



Semiannual
Report to Congress
October 1, 2012 to
March 31, 2013

OFFICE OF INSPECTOR GENERAL

U.S. SECURITIES AND
EXCHANGE COMMISSION

OFFICE OF INSPECTOR GENERAL
SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2012–MARCH 31, 2013



The mission of the Office of Inspector General (OIG) is to promote the integrity, efficiency, and effectiveness of the critical programs and operations of the United States (U.S.) Securities and Exchange Commission (SEC or Commission). This mission is best achieved by having an effective, vigorous, and independent office of seasoned and talented professionals who perform the following functions:

- Conducting independent and objective audits, evaluations, 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 decision making 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 Commission).

This report describes the work of the SEC Office of Inspector General (OIG) for the period from October 1, 2012, to March 31, 2013. It also reflects our dual responsibility to report independently to both the Commission and Congress.

The audits, reviews, and investigations described illustrate OIG efforts to promote the efficiency and effectiveness of the SEC.

As an initial matter, I would like to take this opportunity to thank the Honorable Jon T. Rymer for his dedicated service to the OIG and the Commission. He is the Inspector General for the Federal Deposit Insurance Corporation and from May 30, 2012, until January 31, 2013, concurrently served as the SEC Interim IG. The OIG is grateful for his leadership and guidance during a time of transition.

On February 11, 2013, I began my tenure as the SEC IG, leading an office with talented staff facing significant challenges. The OIG has operated without a permanent leader for more than a year and without the key senior leadership positions of Deputy IG and Assistant IG for Investigations for several months. Additionally, the office lacked necessary audit and investigative staffing levels.

Consequently, OIG capabilities and effectiveness have been reduced. As a result, one of my top priorities for the upcoming year is to increase the OIG's capabilities by rebuilding the OIG. I am working closely with the SEC Office of Human Resources (OHR) to fill the leadership and critical positions as quickly as possible. After the OIG leadership team is in place, we will methodically review our business processes and retool as necessary to make the OIG a more effective, responsive entity.


Notwithstanding the challenges faced by the OIG during this semiannual reporting period, the OIG staff is committed to promoting the efficiency and effectiveness of the SEC's programs and operations. During the reporting period, the OIG Office of Audits issued seven reports, including a statutorily-

mandated evaluation of the SEC's whistleblower program; an audit on the SEC's controls over support service, expert, and consulting service contracts; and an audit of the SEC's filing fees program. Further, during the reporting period, the Office of Audits worked with SEC management to close 47 recommendations arising out of OIG reports. In the upcoming reporting period, the Office of Audits will issue two reports requested by Congress related to the economic analyses performed by the SEC in its rulemaking processes.

The OIG Office of Investigations completed 5 investigations and 29 inquiries during the reporting period, including the forensic analysis of certain Division of Trading and Markets laptops and an inquiry into allegations of procurement violations. Our investigative reports and memoranda resulted in one referral to the agency for consideration of appropriate administrative action, three referrals to the OIG Office of Audits for consideration of audit follow-up work, and specific recommendations for improvement in agency policies and procedures.

In closing, the OIG's mission is to promote the integrity, efficiency, and effectiveness of SEC programs and operations, and to report our findings and recommendations to the agency and Congress. The OIG will improve its efficiency and effectiveness through organizational and procedural changes and by growing our staff resources. We will also work collaboratively with the SEC management without yielding independence to assist the agency in addressing the challenges it faces in its unique and important mission to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.

I appreciate the significant support the Office has received from Congress and the Commission. We look forward to working closely with the SEC Chairman, Commissioners, employees, and Congress to increase efficiency and effectiveness in SEC 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 Commission's performance through effective alignment and management of human resources, information, and financial capital.

SEC staff monitor and regulate a securities industry comprising more than 35,000 registrants, including approximately 9,500 public companies, 11,800 investment advisers, approximately 4,200 mutual funds, and about 5,400 broker-dealers, as well as national securities exchanges and self-regulatory organizations (SRO), 450 transfer agents, 17 national securities exchanges, 9 registered clearing agencies, and 9 credit rating agencies. Additionally, the agency has oversight responsibility for the Public Company Accounting Oversight Board (PCAOB), the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB), and the Securities Investor Protec-

tion Corporation (SIPC). While about 2,000 smaller investment advisers transitioned to state regulation under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the SEC has gained responsibility for directly overseeing approximately 1,500 larger private fund advisers, including hedge fund advisers.

In order to accomplish its mission, the SEC is organized into 5 main divisions (Corporation Finance; Enforcement; Investment Management; Trading and Markets; and Risk, Strategy, and Financial Innovation) and 23 functional offices. The Commission's headquarters is in Washington, D.C., and there are 11 regional offices located throughout the country. As of September 30, 2012, the SEC employed 3,792 full-time equivalents (FTE), consisting of 3,752 permanent and 40 temporary FTEs.

OIG STAFFING

On February 11, 2013, Carl W. Hoecker was sworn in as the SEC IG. From May 30, 2012, until January 31, 2013, Jon T. Rymer served as the Interim IG.

Two senior leadership positions of Deputy IG and Assistant IG for Investigations have not been filled. Additionally, the office lacks necessary audit and investigative staffing levels. Although the OIG hired two supervisory auditors during the reporting period, filling the leadership and other vacancies are a priority for the OIG.



CONGRESSIONAL TESTIMONY, REQUESTS, AND BRIEFINGS

The OIG continued to keep Congress fully and currently informed of OIG investigations, audits, and other activities through testimony, reports, meetings, and telephonic communications. OIG staff briefed and had discussions with Members of Congress and Congressional staff concerning OIG work and issues impacting the SEC throughout the semiannual reporting period.

On January 22, 2013, the OIG responded to a December 5, 2012, request from the U.S. House of Representatives Committee on Oversight and Government Reform for information about the OIG's highest priority recommendations for reducing waste and increasing efficiency. In the response, the OIG noted that the SEC has very few open and unimplemented recommendations that carry over from year to year. We noted that the Commissioners, the SEC management, and the OIG continue a shared desire to improve SEC programs, operations, and working relationships.

On March 12, 2013, the IG testified in an oversight hearing before the U.S. House of Representatives Subcommittee on Financial Services and General Government, Committee on Appropriations, with respect to the OIG's budget and other matters of subcommittee concern.

On March 29, 2013, the OIG responded to a February 25, 2013, Congressional request for information relating to the SEC's climate change initiatives. The OIG described the SEC's authorities to govern public companies' disclosures, including those related to the effects of climate change and noting that the laws and rules that govern the U.S. securities industry are written to ensure that all investors—whether large institutions or private individuals—have access to the proper assortment of facts about an investment prior to buying it and for the duration that the investment is held. The OIG also highlighted the SEC's requirements that public companies disclose meaningful financial and other material information to the public, including those relating to the effects of climate change.



ADVICE AND ASSISTANCE PROVIDED TO THE AGENCY

The OIG provided advice and assistance to SEC management on issues that were brought to the OIG's attention through various means. This advice and assistance was conveyed through written communications, as well as in meetings and conversations with agency officials.

EMPLOYEE SUGGESTION PROGRAM

During this six-month reporting period, the OIG received nine suggestions and four allegations through the Employee Suggestion Program. In one instance, an employee suggested that the default settings on all SEC computers should be set to two-sided printing and that employees should have to manually select one-sided printing when necessary. The employee stated that this would result in SEC cost savings and be environmentally friendly. The OIG recommended that the SEC alert employees that double-sided printing is available and provide general instructions for those who wish to make double-sided printing their default setting. The SEC responded, indicating that it preferred to leave the decision of whether to print double-sided or single-sided up to individual staff members. However, recognizing the potential for cost savings and the favorable environmental impact of reducing paper usage, the SEC issued instructions for selecting double-sided printing.

Another suggestion related to providing information to new employees. Specifically, the employee suggested that the SEC provide new employees with a guidebook to the acronyms used at the agency. The OIG discussed this suggestion with OHR and SEC University representatives. In response, the SEC indicated that it would include a list of acronyms in its new employee guide.

OIG OUTREACH

The IG regularly met with the Chairman, Commissioners, and SEC division and office senior officers to foster open communications at all levels between the OIG and the agency. This effort will ensure that the OIG is kept up to date on significant matters relevant to OIG work. This regular communication will also allow OIG and agency management to work cooperatively in identifying the most important areas for OIG work, as well as the best means of addressing the results of that work.

On March 20, 2013, the IG participated in an SEC Town Hall meeting which all SEC employees were invited to attend in person or via teleconference. At this meeting, the IG explained the role of the OIG, including its audit and investigatory functions. The IG also responded to questions from the SEC staff concerning OIG issues.



COORDINATION WITH OTHER OFFICES OF INSPECTOR GENERAL

During this reporting period, the 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 created by Section 989E of the Dodd-Frank Act. CIGFO is chaired by the IG of the Department of Treasury and is also comprised of 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, the Special Inspector General for the Troubled Asset Relief Program, and the SEC. Under the Dodd-Frank Act, CIGFO is required to meet at least quarterly to facilitate the sharing of information with a focus on the concerns that may apply 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. For example, the Investigations Committee assisted the CIGIE Information Technology Committee in developing Quality Standards for Digital Forensics to provide a framework for performing high-quality digital forensics. CIGIE issued these standards on November 20, 2012.

The OIG also contributed information to a CIGIE report summarizing compliance by Inspectors General with the Improper Payments Elimination and Recovery Act of 2010. In addition, the OIG responded to numerous CIGIE surveys during the reporting period, including surveys related to suspension and debarment, annual statistical data, and the redesigned CIGIE's website.

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

Finally, the OIG Office of Audits provided support to the U.S. Commodity Futures Trading Commission (CFTC) OIG by participating in a technical evaluation panel that was convened to select a contractor to conduct an upcoming CFTC evaluation.



AUDITS AND EVALUATIONS

OVERVIEW

The OIG is required by the Inspector General Act of 1978, as amended, to conduct audits and evaluations of agency programs, operations, and activities. The Office of Audits focuses its efforts on conducting independent audits and evaluations of SEC's programs, operations and functions. The Office of Audits also hires independent contractors and subject matter experts to conduct work on its behalf.

Each year, the Office of Audits prepares an annual audit plan. The plan includes work that is selected for audit or evaluation based on risk and materiality, known or perceived vulnerabilities and inefficiencies, resource availability, and information received from Congress, internal SEC staff, the U.S. Government Accountability Office, and the public.

Audits

Audits examine operations and financial transactions to ensure proper management practices are being followed and resources are adequately protected in accordance with governing laws and regulations. Auditors collect, analyze, and verify data by gathering documentation, conducting interviews, and through physical inspections. The Office of Audits conducts audits in accordance with the *Government Auditing Standards* issued by the Comptroller General of the United States, OIG policy, and CIGIE guidance.

Evaluations

The Office of Audits also conducts evaluations of SEC programs and activities. Evaluations are generally conducted when a project's objectives are based on specialty or highly technical areas, criteria or data are not firm, or the information must be reported in a short period of time. Evaluations are conducted in accordance with OIG policy and governing CIGIE guidance.

AUDITS AND EVALUATIONS CONDUCTED

SEC's Controls Over Sensitive/Nonpublic Information Collected and Exchanged with the Financial Stability Oversight Council and Office of Financial Research (Report No. 509)

The OIG conducted an audit to follow up on SEC deficiencies identified in the June 22, 2012, CIGFO report entitled, *Audit of the Financial Stability Oversight Council's Controls over Non-public Information*. Specifically, the OIG examined the controls and protocols the SEC employs to ensure that sensitive and nonpublic information collected and exchanged with the Financial Stability Oversight Council (FSOC), its member agencies, and the Office of Financial Research (OFR) is properly safeguarded from unauthorized disclosure. The scope of the audit did not include an inquiry into whether there was

any unauthorized disclosure of confidential information. The audit found that SEC employees and contractors who access the SEC e-mail system using Outlook Web Access are not restricted from saving and uploading sensitive or nonpublic information on non-SEC computers. Consequently, sensitive or nonpublic information could potentially be disclosed to unauthorized persons.

The audit also found that the SEC has not appointed primary information owners to oversee information received and shared with FSOC, its member agencies, or OFR. In addition, a protocol for inventorying documents and ensuring they are appropriately marked has not been fully developed. As a result, the SEC may be unable to readily identify information owners and ensure documents are tracked and marked appropriately. Finally, the audit found that the SEC contractors received network user accounts and have 30 days thereafter to complete the required online security awareness training. Thus, contractors could unintentionally mishandle or disclose sensitive or nonpublic SEC information.

The OIG issued the final report on March 25, 2013, and made five recommendations that are intended to strengthen the SEC's protection of sensitive/nonpublic information that is collected and exchanged with FSOC and OFR. SEC management agreed to fully implement all of the recommendations. This report is available on the OIG's website at: <http://www.sec-oig.gov/Reports/Audits-Inspections/2013/509.pdf>.

Evaluation of the SEC's Whistleblower Program (Report No. 511)

Section 922 of the Dodd-Frank Act required the OIG to conduct a review of the whistleblower protections added by that section and to report its findings no later than 30 months after the Dodd-Frank Act's enactment to the U.S. Senate Committee on Banking, Housing, and Urban Affairs and the U.S. House of Representatives Committee on Financial Services.

The OIG found that SEC's whistleblower program was clearly defined and user-friendly for individuals with a basic knowledge of the securities laws, rules, and regulations. Further, the SEC Office of Whistleblower's outreach efforts had been strong and information about the whistleblower program was easily located on the Internet. The OIG also found the SEC generally was prompt in responding to information provided by whistleblowers and applications for whistleblower awards, as well as in communicating with interested parties. However, the whistleblower program's internal controls needed to be strengthened by adding performance metrics.

The award levels for the SEC's whistleblower program were comparable to the award levels of other federal government whistleblower programs and ranged from 10 to 30 percent of the monetary sanctions collected. The OIG determined that the SEC's award levels are reasonable and should not change at this time.

Further, the OIG found the funding mechanism for the Investor Protection Fund established by Section 922 of the Dodd-Frank Act was adequate. However, the OIG determined it was premature to introduce a private right of action into the SEC's whistleblower program because it had only been in place since August 2011. Finally, the OIG found the Freedom of Information Act exemption added by the Dodd-Frank Act encourages whistleblowers to disclose information to the SEC by providing an additional safeguard for whistleblower confidentiality. This exemption had no significant impact on the public's ability to access information regarding the SEC's regulation and enforcement of the federal securities laws.

The OIG issued the final report on January 18, 2013, and made two recommendations intended to strengthen the whistleblower complaint process. Management agreed to fully implement the recommendations. This report is available on the OIG's

website at: [http://www.sec-oig.gov/Reports/Audits Inspections/2013/511.pdf](http://www.sec-oig.gov/Reports/Audits%20Inspections/2013/511.pdf).

2012 Federal Information Security Management Act (FISMA) Executive Summary Report (Report No. 512)

The OIG contracted the services of Networking Institute of Technology, Inc. to conduct the fiscal year 2012 FISMA assessment of the SEC's security requirements. The overall objective of this project was to assess the SEC's systems and incorporate the result of the assessment into the OIG's contribution to the SEC's fiscal year 2012 FISMA report to OMB. In addition, the contractor independently evaluated how SEC implemented the following security requirements: systems inventory and the quality of the inventory, enterprise security architecture, data and boundary protection, and network security protocols. The findings of the assessment included those summarized below.

OIT did not fully conduct and document continuous monitoring and had not defined baseline configurations or conducted configuration compliance scanning for all devices. Further, OIT neither addressed the requirements needed for a comprehensive governance structure and overall organizational security risk management, nor addressed risk from a mission and business process perspective. Moreover, OIT did not disable the network accounts for all users who no longer required access and could improve its process for documenting the interfaces between the contractor/external systems and SEC-operated systems in its system inventory.

The OIG issued the final report on March 29, 2013, and made six repeat recommendations and five new recommendations to strengthen the SEC's controls over information security. Management agreed to implement all of the recommendations. This report is available on the OIG's website at: [http://www.sec-oig.gov/Reports/Audits Inspections/2013/512.pdf](http://www.sec-oig.gov/Reports/Audits%20Inspections/2013/512.pdf).

Audit of SEC's Controls over Support Service, Expert, and Consulting Service Contracts (Report No. 513)

The OIG contracted with Castro & Company, LLC (Castro) to conduct an audit of the SEC's support service, expert, and consulting service contracts and identify potential areas for improvement.

The audit's overall objective was to determine whether the SEC's Office of Acquisitions (OA), when awarding support service, expert, and consulting service contracts, complied with governing laws and regulations regarding personal services contracts (PSC) and inherently governmental functions (IGF).

Castro found that prior to November 15, 2012, OA did not have any written policy related to the management and administration of service contracts. Further, OA did not have controls at that time that would prevent contracting personnel or SEC staff from forming employer-employee relationships and entering into PSCs. The audit identified a number of control deficiencies concerning the SEC's controls over support service and consulting contracts. The audit also determined that OA did not take adequate measures in developing contract language for specific contracts to describe the contractors' job duties and responsibilities.

Further, the audit found OA's newly issued guidance and operating procedures should be strengthened to better ensure SEC personnel are trained and are provided guidance regarding their responsibilities to administer and manage contractors.

The OIG issued the final report on March 29, 2013, and made seven recommendations intended to strengthen OA's controls over support service, expert, and consulting service contracts. OA agreed to fully implement all the report's recommendations. This report is available on the OIG's website at: <http://www.sec-oig.gov/Reports/Audits-Inspections/2013/513.pdf>.

Audit of the SEC's Filing Fees Program (Report No. 514)

The OIG contracted with Williams Adley-DC, LLP, an independent public accounting firm, to conduct an audit of the SEC's refund request processes and management of dormant accounts. The overall audit objectives were to determine whether: (1) the Office of Financial Management (OFM) had developed written policies and standard operating procedures covering oversight of the filing fees program; (2) filing fees staff are adequately trained and have the requisite skills needed to carry out their duties and responsibilities; (3) the EDGAR Momentum system used to track filing fees refund requests is appropriate; (4) filing fees backlogs and dormant accounts are properly administered and managed; and (5) filing fees refunds are disbursed by the U.S. Department of Treasury to the appropriate registrants as requested.

The SEC receives monies through the collection of securities registration, tender offer, merger, and other fees (filing fees) from registrants. The SEC records the filing fees it collects as revenue. However, if registrants submit payments to the SEC that are in excess of the actual fee that is due for a filing, the SEC records the excess payment in the registrant's deposit liability account until it is earned by the SEC for future registrant filings. The SEC returns amounts in the deposit liability account to the registrant if the account has not had any activity against it for three years, or upon request from the registrant.

The audit found that OFM needs to strengthen its Reference Guide, Chapter 80.03, *Filing Fee Revenue*, August 2012, in the area of filing fees. During a system walk-through, the contractor determined that OFM does not have a process for confirming registrant bank information. As a result, there is a risk of unauthorized requests for refunds. In addition, OFM needs to strengthen its policies and procedures related to clearing cancelled refund checks to ensure a reasonable timeline is established. The lack of a reasonable timeline could delay processing reg-

istrant refunds. Furthermore, the audit determined an analysis of older filing fee registrant transactions needs to be completed to ensure revenue is properly recognized in OFM financial reports. OFM has begun reviewing non-dormant registrant accounts, based on the expected costs and benefits for each account. However, OFM's review of non-dormant registrant accounts has not been fully completed.

The OIG issued the final report on March 29, 2013, and made four recommendations intended to strengthen OFM's internal control over filing fees policies and procedures. OFM agreed to implement all the report's recommendations. This report is available on the OIG's website at: [http://www.sec-oig.gov/Reports/Audits Inspections/2013/514.pdf](http://www.sec-oig.gov/Reports/Audits%20Inspections/2013/514.pdf).

Review of the SEC's Systems Certification and Accreditation Process (Report No. 515)

The OIG contracted the services of Networking Institute of Technology, Inc. (NIT) to conduct an independent evaluation to assess OIT's certification and accreditation (C&A) process and determine compliance with governing SEC policies and procedures, industry best practices, and applicable government laws, directives, regulations, and publications. The overall objective was to evaluate the SEC's systems C&A process and determine if there are areas that need strengthening.

NIT found that OIT's documentation to support evaluating some systems security controls needs improvement. The evaluation further found that contractors did not provide enough evidence within the security testing and evaluation (ST&E) to demonstrate they had examined documentation, conducted interviews, and tested the security controls for the ST&E. Consequently, the ST&E needed support to demonstrate the assessor's method for examining, interviewing, and testing security controls. The evaluation further found one ST&E was not done for a contractor system and OIT did not require ST&Es for contractor systems.

Further, the evaluation found the designated approving authority (DAA) did not review and verify the terms and conditions set forth in the system authorization on an annual basis, as described in the authorization to operate letter. Also, the DAA reviewed and verified the terms and conditions of SEC's security controls on a three-year cycle, rather than on the recommended continuous basis.

The evaluation also found that personally identifiable information (PII) is not consistently documented in some C&A packages. Moreover, PII related to some systems was inconsistent with the reviewed C&A documentation.

Additionally, NIT determined that the SEC's information system owners did not fully understand their roles and responsibilities in the C&A process. Finally, the evaluation found that system owners did not receive formal role-based IT security training or guidance based on their roles and responsibilities as system owners and were approving C&A packages without having technical knowledge, which could potentially result in data not being properly protected.

The OIG issued the final report on March 27, 2013, and made seven recommendations intended to strengthen the SEC's C&A process, which OIT agreed to fully implement. This report is available on the OIG's website at: <http://www.sec-oig.gov/Reports/AuditsInspections/2013/515.pdf>.

Inspector General's Report of the U.S. Securities and Exchange Commission's Fiscal Year 2012 Compliance with the Improper Payments Elimination and Recovery Act

On March 11, 2013, the OIG completed a review of the SEC's compliance with the Improper Payments Elimination and Recovery Act of 2010 (IPERA) for fiscal year 2012. The review consisted of interviews with OFM officials regarding the SEC's risk assess-

ment under IPERA, a review of relevant data in the fiscal year 2012 Agency Financial Report (AFR), and a review of the SEC's IPERA Risk Assessment Summary Report dated September 11, 2012. The risk assessment determined that none of the SEC's programs and activities were susceptible to significant improper payments at or above the threshold levels set by OMB. Furthermore, the AFR stated that the SEC determined that implementing a payment recapture program was not cost-effective; nonetheless, the SEC strives to recover overpayments that are identified through other sources. Based on our review of information OIG determined that the SEC was in compliance with IPERA for fiscal year 2012. This report is available on the OIG's website at: http://www.sec-oig.gov/Reports/Other/FY2012_IPERAComplianceReport_3.11.2013.pdf.

PENDING AUDITS AND EVALUATIONS

Hiring Practices for Senior Level Positions at the SEC

The objectives of the audit are to examine whether OHR: (1) adheres to applicable federal statutes and regulations and has adequate policies and procedures covering senior level vacancies in the competitive service and excepted service, and for senior officers; (2) ensures the SEC's hiring and promotion practices are carried out in a fair and consistent manner, and in accordance with applicable federal statutes, regulations, and OHR policy requirements; (3) communicates its hiring authority, decisions, and changes to the appropriate personnel; (4) ensures hiring and promotion decisions are documented in accordance with applicable federal statutes and regulations; and (5) takes action in accordance with applicable federal statutes and regulations and OHR policies pertaining to improper hiring or promotions.

Fieldwork has been completed and we are drafting the report.

The SEC Rulemaking Procedures and Current Guidance on Economic Analysis in Rulemakings

The OIG initiated an audit to evaluate the SEC's implementation of the Current Guidance on Economic Analysis in SEC Rulemakings (Current Guidance), issued on March 16, 2012. In addition, the OIG engaged a contractor to perform an evaluation of the SEC's adherence to the Current Guidance. Both the audit and evaluation were requested by the Chairman of the House of Representatives Committee on Oversight and Government Reform (House Oversight Committee) and the Chairman of its Subcommittee on Troubled Asset Relief Program (TARP), Financial Services and Bailouts of Public and Private Programs (Subcommittee on TARP).

On December 21, 2012, the OIG sent letters to the Chairman of the House Oversight Committee and the Chairman of the Subcommittee on TARP outlining the OIG's two-part (Phase 1 and 2) approach to respond to their request.

For Phase 1, the OIG is conducting an audit that examines the SEC's rulemaking procedures and guidance. The audit objectives are to determine whether the: (1) SEC has established and implemented procedures for a methodical rulemaking process in accordance with its Current Guidance; (2) SEC developed and uses procedures to improve the rulemaking process such as hiring additional economists and implementing a systematic review process; and (3) Current Guidance incorporates the OIG's and other commenters' recommendations on SEC rulemaking.

For Phase 2, the OIG engaged a contractor to assist in completing an evaluation of the SEC's adherence to its Current Guidance in recent rule-

making. The objectives of the evaluation are to determine whether: (1) the economic analysis in newly proposed and final Commission rules complies with the principles and policies identified in the Current Guidance; (2) the SEC uses the Current Guidance for economic analyses of rulemakings of the PCAOB, FINRA, and other SROs under the SEC's jurisdiction; (3) the Current Guidance has been effectively implemented; (4) the SEC rulemaking offices use a consistent methodology for economic analyses; and (5) further improvements are needed for the SEC's rulemaking processes and procedures.

Fieldwork for both projects has been completed. The OIG will issue separate reports for Phase 1 and 2 before the end of the next semiannual reporting period.

Government Purchase Card and Convenience Check Operations and Practices at the SEC

The OIG commenced an audit of the SEC's government purchase card and convenience check operations and practices as a result of requirements set forth in the Government Charge Card Abuse Prevention Act of 2012. The objectives of the audit are to (1) 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 (2) 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. We will also determine if there are best practices or areas needing improvement.

Fieldwork is ongoing and we expect to issue a final report by the next semiannual reporting period.



INVESTIGATIONS

OVERVIEW

The OIG Office of Investigations is responsible for OIG activities related to the prevention, detection, and investigation of fraud, waste, and abuse in connection with SEC programs and operations. The OIG investigates allegations of violations of statutes, rules, and regulations and other misconduct by SEC staff and contractors. The misconduct investigated ranges from criminal wrongdoing and fraud to violations of SEC rules and policies and the Standards of Ethical Conduct for Employees of the Executive Branch. The Office of Investigations conducts its independent investigations in accordance with CIGIE Quality Standards for Investigations and OIG Investigations policy.

The OIG receives complaints through the OIG Complaint Hotline (telephone and web-based), e-mail, mail, and facsimile. Complaints may be made anonymously by calling the Hotline, which is staffed and answered 24 hours a day, 7 days a week, or by completing an online complaint form. In addition, OIG receives allegations from SEC employees of waste, abuse, misconduct, or mismanagement within the agency through the OIG SEC Employee Suggestion Program, which was established pursuant to Section 966 of the Dodd-Frank Act.

The OIG reviews and analyzes all complaints received to determine the appropriate course of

action. Those actions include: initiating an investigation, referring the matter to management, and referring the complaint to another agency. Upon completion of an investigation, the OIG issues a report of investigation that sets forth the evidence obtained during the investigation. Investigative matters are referred to SEC management and the U.S. Department of Justice as appropriate. In some instances, an OIG investigation may identify possible weaknesses or internal control issues requiring corrective action by agency management. As a result, the OIG may issue a separate investigative memorandum to management for corrective action.

INVESTIGATIONS AND INQUIRIES CONDUCTED

Follow-up Investigation Relating to Forensic Analysis of Division of Trading and Markets Laptops (Report No. OIG-577)

An OIG investigation completed during the previous semiannual reporting period (OIG-557) determined that staff working in a Division of Trading and Markets computer security lab had used laptops that were unencrypted and did not have virus protection during SRO and clearing agency inspections in violation of the SEC information technology security policies.

In response to the OIG's findings, SEC management contracted with an outside forensics team to conduct testing and related work on selected laptops that lab staff had used on inspections. The outside firm subsequently reported that it had found no evidence of active malware operating on those laptops. However, the firm confirmed several vulnerabilities that posed a risk to SEC systems and the data of regulated entities and offered no opinion with respect to the lab's other laptops and computer devices. The firm also reported that one of the laptops examined was reformatted and a new operating system was installed shortly before the forensic examination.

To ensure that appropriate, independent forensic analysis was performed on the laptops that the firm retained by the SEC had not examined, the OIG arranged for the Federal Deposit Insurance Corporation Office of Inspector General Economic Crimes Unit (FDIC OIG ECU) to conduct forensic analysis of certain laptops and to independently verify the results of the SEC OIT's testing of additional laptops. The forensic analysis performed by FDIC OIG ECU and the SEC OIT found no evidence of a breach or compromise on the additional laptops examined.

Further, the investigation found that a lab information technology specialist reformatted two laptop drives before the laptops were collected by OIT. However, the OIG did not find evidence that the drives were reformatted in an effort to interfere with OIG's ongoing investigation of the computer security lab. The OIG also did not find evidence that lab management had directed, or was aware of, the reformatting.

Allegations of Potential Stalking, Harassment, and Inappropriate Touching (Report No. OIG-579)

The OIG investigated allegations of potential stalking and harassment of an SEC contractor by an SEC employee that were referred to the OIG by

OHR. The contractor had received two anonymous communications sent via U.S. mail to SEC headquarters, which the contractor found to be offensive. The contractor had also received a series of e-mail messages from the SEC employee regarding a purported relationship between the contractor and another SEC employee. During the investigation, OHR referred to OIG additional allegations made by the SEC employee of inappropriate touching by the contractor.

The OIG's investigation focused on whether there was any evidence of stalking or harassment under the applicable laws and whether there was any evidence of inappropriate touching. The OIG investigation did not identify the sender of the anonymous communications to the SEC contractor. The OIG found insufficient evidence to warrant a criminal referral based upon the e-mail communications from the SEC employee. The OIG also did not find evidence that the purported inappropriate touching was unreasonable or inappropriate. As a result, the OIG determined no further action was warranted and closed its investigation.

Alleged Misuse of Federal Government Resources, Failure to Protect Sensitive Government Information, and Circumvention of Information Technology Procedures (Report No. OIG-580)

The OIG investigated a complaint alleging that an SEC headquarters employee had failed to appropriately secure sensitive financial industry data in violation of SEC policy and had provided unauthorized access to this data to other employees.

The complainant also alleged that this employee's division was attempting to improperly manage certain information technology-related services within the division without the involvement of OIT.

In addition, the OIG investigated additional information referred by OHR and OIT showing that the employee had accessed PII for current and

former SEC employees, without the knowledge and approval of the employee's current supervisors and without any apparent legitimate need for that information. Due to concerns about protecting the agency's information, management placed the employee on administrative leave pending completion of the OIG investigation.

The OIG's investigation found no evidence that the employee had accessed PII data for any improper purpose. To the contrary, evidence obtained through e-mail searches and interviews of relevant personnel showed that the employee had recently transferred to his current division from another headquarters office and, after his transfer, had continued to access SEC employee PII data to assist staff with whom he had been working in his previous office on a project. Moreover, there was no evidence that the employee transmitted sensitive data, including PII, outside the SEC. The OIG did not substantiate the remaining allegations investigated.

As a consequence, the OIG closed its investigation and management cleared the employee to return to work. We referred the issue of controls over access to information when an employee transfers to another division or office to the OIG Office of Audits for consideration of possible future audit work.

Alleged Violations of Federal Travel Regulation by Employee Participating in a Long-Distance Telework Arrangement (Report No. OIG-584)

The OIG investigated an anonymous complaint alleging that the SEC's payment of costs for an employee teleworking from a remote location to travel to and from headquarters violated the Federal Travel Regulation (FTR). The OIG found that the employee's telework arrangement was authorized and that payment of travel expenses for the employee's periodic trips to headquarters did not violate the FTR.

The investigation found, however, that the teleworking employee's official duty station was improperly set and, as a result, the employee was paid inaccurately. The OIG further found that the SEC did not have written policies and procedures for setting the official duty station and locality pay for employees on long-distance telework, and that the locality pay rates for employees on long-distance telework had not been determined in a consistent manner. On March 25, 2013, the OIG issued an investigative memorandum to management (IM-13-0001) to address the deficiencies identified and, as a result, closed this investigation. This memorandum is available on the OIG's 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).

Allegation of Improper Promotion (PI 11-38)

The OIG conducted an inquiry into an anonymous complaint alleging that an SEC headquarters supervisor's promotion of a colleague was inappropriate because it resulted from a personal friendship between the supervisor and the colleague. The complaint also alleged that the promotion was improper because the employee who was promoted had previously been removed from a supervisory position due to performance issues.

The inquiry found evidence that the supervisor and the colleague who was promoted were friends and had vacationed together in the past. However, based upon our review of hiring documentation, e-mail evidence and interview of the supervisor, we found no evidence that the promotion violated federal personnel laws. Moreover, the OIG, after consultation with the SEC's Ethics Office, determined that the promotion did not violate any ethics regulations. Further, the OIG found that the allegation that the employee had previously been removed from a supervisory position was not substantiated. Therefore, the OIG determined that no further action was warranted.

Time and Attendance Violations in SEC Regional Office (PI 11-40)

The OIG performed an inquiry into an anonymous complaint alleging that an SEC regional office supervisor left the office for extended periods of time, often during the regional office's core business hours, without properly recording the time. The inquiry found evidence that the supervisor often left the office during the day, at times for extended periods and during the regional office's core hours, and on some occasions did not take leave for absences. The OIG further found that although the supervisor had been granted schedule flexibility by his superiors and often worked extra hours to make up for the times away from the office, the SEC's procedures for earning and using credit hours were not followed.

On December 12, 2012, the OIG referred the matter to management for consideration of any appropriate follow-up or administrative action. Thereafter, management counseled the supervisor concerning his time and attendance.

Allegations of Procurement Violations (PI 12-11)

The OIG completed its inquiry into allegations of procurement violations in the award of certain work to a contractor. The inquiry arose from an anonymous complaint that alleged a senior SEC official requested that an unidentified former roommate be added to a contractor's team and inappropriately influenced an agency acquisition panel to award the work to that contractor.

The OIG did not identify evidence to substantiate the allegation that the senior SEC official requested that an unidentified former roommate, or anyone else, be added to the contractor's team. The OIG also did not identify evidence to substantiate the allegation that the senior SEC official improperly influenced the technical evaluation panel to award the contract at issue to a particular firm. While the senior official participated as a non-voting member of the technical evaluation team and attended presentations by three contracting firms, we did not find evidence that the senior official influenced the panel's decision. As a result, on January 31, 2013, the OIG issued a memorandum report to the agency for informational purposes and closed this matter.

Complaints of Waste, Mismanagement, and Conflicts of Interest in a Division of Enforcement Computer Lab (PI 12-20)

The OIG completed an inquiry into allegations received through the OIG Employee Suggestion Program Hotline regarding a computer lab within the Division of Enforcement. The OIG focused its inquiry on allegations of possible conflicts of interest on the part of a lab staff member and a contractor used by the lab, as well as waste involving laptops. We referred other allegations of mismanagement of contracts and waste to the OIG Office of Audits for consideration of possible future audit work.

The evidence obtained and reviewed during the inquiry did not substantiate the conflict-of-interest allegations. Further, the OIG did not find evidence that lab staff had access to an excessive number of laptops and confirmed that the lab's laptops were equipped with appropriate encryption. As a consequence, the OIG closed its inquiry.



REVIEW OF LEGISLATION AND REGULATIONS

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

P.L. 112-194

Government Charge Card Abuse Prevention Act of 2012

P.L. 112-199

Whistleblower Protection Enhancement Act of 2012

P.L. 112-248

Improper Payments Elimination and Recovery Improvement Act of 2012

P.L. 112-239

The National Defense Authorization Act for Fiscal Year 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 INFORMATION WAS REFUSED

During this reporting period, there were no instances where information was refused.

TABLES

Table 1. List of Reports: Audit and Evaluations

Report Number	Title	Date Issued
509	SEC's Controls Over Sensitive/Nonpublic Information Collected and Exchanged With the Financial Stability Oversight Council and Office of Financial Research	3/25/2013
511	Evaluation of the SEC's Whistleblower Program	1/18/2013
512	2012 Federal Information Security Management Act Executive Summary	3/29/2013
513	Audit of SEC's Controls over Support Service, Expert and Consulting Service Contracts	3/29/2013
514	Audit of the SEC's Filing Fees Program	3/29/2013
515	Review of the SEC's Systems Certification and Accreditation Process	3/27/2013
n/a	Inspector General's Report of the U.S. Securities and Exchange Commission's Fiscal Year 2012 Compliance with the Improper Payments Elimination and Recovery Act	3/11/2013

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
Total of Categories A and 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
Total of Categories C, D, and E	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 51 recommendations related to 13 Office of Audits and Office of Investigations reports. The following table lists recommendations open 180 days or more.

Report Number and Title	Issue Date	Recommendation Summary
474 - Assessment of the SEC's Bounty Program	3/29/2010	Require that a bounty file (hard copy or electronic) be created for each bounty application, which should contain at a minimum the bounty application, any correspondence with the whistleblower, documentation of how the whistleblower's information was utilized, and documentation regarding significant decisions made with regard to the whistleblower's complaint.
480 - Review of the SEC's Section 13(f) Reporting Requirements	9/27/2010	Update Form 13F to a more structured format, such as Extensible Markup Language, to make it easier for users and researchers to extract and analyze Section 13(f) data.
482 - Oversight of and Compliance With Conditions and Representations Related to Exemptive Orders and No-Action Letters	6/29/2011	In plans for implementing Section 965 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, develop procedures to coordinate examinations with those conducted by the Office of Compliance Inspections and Examinations and, as appropriate, include provisions for reviewing for compliance with the conditions in exemptive orders and representations made in no-action letters on a risk basis.
482 - Continued		In connection with monitoring efforts, include compliance with the conditions and representations in significant exemptive orders and/or no-action letters issued to regulated entities as risk considerations.
485 - Assessment of the SEC's Privacy Program	9/29/2010	Evaluate risk assessment processes for scoring risk to ensure that the Office of Information Technology adequately weighs all appropriate factors, including the identification of risk levels by vendors.
485 - Continued		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.
485 - Continued		Ensure personal storage tab (PST) files are saved to a protected folder.
489 - 2010 Annual FISMA Executive Summary Report	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.

Table 3. Reports with Recommendations, continued

Recommendations Open 180 days or more

Report Number and Title	Issue Date	Recommendation Summary
491 - Review of Alternative Work Arrangements, Overtime Compensation, and COOP-Related Activities at the SEC	9/28/2011	In developing the new Human Capital Directive, work with the National Treasury Employees Union to determine whether additional alternative work schedules, such as the gliding, variable day, variable week, three-day workweek, and Maxiflex options described in the Office of Personnel Management Handbook on Alternative Work Schedules, should be adopted as options for SEC employees.
491 - Continued		Negotiate revisions to the language in the collective bargaining agreement between the Commission and the National Treasury Employees Union with respect to the use of credit hours by employees working conforming schedules, ensuring that the revised language conforms with applicable law.
492 - Audit of SEC's Employee Recognition Program and Recruitment, Relocation, and Retention Incentives	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	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		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.
497 - Continued		Ensure that tapes are handled appropriately.
500 - Assessment of SEC's System and Network Logs	3/16/2012	Identify capacity requirements for all servers, ensure sufficient capacity is available for the storage of audit records, configure auditing to reduce the likelihood that capacity will be exceeded, and implement a mechanism to alert and notify appropriate Commission office/divisions when log storage capacity is reached.
500 - Continued		Review and update all logging policies and procedures consistent with the policy's review interval requirements and retain evidence of its reviews and any updates to the policy.
501 - 2011 Annual FISMA Executive Summary Report	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.

Table 3. Reports with Recommendations, continued

Recommendations Open 180 days or more

Report Number and Title	Issue Date	Recommendation Summary
501 - Continued	2/2/2012	Develop a comprehensive risk management strategy in accordance with National Institute of Standards and Technology's (NIST) <i>Guide for Applying the Risk Management Framework to Federal Information Systems: A Security Life Cycle Approach</i> , which will ensure that management of system-related security risks is consistent with the SEC's mission/business objectives and overall risk strategy.
501 - Continued		Update risk management policy to include language regarding developing a comprehensive governance structure and ensure that management of system-related security risks is consistent with the SEC's mission/business objectives and overall risk strategy.
501 - Continued		Develop and implement a formal risk management procedure that identifies an acceptable process for evaluating system risk consistent with the Commission's mission or business objectives and overall risk strategy.
501 - Continued		Develop and implement formal policy that addresses tailoring baseline security controls sets.
501 - Continued		Determine whether to perform the tailoring process at the organization level for all information systems (either as the required tailored baseline or as the starting point for system-specific tailoring) at the individual information system level, or by using a combination of organization-level and system-specific approaches.
501 - Continued		Tailor a baseline security controls set (with rationale) for applicable systems in accordance with NIST's <i>Guide for Applying the Risk Management Framework to Federal Information Systems: A Security Life Cycle Approach</i> , and NIST's <i>Recommended Security Controls for Federal Information Systems and Organizations</i> .
501 - Continued		Review and document the current standard baseline configuration, including identification of approved deviations and exceptions to the standard.
501 - Continued		Conduct compliance scans of information technology devices, according to the organizationally defined frequency in the policy and procedures, to ensure that all devices are configured as required by OIT's configuration management policy and procedures.
501 - Continued		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.

Table 3. Reports with Recommendations, continued

Recommendations Open 180 days or more

Report Number and Title	Issue Date	Recommendation Summary
502 - Review of the SEC's Continuity of Operations Program	4/23/2012	Complete the review of the agency-wide continuity of operations program (COOP) to ensure the SEC's COOP is comprehensive, cohesive, and in compliance with federal guidance.
502 - Continued		Revise and update the SEC's continuity of operations program policies and procedures to ensure they are comprehensive, complete, and up-to-date.
502 - Continued		Update, revise, and finalize all COOP documents, including the overall Headquarters COOP plan, individual division/office COOP plans, regional office COOP supplements, disaster recovery plans, business continuity plans and business impact analyses, and pandemic plans supplements.
502 - Continued		Ensure that vital records and lines of succession are properly identified, documented and readily available during continuity events.
502 - Continued		Revise the SEC system recovery time objectives to specify more realistic timeframes, based on the ability to transition to the alternate site, and then determine acceptable recovery times.
502 - Continued		Add elements to contracts and service level agreements for externally hosted systems to provide appropriate methods by which the SEC can obtain assurance that appropriate disaster recovery plan testing is performed on mission essential and Federal Information Security Management Act reportable systems and to ensure the systems are able to function during unscheduled events.
502 - Continued		Include elements of testing from an alternate site in the regional office continuity of operations program, disaster recovery, and business continuity plan testing on a periodic basis to ensure the necessary capability and functionality for regional office activities are in place.
502 - Continued		Categorize essential personnel according to necessary functions, based on various realistic scenarios (such as Headquarters or Operations Center locations becoming inaccessible or not operational, including traffic conditions that would affect the scenario).
502 - Continued		Specify when Commission personnel are to telework after an event and when they must go to the designated alternate locations instead of teleworking.

Table 3. Reports with Recommendations, continued

Recommendations Open 180 days or more

Report Number and Title	Issue Date	Recommendation Summary
502 - Continued	4/23/2012	Ensure that the designated Headquarters alternate worksites are ready for use and contain sufficient equipment and technology resources. In addition, COOP plan documentation should be revised to reflect current space availability and needs, taking into account the potential for telework and remote access.
502 - Continued		Ensure that designated alternate worksite locations are visited and tested periodically to ensure ready access and use.
502 - Continued		Clearly define in the continuity of operations, disaster recovery, and business continuity plan documentation the alternate worksite or telework locations for both essential and non-essential personnel.
502 - Continued		Ensure that continuity of operations, disaster recovery, and business continuity plan training occur prior to annual tests exercises or events as recommended by NIST Special Publication 800-84, Guide to Test, Training, and Exercise Programs for Information Technology Plans and Capabilities, in order to ensure that individuals are prepared for their specific roles during a disaster recovery event.
502 - Continued		Ensure that an appropriate and updated Memoranda of Agreement, Memoranda of Understanding and Service-Level Agreements are executed to provide for alternate work site locations, capabilities, and accommodations that may be necessary to ensure continuity of operations.
505 - SEC's Records Management Practices	9/30/2012	Develop a vital records program that includes processes and procedures to establish and maintain the SEC's vital records in accordance with applicable Federal regulations and the National Archives and Records Administration's guidance on vital records management.
PI-09-05 - SEC Access Card Readers in Regional Offices	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-505 - Failure to Timely Investigate Allegations of Financial Fraud	2/26/2010	Ensure as part of changes to complaint handling system that databases used to refer complaints are updated to accurately reflect status of investigations and identity of staff.
ROI-544 - Failure to Complete Background Investigation Clearance Before Giving Access to SEC Buildings and Computer Systems	1/20/2011	Take immediate measures to determine whether every OIT employee and contractor has been properly cleared by a background investigation and issued an official SEC badge.

Table 3. Reports with Recommendations, continued

Recommendations Open 180 days or more

Report Number and Title	Issue Date	Recommendation Summary
ROI-551 - Allegations of Unauthorized Disclosures of Nonpublic Information During SEC Investigations	3/30/2011	Employ technology that will enable the agency to maintain records of phone calls made from and received by SEC telephones.
ROI-557 - Investigation into the Misuse of Resources and Violation of IT Security Policies within the Division of Trading and Markets	8/30/2012	Require ARP lab staff to fill out appropriate training forms, clarify policy on continued service agreements (CSA) and consider requiring employees to sign CSAs for training costing more than \$5,000.

Table 4. Summary of Investigative Activity

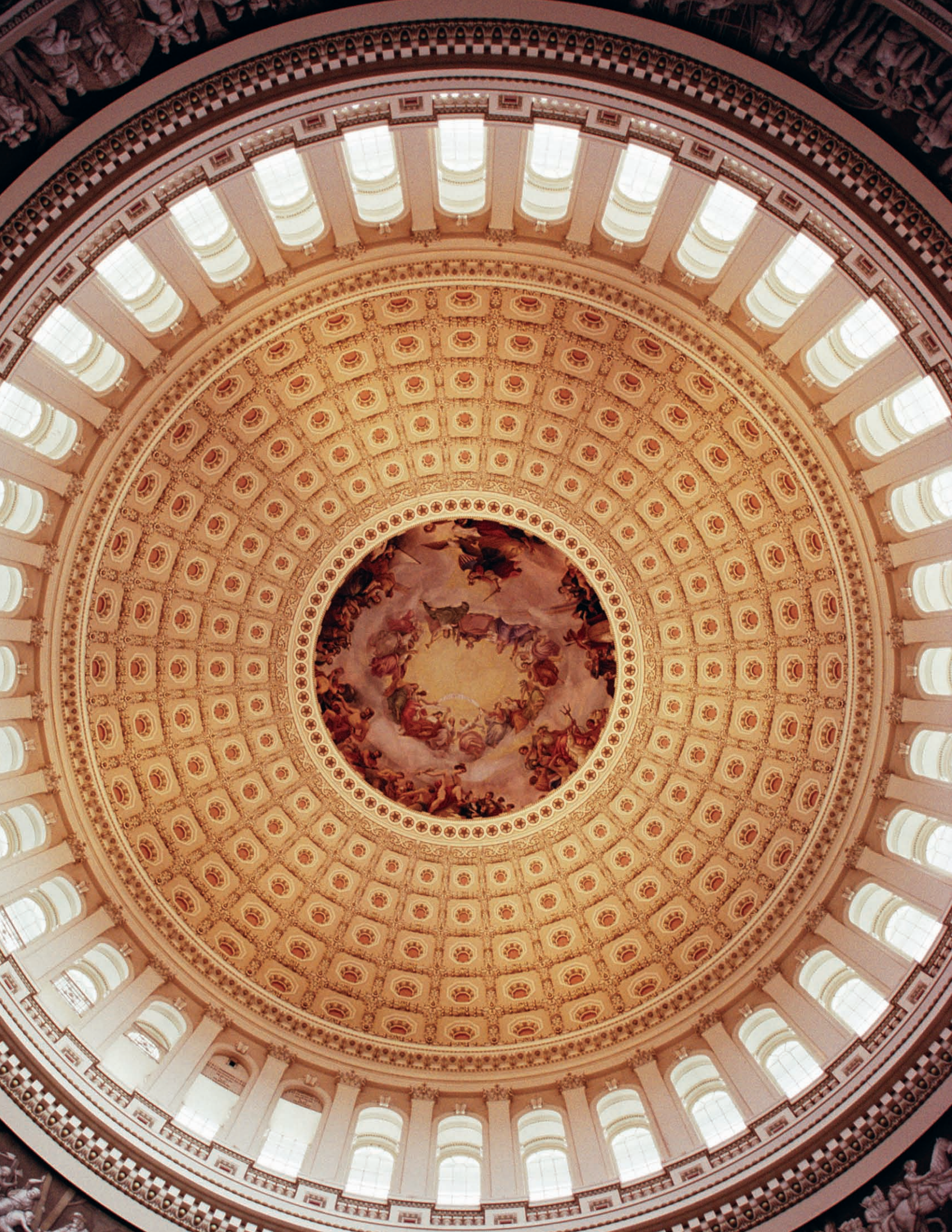
Cases	Number
Cases Open as of 9/30/2012	6
Cases Opened during 10/1/2012 - 3/31/2013	12
Cases Closed during 10/1/2012 - 3/31/2013	5
Total Open Cases as of 3/31/2013	13
Referrals to Department of Justice for Prosecution	4
Prosecutions	0
Convictions	0
Referrals to OIG Office of Audits	3
Preliminary Inquiries	Number
Inquiries Open as of 9/30/2012	41
Inquiries Opened during 10/1/2012 - 3/31/2013	14
Inquiries Closed during 10/1/2012 - 3/31/2013	29
Total Open Inquiries as of 3/31/2013	26
Referrals to Agency for Administrative Action	1
Disciplinary Actions (including referrals made in prior periods)	Number
Removals (Including Resignations and Retirements)	1
Suspensions	2
Warnings/Other Actions	2

Table 5. Summary of Complaint Activity

Complaints Received During the Period	Number
Complaints Pending Disposition at Beginning of Period	13
Hotline Complaints Received	184
Other Complaints Received	102
Total Complaints Received	286
Complaints on which a Decision was Made	282
Complaints Awaiting Disposition at End of Period	17
Dispositions of Complaints During the Period	Number
Complaints Resulting in Investigations	5
Complaints Resulting in Inquiries	14
Complaints Referred to OIG Office of Audits	5
Complaints Referred to Other Agency Components	120
Complaints Referred to Other Agencies	2
Complaints Included in Ongoing Investigations or Inquiries	10
Response Sent/Additional Information Requested	48
No Action Needed	82

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	17
5(a)(1)	Significant Problems, Abuses, and Deficiencies	7-11; 13-16
5(a)(2)	Recommendations for Corrective Action	7-11; 15
5(a)(3)	Prior Recommendations Not Yet Implemented	20-25
5(a)(4)	Matters Referred to Prosecutive Authorities	26
5(a)(5)	Summary of Instances Where Information Was Unreasonably Refused or Not Provided	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	7-11; 13-16
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)	Appendix of Peer Reviews Conducted by Another OIG	29



APPENDIX A

PEER REVIEWS OF OIG OPERATIONS

PEER REVIEW OF THE SEC OIG'S AUDIT OPERATIONS

In accordance with the CIGIE quality control and assurance standards, an OIG's audit functions are assessed by an external OIG audit team approximately every three years. 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 SEC OIG established and complied with a system of quality control that is suitably designed to provide SEC OIG with a reasonable assurance of conforming with applicable professional standards.

On August 23, 2012, LSC OIG issued its report, concluding that SEC OIG complied with the system of quality control and that it was suitably designed to provide SEC OIG with reasonable assurance of performing and reporting in conformity with applicable government auditing standards in all material respects. Federal audit organizations can receive a rating of "pass," "pass with deficiencies," or "fail." SEC OIG received a "pass" rating, and no recommendations were made. Further, there are no outstanding recommendations from previous peer reviews of our audit organization.

The peer review report is available on the SEC OIG's 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, SEC OIG did not have an external peer review of its investigative operations. Peer reviews of Designated Federal Entity OIGs, such as SEC OIG, are conducted on a voluntary basis. The most recent peer review of SEC OIG's investigative operations was conducted by the U.S. Equal Employment Opportunity Commission (EEOC) OIG. The EEOC OIG issued its report on SEC OIG's investigative operations in July 2007. This report concluded that 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).

An investigative operations peer review of SEC OIG is scheduled for the first quarter of fiscal year 2014.

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** www.sec-oig.gov/ooi/hotline.html

FAX 202.772.9265

MAIL Office of Inspector General
 U.S. Securities and Exchange Commission
 100 F Street, NE Washington, DC 20549-2977

EMAIL oig@sec.gov

Information received is held in confidence upon request. While the OIG encourages complainants to provide information on how they may be contacted for additional information, anonymous complaints are also accepted.



Additional copies of this report may be obtained by contacting the Office of Inspector General at 202.551.6061. This report is also available on the Inspector General's website at www.sec-og.gov.