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# MEMORANDUM

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**To:** Jack Katz  
Alan Beller  
Corey Booth  
Annie O'Donoghue  
Linda Thomsen

**From:** Walter Stachnik *W Stachnik by M Sullivan*

**Date:** September 20, 2005

**Re:** Office of the Secretary (Audit No. 402)

Attached is our audit report on the Office of the Secretary's operations. The report reflects the comments we received on prior drafts.

We would appreciate receiving any additional comments you have concerning this audit and the report. In particular, we would like to know whether you found the audit useful. We also welcome any suggestions from you concerning how we could improve future audits.

The courtesy and cooperation of you and your staff are greatly appreciated.

## Attachment

**Cc:** Beth Blackwood  
James Daly  
Jacob Fien-Helfman  
Charles Fishkin  
Dan Lisewski  
Scott Mackert  
Jim McConnell  
Joan McKown  
Barry Miller  
Cynthia Plisch  
Darlene Pryor  
Douglas Scheidt  
Herb Scholl  
Charles Staiger  
Peter Uhlmann  
Bill Wiggins

Rick Hillman, GAO

# OFFICE OF THE SECRETARY

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## EXECUTIVE SUMMARY

*We conducted an audit of the Commission's Office of the Secretary (OS or Office). The audit found that the Office was generally effective and efficient in its operations, although some controls and procedures should be strengthened.*

*We recommend that the Office improve controls over the issuance and collection of government passports, process public comment letters more effectively, consider discontinuation of the SEC Docket (Docket), post forms to a central location on the Commission's Intranet site (Insider), improve controls for terminating access to electronic systems when employees separate, upgrade or replace the Integrated Library System, improve the Library's acquisitions process, and provide additional research assistance to Commission staff.*

*We also recommend that other Commission divisions and offices improve the accuracy of certain Commission orders, timely forward effectiveness and confidential treatment orders to OS and post them to Electronic Data Gathering and Retrieval system (EDGAR), consolidate Commission-wide administrative e-mails, and ensure that public forms posted to the Internet contain current OMB numbers.*

*Commission officials began to implement some recommendations during the audit. We commend them for these efforts.*

## SCOPE AND OBJECTIVES

**Our audit objective was to evaluate the operational effectiveness and efficiency of the Office's activities.**

**During the review, we interviewed OS and other Commission staff, and reviewed OS work products and files. We also contacted library staff from the Department of Justice, the Environmental Protection Agency and the Federal Communications Commission to benchmark the Commission's library operations and identify best practices. We also surveyed Commission users regarding the library's operations.**

**The audit was performed from March 2005 to July 2005 in accordance with generally accepted government auditing standards.**

# BACKGROUND

## OFFICE OF THE SECRETARY

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The Office schedules Commission meetings, administers the Commission's seriatim and duty-officer processes, and prepares and maintains records of Commission actions.

It reviews all staff documents submitted to and approved by the Commission. These include rulemaking releases, Enforcement orders and litigation releases, Self-Regulatory Organization rulemaking notices and orders, and other actions taken by Commission staff pursuant to delegated authority. The Office also provides advice to the Commission and its staff on questions of practice and procedure.

OS also receives and processes documents submitted by parties outside the Commission. These include documents filed in administrative proceedings, requests for confidential treatment, effectiveness orders for disclosure filings, and comment letters on rule proposals.

The Office publishes official documents and releases of Commission actions in the Federal Register and the Commission Docket, and posts most of them on the Commission's Internet website ([www.sec.gov](http://www.sec.gov)). It also monitors compliance with the Government in the Sunshine Act and maintains records of financial judgments imposed in enforcement proceedings

## LIBRARY OVERSIGHT

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The Commission's Library reports to OS. The Library maintains a Headquarters Library collection of approximately 625 periodicals and over 15,000 books, contracts for access to approximately 125 electronic databases for Commission staff, and manages and helps maintain the [www.sec.gov](http://www.sec.gov) Internet website and the Commission's Insider Intranet website. It also posts speeches by current and former Commission staff on [www.sec.gov](http://www.sec.gov), publishes a monthly information bulletin, and responds to Commission staff and public research and information inquiries.

The Library is currently involved in several additional projects, including:

- Making additional historical Commission documents available electronically;
- Posting Commission historical photographs on the Internet;
- Implementing a content management system that will automate web publishing;
- Making EDGAR filings fully text searchable;
- Creating digital signatures so that Federal Register documents can be signed and forwarded electronically;
- Redesigning the [www.sec.gov](http://www.sec.gov) website and *Insider* website to add information and research content needed by Commission staff; and
- Implementing a search engine on The Insider and [sec.gov](http://sec.gov) to make searching easier and more intuitive.

# AUDIT RESULTS

We found that the Office was generally efficient and effective in its operations. OS has cross-trained many of its staff to ensure operations are timely performed when staff are out of the office.

We identified several areas where operations could be improved, however, as described below. The Office performs several tasks in cooperation with other Commission divisions and offices. As a result, some of our recommendations are directed to other Commission divisions and offices.

## PASSPORT LOG

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The Office processes Commission staff requests for government passports used for international travel. The State Department issues the passports, which are valid for five years. Staff are required to return their passports to OS when they leave the Commission.

OS maintains an electronic log showing when a passport was requested, issued and returned. Additionally, it keeps a photocopy of the information page of each passport, which contains the traveler's name, picture, passport number, and expiration date. According to the electronic log, since 2001 OS has processed passports for approximately 550 people. We reviewed a sample of 199 Commission staff listed in the log and found several discrepancies.

The log indicated that 20 staff left the agency without returning their passports. In several other instances, the log indicated that some employees were issued more than one passport. The log did not consistently contain the date when a passport was requested or received.

OS informed us that 9 of the 20 departed employees were field office staff who were not required to obtain a general clearance from OS upon departure. As a result, these employees could have forgotten to return their passports to OS. Of the remaining 11, 2 were employees who died while employed at the Commission and 5 were senior officers who may not have formally signed out.

The State Department's Chief of Official Travel in the Passport Services Office informed us that the Commission should attempt to obtain unexpired passports from separated Commission employees. However, it is not necessary to obtain expired passports since they cannot be used for official travel.

### ***Recommendation A***

OS should ensure that, in the future, separating employees return their official passports prior to their departure. OS should remind headquarters and regional office staff of their obligation to return their passports to OS when they leave the Commission. OS could do this by sending an e-mail to the administrative contacts.

***Recommendation B***

OS should attempt to obtain all unexpired passports in the possession of former Commission staff.

***Recommendation C***

OS should correct its passport log and develop procedures to ensure that future entries to the log are accurate and complete.

**PUBLIC COMMENT LETTERS**

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***OS Processing***

In response to proposed rules, the Commission receives public comment letters by e-mail and in hard copy. OS processes these letters and makes them available on the Commission's Internet website.

Currently, OS's web unit processes letters received via e-mail, while OS staff in another location scan and process hard copy letters. Members of the public often send the same letter via e-mail and in hard copy. After posting all letters received (via e-mail and in hard copy) to Internet, web unit staff remove duplicate letters. Having the web unit handle all letters would be more efficient.

***Recommendation D***

OS should assign the processing of all public comment letters to its web unit staff to improve coordination. (OS moved the processing of comment letters to the web unit in August 2005.)

***Letters Sent by E-mail***

OS no longer e-mails a confirmation notice to individuals who submit comments via e-mail. Such a confirmation notice might reduce the number of duplicate hard copy letters that are sent to the Commission.

***Recommendation E***

OS should resume sending confirmation notices for comment letters received via e-mail. (OS implemented this recommendation during the audit.)

***Rule Verification***

The public can use a template on the Commission's Internet website to send e-mail comments on proposed rules and concept releases (proposed rules). The template contains the file number identifying the proposed rule.

Although the file number is clearly visible on the public comment form, OS indicated that members of the public sometimes use the incorrect form for comments on a

particular proposed rule. This causes public comment letters to be logged with incorrect rules, creating extra work for Commission staff.

To remedy this problem, OS could provide the name of the rule as well as the file number on the template form. The name of the rule will help to ensure that members of the public are using the correct public comment form.

### ***Recommendation F***

OS should modify the template forms to display the name of the rule as well as the file number, as described above.

During the audit OS consulted with OIT and determined that this recommendation was technologically feasible and planned to implement it.

## **SEC DOCKET**

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### ***Hardcopy Versions***

The Docket is a weekly compilation of Commission public releases available in hard copy. Each week OS compiles and edits the Docket and forwards it to Desktop Publishing in the Office of Administrative Services (OAS) for printing and binding. Most of the contents of the Docket are separately available both in hard copy and electronically on the Commission's website.

345 hard copies of the Docket are produced each week for Commission staff. The fiscal year 2004 cost to produce the dockets was more than \$200,000, including production and mailing costs.

### ***Electronic Versions***

Desktop Publishing, on its own initiative, has prepared an electronic version of the Docket (more than 30 years of the publication have been digitized) at a significant cost in staff resources. The most recent two years are available to all Commission staff in a public folder in Microsoft Outlook. However, this folder is difficult to locate and most staff are not aware of it.

Further, inconsistencies in scanning and formatting the Docket have impaired the utility of this electronic version, according to OS. Also, some pages do not comply with section 508 of the Rehabilitation Act. Electronic versions made available to Commission staff and/or the public need to comply with this section.

Due to these issues, OS would prefer to hire a contractor to prepare future electronic versions of the Docket instead of relying on Desktop Publishing.

### ***Future of the Docket***

Because the Docket is a compilation of public releases, most of which are available electronically, production of the Docket may no longer be necessary. If necessary,

however, hardcopy production may no longer be cost-effective. An electronic version could be prepared and posted to the Insider and/or Internet (which would be superior to using a folder in Outlook).

A series of decisions need to be made with respect to the future of the Docket, as follows:

- First, the Commission needs to decide how important further production of the Docket is, given that most of its contents are electronically available elsewhere.
- If the Docket is still necessary, the Commission needs to determine if publishing an electronic version would be superior to a hard copy version (*e.g.*, lower cost, more utility to users).
- If an electronic version is chosen as the desired alternative, the Commission needs to determine the optimal technology to use and whether the historic database prepared by Desktop Publishing meets the needs of users and complies with applicable statutes (*e.g.*, the Rehabilitation Act).

### ***Recommendation G***

OS, in consultation with senior managers from the major program divisions and offices that use the Docket, should determine whether the Docket is still needed by its users or whether its contents are readily available elsewhere and its production should be discontinued.

### ***Recommendation H***

Assuming that production of the Docket is still necessary, OS, in consultation with OAS and OIT, should determine whether to switch to an electronic version of the Docket and the specifications for an electronic Docket.

## **ADMINISTRATIVE WEEKLY E-MAIL**

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Commission staff receive numerous administrative e-mails (*e.g.*, on training, Commission historical society meetings, parties for separating employees, scheduled IT upgrades, maintenance, and building repairs). The notices could be consolidated into a weekly e-mail that would be distributed to all staff and available on the Insider. For example, if such an e-mail were sent out every Monday, it could list activities for the week, which could help staff plan their week.

### ***Recommendation I***

OS, in consultation with the Office of the Executive Director, should explore ways to consolidate administrative e-mails into a weekly e-mail that would also be available on the Insider.

OIT indicated that it may not be able to implement this recommendation at this time. In the interim, OS is experimenting with weekly notices on the

Insider as a possible solution.

## **DRAFT ENFORCEMENT ORDERS**

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The Division of Enforcement drafts orders, which are signed by the Secretary's Office. The orders (from headquarters and the field offices) receive several levels of review by Enforcement staff and senior management before going to the Office for final review and issuance.

Although Enforcement staff are supposed to use templates to ensure orders are properly formatted, OS frequently returns draft orders to Enforcement because they have missing or incorrect required language, or contain typographical and other editorial mistakes. In some cases, redrafted orders must be agreed upon again by a respondent and opposing counsel, which may be time-consuming.

### ***Recommendation J***

Enforcement should establish a procedure to ensure the accuracy of draft orders sent to OS. For example, Enforcement could remind staff to use the templates and train a staff member (as resources permit) to review all orders to ensure accuracy and compliance with appropriate templates.

## **EFFECTIVENESS AND CONFIDENTIAL TREATMENT ORDERS**

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### ***Posting on EDGAR***

Effectiveness orders state when registration statements filed pursuant to the Securities Act of 1933 become effective. Confidential treatment orders assure companies that the Commission will not publicly disclose certain company commercial or financial information.

The Divisions of Corporation Finance (CF) and Investment Management (IM) approve both of these orders using paper forms (most originate from CF). OS signs and distributes the orders to the Office of Filings and Information Services (OFIS), retains copies, and mails the orders to the companies. OS stamps and seals the effectiveness orders and forwards them to OFIS for mailing. OS stamps, seals, and mails the confidential treatment orders.

CF, in consultation with OS and OIT, has been involved in an effort to post the orders to EDGAR (starting with Effectiveness orders), which would be more efficient than processing and distributing hard copy forms by mail.

### ***Recommendation K***

CF, in consultation with OS and OIT, should continue its efforts to post effectiveness and confidential treatment orders on EDGAR and establish timeframes in which to complete this project.

## **Timeliness**

We reviewed several confidential treatment and effectiveness orders and generally found that CF did not timely forward the draft orders to OS. On average, OS received effectiveness orders approximately three months after their effective date. On average, OS received confidential treatment orders at least three months after the effective date and in some instances one or two years after this date.

### **Recommendation L**

CF should establish reasonable timeframes (*e.g.*, within two weeks) for forwarding effectiveness and confidential treatment orders to OS and monitor staff compliance with the timeframes.

## **PUBLIC COMPANY REPORTING FORMS**

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The Office posts public company reporting form templates on the Commission's website. Based on our review, 15 of the 167 forms on the website contained expired Office of Management and Budget (OMB) control numbers. We found that OMB had re-approved the forms, however, a lack of clearly defined procedures among the organizations involved (CF, IM, OIT, the Division of Market Regulation, OAS and OS) resulted in a failure to post the new forms to the Internet.

The Commission's Chief Information Officer (CIO) is responsible for overseeing the Commission's general responsibilities under the Paperwork Reduction Act (PRA) and for certifying to OMB that the Commission is complying with PRA requirements.

### **Recommendation M**

OIT should develop a Securities and Exchange Commission Regulation (SECR) describing the responsibilities of divisions and offices for updating and posting public company forms on the Commission website.

### **Recommendation N**

OS should periodically review (*e.g.*, every 6 months) public company forms on the Commission website to ensure they have current OMB numbers and notify the rulemaking divisions' PRA coordinators of non-current forms on the Internet.

Commission staff began to address this issue during the audit by posting updated forms to the Internet.

## **INTERNAL FORMS**

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Commission internal forms (*e.g.*, annual leave, training, employee clearance, etc.) are currently found in various places on the Insider and also in Microsoft Outlook (in the "Publications" folder under "Bulletin Boards"). Many forms are found in both

places. The Outlook bulletin board folder is not an official location for forms and is difficult to find.

### ***Recommendation O***

OS should continue its efforts to post all internal forms in one location on the *Insider*.

### ***Recommendation P***

OAS should remove the internal forms from the Outlook bulletin board folder.

OS staff informed us that the Insider website is currently under revision and the revised homepage will contain a "forms" tab for internal forms.

## **INTEGRATED LIBRARY SYSTEM**

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The Library is seeking to upgrade its existing integrated library system or implement a new system as the current system does not meet its needs. The Library has requested FY 2006 funds to hire a contractor to evaluate the current system and make recommendations to upgrade this system or purchase a new system.

An upgraded or new system would help streamline and organize the Library's operations and better track its collections, contracts and circulated items, and provide staff with access to information for its electronic databases.

### ***Recommendation Q***

The Library, in consultation with OIT, should continue its efforts to upgrade its automated existing integrated library system or implement a new system.

## **LIBRARY ACCOUNT MANAGEMENT SYSTEM**

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The Library uses the Library Account Management System (LAMS) database to track which Commission employees and contractors have access to electronic commercial databases such as Bloomberg and Factiva. When Commission employees and contractors leave the Commission, the Library is supposed to delete the corresponding user accounts from all systems the Library maintains. Some Commission employees violate Commission clearance guidelines by failing to inform the Library of their departure. Contractors are not subject to the employee clearance process.

As a result the Library is not consistently informed of Commission employee and contractor departures and therefore, cannot consistently delete user account IDs upon departure. Library staff informed us that former staff have sometimes continued to access commercial databases using their Commission accounts.

Tracking the departures of contractor staff is an agency-wide problem and OIT is developing a computer system capable of tracking this. In the meantime, OIT set up an e-mail alert system, so that when contractors leave the Commission, an e-mail notification is sent to appropriate Commission staff. During the audit, the Library signed up for these e-mail notifications.

### ***Recommendation R***

The Library should improve its procedures for deleting the accounts of separating employees and contractors. The library should obtain weekly separations reports from the Office of Human Resources.

## **ACQUISITIONS**

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The Library is responsible for ensuring that contracts for approximately 625 hard copy periodicals, over 15,000 book titles, and 125 external databases are timely renewed before expiration. At the time of our review, one Library employee was primarily responsible for all of these subscriptions.

The Library has failed to ensure timely renewal of subscriptions in several instances. The failure to timely renew subscriptions has stopped delivery of publications or prevented access to electronic systems, resulting in staff complaints. To ensure timely renewal of library subscriptions, the Library could:

- Generate a monthly report showing each subscription that is due to expire within one to three months;
- Ensure that all contract renewal documentation prepared by the Library is processed three months prior to expiration dates and sent to the Commission's Procurement and Contracting office, in line with the Library's current policy;
- Work closely with Procurement and Contracting office specialists and contracting officers to monitor the timely completion of contract renewals;
- Work with Procurement and Contracting staff to convert annual contracts to multi-year contracts to reduce the workload necessitated by annual competitions for renewals; and
- Establish a follow-up system to confirm that renewal subscriptions were received by vendors.

The Library informed us that it now meets with Procurement and Contracting office staff biweekly and communicates daily to track progress on contracts. Additionally, the Library now has a new team of four people responsible for all Library contracts.

### ***Recommendation S***

The Library should improve its renewal procedures, as discussed above.

## **STAFF ASSISTANCE**

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The Library does not currently have an experienced law librarian who could assist Commission staff with research. Based on our survey of Commission staff, almost half of the respondents (11 of 25) said they would utilize a law librarian, if available, to assist with legal research.

Commission staff tend to perform their own research at their desks using on-line tools. For this reason, the Library prefers to use its limited staff resources to assist staff to perform on-line research. Additionally, if the Library is able to hire a professional, it prefers an individual who could identify electronic reference services of use to Commission staff and train and assist staff in their effective use.

### ***Recommendation T***

The Library should consider ways to provide additional on-line research assistance to Commission staff (*e.g.*, training current staff or hiring a law librarian).