



U.S. SECURITIES AND  
EXCHANGE COMMISSION

**Office of Inspector General**  
**SEMIANNUAL  
REPORT TO  
CONGRESS**

04.01.23 TO 09.30.23



UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
OFFICE OF INSPECTOR GENERAL  
SEMIANNUAL REPORT TO CONGRESS

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APRIL 1, 2023 THROUGH SEPTEMBER 30, 2023




#### OIG MISSION

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 U.S. Securities and Exchange Commission (Agency or SEC). We accomplish this mission by:

- conducting independent and objective audits, evaluations, and other reviews of SEC programs and operations;
- conducting independent and objective investigations of potential criminal, civil, and administrative violations that undermine the ability of the SEC to accomplish its statutory mission;
- preventing and detecting fraud, waste, and abuse in SEC programs and operations;
- identifying vulnerabilities in SEC systems and operations and making recommendations to improve them;
- communicating timely and useful information that facilitates management decision making and the achievement of measurable gains; and
- keeping Congress, the Chair, and the Commissioners fully and currently informed of significant issues and developments.



“We continued our efforts to meet our strategic goals of (1) delivering results that promote integrity, efficiency, and effectiveness in the SEC’s programs and operations; (2) advancing an inclusive and dynamic OIG culture that inspires high performance; and (3) improving the effectiveness and efficiency of OIG processes through continuous innovation, collaboration, and communication.”



# CONTENTS

MESSAGE FROM THE INSPECTOR GENERAL . . . . .	1
MANAGEMENT AND ADMINISTRATION. . . . .	3
Agency Overview . . . . .	3
OIG Staffing, Resources, and Administration . . . . .	3
OIG Outreach. . . . .	4
COORDINATION WITH OTHER AGENCIES . . . . .	5
AUDITS, EVALUATIONS, AND OTHER REVIEWS. . . . .	7
Overview . . . . .	7
Completed Audits, Evaluations, and Other Reviews. . . . .	7
Ongoing Audits and Evaluations . . . . .	8
INVESTIGATIONS . . . . .	11
Overview . . . . .	11
Report on Instances of Whistleblower Retaliation . . . . .	11
Select Closed Investigations, Including Substantiated Allegations Against Senior Government Employees . . . . .	12
REVIEW OF LEGISLATION AND REGULATIONS. . . . .	15
MANAGEMENT DECISIONS . . . . .	17
TABLES	
Table 1. <i>List of Reports: Audits and Evaluations</i> . . . . .	18
Table 2. <i>Reports With Recommendations on Which Corrective Action     Has Not Been Completed</i> . . . . .	18
Table 3. <i>Summary of Investigative Activity for the Reporting Period of     October 1, 2022, to March 31, 2023</i> . . . . .	20
Table 4. <i>References to Reporting Requirements of the IG Act.</i> . . . . .	22
APPENDIX A: PEER REVIEWS OF OIG OPERATIONS. . . . .	24
Peer Review of Audit Operations. . . . .	24
Peer Review of Evaluation Operations . . . . .	24
Peer Review of Investigative Operations . . . . .	25
APPENDIX B: OIG SEC EMPLOYEE SUGGESTION PROGRAM	
ANNUAL REPORT FY 2023 . . . . .	26
Overview . . . . .	26
Summary of Employee Suggestions and Allegations . . . . .	26

# ABBREVIATIONS

Agency or SEC	U.S. Securities and Exchange Commission
ARC	Appalachian Regional Commission
CAS	Commission Action System
CAT	consolidated audit trail
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of Inspectors General on Integrity and Efficiency
DFIU	Digital Forensics and Investigative Unit
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOJ	Department of Justice
EEO	equal employment opportunity
ENF	Division of Enforcement
ESP	Employee Suggestion Program
EXAMS	Division of Examinations
FDIC	Federal Deposit Insurance Corporation
FISMA	Federal Information Security Modernization Act of 2014
FY	fiscal year
IG	Inspector General
NDAA	National Defense Authorization Act
NPI	nonpublic information
NRC	Nuclear Regulatory Commission
OA	Office of Audits
OGC	Office of the General Counsel
OEEEO	Office of Equal Employment Opportunity
OI	Office of Investigations
OIG	Office of Inspector General
OS	Office of the Secretary
PIV	personal identification verification
T&M	time-and-materials
USAO	U.S. Attorney's Office



OFFICE OF  
INSPECTOR GENERAL

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

DEBORAH J. JEFFREY  
INSPECTOR GENERAL

## MESSAGE FROM THE INSPECTOR GENERAL

As the newly appointed Inspector General (IG), I am pleased to present this Semiannual Report to Congress, highlighting the accomplishments of the SEC OIG from April 1, 2023, to September 30, 2023. We strive to issue impactful reports on the most significant challenges facing the SEC and to prevent and detect fraud, waste, and abuse that could impede the agency's mission. Our [Office of Audits](#) (OA) issued four audits, evaluations, and other reviews and worked with SEC management to close 35 recommendations made in nine reports issued during previous reporting periods. Our [Office of Investigations](#) (OI) completed or closed 19 investigations, with ten referrals to the Department of Justice (DOJ) and made two referrals to management for administrative action. Through this oversight work, we demonstrate our commitment to strengthen the SEC's programs and operations to better serve the American people.

I am inspired by the dedication of the OIG's staff who produced these important products and am grateful to the Deputy Inspectors General who served as Acting IG (and other employees who stepped into acting roles) prior to my arrival. Notwithstanding these changes, the staff stayed the course with the utmost professionalism to accomplish our mission and meet our strategic goals. Indeed, they are actively engaged and dedicated to effective oversight, hardworking, thoughtful in approaching our endeavors, and always looking for opportunities to make a difference. The staff has been welcoming and perceptive in their suggestions about the future direction of the office.

I come to this role after more than a decade as the IG at another federal agency. Before that, I spent 25 years in the private practice of law, concentrating in areas pertinent to my current responsibilities, including securities investigations and litigation, and serving as a fact-finder and appellate officer in D.C.'s attorney disciplinary system. I am honored to serve as the SEC's IG and hope that my prior experience adds value to the efficient and effective operations of the Commission.

The pivotal role that the SEC plays in our nation's prosperity—protecting the 61 percent of Americans who own equities, ensuring that securities markets are strong and fair, and facilitating capital formation—calls for vigilant oversight that is fair, nonpartisan, and objective. To deserve the public's trust, our oversight must be guided by integrity, transparency, and accountability at all levels. The SEC OIG has long exemplified these values, and we will continue to do so.

We greatly appreciate the support that we have received from Congress and the Agency and pledge to work closely with both as we accomplish our common goals on behalf of our stakeholders.

Respectfully submitted,

A handwritten signature in blue ink that reads "Deborah J. Jeffrey".







# 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 capital markets that inspire public confidence and provide a diverse array of financial opportunities to retail and institutional investors, entrepreneurs, public companies, and other market participants. Its core values consist of integrity, excellence, accountability, teamwork, fairness, and effectiveness. On November 29, 2022, the SEC issued its [Strategic Plan: Fiscal Years 2022-2026](#), identifying its goals to (1) Protect the investing public against fraud, manipulation, and misconduct; (2) Develop and implement a robust regulatory framework that keeps pace with evolving markets, business models, and technologies; and (3) Support a skilled workforce that is diverse, equitable, inclusive, and fully equipped to advance Agency objectives.

The SEC is responsible for overseeing the nation's securities markets and certain primary participants, including broker-dealers, investment companies, investment advisers, clearing agencies, transfer agents, credit rating agencies, and securities exchanges, as well as organizations such as the Financial Industry Regulatory Authority, Municipal Securities Rulemaking Board, and the Public Company Accounting Oversight Board. Under the

Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank), the Agency's jurisdiction was expanded to include certain participants in the derivatives markets, private fund advisers, and municipal advisors.

The SEC accomplishes its mission through six main divisions—Corporation Finance, Enforcement, Examinations, Investment Management, Trading and Markets, and Economic and Risk Analysis—and 25 functional offices. The Agency's headquarters are in Washington, DC, and it has 11 regional offices located throughout the country. As of September 2023, the SEC employed 4,792 full-time equivalent employees.

## OIG STAFFING, RESOURCES, AND ADMINISTRATION

We continued our efforts to meet our strategic goals of (1) Delivering results that promote integrity, efficiency, and effectiveness in the SEC's programs and operations; (2) Advancing an inclusive and dynamic OIG culture that inspires high performance; and (3) Improving the effectiveness and efficiency of our processes through continuous innovation, collaboration, and communication.

During this reporting period, the OIG welcomed a new IG, as well as two auditors. Other backfill positions are in the hiring pipeline.

## OIG OUTREACH

To foster open communications, members of the OIG's senior leadership meet regularly with the Commissioners and senior officers from various SEC divisions and offices. These exchanges keep us current on significant developments in Agency programs and operations, pending challenges, and open issues, enabling us to incorporate new information into our work and planning. In turn, the OIG informs Agency leaders of the status of our work, seeks their input regarding areas of greatest risk, and briefs them on findings and recommendations.

Through ongoing outreach, we familiarize Agency staff with our oversight role and their responsibility to refer allegations of fraud, waste, abuse, and misconduct to the OIG. This includes participating in the SEC's comprehensive new employee orientation, including an overview of our work and the importance of their support.

Upon the arrival of our new IG, we worked with the Chair on a reminder to all SEC staff of their duty to cooperate with all OIG inquiries, including by providing the OIG with access to SEC employees, facilities, systems, and equipment, as

well as furnishing all information upon request. The message further assured SEC employees of their right to communicate directly with us without seeking permission from anyone within the Agency and of the OIG's whistleblower protection responsibilities. We appreciate the positive tone at the top reflected in the Chair's recognition of the OIG's role in maintaining the public's trust in the SEC.

We also continue to promote to SEC staff the Employee Suggestion Program (ESP) established by Dodd-Frank, as a channel by which staff can (1) suggest ways to improve the SEC's work efficiency, effectiveness, productivity and use of resources, and (2) report suspected waste, fraud, abuse, misconduct, or mismanagement. The ESP is in addition to the OIG's hotline, which also receives allegations of serious misconduct.

Moreover, the OIG OI delivers fraud awareness briefings throughout the SEC as needed. These briefings serve to educate SEC employees on our mission and programs, as well as to help the SEC identify specific vulnerabilities in the programs they oversee.



## COORDINATION WITH OTHER AGENCIES

**D**uring this semiannual reporting period, we coordinated our activities with those of other agencies, pursuant to Section 4(a)(4) of the IG Act of 1978, as amended.

Specifically, we participated in the meetings and activities of the Council of Inspectors General on Financial Oversight (CIGFO), which was established by Dodd-Frank. Under the leadership of the IG of the U.S. Department of the Treasury, CIGFO consists 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 (FDIC), the Federal Housing Finance Agency, the National Credit Union Administration, and also the Special IG for the Troubled Asset Relief Program. CIGFO enables the community of OIGs that oversee financial sector agencies to share information and ideas and collaborate on cross-cutting issues. One such CIGFO project, completed during this reporting period, reviewed the Financial Stability Oversight Council's response to Executive Order 14030, *Climate-Related Financial Risk*, dated August 2023.

SEC OIG employees participate actively in the programs, committees, activities and working groups of the Council of Inspectors General on

Integrity and Efficiency (CIGIE). These include the committees that establish professional standards for oversight disciplines, monitor compliance with those standards through external peer reviews, and develop government-wide criteria for information security within the Executive Branch. Engagement with CIGIE also facilitates informal cooperation and collaboration on common projects and assistance to and from other OIGs.

Finally, OI coordinated with law enforcement partners across the government to meet its mission of preventing and detecting fraud, waste, abuse, and criminal conduct within SEC's programs and operations. This includes investigating and supporting prosecution of serious crimes throughout the country, in partnership with various U.S. Attorney's Offices (USAO), the DOJ, the Federal Bureau of Investigation, other OIGs and state and local police forces. In addition, OI staff collaborated with other law enforcement organizations in carrying out the implementation of Executive Order 14074, *Advancing Effective, Accountable Policing and Criminal Justice Practices To Enhance Public Trust and Public Safety*, which President Biden issued on May 25, 2022. OI also provided assistance to, and coordination with, the Pandemic Response Accountability Committee to assist in investigating allegations of fraud related to pandemic funding.





# AUDITS, EVALUATIONS, AND OTHER REVIEWS

## OVERVIEW

**O**A conducts, coordinates, and supervises independent audits and evaluations of the SEC's programs and operations to assess Agency performance; to help detect and deter waste, fraud, abuse, and mismanagement; and to promote economy, efficiency, and effectiveness at the SEC's headquarters and 11 regional offices. Audits are performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Evaluations follow CIGIE's *Quality Standards for Inspections and Evaluations*.

Audits and evaluations provide essential accountability and transparency over government programs. We issue independent audit and evaluation reports, which identify deficiencies found and make recommendations to correct those deficiencies or increase efficiencies in SEC operations. Typically, OA assesses whether:

- resources are safeguarded and appropriately managed;
- governing laws, regulations, and policies are complied with;
- funds are expended properly;

- government programs are achieving their objectives and desired outcomes;
- government services are provided effectively, efficiently, economically, ethically, and equitably; and
- information provided by the Commission to the public and others is reliable.

OA also monitors the Agency's progress in taking corrective actions on recommendations from our audit and evaluation reports and works with other OIG components to independently assess Agency operations.

## COMPLETED AUDITS, EVALUATIONS, AND OTHER REVIEWS<sup>1</sup>

[Final Management Letter: Review of SEC Controls Over Public Comments Submitted Online and Actions Taken in Response to a Known Error](#)

[Evaluation of the SEC's FY 2022 Compliance With the Payment Integrity Information Act of 2019, Report No. 578](#)

[The SEC Took Appropriate Workplace Safety Actions in Accordance With Pandemic Guidance But Could Improve Communications, Report No. 579](#)

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<sup>1</sup> Per the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Pub. L. No. 117-263 § 5273, we are providing links to the reports posted on the SEC OIG website, in lieu of summaries.

## ONGOING AUDITS AND EVALUATIONS

### Audit of the Office of Equal Employment Opportunity

The SEC recognizes that the Agency’s success depends on having a skilled, diverse, coordinated workforce committed to the highest standards of trust, hard work, cooperation, and communication. As a neutral office, the Office of Equal Employment Opportunity (OEEO) supports the Agency’s goals by safeguarding employment-related civil rights at the SEC and leading the effort in developing policies and programs to advance equal employment opportunity (EEO), supporting internal equity and diversity efforts in line with legal parameters, and fostering a culture that values de-escalating workplace conflict.

We are conducting an audit to assess OEEO’s operations and controls in support of the Agency’s EEO program—including coordination and collaboration with other SEC offices and management—to determine whether OEEO complies with applicable laws, regulations, guidelines, and reporting requirements and effectively supports the Agency’s strategic goals. This includes (a) reviewing OEEO’s compliance and resolution program, including how pre-complaints and complaints are received and addressed, and whether they are processed within the required timeframes; (b) assessing OEEO’s Program for Preventing Harassment, including the intake and reporting processes and OEEO’s involvement in harassment prevention education; and (c) reviewing OEEO’s Barrier Analysis Program’s compliance with applicable

laws, regulations, and guidelines to include barrier analysis and reporting efforts.

We expect to issue a report summarizing our findings during the next reporting period.

### Fiscal Year 2023 Independent Evaluation of the SEC’s Implementation of the Federal Information Security Modernization Act of 2014

Amending the Federal Information Security Management Act of 2002, the Federal Information Security Modernization Act of 2014 (FISMA) provides (1) a comprehensive framework to ensure the effectiveness of security controls over information resources that support federal operations and assets; and (2) a mechanism for oversight of federal information security programs. FISMA also requires agencies to develop, document, and implement an Agency-wide information security program to provide information security for the data and information systems that support the operations and assets of the Agency.

In addition, FISMA requires IGs to annually assess the effectiveness of Agency information security programs and practices and to report the results to the Office of Management and Budget and the Department of Homeland Security. This assessment includes testing and assessing the effectiveness of Agency information security policies, procedures, practices, and a subset of Agency information systems. To comply with FISMA, we have initiated an evaluation of the SEC’s information security programs and practices. We contracted with Cotton & Company Assurance and Advisory, LLC to conduct this independent evaluation.

We expect our report will be issued during the next reporting period.

## Audit of Aspects of the SEC's Rulemaking Process and Related Internal Controls

Rulemaking is the process by which the SEC develops and promulgates regulations that govern the securities markets, and it is a key component in the agency's three-part mission. The SEC's strategic plan calls for developing and implementing "a robust regulatory framework that keeps pace with evolving markets, business models, and technologies."<sup>2</sup> Rulemaking typically involves developing a proposal to address a perceived issue, including an economic analysis of the proposed rule; publishing the proposal for public comment; considering the comments received; and finalizing agency action. Depending on the rulemaking, this work is largely accomplished by managers and staff from the divisions of Trading and Markets, Investment Management, Corporation Finance, and Economic and Risk Analysis, as well as personnel from the Office of the General Counsel (OGC), the Office of the Secretary (OS), and the Chair's policy team. Commissioners, supported by their staff, vote on placing proposed rules before the public for comment and on the adoption of final rules.

We have initiated an audit to assess aspects of the SEC's rulemaking process and related internal controls. The overall objective of the audit is to review the SEC's processes for (1) giving interested persons an opportunity to participate in rulemaking; and (2) assessing and documenting the impact(s) of proposed rules on competition, efficiency, and capital formation. We will also review Agency actions to ensure staff with sufficient and appropriate skills, experience, and expertise are involved in formulating and reviewing proposed rules.

We expect our report will be issued during the next reporting period.

## Audit of the SEC's Controls Over Time-and-Materials and Labor-Hour Contracts

Time-and-materials (T&M) contracts are to be used when it is difficult at the outset of the contract to estimate accurately the extent or duration of the work or the likely costs. Because T&M contracts do not reward a contractor for cost control or labor efficiency, they are generally considered riskier than fixed price contracts because of their incentive structure. As a result, the Government Accountability Office recommends that agencies use lower-risk contract vehicles where possible, including assessing ongoing use of T&M contracts in their acquisition portfolios. Similarly, the Federal Acquisition Regulation encourages contracting officers to consider whether experience obtained during the performance of a T&M contract would allow for firmer pricing.

We have initiated an audit of T&M and labor-hour contracts. The overall objective of this audit is to assess the SEC's controls over T&M contracts (including labor-hour contracts) and determine whether those controls ensure compliance with applicable laws, regulations, and SEC policies and procedures. Specifically, we are assessing (1) the factors the Office of Acquisitions considered when awarding T&M contracts; (2) the measures taken to reduce the SEC's use of T&M contracts when possible and appropriate; and (3) the surveillance of T&M contracts, including through use of a Quality Assurance Surveillance Plan, and coordination between contracting officers, contracting officer representatives, and program offices.

We expect to issue our report during the next reporting period.

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2 U.S. Securities and Exchange Commission, *Strategic Plan Fiscal Years 2022-2026 (Goal 2)*; November 23, 2022.

### Audit of the SEC's Controls for Safeguarding Consolidated Audit Trail (CAT) Data

As required by SEC Rule 613, the consolidated audit trail (CAT) captures customer and order event information for orders in National Market Systems securities across all markets, from order inception through routing, cancellation, modification, or execution, in a consolidated data source. Upon full implementation, CAT will be the world's largest data repository for securities transactions, tracking more than 58 billion records of orders, executions, and quote lifecycles for equities and options markets daily. It will be the largest database of retail and institutional trading data ever created.

We have initiated an audit of the SEC's controls for safeguarding CAT data available to SEC users. The objective of this audit is to determine whether the SEC's information security controls for safeguarding CAT data available to SEC users, as well as responding to CAT security events within the SEC's environment, comply with select requirements established in National Institute of Standards and Technology SP 800-53, Security and Privacy Controls for Information Systems and Organizations. The audit scope includes SEC processes and significant internal controls (including policies and procedures) related to requesting access to CAT data, extracting and sharing CAT data, logging and monitoring SEC user access, and securing CAT data.

We expect to issue our report during the next reporting period.

### Evaluation of the Division of Examinations' Oversight of Broker-Dealer Examinations

The SEC's Division of Examinations (EXAMS) maintains a critical presence among market participants by annually conducting thousands of examinations that help protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. The results of these examinations are used by the SEC to inform rulemaking initiatives, identify and monitor risks, improve industry practices, and pursue misconduct.

We initiated an evaluation to determine whether EXAMS is effectively overseeing its broker-dealer examinations. Specifically, we will determine whether EXAMS:

1. effectively uses risk-based strategies in the selection and scoping of broker-dealer examinations;
2. performs and documents broker-dealer examinations in accordance with applicable policies and procedures; and
4. monitors and assesses results of examinations to enhance oversight of broker-dealer compliance and accurately measure EXAMS' performance.

We expect to issue our report during the next reporting period.





# INVESTIGATIONS

## OVERVIEW

**O**I investigates allegations of criminal, civil, and administrative misconduct relating to SEC programs and operations. The subject of an investigation may be an SEC employee, contractor, consultant, or any person or entity involved in alleged wrongdoing affecting the Agency. Substantiated allegations may result in criminal prosecutions, fines, civil penalties, administrative sanctions, and/or personnel actions.

OI conducts investigations in accordance with the CIGIE *Quality Standards for Investigations* and applicable guidelines issued by the United States Attorney General. OI is committed to ensuring that its investigations are independent, fair, thorough, and timely.

In conducting investigations, OI works closely with SEC divisions and offices and law enforcement agencies. We partner with the DOJ, USAOs, and state and local prosecutors throughout the nation. When our investigators discover vulnerabilities or internal control deficiencies in the course of their work, we promptly report these issues to SEC management for corrective actions via Management Implication Reports.

Managing 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, is a critical OI responsibility. The Hotline allows individuals to report their allegations to us directly and confidentially, secure in the knowledge that we will protect their identity consistent with the IG Act.

OI's Digital Forensics and Investigations Unit (DFIU) performs digital forensic acquisitions, extractions, and examinations, increasingly important in support of investigatory work. The DFIU also conducts network intrusion and exploitation investigations, as well as other investigations involving threats to the SEC's information technology infrastructure.

## REPORT ON INSTANCES OF WHISTLEBLOWER RETALIATION

Whistleblowers are an essential source of information, and the OIG is committed to their protection. For this semiannual reporting period, we have no instances of whistleblower retaliation to report.

## SELECT CLOSED INVESTIGATIONS, INCLUDING SUBSTANTIATED ALLEGATIONS AGAINST SENIOR GOVERNMENT EMPLOYEES

### Subject Made Threats Against SEC Officials

We investigated allegations that a Florida resident made threats directed against past and present SEC officials, Florida law enforcement officers, and OIG senior special agents. A criminal complaint was filed and an arrest warrant issued for the subject in Florida. On September 15, 2022, the subject was arrested and subsequently indicted on October 4, 2022. On May 15, 2023, the subject pled guilty to Corruption by Threat Against Public Servant in the Circuit Court of the Thirteenth Judicial Circuit, Hillsborough County, FL, Criminal Court Division. As part of the subject's plea, he was sentenced 18 months' probation, psychological evaluation and treatment, and drug and alcohol evaluation and treatment.

### SEC Contractor Committed Time and Attendance Fraud

The SEC Office of Acquisitions notified us of possible time and attendance fraud by a contract employee who worked remotely and performed non-personal services under two different SEC contracts covering a period of more than two and a half years total. Investigators found substantial overstatements in the labor hours reported in one contract but had not quantified overstatements in the other. Upon discovery of these discrepancies, the contractor terminated the contract employee. The SEC and the contractor negotiated a resolution and ultimately the SEC modified the contract to ensure that future work is completed in a manner that is easier to monitor and track. On May 2, 2023, we presented this matter to the appropriate USAO for prosecution, and the matter was declined on the same day.

### Enforcement Administrative Personnel Accessed Adjudication Documents

We investigated an allegation that Division of Enforcement (ENF) administrative personnel who received access to OS's Commission Action System (CAS) downloaded documents prepared by the OGC to assist the Commission in its adjudication of matters and uploaded those documents into ENF's case management system known as Hub. As a result, the staff who investigate and prosecute matters in front of the Commission had access to legal advice provided to the Commission to assist it in deciding those same matters. ENF personnel's access to Commission adjudicatory information could result in a violation of the Administrative Procedures Act, which restricts Commission staff from both prosecuting and adjudicating a matter.

The investigation found that ENF administrative personnel were granted access to CAS so they could access information and documentation pertaining to interim and final Commission actions on ENF matters. The change occurred when, following the launch of a new Oracle-based CAS system, staff in OS upgraded the access roles of the ENF administrative personnel from "ReadOnly" to "ReadOnlySensitive," which had the effect of allowing them to access the adjudication drafts and advice from OGC. CAS was not configured to segregate adjudicatory advice and documents, and officials in ENF and OS did not contemplate that ENF administrative personnel would have access to adjudicatory documents in CAS or would upload those documents into Hub.

ENF administrative personnel likewise did not understand that they should have been prohibited from accessing and exporting the sensitive OGC adjudication information from CAS. In short, OS granted ENF administrative staff access to CAS without implementing adequate controls to distinguish between OGC's adjudication advice

and work product for the Commission and the materials properly accessed by ENF. The matter of this inadequate internal control was referred to our OA for further consideration.

Although we did not find intentional misconduct, the Commission dismissed 42 pending matters as to which adjudicatory information was uploaded into Hub and granted relief for persons subject to collateral bars in an additional 48 matters.

#### SEC Employee Committed Time and Attendance Fraud and Teleworked from an Unapproved Location

We investigated allegations that an employee did not work the hours claimed on their timesheets and relocated without authorization to telework permanently from a different state. Investigators determined that the employee claimed and was compensated for hours they did not work, consistently failed to respond to their supervisor, and relocated to a different state and teleworked from there without authorization. We also discovered that the employee undertook outside employment without proper authorization from the SEC. In total, the employee claimed 1,139 work hours in the SEC's timekeeping system, valued at \$92,568.96, for which we found no corresponding network activity or other evidence of work performed. Further, after they relocated, the employee received \$14,579 in locality pay to which they were not entitled.

During the investigation, the employee resigned from the SEC. On May 4, 2022, we presented the facts and evidence in the matter to the appropriate prosecutorial authority, which, on April 12, 2023, declined prosecution.

#### Contractor Sent SEC Nonpublic Information to a Non-SEC Email Address

We initiated an investigation based on a referral from the Agency that a former SEC contract employee emailed SEC nonpublic information (NPI) outside of the SEC on their last day of work.

The investigation confirmed, and the contractor admitted, that they sent four emails with attached files that contained SEC NPI from their SEC email account to their non-SEC email account.

In the presence of investigators, the contract employee accessed and deleted the emails and attachments from their non-SEC email account. A forensic examination of the contractor's SEC computer and personal computer disclosed no evidence to indicate that they forwarded the emails to anyone else, that anyone else had access to their non-SEC email account, or that copies of the SEC files were located anywhere other than on their personal computer hard drive and the non-SEC email account.

During the forensic examination of the contractor's personal computer hard drive, we discovered numerous images and videos identified as child sexual abuse material. On July 24, 2020, we presented the matter to the appropriate USAO for prosecution, and thereafter the U.S. Department of Homeland Security, Immigration and Customs Enforcement, Homeland Security Investigations joined the investigation to provide forensic analysis of the child sexual abuse material. Ultimately, the USAO declined the matter on April 27, 2023.

### SEC Employee Engaged in Unauthorized Outside Employment and Committed Time and Attendance Fraud

We initiated an investigation that an employee engaged in employment outside the SEC without having prior approval, and that the employee may have used SEC resources in furtherance of outside employment. Our investigation determined that the employee failed to seek, and did not obtain, the required prior approval for two different outside professional employment engagements. Furthermore, for the period July 2020 through July 2022, the employee claimed over 2,729 hours of work, valued at \$143,143, for which we could find no corresponding network or phone activity. We also found that the employee (1) represented private business clients in lengthy transactions on days when they claimed to have been working for the SEC, and (2) failed to use leave on nine days that the employee claimed to be out of the office and not working.

On October 12, 2022, we consulted with the appropriate USAO, which declined prosecution on January 31, 2023. The matter was referred to SEC management and ultimately the employee resigned.

### An Unknown Subject Photographed the Screen of an SEC Laptop

We initiated an investigation after receiving allegations that posts on Reddit and StockTwits social media sites contained a photograph that appeared to depict an SEC laptop with a personal identification verification (PIV) card partially visible. The photo also showed a single sheet of paper containing information related to SEC business.

Investigators identified the likely owner of the partially-visible PIV card, who denied taking or posting the photograph. However, the employee acknowledged leaving their SEC laptop unattended and unsecured while teleworking from their residence where it was accessible to other occupants and guests. While we could not establish who took the picture, we were able to determine that a person unaffiliated with the SEC posted it online. On June 14, 2022, we consulted with the appropriate USAO, which ultimately declined this matter on February 15, 2023.

We referred the matter to SEC management for administrative action. We were advised that the employee received an oral counseling.



## REVIEW OF LEGISLATION AND REGULATIONS

Section 4(a) of the IG Act directs the OIG to review existing and proposed legislation and regulations relating to the programs and operations of the SEC, and to make recommendations concerning the impact of such legislation or regulations on the economy and efficiency of SEC programs and operations, as well as any impact on the prevention and detection of fraud and abuse in such programs and operations. Although the SEC’s Office of Legislative and Intergovernmental Affairs and OGC review proposed or enacted legislation that could affect the SEC’s activities, the OIG independently conducts reviews in accordance with the IG Act.

During this reporting period, we reviewed provisions of the James M. Inhofe National

Defense Authorization Act (NDAA) for FY 2023 and the Trafficking Victims Prevention and Protection Reauthorization Act of 2022 and monitored proposed legislation, including the NDAA for Fiscal Year 2024 (H.R. 2670), the Stop Settlement Slush Funds Act of 2023, the IG Independence and Empowerment Act, and the Whistleblower Protection Improvement Act. Additionally, the OIG has reviewed, and is reviewing, several proposed and final rules published by the Commission during this reporting period related directly to the internal programs and operations of the SEC, including proposed rules on the *Supplemental Standards of Ethical Conduct for Members and Employees of the Securities and Exchange Commission* and *The Commission’s Privacy Act Regulations*.





# MANAGEMENT DECISIONS

## Status of Recommendations With No Management Decisions

Management decisions have been made on all audit and evaluation 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

We agree with all significant management decisions regarding audit and evaluation recommendations.

## Reports for Which No Agency Comment Was Returned Within 60 Days

There were no audit or evaluation reports issued before the beginning of this reporting period for which no Agency comment was returned within 60 days of providing the report to the Agency.

## Instances Where the Agency Unreasonably Refused or Failed To Provide Information to Us or Attempted To Interfere With Our Independence

During this reporting period, there were no instances in which the Agency unreasonably refused or failed to provide information to us or attempted to interfere with our independence.

Table 1. List of Reports: Audits and Evaluations

Information Security	
4/14/2023	Final Management Letter: Review of SEC Controls Over Public Comments Submitted Online and Actions Taken in Response to a Known Error
n/a	
9/27/2023	Final Management Letter: Readiness Review—The SEC’s Progress Toward Implementing Zero Trust Cybersecurity Principles
n/a	
Financial Management	
5/5/2023	Evaluation of the SEC’s FY 2022 Compliance With the Payment Integrity Information Act of 2019
Report No. 578	
Pandemic Response	
7/25/2023	The SEC Took Appropriate Workplace Safety Actions in Accordance With Pandemic Guidance But Could Improve Communications
Report No. 579	

Table 2. Reports With Recommendations on Which Corrective Action Has Not Been Completed

During this most recent semiannual reporting period, SEC management provided the OIG with documentation to support the implementation of OIG recommendations. In response, the OIG closed 35 recommendations related to nine OA reports. The following table lists recommendations issued before the commencement of this semiannual reporting period that remain open. (“Redacted text” indicates recommendations that include one or more redactions of nonpublic information.)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
546—Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	12	3/30/2018	Redacted Text
562—Opportunities Exist To Improve the SEC’s Management of Mobile Devices and Services	6	9/30/2020	Redacted Text
574—Fiscal Year 2022 Independent Evaluation of the SEC’s Implementation of the Federal Information Security Modernization Act of 2014	3	11/15/2022	Redacted Text
574—Fiscal Year 2022 Independent Evaluation of the SEC’s Implementation of the Federal Information Security Modernization Act of 2014	5	11/15/2022	Redacted Text



Table 2. Reports With Recommendations on Which Corrective Action Has Not Been Completed  
(Continued)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
574—Fiscal Year 2022 Independent Evaluation of the SEC’s Implementation of the Federal Information Security Modernization Act of 2014	6	11/15/2022	Redacted Text
574—Fiscal Year 2022 Independent Evaluation of the SEC’s Implementation of the Federal Information Security Modernization Act of 2014	7	11/15/2022	Redacted Text
574—Fiscal Year 2022 Independent Evaluation of the SEC’s Implementation of the Federal Information Security Modernization Act of 2014	8	11/15/2022	Redacted Text
576—Enforcement Investigations: Measures of Timeliness Showed Some Improvement But Enforcement Can Better Communicate Capabilities for Expediting Investigations and Improve Internal Processes	1	2/15/2023	Review its processes for communicating across ENF information on data analytics capabilities, best practices, training opportunities, and available tools that help expedite investigations to ensure, to the maximum extent practicable, all ENF employees are made aware of available measures to expedite investigations, where possible and appropriate.
576—Enforcement Investigations: Measures of Timeliness Showed Some Improvement But Enforcement Can Better Communicate Capabilities for Expediting Investigations and Improve Internal Processes	2	2/15/2023	Review and consider the OIG survey results and develop a plan to address noted concerns, including feedback on potential inefficiencies in the action memo process, information technology improvements, and staffing and workload concerns.
576—Enforcement Investigations: Measures of Timeliness Showed Some Improvement But Enforcement Can Better Communicate Capabilities for Expediting Investigations and Improve Internal Processes	3	2/15/2023	Perform a detailed review of Division-wide (a) procedures for timely processing matters under inquiry and (b) controls that ensure investigations that are not anticipated to lead to an enforcement action are timely closed, and then disseminate across ENF any best practices identified.
577—The SEC Supported Federal Small Business Contracting Objectives, Yet Could Make Better Use of Data and Take Other Actions To Further Promote Small Business Contracting	7	2/28/2023	Implement a process to ensure the SEC’s small business reported achievements submitted to the U.S. Small Business Administration are supported (or traceable to detailed transaction level contracting data).

Table 3. Summary of Investigative Activity for the Reporting Period of April 1, 2023, to September 30, 2023

The data contained in this table was compiled from our investigations case management system.

Investigative Caseload	Number
Cases Open at Beginning of Period	32
Cases Completed But Not Closed* at Beginning of Period	2
Cases Opened During Period	7
Cases Closed During Period**	17
Cases Completed But Not Closed at End of Period	2
Open Cases at End of Period	22
Investigative Reports Issued During the Reporting Period	11

\* A case is “completed” but not “closed” when the investigative work has been performed but disposition (such as corrective administrative action) is pending.

\*\* Of the 17 cases closed during this reporting period, 5 involved allegations that were unsubstantiated. Of the 17 cases closed in this reporting period, 2 involved senior government employees or senior officials (collectively, “SGEs”).<sup>3</sup> Of the two cases involving SGEs, one case involved allegations that were unsubstantiated.<sup>4</sup>

Criminal and Civil Investigative Activities	Number
Referrals for Criminal Prosecution to DOJ	10
Accepted	2
Indictments/Informations	1
Arrests	0
Convictions	1
Referrals for Criminal Prosecution to State and Local Prosecuting Authorities	0
Referrals for Civil Prosecution to DOJ	0
Referrals for Civil Prosecution to State and Local Prosecuting Authorities	0

3 According to IG Act Section 5(f)(7), an SGE is “an officer or employee in the executive branch... who occupies a position classified at or above GS-15 of the General Schedule or, in the case of positions not under the General Schedule, for which the rate of basic pay is equal to or greater than 120 percent of the minimum rate of basic pay payable for GS-15 of the General Schedule...” As an independent agency, the SEC has independent pay setting authority, and its pay scale is generally higher than the General Schedule, which can result in more SEC employees being categorized as SGEs in accordance with the IG Act.

4 This matter involved unsubstantiated allegations of conduct in violation of ethics laws and policies.

Table 3. Summary of Investigative Activity for the Reporting Period of April 1, 2023, To September 30, 2023 (Continued)

Monetary Results	Number
Criminal Fines/Restitutions/Recoveries/Assessments/Forfeitures	\$0
Criminal Seizures	\$0
Civil Fines/Restitutions/Recoveries/Penalties/Damages/Forfeitures	\$0

Administrative Investigative Activities	Number
Removals, Retirements, and Resignations	1
Suspensions	0
Reprimands/Warnings/Other Actions	1

Complaints Received	Number
Hotline Complaints	267
Other Complaints	589
Total Complaints During Period	856

Table 4. References to Reporting Requirements of the IG Act<sup>5</sup>

Inspector General Act Reporting Requirement	Page(s)
Review of legislation and regulations	15
Significant problems, abuses, and deficiencies and associated reports	7-14
Identification of each recommendation made before the reporting period, for which corrective action has not been completed, including the potential costs savings associated with the recommendation	18-19
Summary of significant investigations closed during the reporting period	12-14
Total number of convictions resulting from investigations	20
Listing of each audit, evaluation or inspection issued during the reporting period	18
Total dollar value of questioned costs (including a separate category for the dollar value of unsupported costs) and the dollar value of recommendations that funds be put to better use, including whether a management decision had been made by the end of the reporting period	n/a
Information regarding any management decision made during the reporting period with respect to any audit, inspection, or evaluation issued during a previous reporting period	17
Results of peer review conducted of SEC OIG	24-25
Date of the last peer review conducted by another OIG	24-25
List of outstanding recommendations made from any previous peer review of SEC OIG that remain outstanding or have not been fully implemented	n/a
A list of any peer reviews conducted by the IG of another OIG during the reporting period, including a list of any outstanding recommendations made from any previous peer review (including any peer review conducted before the reporting period) that remain outstanding or have not been fully implemented	n/a
Statistical table showing the total number of investigative reports issued during the reporting period	20
Statistical table showing the total number of persons referred to the DOJ for criminal prosecution during the reporting period	20
Statistical table showing the total number of persons referred to State and local prosecuting authorities for criminal prosecution during the reporting period	20
Statistical table showing the total number of indictments and criminal informations during the reporting period that resulted from any prior referral to prosecuting authorities	20
Description of the metrics used for developing the Data for the Statistical Tables Under Paragraph 17	20

<sup>5</sup> U.S.C. §§ 404–405, formerly cited as 5 U.S.C. App. 3 §§ 4-5. Please note, the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Pub. L. No. 117-263 § 5273 amended the semiannual reports requirements and those requirements have not yet been codified.

Table 4. References to Reporting Requirements of the IG Act (Continued)

Inspector General Act Reporting Requirement	Page(s)
Report on each investigation conducted involving a senior government employee or senior official where allegations of misconduct were substantiated	12-14
Instances of whistleblower retaliation	11
Attempts by the establishment to interfere with the independence of the OIG	17
Each inspection, evaluation, and audit conducted by the OIG that is closed and was not disclosed to the public	n/a
Each investigation conducted by the OIG involving a senior government employee that is closed and was not disclosed to the public	20

APPENDIX A

# PEER REVIEWS OF OIG OPERATIONS

## PEER REVIEW OF AUDIT OPERATIONS

In accordance with generally accepted government auditing standards, the audit operations of each OIG undergo an external peer review every three years. These external peer reviews ensure consistent standards across the IG community and ensure that each OIG is accountable to the public for its oversight work. The FDIC OIG conducted the most recent assessment of our audit operation's system of quality control for the three-year period ending March 31, 2021. The review focused on whether we established and complied with a system of quality control that was suitably designed to provide us with a reasonable assurance of conforming to applicable professional standards.

On September 24, 2021, the FDIC OIG issued its report, concluding that we complied with its system of quality control and that the system was suitably designed to provide us 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 FDIC OIG gave us a peer review rating of "pass." (Federal audit organizations can receive a rating of "pass," "pass with deficiencies," or "fail.") The FDIC OIG identified two findings and made four recommendations that were not considered to be of sufficient significance to affect the peer review rating. As of November 2021, we had completed corrective actions to address the four recommendations. Furthermore, there are no outstanding recommendations from previous peer reviews of our audit organization.

The peer review report is available on our website at <https://www.sec.gov/files/Peer-Review-System-Review-Report-On-SEC-OIG-Audit-Organization.pdf>. The next peer review of our audit function is scheduled for FY 2024.

## PEER REVIEW OF EVALUATION OPERATIONS

The Appalachian Regional Commission (ARC) OIG conducted the most recent assessment of our inspection and evaluation work for the three-year period ending June 30, 2020. The review focused on assessing the extent to which we met seven critical standards of the CIGIE Blue Book, dated January 2012. The assessment included a review of our internal policies and procedures, as well as an assessment of selected inspection and evaluation reports issued from July 1, 2017, through June 30, 2020 for compliance with the Blue Book standards and our internal policies and procedures.

On October 20, 2020, the ARC OIG issued its report, concluding that our policies and procedures generally met the seven Blue Book standards addressed in the external peer review. In addition, the ARC OIG found that the two reports reviewed generally met the Blue Book standards and complied with our internal policies and procedures. The ARC OIG did not make any recommendations.

The external peer review report is available on our website at <https://www.sec.gov/files/External-Peer-Review-Report-for-the-SEC-OIG-Inspection-and-Evaluation-Function.pdf>. The next peer review of our inspection and evaluation function is scheduled to be completed during the next reporting period by the Department of Commerce OIG.

## PEER REVIEW OF INVESTIGATIVE OPERATIONS

The U.S. Nuclear Regulatory Commission (NRC) OIG conducted a peer review of our investigative operations in 2023. The NRC OIG conducted its review in conformity with the *Quality Standards for Investigations* and the *Quality Assessment Review Guidelines for Investigative Operations of Federal Offices of Inspector General established by CIGIE* and the *Attorney General Guidelines for Offices of Inspectors General With Statutory Law Enforcement Authority*.

On May 17, 2023, the NRC OIG concluded that the OIG's investigative operations met the quality standards established by CIGIE and other applicable guidelines and statutes. Furthermore, the NRC OIG concluded our system of internal policies and procedures provides reasonable assurance that we conform to professional standards in the planning, execution, and reporting of our investigations.

APPENDIX B

# OIG SEC EMPLOYEE SUGGESTION PROGRAM

## OVERVIEW

The OIG established the OIG SEC ESP in September 2010, pursuant to Section 966 of Dodd-Frank. Section 966 required the IG to establish a suggestion program for SEC employees. In accordance with the reporting requirement in Dodd-Frank, the SEC OIG has prepared this annual report describing suggestions and allegations received, recommendations made or actions taken by the OIG, and actions taken by the SEC in response to suggestions from October 1, 2022, through September 30, 2023.

Through the ESP, the OIG receives suggestions from agency employees concerning improvements in the SEC’s work efficiency, effectiveness, productivity, and use of resources. The OIG’s OI reviews and acts on ESP submissions that allege waste, abuse, misconduct, or mismanagement. SEC employees report their concerns to the ESP via an electronic mailbox and telephone hotline maintained by the OIG.

## SUMMARY OF EMPLOYEE SUGGESTIONS AND ALLEGATIONS

Between October 1, 2022, and September 30, 2023, the OIG received and analyzed 14 suggestions or allegations, details of which are shown below:

Nature and Potential Benefits of Suggestion*	Number
Increase efficiency or productivity	2
Increase effectiveness	6
Increase the use of resources or decrease costs	2

Nature and Seriousness of Allegation*	Number
Mismanagement and/or discrimination	0
Waste of SEC resources	0
Misconduct by an employee	0

Action Taken by the OIG in Response to Suggestion or Allegation*	Number
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Memorandum to or communication with the SEC about the suggestion or allegation	6
Referred to OIG Office of Investigations	1
Referred to OIG Office of Audits	1
Researched issues, but determined no further action was necessary	6
Other	0

Action Taken by SEC Management*	Number
SEC management took action to address the suggestion or allegation	0
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	0

\*Some suggestions or allegations are included under multiple categories.

# OIG GENERAL OFFICE CONTACT INFORMATION

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## REPORT FRAUD, WASTE, OR ABUSE

To report suspected fraud, waste, or abuse in SEC programs or operations, as well as SEC staff or contractor misconduct, use our online OIG hotline complaint form, <https://sec.govcomhotline.com>, or call (833) 732-6441. This number is answered 24 hours, 7 days a week.

Information received through the hotline is held in confidence upon request. Although the OIG encourages complainants to provide information on how we may contact them for additional information, we also accept anonymous complaints.

## EMPLOYEE SUGGESTION PROGRAM

The OIG SEC Employee Suggestion Program, established under Dodd-Frank, welcomes suggestions by all SEC employees for improvements in the SEC's work efficiency, effectiveness, productivity, and use of resources. The OIG evaluates all suggestions received and forwards them to agency management for implementation, as appropriate. SEC employees may submit suggestions by calling (202) 551-6062 or sending an e-mail to [OIGESProgram@sec.gov](mailto:OIGESProgram@sec.gov).

## COMMENTS AND IDEAS

The SEC OIG also seeks ideas for possible future audits, evaluations, or reviews. We will focus on high-risk programs, operations, and areas where substantial economies and efficiencies can be achieved. Please send your input to [AUDPlanning@sec.gov](mailto:AUDPlanning@sec.gov).





U.S. SECURITIES AND EXCHANGE COMMISSION

This report is available on the Inspector General's website  
[www.sec.gov/oig](http://www.sec.gov/oig)