

Office of Inspector General

SEMIANNUAL REPORT TO CONGRESS

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U.S. SECURITIES AND
EXCHANGE COMMISSION



OFFICE OF INSPECTOR GENERAL
SEMIANNUAL REPORT TO CONGRESS

APRIL 1, 2021 THROUGH SEPTEMBER 30, 2021



OIG MISSION

The mission of the Office of Inspector General (OIG) is to promote the integrity, efficiency, and effectiveness of the critical programs and operations of the United States Securities and Exchange Commission (Agency or SEC). We accomplish this mission by:

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

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

CONTENTS

MESSAGE FROM THE INSPECTOR GENERAL	1
MANAGEMENT AND ADMINISTRATION	3
Agency Overview	3
OIG Staffing, Resources, and Administration	3
OIG Outreach	5
COORDINATION WITH OTHER AGENCIES	7
AUDITS, EVALUATIONS, AND OTHER REVIEWS	9
Overview	9
Completed Audits and Evaluations	9
<i>Final Management Letter: Actions May Be Needed To Improve Processes for Receiving and Coordinating Investor Submissions</i>	9
<i>Final Management Letter: Review of the SEC's Compliance With CISA Emergency Directive 21-01 and Initial Response to the SolarWinds Compromise</i>	10
<i>DERA Staff Research and Publications Support the SEC's Mission, But Related Controls and Agency-wide Communication and Coordination Could Be Improved (Report No. 567)</i>	10
<i>Additional Steps Are Needed for the SEC To Implement a Well-Defined Enterprise Architecture (Report No. 568)</i>	12
Other Reviews	13
<i>Review for Racial and Ethnic Disparities in the SEC's Issuance of Corrective and Disciplinary Actions from January 1, 2017 – August 31, 2020</i>	13
Ongoing Audits and Evaluations	13
<i>Fiscal Year 2021 Independent Evaluation of the SEC's Implementation of the Federal Information Security Modernization Act of 2014</i>	13
<i>Audit of the SEC's Compliance With the Digital Accountability and Transparency Act of 2014</i>	14
<i>Audit of Controls Over the SEC's Hiring Actions</i>	14
<i>Audit of the Division of Examinations' Registered Investment Adviser Examination Planning Processes</i>	15
<i>Audit of the U.S. Securities and Exchange Commission's Whistleblower Program</i>	15

INVESTIGATIONS	17
Overview	17
Report on Instances of Whistleblower Retaliation	17
Closed Substantiated Investigations.	17
<i>Former Senior Government Employee Misuses Nonpublic Information for Personal Gain</i>	17
<i>Company Falsified Its SEC Registration Statements and Obstructed an Official Proceeding</i>	18
<i>Employee’s Unauthorized Release of Personally Identifiable Information</i>	18
<i>Former Employee in Possession of SEC Nonpublic Information.</i>	19
<i>Former Contractor Made Unauthorized Disclosures of SEC Nonpublic Information.</i>	19
<i>Former Contractor Inappropriately Recorded a Meeting in Which SEC Nonpublic Information Was Discussed.</i>	20
<i>Unauthorized Leak of Department of Defense Information</i>	20
REVIEW OF LEGISLATION AND REGULATIONS	21
MANAGEMENT DECISIONS.	23
TABLES	
Table 1. List of Reports: Audits and Evaluations	25
Table 2. Reports Issued With Questioned Costs (Including Disallowed Costs)	26
Table 3. Reports Issued With Recommendations That Funds Be Put to Better Use	27
Table 4. Reports With Recommendations on Which Corrective Action Has Not Been Completed.	28
Table 5. Summary of Investigative Activity for the Reporting Period of April 1, 2021 to September 30, 2021	34
Table 6. References to Reporting Requirements of the Inspector General Act	36
APPENDIX A: PEER REVIEWS OF OIG OPERATIONS	38
Peer Review of the SEC OIG’s Audit Operations.	38
Peer Review of the SEC OIG’s Evaluation Operations.	38
Peer Review of the SEC OIG’s Investigative Operations	39
APPENDIX B: OIG SEC EMPLOYEE SUGGESTION PROGRAM	
ANNUAL REPORT FY 2021	40
Overview	40
Summary of Employee Suggestions and Allegations	41
OIG GENERAL OFFICE CONTACT INFORMATION	42

ABBREVIATIONS

Agency or SEC	United States Securities and Exchange Commission
ARC	Appalachian Regional Commission
Blue Book	<i>Quality Standards for Inspection and Evaluation</i>
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of Inspectors General on Integrity and Efficiency
CISA	Cybersecurity and Infrastructure Security Agency
COVID-19	Coronavirus Disease of 2019
DATA Act	Digital Accountability and Transparency Act of 2014
DEI	diversity, equity, and inclusion
DERA	Division of Economic and Risk Analysis
DHS	United States Department of Homeland Security
Division or EXAMS	Division of Examinations
DOD	United States Department of Defense
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOJ	United States Department of Justice
Enforcement	Division of Enforcement
EA	Enterprise Architecture
ESP	Employee Suggestion Program
FAEC	Federal Audit Executive Council
FDIC	Federal Deposit Insurance Corporation
FISMA	Federal Information Security Modernization Act of 2014
FRB	United States Federal Reserve Bank
FSOC	Financial Stability Oversight Council
FY	fiscal year
GAO	United States Government Accountability Office
IG	Inspector General
IT	information technology
NSF	National Science Foundation
OA	Office of Audits
OCIG	Office of Counsel to the Inspector General
OGC	Office of General Counsel
OHR	Office of Human Resources
OI	Office of Investigations
OIT	Office of Information Technology
OIEA	Office of Investor Education and Advocacy
OIG	Office of Inspector General
OMB	United States Office of Management and Budget
PII	personally identifiable information
PTCS	Personal Trading Compliance System
RIA	registered investment adviser
SGE	senior government employee
TCR	tips, complaints, and referrals
Treasury	United States Department of the Treasury





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, 2021, to September 30, 2021, 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.

I would like to officially welcome to the new chair, Gary Gensler, and his executive staff. Over the past few months, we are pleased to have met with them and have established a working relationship.

During this reporting period, the OIG's [Office of Audits](#) (OA) issued its *Final Management Letter*:

Actions May Be Needed To Improve Processes for Receiving and Coordinating Investor Submissions. This final management letter addressed matters outside the scope and objectives of some of our previous evaluations. Next, we issued our *Final Management Letter: Review of the SEC's Compliance With CISA Emergency Directive 21-01 and Initial Response to the SolarWinds Compromise.* Because our final management letter contained sensitive, non-public information about the SEC's information technology (IT) program, we did not release it publicly. Then, we issued *DERA Staff Research and Publications Support the SEC's Mission, But Related Controls and Agency-wide Communication and Coordination Could Be Improved (Report No. 567)*, which includes four recommendations to further

strengthen internal controls over staff research and publications activities, as well as communication and coordination with internal stakeholders. Next, the Federal Deposit Insurance Corporation (FDIC) OIG completed an external peer review of the SEC OIG audit organization's system of quality control for the year ended March 31, 2021. Audit organizations can receive a rating of *Pass*, *Pass with deficiencies*, or *Fail*. In a report dated September 24, 2021, the SEC OIG received an external peer review rating of *Pass*. Finally, we issued *Additional Steps Are Needed for the SEC To Implement a Well-Defined Enterprise Architecture* (Report No. 568), which includes six recommendations to improve the SEC's implementation of a well-defined enterprise architecture (EA), and one recommendation to improve the SEC's oversight of EA support services contracts.

Our office continues to concentrate on its commitment to Diversity, Equity, and Inclusion (DEI) matters. For example, our internal letter, "Review for Racial and Ethnic Disparities in the SEC's Issuance of Corrective and Disciplinary Actions from January 1, 2017 – August 31, 2020," discusses our review to determine whether there was evidence of disparity—in particular, racial and ethnic disparity—when comparing the demographic composition of SEC employees who received a corrective or disciplinary action during our review period (between January 1, 2017, and August 31, 2020) to the overall population of SEC employees.

OA also worked with SEC management to close 24 recommendations made in 11 OIG reports and final management letters issued during previous semiannual reporting periods.

In addition, the OIG's [Office of Investigations](#) (OI) completed or closed 33 investigations during this reporting period. Our investigations resulted in 11 referrals to the United States Department of Justice (DOJ), 3 of which were accepted for prosecution, and 4 referrals to management for administrative action.

Once again, the OIG continued its oversight work through the challenges of the Coronavirus Disease of 2019 (COVID-19) pandemic, with most OIG staff teleworking during the reporting period. However, OIG staff continued to perform the OIG's mission and operations, ably progressing on its mandates during this shifting time of uncertainty.

In other news, the Council of Inspectors General on Integrity and Efficiency (CIGIE) has recognized the outstanding work of the SEC OIG, announcing that it will confer three awards to SEC OIG staff at its annual awards program on October 12, 2021. First, the OIG's Employee Engagement Working Group will receive a Special Joint Team Award for its outstanding work. Next, a former SEC OIG staff member will receive CIGIE's DEI award for her contributions to DEI efforts. Finally, team members for the SEC OIG audit *Opportunities Exist To Improve the SEC's Management of Mobile Devices and Services*, Report No. 562, will receive an award for excellence for superior group accomplishment. I am proud of and congratulate all the SEC OIG employees receiving these CIGIE awards.

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 capital markets that inspire public confidence and provide a diverse array of financial opportunities to retail and institutional investors, entrepreneurs, public companies, and other market participants. Its core values consist of integrity, excellence, accountability, teamwork, fairness, and effectiveness. The SEC’s goals are “(1) focus on the long-term interests of our Main Street investors; (2) recognize significant developments and trends in our evolving capital markets and adjusting our efforts to ensure we are effectively allocating our resources; and (3) elevate the SEC’s performance by enhancing our analytical capabilities and human capital development.”

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

Protection Act of 2010 (Dodd-Frank), the agency’s jurisdiction was expanded to include certain participants in the derivatives markets, private fund advisers, and municipal advisors.

The SEC accomplishes its mission through 6 main divisions—Corporation Finance, Enforcement, Examinations, Investment Management, Trading and Markets, and Economic and Risk Analysis—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 2021, the SEC employed 4,449 full-time equivalent employees.

OIG STAFFING, RESOURCES, AND ADMINISTRATION

During this semiannual reporting period, the OIG recruited to fill key vacancies integral to the management, audit, and investigative functions. We hired three employees (two auditors and an investigator) and also entered into a contract for organizational Ombuds services. The SEC OIG Ombuds Program is an independent, informal, confidential, and neutral resource serving all SEC OIG employees and supervisors on any workplace issue or concern. The Ombuds Program advocates for fair process rather than for any party to a dispute and seeks to address

workplace concerns at the lowest level possible. The Ombuds also provides quarterly training on topics such as conflict resolution, communication skills for the workplace, difficult conversations, and DEI in the workplace.

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.

In a related manner, the SEC OIG won three CIGIE awards, which will be presented on October 12, 2021, during a virtual ceremony open to the entire OIG community. First, the OIG's Employee Engagement Working Group will receive a Special Joint Team Award for its outstanding work: team members contributed to the success of the organization, helped deliver a consequential work product to implement the team's ideas, and assisted senior leadership by expeditiously formulating this important product. The team's efforts culminated in significant impact in definitive and measurable ways. For example, various elements of the Office of Personnel Management Federal Employee Viewpoint Survey scores revealed a 15-percent improvement over the prior year's scores, in direct connection to this team's far-reaching work to foster a highly engaged workforce. Team members included Holley Miller, Management and Program Analyst; Colin Heffernan, Audit Manager; Louis Perez, Auditor; Lucia Fuentes, Auditor; Leann Harrier, Assistant Counsel to the IG; Rubin Hantz, Supervisory Management and Program Analyst; and William Hampl, Writer-Editor.

Next, former SEC OIG Senior Special Agent Adelle Harris will receive an award for her contributions to DEI efforts. Since 2020 and continuing to the present, she demonstrated a high level of dedication and impact to the SEC OIG's mission and culture by helping to bring DEI issues to the forefront and working with the DEI committee and leadership team to develop and implement comprehensive solutions. She has achieved meaningful results through a series of efforts that contributed substantially to raising awareness of DEI issues and engaging the OIG community. These include volunteering for the SEC OIG's DEI working group, assisting with drafting the DEI working group's action plan and roadmap, providing training and information resources to the working group and SEC OIG staff, participating in difficult DEI conversations and encouraging others to participate, and volunteering for the SEC OIG's first chartered DEI Committee. In addition, she shared her wealth of knowledge in video recordings, discussing her personal background, and DEI matters.

Finally, team members for the SEC OIG audit *Opportunities Exist To Improve the SEC's Management of Mobile Devices and Services*, Report No. 562, will receive an award for excellence. The award recognizes the team's accomplishments in identifying significant deficiencies in the SEC's controls for managing its mobile device costs and safeguarding information accessed, stored, or processed on mobile devices with access to the agency's network. Congratulations to the team: Kelli Brown-Barnes, Audit Manager; Sara Tete Nkongo, Lead Auditor; Michael T. Burger, Jr., IT Auditor; Douglas Carney, Auditor; Sharice Cole, Auditor; David Witherspoon, Senior Attorney; Ismael Serrano, Supervisory IT Specialist; Barry Grundy, Senior Special Agent; and Bruce McLean, Special Agent in Charge.

OIG OUTREACH

The IG regularly met with the 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 areas presenting the greatest risks or challenges, facilitating the OIG's identification and planning for 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's SEC Employee Suggestion Program (ESP) to encourage suggestions for improvements in the SEC's work efficiency, effectiveness, and productivity, and the use of its resources.

OIG continued delivering its fraud awareness briefing program throughout the SEC. These briefings serve to educate SEC employees on the activities of the OIG as well as specific vulnerabilities in the programs they oversee. The briefings also enhance the OIG's "eyes and ears," with the goal of achieving more timely and complete reporting of possible fraud, waste and abuse in SEC programs and operations. Additionally, the OIG continued its collaboration with the SEC's Office of Financial Management and Office of Acquisitions to provide a fraud awareness training module during annual training for contracting officials.



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COORDINATION WITH OTHER AGENCIES

During this semiannual reporting period, the SEC OIG coordinated its activities with those of other agencies, pursuant to Section 4(a)(4) of the IG 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 Dodd-Frank. The chairman of CIGFO is the IG of the Department of the Treasury (Treasury). Other members of the Council, in addition to the IGs of the SEC and 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, FDIC, the Federal Housing Finance Agency, the National Credit Union Administration, and also the Special IG for the Troubled Asset Relief Program. As required by Dodd-Frank, CIGFO meets at least once every 3 months. At the CIGFO meetings, the members share information about their ongoing work, with a focus on concerns that may apply to the broader financial sector and ways to improve financial oversight.

The SEC IG also attended meetings of CIGIE. In addition, the OIG participated on a team to update CIGIE Quality Standards for Digital Forensics, which provide a framework for performing high-quality digital forensics in support of investigations conducted by an OIG. The OIG also participated in and chairs the CIGIE Undercover Review Committee, which provided recommendations and approvals on the suitability of undercover operations that involved sensitive circumstances that were carried out in accordance with DOJ guidelines. Additionally, we collaborated with the OIG community to assist DOJ in ensuring full reporting of required criminal history information to the National Instant Criminal Background Check System. The SEC OIG further supported the CIGIE community by conducting an investigation on behalf of the National Labor Relations Board OIG.

OA staff represented the SEC OIG on a number of CIGIE working groups, including those related to external peer reviews and IT. OA is also representing the SEC OIG on the most recent CIGFO working group effort, which seeks

to compile forward-looking guidance for the Financial Stability Oversight Council (FSOC) and its members to consider in preparing for a crisis. This project is coordinated by CIGFO members and the guidance compiled will be transmitted to FSOC. The forward-looking guidance is intended to be a compilation of lessons learned drawn from the experiences of federal agencies during prior crises and any learned during the recent COVID-19 pandemic, and to facilitate effective crisis response as FSOC fulfills its mission to identify threats to the

financial stability of the country, promote market discipline, and respond to emerging threats to the stability of the United States' financial system.

OIG staff also participated in CIGIE activities such as the Deputy IGs' group, the Freedom of Information Act Working Group, and the DEI Committee. SEC OIG's attorney staff participated in the Council of Counsels to Inspectors General, and one attorney completed a part-time detail to the Pandemic Response Accountability Committee.



AUDITS, EVALUATIONS, AND OTHER REVIEWS

OVERVIEW

The SEC OIG's OA conducts, coordinates, and supervises independent audits and evaluations of the agency's programs and operations at the SEC's headquarters and 11 regional offices. OA 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, OA monitors the SEC's progress in taking corrective actions on recommendations in OIG audit and evaluation reports.

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

OA 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* (Blue Book). 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

Final Management Letter: Actions May Be Needed To Improve Processes for Receiving and Coordinating Investor Submissions

During our recent evaluations of the Office of Investor Education and Advocacy (OIEA) operations and the SEC's management of its tips, complaints, and referrals (TCR) program, we observed that OIEA sends thousands of investor submissions that allege fraud or misconduct to the Division of Enforcement's (Enforcement) TCR system; at the same time, Enforcement transfers to OIEA thousands of investor submissions that Enforcement receives. The majority of matters received are not transferred, and, when needed, processes and controls are in place to transfer matters between OIEA and Enforcement. Nonetheless, during our evaluation of the TCR program, we identified 2 matters of the 3,303 we reviewed that were not timely and properly transferred from OIEA to the TCR system. Notably, OIEA management took prompt corrective action and the vast majority of matters we reviewed were transferred properly when needed. However, if the SEC continues to maintain multiple reporting mechanisms, the agency may gain efficiencies and reduce certain risks if it can better ensure investors submit matters directly to the appropriate division or office.

We also noted that the majority of investor submissions are received from portals on the SEC’s public website. However, at the time of our review, the primary landing page for the public to submit matters to the SEC (<https://www.sec.gov/complaint/select.shtml>) provided minimal information to help investors choose one reporting mechanism over another, and did not provide examples of common concerns associated with each option. In addition, at the time of our review, other public-facing instructions, including a 2011 investor publication and a 2017 investor bulletin, provided conflicting information about how to file a complaint. These resources serve as enabling functions that affect the SEC’s mission and involve several divisions and offices. Therefore, the SEC may benefit from assessing and, as needed, revising information on its public website to ensure retail investors and others have clear and easily understood instructions for reporting matters to the SEC.

Lastly, the SEC Ombudsman receives a variety of matters, including matters the Ombudsman categorizes and publicly reports as “Allegations of Securities Law Violations/Fraud.” However, it appears that the Ombudsman has not always entered those matters into the agency’s TCR system because, in some cases, the Ombudsman did not believe the matters warranted a TCR. Use of the broad descriptive label “Allegations of Securities Law Violations/Fraud” for matters that do not warrant TCRs may unintentionally misrepresent the nature of matters submitted by investors. Management’s review of the handling, categorization, and public reporting of matters submitted to the Ombudsman, particularly those matters related to potential securities law violations and fraud, may be beneficial.

On May 24, 2021, we issued our final management letter encouraging management to review and respond to each of these concerns. This management letter is available on our website at

<https://www.sec.gov/files/Final-Mgmt-Ltr-Actions-May-Be-Needed-To-Improve-Processes-for-Receiving-Coordinating-Investor-Submissions.pdf>.

Final Management Letter: Review of the SEC’s Compliance With CISA Emergency Directive 21-01 and Initial Response to the SolarWinds Compromise

On January 15, 2021, the SEC OIG initiated a review of the SEC’s response to Emergency Directive 21-01, “Mitigate SolarWinds Orion Code Compromise,” issued by the Department of Homeland Security’s (DHS) Cybersecurity and Infrastructure Security Agency (CISA) on December 13, 2020, and supplemental guidance. Specifically, we reviewed the SEC’s (1) actions to comply with CISA Emergency Directive 21-01 and supplemental guidance, and (2) initial response to the SolarWinds compromise. Our review included SEC compliance and response efforts from December 2020 and January 2021.

Issued to SEC management on August 3, 2021, our final management letter contains sensitive, non-public information about the SEC’s IT program. As a result, we are not releasing it publicly.

DERA Staff Research and Publications Support the SEC’s Mission, But Related Controls and Agency-wide Communication and Coordination Could Be Improved (Report No. 567)

Staff from the SEC’s Division of Economic and Risk Analysis (DERA) develop and implement novel research on a variety of topics germane to the SEC’s mission and publish the results of that research in a wide range of academic and practitioner journals, conference volumes, and scholarly books. Staff may complete research products as part of their official work or during their personal time. According to agency officials, between fiscal year (FY) 2018 and FY 2020, DERA staff submitted 116 working papers and items of personal research for review and clearance for public release.

We conducted this evaluation to evaluate the role DERA staff’s research and publications—including working papers, academic publications, and other published research—play in furthering the mission of the SEC; and to determine whether effective controls exist to (a) review and approve staff research and publications, and (b) safeguard SEC nonpublic or other sensitive information used for such activities.

DERA provides, among other things, insights from scientific research in support of the SEC’s mission, including its rulemaking, enforcement, and examinations functions. As such, management has recognized the importance of staff research and publication activities, and established procedures to address common issues that arise, including issues related to data usage and outside activities. Nonetheless, management can improve its internal control over staff’s research and publication activities. Specifically, we found that DERA does not:

- formally track working papers and refereed reports, or how staff research and publications advance a subpart of the SEC’s mission;
- review working papers and personal research before staff submit them to the SEC Office of Ethics Counsel for the Office of General Counsel’s (OGC) review and clearance for public release; or
- centrally maintain records related to staff research and publication activities.

Implementing these or similar control activities would provide the organization with greater assurance that it is achieving its objectives in this area and effectively mitigating related risks. Without such control activities, management may not have a complete picture of how organizational resources are used (when applicable), how staff research advances a subpart of the SEC’s mission, and whether research is addressing agency needs across mission areas. In addition, management may lack assurance that working papers, personal research, and supporting documents submitted to

the SEC’s Office of Ethics Counsel and reviewed by the OGC are complete, accurate, and ready for review and clearance. Finally, the lack of complete, centralized records could present challenges over time, particularly if key personnel have separated from the agency.

Additionally, to ensure other SEC divisions and offices are aware of research in progress and to obtain information on any relevant rulemaking or pending litigation, DERA emails various SEC management and staff a quarterly communication known as *DERA’s Research Pipeline*. We surveyed personnel from 13 SEC divisions and offices that received the *Research Pipeline*, and they generally found DERA’s research to be useful and an effective recruitment tool for hiring economists. However, a third of respondents felt that DERA could better communicate and coordinate staff research and publication activities. Specifically, we found DERA has not clearly identified and communicated its expectations to other divisions and offices. In addition, DERA has not established controls to ensure (1) all pending staff research and publications are timely listed in *DERA’s Research Pipeline* before research is made public; (2) the quarterly emails are released timely and consistently; and (3) stakeholders in other divisions or offices have sufficient information to understand the significance of the research that is included. Through improved communication and coordination, SEC divisions and offices could better assess and comment on DERA staff research in progress, thereby better meeting the needs of all divisions and offices, including DERA.

We issued our final report on September 17, 2021, and made four recommendations to further strengthen internal controls over staff research and publications activities, as well as communication and coordination with internal stakeholders. The report is available on our website at https://www.sec.gov/files/DERA-Staff-Research-and-Publications-support-SECs-mission-report-no-567_508.pdf.

Additional Steps Are Needed for the SEC To Implement a Well-Defined Enterprise Architecture (Report No. 568)

The SEC's Office of Information Technology (OIT) has overall management responsibility for the agency's IT program, including EA. The objective of the SEC's EA program is to define strategic business capabilities and align SEC business functions and goals with both project-level and enterprise-wide IT systems and plans. As noted by GAO, EA can help organizations realize cost savings and/or cost avoidance, enhance information sharing, and optimize service delivery.

Attempting to modernize and evolve IT environments without an EA to guide and constrain investments often results in operations and systems that are duplicative, not well integrated, unnecessarily costly to maintain and interface, and ineffective in supporting mission goals. We conducted this audit to determine the extent to which the SEC has implemented an effective EA program to guide and facilitate the modernization of the agency's IT environment.

We found that the SEC established an EA policy and several governance boards that have a role in EA. In addition, OIT established an EA portal to maintain information on the agency's EA program and the program's functions. The SEC also relies on contractors to provide EA support services, including developing EA artifacts and performing the SEC's annual EA self-assessment. However, additional steps are needed for the SEC to implement a well-defined EA and to improve its oversight of EA support services contractors.

Although the SEC has efforts underway to develop an enterprise roadmap for future years, for FYs 2020 and 2021, the SEC did not (1) prepare and submit to the United States Office of Management and Budget (OMB) an up-to-date enterprise roadmap, and (2) fully develop or maintain a complete set of EA artifacts in accordance with OMB guidance. As a result, the SEC may

not have an authoritative source to perform IT portfolio reviews, or may not be able to identify duplicate investments, gaps, and opportunities for collaboration within the SEC and across agencies.

In addition, OIT did not always document IT investments' alignment with the SEC's EA before approving investments' funding; and the SEC's governance boards did not always periodically review IT investments for EA alignment. The SEC has efforts underway to improve IT governance; however, without clearly defined EA governance, the agency risks (1) unwarranted overlap across IT investments, and (2) hindering its ability to ensure maximum systems interoperability and the selection and funding of IT investments with manageable risks and returns.

We also determined that the SEC's oversight of contracts for EA support services can be improved. Specifically, two EA support services contracts potentially overlapped. Moreover, OIT did not adequately oversee contracts for EA support services to mitigate the risk of bias that might arise from contractors' conflicting roles, and to ensure that the SEC's EA self-assessment results prepared largely by a contractor were adequately supported. As a result, between June and August 2020, the SEC spent more than \$1 million on two contracts for potentially duplicative application and data rationalization tasks. In addition, agency officials may not have an accurate understanding of the design and operating effectiveness of EA core elements, which can result in organizational operations and supporting technology infrastructures and systems that are duplicative, poorly integrated, unnecessarily costly to maintain and interface, and unable to respond quickly to shifting environmental factors. Lastly, OIT did not periodically assess IT investments in accordance with federal and SEC guidance, and did not document a formal strategy for the continued use and/or retirement of an enterprise platform that supports multiple critical SEC business applications despite known concerns. Without a

periodic assessment of the cost, performance, and risk associated with IT investments, and a formal strategy for the continued use and/or retirement of this platform, the SEC may not be able to minimize unnecessary and poorly planned investments.

We issued our final report on September 29, 2021, and made six recommendations to improve the SEC's implementation of a well-defined EA, and one recommendation to improve the SEC's oversight of EA support services contracts. The report is available on our website at <https://www.sec.gov/files/Additional-Steps-Are-Needed-SEC-To-Implement-Well-Defined-Ent-Arch-Rpt-568.pdf>.

OTHER REVIEWS

Review for Racial and Ethnic Disparities in the SEC's Issuance of Corrective and Disciplinary Actions from January 1, 2017 – August 31, 2020

In June 2020, the SEC OIG's Office of Counsel to the Inspector General (OCIG) initiated a review of the SEC's corrective and disciplinary action program. The purpose of this review was to determine whether there was evidence of disparity—in particular, racial and ethnic disparity—when comparing the demographic composition of SEC employees who had received a corrective or disciplinary action during the review period (that is, between January 1, 2017, and August 31, 2020) to the overall population of SEC employees.

Although the sample size reviewed was small and inconclusive, we believe opportunities exist for the Agency to better track data to identify and analyze disparities in the issuance of corrective and disciplinary actions. To accomplish this, we suggest that the Agency consider developing a plan to: better track data related to employee misconduct, corrective and disciplinary actions, and demographic information; develop a process by which data related to employee misconduct and corrective and disciplinary actions can be

routinely compared with demographic variables (such as race, ethnicity, and gender); and reduce the potential for bias by standardizing processes and providing additional manager training.

ONGOING AUDITS AND EVALUATIONS

Fiscal Year 2021 Independent Evaluation of the SEC's Implementation of the Federal Information Security Modernization Act of 2014

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

In addition, FISMA requires IGs to annually assess the effectiveness of agency information security programs and practices and to report the results to OMB and DHS. This assessment includes testing and assessing the effectiveness of agency information security policies, procedures, practices, and a subset of agency information systems. To comply with FISMA, the OIG initiated an evaluation of the SEC's information security programs and practices. We contracted with Kearney & Company, P.C., to conduct this independent evaluation. The objective is to assess the SEC's compliance with FISMA for FY 2021 based on guidance issued by OMB, DHS, and the National Institute of Standards and Technology.

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

Audit of the SEC's Compliance With 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 (DATA Act) (Public Law 113-101) requires, among other things, (1) government-wide data standards, (2) disclosure of direct federal spending with certain exceptions, (3) federal agencies to comply with the new data standards, and (4) OIGs' audits of the quality of the data be made available to the public. According to GAO, effective implementation of the DATA Act 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 with the DATA Act based on guidance issued by OMB and Treasury. Specifically, following a common methodology and reporting approach for the OIG community (CIGIE Federal Audit Executive Council [FAEC] DATA Act Working Group, *CIGIE FAEC Inspectors General Guide to Compliance under the DATA Act*, December 4, 2020), we will assess the (1) completeness, accuracy, timeliness, and quality of the SEC's first quarter, FY 2021 financial and award data submitted for publication on USASpending.gov; and (2) the SEC's implementation and use of the government-wide financial data standards established by OMB and Treasury.

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

Audit of Controls Over the SEC's Hiring Actions

According to GAO, effective management of an entity's workforce, its human capital, is essential to achieving results and an important part of internal control.¹ GAO has also acknowledged the critical role strategic human capital management plays in maximizing the government's performance and assuring its accountability to Congress and to the nation as a whole.² In its FY 2018-2022 strategic plan, the SEC also recognized that its success is dependent on an effective, highly-skilled workforce. At the SEC, the Office of Human Resources (OHR) provides leadership for the agency's strategic human capital management—to include hiring actions—by administering programs, establishing policies, and ensuring compliance with federal regulations. It also serves as the agency's liaison to the Office of Personnel Management and others in matters relating to human capital management activities.

The OIG has initiated an audit of OHR's controls over the SEC's hiring actions. Specifically, we will determine whether OHR's controls ensured that SEC hiring actions complied with applicable requirements in all material respects; and that OHR assessed the timeliness of agency hiring actions based on reliable data. The audit scope period will include hiring actions that occurred between October 1, 2018, and March 31, 2021.

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

Audit of the Division of Examinations' Registered Investment Adviser Examination Planning Processes

The SEC's Division of Examinations (the Division or EXAMS) conducts the SEC's National Exam Program, overseeing thousands of registered entities including registered investment advisers (RIAs), investment companies, broker-dealers, municipal advisors, national securities exchanges, transfer agents, and clearing agencies. The SEC uses the Division's examination results to inform rule-making initiatives, identify and monitor risks, improve industry practices, and pursue misconduct. Within EXAMS, the investment adviser/investment company examination program assesses whether, among other things, RIAs and investment companies comply with the federal securities laws. RIAs (totaling more than 14,600 firms as of September 2021) represent the largest portion of the registered firm population overseen by EXAMS, and the majority of the Division's examinations are of RIAs.

The OIG has initiated an audit of the Division's RIA examination planning processes. The overall objective of this audit is to determine whether EXAMS has established effective controls over its RIA examination planning processes to foster compliance with federal securities laws and ensure efficient allocation of its limited RIA examination resources. We will also follow up on the implementation of corrective actions from the prior OIG evaluation, *Office of Compliance Inspections and Examinations' Management of Investment Adviser Examination Coverage Goals*; Report No. 533, dated March 10, 2016. The audit scope period will include RIA examinations completed between October 1, 2018, and March 31, 2021.

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

Audit of the U.S. Securities and Exchange Commission's Whistleblower Program

FY 2020 marked both the 10-year anniversary of the inception of the SEC's whistleblower program under Dodd-Frank, as well as numerous record-breaking whistleblower program accomplishments in terms of individuals and dollars awarded, claims processed, and tips received. In FY 2020, the SEC processed more claims than in any other year of the program, and the Commission issued the largest number of Final Orders resolving whistleblower award claims in a FY, including both award and denial orders. According to the SEC's public website, this record-breaking trend continued into early FY 2021, when the Commission issued an individual award of \$114 million, eclipsing the previous record of \$50 million set months prior in FY 2020. Overall, from its inception through the end of FY 2020, the whistleblower program received more than 40,000 tips, and awarded approximately \$562 million to 106 individuals.

The SEC OIG has initiated an audit to assess the growth of the SEC's whistleblower program and the functioning of key program controls, such as those for communicating with stakeholders, reviewing information provided by whistleblowers, and determining award amounts.

We expect to issue a report summarizing our findings before the end of FY 2022.

1 GAO, *Standards for Internal Control in the Federal Government* (GAO-14-704G, September 2014).

2 GAO, *Human Capital: Improving Federal Recruiting and Hiring Efforts* (GAO-19-696T; July 30, 2019).



WALL ST



INVESTIGATIONS

OVERVIEW

The SEC OIG's OI investigates allegations of criminal, civil, and administrative violations relating to SEC programs and operations.

The subject of an OIG investigation can be an SEC employee, contractor, consultant, or any person or entity involved in alleged wrongdoing affecting the agency. Substantiated allegations may result in criminal prosecutions, fines, civil penalties, administrative sanctions, or personnel actions.

OI conducts investigations in accordance with the CIGIE *Quality Standards for Investigations* and applicable guidelines issued by the United States Attorney General. OI continues to enhance its systems and processes to ensure investigations are conducted in an independent, fair, thorough, and timely manner.

Investigations require extensive collaboration with separate SEC OIG component offices, other SEC divisions and offices, and outside agencies, law enforcement agencies, as well as coordination with the DOJ and other prosecutorial agencies. During the course of investigations, OI may discover vulnerabilities and internal control deficiencies and promptly report these issues to SEC management for corrective actions via Management Implication Reports.

OI manages the OIG Hotline, which is available 24 hours a day, 7 days a week, to receive and

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

Staffed by Special Agents, the OIG's Digital Forensics and Investigations Unit performs digital forensic acquisitions, extractions, and examinations in support of SEC OIG operations, and conducts network intrusion and exploitation investigations, as well as other investigations involving threats to the SEC's IT infrastructure.

REPORT ON INSTANCES OF WHISTLEBLOWER RETALIATION

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

CLOSED SUBSTANTIATED INVESTIGATIONS

Former Senior Government Employee Misuses Nonpublic Information for Personal Gain

The OIG jointly investigated with the Federal Bureau of Investigation the alleged obstruction of an SEC's investigative proceeding by a former SEC senior government employee (SGE). The investigation determined that before leaving the SEC, the former SGE logged into SEC systems and conducted unauthorized searches

for nonpublic information related to the SEC's ongoing investigation of a company in order to gain an advantage for future employment with the company and discussed information about the SEC's investigation with company officials.

On February 26, 2019, the former SGE was indicted and arrested for obstruction of justice and unauthorized disclosure of confidential information. On October 23, 2019, the former SGE was charged in a superseding indictment for tampering with a witness, victim, or an informant; fraud and related activity in connection with computers; and disclosure of confidential information. On July 15, 2020, the former SGE was charged in a superseding indictment with theft.

On September 8, 2020, the former SGE was charged with misdemeanor theft of public property in a superseding criminal information and subsequently pleaded guilty to the charge. On March 24, 2021, the former SGE was sentenced to imprisonment of time served; 1 year supervised release, with 9 months to be served in home confinement; a \$50,000 fine; and a \$25 assessment fee.

Company Falsified Its SEC Registration Statements and Obstructed an Official Proceeding

The OIG jointly investigated with the U.S. Attorney's Office for the Northern District of California and the Federal Bureau of Investigation the alleged false filing of SEC registration statements by a company and its former officers. The investigation determined that two of the company's former corporate officers conspired to obtain money from the company and its investors by means of misrepresentations and false pretenses, and fraudulently converted company funds for their own personal benefit. The investigation also determined that in response to an SEC subpoena for document production, the company produced forged documents, and the two former corporate officers falsely testified about material matters in ongoing SEC proceedings.

On November 28, 2017, the former corporate officers were indicted and charged with obstruction of official proceeding and conspiracy to commit wire fraud. The company's former chief executive officer was also charged with destruction, alteration, or falsification of records in a federal investigation and false writings to a government agency.

On September 11, 2018, and on November 13, 2018, the two former corporate executives, respectively, pleaded guilty each to one count of conspiracy to commit wire fraud. On April 2, 2019, the company's former chief executive officer was sentenced to imprisonment for 30 months; was sentenced to 3 years' probation; and was ordered restitution of \$1,360,050, to be paid jointly and severally. On May 18, 2021, the other corporate officer was sentenced to imprisonment for 8 months; 3 years supervised release; participation in the Location Monitoring Program, including 243 days of home incarceration; a \$15,000 fine; and a \$100 assessment fee.

In addition to their sentences, both former corporate officers were placed on special conditions of supervision, in which they must conduct speeches to no fewer than 200 individuals on the topic of "What I did wrong, why I went to prison, and what it was like being in prison."

Employee's Unauthorized Release of Personally Identifiable Information

The OIG investigated an allegation involving an employee's unauthorized release of personally identifiable information (PII) when the employee sent human resource-related records belonging to several SEC employees via a public unsecure facsimile machine. The investigation determined that the employee forwarded 14 unencrypted messages with documents that contained PII or Privacy Act data from the employee's SEC email account to their personal email account, and another 11 messages that contained nonpublic information. The messages the employee forwarded

to their personal email account were ones that they had previously sent to other staff during the course of the employee's official duties, and messages that contained information and documents that related to their work.

The investigation found that the employee, with a proposed disciplinary action against them, printed some of the records containing PII and transmitted the records to the employee's attorney. The employee used an unsecure public facsimile machine located at an office supply store to transmit the documents. Subsequently, in response to the SEC's proposed disciplinary action against the employee, the employee's attorney transmitted the records through an unsecure email to the SEC.

The investigation did not find any evidence that the employee or their attorney disseminated the records further or that the records were used for any malicious purpose. The employee and their attorney reported that all physical and electronic copies of the records previously in their possession were relinquished or destroyed, and deleted from their electronic systems.

On October 2, 2020, the facts and evidence developed during this investigation were referred to the U.S. Attorney's Office for the District of Columbia for consideration; however, it was declined for prosecution at that time. As a result, SEC management proposed removal of the employee, and the employee resigned from the SEC on April 7, 2021.

Former Employee in Possession of SEC Nonpublic Information

The OIG investigated information received from the United States Federal Reserve Bank (FRB) OIG concerning one of its former employees, who was also a former SEC employee. The FRB OIG was investigating the former employee for the theft of FRB restricted documents, and during its investigation, the FRB OIG discovered that the former employee had about 32 gigabytes of SEC-related data on their personal computer.

The OIG investigated the theft of the SEC-related data by the former employee. The investigation determined that before departing the SEC, the former employee took SEC email data and documents, without authorization, that were identified as SEC nonpublic information. Specifically, the former employee removed a copy of their .pst email file and Division of Trading and Markets work files. Additionally, the former employee stole numerous documents from the FRB.

On March 18, 2021, the former employee pleaded guilty to one count of theft of government property in the U.S. District Court of Maryland. On May 28, 2021, the former employee was sentenced to 1 year of supervised probation, a \$2,500 fine, and a \$25 special assessment fee.

Former Contractor Made Unauthorized Disclosures of SEC Nonpublic Information

The OIG investigated an allegation that a former contract employee made unauthorized disclosures of nonpublic information when the former contract employee sent emails, which included nonpublic information, from their SEC email account to their personal email account.

The investigation confirmed that the former contract employee sent nonpublic information, pertaining to SEC systems, contracts, and procurements, from their SEC email account to their personal Gmail account. When interviewed, the former contract employee admitted sending emails from the SEC to their personal email account and acknowledged that some emails included SEC nonpublic information. The former contract employee stated that the records they sent via email from the SEC account to their personal account included documents they had created, worked on, reviewed, or updated, and documents related to their time reporting, while serving as a contract employee at the SEC. The former contract employee indicated that they retained the documentation for personal use and reference. The former contract employee stated the SEC emails

have remained in their Gmail account and they had not shared the emails with anyone, aside from reporting their time to their former employer. The former contract employee agreed to cooperate further with regard to their possession of the SEC emails and nonpublic information.

The OIG sought assistance from the SEC's OGC regarding the identified disclosure of reported nonpublic information. In summary, after reviewing the documents, and consultation with other SEC staff, it was concluded there was no current risk of harm to the disclosed nonpublic information. Following the OIG's interview of the former contract employee, OGC contacted them, who subsequently attested to the OGC that they did not print or share any of the SEC documents, and that the former contract employee completely deleted the documents from their personal computer and from the digital trash file.

On February 19, 2021, this matter was presented to the United States Attorney's Office for the District of Columbia, which did not open a case (effectively declining the case for prosecution).

Former Contractor Inappropriately Recorded a Meeting in Which SEC Nonpublic Information Was Discussed

The OIG investigated a contract employee who had allegedly recorded an Enforcement Office of Market Intelligence meeting in which nonpublic information was discussed without permission on their personal mobile phone. As a result of the contract employee's action, they were removed from the contract.

The investigation determined that on October 14, 2020, the contract employee, who was responsible for taking notes during Office of Market Intelligence's meetings, recorded a meeting on their personal mobile phone, which was in violation of the SEC's administrative regulations and operating procedures pertaining to the safeguarding of nonpublic information. The contract employee admitted that they had difficulty taking adequate notes and recorded the meeting in order to prepare more detailed minutes. The contract employee confirmed deleting the information from their phone and did not disseminate any of the information discussed during the meeting with anyone outside of the SEC.

Because there was no evidence to support that nonpublic information was fraudulently misused, a referral to DOJ was not made.

Unauthorized Leak of Department of Defense Information

OIG investigated an alleged unauthorized release of nonpublic information regarding the merger and initial public offering of two corporations that was contained in an unclassified United States Department of Defense (DOD) letter issued to the SEC. It was alleged that the DOD letter was released to the corporations without authorization.

The investigation found no evidence that an SEC employee was responsible for the unauthorized release of the DOD letter. The investigation determined that a U.S. Air Force Office of Special Investigations security official sent an email containing the DOD letter to the two corporations involved in the merger. The OIG referred the matter to the DOD OIG.



REVIEW OF LEGISLATION AND REGULATIONS

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

Public Law 115-414, Good Accounting Obligation in Government Act

To require each federal agency, in its annual budget justification, to include a report on: (1) each public recommendation of the GAO that is classified as “open” or “closed, unimplemented”; (2) each public recommendation for corrective action from the agency’s OIG for which no final action has been taken; and (3) the implementation status of each such recommendation. Each agency shall also provide a copy of this information to its OIG and to GAO.

Public Law 116-136, CARES Act

To establish within CIGIE a Pandemic Response Accountability Committee to (1) prevent and detect fraud, waste, abuse, and mismanagement; and (2) mitigate major risks that cut across program and agency boundaries.

Public Law 116-260, Consolidated Appropriations Act, 2021

To provide \$1,894,835,000 to the SEC to remain available until expended, of which not less than \$16,313,000 shall be for the OIG.

H.R. 5, Equality Act

To prohibit discrimination on the basis of sex, sexual orientation, and gender identity in areas including public accommodations and facilities, education, federal funding, employment, housing, credit, and the jury system.

H.R. 2485, Access to Congressionally Mandated Reports Act

To require (1) the Government Publishing Office to establish and maintain a publicly available online portal containing copies of all congressionally mandated reports; and (2) federal agencies to submit a congressionally mandated report, with specified information about the report, to the Government Publishing Office between 30 and 45 days after submission of the report to either chamber to any congressional committee or subcommittee.

H.R. 2655, Insider Trading Prohibition Act

To prohibit securities trading and related communications to others by a person aware of material, nonpublic information.

H.R. 2662, IG Independence and Empowerment Act

To allow an IG to be removed only for cause. To require Congressional notice before placing an IG on nonduty status. To require CIGIE to report to Congress and the President. To grant IGs the authority to subpoena witnesses who are not currently government employees. To require the establishment of minimum standards and best practices for IG training.

H.R. 4502, Labor, Health and Human Services, Education, Agriculture, Rural Development, Energy and Water Development, Financial Services and General Government, Interior, Environment, Military Construction, Veterans Affairs, Transportation, and Housing and Urban Development Appropriations Act, 2022.

To provide \$1,992,917,000 to the SEC to remain available until expended, of which not less than \$17,649,400 shall be for the OIG.

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

Regulatory Oversight	
5/24/2021	Final Management Letter: Actions May Be Needed To Improve Processes for Receiving and Coordinating Investor Submissions
n/a	
Information Security	
8/3/2021	Final Management Letter: Review of the SEC's Compliance With CISA Emergency Directive 21-01 and Initial Response to the SolarWinds Compromise
n/a	
Regulatory Oversight	
9/17/2021	DERA Staff Research and Publications Support the SEC's Mission, But Related Controls and Agency-wide Communication and Coordination Could Be Improved
567	
Acquisition Management and Information Security	
9/29/2021	Additional Steps Are Needed for the SEC To Implement a Well-Defined Enterprise Architecture
568	

Table 2. Reports Issued With Questioned Costs (Including Disallowed Costs)

Description	Number of Reports	Questioned Costs	Unsupported Costs
Reports for which no management decision had been made by the start of the reporting period	0	\$0	\$0
Reports issued during the reporting period	0	\$0	\$0
Subtotals	0	\$0	\$0
Line 1. Reports for which a management decision had been made during the reporting period:	0	\$0	\$0
• Dollar value agreed to by management	0	\$0	\$0
• Dollar value NOT agreed to by management	0	\$0	\$0
Line 2. Reports with no management decision at the end of the reporting period	0	\$0	\$0
Total (Line 1 and 2)	0	\$0	\$0

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 OIG found that, at the time of the audit, such cost is not supported by adequate documentation.

The term “disallowed cost” means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the government.

Table 3. Reports Issued With Recommendations That Funds Be Put to Better Use

Description	Number of Reports	Dollar Value
Reports for which no management decision had been made by the start of the reporting period	0	\$0
Reports issued during the reporting period	0	\$0
Subtotals	0	\$0
Reports for which a management decision had been made during the reporting period:	0	\$0
• Dollar value agreed to by management	0	\$0
• Dollar value NOT agreed to by management	0	\$0
Reports with no management decision at the end of the reporting period	0	\$0
Total	0	\$0

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 pre-award reviews of contract or grant agreements; or (F) any other savings which are specifically identified. Consistent with section 5 of the IG Act, as amended, dollar amounts shown in this category reflect the dollar value of recommendations that funds be put to better use by management.

Table 4. Reports With Recommendations on Which Corrective Action Has Not Been Completed

During this most recent semiannual reporting period, SEC management provided the OIG with documentation to support the implementation of OIG recommendations. In response, the OIG closed 24 recommendations related to 11 Office of Audits reports and final management letters. The following table lists recommendations issued before the commencement of this semiannual reporting period that remain open. (“Redacted text” indicates recommendations that include one or more redactions of nonpublic information.)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	8	3/30/2018	Redacted Text
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	9	3/30/2018	Redacted Text
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	12	3/30/2018	Redacted Text
546–Audit of the SEC’s Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	17	3/30/2018	Review and update incident response plans, policies, procedures, and strategies to (a) address all common threat and attack vectors and the characteristics of each particular situation; (b) identify and define performance metrics that will be used to measure and track the effectiveness of the agency’s incident response program; (c) develop and implement a process to ensure that incident response personnel obtain data supporting the incident response metrics accurately, consistently, and in a reproducible format; (d) define incident response communication protocols and incident handlers’ training requirements; and (e) remove outdated terminology and references.
549–The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework	2	9/11/2018	Finalize standard operating procedures for the agency’s performance management program.

Table 4. Reports With Recommendations on Which Corrective Action Has Not Been Completed (*Continued*)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
552-Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	1	12/17/2018	Redacted Text
552-Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	3	12/17/2018	Redacted Text
552-Fiscal Year 2018 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	4	12/17/2018	Redacted Text
556-The SEC Can More Strategically and Securely Plan, Manage, and Implement Cloud Computing Services	2	11/7/2019	Develop a roadmap and implementation plan for cloud migration that provides for evaluating the agency's information technology portfolio; prioritizing systems and services for migration to the cloud, as appropriate, based on potential benefits and risks; and tracking of cloud-related goals.
556-The SEC Can More Strategically and Securely Plan, Manage, and Implement Cloud Computing Services	3	11/7/2019	Develop policies and procedures to ensure the following for all new and existing cloud computing services: (a) Applicable cloud system security controls and enhancements are included in the respective SEC cloud-based system security plan. (b) Applicable cloud system security controls and enhancements are assessed and supported by sufficient evidence in the respective SEC cloud-based system security assessment report. (c) The SEC authorizing official is provided with complete and appropriate information necessary to make risk-based decisions on whether to authorize the agency's cloud systems to operate.

Table 4. Reports With Recommendations on Which Corrective Action Has Not Been Completed (*Continued*)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
558–Fiscal Year 2019 Independent Evaluation of SEC’s Implementation of the Federal Information Security Modernization Act of 2014	2	12/18/2019	Redacted Text
558–Fiscal Year 2019 Independent Evaluation of SEC’s Implementation of the Federal Information Security Modernization Act of 2014	4	12/18/2019	Redacted Text
558–Fiscal Year 2019 Independent Evaluation of SEC’s Implementation of the Federal Information Security Modernization Act of 2014	5	12/18/2019	(a) Develop a methodology to demonstrate the control assignments from National Institute of Standards and Technology Special Publication 800-53, Revision 4, including control tailoring and inheritance; and (b) Update the Securities and Exchange Commission’s System Security Plan templates to ensure control tailoring justification corresponds to the methodology covered in part (a).
558–Fiscal Year 2019 Independent Evaluation of SEC’s Implementation of the Federal Information Security Modernization Act of 2014	7	12/18/2019	Redacted Text
559–The SEC’s Office of Broker-Dealer Finances Provides Effective Oversight, But Opportunities to Improve Efficiency Exist	2	2/26/2020	Finalize steps deemed feasible and prudent and, as necessary, (a) require broker-dealers to electronically file with the Commission annual reports and risk assessment reports, and (b) raise the capital threshold for reporting under the 17-H rules.
562–Opportunities Exist To Improve the SEC’s Management of Mobile Devices and Services	2	9/30/2020	Establish and implement comprehensive processes and procedures and/or update existing guidance to: (a) Require periodic reviews and reconciliations of mobile device usage reports, rate plan analysis reports, and mobile device management system reports to identify and address key indicators of potential inefficient or unauthorized use including overuse, underuse, or zero use. (b) Require periodic reviews of wireless service providers’ invoices to ensure unusual or additional charges, such as international charges, are accurate, are for authorized purposes, and are adequately supported.

Table 4. Reports With Recommendations on Which Corrective Action Has Not Been Completed (*Continued*)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
562–Opportunities Exist To Improve the SEC’s Management of Mobile Devices and Services	3	9/30/2020	Update existing guidance to include periodic assessments and recertifications of the continued need for mobile devices, specify criteria for assigning rate plans to mobile device users, and establish a process for communicating the plans’ limits to users.
562–Opportunities Exist To Improve the SEC’s Management of Mobile Devices and Services	5	9/30/2020	Redacted Text
562–Opportunities Exist To Improve the SEC’s Management of Mobile Devices and Services	6	9/30/2020	Redacted Text
563–Fiscal Year 2020 Independent Evaluation of SEC’s Implementation of the Federal Information Security Modernization Act of 2014	1	12/21/2020	Redacted Text
563–Fiscal Year 2020 Independent Evaluation of SEC’s Implementation of the Federal Information Security Modernization Act of 2014	2	12/21/2020	Redacted Text
563–Fiscal Year 2020 Independent Evaluation of SEC’s Implementation of the Federal Information Security Modernization Act of 2014	3	12/21/2020	Redacted Text
563–Fiscal Year 2020 Independent Evaluation of SEC’s Implementation of the Federal Information Security Modernization Act of 2014	6	12/21/2020	Define and implement a process to incorporate results from the assessments of knowledge, skills, and abilities into the security training strategy.

Table 4. Reports With Recommendations on Which Corrective Action Has Not Been Completed (*Continued*)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
563-Fiscal Year 2020 Independent Evaluation of SEC's Implementation of the Federal Information Security Modernization Act of 2014	7	12/21/2020	(a) Identify and define the SEC's Information and Communications Technology Supply Chain risks; (b) develop and define a supply chain risk management strategy which addresses the agency's Information and Communications Technology Supply Chain risks with respect to contingency planning activities; and (c) incorporate the supply chain risk management strategy into contingency planning policies and procedures.
564-The SEC's Office of Investor Education and Advocacy Could Benefit From Increased Coordination, Additional Performance Metrics, and Formal Strategic Planning	4	1/13/2021	Develop and implement methods, including specific performance metrics, to measure the impact and efficacy of its investor education program.
565-The SEC Has Taken Steps to Strengthen Its Monitoring of ISS Contractor's Performance, But Additional Actions Are Needed	1	2/24/2021	Evaluate quality assurance surveillance guidance available in the Office of Acquisitions' Contract Administration Guide and incorporate applicable guidance and examples into the agency-wide contract administration policies to ensure oversight personnel understand its applicability and develop timely contract quality assurance surveillance plans.
565-The SEC Has Taken Steps to Strengthen Its Monitoring of ISS Contractor's Performance, But Additional Actions Are Needed	2	2/24/2021	Update the agency's policies and procedures to enhance the timely and quality reporting of past performance information by clarifying Contractor Performance Assessment Reporting System report (1) due dates, and (2) narrative contents to more fully support contractor ratings, in accordance with Federal Acquisition Regulation requirements and government-wide guidance.
566-The SEC Can Further Strengthen the Tips, Complaints, and Referrals Program	1	2/24/2021	Develop and implement an oversight process, policies, or controls to ensure that TCRs received by SEC staff are timely entered into the TCR system in accordance with the Commission-wide Policies and Procedures for Handling Tips, Complaints and Referrals.

Table 4. Reports With Recommendations on Which Corrective Action Has Not Been Completed (*Continued*)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
566-The SEC Can Further Strengthen the Tips, Complaints, and Referrals Program	2	2/24/2021	Develop and implement an oversight process, policies, or controls to ensure divisions and offices adequately and timely describe in TCR notes circumstances preventing timely resolution in accordance with applicable division or office policy.
566-The SEC Can Further Strengthen the Tips, Complaints, and Referrals Program	3	2/24/2021	Assess the need to further communicate with and/or train SEC employees responsible for entering, triaging, and disposing of TCRs to improve awareness of their individual responsibilities and the Office of Market Intelligence triage process.
566-The SEC Can Further Strengthen the Tips, Complaints, and Referrals Program	4	2/24/2021	Continue efforts to plan for the acquisition of technologies for a new TCR system, ensuring those plans incorporate new system requirements, including end-user recommendations, as appropriate, and lessons learned from the existing system's development history.
566-The SEC Can Further Strengthen the Tips, Complaints, and Referrals Program	5	2/24/2021	Assess whether the future TCR system should include a reporting function for end-users, considering the costs and benefits of the current TCR reporting method and business needs, and, if needed, incorporate a reporting function into the requirements for the new TCR system.

Table 5. Summary of Investigative Activity for the Reporting Period of April 1, 2021 to September 30, 2021

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

Investigative Caseload	Number
Cases Open at Beginning of Period	63
Cases Completed but Not Closed* at Beginning of Period	2
Cases Opened During Period	20
Cases Closed During Period**	31
Cases Completed but Not Closed at End of Period	3
Open Cases at End of Period	51
Investigative Reports Issued During the Reporting Period	23

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

** Of the 31 cases closed during this reporting period, 23 involved allegations that were unsubstantiated. Of the 31 cases closed in this reporting period, 8 involved SGEs¹. Allegations were substantiated in two matters involving SGEs, one of which was an investigation that the SEC OIG conducted on behalf of the National Labor Relations Board OIG.

Criminal and Civil Investigative Activities	Number
Referrals for Criminal Prosecution to DOJ	11
Accepted	3
Indictments/Informations	1
Arrests	0
Convictions	2
Referrals for Criminal Prosecution to State and Local Prosecuting Authorities	0
Referrals for Civil Prosecution to DOJ	0
Referrals for Civil Prosecution to State and Local Prosecuting Authorities	0

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

Table 5. Summary of Investigative Activity for the Reporting Period of April 1, 2021 to September 30, 2021 (Continued)

Monetary Results	Number
Criminal Fines/Restitutions/Recoveries/Assessments/Forfeitures	\$134,693.15
Criminal Seizures	\$0
Civil Fines/Restitutions/Recoveries/Penalties/Damages/Forfeitures	\$0

Administrative Investigative Activities	Number
Removals, Retirements, and Resignations	3
Suspensions	0
Reprimands/Warnings/Other Actions	1

Complaints Received	Number
Hotline Complaints	117
Other Complaints	314
Total Complaints During Period	431

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

Section	Inspector General Act Reporting Requirement	Page(s)
4(a)(2)	Review of Legislation and Regulations	21-22
5(a)(1)	Significant Problems, Abuses, and Deficiencies	9-13, 17-20
5(a)(2)	Recommendations for Corrective Action	9-13
5(a)(3)	Prior Recommendations Not Yet Implemented	28-33
5(a)(4)	Matters Referred to Prosecutive Authorities	17-20, 34-35
5(a)(5)	Summary of Instances Where the Agency Unreasonably Refused or Failed To Provide Information to the OIG	23
5(a)(6)	List of OIG Audit and Evaluation Reports Issued During the Period	25
5(a)(7)	Summary of Significant Reports Issued During the Period	9-13, 17-20
5(a)(8)	Statistical Table on Management Decisions With Respect to Questioned Costs	26
5(a)(9)	Statistical Table on Management Decisions on Recommendations That Funds Be Put to Better Use	27
5(a)(10)(A)	Summary of Each Audit, Inspection, or Evaluation Report More Than 6 Months Old for Which No Management Decision Has Been Made	23
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	23
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	23
5(a)(11)	Significant Revised Management Decisions	23
5(a)(12)	Significant Management Decisions with Which the Inspector General Disagreed	23
5(a)(14)(B)	Date of the Last Peer Review Conducted by Another OIG	38-39
5(a)(16)	Peer Reviews Conducted by Another OIG	38-39
5(a)(17)(A)	Statistical Table Showing the Total Number of Investigative Reports Issued During the Reporting Period	34-35
5(a)(17)(B)	Statistical Table Showing the Total Number of Persons Referred to the DOJ for Criminal Prosecution During the Reporting Period	34-35

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

Section	Inspector General Act Reporting Requirement	Page(s)
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	34-35
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	34-35
5(a)(18)	Description of the Metrics Used for Developing the Data for the Statistical Tables Under 5(a)(17)	34-35
5(a)(19)	Report on Each Investigation Conducted Involving a Senior Government Employee Where Allegations of Misconduct Were Substantiated	17-20
5(a)(20)	Instances of Whistleblower Retaliation	17
5(a)(21)	Attempts by the Establishment To Interfere With the Independence of the OIG	23
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

PEER REVIEWS OF OIG OPERATIONS

PEER REVIEW OF THE SEC OIG'S AUDIT OPERATIONS

In accordance with generally accepted government auditing standards, an OIG audit team assesses another OIG's audit function every 3 years. The FDIC OIG conducted the most recent assessment of the SEC OIG OA's system of quality control for the 3-year period ending March 31, 2021. 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 September 24, 2021, the FDIC 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 FDIC 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 FDIC OIG identified findings and recommendations that were not considered to be of sufficient significance to affect the peer review rating. Furthermore, there are no outstanding recommendations from previous peer reviews of the SEC OIG's audit organization.

The peer review report is available on the SEC OIG website at <https://www.sec.gov/files/Peer-Review-System-Review-Report-On-SEC-OIG-Audit-Organization.pdf>. The next peer review of the OIG's audit function will be scheduled during the next 3-year cycle (between FY 2023 and FY 2025).

PEER REVIEW OF THE SEC OIG'S EVALUATION OPERATIONS

The Appalachian Regional Commission (ARC) OIG conducted the most recent assessment of the SEC OIG OA's inspection and evaluation work for the 3-year period ending June 30, 2020. The review focused on assessing the extent to which the SEC OIG met the the standards of CIGIE Blue Book, January 2012. The assessment included a review of the SEC OIG's internal policies and procedures implementing the seven required CIGIE Blue Book standards. It also included a review of selected inspection and evaluation reports issued between July 1, 2017, and June 30, 2020, to determine whether the reports complied with the seven covered Blue Book standards and the SEC OIG's internal policies and procedures.

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

The external peer review report is available on the SEC OIG website at <https://www.sec.gov/files/External-Peer-Review-Report-for-the-SEC-OIG-Inspection-and-Evaluation-Function.pdf>. The next peer review of the OIG's inspection and evaluation function is scheduled for FY 2024.

PEER REVIEW OF THE SEC OIG'S INVESTIGATIVE OPERATIONS

Because of COVID-19, the Investigative Operations Branch did not undergo its scheduled 2020 peer review. DOJ also granted an extension of 1 year for all scheduled OIG peer reviews. The most recent peer review was performed by the National Science Foundation (NSF) OIG in November 2017. The NSF OIG conducted its review in conformity with the *Quality Standards for Investigations and the Quality Assessment Review Guidelines for Investigative Operations of Federal Offices of Inspector General established by CIGIE and the Attorney General Guidelines for Offices of Inspectors General With Statutory Law Enforcement Authority*.

The NSF OIG concluded that the SEC OIG was in compliance with the quality standards established by CIGIE and other applicable guidelines and statutes listed above. Furthermore, the NSF concluded the SEC OIG's system of internal policies and procedures provide reasonable assurance that the SEC OIG is conforming with professional standards in the planning, execution, and reporting of its investigations.

APPENDIX B

OIG SEC EMPLOYEE SUGGESTION PROGRAM ANNUAL REPORT FY 2021

OVERVIEW

The OIG established the OIG SEC ESP in September 2010, pursuant to Section 966 of Dodd-Frank. Section 966 required the IG to establish a suggestion program for SEC employees. In accordance with the Dodd-Frank, the SEC OIG has prepared this annual report describing suggestions and allegations received, recommendations made or actions taken by the OIG, and actions taken by the SEC in response to suggestions from October 1, 2020, through September 30, 2021.

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, 2020, and September 30, 2021, the OIG received and analyzed 12 suggestions or allegations, details of which appear below:

Nature and Potential Benefits of Suggestion*	Number
Increase efficiency or productivity	1
Increase effectiveness	3
Increase the use of resources or decrease costs	4
Nature and Seriousness of Allegation*	Number
Mismanagement and/or discrimination	0
Waste of SEC resources	0
Misconduct by an employee	1
Action Taken by the OIG in Response to Suggestion or Allegation*	Number
Memorandum to or communication with the SEC about the suggestion or allegation	4
Referred to OIG Office of Investigations	1
Referred to OIG Office of Oversight and Review	0
Referred to OIG Office of Audit	0
Researched issues, but determined no further action was necessary	4
Other	3
Action Taken by SEC Management*	Number
SEC management took action to address the suggestion or allegation	0
SEC decided to secure new technology in response to the suggestion	0
SEC management is considering the suggestion in context of existing procedures	2
SEC management initiated an internal review	0

*Some suggestions or allegations are included under multiple categories.

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REPORT FRAUD, WASTE, OR ABUSE

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

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

EMPLOYEE SUGGESTION PROGRAM

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

COMMENTS AND IDEAS

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





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