



Office of Inspector General

SEMIANNUAL REPORT TO CONGRESS

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OFFICE OF INSPECTOR GENERAL
SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2015 THROUGH MARCH 31, 2016



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 (SEC or agency). 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 and the Chair and Commissioners fully and currently informed of significant issues and developments.

We continued to foster an
OIG leadership culture that
strives for consistency and
continuity in the OIG's business
practices and operations and
helps ensure that the OIG is an
effective, responsive entity.

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ABBREVIATIONS

Agency/SEC	U.S. Securities and Exchange Commission
ALJ	Administrative Law Judge
CIGIE	Council of the Inspectors General on Integrity and Efficiency
DOJ	Department of Justice
FY	Fiscal Year
GAO	U.S. Government Accountability Office
GPC	Government Purchase Card
IG	Inspector General
IT	Information Technology
OCIE	Office of Compliance Inspections and Examinations
OEC	Office of the Ethics Counsel
OFM	Office of Financial Management
OHR	Office of Human Resources
OIG	Office of Inspector General
OMB	Office of Management and Budget
SLRP	Student Loan Repayment Program
SRO	Self-Regulatory Organization
USAO	United States Attorney's Office



MESSAGE FROM THE INSPECTOR GENERAL



I am pleased to present this Semiannual Report to Congress as Inspector General (IG) of the SEC. This report describes the work of the SEC OIG from October 1, 2015, to March 31, 2016, and reflects our responsibility to report independently to Congress and the Chair and Commissioners. The audits, evaluations, investigations, and other reviews that we describe illustrate the OIG's efforts to promote the efficiency and effectiveness of the SEC and demonstrate the impact that our work has had on the agency's programs and operations.

During this semiannual reporting period, the OIG established a Digital Forensics and Investigations Unit within its Office of Investigations. The Digital Forensics and Investigations Unit provides the Office of Investigations with the capability to forensically extract, examine, and analyze various types of digital evidence. This new unit enhances the OIG's investigative capability and assists in detecting, identifying, and protecting against threats to the SEC's sensitive information systems. Furthermore, the OIG has added auditors with information technology (IT) expertise. These staff will assist the OIG in continuing to perform its important oversight function as the SEC continues to make needed technological improvements to achieve its mission.

We continued to foster an OIG leadership culture that strives for consistency and continuity in the OIG's business practices and operations and helps ensure that the OIG is an effective, responsive entity. During the reporting period, we enhanced staff engagement by conducting strategic planning and team building sessions for the entire OIG staff. These sessions afforded each OIG employee an opportunity to contribute to the development of the OIG's strategic goals, objectives, and priorities. The OIG's employee engagement efforts have yielded positive results; for the second consecutive year, the OIG ranked second among SEC offices and divisions in the Federal Employee Viewpoint Survey.

Additionally, we also continued our important outreach efforts that are designed to enhance the OIG's visibility and educate SEC staff about the OIG's role and mission. Specifically, we continued to roll out the second phase of the OIG's outreach program that focused on identifying trends and patterns and preventing fraud, waste, and abuse in agency programs and operations.

During this reporting period, the OIG's Office of Audits issued several reports that recommended improvements in SEC programs and operations. On March 10, 2016, we issued a report on our evaluation of the Office of Compliance Inspections and Examinations' (OCIE) management of examination coverage goals for investment advisers and investment companies, which is OCIE's largest program area. Although we found that OCIE has worked to increase its examination coverage in this area, we identified certain improvements that are needed to assess OCIE's progress toward meeting strategic objectives and long-term examination coverage goals.

In addition, on February 11, 2016, we issued an audit report assessing the SEC's compliance with Federal and agency requirements for planning, requesting, approving, and reporting agency-sponsored conferences. We found that the SEC Office of Financial Management (OFM) had established policies and procedures for planning, requesting, and approving SEC-sponsored conferences. However, we determined that the OFM could further improve its oversight of agency-sponsored conferences in certain respects. On March 31, 2016, we issued a report on our audit of the SEC's student loan repayment program (SLRP). Although we found that the SEC's Office of Human Resources (OHR) had implemented changes to the program during 2014 and 2015, we identified internal control weaknesses that impacted the OHR's ability to effectively manage the program and made nine recommendations to improve the program.

The Office of Audits also worked with SEC management to close 17 recommendations made in OIG reports issued during this and previous semiannual reporting periods.

The Office of Investigations completed or closed 18 investigations during this reporting period. We investigated various allegations, including false statements, post-employment conflict of interest, prohibited personnel practices, prohibited securities holdings, harassing communications, improper termination, misuse of a Government-issued travel card, an inappropriate relationship with a subordinate employee, and bias on the part of SEC Administrative Law Judges (ALJs). During the reporting period, the Office of Investigations made seven referrals to the Department of Justice (DOJ), two of which were accepted for possible prosecution, and seven referrals to management for corrective administrative action.

In particular, on January 21, 2016, we issued a final report describing the results of our investigation into allegations of bias on the part of SEC ALJs in the SEC's administrative proceedings. The investigation did not develop any evidence to support the allegations we examined, and we obtained evidence that ALJ decisions were made independently and free from the influence of the Chief ALJ. Additionally, an investigation developed evidence that an SEC staff accountant made false statements to the OIG related to stock holdings that were prohibited by the SEC's ethics rules. We referred the matter to a United States Attorney's Office (USAO) for prosecution and the staff accountant later resigned from the SEC. During this reporting period, the staff accountant was arrested for violating the Federal criminal false statements statute and entered into a deferred prosecution agreement.

I am also pleased to report that the OIG held its second annual OIG awards ceremony in February 2016 to honor service and outstanding achievements by OIG staff members during 2015. At this ceremony, the SEC Chair and I recognized the specific contributions of the award recipients, who were selected based on nominations submitted by their peers. I would like to express my gratitude to the award recipients, as well as all the OIG staff, for their continued hard work and dedication in furtherance of the OIG's mission.

In closing, I remain firmly committed to executing the OIG's mission of promoting the integrity, efficiency, and effectiveness of the SEC's programs and operations and to reporting our findings and recommendations to Congress and the Chair and Commissioners. I appreciate the significant support that the OIG has received from Congress and the agency. We will continue to collaborate with the SEC Chair, Commissioners, and staff, as well as Congress, to assist the agency in addressing the challenges it faces in its unique and important mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation.

A handwritten signature in blue ink that reads "Carl W. Hoecker". The signature is written in a cursive style.

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 strategic goals are to establish and maintain an effective regulatory environment; foster and enforce compliance with the Federal securities laws; facilitate access to the information investors need to make informed investment decisions; and enhance the SEC's performance through effective alignment and management of human, information, and financial capital.

Currently, the SEC is charged with overseeing about 27,000 market participants, including nearly 12,000 investment advisers, almost 11,000 mutual funds and exchange traded funds, more than 4,000 broker-dealers, and more than 400 transfer agents. The agency also oversees 18 national securities exchanges, 10 credit rating agencies, and 6 active registered clearing agencies, as well as the Public Company Accounting Oversight Board, the Financial Industry Regulatory Authority, the Municipal Securities Rulemaking Board, the Securities Investor

Protection Corporation, and the Financial Accounting Standards Board. In addition, the SEC is responsible for selectively reviewing the disclosures and financial statements of more than 9,100 reporting companies.

The SEC accomplishes its mission through 5 main divisions—Corporation Finance, Enforcement, Investment Management, Trading and Markets, and Economic and Risk Analysis—and 23 functional offices. The SEC's headquarters is in Washington, DC, and there are 11 regional offices located throughout the country. As of the end of March 2016, the SEC employed 4,615 fulltime equivalent employees.

OIG STAFFING AND RESOURCES

During this semiannual reporting period, the OIG continued to add key staff to enhance its audit and program support functions. Specifically, the OIG hired two auditors and one part-time attorney. One auditor departed the OIG.

OIG management has continued to develop an OIG leadership culture, which will ensure consistency and continuity in the OIG's business practices and operations. During the reporting period, we held strategic planning and team building sessions for the entire OIG staff. These sessions provided OIG

employees with opportunities to contribute to the development of the OIG's strategic goals, objectives, and priorities. These employee engagement efforts yielded positive results: as a case in point, for the second consecutive year, the OIG ranked second among SEC offices and divisions, on the Federal Employee Viewpoint Survey.

The OIG has made significant progress in filling key vacancies but continues to add resources as necessary to ensure the office can effectively perform its oversight responsibilities. For example, during this semiannual reporting period, the OIG established a Digital Forensics and Investigations Unit, which provides the capability to forensically extract, examine, and analyze various types of digital evidence. The Digital Forensics and Investigations Unit both augments the OIG's investigative capabilities and assists in detecting, identifying, and protecting against threats to the SEC's sensitive information systems.

OIG OUTREACH

The IG regularly met with the Chair, Commissioners, and senior officers from various SEC divisions and offices to foster open communication at all levels between the OIG and the agency. Through these efforts, the OIG kept up to date on significant, current matters that were relevant to the OIG's work. These regular communications also enabled the OIG to obtain agency management's input on what it believes are the most important areas for the OIG's future work. The OIG continually strives to keep apprised of changes to agency programs and operations and keeps SEC management informed of the OIG's activities and concerns raised during its work.

In addition, the OIG continued its SEC outreach program, the goal of which is to increase the OIG's visibility and further enhance SEC employees' understanding of the OIG's roles and functions. The program also educates employees on the applicable



2015 Employee of the Year Robert Lewis, Jr., receives his award from Chair White and IG Hoecker.

ethics requirements and their obligations to report fraud, waste, and abuse to the appropriate authorities. The SEC's biweekly new employee orientation sessions include an OIG outreach presentation.

Furthermore, the SEC outreach program educates employees on the OIG SEC Employee Suggestion Program and encourages suggestions for improvements in the work efficiency, effectiveness, and productivity, and the use of resources of the Commission. On March 24, 2016, the OIG held a ceremony to honor employees who had contributed to the Employee Suggestion Program. The IG acknowledged employees' suggestions regarding ink-efficient fonts, two-sided printing, and turning off lights at the end of the workday.

In this semiannual reporting period, the OIG continued to implement the second phase of its outreach program. This phase of the program includes outreach briefings that focus on identifying ongoing trends and patterns and preventing fraud, waste, and abuse in agency programs and operations. To date, the OIG had conducted these briefings at seven regional offices. The OIG plans to continue these sessions at the remaining regional offices and at SEC headquarters. The OIG is also meeting with its law enforcement counterparts in the regional office locations.

OIG ANNUAL AWARDS PROGRAM

The OIG held its second annual awards ceremony on February 26, 2016, to honor service and outstanding achievements in 2015. The awardees were selected in various categories based on nominations submitted by their peers. The Inspector General and SEC Chair presented the awards at the ceremony.

The Length of Service awardees included:

- William Beach – 5 years
- William S. Hampl – 15 years
- Rebecca L. Sharek – 20 years
- David B. Witherspoon – 20 years

The 2015 Outstanding Achievement award recipients included:

- Elizabeth E. Palmer Gontarek—Leadership Award;
- Daniel Mummert, Kyle Kai-Jiun Lin, K. Shane Breffitt, and Robert Lewis, Jr. —Team Award for Audit, Investigation, or Project of the Year;
- Michael Gainous, William S. Hampl, and Kyle Kai-Jiun Lin—New Employees of the Year; and
- Robert Lewis, Jr. —Employee of the Year.



COORDINATION WITH OTHER OFFICES OF INSPECTOR GENERAL

During this semiannual reporting period, the SEC OIG coordinated its activities with those of other OIGs, pursuant to 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, which was established by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Chairman of the Council of Inspectors General on Financial Oversight is the IG of the Department of the Treasury. Other members of the Council, in addition to the IGs of the SEC and Department of the Treasury, are the IGs of the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission, the Department of Housing and Urban Development, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Credit Union Administration, and also the Special Inspector General for the Troubled Asset Relief Program. As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Council of Inspectors General on Financial Oversight meets at least once every 3 months. At the Council of Inspectors General on Financial Oversight meetings, the members share information about their ongoing work, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight.

The SEC IG also attended meetings of the Council of the Inspectors General on Integrity and Efficiency (CIGIE) and continued to serve 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 to establish criminal investigative guidelines.

In addition, the Office of Audits continued to participate in various CIGIE activities. For example, the Office of Audits staff participated in CIGIE Audit Committee working groups for IT and new reporting requirements under the Digital Accountability and Transparency Act of 2014. In addition, the Office of Audits staff participated in activities of the CIGIE Federal Audit Executive Council, including leading a training that the Federal Audit Executive Council provided. Representatives from the Office of Audits also participated in an Office of Personnel Management working group, along with other OIGs, to assess the classifications and qualifications of the General Schedule standards of the Office of Personnel Management's Auditing Series, 0511.

Lastly, OIG staff participated in the activities of the Council of Counsels to the Inspectors General; the CIGIE Training Institute's Audit, Inspection, and Evaluation Academy; the OIG Freedom of Information Act working group; and the CIGIE External Affairs Liaisons' Group.



AUDITS AND EVALUATIONS

OVERVIEW

The OIG Office of Audits conducts, coordinates, and supervises independent audits and evaluations of the agency's programs and operations at the SEC's headquarters and 11 regional offices. The Office of Audits also hires, as needed, contractors and subject matter experts, who provide technical expertise in specific areas, to perform work on the OIG's behalf. In addition, the Office of Audits monitors the SEC's progress in taking corrective actions on recommendations in OIG audit and evaluation reports.

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

The Office conducts audits in compliance with generally accepted government auditing standards issued by the Comptroller General of the United States. OIG evaluations follow the CIGIE *Quality Standards for Inspection and Evaluation*. At the completion of an audit or evaluation, the OIG issues an independent report that identifies deficiencies and makes recommendations to correct those deficiencies or increase efficiencies in an SEC program or operation.

COMPLETED AUDITS AND EVALUATIONS

Improvements Needed in Oversight of SEC-Sponsored Conferences (Report No. 532)
Executive Order 13589, *Promoting Efficient Spending*, (November 2011) directs Federal agencies to cut waste in Federal Government spending and identify opportunities to promote efficient and effective spending, including spending on conferences. The Office of Management and Budget (OMB) Memorandum M-12-12, *Promoting Efficient Spending to Support Agency Operations*, (May 2012) describes policies and practices to achieve these efficiencies and requires Federal agencies to exercise discretion and judgment in ensuring conference expenses are appropriate, necessary, and managed in a manner that minimizes expense to taxpayers. In addition, the Consolidated Appropriations Act, 2014 (Pub. L. 113-76) and the Consolidated and Further Continuing Appropriations Act, 2015 (Pub. L. 113-235) (Appropriations Acts of 2014 and 2015) require Federal agencies to report to their Inspector General: (1) conferences costing more than \$20,000 within 15 days of each conference; and (2) expenditures for conferences costing more than \$100,000 in an annual report.

The SEC OFM is responsible for overseeing SEC conferences. Between October 1, 2013, and May 31, 2015, the SEC sponsored 145 conferences costing more than \$2.22 million. Internal controls over

SEC-sponsored conferences, including the review and approval of conference spending, must be sufficiently designed and implemented to ensure the SEC's conference spending is reasonable and necessary and complies with applicable Federal and agency requirements.

We performed this audit to determine whether the SEC complied with applicable requirements of the Appropriations Acts of 2014 and 2015, and adhered to internal guidance on minimizing conference costs between October 2013 and May 2015 to ensure all expenses were reasonable and necessary. To meet these objectives, we reviewed information including but not limited to: (1) the SEC's conference reporting and spending data for the period reviewed, (2) the OFM's role and responsibilities for overseeing SEC-sponsored conferences, and (3) SEC divisions' and offices' roles and responsibilities related to agency conferences.

We found that the OFM established policies and procedures for planning, requesting, and approving SEC-sponsored conferences. The OFM also properly reported to the OIG all conferences held between October 1, 2013, and May 31, 2015, costing more than \$20,000, in accordance with the Appropriations Acts of 2014 and 2015. In addition, in October 2014, the OFM improved the SEC's conference request process by implementing the Automated Conference Request System. This system facilitates the electronic submission of conference requests, documents conference review and approval processes, and provides online conference request tracking.

However, we determined that the OFM can further improve its oversight of agency-sponsored conferences. Specifically, in Fiscal Year (FY) 2014, the OFM did not obtain from divisions and offices actual expenses for SEC conferences costing more than \$100,000 and instead relied on estimates. As a result, the SEC reported to the OIG and the public inaccurate FY 2014 conference spending informa-

tion (overstated by \$19,103), and did not fully comply with the Consolidated Appropriations Act of 2014 and the OMB Memorandum M-12-12.

Furthermore, although it is not required to do so, the OFM did not review actual expenses for conferences costing equal to or less than \$100,000. Expenses for these conferences comprised 83 percent of the SEC's total conference-related expenses during the period reviewed. Because the OFM does not review actual expenses for these conferences, the SEC lacks sufficient controls to ensure the majority of funds spent on conferences are used appropriately and in accordance with Federal and agency requirements.

In addition, the OFM did not fully define and communicate to divisions and offices those events that meet the definition of "conference." As a result, divisions and offices may not accurately and timely report conferences, as required.

Finally, because the OFM does not have a documented, standardized process for reviewing conference request packages, the OFM approved SEC-sponsored conferences without obtaining all required information.

We issued our final report on February 11, 2016, and made six recommendations that address improvements in reviewing and reporting conference expenses, amending the SEC's definition of "conference," and strengthening the OFM's review of conference request packages.

Management concurred with the recommendations, which are resolved and closed for reporting purposes based upon our verification of management's completed corrective actions.

The report is available on our website at <http://www.sec.gov/oig/reportspubs/Improvements-Needed-in-Oversight-of-SEC-Sponsored-Conferences.pdf>.

Office of Compliance Inspections and Examinations' Management of Investment Adviser Examination Coverage Goals (Report No. 533)

OCIE coordinates the national examination program for more than 27,000 market participants over which the SEC has regulatory authority. OCIE's largest program area is the Office of Investment Adviser/Investment Company Examinations. In April 2014 Congressional testimony, the SEC Chair stated that the SEC was in a position to only examine 9 percent of registered investment advisers in FY 2013 and that more coverage was plainly needed.

OCIE's risk-based examinations of registered entities, including investment advisers, are central to the SEC's strategic goal of fostering compliance with Federal securities laws. The GAO has established *Standards for Internal Control in the Federal Government* for ensuring that Federal agencies, including the SEC, achieve stated objectives and allocate resources efficiently and effectively to meet those objectives. Additionally, the GAO has established a risk-management framework to help managers make decisions about allocating finite resources and take action under conditions of uncertainty.

We initiated an evaluation to assess OCIE's efficiency and effectiveness in managing its human resources management to meet its long-term goals, particularly for investment adviser examinations. Our specific objectives were to determine: (1) the methodology and evidence supporting OCIE's budget requests and the allocation of personnel to OCIE programs, including examinations of investment advisers and investment companies; (2) how OCIE identifies and monitors examination targets (number and types) by program area; and (3) how OCIE adjusted its examination targets or resource allocations based on the SEC's FY 2015 budget approved by Congress.

We found that OCIE has worked to increase its examination coverage of investment advisers, including creating an Office of Risk Analysis and Surveillance and enhancing its use of advanced quantita-

tive techniques, and continues to seek new ways to increase its efficiency. In fact, the almost 2,000 formal examinations OCIE conducted in FY 2015 was an increase over each of the previous four FYs.

However, improvements are needed to assess OCIE's progress toward meeting strategic objectives and long-term investment adviser examination coverage goals. Specifically, we found that: (1) OCIE's performance measure—percentage of investment advisers examined each year—may not provide meaningful information because of variations in examination types, examination candidates, and regional office processes; and (2) the investment adviser/investment company program may benefit from adopting the GAO risk-management framework.

OCIE's management of adviser examination goals and performance metrics can be more consistent with Federal internal control and risk management standards. Doing so will help ensure that examinations conducted support OCIE's examination priorities, as well as OCIE's long-term goal and the SEC's strategic plan. In addition, management should ensure that OCIE's performance metrics allow management to assess performance and ensure efficient and effective use of OCIE's limited resources across regional offices. In September 2015, OCIE hired a consultant to help identify ways for OCIE to use its resources more efficiently. Management expects the consultant to report its findings and recommendations, if any, by September 2016.

We issued our final report on March 10, 2016, and made two recommendations to improve OCIE's management of the investment adviser/investment company program. The recommendations relate to (1) results of the ongoing efficiency study, and recommendations made by an internal working group, and (2) the GAO's risk-management framework. Management concurred with these recommendations. The recommendations were pending at the end of the reporting period but will be closed upon completion and verification of corrective action.

The report is available on our website at <http://www.sec.gov/oig/reportspubs/Office-of-Compliance-Inspections-and-Examinations-Management-of-Investment-Adviser-Examination-Coverage-Goals.pdf>.

Audit of the SEC's Student Loan Repayment Program (Report No. 534)

Federal agencies may repay employees' qualifying student loans for the purpose of recruiting or retaining highly qualified personnel. According to annual reports to Congress, between July 2003 and December 2014, the SEC provided over \$47 million in student loan repayment benefits, making the SEC one of the Federal agencies that consistently uses student loan repayments the most. Specifically, during those 12 years, the SEC provided an annual average of about \$3.9 million in student loan repayment benefits to an annual average of about 473 employees. The SLRP Program Office in the SEC's OHR administers the agency's SLRP. If internal controls over the SEC's SLRP are not designed or are not operating effectively, benefits may be improperly awarded to employees, and the SEC may not identify or collect former employee debts.

We performed this audit to determine whether the SEC's SLRP policies and procedures comply with Federal requirements and whether controls are adequate to ensure compliance with those policies and procedures. Specifically, we sought to: (1) determine whether the OHR developed and implemented SLRP policies and procedures that comply with applicable law and regulations, and the SEC's Collective Bargaining Agreement; (2) evaluate the operating effectiveness of SLRP internal controls designed and implemented by the OHR to ensure compliance with applicable laws and regulations; and (3) determine whether the OHR has implemented or effectively addressed recommendations from prior SLRP audits and reviews.

We found that, in 2014 and 2015, the OHR implemented significant changes to the program, including migrating to an automated application processing system, a rolling application period, and immediate eligibility for new employees. We did not identify SLRP benefits awarded to employees who failed to meet minimum performance standards during the period reviewed. However, we identified internal controls weaknesses impacting the SLRP Program Office's ability to effectively manage the program. Although the OHR provided SLRP benefits to retain SEC employees, Program Office personnel did not (1) maintain complete and accurate participant information, (2) implement or enforce effective approval and verification controls, or (3) update the SEC's SLRP policy and ensure the policy complied with certain Federal requirements. A prior OIG audit, an Office of Personnel Management evaluation, and an internal OHR assessment identified similar issues.

First, we determined that SLRP Program Office personnel could not completely and accurately identify in a timely manner all employees who received SLRP benefits and the amount paid to each between July 2003 and June 2015. As a result, we were unable to determine whether the SEC always complied with statutory annual and lifetime SLRP limits (\$10,000 and \$60,000, respectively). Furthermore, Program Office personnel did not maintain a list of those employees who did not fulfill their service agreements and may be required to repay benefits received. Although we verified that the SEC either collected or was collecting repayments from 95 former employees, Program Office personnel were unaware of 17 other individuals who left the SEC and Federal service between January 2007 and June 2015 before fulfilling their service agreements. Those 17 individuals owed the SEC a total of about \$216,000.

In addition, SLRP Program Office personnel did not always implement or enforce effective approval and verification controls. Specifically, we noted inconsistencies in some applicants' loan account numbers, loan verification documents, and loan balances. In many instances, there was no evidence that Program Office personnel resolved these inconsistencies before approving payments. Consequently, in some cases, we could not determine whether Program Office personnel erroneously approved SLRP payments. Furthermore, Program Office personnel did not enforce the SEC's requirement that employees confirm that loan holders received SLRP payments and properly applied them to employees' accounts.

Finally, we determined that the SEC's SLRP policy (dated September 2009) does not reflect the agency's current program or include certain Federal requirements. Although between April and July 2015 the OHR published various guides and administrative notices announcing changes in the SEC's SLRP, the agency's SLRP policy conflicts with these documents and provides inaccurate and unreliable information to SEC employees and their supervisors. During our audit, the OHR drafted, but did not issue, a revised SLRP policy.

We issued our final report on March 31, 2016, and made nine recommendations for corrective action to improve the SEC's management of its SLRP. The recommendations included maintaining complete and accurate records of SLRP participants, improving controls to reduce the likelihood that ineligible employees receive SLRP benefits and to identify and collect former employee debts, updating the SEC's SLRP policies, and addressing issues raised in prior reviews. We also determined that the SEC could improve its SLRP Loan Data Verification Form, and reported this matter to management for consideration. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

The report is available on our website at <http://www.sec.gov/oig/reportspubs/Audit-of-the-SECs-Student-Loan-Repayment-Program.pdf>.

PURCHASE CARD REPORTING AND RISK ASSESSMENT

The Government Charge Card Abuse Prevention Act of 2012, Public Law 112-194, requires that IGs report to the Director of the OMB on the implementation of recommendations made to the head of an executive agency to address findings of any analysis or audit of purchase card and convenience check transactions or programs. The OMB's implementing guidance requires IGs to report to the Director of the OMB 120 days after the end of each FY on agency progress in implementing such recommendations.

The Government Charge Card Abuse Prevention Act also requires IGs to conduct periodic assessments of agency purchase card or convenience check programs to identify and analyze the risks of illegal, improper, or erroneous purchases and payments. The risk assessments are used to determine the scope, frequency, and number of audits of purchase card or convenience check transactions. Pursuant to the OMB guidance, risk assessments of agency purchase cards (including convenience checks) should be completed at least annually. The Government Charge Card Abuse Prevention Act also requires periodic audits or reviews of travel card programs for agencies with more than \$10 million in travel card spending, but does not require travel card program risk assessments.

Inspector General's Letter to the OMB on the SEC's Implementation of Purchase Card Program Audit Recommendations

On January 5, 2016, the OIG reported to the OMB that the OIG did not issue any reports regarding the SEC's Government Purchase Card (GPC) program during FY 2015. The OIG further noted that, as reported to the OMB in January 2015, the OIG had

closed all recommendations from the OIG's most recent related audit report (*Controls Over the SEC's Government Purchase Card Program*, Report No. 517, March 28, 2014) before the end of FY 2014.

The OIG's letter report is available on our website at <http://www.sec.gov/oig/reportspubs/Inspector-Generals-FY-2015-Letter-to-OMB-on-SECs-Implementation-of-Purchase-Card-Program-Audit-Recommendations.pdf>.

Inspector General's Fiscal Year 2015 Purchase Card Program Risk Assessment

On March 31, 2016, the OIG reported to the SEC Chair on the results of its FY 2015 risk assessment of the SEC's GPC program. To conduct the risk assessment, we assessed agency compliance with the Government Charge Card Abuse Prevention Act's requirements and evaluated the SEC's GPC program against an established enterprise risk management framework. We also interviewed Office of Acquisitions staff and reviewed applicable documents.

We found that the SEC has set program objectives, identified risks to the GPC program, and established controls and monitoring to address those risks. We agreed with the SEC's assessment of how its controls and monitoring affect the likelihood the risks could occur and the impact those risks would have on the GPC program. Given the objectives and size of the GPC program and its materiality to the SEC, we found that the SEC's risk response appeared reasonable and sufficient.

As a result of our risk assessment, we determined that the overall risk of illegal, improper, or erroneous purchases and payments in the SEC's GPC program is low. Additionally, because we audited the SEC's controls over its GPC program in March 2015, we do not plan to audit that program in FY 2016. Finally, we determined that in FY 2015, the SEC did not meet the \$10 million threshold for travel card spending, and we did not perform a travel card program risk assessment.

The OIG's memorandum on the results of the FY 2015 GPC risk assessment is available on our website at <http://wcm.sec.gov/oig/reportspubs/Results-of-Inspector-Generals-Fiscal-Year-2015-Purchase-Card-Program-Risk-Assessment.pdf>.

INSPECTOR GENERAL'S REVIEW OF THE U.S. SECURITIES AND EXCHANGE COMMISSION'S FISCAL YEAR 2015 COMPLIANCE WITH THE IMPROPER PAYMENTS INFORMATION ACT

On February 9, 2016, the OIG reported the results of its review of the SEC's compliance with the Improper Payments Information Act of 2002, as amended and expanded by the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payment Elimination and Recovery Improvement Act of 2012. We conducted our review in accordance with the OMB's implementing guidance.

To determine whether the SEC complied with the Improper Payments Information Act for FY 2015, we reviewed the SEC's "Improper Payments Elimination and Recovery Improvement Act of 2012 Risk Assessment Summary Report," dated June 10, 2015, and supporting documentation. We also reviewed relevant disclosures in the SEC's FY 2015 Agency Financial Report, dated November 16, 2015.

The SEC's FY 2015 risk assessment determined that none of the SEC's programs and activities are susceptible to significant improper payments. In addition, according to the SEC's FY 2015 Agency Financial Report, the agency determined that implementing a payment recapture audit program is not cost effective. Nonetheless, the agency will continue to monitor for improper payments across all programs and activities the SEC administers, and assess whether implementing payment recapture audits would be cost-effective in the future. Based on our review of this information, we determined that the SEC is in compliance with the Improper Payments Information Act for FY 2015.

The OIG's letter report is available on our website at <http://www.sec.gov/oig/reportspubs/Inspector-Generals-Review-of-the-SECs-FY-2015-Compliance-with-the-Improper-Payments-Information-Act.pdf>.

ONGOING AUDITS AND EVALUATIONS

Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2015

The Federal Information Security Modernization Act of 2014, which amended the Federal Information Security Management Act of 2002, provides a comprehensive framework to ensure the effectiveness of security controls over information resources that support Federal operations and assets. The Federal Information Security Modernization Act also requires IGs to annually assess the effectiveness of agency information security programs and practices and to report the results to the OMB and the Department of Homeland Security.

To comply with the Federal Information Security Modernization Act, during the previous reporting period, the OIG hired an independent public accounting firm to perform an audit of the SEC's information security programs and practices on the OIG's behalf. The overall objective of the audit is to assess the SEC's information security and privacy programs and provide the OIG with information to support our response to the FY 2015 Inspector General Federal Information Security Modernization Act Reporting Metrics. As required by the Federal Information Security Modernization Act, the audit will assess the SEC's information security posture based on guidance issued by the OMB, the Department of Homeland Security, and the National Institute of Standards and Technology.

The OIG submitted its response to the FY 2015 Inspector General Federal Information Security Modernization Act Reporting Metrics in November 2015. We are completing the audit and expect to issue a report summarizing our findings during the next reporting period.

Audit of the SEC's Process for Reviewing Self-Regulatory Organization Proposed Rule Changes

Self-regulatory organizations (SROs) are nongovernmental entities that have the power to create and enforce industry regulations and standards. SROs establish rules that govern member activities, ensure market integrity and investor protection, and allow for disciplining members for improper conduct. The SEC—specifically, its Division of Trading and Markets and Office of Municipal Securities—is responsible for reviewing SROs' proposed rule changes. These proposed rule changes include new rules, changes to rules, and additions to or deletions from existing rules.

The purpose of the SEC's review of SRO proposed rule changes is to ensure that they are consistent with the Securities Exchange Act of 1934 and applicable rules and regulations established to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. In 2010, Section 916 of the Dodd-Frank Wall Street Reform and Consumer Protection Act streamlined the process for reviewing SRO proposed rule changes and defined specific timeframes for the SEC to review and publish proposed rule changes for public comment.

During the previous reporting period, the OIG initiated an audit of the SEC's process for reviewing proposed rule changes submitted by SROs. The objective of the audit is to assess the SEC's compliance with applicable laws, regulations, policies, and procedures for reviewing SROs' proposed rule changes, including requirements for communicating with SROs and other external stakeholders when the agency initiates proceedings to determine whether to disapprove an SRO's proposed rule change. In addition, we are evaluating the information security controls for the related filing and tracking systems. Finally, to the extent that prior recommendations are relevant and applicable, we are following up on corrective actions to address recommendations from the OIG's previous audit of the SRO rule filing process.

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

Audit of the SEC's Protective Security Force Contract

The SEC Office of Security Services, a component of the Office of Support Operations, is responsible for the physical security and safety of SEC staff and facilities at the agency's 11 regional offices, 2 data centers, and headquarters in Washington, DC. The SEC has entered into a contract with a vendor to provide protective services—specifically, Special Police Officers—for the SEC's headquarters facilities. The contract requires Special Police Officers to comply with the Federal Protective Services Security Guard Information Manual and facility-specific orders. Additionally, Special Police Officers are responsible for a variety of security-related duties, including building access control and monitoring of security and safety systems.

The OIG has initiated an audit of the SEC's protective security force contract. Our objectives are to determine whether (1) contractor personnel, including Special Police Officers, complied with policies, procedures, regulations, and contract terms applicable to the SEC's protective security guard force contract, and (2) SEC personnel properly monitored the contractor's performance.

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

Audit of the SEC's Information Technology Requirements-Gathering Process

The Clinger-Cohen Act reformed the way Federal agencies acquire and manage IT resources by requiring agencies to establish clearly defined capital planning and investment control processes. The SEC implemented its capital planning and investment control process to promote effective decision making for IT investments throughout the agency's system development life cycle. Requirements gathering is a

central part of the IT acquisition and system development life cycle processes and involves defining and documenting stakeholders' needs to meet project objectives.

In July 2011, the GAO identified requirements management as a leading practice for IT modernization management, stating that disciplined processes for developing and managing requirements can improve the likelihood that systems will meet user needs and perform as intended. According to the GAO, effective management of requirements involves assigning responsibility for requirements, tracking requirements, and controlling changes to requirements over the course of the project. Effective management also ensures that each requirement traces back to the business need and forward to its design and testing. In February 2015, the GAO identified "Improving the Management of Information Technology (IT) Acquisitions and Operations" as a new high-risk area needing attention by Congress and the executive branch.

The OIG has initiated an audit of the SEC's IT requirements-gathering process. The overall objective of the audit is to evaluate that process. Specifically, we will determine whether the SEC's IT requirements-gathering process (1) is sufficiently designed and complies with applicable Federal laws, regulations, and industry guidelines; and (2) has been consistently applied in accordance with Federal and agency policies and facilitates the effective and efficient procurement or development of IT projects.

We will also follow up on the implementation of corrective actions to address recommendations from a prior OIG audit, Assessment of the SEC Information Technology Investment Process, Audit No. 466, dated March 26, 2010, to the extent that they are relevant and applicable.

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

Audit of the SEC's Hiring Practices

Attracting, engaging, and retaining a technically proficient and diverse workforce is one of the SEC's strategic objectives. To carry out its mission, the SEC employs over 4,000 staff with a range of skills and backgrounds, such as attorneys, accountants, and economists. To ensure that the SEC can meet its mission, it is essential for the SEC's OHR to play an active role in all facets of the hiring process.

A May 2010 Presidential Memorandum initiated a hiring reform in the Federal Government focused on improving the quality and timeliness of agency hiring. Accordingly, executive agencies were expected to set specific targets for measuring success in their efforts to reduce the time it takes to hire employees. Agencies were further required to reduce substantially the time it takes to hire mission-critical and commonly filled positions; measure the quality and speed of the hiring process; and analyze the causes of agency hiring problems and actions that will be taken to reduce them.

The OIG has initiated an audit of the SEC's hiring practices. The overall objective is to determine whether the SEC's hiring processes facilitate the efficient selection of high-quality candidates to help SEC divisions and offices meet mission requirements. Specifically, we will determine whether (1) the OHR's hiring policies and procedures comply with applicable Federal laws and regulations; (2) the

OHR's internal controls for ensuring timeliness and quality of hires are operating effectively; and (3) the OHR uses hiring data to monitor the SEC's hiring processes to identify improvements in timeliness and quality of hires.

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

Evaluation of the SEC Division of Enforcement's Coordination Related to a Federal Court Civil Action

A Federal court in a civil action filed by the SEC issued an opinion and order that discussed a lack of coordination of cases with overlapping factual circumstances. The court stated that a self-examination may be appropriate and could lead to a review and effective implementation of procedures in the SEC Division of Enforcement, as well as related operational offices, to ensure that investigations are coordinated and scarce resources are deployed efficiently.

The OIG initiated an evaluation to determine whether the SEC has processes and systems for ensuring that enforcement investigations are coordinated internally and, when appropriate, across SEC divisions and offices.

We expect to complete our evaluation during the next reporting period.



INVESTIGATIONS

OVERVIEW

The OIG Office of Investigations investigates allegations of criminal, civil, and administrative violations relating to SEC programs and operations by SEC employees, contractors, and outside entities. These investigations may result in criminal prosecutions, fines, civil penalties, administrative sanctions, and personnel actions.

The Office of Investigations conducts investigations in accordance with the CIGIE *Quality Standards for Investigations*. The Office of Investigations continues to enhance its systems and processes to meet the demands of the OIG and to provide high quality investigative work products.

Investigations require extensive collaboration with separate SEC OIG component offices, other SEC divisions and offices, and outside agencies, as well as coordination with the DOJ and state prosecutors. Through these efforts, the Office of Investigations is able to thoroughly identify vulnerabilities, deficiencies, and wrongdoing that could negatively impact the SEC's programs and operations.

The Office of Investigations manages the OIG Hotline, 24 hours a day, 7 days a week, to receive and process tips and complaints about fraud, waste, or abuse related to SEC programs and operations. The Hotline allows individuals to report their allegations to the OIG directly and confidentially.

STATUS OF PREVIOUSLY REPORTED INVESTIGATIONS

Possession of Prohibited Holdings and Possible Financial Conflict of Interest (Case No. 14-0001-I)

As discussed in our previous Semiannual Report, the OIG investigated allegations that an SEC supervisory employee possessed prohibited securities holdings and may have engaged in a financial conflict of interest. Specifically, it was alleged that the employee (1) maintained a managed account that contained several prohibited holdings, (2) possessed another prohibited holding outside the managed account, and (3) may have engaged in a financial conflict of interest because the managed account contained stocks of companies with which the employee may have official SEC dealings.

The OIG investigation determined that the employee disclosed the managed account upon joining the SEC and that the Office of the Ethics Counsel (OEC) instructed the employee to divest certain prohibited holdings in the account. However, the employee did not divest two of these prohibited holdings until more than 4 years later. The investigation also found that the employee failed to pre-clear the 37 individual securities in the managed account. The investigation determined that the employee did not hold financial interests with entities associated with the employee's official SEC duties.

On April 30, 2015, the OIG presented this matter to the USAO for the District of Columbia for possible criminal prosecution. The USAO declined prosecution on May 4, 2015, citing a lack of prosecutorial merit and the availability of administrative remedies.

In September 2015, the OIG reported the results of the investigation to SEC management to determine whether corrective administrative action may be warranted. During this reporting period, management notified the OIG that the supervisory employee was issued a counseling memorandum, which emphasized the importance of compliance with the SEC's ethics rules.

Alleged Violations of Travel Procedures (Case No. 14-0033-I)

As discussed in our previous Semiannual Report, the OIG investigated a complaint that an SEC senior attorney inappropriately purchased airline tickets without using the SEC's travel system and paid more than the Government fare for the tickets.

The OIG investigation determined that the attorney had a medical accommodation on file that allowed for travel upgrades to seats with extra legroom. However, we found instances where the attorney did not follow the OFM's procedures for purchasing upgrades. The investigation also determined that, after these instances, the OFM provided guidance to the attorney, who then made reservations properly. Additionally, there was no loss to the Government.

The OIG determined that the issues raised would be more appropriately handled by management and referred the complaint to management for any appropriate inquiry and/or corrective action. The OIG did not present the matter to the DOJ because the evidence did not substantiate a violation of Federal criminal law. Management's response was pending at the end of this reporting period.

Disclosure of Nonpublic Information and Alleged Retaliation Against an Employee (Case No. 14-0210-I)

As discussed in our previous Semiannual Report, the OIG investigated allegations that an SEC supervisor improperly disclosed nonpublic SEC information to the supervisor's spouse and then retaliated against an employee for making the initial allegations.

The OIG investigation determined, by the supervisor's admission, that the supervisor had forwarded an e-mail containing nonpublic SEC information to the supervisor's spouse on one occasion several years earlier. The OIG investigation did not confirm any other instances where the supervisor improperly disclosed nonpublic information and did not substantiate the allegation of retaliation.

The OIG reported the results of its investigation to SEC management to determine whether corrective administrative action may be warranted. The OIG did not present the matter to the DOJ because the evidence did not substantiate a violation of Federal criminal law.

During this reporting period, management informed the OIG that the supervisor had been counseled.

Improper Transmission of Nonpublic Information via E-mail (Case No. 15-0273-I)

As discussed in our previous Semiannual Report, the OIG investigated an allegation that an SEC senior attorney forwarded SEC nonpublic information from the attorney's work e-mail to the attorney's personal e-mail account. The investigation determined that the information the attorney transmitted to the personal e-mail account contained nonpublic information. The attorney admitted forwarding the e-mail containing the nonpublic information and acknowledged that the attorney should not have done so. The attorney confirmed deleting the e-mail from the personal e-mail account. The OIG's cursory search of the attorney's personal e-mail account yielded negative results for any SEC-related e-mail messages.

The OIG reported the results of its investigation to SEC management to determine whether corrective administration action may be warranted. The OIG did not present the matter to the DOJ because the evidence did not substantiate a violation of Federal criminal law.

During this reporting period, management informed the OIG that the employee had been issued a written counseling.

COMPLETED INVESTIGATIONS

Allegations of Time and Attendance Fraud, Requesting and Downloading Proprietary Trading Code, and Improper Termination (Case No. 14-0007-I)

The OIG investigated allegations contained in multiple complaints that a supervisory employee (1) committed time and attendance fraud; (2) terminated an employee for asking questions during an SEC examination of a registrant and for voicing an opinion; and (3) unnecessarily requested proprietary trading code from registrants and downloaded this proprietary trading code onto a personal computer.

The OIG investigation substantiated the allegations regarding time and attendance policy violations, finding that the subject routinely arrived late for work and was frequently absent, in both cases failing to request or obtain authorized leave. The subject also did not properly document telework in the SEC's computerized time and attendance system. After analyzing the subject's time and attendance, the OIG determined that the subject was paid about \$125,000 in regular salary for more than 1,200 work hours that the subject did not work or account for. The subject's statements to the OIG regarding the subject's time and attendance were inconsistent. Furthermore, although the subject's supervisor was advised of the alleged time and attendance violations, the supervisor delayed in taking action.

The OIG investigation found no evidence that the subject came into possession of proprietary trading code. To the contrary, the OIG learned that as a general practice, OCIE does not request or obtain proprietary trading code, and that if it does so, the data resides on a stand-alone computer.

The OIG investigation also determined that the subject (1) was untruthful with the subject's supervisor and the OIG about the nature of foreign travel; (2) misrepresented commuting costs when applying for transit benefits and received about \$400 in transportation subsidies that the subject was not entitled to receive; and (3) did not properly clear the sale of a security in accordance with the SEC's supplemental ethics rules. Finally, the OIG obtained conflicting evidence about the reasons for the removal of the terminated employee, and learned that the Merit Systems Protection Board had dismissed the employee's appeal of the termination.

While the OIG investigation was ongoing, the subject resigned from the SEC and declined the OIG's requests for additional information. On April 6, 2015, the OIG presented the facts of this case to a USAO. On April 7, 2015, the USAO declined prosecution based on insufficient dollar loss and potential venue challenges.

In December 2015, the OIG reported the results of the investigation to SEC management for informational purposes and to assist management in determining whether corrective action may be warranted relating to certain deficiencies the OIG identified in supervisory controls. Management's response was pending at the end of the reporting period.

Post-Employment Conflict of Interest (Case No. 14-0015-I)

The OIG investigated allegations that a former supervisor in the SEC Office of the Chief Accountant may have violated 18 U.S.C. § 207, a post-employment conflict of interest statute, by providing

an expert report in a matter in which the former supervisor had participated personally and substantially while employed at the SEC.

The investigation found evidence that the former supervisor had participated personally and substantially in a Division of Enforcement investigation of a professional services firm. After retiring from the SEC, the former supervisor prepared an expert report for this same firm. The firm then submitted the report to the SEC as part of a “Wells Submission,” which is information provided to the SEC by a potential defendant advocating why the agency should not institute an enforcement action in a particular matter.

On January 6, 2014, the OIG referred the matter to a USAO, which accepted the matter for civil action. As a result of evidence uncovered during the investigation, the USAO entered into a settlement agreement with the former supervisor, who agreed to pay a civil fine of \$40,000 to resolve the allegations.

The DOJ press release announcing the settlement agreement is available at <https://www.justice.gov/usao-edtx/pr/former-sec-senior-associate-chief-settles-conflict-interest-allegations>.

False Statements Related to Prohibited Financial Holdings (Case No. 14-0073-I)

The OIG opened an investigation after learning that an SEC staff accountant did not divest a security that the staff accountant was prohibited from owning, for a period of about 8 years, in violation of the SEC’s ethics rules. Furthermore, the staff accountant did not obtain prior clearance from the OEC, as required, for transactions related to prohibited holdings that the staff accountant and the staff accountant’s spouse executed.

The investigation determined that the staff accountant made false statements during a sworn interview with the OIG. Specifically, the staff accountant falsely claimed a lack of awareness that the staff

accountant and spouse were required to divest certain stock holdings that were prohibited under the SEC’s ethics rules.

The OIG presented this matter to a USAO, which accepted the case for criminal prosecution. The staff accountant resigned from the SEC while under investigation by the OIG and the USAO. On November 13, 2015, the former staff accountant was arrested for a violation of 18 U.S.C. § 1001, False Statements, and entered into a deferred prosecution agreement.

The DOJ press release announcing the charges is available at <https://www.justice.gov/usao-sdny/pr/manhattan-us-attorney-announces-charges-against-former-sec-compliance-examiner-making>.

Possession of Prohibited Holdings (Case No. 14-0231-I)

The OIG investigated allegations that an SEC attorney held shares of stock in two companies that the SEC’s supplemental ethics regulations prohibit SEC employees from owning.

The investigation determined that the OEC had instructed the attorney to divest the prohibited holdings. About 17 months after the OEC’s instruction, the attorney requested permission to sell one of the prohibited holdings. The OEC advised the attorney to request a waiver from an existing restriction on selling this security, and the OEC granted the waiver. However, the attorney did not divest this prohibited holding until 2 years after the OEC granted the waiver.

The investigation also found that the attorney had not sold the shares of the other prohibited holding. The state in which the attorney resides currently holds the shares, and the attorney had not taken any action to claim the shares.

Furthermore, the investigation developed evidence that the attorney held shares of a third company for

more than 3 years after it became prohibited. After the OIG notified the attorney of the prohibited holding, the attorney received approval from the OEC and divested this prohibited holding.

The OIG reported the results of its investigation to SEC management to determine whether corrective administrative action may be warranted. Management's response was pending at the end of the reporting period.

Allegations of Prohibited Personnel Practices (Case No. 14-0741-I)

The OIG investigated a complaint that two SEC supervisors considered a candidate for a vacancy despite the employees being personally connected to the candidate. The complaint alleged that one of the supervisors was the candidate's spouse and that the other supervisor was the candidate's neighbor.

The investigation determined that the candidate was married to one of the supervisors and was ultimately selected for the position. The candidate's spouse provided information to the candidate about the job posting before it was announced to the public. Furthermore, the spouse provided the candidate with a business article, which was used in interviews for the position, several days before the candidate's interview. However, other candidates received the article about 1 hour before their interviews.

The investigation also found that the other supervisor had met the candidate at several social events before the candidate applied for the position. This supervisor admitted (1) to distributing the candidate's resume to staff during the hiring process and (2) to attempting to conceal the candidate's name on the resume. Moreover, this supervisor, who was the selecting official for the position, attended the candidate's interview but did not participate in the interviews of the other applicants.

Additionally, the investigation discovered that the candidate's spouse sent nonpublic e-mails from the spouse's SEC e-mail account to the candidate's person-

al e-mail account before the SEC hired the candidate. On May 13, 2015, the OIG presented the facts of this investigation to the USAO for the District of Columbia for consideration of criminal prosecution. On June 8, 2015, the USAO declined prosecution of the matter.

The OIG reported the results of the investigation to SEC management to determine whether corrective administrative action may be warranted. The OIG also referred the facts of the investigation to the U.S. Office of Special Counsel, pursuant to 5 U.S.C. §§ 1212 and 2302. Management's response was pending at the end of the reporting period.

Misuse of Government-Issued Travel Charge Card (Case No. 14-0813-I)

The OIG investigated an allegation that a regional office employee misused a Government-issued travel charge card. The OFM identified 37 transactions made to the employee's travel charge card account that were not in conjunction with official travel.

The OIG investigation determined that over a span of several years, unauthorized transactions totaling over \$27,000, which were not in conjunction with official travel, were made to the employee's travel charge card. These transactions included over \$19,000 in cash withdrawals from Automated Teller Machines, including associated fees, as well as one gasoline purchase made by the employee's spouse.

The investigation also determined that during 17 separate billing cycles, the account was recorded being past due for a total of over \$10,000. However, there was no loss to the Government as a result of the past due balances.

Additionally, the investigation determined that the employee submitted for reimbursement eight travel vouchers that included rental car gasoline expenses in excess of the costs that the employee would have likely incurred during periods of official travel.

The OIG presented the facts of this investigation to a USAO and a local prosecutor; both declined to pursue criminal prosecution. The OIG then reported the results of the investigation to agency management to determine whether corrective administrative action may be warranted. The employee accepted an 8-day suspension without pay.

Allegations of Fraud by an SEC Contractor (Case No. 14-0825-I)

The OIG investigated allegations that an SEC contractor had defrauded the SEC by misrepresenting itself as a small business concern in order to obtain a small business set-aside contract.

The investigation determined that the SEC had awarded a multi-year small business set-aside contract to the contractor, but the U.S. Small Business Administration later notified the SEC that the contractor did not qualify as a small business concern. Once the contracting officer received this information, the SEC obtained a full refund and terminated the contract for cause. The OIG confirmed that the SEC recovered all its funds and that the contract's termination did not interrupt services to the SEC. The OIG also determined that the SEC had not awarded any other small business set-aside contracts to this contractor. The OIG reported the results of its investigation to management for informational purposes.

Unauthorized Foreign Travel (Case No. 15-0177-I)

The OIG investigated allegations that an SEC attorney traveled to a foreign country and interviewed a witness in an SEC enforcement action, at the attorney's own expense, without receiving a proper country clearance from the Department of State or supervisory approval before traveling.

The investigation revealed that the attorney traveled to a foreign country using a regular U.S. Passport and conducted a video-recorded interview of a foreign national witness while in that country. The investigation determined that before traveling, the

attorney (1) did not seek supervisory approval for the trip, (2) did not submit a travel authorization, (3) used personal funds to pay for the trip, and (4) did not seek reimbursement from the Government for the trip expenses. Additionally, before traveling, the attorney did not obtain a country clearance or notify the U.S. Embassy in the foreign country that the attorney was conducting Government business in that country. Furthermore, the attorney's performance of official duties over holidays and weekends and use of personal funds for travel expenses relating to performing official duties raised the issue of improper augmentation of the SEC's appropriated funds, resulting in the SEC's having more travel procurement dollars than the SEC should have.

The investigation also determined that the attorney communicated with a reporter in the foreign country and reviewed a draft of an article before it was published without notifying the SEC Office of Public Affairs. However, the attorney did not disclose SEC nonpublic or sensitive information to the reporter. Finally, the investigation determined that during a period of over 5 years, the employee transmitted to personal e-mail accounts several unencrypted e-mails that included SEC nonpublic or sensitive information, including one such e-mail that was sent after the OIG interviewed the attorney.

The OIG reported the results of the investigation to management to determine whether corrective administrative action may be warranted. In response to the OIG's report, management stated that it had agreed to hold a proposed 5-day suspension in abeyance provided the attorney committed no further violations for a 1-year period. The OIG did not present the matter to the DOJ because the evidence did not reveal a violation of Federal criminal law.

Alleged Falsification of a Government Form (Case No. 15-0204-I)

The OIG investigated a complaint alleging that an employee (1) falsified a Standard Form 86, Ques-

tionnaire for National Security Positions, (2) made false and misleading statements during an agency administrative inquiry, and (3) engaged in an inappropriate relationship with a then manager.

The OIG's review of documents, including affidavits from the employee, revealed that the employee had admitted travelling with the manager to two foreign locations before the employee filed the Standard Form 86. The employee also admitted to mistakenly omitting these two foreign trips from the Standard Form 86.

The OIG presented the facts of the investigation to the USAO for the District of Columbia, which declined to prosecute this matter. The OIG referred the matter to management for appropriate inquiry and/or corrective action. In response, management reported that the employee had been reassigned to a position that does not require a security clearance and that the employee's security clearance had been administratively withdrawn.

Inappropriate Relationship With a Subordinate Employee (Case No. 15-0290-I)

The OIG investigated an allegation that a supervisor at a regional office maintained an inappropriate relationship with a subordinate employee. After management became aware of the relationship, the subordinate employee was removed from the other employee's supervision.

The investigation determined that the two employees developed a romantic relationship at about the same time one of the employees was promoted and began supervising the other employee. During two performance appraisal periods while the romantic relationship was ongoing, the supervisor was the subordinate's rating official. Also, during the period that the subordinate was under the other employee's supervision, the subordinate employee received five performance awards, but the supervisor was not the

recommending official for any of the awards. In addition, the investigation determined that on at least three occasions while the subordinate employee was under the other employee's supervision, the subordinate gave the supervisor, and the supervisor accepted, gifts in excess of \$10. The subordinate denied giving the gifts in exchange for any type of preferential treatment, and the supervisor denied exhibiting any favoritism toward the subordinate because of their relationship.

Finally, the investigation revealed that the subordinate charged to a Government-issued travel charge card lodging expenses associated with personal time that the subordinate used after attending official SEC training, in violation of SEC policy. However, the subordinate paid the lodging expenses, and there was no loss to the Government.

The OIG reported the results of its investigation to SEC management to determine whether corrective administration action may be warranted. Management's response was pending at the end of the reporting period. The OIG did not present the matter to the DOJ because the evidence did not substantiate a violation of Federal criminal law.

Allegations of Bias on the Part of Administrative Law Judges (Case No. 15-0482-I)

The OIG investigated allegations of bias on the part of the ALJs in the SEC's administrative proceedings that were attributed to a former ALJ. Specifically, the OIG investigated allegations that (1) there was improper influence on ALJs to favor the SEC, (2) the SEC Chief ALJ criticized the former ALJ and questioned the former ALJ's loyalty to the SEC, and (3) ALJ personnel were pressured to shift the burden of proof to respondents. Furthermore, our investigation of the allegations of improper influence focused on any instructions, directives, or orders on how to rule on motions, decide questions of facts or law, or make other dispositions of any particular administrative proceeding that the Chief ALJ may have given to the other ALJs, without regard to the evidence or applicable legal authority.

The OIG did not develop any evidence to support allegations of improper influence on ALJs to favor the SEC. Current and former staff of the Office of the ALJs stated that ALJ decisions were made independently and free from the Chief ALJ's influence. Several individuals interviewed during the investigation indicated that the Chief ALJ emphasized the Office's fairness and independence, and some noted only systemic factors, such as Commission precedent and the rules of practice, that impacted complete adjudicative independence.

With the exception of the former ALJ's allegations, the OIG investigation found that the Chief ALJ's criticisms of ALJs related to the timeliness of their decisions and/or the procedural quality of their work, rather than to the substance of their decisions. We identified only a possible reference to loyalty by the Chief ALJ, but the reported emphasis was loyalty to the quality of the ALJ process and not loyalty to the SEC Division of Enforcement.

Finally, the OIG investigation did not develop any evidence to support the allegation that ALJ personnel were pressured to shift the burden of proof to respondents.

The OIG reported the results of its investigation to the SEC Chair and Commissioners in January 2016. The report is available on the OIG's website at <http://www.sec.gov/oig/reportspubs/Final-Report-of-Investigation.pdf>.

Repeated Harassing Communications (Case No. 16-0005-I)

The OIG investigated allegations that a private citizen had been harassing various SEC divisions/offices and employees since about 2011. Specifically, the individual routinely e-mailed and telephoned the SEC, and left profane and inappropriate voice-mail messages alleging that the SEC had failed to take proper action concerning an investment fraud scheme.

The SEC Office of Security Services had previously worked with the Federal Bureau of Investigation and the USAO for the Eastern District of California to address the matter, and a pretrial diversion agreement was reached in 2014. However, when the agreement ended in 2015, the individual recommenced the harassing activities. The OIG then coordinated its investigative activities with the Federal Bureau of Investigation and the USAO.

On December 3, 2015, the United States District Court for the Eastern District of California issued an arrest warrant for the individual. On December 18, 2015, the OIG and the Federal Bureau of Investigation arrested the individual. Criminal proceedings were pending at the end of the reporting period.

OTHER INVESTIGATIVE ACTIVITY

Assistance Provided in Arrest and Charges for Market Manipulation, Insider Trading, and Aggravated Identity Theft (Case No. 15-0393-I)

The SEC OIG provided investigative assistance to the USAO for the Southern District of New York and the Federal Bureau of Investigation in a matter that resulted in the arrest and charging of a citizen of Bulgaria and the United States. An eight-count indictment charged this individual with various crimes related to market manipulation, insider trading, and aggravated identity theft. According to the indictment, the individual devised and carried out schemes (1) to manipulate the public market for two securities through sham tender offers filed publicly with the SEC; and (2) to trade on material, nonpublic information about an impending tender offer by a Bulgarian company for a U.S.-based company, which the individual knew about because of his role advising the proposed acquirer. The sham offer for one of the companies, which had more than 400 million shares outstanding, caused a

400-percent increase over the average per-day trading volume, resulting in a manipulation of the market by hundreds of millions of dollars, and caused the New York Stock Exchange to halt trading three times in the company's shares in the half-hour period following the sham offer. The individual was arrested in Bulgaria, and the United States will seek extradition.

The eight counts charged in the indictment include three counts of securities fraud, two counts of wire fraud, one count of aggravated identity theft, and two counts of fraud in connection with a tender

offer. The fraud charges each carry a maximum sentence of 20 years in prison, whereas the aggravated identity theft charges carry a mandatory sentence of 2 years, in addition to the sentence imposed on the other counts. The charges also carry a maximum fine of \$5 million, or twice the gross gain or loss from the offense.

The DOJ press release announcing the arrest and unsealing of the indictment is available at <https://www.justice.gov/usao-sdny/pr/bulgarian-man-arrested-and-charged-manhattan-federal-court-400-million-market>.



OVERSIGHT AND REVIEW

OVERVIEW

The OIG Office of Oversight and Review consists of attorneys who primarily conduct reviews of complex or high-profile matters involving SEC programs, operations, or employees. The Office of Oversight and Review attorneys also may conduct reviews into matters that are referred by the Office of Investigations and participate as members of Office of Audit evaluation or special project teams.

COMPLETED REVIEW

Review of the SEC's Pay Transition Program

The OIG completed a review of the SEC's pay transition program (Pay Transition) in response to an initial complaint about the program's implementation and anticipated high costs. Pay Transition resulted from a compensation agreement reached between the SEC and the National Treasury Employees Union in August 2014. Under this program, all SEC SK (GS-equivalent) employees could apply to have their salary reviewed using the SEC's current pay-setting process for new employees. This process considers each employee's years of relevant and specialized experience. Applicants who met certain criteria would be eligible to receive a pay increase, provided that the newly calculated salary exceeded their current salary by 5 percent or more. The agreement included a \$3 million budget

for the salary adjustments. During its review, the OIG received, and included in its review, additional complaints relating to Pay Transition.

We performed a review of Pay Transition based on the allegations in the complaints. We learned that the OHR implemented Pay Transition consistent with the compensation agreement between the National Treasury Employees Union and the SEC, including using agreed-upon pay-setting matrices, adhering to a multilayer application review process that included a provision for third party arbitration, and applying an agreed-upon 5 percent threshold. In addition, we confirmed that the \$3 million budget that the National Treasury Employees Union and the SEC initially agreed to for the salary adjustments was significantly lower than the actual amount of the approved salary adjustments. The actual approved salary adjustments amounted to about \$21 million per year, which the SEC Chair decided to fully fund. The OHR informed us that the \$3 million cap that was included in the Pay Transition agreement with the National Treasury Employees Union resulted from consultations with SEC senior management. The OHR also informed us that the budgeted amount reflected the SEC's inability to predict the number of employees who would apply and qualify for Pay Transition, and the total amount of all approved pay adjustments.

Furthermore, the OHR provided us with the following information: (1) the OHR did not announce the increased Pay Transition budget to the staff because the OHR typically does not announce budgets for its programs, (2) the OHR extended the open season for Pay Transition by 4 days for all employees, which the OHR had announced to staff, and (3) the OHR allowed about 10 employees to apply for Pay Transition after the open season deadline because those employees were either on maternity leave or sick leave during the entire open season. Those employees were added to the applicant pool in late 2014, and their applications were processed in a similar manner as those of the other applicants.

Finally, we learned that Pay Transition was completed in October 2015, with no parties invoking arbitration. All salary adjustments were effective as of June 14, 2015.

We issued a memorandum describing the results of our review to agency management on January 27, 2016. This memorandum is available on our website at <http://www.sec.gov/oig/reportspubs/Review-of-the-SECs-Pay-Transition-Program-15-ONR-0281-R-1-27-2016.pdf>.



REVIEW OF LEGISLATION AND REGULATIONS

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

Public Law 114-113

Consolidated Appropriations Act (enacted December 18, 2015), Division N, Title I, section 107(b) (requiring a biennial report to Congress from certain IGs and the Counsel of Inspectors General on Financial Oversight, detailing executive branch compliance with the Act over the most recent 2-year period, with the first report due in 2018) and Division N, Title IV, Section 406 (mandating IGs to report to the appropriate committees of jurisdiction on their agencies' policies and practices regarding covered systems, including Federal computer systems providing access to personally identifiable information or national security systems).

S. 579

Inspector General Empowerment Act of 2015 (introduced February 26, 2015) (seeking to amend the Inspector General Act of 1978 to, among other things: (1) eliminate the role of Federal agencies as supervisors of IGs; (2) grant IGs additional subpoena authority to compel the attendance and testimony of certain witnesses, including current and former Federal Government contractors, subcontractors, or grantees, and former Federal employees, subject to certain conditions; (3) revise the membership structure of the CIGIE Integrity

Committee and establish certain deadlines and procedural requirements for the Integrity Committee's review of allegations of wrongdoing against an IG or OIG staff member; (4) authorize appropriations for CIGIE for FYs 2016 to 2021; and (5) add certain reporting requirements, including that each OIG submit to specified congressional committees reports of investigations of misconduct by Federal employees paid at level 15 of the General Schedule, or above, who were not prosecuted).

S. 742

Stop Wasteful Bonuses Act of 2015 (introduced March 16, 2015) (seeking to prohibit a Federal agency from awarding a bonus to any employee for 5 years after the end of a FY in which the agency's IG, another senior ethics official, or the Comptroller General makes an adverse finding relating to the employee, and to require repayment of a bonus awarded in any year in which an adverse finding is made, after notice and opportunity for a hearing).

S. 1616

Saving Federal Dollars Through Better Use of Government Purchase and Travel Cards Act of 2015 (introduced June 18, 2015, and passed Senate, as amended, December 16, 2015) (seeking, among other things: (1) to require the OMB to develop a strategy to expand the use of data analytics in managing Government purchase and travel charge card programs, (2) to issue guidance on improving

information sharing by Government agencies, and (3) to require the General Services Administration and the OMB to establish a purchase and travel charge card data management group to develop and share best practices).

S. 2128

Inspector General Mandates Reporting Act of 2015 (introduced October 5, 2015, and reported to Senate, as amended, November 30, 2015) (seeking to require each OIG to submit to the CIGIE a list of that office's reporting requirements and a list of recommendations for modifying or repealing reporting requirements, and to require the CIGIE to submit to Congress a report listing reporting requirements that are common to more than one OIG and a list of reporting requirements that are unique to each OIG, as well as recommendations for reporting requirements that should be modified or repealed).

S. 2450

Administrative Leave Act of 2016 (introduced January 20, 2016, and reported, with amendment, February 10, 2016) (seeking to prohibit an agency from placing an employee on administrative leave for more than 5 consecutive days, to require agencies to record administrative leave separately from other types of leave, and to create investigative or notice leave in lieu of administrative leave).

H.R. 598

Taxpayers Right-to-Know Act (introduced January 28, 2015, and passed House, as amended, January 11, 2016) (seeking to require the OMB to include on its website an inventory of each Federal Government program with annual budget authority of more than \$1 million, including, among other things, links to any evaluation, assessment, or program performance review by the agency, its IG or the GAO, released during the preceding 5 years).

H.R. 653

FOIA Oversight and Implementation Act of 2015 (introduced February 2, 2015, and passed House, as amended, January 11, 2016) (seeking to amend the Freedom of Information Act to provide for greater public access to information and to require each IG to (1) periodically review compliance with the Act's requirements, including the timely processing of requests, the assessment of fees and fee waivers, and the use of exemptions, and (2) make recommendations to the agency head, including recommendations for disciplinary action).

H.R. 1381

Transparency in Government Act (introduced March 16, 2015) (seeking, among other things, to amend the Federal Funding Accountability and Transparency Act of 2006 to require Federal agencies to report additional information for all Federal awards and for each agency's IG to conduct an annual audit of this data and report on the audit to the OMB).

H.R. 1557

Federal Employee Antidiscrimination Act of 2015 (introduced March 24, 2015, and passed House July 21, 2015) (seeking to amend the Notification and Federal Employee Antidiscrimination and Retaliation Act of 2002 to expand disclosure and enforcement requirements relating to findings of acts of discrimination and retaliation in the Federal workplace, and declare that accountability in the enforcement of Federal employee rights is furthered when agencies take appropriate disciplinary action against employees for discriminatory or retaliatory acts, and to prohibit the implementation or enforcement of nondisclosure agreements that prohibit or restrict an employee from disclosing to Congress, the Office of Special Counsel, or an OIG any information relating to any violation of law, mismanagement, gross waste of funds, abuse of authority, substantial and specific danger to public health or safety, or any other whistleblower protection).

H.R. 1938

Inspectors General Transparency Act of 2015 (introduced April 22, 2015) (seeking to amend the Inspector General Act of 1978 to require an IG to submit issued work products to the head of the subject establishment, certain Congressional committees, an individual or entity that requests the work product, and any member of Congress upon request, and to post the work product on the OIG's website no later than 3 days after the work product is submitted in final form to the head of the establishment).

H.R. 2395

Inspector General Empowerment Act of 2015 (introduced May 18, 2015, and reported to House July 16, 2015) (seeking to amend the Inspector General Act of 1978 to, among other things: (1) grant IGs additional subpoena authority to compel the attendance and testimony of certain witnesses, including Federal contractors and former Federal employees, in investigations of fraud or waste in excess of \$100,000; (2) allow IGs to compare, through a matching program, Federal records with other Federal or non-Federal records, while

conducting an audit or other review to identify weaknesses that may lead to waste, fraud, or abuse, and to detect improper payments or fraud; (3) assign CIGIE additional responsibilities for receiving, reviewing, and mediating any disputes involving the jurisdiction of more than one Federal agency or entity; (4) exempt information collected during any audit, investigation, inspection, evaluation, or other review by the CIGIE or any OIG from the Paperwork Reduction Act requirements; and (5) require the public disclosure of any finding of misconduct, including any violation of Federal law or agency policy, by any member of the Senior Executive Service, an employee excepted from the competitive service, or certain commissioned officers in the U.S. Army).

H.R. 4359

Administrative Leave Reform Act (introduced January 11, 2016, and reported in the nature of a substitute March 1, 2016) (seeking to limit the use of administrative leave or any other paid non-duty status for reasons relating to misconduct or poor performance to 14 days per calendar year).

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

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

INSTANCES WHERE THE AGENCY REFUSED OR FAILED TO PROVIDE INFORMATION TO THE OIG

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

TABLES

Table 1. List of Reports: Audits and Evaluations

Date and Report Number	Title	Questioned Costs		Funds Put to Better Use
		Total	Unsupported	
Regulatory Oversight				
03/10/2016	Office of Compliance Inspections and Examinations' Management of Investment Adviser Examination Coverage Goals		N/A	
533				
Financial Management				
02/11/2016	Improvements Needed in Oversight of SEC-Sponsored Conferences		N/A	
532				
Human Capital Management				
03/31/2016	Audit of the SEC's Student Loan Repayment Program			
534		\$0	\$0	\$216,000
Totals for the Period		\$0	\$0	\$216,000

Table 2. Reports Issued With Questioned Costs 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	1	\$216,000*
Total of Categories A and B	1	\$216,000
C. For which final management decisions were made during this period	1	\$216,000
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	1	\$216,000

* This amount represents \$216,000 in other savings identified as stated in Report No. 534.

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 the implementation of OIG recommendations. In response, the OIG closed 17 recommendations related to 7 Office of Audits reports. The following table lists recommendations open 180 days or more.

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
522 – Federal Information Security Management Act: Fiscal Year 2013 Evaluation	3	03/31/2014	Require privileged users of an externally-hosted system to use multi-factor authentication for remote access and ensure multi-factor authentication is required for remote access to all other externally-hosted systems with privileged user accounts.
523 – Audit of the SEC’s Physical Security Program	2	08/01/2014	Conduct or update risk assessments and implement appropriate corresponding protective measures, in accordance with Interagency Security Committee standards.
523 – Audit of the SEC’s Physical Security Program	3	08/01/2014	Review the facility security plans for all SEC facilities and revise the plans as necessary, as required by Interagency Security Committee standards.
528 – Audit of the Representation of Minorities and Women in the SEC’s Workforce	4	11/20/2014	Ensure that the SEC responds to the findings of the ongoing barrier analysis by eliminating or modifying, where appropriate, any practice or procedure that creates a barrier to equality of opportunity, as required by the Equal Employment Opportunity Commission’s Management Directive 715.
528 – Audit of the Representation of Minorities and Women in the SEC’s Workforce	5	11/20/2014	Use the GAO’s <i>Standards for Internal Control in the Federal Government</i> and <i>Performance Measurement and Evaluation</i> to develop (a) internal policies and procedures to guide the Office of Minority and Women Inclusion’s diversity efforts and programmatic activities, and (b) workforce diversity standards required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, including methods to monitor and evaluate its activities.
529 – Federal Information Security Management Act: Fiscal Year 2014 Evaluation	1	02/05/2015	Take all required steps to determine whether systems in operation without a current authorization to operate should be re-authorized, and then either authorize or deactivate the systems as appropriate.
529 – Federal Information Security Management Act: Fiscal Year 2014 Evaluation	5	02/05/2015	Review and update documentation to ensure the method of access is defined for external systems.

Table 3. Continued

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
531 - Improvements Needed in the Division of Enforcement's Oversight of Fund Administrators	1	09/30/2015	Use the GAO's <i>Standards for Internal Controls in the Federal Government</i> to: (a) assess the risks in the SEC's use of fund administrators to distribute disgorgement and penalties to harmed investors, and (b) based on the risks identified, and considering the oversight framework provided by the FAR as a best practice, document the oversight responsibilities and any internal control activities needed.
531 - Improvements Needed in the Division of Enforcement's Oversight of Fund Administrators	3	09/30/2015	Update policies and ensure information technology security evaluations of fund administrators are periodically conducted, and determine whether any noncompliance requires suspension of distribution activity or removal from the pool of fund administrators.

Table 4. Summary of Investigative Activity for the Reporting Period of October 1, 2015 to March 31, 2016

Investigative Caseload	Number
Cases Open at Beginning of Period	48
Cases Completed but Not Closed* at Beginning of Period	6
Cases Opened During Period	13
Cases Closed During Period	12
Cases Completed but Not Closed at End of Period	8
Open Cases at End of Period	47
* A case is "completed" but not "closed" when the investigative work has been performed but disposition (for example, corrective administrative action) is pending.	

Criminal and Civil Investigative Activities	Number
Referrals for Prosecution	7
Accepted	2
Declined (including cases referred in prior periods)	6
Indictments/Informations	3
Arrests	2
Convictions	1

Monetary Results	Dollars
Criminal Fines/Restitutions/Recoveries/Assessments/Forfeitures	\$0
Civil Fines/Restitutions/Recoveries/Penalties/Damages/Forfeitures	\$40,000

Administrative Investigative Activities	Number
Removals, Retirements, and Resignations	2
Suspensions	1
Reprimands/Warnings/Other Actions	4

Complaints Received	Number
Hotline Complaints	154
Other Complaints	223
Total Complaints During Period	377

Table 5. References to Reporting Requirements of the Inspector General Act

Section	Inspector General Act Reporting Requirement	Pages
4(a)(2)	Review of Legislation and Regulations	29-31
5(a)(1)	Significant Problems, Abuses, and Deficiencies	9-13, 18-26
5(a)(2)	Recommendations for Corrective Action	9-13
5(a)(3)	Prior Recommendations Not Yet Implemented	34-35
5(a)(4)	Matters Referred to Prosecutive Authorities	18-25, 36
5(a)(5)	Summary of Instances Where the Agency Unreasonably Refused or Failed to Provide Information to the OIG	32
5(a)(6)	List of OIG Audit and Evaluation Reports Issued During the Period	33
5(a)(7)	Summary of Significant Reports Issued During the Period	9-15, 20-25, 27-28
5(a)(8)	Statistical Table on Management Decisions with Respect to Questioned Costs	33
5(a)(9)	Statistical Table on Management Decisions on Recommendations that Funds Be Put to Better Use	33
5(a)(10)	Summary of Each Audit, Inspection or Evaluation Report Over Six Months Old for Which No Management Decision has been Made	32
5(a)(11)	Significant Revised Management Decisions	32
5(a)(12)	Significant Management Decisions with Which the Inspector General Disagreed	32
5(a)(14)(B)	Date of the Last Peer Review Conducted by Another OIG	39

PEER REVIEWS OF OIG OPERATIONS

PEER REVIEW OF THE SEC OIG'S AUDIT OPERATIONS

In accordance with generally accepted government auditing standards and CIGIE quality control and assurance standards, an OIG audit team assesses another OIG's audit functions every 3 years. The National Archives and Records Administration OIG conducted an assessment of the SEC OIG Office of Audit's system of quality control for the 3-year period ending March 31, 2015. The review focused on whether the SEC OIG established and complied with a system of quality control that was suitably designed to provide the SEC OIG with a reasonable assurance of conforming to applicable professional standards.

On December 29, 2015, the National Archives and Records Administration OIG issued its report, concluding that the SEC OIG complied with its system of quality control and that the system was suitably designed to provide the SEC OIG with reasonable assurance of performing and reporting in conformity with applicable government auditing standards in all material respects. On the basis of its review, the National Archives and Records Administration OIG gave the SEC OIG a peer review rating of "pass." (Federal audit organizations can receive a rating of "pass," "pass with deficiencies," or "fail.") The National Archives and Records Administration OIG identified findings and recommendations that were not considered to be of sufficient significance to affect the peer review rating. Furthermore, there are no outstanding recommendations from previous peer reviews of the SEC OIG's audit organization.

The peer review report is available on the SEC OIG website at <http://www.sec.gov/oig/reportspubs/Peer-Review---System-Review-Report-on-the-Securities-and-Exchange-Commissions-Office-of-Inspector-General-Audit-Organization.pdf>.

We expect the next external peer review of the Office of Audit's system of quality control to occur in calendar year 2015.

PEER REVIEW OF THE SEC OIG'S INVESTIGATIVE OPERATIONS

During the reporting period, the SEC OIG did not have an external peer review of its investigative operations. The Federal Housing Finance Agency OIG conducted the most recent peer review of the SEC OIG's investigative operations in FY 2014. The Federal Housing Finance Agency 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*.

The Federal Housing Finance Agency OIG issued its report on the SEC OIG's investigative operations in August 2014. In its report, the Federal Housing Finance Agency OIG noted that the SEC OIG was granted statutory law enforcement authority on June 10, 2014, and that the *Attorney General Guidelines for Offices of Inspectors General With Statutory Law Enforcement Authority* were not applicable prior to that time. The report stated that the SEC OIG had achieved significant progress in strengthening and developing its policies and procedures since receiving statutory law enforcement authority and that the Federal Housing Finance Agency OIG observed solid implementation of these improved policies and procedures throughout the SEC OIG's investigative operations. The Federal Housing Finance Agency OIG concluded that the SEC OIG was in compliance with the *Attorney General Guidelines for Offices of Inspector General With Statutory Law Enforcement Authority* for the period during which they were applicable.

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 www.reportlineweb.com/sec_oig
HOTLINE

FAX 202.772.9265

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

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.



This report is available on the Inspector General's website
www.sec.gov/oig