

# Securities and Exchange Commission

## Office of Inspector General

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During the first half of fiscal year 2007, the Office of Inspector General assisted the Commission in its efforts to:

- Complete required staff performance management steps throughout the Commission in a timely and appropriate fashion,
- Improve the process for providing staff interpretative guidance in the Full Disclosure Program,
- Implement procedures to resolve backlogs of Freedom of Information Act requests and comment letter postings to the Internet,
- Enhance the integrity of the Commission and its staff by investigating allegations of misconduct,
- Improve information technology security for the Blue Sheets and Super Tracking and Reporting systems,
- Enhance the management of information technology within the Division of Enforcement,
- Ensure appropriate use and security of the Name Relationship Search Index system, and
- Further the implementation of the Commission's risk assessment function.

## Executive Summary

*During this period (October 1, 2006 to March 31, 2007), the Office of Inspector General (Office) issued four audit reports, two evaluation reports, and one investigative memorandum on management issues, and completed one survey.*

*These evaluations focused on management of staff performance in the Division of Enforcement; information technology (IT) management in the Division of Enforcement; Full Disclosure interpretive guidance; security evaluations of the Blue Sheets and Super Tracking and Reporting (STARS) systems; a backlog of requests under the Freedom of Information Act (FOIA); training and guidance for the Name Relationship Search Inquiry (NRSI) system; and the Office of Risk Assessment. This work is described in more detail in the Audit Program section below.*

*Five investigations were closed during the period.<sup>1</sup> Three subjects were referred to the Department of Justice, which declined prosecution. Five subjects were referred to Commission management. Two of these subjects (both contractor employees) resigned. Two other subjects were reprimanded and one was counseled. In addition, two subjects referred during prior semi-annual periods were suspended, and one subject referred during the prior period was reprimanded. Two subjects referred during prior semi-annual periods are awaiting disposition. The Investigative Program section below describes the significant cases closed during the period.*

*We are adding a new significant problem, removing one previously reported significant problem, and retaining another previously reported significant problem.*

*We are reporting the Commission's management of staff performance as a new significant problem, based on our review of the Division of Enforcement's staff performance management. In that review, we found that Enforcement did not consistently perform parts of the performance evaluation process and did not retain performance documentation for the required amount of time. The Executive Director indicated that the current Commission-wide staff performance management system needs improvement. The Commission plans to change its process to address deficiencies in the current system and to better ensure that required steps of the process are followed.*

*In its 2006 audit of the Commission's financial statements, the Government Accountability Office found no material weaknesses. Based on their findings, we are removing financial management systems controls as a significant problem.*

*Our Office has reported information technology (IT) management as a significant problem for several years. During that time, the Office of Information Technology has taken numerous steps to improve IT management. Although it remains a significant problem at*

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<sup>1</sup> Two investigations closed during the prior semi-annual period (April 1, 2006 to September 30, 2006) were inadvertently omitted from the semi-annual report for the second half of fiscal year 2006. A subject of one of these investigations was referred to the Department of Justice, which declined prosecution.

*this time, we have begun a special project to evaluate whether these steps, taken as a whole, have corrected this significant problem.*

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

## **Audit Program**

During this period, the Office issued four audit reports, two evaluation reports, and one investigative memorandum on management issues. The Office also completed a survey.

These evaluations are summarized below. Management generally concurred with our recommendations, and in many cases took corrective actions during the evaluations. A list of pending evaluations follows the summaries.

### **IT MANAGEMENT IN ENFORCEMENT (NO. 405)**

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Our review of the Division of Enforcement's IT management found that it was generally adequate. However, the Division needs to issue additional guidance to ensure a sound IT program. We recommended that the Division prepare an IT plan and document its procedures for IT management, major initiatives (such as the document imaging project), and security management.

During our review, the Division and the Office of Administrative Services (OAS) developed procedures for preventing and resolving physical security incidents at the Division's forensics lab.

### **FULL DISCLOSURE INTERPRETATIVE GUIDANCE (NO. 416)**

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We reviewed the process for issuing staff interpretive guidance for the Full Disclosure program. The Division of Corporation Finance and the Office of the Chief Accountant have primary responsibility for issuing this guidance.

We identified a number of possible improvements to the process. Our recommendations concern Staff Accounting Bulletins; disclosure of staff guidance; workload, timeliness, and reporting issues; file documentation; and procedures for responding to guidance requests and approving speeches.

### **SYSTEMS SECURITY EVALUATION—BLUE SHEETS (NO. 417)**

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We issued a task order to Electronic Consulting Services, Inc. (ECS) to evaluate the security of the Blue Sheets system under the Federal Information Security Management Act (FISMA). The evaluation found that the Commission significantly improved its

certification and accreditation process in fiscal year 2006 by remedying four of the five weaknesses we identified during our fiscal year 2005 FISMA evaluation.

We identified no high risk vulnerabilities and nine medium risk vulnerabilities. The medium risk vulnerabilities concerned the risk assessment report; vulnerability scanning; the system security plan; system documentation; external interconnections; the plan of action and milestones; the disaster recovery plan; baseline configuration and inventory; and configuration change control.

Our overall FISMA evaluation report for fiscal year 2006 contained recommendations to address most of these vulnerabilities. We made additional recommendations, as appropriate, in this report. The Office of Information Technology agrees with the findings and is performing an analysis on how to best implement the recommendations.

## **OFFICE OF RISK ASSESSMENT (NO. 420)**

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We surveyed the Office of Risk Assessment (ORA), which was created several years ago to enhance the Commission's risk assessment function. During the survey, we gathered background information about ORA and its activities for audit planning purposes.

Because of the limited objective and scope of our survey, we did not issue a written report or make any recommendations. We discussed several issues with ORA management, including the definition of its mission and its resource needs.

## **FOIA BACKLOG (NO. 422)**

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The Divisions of Corporation Finance and Investment Management issue comment letters on filings they receive. Over the last several years, commercial users significantly increased their Freedom of Information Act (FOIA) requests for these comment letters. These requests created a large backlog, which we analyzed in this audit.

Besides the influx of requests, we identified several other factors which helped cause the backlog. These included: management's decision to post a large number of already issued letters on the Commission website, which created a separate backlog of letters to be posted; inefficient processing procedures; and limited staff.

We made several recommendations to the two Divisions and the Commission's FOIA Office to improve the efficiency of processing procedures, both for FOIA requests and the posting of letters on the website. The Divisions and the FOIA Office have taken and plan to take several steps to address the FOIA backlog.

## **ENFORCEMENT PERFORMANCE MANAGEMENT (NO. 423)**

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We reviewed the Division of Enforcement's compliance with required performance management procedures. We found that the Division did not consistently perform parts of the performance appraisal process, especially for new, reassigned and detailed staff. Many Enforcement managers were not comfortable giving unacceptable ratings to poor

performers and did not consistently retain performance documentation for the required time. We also found that the Office of Human Resources (OHR) guidance to Commission managers needed improvement.

We recommended that the Division ensure its supervisors perform all required performance management steps and that the OHR improve its written guidance and provide additional training.

Enforcement management suggested that our findings were typical of the Commission as a whole. The Commission's Executive Director indicated that the current performance management program needs significant improvements. Starting in fiscal year 2008, the Commission will adopt a new program to address the deficiencies.

Because the Commission-wide staff performance management system is ineffective, we consider it to be a significant problem (see below).

## **SYSTEMS SECURITY EVALUATION—STARS (NO. 424)**

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In addition to the Blue Sheets security evaluation (see above), we issued a task order to Electronic Consulting Services, Inc. (ECS) to evaluate the security of the Super Tracking and Reporting System (STARS).

We identified one high risk deficiency (a significant vulnerability requiring immediate action) within STARS: the need to encrypt data while in transit. We also found eight medium risk vulnerabilities (significant deficiencies requiring timely action).

The medium risk vulnerabilities concerned the STARS security categorization; the risk assessment report; the system security plan; system documentation; the plan of action and milestones; the disaster recovery plan; baseline configuration and inventory; and configuration change control. As appropriate, we made recommendations to address these vulnerabilities. The Office of Information Technology agrees with the findings and is performing an analysis on how to best implement the recommendations.

## **NRSI TRAINING AND WARNING (NOS. G-442/433)**

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Commission staff use the Name Relationship Search Index (NRSI) system to research all of the relationships that companies or individuals have had with the Commission. During two Office investigations (OIG-442 and OIG-433), we identified a need to improve user training on NRSI to help prevent inappropriate use of the system. We also found that the warning on the NRSI login screen does not inform employees that the NRSI database is to be used only for official purposes.

We recommended improving NRSI training and appropriately modifying the warning on the NRSI login screen.

## **PENDING EVALUATIONS**

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The following evaluations were pending at the close of the semi-annual period (March 31, 2007):

No. 421 Investment Company Filing Initiatives

No. 427 DynCorp Contract—Detailed Review

No. 428 Document Imaging

No. 429 XBRL Survey

No. 430 Contract Ratifications

No. 431 IT Management Significant Problem

No. 432 Receiver Oversight

## **Investigative Program**

Five investigations were closed during the period. Three subjects were referred to the Department of Justice, which declined prosecution. Five subjects were referred to Commission management. Two of these subjects (both contractor employees) resigned. Two other subjects were reprimanded and one was counseled. In addition, two subjects referred during prior semi-annual periods were suspended, and one subject referred during the prior period was reprimanded. Two subjects referred during prior semi-annual periods are awaiting disposition.

The most significant cases closed during the period, as well as a case closed during the prior period,<sup>2</sup> are described below.

## **THEFT OF GOVERNMENT INFORMATION**

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An Office investigation developed evidence that an employee who left the Commission took large quantities of non-public Commission information and loaded it onto his new employer's computer system. The non-public Commission information was returned, and the Department of Justice declined prosecution.

## **CONTRACTOR FRAUD**

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The Office investigated allegations that a Commission contractor was billing for non-existent employees, billing more than once for the same work, and offering bonuses to staff to take longer to complete work. The evidence developed during the investigation failed to substantiate the allegations.

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<sup>2</sup> As mentioned in footnote 1 above, two cases closed during the prior semi-annual period were inadvertently omitted from our last semi-annual report.

## **MISUSE OF DATABASE**

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An Office investigation disclosed that a staff member had searched a non-public Commission database for information unrelated to the employee's job responsibilities. We found no evidence, however, that the employee had released non-public information to unauthorized persons. Management counseled the employee about proper use of the database.

## **FAILURE TO REPORT SECURITIES TRANSACTIONS**

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The Office investigated an allegation that a staff member had used his position at the Commission to assist a relative with selling securities. Our investigation disclosed no evidence of misuse of position to assist the relative. However, we did find evidence that the employee failed to report investments as required by a Commission rule, failed to consider the potential for the appearance of a conflict of interest, and exhibited a possible lack of candor. The employee was reprimanded and required to attend ethics counseling and training.

## **MISUSE OF COMPUTER RESOURCES AND FALSE STATEMENTS**

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An Office investigation developed evidence that three contractor employees had misused Commission computer resources to support a personal computer business. We also found evidence that the employees made false statements about these activities, and that one of the employees had previously lied to the agency about his arrest record. Our investigation did not find evidence that the employees had sold any used Commission hardware or software through their computer business, and the Department of Justice declined prosecution. Two of the employees resigned, and the contractor reprimanded the third employee.

# **Significant Problems**

## **STAFF PERFORMANCE MANAGEMENT**

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This period, the Office identified a significant problem with the Commission's staff performance management system, based on audit work conducted in the Division of Enforcement (see Audit No. 423 above).

Although the audit scope was limited to the Division of Enforcement, the Executive Director agreed that the Commission-wide staff performance management program needs significant improvement. The Commission plans to adopt a new performance management program to address the deficiencies, starting in fiscal year 2008.

Because the Commission-wide staff performance management system is ineffective, we consider it to be a significant problem.

## 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 had previously 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 became the basis for this significant problem.

During its audit of the Commission's fiscal year 2006 financial statements, GAO indicated that it no longer considers the weaknesses in financial reporting, disgorgements and penalties, and information security to be material, based on the corrective actions taken by the Commission. Accordingly, we are removing financial management systems controls as a significant problem.

### 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 management weaknesses included information

systems security; IT capital investment decision-making; administration of IT contracts; IT project management; enterprise architecture management; strategic management of IT human capital; and management of software licenses.

We no longer consider information systems security to be an element of this significant problem, based on our fiscal year 2006 FISMA evaluation and GAO's audit of the Commission's fiscal year 2006 financial statements. The Office of Information Technology (OIT) indicated that it has continued to strengthen IT management during this reporting period and expects it will no longer be a significant problem by the end of fiscal year 2007.

We have begun a special project to evaluate whether the progress made by OIT in strengthening IT management is sufficient to warrant removing it as a significant problem.

## **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 Counsel to the Inspector General is the Vice-Chair of the PCIE Council of Counsels; the Associate Counsel is an active member. The Council considers legal issues relevant to the Inspector General community.

### **REVIEW OF LEGISLATION AND REGULATIONS**

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The Office reviewed legislation and proposed and final rules relating to the programs and operations of the Commission, pursuant to the Inspector General Act. We tracked both legislation and regulations by researching relevant documents and databases, including lists prepared by the IG community and the Commission's Office of General Counsel. Our independent assessments focused on the impact of the legislation or rule on the economy and efficiency of, and the prevention and detection of fraud and abuse in, programs and

operations administered by the Commission. In addition, we reviewed statutes and regulations within the context of audits and investigations (*e.g.*, the impact of the Federal Information Security Management Act on Commission operations).

In conjunction with the Legislation Committee of the PCIE/ECIE, we also reviewed legislation and rules that would have an impact on the Inspector General community. We provided comments to the PCIE Legislation Committee on the “Accountability in Government Contracting Act of 2007.”

## 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	0
B	Which were issued during the reporting period	<u>0</u>	<u>0</u>
	-		
	Subtotals (A+B)	0	0
C	For which a management decision was made during the period	0	0
	(i) Dollar value of recommendations that were agreed to by management	0	0
	- Based on proposed management action	0	0
	- Based on proposed legislative action	0	0
	(ii) Dollar value of recommendations that were not agreed to by management	0	0
D	For which no management decision has been made by the end of the reporting period	0	0
	Reports for which no management decision was made within six months of issuance	0	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, 2006).

## **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, 2006 THROUGH MARCH 31, 2007

Introduction

The Semiannual Report of the Inspector General of the Securities and Exchange Commission (SEC) was submitted to the Chairman on April 30, 2007 as required by the Inspector General Act of 1978, as amended. The report has been reviewed by a member of the Executive Staff, as well as the Executive Director, General Counsel, and Director of the Division of Enforcement. The Management Response is based on their views and consultation with 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 Office of Inspector General (OIG) issued four audit reports, two evaluation reports, and one investigative memorandum on management issues. Management generally concurred with the findings and recommendations in the OIG's reports.

In addition to audits performed by the OIG, 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

*Performance Management System*

The OIG identified the Commission's staff performance management system as a new significant problem. Agency management has recognized for some time that the current pay for performance process needs significant improvements and initiated negotiations at the earliest possible date to affect such improvements. Due to the government-wide efforts regarding pay for performance, the national unions that represent federal employees have made this a priority area for negotiations. In the case of the SEC, those negotiations took nearly 18 months and went through mediation and ultimately the review of the Federal Services Impasse Panel (FSIP). During the course of the negotiations and the panel deliberations, the SEC was prohibited from making any changes to the system. The SEC recently received a favorable opinion from the FSIP and the process of implementing the decision has begun.

A pilot program is ongoing in the Office of Human Resources under which staff members are rated on a five-level system. Most importantly, it provides training and guidance that is far more extensive than the current system. It also supports automation which creates enhanced visibility. This new program addresses many issues raised by the OIG, and is expected to be adopted throughout the Commission starting in fiscal year 2008.

An additional outcome of the FSIP decision is that the Senior Officer (SO) performance plans will be structured and managed in the same way as the “SK” plans, which will reduce the difficulties associated with maintaining two different systems. The “SK” performance cycle will also adjust to a fiscal year basis, which will bring it into alignment with the SO system.

### C. Response to Significant Problems Previously Identified

#### *Information Resources Management*

During this reporting period, the Office of Information Technology (OIT) continued to aggressively establish, implement, and enforce IT management policies and controls to strengthen the overall effectiveness of the SEC’s Information Resources Management Program. Particular emphasis continues to be placed on implementing the OIG’s and the GAO’s recommended improvements in such areas as IT security, capital investment decision-making, administration of IT contracts, IT project management, enterprise architecture management, the strategic management of IT human capital, and the management of software licenses.

The SEC has placed a particular focus on improving information security over the last 12 months, which resulted in the GAO downgrading the issue from a material weakness to a reportable condition in the agency’s Performance and Accountability Report. Because of the ever-changing nature of information security threats, however, IT security continues to be a priority in order to ensure the secure operation of the SEC’s information technology infrastructure, and the dependable delivery of services to the public.

OIT also has made significant progress in other areas, such as capital planning and investment control. For example, the Chief Information Officer initiated monthly project status meetings to review and discuss all development, modernization, and enhancement IT initiatives to ensure that baseline budgets and schedules remain on target, and that corrective actions are initiated as required. Also, OIT improved project closeout reporting and initiated a pilot database to serve as a repository to capture and analyze lessons learned to facilitate improvements and enhancements to the SEC’s capital planning and investment control processes. In addition, OIT initiated an IT workforce evaluation, which is being used to identify IT skill and proficiency gaps. The results of the analysis will be used to enhance proficiency and core competencies and skills. OIT and OIG are now undertaking an assessment of OIT’s progress in eliminating the issues historically identified by the

OIG; this joint assessment will be completed by calendar year-end.

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, 2006).

F. Revised Management Decisions

No management decisions were revised during the reporting period.

SEC Management Response to  
Semiannual IG Report  
October 1, 2006 – March 31, 2007

SECTION II  
Disallowed Costs  
As of March 31, 2007

	<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, 2006 – March 31, 2007

SECTION III  
Funds Put to Better Use  
As of March 31, 2007

	<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, 2007

<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>
220	IRM Planning and Execution	3/26/1996	\$0	\$0	A major initiative is underway to publish all remaining IT-related policies in 2007. This initiative will address all aspects of policy related to IT management.
320	General Computer Controls	12/26/2000	\$0	\$0	The overall recommendation is centered around the on-boarding and off-boarding of staff and contractors. A pilot system has been put into production, and full deployment is being coordinated with the HSPD-12 government-wide initiative.
337	IT Project Management	1/24/2002	\$0	\$0	Remaining actions require completion of formal policies.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2007

<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>
365	IT Capital Investment Decision-making Follow-up	3/29/2004	\$0	\$0	The IT Capital Planning Committee has been operating under the terms of a draft charter since late 2004. A revised draft charter is under review due to a change in the Committee's procedures.
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	See explanation for audit #220.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2007

<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>
377	Lost and Stolen Securities Program	3/31/2004	\$0	\$0	Management is exploring the possibility of conducting a full risk assessment of the program's database.
393	Software Management	3/24/2005	\$0	\$0	An interim policy has been issued that assigns responsibilities for management of software licenses. A working group has been established to develop specific procedures recommended in the audit report. 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, 2007

<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>
394	Targeting B/D Compliance Examinations	9/22/2005	\$0	\$0	Most of the recommendations have been implemented. Planning is underway to make certain data more widely available to SEC staff as the agency moves ahead with enterprise architecture.
395	Integrity Program— Inspection of Field Offices	5/31/2005	\$0	\$0	Revisions are expected to be made to the draft employee handbook.
399	Government Performance And Results Act—2004	9/27/2005	\$0	\$0	Efforts are underway to review activity-based costing data and to revise or generate new performance measures.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2007

<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>
402	Office of the Secretary	9/20/2005	\$0	\$0	The Library is conducting a needs assessment to determine SEC staff information requirements. The survey results will help determine how to meet the OIG's audit recommendations.
406	Federal Information Security Management Act—2005	9/28/2005	\$0	\$0	Most of the recommendations have been implemented. With regard to the one remaining recommendation, Privacy Impact Assessments are underway for all applications with an expected completion of March 2008.

SECTION IV  
 Open Audit Reports Over One Year Old  
 As of March 31, 2007

<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>
409	Certification and Accreditation of ACTS+	9/30/2005	\$0	\$0	The certification and accreditation process was recently updated and the system's security and disaster recovery plans are being modified. The expected completion date is June 2007.
PI-6-17	Workplace Violence Prevention Program	3/27/2006	\$0	\$0	An updated policy is being drafted. After the policy is approved and communicated to staff, training sessions will commence.

## APPENDIX A

### Government Accountability Office Audit Activity Involving the Securities and Exchange Commission

#### Reports Issued During the Reporting Period

1. *Private Pensions: Changes Needed to Provide 401(k) Plan Participants and the Department of Labor Better Information on Fees* (GAO-07-21, November 2006)
2. *Employee Benefits Security Administration: Enforcement Improvements Made but Additional Actions Could Further Enhance Pension Plan Oversight* (GAO-07-22, January 2007)
3. *Corporate Governance: NCUA's Controls and Related Procedures for Board Independence and Objectivity Are Similar to Other Financial Regulators, but Opportunities Exist to Enhance Its Governance Structure* (GAO-07-72R, November 30, 2006)
4. *Risk-based Capital: Bank Regulators Need to Improve Transparency and Overcome Impediments to Finalizing the Proposed Basel II Framework* (GAO-07-253, February 2007)
5. *Financial Market Regulation: Agencies Engaged in Consolidated Supervision Can Strengthen Performance Management and Collaboration* (GAO-07-154, March 2007)
6. *Information Security: Sustained Progress Needed to Strengthen Controls at the Securities and Exchange Commission* (GAO-07-257, March 27, 2007)

#### Projects Active as of March 31, 2007

1. SEC Enforcement Actions (250322). A review of the operations of the SEC's Division of Enforcement.
2. SEC Oversight of SROs (250326). A review of the SEC oversight of self-regulatory organizations and its inspection and examination process.
3. Institution Diversity and Consolidation (250328). A study regarding the diversity and complexity of the banking and financial services industries, the current regulatory structure for these industries, and the costs associated with regulatory compliance.
4. Competition in the Accounting Profession (250321). An examination of recent changes in the market for public company auditors, recent changes in the level of

competition in the market and auditor choices for public companies, trends in audit costs and quality, the impact of concerns over access to capital formation and securities markets on companies' choice of auditors, and challenges faced by mid-sized and smaller auditing firms in serving the market for audit and other services to public companies.

5. Hedge Funds and SEC Oversight (250313). A review of the evolution of the hedge fund industry in terms of growth, investment strategies and fee structures; SEC oversight of hedge funds and financial regulators' oversight of counterparties; disclosure requirements; potential implications of ERISA amendments related to hedge funds; and the applicability of legislative reforms suggested by the President's Working Group after Long Term Capital Management.
6. SEC Oversight of Corporate Governance Ratings (250312). A review of the SEC's oversight of firms that provide proxy advisory services and corporate governance ratings.
7. Credit Derivatives (250310). A review of the use of information technology systems in the credit derivatives markets.
8. Pay and Performance Systems (450460/450492). A review of pay and performance systems at the SEC and other federal financial regulatory agencies.
9. Financial Markets Preparation Follow-on (250285). A review of the progress made by U.S. financial regulators and market participants to increase their security and resiliency against attacks or other disasters, as well as to follow-up on issues and recommendations made from GAO's prior reports.
10. Financial Statement Audit (194571). An audit of the SEC's 2006 financial statements.
11. Utility Oversight (360719). A study of FERC's efforts to assume responsibilities for protecting consumers and investors previously under the jurisdiction of the SEC.
12. Energy Futures (250256) and Natural Gas Prices (360659). The first assignment is a review of the CFTC's oversight of futures trading in energy. The second assignment is a review of the factors that affect natural gas price volatility and the Federal Government's role in ensuring that prices are determined in a competitive market. GAO's discussions with SEC concern the SEC's equities market surveillance, staff report entitled, "Implications of the Growth of Hedge Funds in September 2003," and how the role played by hedge funds in the financial markets has changed.