 42,000; 40,000; 49,500; and 47,500 questions respectively. One reason for the continued large number of inquiries could be the major developments in the securities markets during this period. These included corporate accounting frauds, Wall Street investigations, and the general decrease in stock valuations. Also, OIEA believes that the introduction of the Fast Answers web pages increased the exposure of the IEAP and generated more inquiries.

We found some instances where inquiries received by the staff apparently could have been answered using the Fast Answers web pages (*e.g.*, questions involving bankruptcy).

Investors conducting research using the Fast Answers web pages offers several advantages over staff answering letters, telephone calls, and e-mails. Information provided through web pages is generally more cost-effective and timely. Also, information is more likely to be carefully reviewed and standardized before posting on-line.

During the audit, we identified some concepts that could reduce the number of inquiries received by the staff:

- Current technology allows investors to research information from a Fast Answers equivalent using the telephone (through a voice recognition system). Thus, an investor making a telephone call could try to research information on Fast Answers before speaking with an Investor Assistance Specialist.

According to a survey (ProSci Benchmarking Report, 1999, page 26) of 112 companies in various industries and countries, 75% of the companies using a voice recognition system reported a decrease in telephone calls that needed to be answered by a person. The decrease generally ranged from 6% to 30%.

- When an investor submits an e-mail inquiry, a computer-generated response could be immediately sent back to the investor informing him or her of the Fast Answers. If the investor had tried (or does not want to try) the Fast Answers, he or she would so indicate. The e-mail inquiry would then be sent to the staff for a response.

OIEA management believes, based on their experiences with investors and their understanding of the current state of voice-recognition technology, that these concepts might not provide an appropriate level of customer service at this time. OIEA believes that many investors would be frustrated by a delay in speaking with or e-mailing the staff. Because we have no evidence to either confirm or refute OIEA's opinion, we are not making a recommendation regarding these concepts.

## TELEPHONE GREETINGS

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We found that the telephone greeting for the field offices generally did not mention that answers to many investor questions could be found on the Commission's web site. OIEA's telephone numbers did mention the Commission's web site.

### **Recommendation E**

The Division of Enforcement<sup>5</sup>, in consultation with OIEA and the field offices, should ensure that the investor telephone greeting in the field offices is changed, as discussed above.

## **QUALITY ASSURANCE REVIEWS**

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OIEA Branch Chiefs review the Investor Assistance Specialists' responses to inquiries received by letter or fax before the responses are sent out. E-mail responses are prepared by an OIEA attorney and are reviewed by a Branch Chief after they are sent to investors. In the field offices, the quality assurance review process varies.

Neither OIEA nor the field offices monitor (*i.e.*, record or listen to) telephone calls from investors for quality assurance purposes. According to the ProSci survey mentioned above (on page 18), approximately 70% of the companies surveyed monitor telephone calls at least once a week, with many monitoring on a daily basis.

According to OIEA, it has considered the appropriate level of quality assurance. OIEA believes that their current procedures are appropriate, given the costs and benefits. Therefore, we are not making a recommendation regarding this issue for OIEA, but we are raising it for Enforcement's consideration.

### **Recommendation F**

The Division of Enforcement, in consultation with OIEA and the field offices, should determine the appropriate level of quality assurance reviews throughout the field offices for the various ways that investors submit inquiries.

## **SEPARATION OF DUTIES**

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In OIEA, the Investor Assistance Specialists record in ACTS+ certain information (*e.g.*, the entity and product involved (if any), an appropriate code(s), status of the inquiry) for letters, faxes, and telephone calls<sup>6</sup>. Administrative staff record similar information for e-mails. According to the Investor Assistance Specialists in the field offices that we interviewed, they generally record this type of information regardless of how the inquiry is received.

The risk posed by not separating the responses and record-keeping duties is that an Investor Assistance Specialist could, for instance, close an inquiry in ACTS+ without providing the investor with a response. Separation of duties is a standard internal control procedure in which the responsibility for executing a transaction, recording the transaction, and maintaining custody of assets resulting from the transaction is assigned to different individuals.

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<sup>5</sup> The Division of Enforcement has oversight responsibility for the Commission's field offices.

<sup>6</sup> During the audit, OIEA began recording all telephone calls in ACTS- see Recommendation D.

According to OIEA, it has considered the costs and benefits of having someone other than the Investor Assistance Specialists perform ACTS+ data entry for inquiries received by letter, fax, or telephone. OIEA believes that the current procedure is appropriate given the costs and benefits. Therefore, we are not making a recommendation regarding this issue for OIEA, but we are raising it for Enforcement's consideration.

### ***Recommendation G***

The Division of Enforcement, in consultation with OIEA and the field offices, should consider having someone other than the Investor Assistance Specialist (*e.g.*, administrative staff) record inquiry information in ACTS+.

## **APPEARANCE OF A COMMISSION ENDORSEMENT**

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During the audit, we noticed that the FAQ web page contained the company logo of the vendor. If investors "clicked on the logo," they were taken to the vendor's home page. This home page included case studies of the vendor's clients, including the Commission. In addition, the vendor's home page included a picture of the Commission's seal.

We brought this matter to the attention of OIEA and the Commission's Ethics Office. We were concerned with the appearance of the Commission endorsing a specific company or product.

OIEA and the Ethics Office agreed with our concern and have addressed the issues (the link to the vendor's home page and the Commission's seal were removed). Thus, we are not making a recommendation regarding this issue.