

# Securities and Exchange Commission

## Office of Inspector General

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During the first half of fiscal year 2006, the Office of Inspector General assisted the Commission in its efforts to:

- Prevent workplace violence,
- Improve oversight of disgorgements and penalties,
- Enhance the integrity of the Commission and its staff by investigating allegations of misconduct,
- Ensure appropriate legal review of settlement agreements with employees,
- Enhance the clearance process for separating employees,
- Strengthen controls over use of the Commission shuttle bus, and
- Assure the effectiveness of field office administrative controls.

## Executive Summary

*During this period (October 1, 2005 to March 31, 2006), the Office of Inspector General (Office) issued two audit reports and four investigative memoranda on management issues. These evaluations focused on oversight of disgorgements and penalties; administrative controls in the Pacific Regional Office (PRO); the clearance process in the PRO; the Commission shuttle bus; legal review of settlement agreements; and the workplace violence prevention program. This work is described in more detail in the Audit Program section below.*

*Nine investigations were closed during the period. Five subjects were referred to the Department of Justice, which declined prosecution of these subjects. Seven subjects were referred to Commission management. Management directed one subject to cease outside employment, while management decided to take no action for another subject. One subject referred during the prior semi-annual period was demoted to a non-supervisory position; another subject referred during the prior period was suspended for five days and required to attend anger management training. Seven subjects referred during this period and the prior semi-annual period are awaiting disposition. The Investigative Program section below describes the significant cases closed during the period.*

*Information technology (IT) management had been previously reported as a significant problem. During this period, the Commission continued to improve its IT management, but significant weaknesses remain. We intend to maintain our audit focus in this important area.*

*An audit completed in a prior period found that Commission financial management controls for fiscal year 2002 were effective in all material respects except for controls over property accountability, accounting and control of disgorgements, information system and security program controls, and the Disgorgement and Penalties Tracking System. We reported these exceptions, taken together, as a significant problem.*

*The Government Accountability Office (GAO) identified similar weaknesses in its audits of the Commission's fiscal years 2004 and 2005 financial statements (except for property accountability - the value of the property account balance was below the materiality threshold). The Commission intends to complete corrective actions to address the weaknesses in financial management controls by the end of fiscal year 2006.*

*No management decisions were revised during the period. The Office of Inspector General agrees with all significant management decisions regarding audit recommendations.*

## Audit Program

The Office issued two audit reports and four investigative reports on management issues during the reporting period. These documents contained a total of 15 recommendations,

which are further summarized below. Management generally concurred with the recommendations, and in many cases took corrective actions during the evaluations.

## **OVERSIGHT OF DISGORGEMENTS AND PENALITIES (AUDIT 403)**

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We reviewed Commission oversight of disgorgement and penalty payments from securities law violators, and the recording of payment information. Generally, for the 29 actions we sampled, disgorgements and penalties ordered were paid timely, and the related supporting documentation was accurate.

We recommended that the Division of Enforcement and the Office of Financial Management continue to address data limitations in the Case Activity Tracking System (CATS) and continue development of a system to allow electronic access to case documentation. Other recommendations included recording accurate payment due dates in CATS, making Enforcement's collections unit responsible for additional collections when feasible, and encouraging wire payments or use of a lockbox for payments by check.

## **PACIFIC REGIONAL OFFICE (AUDIT 414)**

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We reviewed selected financial and administrative controls in the Pacific Regional Office in Los Angeles, CA (PRO). During the audit, no material weaknesses in the PRO's controls came to our attention. We informally discussed several non-material control weaknesses with PRO management, which agreed to implement corrective actions.

## **PRO EMPLOYEE CLEARANCE PROCESS (G-432)**

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During an investigation involving the Pacific Regional Office, we learned that the PRO did not have adequate clearance procedures for separating employees. We made recommendations to improve clearance procedures. These related to the timely and proper completion of the employee clearance form, and the timely return and cancellation of government-issued travel charge cards and passports.

## **COMMISSION SHUTTLE BUS (G-435)**

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During an investigation, we identified several concerns regarding the passenger logs for the shuttle bus between Commission headquarters (Station Place) and the Operations Center. These included missing logs, logs without starting dates or times or the driver's name, multiple dates recorded on the same log sheet, and illegible signatures by passengers and drivers. In addition, we found that contrary to Commission policy, at least ten Commission employees appeared to be using the shuttle bus for daily commuting to work at the Operations Center.

We recommended that the Office of Administrative Services (OAS) develop improved procedures for shuttle logs, update and publicize the shuttle bus policies and procedures,

and take steps to enforce these policies and procedures (*e.g.*, by regularly reviewing the shuttle logs).

## **LEGAL REVIEW OF SETTLEMENT AGREEMENTS (PI-05-26)**

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During a preliminary inquiry, we learned of a settlement agreement entered into by the Office of Human Resources (OHR) to resolve an administrative grievance. The Office of General Counsel (OGC) did not review the proposed settlement agreement.

To ensure proper consideration of legal issues affecting settlements, we recommended that OHR and OGC develop policies and procedures regarding OGC's role in settlement negotiations and agreements.

## **WORKPLACE VIOLENCE PREVENTION PROGRAM (PI-06-17)**

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During a preliminary inquiry, we learned that the Commission has not updated its policy prohibiting workplace violence and has no formal procedures for preventing and addressing potential violence in the workplace.

We recommended that the Office of Human Resources update the policy prohibiting workplace violence. We also recommended that OHR develop formal procedures for preventing and addressing workplace violence, and distribute the updated policies and procedures to Commission staff.

# **Investigative Program**

Nine investigations were closed during the period. Five subjects were referred to the Department of Justice, which declined prosecution of these subjects. Seven subjects were referred to Commission management. Management directed one subject to cease outside employment, while management decided to take no action for another subject. One subject referred during the prior semi-annual period was demoted to a non-supervisory position; another subject referred during the prior period was suspended for five days and required to attend anger management training. Seven subjects referred during this period and the prior semi-annual period are awaiting disposition.

The most significant cases closed during the period are described below.

## **MISUSE OF COMMISSION IT RESOURCES**

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An Office investigation developed evidence that a staff member made threatening statements in e-mail messages, exchanged e-mails containing foul and crude language, and possessed and exchanged inappropriate computer files. We also found evidence that the staff member possessed and forwarded to another employee possibly illegal copying software, violated various information technology policies and procedures, and misused

official time by sending personal e-mails during work hours. The Department of Justice declined prosecution, and administrative action is pending.

## **MISUSE OF OFFICIAL TIME AND RESOURCES**

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An investigation found evidence that a supervisor misused official time and the official time of subordinates to perform work for a private, non-profit enterprise. Our investigation also disclosed that one of the subordinates was paid by the non-profit enterprise for work performed on official Commission time. We further found evidence that the supervisor and this subordinate misused government computer equipment and resources to support this enterprise. The Department of Justice declined prosecution, and administrative action is pending for both the supervisor and the subordinate.

## **RECEIPT OF A REFERRAL FEE**

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The Office investigated allegations that Commission staff members had recommended a particular outside consulting firm to registrants, and that the consulting firm had paid referral fees to staff members. The evidence developed during the investigation failed to substantiate the allegation.

## **ABUSE OF DISCRETIONARY AUTHORITY**

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The Office investigated allegations that Commission supervisors had provided favorable treatment to an individual because of his political connections, and that the supervisors had excluded a former staff member from discussions concerning this individual. It was also alleged that the supervisors had tampered with the former staff member's personnel file. The evidence developed during the investigation failed to substantiate the allegations.

## **CONFLICT OF INTEREST**

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The Office investigated an allegation that a staff member was engaged in outside employment that appeared to conflict with the staff member's official duties. We found conflicting evidence concerning the ethics advice that had been provided to the staff member. Management has directed the employee to terminate the outside employment.

## **THREATS**

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An investigation found evidence that a staff member approached a Commission security guard on Commission premises and made threatening statements, after the two individuals had a previous verbal altercation off Commission property. The Department of Justice declined prosecution, and administrative action is pending.

## Significant Problems

No new significant problems were identified during the period.

### Significant Problems Identified Previously

#### FINANCIAL MANAGEMENT SYSTEMS CONTROLS

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An OIG contractor completed an audit of Commission financial management systems controls during a prior period (Audit No. 362). The audit found that Commission financial management controls for fiscal year 2002 were effective in all material respects, based on criteria established under the Federal Managers Financial Integrity Act, except for three material weaknesses and one material non-conformance.

The exceptions concerned property accountability, accounting and control of disgorgements, information system and security program controls, and the Disgorgement and Penalties Tracking System. We reported that, taken together, these financial management exceptions were a significant problem for the Commission. Management concurred with our recommendations to strengthen these financial controls, and promptly began to take actions to correct the weaknesses.

The Government Accountability Office (GAO) performed the audit of the Commission's financial statements for fiscal years 2004 and 2005. The audits found that the Commission has made significant progress in building a financial reporting structure for preparing financial statements for audit. GAO also found that the SEC property account balance was below the threshold for materiality; as a consequence we removed property accountability as an element of this significant problem. However, GAO identified material internal control weaknesses in preparing financial statements and related disclosures, recording and reporting disgorgements and penalties, and information security, which is now the basis for this significant problem.

Management intends to complete corrective actions by the end of fiscal year 2006 to address the weaknesses identified by GAO and our office. GAO will review these actions in connection with its audit of the Commission's fiscal year 2006 financial statements.

#### INFORMATION TECHNOLOGY MANAGEMENT

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Since April 1996, we have reported information technology (IT) management as a significant problem based on weaknesses identified by several audits, investigations, and management studies. Significant IT weaknesses of continuing concern include IT capital investment decision-making; information systems security; administration of IT contracts; IT project management; enterprise architecture management; strategic management of IT human capital; and management of software licenses.

During this semi-annual period, the Office of Information Technology (OIT) indicated that it continued to strengthen the management of Commission IT and has made improvements to correct this significant problem. Detailed descriptions of the progress made are included in the Management Response accompanying this report. OIT expects that IT management will no longer be a significant problem by the semi-annual reporting period beginning April 1, 2007.

Although OIT continues to take action to correct the identified IT weaknesses, we still consider IT management to be a significant problem at this time. We intend to continue our oversight of this area.

## **Access to Information**

The Office of Inspector General has received access to all information required to carry out its activities. No reports to the Chairman, concerning refusal of such information, were made during the period.

## **Other Matters**

### **EXTERNAL COORDINATION**

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The Office actively participates in the activities of the Executive Council on Integrity and Efficiency (ECIE). The Inspector General attends ECIE meetings, is an active member of its Financial Institutions Regulatory Committee, and serves as the ECIE member on the Integrity Committee (established by Executive Order No. 12993).

The Deputy Inspector General is an active member of the Federal Audit Executive Council (FAEC). The FAEC considers audit issues relevant to the Inspector General community.

The Associate Inspector General for Investigations/Counsel to the Inspector General and the Associate Counsels are active members of the PCIE Council of Counsels. The Council considers legal issues relevant to the Inspector General community.

### **PEER REVIEW**

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The Office of Inspector General of the Corporation for Public Broadcasting performed a peer review of the Office's audit function during the period. It has not yet finalized its report.

We expect to make several changes to our Audit Manual as a result of the review to enhance the Office's quality control system for audits.

## Questioned Costs

		DOLLAR VALUE (IN THOUSANDS)		
		<u>NUMBER</u>	<u>UNSUPPORTED COSTS</u>	<u>QUESTIONED COSTS</u>
A	For which no management decision has been made by the commencement of the reporting period	0	0	0
B	<i>Which were issued during the reporting period</i>	<u>0</u>	<u>0</u>	<u>0</u>
	Subtotals (A+B)	0	0	0
C	For which a management decision was made during the reporting period	0	0	0
	(i) Dollar value of disallowed costs	0	0	0
	(ii) Dollar value of costs not disallowed	0	0	0
D	For which no management decision has been made by the end of the period	0	0	0
	Reports for which no management decision was made within six months of issuance	0	0	0

## Recommendations That Funds Be Put To Better Use

	<u>NUMBER</u>	<u>DOLLAR VALUE (IN THOUSANDS)</u>
A		
	For which no management decision has been made by the commencement of the reporting period	0
B		
	Which were issued during the reporting period	<u>0</u>
	-	<u>0</u>
	Subtotals (A+B)	0
C		
	For which a management decision was made during the period	0
	(i) Dollar value of recommendations that were agreed to by management	0
	- Based on proposed management action	0
	- Based on proposed legislative action	0
	(ii) Dollar value of recommendations that were not agreed to by management	0
D		
	For which no management decision has been made by the end of the reporting period	0
	Reports for which no management decision was made within six months of issuance	0

## **Reports with No Management Decisions**

Management decisions have been made on all audit reports issued before the beginning of this reporting period (October 1, 2005).

## **Revised Management Decisions**

No management decisions were revised during the period.

## **Agreement with Significant Management Decisions**

The Office of Inspector General agrees with all significant management decisions regarding audit recommendations.

**MANAGEMENT RESPONSE OF  
THE SECURITIES AND EXCHANGE COMMISSION  
ACCOMPANYING THE SEMIANNUAL REPORT OF THE INSPECTOR GENERAL  
FOR THE PERIOD OCTOBER 1, 2005 THROUGH MARCH 31, 2006**

**Introduction**

The Semiannual Report of the Inspector General (IG) of the Securities and Exchange Commission (SEC) was submitted to the Chairman on April 28, 2006 as required by the Inspector General Act of 1978, as amended. The report has been reviewed by a member of the Executive Staff, Executive Director, General Counsel, and Director of the Division of Enforcement. The Management Response is based on their views and advice to the Chairman.

The Management Response is divided into four sections to reflect the specific requirements listed in Section 5(b) of the Inspector General Act of 1978, as amended.

**Section I  
Comments Keyed to Significant Sections of the IG Report**

**A. Audit Program**

During the reporting period, the IG issued two audit reports and four investigative memoranda on management issues. Management generally concurred with the findings and recommendations in the IG's reports.

In addition to audits performed by the agency's IG, the Government Accountability Office (GAO) actively reviewed program and administrative functions of the SEC. A complete listing of all GAO audit activity involving the SEC is attached as Appendix A.

**B. Response to Significant Problems**

No new significant problems were identified by the IG during this reporting period.

**C. Response to Significant Problems Previously Identified**

*Financial Management Controls*

The Inspector General's report continues to identify financial management controls as a significant problem, specifically the areas of accounting and control of disbursements and information system and security program controls. The Government Accountability Office also identified financial management controls as a weakness in its 2004 and 2005 audits of the Commission's financial statements. GAO also noted in its most recent report that the SEC made progress in fiscal year 2005 in addressing its internal control weaknesses, and we have redoubled our efforts in fiscal year 2006.

With respect to financial reporting, the SEC has added resources and expertise to its Office of Financial Management, and management is nearing completion of a comprehensive set of written procedures governing financial reporting processes and related internal controls. In addition, beginning with the SEC's second quarter financial statements, its Financial Management Oversight Committee will provide executive-level review of the SEC's financial statements, and the Committee will also provide regular oversight with respect to the agency's financial and accounting policies and procedures and internal controls. Management expects to have this problem fully resolved in 2006.

The SEC also has made substantial progress in addressing its weakness in controls over recording and reporting of disgorgement and penalty activity. For the past several months, the agency has convened a regular working group comprised of representatives from the Division of Enforcement and the Offices of Financial Management, Information Technology, the Secretary, and the Executive Director, with the objective of fully resolving this material weakness during fiscal year 2006. The group has undertaken the following principal initiatives:

- Clarifying and streamlining responsibilities across divisions and offices and documenting and implementing a comprehensive set of procedures and controls;
- Designing a new financial management system to replace the financial portion of the existing Enforcement database;
- Eliminating inaccuracies in the existing database to ensure data integrity in the new financial system going forward; and
- Clarifying the SEC's policies with respect to debt terminations and write-offs and clearing out a backlog of old, uncollected debts.

SEC management believes these initiatives are responsive to the Inspector General's and GAO's concerns and will substantially improve the agency's controls over disgorgement and penalty activity.

#### *Information Resources Management*

During this semi-annual period, the Office of Information Technology continued to strengthen the management of Commission IT. Among other actions, SEC management made the following improvements:

- Completed certification and accreditation for the general support systems; this brings the number of major applications certified and accredited to 16. The remaining 4 major applications are on track to be accredited during the spring;

- Completed and tested contingency plans for major applications;
- Improved the process for maintaining and tracking plans of action & milestones;
- Started implementation of Homeland Security Directive 12, which will integrate physical and IT access controls with federal requirements and best practices;
- Established a new portfolio management process to aid certain SEC decision-makers in prioritizing IT investments;
- Deployed the Enterprise Data Architecture, which is based upon a logical model of structured data and the business of the Commission, and incorporates full integration capability for all like data elements; and
- Reviewed software operating on all Commission workstations and established an official inventory list of applications authorized and supported on the Commission's network.

SEC management will continue to enhance its IT management and expects that this area will no longer be a significant problem beginning spring 2007.

**D. IG Recommendations Concerning Use of Funds**

None.

**E. Reports with No Management Decisions**

Management decisions have been made on all audits issued prior to the beginning of the reporting period (October 1, 2005).

**F. Revised Management Decisions**

No management decisions were revised during the reporting period.

SEC Management Response to  
Semiannual IG Report  
October 1, 2005 – March 31, 2006

SECTION II  
Disallowed Costs  
As of March 31, 2006

	<u>Number</u>	<u>Dollar Value (in thousands)</u>
A. For which final action has not been taken by the commencement of the reporting period	0	\$0
B. On which management decisions were made during the reporting period	<u>0</u>	<u>\$0</u>
(Subtotal A+B)	0	\$0
C. For which final action was taken during the reporting period	0	\$0
(i) Recovered by management	0	\$0
(ii) Disallowed by management	0	\$0
D. For which no final action has been taken by the end of the reporting period	0	\$0

SEC Management Response to  
Semiannual IG Report  
October 1, 2005 – March 31, 2006

SECTION III  
Funds Put to Better Use  
As of March 31, 2006

	<u>Number</u>	<u>Dollar Value (in thousands)</u>
A. For which final action has not been taken by the commencement of the reporting period	0	\$0
B. On which management decisions were made during the reporting period	0	\$0
C. For which final action was taken during the reporting period:		
(i) Dollar value of recommendations that were agreed to by management	0	\$0
(ii) Dollar value of recommendations that management has subsequently concluded should/could not be implemented or completed	0	\$0
D. For which no final action has been taken by the end of the reporting period	0	\$0

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2006

<u>Audit #</u>	<u>Audit Title</u>	<u>_____</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
220	IRM Planning and Execution	3/26/1996	\$0	\$0	An overarching policy framework was implemented in fiscal 2005, which addresses all aspects of IT management. A major initiative is underway, and resources have been obtained to publish all IT-related policies by March 31, 2007.
	Issued				
243	SECOA Local Area Network	3/21/1997	\$0	\$0	A major effort is underway to certify and accredit existing major applications and general support systems. Certification and accreditation has been completed for 16 major applications; the remaining 4 are on track to be accredited in 2006.
257	Client Server	9/9/1997	\$0	\$0	See explanation for audit #220 above.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2006

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
309	Telecommunications Vulnerabilities	3/31/2000	\$0	\$0	Extensive revision is underway to all IT policies.
320	General Computer Controls	12/26/2000	\$0	\$0	The recommendations are being addressed as part of the remediation efforts underway as a result of the audits of SEC's financial statements.
327	General Computer Controls—Regions	2/28/2001	\$0	\$0	See explanation for audit #220.
337	IT Project Management	1/24/2002	\$0	\$0	See explanation for audit #220.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2006

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
350	Administration of IT Contracts	8/28/2002	\$0	\$0	A new automated procurement system is being implemented.
351	EDGAR Utility to Commission Staff	1/15/2003	\$0	\$0	Post-acceptance corrections are being addressed. The outcome will become part of the requirements for a follow-on contract, which should be signed in 2006.
353	Regional Telecommuni- cations Security	8/20/2002	\$0	\$0	See explanation for audit #309.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2006

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
361	Commission Web Security	9/30/2002	\$0	\$0	See explanation for audit #320.
362	Financial Management System Controls	3/27/2003	\$0	\$0	See explanation for #320. Also, several actions are awaiting GAO review prior to closure of certain audit recommendations.
365	IT Capital Investment Decision-making Followup	3/29/2004	\$0	\$0	A charter for the SEC's Capital Planning Committee and several policy documents are being reviewed by the Office of General Counsel.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2006

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
371	Small Business Reg D Exemption Process	3/31/2004	\$0	\$0	The two remaining recommendations are being addressed as part of a rule-making initiative. A process has been worked out to coordinate development of the rule proposals with state securities regulators.
376	Telephone Card Program	11/17/2003	\$0	\$0	A formal policy document is expected to be completed in August 2006.
377	Lost and Stolen Securities Program	3/31/2004	\$0	\$0	Several Commission releases are expected to be revised.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2006

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
380	IT Contractor Billings	1/10/2005	\$0	\$0	Some agency-wide policies are expected to be changed in conjunction with the automated procurement system currently being implemented.
383	Targeting IA/IC Compliance Examinations	9/29/2004	\$0	\$0	Various options are being considered to enhance the Commission's surveillance of investment advisers.
385	Office of Economic Analysis	6/29/2004	\$0	\$0	Efforts are underway to define a form of publication that is viewed as the work of staff.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2006

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
387	Planning Investment Mgt. Filing Reviews	3/29/2005	\$0	\$0	Training is being arranged for certain staff on developing GPRA outcome goals, objectives, and measures.
392	Regional Information Technology Mgt—Pilot	2/14/2005	\$0	\$0	Several of the recommendations require solutions spanning multiple years.
393	Software Management		\$0	\$0	Policies and procedures are being developed. In addition, work is underway to identify performance metrics for monitoring and follow-up on software licensing information.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2006

<u>Audit #</u>	<u>Audit Title</u>	<u>Issued</u>	<u>Funds Put to Better Use (in thousands)</u>	<u>Questioned Costs (in thousands)</u>	<u>Reason Final Action Not Taken</u>
398	Management of Wireless Devices	3/24/2005	\$0	\$0	See explanation for audit #309.
400	Regional IT Mgt—SERO	3/24/2005	\$0	\$0	See explanation for audit #392.

## APPENDIX A

### GOVERNMENT ACCOUNTABILITY OFFICE AUDIT ACTIVITY INVOLVING THE SECURITIES AND EXCHANGE COMMISSION

#### Reports Completed During the Reporting Period

1. *SEC Project Management* (GAO-06-61R, Oct. 20, 2005)
2. *Financial Product Sales: Actions Needed to Better Protect Military Members* (GAO-06-23, Nov. 2005)
3. *Financial Audit: Securities and Exchange Commission's Financial Statements for Fiscal Years 2005 and 2004* (GAO-06-239, Nov. 2005)
4. *Securities and Exchange Commission: Some Progress Made on Strategic Human Capital Management* (GAO-06-86, Jan. 2006)
5. *Social Security Numbers: Stronger Protections Needed When Contractors Have Access to SSNs* (GAO-06-238, Jan. 2006)
6. *Information Security: Securities and Exchange Commission Needs to Continue to Improve Its Program* (GAO-06-408, Mar. 2006)
7. *Private Pensions: Opportunities Exist to Further Improve the Transparency of PBGC's Financial Disclosures* (GAO-06-429, Mar. 2006)

#### Projects Active as of March 31, 2006

1. Effects of Sarbanes-Oxley on Small Business (250224). A review of (1) the effects of the Act on small companies, (2) the extent to which financial institutions and states require small privately-held companies to comply with provisions of the Act and the corresponding impacts, and (3) the impact, if any, the Act has had on small accounting and auditing firms.
2. Financial Statement Restatements II (250250). A review of (1) the reasons for and trends in financial restatements since the completion of GAO's 2002 study, (2) the impact of restatement announcements on the restating companies' stock market capitalization, (3) available research to determine the impact of financial restatements on investors' confidence in the capital markets, and (4) federal and state enforcement actions involving accounting and auditing irregularities.
3. FY 2006 Financial Statement Audit. An audit of the SEC's fiscal year 2006 financial statements.

4. SEC's Internal Control (194570). In connection with the 2005 financial statement audit, a review of the SEC's internal controls and compliance with selected provisions of laws and regulations.
5. Pay and Performance Systems (450460). A review of the extent to which various financial regulatory agencies' pay and performance management systems are aligned with key practices important for effective performance management.
6. Financial Market Preparedness (250285). An assessment of the progress made by U.S. financial regulators and market participants in preparation for wide scale disruptions; a follow-up on issues and recommendations from prior GAO reports.
7. Prompt Corrective Action Program (250289). A study of the efficiency and effectiveness of the administration of the PCA program under the Federal Deposit Insurance Act by the federal banking agencies, including their effectiveness in identifying and taking action with respect to troubled depository institutions, and the accuracy of risk assessments made by the FDIC.
8. Structure and Mission of FDIC (250290). A review of the appropriateness of FDIC's organizational structure for its mission, taking into account the size and complexity of insured depository institutions, the effect of the organizational structure on inefficiencies that increase operational costs, and the effectiveness of FDIC's internal controls.
9. Implementation of the New Basel Capital Accord (250291). A review of the potential impact of the implementation of Basel II on the U.S. financial system and the proposed revisions to current reserve requirement regulations for non-Basel II banks, including: (a) the impact of Basel II on U.S. capital requirements; (b) the ability of U.S. banks and bank regulators to implement and comply with Basel II; and (c) the ability of U.S. financial regulatory agencies to obtain sufficient expertise and to oversee institutions subject to Basel II.
10. Consolidated Supervision of Financial Institutions (250258). A review of the policies and procedures of various agencies engaged in consolidated supervisory responsibilities for financial institutions to determine how they differ, the effectiveness of consolidated supervision and the extent to which agencies seek to improve its effectiveness by identifying and adopting "best practices", and the implications of any duplication of resources caused by having various regulatory bodies engaged in overseeing similar activities.
11. Financial Market Preparedness (250285). An assessment of the progress made by U.S. financial regulators and market participants in preparation for wide scale disruptions.
12. CFTC Oversight (250256) and Natural Gas Prices (360659). A review of the CFTC's oversight of futures trading in energy. A review of the factors that affect natural gas price

volatility—particularly those driving today’s higher prices—and the federal government’s role in ensuring that prices are determined in a competitive market. Although SEC is not the focus of these studies, GAO is interested in learning about, among other things, (1) the SEC’s equities market surveillance and how the role played by hedge funds in the financial markets has changed.

13. Information Resellers (250249). A review of how financial institutions in the banking and securities industry use information provided by resellers of consumer information, and what steps federal regulators are taking to ensure that resellers adhere to federal privacy laws and protect the rights of consumers.
14. Pension Plan Asset Management (130554). A study of potential conflicts that may exist involving investment managers and the effect those conflicts may have had on recent problems in plan underfunding.
15. 401(k) Fees and Expenses (130544). The primary focus of this study is the Department of Labor and activities carried out under the Employee Retirement Investment Security Act. However, GAO plans to obtain information about the transparency of fees and expenses for mutual funds and other investment options offered through 401(k) plans and SEC’s role in monitoring them.
16. Financial Literacy and Education (250276). A review of the Financial Literacy and Education Commission’s national strategy and activities to promote financial literacy and coordinate federal efforts in this area.
17. EEO Leadership Survey (450307). A government-wide survey of (1) how agencies are structured to meet EEO, affirmative employment and workforce diversity requirements, (2) the extent to which human capital and EEO managers perceive that these requirements contribute to EEO, affirmative employment, and workforce diversity objectives, and (3) how human capital and EEO managers view the guidance and feedback central leadership agencies provide.