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OFFICE OF INSPECTOR GENERAL
SEMIANNUAL REPORT TO CONGRESS

APRIL 1, 2019 THROUGH SEPTEMBER 30, 2019



OIG MISSION

The mission of the Office of Inspector General (OIG) is to promote the integrity, efficiency, and effectiveness of the critical programs and operations of the U.S. Securities and Exchange Commission (SEC or Agency). We accomplish this mission by:

- Conducting independent and objective audits, evaluations, and other reviews of SEC programs and operations;
- Conducting independent and objective investigations of potential criminal, civil, and administrative violations that undermine the ability of the SEC to accomplish its statutory mission;
- Preventing and detecting fraud, waste, and abuse in SEC programs and operations;
- Identifying vulnerabilities in SEC systems and operations and making recommendations to improve them;
- Communicating timely and useful information that facilitates management decision making and the achievement of measurable gains; and
- Keeping Congress and the Chairman and Commissioners fully and currently informed of significant issues and developments.

“We continued our efforts to meet our strategic goals of (1) delivering results that promote integrity, efficiency, and effectiveness in the SEC’s programs and operations; (2) advancing an inclusive and dynamic OIG culture that inspires high performance; and (3) improving the effectiveness and efficiency of OIG processes through continuous innovation, collaboration, and communication.”

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ABBREVIATIONS

Acquisitions	Office of Acquisitions
Agency/SEC	U.S. Securities and Exchange Commission
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
DATA Act	Digital Accountability and Transparency Act of 2014
DERA	Division of Economic and Risk Analysis
DHS	U.S. Department of Homeland Security
DME	development, modernization, and enhancement
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOJ	U.S. Department of Justice
EDGAR	Electronic Data Gathering, Analysis, and Retrieval
ENF	Division of Enforcement
ERD	EDGAR Redesign
ESP	Employee Suggestion Program
Exchange Act	Securities Exchange Act of 1934
FISMA	Federal Information Security Modernization Act
FY	fiscal year
GAO	Government Accountability Office
IG	Inspector General
ISS	infrastructure support services
IT	information technology
NSF	National Science Foundation
OA	Office of Audits
OBDF	Office of Broker-Dealer Finances
OI	Office of Investigations
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
ORA	Office of Risk Assessment
ORDS	Office of Research and Data Services
RFQ	Request for Quotation
TM	Division of Trading and Markets
T&M	time-and-materials
Treasury	U.S. Department of the Treasury
USAO	United States Attorney's Office
USC	United States Code
USDC-DC	United States District Court for the District of Columbia





MESSAGE FROM THE INSPECTOR GENERAL



I am pleased to present this Semiannual Report to Congress as Inspector General (IG) of the SEC. This report describes the work of the SEC OIG from April 1, 2019, to September 30, 2019, and reflects our responsibility to report independently to Congress and the Commission. The audits, evaluations, investigations, and other reviews that we describe illustrate the OIG's efforts to promote the efficiency and effectiveness of the SEC and demonstrate the impact that our work has had on the agency's programs and operations.

During this semiannual reporting period, we continued our efforts to meet our strategic goals of (1) delivering results that promote integrity, efficiency, and effectiveness in the SEC's programs and operations; (2) advancing an inclusive and dynamic OIG culture that inspires high performance; and (3) improving the effectiveness and efficiency of OIG processes through continuous innovation, collaboration, and communication.

In April of 2019, the SEC OIG established the Acquisition Working Group to gain a better understanding of the SEC's Office of Acquisitions' (Acquisitions) overall contracting portfolio. By creating and maintaining a repository of publicly available SEC contract-related documentation,

the Acquisition Working Group improves the OIG's knowledge base of SEC contracting-related matters and facilitates the analysis and identification of the SEC's contracting risk.

During this reporting period, the OIG's Office of Audits (OA) issued *Although Highly Valued by End Users, DERA Could Improve Its Analytics Support by Formally Measuring Impact, Where Possible* (Report No. 553), which includes three recommendations to the Division of Economic and Risk Analysis (DERA) to assess its organizational performance, increase awareness of its analytics capabilities, and fully integrate analytics into the work of the SEC. Then, we issued *Final Management Letter: Update on the SEC's Progress Toward*

Redesigning the Electronic Data Gathering, Analysis, and Retrieval System, which requests that the SEC clarify and provide the OIG its approach to redesigning the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system. Next, we issued *The SEC Can Better Manage Administrative Aspects of the ISS Contract (Report No. 554)*, which includes five recommendations, based on the aspects of the infrastructure support services (ISS) contract reviewed, to improve the SEC's management of funds obligated to and spent on the agency's ISS contract. (Services provided under the contract—the agency's largest active contract—comprise key aspects of the SEC's information technology [IT] program.) Finally, we issued *The SEC Has Processes To Manage Information Technology Investments But Improvements Are Needed (Report No. 555)*, which includes five recommendations to improve the SEC's management of IT investments, including recommendations to update the SEC's capital planning and investment control policies and procedures and to provide training to personnel with investment oversight and program management responsibilities. We also made one recommendation to improve the SEC's contract management by establishing documentation requirements for thoroughly supporting independent Government cost estimates.

OA also worked with SEC management to close 31 recommendations made in 9 OIG reports issued during previous semiannual reporting periods.

In addition, the Office of Investigations (OI) completed or closed 17 investigations during this reporting period. The investigations involved a wide range of violations, including allegations of e-mail impersonation and fraud, working without authorization, obstruction, fraud, failing to pre-clear securities, procurement fraud, impersonation, misrepresentation, misrepresented filings, and taking photographs without permission.

Our investigations resulted in 14 referrals to the U.S. Department of Justice (DOJ), 1 of which was accepted for prosecution, and 2 referrals to management for administrative action.

In closing, I remain firmly committed to executing the OIG's mission of promoting the integrity, efficiency, and effectiveness of the SEC's programs and operations and to reporting our findings and recommendations to Congress and the Commission. We will continue to collaborate with SEC management to assist the agency in addressing the challenges it faces in its unique and important mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. I appreciate the significant support that the OIG has received from Congress and the agency. We look forward to continuing to work closely with the Commission and staff, as well as Congress, to accomplish our mission.



CARL W. HOECKER
Inspector General



MANAGEMENT AND ADMINISTRATION

AGENCY OVERVIEW

The SEC’s mission is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. The SEC strives to promote capital markets that inspire public confidence and provide a diverse array of financial opportunities to retail and institutional investors, entrepreneurs, public companies, and other market participants. Its core values consist of integrity, excellence, accountability, teamwork, fairness, and effectiveness. The SEC’s goals are “(1) focus on the long-term interests of our Main Street investors; (2) recognize significant developments and trends in our evolving capital markets and adjusting our efforts to ensure we are effectively allocating our resources; and (3) elevate the SEC’s performance by enhancing our analytical capabilities and human capital development.”

The SEC is responsible for overseeing the nation’s securities markets and certain primary participants, including broker-dealers, investment companies, investment advisers, clearing agencies, transfer agents, credit rating agencies, and securities exchanges, as well as organizations such as the Financial Industry Regulatory Authority, Municipal Securities Rulemaking Board, and the Public Company Accounting Oversight Board. Under the Dodd-Frank Wall Street Reform and Consumer

Protection Act of 2010 (Dodd-Frank), the agency’s jurisdiction was expanded to include certain participants in the derivatives markets, private fund advisers, and municipal advisors.

The SEC accomplishes its mission through 5 main divisions—Corporation Finance, Enforcement (ENF), Investment Management, Trading and Markets (TM), and DERA—and 25 functional offices. The SEC’s headquarters are in Washington, DC, and the agency has 11 regional offices located throughout the country. As of September 2019, the SEC employed 4,350 full-time equivalent employees.

OIG STAFFING, RESOURCES, AND ADMINISTRATION

During this semiannual reporting period, the OIG filled key vacancies integral to management and audit functions. We hired a Deputy IG for the Office of Operations and Management and two new auditors. We also continued our efforts to meet our strategic goals of (1) delivering results that promote integrity, efficiency, and effectiveness in the SEC’s programs and operations; (2) advancing an inclusive and dynamic OIG culture that inspires high performance; and (3) improving the effectiveness and efficiency of OIG processes through continuous innovation, collaboration, and communication.

OIG OUTREACH

The IG regularly met with the Commissioners and senior officers from various SEC divisions and offices to foster open communication at all levels between the OIG and the agency. Through these efforts, the OIG kept up to date on significant, current matters that were relevant to the OIG's work. These regular communications also enabled the OIG to obtain agency management's input on what it believes are the areas presenting the greatest risks or challenges, facilitating the OIG's identification and planning for future work. The OIG continually strives to keep apprised of changes to agency programs and operations and keeps SEC management informed of the OIG's activities and concerns raised during its work.

The OIG also continued its efforts to educate SEC employees on the roles and responsibilities of the OIG. The OIG participates in the SEC's new

employee orientation sessions and gives an overview of the OIG and its various functions. Additionally, the OIG continued to educate staff on and promote the OIG's SEC Employee Suggestion Program (ESP), to encourage suggestions for improvements in the SEC's work efficiency, effectiveness, and productivity, and the use of its resources.

OI continued its fraud awareness briefing program throughout the SEC. These briefings serve to educate SEC employees on the activities of the OIG as well as specific vulnerabilities in the programs they oversee. The briefings also enhance the OIG's "eyes and ears," with the goal of achieving more timely and complete reporting of possible fraud, waste and abuse in SEC programs and operations. Additionally, the OIG continued its collaboration with the SEC's Office of Financial Management and Acquisitions to provide an OIG training module during annual training for contracting officials.



COORDINATION WITH OTHER AGENCIES

During this semiannual reporting period, the SEC OIG coordinated its activities with those of other agencies, pursuant to Section 4(a)(4) of the IG Act of 1978, as amended.

Specifically, the OIG participated in the meetings and activities of the Council of Inspectors General on Financial Oversight (CIGFO), which was established by Dodd-Frank. The chairman of CIGFO is the IG of the U.S. Department of the Treasury (Treasury). Other members of the Council, in addition to the IGs of the SEC and Treasury, are the IGs of the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission, the U.S. Department of Housing and Urban Development, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Credit Union Administration, and also the Special IG for the Troubled Asset Relief Program. As required by Dodd-Frank, CIGFO meets at least once every 3 months. At the CIGFO meetings, the members share information about their ongoing work, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight.

The IGs within CIGFO report annually on the Top Management and Performance Challenges facing their respective Financial-Sector Regulatory Organizations. CIGFO's report issued during this reporting period reiterates the six challenges from the CIGFO 2018 report and includes an additional challenge (Improving Contract and Grant Management) for 2019:

- Enhancing Oversight of Financial Institution Cybersecurity
- Managing and Securing Information Technology at Regulatory Organizations
- Sharing Threat Information
- Ensuring Readiness for Crises
- Strengthening Agency Governance
- Managing Human Capital
- Improving Contract and Grant Management

The SEC IG also attended meetings of the Council of the Inspectors General on Integrity and Efficiency (CIGIE). The IG is a member of the CIGIE Investigations Committee and the Audit Committee, whose missions are to advise the IG community on issues

related to investigations and audits. In addition, the OIG participated on a team to update CIGIE Quality Standards for Digital Forensics, which provide a framework for performing high-quality digital forensics in support of investigations conducted by an OIG. The OIG also participated in the CIGIE Undercover Review Committee, which provided recommendations and approvals on the suitability of undercover operations that involved sensitive circumstances that were carried out in accordance with DOJ guidelines.

OA continued to participate in activities of the CIGIE Federal Audit Executive Council and, as necessary, supported requests for assistance from other OIGs. For example, OA assisted the Federal Reserve Board OIG with a benchmarking effort related to an ongoing audit of the Federal Reserve System's oversight of the designated financial market utility supervision program. In addition, OA staff continued participating in the CIGIE Enterprise Risk Management working group. As part of this effort,

the Deputy IG for Audits, Evaluations, and Special Projects chaired one of the working group's sub-groups. The goal of the sub-group is to develop guidance for audit and evaluation teams responsible for assessing their agency's Enterprise Risk Management programs. The sub-group will finalize its guidance during the next semiannual reporting period.

The Counsel to the IG participated in the Employment Law Working Group of the Council of Counsels to the IGs, chaired the Administrative Leave Act Working Group, participated on the New IG Attorney Course Working Group, and served as an instructor for the CIGIE Training Institute's Audit, Inspection, and Evaluation Academy. The Counsel also participated in the Small OIG Counsel Working Group.

OIG staff also participated in the activities of the Deputy IGs group and the CIGIE Freedom of Information Act Working Group.



AUDITS AND EVALUATIONS

OVERVIEW

OA conducts, coordinates, and supervises independent audits and evaluations of the agency's programs and operations at the SEC's headquarters and 11 regional offices. OA also hires, as needed, contractors and subject matter experts, who provide technical expertise in specific areas, to perform work on the OIG's behalf. In addition, OA monitors the SEC's progress in taking corrective actions on recommendations in OIG audit and evaluation reports.

Each year, OA prepares an annual work plan. The plan includes work that the Office selects for audit or evaluation on the bases of risk and materiality, known or perceived vulnerabilities and inefficiencies, resource availability, and information received from Congress, SEC staff, the Government Accountability Office (GAO), and the public.

OA conducts audits in compliance with generally accepted government auditing standards issued by the Comptroller General of the United States. OIG evaluations follow the CIGIE *Quality Standards for Inspection and Evaluation*. At the completion of an audit or evaluation, the OIG issues an independent report that identifies deficiencies and makes recommendations, as necessary, to correct those deficiencies or increase efficiencies in an SEC program or operation.

COMPLETED AUDITS AND EVALUATIONS

Although Highly Valued by End Users, DERA Could Improve Its Analytics Support by Formally Measuring Impact, Where Possible (Report No. 553)

The SEC increasingly relies on data and analytics to guide its strategic and operational activities and to make more informed, effective decisions. Based on fiscal year (FY) 2017 budget information, the SEC spends about \$120 million annually on data management and about \$20 million annually on analytics. Furthermore, the SEC's Strategic Plan for FY 2018 through FY 2022 and FY 2020 Annual Performance Plan emphasize the agency's goal of enhancing and expanding its use of analytics.

DERA assists the agency in executing its mission by integrating sophisticated, data-driven analytics and economic analysis into the work of the SEC. Analytics provided by DERA's Office of Risk Assessment (ORA) and Office of Research and Data Services (ORDS) support exam planning and other agency oversight programs related to issuers, broker-dealers, investment advisers, exchanges, and other trading platforms. (During this semiannual reporting period, ORDS had a name change to the Office of Data Science.) To assess DERA's controls over integration of data analytics into the core mission of the SEC, we initiated an evaluation.

We determined that, although end users highly valued DERA's analytics support and believed such analytics were indispensable for risk scoping, investor protection, detecting illegal conduct, allocating resources more efficiently, and helping the SEC achieve its mission, ORA and ORDS management generally did not formally measure the quantitative or qualitative impact of either office's analytics support. Management noted that it tracked end user requests for analytics support, considered repeat customers as evidence analytics are valued, and identified potential metrics for measuring impact (such as efficiency gains and end user satisfaction); however, management had not formalized such metrics.

DERA management and end users of DERA's analytics acknowledged that it might be difficult to devise meaningful impact measurement metrics for some analytics projects. For example, even though ORA analytics identified outliers that led to at least one ENF investigation, not all analytics produce such directly measurable outcomes. Management was also apprehensive about burdening end users with requests for feedback regarding analytics' impact. However, by not measuring, where possible, the impact of ORA's and ORDS' analytics support, DERA risks limiting its ability to assess its organizational performance, increase awareness of its analytics capabilities (including through outreach efforts), and fully integrate analytics into the work of the SEC in accordance with the agency's strategic goals and objectives.

In addition, we reviewed available usage data for two analytics tools that incorporated ORA analytics and found that end users used and valued both tools. Although DERA did not regularly review the usage data for one tool and usage data for the other tool was incomplete, we determined that DERA's review of such data would not significantly help the Division meet agency goals and objectives.

We also assessed DERA's interactions with the SEC's other divisions and offices, including its coordina-

tion and outreach efforts, and determined that staff in other divisions and offices generally viewed interactions with DERA favorably; duplicative analytics work across the SEC was not apparent; and DERA proactively engaged in outreach. However, a majority of respondents to a question in a survey we administered (22 of 37, or almost 60 percent) expressed an interest in further DERA outreach. Respondents believed that promoting the nature and benefits (that is, impact) of DERA analytics and systems could be useful to the SEC's other divisions and offices.

Finally, we identified one other matter of interest related to data management. Although we did not assess the SEC's data management practices and are not making any recommendations regarding data management at this time, we noted that data management is the foundation of analytics. Therefore, it is important to verify completion of the SEC's plans to improve in this area. We will continue to monitor the agency's plans and progress related to data management.

We issued our final report on April 29, 2019, and to improve its ability to assess its organizational performance, increase awareness of its analytics capabilities, and fully integrate analytics into the work of the SEC in accordance with the agency's strategic goals and objectives, we recommended that DERA (1) work with end users of its analytics projects to develop metrics, where possible, for formally measuring analytics support impact; (2) modify existing internal tracking processes to include, where possible, analytics impact measurement; and (3) incorporate the results of analytics impact measurements in the Division's outreach efforts. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

This report is available on our website at https://www.sec.gov/files/Although-Highly-Valued-by-End-Users-DERA-Could-Improve-Report-No-553_0.pdf.

Final Management Letter: Update on the SEC's Progress Toward Redesigning the Electronic Data Gathering, Analysis, and Retrieval System

In September 2017, the SEC OIG reported observations about controls over the SEC's EDGAR system enhancements and redesign efforts. We noted that the SEC's EDGAR Redesign (ERD) program is a multi-year, cross-agency initiative and, since 2014, the SEC had taken steps to develop and implement a new electronic disclosure system that meets agency needs. We made one recommendation to strengthen the agency's ERD program.

Since issuing our September 2017 report, we have continued to monitor the SEC's progress toward redesigning the EDGAR system. We have not conducted an audit or evaluation in conformance with generally accepted government auditing standards or CIGIE's *Quality Standards for Inspection and Evaluation*. However, based on the work performed, on May 23, 2019, we issued a management letter, reporting concerns that warranted management's attention.

To maintain visibility into this high-risk area with respect to the SEC, we continued to monitor the agency's progress toward redesigning the EDGAR system, which is at the heart of the agency's mission of protecting investors; maintaining fair, orderly, and efficient markets; and facilitating capital formation. In 2014, the SEC formally began efforts to redesign the system and, since that time, has taken several steps to develop a new electronic disclosure system, including spending about \$10.6 million on related contracts.

However, we determined that the agency's approach to redesigning the EDGAR system is unclear; ERD program cost and schedule estimates presented to agency decision makers and senior officials were not based on best practices; and the EDGAR Business Office created a Grand Functional Requirements Document for the redesigned EDGAR system but did not include sufficient detail about the system's security requirements.

To help us determine whether further action by the OIG is warranted, we requested—and management provided—additional information in June 2019. As the SEC continues to modernize the EDGAR system and improve the system's security, functionality, and maintainability, we will assess the value of follow-on reviews.

Because this report contains sensitive information, we are releasing a redacted version on our website at <https://www.sec.gov/files/Final-Mgmt-Ltr-Update-on-the-SECs-Progress-Toward-Redesigning-EDGAR.pdf>.

The SEC Can Better Manage Administrative Aspects of the ISS Contract (Report No. 554)

On January 25, 2016, the SEC awarded a combination-type contract (time-and-materials [T&M] and fixed-price) for ISS for all SEC divisions and offices, including the agency's 11 regional offices. Services provided under the contract (the agency's largest active contract) comprise key aspects of the SEC's IT program. As of July 2018, the contract's total potential value, including all exercised and unexercised options through April 2026, was more than \$297 million. Moreover, between August 2016 and July 2018, the SEC incurred almost \$74 million in labor costs under the contract.

We conducted this audit to assess the SEC's management of funds obligated to and spent on the ISS contract. Specifically, we sought to (1) determine whether the SEC obtained and properly reviewed plans for converting any contract task area(s) from T&M to other pricing structures, (2) evaluate the SEC's decision to waive the requirement for using the agency's Contractor Time Management System, and (3) assess the agency's management of contractor time and approval of contractor invoices.

Under T&M contracts, payments to contractors are made based on the number of labor hours billed at hourly rates and, if applicable, other direct costs. Because of the risk they pose to the Government, their use is supposed to be limited to cases where no

other contract type is suitable. Shortly after award of the SEC's ISS contract, responsible officials became aware of concerns with the ISS contractor's invoices. Specifically, invoices were routinely submitted months late and included multiple periods of performance, frequent back billing, and adjustments from prior periods of performance already paid. Despite these issues and the inherent risk posed to the Government by T&M contracts, the SEC waived, or did not enforce, certain administrative contract requirements. Specifically, the SEC:

- waived the requirement to use the agency's Contractor Time Management System without requesting or reviewing relevant information, or establishing mitigating internal controls;
- did not consistently enforce requirements for pre-approval of labor hours outside the contractor's normal hours of performance; and
- did not ensure all contractor employees—including those responsible for performing IT assessments, managing data networks, and administering servers and systems, among other essential IT tasks—met minimum labor category requirements.

These conditions—particularly when combined with the known invoicing delays and other complexities—further weakened the contract's overall internal control environment; affected the agency's ability to effectively monitor contractor costs; and increased the risk of errors, fraud, waste, and poor contractor performance in key areas supporting the SEC's IT program. Consistent with generally accepted government auditing standards, we performed tests to gain reasonable assurance of detecting fraud in the areas we reviewed.

Although we did not detect likely instances of fraud in the areas we reviewed, we identified nearly \$3 million in unsupported contractor costs and an additional \$42,801 in questioned costs. As a result, the SEC may not be able to (1) rely on the contract's historical cost information to ensure a fair and reasonable price for any task areas converted from T&M to other pricing structures, as planned, or

(2) meet its stated goal of cost-reduction in the out years of the ISS contract.

We also identified three other matters of interest that did not warrant recommendations: however, we discussed the matters with agency management. These matters involved the prevalence of T&M contracts at the SEC, the ISS contract's statement of determination and findings, and a lack of agency policies and procedures for converting T&M contracts to other pricing structures.

We issued our final report on May 31, 2019, and made five recommendations, including that the SEC develop mitigating controls to ensure the contractor is using efficient methods and effective cost controls, reassess plans to rely on the contract's historical cost information before converting any task areas, and further clarify and communicate roles and responsibilities for pre-approving contractor requests for additional hours. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

Because this report contains sensitive information, we are releasing a redacted version on our website at <https://www.sec.gov/files/SEC-Can-Better-Manage-Admin-Aspects-of-the-ISS-Contract-Report-No-554.pdf>.

The SEC Has Processes To Manage Information Technology Investments But Improvements Are Needed (Report No. 555)

In FY 2018, the SEC spent about \$307 million on 515 IT investments. ("Spent" includes amounts obligated in FY 2018 to related contracts.) This represented about 18 percent of all funding available to the SEC that year. GAO has reported that Federal IT investments have too often failed, incurred cost overruns and schedule slippages, or contributed little to mission-related outcomes. Since 2015, GAO has included "Improving the Management of IT Acquisitions and Operations" in its list of Government-wide high-risk areas needing attention by the executive branch and Congress.

We conducted this audit to assess the SEC's management of its FY 2018 IT investments, and to determine whether the agency used funds allocated to those investments for their intended purposes, selected investments for funding in accordance with established processes, and had effective controls for ensuring investments meet established cost, schedule, and performance goals.

We determined that the SEC increased its funding for IT initiatives over the FY 2017 level as required by the Consolidated Appropriations Act, 2018. In addition, the agency used funds allocated to the 11 IT investments we judgmentally selected for review for their intended purposes.

However, the SEC's management of steady state investments (investments to maintain and operate IT assets in a production environment) needs improvement, because the SEC's Office of Information Technology (OIT) did not view such investments as IT investments for the purposes of capital planning and investment control. The SEC's spending on steady state investments has gradually increased in recent years and, in FY 2018, steady state investments represented 71 percent of the agency's total IT investment expenditures (that is, \$217 million of the \$307 million spent that year). Improving agency management of steady state investments could promote more effective decision-making and provide greater assurance that such investments (1) deliver value, (2) do not unnecessarily duplicate or overlap with other investments, and (3) continue to meet the SEC's needs.

In addition, the SEC can better manage and document deviations from approved plans for investments to develop, modernize, and enhance IT assets (referred to as development, modernization, and enhancement [DME] investments). Five of the six DME investments we reviewed were rebaselined in FY 2018; however, we could not always determine compliance with aspects of the SEC's capital planning and investment control policy that addresses managing and documenting deviations from approved investment plans. This occurred because

OIT had not established detailed formal rebaselining procedures. Without procedures that ensure a complete and accessible audit trail of each investment's lifecycle, the SEC's rebaselining processes may lack the transparency needed to ensure effective oversight of its DME investments.

Also, 5 of the 11 IT investments we reviewed involved purchases of hardware assets. We found that OIT needs to improve the documentation of hardware assets investment planning and to demonstrate investment outcomes because OIT had not established processes to do so. Without such processes, the SEC risks hardware assets in use reaching their end-of-life/end-of-service, thereby increasing the risk of equipment failure and the potential for data loss.

Finally, Acquisitions extended on a sole-source basis two contracts for IT acquisitions we reviewed without adequate documentation to support independent Government cost estimates used for the estimated extension prices. This occurred, in part, because guidance that urged personnel to document any and all methods used to complete independent Government cost estimates was "for informational purposes" and contracting officials did not use it.

During our audit, two other matters of interest that did not warrant recommendations came to our attention. These matters related to the SEC's selection of its enterprise IT project and portfolio management system, and contract actions impacting the SEC's data centers. We discussed these matters with agency management for their consideration.

We issued our final report on September 19, 2019, and made four recommendations to improve the SEC's management of IT investments, including recommendations to update the SEC's capital planning and investment control policies and procedures and to provide training to personnel with investment oversight and program management responsibilities. We also made one recommendation to improve the SEC's contract management by establishing documentation requirements for thoroughly supporting

independent Government cost estimates. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

Because this report contains sensitive information, we are releasing a redacted version on our website at <https://www.sec.gov/files/SEC-has-Processes-to-Manage-IT-Investments-but-Improvements-are-needed.pdf>.

ONGOING AUDITS AND EVALUATIONS

Audit of the U.S. Securities and Exchange Commission's Adoption of Cloud Computing Services

According to the Office of Management and Budget (OMB), cloud computing offers a unique opportunity for the Federal Government to take advantage of cutting edge information technologies to dramatically reduce procurement and operating costs and greatly increase the efficiency and effectiveness of services provided to its citizens. In 2010, OMB directed Federal agencies to shift to a "Cloud First" policy. Then, in 2011, OMB issued its *Federal Cloud Computing Strategy* and a memorandum to agency Chief Information Officers titled *Security Authorization of Information Systems in Cloud Computing Environments* to further support agencies in migrating toward cloud computing. As part of these efforts, agencies are to default to cloud-based solutions whenever a secure, reliable, cost-effective cloud option exists, and re-evaluate technology sourcing strategies to include consideration and application of cloud computing solutions as part of the budget process.

As of March 20, 2019, the SEC had 22 cloud-based systems operated by 7 cloud service providers. Furthermore, the SEC's Cloud Strategy SharePoint site identifies cloud "pilot candidates" across various divisions and offices, and the agency's November 2017 Technology Strategic Plan includes specific cloud-related goals.

The OIG has initiated an audit to determine whether the SEC has effectively managed the planning, implementation, and security of its cloud computing services. Specifically, we will assess the SEC's strategy for migrating IT services and applications to the cloud, and determine whether key security measures are in place to adequately protect SEC systems that use cloud computing services.

We expect to issue a report summarizing our findings during the next reporting period.

Fiscal Year 2019 Independent Evaluation of the SEC's Implementation of the Federal Information Security Modernization Act Amending the Federal Information Security Management Act of 2002, the Federal Information Security Modernization Act (FISMA) provides (1) a comprehensive framework to ensure the effectiveness of security controls over information resources that support Federal operations and assets and (2) a mechanism for oversight of Federal information security programs. FISMA also requires agencies to develop, document, and implement an agency-wide information security program to provide information security for the data and information systems that support the operations and assets of the agency.

In addition, FISMA requires IGs to annually assess the effectiveness of agency information security programs and practices and to report the results to OMB and the U.S. Department of Homeland Security (DHS). This assessment includes testing and assessing the effectiveness of agency information security policies, procedures, practices, and a subset of agency information systems.

To comply with FISMA, the OIG initiated an evaluation of the SEC's information security programs and practices. We contracted with Kearney and Company, P.C., to conduct this independent evaluation. The objective is to assess the SEC's compliance with FISMA for FY 2019 based on guidance issued by OMB, DHS, and the National Institute of Standards and Technology.

We expect to issue a report summarizing our findings during the next reporting period.

Audit of the U.S. Securities and Exchange Commission's Compliance With the Digital Accountability and Transparency Act of 2014

To improve the transparency and quality of the Federal spending data made available to the public, the Digital Accountability and Transparency Act of 2014 (DATA Act) requires, among other things, (1) Government-wide data standards, (2) disclosure of direct Federal spending with certain exceptions, (3) Federal agencies to comply with the new data standards, and (4) OIG's audits of the quality of the data be made available to the public. According to GAO, effective implementation of the DATA Act will allow funds to be tracked at multiple points in the Federal spending lifecycle, which would be publicly available on *USASpending.gov* or a successor website.

The OIG has initiated an audit to assess the SEC's compliance with the DATA Act based on guidance issued by OMB and Treasury. Specifically, we will assess the (1) completeness, accuracy, timeliness, and quality of the SEC's first quarter, FY 2019 financial and award data submitted for publication on *USASpending.gov*; and (2) the SEC's implementation and use of the Government-wide financial data standards established by OMB and Treasury.

We expect to issue a report summarizing our findings during the next reporting period.

Audit of Controls Over the U.S. Securities and Exchange Commission Travel Card Program

For many SEC employees, travel is an essential part of the work they do to accomplish the agency's strategic objectives. In FY 2018 and the first two quarters of FY 2019, the SEC spent about \$8.7 million and \$3.4 million, respectively, on work-related travel and transportation, including witness travel, invitational travel, and local and temporary duty travel.

Government charge card programs, including travel cards, can be efficient but are highly susceptible to misuse, fraud, waste, and abuse. Although periodic audits or reviews of the SEC's travel card program are not required because the agency spends less than \$10 million annually on Government travel cards, the political and reputational risks related to travel spending can be significant.

The OIG has initiated an audit to assess the SEC's controls over its Government travel card program during FY 2018 and the first two quarters of FY 2019, and determine whether the agency complied with applicable laws, regulations, policies, and procedures. Specifically, we will (1) determine whether the SEC effectively implemented the safeguards and internal controls established in the Government Charge Card Abuse Prevention Act of 2012 (Public Law 112-194), and (2) assess agency travel card transactions from the scope period.

We expect to issue a report summarizing our findings during the next reporting period.

Evaluation of the Division of Trading and Markets' Office of Broker-Dealer Finances

The SEC prescribes broker-dealer financial responsibility requirements, including net capital and risk assessment reporting requirements, through various rules, administered by TM's Office of Broker-Dealer Finances (OBDF). Broker-dealers that meet certain minimum standards, such as minimum net capital requirements, may voluntarily apply for authority to use internal statistical models when computing net capital. Additionally, over-the-counter derivatives dealers also can apply for authority to use internal statistical models when computing net capital. Once the Commission approves a firm's request to use models, OBDF monitors the firm's monthly, quarterly, and annual filings and meets regularly with the firm's senior management.

OBDF consists of 48 full-time equivalents assigned to the following 5 groups:

- Office of Financial Responsibility;
- Office of Broker-Dealer Inspections;
- Office of Quantitative Risk Analysis;
- Risk-Supervised Broker-Dealer Program; and
- 17(h) Risk Assessment Program.

The OIG has initiated an evaluation of TM's OBDF. The overall objective of this evaluation is to assess the efficiency and effectiveness of TM's OBDF. Specifically, we will determine whether OBDF (1) ensures efficient use of Government resources to help achieve organizational goals and objectives, and (2) provides effective oversight of broker-dealer compliance with capital and risk reporting requirements, in accordance with applicable rules and guidance.

We expect to issue a report summarizing our findings during the next reporting period.

Evaluation of the SEC's Delinquent Filer Program

The Securities Exchange Act of 1934 (Exchange Act) requires companies with registered securities to file periodic reports with the SEC. Those reports—which include annual and quarterly filings—disclose information about the companies' financial condition and business practices to help investors make informed investment decisions.

According to the SEC, most reporting companies submit their periodic reports in a timely manner. However, some reporting companies fail to submit

periodic reports, file materially deficient periodic reports, or do not submit the reports in a timely manner. Section 12(k) of the Exchange Act gives the SEC the authority to suspend trading in a security for up to 10 business days if the SEC believes that a suspension is required to protect investors and the public interest. Moreover, Section 12(j) gives the SEC the authority to revoke an issuer's securities registration if the SEC finds that an issuer violated the Exchange Act by failing to file its periodic reports. Such suspension or revocation and trading prohibitions help to prevent continued purchases and sales of securities in the U.S. market for which accurate information does not exist, thereby protecting U.S. investors in those securities. Since 2004, the SEC has issued nearly 5,000 revocations and more than 2,000 trading suspensions in conjunction with its Delinquent Filer Program.

The OIG has begun an evaluation of the SEC's Delinquent Filer Program. The objective of this evaluation is to assess the SEC's process for identifying, tracking, and notifying delinquent filers and issuing related revocation orders and/or trading suspensions in accordance with applicable laws, rules, and regulations. As part of the evaluation, we will also review ENF's efforts to reallocate resources to the delinquent filer's program.

We expect to issue a report summarizing our findings during the next reporting period.



INVESTIGATIONS

OVERVIEW

The OIG OI investigates allegations of criminal, civil, and administrative violations relating to SEC programs and operations.

The subject of an OIG investigation can be an SEC employee, contractor, consultant, or any person or entity involved in alleged wrongdoing affecting the agency. Substantiated allegations may result in criminal prosecutions, fines, civil penalties, administrative sanctions, or personnel actions.

OI conducts investigations in accordance with the CIGIE *Quality Standards for Investigations* and applicable guidelines issued by the U.S. Attorney General. OI continues to enhance its systems and processes to ensure investigations are conducted in an independent, fair, thorough, and timely manner.

Investigations require extensive collaboration with separate SEC OIG component offices, other SEC divisions and offices, and outside agencies, law enforcement agencies, as well as coordination with the DOJ and other prosecutive agencies. During the course of investigations, OI may discover vulnerabilities and internal control deficiencies and

via Management Implication Reports, promptly report these issues to SEC management for corrective actions.

OI manages the OIG Hotline, which is available 24 hours a day, 7 days a week, to receive and process tips and complaints about fraud, waste, or abuse related to SEC programs and operations. The hotline allows individuals to report their allegations to the OIG directly and confidentially.

Staffed by Special Agents and an IT Specialist, the OIG's Digital Forensics and Investigations Unit performs digital forensic acquisitions, extractions, and examinations, in support of SEC OIG operations, and conducts network intrusion and exploitation investigations, as well as other investigations involving threats to the SEC's IT infrastructure.

REPORT ON INSTANCES OF WHISTLEBLOWER RETALIATION

For this semiannual reporting period, the OIG found no instances of whistleblower retaliation to report.

STATUS OF PREVIOUSLY REPORTED INVESTIGATIONS

International E-mail Impersonation and Fraud Scam

As reported in a previous semiannual report, following a joint Federal Bureau of Investigations and OIG investigation, two men pleaded guilty to conspiracy to commit wire fraud, Title 18, United States Code (USC) §1343, and conspiracy to commit offense or to defraud the United States, Title 18, USC §371. In February 2016, the facts and evidence discovered during this investigation were referred to and accepted by a U.S. Attorney's Office (USAO).

For about 2 years beginning no later than June 2015, the subject conspired with others to defraud victims by pretending to be employees of the SEC. In that guise, members of the conspiracy demanded money from victims and directed them to send it to members of the conspiracy. The conspirators who received the money generally withdrew it and then made transfers to other banks.

In one common version of the scam, victims received e-mails that used official-seeming documentation with the SEC seal to support a false claim that the victim must pay a fee in order to receive a portion of a legal settlement. In another version of the scheme, victims received e-mails and official-seeming documents labeling the victim as a defendant in a civil lawsuit alleging that the victim owed tens of thousands of dollars in supposed disgorgement, penalties, and fees.

In August 2018, after pleading guilty to his role in the scheme, one of the men was sentenced to 63 months in prison, 36 months of supervised release, and ordered to pay restitution of \$105,869. In July 2019, the other man was sentenced to 36 months in prison, 36 months of supervised release, and ordered to pay restitution of \$366,522.65 and a \$200 assessment fee.

The DOJ press release describing the case is available at <https://www.justice.gov/usao-malpr/dominican-national-sentenced-international-e-mail-impersonation-and-fraud-scam>.

OPEN AND COMPLETED INVESTIGATIONS

Allegations of Changing Workstation Without Authorization

In May 2016, the OIG investigated allegations that a former employee may have teleworked full-time from South Carolina while the employee's duty station and approved alternate work station were within the Washington, DC-Baltimore-Arlington locality pay area.

The investigation determined that the former employee, hired in October 2010, began living in and teleworking from Mount Pleasant, South Carolina, in or about December 2013. From that time through the employee's resignation from the SEC in September 2017, the employee teleworked full-time from South Carolina and effectively changed the employee's worksite to South Carolina without SEC authorization.

From 2014 to 2017, the employee made several misleading and/or false statements regarding the employee's residence, alternate work station (telework location), and personal circumstances, in conjunction with the employee's SEC employment. During the period that the employee worked for the SEC while living in and teleworking full-time from South Carolina, the employee received about \$30,801.84 more in locality pay than the employee would have if the employee's pay had been based on the employee's actual residence (worksite) in South Carolina.

On August 28, 2018, a Criminal Information was filed in U.S. District Court for the District of Colum-

bia (USDC-DC), charging the former employee with one count of False Statements or Entries, in violation of Title 18, USC §1001(a)(3). On January 31, 2019, the former employee entered a guilty plea in USDC-DC to one count False Statements, in violation of Title 18, USC § 1001(a)(3). On April 26, 2019, the former employee was sentenced in USDC-DC to 12 months of probation and 120 hours of community service; and was ordered to pay restitution to the SEC in the amount of \$30,801.84 and a \$100.00 assessment.

Allegations of Obstruction

The OIG investigated allegations that an individual may have obstructed an inquiry into potential violations of Federal securities laws. In August 2015, ENF subpoenaed him for documents related to the individual and certain websites, and after receiving the SEC subpoena, he updated the websites, adding several disclaimers and/or disclosures related to his trading activity and advice that he was providing on the website. Also, ENF reported that in response to the SEC subpoena, he produced modified versions of disclaimers and/or disclosures and represented to the SEC that these documents were original and the only ones available. However, ENF's investigation discovered that the documents that he provided were modified after his receipt of the SEC subpoena.

The OIG issued a subpoena to the website-hosting company formerly used by the websites. The subpoena returns confirmed that the websites were voluntarily shut down in August 2017.

In September 2017, the SEC publicly disclosed that the individual was fined about \$273,000 and barred from the securities industry for 5 years for suspected violations of the Federal securities laws. Additional information is available at <https://www.sec.gov/litigation/admin/2017/33-10414-s.pdf>.

On January 3, 2018, the OIG referred the facts of the investigation to a USAO, which declined prosecution on March 21, 2019.

Allegations of Fraud

The OIG investigated an allegation that a copy of a contract award document was falsified. The document contained an inaccurate contract number, an unknown requisitions number, and what appeared to be a forged signature. The OIG identified a certified public accountant as the creator of the fraudulent document and learned that the U.S. Postal Inspection Service was also investigating the individual for allegations involving wire fraud related to an investment scheme.

This certified public accountant, who had been a partner at a Manhattan accounting firm, pleaded guilty to participating in two wire fraud schemes. In the first, he falsely claimed to have entered into multimillion-dollar intellectual property deals and defrauded investors out of \$2 million. In the second, he falsely claimed to have entered into client engagements and defrauded an employer out of more than \$270,000.

The certified public accountant established his own firm, which he allegedly told victims was a company specializing in assisting other entities in taking intellectual property to the market. He induced victims to invest in this firm by providing them with false documents showing the firm's involvement in multimillion dollar transactions that would reap millions of dollars in future profits. Ultimately, the victims learned that the deals did not exist and that they were victims of an alleged scheme to defraud them out of millions of dollars.

After leaving the Manhattan accounting firm, the certified public accountant sought employment with a firm in Chicago, Illinois (the "Chicago Firm").

He induced the Chicago firm to hire him and provide him with \$240,000 in draw payments based on false and fraudulent statements, including by sending the Chicago Firm fraudulent contracts.

On June 24, 2019, the certified public accountant was charged with violating two counts of Title 18, USC §1343, Wire Fraud. Sentencing is scheduled for October 18, 2019.

The DOJ press releases are available at <https://www.justice.gov/usao-sdny/pr/former-managing-partner-manhattan-accounting-firm-arrested-fraud> and <https://www.justice.gov/usao-sdny/pr/former-partner-manhattan-accounting-firm-pleads-guilty-fraud-charges>.

Allegations of Failing To Pre-Clear Securities

The OIG investigated allegations that a senior employee (1) failed to pre-clear securities since being hired in October 2009; (2) failed to upload statements concerning personal securities holdings; (3) violated the required holding period; and (4) held securities that were prohibited and traded in a security that was on the SEC's "Watch List."

The investigation substantiated the allegations against the employee. The investigation determined that between 2011 and 2018, the employee and the employee's spouse executed more than 100 trades in their brokerage accounts that total \$594,213.13. In addition, the OIG discovered that between 2012 and 2014, the employee had submitted inaccurate Office of Government Ethics Forms 450, Confidential Financial Disclosure Reports, which did not report all the holdings for the employee's spouse.

On November 7, 2018, the OIG referred the facts of the investigation to a USAO, which declined prosecution on the same date. During this reporting period, the OIG reported the results of its investigation to management to determine whether corrective administrative action may be warranted.

Management responded that it had issued a memorandum of counseling to the employee.

Allegations Involving Procurement Fraud

The OIG investigated allegations involving procurement fraud. Specifically, an SEC Acquisitions contracting officer received several e-mail inquiries regarding ONEOIT, an SEC procurement project not fully awarded at the time. It appeared the contracting officer sent e-mails to several vendors regarding a Request for Quotation (RFQ) for IT equipment. The e-mails also contained what appeared to be the contracting officer's forged signature.

The OIG investigation found that the contracting officer had not sent the e-mails: rather, he was on leave during the time in which the e-mails were sent, and his e-mail address was "spoofed." Of the vendors that the OIG interviewed who received the ONEOIT RFQ, none sent any products in response to it.

Additionally, the OIG learned that the DHS OIG had identified and arrested three individuals in Atlanta, Georgia, for their involvement in a fraud scheme by which they obtained IT equipment by impersonating DHS procurement officials and using fraudulent RFQs. As part of their scheme, they used the same set of delivery addresses, one of which was associated with the fake ONEOIT RFQ.

Two of the individuals were arrested, charged, and pleaded guilty to the charges related to the DHS scheme. The third individual was also arrested and judicial proceedings were ongoing at the time of reporting. The USAO did not include the ONEOIT RFQ in its charges against the three individuals because none of the vendors who received it sent any equipment, and there was no loss to the SEC. Since the three individuals were arrested, the SEC has not received any new reports about the fraudulent ONEOIT RFQ.

The DHS Intelligence Bulletin is available at <https://www.oig.dhs.gov/news/press-releases/2019/07162019/fraud-alert-transnational-fraud-ring-targets-us-government-procurement-offices-and-vendors>.

Allegations of Impersonation

In August 2018, the OIG investigated an allegation concerning Twitter accounts allegedly impersonating the SEC Chairman. The complaint indicated that unknown individuals using fictitious Twitter accounts allegedly impersonated the SEC Chairman.

The investigation traced the fictitious postings to a residential address in Freehold, New Jersey. The residents denied their involvement in the postings, declining to make additional statements or cooperate further with the investigation. On May 6, 2019, the facts of the investigation were referred to a USAO, which declined prosecution on the same date. The Twitter accounts are no longer active.

Allegations of Misrepresentation

The OIG investigated allegations that an employee created false documents that misrepresented the employee's home address in order for the employee's children to gain admission to a school where residents receive admission preference. It was further alleged that the employee told other SEC employees about using the fraudulent address and stated that "people wouldn't dare cross [the employee]" because of the employee's SEC employment. Furthermore, it was also alleged that the employee used a false address to pay a reduced toll rate to cross a local causeway.

The OIG's investigation did not substantiate any of the allegations. The investigation determined that the employee used the appropriate address, that the employee's child was admitted through an open lottery process, and that the employee paid the appropriate fees to cross the local causeway.

Allegations of Misrepresented Filings

The OIG investigated allegations of misrepresented filings with the SEC. In December 2018, the OIG received a referral regarding an issuer. The referral stated that the issuer's attorney was making misrepresentations in the issuer's SEC filings.

As a result, the issuer was not approved for listing, and the issuer's attorney was placed on the referrer's Prohibited Attorneys List. The attorney later accepted responsibility for "an inadvertent error."

On March 5, 2019, the facts of the investigation were presented to the USAO, which declined to prosecute on the same date.

Allegations of Taking Pictures of a Computer Screen

The OIG investigated allegations that a contractor was using a personal cellular phone to take pictures of a computer screen that potentially included personally identifiable information. The investigation determined that the contractor did take pictures of a computer screen; however, the computer screen did not contain personally identifiable information. The contractor claimed that the work computer routinely locked up and that the picture would assist the contractor's reading the error message back to the SEC OIT Help Desk.

The OIG reported the results of the investigation to management to determine whether corrective administrative action may be warranted. Management's response was pending at the end of the reporting period.





REVIEW OF LEGISLATION AND REGULATIONS

During this semiannual reporting period, the OIG reviewed and monitored the following legislation and regulations:

Public Law 115-336

21st Century Integrated Digital Experience Act. The Act requires public-facing agency websites have a consistent design and functionality. The websites will need to achieve compliance with standards developed by the Technology Transformation Service of the General Services Administration. The Act requires that websites are usable by people with disabilities and are mobile-friendly.

Public Law 115-414

Good Accounting Obligation in Government Act. The Act requires each Federal agency, in its annual budget justification, to include a report on: (1) each public recommendation of GAO that is classified as “open” or “closed, unimplemented” for a period of not less than 1 year preceding the date on which the annual budget justification is submitted; (2) a report listing each public recommendation for corrective action from the OIG of the agency that was published not less than 1 year before the date on which the annual budget justification is submitted; and for which no final action was taken as of the date on which the annual budget justification is submitted; and (3) the implementation status of each such recommendation. Each agency shall also provide a copy of this information to its OIG and to GAO.

Public Law 116-6

Consolidated Appropriations Act, 2019, signed into law February 15, 2019. The measure allows the commission to spend \$1.71 billion in FY 2019. Additionally, the measure bars the commission from implementing a rule to require publicly traded companies to disclose political contributions made to tax-exempt groups or dues paid to trade associations.

Public Law, 116-59

Continuing Appropriations Act, 2020, and Health Extenders Act of 2019. Making continuing appropriations for FY 2020, and for other purposes. The SEC will have continued funding authority through November 21, 2019.

H.R. 736

Access to Congressionally Mandated Reports Act. To require the Director of the Government Publishing Office to establish and maintain an online portal accessible to the public that allows the public to obtain electronic copies of all congressionally mandated reports in one place, and for other purposes.

H.R. 1847

Inspector General Protection Act. To require congressional notification for certain changes in status of IGs, and for other purposes.

H.R. 3351 and S. 2524

Financial Services and General Government Appropriations Act, 2020. Making appropriations for financial services and general Government for the FY ending September 30, 2020, and for other purposes.

H.R. 4382

Integrity Committee Transparency Act of 2019. To amend the IG Act of 1978 to require CIGIE to include additional information in requests and reports to Congress, to make information available to Congress regarding allegations closed without referral, to expand the membership of the Council, and for other purposes.

S. 375

Payment Integrity Information Act of 2019. A bill to improve efforts to identify and reduce Government-wide improper payments, and for other purposes.

S. 2220

Open and Responsive Government Act of 2019. A bill to modify the exemption for trade secrets and commercial or financial information in the Freedom of Information Act, and for other purposes.

MANAGEMENT DECISIONS

STATUS OF RECOMMENDATIONS WITH NO MANAGEMENT DECISIONS

Management decisions have been made on all audit and evaluation reports issued before the beginning of this reporting period.

REVISED MANAGEMENT DECISIONS

No management decisions were revised during the period.

AGREEMENT WITH SIGNIFICANT MANAGEMENT DECISIONS

The OIG agrees with all significant management decisions regarding audit and evaluation recommendations.

REPORTS FOR WHICH NO AGENCY COMMENT WAS RETURNED WITHIN 60 DAYS

There were no audit or evaluation reports issued before the beginning of this reporting period for which no agency comment was returned within 60 days of providing the report to the agency.

INSTANCES WHERE THE AGENCY UNREASONABLY REFUSED OR FAILED TO PROVIDE INFORMATION TO THE OIG OR ATTEMPTED TO INTERFERE WITH OIG INDEPENDENCE

During this reporting period, there were no instances where the agency unreasonably refused or failed to provide information to the OIG or attempted to interfere with the independence of the OIG.



TABLES

Table 1. List of Reports: Audits and Evaluations

Date and Report Number	Title
Regulatory Oversight	
4/29/2019	Although Highly Valued by End Users, DERA Could Improve Its Analytics Support by Formally Measuring Impact, Where Possible
553	
Regulatory Oversight	
5/23/19	Final Management Letter: Update on the SEC's Progress Toward Redesigning the Electronic Data Gathering, Analysis, and Retrieval System
Acquisitions Management	
5/31/2019	The SEC Can Better Manage Administrative Aspects of the ISS Contract
554	
Regulatory Oversight and Acquisitions Management	
9/19/2019	The SEC Has Processes To Manage Information Technology Investments But Improvements Are Needed
555	

Table 2. Reports Issued with Questioned Costs or Funds Put to Better Use
(Including Disallowed Costs)

Description	Number of Reports	Total		
		Questioned Costs	Unsupported Costs	Funds Put to Better Use
Reports for which no management decision had been made by the start of the reporting period	0	\$0	\$0	\$0
Reports issued during the reporting period	1	\$42,801	\$2,977,379	\$0
Subtotals	1	\$42,801	\$2,977,379	\$0
Reports for which a management decision had been made during the reporting period:	0			
Dollar value of recommendations agreed to by management		\$0	\$0	\$0
Dollar value of recommendations NOT agreed to by management		\$0	\$0	\$0
Reports with no management decision at the end of the reporting period	1	\$42,801	\$2,977,379	\$0

The term “questioned cost” means a cost that is questioned because of (A) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (B) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (C) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

The term “unsupported cost” means a cost that is questioned because the Office found that, at the time of the audit, such cost is not supported by adequate documentation.

The term “disallowed cost” means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the Government.

The term “recommendation that funds be put to better use” means a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including (A) reductions in outlays; (B) deobligation of funds from programs or operations; (C) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (D) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee; (E) avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or (F) any other savings which are specifically identified.

Table 3. Reports with Recommendations on Which Corrective Action Has Not Been Completed

During this semiannual reporting period, SEC management provided the OIG with documentation to support the implementation of OIG recommendations. In response, the OIG closed 31 recommendations related to 9 OA reports. The following table lists recommendations open 180 days or more. (“Redacted text” indicates recommendations that include one or more redactions of non-public information.)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	1	3/30/2018	Redacted Text
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	3	3/30/2018	Redacted Text
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	5	3/30/2018	(a) Continue efforts to define and formalize a plan addressing how enterprise architecture program management will be integrated with other institutional management disciplines, such as organizational strategic planning, strategic human capital management, performance management, information security management, and capital planning and investment control; and (b) define and implement a process to ensure information technology initiatives undergo an enterprise architecture compliance review before funding.
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	7	3/30/2018	Improve the agency's acquisition of information systems, system components, and information system services by coordinating with the Office of Acquisitions to (a) identify, review, and modify as necessary the agency's existing information technology contracts (including those we reviewed) to ensure the contracts include specific contracting language, such as information security and privacy requirements, material disclosures, Federal Acquisition Regulation clauses, and clauses on protection, detection, and reporting of information; and (b) define and implement a process to ensure that future acquisitions of information technology services and products include such provisions.
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	8	3/30/2018	Redacted Text

Table 3. Reports With Recommendations on Which Corrective Action Has Not Been Completed (*Continued*)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	9	3/30/2018	Redacted Text
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	12	3/30/2018	Redacted Text
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	13	3/30/2018	Redacted Text
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	15	3/30/2018	Develop and implement a process to ensure that all individuals with significant security responsibilities receive required specialized training before gaining access to information systems or before performing assigned duties.
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	16	3/30/2018	Update the existing continuous monitoring strategy to define (a) qualitative and quantitative performance measures or data that should be collected to assess the effectiveness of the agency's continuous monitoring program; (b) procedures for reviewing and modifying all aspects of the agency's continuous monitoring strategy; and (c) the agency's ongoing authorization process.
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	17	3/30/2018	Review and update incident response plans, policies, procedures, and strategies to (a) address all common threat and attack vectors and the characteristics of each particular situation; (b) identify and define performance metrics that will be used to measure and track the effectiveness of the agency's incident response program; (c) develop and implement a process to ensure that incident response personnel obtain data supporting the incident response metrics accurately, consistently, and in a reproducible format; (d) define incident response communication protocols and incident handlers' training requirements; and (e) remove outdated terminology and references.

Table 3. Reports With Recommendations on Which Corrective Action Has Not Been Completed (*Continued*)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	20	3/30/2018	Perform an assessment of existing incident response reporting mechanisms, and develop a process to periodically measure and ensure the timely reporting of incidents to agency officials and external stakeholders.
547 - Audit of the SEC's Internal Controls for Retaining External Experts and Foreign Counsel for the Division of Enforcement	7	6/15/2018	Develop a process that ensures contracting officers enforce contract requirements related to personally identifiable information, when necessary, for any new contracts for expert services.
549 - The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework	2	9/11/2018	Finalize standard operating procedures for the agency's performance management program.
549 - The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework	4	9/11/2018	Consider reviewing the Office of Human Resource's processes for the steps related to pre-job posting consultation and issuing a certificate to identify and, as necessary, implement potential process improvements.
550 - Evaluation of the EDGAR System's Governance and Incident Handling Processes	5	9/21/2018	Redacted Text
550 - Evaluation of the EDGAR System's Governance and Incident Handling Processes	14	9/21/2018	Redacted Text
552 - Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	1	12/17/2018	Redacted Text
552 - Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	2	12/17/2018	Redacted Text

Table 3. Reports With Recommendations on Which Corrective Action Has Not Been Completed (*Continued*)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
552 - Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	3	12/17/2018	Redacted Text
552 - Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	4	12/17/2018	Redacted Text
552 - Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	5	12/17/2018	Redacted Text
552 - Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	6	12/17/2018	Define and implement a control to detect instances where contractor personnel received network accounts but were not assigned privacy and information security awareness training, nor tracked within system reporting tools.
552 - Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	7	12/17/2018	Redacted Text
552 - Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	8	12/17/2018	Redacted Text
552 - Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	9	12/17/2018	Redacted Text

Table 4. Summary of Investigative Activity for the Reporting Period of April 1, 2019, to September 30, 2019

The data contained in this table was compiled from the OIG’s investigations case management system.

Investigative Caseload	Number
Cases Open at Beginning of Period	38
Cases Completed but Not Closed* at Beginning of Period	0
Cases Opened During Period	15
Cases Closed During Period	16
Cases Completed but Not Closed at End of Period	1
Open Cases at End of Period	36
Investigative Reports Issued During the Reporting Period	8
* A case is “completed” but not “closed” when the investigative work has been performed but disposition (such as corrective administrative action) is pending.	
Criminal and Civil Investigative Activities	Number
Referrals for Criminal Prosecution to DOJ	12
Accepted	1
Indictments/Informations	1
Arrests	0
Convictions	1
Referrals for Criminal Prosecution to State and Local Prosecuting Authorities	0
Referrals for Civil Prosecution to DOJ	2
Accepted	1
Referrals for Civil Prosecution to State and Local Prosecuting Authorities	0
Monetary Results	Number
Criminal Fines/Restitutions/Recoveries/Assessments/Forfeitures	\$1,757,804.49
Criminal Seizures	\$178,234.93
Civil Fines/Restitutions/Recoveries/Penalties/Damages/Forfeitures	\$0
Administrative Investigative Activities	Number
Removals, Retirements, and Resignations	0
Suspensions	0
Reprimands/Warnings/Other Actions	1
Complaints Received	Number
Hotline Complaints	242
Other Complaints	303
Total Complaints During Period	545

Table 5. References to Reporting Requirements of the Inspector General Act

Section	Inspector General Act Reporting Requirement	Page(s)
4(a)(2)	Review of Legislation and Regulations	21-22
5(a)(1)	Significant Problems, Abuses, and Deficiencies	7-12, 15-19
5(a)(2)	Recommendations for Corrective Action	7-12
5(a)(3)	Prior Recommendations Not Yet Implemented	27-30
5(a)(4)	Matters Referred to Prosecutive Authorities	15-19, 31
5(a)(5)	Summary of Instances Where the Agency Unreasonably Refused or Failed to Provide Information to the OIG	23
5(a)(6)	List of OIG Audit and Evaluation Reports Issued During the Period	25
5(a)(7)	Summary of Significant Reports Issued During the Period	7-12, 15-19
5(a)(8)	Statistical Table on Management Decisions with Respect to Questioned Costs	26
5(a)(9)	Statistical Table on Management Decisions on Recommendations that Funds Be Put to Better Use	26
5(a)(10)(A)	Summary of Each Audit, Inspection or Evaluation Report More Than 6 Months Old for Which No Management Decision Has Been Made	23
5(a)(10)(B)	Summary of Each Audit, Inspection or Evaluation Report More Than 6 Months Old for Which No Establishment Comment Was Returned Within 60 Days of Providing the Report to the Establishment	23
5(a)(10)(C)	Summary of Each Audit, Inspection or Evaluation Report More Than 6 Months Old for Which There Are Any Outstanding Unimplemented Recommendations, Including the Aggregate Potential Cost Savings of Those Recommendations	23
5(a)(11)	Significant Revised Management Decisions	23

Table 5. References to Reporting Requirements of the Inspector General Act (Continued)

Section	Inspector General Act Reporting Requirement	Page(s)
5(a)(12)	Significant Management Decisions with Which the Inspector General Disagreed	23
5(a)(14)(B)	Date of the Last Peer Review Conducted by Another OIG	35
5(a)(16)	Peer Reviews Conducted by Another OIG	35
5(a)(17)(A)	Statistical Table Showing the Total Number of Investigative Reports Issued During the Reporting Period	31
5(a)(17)(B)	Statistical Table Showing the Total Number of Persons Referred to the DOJ for Criminal Prosecution During the Reporting Period	31
5(a)(17)(C)	Statistical Table Showing the Total Number of Persons Referred to State and Local Prosecuting Authorities for Criminal Prosecution During the Reporting Period	31
5(a)(17)(D)	Statistical Table Showing the Total Number of Indictments and Criminal Informations During the Reporting Period That Resulted From Any Prior Referral to Prosecuting Authorities	31
5(a)(18)	Description of the Metrics Used for Developing the Data for the Statistical Tables Under 5(a)(17)	31
5(a)(19)	Report on Each Investigation Conducted Involving a Senior Government Employee Where Allegations of Misconduct Were Substantiated	15-19
5(a)(20)	Instances of Whistleblower Retaliation	15
5(a)(21)	Attempts by the Establishment To Interfere With the Independence of the OIG	23
5(a)(22)(A)	Each Inspection, Evaluation, and Audit Conducted by the OIG That Is Closed and Was Not Disclosed to the Public	n/a
5(a)(22)(B)	Each Investigation Conducted by the OIG Involving a Senior Government Employee That Is Closed and Was Not Disclosed to the Public	n/a



PEER REVIEWS OF OIG OPERATIONS

PEER REVIEW OF THE SEC OIG'S AUDIT OPERATIONS

In accordance with generally accepted government auditing standards and CIGIE quality control and assurance standards, an OIG audit team assesses another OIG's audit function every 3 years. The Legal Services Corporation OIG conducted the most recent assessment of the SEC OIG OA's system of quality control for the 3-year period ending March 31, 2018. The review focused on whether the SEC OIG established and complied with a system of quality control that was suitably designed to provide the SEC OIG with a reasonable assurance of conforming to applicable professional standards.

On September 5, 2018, the Legal Services Corporation OIG issued its report, concluding that the SEC OIG complied with its system of quality control and that the system was suitably designed to provide the SEC OIG with reasonable assurance of performing and reporting in conformity with applicable government auditing standards in all material respects. On the basis of its review, the Legal Services Corporation OIG gave the SEC OIG a peer review rating of "pass." (Federal audit organizations can receive a rating of "pass," "pass with deficiencies," or "fail.")

The peer review report is available on the SEC OIG website at <https://www.sec.gov/files/External-Peer-Review-Report-for-the-SEC-OIG-Audit-Org.pdf>. The next peer review of the OIG's audit function is scheduled for FY 2021.

PEER REVIEW OF THE SEC OIG'S INVESTIGATIVE OPERATIONS

The Investigative Operations did not undergo a peer review this reporting period. The most recent peer review was performed by the National Science Foundation (NSF) OIG in November 2017. The NSF OIG conducted its review in conformity with the *Quality Standards for Investigations* and the *Quality Assessment Review Guidelines for Investigative Operations of Federal Offices of Inspector General* established by CIGIE and the *Attorney General Guidelines for Offices of Inspectors General With Statutory Law Enforcement Authority*.

The NSF OIG concluded that the SEC OIG was in compliance with the quality standards established by CIGIE and other applicable guidelines and statutes listed above. Furthermore, the NSF OIG concluded the SEC OIG's system of internal policies and procedures provide reasonable assurance that the SEC OIG is conforming with professional standards in the planning, execution, and reporting of its investigations.

APPENDIX B

OIG SEC EMPLOYEE SUGGESTION PROGRAM REPORT FY 2019

OVERVIEW

The OIG established the OIG SEC ESP in September 2010, pursuant to Section 966 of Dodd-Frank. Section 966 required the IG to establish a suggestion program for SEC employees. In accordance with Dodd-Frank, the SEC OIG has prepared this annual report describing suggestions and allegations received, recommendations made or actions taken by the OIG, and actions taken by the SEC in response to suggestions from October 1, 2018, through September 30, 2019.

Through the ESP, the OIG receives suggestions from agency employees concerning improvements in the SEC's work efficiency, effectiveness, and productivity, and use of its resources. The OIG also receives allegations by employees of waste, abuse, misconduct, or mismanagement within the SEC through the ESP. To facilitate employees' participation in the ESP, the OIG maintains an electronic

mailbox and telephone hotline for employees to submit their suggestions or allegations to the OIG. The OIG established formal policies and procedures for the receipt and handling of employee suggestions and allegations under the ESP.

Several suggestions received during this FY were related to reducing the amount of paper generated by various processes within the SEC, such as the production of testimony transcripts and paper distribution of rule releases. We received a suggestion regarding the process for Commission *seriatim* rulemaking. Specifically, the employee suggested that the agency eliminate the paper distribution of rule releases and distribute them via e-mail only. In response to this suggestion, the Office of the Secretary submitted a proposal to the SEC Chairman's office recommending that the Commission eliminate paper copy distribution of all matters voted through the *seriatim* process.

SUMMARY OF EMPLOYEE SUGGESTIONS AND ALLEGATIONS

Between October 1, 2018, and September 30, 2019, the OIG received and analyzed 18 suggestions or allegations, details of which appear below:

Nature and Potential Benefits of Suggestion*	Number
Increase efficiency or productivity	3
Increase effectiveness	10
Increase the use of resources or decrease costs	3
Nature and Seriousness of Allegation*	Number
Mismanagement and/or discrimination	1
Waste of SEC resources	0
Misconduct by an employee	1
Action Taken by the OIG in Response to Suggestion or Allegation*	Number
Memorandum to or communication with the SEC about the suggestion or allegation	15
Referred to OIG Office of Investigations	1
Referred to OIG Office of Legal Counsel	1
Referred to OIG Office of Audit	0
Researched issues, but determined no further action was necessary	3
Other	1
Action Taken by SEC Management*	Number
SEC management took action to address the suggestion or allegation	2
SEC decided to secure new technology in response to the suggestion	0
SEC management is considering the suggestion in context of existing procedures	2
SEC management initiated an internal review	0

* Some suggestions or allegations are included under multiple categories.

OIG GENERAL OFFICE CONTACT INFORMATION

PHONE: (202) 551-6061

FAX: (202) 772-9265

MAIL: Office of Inspector General
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-2977

REPORT FRAUD, WASTE, OR ABUSE

To report suspected fraud, waste, or abuse in SEC programs or operations, as well as SEC staff or contractor misconduct, use our online OIG hotline complaint form, <https://sec.govcomhotline.com>, or call (833) 732-6441. This number is answered 24 hours, 7 days a week.

Information received through the hotline is held in confidence upon request. Although the OIG encourages complainants to provide information on how we may contact them for additional information, we also accept anonymous complaints.

EMPLOYEE SUGGESTION PROGRAM

The OIG SEC Employee Suggestion Program, established under Dodd-Frank, welcomes suggestions by all SEC employees for improvements in the SEC's work efficiency, effectiveness, productivity, and use of resources. The OIG evaluates all suggestions received and forwards them to agency management for implementation, as appropriate. SEC employees may submit suggestions by calling (202) 551-6062 or sending an e-mail to OIGESProgram@sec.gov.

COMMENTS AND IDEAS

The SEC OIG also seeks ideas for possible future audits, evaluations, or reviews. We will focus on high-risk programs, operations, and areas where substantial economies and efficiencies can be achieved. Please send your input to AUDPlanning@sec.gov.



This report is available on the Inspector General's website
www.sec.gov/oig