



Office of Inspector General

# SEMIANNUAL REPORT TO CONGRESS

04.01.22 TO 09.30.22

U.S. SECURITIES AND  
EXCHANGE COMMISSION

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OFFICE OF INSPECTOR GENERAL

# SEMIANNUAL REPORT TO CONGRESS

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APRIL 1, 2022 THROUGH SEPTEMBER 30, 2022



## OIG MISSION

**T**he 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 OIG processes through continuous innovation, collaboration, and communication.”

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# ABBREVIATIONS

Advocate Act	Small Business Advocate Act of 2016
Agency or SEC	U.S. Securities and Exchange Commission
ARC	Appalachian Regional Commission
Blue Book	<i>Quality Standards for Inspection and Evaluation</i>
CDC	Centers for Disease Control and Prevention
Charge Card Act	Government Charge Card Abuse Prevention Act of 2012
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of Inspectors General on Integrity and Efficiency
COVID-19	Coronavirus
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOJ	U.S. Department of Justice
Enforcement	Division of Enforcement
ESP	Employee Suggestion Program
EXAMS	Division of Examinations
FDIC	Federal Deposit Insurance Corporation
FISMA	Federal Information Security Modernization Act of 2014
FSOC	Financial Stability Oversight Council
FY	fiscal year
GPC	government purchase card
IG	Inspector General
NSF	National Science Foundation
OA	Office of Audits
OASB	Office of the Advocate for Small Business Capital Formation
OI	Office of Investigations
OIAD	Office of the Investor Advocate
OIG	Office of Inspector General
OMB	Office of Management and Budget
OMS	Outreach Management System
OMWI	Office of Minority and Women Inclusion
PIIA	Payment Integrity Information Act of 2019
SGE	senior government employee
SLC	service level commitment
USAO	U.S. Attorney's Office
USCIS	U.S. Citizenship and Immigration Services
WTTS	Workforce Transformation and Tracking System





## MESSAGE FROM THE ACTING INSPECTOR GENERAL



I am pleased to present this Semiannual Report to Congress as Acting Inspector General (IG) of the SEC. This report describes the work of the SEC OIG from April 1, 2022, to September 30, 2022, 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 OIG processes through continuous innovation, collaboration, and communication.

During this reporting period, the OIG's Office of Audits (OA) issued its *OASB Complied With Statutory Requirements But Can Improve As It Matures* (Report No. 573). We made two recommendations to strengthen the Office of the Advocate for Small Business Capital Formation's

(OASB) programs and operations as it matures, including (1) identifying and establishing performance measures for activities, and (2) updating OASB's policies and procedures. We also published our *Results of the Inspector General's Fiscal Year 2021 Purchase and Travel Card Program Risk Assessment*. Overall, we determined that the risk of illegal, improper, or erroneous purchases and payments in both the SEC's government purchase card (GPC) and travel card programs is low. As a result, barring evidence of increased programmatic risk in the interim, the OIG will audit the SEC's GPC program in 2024, and will perform its next risk assessment of the SEC's travel card program in 2025. Finally, we issued our *Final Management Letter: Changes to the Internal Review Process*

*for Proposed Rules May Impact the Office of the Advocate for Small Business Capital Formation and the Office of the Investor Advocate.* Although we did not make any formal recommendations, we encouraged the Office of the Chair to consider, as a management practice, notifying OASB and the SEC's Office of the Investor Advocate (OIAD) before future changes to the rulemaking process, potentially impacting these offices, are implemented.

OA also worked with SEC management to close 14 recommendations made in 5 OIG reports issued during previous semiannual reporting periods.

In addition, the Office of Investigations (OI) completed or closed 22 investigations during this reporting period. Our investigations resulted in 10 referrals to the U.S. Department of Justice (DOJ), 3 of which were accepted for prosecution.

Once again, the OIG continued to provide oversight through the challenges of the Coronavirus (COVID-19) pandemic, with many SEC employees continuing to telework most of the time. Even so, the OIG successfully met its mission and carried out its operations efficiently and effectively maintaining its professionalism and direction.

The OIG also faced and overcame challenges during this reporting period due to important staffing changes. On May 7, 2022, former IG Carl Hoecker retired from federal service. The OIG's Deputy Inspector General for Audits, Evaluations,

and Special Projects, Rebecca Sharek, served as the Acting IG for 120 days. On September 6, 2022, I began serving as the Acting IG. The OIG also bid farewell to an audit manager who retired in June 2022, and we promoted two of our OA staff into audit manager positions. These staffing changes led to several vacancies within OA, which we are in the process of filling. Despite these changes, OIG leadership worked together to ensure seamless transitions of leadership, and OIG staff have put in outstanding effort to keep pace with our workload. I wish all retirees and new OIG managers well in their respective new challenges, and I would like to thank Rebecca for her valued service as the Acting IG.

In closing, we 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 very much 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.



Nicholas Padilla, Jr.  
*Acting 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. Additionally, on August 24, 2022, the SEC released for public comment a draft strategic plan for fiscal years 2022 to 2026. As of the date of this semiannual report, the SEC had not yet finalized the new strategic plan.

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.

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 2022, the SEC employed 4,680 full-time equivalent employees.

## OIG STAFFING, RESOURCES, AND ADMINISTRATION

As previously noted, during this semiannual reporting period, former IG Hoecker retired, and the process for appointing a new inspector general is underway. Until a permanent appointment is made, the Commission has been appointing the OIG's deputy IGs, in order of years of SEC service seniority in accordance with the OIG succession plan, to serve in 120-day rotations as the Acting IG. In addition, the OIG promoted two auditors to supervisory auditors, and OA is in the process of backfilling several open auditor positions.

## OIG OUTREACH

Members of OIG senior management 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 Office of Management continued to educate staff on and promote the SEC OIG's Employee Suggestion Program (ESP) as established under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank), to encourage suggestions for improvements in the SEC's work efficiency, effectiveness, and productivity, and the use of its resources and to receive from SEC employees allegations of waste, abuse, misconduct or mismanagement.

During this reporting period, the SEC and the OIG worked together on a message to SEC employees that aligned with recommendations

that the Administration made in a December 3, 2021 memorandum on promoting accountability through cooperation among agencies and their inspectors general. On June 14, 2022, the agency sent a message to all SEC employees recognizing that through complementary yet independent oversight, the OIG works to keep the SEC efficient, accountable, and focused on its mission. The message went on to acknowledge that in order for the OIG to advance its oversight mission, it depends on cooperation from the SEC. In addition, the message reminded all SEC personnel of their legal duty to cooperate with the OIG, including providing access to SEC employees, facilities, systems, and equipment as well as providing information even when that information may be classified, privileged, confidential, or otherwise exempt from disclosure under the law. The message also reiterated that SEC employees always have a right to communicate directly with the OIG without seeking permission from anyone within the agency. The message also emphasized the OIG's role in protecting whistleblowers.

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.



## 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 Inspector General Act of 1978, as amended.

Specifically, the OIG participated in the meetings and activities of the Council of Inspectors General on Financial Oversight (CIGFO), which was established by Dodd-Frank. The chairman of CIGFO is the IG of U.S. Department of the 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, the Federal Deposit Insurance Corporation (FDIC), the Federal Housing Finance Agency, the National Credit Union Administration, and also the Special IG for the Troubled Asset Relief Program. 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 OIG also attended Council of Inspectors General on Integrity and Efficiency (CIGIE) meetings. 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 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.

Finally, OA staff represented the SEC OIG on a number of CIGIE working groups including those related to external peer reviews and information technology. OA is also representing the SEC OIG on the most recent CIGFO working group efforts. One such CIGFO project, completed during the reporting period, compiled forward-looking guidance for the Financial Stability Oversight Council (FSOC) and its members to consider in preparing for a crisis. Another CIGFO working group effort—initiated in October 2021 and ongoing as of the date of this report—seeks to review FSOC’s response to Executive Order 14030, *Climate-Related Financial Risk*, dated May 20, 2021.

OIG staff also participated in the activities of the Deputy IGs group and CIGIE’s Freedom of Information Act Working Group and the Office of Management staff on the Diversity, Equity, and Inclusion 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 OA 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 U.S. Government Accountability Office, 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: Evaluation of the SEC's FY 2021 Compliance With the Payment Integrity Information Act of 2019

In March 2022, the SEC OIG announced an evaluation of the SEC's fiscal year (FY) 2021 compliance with the Payment Integrity Information Act of 2019 (PIIA), Public Law 116-117. The PIIA requires executive branch agencies to periodically review all programs and activities they administer and identify those with outlays that exceed the statutory threshold dollar amount that may be susceptible to significant improper payments and publish improper payments information with their annual financial statement. The PIIA also requires OIGs to determine whether agencies are in compliance with PIIA.

We sought to determine whether, in FY 2021, the SEC complied with the PIIA and evaluate, if applicable, the agency's (a) risk assessment methodology, (b) improper payment rate estimates, (c) sampling and estimation plan(s), (d) corrective actions plan(s), and (e) efforts to prevent and reduce improper payments. Based on our review of all relevant information, we determined that the SEC complied with the PIIA in FY 2021.

We issued our final management letter on June 22, 2022. This report is available on our website at <https://www.sec.gov/files/Finl-Mgmt-Ltr-Eval-SEC-FY-21-Compliance-With-Payment-Integrity-Information-Act-2019.pdf>.

### OASB Complied With Statutory Requirements But Can Improve As It Matures (Report No. 573)

OASB is an independent office of the SEC established pursuant to the SEC Small Business Advocate Act of 2016 (Advocate Act). OASB's mission is to advance the interests of small businesses and their investors at the SEC and in the capital markets.

We conducted this evaluation to assess OASB's design and implementation of operations, policies, and controls—including coordination and collaboration with other SEC divisions and offices and external stakeholders—to determine whether OASB has met applicable statutory requirements and strategic goals and objectives. Specifically, we sought to (1) evaluate OASB's processes for planning and conducting outreach and engagement activities and for assessing the performance of such activities; (2) assess the design and implementation of OASB's rulemaking feedback process; and (3) verify whether OASB was organizing and executing the SEC's annual Small Business Forum, preparing an independent annual report, serving as a member of the Small Business Advisory Committee, and consulting with the Investor Advocate as required.

We determined OASB effectively established a new independent organization and complied with the statutory requirements outlined in the Advocate Act. Specifically, since commencing operations in January 2019, OASB has done the following:

- conducted outreach events, including educational activities;
- assisted small businesses and their investors;
- analyzed the potential impact of proposed self-regulatory organizations' rules and SEC rulemaking on small businesses and their investors;
- consulted with the SEC Investor Advocate;
- issued annual independent reports on activities;
- participated on the Small Business Advisory Committee; and
- planned, organized, and executed the SEC's annual Small Business Forum.

Although the Advocate Act does not require OASB to coordinate with other SEC divisions and offices, many of the OASB's functions require OASB personnel to work closely with other divisions and offices. We met with personnel from SEC divisions and offices that OASB coordinated with, and none of them identified any challenges or gaps in coordination with OASB.

OASB created a Foundational Business Plan (April 2019) that identified its office's mission and provided a framework for reaching full-scale programming. OASB then published a strategic plan on July 9, 2021, that outlined 4 key goals and 11 strategies. Although OASB identified goals in its strategic plan, OASB did not develop performance measures (qualitative and/or quantitative) to assess the efficacy of key activities in its strategic goals. Without performance measures, OASB potentially limits (1) the effectiveness of key programmatic activities, and (2) its ability to make data-driven improvements, as needed, to ensure that OASB achieves its strategic goals.

Furthermore, although OASB issued policies and procedures, the documents in effect at the time of our review did not include detailed information about workflows, responsibilities, data collection and management, or the expected timing of certain actions, all of which OASB personnel described to us when we asked about OASB's standard practices. In addition, OASB's Outreach Management System (OMS) User Guide and OMS Admin User Guide did not offer detailed data entry information for the OMS system. Without detailed policies and procedures, as OASB matures and grows as an organization, there is an increased risk that its processes may not be followed correctly, reviews of SEC and self-regulatory organizations proposed rules may be performed inconsistently, and decision making may not be documented properly.

We issued our final report on August 30, 2022, and made two recommendations to strengthen OASB's programs and operations as it matures, including (1) identifying and establishing performance measures for activities, and (2) updating OASB's policies and procedures. The report is available on our website at <https://www.sec.gov/files/oasb-complied-statutory-requirements-can-improve-it-matures-rpt-573.pdf>.

**Final Management Letter: Changes to the Internal Review Process for Proposed Rules May Impact the Office of the Advocate for Small Business Capital Formation and the Office of the Investor Advocate**

During a recent OIG evaluation, we identified a matter related to the agency's internal communication and coordination specific to the rulemaking process. We previously identified an opportunity to strengthen communication and coordination across the SEC's divisions and offices as an emerging theme in our October 2021 statement on SEC's management and performance challenges (U.S.

Securities and Exchange Commission, Office of Inspector General, *The Inspector General's Statement on the SEC's Management and Performance Challenges October 2021* [October 8, 2021]). Our observations in the course of conducting the OASB evaluation demonstrate that strengthening communication and coordination remains a growth area for the SEC.

OASB and OIAD were established pursuant to Congressional mandates involving a measure of independence. Among other things, these offices are statutorily required to help ensure that the concerns of specific SEC stakeholders (namely, small businesses and investors) are appropriately considered as decisions are being made and policies are being adopted at the Commission, at self-regulatory organizations, and in Congress. With respect to agency rulemaking, OASB and OIAD rely on the SEC's rulemaking divisions and offices to timely provide drafts of proposed rules for review and comment.

In December 2021, the Office of the Chair modified the process for coordinating internal reviews of draft agency rules, resulting in OASB and OIAD receiving only fatal flaw drafts of proposed rules for a brief period. This change was neither formally documented nor communicated to those offices, and, according to the former directors of OASB and OIAD, they were not aware of the change until after it took effect. Although OASB and OIAD personnel stated that they generally were able to carry out their responsibilities during this period, changes to internal processes likely to impact their review and comment related to draft proposed agency rules may unintentionally limit OASB's and OIAD's ability to fulfill their advocacy roles and carry out office functions, and could hinder effective collaboration and information sharing across the agency.

On September 29, 2022, we issued our final management letter on this topic. Although we commended management’s commitment to promoting effective and collaborative information sharing across the SEC’s divisions and offices, we encouraged the Office of the Chair to consider, as a management practice, notifying OASB and OIAD before future changes to the rulemaking process, potentially impacting these offices, are implemented.

This management letter is available on our website at <https://www.sec.gov/files/finl-mgmt-ltr-changes-internal-review-process-prop-rules-may-impact-oasb-capital-formation-and-oia.pdf>.

## OTHER REPORTS AND PROJECTS

### Results of the Inspector General’s Fiscal Year 2021 Purchase and Travel Card Program Risk Assessment

The Government Charge Card Abuse Prevention Act of 2012 (Charge Card Act), requires IGs to conduct periodic assessments of agency GPCs or convenience check programs to identify and analyze risks of illegal, improper, or erroneous purchases and payments in order to determine the scope, frequency, and number of periodic audits of GPC or convenience check transactions. With respect to executive agencies with more than \$10 million in travel card spending, the Charge Card Act also requires periodic audits or reviews of travel card programs to analyze risks of illegal, improper, or erroneous purchases and payments.

On July 13, 2022, the OIG reported to the SEC Chairman on the results of its FY 2021 risk assessment of the SEC’s GPC program. To conduct the risk assessment of the SEC’s GPC program and travel card program, we assessed agency compliance with requirements of the Charge Card Act and evaluated the SEC’s GPC program against an established enterprise risk management framework.

Our FY 2019 risk assessment of the SEC’s GPC program noted that, at that time, SEC personnel did not validate the accuracy of quarterly GPC refunds received, as required by the Charge Card Act and agency policy. Therefore, we concluded that the SEC may not have received the correct amount of refunds in FY 2019. During our FY 2021 risk assessment, we again found that Office of Acquisitions personnel did not validate the accuracy of quarterly GPC refunds received. During our assessment, the SEC’s GPC team worked with U.S. Bank—the issuer of the SEC’s purchase cards—to validate the accuracy of the agency’s quarterly GPC refunds for FY 2021.

In addition, we reviewed a sample of FY 2021 GPC transactions and made several observations that included missing documentation, an unapproved purchase, and an unallowable charge. Based on our observations, we encourage the SEC’s GPC team to reiterate to the agency’s GPC cardholders the requirements for retaining supporting documentation, and continue to work with GPC cardholders to pursue exemptions to state taxes, where available, and recover taxes that should not have been paid.

Our 2020 travel card program audit found that, during FY 2018 and FY 2019, quarters 1 and 2, the SEC paid to tax-exempt states and territories \$119,273 in lodging taxes that could have potentially been avoided. During our FY 2021 risk assessment, we again observed one instance in which the SEC paid lodging taxes to a tax-exempt state. In August 2020, the Office of Financial Management updated its policies to encourage travelers and authorizing officials to take advantage of state tax exemptions, where available. We encourage management to continue directing travelers to take advantage of such exemptions when possible.

As a result of our risk assessment, we determined that the risk of illegal, improper, or erroneous purchases and payments in both the SEC's GPC and travel card programs is low. Barring evidence of increased programmatic risk in the interim, the OIG will audit the SEC's GPC program in 2024, and will perform its next risk assessment of the SEC's travel card program in 2025.

On July 13, 2022, the OIG published its risk assessment of the SEC's GPC and travel card programs for FY 2021 in accordance with the Charge Card Act. The report is available on our website at <https://www.sec.gov/files/Results-of-IG-FY21-Purchase-Travel-Card-Program-Risk-Assessment.pdf>.

## ONGOING AUDITS AND EVALUATIONS

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

According to the SEC's Office of the Whistleblower, assistance and information from a whistleblower who knows of possible securities law violations can be among the most powerful weapons in the law enforcement arsenal of the SEC. In 2010, Congress amended the Securities Exchange Act of 1934 to include Section 21F and directed the SEC to make monetary awards to eligible individuals who voluntarily provide original information that leads to successful Commission enforcement actions resulting in monetary sanctions totaling more than \$1 million. These individuals, known as "whistleblowers," help the SEC identify potential fraud and securities law violations much earlier than might otherwise be possible. According to OIG, as of September 2022, information received from whistleblowers has resulted in orders for \$6.3 billion in total monetary sanctions, of which more than \$1.5 billion has been, or is scheduled to be, returned to investors harmed by violations of the federal securities laws. Moreover, since the inception of the SEC's whistleblower program in 2011, the Commission has awarded more than \$1.3 billion to 328 individuals. In FY 2021, the Commission

awarded more than it ever had (about \$564 million) to the largest number of whistleblowers (108) in a single year.

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 during the next reporting period.

### Audit of the SEC's Small Business Contracting

The Small Business Act seeks to improve small businesses' access to federal procurement contracts by requiring federal agencies to establish annual small business contracting goals that provide small businesses with contracting opportunities to the maximum extent practicable. To ensure small businesses are given opportunities, the Small Business Act established a federal government goal that 23 percent of eligible prime contract dollars be awarded to small businesses each FY, in addition to sub-goals for other socioeconomic sub-groups. In December 2021, the Office of Management and Budget (OMB) issued memorandum M-22-03, which implements policy to use federal contract spending to support small businesses and advance equity.

The SEC's public website provides contractors information on doing business with the agency, including the SEC's commitment to using—to the maximum extent practicable—Federal Acquisition Regulation 19.201 requirements. According to the SEC's Office of Minority and Women Inclusion (OMWI) 2020 Annual Report, OMWI's Supplier Diversity Officer and the Office of Acquisition's Small Business Specialist actively collaborate on outreach activities designed to make small businesses more aware of SEC requirements and opportunities for participating in agency contracting.

The SEC OIG has initiated an audit to (1) assess the SEC's processes for encouraging small business participation in agency contracting, in accordance with federal laws and regulations; and (2) determine whether, in FYs 2020 and 2021, the SEC accurately reported small business awards.

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

### Evaluation of the Division of Enforcement's Efforts and Goals To Expedite Investigations

The Division of Enforcement (Enforcement) is critical to the Commission's ability to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation. Specifically, Enforcement uncovers misconduct and advances the Commission's mission each year by investigating and bringing hundreds of actions against individuals and entities for fraud and other misconduct, and by securing remedies that protect investors and the markets. As Enforcement's 2020 annual report states, "[Enforcement's] actions have the greatest impact when filed as close in time to the conduct as possible."

The SEC OIG has initiated an evaluation to (1) assess Enforcement's efforts to expedite and accelerate the pace of investigations, where possible and appropriate, and (2) review Enforcement's performance goal-setting and monitoring processes related to the pace of investigations. The evaluation scope period will include Enforcement time-to-file data and goal-setting processes covering FYs 2016 through 2021, and associated efforts and actions to meet established goals in accordance with applicable criteria.

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

### Fiscal Year 2022 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 the Department of Homeland Security. This assessment includes testing and assessing the effectiveness of agency information security policies, procedures, practices, and a subset of agency information systems. To comply with FISMA, the OIG has initiated an audit 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 2022 based on guidance issued by OMB, the Department of Homeland Security, and the National Institute of Standards and Technology.

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

## Evaluation of the SEC's Workplace Safety Protocols in Response to the COVID-19 Pandemic

In January 2021, the President issued Executive Order 13991, *Protecting the Federal Workforce and Requiring Mask Wearing*, which, among other things, established the Safer Federal Workforce Task Force and directed executive departments and agencies to require that on-duty or on-site federal employees, on-site contractors, and all persons in federal buildings or on federal land comply with Centers for Disease Control and Prevention (CDC) guidelines with respect to public health measures. Independent agencies, such as the SEC, were strongly encouraged to comply with the requirements of Executive Order 13991. To support the implementation of Executive Order 13991, OMB issued a memorandum requiring agencies to form COVID-19 Coordination Teams to develop and maintain tailored agency COVID-19 workplace safety plans consistent with CDC guidelines and the model safety principles appended to the memorandum.<sup>1</sup> Although formally submitted COVID-19 workplace safety plans were required only of the 24 Chief Financial Officer Act

agencies, OMB made clear that the model safety principles “should be applied to all federal agencies and workplaces, including small and independent agencies.” Since January 2021, additional federal guidance has been issued on these topics.

The SEC OIG has initiated an evaluation to assess the SEC's management of workplace safety protocols and related measures—including how the agency developed, implemented, and updated its *COVID-19 Workplace Safety Plan*—in response to the COVID-19 pandemic and pursuant to Executive Order 13991 and other applicable federal guidance. The evaluation scope will include a review of applicable federal guidance issued from January 2021 through September 2022, and testing of selected requirements established in the SEC's *COVID-19 Workplace Safety Plans* in response to federal guidance. We may expand the scope if additional applicable federal guidance is issued, or if the SEC's *COVID-19 Workplace Safety Plan* is updated.

We expect to issue a report summarizing our findings before the end of FY 2023.

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<sup>1</sup> OMB Memorandum M-21-15, *COVID-19 Safe Federal Workplace: Agency Model Safety Principles* (January 24, 2021).





# 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 reports 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

### Attorney Provided False Statements During Agency Proceeding

The OIG investigated an allegation that an attorney and their spouse obstructed an Enforcement investigation by attempting to stop investors from responding to Enforcement subpoenas, impersonating a business partner, providing a private attorney with false information in order to have a subpoena request withdrawn, backdating investor documents related to the Enforcement investigation, and providing false testimony to Enforcement during recorded interviews. The pair allegedly did so in order to cover up the underlying misconduct

that Enforcement was investigating, which included obtaining investment funds from foreign investors using false and misleading statements and omissions of material facts, inappropriately diverting those investor funds, obtaining referral fees not permitted to be paid to United States citizens, and attempting to obtain U.S. Citizenship and Immigration Services (USCIS) approval of immigrant investor petitions by providing false information and making false statements regarding the use of investor funds and other facts.

The investigation determined that the pair unlawfully, voluntarily, intentionally, and knowingly conspired to defraud the United States by impeding and obstructing the lawful government functions of the USCIS Employment-Based Immigration Fifth Preference visa program. The investigation also found that the pair made material false statements under oath and committed obstruction of justice. On December 16, 2017, the matter was referred to the appropriate U.S. Attorney's Office (USAO) for prosecution consideration and was accepted. As a result, on March 7, 2019, the pair were indicted on charges related to 10 counts of visa fraud, 1 count of obstruction of justice, and 1 count of aggravated identity theft. The spouse was also charged with 1 count of identity theft. On November 17, 2021, the spouse pleaded guilty to 1 count of conspiracy to defraud the United States and 1 count of obstruction of justice. On the same date, the spouse was sentenced to 12 months incarceration, 3 years supervised release for each count (to run concurrently), and ordered to pay a \$200 special assessment fee and a \$10,000 fine. During the investigation, the attorney fled the United States and remains a fugitive.

#### Findings Regarding Management of an SEC Contract

The OIG investigated allegations that an SEC contractor provided contract employees to the SEC who did not meet minimum labor category requirements and/or whose qualifications were

not clearly supported by the documentation. The OIG further investigated the SEC's decision to waive its requirement to use its Contractor Time Management System and instead use the contractor's time management system to track contract employee work hours. Finally, the OIG investigated why the SEC did not consistently enforce the requirement that labor hours worked outside the contractor's normal hours of performance must be approved in advance. The investigation determined that the Contracting Officer's Representative failed to enforce written pre-approval requirements for contractor overtime hours. On July 19, 2019, the matter was referred to the appropriate USAO for civil action; however, civil action was declined on the same date. The matter was referred to SEC management, who responded that based on their review of these matters in response to an earlier OIG audit and their further review of the most recent allegations, including those concerning the Contracting Officer's Representative, no further action would be taken.

#### SEC Employee Failed To Work Requisite Hours

The OIG investigated an allegation that an SEC employee completed very little work during the fourth quarter of calendar year 2020. The investigation determined that between March 2020 and December 2020, there was a discrepancy of 123 hours that the employee claimed working; however, there was no digital evidence to corroborate the employee's claims. Furthermore, the employee's supervisors stated that the employee had not completed a significant amount of work between August 2020 and December 2020. Moreover, the employee admitted that during the relevant time period, they did not always work the requisite 8 hours per day. On March 18, 2021, the matter was referred to the appropriate USAO; however, prosecution was declined on the same date. The matter was referred to management and the employee agreed to a settlement and served a 10-day suspension.

### Former Employee Provided SEC Nonpublic Information to an Outsider

The OIG investigated an allegation that an employee accessed SEC material nonpublic information and provided the information to a person involved with a company under investigation by Enforcement. The investigation determined that although the employee was not assigned to the matter, they accessed the case file on three occasions during the time in which they corresponded or spoke with the person. Records showed that the employee told the person they reviewed the records and provided information alluding to the investigation. The employee admitted making statements to the person but did not believe the information was nonpublic. On December 2, 2020, the matter was referred to the appropriate USAO; however, on December 3, 2020, prosecution was declined. The matter was referred to management and the employee agreed to resign in lieu of discipline.

### SEC Employee Had a Conflict of Interest in a Particular Matter

The OIG investigated an allegation that an employee had a conflict of interest in a particular matter because of their spouse's ownership of a security. The investigation determined that in 2018, the employee assumed responsibility for a particular matter that had been opened in her unit in 2015 involving a publicly-traded company. At that time, the employee's spouse owned 80 shares of that company's stock, with a value below the \$15,000 *de minimis* threshold. During the course of the employee's involvement in the particular matter, neither the employee nor their spouse bought or sold shares of the company's stock, and the employee continued to report

their spouse's ownership interest on their annual financial holdings disclosure forms. At the close of the quarter ending on June 30, 2020, the stock value increased above the *de minimis* threshold to \$16,280.80. As of March 31, 2022, the stock value had increased to \$24,664.80. The following month, in April 2022, the spouse alerted the employee that value of the stock exceeded the *de minimis* threshold. The employee informed the SEC's Office of the Ethics Counsel and, following its guidance, was recused from the particular matter. On July 16, 2022, the matter was referred to the appropriate USAO; however, prosecution was declined on the same date. The matter was referred to management, and the employee received counseling.

### Company Filed False Documents With the SEC

The OIG investigated allegations that a registered entity knowingly made false filings with the SEC. The investigation determined that between November 2015 and August 2017, the entity filed 13 documents, including SEC Forms 8-K, 10-Q, and 10-K, with the SEC that included the name of a person who was not the company's chief executive officer. In November 2020, the company filed a document with the SEC that indicated that the person no longer served as an officer or performed any operations for it as of October 2017. The investigation found that two individuals were involved with and responsible for the document filings. On July 28, 2022, the matter was referred to the appropriate USAO; however, the matter was declined on the same date. The SEC is pursuing charges against the two individuals, among others, for violations of the Securities Act of 1933.





## REVIEW OF LEGISLATION AND REGULATIONS

Section 4(a) of the IG Act directs the OIG to review existing and proposed legislation and regulations relating to the programs and operations of the SEC, and to make recommendations concerning the impact of such legislation or regulations on the economy and efficiency of SEC programs and operations, as well as any impact on the prevention and detection of fraud and abuse in such programs and operations. Although the SEC's Office of Legislative Affairs and Office of General Counsel review proposed or enacted legislation that could affect the SEC's activities, the OIG independently conducts reviews in accordance with the IG Act. During this reporting period, the OIG monitored proposed legislation such as the Inspector General Independence and Empowerment Act, the Whistleblower Protection Improvement Act, Strengthening Agency Management and Oversight of Software Assets Act, and the Chai Suthammanont Remembrance Act of 2022.

Additionally, the OIG reviewed a number of proposed and final rules issued by the Commission during this reporting period. This includes rules related to updated Electronic Data Gathering, Analysis, and Retrieval filing requirements; whistleblower program rules; compensation clawbacks; proxy voting advice; exemptions for certain exchange members; amendments to Form PF regarding reporting requirements for all filers and large hedge fund

advisers; and efforts to improve risk management in clearance and settlement and to facilitate additional central clearing for the United States Treasury Market. We note that when proposed rule changes require enhanced disclosure of sensitive data to the SEC, there is an inherent risk associated with the protection and control of such data. In order to prevent and detect the unauthorized disclosure, modification, use, or disruption of sensitive information, the OIG will continue to monitor the SEC's efforts to safeguard the security, integrity, and availability of sensitive data and its information systems.

During this period, the OIG also identified an opportunity for the SEC to improve communication and coordination regarding the rulemaking process. In December 2021, the Office of the Chair modified the process for coordinating internal reviews of draft agency rules, resulting in two offices (OASB and OIAD) receiving only fatal flaw drafts of proposed rules for a brief period. This change was neither formally documented nor communicated to those offices. In a management letter, we noted that uncommunicated changes to internal processes could unintentionally limit OASB's and OIAD's ability to fulfill their advocacy roles and carry out office functions and could hinder effective collaboration and information sharing across the agency. We discuss this matter in further detail on pages 9-10 of this report.



# 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

Financial Management	
6/22/2022	Final Management Letter: Evaluation of SEC's FY 2021 Compliance With the Payment Integrity Information Act of 2019
N/A	
Financial Management	
7/13/2022	Results of the Inspector General's Fiscal Year 2021 Purchase and Travel Card Program Risk Assessment
N/A	
Regulatory Oversight	
8/30/2022	OASB Complied With Statutory Requirements But Can Improve As It Matures
573	
Regulatory Oversight	
9/29/2022	Final Management Letter: Changes to the Internal Review Process for Proposed Rules May Impact the Office of the Advocate for Small Business Capital Formation and the Office of the Investor Advocate
N/A	

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
<b>Subtotal</b>	<b>0</b>	<b>\$0</b>	<b>\$0</b>
• 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

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
<b>Subtotal</b>	<b>0</b>	<b>\$0</b>
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
<b>Total</b>	<b>0</b>	<b>\$0</b>

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 that 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 14 recommendations related to 5 OA reports. The following table lists recommendations issued before the commencement of this semiannual reporting period that remain open. (“Redacted text” indicates recommendations that include one or more redactions of nonpublic information.)

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
546 - Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2017	8	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
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.
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
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	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.
568 - Additional Steps Are Needed For the SEC To Implement a Well-Defined Enterprise Architecture	1	9/29/2021	Define and/or establish processes, including roles and responsibilities, to prepare and timely update the SEC enterprise roadmap at regular intervals and to submit the roadmap to OMB in accordance with federal guidance.
568 - Additional Steps Are Needed For the SEC To Implement a Well-Defined Enterprise Architecture	2	9/29/2021	Define the SEC's expectations including the core artifact and relevant elective artifacts needed to support each of the six enterprise architecture reference models, and processes, including roles and responsibilities, to develop and periodically update these artifacts.
568 - Additional Steps Are Needed For the SEC To Implement a Well-Defined Enterprise Architecture	3	9/29/2021	Update existing policies and/or procedures to (a) specify a designated entity ultimately accountable for enterprise architecture development and maintenance, and for aligning enterprise architecture with the SEC's capital planning efforts; and (b) reflect the Technology Management Board as a governance authority, and remove the Information Officer's Council and the Enterprise Architecture Council.

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

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
568 - Additional Steps Are Needed For the SEC To Implement a Well-Defined Enterprise Architecture	4	9/29/2021	Update existing policies and/or procedures to define the roles and responsibilities of key stakeholders involved in enterprise architecture, including the roles, responsibilities, and accountability to develop standard operating procedures to support the implementation of the SEC's enterprise architecture policy.
570 - Fiscal Year 2021 Independent Evaluation of the SEC's Implementation of the Federal Information Security Modernization Act of 2014	1	12/21/2021	Redacted Text
570 - Fiscal Year 2021 Independent Evaluation of the SEC's Implementation of the Federal Information Security Modernization Act of 2014	3	12/21/2021	Develop, document, and implement a formal process to consistently capture and share lessons learned on the effectiveness of its cybersecurity Risk Management program and make updates, as necessary.
570 - Fiscal Year 2021 Independent Evaluation of the SEC's Implementation of the Federal Information Security Modernization Act of 2014	4	12/21/2021	Develop, document, and implement a formal process to consistently capture and share lessons learned on the effectiveness of its configuration baseline program and make updates, as necessary.
570 - Fiscal Year 2021 Independent Evaluation of the SEC's Implementation of the Federal Information Security Modernization Act of 2014	7	12/21/2021	Develop, document, and implement a formal process to consistently capture and share lessons learned to improve the effectiveness of its Information Security Continuous Monitoring policies and strategy and make updates, as necessary.
570 - Fiscal Year 2021 Independent Evaluation of the SEC's Implementation of the Federal Information Security Modernization Act of 2014	8	12/21/2021	Redacted Text
571 - Registered Investment Adviser Examinations: The Division of Examinations (EXAMS) Has Made Progress To Assess Risk and Optimize Limited Resources, But Could Further Improve Controls Over Some Processes	1	1/25/2022	Develop controls that help ensure timely supervisory approval of an examination's pre-fieldwork phase.

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

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
571 - Registered Investment Adviser Examinations: EXAMS Has Made Progress To Assess Risk and Optimize Limited Resources, But Could Further Improve Controls Over Some Processes	2	1/25/2022	Reiterate to examination staff and management the importance of and requirements for timely supervisory approval of each examination's pre-fieldwork phase.
571 - Registered Investment Adviser Examinations: EXAMS Has Made Progress To Assess Risk and Optimize Limited Resources, But Could Further Improve Controls Over Some Processes	3	1/25/2022	Review examination documentation requirements regarding communications with registrants to ensure they are clear and examiners maintain such documentation in a consistent manner; update examination policies as needed.
572 - The SEC Can Improve in Several Areas Related to Hiring	3	2/28/2022	Update the service level commitment (SLC) available to SEC employees based on information gathered from the pilot to ensure that the SLC clearly presents the hiring process in phases and steps that are (a) measurable in the Workforce Transformation and Tracking System (WTTTS), and (b) useful to measure and enhance the efficiency and effectiveness of the SEC's hiring process.
572 - The SEC Can Improve in Several Areas Related to Hiring	4	2/28/2022	Reassess the SLC review process and accompanying guidance to (a) align with the updated SLC phases and steps, once codified; (b) ensure consistency in measuring hiring actions that may enter the process at different points or include steps that do not apply, (c) determine whether pay-setting data fields in WTTTS can be used to gain efficiencies when measuring the compensation SLC phase, and (d) make better use of automated features in the WTTTS reporting tools to reduce manual updates, which are prone to errors.
572 - The SEC Can Improve in Several Areas Related to Hiring	5	2/28/2022	Update the pay-setting guidance for SK positions to clarify the pay-setting process, including the mapping of the four pay matrices to job requirements, and establish plans to provide recurring workshops for hiring officials to explain and clarify pay-setting processes.

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

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
572 - The SEC Can Improve in Several Areas Related to Hiring	6	2/28/2022	Revise the policy regarding pay-setting for SK positions to require that the Total Rewards Group ensures it always shares the most current pay matrices with SEC employees and hiring officials, and immediately share the current pay matrices with hiring officials.
572 - The SEC Can Improve in Several Areas Related to Hiring	9	2/28/2022	Evaluate, in conjunction with the compensation contractor's July 2021 recommendations, whether changes to the current pay matrix structure are needed to ensure salary amounts are commensurate with the years of experience—both relevant and specialized—that each candidate brings to the position.
572 - The SEC Can Improve in Several Areas Related to Hiring	10	2/28/2022	Establish written standard operating procedures that outline documentation requirements for attorney hiring and establish, to the extent necessary, nuances between internal and external attorney hiring actions and verification procedures.

Table 5. Summary of Investigative Activity for the Reporting Period of April 1, 2022, to September 30, 2022

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	41
Cases Completed but Not Closed* at Beginning of Period	1
Cases Opened During Period	23
Cases Closed During Period**	22
Cases Completed but Not Closed at End of Period	2
Open Cases at End of Period	41
Investigative Reports Issued During the Reporting Period	14
* 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 22 cases closed during this reporting period, 12 involved allegations that were unsubstantiated. Of the 22 cases closed in this reporting period, 7 involved senior government employees (SGEs) one of which was an investigation that the SEC OIG conducted on behalf of the Denali Commission OIG.†	
Criminal and Civil Investigative Activities	Number
Referrals for Criminal Prosecution to DOJ	10
Accepted	3
Indictments/Informations	0
Arrests	0
Convictions	0
Referrals for Criminal Prosecution to State and Local Prosecuting Authorities	4
Accepted	1
Arrests	1
Referrals for Civil Prosecution to DOJ	0
Referrals for Civil Prosecution to State and Local Prosecuting Authorities	0
Monetary Results	Number
Criminal Fines/Restitutions/Recoveries/Assessments/Forfeitures	\$0
Criminal Seizures	\$0
Civil Fines/Restitutions/Recoveries/Penalties/Damages/Forfeitures	\$0

† 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, 2022, to September 30, 2022 (Continued)

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

  

Complaints Received	Number
Hotline Complaints	153
Other Complaints	437
Total Complaints During Period	590

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	19
5(a)(1)	Significant Problems, Abuses, and Deficiencies	7-11, 15-17
5(a)(2)	Recommendations for Corrective Action	7-11
5(a)(3)	Prior Recommendations Not Yet Implemented	25-29
5(a)(4)	Matters Referred to Prosecutive Authorities	15-17, 30-31
5(a)(5)	Summary of Instances Where the Agency Unreasonably Refused or Failed To Provide Information to the OIG	21
5(a)(6)	List of OIG Audit and Evaluation Reports Issued During the Period	22
5(a)(7)	Summary of Significant Reports Issued During the Period	7-11, 15-17
5(a)(8)	Statistical Table on Management Decisions With Respect to Questioned Costs	23
5(a)(9)	Statistical Table on Management Decisions on Recommendations That Funds Be Put to Better Use	24
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	21
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	21
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	21
5(a)(11)	Significant Revised Management Decisions	21
5(a)(12)	Significant Management Decisions with Which the Inspector General Disagreed	21
5(a)(14)(B)	Date of the Last Peer Review Conducted by Another OIG	34-35
5(a)(16)	Peer Reviews Conducted by Another OIG	34-35
5(a)(17)(A)	Statistical Table Showing the Total Number of Investigative Reports Issued During the Reporting Period	30-31
5(a)(17)(B)	Statistical Table Showing the Total Number of Persons Referred to the DOJ for Criminal Prosecution During the Reporting Period	30-31
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	30-31

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

Section	Inspector General Act Reporting Requirement	Page(s)
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	30-31
5(a)(18)	Description of the Metrics Used for Developing the Data for the Statistical Tables Under 5(a)(17)	30-31
5(a)(19)	Report on Each Investigation Conducted Involving a Senior Government Employee Where Allegations of Misconduct Were Substantiated	15-17
5(a)(20)	Instances of Whistleblower Retaliation	15
5(a)(21)	Attempts by the Establishment To Interfere With the Independence of the OIG	21
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 two findings and made four recommendations that were not considered to be of sufficient significance to affect the peer review rating. As of November 2021, the SEC OIG had completed corrective actions to address the four recommendations. 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 is scheduled for FY 2024.

## 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 standards of the CIGIE Blue Book, dated 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 from July 1, 2017, through 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

The SEC OIG's investigative operations were not scheduled to undergo a peer review this reporting period. The National Science Foundation (NSF) OIG performed the most recent peer review 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. The next peer review of the OIG's investigative operations is scheduled to begin this fiscal year.

## APPENDIX B

# OIG SEC EMPLOYEE SUGGESTION PROGRAM ANNUAL REPORT FY 2022

### 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 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, 2021, through September 30, 2022.

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, 2021, and September 30, 2022, the OIG received and analyzed 19 suggestions or allegations, details of which appear below:

Nature and Potential Benefits of Suggestion*	Number
Increase efficiency or productivity	7
Increase effectiveness	11
Increase the use of resources or decrease costs	1
Nature and Seriousness of Allegation*	Number
Mismanagement and/or discrimination	2
Waste of SEC resources	1
Misconduct by an employee	3
Action Taken by the OIG in Response to Suggestion or Allegation*	Number
Memorandum to or communication with the SEC about the suggestion or allegation	10**
Referred to OIG Office of Investigations	2
Referred to OIG Office of Audit	1
Researched issues, but determined no further action was necessary	5
Other	0
Action Taken by SEC Management*	Number
SEC management took action to address the suggestion or allegation	0
SEC decided to secure new technology in response to the suggestion	0
SEC management is considering the suggestion in context of existing procedures	1
SEC management initiated an internal review	0

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

\*\* Four of the 10 suggestions have SEC response dates in FY 2023.

# OIG GENERAL OFFICE CONTACT INFORMATION

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## REPORT FRAUD, WASTE, OR ABUSE

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

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

## EMPLOYEE SUGGESTION PROGRAM

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

## COMMENTS AND IDEAS

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





U.S. SECURITIES AND EXCHANGE COMMISSION

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