

Policy Management and Administrative Support

Overview

“This is a critical time for the agency and the way we address the challenges before us will determine not only where we go tomorrow, but for years to come. In many ways, it may be time for the SEC to go through a transition...and evolve into a much more efficient force, becoming quicker, more agile, and more proactive.”

Chairman William H. Donaldson

31 executive and 374 operational staff:

- Established the policy and strategic direction for the agency.
- Implemented management reforms to improve the operational effectiveness of the SEC.
- Recruited and hired qualified candidates for SEC positions nationwide, and administered the compensation, benefits, and training for all of the agency’s employees.
- Fulfilled the information technology and telecommunications-related needs of a growing staff and workload, including 38 projects approved by the agency’s IT Capital Planning Committee.
- Developed a \$716.4 million operating budget for fiscal 2003, and managed the agency’s financial obligations, staffing levels, and fee collections.
- Administered the SEC’s procurements and contracts and maintained the agency’s facilities and equipment, including handling office relocations and the buildings’ physical security.

Key Results

Issue	Result
Management Reforms	The Chairman laid the groundwork for a new Office of Risk Assessment and Strategic Planning, which will lead efforts to identify and manage risks and market trends that affect the SEC's ability to fulfill its mission. The Chairman also created reports called "dashboards" that present regular snapshots of the agency's progress in meeting budget, staffing, and performance objectives.
Allocating and Hiring New Staff	After extensive reviews of the SEC's operations, the Chairman approved the allocation of more than 840 new staff positions among the various programs. The agency recruited aggressively to fill these positions, and retained two executive recruiting firms to help locate highly qualified accountants and other candidates. Notwithstanding these efforts, the SEC fell short of targets for fiscal 2003, and is redoubling efforts in this area for the next fiscal year.
Pay-for-Performance	The Commission implemented a new Pay-for-Performance program, which will reward employees for performance through merit-based salary increases.

Issue	Result
Audited Financial Statements	The Commission developed and began to implement an aggressive plan to ready financial statements and systems for their first audit in 2004, pursuant to the Accountability of Tax Dollars Act of 2002. In 2003, the SEC strengthened financial management systems and expanded accounting staff to prepare the financial statements.
Staff Training	The Commission successfully launched the “SEC University,” a comprehensive redesign and expansion of the agency’s training and orientation programs. This effort includes a new e-learning program that offers more than 2,000 on-line courses in multiple disciplines.
Electronic Data Gathering, Analysis, and Retrieval System (EDGAR)	The modernized EDGAR system won two awards: the 2003 Enterprise Value Award from <i>CIO</i> magazine, and a 2004 Excellence.gov Award from the Industry Advisory Council’s eGov Shared Interest Group and the Federal CIO Council. The SEC also continued to enhance the EDGAR system, extending the hours for filings and deploying a website for filers to submit ownership reports electronically.

Main Activities	Fiscal 2003	Fiscal 2002	% Change
Commission Meetings	111	83	+34%
Items Considered at Commission Meetings	917	907	+1%
Items Resolved by Commission through Seriatim Vote	398	331	+20%
Personnel Actions Processed	12,584	15,500	-19%
Recruitment Actions	746	830	-10%
Training Sessions Attended	4,803	7,300	-34%
Procurements (Contracts & Purchase Orders)	1,552	1,175	+32%
FOIA Requests Received	5,808	3,570	+63%
FOIA Appeals Received	76	85	-11%
Confidential Treatment Requests Received	15,259	14,150	+8%

Policy Management

The Commission held 111 meetings in fiscal 2003, at which the Commission considered 917 matters related to the administration and enforcement of the nation's securities laws. The Commission also acted on 398 items through seriatim vote. Many of the most significant matters approved by the Commission are discussed in other chapters of this report.

The Chairman created a new structure within his office, splitting the former Chief of Staff role into three executive components:

1. *Managing Executive for Policy and Staff*, who has primary responsibility for assisting the Chairman with the initiation, review, and approval of all policy matters;

2. *Managing Executive for External Affairs*, who is responsible for external communications with Members of Congress, the press, the public, the business community, and other governmental entities; and

3. *Managing Executive for Operations and Management*, who has primary responsibility for assisting the Chairman with the initiation, review, and approval of the agency's operational management, risk assessment, and strategic planning efforts.

This new structure has been effective in providing greater leadership and more focused attention in each area that is vital to the agency's success.

One of the Chairman's major new initiatives is the creation of dashboards—management reports that present regular snapshots of the divisions' and major offices' progress in meeting budget, staffing, and performance objectives. The first dashboard, which covered all of fiscal 2003, presented a comprehensive picture of the SEC's six major divisions and offices, as well as information on the budget, staffing, and special initiatives of the agency as a whole. The dashboards will be reviewed at quarterly meetings attended by the Chairman, the Managing Executives, and the directors of the six major divisions and offices, where emerging problems will be identified, solutions discussed, and managers held accountable for the performance of their staff's activities.

After a thorough internal review of the Commission's internal structures and how the agency deals with risk, the Chairman proposed the creation of the Office of Risk

Assessment and Strategic Planning, designed to better enable the Commission to anticipate, identify, and manage emerging risks and market trends that threaten the Commission's ability to fulfill its mission. This initiative—the first of its kind at the Commission—will enable staff to analyze risks across divisional boundaries, focusing on early identification of new or resurgent forms of fraudulent, illegal, or questionable behavior or products. Operating under the "Doctrine of No Surprises," this initiative seeks to ensure that senior management at the Commission has the information necessary to make better, more informed decisions. Additionally, by creating a formalized risk assessment function, the agency will be better prepared to determine more quickly whether new business trends and industry practices warrant further SEC attention and to proactively adjust operations and resources to address these new challenges.

Administrative Support

Human Resources Management

Expansion of the SEC Staff

In February 2003, the Commission received authority to hire more than 840 new staff. The Chairman's Office conducted extensive reviews of each organization's mission, operations, and environment to determine how best to allocate these new staff. Based on these reviews, the Chairman's Office developed a plan to deploy new staff among the various divisions and offices, primarily in the enforcement, inspection, and disclosure review programs.

Once the new positions were allocated, the Chairman's Office led detailed reviews of the new organizational structures. The proposed new structures were evaluated by a review board composed of the major division and office directors. This process helped ensure that each office deployed new personnel effectively, with an appropriate number of accompanying supervisors.

The Office of Human Resources and Administrative Services (OHRAS), along with the SEC's other divisions and offices, moved proactively to recruit and hire highly qualified candidates to fill these positions. This effort was aided in July by the enactment of the Accountant, Compliance, and Enforcement Staffing Act of 2003, which streamlined the hiring process for new accountants, economists, and examiners. In addition, OHRAS awarded two contracts with executive recruiting firms

to assist us in locating first-rate job applicants, with a particular focus on the recruitment of accountants. The SEC hired 415 new staff in fiscal 2003, and will continue to recruit aggressively in 2004.

Pay-for-Performance

In 2003, the SEC implemented a new Pay-for-Performance System for all employees. This program consists of two components: a Performance Management System, a standardized and comprehensive assessment of each employee's accomplishments, and a Merit Pay System, which established new guidelines for awarding merit raises. This program represents a fair and balanced approach to evaluating employees and rewarding them for strong performance through salary increases.

Staff Training

The SEC launched the SEC University, a comprehensive redesign and expansion of the training and orientation programs. "SEC-U" will not only ensure that new employees learn their responsibilities and are firmly grounded in the agency's mission and values, but that all staff continue to build their knowledge of rapidly evolving markets. Through this initiative, the agency launched a new e-learning program with more than 2,000 on-line courses in a multitude of disciplines, expanded the in-house training activities of each division and office, and developed new ways

to keep staff up-to-date on industry practices.

The SEC also began building a management training curriculum that will address the developmental needs of managers at all levels of the agency. The first step of this new program was training for all managers on the SEC's new Pay-for-Performance System, covering both performance management and our new merit pay system.

Benefits Enhancements

In 2003, the SEC instituted a variety of new or expanded

benefits for employees. The enhancements included a new Life Cycle Account Program, increased transportation benefits subsidies, increased agency contributions to employees' health coverage, and a new student loan repayment program. These steps were taken under the authority of the Investor and Capital Markets Fee Relief Act, and, in conjunction with pay parity, have helped significantly lower staff attrition rates.

Strategic Planning

In 2003, the Commission issued its 2004 Annual Performance Plan and 2002 Annual Performance Report, as required by the Government Performance and Results Act. In addition, the agency began work on the 2004-2009 Strategic Plan, scheduled for release in fiscal 2004.

Fiscal 2003 also was the first year that a portion of the SEC underwent an evaluation by the Office of Management

and Budget through its Performance Assessment Rating Tool (PART). The PART evaluation focused on the Full Disclosure program, which was generally found to be well-designed and well-managed. As it has with other federal regulatory agencies, the PART process highlighted the need to improve the agency's methods of measuring performance—an area of particular focus in preparation for the next PART review in 2004.

Financial Management

Audited Financial Statements

The SEC developed and began executing a plan to ready its financial statements and systems for their first audit in 2004, under the authority of the Accountability of Tax Dollars Act. Because the agency cannot be audited by private firms over which it has regulatory responsibility,

the U.S. General Accounting Office (GAO) will serve as auditor. Preparations included forming several internal task forces focused on specific aspects of internal controls and financial management practices, strengthening financial management systems, and expanding accounting staff to prepare the financial statements.

Fee Collections

The Commission deposited \$1.076 billion in fees in the U.S. Treasury, of which \$716.4 million was used to fund the

SEC. Of the total fees collected, 25% was from securities registrations; 74% was from securities transactions; and 1% was from tender offer, merger, and other filings.

Filer Support

The modernized EDGAR system won the 2003 Enterprise Value Award from *CIO* magazine. As one award judge put it, EDGAR is “literally redefining the interface among the investor, the actual stock share issuer and the SEC.”

The EDGAR system also was one of the “Top 5” winners of the Excellence.gov award. A panel of judges representing government and industry examined more than 90 entries using the following criteria: (1) maturity of the governance model, (2) project innovation, (3) demonstrated measurable results, (4) project impact on the agency’s mission, and (5) degree in which the governance model is replicable to other organizations.

In 2003, the SEC took the initiative to enhance the EDGAR system further. As part of the Commission’s efforts to satisfy the requirements of the Sarbanes-Oxley Act, the agency developed a website that allows filers to submit ownership reports (Forms 3, 4, and 5) and financial certifications on-line. These steps have dramatically improved the access to ownership transactions data for investors around the world.

In addition, the Commission adopted rules to mandate the electronic filing of documents for all foreign issuers. The EDGAR system was enhanced to accept those filings and the hours of operation were extended to accommodate time zone differences for foreign issuers.

Information Technology

Document Management

The SEC conducted a requirements analysis for a new document management system, which will allow the electronic capture, search, and retrieval of investigative and examination materials. When completed, this project will have enormous benefits for the agency. The new system

would dramatically reduce the staff costs associated with managing, retrieving, and storing the millions of pages of documents we receive each year. In addition, the agency will enhance the disaster recovery and backup for enforcement and inspection files, the vulnerability of which was highlighted with the loss of the Northeast Regional Office in 2001.

Information Security and Disaster Recovery

The SEC continued to strengthen its information technology security program to comply with the Federal Information Security Management Act. In 2003, the Office of Information Technology (OIT) enhanced its intrusion detection capabilities, improved incident response practices, trained the staff on security awareness, and began certifying and accrediting all major SEC applications.

OIT also enhanced disaster recovery and Continuity of Operations Plan (COOP) efforts, completing the planning and initial acquisition phases for two critical projects. First, the Alternate Data Center will relocate the agency's backup computer facilities from downtown Washington, D.C. to a separate location outside the city. Second, the new point-to-point system will allow data communication between SEC offices to continue even if the Washington, D.C. facilities are not operational.

Enterprise Architecture and Business Process Review

As part of the SEC's review of its enterprise architecture, OIT conducted two critical analyses: a business function model linked to the Federal Business Model and an Information Resource Catalog that documents information on all applications. These exercises revealed that there has been considerable overlap in the information collected by the agency and uneven implementation of its tracking systems. To address

these issues, the staff began reviewing the SEC's filing and disclosure process, and will assess whether the agency gathers only the data necessary to perform its mission, collects the data in a useful format, and has the tools necessary to analyze the data.

Web-Based Technologies and Improved Access to Information

In 2003, OIT implemented several enhancements to the web-based Bluesheet System. The project streamlined the process for targeting, requesting, and analyzing securities transaction data from broker-dealers, thereby reducing the number of requests to which a broker-dealer must respond. OIT also began a project to enable the broker community to submit Bluesheet data directly to the Commission without going through a third party, improving the timeliness and integrity of the data and reducing firms' compliance costs. This system will be implemented in 2004.

OIT also began a requirements analysis for a new case management system. The new system will incorporate information automatically from other Commission documents, eliminate duplicative data entry, reduce system maintenance and operating costs, and streamline search and report capabilities.

Finally, OIT implemented the Enterprise Data Resource database structure. This project provided a unified framework for the SEC's enterprise data and applications, discouraging

“stovepipe” systems. Several key systems were enhanced through this effort.

Space and Facilities Management

In 2003, the SEC continued to manage the construction of the new headquarters building near Union Station. The first building is projected to be completed in fiscal 2005, with staff occupancy to begin in early to mid-2005.

In addition, OHRAS managed a variety of other space-related projects to accommodate the significant increase in our staff. The agency renegotiated leases for additional space for the Salt Lake District Office, the Philadelphia District Office, the Fort Worth District Office, the Central Regional Office, and the office at 901 E Street in Washington, D.C.

Physical Security and Disaster Recovery

This year, the SEC undertook several initiatives to enhance the security of the agency’s facilities. The agency upgraded the headquarters access control system, distributing identification and access cards to all employees nationwide

and linking the access control system to a national database. In addition, a new Visitor Control Center was created at our Washington, D.C. headquarters and new visitor control and screening procedures were instituted at all three Washington area locations, including the installation of new x-ray machines and magnetometers. Finally, the agency integrated new security plans into the design specifications for the new headquarters building near Union Station.

Another major focus for 2003 was disaster recovery. The SEC revised COOP plans and will participate in an interagency disaster simulation exercise run by the Department of Homeland Security and the Federal Emergency Management Agency, scheduled for May 2004. The agency made arrangements to shelter personnel at SEC facilities for a short period, with food and water supplies, in the case of a disaster that prevents staff from leaving work. The agency also purchased new emergency communications equipment that will help core staff continue operations for some time if the need arises.

Outlook for 2004

In 2004, the SEC expects to undertake the following initiatives:

- Proactively recruit, hire, and train qualified personnel to fill our remaining open positions.
- Develop a new risk assessment arm within the SEC that will identify and anticipate risks and market trends that threaten the agency’s ability to fulfill its mission.

- Complete an agency-wide effort to create a new results-oriented Commission strategic plan.
- Continue to manage the construction of the new headquarters building, ensuring its timely and quality completion.
- Complete preparations for audited financial statements, including generating quarterly financial statements, undergoing an audit of opening balances, and implementing any General Accounting Office recommendations, with the first Performance and Accountability Report scheduled to be issued in November 2004.
- Coordinate the PART review for two Commission programs: Full Disclosure and Prevention and Suppression of Fraud.
- Continue shaping a new document management system to capture, organize, analyze, search, and share large volumes of documents.
- Focus on the agency's information security, disaster recovery capabilities, and business continuity plans, finding better ways to protect mission-critical IT resources.
- Continue to integrate evolving systems into one agency-wide technical architecture, ensuring that new portals, web services, and data warehousing capabilities blend with the agency's other systems.