




OFFICE OF
INSPECTOR GENERAL

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

M E M O R A N D U M

October 7, 2016

TO: Mary Jo White, Chair 

FROM: Carl W. Hoecker, Inspector General

SUBJECT: *The Inspector General's Statement on the SEC's Management and Performance Challenges, October 2016*

The Reports Consolidation Act of 2000 requires the U.S. Securities and Exchange Commission (SEC or agency) Office of Inspector General (OIG) to identify and report annually on the most serious management challenges that the SEC faces. In deciding whether to identify an issue as a challenge, we consider its significance in relation to the SEC's mission; its susceptibility to fraud, waste, and abuse; and the SEC's progress in addressing the challenge. We compiled this statement on the basis of our past and ongoing audit, evaluation, investigation, and review work; our knowledge of the SEC's programs and operations; and information from SEC management and staff, and the U.S. Government Accountability Office (GAO) auditors who conduct the SEC's annual financial statement audit. We previously provided a draft of this statement to SEC officials and considered all comments received when finalizing the statement. As we begin fiscal year (FY) 2017, we identified the following areas where the SEC faces management and performance challenges to varying degrees:

- Meeting Expanded Regulatory Oversight Responsibilities
- Ensuring an Effective Information Security Program
- Improving Contract Management
- Ensuring Effective Human Capital Management

In prior years, we reported that Financial Management also posed a management and performance challenge for the agency due primarily to significant deficiencies and other financial reporting internal control weaknesses identified during GAO's annual financial statement audit. We are pleased to remove Financial Management from this year's statement. In GAO's audits of the 2014 and 2015 financial statements of the SEC and the Investor Protection Fund, GAO found (1) the SEC's and the Investor Protection Fund's financial statements for the FYs ended September 30, 2014, and September 30, 2015, were presented fairly, in all material respects, in accordance with U.S. generally accepted accounting principles; (2) the SEC maintained, in all material respects, effective internal control over financial reporting for the SEC and Investor Protection Fund as of September 30, 2015;

(3) no reportable noncompliance for FY 2015 with provisions of applicable laws, regulations, contracts, and grant agreements tested; and (4) during FY 2015, the SEC made progress in addressing internal control deficiencies GAO had reported in FY 2014, specifically in the agency's accounting for disgorgement and penalty transactions, such that GAO no longer considers the remaining control deficiencies in this area to represent a significant deficiency as of September 30, 2015.¹

Each of the remaining challenges and corresponding audit, evaluation, investigation, or review work is discussed in the attachment. If you have any questions, please contact Rebecca L. Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects.

Attachment

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¹ U.S. Government Accountability Office, [Financial Audit: Securities and Exchange Commission's Fiscal Years 2015 and 2014 Financial Statements](#) (GAO-16-145R, November 16, 2015).

Attachment. THE INSPECTOR GENERAL'S STATEMENT ON THE SEC'S MANAGEMENT AND PERFORMANCE CHALLENGES, OCTOBER 2016

CHALLENGE: Meeting Expanded Regulatory Oversight Responsibilities

Budgetary Resources. As we have previously reported, the increase in the SEC's responsibilities in recent years continues to present challenges for the agency as it carries out its mission to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. The SEC has reported record numbers of enforcement actions and orders directing the payment of penalties and disgorgement, an increase in the number of examinations performed, and progress in rulemakings and initiatives to use data, analytics, and risk-based approaches to further the agency's mission. However, throughout 2016, the SEC Chair provided congressional testimony, similar to testimony provided in 2015, identifying a lack of sufficient resources as a continuing challenge. Specifically, in her June 14, 2016, testimony before the United States Senate Committee on Banking, Housing, and Urban Affairs, the SEC Chair stated the following:

While the Commission today is stronger and more effective than ever before, challenges remain if we are to continue our current trajectory and address the growing size and complexity of the securities markets. We now oversee approximately 28,000 market participants and selectively review the disclosures and financial statements of over 9,000 reporting companies. From 2001 to 2015, assets under management of SEC-registered advisers more than tripled from approximately \$21.5 trillion to approximately \$66.8 trillion, and assets under management of mutual funds more than doubled from \$7 trillion to over \$15 trillion. Trading volume in the equity markets from 2001 through 2015 nearly tripled to over \$70 trillion. And, as this Committee knows, the SEC's responsibilities have also significantly increased, with new or expanded responsibilities for security-based derivatives, hedge fund and other private fund advisers, credit rating agencies, municipal advisers, clearing agencies, and crowdfunding portals. As I have testified before both the House and Senate, the SEC is significantly under-resourced for the extensive responsibilities it has, even though our budget is deficit neutral and funded by very modest transaction fees.²

In 2014 and 2015, we reported that the SEC (specifically, the SEC Chair and the agency's Investor Advocate) had identified resource constraints and an immediate and pressing need for ensuring sufficient examination coverage of registered investment advisers (IAs) as a

² [Chair Mary Jo White testimony on "Oversight of the Securities and Exchange Commission," June 14, 2016, before the United States Senate Committee on Banking, Housing, and Urban Affairs.](#) The Chair provided similar testimony and before the United States House of Representatives Subcommittee on Financial Services and General Government, Committee on Appropriations on [March 22, 2016](#), and before the United States Senate Subcommittee on Financial Services and General Government, Committee on Appropriations on [April 12, 2016](#). Senior Officers from the Division of Economic and Risk Analysis, Office of Compliance Inspections and Examinations, Office of Credit Ratings, and Office of the Whistleblower also provided similar testimony before the United States House of Representatives Subcommittee on Capital Markets and Government Sponsored Enterprises, Committee on Financial Services on [April 21, 2016](#).

challenge and a “substantial and continuing risk to investors.”³ The SEC must continue to find ways to use its limited resources to keep pace with changes in the size and complexity of the securities markets and the market participants the SEC oversees and regulates, absent additional funding increases.

To assess the agency’s progress in this area, in FY 2015, we initiated an evaluation of the Office of Compliance Inspections and Examinations’ (OCIE) efficiency and effectiveness in managing its human resources to address mission priorities and long-term goals, particularly for IA examinations. In our report titled [*Office of Compliance Inspections and Examinations’ Management of Investment Adviser Examination Coverage Goals*](#), Report No. 533, issued March 10, 2016, we reported that OCIE has worked to increase its examination coverage of IAs, including creating an Office of Risk Analysis and Surveillance and enhancing its use of advanced quantitative techniques, and continues to seek new ways to increase its efficiency. However, we found that improvements were needed to assess OCIE’s progress toward meeting strategic objectives and long-term IA examination coverage goals. Specifically, we found that: (1) OCIE’s performance measure—percentage of IAs examined each year—may not provide meaningful information because of variations in examination types, examination candidates, and regional office processes; and (2) the IA/Investment Company program may benefit from adopting the GAO risk management framework.

Furthermore, we found that OCIE’s management of IA examination goals and performance metrics can be more consistent with Federal internal control and risk management standards. Greater consistency will help ensure that examinations conducted support OCIE’s examination priorities, as well as OCIE’s long-term goal and the SEC’s strategic plan. In addition, we reported that management should ensure that OCIE’s performance metrics allow management to assess performance and ensure efficient and effective use of OCIE’s limited resources across regional offices. In September 2015, OCIE hired a consultant to help identify ways OCIE can more efficiently use its resources. In addition, we made two specific recommendations for corrective action. As of the date of this memorandum, management had not received the consultant’s results, and both our recommendations for corrective action remained open.

We also reviewed relevant policies and procedures and the Division of Enforcement’s (Enforcement) internal coordination of investigations after a Federal court suggested that such an examination was warranted to ensure that (1) Enforcement investigations with overlapping factual circumstances are properly coordinated, and (2) scarce agency resources are deployed efficiently. In a management letter titled [*Final Management Letter: Evaluation of the SEC Division of Enforcement’s Coordination Related to a Federal Civil Action*](#), issued June 30, 2016, we reported that the SEC has processes and systems for coordinating Enforcement investigations internally and, when appropriate, across agency divisions and offices. However, we found that staff judgment, which is central to the SEC’s processes for coordinating investigations, led to an instance of untimely information-sharing. We made three recommendations designed to further strengthen the SEC’s policies and procedures for coordinating investigations and making efficient use of limited resources. Management

³ U.S. Securities and Exchange Commission, Office of the Investor Advocate, [*Report on Objectives Fiscal Year 2015*](#).

concurred with our recommendations and has taken action sufficient to close one of the recommendations. As of the date of this memorandum, the other two recommendations remained open.

Technology Enhancements. The SEC continues to recognize the need for “harnessing technology to better identify risks, uncover frauds, sift through large volumes of data, inform policymaking, and streamline operations”⁴ as a way to achieve its expanding regulatory responsibilities and keep pace with the markets and market participants. According to the Chair’s testimony, the emphasis on technological improvements continues to pay dividends, improving efficiencies while allowing the agency to cover more ground than ever before. Key information technology (IT) initiatives included the following:

- expanding data analytics tools;
- improving enforcement investigation and litigation tracking;
- redesigning the Electronic Data Gathering, Analysis and Retrieval (EDGAR) system;
- improving examinations through risk assessment and surveillance tools;
- investing in further business process automation and improvements; and
- enhancing the Tips, Complaints, and Referrals (TCR) system.

We continue to focus our efforts on assessing the agency’s progress in enhancing its technology. For example, in 2015, we identified various factors that led to schedule delays and cost increases in the agency’s project to elicit requirements, design, and deploy the redesigned TCR system, which was originally scheduled to “go-live” in July 2014. At the time we issued our management letter on the subject ([*Final Management Letter: Observations Noted During TCR System Audit Support Engagement*](#), issued May 20, 2015), the SEC had not accepted the redesigned TCR system and a final user acceptance date had not been established, resulting in uncertainty in the timeframe for implementing the redesigned TCR system. As of the date of this memorandum, agency management expected the redesigned TCR system to “go live” in January 2017, 2.5 years later than planned.

In addition, during FY 2016, we assessed the SEC’s IT requirements-gathering process, which impacts the agency’s IT investments, including those to modernize the agency’s systems and improve the efficiency of the SEC’s programs. Because the majority of the agency’s IT investments involve contracting, we discuss the results of our work in this area under the challenge titled “Improving Contract Management.”

For FY 2017, we are planning additional work to assess how well the SEC achieves its expanding regulatory oversight responsibilities by: reviewing the agency’s approaches for improving examination programs, including examinations intended to strengthen the

⁴ [Chair Mary Jo White testimony on “Oversight of the Securities and Exchange Commission,” June 14, 2016, before the United States Senate Committee on Banking, Housing, and Urban Affairs.](#)

technology infrastructure of the U.S. securities markets; ensuring investor access to material information; and modernizing its IT infrastructure, including EDGAR, to improve efficiencies and increase the effectiveness of its programs.

CHALLENGE: Ensuring an Effective Information Security Program

The SEC generates and collects commercially valuable, market-sensitive, proprietary, and other nonpublic information. To accomplish the SEC's mission, the agency shares sensitive information internally among its divisions and offices and externally with the regulated community and financial regulators. In April 2016, the Chair testified that the ability to monitor and avoid advanced persistent threats was a top priority and that the SEC's IT security program planned to focus its efforts on improved risk management and monitoring.⁵

In addition, during her keynote address at the Security Traders Association 83rd Annual Market Structure Conference, the Chair discussed the importance of the consolidated audit trail (CAT) and the challenges of ensuring the security of CAT data. The CAT will be a comprehensive audit trail that will allow regulators to more efficiently and accurately track activity in national market system securities throughout the U.S. markets. The CAT is being created by a joint plan of the 18 national securities exchanges and the Financial Industry Regulatory Authority, pursuant to SEC Rule 613. Although the CAT Plan Processor (and not the SEC) is responsible for developing, managing, and monitoring the CAT, the SEC is responsible for ensuring the security of CAT data that may be accessed by agency employees and/or stored on the agency's network to support regulatory activities. In her address, the Chair stated:

There is no higher market structure priority for me than to ensure Commission consideration of a final CAT plan before the end of the year. One of the major issues raised in comments has been the need for robust controls to protect sensitive personal information and proprietary data from cybersecurity threats. I share this priority, especially given the breadth of data that will be collected by the CAT. The Commission is carefully assessing the security requirements of the CAT plan and evaluating comments on optimal approaches to address data security concerns. The Commission, of course, must ensure that it has strong measures in place to protect the sensitive, non-public information it handles, and I am strongly committed to implementing such measures in conducting our regulatory oversight responsibilities using CAT data.⁶

The SEC has made progress in some areas of information security. For example, to comply with Homeland Security Presidential Directive 12, in summer 2016 the SEC began requiring employees and contractors at certain locations to use their Personal Identify Verification (PIV) cards for network access. The agency anticipates mandatory usage of PIV cards by all employees and contractors by November 2016. In addition, the SEC's Office of Information

⁵ [Chair Mary Jo White "Testimony on the Fiscal Year 2017 Budget Request of the U.S. Securities and Exchange Commission," April 12, 2016, before the United States Senate Subcommittee on Financial Services and General Government, Committee on Appropriations.](#)

⁶ [Chair Mary Jo White keynote address "Equity Market Structure in 2016 and for the Future," at 83rd Annual Market Structure Conference, Washington, DC; September 14, 2016.](#)

Technology (OIT) addressed many recommendations from prior audits and evaluations, as discussed further below. However, we continue to identify and assess weaknesses in the agency's information security controls.

For example, we completed our FY 2015 audit of the effectiveness of the SEC's information security and privacy programs and whether OIT has policies, procedures, and practices consistent with Federal Information Security Modernization Act requirements ([Audit of the SEC's Compliance with the Federal Information Security Modernization Act for Fiscal Year 2015](#), Report No. 535, issued June 2, 2016). Overall, we found that OIT improved in key information security program areas, including implementing PIV to the maximum extent practicable, establishing multi-factor authentication for external systems, and improving identity and access management.

However, we determined that (1) OIT's risk management program did not effectively monitor risks associated with system authorizations, and (2) OIT's configuration management program did not ensure that system owners adhered to baseline configuration requirements. In addition, as in FYs 2013 and 2014, we found that OIT had not fully addressed some areas of potential risk identified in prior Federal Information Security Management Act evaluations. Specifically, SEC systems continued to operate without current authorizations, user accounts were not always deactivated in accordance with policy, continuous monitoring review procedures were developed but not consistently implemented, and some policies and procedures remained outdated or inconsistent.

In addition, we identified three other matters of interest related to the agency's information technology environment. Specifically, we determined that the SEC did not always (1) update Business Impact Analyses to reflect major system changes, (2) update contingency planning documents to reflect changes in alternate site locations, or (3) track security awareness training. We made four recommendations that address support for risk-based decisions, OIT Risk Committee functionality, and configuration management requirements. Management concurred with these recommendations and has already taken action on two of them. As of the date of this memorandum, two recommendations from the FY 2015 audit remained open, as did one recommendation from the FY 2014 evaluation. However, management had sufficiently addressed all recommendations from the FY 2013 evaluation.

In addition, during FY 2016, management sufficiently addressed two recommendations we made in FY 2015 to review data security controls and complete required security assessments and privacy impact assessments of third party fund administrators used to distribute disgorgement and penalty amounts collected to harmed investors.⁷

In our report titled [Audit of the SEC's Process for Reviewing Self-Regulatory Organizations' Proposed Rule Changes](#), Report No. 537, issued September 23, 2016, we reported that information security controls for the system used to submit and track self-regulatory organizations' proposed rule changes needed improvement. We made four recommendations to improve the system's information security and contingency planning documents. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

⁷ U.S. Securities and Exchange Commission, Office of Inspector General, [Improvements Needed in the Division of Enforcement's Oversight of Fund Administrators](#) (Report No. 531, September 30, 2015).

In FY 2016, we completed two investigations related to information security. In one matter, we discovered that an employee sent nonpublic information to a personal e-mail account on 26 occasions and to the employee's spouse's e-mail account on 2 occasions. In the other matter, an SEC attorney transmitted nonpublic information from a personal non-secure e-mail account to the attorney's official SEC e-mail account. The OIG reported the results of these investigations to SEC management to determine whether corrective administrative actions may be warranted.

Finally, as part of its audit of the SEC's FYs 2014 and 2015 financial statements, GAO reported in April 2016⁸ that the SEC improved its information security by addressing weaknesses GAO had previously identified. However, according to GAO, weaknesses continue to limit the effectiveness of other security controls. In particular, GAO found that the SEC did not consistently protect access to its systems; did not consistently manage the configuration of its systems; did not always appropriately separate incompatible duties; and did not ensure that contingency and disaster recovery plans for its information systems were fully reviewed, completed, or up-to-date. According to GAO, these weaknesses existed in part because the SEC had not fully implemented an organization-wide information security program, as called for by Federal law and guidance. In particular, the agency had not (1) consistently reviewed and updated its information security policies in a timely manner, (2) completely documented plans of action to address weaknesses, (3) documented a physical inventory of its systems and applications, and (4) fully implemented a program to continuously monitor the security of its systems and networks. In addition to 15 prior recommendations that had not been fully implemented as of the date of GAO's report, GAO recommended that the SEC take 6 additional actions to more fully implement its information security program. In a separate report with limited distribution, GAO recommended that the SEC take 30 actions to address newly identified control weaknesses. SEC management concurred with GAO's recommendations. According to agency management, OIT has implemented corrective actions to address GAO's recommendations.

The OIG has established a working group consisting of OIG auditors, special agents, and IT specialists, and we will leverage the expertise of this working group to assist us in continuing to assess the SEC's information security program.

CHALLENGE: Improving Contract Management

According to the agency's 2015 Agency Financial Report (AFR), the Office of Acquisitions (OA) continues to enhance the planning, award, and administration of contracts by focusing on long-term scalable enterprise contracts, increasing collaboration and early involvement in planning SEC procurements, and leveraging SEC buying to obtain better business deals and pricing with longer term contracts.⁹ We have observed efforts to consolidate contracts (specifically, for Oracle-related investments) to achieve efficiencies. In addition, OA reported returning nearly \$31 million to SEC budgets in FY 2015 through its de-obligation and closeout process, and estimates returning more than \$40 million for FY 2016. Also, OA reported surpassing all small business goals set for the agency in FY 2015 and anticipates that it will

⁸ U.S. Government Accountability Office, [INFORMATION SECURITY: Opportunities Exist for SEC to Improve Its Controls over Financial Systems and Data](#) (GAO-16-493, April 28, 2016).

⁹ [U.S. Securities and Exchange Commission Agency Financial Report, Fiscal Year 2015](#).

meet or exceed its FY 2016 goals. Although OA continues to improve its processes, we continue to identify areas of needed improvements in other offices' and divisions' contract management.

For example, as previously discussed, there have been repeated delays and contract extensions related to the agency's effort to elicit requirements, design, and deploy the redesigned TCR system. Various factors, including unacceptable contractor performance and a lack of adequate contractor and Government resources to timely address concerns, led to the project's schedule delays and cost increases. As we reported last year, in February 2015, GAO included "Improving the Management of Information Technology (IT) Acquisitions and Operations" as a new high-risk area needing attention by Congress and the executive branch.¹⁰ Specifically, GAO stated:

Congress has passed legislation and the administration has undertaken numerous initiatives to better manage IT investments. Nonetheless, federal IT investments too frequently fail to be completed or incur cost overruns and schedule slippages while contributing little to mission-related outcomes. GAO has found that the federal government spent billions of dollars on failed and poorly performing IT investments which often suffered from ineffective management, such as project planning, requirements definition, and program oversight and governance.

As a result, we initiated an audit to assess the SEC's IT requirements-gathering process. We determined that, between October 1, 2013, and November 25, 2015, the SEC obligated more than \$521 million for 692 IT investments. The SEC has engaged contractors to manage many of these IT investments. In our report titled [*Audit of the SEC's Information Technology Requirements-Gathering Process*](#), Report No. 538, issued September 30, 2016, we found that the SEC initiated efforts in September 2015 to establish an IT Requirements Center of Excellence. By August 2016, OIT had rolled-out the Requirements Center of Excellence framework. However, OIT has not fully designed and implemented the SEC's IT requirements-gathering process, and opportunities exist to improve OIT's oversight of the SEC's IT investments and their underlying requirements. Specifically, we reviewed a sample of 17 development, modernization, and enhancement (DME) investments and 8 steady state investments and found that OIT did not consistently document or validate detailed, measurable requirements, particularly for DME investments. In addition, OIT did not always ensure that investments were managed by integrated project teams and certified individuals, where necessary, or define project team members' roles and responsibilities for IT requirements-gathering. We also found that investment documents did not always demonstrate that OIT integrated security requirements into DME investment planning and initiation phases.

Furthermore, OIT did not consistently review and coordinate IT investments—particularly steady state investments, investments to acquire technology equipment, and Oracle support services investments—to prevent redundancy; and for two investments, governance authorities did not review and approve changes to the investments' baselines before implementation. As a result, (1) OIT did not always comply with Federal regulations, Federal and industry guidelines it recognizes in its own policies and procedures, and its own policies

¹⁰ U.S. Government Accountability Office, [*High-Risk Series An Update*](#) (GAO-15-290, February 2015).

and procedures; (2) two contractor–managed IT investments we reviewed were delayed between 6 and 15 months from their initial completion dates (one of them incurred about \$1.9 million in additional costs to further define requirements and continue project development and implementation); and (3) the SEC may not realize any cost savings from an effort to consolidate some contracts for Oracle support services.

Additionally, the SEC may not have optimized its technology equipment purchases. We also question \$24,230 paid to a contractor hired to gather requirements during a period when the corresponding project had no specific requirements-gathering activity. Finally, we determined that the SEC paid one contractor about \$1 million to develop requirements that, according to the business sponsor, may in part need to be re-worked once a dependency (a separate system component) is completed, and paid another contractor about \$600,000 for a project that was put on hold. We made seven recommendations for corrective action. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

Also, in FY 2016, OA improved the SEC’s Contracting Officer’s Representative (COR) Program by sufficiently addressing all six recommendations from an OIG audit completed in 2015.¹¹ However, we identified additional concerns with the performance of COR duties for one contract. In our report titled [Management of the SEC’s Protective Security Force Contract Needs Improvement](#) (Report No. 536, issued June 22, 2016), we found that the Office of Security Services (OSS) did not ensure that the contractor responsible for providing Special Police Officers (SPO) to perform guard duties at the SEC’s Headquarters met all contract terms and Federal best practices. Specifically, the COR allowed the contractor to deviate from contract terms about SPO training and testing and Federal best practices, and relied instead on the less stringent SPO licensing requirements of the District of Columbia Metropolitan Police Department. The SEC also paid for SPO training that the contractor did not provide. Based on information provided by OA and OSS, the difference in contractually required versus actual training hours resulted in questioned costs of about \$177,000.

Moreover, we found that OSS did not ensure the contractor met all contract terms relating to contract deliverables, quality control practices, and weapons inventories. For example, the contractor did not provide some required periodic reports, including reports about SPO training and weapons, and maintained incomplete and inaccurate firearms information, including inaccurate firearm serial numbers. The COR did not have an accurate list of all firearms on-site for almost a year. As a result, the SEC did not ensure that the contractor performed adequate quality inspections or provided accurate information for proper contract oversight.

Furthermore, we found that post orders, which define the specific duties that SPOs are to perform at certain locations throughout the SEC’s Headquarters, needed improvement. Although most of the information in the post orders appeared sufficient and appropriate for SPOs to understand their duties, some information was inconsistent among all post orders, post orders for one post conflicted with the contract, and post orders for another post were incomplete. This could result in inconsistent or improper performance of SPO duties or responses to emergencies. To improve the SEC’s oversight of its protective security force contract, we made four recommendations. The recommendations address improvements to

¹¹ U.S. Securities and Exchange Commission, Office of Inspector General, [Audit of the SEC’s Contracting Officer’s Representative Program](#) (Report No. 530, September 18, 2015).

ensure contractor compliance with contract terms and communication between OA and OSS. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

Based on (1) observations from our prior work, (2) GAO's recognition of IT acquisition as a high-risk area across the executive branch, and (3) the magnitude and criticality of the SEC's ongoing and planned IT modernization efforts, we plan to perform work in FY 2017 to assess the SEC's continued progress in improving its contract management broadly and its IT acquisitions specifically. To assist in this effort, the OIG established an internal acquisition task force in FY 2016 to analyze and track information related to the SEC's acquisition activities.

CHALLENGE: Ensuring Effective Human Capital Management

The SEC seeks to hire and retain a skilled and diverse workforce and to ensure that all decisions affecting employees and applicants are fair and ethical. Attracting, engaging, and retaining a technically proficient and diverse workforce is one of the agency's stated strategic objectives.¹² To that end, we noted that the SEC has sufficiently addressed all recommendations from a 2014 OIG audit of the agency's representation of minorities and women in its workforce.¹³ Also in 2016, based on the results of its Federal Employee Viewpoint Survey, the SEC was ranked 3 out of the 37 large agencies on the Office of Personnel Management's Global Satisfaction Index rankings. In addition, according to the agency's 2015 AFR, the SEC established a new Expert Inventory/Skills Database, known as Talent Profile, to "identify specialized staff experience and expertise that might not be applied during an employee's regular day-to-day activities, but which is needed when unusual but important situations arise," and a new Career Horizons program that "further helps employees advance their careers through a systematic skills and training acquisition strategy." The 2015 AFR also discusses the launch of the Aspiring Leaders Program to promote and build leadership competencies of senior employees.

During 2016, the Office of Human Resources (OHR) released a Human Capital Strategic Plan to align the agency's human capital with the achievement of its mission, goals, and objectives. The agency also released an SEC Strategic Workforce Plan, which "provides an overview of the current workforce; identifies critical workforce competencies for SEC mission critical occupations; and identifies perceived workforce competency gaps from supervisors/managers." Based on the competency gaps identified from supervisors and managers, the Plan established the following three primary goals:

- Goal 1: Reduce gaps in core/professional competencies across mission-critical occupations.
- Goal 2: Reduce gaps in technical competencies across mission-critical occupations.
- Goal 3: Increase leadership-ready talent pools across all SK grade levels.

¹² [U.S. Securities and Exchange Commission Strategic Plan, Fiscal Years 2014 – 2018](#).

¹³ U.S. Securities and Exchange Commission, Office of Inspector General, [Audit of the Representation of Minorities and Women in the SEC's Workforce](#) (Report No. 528, November 20, 2014).

The Plan also outlines strategies to begin addressing the competency gaps and includes tasks that should be initiated or completed in the next 2 years. However, as we stated in FY 2015, human capital management remains a challenge.

In its 2015 AFR, the SEC stated that, in FY 2016, OHR would continue to streamline the hiring process, allowing OHR to recruit staff quickly and efficiently in response to the demands of the mission. On November 30, 2015, we announced an audit to determine whether the SEC's hiring process facilitated the efficient selection of high-quality candidates. Because OHR had not fully implemented systems to reliably monitor the timeliness and quality of agency hiring, and because OHR planned to reassess the SEC's hiring process and predetermined hiring timelines, we terminated the audit. In our resulting management letter, we reported observations based on the work completed ([Final Closeout Memorandum: Audit of the SEC's Hiring Practices](#), issued August 19, 2016). We found that in the last few years, OHR has improved the SEC's hiring process by, among other things, developing a Service Level Commitment that established the service levels (that is, hiring timelines), monitoring methods, and organizational responsibilities for the SEC's hiring process; developing quality-of-new-hire surveys; and implementing the Workforce Transformation Tracking System to monitor agency hiring from end to end.

However, we identified opportunities for further improvements. Specifically, we determined that OHR did not have an effective method for assessing the timeliness of the SEC's hiring process, including maintaining reliable hiring data and monitoring hiring actions according to timelines established in the Service Level Commitment. Furthermore, OHR did not analyze quality-of-new-hire survey results to improve the SEC's hiring process. As part of OHR's reassessment of the agency's hiring process, we urged OHR to implement an effective system based on reliable data to conduct comprehensive assessments of the SEC's hiring process. Doing so could further improve the hiring process and increase the likelihood that SEC divisions and offices timely hire highly qualified candidates to meet mission requirements.

In addition, in March 2016, we reported that the SEC is one of the Federal agencies that consistently uses student loan repayments the most to recruit or retain highly qualified personnel ([Audit of the SEC's Student Loan Repayment Program](#), Report No. 534, issued March 31, 2016). In 2014 and 2015, OHR implemented significant changes to the SEC's Student Loan Repayment Program (SLRP). However, we identified internal controls weaknesses impacting the SLRP Program Office's ability to effectively manage the program. Specifically, Program Office personnel did not (1) maintain complete and accurate participant information, (2) implement or enforce effective approval and verification controls, or (3) update the SEC's SLRP policy and ensure the policy complied with certain Federal requirements. A prior OIG audit, an Office of Personnel Management evaluation, and an internal OHR assessment identified similar issues. As a result, we were not able to determine whether the SEC always complied with statutory annual and lifetime SLRP limits (\$10,000 and \$60,000, respectively).

Furthermore, although we verified that the SEC either collected or was collecting repayments from 95 former employees, Program Office personnel were unaware of 17 other individuals who had left the SEC and Federal service between January 2007 and June 2015 before fulfilling their service agreements. These 17 individuals owed the SEC a total of about \$216,000. In addition, SLRP Program Office personnel did not always implement or enforce effective approval and verification controls. To improve the SEC's management of its SLRP,

thereby improving its likelihood of retaining highly qualified personnel, we made nine recommendations for corrective action. Management concurred with the recommendations, and has already taken action to close one that led to recouping the funds owed by individuals who left the agency before fulfilling their service agreements. As of the date of this memorandum, the other eight recommendations remained open.

In FY 2017, we will continue to monitor the SEC's human capital management, including its progress toward (1) addressing competency gaps identified by supervisors and managers, and (2) meeting the goals established in the agency's new Human Capital Strategic Plan.