

REPORT NO. 590

MAY 4, 2026

OFFICE OF
INSPECTOR
GENERAL

OFFICE OF AUDITS

Opportunities Exist to Strengthen
Investment Management's
Disclosure Review Program



OFFICE OF
INSPECTOR GENERAL

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

M E M O R A N D U M

May 4, 2026

TO: Brian Daly, Director, Division of Investment Management

FROM: Kevin B. Muhlendorf, Inspector General

SUBJECT: *Opportunities Exist to Strengthen Investment Management's Disclosure Review Program, Report No. 590*

KEVIN
MUHLENDORF

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Attached is the Office of Inspector General final report detailing the results of our audit of the U.S. Securities and Exchange Commission's Division of Investment Management's disclosure review program. The report contains two recommendations that should help improve the program's operations.

On March 25, 2026, we provided management with a draft of our report for review and comment. In its April 24, 2026, response, management concurred with our recommendations and included planned corrective actions with timeframes. We have included management's response as Appendix II in the final report.

We appreciate the courtesies and cooperation extended to us during the audit. If you have questions, please contact me or Rebecca Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects.

Attachment

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EXECUTIVE SUMMARY

Opportunities Exist to Strengthen Investment Management's Disclosure Review Program

REPORT NO. 590 | MAY 4, 2026

WHY WE DID THIS AUDIT

Millions of Americans use investment funds to invest for retirement, their children's education, and other important financial goals. The Disclosure Review and Accounting Office (DRAO) in the U.S. Securities and Exchange Commission's (SEC) Division of Investment Management works to ensure that these investors have the information they need to make informed investment decisions. DRAO protects investors by reviewing disclosure filings related to investment companies and insurance products and ensuring those disclosures are accurate, clear, and concise. Where needed, DRAO staff issue comments to registrants to promote compliance with disclosure requirements and federal securities laws.

We conducted this audit to assess whether DRAO (1) effectively employed risk-based processes when selecting reviewable filings to review; (2) reviewed all filers at least triennially, as required by the Sarbanes-Oxley Act (SOX); and (3) followed its disclosure review processes, to include ensuring appropriate supervisory oversight, timely submission of comments, and an effective process for identifying inconsistencies in comments.

AGENCY'S RESPONSE

Management concurred with our two recommendations and provided responsive corrective actions already completed. The recommendations are resolved and will be closed upon verification of the actions taken. Management's complete response is reprinted in Appendix II.

WHAT WE FOUND AND RECOMMENDED

DRAO generally adhered to its disclosure review processes and employed risk-based methods for reviewing funds' legal filings (that is, initial registration statements, certain post-effective amendments, proxy statements, and other filings required by law). However, we identified several areas where improvements could be made to strengthen compliance and internal controls.

First, while DRAO's SOX reviews included appropriate supervisory oversight and a process to address inconsistencies in staff's comments, DRAO did not always comply with statutory and policy requirements for timely reviews and issuance of comments. Our analysis of 11,517 statutory SOX reviews completed between fiscal years 2022 and 2024 found that 12 funds were not reviewed within required timeframes, thus comments were not issued timely. Additionally, DRAO self-identified 11 reviews missed in fiscal year 2023 due to a coding error in its tracking system. These delays hinder registrants' ability to incorporate the SEC's feedback into subsequent filings, potentially exposing investors to incomplete or inaccurate information.

Second, DRAO lacked written procedures for key SOX review activities. This included guidance for determining when it may be necessary to perform a "targeted review" of a fund based on a variety of factors. The absence of documented processes increases the risk of inconsistent execution and reliance on institutional knowledge, particularly during periods of significant staff turnover and/or heavy workload as DRAO has recently experienced.

To address these findings, we recommended that DRAO management:

- Update procedures to clarify expectations for timely SOX reviews and reporting.
- Document detailed processes for annual reconciliation and targeted SOX review determinations.

We also found that DRAO did not consistently conduct enforcement database searches on contested proxy materials, failing to perform searches in 64 percent of the cases we reviewed. Additionally, contrary to internal procedures, staff's oral comments were not uploaded to the SEC's Electronic Data Gathering, Analysis, and Retrieval system in approximately 32 percent of filings we tested. During our audit, DRAO updated its internal procedures to clarify enforcement database searches and upload requirements; therefore, we are not making any recommendations for corrective action at this time.

Finally, we identified potential opportunities to (1) gain efficiencies by further scoping SOX reviews based on risk and professional judgment, and (2) consolidate the SEC's disclosure review information technology systems. Although we are not making formal recommendations regarding these matters, we encourage management to consider whether additional actions are required.

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Abbreviations

CAO	Chief Accountant's Office
DRAO	Disclosure Review and Accounting Office
DRO	Disclosure Review Office
EDGAR	Electronic Data Gathering, Analysis, and Retrieval system
FY	fiscal year
GAO	U.S. Government Accountability Office
IM	Division of Investment Management
OIG	Office of Inspector General
SEC or Commission	U.S. Securities and Exchange Commission
SOX	Sarbanes-Oxley Act of 2002

Introduction and Objectives

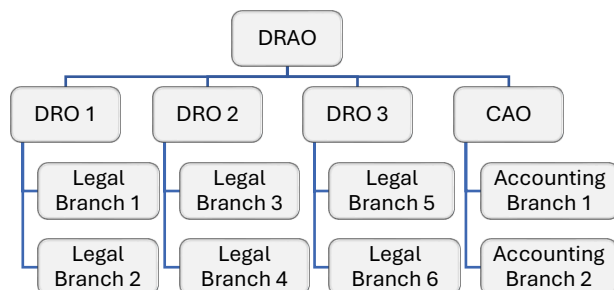
INTRODUCTION

Millions of Americans use investment funds to invest for retirement, their children’s education, and other important financial goals. The Disclosure Review and Accounting Office (DRAO) in the U.S. Securities and Exchange Commission’s (SEC or Commission) Division of Investment Management (IM) works to ensure that these investors have the information they need to make informed investment decisions. DRAO protects investors by reviewing disclosure filings related to investment companies and insurance products and ensuring those disclosures are accurate, clear, and concise and funds comply with the federal securities laws. Disclosures reviewed by DRAO include initial registration statements, post-effective amendments, proxy statements, and shareholder reports, given the following considerations:

1. New registration statements typically become effective after staff acceleration;¹
2. Post-effective amendments containing material changes or to add a new series to an existing trust generally become effective after a designated period, allowing staff time to review and provide comments;² and
3. Post-effective amendments without material changes usually become effective automatically and immediately upon filing without staff review.³

At the time of our review, DRAO had three disclosure review offices (DROs), each comprised of two legal branches, and the Chief Accountant’s Office (CAO), comprised of two accounting branches. Both DRO and CAO staff review disclosures. Since the beginning of fiscal year (FY) 2025, 10 of 46 DRO personnel and 4 of 13 CAO accountants, along with DRAO’s Chief Accountant, have left the SEC. At the conclusion of our fieldwork, the majority of these positions had not been backfilled.

Figure. DRAO Organization



Source: Office of Inspector General (OIG)-generated based on DRAO’s internal procedures guide.

¹ Section 8(a) of the Securities Act of 1933 (Securities Act) (15 U.S.C. § 77h(a)) provides that a registration statement filed under that Act shall automatically become effective 20 days after it is filed with the Commission (or such earlier date as the Commission may determine). However, Rule 473 under the Securities Act (17 C.F.R. § 230.473) allows for the facing sheet of a registration statement to include a delaying amendment, which has the effect of postponing effectiveness until (1) the registrant files a further amendment, or (2) the Commission declares the registration statement effective.

² See Rule 485(a) under the Securities Act (17 C.F.R. § 230.485(a)).

³ See Rule 485(b) under the Securities Act (17 C.F.R. § 230.485(b)). Rule 485(b) permits post-effective amendments filed for certain enumerated purposes to become effective immediately upon filing or on a date designated by the registrant not later than 30 days after filing.

DRO Reviews. DRO staff generally review all initial registration statements, certain post-effective amendments, and proxy statements, including combined proxy/registration statements for mergers (referred to as reviewable or legal filings). When choosing filings to review, staff prioritize novel and complex funds, new disclosures in response to recently adopted rules, and disclosures that impact investment decisions, such as those regarding strategies, risks, fees, and performance. DRO staff may conduct either a “full” or a “selective” review as follows:

- A full review looks at the entire filing to ensure compliance with applicable requirements of the federal securities laws.
- A selective review focuses on specific disclosure items and confirms that the filing is in good order.⁴

DRO reviews are guided by a risk-based process, and several factors help determine the appropriate level of review, including (1) the fund’s type and strategy, (2) the materiality of changes made compared to prior filings, (3) the date of the fund’s last reviewable filing and the level of review performed, (4) Division or Commission policy priorities, and (5) information provided in the fund’s cover letter.⁵

Once the type of filing and review scope are determined, the Branch Chief assigns the filing to a DRO staff member. Reviews requiring accounting expertise may also involve CAO staff. Following their review, staff may issue comments to registrants to promote compliance with disclosure requirements and federal securities laws. A registrant’s response may resolve a comment; if not, further comments may be issued.

In FY 2024—that is, October 1, 2023, through September 30, 2024—DRO staff completed more than 2,100 reviewable filings examinations, including 813 reviews that required assistance from CAO staff.

CAO SOX Reviews. CAO staff review all registered management investment company and business investment company financial statements at least once every three years in accordance with Section 408 of the Sarbanes-Oxley Act of 2002 (SOX).^{6,7} Staff also perform targeted SOX reviews of funds that, for one reason or another, have been identified as outliers requiring additional attention, including for compliance with new accounting or SEC disclosure requirements. Staff accountants document their findings in a memorandum that is submitted to the Branch Chief for secondary review. Following this

⁴ For example, selective reviews may ensure that the filing was correctly filed in the SEC’s Electronic Data Gathering, Analysis, and Retrieval system and includes required information such as financial statements, consents, and signatures. Selective reviews may also focus on material changes made in the current filing from the previous filings.

⁵ DRAO encourages each fund to include a cover letter with its filings describing any areas that warrant particular attention and any material changes made from the most recent filings.

⁶ P.L. No. 107-204, Secs. 408(a) and (c), 116 Stat. 745, 790 (codified at 15 U.S.C. §§ 7266(a) and (c)).

⁷ When scheduling reviews, SOX states that the SEC shall consider, among other factors, (1) issuers that have issued material restatements of financial results; (2) issuers that experience significant volatility in their stock price as compared to other issuers; (3) issuers with the largest market capitalization; (4) emerging companies with disparities in price to earning ratios; (5) issuers whose operations significantly affect any material sector of the economy; and (6) any other factors considered relevant.

review, registrants are contacted and provided oral comments. Between FY 2022 and FY 2024, CAO staff accountants completed 14,116 SOX reviews.⁸

OBJECTIVES

Our overall objective was to assess DRAO operations. Specifically, we determined whether the Office (1) effectively employed risk-based processes when selecting reviewable filings to review; (2) reviewed all filers at least triennially, as required by SOX; and (3) followed its disclosure review process for reviewable filings and SOX reviews, to include ensuring appropriate supervisory reviews, timely submission of comments, and an effective process for identifying inconsistencies in comments. Our scope included reviewable filings from FY 2024 and SOX reviews from FY 2022 through FY 2024.

Appendix I of this report includes information about our scope and methodology, relevant internal controls, and prior coverage.

RESULTS IN BRIEF

During the period we assessed, SOX reviews included appropriate supervisory oversight and a process to address inconsistencies in staff's comments; however, we identified instances of noncompliance with statutory and policy requirements. Specifically, DRAO did not review all filings within the timeframe required by SOX and/or Office policy, and DRAO's written procedures for its SOX review annual reconciliation and targeted review determinations could be strengthened to reduce the risk of inconsistent execution and undue reliance on institutional knowledge. (*Findings 1 and 2*)

Furthermore, DRAO effectively employed a risk-based process to select and conduct reviews of reviewable filings, and DRAO generally adhered to its disclosure review processes, which included appropriate supervisory oversight, timely submission of staff's comments, and a process to identify inconsistencies in comments. However, DRAO did not consistently perform enforcement database searches on contested proxy materials or upload all staff comments to the SEC's Electronic Data Gathering, Analysis, and Retrieval system (EDGAR). DRAO addressed these two matters during our audit. (*Findings 3 and 4*)

⁸ These 14,116 SOX reviews include (1) those required by law (statutory SOX reviews); (2) reviews of funds that either no longer exist or have been incorporated into other funds through mergers or liquidation; and (3) goal reviews which may cover funds from the same shareholder report, funds filed within the same Form N-CSR as a statutory review, targeted reviews, or reviews selected by the individual accountant.

Results

FINDING 1. DRAO DID NOT ALWAYS COMPLY WITH SOX OR POLICY REQUIREMENTS

SOX Section 408(c) requires the SEC to review issuer disclosures on a regular and systematic basis, with each issuer reviewed at least once every three years. Additionally, to meet the SOX mandate, DRAO’s internal guidance requires staff to complete SOX reviews before registrants file their fourth annual reports in EDGAR. Nonetheless, our audit and DRAO identified some missing or late reviews and instances of untimely comments to registrants.

We analyzed data for 11,517 statutory SOX reviews completed between FY 2022 and FY 2024 and found that DRAO complied with SOX and/or policy requirements in 99.9 percent of its reviews. However, for 12 funds (or approximately .1 percent), DRAO did not comply with SOX and/or policy requirements. Specifically:

- DRAO did not review eight funds within the statutory three-year period. These reviews were completed between 34 and 37 days after the period ended.
- DRAO reviewed the remaining four funds within the statutory timeframe but was late in issuing comments notifying registrants of potential noncompliance.

Table. Summary of SOX Review Noncompliance

Identified By	No. of Missed or Late SOX Reviews	FY	Non Compliance with SOX?	Non Compliance with Policy?
OIG	8	2022	Yes	Yes
OIG	4	2023-2024	No	Yes
DRAO	11	2023	Yes	Yes

Source: *OIG-generated based on analysis of RoboSOX data and information provided by DRAO.*

When asked about these issues, management stated that DRAO’s internal guidance may require updating to clarify and incorporate additional factors that could affect the timing of reviews and the issuance of comments, beyond simply completing SOX reviews before registrants file their fourth annual reports. Specifically, management acknowledged that the eight funds we identified from FY 2022 were not completed when required, though it is unclear why. Management further stated that:

- Three of the funds we identified from FY 2024 were part of a fund complex with multiple FY ends. DRAO reviewed these funds before the registrants’ fourth filings; however, DRAO limits its SOX review outreach to registrants to once a year, which delayed issuance of comments.
- The remaining fund we identified from FY 2023 was impacted by a change in the registrant’s FY end date. The fund was correctly identified to be reviewed in FY 2023, but the fund filed its fourth filing earlier than expected, which caused the review to be noncompliant with DRAO policy.

- The 11 funds DRAO self-identified for FY 2023 were not identified for review by the RoboSOX system due to a coding error.⁹ DRAO subsequently completed the missed reviews, worked with the RoboSOX system development team to address the underlying cause, and established additional reconciliation procedures and other controls to prevent similar issues from recurring.

The timeliness of SOX reviews is critical as they enable registrants to incorporate SEC comments into subsequent filings, thereby improving the quality of disclosures and protecting investors. Delays, such as those we and DRAO identified, prevent registrants from receiving SEC comments in a timely manner and hinder registrants' ability to make necessary adjustments, potentially exposing investors to incomplete or inaccurate information.

RECOMMENDATION, MANAGEMENT'S RESPONSE, AND EVALUATION OF MANAGEMENT'S RESPONSE

To improve IM's SOX review program, we recommend that DRAO:

Recommendation 1:

Update applicable procedures to better align with the Sarbanes-Oxley Act of 2002, Section 408(c), and to clarify expectations for the timeliness of Sarbanes-Oxley Act reviews and reporting.

Management's Response. Management concurred with the recommendation. According to the Division of Investment Management's Director, the Disclosure Review and Accounting Office revised its Sarbanes-Oxley Act review procedures to more clearly articulate the timeliness requirements for Sarbanes-Oxley Act reviews. The procedures specify how timeliness should be assessed when a fund changes its fiscal year end during the triennial cycle, and staff will, to the extent practicable, aim to provide Sarbanes-Oxley Act review comments before the due date of a fund's fourth annual report to shareholders. Management's complete response is reprinted in Appendix II.

OIG's Evaluation of Management's Response. Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

⁹ RoboSOX is an information technology system designed to identify the population of active registrants subject to statutory SOX review in the upcoming fiscal year. The system assigns filings, monitors assignment status, compiles staff feedback, and produces management reports.

FINDING 2. DRAO LACKED WRITTEN PROCEDURES FOR KEY SOX REVIEW ACTIVITIES

DRAO had not developed written procedures for key SOX review activities. Specifically, there were no established procedures for RoboSOX completeness checks performed at the beginning of each FY to help identify those funds DRAO must review that year to comply with SOX. Additionally, DRAO had not documented how staff determine whether a higher risk fund—identified for a targeted SOX review—should be reviewed earlier than required.

Federal internal control standards require management to design control activities to achieve objectives and respond to risks (principle 10), and to implement those activities through established policies and procedures (principle 12).¹⁰ However, DRAO's internal guidance did not reflect current practices or provide detailed processes staff described during our walk-throughs and interviews.

A lack of documented procedures for key SOX review activities increases the risk of inconsistent execution and undue reliance on institutional knowledge. In turn, this increases the risk of potential errors, reduces accountability, and limits continuity of operations particularly during periods of significant staff turnover and/or heavy workload as DRAO has recently experienced.

RECOMMENDATION, MANAGEMENT'S RESPONSE, AND EVALUATION OF MANAGEMENT'S RESPONSE

To improve IM's internal controls over SOX reviews, we recommend that DRAO:

Recommendation 2:

Update internal guidance to reflect detailed procedures for (a) the annual reconciliation process, and (b) how decisions are made and documented when determining if and when a targeted review should be performed.

Management's Response. Management concurred with the recommendation. According to the Division of Investment Management's Director, beginning with the fiscal year 2025 Sarbanes-Oxley Act cycle, the Disclosure Review and Accounting Office documented procedures on secondary completeness checks performed outside of RoboSOX, including recording and reconciling all discrepancies and the methodology used. Evidence of these checks will be maintained in the Chief Accountant's Office annual RoboSOX files. The Disclosure Review and Accounting Office also updated its Sarbanes-Oxley Act review procedures to define factors staff should consider when determining whether a targeted review is warranted. Management's complete response is reprinted in Appendix II.

OIG's Evaluation of Management's Response. Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the actions taken.

¹⁰ U.S. Government Accountability Office, *Standards for Internal Control in the Federal Government* (GAO-25-107721, May 2025).

FINDING 3. DRAO DID NOT ALWAYS CONDUCT ENFORCEMENT DATABASE SEARCHES ON PROXY MATERIALS

Under the Investment Company Act of 1940, individuals or entities subject to convictions, injunctions, or bans are prohibited from serving as principal underwriters or employees, officers, directors, advisory board members, or investment advisers of any registered investment company.¹¹ When DRAO examiners review certain filings, they request that DRAO paralegals search enforcement databases to identify any entities or individuals listed that have been suspended or banned.¹² Searches are required under the following circumstances:

- Any filing on Forms N-1A, N-2, N-3, N-4, N-6, N-14 or S-6 that is to be reviewed and any filing on S-1 or S-3 in the case of insurance products not issued by an investment company, if the staff are asked to accelerate the filing.
- Any preliminary proxy statement that calls for the election of one or more new directors or for the approval of an adviser, sub-adviser, or principal underwriter that is new to the registered fund industry.

We assessed DRAO's review of 18 judgmentally selected initial registration filings (i.e., Forms N-2, N-14, and S-6) and confirmed that enforcement database searches were conducted as required. We also assessed DRAO's review of two preliminary contested proxy statements (i.e., Form PREC14A) and found that searches were not performed for either one. As a result, we assessed DRAO's review of 23 other contested proxy materials filed during our scope period, finding 14 more instances where staff did not search enforcement databases.¹³ In total, DRAO failed to perform enforcement database searches 64 percent of the time with respect to contested proxy materials (16 out of 25 instances we reviewed).

DRAO personnel attributed these omissions to an oversight and, during our audit, DRAO updated its internal procedures to clarify requirements for enforcement database searches. The procedures now state that a search is triggered for "Any preliminary proxy statement that calls for (i) the election of one or more new directors/trustees/board members (and only for contested proxies (PREC14A)), or (ii) for the approval of an adviser, sub-adviser or principal underwriter that is new to the registered fund industry." Further, to ensure staff awareness, this requirement was communicated through multiple channels, including a Branch Chief meeting, an all-hands meeting, and through quarterly office-wide emails. Failure to conduct enforcement database searches may compromise investor protection by allowing individuals or entities subject to legal prohibitions to serve in roles from which they are barred. However, because DRAO took action to address this matter, we are not making any recommendations for corrective action at this time.

¹¹ 15 U.S.C. § 80a-9 (Ineligibility of certain affiliated persons and underwriters).

¹² Enforcement database searches include the Division of Enforcement's case management system (HUB), the barred persons database, and the SEC Litigation website.

¹³ During 2024, there were 78 PREC14As filed with the SEC from which 36 appear to call for the election of one or more new directors or for the approval of an adviser, sub-adviser, or principal underwriter that is new to the registered fund industry. After discussion with DRAO personnel, we determined that only 25 PREC14As required an enforcement database search.

FINDING 4. STAFF COMMENTS WERE NOT UPLOADED TO EDGAR

For 11 of the 34 legal filings¹⁴ we reviewed (or approximately 32 percent), staff's oral comments were not uploaded to the EDGAR system. According to DRAO's internal procedures, both comment letters and oral comments must be uploaded to EDGAR, which serves as the SEC's permanent repository for these official records. Additionally, the Office of Management and Budget and the National Archives and Records Administration has emphasized that strong records management is essential for ensuring transparency and accountability.¹⁵

Staff's oral comments were not preserved in EDGAR because examiners did not save relevant information in the designated network location used to initiate uploads. Furthermore, DRAO personnel noted that some oral comments were follow-ups to previous comments, and there was uncertainty regarding what should be uploaded.

DRAO personnel stated that the risk created by not uploading oral comments in EDGAR is low because external stakeholders do not have access to these internal records, and the records are available on DRAO's shared drive. However, DRAO procedures make clear that the information should be stored in EDGAR, and failure to adhere to this practice may hinder other Commission staff's ability to readily access these records.

During our audit, DRAO updated its procedures to state that "each round of oral comments should be uploaded to EDGAR." Further, the oral comments upload requirement was discussed during a Branch Chief meeting and an all-hands meeting, and was communicated to staff through office-wide emails. Because DRAO took action to address this matter, we are not making any recommendations for corrective action at this time.

¹⁴ We selected a sample of 36 filings to test; however, 2 were classified as "no review" and became effective without staff review or comments. Consequently, they were excluded from our test to determine whether comments were uploaded to EDGAR.

¹⁵ Office of Management and Budget/National Archives and Records Administration, Memorandum M-23-07, *Update to Transition to Electronic Records*; December 23, 2022.

Other Matters of Interest

Potential Efficiencies May Be Gained with Further Scoping. Between FY 2023 and FY 2025, the number of SOX reviews completed by DRAO remained consistent, ranging from about 4,400 to 4,800, annually. However, approximately 31 percent of the CAO accountants (4 of 13) have left the SEC since the beginning of FY 2025. As DRAO faces these organizational changes and resource constraints, management and staff have identified the need for a risk-based approach that incorporates or considers risk when scoping SOX reviews, prioritizes high-risk areas, and allows DRAO to scope reviews appropriately for sophisticated or low-risk registrants.

As previously stated, SOX mandates that issuer disclosures be reviewed at least once every three years but does not explicitly state what must be reviewed. Furthermore, DRAO's internal SOX guidance emphasized the importance of professional judgment in determining review scope, stating that at least the "Baseline Review Procedures" be conducted.¹⁶ However, DRAO has not fully leveraged the permitted flexibilities and instead conducts the same scope of reviews for all SOX filings, regardless of the risk associated with the registrant. We encourage DRAO to develop and implement a risk-based approach that allows for informed scoping and ensures more efficient use of the organization's limited resources.

DRO branches experienced a similar reduction in personnel. Specifically, in FY 2025, 10 of 46 legal staff members (or approximately 22 percent) left the SEC. The branches have adjusted their review processes to focus on key disclosure areas to manage the workload with reduced resources. We encourage management to continue monitoring the effectiveness of DRAO risk management strategies and adjust as necessary.

Potential Opportunity to Consolidate the SEC's Disclosure Review Information Technology Systems. During simultaneous audits of IM and Division of Corporation Finance disclosure review programs, the OIG identified four SEC information technology systems relied on to perform disclosure reviews. These systems have similar functionality and store similar data, presenting a potential opportunity for consolidation, potential cost savings, and improved compliance with federal efficiency requirements. Because the matter was outside the scope and objectives of either audit, we reported it separately (see [Final Management Letter: Potential Opportunity to Consolidate the SEC's Disclosure Review Information Technology Systems, dated June 24, 2025](#)).

¹⁶ The Baseline Review Procedures represent the review that accountants should perform on all open-end and closed-end funds as the accountant deems necessary. Accountants should use their professional judgement to determine whether to perform any additional procedures that are specific to the type of investment company being reviewed.

Appendix I. Scope and Methodology

We conducted this performance audit from December 2024 to April 2026, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Objectives and Scope

Our engagement period covered reviewable filings from FY 2024 and SOX reviews from FY 2022 through FY 2024. Our overall objective was to assess DRAO operations. Specifically, we determined whether DRAO (1) effectively employed risk-based processes when selecting reviewable filings to review; (2) reviewed all filers at least triennially, as required by SOX; and (3) followed its disclosure review process for reviewable filings and SOX reviews, to include ensuring appropriate supervisory reviews, timely submission of comments, and an effective process for identifying inconsistencies in comments.

Methodology

To address our objectives, we conducted fieldwork at the SEC's Headquarters in Washington, DC, and met with representatives from DRAO. We also:

- Reviewed applicable federal laws, regulations, and guidance, and IM policies and procedures for reviews of investment companies' registration statements and annual reports.
- Performed walkthroughs of relevant systems and tools, including the Investment Management Dissemination Management system and RoboSOX.
- Selected and assessed samples of legal and accounting disclosures and SOX reviews from our scope period as follows:
 - In FY 2024, DRO received 2,796 filings (i.e., initial registrations, pre-effective amendments, post-effective amendments, and proxy materials).¹⁷ We judgmentally selected and assessed a non-statistical, stratified sample of 32 legal filings to ensure coverage of reviews performed by DRO's 6 legal branches. Additionally, we included in our sample four legal filings with a status of "no review" or "routing." During our review of proxy materials, we identified a concern and subsequently expanded our testing to include an additional 23 proxy materials.
 - In FY 2024, CAO reviewed 813 reviewable filings. We judgmentally selected and assessed a non-statistical sample of 10 reviewable filings performed across both accounting branches.
 - Between FY 2022 and FY 2024, DRAO completed 14,116 SOX reviews. We stratified the population by FY and type of review (i.e., statutory, merged, liquidated, or closed reviews,

¹⁷ For reporting purposes, DRO categorizes filing types into initial registrations, post-effective amendments, and proxy materials. Although pre-effective amendments are neither part of DRO's categories nor considered reviewable filings for reporting purposes, we reviewed them since these filings are examined by DRO.

and goal) then selected and assessed a judgmental sample of 21 SOX reviews. Our initial testing identified areas of concern; therefore, we assessed 9 additional statutory SOX reviews to further test the triennial review process, and 13 SOX reviews with “high,” “medium,” or “incomplete” risk rating fields to further assess DRAO’s use of risk ratings in its review process. Finally, we analyzed RoboSOX data for statutory reviews to ensure compliance with the triennial review requirement.

Internal Controls

We identified and assessed internal controls, applicable internal control components, and underlying principles significant to our objectives, as described below.

Control Environment. We interviewed DRAO management and personnel to understand the control environment, and we assessed the functions of key controls identified. As the Other Matters of Interest section of this report notes, we found opportunities to enhance SOX review processes and ensure a more efficient use of the organization’s limited resources.

Risk Assessment. We reviewed IM’s management assurance statements and risk and control matrices to identify risks and controls related to DRAO. As discussed in Finding 1, we and DRAO identified some late reviews and instances of untimely staff, indicating deficiencies in DRAO’s compliance with SOX Section 408(c) and internal procedures.

Control Activities. We reviewed applicable federal laws, regulations, and guidance; SEC policies and procedures; and DRAO risk and control matrices to identify and test key controls. As described in Findings 1 and 2, we identified deficiencies in the design and operating effectiveness of controls related to DRAO’s SOX reviews, annual reconciliation process, and guidance for performing targeted reviews.

Information and Communication. IM has established policies and procedures that guide DRAO reviews of disclosure statements. However, as detailed in Findings 3 and 4, there was a need for clarification regarding enforcement database searches and EDGAR upload requirements. During our audit, DRAO updated its internal procedures to clarify these requirements, and communicated relevant information to personnel; therefore, we are not making any recommendations for corrective action at this time.

Monitoring. We obtained and reviewed IM’s FY 2024 internal control assessment and a corrective action plan from November 2023, in which DRAO reported a deficiency related to the identification of SOX funds required for review. As discussed in Finding 1, DRAO subsequently completed the missed reviews, collaborated with the RoboSOX system development team to address the underlying cause, and established additional reconciliation procedures and other controls to prevent similar issues from recurring.

Data Reliability

The U.S. Government Accountability Office's (GAO) *Assessing Data Reliability* (GAO-20-283G, December 2019) states reliability of data means that data are applicable for audit purpose and are sufficiently complete and accurate. Data primarily pertains to information that is entered, processed, or maintained in a data system and is generally organized in, or derived from, structured computer files. Furthermore, GAO-20-283G defines "applicability for audit purpose," "completeness," and "accuracy" as follows:

"Applicability for audit purpose" refers to whether the data, as collected, are valid measures of the underlying concepts being addressed in the audit's research objectives.

"Completeness" refers to the extent to which relevant data records and fields are present and sufficiently populated.

"Accuracy" refers to the extent that recorded data reflect the actual underlying information.

To address our objective, we relied on computer-processed data from the Investment Management Dissemination Management system, EDGAR, and RoboSOX. To assess the reliability of the data, we:

- Interviewed knowledgeable personnel, including IM-DRAO senior management, IM Business Solutions and Technology Office management, and those responsible for internal controls within the disclosure review program.
- Performed system and dashboard walkthroughs.
- Tested data from our scope period to determine whether there were duplicate entries or data were missing in key and required fields.

Based on our assessment, we found the data sufficiently reliable for the purpose of this audit.

Prior Coverage

In 2007 and 2025, the SEC OIG and GAO issued the following reports of particular relevance to this audit:

SEC OIG:

- *Investment Company Disclosures Initiatives* (Report No. 421, September 25, 2007).

GAO:

- *SARBANES-OXLEY ACT: Compliance Costs Are Higher for Larger Companies but More Burdensome for Smaller Ones* (GAO-25-107500, June 2025).

These reports can be accessed at <https://www.sec.gov/oig> (SEC OIG) and <https://www.gao.gov> (GAO).

Appendix II. Management Comments



U.S. Securities and Exchange Commission

Division of Investment Management

MEMORANDUM

To: Rebecca Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects, Office of Inspector General

From: Brian Daly, Director, Division of Investment Management **BRIAN DALY**

Digitally signed by BRIAN DALY
Date: 2026.04.24 08:54:14 -0400

Date: April 24, 2026

Subject: Management Response to Draft Office of Inspector General Report, *Opportunities Exist to Strengthen Investment Management's Disclosure Review Program*

Thank you for the opportunity to review and comment on the Office of Inspector General's (OIG) draft report on the operations of the Division of Investment Management's Disclosure Review and Accounting Office (DRAO). The Report concludes that DRAO continues to advance its oversight mission effectively while identifying opportunities to further enhance the clarity, consistency, and structure of key review processes. It observes isolated instances of untimely statutory reviews, areas where additional formalization of procedures governing annual Sarbanes-Oxley Act (SOX) reconciliations and targeted SOX reviews would be beneficial, and occasional inconsistencies in enforcement-related checks and EDGAR documentation practices. With several improvements already underway, the Report encourages DRAO to reinforce procedural transparency, strengthen internal controls, and further align review approaches with risk to support timely, high-quality disclosure oversight for investors.

We appreciate the Report's recognition of DRAO's strong execution of its mission, including the consistent use of risk-based review methods, the effectiveness of supervisory oversight across legal and accounting examinations, and the sustained adherence to established disclosure review protocols. The Report's acknowledgement of DRAO's handling of complex filings, coordinated multidisciplinary work, and continued capacity to complete a substantial volume of reviews underscores the professionalism and dedication of the staff. We also value its affirmation of DRAO's constructive engagement with registrants, the quality of staff comment practices, and the reliability of the internal systems and controls that support investor focused oversight.

We concur with the Report's two recommendations and have updated our procedures to reinforce the timely completion and reporting of SOX reviews. We have also formalized our detailed processes for annual SOX reconciliations and for determining when targeted SOX reviews are appropriate.

We appreciate the professionalism and collaboration demonstrated by the OIG staff throughout this review and remain committed to completing the corrective actions promptly.

cc: Peter Gimbriere, Managing Executive, Office of the Chairman
Shelly Luisi, Chief Risk Officer

Enclosure: Appendix A

Appendix A: Management's Responses to OIG's Recommendations

The following are management's responses to the recommendations provided in the Report.

Recommendation 1: Update applicable procedures to better align with the Sarbanes-Oxley Act of 2002, Section 408(c), and to clarify expectations for the timeliness of Sarbanes-Oxley Act reviews and reporting.

Response: Concur. DRAO has revised its Sarbanes-Oxley Act (SOX) review procedures to more clearly articulate the timeliness requirements for SOX reviews. The updated procedures specify how timeliness should be assessed when a fund changes its fiscal year end during the triennial review cycle. The revisions also clarify that, to the extent practicable, staff will endeavor to provide SOX review comments in advance of the due date for the fund's fourth annual report to shareholders. This may require contacting fund complexes and individual registrants several times a year.

Recommendation 2: Update internal guidance to reflect detailed procedures for (a) the annual reconciliation process, and (b) how decisions are made and documented when determining if and when a targeted review should be performed.

Response: Concur. (a) Beginning with the FY2025 SOX year, DRAO documented procedures on secondary completeness checks that were performed outside of the information technology system RoboSOX, with all discrepancies (and the methodology) recorded and reconciled. Evidence of this completeness check is maintained in the Chief Accountant's Office annual RoboSOX files. (b) DRAO updated SOX review procedures to include additional factors for DRAO to consider when determining whether a targeted review is warranted. This list is not exhaustive, as DRAO must retain the flexibility to respond to emerging, evolving, and transient risks. These factors serve as considerations rather than mandates and will not automatically require that a targeted review be initiated. We will ensure that RoboSOX captures the basis for each targeted review.

OIG General Office Contact Information

EMPLOYEE SUGGESTION PROGRAM

The OIG SEC Employee Suggestion Program, established under the Dodd-Frank Wall Street Reform and Consumer Protection Act, 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 the OIG Hotline at (833) SEC-OIG1 or by filing a complaint online as indicated below.

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.

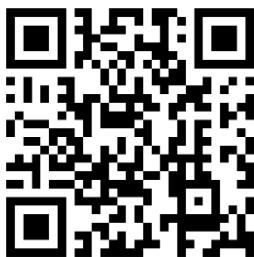
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833-SEC-OIG1

