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OFFICE OF INSPECTOR GENERAL
SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2016 THROUGH MARCH 31, 2017



OIG MISSION

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

- Conducting independent and objective audits, evaluations, and other reviews of SEC programs and operations;
- Conducting independent and objective investigations of potential criminal, civil, and administrative violations that undermine the ability of the SEC to accomplish its statutory mission;
- Preventing and detecting fraud, waste, and abuse in SEC programs and operations;
- Identifying vulnerabilities in SEC systems and operations and making recommendations to improve them;
- Communicating timely and useful information that facilitates management decision making and the achievement of measurable gains; and
- Keeping Congress and the Commission 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) maintaining high staff morale through employee engagement and transparent decision making; and (3) improving the effectiveness and efficiency of OIG processes through continuous innovation, collaboration, and communication.”

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ABBREVIATIONS

Agency/SEC	U.S. Securities and Exchange Commission
CF	Division of Corporation Finance
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
DATA Act	Digital Accountability and Transparency Act of 2014
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOJ	Department of Justice
EDGAR	Electronic Data Gathering, Analysis, and Retrieval
ESC	U.S. Department of Transportation's Enterprise Service Center
FBI	Federal Bureau of Investigation
FHFA	Federal Housing Finance Agency
FISMA	Federal Information Security Modernization Act
FY	fiscal year
GPC	Government Purchase Card
IG	Inspector General
IT	Information Technology
NARA	National Archives and Records Administration
OCIE	Office of Compliance Inspections and Examinations
OEC	Office of the Ethics Counsel
OIG	Office of Inspector General
OIT	Office of Information Technology
OMB	Office of Management and Budget
Treasury	U.S. Department of the Treasury
USAO	United States Attorney's Office





MESSAGE FROM THE INSPECTOR GENERAL



I am pleased to present this Semiannual Report to Congress as Inspector General (IG) of the SEC. This report describes the work of the SEC OIG from October 1, 2016, to March 31, 2017, and reflects our responsibility to report independently to Congress and the Commission. The audits, evaluations, investigations, and other reviews that we describe illustrate the OIG's efforts to promote the efficiency and effectiveness of the SEC and demonstrate the impact that our work has had on the agency's programs and operations.

During this semiannual reporting period, we continued our efforts to meet our strategic goals of (1) delivering results that promote integrity, efficiency, and effectiveness in the SEC's programs and operations; (2) maintaining high staff morale through employee engagement and transparent decision making; and (3) improving the effectiveness and efficiency of OIG processes through continuous innovation, collaboration, and communication. For example, we recently conducted a 2-day all hands training session that covered a variety of topics that directly supported our strategic goals and promoted different aspects of teamwork such as followership, leadership, team dynamics, and communications styles.

Additionally, during this reporting period, we continued to leverage technology to enhance our processes and share information through the use of information technology (IT) systems and platforms. We created several workflow systems that allow for electronic routing of documents, management oversight of the status of documents, and collaboration among stakeholders. We also filled key vacancies that are integral to audit and investigative functions by hiring an Assistant Inspector General for Investigations and two senior auditors.

During this reporting period, the OIG's Office of Audits issued reports that recommended improvements in SEC programs and operations. For example,

on March 7, 2017, we issued our report on the audit of the SEC's compliance with the Federal Information Security Modernization Act (FISMA) for fiscal year (FY) 2016. We found that since FY 2015, the Office of Information Technology (OIT) improved in key information security program areas by, among other things, updating policies and procedures, enhancing functionality of the OIT Risk Committee, and strengthening the system authorization process. We noted that OIT continues to enhance capabilities and develop tools in areas such as risk analytics, vulnerability management, and configuration management. However, we found that the SEC information security program does not meet the FY 2016 IG FISMA Reporting Metric's definition of "effective," and we identified opportunities for improvement in each of the FY 2016 IG FISMA Reporting Metrics assessment domains.

On March 27, 2017, we issued a report on our audit of the Division of Corporation Finance's (CF) requests for no-action and interpretive letters, exemptions, and waivers. We found that CF has sought ways to improve the efficiency and effectiveness of its processes and procedures for responding to requests and, during the last 5 years, has surpassed its internal performance goal for how quickly it initially responds to requests. However, we identified further improvements CF can make to strengthen its management of requests.

The Office of Audits also worked with SEC management to close 21 recommendations made in OIG reports issued during this and previous semiannual reporting periods.

The Office of Investigations completed or closed nine investigations during this reporting period. We investigated various allegations, including financial conflicts of interest by senior employees; alteration of Government documents; inappropriate relationships; fraudulent filings made to the SEC's Electronic Data Gathering, Analysis and Retrieval (EDGAR) system; obstruction of an SEC investigation by a financial advisor; unauthorized disclosure of nonpublic information; and misuse of the SEC insignia. Our investigations resulted in 10 referrals to the Department of Justice (DOJ), none of which was accepted for possible prosecution, and 5 referrals to management for corrective administrative action.

In particular, we, jointly with the DOJ, investigated a financial advisor, resulting in that individual being charged with obstructing an SEC investigation by attempting to conceal secret and improper referral payments made to an attorney. On January 20, 2017, the financial advisor pled guilty to one count of Obstruction of Proceedings in violation of 18 U.S.C. § 1505. The financial advisor has also entered into a separate agreement with the SEC that, among other sanctions and penalties, bars the individual for life from working in the securities industry.

I am also pleased to report that the OIG held its third annual OIG awards ceremony in February 2017 to honor service and outstanding achievements by OIG staff during 2016. At this ceremony, the SEC Acting Chairman and I recognized the specific contributions of the award recipients. I would like to express my gratitude to the award recipients, as well as all the OIG staff, for their continued hard work and dedication to the OIG's mission.

In closing, I remain firmly committed to executing the OIG's mission of promoting the integrity, efficiency, and effectiveness of the SEC's programs and operations and to reporting our findings and recommendations to Congress and the 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 increase efficiency and effectiveness in the SEC's programs and operations.



Carl W. Hoecker
Inspector General





MANAGEMENT AND ADMINISTRATION

AGENCY OVERVIEW

The SEC's mission is to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation. The SEC strives to promote a market environment that is worthy of the public's trust and characterized by transparency and integrity. Its core values consist of integrity, excellence, accountability, effectiveness, teamwork, and fairness. The SEC's goals are to establish and maintain an effective regulatory environment; foster and enforce compliance with the Federal securities laws; facilitate access to the information investors need to make informed investment decisions; and enhance the Commission's performance through effective alignment and management of human, information, and financial capital.

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

The SEC accomplishes its mission through 5 main divisions—Corporation Finance, Enforcement, Investment Management, Trading and Markets, and Economic and Risk Analysis—and 24 functional offices. The SEC's headquarters are in Washington, DC, and the agency has 11 regional offices located throughout the country. As of March 2017, the SEC employed 4,662 full-time equivalent employees.

OIG STAFFING, RESOURCES, AND ADMINISTRATION

During this semiannual reporting period, the OIG filled key vacancies that are integral to audit and investigative functions. Specifically, we hired an Assistant Inspector General for Investigations and two senior auditors.

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. For example, we conducted a 2-day all hands training session that covered a variety of topics that directly support our Strategic Plan and promoted different aspects of teamwork such as followership, leadership, team dynamics, and communications styles.

Additionally, through the use of IT systems and platforms, we continued to leverage technology to enhance our processes and share information. For example, we created several workflow systems that allow for electronic routing of documents, management oversight of the status of documents, and collaboration among stakeholders.

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 most important areas for the OIG's future work. The OIG continually strives to keep apprised of changes to agency programs and operations and keeps SEC management informed of the OIG's activities and concerns raised during its work.

Furthermore, the OIG continued its efforts to educate SEC employees on the roles and responsibilities of the OIG. The OIG participates in the SEC's biweekly 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, to encourage suggestions for improvements in the SEC's work efficiency, effectiveness, and productivity, and the use of its resources. In March 2017, the IG recognized two employees who had contributed to the Employee Suggestion Program by submitting suggestions for improving the Voluntary Leave Transfer and Voluntary Leave Bank Programs, and the IT Help Desk ticket closeout process.

OIG ANNUAL AWARDS PROGRAM

The OIG held its annual awards ceremony on February 24, 2017, to honor service and outstanding



2016 Employee of the Year, Michael Burger, receives his award from Acting Chairman Piwowar and IG Hoecker.

achievements in 2016. The awardees were selected in various categories based on nominations submitted by their peers. The IG and the Acting SEC Chairman presented the awards at the ceremony.

The Length of Federal Service awardees included:

- Lori Wagner – 5 years
- Michael Bradford Gainous – 10 years
- Suzanne Heimbach – 10 years
- Waleska E. McLellan – 10 years
- Roberta L. Raftovich – 10 years
- Michael Burger – 15 years
- Barry J. Grundy – 15 years
- Juliet D. Gardner – 20 years
- Rubin Hantz – 25 years
- Michael E. Niedringhaus – 30 years

The 2016 award recipients included:

- Rubin Hantz—Leadership Award;
- Diane M. Baker—Mission Support Award;
- Colin P. Heffernan, Elizabeth Palmer Gontarek, Michael Bradford Gainous, Kai J. Munshi, and Ronald Wormsley, Jr.—Team Award for Audit, Investigation, or Project of the Year;
- Ismael Serrano—New Employee of the Year; and
- Michael Burger—Employee of the Year



COORDINATION WITH OTHER OFFICES OF INSPECTOR GENERAL

During this semiannual reporting period, the SEC OIG coordinated its activities with those of other OIGs, pursuant to Section 4(a)(4) of the Inspector General Act of 1978, as amended.

Specifically, the OIG participated in the meetings and activities of the Council of Inspectors General on Financial Oversight (CIGFO), which was established by the Dodd-Frank Act. The chairman of CIGFO is the IG of the U.S. 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, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency (FHFA), 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 the Council of the Inspectors General on Integrity and Efficiency (CIGIE) and continued to serve as the Chairman of the CIGIE Investigations Committee. The mission of the Investigations Committee is to advise the IG community on issues involving criminal investigations and criminal investigations personnel and to establish criminal investigative guidelines. Additionally, the Office of Investigations participated in the CIGIE Assistant Inspector General for Investigations Subcommittee, the members of which collaborate in areas that impact the OIG investigations community, such as updates to the investigative peer review process.

The Office of Audits continued to participate in activities of the CIGIE Federal Audit Executive Council. In addition, the Office of Audits continued to participate in a CIGFO working group that assessed the Financial Stability Oversight Council's efforts to promote market discipline by eliminating expectations on the part of shareholders, creditors, and counterparties of large bank holding companies and nonbank financial companies that the Government will shield them from losses in the event of failure. On February 28, 2017, CIGFO issued its final audit report summarizing results of the working group's assessment.

The Counsel to the Inspector General served as the Chair of the Council of Counsels to the Inspectors General and the Administrative Leave Act Working Group, participated on the New IG Attorney Course Working Group, and served as an instructor for the CIGIE Training Institute's Audit, Inspection, and Evaluation Academy.

OIG staff also participated in the activities of the Deputy Inspectors General group, the CIGIE Freedom of Information Act Working Group, and the CIGIE Writer-Editor Working Group.



AUDITS AND EVALUATIONS

OVERVIEW

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

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

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

COMPLETED AUDITS AND EVALUATIONS

Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016 (Report No. 539)

The SEC's information systems process and store significant amounts of sensitive, nonpublic information, including information that is personally identifiable, commercially valuable, and market-sensitive. The SEC's information security program protects the agency from the risk of unauthorized disclosure, modification, use, and disruption of this sensitive, nonpublic information. Without these controls, the agency's ability to accomplish its mission could be inhibited, and privacy laws and regulations that protect such information could be violated. To comply with FISMA, the OIG assessed the SEC's implementation of FISMA information security requirements based on FY 2016 guidance issued to IGs by the U.S. Department of Homeland Security.

The SEC's OIT has overall management responsibility for the SEC's IT program, including information security. Since FY 2015, OIT improved in key information security program areas, in part by updating policies and procedures, enhancing the functionality of the OIT Risk Committee, and strengthening the system authorization process. OIT also implemented procedures to more efficiently address plan of action and milestones items. Furthermore, OIT

continues to enhance capabilities and develop tools in areas such as risk analytics, vulnerability management, and configuration management.

However, we found that the SEC information security program does not meet the FY 2016 IG FISMA Reporting Metrics' definition of "effective." Specifically, we determined that the SEC's maturity level for the five Cybersecurity Framework security functions was either Level 2 ("Defined") or Level 3 ("Consistently Implemented"). None of these functions reached Level 4 ("Managed and Measurable"), which the FY 2016 IG FISMA Reporting Metrics identified as the level reflective of an effective information security program.

Furthermore, we identified opportunities for improvement in each of the eight FY 2016 IG FISMA Reporting Metrics assessment domains aligned with the Cybersecurity Framework security functions. These opportunities for improvement pertain to critical security areas such as access and identity management, configuration management, and continuous monitoring. Implementing corrective action in these areas will help minimize the risk of unauthorized disclosure, modification, use, and disruption of the SEC's sensitive, nonpublic information.

The OIG issued a final report to the agency on March 7, 2017. To improve the SEC's information security program, we made 21 recommendations related to the 8 FY 2016 IG FISMA Reporting Metrics assessment domains. Management concurred with the recommendations which will be closed upon completion and verification of corrective action.

A public, redacted version of the report is available on our website at <https://www.sec.gov/files/Audit-of-the-SECs-Compliance-with-the-Federal-Information-Security-Modernization-Act-for-Fiscal-Year-2016.pdf>.

Audit of the Division of Corporation Finance's Management of Requests for No-Action and Interpretive Letters, Exemptions, and Waivers (Report No. 540)

CF responds to requests for guidance from individuals and other market participants about specific provisions of the Federal securities laws. Requesters may seek (1) interpretations of Federal securities laws or regulations, (2) assurances that CF would not recommend enforcement action if the individual or market participant engages in a specified activity, or (3) exemptions from securities laws. CF's response letters provide a current statement of the staff's views concerning the application of the securities laws to a particular set of facts. Although CF generally makes written responses publicly available, there is no statutory requirement for how quickly CF must process requests.

CF's informal guidance and administrative interpretations of the Federal securities laws and SEC rules are a key component of the SEC's strategic objective of helping market participants understand their obligations under the securities laws. CF legal policy and accounting offices received almost 2,000 requests for no-action and interpretive letters, exemptions, and waivers between January 1, 2014, and June 30, 2016.

We initiated this audit to assess CF's effectiveness in managing the requests it receives for no-action and interpretive letters, exemptions, and waivers. We sought to determine whether CF timely responds to requests using a consistent process and makes written responses publicly available.

We found that CF has sought ways to improve the efficiency and effectiveness of its processes and procedures for responding to requests. During the last 5 years, CF has met or surpassed its internal performance goal for how quickly it initially responds to requests. However, CF can make further improvements to strengthen its management of requests.

Specifically, we found that (1) some legal policy and accounting office policies and procedures were outdated or did not exist, and (2) the database CF used to track requests for no-action and interpretive letters and produce externally-reported performance metrics may be incomplete.

We noted that in FY 2016, three long-tenured CF office chiefs retired or assumed new positions at the SEC. CF described these transitions as demanding on its senior officers. To mitigate CF's vulnerability to a loss of institutional knowledge, CF legal policy and accounting offices should develop and maintain current, written policies and procedures outlining the process for responding to requests. In addition, management should ensure that CF's data are accurate and complete so that management can assess CF's performance in responding to requests.

The OIG issued a final report to the agency on March 27, 2017. To improve CF's management of requests for no-action and interpretive letters, exemptions, and waivers, we recommended that CF (1) update or develop, as necessary, standardized policies and procedures for receiving, recording, and responding to requests, and communicate those policies and procedures to staff; and (2) perform periodic validations of data recorded in the no-action letter database to ensure the data's accuracy and completeness. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

The report is available on our website at <https://www.sec.gov/files/Audit-of-CorpFins-Management-of-Requests-for-No-Action-and-Interpretive-Ltrs-Exemptions-Waivers.pdf>.

OTHER PROJECTS AND REPORTS

Final Management Letter: Readiness Review of the SEC's Progress Toward Compliance With the Digital Accountability and Transparency Act of 2014

The Digital Accountability and Transparency Act of 2014 (DATA Act) requires that Federal agencies report by May 2017 financial and payment data using Government-wide data standards established by the Treasury and the Office of Management and Budget (OMB). When fully implemented, the DATA Act will enable taxpayers and policy makers to track Federal spending more effectively. To help agencies meet the DATA Act's reporting requirements, Treasury and OMB issued the DATA Act Implementation Playbook, which included a suggested eight-step implementation plan.

In addition, the DATA Act requires the IG of each Federal agency to (1) review statistical samples of the data submitted by the agency under the DATA Act and (2) report on the completeness, timeliness, quality, and accuracy of the data sampled and the agency's use of the data standards. Although the first OIG report was due to Congress in November 2016, the DATA Act does not require agencies to submit spending data until May 2017.

Accordingly, the OIG conducted a readiness review of the SEC's progress towards compliance with the DATA Act by the May 2017 deadline. Our objective was to gain an understanding of the processes, systems, and controls that the SEC and its shared services provider, the U.S. Department of Transportation's Enterprise Services Center (ESC), have implemented, or plan to implement, to report the SEC's expenditures and link its Federal contract, loan, and grant spending information in accordance with the requirements of the DATA Act.

We issued a final management letter summarizing the results of our readiness review on November 2, 2016. As reported in that letter, between June and October 2016, we assessed the SEC's progress in completing the first six steps of the eight-step implementation plan and determined that the SEC appears to be on schedule to meet the first established reporting deadline of May 2017. However, the SEC must depend on the ESC to obtain and apply to the SEC's financial system software patches necessary to create the required DATA Act submission files. ESC staff believe that this work will be completed on time; however, neither the ESC nor the SEC has a workaround to ensure compliance with the DATA Act if the software patches are not timely installed.

The final management letter on the result of the OIG's DATA Act readiness review is available on our website at <https://www.sec.gov/oig/reportspubs/Final-Management-Letter--Readiness-Review-of-the-SECs-Progress-Toward-Compliance-with-the-DATA-Act-of-2014.pdf>.

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

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

On January 11, 2017, the OIG reported to OMB that the OIG did not issue any reports regarding the SEC's Government Purchase Card (GPC) Program during FY 2016. The OIG further noted that, as reported to the OMB in January 2016, the OIG

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

The OIG's letter report is available on our website at <https://www.sec.gov/oig/reportspubs/Inspector-Generals-FY-2016-Letter-to-OMB-on-SECs-Implementation-of-Purchase-Card-Program-Audit-Recommendations.pdf>.

IG's Review of the SEC's FY 2016 Compliance With the Improper Payments Information Act

On March 22, 2017, the OIG reported the results of its review of the SEC's compliance with the Improper Payments Information Act of 2002, as amended and expanded by the Improper Payments Elimination and Recovery Act of 2010, and the Improper Payment Elimination and Recovery Improvement Act of 2012. We conducted our review in accordance with OMB's implementing guidance.

To determine whether the SEC complied with the Improper Payments Information Act for FY 2016, we reviewed the SEC's "Improper Payments Elimination and Recovery Improvement Act of 2012 Risk Assessment Summary Report," dated August 19, 2016, and supporting documentation. We also reviewed relevant disclosures in the SEC's FY 2016 Agency Financial Report, dated November 14, 2016.

The SEC's FY 2016 risk assessment determined that none of the SEC's programs and activities are susceptible to significant improper payments. In addition, according to the SEC's FY 2016 Agency Financial Report, the agency determined that implementing a payment recapture audit program is not cost effective. Nonetheless, the agency will continue to monitor for improper payments across all programs and activities the SEC administers, and assess whether implementing payment recapture audits would be cost-effective in the future. Based on our

review of this information, we determined that the SEC is in compliance with the Improper Payments Information Act for FY 2016.

The OIG's letter report is available on our website at <https://www.sec.gov/files/Inspector-Generals-Review-of-the-SECs-FY-2016-Compliance-with-the-Improper-Payments-Information-Act.pdf>.

IG's FY 2016 Purchase Card Program Risk Assessment

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

On March 27, 2017, the OIG reported to the SEC Acting Chairman on the results of its FY 2016 risk assessment of the SEC's GPC program. To conduct the risk assessment, we assessed agency compliance with the Government Charge Card Abuse Prevention Act's requirements and evaluated the SEC's GPC program against an established enterprise risk management framework. We also interviewed Office of Acquisitions staff and reviewed applicable documents.

We found that the SEC has set program objectives, identified risks to the GPC program, and established controls and monitoring to address those risks. We agreed with the SEC's assessment of how its con-

trols and monitoring affect the likelihood the risks could occur and the impact those risks would have on the GPC program. Given the objectives and size of the GPC program and its materiality to the SEC, we found that the SEC's risk response appeared reasonable and sufficient.

As a result of our risk assessment, we determined that the overall risk of material illegal, improper, or erroneous purchases and payments in the SEC's GPC program is low. Additionally, because we audited the SEC's controls over its GPC program in March 2014, we do not plan to audit that program in FY 2017. Finally, we determined that in FY 2016, the SEC did not meet the \$10 million threshold for travel card spending, and we did not perform a travel card program risk assessment.

The OIG's memorandum on the results of the FY 2016 GPC risk assessment is available on our website at <https://www.sec.gov/files/Results-of-Inspector-Generals-Fiscal-Year-2016-Purchase-Card-Program-Risk-Assessment.pdf>.

ONGOING AUDITS AND EVALUATIONS

Audit of the Office of Compliance Inspections and Examinations' Controls Over Its Investment Adviser Examination Completion Process

The Office of Compliance Inspections and Examinations (OCIE) administers the SEC's National Examination Program. OCIE's mission is to protect investors, ensure market integrity, and support responsible capital formation through risk-focused strategies that improve compliance, prevent fraud, monitor risk, and inform regulatory policy. Examiners in Washington, DC, and the SEC's 11 regional offices conduct examinations of the nation's registered entities, including investment advisers, to ensure registrants' compliance with the Federal securities laws.

At the conclusion of an examination, examination staff provide the examined entity with written notification of the examination's completion and, if any deficiencies are noted, a letter outlining those deficiencies. Examined entities must respond to deficiency letters in writing, generally within 30 days, and include steps taken and/or planned corrective actions to address the issues identified. In addition, OCIE conducts a limited number of Corrective Action Reviews to verify whether examined entities took the corrective actions discussed in their responses to deficiency letters.

The OIG has initiated an audit of OCIE's controls over its investment adviser examination completion process. The objective of the audit is to determine whether OCIE has established effective controls over its investment adviser examination completion process, including but not limited to the issuance and resolution of deficiency letters and the performance of Corrective Action Reviews, to foster compliance with the Federal securities laws. In addition, we will follow up on the implementation of corrective actions from our prior audit (*Office of Compliance Inspections and Examinations' Management of Investment Adviser Examination Coverage Goals*, Report No. 533, dated March 10, 2016).

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

Audit of the SEC's Management of Its Data Center Contracts

According to the Government Accountability Office, as Federal agencies modernize their operations, they have demanded more computing power and data storage resources, resulting in a dramatic rise of data centers and an associated increase in data center operational costs. To carry out its mission, the SEC has contracted for two data centers, a primary data center and a contingency data center. The SEC's OIT is responsible for overseeing the

agency's data center operations and monitoring the agency's data center contracts.

The OIG has initiated an audit of the SEC's management of its data center contracts. The overall objective of the audit is to assess the SEC's management of the data centers. Specifically, we will determine whether (1) SEC personnel properly monitored the contractors' performance at the two data center locations; (2) one of the data centers includes physical and environmental controls that are commensurate with Federal guidance, industry standards, SEC policies and procedures, and contract terms; and (3) SEC personnel timely and adequately addressed previously identified vulnerabilities at the other data center.

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

Audit of the SEC's Progress in Enhancing and Redesigning the Electronic Data Gathering, Analysis, and Retrieval System

OMB and the Government Accountability Office have recognized the challenges Federal agencies face in attempting to modernize and enhance their IT systems and capabilities. Throughout the years, the SEC has initiated various efforts to modernize and enhance its IT systems, including its EDGAR system. The EDGAR system performs automated collection, validation, indexing, acceptance, and forwarding of submissions by companies and others who are required by Federal securities laws to file forms with the SEC. The EDGAR system is complex, consisting of multiple subsystems, and receives more than 700,000 disclosure documents every year from companies and individuals.

The OIG has initiated an audit of the SEC's progress in enhancing and redesigning EDGAR. The objective of the audit is to determine whether the SEC has established effective controls over EDGAR

enhancements and redesign efforts. Specifically, we will determine whether the SEC (1) has effective controls to ensure the agency completes EDGAR system enhancements as planned and in accordance with the SEC's performance and budget goals; (2) has effective controls to ensure that the agency implements EDGAR system enhancements in compliance with Federal and SEC change management controls; and (3) has effective planning and governance controls to ensure that the EDGAR redesign program meets agency needs.

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

Evaluation of the Division of Corporation Finance's Comment Letter Process

Companies subject to the registration and reporting requirements of the Securities Act of 1933 and the Securities Exchange Act of 1934 are generally required to disclose certain information to investors through regular filings with the SEC. Specifically, these companies must disclose the information required by the Federal securities laws and regulations and any additional material information necessary to make those required statements not misleading in light of the circumstances under which they are made.

The SEC's CF selectively reviews filings both to monitor and to enhance compliance with disclosure and accounting requirements. In the course of a review, CF staff may issue comments to a company to elicit better compliance with applicable disclosure requirements. In response to those comments, a company may revise its financial statements or amend its disclosure to provide additional or enhanced information, or may revise its financial statements or other disclosures in future filings. To increase the transparency of the review process, CF makes its comment letters and company responses to those comment letters public once the review is closed.

In July 2016, Congressional members requested that the SEC OIG provide information on, among other things, CF's comment letter process. Accordingly, the OIG has initiated an evaluation of that process. Our overall objective is to review CF's policies, procedures, and processes for issuing, tracking, and facilitating public access to comment letters and related correspondence.

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





INVESTIGATIONS

OVERVIEW

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

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

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

The Office of Investigations manages the OIG Hotline, 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.

REPORT ON INSTANCES OF WHISTLEBLOWER RETALIATION

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

STATUS OF PREVIOUSLY REPORTED INVESTIGATIONS

Failure To Report or Pre-Clear Holdings and Transactions and Possession of Prohibited Holdings (Case No. 14-0011-I)

As discussed in our previous Semiannual Report, the OIG investigated allegations that an employee had not reported or pre-cleared any of the securities holdings or transactions of the employee's spouse since the two married in 2007.

The investigation determined that the employee's spouse had two brokerage accounts and that the employee did not report these imputed financial interests to the SEC. Additionally, the employee did not pre-clear or report transactions in these accounts, which included securities that SEC

employees are prohibited from owning and were prohibited margin accounts. The employee also had disqualifying financial conflicts of interest with respect to two matters to which the employee was assigned. Furthermore, the employee did not report the employee's own personal accounts or the transactions in those accounts.

Moreover, the investigation discovered that the employee sent nonpublic information to a personal e-mail account on 26 occasions and to the employee's spouse's e-mail account on 2 occasions. Furthermore, the employee used access to a Government system for purposes that were not work-related.

During a previous semiannual reporting period, the OIG referred the facts of the investigation to a United States Attorney's Office (USAO), which declined prosecution the same day. During this period, the OIG reported the results of the investigation to SEC management to determine whether corrective action may be warranted. Management's response remained pending at the end of this reporting period.

Repeated Harassing Communications (Case No. 16-0005-1)

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

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

During this reporting period, on January 19, 2017, a jury for the U.S. District Court of the Eastern District of California found the individual guilty of two counts of making harassing interstate telephone calls. Sentencing was pending at the end of the reporting period. More information about this case may be found at <https://www.justice.gov/usao-edcal/pr/tracy-man-convicted-making-harassing-phone-calls-us-securities-exchange-commission>.

Allegations of Failure To Pay for Parking and Assault (Case No. 16-0178-1)

As discussed in our previous Semiannual Report, the OIG investigated allegations that an SEC contractor failed to pay for parking at the SEC headquarters parking garage, which is managed by a private company, and punched a parking garage attendant who tried to get the contractor to pay for parking.

The investigation determined that the contractor acknowledged times that the contractor failed to pay for parking within an 8-month period. The investigation developed no evidence that the contractor punched or threatened the parking garage attendant.

The OIG reported the results of its investigation to SEC management to determine whether corrective administrative action may be warranted. During this reporting period, management responded that SEC Office of Acquisitions had met with the contractor's employer, which provided documentation regarding the measures it would take to ensure that subsequent incidents involving the contractor and the parking garage staff do not occur.

Falsification of Prior Employment Information (Case No. 16-0219-1)

As discussed in our previous Semiannual Report, the OIG investigated allegations that an employee falsified and misrepresented the circumstances surrounding the employee's prior employment information on Federal employment forms when the employee applied for an SEC position about 6 years earlier.

The investigation determined that the employee inaccurately answered questions on Federal employment forms relating to whether the employee had left a previous job by mutual agreement because of specific problems or following allegations of misconduct. The OIG learned that the employee had signed a confidential separation agreement with the employee's previous employer about 4 months before applying to the SEC, after an internal investigation into allegations of misconduct. However, the employee answered, "No," to the relevant questions on the forms. The employee informed the OIG that the employee followed the advice of legal counsel in answering these questions. During the OIG's investigation, the employee's counsel could not recall speaking with the employee about the employment forms.

The OIG did not refer the matter criminally as the applicable statute of limitations had lapsed. The OIG reported the results of the investigation to SEC management to determine whether corrective administrative action may be warranted. During this reporting period, management responded that it had counseled the employee in writing.

COMPLETED INVESTIGATIONS

Financial Conflict of Interest by an SEC Senior Employee (Case No. 14-0754-I)

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

The investigation determined that the employee participated in a matter in which the employee held an imputed financial interest. Specifically, the employee worked on an SEC enforcement investigation that involved a security held by the employee's spouse by reviewing and commenting on a memorandum related to this matter.

The investigation determined that the employee failed to review the employee's and spouse's holdings before working on the matter. However, after commencing work on the matter, the employee realized that the employee's spouse might hold an interest in the matter and sought advice from the Office of the Ethics Counsel (OEC). The OEC advised the employee to recuse from any further participation in the matter, and the employee then ceased participating in the matter.

Furthermore, the investigation found that the employee had reported the holding on the employee's Office of Government Ethics Forms 450; it appeared that the employee made no effort to conceal this asset.

During a prior semiannual period, the OIG referred the facts of the investigation to a USAO, which declined prosecution of the matter. During this period, the OIG reported the results of the investigation to SEC management to determine whether administrative action may be warranted. Management responded that it had orally counseled the employee about the employee's obligations under the ethics rules.

Misuse of the SEC Insignia and Misrepresentation (Case No. 15-0211-I)

The OIG investigated allegations that a company was using the SEC insignia on the company's website and representing itself as an SEC authorized agency.

The investigation determined that the SEC insignia was used on the public company's website and that the company published statements on its website purporting to be an SEC "Authorized Agency." After receiving a notice from the SEC's Office of the General Counsel, the company removed the "sec.gov" insignia from its website and changed its business name and website address to remove any reference to the SEC.

The OIG referred the facts of the investigation to a USAO, which declined prosecution of the matter.

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

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

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

The OIG referred the facts of the investigation to a USAO, which accepted the matter for prosecution. On December 2, 2016, the former intern was indicted on three counts of bank fraud and was subsequently arrested. On February 14, 2017, the former intern pled guilty to three counts of bank fraud, in violation of 18 U.S.C. § 1344. Sentencing was pending at the end of the reporting period.

Alleged Inappropriate Relationship and Transmittal of Nonpublic Information (Case No. 15-0314-I)

The OIG investigated allegations that an SEC supervisor (1) had an inappropriate relationship with a contractor employee, (2) improperly moved this individual from one SEC contract to another SEC contract, and (3) then hired the contractor as a Federal employee. During the investigation, the OIG developed an additional allegation that the supervisor sent nonpublic information about a job vacancy to a personal e-mail address.

The investigation developed no evidence that the supervisor and contractor engaged in an inappropriate relationship, that the supervisor moved the contractor from one SEC contract to another, or that the supervisor hired the contractor as a Federal employee. The investigation determined

that the contractor voluntarily resigned from one SEC contracting position to accept a position with another SEC contractor. The investigation developed no information that the supervisor had any influence with the second contractor's hiring of this individual. Furthermore, the investigation developed no evidence that the recruitment and selection of the employee as a Federal employee were inconsistent with SEC policies and regulations. Also, the investigation found no evidence to indicate that the supervisor gave the employee any inappropriate assistance during the job application process.

However, the investigation determined that the supervisor transmitted nonpublic information related to a then-pending personnel vacancy to a personal e-mail address. The supervisor's e-mail message contained multiple choice questions for a job vacancy and the corresponding point values of each potential response.

The OIG did not present the matter to DOJ because the evidence did not substantiate a violation of Federal criminal law. The OIG reported the results of the investigation to SEC management to determine whether corrective administrative action may be warranted. In response, management reminded the supervisor of the prohibited practices concerning nonpublic information.

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

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

The investigation determined that the supervisor held stock of the supervisor's former employer, a private company, while the supervisor participated in an enforcement investigation for which the company was hired to provide expert witness support. Specifically, before the company was retained, in response to a request from staff working on the

investigation, the supervisor communicated opinions about the company's personnel while they were being evaluated as potential expert witness support. The supervisor subsequently reviewed and commented on a memorandum related to the investigation after the company was hired to provide expert witness support for the matter. When the supervisor became aware that the company was hired to work on the investigation, the supervisor did not seek guidance from the OEC and did not receive a waiver that could have allowed the supervisor to continue working on this matter.

The investigation found that the supervisor did not play a role in the SEC's decision to contract with the supervisor's former company. Additionally, an officer of the company represented that the value of the supervisor's stock was locked to the time that the supervisor left the company and, therefore, was not affected by the company's future business. The supervisor reported the conflict to the OEC after being instructed to do so, and the OEC advised the supervisor to recuse from any future matters involving the company. The supervisor recused from work involving the company, and to avoid further ethical conflicts, fully divested the stock in the company.

On May 4, 2016, the OIG referred the facts of the investigation to a USAO, which declined prosecution of the matter that same day. During this period, the OIG reported the results of the investigation to SEC management to determine whether administrative action may be warranted. Management's response was pending at the end of the reporting period.

Fraudulent Filings Made to the SEC's EDGAR System (Case No. 15-0393-I)

The SEC OIG and the FBI conducted a joint investigation that resulted in an indictment of a dual citizen of Bulgaria and the United States in February 2016 for submitting false filings in the SEC's EDGAR system associated with two securities. The indictment was reported in our Semiannual Report for the period ending March 31, 2016.

The investigation substantiated that the subject sold shares of one of the securities at the time of the false filing and realized a profit of about \$5,000. Although the subject held shares of the other security and the share price increased after the false filing, the investigation determined that the subject did not sell the shares of that security for a profit at the time.

During this reporting period, the FBI and DOJ were notified that a Bulgarian court had rejected the subject's extradition to the United States to answer to the charges in the indictment. The OIG closed its investigation until such time that the subject is extradited or voluntarily returns to the United States to face judicial proceedings related to the indictment.

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

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

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

contractor shared the files with any unauthorized individuals outside the SEC or intentionally erased the files from the shared drive.

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

In July 2016, the contractor was removed from the SEC contract for reasons other than those associated with this investigation. On September 16, 2016, the OIG presented the facts and evidence discovered during this investigation to a USAO, which declined prosecution on October 14, 2016. During this period, the OIG reported the results of the investigation to SEC management to determine whether corrective action may be warranted. Management's response was pending at the end of the reporting period.

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

The SEC OIG and DOJ jointly investigated a financial advisor, resulting in the individual being charged with obstructing an SEC investigation. Specifically, it was alleged that the individual had struck a deal with an attorney whereby the individual's company would pay the attorney a referral fee that the individual knew violated Federal and state regulations. After the individual's company discovered the

payments, stopped them, and directed the individual to have the attorney return the fees already paid, the individual continued paying the referral fee by secretly writing checks to the attorney out of private checking accounts.

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

On January 20, 2017, the individual pled guilty to one count of Obstruction of Proceedings in violation of 18 U.S.C. § 1505. The individual has also entered into a separate agreement with the SEC that, among other sanctions and penalties, bars the individual for life from working in the securities industry. Sentencing in the criminal matter was pending at the end of the reporting period. The DOJ press release describing the case is available at <https://www.justice.gov/usao-ma/pr/connecticut-financial-advisor-agrees-plead-guilty-obstructing-sec-investigation>.

Alleged Unauthorized Disclosure of Nonpublic Information (Case No. 16-0835-I)

In September 2016, the OIG received a letter from the U.S. House of Representatives Committee on Financial Services about a news article that may have contained nonpublic SEC information. The U.S. House of Representatives Committee on Financial Services requested that the OIG investigate the improper disclosure of material, nonpublic, and confidential enforcement information contained in the article. Based on the U.S. House of Representatives Committee on Financial Services' request, the OIG opened an investigation to determine whether an SEC employee was the source of the alleged leak of information.

The OIG investigation determined that nonpublic information was included in the news article. The OIG identified the SEC and contractor employees who had access to the information disclosed in the article and learned that various entities external to the SEC also had full or partial access to the nonpublic information. Based on interviews and reviews of e-mails, electronic files, phone records, and the SEC case tracking system, the OIG was unable to determine whether an SEC employee or contractor improperly disclosed SEC nonpublic information.

Alleged Inappropriate Relationship With a Subordinate Employee (Case No. 17-0121-I)

The OIG investigated allegations that an SEC supervisor was involved in an inappropriate relationship with a former SEC employee while the former SEC employee worked at the SEC.

The investigation confirmed that the two parties had an inappropriate relationship; however, no evidence was found indicating preferential treatment based on the relationship. The former SEC employee asserted that the relationship began while the employee was working in a different SEC office other than the one where the supervisor worked. The supervisor recalled that the relationship began around the time the former employee moved to a different SEC office. The supervisor denied extending any benefits, favors, or items of value to the former SEC employee as the result of their relationship, or attempting to have others do so. The former SEC employee denied receiving any benefits, favors or items of value. Both parties asserted that their inappropriate relationship did not occur on Government time or involve SEC resources. The investigation did not develop any information that contradicted the parties' assertions.

The OIG reported the results of its investigation to SEC management. Management reported to the OIG that the supervisor had entered into an agreed remediation plan.

Alleged Inappropriate Relationship With and Preferential Treatment of a Subordinate Employee (Case No. 17-0246-I)

The OIG investigated allegations that an SEC supervisor was involved in an inappropriate relationship with a subordinate SEC employee and that both were absent from the office for extended periods. It was also alleged the subordinate received preferential treatment as a result of the relationship. During the investigation, additional allegations were received or developed, including inappropriate sexual comments.

The OIG investigation found insufficient evidence to support a conclusion that the supervisor and subordinate had an inappropriate personal relationship. However, the evidence did show that the supervisor created the appearance of an inappropriate relationship with the subordinate. No evidence was found to show that the subordinate received preferential treatment.

The investigation found that the supervisor and subordinate were out of the office during business hours for extended periods of time, but the evidence did not support a finding of improper time reporting. Furthermore, the investigation found evidence that the supervisor made a comment that was inappropriate for the workplace to and about a subordinate employee. The investigation did not substantiate several other allegations.

On June 15, 2016, the OIG referred the potential time and attendance deficit to a USAO, which declined prosecution. The results of the investigation were then referred to management. Management reported that it addressed the conduct with the supervisor and subordinate through remediation plans.



REVIEW OF LEGISLATION AND REGULATIONS

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

Public Law 114-113

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

Public Law 114-317

Inspector General Empowerment Act of 2016 (enacted on December 16, 2016) (amending the Inspector General Act of 1978 to, among other things: (1) exempt IGs from certain requirements of the Computer Matching and Privacy Protection Act of 1988 and the Paperwork Reduction Act; (2) revise the membership structure of the CIGIE Integrity Committee and establish certain deadlines and procedural requirements for the Integrity Committee's review of allegations of wrongdoing against an IG or OIG staff member; (3) require the inclusion of additional items in the IG's semiannual reports; (4) require IGs to submit documents making recommendations for corrective action to the agency head, the congressional committees of

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

Public Law 114-328

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

S. 3067

Financial Services and General Government Appropriations Act, 2017 (introduced on June 16, 2016), section 739 (seeking to require the head of any executive branch department, agency, board, commission, or office funded by this or any other appropriations act to submit annual reports to the IG, or senior ethics official for any entity without an IG, regarding the costs and contracting procedures related to each conference held by any such department, agency, board, commission, or office during FY 2017 for which the cost was more than \$100,000; and to require the head of any executive branch department, agency, board, commission, or office to notify the IG, or senior ethics official for any entity without an IG, within 15 days of any conference held during FY 2017 for which the cost was more than \$20,000); section 743 (seeking to prohibit the use of appropriated funds for a contract, grant, or cooperative agreement with an entity that requires employees or contractors to sign confidentiality agreements or statements prohibiting or otherwise restricting such employees or contractors from lawfully reporting fraud, waste, or abuse to a designated investigative or law enforcement representative of a Federal department or agency authorized to receive such information); and section 744 (prohibiting the use of appropriated funds to implement or enforce nondisclosure policies, forms or agreements that do not contain specified provisions) (related to H.R. 5485, Financial Services and General Government Appropriations Act, 2017, section 739, 741, and 742).

S. 3461

Securities and Exchange Commission Overpayment Credit Act (introduced on September 29, 2016) (seeking to require the SEC to refund or credit certain excess fees and assessments paid to the SEC by a national securities exchange or a national securities association).

S. 3453

Crowdfunding Enhancement Act (introduced September 28, 2016) (seeking to amend provisions in the securities laws relating to the regulation of crowdfunding to raise the dollar amount limit and to clarify certain requirements and exclusions for funding portals).

H.R. 745

Federal Records Modernization Act of 2017 (introduced on January 30, 2017) (seeking to create a process for the suspension and removal of a Federal employee if an IG determines that the employee has (1) willfully and unlawfully concealed, removed, mutilated, obliterated, falsified, or destroyed any record, proceeding, or other thing in the employee's custody; or (2) violated prohibitions against creating or sending records using nonofficial electronic messaging accounts).

H.R. 5983

Financial CHOICE Act of 2016 (introduced on September 9, 2016, and reported to the House with amendment on December 20, 2016) (seeking to amend the Dodd-Frank Act to, among other things (1) repeal the "Volcker Rule," which restricts banks from making certain speculative investments; (2) with respect to winding down failing banks, eliminate the Federal Deposit Insurance Corporation's orderly liquidation authority and establish new provisions regarding financial institution bankruptcy; (3) repeal the "Durbin Amendment," which limits the fees that may be charged to retailers for debit card processing; (4) remove the Financial Stability Oversight Council's authority to designate non-bank financial institutions and financial market utilities as "systemically important;" (5) modify provisions related to the SEC's managerial structure and enforcement authority; (6) eliminate the Office of Financial Research within Treasury; and (7) revise provisions related to capital formation, insurance regulation, civil penalties for securities law violations, and community financial institutions).



MANAGEMENT DECISIONS AND ACTIONS

STATUS OF RECOMMENDATIONS WITH NO MANAGEMENT DECISIONS

Management decisions have been made on all audit and evaluation reports issued before the beginning of this reporting period.

REVISED MANAGEMENT DECISIONS

No management decisions were revised during the period.

AGREEMENT WITH SIGNIFICANT MANAGEMENT DECISIONS

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

REPORTS FOR WHICH NO AGENCY COMMENT WAS RETURNED WITHIN 60 DAYS

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

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

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

TABLES

Table 1. List of Reports: Audits and Evaluations

Date and Report Number	Title	Questioned Costs		Funds Put to Better Use
		Total	Unsupported	
Regulatory Oversight				
03/27/2017	Audit of the Division of Corporation Finance's Management of Requests for No-Action and Interpretive Letters, Exemptions, and Waivers	N/A		
540				
Information Technology and Security				
3/07/2017	Audit of the SEC's Compliance With the Federal Information Security Modernization Act for Fiscal Year 2016	N/A		
539				
Totals for the Period		N/A		

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

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

Table 3. Reports With Recommendations on Which Corrective Action Has Not Been Completed

During this semiannual reporting period, SEC management provided the OIG with documentation to support the implementation of OIG recommendations. In response, the OIG closed 21 recommendations related to 8 Office of Audits reports. The following table lists recommendations open 180 days or more. There were no potential cost savings identified by any of the recommendations listed in the table below.

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
534 – Audit of the SEC’s Student Loan Repayment Program	1	3/31/2016	Develop a system to maintain complete and accurate information about student loan repayment program participants and benefits paid to ensure the agency (a) does not exceed annual and lifetime limits, and (b) reports accurate annual participation data to the Office of Personnel Management, as required.
534 – Audit of the SEC’s Student Loan Repayment Program	2	3/31/2016	Develop a system to (a) identify student loan repayment program participants who do not fulfill their service agreements; (b) identify participants who left the agency for employment outside the Federal service; (c) determine whether participants are required to repay student loan repayment benefits and, if so, the amounts to be repaid; and (d) monitor the debt collection process.
534 – Audit of the SEC’s Student Loan Repayment Program	3	3/31/2016	Develop a system to maintain a current and accurate list of student loan repayment program participants who received a waiver and the reason for the waiver.
534 – Audit of the SEC’s Student Loan Repayment Program	7	3/31/2016	Obtain evidence from the agency’s calendar year 2015 student loan repayment program participants that their lenders received the agency’s payments and properly credited the employees’ accounts.
536 – Management of the SEC’s Protective Security Force Contract Needs Improvement	1	6/22/2016	Ensure that the Contractor trains and tests all Special Police Officers assigned to the SEC’s Headquarters as required by the agency’s contract, and in accordance with Interagency Security Committee best practices.
537 – Audit of the SEC’s Process for Reviewing Self-Regulatory Organizations’ Proposed Rule Changes	1	9/23/16	Establish procedures to verify that staff document in the Self-Regulatory Organization Rule Tracking System the basis for rejecting self-regulatory organizations’ proposed rule changes, in accordance with established agency requirements.
537 – Audit of the SEC’s Process for Reviewing Self-Regulatory Organizations’ Proposed Rule Changes	2	9/23/16	Train staff on their responsibilities for documenting in the Self-Regulatory Organization Rule Tracking System the basis for rejecting self-regulatory organizations’ proposed rule changes.

Table 3. Reports With Recommendations on Which Corrective Action Has Not Been Completed. Continued

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
537 – Audit of the SEC’s Process for Reviewing Self-Regulatory Organizations’ Proposed Rule Changes	3	9/23/16	Review all proposed rule changes rejected in fiscal years 2014 and 2015 to determine if staff documented in the Self-Regulatory Organization Rule Tracking System the basis for each rejection, and add the basis for each rejection where missing.
537 – Audit of the SEC’s Process for Reviewing Self-Regulatory Organizations’ Proposed Rule Changes	4	9/23/16	Recommendation redacted.
538 – Audit of the SEC’s Information Technology Requirements-Gathering Process	4	9/30/16	Formally assess the Oracle consolidation effort and identify any anticipated efficiencies, effectiveness, and cost savings.
538 – Audit of the SEC’s Information Technology Requirements-Gathering Process	6	9/30/16	Implement a policy to periodically perform and document formal operational analyses of steady state investments in accordance with Federal requirements, and clarify investment boards’ relationships and responsibility to review these investments to minimize overlaps or gaps.
538 – Audit of the SEC’s Information Technology Requirements-Gathering Process	7	9/30/16	Update policies and procedures to: (a) require that security requirements are defined and documented during the planning and initiation phases of every project; (b) implement a process to review information technology investments that fall below the \$2 million threshold; (c) implement a mechanism so that project teams identify, assess, and report quality information; (d) specify reasons for revising project baselines, to determine whether to continue, change, or terminate an investment; and (e) define a process to ensure changes to project baselines are approved before contractual actions.

Table 4. Summary of Investigative Activity for the Reporting Period of October 1, 2016, to March 31, 2017¹

Investigative Caseload	Number
Cases Open at Beginning of Period	62
Cases Completed but Not Closed* at Beginning of Period	4
Cases Opened During Period	18
Cases Closed During Period	7
Cases Completed but Not Closed at End of Period	6
Open Cases at End of Period	70
Investigative Reports Issued During the Reporting Period	9
* A case is “completed” but not “closed” when the investigative work has been performed but disposition (e.g., corrective administrative action) is pending.	
Criminal and Civil Investigative Activities	Number
Referrals for Criminal Prosecution to State and Local Prosecuting Authorities	0
Referrals for Civil Prosecution to State and Local Prosecuting Authorities	0
Referrals for Criminal Prosecution to DOJ	10
Accepted	0
Indictments/Informations	2
Arrests	1
Convictions	3
Referrals for Civil Prosecution to DOJ	0
Monetary Results	Dollars
Criminal Fines/Restitutions/Recoveries/Assessments/Forfeitures	\$0
Civil Fines/Restitutions/Recoveries/Penalties/Damages/Forfeitures	\$0
Administrative Investigative Activities	Number
Removals, Retirements, and Resignations	0
Suspensions	0
Reprimands/Warnings/Other Actions	8
Complaints Received	Number
Hotline Complaints	164
Other Complaints	151
Total Complaints During Period	315

¹The data contained in this Table was compiled from the OIG’s investigations case management system.

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

Section	Inspector General Act Reporting Requirement	Page(s)
4(a)(2)	Review of Legislation and Regulations	24-25
5(a)(1)	Significant Problems, Abuses, and Deficiencies	9-11, 17-23
5(a)(2)	Recommendations for Corrective Action	9-11
5(a)(3)	Prior Recommendations Not Yet Implemented	29-30
5(a)(4)	Matters Referred to Prosecutive Authorities	17-23, 31
5(a)(5)	Summary of Instances Where the Agency Unreasonably Refused or Failed to Provide Information to the OIG	27
5(a)(6)	List of OIG Audit and Evaluation Reports Issued During the Period	28
5(a)(7)	Summary of Significant Reports Issued During the Period	9-11, 19-23
5(a)(8)	Statistical Table on Management Decisions with Respect to Questioned Costs	28
5(a)(9)	Statistical Table on Management Decisions on Recommendations that Funds Be Put to Better Use	28
5(a)(10)(A)	Summary of Each Audit, Inspection or Evaluation Report Over Six Months Old for Which No Management Decision has been Made	27
5(a)(10)(B)	Summary of Each Audit, Inspection or Evaluation Report Over Six Months Old for Which No Establishment Comment Was Returned Within 60 Days of Providing the Report to the Establishment	27
5(a)(10)(C)	Summary of Each Audit, Inspection or Evaluation Report Over Six Months Old for Which There Are Any Outstanding Unimplemented Recommendations, Including the Aggregate Potential Cost Savings of Those Recommendations	27
5(a)(11)	Significant Revised Management Decisions	27

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

Section	Inspector General Act Reporting Requirement	Page(s)
5(a)(12)	Significant Management Decisions with Which the Inspector General Disagreed	27
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	31
5(a)(17)(B)	Statistical Table Showing the Total Number of Persons Referred to the DOJ for Criminal Prosecution During the Reporting Period	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	31
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	31
5(a)(18)	Description of the Metrics Used for Developing the Data for the Statistical Tables Under 5(a)(17)	31
5(a)(19)	Report on Each Investigation Conducted Involving a Senior Government Employee Where Allegations of Misconduct Were Substantiated	17-23
5(a)(20)	Instances of Whistleblower Retaliation	17
5(a)(21)	Attempts by the Establishment To Interfere With the Independence of the OIG	27
5(a)(22)(A)	Each Inspection, Evaluation, and Audit Conducted by the OIG That Is Closed and Was Not Disclosed to the Public	n/a
5(a)(22)(B)	Each Investigation Conducted by the OIG Involving a Senior Government Employee That Is Closed and Was Not Disclosed to the Public	n/a

PEER REVIEWS OF OIG OPERATIONS

PEER REVIEW OF THE SEC OIG'S AUDIT OPERATIONS

In accordance with generally accepted government auditing standards and CIGIE quality control and assurance standards, an OIG audit team assesses another OIG's audit function every 3 years. During the reporting period, the SEC OIG did not have an external peer review of its audit function. The National Archives and Records Administration (NARA) OIG conducted the most recent assessment of the SEC OIG Office of Audit's system of quality control for the 3-year period ending March 31, 2015. The review focused on whether the SEC OIG established and complied with a system of quality control that was suitably designed to provide the SEC OIG with a reasonable assurance of conforming to applicable professional standards.

On December 29, 2015, the NARA 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 NARA 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 NARA OIG identified findings and recommendations that were not considered to be of sufficient significance to affect the peer review rating. All recommendations from the recent peer review have been addressed and closed. Furthermore, there are no outstanding recommendations from previous peer reviews of the SEC OIG's audit organization.

The peer review report is available on the SEC OIG website at <http://www.sec.gov/oig/reportspubs/Peer-Review---System-Review-Report-on-the-Securities-and-Exchange-Commissions-Office-of-Inspector-General-Audit-Organization.pdf>. The next peer review of the OIG's audit function is scheduled for FY 2018.

PEER REVIEW OF THE SEC OIG'S INVESTIGATIVE OPERATIONS

During the reporting period, the SEC OIG did not have an external peer review of its investigative operations. The FHFA OIG conducted the most recent peer review of the SEC OIG's investigative operations in FY 2014. The FHFA 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 FHFA OIG issued its report on the SEC OIG's investigative operations in August 2014. In its report, the FHFA OIG noted that the SEC OIG was granted statutory law enforcement authority on June 10, 2014, and that the *Attorney General Guidelines for Offices of Inspectors General With Statutory Law Enforcement Authority* were not applicable prior to that time. The report stated that the SEC OIG had achieved significant progress in strengthening and developing its policies and procedures since receiving statutory law enforcement authority and that the FHFA OIG observed solid implementation of these improved policies and

procedures throughout the SEC OIG's investigative operations. The FHFA OIG concluded that the SEC OIG was in compliance with the *Attorney General Guidelines for Offices of Inspectors General With Statutory Law Enforcement* for the period during which they were applicable.

The next peer review of the SEC OIG's investigative operations is scheduled for May 2017.

PEER REVIEW OF THE FEDERAL ELECTION COMMISSION OIG'S INVESTIGATIVE OPERATIONS

During the semiannual reporting period, the SEC OIG's Office of Investigations conducted a peer review of the investigative operations of the Federal

Election Commission OIG. The review covered the period of April 1, 2014, through September 30, 2016. We conducted the peer review in conformity with the *Quality Standards for Investigations* and the *Qualitative Assessment Review Guidelines* established by CIGIE.

On January 11, 2017, the SEC OIG reported that, in its opinion, the system of internal safeguards and management procedures for the investigative functions of the Federal Election Commission OIG in effect for the review period were in compliance with the quality standards established by CIGIE. There were no recommendations made from any previous peer review that remained outstanding or have not been fully implemented.

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REPORT FRAUD, WASTE, OR ABUSE

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

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

EMPLOYEE SUGGESTION PROGRAM

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