

# Securities and Exchange Commission

## Office of Inspector General

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### *Executive Summary*

*During this reporting period (April 1 to September 30, 2000) the Office of Inspector General (Office) issued eight audit reports, three investigative memoranda on management issues, and one audit memorandum. These documents focused on the Commission's Investor Education and Assistance Program, the Office of Municipal Securities, the preparation of no-action and interpretive letters in the Division of Investment Management, conversion of the Commission's payroll to the Department of Interior, Commissioners' travel, the clearance process (for exiting employees), audit recommendation follow-up procedures, security cameras, implementation of ethics rules (gift giving), travel vouchers, and administrative practices in the Atlanta District Office. The Audit Program section below describes this work further.*

*Nineteen investigations were closed during the period (one of which was a joint investigation with the Federal Bureau of Investigation). Four subjects were referred to the Commission; five cases were referred to the Department of Justice. Also during the period, the subject of one investigation was terminated, while the subject of another investigation resigned. In addition, one employee resigned prior to completion of the investigation, and one contract employee was removed during an investigation. Seven subjects, referred to Commission management during this and prior periods, are awaiting disposition. The Investigation Program section below describes the significant cases further.*

*In a previous period, we reported the custody of sensitive information as a significant problem. Since then management has established a task force to develop corrective actions, issued an agency-wide policy, and hired a consultant to assist in a comprehensive review of security.*

*The Commission recently received the security consultant's final report. The task force is now reviewing the recommendations, assessing inherent risks in Commission organizational units, and developing an implementation plan. The task force's work is scheduled for completion in November 2000. At this point, we believe that most Commission organizations are waiting for additional guidance from the task force before fully implementing the new Commission policy on sensitive information.*

*We also previously identified information resources management as a significant problem. Although the Commission has taken many positive steps to improve the management of information (e.g., restructuring the Office of Information Technology; integrating information technology planning, budgeting, and performance measurement; linking plans and budgets to the Commission's mission and strategic direction) information resources management, as a whole, remains a significant concern.*

*Although we have not performed an audit to evaluate the effectiveness of these initiatives, we believe that the Commission is making progress in achieving full compliance with the requirements of the Clinger-Cohen Act. However, many pending management actions need to be completed to implement the operational, procedural, and policy recommendations made in prior audits. We intend to maintain our oversight of the Commission's management of information resources (including piloting a new qualitative risk assessment methodology to identify information technology risks).*

*Another previously reported significant problem involves lack of adequate controls over the collection of fees. Since this problem was first reported, statutory changes have eliminated many of the fees most at risk. Moreover, Commission management has made significant progress in correcting the most serious weaknesses. However, final corrective actions are awaiting the implementation of a new computerized filing fee collection system.*

*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 eight audit reports, three investigative memoranda on management issues, and one audit memorandum during the reporting period. These documents contained a total of 41 recommendations, which are further described below. Management concurred with most of the recommendations.

### **INVESTOR EDUCATION AND ASSISTANCE (AUDIT 288)**

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The Commission's Investor Education and Assistance Program (IEAP) educates investors, processes investor complaints, and analyzes investor complaints and inquiries (to provide intelligence to several Commission programs). The Office of Investor Education and Assistance (OIEA) in Washington, and investor specialists in most regional and district offices, conduct the program. In recent years, the program has experienced a significant increase in the volume of investor complaints and inquiries, without a corresponding increase in staffing.

Our audit objective was to evaluate the effectiveness and efficiency of the IEAP. We found that, overall, OIEA and the field offices were successful in achieving the investor education objective.

Nonprofit investor education organizations we surveyed believed that the program's educational activities (*e.g.*, Investor Town Meetings, educational pamphlets, and web site) are very effective and that educational information is available to investors. Information is also provided to investors in while responding to investor complaints and inquiries. In addition, OIEA recognizes the challenge to reach and educate financially illiterate or unsophisticated investors who will have increased responsibility for their own financial future.

However, we identified several obstacles to fully achieving the complaint processing and intelligence analysis objectives. The volume of investor complaints and inquiries increased 108% from fiscal years 1993 to 1999. Although no additional staff was budgeted for this process, OIEA took several steps to accommodate the increased workload. Additional changes in processing investor complaints and inquiries would further increase the productivity of IEAP staff. In addition, lack of central policy and direction between OIEA and the field offices created uneven processing of investor complaints and inquiries, analysis of intelligence, and services to investors. Finally, the current tracking and management information system is outdated and needs to be rethought.

We recommended that complaint processing and intelligence analysis be reengineered with a focus on uniform and effective policy, procedures, performance measures, and information systems. OIEA and the field offices have already initiated several actions to improve the efficiency of the complaint and inquiry process and we commended them for their proactive efforts.

## **OFFICE OF MUNICIPAL SECURITIES (AUDIT 315)**

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The Office of Municipal Securities (OMS) was established in March 1995 to provide coordination and expertise on the varied initiatives related to the municipal securities market including those related to enforcement, market regulation, disclosure, and transparency. OMS also serves as a clearinghouse of Commission initiatives related to municipal debt, and provides assistance in developing Commission initiatives in response to this expanding municipal debt market.

Our audit objective was to evaluate the goals and operations of the office, and to identify potential improvements. We reviewed available documentation about the office, and interviewed officials from organizations inside and outside of the Commission. However, we did not evaluate the propriety of specific judgments made by OMS concerning municipal securities matters.

We found that the Office of Municipal Securities has generally carried out its mission effectively. The office currently exists on a provisional basis, with a renewal decision made annually since its creation in 1995. We recommended that the Commission reconsider its status in light of the existing and anticipated municipal securities environment. Other recommendations were related to office resources and enhancing awareness of the office.

## **INVESTMENT MANAGEMENT NO-ACTION AND INTERPRETIVE LETTERS (AUDIT 316)**

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The Division of Investment Management provides no-action relief and interpretations to investment companies and advisers. No-action and interpretive letters provide the public with informal interpretations of the federal securities laws and Commission rules, and offer assurances that the staff would not recommend enforcement action as a result of proposed transactions or actions. These letters represent a prospective method of promoting compliance with the securities laws, and give the industry flexibility in conducting business while protecting investors and reducing the regulatory burden on the industry.

The objective of this audit was to evaluate the effectiveness and efficiency of the Division's process for preparing, issuing, and tracking no-action and interpretive letters. We recommended several improvements including: issuing and enforcing guidance for submitting requests; developing and implementing formal timeframes for processing letters; distributing written procedures to staff; and improving workload information. We also suggested that the Division publish these letters on the Commission's website.

## **PAYROLL CONVERSION (AUDIT 314)**

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The Commission's prior payroll system was not year 2000 compliant, and imposed a substantial administrative burden on the Commission. Consequently, the Commission converted to the Department of Interior's Federal Personnel/Payroll System (FPPS) on June 20, 1999. At the same time, responsibility for payroll was transferred from the Office of the Comptroller to the Office of Administrative and Personnel Management.

Our objective was to determine whether the conversion to FPPA system was effective, and whether Commission payroll controls were properly implemented (we did not assess controls administered by Interior). We found that the Office of Administrative and Personnel Management had effectively coordinated the Commission's conversion to the new payroll system. Users generally felt that OAPM payroll staff were doing a good job, given resource constraints, and were responsive to their needs. However, some Commission employees, particularly supervisors and managers, had some difficulties in learning to use the new system. In some cases, access controls had been compromised. We made several recommendations to enhance access controls and customer service, including issuing guidance, providing training, and establishing a help desk and web page.

## **COMMISSIONERS' TRAVEL (AUDIT 319)**

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In 1998, the Office of Inspector General conducted audits of the Commissioners' Travel (No. 280) and of Travel Upgrades (No. 281) at the request of the Subcommittee on National Economic Growth, Natural Resources, and Regulatory Affairs of the House Committee on

Government Reform and Oversight. We again reviewed the Commissioners' Travel last year (No. 294). This audit was a follow-up to the previous reviews.

The audit objective was to determine whether the trips were for official business, for reasonable periods of time given the purpose of the trip, and that the expenses claimed were valid. We also evaluated the Commission's management controls over the official travel of its Commissioners. We tested a judgment sample of 32 of the 102 Commissioner travel vouchers submitted and processed between April 1, 1999 and March 31, 2000.

The results of our tests indicated that, with respect to the items reviewed, the Commissioners complied in all material respects with relevant Commission policies and procedures.

## **ATLANTA DISTRICT OFFICE (AUDIT 321)**

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The Atlanta District Office assists the Southeast Regional Office in administering Commission programs in Alabama, Florida, Georgia, Louisiana, Mississippi, North Carolina, Puerto Rico, South Carolina, Tennessee, and the Virgin Islands. In carrying out its responsibilities, the office exercises 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.

The Office of Inspector General conducted a limited audit of the financial and administrative internal controls of the office. The purpose of the audit was to provide the Commission with negative assurance<sup>1</sup> that the internal controls were adequate, being implemented economically and efficiently, and in compliance with Commission policies and procedures. The audit procedures were limited to analyzing representations made by staff, reviewing supporting documentation, and conducting some tests of transactions.

During the limited audit described above, no material weaknesses in the internal control structure involving financial and administrative functions came to our attention. Some minor problems were verbally discussed with management. The office concurred with these findings and is implementing our suggestions.

## **CLEARANCE PROCESS (AUDIT 323)**

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Several Commission organizations must "clear" a separating employee before the final payroll check is processed. The objective of the clearance process is to ensure that all Commission property has been returned and that various authorizations are canceled.

Our audit objectives were to evaluate compliance with the Commission's policy for clearing separating employees, and to identify any needed improvements. We found that the clearance

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<sup>1</sup> *Negative assurance means that no material internal control weaknesses came to our attention during our limited audit.*

process for separating employees needed to be improved. Required steps were not always followed, including collection of government passports; deletion of network accounts, and repayment of bonuses under continuing service agreements. Also, the clearance process was not extended to contractors. We made appropriate recommendations for correcting the weaknesses.

## **AUDIT FOLLOW-UP PROCEDURES (AUDIT 325)**

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The Executive Director is the Commission's designated audit follow-up official and makes the final decision on whether the Commission concurs with audit recommendations. That Office also decides the disposition of audit recommendations (e.g., pending, completed) based on submissions from the affected organization(s), updates the Audit Recommendation Tracking System (shared with the Office of Inspector General), and prepares the management response to the Semiannual Report to Congress.

Our objective was to determine whether the audit follow-up procedures were efficient and effective, and complied with OMB Circular A-50. We found that the procedures were efficient and effective, and complied with the OMB Audit Follow-up Circular (A-50).

## **ETHICS RULES – VOLUNTARY CONTRIBUTIONS (INVESTIGATIVE MEMORANDA ON MANAGEMENT ISSUES G314)**

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In the course of an investigation, we became aware of confusion about voluntary contribution rules applying to employees and their supervisors. We recommended that "best practices" guidance on voluntary contributions rules (which govern, for example, a going-away party for a manager) would be helpful for Commission staff. Management agreed and is drafting appropriate guidance.

## **SECURITY CAMERAS (INVESTIGATIVE MEMORANDA ON MANAGEMENT ISSUES G311 AND G307)**

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The Commission uses video cameras and recorders to help secure various areas of Commission property. In the course of two separate investigations, we became aware of weaknesses in the procedures used to place and maintain the video equipment. We made recommendations to management. Management agreed and is taking corrective action.

## **TRAVEL VOUCHERS (AUDIT MEMORANDUM 20)**

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The Office of Comptroller processes approximately 11,000 travel vouchers each year. Recent implementation of a LAN based travel management system in several Commission units improved processing of these vouchers.

Because of the limited scope of our review, we issued an audit memorandum rather than a report. We found that voucher processing time in calendar year 2000 was meeting statutory deadlines. The memorandum made several recommendations to further improve the processing of travel vouchers. The recommendations focused on improvements to guidance (*e.g.*, updating the guide to Commission travelers, linking to the GSA website on travel).

## **Investigative Program**

Nineteen investigations were closed during the period (one of which was a joint investigation with the Federal Bureau of Investigation). Four subjects were referred to the Commission; five cases were referred to the Department of Justice. Also during the period, the subject of one investigation was terminated, while the subject of another investigation resigned. In addition, one employee resigned prior to completion of the investigation, and one contract employee was taken off the Commission contract during an investigation. Seven subjects, referred to Commission management during this and prior periods, are awaiting disposition. The Investigation Program section below describes the significant cases further. The most significant cases closed during the period are described below.

## **MISUSE OF COMPUTER RESOURCES**

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The Office developed evidence that several Commission employees had used the Commission's e-mail system to transmit and receive sexually explicit e-mails. There was also evidence that one of these employees had used a government computer to access Internet sites for personal purposes, including visiting sexually explicit websites. The Department of Justice declined prosecution. One employee was counseled; administrative action is pending with respect to five employees.

In another investigation, we found evidence that a contract employee had used a government computer to access sexually explicit websites. Prior to the completion of the investigation, the employee was removed from the contract. The Department of Justice declined prosecution.

Another investigation disclosed that a Commission staff member had used a government computer to access the Internet for various personal purposes, including visiting sexually explicit websites. The employee resigned before the investigation was completed.

## **POST-EMPLOYMENT VIOLATION**

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The Office investigated an allegation that a former Commission official had violated a federal conflict of interest statute by testifying as an expert witness for the defense in a matter in which he had personally and substantially participated as a Government employee. The evidence failed to substantiate the allegation.

## **UNAUTHORIZED DISCLOSURE OF NON-PUBLIC INFORMATION**

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The Office investigated an allegation that a former staff member, while employed by the Commission, had used a non-public database to obtain information for a future client. The evidence failed to substantiate the allegation.

## **FALSE STATEMENTS AND CONSPIRACY**

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The Office developed evidence that two Commission employees falsified time and attendance records and made false statements to management. The evidence also showed that the employees tampered with evidence, asked other employees to lie to management and conspired to make false statements and to conceal their misconduct. The Department of Justice declined prosecution. Administrative action is pending.

## **Significant Problems**

No new significant problems were identified during this period.

## **Significant Problems Identified Previously**

### **SENSITIVE INFORMATION**

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In a previous period, we reported the custody of sensitive information as a significant problem. Since then management has established a task force to develop corrective actions, issued agency-wide policy, and hired a security consultant to assist in a more comprehensive review of overall security.

The Commission recently received the consultant's final report. The task force is now reviewing the consultant's recommendations, assessing the inherent risks in each Commission organizational unit, and developing guidance for implementing the new Commission policy. The task force's work is scheduled for completion in November 2000. At this point, we believe

that most Commission organizations are waiting for additional guidance from the task force before fully implementing the new Commission policy on sensitive information.

## **INFORMATION RESOURCES MANAGEMENT**

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We previously identified information resources management as a significant problem based on prior audits, investigative work, and management studies that identified significant weaknesses in many aspects of the Commission's management of information resources.

Since then, the Commission has taken many positive steps to improve the management of information resources throughout the Commission. Some of the initiatives were:

- Restructuring the Office of Information Technology to facilitate effective management of information resources,
- Establishing a Capital Planning Committee to prioritize information technology projects based on criticality, risk, cost, and expected returns, and
- Developing a configuration control structure and an integrated information technology planning, budgeting, and performance measurement process to better support the Commission's mission and strategic direction.

Although we have not performed an audit to evaluate the effectiveness of these initiatives, we believe that the Commission has made significant progress in achieving full compliance with requirements of the Clinger-Cohen Act. However, many pending audit recommendations need to be implemented. We intend to maintain our oversight of the Commission's management of information resources (including piloting a new qualitative risk assessment methodology to identify operational information technology risks).

## **COLLECTION OF FILING FEES**

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Starting in 1996, we have identified the Commission's collection of filing fees as a significant problem. Since then, statutory changes have eliminated many of the fees most at risk. Moreover, Commission management has made significant progress in correcting the most serious weaknesses (*e.g.*, a lockbox depository is now used). However, final corrective actions are awaiting the implementation of a new computerized filing fee collection system.

The strengthening of automated controls related to filing fee collection has been awaiting modernization of the EDGAR system (which receives and disseminates filings from public companies). EDGAR Release 8.0, scheduled for April-May 2001, is planned to implement a new filing fee collection system. The new system will use MOMENTUM, a commercial off-the-shelf software package, which is designed to have adequate financial controls. Until then, the overall control structure will continue to fail to provide adequate accountability over filing fees.

## **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**

### **EXECUTIVE COUNCIL ON INTEGRITY AND EFFICIENCY**

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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 of the Integrity Committee established by Executive Order No. 12993.

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	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 (April 1, 2000).

## **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, 1999 THROUGH MARCH 31, 2000**

**Introduction**

The Semiannual Report of the Inspector General (IG) of the Securities and Exchange Commission (SEC) was submitted to the Chairman on April 28, 2000 as required by the Inspector General Act of 1978, as amended. The report has been reviewed by the Chief of Staff, General Counsel, Executive Director, 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 10 audit reports. Management generally agreed 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 during this period.

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

The IG's semiannual report discusses three significant problems that were previously identified. An update on each problem follows.

*Sensitive Information.* Safeguarding sensitive information is a critical activity at the SEC, and aggressive steps are being taken to enhance our controls in this area. A task force of senior Commission staff is continuing efforts to enhance the effectiveness of the Commission's controls over sensitive information. As a result of the task force's efforts, a policy has been issued for safeguarding sensitive non-public information and new building access procedures have been implemented for visitors. In addition, a consultant has been hired to conduct a review of sensitive information security at the Commission. The consultant has completed the review and is preparing its recommendations.

*Collection of Filing Fees.* The IG's audit, released in February 1996, confirmed the Commission's previous assessment that the agency's fee and filing system (EFFS) was not materially in conformance with the Federal Managers' Financial Integrity Act. Since the audit was released, significant progress has been made in correcting the most serious weaknesses (*i.e.*, those related to separation of duties, access controls, audit trails, and financial information within the fee system). The separation of duties became even more effective with the transition to mandated electronic filing in May 1996 and the elimination of the user fees collected under the Independent Offices Appropriations Act of 1952 in October 1996.

Some corrective actions will not be fully implemented until the current fee collection system is redesigned. The fee system is being redesigned and implemented under the EDGAR modernization contract. A group of SEC managers and users is working with the contractors and developers to ensure that the new fee system contains adequate financial controls and meets the agency's and filers' requirements.

*Information Resources Management (IRM).* The SEC continues to make progress in correcting the weaknesses in the information technology (IT) area. Since the completion of the agency's Year 2000 conversion, the Office of Information Technology has devoted more attention to improving contract management, clarifying policies and procedures, and strengthening IT planning.

The office has taken a number of steps to improve contract management. It is consolidating a number of requirements and is matching these requirements to more appropriate contract vehicles. It is using a new financial database to improve management of contract data. It is taking steps to ensure that all program managers receive appropriate training in contract management. It is also incorporating recommendations from a recent independent review of its management of outsourced customer service operations.

The office has made significant progress clarifying IT policies and procedures to both internal and external stakeholders. Internally, an office-wide committee has begun following procedures for reviewing, formalizing and communicating all policies and procedures. Externally, the office has posted additional technical bulletins to its website, and has presented guidance to its user community in written memoranda and in interactive monthly conferences.

The Commission is also making progress in IT planning. Commission management has established a senior level information technology committee to address high level IT policy issues and to oversee three key areas of IT management: planning, control, and evaluation of IT investments. In the area of planning, the office has dedicated managerial resources to formulating specific goals, crafting business plans, and creating a useful balance scorecard. In the area of control, the office is continuing to improve IT security measures, and is redesigning its budget system to enhance fiscal discipline. In the area of evaluation, the office has assembled a performance measurement team to follow-up on recommendations from independent reviews

of Helpdesk management and contract management, and to conduct further assessments of organizational efficiency and effectiveness.

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

None.

**E. Reports with No Management Decisions**

Final management decisions have been made on all audits issued prior to the beginning of the reporting period (October 1, 1999).

**F. Revised Management Decisions**

No management decisions were revised during the reporting period.

SEC Management Response to  
Semiannual IG Report  
October 1, 1999 – March 31, 2000

SECTION II  
Disallowed Costs  
As of March 31, 2000

	<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, 1999 - September 30, 1999

SECTION III  
Funds Put to Better Use  
As of March 31, 2000

	<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	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	0	\$0

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2000

<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>
130	Management of the Data Center	11/18/89	\$0	\$0	Since the completion of the Y2K conversion, more attention has been devoted to improving the weaknesses in the information technology area. Efforts are continuing. (See "Response to Significant Problems Previously Identified" section above.)
143	Information Resources Management	3/27/91	\$0	\$0	Same as above.
159	Audit of Local Area Networks	2/16/93	\$0	\$0	The remaining pending recommendation concerns the implementation of prior audit and contractor recommendations. Each of the prior recommendations is being addressed under its original report.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2000

<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>
201	Controls Over Commercial Databases	6/10/94	\$0	\$0	See explanation for audit #130.
202	Investor Complaints and Inquiries	9/29/94	\$0	\$0	Efforts to update the CFR to reflect the current mission of the SEC's Office of Investor Education and Assistance have been delayed due to other priorities.
220	IRM Planning and Execution	3/26/96	\$0	\$0	See explanation for audit #130.
225	Collection of Filing Fees	2/8/96	\$0	\$0	The EFFS system is being redesigned and implemented under the three-year EDGAR modernization contract.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2000

<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	3/26/96	\$0	\$0	See explanation for audit #130.
225	Collection of Filing Fees	2/8/96	\$0	\$0	The EFFS system is being redesigned and implemented under the three-year EDGAR modernization contract.
226	Contingency Plans for PABX and Data Center	7/31/95	\$0	\$0	A contingency plan for the telephone system has been tested by real events. The plan is being properly documented for future reference.
238	International Telephone Service	8/27/96	\$0	\$0	The corrective action plan for the remaining pending recommendation is being re-examined as a result of the IG's recently issued report on telecommunications vulnerabilities.

SECTION IV  
Open Audit Reports Over One Year Old  
As of September 30, 1999

<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>
243	SECOA Local Area Network	3/21/97	\$0	\$0	See explanation for audit #130.
244	Office of Filings & Information Services	3/20/97	\$0	\$0	The EFFS redesign requirements have been included with the EDGAR modernization effort, which is expected to occur over a three-year period. Meanwhile, controls have been implemented to address the IG's concerns.
250	Enhancing Excellence-- Integrity Program	1/22/97	\$0	\$0	A substantial number of the recommendations have been implemented. Several policy documents are still being developed.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2000

<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>
253	Administrative Proceedings	11/7/97	\$0	\$0	An adjudicatory conference will be held once there is an experience factor to measure the overall results of the NASD's revised disciplinary procedures.
257	Client Server	9/9/97	\$0	\$0	See explanation for audit #130.
259	Review of Filings-- Comment Letter Process	2/2/98	\$0	\$0	Action on some of the recommendations is complete. Work on the remaining recommendations was delayed due to unusually heavy workload as a result of increased stock market activity.
260	Value Engineering Program	5/2/97	\$0	\$0	Guidance for the value engineering program will be published this month.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2000

<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>
262	Automation of Records Management	9/29/97	\$0	\$0	See explanation for audit #130.
269	Database Administration	1/5/98	\$0	\$0	See explanation for audit #130.
271	Property System	1/5/98	\$0	\$0	A task force has been established to address the recommendations in this audit. The task force's efforts are continuing.
272	Commission Review of SRO Rules	7/14/98	\$0	\$0	A new strategy is being formulated to store SRO rule filings on newly acquired equipment.
273	Review of Investment Company Filings	6/26/98	\$0	\$0	The EDGAR modernization efforts are expected to occur over a three-year period.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2000

<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>
276	Enforcement Action Memo Process	3/18/99	\$0	\$0	A document addressing the remaining recommendations is under review. It will be completed by the end of June.
284	International Technical Assistance	10/27/98	\$0	\$0	The SEC website is being revamped.
287	Boston District Office	10/23/98	\$0	\$0	Most of the recommendations have been implemented. A regulation that addresses the recommendations concerning telephone reimbursements is expected to be issued in June.

SECTION IV  
Open Audit Reports Over One Year Old  
As of March 31, 2000

<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>
M5	Screening Prospective Employees	1/19/96	\$0	\$0	The formal policy for screening employees is being reviewed internally.
M9	Food Service at the Ops Center & Annex	9/22/98	\$0	\$0	A meeting has been scheduled with the Blind Association to discuss issues associated with the vending machines.
M11	Part-time Employment Program	10/21/98	\$0	\$0	A policy document is being developed.
M12	Control of Computer Equipment	12/29/98	\$0	\$0	See explanation for #130.
M14	Contingency Testing	3/15/99	\$0	\$0	See explanation for #130.

## APPENDIX A

### General Accounting Office Audit Activity Involving the Securities and Exchange Commission

#### Reports Issued October 1, 1999 – March 31, 2000

1. Long-Term Capital Management: Regulators Need to Focus Greater Attention on Systemic Risk, GGD-00-3 (October 1999)
2. Year 2000: Insurance Regulators Have Accelerated Oversight, But Some Gaps Remain, GGD-00-42 (December 1999)
3. Financial Regulatory Coordination: The Role and Functioning of the President's Working Group, GGD-00-46 (January 2000)
4. Responses to Questions Concerning Long-Term Capital Management and Related Events, GGD-00-67R (February 2000)
10. Securities Exchange Act: Review of Reporting Under Section 10A, AIMD-00-54R (February 2000)
6. The Euro: Implications for the United States—Answers to Key Questions, GGD/NSIAD-00-105 (March 2000)
10. Securities Pricing: Progress and Challenges in Converting to Decimals, T-GGD-00-96 (March 2000)

#### Audits In Progress as of March 31, 2000

1. SEC Oversight of SBA Section 7(a) Loans (233543): A review of the secondary market for SBA Section 7(a) loans.
2. Securities Arbitration (233590): A review of the arbitration process in the securities industry.
3. Mutual Fund Fees and Expenses (233592): A study of mutual fund fees and expenses, including a determination of how fees are set, whether these costs are reasonable, whether they are adequately disclosed to investors and understood by them, the impact of fees and other charges on performance and net return, and whether mutual funds are being run for the benefit of their shareholders.

4. Year 2000 Costs and Future Funding (511725): A government-wide review of year 2000 costs and funding requirements.
5. Small Business Access to Equity Capital (233620). A study comparing small business access to equity capital and the cost of that capital relative to medium or large businesses.
6. Security Protection for Officials (240357). A review of the security protection for government officials.
7. CFTC Shad-Johnson Accord (233618). A study of the Commodity Exchange Act's prohibition on the trading of futures contracts on individual securities and narrowly based security indexes.
8. On-line Trading Firms (233613). A review of on-line trading.
9. Day Trading (233611). A review involving day trading.
10. Regulatory Information Sharing and Oversight Issues within the Insurance Industry (233631). A review of regulatory information sharing and oversight issues within the insurance industry in light of the alleged fraudulent investment activities perpetrated among several insurance companies and masterminded by Martin Frankel.
11. Disclosure and Reporting Requirements of Foreign Government-Controlled Entities (711479). A review to identify U.S. government sources of data on these foreign government-controlled entities of concern and assess the feasibility of determining if any of these entities have connections with the U.S. equity markets.
12. Foreign Investments in U.S. Companies Reported to CFIUS. A review of the implementation of the Defense Production Act for voluntary notifications of foreign investments in U.S. companies to the Committee on Foreign Investments in the United States (CFIUS).