

# Securities and Exchange Commission

## Office of Inspector General

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**During the second half of fiscal year 2005, the Office of Inspector General assisted the Commission to:**

*Enhance the effectiveness of the procedures used to target B/D compliance inspections and examinations,*

*Strengthen the Commission's Information Technology security controls,*

*Enhance the integrity of the Commission and its staff by:*

- *Investigating allegations of staff and contractor misconduct,*
- *Inspecting the effectiveness of the integrity program in Commission offices, and*
- *Identifying the need for additional guidance on certain ethics issues,*

*Improve the processes for personnel recruitment, classification, and staffing,*

*Enhance implementation of the Government Performance and Results Act,*

*Protect sensitive personnel information within the Commission,*

*Strengthen physical security at the Operations Center and controls over contractor IDs, and*

*Enhance the effectiveness of operations in the Office of the Secretary.*

## Executive Summary

*During this period (April 1, 2005 to September 30, 2005), the Office of Inspector General (Office) issued seven audit reports, one audit memorandum, two investigative memoranda on management issues, and one report on a special project. These evaluations focused on the Commission's information technology security program; targeting of broker/dealer compliance examinations; management of the Office of the Secretary; the ethics program in the field offices; implementation of the Government Performance and Results Act; recruitment, classification, and staffing; access to sensitive information in the payroll and personnel information system (FPPS); ethics guidance for departing employees and enforcement attorneys on official travel; and Operations Center building security.*

*Twelve investigations were closed during the period. Six subjects were referred to the Department of Justice, which declined prosecution of five subjects. The referral of one subject to the Department of Justice is pending. Nine subjects were referred to the Commission. Four subjects resigned; one subject was counseled and divested stock causing a conflict of interest. Four subjects referred to the Commission during this period are awaiting disposition. In addition, one subject referred during a prior period resigned, and another agreed to retire. 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. We reported these exceptions, taken together, as a significant problem.*

*The Government Accountability Office (GAO) identified similar weaknesses in its audit of the Commission's fiscal year 2004 financial statements (except for property accountability - the value of the property account balance was below the materiality threshold). The Commission is continuing to take actions to address the weaknesses in 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 seven audit reports, one audit memorandum, two investigative memoranda on management issues, and one report of a special project during the reporting period. These documents contained a total of 79 recommendations, which are further

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

## **RECRUITMENT, CLASSIFICATION, AND STAFFING (AUDIT 389)**

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We reviewed the Office of Human Resource's (OHR) recruitment, classification, and staffing procedures to determine whether they were efficient and effective. We found that they were, for the most part.

Over the last several years, OHR has expanded its recruitment efforts and hired over 1000 new staff as the Commission's budget increased. To further enhance its procedures, OHR recently implemented a human resources staffing and classification service, Avue Digital Services (ADS), to automate the staffing and classification process.

We recommended that the use of ADS be improved by providing additional training to OHR staff and Commission managers, and by updating position descriptions in the ADS system. We also recommended improved procedures for terminating management level access to ADS for separating employees.

## **TARGETING B/D COMPLIANCE EXAMINATIONS (AUDIT 394)**

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We reviewed the Commission's targeting of Broker/Dealer (B/D) compliance 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 targeting process was generally effective and efficient. The BD examination program has been incorporating the Commission's increased emphasis on risk into its processes (*e.g.*, conducting risk workshops, increasing the use of sweeps and mini-sweeps, etc.).

We made several recommendations to enhance the BD targeting process by increasing the likelihood that issues are identified timely. Our recommendations included automating and integrating risk-based information; assessing and documenting the risk level assigned to BDs by the Self Regulatory Organizations (SROs); reviewing the goal for conducting oversight examinations; developing a timeliness performance measure; improving how investor complaints are used; and preparing financial information.

## **INSPECTION OF THE INTEGRITY PROGRAM IN FIELD OFFICES (REPORT 395)**

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We evaluated the Commission's integrity programs (*i.e.*, ethics and staff conduct) in four of five regional offices and four of six district offices. The evaluation used workshops with Commission field office staff to identify successes, obstacles, recommendations, and effectiveness ratings for the integrity programs.

The staff generally indicated that the objectives of the integrity programs were being implemented, although some obstacles were impairing full implementation. As in prior evaluations, the participants indicated that they felt a personal sense of responsibility for maintaining the integrity of the Commission.

Most of the participants also indicated that they felt a strong sense of an ethical tradition at the Commission and that employees live up to the Commission's integrity expectations. Workshop participants overwhelmingly reported that integrity is a high priority at, and an integral value of, the Commission. The participants in the workshops expressed a desire for better communication of policies from management, more frequent ethics training, and responsive and well-trained ethics advisors.

We recommended that the Office of Human Resources, in conjunction with the Offices of the Chairman and Executive Director, implement its plans for an employee manual to effectively communicate management policies to Commission staff. We also recommended that the Office of Compliance Inspections and Examinations implement its plans to establish and train ethics liaisons from the Examination and Inspection Program in each field office, and to hold an ethics video-conference annually with all the field offices.

## **GOVERNMENT PERFORMANCE AND RESULTS ACT – 2004 (AUDIT 399)**

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The Government Performance and Results Act (GPRA) requires verifiable, quantifiable and measurable program performance measures. Also, agencies must now prepare five-year strategic plans and annual performance budgets and reports. The performance budgets should link strategic and long-term performance goals from the strategic plan to annual performance goals.

We reviewed implementation of GPRA at the Commission. Our objective was to determine whether the performance measures in the Commission's FY 2006 performance budget were developed in accordance with Office of Management and Budget (OMB) guidance, were useful to management, and provided information on progress toward GPRA goals.

The Office of Financial Management (OFM) facilitated communication between the staff responsible for selecting the performance measures, and sought senior management involvement in the process. These activities were recognized as "best practices" by the National Performance Review.

We found that the GPRA performance measures in the FY 2006 performance budget generally met OMB's requirements. However, of the 27 measures in the performance budget, six did not include required target data. We recommended that, in developing future performance measures, the Commission ensure that the goals in its performance budget include targets; use "process analysis" methodology; and use Enterprise Architecture data from the Office of Information Technology.

## **OFFICE OF THE SECRETARY (AUDIT 402)**

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The Commission's Office of the Secretary has numerous responsibilities. These include scheduling Commission meetings, administering the Commission's seriatim and duty-officer processes, operating the Louis Loss Library, and preparing and maintaining records of Commission actions.

The Office reviews all staff documents submitted to and approved by the Commission, and receives and processes documents submitted by outside parties. The Office also provides advice to the Commission and its staff on questions of practice and procedure, and publishes official documents in the Federal Register, the SEC Docket, and the Commission's website.

Our review of the Office found that it was generally effective and efficient in its operations, although some controls and procedures needed to be strengthened. Our recommendations included improving controls over government passports, processing public comment letters more effectively, considering discontinuation or more efficient publication of the SEC Docket, posting forms on the Commission's Intranet site (Insider), improving access controls for separating employees, and improving the Library's acquisitions process.

## **FEDERAL INFORMATION MANAGEMENT SECURITY ACT - 2005 (REPORT 406)**

### **SECURITY CERTIFICATION AND ACCREDITATION OF ACTS PLUS (AUDIT 409);**

### **SECURITY CERTIFICATION AND ACCREDITATION OF EFOIA SYSTEM (AUDIT 410);**

### **IT SECURITY CERTIFICATION AND ACCREDITATION PROCESS (AUDIT 411)**

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We hired a contractor to evaluate the Commission's information technology security program under the provisions of the Federal Information Management Security Act (FISMA). The contractor prepared answers to the 2005 FISMA questionnaire supplied by OMB, evaluated two major Commission applications (Acts Plus and EFOIA) using guidance issued by the National Institute of Standards and Technology (NIST), and evaluated the overall certification and accreditation process used by the Commission.

We found that the Commission has made significant progress in developing a mature information security program, and has addressed many previously identified security vulnerabilities. The Commission reported that it has certified and accredited over half of its systems (12 of 20), made improvements in its tracking and reporting of Plans of Action and Milestones (POA&Ms), developed an inventory of Commission systems, and completed and tested contingency plans for several major applications, among other accomplishments.

We identified a number of significant deficiencies, however. Eight systems, including the General Support System (on which the security of other major systems rely), have not been accredited. In our opinion, the certification agent for the twelve certified and accredited

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systems was not independent (the same contractor that developed draft system documentation was hired to certify and accredit the systems). In addition, the processes for the security test and evaluation and for POA&Ms needed improvement.

We also identified several deficiencies within the ACTS Plus and EFOIA applications, including system contingency and security issues.

## **ADDITIONAL EMPLOYEE ETHICS TRAINING (REPORT G-398)**

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Two investigations recently conducted by our Office showed a need for additional ethics guidance. Specifically, we recommended that the Office of General Counsel provide clearer guidance for departing employees, particularly attorneys, on post-employment restrictions and notification requirements. We also recommended that the Division of Enforcement provide specialized training for Enforcement attorneys on ethical issues, particularly those related to official government travel.

## **ACCESS TO PAYROLL DATA (REPORT G-417)**

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During a recent investigation, we learned that budget staff in the Office of Financial Management (OFM) had unrestricted access to the Federal Personnel and Payroll System (FPPS). Budget staff need FPPS access to process certain personnel actions (*e.g.*, promotions) controlled by OFM. However, FPPS information is sensitive and subject to the Privacy Act, and therefore FPPS access should be restricted to the extent possible.

We recommended that OFM restrict FPPS access (through a request to system owner, the Department of the Interior) and train its budget staff on the proper use of this sensitive information, as it planned to do.

## **OPERATIONS CENTER BUILDING SECURITY (AUDIT MEMORANDUM 39)**

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During an investigation, we learned that the Office of Administrative Services (OAS) was concerned about building security at the Operations Center. OAS's concerns included building access and ID keycards issued to contractor employees.

We performed a limited survey on these two issues, and recommended that OAS take steps to reduce the risk of unauthorized entry to the Operations Center. Also, we recommended that OAS and the Office of Information Technology improve procedures related to contractor IDs, including cancellation of the IDs when contractors separate.

## Investigative Program

Twelve investigations were closed during the period. Six subjects were referred to the Department of Justice, which declined prosecution as to five subjects. The referral of one subject to the Department of Justice is pending. Nine subjects were referred to the Commission. Four subjects resigned; one subject was counseled and divested stock causing a conflict of interest. Four subjects referred to the Commission during this period are awaiting disposition. In addition, one subject referred during a prior period resigned, and another agreed to retire. The most significant cases closed during the period are described below.

### CONFLICT OF INTEREST

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An Office investigation found evidence that a staff member had participated personally and substantially in a particular matter in which the staff member had a financial interest, in violation of the conflict of interest laws. The staff member had properly disclosed the financial interest on the required financial disclosure forms. The staff member was counseled and divested the financial holdings that exceeded the statutory threshold. The Department of Justice declined prosecution.

### ILLEGAL GRATUITIES AND ETHICS VIOLATIONS

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The Office investigated allegations that two staff members had improper relationships with contractors working on Commission projects and had received illegal gratuities from these contractors.

We found evidence that one staff member frequently socialized with various contractor personnel, and accepted meals and gifts from prohibited sources in violation of the ethics rules. There was also evidence that one contractor performed work in the staff member's former residence, possibly for less than fair market value, and that the staff member had discussed a possible future business relationship with the contractor. The Department of Justice declined prosecution. The staff member resigned before administrative action was taken.

Our investigation also found evidence that the second staff member, a supervisor, had purchased a used vehicle from a contractor, possibly for less than fair market value. There was also evidence that the supervisor had accepted meals from contractors in violation of the ethics rules and failed to take corrective action concerning subordinates' violations of the ethics rules, of which the supervisor was aware. The Department of Justice declined prosecution. The supervisor was reassigned to a non-sensitive, non-supervisory post. Final administrative action is pending.

## **INFORMATION TECHNOLOGY SECURITY IRREGULARITIES**

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An Office investigation developed evidence that a trusted employee had circumvented various information technology security controls, misused computer resources, and attempted to cover up some of those activities during an OIG audit. We also found evidence that the staff member violated time and attendance requirements and made threatening statements in e-mails. The Department of Justice declined prosecution, and the employee resigned after removal was proposed.

## **POST EMPLOYMENT VIOLATIONS**

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An investigation developed evidence that a former senior official violated the applicable one-year ban on communications with the agency by discussing pending matters with staff members. We also found evidence that the former senior official's communications with the staff violated the permanent ban on communications involving particular matters in which the former employee had personally and substantially participated while employed at the agency. We referred the matter to the Civil Division of the Department of Justice and Commission management; action is pending.

Another Office investigation found evidence that a former staff member had disclosed non-public Commission information to opposing counsel in a Commission case in violation of Commission and Bar rules. Information obtained after completion of the investigation revealed additional similar violations of Commission and Bar rules. We referred the matter, including the additional information, to Commission management. Administrative action against the former employee is pending.

## **SOLICITATION AND ACCEPTANCE OF A GIFT**

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An investigation found evidence that a supervisor solicited and accepted from a subordinate free admission passes that the subordinate obtained from a prohibited source. There was also evidence that the supervisor had accepted other gifts from subordinates in violation of the ethics rules. The supervisor resigned after demotion to a non-supervisory position was proposed.

## **UNAUTHORIZED DISCLOSURE**

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An investigation found evidence that a staff member had disclosed non-public Commission information to persons outside the Commission without authorization on several occasions. We also found evidence that the staff member had been less than candid when questioned by supervisors and failed to follow supervisory instructions. The Department of Justice declined prosecution, and the staff member resigned after removal was proposed.

## 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 are 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 first financial statements (for fiscal year 2004). The audit found that the Commission made significant progress during the year 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 are removing property accountability as an element of this significant problem. However, GAO identified material internal control weaknesses in the areas of preparing financial statements and related disclosures, recording and reporting disgorgements and penalties, and information security, which will be the basis for this significant problem in the future.

Management is continuing its actions 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 2005 financial statements, currently under way.

#### INFORMATION TECHNOLOGY MANAGEMENT

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Since 1996, we have reported information technology management (formerly described as information resources management) as a significant problem based on weaknesses identified by audits, investigations, and management studies. Significant information technology (IT) weaknesses of continuing concern include IT capital investment decision-making; information systems security; administration of IT contracts; IT project

management; enterprise architecture (EA) management; and management of software licenses.

During this reporting period, the Office of Information Technology (OIT) took numerous steps to improve IT management. OIT indicated that these steps included:

- **Capital Investment Decision-Making:** implementing an enterprise-wide IT investment portfolio process, which resulted in the Commission's designated decision authorities reviewing and approving 90 percent of the Commission's Development, Modernization, and Enhancement budget; and providing Capital Planning and Investment Control (CPIC) decision authorities monthly IT portfolio status reports to facilitate the monitoring and timely management of investment schedules and cost slippages.
- **Information Systems Security:** certifying and accrediting over half of the Commission's major systems (12 out of 20); completing and testing contingency plans for several major applications; initiating a Privacy Impact Assessment program; making improvements to the process for tracking and reporting Plans of Action & Milestones (POA&Ms) to OMB; tracking information security costs through the CPIC process; relocating the backup data center outside Washington, DC; and establishing a project plan to implement Homeland Security Directive 12, which will integrate physical and IT access controls with federal requirements and best practices.
- **Administration of IT Contracts and Project Management:** achieving Federal Level 2 IT project manager certification for 90 percent of the Project Management Office's (PMO) project managers; establishing a project baseline change management process that requires decision authority review and approval prior to changing a project's cost and schedule; and initiating a project close-out process which provides the Commission's decision authorities documented results and lessons learned for each IT project.
- **Enterprise Architecture:** completing and releasing an EA Communication Plan; continuing validation of the Business Reference Model with Commission business units; completing development of prescribed EA frameworks; starting the development of a high-level Data Reference Model, Service Reference Model, and Technical Reference Model; and improving the Commission's Change Management Process.
- **Software Licensing:** consolidating software license management into the Asset Management Branch, which serves as the central manager for all enterprise license acquisition and renewal actions; actively monitoring software use on all SEC workstations through the use of Microsoft SMS 2003 and the application's inventory module; using BigFix to review software operating on all SEC workstations; and establishing an official inventory list of applications authorized and supported on the SEC's network.

During this period, we evaluated the Commission's information security program (required by the Federal Information Security Management Act). See the Audit Program section above.

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

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Under the Accountability of Tax Dollars Act, the Commission is now required to prepare audited financial statements.

The U.S. General Accounting Office is currently completing the financial statement audit of the Commission for fiscal year 2005, and is expected to perform the audit for fiscal year 2006. Our Office is evaluating whether it will be required to conduct this audit in fiscal year 2007 and subsequent years.

### **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 and is an active member of its Financial Regulatory Institutions Committee. He also serves as a member of 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 an active member of the PCIE Council of Counsels. The Council considers legal issues relevant to the Inspector General community.

## Questioned Costs

|   |  | DOLLAR VALUE<br>(IN THOUSANDS) |                             |          |
|---|--|--------------------------------|-----------------------------|----------|
|   | <u>NUMBER</u>  | <u>UNSUPPORTED<br/>COSTS</u>   | <u>QUESTIONED<br/>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<br/>(IN THOUSANDS)</u> |
|--|---------------|--|
| A  |               |  |
| For which no management decision<br>has been made by the commencement<br>of the reporting period | 1             | 132                                    |
| B  |               |  |
| Which were issued during the<br>reporting period   | <u>0</u>      | <u>0</u>                               |
| -  |               |  |
| Subtotals (A+B)  | 1             | 132                                    |
| C  |               |  |
| For which a management decision<br>was made during the period                                    | 1             | 132                                    |
| (i)  |               |  |
| Dollar value of recommendations that<br>were agreed to by management                             | 0             | 0                                      |
| - Based on proposed management<br>action   | 0             | 0                                      |
| - Based on proposed legislative action   | 0             | 0                                      |
| (ii)   |               |  |
| Dollar value of recommendations that<br>were not agreed to by management                         | 1             | 132                                    |
| D  |               |  |
| For which no management decision<br>has been made by the end of the<br>reporting period          | 0             | 0                                      |
| Reports for which no management<br>decision was made within six months<br>of issuance            | 0             | 0                                      |

## **Reports with No Management Decisions**

A management decision has been made on our recommendation that \$132,000 be put to better use (Audit No. 376, Telephone Card Program, summarized in a previous semi-annual report). In that audit, we had recommended that apparently erroneous charges totaling \$132,000 for regional telephone service be recovered from the General Services Administration (GSA), and future billings from GSA be reviewed for accuracy. In its response to our prior Semi-Annual Report, management indicated that the charges from GSA were proper, and that no refund was due the Commission.

## **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, 2005 THROUGH SEPTEMBER 30, 2005**

**Introduction**

The Semiannual Report of the Inspector General (IG) of the Securities and Exchange Commission (SEC) was submitted to the Chairman on October 31, 2005 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 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 seven audit reports, one audit memoranda, two investigative memoranda and one special project report. 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 System Controls*

The Inspector General continues to report financial management system controls as a significant problem. As noted in the IG's Semiannual Report, a 2002 audit of the Commission's financial management system controls found weaknesses related to property accountability, accounting and control of disbursements, and information system security controls. Prior FMFIA reports and recent Government Accountability Office audits of the SEC's financial statements also confirmed that controls in these areas need strengthening, with the exception of property accountability.

The SEC has been working aggressively to strengthen controls as soon as possible. A sampling of the actions taken during fiscal 2005 follows.

- Completed a review of disgorgement and penalty financial data.
- Completed the requirements analysis for replacement of the financial system that stores financial data related to disgorgements and penalties.
- Expanded financial management staff.
- Drafted, expanded or completed many accounting policies and procedures.
- Reconciled some subsidiary records on a monthly basis.
- Certified and accredited over half of the SEC's major systems.
- Established a security policy framework and initiated the publication of over 25 security directives.
- Provided security training to over 4,200 SEC employees and contractor staff.

Strengthening financial management system controls is a major operational objective in fiscal 2006.

#### *Information Resources Management*

The SEC is working continually to strengthen its management of information technology, as reflected in the IG's Semiannual Report. A sampling of the actions taken during this reporting period follows.

- Implemented an enterprise-wide IT investment portfolio process.
- Established controls that provide capital planning and investment control decision-making authorities key IT investment information necessary to make effective funding decisions and to monitor and evaluate progress of approved IT investments.
- Updated the enterprise architecture repository and modeling capabilities with the procurement of industry standard repository and modeling tools.
- Developed an enterprise architecture framework and reference models for aligning with the Federal Enterprise Architecture and for developing, disseminating, and using the enterprise architecture in the conception, approval, and management of IT investments with the SEC.

These efforts will continue in fiscal 2006, as the SEC continues to mature its IT management and governance processes and controls.

**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 (April 1, 2005).

**F. Revised Management Decisions**

No management decisions were revised during the reporting period.

SEC Management Response to  
Semiannual IG Report  
April 1, 2005 – September 30, 2005

SECTION II  
Disallowed Costs  
As of September 30, 2005

|  | <u>Number</u> | <u>Dollar Value<br/>(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, 2005 – September 30, 2005

SECTION III  
Funds Put to Better Use  
As of September 30, 2005

|  | <u>Number</u> | <u>Dollar Value<br/>(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 September 30, 2005

| <u>Audit #</u> | <u>Audit Title</u>         | <u>Issued</u> | <u>Funds Put to<br/>Better Use<br/>(in thousands)</u> | <u>Questioned Costs<br/>(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. Individual policies and procedures are being prepared as resources and priorities permit. |
| 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 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 September 30, 2005

| <u>Audit #</u> | <u>Audit Title</u>                    | <u>Issued</u> | <u>Funds Put to<br/>Better Use<br/>(in thousands)</u> | <u>Questioned Costs<br/>(in thousands)</u> | <u>Reason Final Action Not Taken</u>   |
|----------------|---------------------------------------|---------------|---|--|--|
| 309            | Telecommunications<br>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<br>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, 2005

| <u>Audit #</u> | <u>Audit Title</u>                | <u>Issued</u> | <u>Funds Put to<br/>Better Use<br/>(in thousands)</u> | <u>Questioned Costs<br/>(in thousands)</u> | <u>Reason Final Action Not Taken</u>  |
|----------------|-----------------------------------|---------------|---|--|---|
| 337            | IT Project Management             | 1/24/2002     | \$0   | \$0  | See explanation for audit #220.   |
| 346            | Commission Oversight of<br>NAFI   | 3/7/2002      | \$0   | \$0  | Given changing circumstances since the issuance of the audit report, including the nature of the Recreation and Welfare Association's funding sources, management is determining the efficacy of maintaining the Association. |
| 350            | Administration of IT<br>Contracts | 8/28/2002     | \$0   | \$0  | Formal policies and procedures regarding training and experience requirements for delegated procurement authority will be issued after OMB issues training standards.   |

SECTION IV  
Open Audit Reports Over One Year Old  
As of September 30, 2005

| <u>Audit #</u> | <u>Audit Title</u>                        | <u>Issued</u> | <u>Funds Put to<br/>Better Use<br/>(in thousands)</u> | <u>Questioned Costs<br/>(in thousands)</u> | <u>Reason Final Action Not Taken</u>  |
|----------------|---|---------------|---|--|---|
| 351            | EDGAR Utility to<br>Commission Staff      | 1/15/2003     | \$0   | \$0  | Post-acceptance corrections are being<br>addressed. The outcome will<br>become part of the requirements for a<br>follow-on contract, which should be signed<br>in 2006. |
| 353            | Regional Telecommuni-<br>cations Security | 8/20/2002     | \$0   | \$0  | See explanation for audit #309.   |
| 361            | Commission Web Security                   | 9/30/2002     | \$0   | \$0  | See explanation for audit #320.   |
| 362            | Financial Management<br>System Controls   | 3/27/2003     | \$0   | \$0  | See explanation for #320.   |

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|----------------|---|---------------|---|--|--|
| 365            | IT Capital Investment<br>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.   |
| 368            | SEC Recreation and<br>Welfare Asso. Financial<br>Management | 7/31/2003     | \$0   | \$0  | See explanation for audit #346.  |
| 371            | Small Business Reg D<br>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. |

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|----------------|---|---------------|---|--|---|
| 376            | Telephone Card Program                  | 11/17/2003    | \$0   | \$0  | A formal policy document is expected to be completed by calendar year-end.  |
| 377            | Lost and Stolen Securities Program      | 3/31/2004     | \$0   | \$0  | Certain issues related to the program are under review by the Lost and Stolen Securities Program Advisory Board. Those issues are expected to be resolved by calendar year-end. |
| 383            | Targeting IA/IC Compliance Examinations | 9/29/2004     | \$0   | \$0  | A task force is studying how to enhance the Commission's surveillance of investment advisers.   |

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|----------------|--|---------------|---|--|---|
| 385            | Office of Economic<br>Analysis         | 6/29/2004     | \$0   | \$0  | Efforts are underway to define a form of publication that is viewed as the work of staff and to implement a working paper series.                           |
| M33            | Unclaimed Commission<br>Property       | 11/12/2003    | \$0   | \$0  | The staff is determining the appropriate state authorities to contact and whether there are any restrictions in implementing the open audit recommendation. |
| G-404          | Legal Review of<br>Procurement Actions | 9/3/2004      | \$0   | \$0  | A policy document is being drafted to satisfy the one remaining open recommendation.  |

## APPENDIX A

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

#### Reports Completed During the Reporting Period

1. *Mutual Fund Trading Abuses: Lessons Can Be Learned from SEC Not Having Detected Violations at an Earlier Stage* (GAO-05-313, April 2005)
2. *Financial Audit: Securities and Exchange Commission's Financial Statements for Fiscal Year 2004* (GAO-05-244, May 2005)
3. *Mutual Fund Trading Abuses: SEC Consistently Applied Procedures in Setting Penalties, but Could Strengthen Certain Internal Controls* (GAO-05-385, May 2005)
4. *USA Patriot Act: Additional Guidance Could Improve Implementation of Regulations Related to Customer Identification and Information Sharing Procedures* (GAO-05-412, May 2005)
5. *Securities Markets: Decimal Pricing has Contributed to Lower Trading Costs and a More Challenging Trading Environment* (GAO-05-535, May 2005)
6. *Conversions of Selected Employees from Noncareer to Career Positions at Departments and Certain Agencies* (GAO-05-584R, June 9, 2005)
7. *Information Security Practices: Financial Market Organizations Have Taken Steps to Protect Against Electronic Attacks, but Could Take Additional Actions* (GAO-05-679R, June 29, 2005)
8. *Federal Student Loan Repayment Program: OPM Could Build on Its Efforts to Help Agencies Administer the Program and Measure Results* (GAO-05-762, July 2005)
9. *Public Utility Holding Company Act: Opportunities Exist to Strengthen SEC's Administration of the Act* (July 2005)
10. *Material Internal Control Issues Reported in SEC's Fiscal Year 2004 Financial Statement Audit Report* (GAO-05-691R, July 27, 2005)
11. *Management Report: Opportunities for Improvements in SEC's Internal Controls and Accounting Procedures* (GAO-05-693R, August 12, 2005)
12. *Mutual Fund Industry: SEC's Revised Examination Approach Offers Potential Benefits, but Significant Oversight Challenges Remain* (GAO-05-415, August 2005)

13. *Globalization: Numerous Federal Activities Complement U.S. Business's Global Corporate Social Responsibility Efforts* (GAO-05-744, August 2005)
14. *SEC and CFTC Penalties: Continued Progress Made in Collection Efforts, but Greater SEC Management Attention is Needed* (GAO-05-670, August 2005)
15. *Agency Telework Methodologies* (GAO-05-1055R, September 27, 2005)
16. *Industrial Loan Corporations: Recent Asset Growth and Commercial Interest Highlight Differences in Regulatory Approach* (GAO-05-621, September 2005)
17. *Tax Administration: Systematic Information Sharing Would Help IRS Determine the Deductibility of Civil Settlement Payments* (GAO-05-747, September 2005)

#### Projects Active as of September 30, 2005

1. Workforce Planning (250234). A review of the SEC's strategic workforce planning efforts, including the extent to which SEC has (1) established a workforce planning process that is aligned with its mission and programmatic goals and (2) developed and implemented long-term strategies for acquiring, developing, and retaining staff necessary to achieve these goals.
2. Social Security Numbers and Third Party Contracting (130395). A review of the uses and protections of social security numbers.
3. Whois Database (310724). A study to (1) determine the prevalence of patently false contact data in the Whois database for "legacy" generic top-level domains, (2) report the steps the Commerce Department and the Internet Corporation for Assigned Names and Numbers have taken to ensure the accuracy of contact data in the database, and (3) determine whether tools and technologies are available to help reduce the amount of false information that is entered into the database.
4. Military Insurance Sales (250166). A review of the financial products that are commonly marketed to military service members, the regulatory oversight associated with marketing and sale of these products on military installations, the regulatory oversight and consumer protections afforded military personnel compared to those afforded the general public, and how regulators assess the suitability of such products.
5. Pay Systems (842157). A review of public and private sector organizations' experiences in designing and implementing pay systems that are intended to be performance-based and market sensitive. Through meetings with SEC, GAO plans to determine if SEC's pay system could be used as a possible example to illustrate how a specific design or implementation issue is being addressed.

6. 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.
7. Federal Energy Programs (360415). A review of how the Federal Government is working to meet the nation's energy needs. GAO's contact with SEC will focus on issues relating to oversight of the Public Utility Holding Company Act and any involvement SEC has had with the National Energy Policy.
8. 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 are requiring 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.
9. Decimalization (250195). A review of the impact decimalization has had on the securities markets, securities market participants, and institutional and retail investors.
10. FY 2005 Financial Statement Audit. An audit of the SEC's fiscal year 2005 financial statements.