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SEMIANNUAL REPORT TO CONGRESS

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OFFICE OF INSPECTOR GENERAL
SEMIANNUAL REPORT TO CONGRESS



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 Chairman and Commissioners fully and currently informed of significant issues and developments.

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.

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ABBREVIATIONS

SEC/Agency	U.S. Securities and Exchange Commission
CF	Division of Corporation Finance
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOJ	Department of Justice
EDGAR	Electronic Data Gathering, Analysis, and Retrieval System
ENF	Division of Enforcement
ESP	Employee Suggestion Program
FISMA	Federal Information Security Modernization Act
FY	fiscal year
GAO	U.S. Government Accountability Office
IA	Investment Adviser
IG	Inspector General
NIST	National Institute of Standards and Technology
OCIE	Office of Compliance Inspections and Examinations
OCOO	Office of the Chief Operating Officer
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
PII	Personally Identifiable Information
TCR	tips, complaints, and referrals
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 April 1, 2017, to September 30, 2017, and reflects our responsibility to report independently to Congress and the Commission. 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, we continued our efforts to meet our strategic goals of (1) delivering results that promote integrity, efficiency, and effectiveness in the SEC's programs and operations; (2) advancing an inclusive and dynamic OIG culture that inspires high performance; and (3) improving the effectiveness and efficiency of OIG processes through continuous innovation, collaboration, and communication.

During this reporting period, the OIG's Office of Audits issued reports that recommended improvements in SEC programs and operations. For example, on May 31, 2017, we issued our Final Management Letter: Progress on the SEC's Tips, Complaints, and Referrals Intake and Resolution System Redesign and Vulnerability Remedia-

tion Efforts. Then, on September 13, 2017, we issued our Evaluation of the Division of Corporation Finance's Disclosure Review and Comment Letter Process (Report No. 542). Next, on September 28, 2017, we issued our Audit of the SEC's Progress in Enhancing and Redesigning the Electronic Data Gathering, Analysis, and Retrieval System (Report No. 544). Finally, on September 29, 2017, we issued our Audit of the SEC's Management of Its Data Centers (Report No. 543). The Office of Audits also worked with SEC management to close 17 recommendations made in 6 OIG reports issued during this and previous semiannual reporting periods.

In addition, the Office of Investigations completed or closed 40 investigations during this reporting period. The investigations involved a wide range

of violations, including Obstruction of an SEC Investigation by a Financial Advisor; Alteration of Government Documents and Misrepresentation of Salary to Financial Institutions; and Transmission of Personally Identifiable Information.

Our investigations resulted in 11 referrals to the Department of Justice (DOJ), 1 of which was accepted for prosecution, and 6 referrals to management for administrative action.

During this reporting period, in accordance with the April 12, 2017, Office of Management and Budget (OMB) Memo 17-22, “Comprehensive Plan for Reforming the Federal Government and Reducing the Federal Civilian Workforce,” we realigned the Office of Counsel to the IG and the Office of Management Support into one office—the Office of Counsel and Mission Support—and reassigned responsibilities. This merger reduced the number of senior staff in the OIG from four to three. In addition, we recruited to fill key vacancies that are integral to audit and investigative functions by selecting one auditor and two criminal investigators. We also repurposed underused space to create seven additional offices without increasing the OIG’s footprint.

In addition, we launched a marketing plan for the Employee Suggestion Program (ESP) that included messaging to SEC management, visual displays throughout SEC Headquarters, and presentations to SEC offices and divisions. This marketing campaign greatly increased awareness and the number of suggestions received more than doubled when compared to the same 6-month reporting period of the previous year.

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 Commission. We will continue to collaborate with SEC management to assist the agency in addressing the challenges it faces in its unique and important mission of protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. I appreciate the significant support that the OIG has received from Congress and the agency. We look forward to continuing to work closely with the Commission and staff, as well as Congress, to accomplish our mission.



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, excellence, accountability, effectiveness, teamwork, and fairness. The SEC's 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 Commission's performance through effective alignment and management of human, information, and financial capital.

The SEC is responsible for overseeing the nation's securities markets and certain primary participants, including broker-dealers, investment companies, investment advisers (IAs), clearing agencies, transfer agents, credit rating agencies, and securities exchanges, as well as organizations such as the Financial Industry Regulatory Authority, Municipal Securities Rulemaking Board, and the Public Company Accounting Oversight Board. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act), the agency's jurisdiction was expanded to include

certain participants in the derivatives markets, private fund advisers, and municipal advisors.

The SEC accomplishes its mission through 5 main divisions—Corporation Finance (CF), Enforcement (ENF), Investment Management (IM), Trading and Markets (TM), and Economic and Risk Analysis (DERA)—and 25 functional offices. The SEC's headquarters are in Washington, DC, and the agency has 11 regional offices located throughout the country. As of September 2017, the SEC employed 4,556 full-time equivalent employees.

OIG STAFFING, RESOURCES, AND ADMINISTRATION

During this semiannual reporting period, the OIG recruited to fill key vacancies integral to audit and investigative functions. Specifically, we selected an auditor and two criminal investigators.

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

OIG OUTREACH

The IG regularly met with the Chairman, 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.

The OIG also continued its efforts to educate SEC employees on the roles and responsibilities of the OIG. The OIG participates in the SEC's new employee orientation sessions and gives an overview of the OIG and its various functions. Additionally, the OIG continued to educate staff on and promote the OIG SEC ESP, to encourage suggestions for improvements in the SEC's work efficiency, effectiveness, and productivity, and the use of its resources. As part of a marketing effort to broaden awareness of the ESP within the SEC, the OIG provided in-depth briefings on the ESP to six SEC offices during the reporting period.



CONGRESSIONAL REQUESTS AND BRIEFINGS

Evaluation of the Division of Corporation Finance's Disclosure Review and Comment Letter Process (Report No. 542)

In July 2016, some members of Congress requested that the SEC OIG and the Comptroller General of the U.S. Government Accountability Office (GAO) jointly review the SEC's efforts to implement the agency's 2010 climate change guidance (SEC Release 33-9106), and assess CF's comment letter process. Based on the request letter and our meeting with Congressional staff and GAO, the SEC OIG agreed to review and report on CF's disclosure review and comment letter process. A summary of this report is on page 10.

Review of Certain Actions Taken by Commissioner Michael Piwowar as Acting Chairman

On March 29, 2017, the OIG received a request from four Members of the U.S. Senate to conduct a review of certain actions taken by SEC Commis-

sioner Michael Piwowar during his tenure as Acting Chairman (from January 23, 2017, through May 4, 2017). In response, we conducted a review.

Based on our analysis of the issues raised in the March 29, 2017, letter and the laws governing the SEC's organization, conduct, and procedures, we were unable to conclude that Commissioner Piwowar exceeded his authority during his tenure as SEC Acting Chairman. We were likewise unable to conclude that he violated other procedural requirements under current law or that his actions lacked adequate justification. Furthermore, we were unable to conclude that his actions could either undermine the SEC's mission or potentially prove to be a waste of SEC staff time and resources.

We issued our review on August 24, 2017. The review is available on the OIG's website at <https://www.sec.gov/files/Review-of-Certain-Actions-Taken-by-Commissioner-Piwowar.pdf>.



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 (CIGFO), which was established by the Dodd-Frank Act. The chairman of CIGFO is the IG of the Department of the Treasury. Other members of the Council, in addition to the IGs of the SEC and the 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 IG for the Troubled Asset Relief Program. As required by the Dodd-Frank Act, CIGFO meets at least once every 3 months. At the CIGFO meetings, 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 IG community on issues involving criminal investigations and criminal investigations personnel and to establish criminal investigative guidelines. Additionally, the Office of Investigations participated in the CIGIE Assistant Inspector General for Investigations Subcommittee, whose members collaborate in areas that impact the OIG investigations community, such as updates to the investigative peer review process and training to the OIG community on how to conduct a peer review.

The Office of Audits continued to participate in activities of the CIGIE Federal Audit Executive Council. For example, Office of Audits personnel participated in the Federal Audit Executive Council DATA Act working group. Also, along with several other OIGs, Office of Audits personnel assisted the Leadership Development Subcommittee of CIGIE's Professional Development Committee to conduct a comprehensive curriculum review of the four CIGIE-sponsored leadership programs. This effort resulted in a report, expected to be finalized in November

2017, concerning the effectiveness and relevance of the four CIGIE-sponsored leadership programs to their target populations. Finally, for the first time, the Office of Audits participated in the CIGIE Inter-agency Fellows Program and welcomed a fellow to the office.

The Counsel to the Inspector General served as the Chair of both the Council of Counsels to the

Inspectors General and the Administrative Leave Act Working Group, participated on the New IG Attorney Course Working Group, and served as an instructor for the CIGIE Training Institute's Audit, Inspection, and Evaluation Academy.

OIG staff also participated in the activities of the Deputy Inspectors General Group and the CIGIE Freedom of Information Act Working 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 work 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, SEC staff, 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, as necessary, to correct those deficiencies or increase efficiencies in an SEC program or operation.

COMPLETED AUDITS AND EVALUATIONS

Audit of the Office of Compliance Inspections and Examinations' Investment Adviser Examination Completion Process (Report No. 541)

The SEC's National Examination Program, conducted by the Office of Compliance Inspections and Examinations (OCIE), is risk-based and data-driven. As part of the National Examination Program, OCIE examines SEC-registered entities, including about 12,000 IAs. According to the SEC's fiscal year (FY) 2016 Agency Financial Report, "OCIE uses the findings from these examinations to improve industry compliance, detect and prevent fraud, inform policy, and identify risks." We initiated this audit to assess the controls over OCIE's IA examination completion process and to follow up on prior OIG recommendations.

We found that controls over OCIE's IA examination completion process are generally effective but improvements are needed. We reviewed documentation from all IA Corrective Action Reviews OCIE approved between FYs 2015 and 2016 and closed in the Tracking and Reporting Examination National Documentation System as of November 22, 2016. We also reviewed documentation from a statistical sample of 240 of the 2,443 IA examinations OCIE approved and closed in the Tracking

and Reporting Examination National Documentation System during the same period. We did not find any deficiencies related to the IA Corrective Action Reviews we reviewed. Moreover, we determined that OCIE has addressed prior OIG recommendations. However, we also identified deficiencies in OCIE's IA examination completion controls that warrant management's attention. Specifically, we found that two IA examination completion controls regarding control sheets and post-exam fieldwork lacked adequate segregation of duties; examiners did not always document preliminary exit interviews with examined IAs; and examiners either did not assign final risk ratings or may have assigned final risk ratings inconsistently.

These deficiencies occurred because sufficiently robust policies and controls were not in place to prevent the deficiencies' occurrence. If OCIE does not appropriately review and consistently document IA examination results and risk assessments (1) examination work products may be more susceptible to error, (2) OCIE examiners' ability to sufficiently review prior examination findings and perform comprehensive risk assessments may be reduced, and (3) OCIE may not effectively consider the results of examinations during its evaluation of risk for future examinations. OCIE can improve its IA examination completion process and internal controls by updating or documenting policies and procedures consistent with the Standards for Internal Control in the Federal Government. During the audit, we also inquired about the status of (1) recommendations OCIE received in November 2016 from a consultant's efficiency study, and from an internal steering committee; and (2) plans to apply to the National Examination Program GAO's Risk-Management Framework. We discussed with OCIE management, including the Acting Director, these other matters of interest, which did not warrant recommendations. We will continue to monitor these matters, as needed.

The OIG issued a final report to the agency on July 21, 2017. To improve OCIE's IA examination completion process, we made three recommendations. We recommended that OCIE (1) design control activities related to the review and approval of examination work products to require adequate segregation of duties, (2) update National Examination Program policies and procedures to more clearly define the requirements for documenting in the Tracking and Reporting Examination National Documentation System examination meetings and interviews, and (3) develop and disseminate to OCIE staff guidance for assigning final examination risk ratings before closing examinations. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

The report is available on our website at https://www.sec.gov/files/OIG_Final_Report_No._541-Audit_of_OCIE%27s_Investment_Adviser_Examination_Completion_Process_508_compliant_version_07-21-17.pdf.

Evaluation of the Division of Corporation Finance's Disclosure Review and Comment Letter Process (Report No. 542)

In July 2016, some members of Congress requested that the SEC OIG and the Comptroller General of GAO jointly review the SEC's efforts to implement the agency's 2010 climate change guidance (SEC Release 33-9106), and assess CF's comment letter process. Based on the request letter and our meeting with Congressional staff and GAO, the SEC OIG agreed to review and report on CF's disclosure review and comment letter process. In a separate document, GAO will report its observations related to climate change-related policies and procedures.

We found that CF established policies, procedures, and internal controls that provide overall guidance for how staff should conduct disclosure reviews and

for how information, including comments, should be documented, tracked, and disseminated to companies and the public. We evaluated 95 of the more than 5,000 disclosure reviews conducted by CF staff in FY 2015, surveyed 325 CF disclosure review staff, and determined that staff generally complied with the established policies, procedures, and internal controls. In addition, more than 80 percent of survey respondents felt they (1) received sufficient training to conduct disclosure reviews, and (2) received or provided rationale for any proposed comments to companies that were waived or modified.

Although staff generally followed CF's disclosure review policies and procedures and the results of our survey of CF disclosure review staff were generally positive, we identified opportunities to improve CF's disclosure review documentation. Specifically, we found that examiners and reviewers did not always properly document comments before issuing comment letters to companies; some case files were incomplete as of the date CF issued a comment letter to a company; and examiners and reviewers inconsistently documented oral comments to companies.

These actions and inactions may have occurred because there are no mechanisms or checks in place to ensure compliance with certain aspects of CF's policies, procedures, and internal controls for documenting written comments. In addition, guidance for documenting oral comments provided to companies is not detailed.

By not consistently or timely documenting written and oral comments, CF may not be able to fully and accurately explain the basis for its actions or adequately demonstrate that reviews were conducted effectively and that comments were appropriately reviewed before issuance. We also determined that the SEC's Office of Information Technology (OIT), in coordination with CF, did

not establish or document the system security categorization or security controls for the Comment Letter Dissemination system. We discussed with management these other matters of interest, which did not warrant recommendations.

The OIG issued a final report to the agency on September 13, 2017. To improve CF's disclosure review and comment letter process, we recommended that CF (1) establish a mechanism or control for CF staff to trace all comments provided to companies to examiner and reviewer reports before issuing comment letters; (2) establish a mechanism or control that ensures that CF staff follow policy to upload all examiner and reviewer reports to the internal workstation before issuing comment letters; and (3) establish detailed guidance on how examiners and reviewers should document oral comments provided to companies during disclosure reviews. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

The report is available on our website at <https://www.sec.gov/files/Final-Report-Evaluation-of-Division-Corp-Fin-Disclosure-Review-and-Comment-Ltr.pdf>.

Audit of the SEC's Management of Its Data Centers (Report No. 543)

The SEC's data centers house critical telecommunications, data, and computing resources, including the agency's EDGAR—the Electronic Data Gathering, Analysis, and Retrieval System—which supports the financial reporting of public companies in the United States. Between 2012 and 2013, the SEC completed actions to relocate its data centers to their present locations. The agency awarded new data center contracts to [D1] and [D2] to provide data center services. (The contractors' names have been redacted.) The SEC's contracts with [D1] and [D2] total about \$16 million and \$18 million, respectively, if all contract options

are exercised. We conducted this audit to assess the SEC's management of its data centers, ensure the data centers have adequate physical and environmental controls, and determine whether SEC personnel properly monitored the contractors' performance.

In 2008, the SEC paid \$162,000 for a contractor-developed plan to relocate the agency's data centers. However, the SEC did not follow the plan's recommended steps or timeline to ensure the 2012-2013 data center relocations were properly executed and that the SEC's data center providers, [D1] and [D2], could meet the agency's needs before awarding contracts and migrating data, thereby exposing SEC data to vulnerabilities. We were unable to determine why the SEC did not follow the recommended data center relocation steps or timeline because the current officials responsible for the SEC's data centers were not aware of the relocation plan, many key officials responsible for the data center relocations no longer work at the SEC, and, as discussed further below, contract files were incomplete.

However, because the agency derived little, if any, benefit from the 2008 data center relocation plan, we believe the \$162,000 paid for the plan represents funds that the SEC may have wasted. Furthermore, we determined that SEC data and equipment at the [D1] data center have been exposed to certain physical and environmental control vulnerabilities since the inception of the contract. These vulnerabilities have disrupted SEC operations and resulted in increased costs to the agency. Specifically, we estimate that since 2014 the SEC spent about \$370,000 in questioned costs to mitigate the physical and environmental vulnerabilities at the [D1] data center. Finally, based on our observations, we question whether the [D1] data center meets a key contract requirement—to be a Tier III data center or greater—as defined in Telecommunications Industry Association standards.

Additionally, we determined that the SEC did not adequately manage or monitor its data center contracts. We found that Contracting Officer's Representatives did not always validate invoices or maintain complete files. Contracting Officer's Representative contract files were missing required deliverables, justifications and support for critical decisions related to the data centers, and monthly reports. Furthermore, [D1's] monthly power consumption reports were unusable, and the SEC did not timely or adequately address known vulnerabilities at the [D1] data center, or effectively assess physical and environmental controls at either data center. For example, the agency's 2016 and 2017 data center assessments identified no findings at either location, despite vulnerabilities at the [D1] data center and a report from a contractor we hired that identified 14 physical and environmental control deficiencies at the [D2] data center.

Because of inadequate contract management, the SEC paid [D2] invoices containing formula errors resulting in \$217,159 in overpayments (which has been refunded). We also identified about \$2.8 million in unsupported costs paid to [D1]. If the SEC does not take corrective action to validate certain costs and if all contract options are exercised, the agency will incur additional costs of about \$2.7 million in funds that could be put to better use over the remaining life of [D1's] contract.

The OIG issued a final report to the agency on September 29, 2017. To improve the SEC's management of its data centers, we made 10 recommendations for corrective action, including that the SEC conduct comprehensive reviews of the 2012-2013 data center relocations to identify lessons learned. We previously reported that agency staff did not always perform contract management duties consistently and as required. Therefore, in addition to our recommendations regarding data center-related contract management, we strongly encouraged the

Director of the Office of Acquisitions to conduct a comprehensive review of the SEC's Contracting Officer's Representative program and ensure controls are developed or strengthened to improve the SEC's contract management activities.

Management concurred with the recommendations, which will be closed upon completion and verification of corrective action. Because this report contains sensitive information about the SEC's information security program, only a redacted version of the report is available on our website at <https://www.sec.gov/files/Audit-of-the-SECs-Management-of-Its-Data-Centers.pdf>.

Audit of the SEC's Progress in Enhancing and Redesigning the Electronic Data Gathering, Analysis, and Retrieval System (Report No. 544)

The SEC's ability to fulfill its mission is, in part, dependent on the successful operation of EDGAR. The SEC consistently spends more than \$14 million a year on EDGAR, or about 6 percent of the agency's information technology budget. These costs cover both ongoing operations and enhancements to the current EDGAR. Separately, since FY 2014, the agency has spent at least \$3.4 million on efforts to redesign EDGAR. A disciplined process for managing the enhancements and redesign of EDGAR is necessary to ensure adequate system functionality and to avoid cost overruns and schedule delays in the SEC's efforts related to this mission-essential system.

Since 2014, the SEC has made several improvements in its planning and governance of the program to redesign EDGAR while continuously enhancing the system in operation. Our audit included reviewing a nonstatistical sample of 6 of the 29 releases (or about 21 percent) deployed by the SEC to enhance EDGAR between October 1, 2013, and September 30, 2016. We also interviewed personnel and reviewed program documentation to assess the planning and governance of the SEC's EDGAR Redesign program.

We determined that (1) the SEC's governance of EDGAR enhancements, including the governance and operation of the EDGAR Requirements Subcommittee and the EDGAR enhancement lessons learned process, needs improvement; (2) OIT did not consistently manage the scope of EDGAR releases to ensure SEC needs were achieved; (3) the SEC should improve its management of the EDGAR engineering contract; (4) OIT did not fully and consistently implement EDGAR enhancements in compliance with Federal and SEC change management controls; and (5) although the SEC has taken steps to improve its ability to develop and implement a new electronic disclosure system that meets agency needs, further improvements can strengthen the agency's EDGAR Redesign program governance and planning.

We issued our final report on September 28, 2017, and made nine recommendations, including that the SEC (1) more clearly define the EDGAR governance structure; (2) enhance the relevant lessons learned process; (3) improve EDGAR scope management processes; (4) ensure the EDGAR engineering contractor complies with earned value management requirements and performance expectations; (5) update the EDGAR change management policies and procedures; and (6) address constraints impacting the timely completion, review, and approval of EDGAR Redesign contract deliverables. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

In addition, during our audit, two other matters of interest that did not warrant recommendations came to our attention. The first matter related to two systems the SEC used for enterprise configuration management, including to manage the configurations of EDGAR. We determined that OIT miscategorized one of the two systems and did not clearly define the other system as a component of the EDGAR authorization boundary. The second matter related to potential negative impacts on system operations of ongoing EDGAR

enhancements resulting from rules adopted by the Commission. We discussed these matters with agency management.

Because the audit report contains sensitive information about EDGAR, only a redacted version of the report is available on our website at <https://www.sec.gov/files/Audit-of-SECs-Progress-in-Enhancing-and-Redesigning-the-EDGAR-System.pdf>.

OTHER PROJECTS AND REPORTS

Final Management Letter: Progress on the SEC's Tips, Complaints, and Referrals Intake and Resolution System Redesign and Vulnerability Remediation Efforts

In May 2015, we reported that, because of various factors, the project to implement the redesigned tips, complaints, and referrals (TCR) system was at least 10 months behind schedule and the value of the SEC's contract had increased by nearly \$4 million (from about \$7.2 million to about \$11 million). We also reported that final user acceptance and system implementation dates were not established and that the current TCR system continued to operate with unresolved information security vulnerabilities.

In May 2015, management stated that the redesigned system, initially scheduled to go live in July 2014, would go live in August 2015. In addition, management stated that the redesigned system would not inherit the current system's information security vulnerabilities. However, management stated that it would review all open Plan of Action and Milestones items for the current TCR system and ensure the current system operated at an acceptable risk level if the redesigned TCR system was not implemented in August 2015.

Between May 2015 and May 2017, we continued to monitor the SEC's progress toward implement-

ing a redesigned TCR system and addressing information security vulnerabilities in the current system. We issued a final management letter on May 31, 2017. As reported in the letter, the SEC successfully tested and conditionally accepted the redesigned TCR system. However, the agency had not implemented the system because the system's multiple users were considering new requirements and enhancements not previously required in the development effort. Therefore, the SEC did not expect the redesigned TCR system to go live until October 2017—more than 3 years behind schedule. In addition, the value of the SEC's contract to implement the system had increased by another \$8.5 million, for an overall increase of about \$12.2 million. The contract cost will likely continue to rise as the agency continues to pursue new system requirements and enhancements. At the same time, the SEC continued to operate the current TCR system but had not timely remediated some of the system's security vulnerabilities.

To help determine whether further action by the OIG is warranted, we requested that management provide a description of the actions the agency has taken or plans to take to (1) stabilize the system platform and establish consistent environments, (2) finalize the redesigned system requirements, (3) address unresolved information security vulnerabilities in the current TCR system, and (4) review the planning and management of the SEC's project to redesign the TCR system to identify lessons learned. Doing so should improve the agency's efforts to develop and modernize its information technology systems and to manage other information technology acquisitions.

The final management letter on the results of the progress on the SEC's TCR intake and resolution system redesign and vulnerability remediation efforts is available on our website at <https://www.sec.gov/files/Final-Mgmt-Ltr-SECs-TCR-System-Redesign-and-Vuln-Remediation-Efforts.pdf>.

ONGOING AUDITS AND EVALUATIONS

Audit of the SEC's Compliance with the Federal Information Security Modernization Act for Fiscal Year 2017

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

In addition, FISMA requires IGs to annually assess the effectiveness of agency information security programs and practices and to report the results to OMB and the Department of Homeland Security. This assessment includes testing and assessing the effectiveness of agency information security policies, procedure, practices, and a subset of agency information systems.

To comply with FISMA, the OIG initiated an audit of the SEC's information security programs and practices. The objective of the audit is to assess the SEC's compliance with FISMA for FY 2017 based on guidance issued by OMB, the Department of Homeland Security, and the National Institute of Standards and Technology (NIST).

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

Audit of the SEC's Compliance Under the Digital Accountability and Transparency Act of 2014

To improve the transparency and quality of the Federal spending data made available to the public,

the Digital Accountability and Transparency Act of 2014 requires, among other things, (1) Governmentwide data standards, (2) disclosure of direct Federal spending with certain exceptions, (3) Federal agencies to comply with the new data standards, and (4) IG audits of the quality of the data be made available to the public. In general, the Digital Accountability and Transparency Act of 2014 requires that agencies begin reporting financial spending data using the new data standards by May 2017 and that IGs provide a report to Congress assessing the Digital Accountability and Transparency Act of 2014 compliance by November 2017. According to GAO, effective implementation of the Digital Accountability and Transparency Act of 2014 will allow funds to be tracked at multiple points in the Federal spending lifecycle, which would be publicly available on *USASpending.gov* or a successor website.

The OIG has initiated an audit to assess the SEC's compliance under the Digital Accountability and Transparency Act of 2014 based on guidance issued by OMB and the Department of the Treasury. Specifically, we will assess the (1) completeness, timeliness, quality, and accuracy of the SEC's FY 2017 second quarter financial and award data submitted for publication on *USASpending.gov*; and (2) SEC's implementation and use of the Governmentwide financial data standards established by OMB and the Department of the Treasury.

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

Audit of the Division of Enforcement's Use of External Experts

SEC's ENF relies on external experts as witnesses in the majority of its litigated cases. ENF also may use external experts during investigations when internal expertise may not be available. In FY 2016, ENF contracted with 94 external expert witnesses to assist with 76 enforcement cases, costing the SEC about \$25 million. Without effective controls over

ENF's contracts with and use of external experts, the SEC may not effectively review and approve requests for external experts, select external experts, or manage the funds spent on external experts' services, fees, and expenses.

The OIG has initiated an audit of ENF's use of external experts. The objective of the audit is to assess ENF's internal controls over its use of external experts between April 1, 2015, and March 31, 2017. Specifically, we will determine whether the SEC implemented effective controls for: (1) reviewing and approving requests for ENF's external experts, and for selecting individual external experts, including but not limited to conducting cost-benefit and conflict of interest analyses, evaluating the technical approach, assessing the expertise of SEC employees, performing market research, and completing other pre-award requirements when contracting with external experts; and (2) managing its contracts with external experts and the funds spent on external experts' services, fees, and expenses, as appropriate.

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

Audit of the Securities and Exchange Commission's Management of Subscription Services to Third Party Information and Data Sources

Between October 1, 2016, and June 30, 2017, the Information Services Branch of the SEC Office of Strategic Initiatives spent about \$16 million on subscriptions to third party information and data sources, including print and electronic journals and newspapers and various data feeds and research

platforms used by SEC staff. SEC divisions and offices may also directly purchase books, journals, newspapers, and access to e-information. We initiated an audit to determine whether the SEC's Office of Strategic Initiatives Information Services Branch, either directly or through SEC divisions, offices, and/or working groups, has developed and implemented effective controls for acquiring, maintaining, and tracking information and data source subscriptions, including proper assessment of agency needs and associated costs.

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

Evaluation of the SEC's Handling of, and Response to, a Vulnerability Identified in the Agency's EDGAR System

On September 23, 2017, the SEC Chairman requested that the OIG review the agency's handling of, and response to, a vulnerability identified in the agency's EDGAR system. In his request, the Chairman stated that, among other things, the review would help agency management, as well as the Congress and the public, gain a clear understanding of the underlying facts and how the SEC responded to the vulnerability. Moreover, the Chairman stated that, should the review identify any ongoing system or control deficiencies or opportunities for improvement, the Chairman would value the OIG's recommendations for management action to improve the agency's cybersecurity risk profile.

The OIG is planning an evaluation in response to the Chairman's request and expects to issue a report 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 identify vulnerabilities, deficiencies, and wrongdoing that could negatively impact the SEC's programs and operations.

The Office of Investigations manages the OIG Hotline, which is available 24 hours a day, 7 days a week, to receive and process tips and complaints about fraud, waste, or abuse related to SEC pro-

grams and operations. The Hotline allows individuals to report their allegations to the OIG directly and confidentially.

REPORT ON INSTANCES OF WHISTLEBLOWER RETALIATION

For this semiannual reporting period, the OIG had no instances of whistleblower retaliation to report.

STATUS OF PREVIOUSLY REPORTED INVESTIGATIONS

Alteration of Government Documents and Misrepresentation of Salary to Financial Institutions (Case No. 15-0270-I)

The OIG investigated allegations that an SEC intern had altered Government documents and misrepresented the intern's salary to a financial institution in connection with a mortgage application.

The investigation determined that from December 2014 through April 2015 the intern had submitted false and fraudulent documents to three financial institutions in support of mortgage loan applications for the purpose of exaggerating the intern's true income. The intern's temporary appointment expired in April 2015 and was not extended.

The OIG referred the facts of the investigation to a United States Attorney's Office (USAO), which accepted the matter for prosecution. On December 2, 2016, the former intern was indicted on three counts of bank fraud and was subsequently arrested. On February 14, 2017, the former intern pled guilty to three counts of bank fraud, in violation of 18 U.S.C. § 1344. The former intern was sentenced to time served; 5 years' probation (with 12 months to be served in home detention); a \$5,000 fine; and a \$300 Special Assessment.

Financial Conflict of Interest by a Supervisor (Case No. 15-0367-I)

The OIG investigated allegations that an SEC supervisor held a financial interest in a particular matter in which the supervisor personally and substantially participated in violation of 18 U.S.C. § 208.

The investigation determined that the supervisor held stock of the supervisor's former employer, a private company, while the supervisor participated in an enforcement investigation for which the company was hired to provide expert witness support. Specifically, before the company was retained, in response to a request from staff working on the investigation, the supervisor communicated opinions about the company's personnel while they were being evaluated as potential expert witness support. The supervisor subsequently reviewed and commented on a memorandum related to the investigation after the company was hired to provide expert witness support for the matter. When the supervisor became aware that the company was hired to work on the investigation, the supervisor did not seek guidance from the Office of the Ethics Counsel and did not receive a waiver that could have allowed the supervisor to continue working on this matter.

The investigation found that the supervisor did not play a role in the SEC's decision to contract with the supervisor's former company. Additionally, an officer of the company represented that the value of the supervisor's stock was locked to the time that the supervisor left the company and, therefore, was

not affected by the company's future business. The supervisor reported the conflict to the Office of the Ethics Counsel after being instructed to do so, and the Office of the Ethics Counsel advised the supervisor to recuse from any future matters involving the company. The supervisor recused from work involving the company, and to avoid further ethical conflicts, fully divested the stock in the company.

On May 4, 2016, the OIG referred the facts of the investigation to a USAO, which declined prosecution of the matter that same day, citing lack of prosecutorial merit. The OIG then reported the results of the investigation to management to determine whether administrative action may be warranted. Management responded that it orally counseled the employee of the employee's obligations under the ethics rules.

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

As discussed in previous semiannual reports, the OIG investigated allegations that an individual had been harassing various SEC division/offices and employees for several years. Specifically, the individual had routinely telephoned the SEC and left profane and inappropriate voicemail messages alleging that the SEC had failed to take proper action concerning an investment fraud scheme.

Although a pretrial diversion agreement was reached in 2014, the individual recommenced the harassing activities after the agreement ended in 2015. The OIG then coordinated its investigative activities with the Federal Bureau of Investigation and the USAO for the Eastern District of California. The OIG and the Federal Bureau of Investigation arrested the individual.

On January 19, 2017, a jury for the U.S. District Court for the Eastern District of California found the individual guilty of two counts of making harassing interstate telephone calls. On May 19, 2017, the individual was sentenced to 60 months of probation. Among the special conditions of the indi-

vidual's probation, the individual is not to have contact with the SEC, including current and/or former officials or employees of the entities, by telephone, e-mail, webform, facsimile, or over the Internet. Additionally, the individual is not to have contact with any Governmental or regulatory agency or authority, public or private, except by the U.S. mail or in a manner pre-approved by the probation officer. The individual was also ordered to pay a special assessment of \$200. More information about this case may be found at <https://www.justice.gov/usao-edca/pr/tracy-man-convicted-making-harassing-phone-calls-us-securities-exchange-commission>.

Alleged Deletion of Electronic Files and Unauthorized Use of Databases (Case No. 16-0463-I)

As discussed in our previous Semiannual Report, the OIG investigated allegations that an SEC contractor deleted electronic files associated with an SEC matter on which the contractor was working and then failed to report the error. During the investigation, the OIG also discovered that (1) the contractor may have conducted unauthorized searches on two databases for which the SEC maintains subscriptions; and (2) an SEC attorney may have shared the attorney's username and password for one of these databases to enable the contractor to conduct searches.

With respect to the electronic files, the contractor told the OIG that while reviewing documents during the course of official duties, the contractor accidentally moved a folder to another area of a shared drive. The contractor confirmed failure to report the error. The OIG investigation determined that OIT successfully restored all the files in question to the appropriate area of the shared drive. The investigation did not develop any evidence that the contractor transmitted the files outside the SEC or stored the files on an external digital storage device. Furthermore, no evidence was developed that the contractor shared the files with any unauthorized individuals outside the SEC or intentionally erased the files from the shared drive.

With respect to the database searches, the contractor acknowledged conducting unauthorized searches of the contractor and family members out of curiosity. The contractor denied sharing or exploiting any personally identifiable information (PII) or other data obtained from the unauthorized searches. The contractor also admitted, for the same purpose, accessing a database account that was registered to an SEC attorney, explaining that the attorney had previously provided the attorney's database username and password so the contractor conduct searches related to an SEC matter. The attorney confirmed providing the attorney's database username and password to the contractor, which violated SEC rules. The investigation did not develop any evidence that the attorney shared the database username and password with the contractor for purposes other than to conduct SEC business.

In July 2016, the contractor was removed from the SEC contract for reasons other than those associated with this investigation. On September 16, 2016, the OIG presented the facts and evidence discovered during this investigation to a USAO, which declined prosecution on October 14, 2016, citing lack of prosecutorial merit. The OIG then reported the results of the investigation to management to determine whether administrative action may be warranted regarding the attorney. Management responded that it orally counseled the attorney.

Obstruction of an SEC Investigation by a Financial Advisor (Case No. 16-0571-I)

As discussed in our previous Semiannual Report, the SEC OIG and the DOJ jointly investigated a financial advisor, resulting in the individual being charged with obstructing an SEC investigation. Specifically, it was alleged that the individual had an arrangement with an attorney whereby the individual's company would pay the attorney a referral fee that the individual knew violated Federal and state regulations. After the individual's company discovered the payments, stopped them, and directed the individual to have the attorney return the fees

already paid, the individual continued paying the referral fee by secretly writing checks to the attorney out of private checking accounts.

The individual later testified about the referral agreement during a formal SEC investigation of the referral payments. The individual repeatedly described the referral agreement in a manner that was designed to prevent the SEC from learning about the individual's secret payments to the attorney and never mentioned the checks written to the attorney out of the individual's personal accounts.

During a previous semiannual reporting period, on January 20, 2017, the individual pled guilty to one count of Obstruction of Proceedings in violation of 18 U.S.C. § 1505. The individual also entered into a separate agreement with the SEC that, among other sanctions and penalties, bars the individual for life from working in the securities industry. On April 20, 2017, the individual was sentenced to 1 year of probation, with 4 months to be served in home detention. The individual was also ordered to pay a \$4,000 fine and a \$100 Special Assessment. The DOJ press release describing the case is available at <https://www.justice.gov/usao-mal/pr/connecticut-financial-advisor-agrees-plead-guilty-obstructing-sec-investigation>.

COMPLETED INVESTIGATIONS

Trading in Prohibited Securities (Case No. 14-0027-I)

The OIG investigated allegations that a former employee had used an SEC computer to help the former employee's mother trade options in her brokerage account.

SEC supplemental ethics regulations prohibit employees from trading options where the underlying interest was a security or group of securities. In addition, SEC employees are required to pre-clear securities transactions, make certifications that

holdings are in compliance with these regulations, and annually file Office of Government Ethics Confidential Financial Disclosure Reports to disclose assets held for investments with a value greater than \$1,000 or that produced greater than \$200 in income at the end of the reporting period.

The OIG investigation determined that the former employee had engaged in prohibited trades of options more than 100 times from the former employee's SEC computer at various times between 2001 and 2014. In order to conceal options trading, the former employee admitted signing and submitting multiple Office of Government Ethics Confidential Financial Disclosure Reports that failed to disclose reportable assets, including prohibited options. Furthermore, in 2013 and 2014, the former employee falsely certified through the SEC's Personal Trading Compliance Systems that the former employee was in compliance with all applicable SEC regulations, when in fact, the former employee was not.

As a result of the OIG investigation, the former employee was charged with violating Title 18 U.S.C. § 1001. The former employee pleaded guilty and on August 8, 2017, the employee was sentenced to 1 year of probation (with 6 months to be served in home confinement), a \$1,000 fine, and a \$100 special assessment.

More information about this case may be found at <https://www.sec.gov/files/Former-SEC-Employee-Pleads-Guilty-to-Making-False-Statements.pdf>.

Financial Conflict of Interest by an SEC Senior Employee (Case No. 14-0580-I)

The OIG investigated allegations that an SEC employee participated personally and substantially in a matter in which the employee held a financial interest. Specifically, the employee reportedly worked on a matter while the employee's spouse owned more than the *de minimis* amount of the company's stock. The agency learned about the financial interest when the employee disclosed it in a February 2014 financial disclosure report.

The OIG confirmed the employee's involvement in the matter; however, neither the employee nor the employee's spouse affected any trading related to the stock. Furthermore, after the employee was contacted by Office of the Ethics Counsel and received guidance, the employee recused from working on the matter.

On March 21, 2016, the OIG presented the case to the USAO for prosecution consideration, which was declined on the same day, citing lack of prosecutorial merit. The OIG then reported the results of its investigation to management to determine whether administrative action may be warranted. Management decided to close this matter with no further action.

Financial Conflict of Interest by an SEC Senior Employee (Case No. 14-0849-I)

The OIG investigated allegations that a senior employee worked on two matters involving health care companies while maintaining in excess of \$50,000 in a health care sector fund.

The investigation determined that between August 2008 and April 2015, the employee participated in four ENF matters involving five companies that were identified as holdings in a health care fund, during a period in which the employee's financial interest in the fund exceeded the \$50,000 threshold. The investigation did not identify evidence indicating that the employee participated in matters involving these health care companies beyond the employee's role as a supervisor; however, the employee should not have had any involvement when the employee's financial interest in the fund exceeded \$50,000. The employee's financial interest exceeded the threshold during each year ending 2008 to 2015.

The investigation determined that the employee was not granted any waivers to Title 18 U.S.C. § 208 for participating in matters relating to holdings in the fund. On February 11, 2015, the OIG presented the case to a USAO, which ultimately declined prosecu-

tion on August 12, 2016, citing lack of evidence of malfeasance. The OIG then reported the results of the investigation to management to determine whether administrative action may be warranted. Management's response was pending at the end of the reporting period.

Allegations of Improperly Receiving Parking Permits, Mishandling Classified Information, and Instructing a Witness To Withhold Information From an OIG Investigation (Case No. 15-0105-I)

The OIG investigated allegations that an SEC employee was improperly receiving SEC-issued parking permits, which allowed the employee to park a personally-owned vehicle in the SEC Headquarters parking garage without paying. The OIG subsequently received additional allegations that the employee mishandled classified information and instructed a former employee to withhold information from the OIG about an OIG investigation.

In addition, information emerged during the investigation that the former employee may have transmitted nonpublic information from the former employee's SEC e-mail account to the former employee's personal e-mail account and shared nonpublic information with the former employee's spouse.

The investigation developed no evidence that the employee improperly received SEC-issued parking permits or that another employee had improperly issued any such parking permits. Furthermore, the investigation developed no evidence that the employee instructed the former employee to withhold information from the OIG regarding an investigation. With respect to the mishandling of classified information, the employee stated that the employee may have failed to properly package and transport such materials between SEC facilities; the investigation did not discover any evidence to suggest that the employee mishandled classified information.

The investigation confirmed that the former employee transmitted nonpublic information from the former employee's SEC e-mail account to a personal e-mail account and shared nonpublic information with the former employee's spouse.

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

Financial Conflict of Interest by an SEC Senior Employee (Case No. 15-0257-I)

The OIG investigated allegations that an employee supervised two matters involving health care companies while maintaining in excess of \$50,000 in a health care sector fund.

The OIG determined that the employee's and the employee's spouse's financial interest in the health care sector fund exceeded the \$50,000 threshold while the employee participated in ENF matters relating to seven health care stocks in the fund. The investigation did not identify evidence to indicate that the employee participated personally and substantially in these matters. However, the employee should not have had any involvement when the employee's financial interest in the fund exceeded the threshold (during 7 of 10 years between 2004 and 2014). The OIG also determined that the employee was not granted any waivers to participate in the ENF matters.

On December 22, 2015, the OIG presented the case to the DOJ Public Integrity Section for prosecution consideration, which on October 12, 2016, declined to pursue prosecution, citing facts and evidence not supporting prosecution. The OIG then reported the results of its investigation to management to determine whether administrative action may be warranted. Management's response was pending at the end of the reporting period.

Misuse of Government Travel Card (Case No. 16-0218-I)

The OIG investigated allegations that an SEC employee misused a Government-issued travel charge card. Specifically, having been reimbursed for official travel, the employee had not paid the outstanding travel charge card balance, and the nonpayment resulted in a delinquent balance on the travel charge card. It was also alleged that the employee used the travel charge card to make excessive Automated Teller Machine withdrawals. Furthermore, the SEC reported that in April, October, and December 2015, the employee had received warnings about the delinquent travel charge card balances.

The investigation determined that the employee used the travel charge card to make authorized charges while on official Government travel. However, after the SEC reimbursed the employee for expenses, the employee failed to pay the balance on the travel charge card. Specifically, the employee's travel charge card was delinquent for 17 of the 20 billing cycles for which the employee was required to make payments, and the employee's travel charge card was suspended in January 2016 and closed in April 2016 because of a 5-month delinquent balance of \$3,316.91. The outstanding debt was then turned over to a collection agency.

Furthermore, the employee had received written warnings by the agency and the employee's supervisor about the delinquent balances on the travel charge card. The investigation further determined that the employee had Automated Teller Machine withdrawals and fees totaling \$2,294.99, which corresponded to five trips that were for official business. Although the employee claimed using the funds to pay for personal travel expenses as well as the expenses of SEC interns who were traveling with the employee, the employee's claim could not be supported by evidence.

During the investigation, the employee entered into an arrangement with a collection agency to pay the delinquent travel charge card balance of \$3,316.91, which included actual travel expenses as well as Automated Teller Machine withdrawals and unpaid fees. However, the employee made only 1 of the 10 required payments under the arrangement; as the result of nonpayment, the collection agency terminated the arrangement. At the time of the issuance of the OIG's report of investigation, the employee's outstanding balance was \$2,985.22.

On February 13, 2017, the OIG referred the facts of the investigation to a USAO, which on the same date declined prosecution of the matter, citing lack of prosecutorial merit. The OIG then reported the results of the investigation to management to determine whether administrative action may be warranted. Management responded that the employee has reached an agreement with the agency.

Alleged Leaking of Nonpublic Information to the Media (Case No. 16-0351-I)

Based on a referral from SEC ENF, the OIG investigated allegations that nonpublic information associated with an ENF investigation case was leaked to the media. In April 2016, an article was published that contained hyperlinked images of seven SEC e-mails, an internal memorandum, and nonpublic information associated with at least three additional SEC e-mails. The author of the article quoted and identified a retired SEC employee as the source of the nonpublic records. Additionally, in an online blog post purportedly authored in April 2016, the retired employee self-identified as the source of the leaked nonpublic information.

The investigation determined that the article contained nonpublic SEC documents and information. The author of the article included hyperlinks to images of seven SEC e-mails and a memorandum authored by the retired SEC employee. Additionally, the blog post attributed to the retired employee contained several statements indicating that the former employee was the source of the nonpublic

information in the article. However, when interviewed by the OIG, the retired employee declined to confirm whether the retired employee was the source. According to ENF, the disclosure of information appears not to have harmed or caused an adverse impact on the ENF case or any other SEC matter. On November 28, 2016, the OIG presented the facts and evidence obtained during this investigation to the USAO. On December 6, 2016, the USAO declined prosecution, citing lack of prosecutorial merit. The OIG then reported the results of the investigation to management for information purposes, with no further action required.

Allegation of Fraud (Case No. 16-0457-I)

The OIG investigated an allegation that a December 8, 2011, CF comment letter appeared to be fraudulent. The letter contained the SEC seal and the signature of a former CF employee, but CF had no record that the comment letter had been written or issued by anyone from the SEC. The OIG opened an investigation to determine the origins of the comment letter.

Due, in large part, to the lack of cooperation from a critical witness, the investigation did not determine who had authored the fraudulent comment letter or the circumstances surrounding its origins.

Allegations of Providing False Statements (Case No. 16-0469-I)

During an ENF investigation of insider training, an individual may have provided false statements to ENF attorneys about the individual's knowledge of a merger and the individual's trades of a certain stock. The OIG opened an investigation to determine whether the individual made false statements to ENF.

The OIG investigation confirmed that the individual's former employer's Office of Counsel had informed via e-mail certain employees about an anticipated acquisition of another company. The e-mail also contained an attached memorandum advising the e-mail's recipients, which included the

individual, that they were prohibited from trading this other company's stock during the merger and acquisition process. The investigation confirmed that the e-mail was delivered to the individual's inbox but was unable to determine whether the individual ever opened the attachment or was aware of the prohibition on trading before the individual's purchase of the other company's stock. The individual later sold the stock, which resulted in a financial gain of \$2,180.

On June 17, 2016, the case was presented to a USAO, which declined prosecution on August 17, 2017, citing lack of resources and deferment to ENF's potential civil remedies.

Alleged Misconduct (Case No. 16-0668-I)

The OIG investigated allegations of misconduct by an SEC employee. Specifically, it was alleged that the employee was "drunk," used inappropriate language, and inappropriately touched an unidentified SEC manager at a hotel lobby bar after the first day of a 2016 conference. The complainant did not provide specific details such as the name of the alleged victim or hotel.

The investigation did not find that the employee inappropriately touched a manager or any other individual. The OIG did not identify any victim of, or witness to, the employee's alleged inappropriate touching or any sexual misconduct during any after-hours events at the 2016 conference. Additionally, the OIG did not identify any witnesses to the employee's alleged behavior of being "drunk" or using inappropriate language.

Transmission of Personally Identifiable Information (Case No. 17-0267-I)

The OIG investigated allegations that an SEC employee sent PII from an SEC e-mail account to a personal e-mail account. The PII in question was listed on an SEC request form seeking Bank Secrecy Act information in connection with an official SEC review of a company.

The investigation determined that the employee, who no longer works at the SEC, improperly sent the document containing PII from an SEC e-mail account to a personal e-mail account while teleworking, for the purpose of printing the document. Furthermore, the investigation determined that the Bank Secrecy Act documentation, which contained the PII, was in the former employee's possession for legitimate SEC business-related reasons. The OIG did not find evidence to suggest that the former employee sold, transferred, or misused the PII or any information related to this matter. The SEC confirmed that the PII was removed from the person's personal e-mail account. On May 11, 2017, the OIG referred the matter to a USAO, which declined prosecution on May 12, 2017, citing lack of prosecutorial merit.

As the result of the status of a company principal, the OIG notified the U.S. Secret Service about the PII breach. The U.S. Secret Service interviewed the former employee and did not believe there was criminal intent behind the person's actions.

Unauthorized Data Center Access (Case No. 17-0495-I)

The OIG investigated allegations that an individual not affiliated with the SEC gained access on June 6, 2017, to one of the SEC's data center spaces maintained by an SEC contractor.

The investigation determined that the contractor failed to follow access control procedures, which resulted in the individual gaining access to the facility's space containing the SEC's server racks. However, there was no evidence that the individual accessed the contents of the SEC servers. The OIG also identified potential security deficiencies that merited management's attention. The OIG referred this matter to management in a Management Implication Report on August 10, 2017.



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 on December 18, 2015), Division N, Title I, Section 107(b) (requiring a biennial report to Congress from certain IGs, in consultation with the IG of the Intelligence Community and CIGFO, detailing executive branch compliance with the Act over the most recent 2-year period, with the first report due in 2018).

Public Law 114-137

Inspector General Empowerment Act of 2016 (enacted on December 16, 2016) (amending the Inspector General Act of 1978 to, among other things: (1) exempt IGs from certain requirements of the Computer Matching and Privacy Protection Act of 1988 and the Paperwork Reduction Act; (2) 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; (3) require the inclusion of additional items in the IG's semiannual reports; (4) require IGs to submit documents making recommendations for corrective action to

the agency head, the congressional committees of jurisdiction, and any individual or entity requesting the corrective action if applicable; and (5) set forth standards regarding IG access to agency records, the timeliness of such access, and procedures for requests for access to Federal grand jury materials).

Public Law 114-328

National Defense Authorization Act for FY 2017 (enacted on December 23, 2016), Division A, Title XI, Subtitle C, Section 1138, Administrative Leave Act (amending Subchapter II of Chapter 63 of Title 5 of the United States Code to (1) prohibit an agency from placing an employee on administrative leave for more than a total of 10 work days during a calendar year; and (2) authorizes additional periods of administrative leave only for employees under investigation or in a notice period, subject to a determination by the agency that the continued presence of the employee in the workplace may pose a threat to other employees, result in the destruction of evidence relevant to an investigation, result in loss of or damage to Government property, or otherwise jeopardize legitimate Government interests); and Section 1140 (amending Subchapter I of Chapter 33 of Title 5 of the United States Code to require agencies to make a permanent notation in an individual's personnel file if the individual resigns from Government employment while the subject

of a personnel investigation and an adverse finding against the individual is made as a result of the investigation).

The Administrative Leave Act charged CIGIE with issuing guidance for two sections of the Act: (1) extensions of investigative leave for OIG employees and (2) consultations between OIGs and agencies about placement of employees on investigative leave. The SEC OIG provided leadership for this CIGIE effort, and the guidance was issued on September 19, 2017.

Public Law 115-40

Follow the Rules Act (enacted on June 14, 2017), (extends the prohibition against a person taking, failing to take, or threatening to take or fail to take a personnel action against any employee or applicant for employment for refusing to obey an order that would require the individual to violate a law to personnel actions against such an individual for refusing to obey an order that would violate a rule or regulation).

Public Law 115-56

Continuing Appropriations Act, 2018 and Supplemental Appropriations for Disaster Relief Requirements Act, 2017 (enacted September 8, 2017) (provides for supplemental appropriations to specific agencies relating to disaster relief, a temporary extension of the public debt limit until December 8, 2017, and continuing appropriations consistent with a rate of operations as provided in applicable appropriations acts for FY 2017, including appropriations applying to the Financial Services and General Government Appropriations Act, 2017, which sets out the SEC's funding provisions for FY 2017).

H.R. 3280

Fiscal 2018 Financial Services Appropriations was introduced on July 18, 2017, by Representative Tom Graves. It sets out appropriations for the FY ending September 30, 2018, including \$1.652 bil-

lion appropriated to the SEC. It requires the SEC's funding for information technology initiatives to be increased over the FY 2017 level by at least \$50 million, including about \$14.7 million set aside for the entire OIG. Additionally, the proposed bill would modify or repeal various securities laws and regulations including the Securities Act of 1933 (15 U.S.C. § 77), Securities Exchange Act of 1934 (15 U.S.C. § 78), and the Dodd-Frank Act (Dodd-Frank Act; P.L. 111-203).

H.R. 10

The Financial CHOICE Act was introduced on April 26, 2017, by Representative Jeb Hensarling, Chairman of the House Committee on Financial Services. It passed the House on June 8, 2017. Selected provisions of H.R. 10 were then added to two FY 2018 appropriations bills (H.R. 3280 and H.R. 3354).

H.R. 10, as passed, is a wide-ranging proposal with 12 titles that would alter many parts of the financial regulatory system. Much of the Financial CHOICE Act is in response to the Dodd-Frank Act (Dodd-Frank Act; P.L. 111-203), a broad package of regulatory reform following the financial crisis that initiated the largest change to the financial regulatory system since at least 1999. Many of the provisions of the Financial CHOICE Act would modify or repeal provisions from the Dodd-Frank Act, although others would address longstanding or more recent issues.

H.R. 378

Bonuses for Cost-Cutters Act of 2017, was introduced on January 9, 2017, by Representative Charles J. "Chuck" Fleischmann. The bill amends 5 U.S.C. § 4511, et seq., which includes authorizing the head of a Federal agency to pay a cash award to any agency employee whose identification of unnecessary expenses has resulted in cost savings for the agency, to increase the maximum award from \$10,000 to \$20,000.

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.

REPORTS FOR WHICH NO AGENCY COMMENT WAS RETURNED WITHIN 60 DAYS

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

INSTANCES WHERE THE AGENCY UNREASONABLY REFUSED OR FAILED TO PROVIDE INFORMATION TO THE OIG OR ATTEMPTED TO INTERFERE WITH OIG INDEPENDENCE

During this reporting period, there were no instances where the agency unreasonably refused or failed to provide information to the OIG or attempted to interfere with the independence of 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				
7/21/2017 541	Audit of the Office of Compliance Inspections and Examinations' Investment Adviser Examination Completion Process		N/A	
9/13/2017 542	Evaluation of the Division of Corporation Finance's Disclosure Review and Comment Letter Process		N/A	
Contract Management				
9/29/2017 543*	Audit of the SEC's Management of Its Data Centers	\$3,154,087	\$2,778,882	\$2,698,584
Regulatory Oversight				
9/28/2017 544	Audit of the SEC's Progress in Enhancing and Redesigning the Electronic Data Gathering, Analysis, and Retrieval System		N/A	
Totals for the Period		\$3,154,087	\$2,778,882	\$2,698,584

The term "questioned cost" means a cost that is questioned because of (A) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (B) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (C) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

The term "unsupported cost" means a cost that is questioned because the Office found that, at the time of the audit, such cost is not supported by adequate documentation.

The term "recommendation that funds be put to better use" means a recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including (A) reductions in outlays; (B) deobligation of funds from programs or operations; (C) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (D) costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee; (E) avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or (F) any other savings which are specifically identified.

*In addition, the agency paid \$162,000 for a contractor-developed plan to relocate the agency's data centers. However, the agency derived little if any benefits from this plan. Therefore, we believe the \$162,000 paid for the plan represents funds that the SEC may have wasted.

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

	No. of Reports	Value
A. Reports issued prior to this period		
• For which no management decision had been made on any issue at the commencement of the reporting period	0	\$0
• For which some decisions had been made on some issues at the commencement of the reporting period	0	\$0
B. Reports issued during this period	1	\$5,852,671
Total of Categories A and B	1	\$5,852,671
C. For which final management decisions were made during this period	1	\$0
D. For which no management decisions were made during this period	0	\$0
E. For which management decisions were made on some issues during this period	0	\$3,154,087
Total of Categories C, D, and E	1	\$3,154,087

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 6 OIG reports. The following table lists recommendations open 180 days or more.

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
539 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	1	3/7/2017	Develop a comprehensive risk management strategy in accordance with NIST Special Publication 800-39, and document information security risk analytics to be measured and reported.
539 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	2	3/7/2017	For the systems reviewed and all other applicable agency systems, OIT should work with information system owners to develop and review system security plans in accordance with NIST guidance and agency policies.
539 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	3	3/7/2017	Ensure that the agency documents and updates Interconnection Security Agreements in accordance with NIST guidance and agency policy.

Table 3. Continued

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
539 – Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	4	3/7/2017	Review the cloud service provider contract for the cloud system reviewed, and modify the contract to incorporate the appropriate Federal Risk and Authorization Management Program security clauses and requirements related to FISMA, NIST, and agency requirements and guidelines.
539 – Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	5	3/7/2017	Complete proper authorization documentation for the 10 contractor operated systems added to the agency’s FISMA-reportable system inventory in September 2016.
539 – Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	6	3/7/2017	Ensure that system security plans reflect current hardware inventories for the systems we reviewed, in accordance with agency policy.
539 – Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	7	3/7/2017	Ensure that information system owners review and update system baseline configurations annually.
539 – Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	8	3/7/2017	Ensure the Chief Information Security Officer approves operating system, application, and database security baselines in accordance with agency policy.
539 – Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	9	3/7/2017	Ensure the Chief Information Security Officer approves deviations from configuration settings and documents appropriate business justification and risk acceptance.
539 – Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	10	3/7/2017	Develop a process to document and track all users’ initial access agreements and training before granting personnel access to agency information systems.
539 – Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	11	3/7/2017	Develop a policy requiring access agreements to be recertified at a predetermined interval.

Table 3. Continued

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
539 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	12	3/7/2017	Fully implement Personal Identity Verification or NIST Level of Assurance 4 credentials for privileged and nonprivileged users in accordance with cross-agency priority goals.
539 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	14	3/7/2017	Update procedures to ensure users receive privacy and information security training annually (every 12 months).
539 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	15	3/7/2017	Fully implement a process to evaluate the skills of users with significant security and privacy responsibilities and provide additional security and privacy training content, or implement strategies to close identified skills gaps.
539 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	17	3/7/2017	Finalize the Continuous Diagnostics and Mitigation Strategy to further mature the information security continuous monitoring activities across the areas of people, processes, and technology.
539 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	19	3/7/2017	Update agency Security Operation Center Incident Management policies to include OIG incident notification requirements developed in coordination with the OIG.
539 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	20	3/7/2017	<i>Redacted text</i>
539 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	21	3/7/2017	Ensure that the Enterprise Disaster Recovery Plan and system-specific contingency plans are tested in fiscal year 2017 and updated as needed, in accordance with agency policies.

Table 4. Summary of Investigative Activity for the Reporting Period of April 1, 2017, to September 30, 2017[†]

Investigative Caseload	Number
Cases Open at Beginning of Period	71**
Cases Completed but Not Closed* at Beginning of Period	6
Cases Opened During Period	15
Cases Closed During Period	37
Cases Completed but Not Closed at End of Period	4
Open Cases at End of Period	51
Investigative Reports Issued During the Reporting Period	15

*A case is “completed” but not “closed” when the investigative work has been performed but disposition (e.g., administrative action) is pending.

**The number was adjusted upward by one because of a technical error in the October 1, 2016, to March 31, 2017, SAR.

Criminal and Civil Investigative Activities	Number
Referrals for Criminal Prosecution to State and Local Prosecuting Authorities	0
Referrals for Civil Prosecution to State and Local Prosecuting Authorities	0
Referrals for Criminal Prosecution to DOJ	11
Accepted	1
Indictments/Informations	1
Arrests	0
Convictions	1
Referrals for Civil Prosecution to DOJ	0

Monetary Results	Number
Criminal Fines/Restitutions/Recoveries/Assessments/Forfeitures	\$10,700
Civil Fines/Restitutions/Recoveries/Penalties/Damages/Forfeitures	\$0

Administrative Investigative Activities	Number
Removals, Retirements, and Resignations	2
Suspensions	0
Reprimands/Warnings/Other Actions	1

Complaints Received	Number
Hotline Complaints	221
Other Complaints	171
Total Complaints During Period	392

[†]The data contained in this table was compiled from the OIG’s investigations case management system.

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	25-26
5(a)(1)	Significant Problems, Abuses, and Deficiencies	9-14, 17-24
5(a)(2)	Recommendations for Corrective Action	9-14
5(a)(3)	Prior Recommendations Not Yet Implemented	29-31
5(a)(4)	Matters Referred to Prosecutive Authorities	17-24, 32
5(a)(5)	Summary of Instances Where the Agency Unreasonably Refused or Failed To Provide Information to the OIG	27
5(a)(6)	List of OIG Audit and Evaluation Reports Issued During the Period	28
5(a)(7)	Summary of Significant Reports Issued During the Period	5, 9-14, 17-24
5(a)(8)	Statistical Table on Management Decisions With Respect to Questioned Costs	29
5(a)(9)	Statistical Table on Management Decisions on Recommendations That Funds Be Put to Better Use	29
5(a)(10)(A)	Summary of Each Audit, Inspection or Evaluation Report Over Six Months Old for Which No Management Decision has been Made	27
5(a)(10)(B)	Summary of Each Audit, Inspection or Evaluation Report More Than 6 Months Old for Which No Establishment Comment Was Returned Within 60 Days of Providing the Report to the Establishment	27
5(a)(10)(C)	Summary of Each Audit, Inspection or Evaluation Report More Than 6 Months Old for Which There Are Any Outstanding Unimplemented Recommendations, Including the Aggregate Potential Cost Savings of Those Recommendations	29-31
5(a)(11)	Significant Revised Management Decisions	27
5(a)(12)	Significant Management Decisions with Which the Inspector General Disagreed	27
5(a)(16)	Peer Reviews Conducted by Another OIG	34
5(a)(17)(A)	Statistical Table Showing the Total Number of Investigative Reports Issued During the Reporting Period	32
5(a)(17)(B)	Statistical Table Showing the Total Number of Persons Referred to the DOJ for Criminal Prosecution During the Reporting Period	32
5(a)(17)(C)	Statistical Table Showing the Total Number of Persons Referred to State and Local Prosecuting Authorities for Criminal Prosecution During the Reporting Period	32
5(a)(17)(D)	Statistical Table Showing the Total Number of Indictments and Criminal Informations During the Reporting Period That Resulted From Any Prior Referral to Prosecuting Authorities	32
5(a)(18)	Description of the Metrics Used for Developing the Data for the Statistical Tables Under 5(a)(17)	32
5(a)(19)	Report on Each Investigation Conducted Involving a Senior Government Employee Where Allegations of Misconduct Were Substantiated	17-24
5(a)(20)	Instances of Whistleblower Retaliation	17
5(a)(21)	Attempts by the Establishment To Interfere With the Independence of the OIG	27
5(a)(22)(A)	Each Inspection, Evaluation, and Audit Conducted by the OIG That Is Closed and Was Not Disclosed to the Public	n/a
5(a)(22)(B)	Each Investigation Conducted by the OIG Involving a Senior Government Employee That Is Closed and Was Not Disclosed to the Public	n/a

APPENDIX A

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 function every 3 years. During the reporting period, the SEC OIG did not have an external peer review of its audit function. The National Archives and Records Administration OIG conducted the most recent 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. All recommendations from the last peer review have been addressed and closed. Further-

more, 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>. The next peer review of the OIG's audit function is scheduled for FY 2018.

PEER REVIEW OF THE SEC OIG'S INVESTIGATIVE OPERATIONS

During the reporting period, an external peer review of the SEC OIG's investigative operations was initiated by the National Science Foundation OIG for the period FY 2016-17. The peer review was conducted in conformity with CIGIE's *Quality Standards for Investigations* and the *Quality Assessment Review Guidelines for Investigative Operations of Federal Offices of Inspector General*. The National Science Foundation OIG also evaluated our compliance with the *Attorney General Guidelines for Offices of Inspectors General With Statutory Law Enforcement Authority*. This peer review was a follow-up to a peer review completed by the Federal Housing Finance Agency OIG in 2014. The Federal Housing Finance Agency OIG reported that the SEC OIG was in compliance with applicable standards.

The report for the FY 2016-17 peer review conducted by the National Science Foundation OIG was pending at the close of the semiannual period.

APPENDIX B

OIG SEC EMPLOYEE SUGGESTION PROGRAM ANNUAL REPORT FISCAL YEAR 2017

OVERVIEW

The OIG established the OIG SEC ESP in September 2010, pursuant to Section 966 of the Dodd-Frank Act. Section 966 required the IG to establish a suggestion program for SEC employees. In accordance with the Dodd-Frank Act, the SEC OIG has prepared this seventh annual report describing suggestions and allegations received, recommendations made or actions taken by the OIG, and actions taken by the SEC in response to suggestions from October 1, 2016, through September 30, 2017.

Through the ESP, the OIG receives suggestions from agency employees concerning improvements in the SEC’s work efficiency, effectiveness, and productivity, and use of its resources. The OIG

also receives allegations by employees of waste, abuse, misconduct, or mismanagement within the SEC through the ESP. To facilitate employees’ participation in the ESP, the OIG maintains an electronic mailbox and telephone hotline for employees to submit their suggestions or allegations to the OIG. The OIG established formal policies and procedures for the receipt and handling of employee suggestions and allegations under the ESP.

SUMMARY OF EMPLOYEE SUGGESTIONS AND ALLEGATIONS

Between October 1, 2016, and September 30, 2017, the OIG received and analyzed 50 suggestions or allegations, details of which are shown below:

Nature and Potential Benefits of Suggestion*	Number
Increase efficiency or productivity	15
Increase effectiveness	16
Increase the use of resources or decrease costs	6

Nature and Seriousness of Allegation*	Number
Mismanagement and/or discrimination	2
Waste of SEC resources	0
Misconduct by an employee	3

Action Taken by the OIG in Response to Suggestion or Allegation*	Number
Memorandum to or communication with the SEC about the suggestion or allegation	22
Referred to OIG Office of Investigations	1
Referred to OIG Office of Oversight and Review	0
Referred to OIG Office of Audits	1
Researched issue, but determined no further action was necessary	18
Other	8

Action Taken by SEC Management*	Number
SEC management took specific action to address the suggestion or allegation	13
SEC decided to secure new technology in response to the suggestion	0
SEC management is considering the suggestion in context of existing procedures	0
SEC management initiated an internal review	20

*Some suggestions or allegations are included under multiple categories.

EXAMPLES OF SUGGESTIONS RECEIVED

Suggestion Regarding Benefit for MARC Train Passholders (ES-16-0418)

The OIG received a suggestion from an SEC employee that led to cost savings in transit benefits. According to the employee, there is a little-known benefit for MARC (a commuter train in the DC area) commuters that will save the SEC or the Department of Transportation money. The employee explained that there may be many employees who receive a monthly transit benefit pass (debit card) for their commute to and from SEC Headquarters via the MARC train, along with a transit benefit for the bus trip to and from the MARC train station (SmarTrip card). The employee stated that MARC train riders can ride free on connecting transit with a valid MARC train ticket. The employee suggested that the SEC publicize to employees the information about the benefit for MARC train commuters. According to the employee, this benefit could have a significant impact on costs incurred by the SEC or the Department of Transportation to provide an extra benefit that is potentially already provided to MARC train riders.

We referred the suggestion to the Office of the Chief Operating Officer (OCCO) for review. In response, OCCO stated that it was unaware of this benefit but did confirm with Maryland Transit Authority staff that the benefit to MARC train riders is available. OCCO stated that future messaging to SEC transit benefit program participants will include a reminder that connecting transit service is available to them at no additional cost. In addition, OCCO will instruct Administrative Officers to disapprove transit applications that include SmarTrip funding requests for weekly and monthly MARC train tickets holders that include connecting bus service. OCCO stated that the SEC may realize a cost savings once employees are made aware of this benefit.

Suggestion To Improve Section 508 Compliance With Software Systems and Web-Based Training Offerings (ES-17-0272)

The OIG received a suggestion from an SEC employee regarding compliance with Section 508 of the Rehabilitation Act of 1973 relating to ease of use with software systems and web-based training programs. Specifically, the employee expressed concerns with an internal SEC software program as well as required web-based training

programs presented through the agency's online training platform.

The employee uses particular software to help perform many keyboard and mouse tasks using voice commands. However, the employee stated that this can be extremely time consuming and labor intensive. The document review system that the employee uses in performance of duties has few keyboard shortcuts and requires numerous mouse clicks for many frequently-performed actions. Also, the employee stated that the required web-based training programs have become increasingly full of elements that require employees to click the mouse. The employee noted that no keyboard shortcut alternatives are provided for these training programs.

After meeting with staff from OIT, ENF, and SEC University to discuss the issues the employee was having, the OIG referred the suggestion to OCOO for review. In response, OCOO stated that the SEC is taking or would take the following steps to improve Section 508 compliance:

- OIT is adding standardized Section 508 language to all information technology-related solicitations, and detailed technical requirements to all software procurement requests;
- OIT Contracting Officer's Representatives have been trained to understand their important role to verify all contract deliverables for Section 508 compliance before acceptance, and to continue to ensure that Section 508 compliance is met in accordance with the law;
- A "Section 508 Resource Center" website has been made available for all staff to find additional information relating to their role and provide training and guidance on how to comply with applicable requirements;
- OIT and the Office of Human Resources are implementing a new 508-compliant Enterprise Talent Management System;
- OIT and the Office of Human Resources will continue to seek, test, and identify tools and technology that will improve the user experience;

- Within the Enterprise Talent Management System, modular training course templates are formatted and designed properly, so that accessibility-enabling tools may be used seamlessly.

Suggestion To Add Handicap Accessible Doors to Lower Level and Ground Floor Bathrooms (ES-17-0561)

The OIG received a suggestion from an SEC employee regarding adding handicap assessable doors to the lower level and ground floor bathrooms of the SEC's Washington, DC location. The employee, who uses a mobility scooter, stated that opening the bathroom doors in this area of the building was extremely difficult. The employee was forced to use a cane to pry the doors open, or wait until another employee could assist. The OIG contacted the Office of Building Operations to discuss the employee's suggestion. In response, the Office of Building Operations stated that three separate sets of bathrooms on the lower level and ground floor would be retrofitted with automatic door openers. On August 30, 2017, the OIG received confirmation that the equipment had been installed.

CONCLUSION

The OIG remains pleased with the effectiveness of the ESP. We have received favorable responses from the agency on suggestions we have submitted for consideration. Some of these suggestions have resulted, or may result, in positive changes that will improve the agency's efficiency and effectiveness or conserve the agency's resources. On March 23, 2017, the OIG recognized two employees who had contributed to the ESP. The IG acknowledged employees' suggestions regarding improvements to the Voluntary Leave Transfer and Voluntary Leave Bank Programs and the OIT Ticket Closeout Process. The OIG's outreach presentations for SEC employees continue to include information about the ESP and we look forward to receiving additional suggestions for improvements in the SEC's programs and operations.

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REPORT FRAUD, WASTE, OR ABUSE

To report suspected fraud, waste, or abuse in SEC programs or operations, as well as SEC staff or contractor misconduct, use our online OIG hotline complaint form, www.reportlineweb.com/sec_oig, or call (877) 442-0854. This number is answered 24 hours, 7 days a week.

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

EMPLOYEE SUGGESTION PROGRAM

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

COMMENTS AND IDEAS

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



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