

Securities and Exchange Commission

Office of Inspector General

Semiannual Report to Congress

Executive Summary

During this reporting period (April 1, 1999 to September 30, 1999) the Office of Inspector General (Office) issued six audit reports and four audit memoranda. The audits focused on sensitive Commission information; oversight of Self-Regulatory Organization arbitration; procurement and contracting; year 2000--non-information technology; Commissioners' travel; Unix security; the Office of Information Technology help desk; acknowledgment letters from the ACTS system; enforcement case origins; and the advance commitment program. The Audit Program section below describes these audits further.

Seven investigations were closed during the period. Two cases were referred to the Commission; one was also referred to the Department of Justice (which declined prosecution). Two referrals to Commission management remain pending.

An audit of sensitive information found that additional controls could significantly enhance the effectiveness of the system of controls. Management concurred with our recommendation to strengthen the controls and established a task force to implement corrective actions. We are reporting the protection of sensitive information as a "significant problem."

During this reporting period, the Commission announced that it had completed remediation and testing of its information systems for year 2000 compliance, a previously reported significant problem. It is also developing contingency plans in case any systems fail because of year 2000 problems. We are continuing an audit of the year 2000 effort and are making recommendations to management as appropriate.

Information resources management (IRM) continues to experience significant problems. Specifically, systems development contracting and IRM planning remain problem areas. With the completion of year 2000 compliance, Commission management expects to devote more

attention to strengthening these areas. The Office of Information Technology has reorganized and is using out-sourcing to improve its performance. The Commission has also established a senior level information technology committee to monitor information technology investments and issued security guidance.

Another previously reported significant problem involves controls over the collection of fees. Although statutory changes have eliminated many of the fees most at risk and the Commission has made many improvements in controls over the collection of filings fees, the overall control structure remains inadequate. This condition will remain until a new fee system, which is currently in development, is implemented.

Attached to this report is a table describing the Office's fiscal year 1999 results, based on categories in our five-year strategic plan. The table lists five objectives/strategies, followed by related output and outcome performance measurement data.

Audit Program

The Office issued six audit reports and four audit memoranda during the reporting period. The reports contained a total of 30 recommendations, which are further described below. Management generally concurred with the recommendations.

SENSITIVE INFORMATION
277, MAY 3, 1999

AUDIT

We conducted an audit survey of management's controls for safeguarding sensitive information in the possession of the Commission. Types of sensitive information include market sensitive (e.g., knowledge of unannounced mergers), proprietary (e.g., trading models), business (e.g., customer lists), and information of interest to foreign governments.

The objective of the survey was to identify what sensitive information exists throughout the Commission and the management controls which safeguard that information. We interviewed Commission staff and reviewed supporting documentation, among other procedures.

We documented several management controls to protect sensitive information. However, we found that additional controls could significantly enhance the effectiveness of the system of controls. We provided senior management with an oral briefing of our findings and recommended that management strengthen its controls. Management concurred and established a task force to implement corrective actions.

We are reporting sensitive information as a "significant problem" later in this report.

OVERSIGHT OF SRO ARBITRATION
289, AUGUST 24, 1999**AUDIT**

The Commission has statutory authority to ensure that Self-Regulatory Organization (SRO) arbitration procedures are adequate and consistent with the Securities Exchange Act of 1934. Commission oversight includes two main components. The Division of Market Regulation (MR) reviews SRO arbitration rule filings and the Office of Compliance Inspections and Examinations (OCIE) conducts periodic inspections of SRO arbitration programs to ensure compliance with applicable rules.

We conducted an audit of the Commission's oversight of SRO arbitration programs. Our objectives were to evaluate the effectiveness and efficiency of Commission operations in overseeing SRO arbitration. We also coordinated our audit scope and work steps with the General Accounting Office, which has a related audit now underway. During the audit, we interviewed officials within and outside the Commission, and reviewed arbitration-related documentation.

Overall, we found that Commission oversight operations were effective and efficient. Commission review of SRO rule filings and inspections of SRO arbitration programs were generally thorough and timely. Additionally, officials from the SROs, industry groups, and academia were mostly complimentary of the Commission's oversight and spoke highly of the professionalism and experience of Commission staff.

SRO and investor representatives identified several policy issues, most of which Commission staff were aware of and had either considered or had plans to address. These issues involved predispute arbitration agreements, unpaid arbitration awards, panel selection, securities mediation, contingency plans, on-line filings, legal representation, the Securities Industry Conference on Arbitration, and noteworthy practices memoranda.

We also identified opportunities for enhancing the Commission's arbitration oversight and increasing public understanding of and confidence in SRO arbitration. Specifically, we made recommendations regarding public awareness, data analysis and tracking, complaint information, and arbitration guidance.

PROCUREMENT AND CONTRACTING
AUDIT 290, SEPTEMBER 21, 1999

The Federal Acquisition Streamlining Act (FASA) of 1994 aimed to promote economy and efficiency in contracting. FASA allowed procurements under \$100,000 to be awarded as small purchases, under simplified procedures, if agencies publicized them electronically. It encouraged the use of simplified and cost-effective procedures such as the use of imprest funds, purchase orders, blanket purchase agreements, and the government-wide credit card. For large

procurements, it encouraged the use of multiple indefinite quantity contracts under a single solicitation (known as Government-Wide Acquisition Contracts, or GWAC).

Our primary objective in this audit was to determine whether the Commission appropriately implemented the provisions of the FASA. We also sought to review actions taken on recommendations in a prior audit of major contracts (Audit No. 239), and to follow-up on a significant contracting weakness in the Office of Information Technology. Among other procedures, we interviewed procurement staff, reviewed procurement policies and procedures, and examined a judgment sample of small purchases and contracts.

We found that the Commission has generally implemented the provisions of the FASA. It has also taken appropriate action on recommendations from a prior OIG review of major contracts.

The Office of Information Technology has reorganized, and has plans to address the weakness in contracting for systems development. We recommended that it implement these plans. Our other recommendations to enhance procurement and contracting included: ensuring that unneeded contract funds are promptly deobligated; encouraging the regions to use blanket purchase agreements for repetitive purchases; and training regional procurement staff.

YEAR 2000 - NON-INFORMATION TECHNOLOGY AUDIT 291, AUGUST 9, 1999

The Office of Inspector General (OIG) is auditing the agency's efforts in making its information systems year 2000 compliant. The scope of these audits had not, however, included non-information technology systems (such as elevators, power, and telephones).

Accordingly, the OIG issued a task order to Cotton & Company (Cotton), an independent CPA firm, to evaluate the Commission's progress in ensuring that its non-information technology systems are year 2000 compliant. Cotton interviewed Commission staff, reviewed building leases and year 2000 certifications, and performed detailed follow-up work on a sample of field offices, among other procedures.

Cotton found that overall the Commission has taken numerous steps to ensure year 2000 compliance for its non-information technology systems, and to minimize disruptions should problems occur. However, progress in receiving certifications from landlords has been somewhat slow, despite efforts by the Office of Administrative and Personnel Management (OAPM).

OAPM stated that many building owners are reluctant to respond to year 2000 inquiries because of liability issues, and that in many cases building owners intend their facilities will be year 2000 compliant. Other mitigating factors are that emergency power will be available for key headquarters operations, and examiners in the field offices can use laptop computers to work outside the office.

The audit recommended that OAPM continue its efforts to obtain year 2000 certifications, and that the Office of the Executive Director should continue to coordinate the field offices' development of year 2000 contingency plans.

COMMISSIONERS' TRAVEL 294, JUNE 8, 1999

AUDIT

Last year, the Office of Inspector General conducted audits of the Commissioners' Travel (No. 280) and of Travel Upgrades (No. 281) at the request of the Subcommittee on National Economic Growth, Natural Resources, and Regulatory Affairs of the House Committee on Government Reform and Oversight. Our audit of the Commissioners' travel was a follow-up to last year's review.

The audit objective was to determine whether the trips were for official business, for reasonable periods of time given the purpose of the trip, and that the expenses claimed were valid. We also evaluated relevant management controls and tested a judgment sample of Commissioner travel vouchers.

The results of our tests indicated that, with respect to the items reviewed, the Commissioners complied in all material respects with the Commission's travel policies and procedures. In addition, management controls over Commissioner travel were in place and functioning as intended.

However, we also found that the Commissioner's travel vouchers in some cases were not submitted timely after the end of the trip, or contained errors (such as incorrect per diem rates), which were corrected by the Comptroller's Office. The Commission plans to replace paper processing of travel documents with an automated system, which is expected to increase the accuracy of travel vouchers throughout the Commission.

UNIX SECURITY AUDIT 296, SEPTEMBER 14, 1999

The Unix operating system is installed on approximately 80 servers throughout the Commission, performing security (firewall), database, and general application functions. Unix systems administration is performed by the Office of Information Technology (OIT) Systems Software Branch, Applications Development Team, and Security Group.

The Commission has reported ADP security as a material weakness since 1989. Formation of the Security Group during OIT's recent reorganization and the issuance of an agency-wide security policy are two major steps in addressing this weakness.

Our objective was to evaluate the Commission's security practices over its Unix systems at the data center in Alexandria, Virginia. Among other procedures, we interviewed systems

administrators and security staff, reviewed selected documentation, and tested a judgment sample of 5 out of approximately 80 Unix systems.

The audit found that security practices were for the most part reasonably effective. Some general issues (user training, password use, and written procedures) will be addressed as the Commission continues to make improvements in the ADP security area. We made several specific recommendations to enhance Unix security practices, including updating network maps and periodically changing and validating root passwords.

OIT HELP DESK AUDIT MEMORANDUM 13, MAY 27, 1999

In 1997, the Office of Information Technology (OIT) awarded a task order contract to BTG Inc. for help desk and information technology support. OIT contracted out these functions as part of its recent reorganization.

We conducted a limited review of the contractor's effectiveness. During the review, we interviewed users and OIT staff and examined selected contract documentation.

We found that OIT had recognized the need to improve the contractor's service. In September 1998, it gave the contractor 60 days to make improvements. In response, BTG developed a performance improvement plan, changed project managers, and assigned additional staff to the contract.

We made several recommendations to further improve help desk service, including using financial incentives and performance monitoring data; providing users with status and problem resolution information; and considering whether field office liaisons should have some capability to troubleshoot Windows NT.

ACKNOWLEDGEMENT LETTERS MEMORANDUM 17, JUNE 8, 1999

AUDIT

The Public Reference Branch in the Office of Filings and Information Services (OFIS) uses the same computer system to record and track inquiries from the public as the Office of Investor Education and Assistance (OIEA). The system, known as the Agency Correspondence and Tracking System (ACTS), automatically generates acknowledgement letters for both OFIS and OIEA.

OFIS does not use the letters generated by the system and hence discards them. In fiscal year 1998, OFIS received 14,604 inquiries and therefore discarded 14,604 letters.

We brought this matter to OFIS's attention. It discovered that manually changing a default setting prevented an acknowledgement letter being generated. OFIS instructed its staff to change

this setting whenever creating a correspondence record in ACTS, thereby preventing a waste of paper.

**ENFORCEMENT CASE ORIGINS
MEMORANDUM 18, JULY 19, 1999**

AUDIT

During an audit of the Commission's Investor Education and Assistance Program (IEAP), we identified an issue related to the enforcement program. We reviewed a sample of investigations closed during fiscal year 1998 to determine how often IEAP complaints were the origin of enforcement cases.

Based on interviews with enforcement staff, 32% of the investigations originated, at least in part, through investor complaints (although not necessarily through the IEAP). According to the Commission's NRSI automated system, only 12% of the cases in our sample were initiated through complaints. This discrepancy was caused by unclear case origin categories on the data input form for NRSI.

The Division of Enforcement agreed to develop new categories and accompanying guidance when a new case tracking system is implemented.

**ADVANCE COMMITMENT PROGRAM
MEMORANDUM 19, AUGUST 26, 1999**

AUDIT

The Commission hires graduating law school students and summer interns through advance commitments, competing with law firms and other employers. An advance commitment is an agreement to work for the Commission after the student graduates or takes the bar examination.

Our objective was to improve the Commission's success in obtaining commitments from the most qualified law students. We interviewed Commission staff and summer interns, and surveyed a number of law schools.

We found that the Office of Administrative and Personnel Management and the Division of Enforcement have taken steps to enhance their law school hiring procedures. Our recommendations to further enhance these procedures included expediting issuance of the Commission's revised brochure to law schools; establishing hiring committees in June so that summer interns can be interviewed during their internship; enhancing the Commission's website section on law clerk positions; and reviewing clerical aspects of the advanced commitment process.

Investigative Program

Seven investigations were closed during the period. Two cases were referred to the Commission; one was also referred to the Department of Justice (which declined prosecution). Two referrals to Commission management remain pending.

At the close of the period, six investigations were pending. The pending investigations included allegations of unauthorized disclosure, unauthorized use of assets, possession of child pornography, conflict of interest, and theft of property. The most significant cases closed during the period are described below.

MISUSE OF COMPUTER RESOURCES

We developed evidence that a Commission employee had accessed the Internet for personal purposes, including downloading pirated software, using the employee's government computer. Our investigation also disclosed evidence that the employee had accessed a manager's computer data without authority, had repeatedly loaded an application on a file server that users did not want, and had upgraded the employee's network user privileges without authorization. Administrative action is pending.

In another investigation involving the misuse of computer resources, we investigated allegations that a computer assigned to a Commission employee had been used to access Internet websites containing adult pornography. When confronted, the employee admitted accessing these sites. Administrative action is pending.

FALSE STATEMENTS

We investigated allegations that Commission officials had issued an internal memorandum containing false and misleading information. Another allegation was that these officials had exceeded their authority in issuing the memorandum. The evidence we obtained failed to support the allegations.

BRIBES

The Office investigated an allegation that two unnamed Commission officials had received bribes from a corporation official in exchange for issuing a ruling favorable to the corporation. The evidence failed to substantiate the allegation.

Significant Problems

During this period, we conducted a survey of management's controls for safeguarding sensitive information (see audit No. 277 above). The survey found that these controls required

strengthening to significantly enhance their effectiveness. Management concurred and established a task force to implement corrective actions.

Significant Problems Identified Previously

YEAR 2000

We are continuing to audit the Commission's efforts to make its systems year 2000 compliant. The scope of the audits includes EDGAR and Commission internal systems, as well as non-information technology.

During this reporting period, the Commission completed remediation and testing of its systems. On September 7, 1999, the Chairman announced that the Commission's computer systems are year 2000 compliant.

The Commission is developing contingency plans in the event of any system failures. It anticipates conducting a test of these plans by the end of calendar year 1999. We intend to monitor the remainder of the year 2000 compliance process and will share our findings and recommendations with the Office of Information Technology (OIT) as they are developed.

INFORMATION RESOURCES MANAGEMENT

Information resources management (IRM) remains a significant concern, particularly the areas of contracting for systems development and information resources planning.

Now that year 2000 remediation and the reorganization of OIT have been completed, Commission management expects to devote more attention to strengthening these areas. OIT intends to emphasize planning, control, and evaluation of information technology projects and activities. Management has established a senior level information technology committee to oversee information technology investments, and is implementing procedures for approval, monitoring, and measurement of these investments.

COLLECTION OF FILING FEES

A prior audit of the collection of filing fees confirmed the Commission's previous assessment that the management controls were not in material conformance with accounting standards. Although statutory changes have eliminated many of the fees most at risk and Commission management has made significant progress in correcting the most serious weaknesses, some corrective actions must await the implementation of a new computerized collection system.

The fee system is being redesigned and implemented under the EDGAR modernization contract. A working group of managers and users is working with the contractors and developers to ensure that the new fee system contains adequate financial controls and meets the agency's and filers' requirements. Until these corrective actions are fully implemented, the overall control structure will continue to fail to provide assurance that accountability over filing fees is adequate.

Access to Information

The Office of Inspector General has received access to all information required to carry out its activities. No reports to the Chairman, concerning refusal of such information, were made during the period.

Other Matters

EXECUTIVE COUNCIL ON INTEGRITY AND EFFICIENCY

The Office actively participates in the activities of the Executive Council on Integrity and Efficiency (ECIE). The Inspector General attends ECIE meetings, is an active member of its Financial Institutions Regulatory Committee, and serves as the ECIE member of the Integrity Committee established by Executive Order No. 12993.

The Counsel and Associate Counsel to the Inspector General are active members of the PCIE Council of Counsels. The Council considers legal issues relevant to the Inspector General community.

COMMITMENT TO QUALITY IMPROVEMENT AWARD

During this reporting period, the Office received the Commitment to Quality Improvement Award issued by the Institute of Internal Auditors. The award recognized the Office's ongoing commitment to professional excellence, quality of service, and professional outreach.

Questioned Costs

		DOLLAR VALUE (IN THOUSANDS)		
		<u>NUMBER</u>	<u>UNSUPPORTED COSTS</u>	<u>QUESTIONED COSTS</u>
A	For which no management decision has been made by the commencement of the reporting period	0	0	0
B	<i>Which were issued during the reporting period</i>	<u>0</u>	<u>0</u>	<u>0</u>
	Subtotals (A+B)	0	0	0
C	For which a management decision was made during the reporting period	0	0	0
(i)	Dollar value of disallowed costs	0	0	0
(ii)	Dollar value of costs not disallowed	0	0	0
D	For which no management decision has been made by the end of the period	0	0	0
	Reports for which no management decision was made within six months of issuance	0	0	0

Recommendations That Funds Be Put To Better Use

		<u>NUMBER</u>	<u>DOLLAR VALUE (IN THOUSANDS)</u>
A	For which no management decision has been made by the commencement of the reporting period	0	0
B	Which were issued during the reporting period	-	-
	Subtotals (A+B)	<u>0</u>	<u>0</u>
C	For which a management decision was made during the period	0	0
	(i) Dollar value of recommendations that were agreed to by management	0	0
	- Based on proposed management action	0	0
	- Based on proposed legislative action	0	0
	(ii) Dollar value of recommendations that were not agreed to by management	0	0
D	For which no management decision has been made by the end of the reporting period	0	0
	Reports for which no management decision was made within six months of issuance	0	0

Reports with No Management Decisions

Management decisions have been made on all audit reports issued before the beginning of this reporting period (April 1, 1999).

Revised Management Decisions

No management decisions were revised during the period.

Agreement with Significant Management Decisions

The Office of Inspector General agrees with all significant management decisions regarding audit recommendations, including “Funds Put to Better Use” and “Questioned Costs.”

FY 1999 OIG PERFORMANCE MEASURES

AUDITING

Strategic Goal: Identify and mitigate impediments to achieving Commission objectives (i.e., operational risks).

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>1. Assess operational impediments to achieving Commission objectives.</p> <p>A. Identify significant operational risks.</p>	<p>Develop an enhanced qualitative evaluation capacity.</p> <p><i>In accordance with our Five Year Strategic Plan, we have recently hired an auditor/facilitator. With the addition of the auditor/facilitator, the Office will commence a systematic qualitative risk assessment approach beginning in FY 2000.</i></p> <p>Number of significant operational risks identified.</p> <p><i>The Office identified the safeguarding of sensitive information and year 2000 concerns as significant operational risks for the Commission. In addition, the Office identified computer security, the misuse of government computer resources by Commission employees, and workplace violence as important issues for management to address. We anticipate that we will identify additional operational risks through the efforts of our new auditor/facilitator.</i></p>	<p>The Commission achieves its strategic program and support objectives.</p> <p>Commission management has an enhanced understanding of operational risks.</p> <p><i>Through the mutual efforts of the Office and management, internal controls for safeguarding sensitive information throughout the Commission are being enhanced. Safeguarding sensitive information is critical in order for the Commission to achieve its objectives, which include protecting investors and maintaining fair, honest and efficient markets. The sensitive information issue was unique because it applied to the agency across the board; the problem was not isolated to any one office or division.</i></p>
<p>1. Assess operational impediments to</p>	<p>Percentage of performance audits in high risk programs or</p>	<p><i>After conducting an audit survey, the Office</i></p>

FY 1999 OIG PERFORMANCE MEASURES

AUDITING

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>achieving Commission objectives (CONTINUED)</p> <p>B. Incorporate “operational risk” as the primary audit planning criterion.</p>	<p>support functions -- planned.</p> <p><i>100% of all performance audits were planned in high risk programs or support functions.</i></p> <p>Percentage of audits, suggested by the Commission or senior management, scheduled in annual audit plans.</p> <p><i>100% of the audits suggested by the Commission or senior management have been or are being performed. Audits suggested by management included a survey of sensitive information and an audit of telecommunication vulnerabilities. In addition, the Office performed an audit of Commissioners’ travel at the request of a Congressional subcommittee.</i></p>	<p><i>brought the issue of safeguarding sensitive information to the attention of the Chairman and Commission management. The Chairman and management immediately recognized the importance of safeguarding sensitive information and agreed to strengthen controls in this area based upon the survey results, thus eliminating the immediate need for further audit work.</i></p>
<p>2. Mitigate operational risks and add value to Commission operations.</p> <p>A. Conduct performance audits of operational risks.</p>	<p>Number of audit reports (including audit memoranda and reports on management issues arising from investigations).</p> <p><i>The Office issued 14 audit reports and 9 audit memoranda during FY 99. Jointly, these reports contained 100 recommendations for improvement in Commission operations.</i></p>	<p><i>In addition, the Office has been instrumental in apprising Commission management of the serious risks posed to Commission operations by year 2000 concerns. We recommended more senior management involvement in addressing these concerns and several other steps to enhance the year 2000 effort.</i></p>
<p>2. Mitigate operational risks and add value to Commission operations (CONTINUED)</p>	<p>Percentage of performance audits directly related to high risk programs or support functions -- conducted.</p>	<p><i>Recently, the Commission announced that its systems are now year 2000 compliant. The Commission is also developing a contingency</i></p>

FY 1999 OIG PERFORMANCE MEASURES

AUDITING

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>A. Conduct performance audits of operational risks (CONTINUED)</p>	<p><i>100% of performance audits conducted were directly related to high risk programs or support functions.</i></p> <p>Number of significant audit findings and recommendations.</p> <p><i>The Office made a total of 66 significant audit findings and recommendations during FY 99.</i></p> <p>Percentage of significant findings and recommendations communicated to management before obtaining formal comments on draft audit reports.</p> <p><i>100% of significant findings and recommendations were communicated to management before obtaining formal comments on draft audit reports.</i></p> <p>Percentage of audit recommendations Commission management accepts.</p> <p><i>Commission management accepted 100% of the Office's audit recommendations.</i></p>	<p><i>plan.</i></p> <p><i>The Office convened a task force comprised of Office and management personnel to address the issues of computer security and misuse of government computer resources. During the task force meetings, Office staff emphasized the importance of prevention, as opposed to simply detecting violations. Based upon these meetings, management agreed to evaluate preventive measures that could be undertaken to mitigate these computer-related risks.</i></p> <p><i>Another issue the Office brought to management's attention was the need for a plan to prevent and deal with workplace violence. Management has begun to address this issue and is working on a policy statement concerning workplace violence.</i></p>
<p>2. Mitigate operational risks and add value to Commission operations (CONTINUED)</p>	<p>Percentage of audit recommendations the Commission implements.</p> <p><i>Commission management has implemented 63% of the</i></p>	

FY 1999 OIG PERFORMANCE MEASURES

AUDITING

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>A. Conduct performance audits of operational risks (CONTINUED)</p> <p>B. Encourage independent management actions to mitigate operational risks identified.</p>	<p><i>Office's FY 99 audit recommendations. Management is working on implementing the remaining recommendations.</i></p> <p>Number of material risks reported to management</p> <p><i>Material risks reported to management outside of the context of an audit included computer security and workplace violence issues. We anticipate that the number of materials risks reported to management will increase once our new auditor/facilitator implements the planned qualitative risk assessment approach.</i></p> <p>Percentage of material operational risks identified by the Office that are subsequently mitigated by management without further Office action.</p> <p><i>Management has undertaken efforts to mitigate 100% of the material risks identified by the Office outside of the audit context, without requiring further Office action.</i></p>	

FY 1999 OIG PERFORMANCE MEASURES

INVESTIGATIONS

Strategic Goal: Identify and mitigate impediments to high individual and agency integrity (i.e., integrity risks).

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>1. Assess integrity risks and prevent and deter misconduct.</p> <p>A. Conduct integrity workshops.</p> <p>B. Issue reports to management on control deficiencies identified during investigations.</p> <p>C. Maintain effective communications with the Office of Ethics Counsel.</p> <p>1. Assess integrity risks and prevent and</p>	<p>Develop an enhanced qualitative evaluation capacity for integrity risks.</p> <p><i>Our new auditor/facilitator will begin working on a qualitative integrity risk assessment approach. Because of prior OIG work in the area, this effort should be operational in FY 2000.</i></p> <p>Number of investigative reports on management issues.</p> <p><i>No investigative reports on management issues were issued during FY 1999. However, during the course of investigations, the Office's legal staff, who conduct the investigations, consider whether any control deficiencies exist that should be brought to management's attention.</i></p> <p>Number of consultations with Office of Ethics Counsel staff.</p> <p><i>The Office has conducted all briefings on investigations that were requested by the Office of Ethics Counsel. The investigative staff also consulted with the Office of Ethics</i></p> <p><i>Counsel as needed during the course of conducting</i></p>	<p>Commission staff readily refer allegations of misconduct to the Office.</p> <p><i>Commission staff readily referred allegations of misconduct to the Office during FY 99. Over 40% of the allegations we received were from Commission employees or managers. Commission staff as a whole appear to be aware of their obligation to refer allegations of fraud, waste and abuse to the appropriate authority.</i></p> <p><i>The Office is also enhancing its efforts to solicit allegations of misconduct from the public. The Office has recently established an Internet mailbox on the Commission's home page, to which the public may send allegations of staff misconduct.</i></p> <p><i>As a result of the Office's efforts, the Office of</i></p>

FY 1999 OIG PERFORMANCE MEASURES

INVESTIGATIONS

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>deter misconduct (CONTINUED)</p> <p>C. Maintain effective communications with the Office of Ethics Counsel (CONTINUED)</p>	<p><i>investigations. Further, copies of 5 of 6 investigative reports issued during FY 99 were provided to the Ethics Counsel. The Ethics Counsel was verbally advised of the other investigative report issued.</i></p>	<p><i>Ethics Counsel has better information and trends, upon which to base ethics policies at the Commission.</i></p>
<p>2. Solicit allegations of misconduct.</p>	<p>Percentage of new employees receiving Office material soliciting allegations of misconduct.</p> <p><i>The Office has taken measures to ensure that 100% of new Commission employees receive Office material soliciting allegations of misconduct.</i></p> <p>Percentage of departing employees receiving Office material soliciting allegations of misconduct.</p> <p><i>100% of departing Commission employees were provided with Office material soliciting allegations of misconduct during FY 99.</i></p>	<p>Commission staff have an enhanced understanding of desired and prohibited conduct.</p> <p>Commission program operations are enhanced by the public's trust in Commission staff.</p> <p>The Commission's integrity objective (i.e., to promote high individual and agency integrity) is achieved.</p>
<p>2. Solicit allegations of misconduct (CONTINUED)</p>	<p>Number of allegations of misconduct received.</p> <p><i>One allegation of misconduct was pending at the beginning</i></p>	<p><i>The Commission has a long-standing reputation for high individual and agency integrity. This reputation has been enhanced</i></p>

FY 1999 OIG PERFORMANCE MEASURES

INVESTIGATIONS

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
	<p><i>of FY 99. We received 78 allegations of misconduct during FY 99 (excluding misdirected phone calls that were transferred to another agency component). Those allegations came from a variety of sources, including Commission staff, Commission management, members of the public and anonymous sources.</i></p>	<p><i>by the work of the OIG. The Office is constantly striving to assist the Commission in enhancing this reputation even further.</i></p>
<p>3. Assign allegations of misconduct timely.</p>	<p>Number of allegations assigned (i.e., investigation, preliminary inquiry, monitoring, or transmittal to appropriate other organization without Office investigation).</p> <p><i>100% of the 79 allegations pending or received were assigned for action as deemed appropriate. Of these, 18 investigations were opened; 15 preliminary inquiries were conducted; 4 referrals were made outside the Commission; 9 referrals were made to management or other Commission components; and 5 referrals were made to the audit staff for audit planning or risk assessment purposes.</i></p>	<p><i>The Office's investigative case load has declined during recent years. We believe that this decline is due, in part, to an enhanced awareness of desired and prohibited conduct on the part of Commission staff. Integrity workshops conducted by the Office in the past contributed to this enhanced awareness.</i></p>
<p>3. Assign allegations of misconduct timely (CONTINUED)</p>	<p>Percentage of allegations assigned within three work days of receipt.</p> <p><i>96% (76 of 79) allegations pending or received were assigned within three work days of receipt.</i></p>	

FY 1999 OIG PERFORMANCE MEASURES

INVESTIGATIONS

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>4. Investigate allegations objectively, competently, and timely, and refer violations appropriately.</p>	<p>Number of preliminary inquiries conducted.</p> <p><i>15 preliminary inquiries were conducted during FY 99. One preliminary inquiry resulted in the opening of an investigation.</i></p> <p>Percentage of preliminary inquiries closed within one month.</p> <p><i>80% (12 of 15) of preliminary inquiries were closed within one month.</i></p> <p>Number of investigations conducted.</p> <p><i>Five investigations were pending at the beginning of FY 99. The Office closed 17 investigations during FY 99. Six investigations remained pending at the end of FY 99.</i></p>	<p><i>The Office repeatedly emphasized to management the deterrent benefits of informing Commission staff of the types of conduct that have resulted in disciplinary action and the nature of the sanction imposed. Management has responded and publicized disciplinary actions, while protecting the privacy rights of individuals. In meetings with management, the Office has also stressed the importance of preventive measures and identified some specific steps for management's consideration.</i></p>
<p>4. Investigate allegations objectively, competently, and timely, and refer violations appropriately (CONTINUED)</p>	<p>Percentage of investigations in which the rights of subjects, complainants, and witnesses were adequately protected.</p> <p><i>The rights of subjects, complainants and witnesses were adequately protected in 100% of the investigations conducted during FY 99. Subjects were routinely provided with written notice of their rights before being asked to</i></p>	<p><i>The Office has been successful in processing and investigating allegations in a timely manner. As a result, both Commission management and staff perceive that allegations of misconduct are taken seriously and view our investigative work as relevant and timely. In addition, investigations of stale</i></p>

FY 1999 OIG PERFORMANCE MEASURES

INVESTIGATIONS

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>4. Investigate allegations objectively, competently, and timely, and refer violations appropriately (CONTINUED)</p>	<p><i>provide evidence. In addition, where complainants requested confidentiality, every effort was made to comply with that request. The Inspector General received no complaints of unfairness during investigations.</i></p> <p>Percentage of investigations completed within 6 months.</p> <p><i>88% (15 of 17) investigations were closed within 6 months.</i></p> <p>Number of allegations investigated.</p> <p><i>The Office investigated a total of 23 allegations during FY 99. In addition, 17 other allegations were reviewed during preliminary inquiries.</i></p> <p>Number of subjects investigated.</p> <p><i>The Office investigated a total of 21 subjects during FY 99. In addition, 19 other subjects were involved in preliminary inquiries.</i></p> <p>Number of investigations in which the evidence failed to substantiate the allegations.</p>	<p><i>evidence are avoided and the rights of subjects are protected.</i></p> <p><i>The Inspector General has received no complaints about the quality or timeliness of the Office's investigative work from senior management or the Department of Justice.</i></p>

FY 1999 OIG PERFORMANCE MEASURES

INVESTIGATIONS

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>4. Investigate allegations objectively, competently, and timely, and refer violations appropriately (CONTINUED)</p>	<p><i>The evidence failed to substantiate the allegations in 9 investigations closed during FY 99. One investigation was closed because there was insufficient information to pursue the matter further. Another investigation was not referred because the violations involved were de minimus. In addition, 11 preliminary inquiries were closed because the allegation appeared to lack merit or there was insufficient evidence to pursue the allegation further.</i></p> <p>Number of referrals to the Commission.</p> <p><i>The Office referred six cases to the Commission during FY 99. These included evidence of misuse of computer resources, computer security violations, unlawful recording, unauthorized disclosure of non-public information, and false entries. In addition, information obtained through one preliminary inquiry was provided to management.</i></p>	

FY 1999 OIG PERFORMANCE MEASURES

INVESTIGATIONS

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>4. Investigate allegations objectively, competently, and timely, and refer violations appropriately (CONTINUED)</p>	<p>Number of referrals to the Department of Justice.</p> <p><i>The Office referred one case involving misuse of computer resources and computer security violations to the Department of Justice during FY 99. We also referred a case involving a state law violation (unlawful recording) to a district attorney's office. Prosecution was declined in both matters. In addition, the Office referred a case involving misuse of computer resources, as well as one preliminary inquiry, to the FBI for further investigation.</i></p> <p>Number of personnel actions or convictions resulting from investigations.</p> <p><i>One employee was removed, and two employees received written reprimands in connection with Office investigations. In one matter, management decided to take no disciplinary action. Two matters remained pending at the end of FY 99. In addition, a contract employee who was the subject of a preliminary inquiry was removed from a Commission contract.</i></p>	

FY 1999 OIG PERFORMANCE MEASURES

REPORTING

Strategic Goal: Keep the Chairman and Congress fully and currently informed of Office activities and significant issues.

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>1. Report to Congress.</p>	<p>Semiannual reports (SARs) comply with all reporting requirements of the Inspector General Act.</p> <p><i>Both SARs for FY 99 complied with all reporting requirements of the Inspector General Act.</i></p> <p>Percentage of audit reports summarized in the SARs.</p> <p><i>100% of the audit reports and audit memoranda issued during the reporting period were summarized in the SARs for FY 99.</i></p> <p>Percentage of significant investigations summarized in the SARs.</p> <p><i>100% of significant investigations were summarized in the SARs for FY 99.</i></p> <p>Office performance is reported annually in every other SAR (starting with the October 1999 report).</p> <p><i>Office performance for FY 99 is being reported in the SAR for the second half of FY 99.</i></p>	<p>The Congress and Chairman are fully and currently informed of office activities and material issues.</p> <p><i>The Office has striven, through its SARs and other efforts, to keep the Congress and Chairman fully and currently informed of office activities and material issues. The Chairman has responded quickly to issues the Office has brought to his attention, including safeguarding sensitive information and year 2000 concerns.</i></p>
<p>1. Report to Congress (CONTINUED)</p>	<p>Number of testimonies, meetings, or other communications</p>	

FY 1999 OIG PERFORMANCE MEASURES

REPORTING

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
	<p>with the Congress or its staff.</p> <p><i>The Inspector General had numerous telephone calls with Congressional staff concerning a variety of issues. In addition, the Inspector General attended several presentations by Members of Congress to the Inspector General community.</i></p>	
<p>2. Report to the Chairman and Commission management.</p>	<p>Number of meetings with, and reports to, the Chairman or senior Commission management on the Office's activities and significant issues.</p> <p><i>The Inspector General provided written monthly reports to the Chairman on Office activities. In addition, the Inspector General and Office staff routinely met with senior Commission management on the Office's activities and significant issues.</i></p> <p>Number of Inspector General Advisory Committee meetings conducted.</p> <p><i>The Inspector General Advisory Committee convened quarterly during FY 99 to discuss issues related to the Office or arising from its activities. Members of the Committee include the Chief of Staff, the Executive Director, the General Counsel, the Director of Enforcement and the Inspector General. The Advisory</i></p> <p><i>Committee affords an opportunity for both the Inspector General and management to discuss their concerns</i></p>	
<p>2. Report to the Chairman and Commission management</p>	<p><i>Committee affords an opportunity for both the Inspector General and management to discuss their concerns</i></p>	

FY 1999 OIG PERFORMANCE MEASURES

REPORTING

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
(CONTINUED)	<i>candidly in an informal setting. Frequently, after the Inspector General has brought an issue, such as safeguarding sensitive information, to the attention of the Advisory Committee, management takes action on its own and eliminates the need for further work by the Office.</i>	

FY 1999 OIG PERFORMANCE MEASURES

WORK QUALITY

Strategic Goal: Continuously improve Office staff, work products, and administration.

STRATEGY/OBJECTIVES	OUTPUT MEASURES	OUTCOME MEASURES
<p>1. Arrange for triennial peer reviews.</p>	<p>Arrange for a peer review of the audit program to be completed prior to March 2000.</p> <p><i>The Office has requested a peer review from the appropriate committee of the Executive Council on Integrity and Efficiency (ECIE) to be completed by March 2000.</i></p> <p>Number of peer reviews of other OIGs conducted by Office staff.</p> <p><i>The Office conducted a peer review of the National Archives and Records Administration OIG.</i></p>	<p>The Congress, Commission, and public have confidence in the competence and professionalism of our staff.</p> <p><i>The Office has been complimented on the competence and professionalism of the staff. During FY 99, the Office received a Commitment to Quality Improvement Award from the Institute of Internal Auditors in recognition of the Office's professional excellence, quality of service and professional outreach.</i></p>
<p>2. Obtain input from clients and Commission management on the value of Office activities.</p>	<p>Percentage of audit clients surveyed.</p> <p><i>During FY 99, the Office sent out audit surveys on a periodic basis to all organizations in which an audit was completed.</i></p>	<p>Office staff, operations, and administration are more efficient and effective.</p> <p><i>The Office has become more efficient and effective in a number of ways. For example, where an audit does not appear that it will</i></p>
<p>2. Obtain input from clients and</p>	<p>Percentage of investigative clients surveyed.</p>	<p><i>result in any significant findings, the auditors</i></p>

FY 1999 OIG PERFORMANCE MEASURES

WORK QUALITY

STRATEGY/OBJECTIVES	OUTPUT MEASURES	OUTCOME MEASURES
Commission management on the value of Office activities (CONTINUED)	<p><i>The Office requested client feedback on all investigative reports issued during FY 99.</i></p> <p>Survey feedback is used to improve Office products and services.</p> <p><i>Most of the feedback was favorable. Where there were any criticisms or suggestions for improvement, the Office contacted the source and took appropriate measures.</i></p>	<p><i>have closed the audit quickly and moved onto other more promising areas. Also, the auditors focus their efforts on significant findings and recommendations and minimize the amount of time spent on workpaper preparation, while still complying with GAGAS.</i></p>
3. Maintain and improve the technical proficiency of Office staff.	<p>Percentage of audit staff who meet or exceed GAGAS training requirements.</p> <p><i>100% of the audit staff met or exceeded GAGAS training requirements.</i></p> <p>Percentage of legal staff who maintain Bar memberships and obtain training to keep current professionally.</p> <p><i>100% of the Office's legal staff maintain Bar memberships and attend periodic professional training in subjects pertinent to the Office in order to stay current.</i></p>	<p><i>The Office makes appropriate investments in education and training to obtain and maintain the competencies needed to achieve its strategic objectives. We recognize the value of human capital and staff members frequently exceed the minimum CPE requirements.</i></p> <p><i>Office staff are perceived by Commission management and staff as competent professionals who are qualified to achieve the Office's mission.</i></p>
3. Maintain and improve the technical proficiency of Office staff	<p>Percentage of audit staff who have professional certification.</p>	

FY 1999 OIG PERFORMANCE MEASURES

WORK QUALITY

STRATEGY/OBJECTIVES	OUTPUT MEASURES	OUTCOME MEASURES
(CONTINUED)	<p><i>100% of the Office's audit staff have professional certifications.</i></p> <p>Number of professional certifications maintained.</p> <p><i>The 9 Office staff members have a total of 13 professional certifications and 8 advanced degrees. Professional certifications include 4 Certified Public Accountants, 4 Certified Internal Auditors, 2 Certified Information System Auditors, 2 Certified Government Financial Managers and 1 Certified Fraud Examiner. Advanced degrees include 5 masters degrees, 1 PhD and 2 JDs.</i></p>	

FY 1999 OIG PERFORMANCE MEASURES

GOVERNMENT-WIDE ISSUES

Strategic Goal: Participate with the IG Community in addressing government-wide issues.

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>1. Actively participate in ECIE/President’s Council on Integrity and Efficiency (PCIE) activities.</p>	<p>Participation in bi-monthly ECIE meetings.</p> <p><i>The Inspector General participated in all ECIE meetings.</i></p> <p>Participation in PCIE Council of Counsel’s (CCIG) meetings.</p> <p><i>The Office’s attorneys are active members of the CCIG. The Office was represented at over 80% of the CCIG meetings during FY 99.</i></p> <p>Participation in the annual joint PCIE/ECIE meeting.</p> <p><i>The Inspector General participated in all joint ECIE/PCIE meetings, including the annual Inspector General retreat.</i></p>	<p>The Office benefits from the resolution of government-wide issues and the transfer of audit and investigative techniques and knowledge.</p> <p><i>The Office has gained considerable information and insight from participation in PCIE/ECIE activities. In addition to attending presentations at various meetings (e.g., year 2000, security issues), Office staff attend specialized training to learn of Congressional interests and evaluate the impact of new laws and court decisions.</i></p> <p>The Office timely incorporates Congressional and administration policies and concerns into its operations.</p> <p><i>The Office performed an audit of Commissioners’ travel at the request of a Congressional subcommittee.</i></p>

FY 1999 OIG PERFORMANCE MEASURES

GOVERNMENT-WIDE ISSUES

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
<p>1. Actively participate in ECIE/PCIE activities (CONTINUED)</p>	<p>Participation in other ECIE or PCIE Committees.</p> <p><i>The Inspector General is a member of the Integrity Committee (IC) of the PCIE and ECIE. Pursuant to executive order, the IC is tasked with reviewing and investigating administrative allegations against Inspectors General and other senior staff. At the request of the IC, the Inspector General supervised an investigation of allegations against a Deputy Inspector General. One of the Office's attorneys conducted the investigation jointly with a FBI agent.</i></p> <p><i>The Inspector General also provided preliminary comments to a member of the advisory committee considering revisions to the Government Auditing Standards. In addition, the Inspector General met monthly with the financial regulatory agency Inspector General committee.</i></p>	<p>Congress and OMB recognize benefits from ECIE/PCIE activities.</p> <p><i>The investigative assistance we provided to the IC provided benefits to Congress and OMB, as the IC has no investigative resources of its own.</i></p>
<p>2. Participate in organizations that directly contribute to the IG community.</p>	<p>Number of professional organizations and activities related to Office work in which staff participate.</p>	

FY 1999 OIG PERFORMANCE MEASURES

GOVERNMENT-WIDE ISSUES

OBJECTIVES/STRATEGIES	OUTPUT MEASURES	OUTCOME MEASURES
	<p><i>Staff are members of and participate in the activities of several professional organizations, including the Institute of Internal Auditors (IIA), Association of Directors of Investigations, Information Systems Audit and Control Association, and American Institute of Certified Public Accountants. The Inspector General also serves on an IIA advisory board on Control Self-Assessment.</i></p>	