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OFFICE OF  
INSPECTOR GENERAL

GENERAL

U.S. SECURITIES AND

EXCHANGE COMMISSION



OFFICE OF INSPECTOR GENERAL  
**SEMIANNUAL REPORT TO CONGRESS**

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APRIL 1, 2013-SEPTEMBER 30, 2013



The mission of the Office of Inspector General (OIG) is to prevent and detect fraud, waste, and abuse and to promote the integrity, economy, efficiency, and effectiveness in the critical programs and operations of the United States (U.S.) Securities and Exchange Commission (SEC or agency). This mission is best achieved by having an effective, vigorous, and independent office of seasoned and talented professionals. Those individuals carry out the OIG's mission by performing these functions:

- conducting independent and objective audits, evaluations, inspections, investigations, and other reviews of SEC programs and operations;
- preventing and detecting fraud, waste, abuse, and mismanagement in SEC programs and operations;
- identifying vulnerabilities in SEC systems and operations and recommending constructive solutions;
- offering expert assistance to improve SEC programs and operations;
- communicating timely and useful information that facilitates management decisionmaking and the achievement of measurable gains; and
- keeping the Commission and Congress fully and currently informed of significant issues and developments.



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## MESSAGE FROM THE INSPECTOR GENERAL



I am pleased to present this Semiannual Report to Congress as Inspector General (IG) of the U.S. Securities and Exchange Commission (SEC or agency). This report describes the work of the SEC Office of Inspector General (OIG) from April 1, 2013, to September 30, 2013. It also reflects our dual responsibility to report independently to both the Commission and Congress. The audits, reviews, and investigations that we describe illustrate the OIG's efforts to promote the efficiency and effectiveness of the SEC.

This Semiannual Report covers my first full 6-month reporting period as the SEC IG since being sworn in on February 11, 2013. When I arrived, the SEC OIG had been operating with several staffing deficiencies. I am pleased to report that in the past 6 months we have hired two key senior leaders who have greatly improved the efficiency and effectiveness of the SEC OIG. We hired a Deputy IG who brings many years of knowledge of the SEC and the IG community, and we hired an Assistant Inspector General for Investigations with extensive experience as a criminal investigator and supervisor.

Nonetheless, the SEC OIG continues to face a shortage in both its audit and investigative staff and is currently operating at about 70 percent of its capacity. I will continue to focus on adding OIG staff

during the coming months to improve the OIG's audit and investigative capabilities. I am working closely with the SEC Office of Human Resources to fill critical positions as quickly as possible.

The OIG leadership team continues to review and strengthen our internal processes and procedures to ensure that we are an effective, responsive entity. To that end, we have recently issued revised policies and procedures for investigations, and we are working to implement new automated content management systems that will improve our efficiency and streamline our processes for both the Office of Audits and the Office of Investigations.

In July 2013, we issued an SEC administrative regulation entitled "Roles, Authority, and Respon-

sibilities of the Office of Inspector General.” This regulation outlines the roles, authorities, and responsibilities of the SEC OIG. It also describes the obligation of all SEC employees to cooperate fully with the OIG and ensure access to records and personnel that the OIG needs during its investigations, audits, evaluations, and other activities, as well as management’s role in commenting on and closing out recommendations made in OIG reports.

During the next semiannual reporting period, we intend to begin an outreach program to all SEC employees, including those in SEC regional offices. These outreach efforts will further enhance the SEC employees’ understanding of the role and function of the OIG and educate employees on the ethics requirements and their obligations to report waste, fraud, abuse, and corruption to the appropriate authorities.

Although the SEC OIG has faced challenges during this semiannual reporting period, the SEC OIG staff remains dedicated to promoting the efficiency and effectiveness of the SEC’s programs and operations. During the reporting period, the Office of Audits issued two reports that Congress had requested about the economic analyses that the SEC performs as part of its rulemaking processes. The reports contain seven recommendations that, if fully implemented, should strengthen the SEC’s economic analyses in support of its rulemakings. The Office of Audits and the Office of Investigations also worked with SEC management to close 62 recommendations made in OIG reports issued during this and previous semiannual reporting periods.

The SEC OIG Office of Investigations completed eight investigations during the reporting period about various topics, including the unauthorized disclosure of nonpublic information, financial conflicts of interest, and violations of the Privacy Act of 1974. Our investigative reports and memoranda resulted in five referrals to the agency for consideration of appropriate administrative action, as well as several specific recommendations for improvements in the agency’s policies and procedures.

In closing, I want to emphasize my firm commitment to executing the SEC OIG’s mission to promote the integrity, efficiency, and effectiveness of the programs and operations of the SEC and to reporting our findings and recommendations to the agency and Congress. The OIG will improve its efficiency and effectiveness by making organizational and procedural changes and by increasing its staffing resources. We will also continue to work collaboratively with SEC management to assist the agency in addressing the challenges it faces in its unique and important mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation.

I appreciate the significant support that the Office has received from Congress and the Commission. We look forward to continuing to work closely with the SEC Chair, Commissioners, and employees, as well as Congress, to increase efficiency and effectiveness in the SEC’s programs and operations.



Carl W. Hoecker  
*Inspector General*



## MANAGEMENT AND ADMINISTRATION

### AGENCY OVERVIEW

The SEC's mission is to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. The SEC strives to promote a market environment that is worthy of the public's trust and characterized by transparency and integrity. Its core values consist of integrity, accountability, effectiveness, teamwork, fairness, and commitment to excellence. The SEC's goals are to foster and enforce compliance with the Federal securities laws; establish an effective regulatory environment; facilitate access to the information investors need to make informed investment decisions; and enhance the SEC's performance through effective alignment and management of human resources, information, and financial capital.

SEC staff members monitor and regulate a securities industry comprising more than 25,000 market participants, including about 10,600 investment advisers, 9,700 mutual funds and exchange-traded funds, 4,600 broker-dealers, and approximately 460 transfer agents. The SEC also oversees 17 national securities exchanges, 7 active registered clearing agencies, and 10 nationally recognized statistical rating organizations (NRSROs), as well as the Public Company Accounting Oversight Board (PCAOB), the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB), the Securities Investor

Protection Corporation (SIPC), and the Financial Accounting Standards Board (FASB).

The SEC also reviews disclosures and financial statements of approximately 9,100 reporting companies. Recently, the agency's responsibilities have increased, with new or expanded jurisdiction over securities-based derivatives, hedge fund and other private fund advisers, credit rating agencies, municipal advisers, clearing agencies, and a new regime for crowdfunding offerings.

The SEC accomplishes its mission through 5 main divisions—Corporation Finance, Enforcement, Investment Management, Trading and Markets, and Economic and Risk Analysis—and 21 functional offices. The SEC's headquarters is in Washington, D.C., and there are 11 regional offices located throughout the country. As of the end of fiscal year (FY) 2013, the SEC employed 4,023 fulltime equivalent (FTE) employees, consisting of 3,903 permanent and 120 temporary FTE employees.

### OIG STAFFING

In May 2013, the Inspector General appointed the Deputy Inspector General, and in July 2013, the Inspector General appointed the Assistant Inspector General for Investigations. Their biographies are on the OIG's website at [http://www.sec.gov/about/oig/inspector\\_general\\_admin\\_bios.shtml](http://www.sec.gov/about/oig/inspector_general_admin_bios.shtml). Although the

OIG filled these key leadership roles, several audit and investigative staff positions are vacant. Filling those vacancies is a priority for the OIG.

### OIG OUTREACH

During the semiannual reporting period, the IG regularly met with the Chair, Commissioners, and SEC division and senior officers to foster open communication at all levels between the OIG and the agency. This effort ensures that the OIG is kept up to date on significant, current matters that are relevant to the OIG's work. This regular communication also allows the OIG and agency management to work cooperatively to identify the most important areas for the OIG's work, as well as the best means of addressing the results of that work. The OIG continually strives to keep apprised of changes to agency programs and operations and will keep SEC management informed of the OIG's activities and concerns raised in the course of its work.

In addition, the OIG developed and issued to all SEC staff an administrative regulation entitled, "Roles, Authority, and Responsibilities of the Office of Inspector General." This regulation sets forth in detail the roles, authority, and responsibilities of the SEC OIG, as well as the roles and responsibilities of all SEC employees regarding OIG investigations, audits, evaluations, and other activities. It describes employees' obligation to cooperate fully with the OIG and to disclose waste, fraud, abuse, and corruption to the appropriate authorities, including the OIG.

The OIG also intends to begin an outreach program to all SEC employees, including those in SEC regional offices. These outreach efforts will include integrity awareness briefings designed to enhance the SEC employees' understanding of the role and function of the OIG, as well as to educate employees on the applicable ethics requirements and their duty to report waste, fraud, abuse, and corruption to the appropriate authorities.



## CONGRESSIONAL REQUESTS AND BRIEFINGS

The OIG continued to keep Congress fully and currently informed of OIG activities through briefings, reports, meetings, and responses to Congressional inquiries. Throughout the semiannual reporting period, the Inspector General and OIG staff briefed Congressional staff and discussed with them OIG work and issues impacting the SEC.

In addition, on June 17, 2013, the U.S. House of Representatives Committee on Oversight and Government Reform asked the OIG for information on how many OIG recommendations were open and unimplemented, as well as any estimated cost savings associated with those recommendations. The

Committee also asked us to identify the three open and unimplemented recommendations that the SEC OIG considered to be the most important or urgent. In its June 28, 2013, response, the OIG provided the Committee with information on how many recommendations were open and unimplemented and also identified the three open and unimplemented recommendations that the OIG deemed to be the most important or urgent at that time. Two of the three recommendations were implemented and closed prior to the end of the reporting period. SEC management notified the OIG that it intends to implement the third recommendation during the first quarter of FY 2014.



# THE INSPECTOR GENERAL'S STATEMENT ON THE SEC'S MANAGEMENT AND PERFORMANCE CHALLENGES

The Reports Consolidation Act of 2000 requires the SEC OIG to identify and report annually on the most serious management challenges that the SEC faces. To identify management challenges, we routinely review past and ongoing audit, investigation, and evaluation work to identify material weaknesses, significant deficiencies, and vulnerabilities. We compiled this statement on the basis of the work that we completed over the past year; our knowledge of the SEC's programs and operations; and feedback from SEC staff and the U.S. Government Accountability Office (GAO) auditors who conduct the SEC's annual financial statement audit.

## INFORMATION SECURITY

Although the Office of Information Technology (OIT) has established policies for handling and safeguarding sensitive and nonpublic information and requires SEC employees, contractors, and interns

to complete annual security awareness training, information security<sup>1</sup> continues to be a management challenge at the SEC. Specifically, OIT's compliance with the Federal Information Security Management Act (FISMA) remains a management challenge this year because OIT has not fully addressed the findings and recommendations that were identified in the OIG's previously issued FISMA reports. For example, in the *2012 FISMA Executive Summary Report*, Report No. 512, issued March 29, 2013, the OIG found that OIT had not fully addressed three findings and six recommendations that were included in the *2011 FISMA Executive Summary Report*, Report No. 501, issued February 2, 2012. The OIG found that OIT had not fully implemented compliance scanning for network devices, multifactor authentication for the SEC's personal identity verification program, and baseline security controls that are tailored for specific information technology (IT) systems.

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1 The Federal Information Security Management Act (FISMA) provides that “[t]he term ‘information security’ means protecting information and information systems from unauthorized access, use, disclosure, disruption, modification, or destruction in order to provide—(A) integrity, which means guarding against improper information modification or destruction, and includes ensuring information nonrepudiation and authenticity; (B) confidentiality, which means preserving authorized restrictions on access and disclosure, including means for protecting personal privacy and proprietary information; and (C) availability, which means ensuring timely and reliable access to and use of information.” 44 U.S.C. § 3542(b)(1).

While the conditions found in the 2012 FISMA report could expose the SEC to threats should layered controls break down, OIT made progress this year in addressing the findings and recommendations that posed a greater risk to the SEC's IT environment. However, OIT has not fully addressed some outstanding significant findings and recommendations.

Information security is a particularly difficult management challenge because the SEC not only shares information internally among its divisions and offices, but also shares information externally with the regulated community and financial regulators. This sharing of external information is necessary to accomplish the SEC's mission of protecting investors and maintaining fair, orderly, and efficient markets that facilitate capital formation. We will continue to review OIT's security controls over the SEC's information systems during the upcoming annual FISMA assessment. We will also continue to review the SEC's handling of sensitive, nonpublic information.

## PROCUREMENT AND CONTRACTING

Since we first identified the SEC's process for procurement and contracting as a management challenge in FY 2008, the Office of Acquisitions (OA) has improved its internal controls in this area. Most recently, in July 2013, OA published a revised administrative regulation and operating procedure on the management and administration of service contracts. The revised regulation provides direction for the avoidance of contracting for inherently governmental functions or personal services, as well as appropriate management procedures for acquiring and managing functions closely associated with inherently governmental functions and critical functions. The operating procedure is designed to assist the SEC in addressing service contracts and personal

services and to avoid the contracting out of inherently governmental functions.

Despite those improvements, the OIG has found that the SEC's monitoring of its contracts is a continuing challenge. Specifically, the OIG has obtained information indicating that there may be insufficient controls over the tracking of funds or the approval of invoices for certain contracts and/or interagency agreements, as well as inconsistencies between the nature of the services provided and the requirements of the applicable task order. We are planning audit work in this area and will continue to monitor it closely.

## FINANCIAL MANAGEMENT

The GAO's audit of the SEC's FY 2012 financial statements<sup>2</sup> found that the SEC's financial statements were fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. That audit also found that, although internal controls could be improved, the SEC maintained, in all material respects, effective internal controls over financial reporting. However, the GAO identified significant deficiencies in accounting for budgetary resources and property and equipment. The GAO found that these deficiencies are related, in part, to the SEC's transition of its core financial system to the Department of Transportation's Enterprise Service Center Federal Shared Service Provider (FSSP).

In FY 2012, the OIG identified the inherent risks that are associated with transitioning to a new financial system as a management challenge. In its management report to the SEC issued in April 2013, the GAO noted the following:

[I]n April 2012, SEC migrated its core financial system operations to a shared service provider.

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2 GAO's FY 2012 financial statement audit included SEC's general purpose and Investor Protection Fund (IPF) financial statements.

... [W]e identified new control deficiencies during our fiscal year 2012 audit related to SEC's monitoring controls over the service provider's core financial system operations, including those related to budgetary accounting and reporting activities.<sup>3</sup>

Further, the GAO stated that the "SEC did not develop monitoring procedures over property and equipment transactions recorded by its service provider at the time of its transition to the FSSP's general ledger system."<sup>4</sup> We will continue to monitor the SEC's use of the FSSP.

### HUMAN CAPITAL MANAGEMENT

Section 962 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) required the GAO to report on the SEC's personnel management. In its report issued in July 2013, the GAO concluded the following:

Based on analysis of views from Securities and Exchange Commission (SEC) employees and previous studies from GAO, SEC, and third parties, GAO determined that SEC's organizational culture is not constructive and could hinder its ability to effectively fulfill its mission. Organizations with constructive cultures are more effective and employees also exhibit a stronger commitment to mission focus. In

describing SEC's culture, many current and former SEC employees cited low morale, distrust of management, and the compartmentalized, hierarchical, and risk-averse nature of the organization. According to an Office of Personnel Management (OPM) survey of federal employees, SEC currently ranks 19 of 22 similarly sized federal agencies based on employee satisfaction and commitment. GAO's past work on managing for results indicates that an effective personnel management system will be critical for transforming SEC's organizational culture.<sup>5</sup>

One key area that the GAO report highlighted as needing improvement was workforce planning. The GAO noted that the "SEC has not yet developed a comprehensive workforce plan" and, as a result, "will not be able to make well-informed decisions on how to best meet current and future agency needs."<sup>6</sup> The GAO further found that while the SEC has made efforts to improve communication and collaboration, it "has not yet fully addressed barriers."<sup>7</sup> The SEC has recently launched the SEC Local Labor Management Forum under Executive Order 13522, *Creating Labor-Management Forums to Improve Delivery of Government Services*, to foster a cooperative and productive form of labor-management relations. The OIG will continue to review the progress of this and other efforts to improve the SEC's management of human capital.

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3 GAO-13-274R, *Management Report: Improvements Needed in SEC's Internal Controls and Accounting Procedures*, April 4, 2013, p. 3 (footnote omitted).

4 *Id.*, p. 7.

5 GAO-13-621, *Securities and Exchange Commission: Improving Personnel Management Is Critical for Agency's Effectiveness*, July 2013.

6 *Id.*

7 *Id.*





## COORDINATION WITH OTHER OFFICES OF INSPECTOR GENERAL

During this semiannual reporting period, the SEC OIG coordinated its activities with those of other OIGs, as required by Section 4(a)(4) of the Inspector General Act of 1978, as amended. Specifically, the OIG participated in the meetings and activities of the Council of Inspectors General on Financial Oversight (CIGFO), which was established by the Dodd-Frank Act.

The chairman of CIGFO is the IG of the Department of Treasury. Other members of the Council are the Inspectors General of the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission, the Department of Housing and Urban Development, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Credit Union Administration, and the SEC, and the Special Inspector General for the Troubled Asset Relief Program. Under the Dodd-Frank Act, CIGFO is required to meet at least quarterly to facilitate the sharing of information. Those meetings focus on issues applicable to the broader financial sector and ways to improve financial oversight.

In addition, the IG attended meetings of the Council of the Inspectors General on Integrity and Efficiency (CIGIE) and served as the Chairman of the CIGIE Investigations Committee. The mission of the Investigations Committee is to advise the Inspector

General community on issues involving criminal investigations and criminal investigations personnel and establish criminal investigative guidelines. The Investigations Committee revised, and issued in June 2013, the CIGIE *Guidelines on Undercover Operations*.

Moreover, the Counsel to the IG participated in the activities of the Council of Counsels to the Inspectors General. The Council is an informal organization of OIG attorneys, throughout the Federal government, who meet monthly and coordinate and share information.

The OIG Office of Audits also participated in various CIGIE activities. For example, a representative of the Office of Audits was a member of a working group that is revising the *Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General*. The Office of Audits also worked on the curriculum review conference for the CIGIE introductory auditor training program. In addition, the Office of Audits participated in the CIGIE Federal Audit Executive Council's Audit Policies and Practices Committee.

Finally, in the semiannual reporting period, OIG staff assisted another OIG in comparing its business practices and performance metrics to those of other OIGs (i.e., “benchmarking”), in coordination

with CIGIE, in two areas: 1) measuring savings and return on investment of inspections, evaluations, and performance audits; and 2) developing an OIG outreach program at multiple agency levels to provide information about the results of OIG activities and to solicit input for future OIG projects. To support these benchmarking efforts, the SEC OIG shared information on various OIG outreach

efforts: 1) the IG's presentation at an SEC town hall meeting; 2) the OIG FY 2014 audit planning process (which included meetings with almost all of the SEC divisions and offices); 3) publication of a new OIG regulation, for which the OIG provided staff with an email address for submitting questions about the regulation; and 4) planned integrity awareness briefings in SEC regional offices.



## AUDITS AND EVALUATIONS

### OVERVIEW

The Inspector General Act of 1978, as amended, requires OIGs to conduct and supervise independent audits and evaluations of their agencies' programs, operations, and activities. The SEC Office of Audits focuses on conducting, coordinating, and supervising independent audits and evaluations of the SEC's internal programs and operations at its headquarters and 11 regional offices. The Office of Audits also hires, as needed, contractors and subject matter experts, who provide technical expertise in specific areas, to perform work on behalf of the OIG. In addition, the Office of Audits monitors the SEC's progress in taking corrective actions on recommendations in OIG audit and evaluation reports.

Each year, the Office of Audits prepares an annual audit plan. The plan includes work that the Office selects for audit or evaluation on the basis of risk and materiality, known or perceived vulnerabilities and inefficiencies, resource availability, and information received from Congress, internal SEC staff, the GAO, and the public.

The Office conducts its audits in compliance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. OIG evaluations follow applicable CIGIE Quality Standards for Inspections and Evaluations and GAGAS standards.

The primary purpose of an audit or evaluation is to review the agency's past operations and performance to determine compliance with applicable laws, rules, and regulations. At the completion of an audit or evaluation, the OIG issues an independent report in which it identifies any deficiencies and makes recommendations to correct those deficiencies or increase efficiencies in an SEC program.

### AUDITS AND EVALUATIONS CONDUCTED

#### Implementation of the Current Guidance on Economic Analysis in SEC Rulemakings (Report No. 516)

In March 2012, the SEC issued guidance for staff to follow in conducting economic analysis in agency rulemaking that contained both substantive and process requirements (referred to as the "Current Guidance"). Beginning in December 2012, in response to a Congressional request, the OIG evaluated the SEC's implementation of the Current Guidance. In response to that Congressional request, the SEC OIG examined whether the SEC had 1) used the Current Guidance since its issuance in March 2012 to develop economic analyses in its rulemakings; 2) developed procedures to implement the Current Guidance; 3) improved its process for economic analysis; and 4) incorporated comments from the OIG and others in the Current Guidance.

The OIG issued the final report on June 6, 2013. In that report, the OIG found that the SEC had used the Current Guidance since its issuance in March 2012 to develop economic analyses for rulemakings. However, the OIG determined that the SEC had not issued written operating procedures implementing that Guidance. The OIG also found that the SEC has taken steps to improve its process for economic analysis by requiring the participation of specially qualified SEC economists in economic analysis and the development of a formal review and concurrence process for economic analysis. Finally, we found that the SEC had incorporated, into its Current Guidance, recommendations that it had received from the SEC OIG's followup review of Dodd-Frank rulemaking, a GAO report on Dodd-Frank rulemaking, and a U.S. Court of Appeals opinion that vacated an SEC rule.

In its report, the OIG made one recommendation—that the SEC issue written operating procedures for its economic analysis process implementing the Current Guidance. The intent of the recommendation was to strengthen that process. Management agreed to implement the recommendation, and the SEC Chair has issued written “Operating Procedures for Economic Analysis to Implement the Current Guidance.” As a result, the recommendation has been closed. The OIG's report is available on its website at <http://www.sec-oig.gov/Reports/Audits/Inspections/2013/516.pdf>.

### Use of the Current Guidance on Economic Analysis in SEC Rulemakings (Report No. 518)

In response to the Congressional request discussed in the Report No. 516 summary above, the OIG contracted the services of HDR Engineering, Inc., to conduct a more extensive evaluation of the SEC's use of the Current Guidance in its rulemakings.

The evaluation focused on whether economic analyses in SEC rulemakings complied with the principles and policies of the Current Guidance. While the Current Guidance sets forth certain requirements

for economic analysis, it also acknowledges the need for flexibility in the context of particular rulemakings. We found that the SEC rules in our sample followed the spirit and intent of the Current Guidance.

All of the rules that we evaluated met two of the four substantive requirements specified in the Current Guidance—identifying a justification for the rule and considering alternatives to the rule—and the one process requirement for integrating economic analyses into SEC rulemakings. Further, we found no notable differences in economic methodologies in support of rulemakings across rulemaking divisions.

As to the other two substantive requirements in the Current Guidance, we determined that some rules could have better clarified and specified the baselines in the economic analysis section of the rule releases and that some descriptions of baseline conditions did not specifically address the state of efficiency, competition, and capital formation. In addition, we found that only 1 of the 12 rules in our sample included a quantification of benefits of the regulatory action. Moreover, where the rulewriting team determined that the quantification of certain costs or benefits was not practicable, the reasons for that determination were not always fully documented in the release text.

We also found that 1) the Financial Industry Regulatory Authority, other self-regulatory organizations under the SEC's jurisdiction, and the Public Company Accounting Oversight Board are not required to follow the SEC's Current Guidance in their rulemakings; and 2) it would be beneficial for the SEC to explore estimation methodologies and practices that other Federal administrative agencies use in their rulemakings.

The OIG issued the final report on June 6, 2013, and made six recommendations intended to strengthen the SEC's economic analysis process. For example, we recommended that, in consultation with the SEC rulemaking divisions and offices, the Division of Risk, Strategy, and Financial Innovation (now

called the Division of Economic and Risk Analysis) develop a general outline for economic analysis sections in rule releases. We also recommended that the Division consider whether to create a management control, such as a guide, to achieve greater consistency in presentation of economic analyses.

SEC management agreed to implement all of the report's recommendations and was in the process of doing so at the end of the semiannual reporting period. The OIG's report is available on its website at <http://www.sec-oig.gov/Reports/Audits/Inspections/2013/518.pdf>.

## PENDING AUDITS AND EVALUATIONS

### Review of the SEC's 2013 Federal Information Security Management Act (FISMA) Requirements

FISMA requires each Federal agency to develop, document, and implement an agencywide program that provides security for the information and information systems supporting the operations and assets of the agency. FISMA further requires the agency's inspector general to independently evaluate and report annually on how the agency's chief information officer, senior agency official for privacy, and program officials implement the agency's information security program.

The OIG hired a contractor, Networking Institute of Technology, Inc. (NIT), which has information technology expertise, to conduct the OIG's FY 2013 FISMA review of the SEC's information security program. NIT will evaluate and report to us on the following aspects of the SEC's security program: continuous monitoring; configuration management; identity and access management; incident response and reporting; risk management; security training; plan of action and milestones process; remote access management; contractor systems; and security capital planning.

On the basis of NIT's recommendations, we will respond to the standardized questions, which all executive agencies are required to answer, that are contained in "FY 2013 Inspector General Federal Information Security Management Act Reporting Metrics." The contractor will summarize its recommendations and findings in a report, which we will issue before the end of the next semiannual reporting period.

### Audit of Government Purchase Card and Convenience Check Operations and Practices at the SEC

On October 5, 2012, President Obama signed Public Law 112-194, *Government Charge Card Abuse Prevention Act of 2012* (the Act). The Act requires heads of executive agencies that issue and use purchase cards and convenience checks to establish and maintain safeguards and internal controls over their usage. The Act also requires the inspector general of each executive agency to conduct periodic assessments to identify and analyze the risks of illegal, improper, or erroneous uses of purchase cards or convenience checks and to perform analysis or audits of purchase card transactions, as necessary.

The OIG is conducting an audit of the SEC's government purchase card and convenience check operations and practices. The objectives of the audit are to:

- determine whether the SEC's purchase card and convenience check programs operate effectively and are properly managed in compliance with governing laws and regulations and agency policy; and
- assess whether the SEC's purchase card and convenience check programs' internal controls have been adequately designed, appropriately implemented, and are operating effectively to detect misuse, fraud, waste, or abuse by cardholders or others who attempt to manipulate the programs.

The OIG will also determine whether the SEC has best practices for its purchase card program and

whether there are areas that need improvement. We expect to issue a final report in the next semiannual reporting period.

### Assessment of the SEC's Physical Security Program

In 2012, the OIG Office of Investigations completed an investigation of security violations at an SEC facility. The Office of Investigations referred the matter to the Office of Audits, for consideration of appropriate audit work, on the basis of deficiencies that it had identified in the physical security of SEC facilities.

The OIG has hired a contractor to assess the SEC Office of Support Operations (OSO) physical security program's controls to safeguard SEC personnel and property. Specifically, the assessment will examine 1) the OSO's compliance with governing physical security Federal laws and regulations and applicable SEC policy and procedures; 2) the effectiveness of physical security policies and procedures; and 3) the adequacy of preventive internal control procedures and practices to oversee physical security at SEC facilities. The contractor will summarize its findings in a report, which the OIG will issue, on completion of the assessment.

### Assessment of the Sanitization of the SEC's Information System Media

The National Institute of Standards and Technology (NIST) issued guidelines (NIST Special Publication 800-88, *Guidelines for Media Sanitization*, September 2006) that instruct agencies to properly sanitize digital and nondigital information system media, such as diskettes, magnetic tapes, external/internal hard drives, flash/thumb drives, optical disks, paper/microfilm, servers, routers, and switches containing sensitive data before the items leave the agency's control.

The OIG hired a contractor to evaluate the SEC's controls for sanitization of information system media before the media leaves the SEC's control. The contractor will examine whether the SEC has effective policies and practices to ensure that informa-

tion system media, when it leaves the SEC's control, has been properly sanitized of 1) sensitive/nonpublic information, 2) controlled unclassified information, and 3) personally identifiable information; or, that the information media has been properly disposed of, if it cannot be sanitized. The objectives of the evaluation are to examine whether the SEC:

- adheres to its governing policies and procedures and Federal standards and policies for the sanitization of information system media and portable and removable storage devices that are used on SEC's network;
- ensures that sensitive/nonpublic information or personally identifiable information data is removed from information system media devices that are no longer being used; and
- has internal controls and testing methods for the sanitization of information system media that are effective in minimizing the risk that sensitive/nonpublic information or personally identifiable information is not unintentionally retained on information system media that are no longer being used.

After completing its assessment, the contractor will summarize its findings in a report, which the OIG will issue.

### Assessment of the SEC's Hiring and Promotion Practices for Senior Level Staff

The OIG is conducting an audit of the SEC's practices for hiring senior level officials. We have completed our fieldwork and are drafting the audit report. The audit examines whether the SEC Office of Human Resources (OHR) adheres to applicable Federal statutes and regulations and has adequate policies and procedures for filling senior level vacancies. The audit is also reviewing whether OHR communicates its hiring authority, decisions, and changes to the appropriate personnel and takes appropriate action on any improper hirings or promotions.

We expect to issue a final report during the next semiannual reporting period.



## INVESTIGATIONS

### OVERVIEW

The Inspector General Act of 1978, as amended, requires OIGs to conduct independent investigations of potential misconduct involving their agencies' programs, operations, and activities. The SEC Office of Investigations focuses on investigating allegations of wrongdoing related to the SEC's programs and operations and may address administrative, civil, and criminal violations of laws and regulations. The subject of an OIG investigation can be any agency employee, contractor, or consultant, or any person or entity involved in alleged wrongdoing affecting the SEC's programs and operations.

If an investigation reveals evidence of criminal activity, the Office of Investigations refers the matter to the Department of Justice for possible prosecution or recovery of monetary damages and penalties. If the Office of Investigations finds evidence of misconduct, it forwards a report of investigation to the appropriate management officials for consideration of disciplinary or remedial action.

The Office of Investigations adheres to the Council of the Inspectors General on Integrity and Efficiency's Quality Standards for Investigations and applicable guidelines issued by the U.S. Attorney General.

The Office of Investigations manages the OIG Hotline, which is available 24 hours a day, 7 days a week,

to receive and process tips and complaints about fraud, waste, or abuse related to SEC programs and operations. The Hotline allows individuals to report their allegations to the OIG directly and confidentially.

### INVESTIGATIONS CONDUCTED

#### Investigation of Contract and Ethics Violations (Report No. OIG-576)

The OIG investigated allegations that a former SEC headquarters manager authorized a contract with a technology company to provide certain services at SEC Headquarters by individuals with whom the manager was affiliated in a personal capacity, even though the SEC had an existing contract with another entity to provide these types of services.

The OIG found evidence that the former manager had failed to disclose to the contracting officer that he had personal affiliations with the individuals to be employed under the contract and that the manager had provided a list of individuals for the technology company to hire. Although the awarded contract included several option years and was for a maximum award amount of \$3.5 million, the SEC canceled the contract after only approximately \$5,800 was billed because the employment at SEC facilities of the individuals hired under the contract violated a policy of their primary employer, which is an entity other than the technology company.

The former manager resigned before the OIG's investigation was completed, and the United States Attorney's Office declined prosecution of the matter. Therefore, the OIG determined that no further investigative action was warranted and closed the matter.

#### **Alleged Prohibited Personnel Practices and Improper Telework Arrangements (Case No. OIG-583)**

The OIG investigated a complaint of improper practices by certain former managers at SEC headquarters, including a promotion process that allegedly violated the merit systems principles and the alleged use of improper telework arrangements. Specifically, the complaint alleged that former OHR managers 1) developed, approved, and used vacancy announcements to facilitate the improper promotions of two headquarters' employees who each had arrangements to telework from distant locations 5 days per week; and 2) permitted those employees to telework 100 percent from remote locations while collecting geographic locality pay that was not aligned with their actual physical locations or residences.

The OIG investigation did not substantiate a violation of the merit system principles or instances of prohibited personnel practices by former management in the promotion of either employee. Additionally, the OIG found that the 5-day, long-distance telework arrangements—such as those in question—were permissible under relevant SEC policies and procedures. However, the OIG found that one teleworking employee's official duty station was determined improperly and that, as a result, the employee had been paid incorrectly. During the prior semiannual reporting period, the OIG had issued an investigative memorandum to management (IM-13-0001) to address that issue, as well as a similar issue identified in another investigation. That memorandum is available on the OIG website at [http://www.sec-oig.gov/Reports/OOI/2013/IM-13-001\(Long-Distance-Telework\).pdf](http://www.sec-oig.gov/Reports/OOI/2013/IM-13-001(Long-Distance-Telework).pdf).

#### **Allegations of Prohibited Personnel Practices (Report No. OIG-586)**

The OIG investigated allegations that certain SEC senior officers had violated the merit system principles and committed prohibited personnel practices by hiring former colleagues to work at the SEC.

During its investigation, the OIG did not identify evidence of any intent to provide an improper advantage or preference in hiring. However, the OIG found that language in some of the SEC documents that one of the senior officers had prepared and used for hiring was similar to language in materials that the senior officer had received from her former colleagues who ultimately applied for and obtained the positions. The OIG referred its report to management for consideration of administrative action.

#### **Allegations of False Statements (Report No. OIG-587)**

The OIG investigated allegations that a former SEC Chairman provided inaccurate testimony during a hearing before a Congressional subcommittee in July 2011.

The OIG did not identify evidence that the Chairman's testimony was intentionally inaccurate. The OIG found that the contemporaneous documentation (i.e., written record of events as they occurred) and recollections of the witnesses were generally consistent with the former Chairman's testimony. The U.S. Attorney's Office declined prosecution of the matter. Therefore, the OIG concluded its investigation.

#### **Allegations of Privacy Act Violations (Report No. OIG-588)**

The OIG investigated allegations that a former SEC employee had violated the Privacy Act of 1974 by disclosing certain SEC employees' personally identifiable information (PII). The OIG conducted this investigation jointly with the OIG for the U.S. Agency for International Development (USAID).



The USAID OIG had notified the SEC OIG that the former SEC employee, who was working for a Federal agency under the USAID OIG's oversight, had uploaded files that contained SEC employees' PII to his new agency's computer system.

The OIG did not identify any information that would support a criminal violation of the Privacy Act, and the U.S. Attorney's Office declined prosecution of the case. The former SEC employee admitted that he took the files from the SEC's computer system but stated that he did not intend to take PII and was not aware that the data he took from the SEC contained PII. The OIG also did not identify any information showing that the SEC PII was made public or circulated beyond the former SEC employee's personal thumb drive and current Federal employer's computer network.

The OIG reported the findings of the joint investigation to SEC management on April 30, 2013. On July 8, 2013, the SEC Chief Information Officer notified possibly affected individuals of the potential data breach but also informed them that it did not appear that any third party had inappropriately accessed their PII.

#### Alleged Leak of Information Contained in an OIG Report (Case No. OIG-590)

The OIG investigated an alleged leak of information contained in a report of investigation that the OIG previously issued to the SEC about the mismanagement of a computer security lab in the SEC Division of Trading and Markets. Specifically, articles published by a third-party media outlet discussed information that SEC management considered to be nonpublic and that SEC management previously had redacted from the version of the investigative report that was made available outside the SEC.

The OIG found that the articles published by the media outlet contained information that had been redacted from the OIG's report and was not publicly available. However, on the basis of the OIG's review

of emails and interviews of SEC staff, the OIG did not identify the individual who had provided the information to the media outlet. On July 15, 2013, the OIG issued an investigative memorandum to management (IM-13-0002) to address the unauthorized disclosure of nonpublic information and then concluded this investigation. That memorandum, which made four recommendations for improvements in controls relating to nonpublic and sensitive information, is available on the OIG website at [http://www.sec-oig.gov/Reports/OOI/2013/IM-13-002\(Disclosure\\_of\\_Nonpublic\\_Information\).pdf](http://www.sec-oig.gov/Reports/OOI/2013/IM-13-002(Disclosure_of_Nonpublic_Information).pdf).

#### Violations of SEC Ethics Rules (Report No. OIG-594)

The OIG investigated the failure of an SEC Senior Officer (SO) to report, on financial disclosure statements, the securities holdings of the SO's spouse and to comply with the SEC's supplemental ethics rules about employee financial transactions. The SEC Ethics Counsel had referred this matter to the OIG.

Through its investigation, the OIG found evidence that the SO had not complied with various provisions of the SEC's Supplemental Ethics Rules because, for example, 1) the SO's spouse held a security interest ("imputed" to the SO by virtue of their marriage) in entities directly regulated by the SEC; 2) the SO did not preclear, report, or certify the vast majority of the spouse's financial holdings; and 3) the SO did not report all assets required to be disclosed on the financial disclosure forms. The OIG also identified evidence that the SO had worked on one matter that involved former employees of a company in which the SO's spouse owned stock. Further, the OIG found that the SO had disclosed nonpublic information to the SO's spouse.

The United States Attorney's Office declined prosecution of the matter and, on September 3, 2013, the OIG reported the findings of its investigation to SEC management. Management's decision on administrative action was pending at the end of the semiannual reporting period.

# REVIEW OF LEGISLATION AND REGULATIONS

During this semiannual reporting period, the OIG reviewed and monitored the following legislation:

- P.L. 113-6** Consolidated and Further Continuing Appropriations Act, 2013,  
Section 3003 (enacted March 26, 2013)
- P.L. 112-194** Government Charge Card Abuse Prevention Act of 2012  
(enacted October 5, 2012)
- P.L. 112-199** Whistleblower Protection Enhancement Act of 2012  
(enacted November 27, 2012)
- P.L. 112-239** National Defense Authorization Act for Fiscal Year 2013  
(enacted January 3, 2013)

## MANAGEMENT DECISIONS

### Status of Recommendations with No Management Decisions

Management decisions have been made on all audit reports issued before the beginning of this reporting period.

### Revised Management Decisions

No management decisions were revised during the period.

### Agreement with Significant Management Decisions

The OIG agrees with all significant management decisions regarding audit recommendations.

### Instances Where the Agency Refused or Failed to Provide Information to the OIG

During this reporting period, there were no instances where the agency unreasonably refused or failed to provide information to the OIG.

# TABLES

Table 1. List of Reports: Audit and Evaluations

Report Number	Title	Date Issued
516	Implementation of the Current Guidance on Economic Analysis in SEC Rulemakings	6/6/2013
518	Use of the Current Guidance on Economic Analysis in SEC Rulemakings	6/6/2013
520	Library of Congress Office of Inspector General System Review Report	9/3/2013

Table 2. Reports Issued with Costs Questioned or Funds Put to Better Use (Including Disallowed Costs)

	No. of Reports	Value
A. Reports issued prior to this period		
For which no management decision had been made on any issue at the commencement of the reporting period	0	\$0
For which some decisions had been made on some issues at the commencement of the reporting period	0	\$0
B. Reports issued during this period	0	\$0
<b>Total of Categories A and B</b>	0	\$0
C. For which final management decisions were made during this period	0	\$0
D. For which no management decisions were made during this period	0	\$0
E. For which management decisions were made on some issues during this period	0	\$0
<b>Total of Categories C, D, and E</b>	0	\$0

**Table 3. Reports with Recommendations on which Corrective Action Has Not Been Completed**

During this semiannual reporting period, SEC management provided the OIG with documentation to support their implementation of OIG recommendations. In response, the OIG closed 62 recommendations related to 20 Office of Audits and Office of Investigations reports. The following table lists recommendations open 180 days or more.

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
485 - Assessment of the SEC's Privacy Program	8	9/29/2010	Implement an agency-wide policy regarding shared folder structure and access rights, ensuring that only the employees involved with a particular case have access to that data. If an employee backs up additional information to the shared resources, only the employee and his or her supervisor should have access.
489 - 2010 Annual FISMA Executive Summary Report	5	3/3/2011	Complete a logical access integration of the Homeland Security Presidential Directive 12 card no later than December 2011, as reported to the Office of Management and Budget on December 31, 2010.
492 - Audit of SEC's Employee Recognition Program and Recruitment, Relocation, and Retention Incentives	7b	8/2/2011	Develop and implement a mechanism to reward employees for superior or meritorious performance within their job responsibilities through lump-sum performance awards.
497 - Assessment of SEC's Continuous Monitoring Program	4	8/11/2011	Ensure that security controls configurations that are applied in the production environment are identical with those applied in the testing environment.
497 - continued	5	8/11/2011	Develop and implement written procedures to ensure consistency in the Commission's production and testing environments. These procedures should detail the software and hardware components in both environments and specify the actions required to maintain consistent environments.
501 - 2011 Annual FISMA Executive Summary Report	1	2/2/2012	Develop and implement a detailed plan to review and update OIT security policies and procedures and to create OIT security policies and procedures for areas that lack formal policy and procedures.
501 - continued	7	2/2/2012	Tailor a baseline security controls set (with rationale) for applicable systems in accordance with the guidance in National Institute of Standards and Technology (NIST), <i>Guide for Applying the Risk Management Framework to Federal Information Systems: A Security Life Cycle Approach</i> , and NIST, <i>Recommended Security Controls for Federal Information Systems and Organizations</i> .
501 - continued	10	2/2/2012	Conduct compliance scans of information technology (IT) devices, according to the organizationally defined frequency in the policy and procedures, to ensure that all devices are configured as required by the Office of Information Technology's configuration management policy and procedures.

Table 3. Reports with Recommendations, continued

Recommendations Open 180 days or more

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
501 - continued	13	2/2/2012	Complete the implementation of the technical solution for linking multi-factor authentication to Personal Identity Verification cards for system authentication and require use of the cards as a second authentication factor by December 2012.
509 - SEC's Controls Over Sensitive/ Nonpublic Information Collected and Exchanged with the Financial Stability Oversight Council and Office of Financial Research	3	3/25/2013	Ensure a system or protocols are developed to identify and track all sensitive and nonpublic information provided to, or received from, the Financial Stability Oversight Council (FSOC), the Office of Financial Research, or FSOC's member agencies. This system should track information owner's name, date information is received/sent, who the information is sent to/received from, and media used (e.g., CDs, thumb drives, etc.).
509 - continued	4	3/25/2013	Ensure documented procedures are developed to ensure that individuals who serve as information owners for sensitive and nonpublic information provided to, or received from, the Financial Stability Oversight Council (FSOC), the Office of Financial Research or FSOC member agencies, properly mark the documents (or files containing documents) according to the sensitivity level.
512 - 2012 FISMA Executive Summary Report	1	3/29/2013	Revise IT security assessment procedures to ensure they are consistent with current practices and include verbiage to implement continuous monitoring and requirements for ongoing assessment of a subset of critical security controls.
512 - continued	2	3/29/2013	Develop and implement a continuous monitoring strategy in accordance with NIST Special Publication 800-137, <i>Information Security Continuous Monitoring for Federal Information Systems and Organizations</i> and NIST Special Publication 800-37, Revision 1, <i>Guide for Applying Risk Management Framework to Federal Information Systems: A Security Life Cycle Approach</i> .
512 - continued	3	3/29/2013	Continue to implement the existing project for the development and implementation of a comprehensive risk management strategy in accordance with NIST Special Publication 800-37, Revision 1, <i>Guide for Applying Risk Management Framework to Federal Information Systems: A Security Life Cycle Approach</i> , addressing risk at the organization level, the mission and business process level and the information system level.

Table 3. Reports with Recommendations, continued

Recommendations Open 180 days or more

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
512 - continued	4	3/29/2013	Ensure the Office of Risk Management coordinates with the Office of Information Technology to provide training to management throughout the Commission and educate staff on their roles and responsibilities related to operating in a three-tiered risk management framework.
512 - continued	7	3/29/2013	Review and update the existing IT security awareness training program to a) include specific role-based training based on the duties and responsibilities for staff with information security roles; and b) track the progress and completion of IT staff's role-based training.
512 - continued	8	3/29/2013	Review all Plan of Action and Milestones (POA&M) and update the POA&M tracking system to include future remediation dates and ensure POA&Ms are closed or mitigated to an acceptable level.
514 - Audit of the SEC's Filing Fees Program	4	3/29/2013	Complete review of non-dormant registrant accounts on the basis of the cost-benefit analysis the Office of Financial Management devised.
515 - Review of the SEC's Systems Certification and Accreditation Process	2	3/27/2013	Determine whether the Commission has certification and accreditation files that are stored on its contractor's off-site servers and, in the future, require contractor to maintain all Commission files on servers the Commission owns and manages.
PI-09-05 - SEC Access Card Readers in Regional Offices	1	2/22/2010	Ensure, on a Commission-wide basis, that all regional offices are capable of capturing and recording building entry and exit information of Commission employees.
ROI-551 - Allegations of Unauthorized Disclosures of Nonpublic Information During SEC Investigations	1	3/30/2011	Employ technology that will enable the agency to maintain records of phone calls made from and received by SEC telephones.
IM-13-101 - Long-Distance Telework Agreements	1	3/25/2013	Institute effective written policies and procedures to ensure that bargaining unit and non-bargaining unit employees who participate in full-time, long distance telework are paid properly and in a consistent manner.
IM-13-101 - continued	2	3/25/2013	Review the telework arrangements for all employees who participate in full-time, long-distance telework and make changes as necessary to ensure that the official duty station and locality pay are set appropriately and consistently for those employees.

**Table 4. Summary of Investigative Activity**

Cases	Number
Cases Open as of 3/31/2013	13
Cases Opened during 4/1/2013 - 9/30/2013	12
Cases Closed during 4/1/2013 - 9/30/2013	8
Total Open Cases as of 9/30/2013	17
Referrals to Department of Justice for Prosecution	8
Prosecutions	0
Convictions	0
Referrals to OIG Office of Audits	1
Referrals to Agency for Administrative Action	4
Preliminary Inquiries	Number
Inquiries Open as of 3/31/2013	26
Inquiries Opened during 4/1/2013 - 9/30/2013	25
Inquiries Closed during 4/1/2013 - 9/30/2013	23
Total Open Inquiries as of 9/30/2013	28
Referrals to OIG Office of Audits	2
Referrals to Agency for Administrative Action	1
Disciplinary Actions (including referrals made in prior periods)	Number
Removals (Including Resignations and Retirements)	2
Suspensions	0
Reprimands	0
Warnings/Other Actions	1

**Table 5. Summary of Complaint Activity**

Complaints Received During the Period	Number
Complaints Pending Disposition at Beginning of Period	17
Hotline Complaints Received	183
Other Complaints Received	122
Total Complaints Received	305
Complaints on which a Decision was Made	317
Complaints Awaiting Disposition at End of Period	5
Dispositions of Complaints During the Period	Number
Complaints Resulting in Investigations	8
Complaints Resulting in Inquiries	21
Complaints Referred to OIG Office of Audits	2
Complaints Referred to Other Agency Components	146
Complaints Referred to Other Agencies	3
Complaints Included in Ongoing Investigations or Inquiries	17
Response Sent/Additional Information Requested	64
No Action Needed	56

Table 6. References to Reporting Requirements of the Inspector General Act

Section	Inspector General Act Reporting Requirement	Pages
4(a)(2)	Review of Legislation and Regulations	18
5(a)(1)	Significant Problems, Abuses, and Deficiencies	6-8; 11-13; 15-17
5(a)(2)	Recommendations for Corrective Action	11-13; 16-17
5(a)(3)	Prior Recommendations Not Yet Implemented	20-22
5(a)(4)	Matters Referred to Prosecutive Authorities	15-17; 23
5(a)(5)	Summary of Instances Where the Agency Unreasonably Refused or Failed to Provide Information to the OIG	18
5(a)(6)	List of OIG Audit and Evaluation Reports Issued During the Period	19
5(a)(7)	Summary of Significant Reports Issued During the Period	11-13; 15-17
5(a)(8)	Statistical Table on Management Decisions with Respect to Questioned Costs	19
5(a)(9)	Statistical Table on Management Decisions on Recommendations That Funds Be Put to Better Use	19
5(a)(10)	Summary of Each Audit, Inspection or Evaluation Report Over Six Months Old for Which No Management Decision has been Made	18
5(a)(11)	Significant Revised Management Decisions	18
5(a)(12)	Significant Management Decisions with Which the Inspector General Disagreed	18
5(a)(14)(B)	Date of the Last Peer Review Conducted by Another OIG	25
5(a)(16)	Peer Reviews Conducted of Another Office of Inspector General	25-26



# APPENDIX A

## PEER REVIEWS OF OIG OPERATIONS

### PEER REVIEW OF THE SEC OIG'S AUDIT OPERATIONS

In accordance with CIGIE quality control and assurance standards, an OIG audit team assesses another OIG's audit functions approximately every 3 years. The most recent external peer review of the SEC OIG's audit operations was conducted last year.

The Legal Services Corporation (LSC) OIG conducted an assessment of the Office of Audit's system of quality control for the period ending March 31, 2012. The review focused on whether the SEC OIG established and complied with a system of quality control that was suitably designed to provide the SEC OIG with a reasonable assurance of conforming with applicable professional standards.

On August 23, 2012, the LSC OIG issued its report, concluding that the SEC OIG complied with its system of quality control and that the system was suitably designed to provide the SEC OIG with reasonable assurance of performing and reporting in conformity with applicable government auditing standards in all material respects. On the basis of its review, the LSC OIG gave the SEC OIG a peer review rating of "pass." (Federal audit organizations can receive a rating of "pass," "pass with deficiencies," or "fail.") The LSC OIG did not make any recommendations. Further, there are no outstanding recommendations from previous peer reviews of the SEC OIG's audit organization.

The peer review report is available on the SEC OIG website at <http://www.sec-oig.gov/Reports/Other/FinalPeerReviewReport-SEC.pdf>.

### PEER REVIEW OF THE SEC OIG'S INVESTIGATIVE OPERATIONS

During the semiannual reporting period, the SEC OIG did not have an external peer review of its investigative operations. Peer reviews of Designated Federal Entity OIGs, such as the SEC OIG, are conducted on a voluntary basis. The most recent peer review of the SEC OIG's investigative operations was conducted by the OIG of the U.S. Equal Employment Opportunity Commission (EEOC). The EEOC OIG issued its report on the SEC OIG's investigative operations in July 2007. That report concluded that the SEC OIG's system of quality for the investigative function conformed to the professional standards established by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency (now CIGIE).

A peer review of the investigative operations of the SEC OIG is scheduled for FY 2014.

### PEER REVIEW OF THE LIBRARY OF CONGRESS OIG'S AUDIT OPERATIONS

In accordance with CIGIE quality control and assurance standards, an OIG audit team assesses another OIG's audit functions approximately every 3 years. Toward that end, the SEC OIG assessed the Library of Congress (LOC) OIG, Office of Audit's system of quality control in effect for the year ended March 31, 2013. The review focused on whether the LOC OIG had established and complied with a system of quality control that was designed to provide the LOC OIG with reasonable assurance that its audits conform with applicable professional standards.

On September 3, 2013, the SEC OIG issued a letter report to the LOC OIG concluding that the system of quality control for the LOC OIG’s audit organization in effect for the year ended March 31, 2013, had been suitably designed and complied with to provide the LOC OIG with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. On the basis of its review, the SEC OIG gave the LOC OIG a peer review rating of “pass.” The SEC OIG’s report included 1) a finding that the SEC OIG did not consider significant enough to affect the opinion expressed in its report; and 2) a recommendation related to that finding. The LOC OIG agreed with the SEC OIG’s recommendation and has implemented it.

#### PEER REVIEW OF THE FEDERAL ELECTION COMMISSION OIG’S INVESTIGATIVE OPERATIONS

During the semiannual reporting period, the SEC OIG’s Office of Investigations conducted a peer

review of the investigative operations of the OIG of the Federal Election Commission (FEC). The review covered the period of April 2011 through March 2013. The OIG conducted the peer review in accordance with the “Qualitative Assessment Review Guidelines for Investigative Operations of Federal Offices of Inspector General, dated December 2011.”

In conducting its review, the SEC OIG held an entrance briefing, reviewed and analyzed the FEC OIG’s investigations manual and other documents, interviewed relevant staff members, and held an exit conference. The SEC OIG completed its peer review of the FEC OIG’s investigative operations in September 2013. On September 23, 2013, the SEC OIG issued a letter report concluding that, in its opinion, the internal safeguards and management procedures for the investigative functions of the FEC OIG in effect for the period of its review were in compliance with the quality standards established by CIGIE.

# APPENDIX B

## OIG SEC EMPLOYEE SUGGESTION PROGRAM ANNUAL REPORT

### OVERVIEW

The OIG established the OIG SEC Employee Suggestion Program in accordance with Section 966 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), which required the Inspector General to establish a suggestion program for employees of the SEC. The OIG established its Employee Suggestion Program on September 27, 2010. As required by the Dodd-Frank Act, the SEC OIG has prepared this third annual report containing a description of suggestions and allegations received, recommendations made or action taken by the OIG, and action taken by the SEC in response to suggestions or allegations from October 1, 2012, through September 30, 2013.

Through the SEC OIG employee suggestion program, the OIG receives suggestions from agency employees for improvements in the SEC's work efficiency, effectiveness, and productivity, and use of its resources, as well as allegations by employees of waste, abuse, misconduct, or mismanagement within the SEC. To make it easier for employees to participate in the program, the OIG has set up an electronic mailbox and telephone hotline that employees can use to make their suggestions or allegations. The OIG has established formal policies and procedures that encompass the receipt and handling of employee suggestions and allegations under the program.

### SUMMARY OF EMPLOYEE SUGGESTIONS AND ALLEGATIONS

Between October 1, 2012, and September 30, 2013, the OIG received and analyzed 27 suggestions or allegations. The tables on page 28 show the following details:

- (1) the nature, number, and potential benefits of suggestions received;
- (2) the nature, number, and seriousness of allegations received;
- (3) recommendations that the OIG made or actions it took in response to allegations that were substantiated; and
- (4) actions that the SEC took in response to suggestions or allegations.

Note: Some suggestions or allegations fit into more than one category, so the numbers in the charts below add up to more than the total number of allegations or suggestions we received.

Nature and Potential Benefits of Suggestion	Number
Increase efficiency or productivity	5
Increase effectiveness	6
Increase the use of resources or decrease costs	9
Nature and Seriousness of Allegation	Number
Mismanagement and/or discrimination	4
Waste of SEC resources	8
Misconduct by an employee	1
Action Taken by the OIG in Response to Suggestion or Allegation	Number
Memorandum to or communication with the SEC requesting action be taken	11
Referred to OIG Office of Investigations	0
Referred to OIG Office of Audits	1
OIG Office of Investigations opened preliminary inquiry	0
Researched issue, but no further action by the SEC was necessary	8
Action Taken by SEC Management	Number
SEC management took specific action to address the suggestion	6
The SEC decided to secure new technology in response to the suggestion	0
SEC management is considering the suggestion in context of existing procedures	2
SEC management initiated an internal review	2

## EXAMPLES OF SUGGESTIONS AND ALLEGATIONS

### Updating SEC Information Systems

The OIG received a suggestion about updating certain SEC information systems—the Division of Enforcement Name Relationship Search Index (NRSI) and the SEC Tips, Complaints, and Referrals (TCR) system. The employee suggested modifying the NRSI and the TCR system to automatically search for and send updated information about specific registrants that National Examination Program examiners are currently examining. Those automatic searches would assist the examiners in ensuring that they have the most current information available.

On the basis of the OIG’s review of the suggestion, we determined that there are currently procedures in place to alert examination staff if a new TCR related to an open examination is received. However, neither the TCR system nor NRSI has the

ability to provide automatic updates or alerts to examiners. The OIG forwarded this suggestion to the Office of Information Technology, the Division of Enforcement, and the Division of Economic and Risk Analysis for their consideration when exploring system capabilities and future system upgrades. The OIG expects management’s response to this suggestion in November 2013.

### Information-Sharing Blog

An employee suggested that the agency create an “internal SEC community blog” where SEC employees could ask questions and also answer questions that other SEC employees pose. The employee stated that such a blog would leverage staff knowledge. The OIG determined that certain offices within the SEC have created information sharing tools, and a similar project is in the queue for certain other offices, although an agencywide information sharing blog has not been established.

The OIG forwarded this suggestion to the Office of Information Technology SharePoint Committee for consideration. The OIG received a response indicating that the Office of Public Affairs is working on assessing the feasibility of implementing this suggestion and is looking at a variety of enterprise collaboration tools.

### Centralized Database of Electronic Communications

An employee suggested that the SEC create a centralized database of electronic communications (i.e., emails) that the Office of Compliance Inspections and Examinations (OCIE) requests and receives during examinations. Specifically, the employee suggested that the emails collected during examinations be archived into an accessible, centralized database to allow examiners to perform keyword searches during examinations to determine whether electronic communications from previous examinations contain the same issues or concerns, as well as any type of related information.

The OIG determined that the creation and maintenance of a centralized database of emails could be beneficial for data mining, as well as trend analysis and risk assessment. During preliminary discussions about this suggestion, OCIE and the Office of General Counsel acknowledged the potential benefits, but indicated the need to consider issues such as any legal and privacy ramifications of housing these emails in a centralized database. The OIG expects management's response to this suggestion in October 2013.

### Telephone Replacement and Online Reporting Process

The OIG received an allegation about the SEC's replacement of agency telephones. Specifically, the employee stated that the new telephones were an unnecessary and wasteful expense and employees did not receive adequate notification of this technology change. The employee also stated that the OIT's

online reporting process was not user friendly and was cumbersome.

The OIG discussed this allegation with the OIT. The OIT informed us that the telephone replacement process began after the SEC received notification that the prior telephone models would no longer be serviced. The OIT stated that it used a pilot program to test the new telephone model before it was selected as the agencywide standard model. The OIG also reviewed the OIT's online reporting mechanism and noted that a listed email address did not appear to be functional.

Although the OIG determined that the telephones were replaced because of an upcoming discontinuation of service, the OIG forwarded the suggestion to the OIT to consider (1) providing additional communication to employees about the telephone replacement process; (2) implementing policies and procedures designed to enhance direct communication with employees about future technology changes; and (3) whether additional methods for employees to contact the OIT with comments or suggestions would be beneficial. The OIG expects management's response to this suggestion in November 2013.

### Allocation of Laptops

The OIG received an allegation about the allocation and acquisition of new laptops in OCIE. The employee stated that OCIE employees were offered a choice between two laptop models, but examiners' needs were not taken into account, and many employees did not receive the model they selected and had to work with inferior computers.

The OIG discussed this allegation with the OIT. The OIT indicated that various laptop models were tested and that the models offered and provided to examiners were selected on the basis of user feedback. The OIT stated that it was unable to provide every examiner with his or her first choice of model

because of budget constraints and the large number of requests for a particular model. The OIT further stated that both models were designed to meet the needs of examination staff. On the basis of the OIG's review, it appears that examiners' needs were taken into account in connection with the allocation and acquisition of new laptops, and it does not appear that employees were asked to work with equipment that was not designed to meet their needs. Therefore, the OIG determined that no further action was warranted in response to this allegation.

## CONCLUSION

The OIG continues to be pleased with the effectiveness of the OIG SEC Employee Suggestion Program. We have received favorable responses from the agency on several suggestions that we submitted for its consideration. Many suggestions have resulted in positive changes that will improve the efficiency and effectiveness of employees or conserve the agency's resources. The OIG anticipates receiving favorable responses to suggestions that the agency is currently reviewing and will continue to encourage employees to make suggestions through the program.

## OIG CONTACT INFORMATION

Help ensure the integrity of SEC operations. Report to the OIG suspected fraud, waste, or abuse in SEC programs or operations as well as SEC staff or contractor misconduct. Contact the OIG by:

PHONE	Hotline	877.442.0854
	Main Office	202.551.6061

WEB-BASED HOTLINE	<a href="http://www.sec-oig.gov/ooi/hotline.html">www.sec-oig.gov/ooi/hotline.html</a>
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FAX	202.772.9265
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MAIL	Office of Inspector General U.S. Securities and Exchange Commission 100 F Street, NE Washington, DC 20549-2977
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EMAIL	<a href="mailto:oig@sec.gov">oig@sec.gov</a>
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