



U.S. Securities and Exchange Commission

Management Report to Accompany the Office of Inspector General Semiannual Report to Congress

for the period April 1, 2017 through September 30, 2017

November 2017

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April 1, 2017 – September 30, 2017

Section 5(b) of the Inspector General Act of 1978, as amended, requires the Commission to transmit to the appropriate committees or subcommittees of the U.S. Congress a Management Report, containing certain statistical tables and any comments deemed appropriate, to accompany the Office of Inspector General's (OIG's) Semiannual Report. This Management Report presents the required information for the reporting period of April 1, 2017 through September 30, 2017.

I. Overview of SEC Audit Follow-up Activities

The SEC is committed to timely completion of corrective actions on audit recommendations. At the commencement of this semiannual reporting period, there were 35 open recommendations. During the period, management successfully closed 17 recommendations and five reports with OIG's concurrence. Corrective actions were completed on 76 percent of the recommendations in less than one year. At period-end, final action was pending on five reports; all were less than a year old.

II. Reports More than One Year Old with Pending Corrective Action

Section 5(b)(4) of the Inspector General Act, as amended, requires the SEC Management Report to include a statement with respect to audit reports where management decisions were made more than a year ago but final action has not been taken. At period-end, there were no open reports more than one year old.

III. Reports with Monetary Savings

Sections 5(b)(2) and (3) of the Inspector General Act require the SEC Management Report to include statistical tables summarizing the progress that the agency has made in responding to audit, inspection, and evaluation reports containing "disallowed costs" and "recommendations that funds be put to better use."

Disallowed Costs. Whenever OIG questions whether costs incurred by the agency are necessary, supported by adequate documentation, or in accordance with law, regulation, or contracts governing the use of funds, SEC management will review the facts and determine whether such costs should be officially disallowed. If the SEC agrees that such costs should not be charged to the government, the agency will then take appropriate action, such as commencing collection efforts to recover the disallowed costs.

Table 1. Status of Final Action on Audit, Inspection and Evaluation Reports
with Disallowed Costs
(as of September 30, 2017)

Audit, Inspection and Evaluation Reports	Number of Reports	Dollar Value of Disallowed Costs (in thousands)
A. For which final action had not been taken by the beginning of the reporting period	1	\$177
B. On which management decisions were made during the reporting period	0	\$0
C. For which final action was taken during the reporting period	1	\$177
(i) Dollar value of disallowed costs that were recovered through collection, offsets, property in lieu of cash, or otherwise	1	\$177
(ii) Dollar value of disallowed costs that were written off by management	0	\$0
D. For which no final action has been taken by the end of the period	0	\$0

On June 22, 2016, the OIG issued a report entitled “Management of the SEC’s Protective Security Force Contract Needs Improvement” (Report No. 536). The OIG did not identify any concerns with the performance of the SEC’s protective security force. However, OIG found the difference in contractually required versus actual training hours resulted in questioned costs of about \$177,000. In response, the SEC modified the security force contract to clarify the contractor’s obligation to reimburse the SEC if actual training hours fall below the contractually required level. During the reporting period, the SEC verified that the contractor complied with contractual requirements regarding training hours; as such, no reimbursement to the agency was necessary.

Funds Put to Better Use. Whenever OIG recommends specific dollar amounts that it believes can be saved by improving the efficiency of agency operations, SEC management will review the facts and determine whether to implement such recommendations. “Funds put to better use” refers to the specific dollar value of cost savings that the SEC has agreed can and should be implemented through appropriate corrective action.

Table 2. Status of Final Action on Audit, Inspection and Evaluation Reports
with Funds Put to Better Use
(as of September 30, 2017)

Audit, Inspection and Evaluation Reports	Number	Dollar Value of Funds Put to Better Use (in thousands)
A. For which final action had not been taken by the beginning of the reporting period	1	\$216
B. On which management decisions were made during the reporting period	0	\$0
C. For which final action was taken during the reporting period	0	\$0
(i) Dollar value of recommendations that were actually completed		\$0
(ii) Dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed		\$0
D. For which no final action has been taken by the end of the reporting period	1	\$216

On March 31, 2016, the OIG issued a report on the SEC’s Student Loan Repayment Program (Report No. 534). The audit identified about \$216,000 in student loan benefits owed to the SEC by 17 former employees. While final action remains underway, as of September 30, 2017, the SEC had recovered

\$94,890 and waived \$18,208 due to financial hardship. Payment plan balances totaled \$18,171 and the balance of claims referred to Treasury for collection totaled \$84,736.

Status of Other OIG Reports Citing Questioned Costs or Funds that Could be Put to Better Use. At the end of the reporting period, the Office of Inspector General issued a report on the SEC's management of its data centers ("Audit of the SEC's Management of Its Data Center" (Report #543, dated 9/29/2017)). The OIG identified \$375,205 as questioned costs, \$2,778,882 as unsupported costs due to insufficient documentation, and \$2,698,584 in funds that could be put to better use over the life of the contracts for the data centers. At this writing, SEC management is preparing a management decision on these monetary findings. In addition, the SEC is also taking corrective action including: supplementing the data center contract file to improve documented support for contract price changes; undertaking a review of invoices to validate payments made; and undertaking a review of regulations with a focus on contracting officer and contracting officer representative roles and responsibilities in order to improve key areas of managing agency contracts.