

October 29, 2004

The Honorable William H. Donaldson
Chairman
Securities and Exchange Commission
Washington, D.C. 20549

Dear Chairman Donaldson,

The attached Semiannual Report to Congress summarizes the activities of the Office of Inspector General for the six months ending September 30, 2004. It contains descriptions and accounts of the audit reports we issued during the period and summarizes the activities of our investigative and other review functions.

In accordance with the Inspector General Act of 1978, as amended, this report should be forwarded to Congress, with your comments and a separate management response by November 30, 2004.

Your support and cooperation, as well as that of the Commission and its staff, are greatly appreciated.

Sincerely,

Walter Stachnik
Inspector General

Attachment

Securities and Exchange Commission

Office of Inspector General

During the second half of fiscal year 2004, the Office of Inspector General assisted the Commission in its efforts to:

- Strengthen Commission targeting of investment advisor/investment company compliance examinations,
- Improve management of the Office of Economic Analysis,
- Enhance the integrity of the Commission and its staff by investigating allegations of misconduct,
- Improve the process for reporting reviews of disclosure filings,
- Enhance implementation of a project to image documents used in enforcement investigations,
- Ensure timely legal review of complex or significant procurement actions, and
- Assure the effectiveness of field office administrative controls.

Executive Summary

During this period (April 1, 2004 to September 30, 2004), the Office of Inspector General (Office) issued six audit reports, one audit memorandum, and one investigative memorandum on management issues. These evaluations focused on the review of disclosure filings; targeting of investment advisor/investment company compliance examinations; management of the Office of Economic Analysis; administrative controls in the Northeast and Midwest Regional Offices and the Atlanta District Office; legal review of procurement actions; and the document imaging system.

Twelve investigations were closed during the period. Four subjects were referred to the Department of Justice, which declined prosecution as to three subjects. The referral of one subject to the Department of Justice is pending. Six subjects were referred to the Commission. One subject resigned, one subject retired, and one subject entered into a last chance agreement after removal was proposed. Another subject agreed to a 3-day suspension. In addition, three subjects referred during prior periods were suspended and three subjects referred during prior periods were counseled. Four subjects referred to the Commission during this period and prior periods are awaiting disposition. The Investigative Program section below describes the significant cases.

Information resources management (IRM) has been previously reported as a significant problem. During this period, the Commission continued to improve its management of these resources, 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. Accordingly, we reported these exceptions, taken together, as a significant problem. Several high-level task forces have taken steps or are currently taking steps to correct these weaknesses. We commend the Commission for initiating prompt corrective actions and its continuing efforts to strengthen its financial management controls.

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 six audit reports, one audit memorandum, and one investigative memorandum on management issues during the reporting period. These documents contained a total of 30 recommendations, which are further summarized below.

Management generally concurred with the recommendations, and in many cases took corrective actions during the audits.

DISCLOSURE FILINGS EXAMINATION AND ACCOUNTING REPORTS (AUDIT 378)

Staff in the Division of Corporation Finance review filings submitted by registrants under the securities laws. The staff prepare either an examination (legal) or accounting report, consisting of a checklist of steps performed and a narrative section. After a supervisor reviews the report, a comment letter is sent to the registrant when appropriate.

Our audit objective was to evaluate whether the Division of Corporation Finance's examination and accounting report process was achieving its objectives. During the audit, we interviewed Division attorneys and accountants, and analyzed judgment samples of examination and accounting reports, among other procedures.

We found that the reporting process was generally achieving its objectives (e.g., documenting the scope of the filing review, providing the staff with timely and substantive supervisory review comments).

We made several recommendations to improve the process, including: reminding Division staff and supervisors to upload reports to the filing folder in the Commission's Electronic Data Gathering Analysis and Retrieval system (EDGAR), clarifying the EDGAR uploading guidance, and safeguarding sensitive information. During the audit, we also discussed other issues with senior management.

TARGETING IA/IC COMPLIANCE EXAMINATIONS (AUDIT 383)

We reviewed the Commission's targeting of Investment Adviser (IA) and Investment Company (IC) examinations. The Examination program consists of the Office of Compliance Inspections and Examinations (OCIE) and the Examination staff in the field offices.

We found that the IA/IC targeting process was generally effective and efficient. In 1998, OCIE established a targeting goal of examining every registrant over a five year period. According to OCIE, this targeting goal, referred to as the five year cycle, was achieved. We also noted that the IA/IC targeting process continued to innovate (e.g., experimenting with continuous monitoring and implementing risk-based targeting).

We made several recommendations to improve the IA/IC targeting process. The recommendations involve: conducting the fieldwork at the registrant, improving the use of Form ADV to target examinations of IAs, consulting with the Office of Risk Assessment for unregistered IAs/ICs and foreign IAs, reviewing the Examination program's testing procedures, and clarifying and modifying the 90 day goal for issuing deficiency letters. During the audit, we also discussed other issues with senior management.

OFFICE OF ECONOMIC ANALYSIS (AUDIT 385)

The Office of Economic Analysis (OEA) primarily serves to support the work of the Commission. The Office provides economic analysis and expertise during rulemaking and other Commission projects. OEA also performs independent research to enable the Commission to better understand the securities markets and thereby enhance market oversight.

We evaluated the usefulness of OEA's activities and sought to identify possible improvements. During our review, we interviewed OEA and other Commission staff, and reviewed OEA work products and files.

Our review found that OEA's work (including research studies and rule-making analyses) is beneficial to the Commission. We also found that the Chief Economist hired motivated staff whose interests are aligned with Commission interests, sought to produce high-quality analyses and encouraged staff to take advantage of training opportunities.

Our recommendations concerned training of OEA's managers; dividing office operations between the Chief Economist and other OEA managers; enhancing Commission awareness of OEA's services; providing guidance to OEA management on Commission expectations; and enhancing OEA's internal operations, policies and procedures.

NORTHEAST REGIONAL OFFICE (AUDIT 386); MIDWEST REGIONAL OFFICE (AUDIT 388); ATLANTA DISTRICT OFFICE (AUDIT 390)

The Northeast Regional Office (NERO), the Midwest Regional Office (MRO), and the Atlanta District Office (ADO) exercise a broad range of financial and administrative functions, including maintaining time and attendance records; procuring supplies and services; arranging for staff travel; maintaining an inventory of property; and recording budgeted and actual expenditures of the office. We conducted a limited audit of the financial and administrative controls of these field offices.

Our limited review indicated that the controls of the NERO, MRO, and ADO were generally adequate, implemented economically and efficiently, and in compliance with Commission policies and procedures. We discussed some non-material findings and informal recommendations with management in these offices.

DOCUMENT IMAGING SYSTEM (AUDIT MEMORANDUM 38)

In April 2004, the Division of Enforcement and the Office of Information Technology (OIT) undertook an initiative to electronically image enforcement documentation. To date, contractors have imaged documents from Commission headquarters and field offices in New York, Boston, Chicago, and Philadelphia. The Commission plans to image documents from

the Atlanta and Miami field offices in fiscal years 2004-2005, and from the remaining field offices in fiscal year 2005.

We learned of problems with the imaging done to date. As a result, we surveyed system users in headquarters and the Northeast Regional Office to identify problems they were experiencing and identify possible improvements.

The users mentioned several problems related to technical, quality control and staffing issues. We communicated these issues to OIT and Enforcement staff, who indicated that they were already aware of and working to resolve many of the issues.

Therefore, we did not make any recommendations in this report. However, we may initiate a follow-up audit in 2005 to evaluate the progress to date.

LEGAL REVIEW OF PROCUREMENT ACTIONS (INVESTIGATIVE REPORT ON MANAGEMENT ISSUES G-404)

During an investigation, we learned that the Office of Administrative Services (OAS) approved a subcontract for certain services for a firm fixed price of approximately \$200,000. Legal review of this matter was still pending in the Office of General Counsel (OGC). In addition, we learned that this subcontractor began work after receiving verbal authorization, but before the appropriate contractual documents (i.e., a procurement requisition and task order) were executed.

An existing Memorandum of Understanding (MOU) between the Office of the Executive Director and OGC, dated February 6, 1995, requires that OGC review significant procurement actions at critical phases of the procurement process to ensure legal sufficiency.

We recommended that OAS and OGC develop policies and procedures to improve their communications on procurement actions. We also recommended that OAS establish procedures to ensure that the appropriate contractual documents are executed before any work is performed.

Investigative Program

Twelve investigations were closed during the period. Four subjects were referred to the Department of Justice, which declined prosecution as to three subjects. The referral of one subject to the Department of Justice is pending. Six subjects were referred to the Commission. One subject resigned, one subject retired, and one subject entered into a last chance agreement after removal was proposed. Another subject agreed to a 3-day suspension. In addition, three subjects referred during prior periods were suspended and three subjects referred during prior periods were counseled. Four subjects referred to the Commission during this period and prior periods are awaiting disposition. The most significant cases closed during the period are described below.

CONFLICT OF INTEREST

An investigation found evidence that a staff member had engaged in the private practice of law and represented private clients in matters before another federal agency, after being hired by the Commission. We also found evidence that the staff member used SEC office equipment for the private law practice. The Department of Justice declined prosecution. The employee resigned before administrative action was taken.

The Office investigated another allegation that a Senior Officer directed that ongoing contract work be stopped, so that the work could be given to persons with whom the official had a prior relationship. The evidence developed during the investigation failed to substantiate the allegation.

SOLICITATION OF A GRATUITY

An Office investigation developed evidence that a staff member had solicited a gratuity from an officer of a firm registered with the Commission, after the staff member had conducted an examination of the firm and closed the examination without any findings. The matter is pending with the Department of Justice and Commission management.

IMPROPER PAYMENT

The Office investigated an allegation that Commission officials had colluded to make an improper payment, in return for including one of the officials as a co-author on a published article. The evidence developed during the investigation failed to substantiate the allegation.

THREATENING AND INTIMIDATING CONDUCT

An Office investigation developed evidence that a staff member had disclosed having homicidal thoughts about the staff member's supervisor and described a plan to carry out those thoughts. We also found evidence that the staff member had previously made threatening and intimidating statements to a co-worker. The Department of Justice declined prosecution. Administrative action is pending.

Significant Problems

No new significant problems were identified during the period.

Significant Problems Identified Previously

FINANCIAL MANAGEMENT SYSTEMS CONTROLS

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 ¹ 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 are a significant problem for the Commission.

Management concurred with our recommendations to strengthen these financial controls, and several high-level task forces have taken actions or are taking actions to correct the weaknesses. GAO is reviewing the corrective actions taken by the task forces as part of its ongoing audit of the Commission's fiscal year 2004 financial statements.

We commend the Commission for its prompt actions to address the identified weaknesses in financial management systems controls.

INFORMATION RESOURCES MANAGEMENT

Since April 1996, we have reported information resources management (IRM) as a significant problem based on weaknesses identified by audits, investigations, and management studies. Significant IRM 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 reporting period, under the direction of the CIO, the Office of Information Technology (OIT) was reorganized. The reorganization, in part, was intended to:

- Clarify responsibilities within and between OIT's offices and operational components;
 - Create new, formal roles for enterprise architecture, project oversight, and capital planning;
 - Realign OIT resources to more effectively support the planning, design, deployment, and support of IT investment initiatives and major projects; and
 - Establish improved controls over the Commission's substantial increases in IT funding and workload.
- In addition, over the past six months, OIT:

¹ Based on criteria established under the Federal Managers Financial Integrity Act (FMFIA).

- Established an enterprise architecture (EA) and project management office (PMO) within OIT, and filled vacant senior management positions for the offices of information security, enterprise architecture, project management, and finance and administration;
- Implemented the initial stages of a comprehensive redesign of its capital planning and investment (CPIC) processes, which include new operating budget approvals and IT investment approval thresholds;
- Finalized an EA repository and activated an internal EA website to provide project sponsors and managers ready access to the Commission's business reference model and information resource catalog;
- Produced an IT policy framework to align OIT's operational controls and policies to the Clinger-Cohen Act's Core Competencies and OMB implementing instructions for IT governance; and
- Continued to certify and accredit the Commission's general support and financial information systems.

During this period, we initiated audits covering the Commission's management of software licenses and field office IT management, as well as an evaluation of the Commission's information security program (required by the Federal Information Security Management Act). In addition, we are performing audits of the controls over IT contractor billings and of the enterprise architecture management framework.

Although OIT continues to take action to address and correct many of the longstanding IRM weaknesses that we have reported, we still consider IRM to be a significant problem. We intend to continue our oversight of the Commission's progress in correcting the many longstanding weaknesses in its IRM business processes and management controls.

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

AUDIT OF COMMISSION FINANCIAL STATEMENTS

Under the Accountability of Tax Dollars Act of 2002, the Commission is now required to prepare audited financial statements. The Office of Management and Budget had waived this requirement for fiscal years 2002 and 2003.

The U.S. General Accounting Office is currently performing the initial financial statement audit of the Commission for fiscal year 2004, and is expected to perform the audit for fiscal year 2005. Our Office is evaluating whether it should perform this audit in fiscal year 2006 and subsequent years.

EXTERNAL COORDINATION

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. In addition, the Deputy Inspector General made a presentation in June 2004 at a workshop on Internal Audit of Financial Sector Supervisory and Regulatory Authorities in Tallinn, Estonia.

The Counsel to the Inspector General is an active member of the PCIE Council of Counsels. The Council considers legal issues relevant to the Inspector General community.

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	1 132
B		
	Which were issued during the reporting period	<u>0</u> <u>0</u>
	-	
	Subtotals (A+B)	1 132
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	1 132
	Reports for which no management decision was made within six months of issuance	1 132

Reports with No Management Decisions

A management decision has not yet been made on our recommendation that \$132,000 be put to better use (Audit No. 376, *Telephone Card Program*, summarized in our previous semi-annual report).

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 APRIL 1, 2004 THROUGH SEPTEMBER 30, 2004**

Introduction

The Semiannual Report of the Inspector General (IG) of the Securities and Exchange Commission (SEC) was submitted to the Chairman on October 29, 2004 as required by the Inspector General Act of 1978, as amended. The report has been reviewed by the Managing Executive for Operations, 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 IG issued six audit reports, one audit memorandum, and one investigative memorandum. Management generally concurred with the findings and recommendations in the IG's reports.

In addition to audits performed by the agency's IG, the General Accounting 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

The IG's Semiannual Report discusses the following significant problems that were previously identified:

- *Financial Management System Controls.* The IG's Semiannual Report continues to identify the financial management exceptions reported in both the SEC's Federal Manager's Financial Integrity Act certification and a contractor's audit of Commission financial management system controls as a significant problem for the Commission. Most of the recommendations have been addressed in preparation for the Commission's financial statement audit. For example, the recommendations to strengthen internal

controls and financial reporting on sensitive and accountable property have been implemented. A brief description of recent SEC actions to strengthen IT security and accounting and control for disgorgement funds follows.

- The SEC continues to make progress in its IT security program. During the last six months, the SEC hired a Chief Information Security Officer to centrally manage and implement the various components of the program. In addition, the SEC began a certification and accreditation project to ensure that all SEC major operating systems are secure. The SEC also implemented a mandatory security training and awareness program and began revising information security management and technology controls and procedures. In addition, the SEC continued work on an IT capital planning process designed to ensure that security is built into the life-cycle of new systems and applications and to better identify, track, and report information security costs.
- With respect to accounting and controls for disgorgement funds, in fiscal 2003, the Commission replaced the former Disgorgement and Penalties Tracking System with an upgrade to its Case Activity Tracking System (CATS 2000). In late 2003 and early 2004, enhancements were made to CATS 2000 to enable recording and reporting of disgorgement and penalties, and to track amounts collected and disbursed. Also during fiscal 2004, the SEC's Office of Financial Management assumed new responsibilities for managing much of the financial data on enforcement-related judgments and penalties in the CATS 2000 system. Further enhancements are underway to provide more financial data integrity support. In the long term, CATS 2000 will be replaced. A requirements analysis has begun.
- *Information Resources Management.* SEC management continues to make progress in its information resources management program. With the hiring of a new Chief Information Officer in early calendar year 2004, the Office of Information Technology was significantly restructured. A senior level manager was hired to head the enterprise architecture effort and a separate project management office was established and is headed by a newly hired senior level manager responsible for project management and capital planning.

A few additional highlights include:

- Continued progress to improve the security of the technology environment. The initiative to certify and accredit the agency's systems continued, and OIT launched a process to manage certification and accreditation activity on an ongoing basis.
- Established plans to improve information security based on the recommendations of the Government Accountability Office as part of the agency's financial audit.

- Implemented the initial stages of a comprehensive redesign of its capital planning and investment control processes.
- Substantially improved the SEC's enterprise architecture planning with the completion of the Enterprise Architecture repository and an internal website to provide staff access to the business reference model, information resource catalog, and other core elements of the agency's EA in planning their projects.

With the new staff resources, the Office of Information Technology intends to bring the IRM program into full compliance with federal requirements by the end of fiscal 2005. Policies and procedures for capital planning and project management systems development will be completed. Further, both general support systems and financial applications will be accredited during fiscal 2005.

D. IG Recommendations Concerning Use of Funds

On November 17, 2003, the IG issued a report concerning the Commission's telephone card program. During the review, the IG found that the General Services Administration (GSA) had incorrectly billed the Commission approximately \$132,000 for unused telephone lines. SEC management is following up with GSA on the appropriate resolution.

E. Reports with No Management Decisions

Management decisions have been made on all audits issued prior to the beginning of the reporting period (April 1, 2004).

F. Revised Management Decisions

No management decisions were revised during the reporting period.

SEC Management Response to
Semiannual IG Report
April 1, 2004 – September 30, 2004

SECTION II
Disallowed Costs
As of September 30, 2004

	<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
April 1, 2004 – September 30, 2004

SECTION III
Funds Put to Better Use
As of September 30, 2004

	<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	1	\$132
B. On which management decisions were made during the reporting period	0	\$0
C. For which final action was taken during the reporting period	0	\$0
(i) Dollar value of recommendations that were 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	1	\$132

SECTION IV
Open Audit Reports Over One Year Old
As of September 30, 2004

<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	Until recently, the IT area had been seriously hampered in its efforts to formalize several IT policies and procedures by a lack of resources. The structure of the Office of Information Technology has been significantly revised and new staff have been hired. With the new staff resources, the remaining audit recommendations are expected to be satisfied by fiscal year-end.
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. This effort is expected to be completed by fiscal year-end.

SECTION IV
Open Audit Reports Over One Year Old
As of September 30, 2004

<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>
257	Client Server	9/9/1997	\$0	\$0	A new process has been designed to identify major IT initiatives. This process is expected to be considered by the Capital Planning Committee during 2 nd quarter of fiscal 2005.
269	Database Administration	1/5/1998	\$0	\$0	See item #257.
320	General Computer Controls	12/26/2000	\$0	\$0	New staff have been hired to manage the IT project management and capital planning activities. In addition, a proposed strategy for monitoring IT projects is being tested.
327	General Computer Controls—Regions	2/28/2001	\$0	\$0	See explanation for audit #220.

SECTION IV
Open Audit Reports Over One Year Old
As of September 30, 2004

<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>
330	Real Property Leasing	5/31/2001	\$0	\$0	Work on an updated leasing regulation has been delayed as staff have been diverted to work on the SEC's new headquarters building.
337	IT Project Management	1/24/2002	\$0	\$0	Some of the recommendations have been implemented. However, progress was slowed due to a shortage of IT staff. During this period, a senior level manager was hired to lead the IT project management and capital planning office. Work on the recommendations is continuing.

SECTION IV
Open Audit Reports Over One Year Old
As of September 30, 2004

<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>
346	Commission Oversight of NAFI	3/7/2002	\$0	\$0	Efforts to better structure the Recreation and Welfare Association have been delayed as staff have been diverted to important security operations matters. Work will continue as resources become available.
350	Administration of IT Contracts	8/28/2002	\$0	\$0	See explanation for audit #337.
351	EDGAR Utility to Commission Staff	1/15/2003	\$0	\$0	Post-acceptance corrections will be addressed in 2005. The outcome will become part of the requirements for a follow-on contract, which should be signed in 2006.

SECTION IV
Open Audit Reports Over One Year Old
As of September 30, 2004

<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>
353	Regional Telecommuni- cations Security	8/20/2002	\$0	\$0	See explanation for audit #309.
354	Broker-dealer Risk Assessment Program	8/13/2002	\$0	\$0	The Commission's risk assessment rules are being revised.
357	Purchase Cards	11/25/2002	\$0	\$0	Work on a revised purchase card regulation has been slowed due to a shortage of procurement staff. A new procurement chief is being hired.
361	Commission Web Security	9/30/2002	\$0	\$0	See explanation for audit #337.

SECTION IV
Open Audit Reports Over One Year Old
As of September 30, 2004

<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>
362	Financial Management System Controls	3/27/2003	\$0	\$0	GAO is reviewing the corrective actions taken by the SEC as part of the audit of the financial statements.
368	SEC Recreation and Welfare Asso. Financial Management	7/31/2003	\$0	\$0	See explanation for audit #346.
M14	Contingency Testing	3/15/1999	\$0	\$0	See explanation for audit #220.
M22	Rural Office Location Policy	3/28/2002	\$0	\$0	The SEC is complying with the Rural Development Act. Work on a formal policy document has been delayed as resources are being devoted to the new SEC Headquarters project.

SECTION IV
Open Audit Reports Over One Year Old
As of September 30, 2004

<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>
M27	NRSI Password Management	1/29/2003	\$0	\$0	See explanation for audit #220.
M30	Rural Relocation Policy-- Followup	6/19/2003	\$0	\$0	See explanation for audit #M22.
M31	Social Security Numbers in EDGAR	9/8/2003	\$0	\$0	The recommendations will be addressed in a future EDGAR rulemaking initiative.

APPENDIX A

Government Accountability Office Audit Activity Involving the Securities and Exchange Commission

Reports Issued During the Reporting Period

1. *Financial Market Preparedness: Improvements Made, but More Action Needed to Prepare for Wide-Scale Disasters*, GAO-04-984 (9/2004)
2. *Foreign Regimes' Assets: The United States Faces Challenges in Recovering Assets, but Has Mechanisms That Could Guide Future Efforts*, GAO-04-1006 (9/2004)
3. *Export-Import Bank: OMB's Method for Estimating Bank's Loss Rates Involves Challenges and Lacks Transparency*, GAO-04-531 (9/2004)
4. *Pension Plans: Additional Transparency and Other Actions Needed in Connection with Proxy Voting*, GAO-04-749 (8/2004)
5. *Environmental Disclosure: SEC Should Explore Ways to Improve Tracking and Transparency of Information*, GAO-04-808 (7/2004)
6. *Securities and Exchange Commission: Review of Fiscal Year 2003 and 2004 Budget Allocations*, GAO-04-818 (7/2004)
7. *Follow-up on SIPC*, GAO-04-848R (7/9/2004)
8. *Mutual Funds: SEC Should Modify Proposed Regulations to Address Some Pension Plan Concerns*, GAO-04-799 (7/2004)
9. *Better Information Sharing Among Financial Services Regulators Could Improve Protections for Consumers*, GAO-04-882R (6/2004)
10. *Business-Owned Life Insurance: More Data Could be Useful in Making Tax Policy Decisions*, GAO-04-303 (5/2004)
11. *Securities Markets: Opportunities Exist to Enhance Investor Confidence and Improve Listing Program Oversight*, GAO-04-75 (4/2004)
12. *Investigations of Terrorist Financing, Money Laundering, and Other Financial Crimes*, GAO-04-464R (2/20/2004)

Audits in Progress as of September 30, 2004

1. Disgorgement and Fines (250214). A follow-up on the status of various reform efforts, such as the Commission's efforts in improving and managing the disgorgements and fines data tracking system (CATS 2000), and the status of collection rates. Also, an assessment to what extent the Commission has implemented Section 308 (Fair Funds Provision) of the Sarbanes-Oxley Act, and any other legislative or regulatory actions that assist efforts to collect penalties and disgorgements.
2. Global Social Responsibility (320271). A review of federal involvement in global corporate social responsibility. Specifically, a study of (1) the definition of corporate social responsibility and global corporate social responsibility, (2) the role, if any, that federal agencies have in promoting or monitoring global corporate social responsibility, and (3) whether federal programs or policies either promote or undermine U.S. company global corporate social responsibility efforts.
3. PUHCA (250213). A review of the SEC's administration and enforcement of the Public Utility Holding Company Act of 1935. Specifically, an assessment of the Office of Public Utility Regulation's processes for reviewing claims of exemptions, assessing registered holding companies, and issuing no-action letters, and how the Commission determines whether companies exert controlling influence over a public utility holding company.
4. Tax Treatment of Large Settlements (450296). A review of the tax treatment of large settlements reached by federal regulatory and oversight agencies.
5. Trading Abuse Detection (250200). A review of the information systems and methods securities regulators could use to detect late trading and market timing in mutual fund shares.
6. Mutual Fund Enforcement (250199). A review of the SEC's enforcement activities and capabilities related to the mutual fund industry.
7. Decimalization (250195). A review of the impact decimalization has had on (1) the securities markets, (2) securities market participants, and (3) institutional and retail investors.
8. Mutual Fund Inspections (250185). A review of the current mutual fund inspection process for gaps and the adequacy of resources devoted to fund examination. GAO will determine whether the scope and conduct of broker inspections is adequate with respect to the sales of mutual funds and other issues relating to broker-dealer sales of mutual funds.
9. Financial Services Regulation Structure and Processes (250151). A review of the structure and processes—capital requirements, supervision, reliance on transparency, and market discipline—of financial services regulation in the United States.

10. SEC Operations II (250138). A review of the SEC's efforts to address issues raised in the GAO reports, *Securities and Exchange Commission: Human Capital Challenges Require Management Attention* (GAO-01-947) and *SEC Operations: Increased Workload Creates Challenges* (GAO-02-302).
11. Pricing of Loan Commitments (250177). A study to (1) determine how pricing on unfunded commitments compares to pricing on funded commitments; (2) collect and report publicly available data on the trading of credit facilities, and available comparisons of differences, if any, in internal and external reporting of loan commitment prices; (3) determine what data is publicly available about the use of credit derivative instruments for hedging risks of unfunded loan commitments and what this indicates about loan commitment pricing; and (4) discuss steps taken by FASB to improve financial reporting for loan commitments.
12. Accounting Firms and Auditing Publicly-Traded Corporations (450283). A review of accounting firms that provide auditing services to publicly-traded corporations while also providing tax-related services, including possible tax shelter services, to those corporations, their directors, or their officers.
13. Implementation of USA Patriot Act's Anti-money Laundering Provisions (250179). A review of (1) the status of implementation of sections 326 and 314, (2) the Treasury's and regulators' procedures for assessing compliance and enforcement, (3) plans to sustain efforts to educate the industry about the new regulations, and (4) extent to which regulators have revised examination guidance and applied it.
14. Career Appointments of Former Political Appointees (450274). A government-wide review of executive branch agencies and departments to assess career appointments of former political appointees.
15. Survey of Consumers' Financial Literacy (250186). A review of the state of consumer knowledge and awareness of credit reports, credit scores, and the dispute resolution process and methods of improving consumers' financial literacy.
16. FY 2004 Financial Statement Audit (198241). An audit of the SEC's fiscal year 2004 financial statements.