



U.S. Securities and Exchange Commission

Management Report to Accompany the Office of Inspector General Semiannual Report to Congress

for the period April 1, 2016 through September 30, 2016

November 2016

Management Report to Accompany the Office of Inspector General Semiannual Report Congress

April 1, 2016 – September 30, 2016

Section 5(b) of the Inspector General Act of 1978, as amended, requires the Commission to transmit to the appropriate committees or subcommittees of the U.S. Congress a Management Report, containing certain statistical tables and any comments deemed appropriate, to accompany the Office of Inspector General’s (OIG’s) Semiannual Report. This Management Report presents the required information for the reporting period of April 1, 2016 through September 30, 2016.

I. Overview of SEC Audit Follow-up Activities

The SEC’s audit follow-up efforts continue to play a significant role in the effective management of the agency’s operations and the accomplishment of its mission. At the commencement of this semiannual reporting period, there were 20 open audit recommendations. During the period, management successfully closed 12 recommendations and 4 reports with OIG’s concurrence. At period-end, final action was pending for seven reports, including six reports received in FY 2016.

II. Reports with Monetary Savings

Sections 5(b)(2) and (3) of the Inspector General Act require the SEC Management Report to include statistical tables summarizing the progress that the agency has made in responding to audit, inspection, and evaluation reports containing “disallowed costs” and “recommendations that funds be put to better use.”

Disallowed Costs. Whenever OIG questions whether costs incurred by the agency are necessary, supported by adequate documentation, or in accordance with law, regulation, or contracts governing the use of funds, SEC management will review the facts and determine whether such costs should be officially disallowed. If the SEC agrees that such costs should not be charged to the government, the agency will then take appropriate action, such as commencing collection efforts to recover the disallowed costs.

Table 1. Status of Final Action on Audit, Inspection and Evaluation Reports with Disallowed Costs

| Audit, Inspection and Evaluation Reports | Number | Dollar Value of Disallowed Costs |
|--|--------|----------------------------------|
| A. For which final action had not been taken by the beginning of the reporting period | 0 | \$0 |
| B. On which management decisions were made during the reporting period | 1 | \$177,000 |
| C. For which final action was taken during the reporting period | 0 | \$0 |
| (i) Dollar value of disallowed costs that were recovered through collection, offsets, property in lieu of cash, or otherwise | 0 | \$0 |
| (ii) Dollar value of disallowed costs that were written off by management | 0 | \$0 |
| D. For which no final action has been taken by the end of the period | 1 | \$177,000 |

On June 22, 2016, the OIG issued a report entitled “Management of the SEC’s Protective Security Force Contract Needs Improvement” (Report No. 536). The OIG did not identify any concerns with

the performance of the SEC’s protective security force. However, OIG found the difference in contractually required versus actual training hours resulted in questioned costs of about \$177,000. The SEC issued a contract modification effective August 31, 2016, which revised the statement of work to clarify and strengthen the requirements for training, among other things. The SEC will seek reimbursement should any shortage of required training occur.

At the end of the period, the OIG issued a report on the SEC’s IT requirements-gathering process (Report No. 538, dated 9/30/16). The OIG identified \$24,230 paid to a contractor hired to gather requirements as questioned costs. The management decision is due in November.

Funds Put to Better Use. Whenever OIG recommends specific dollar amounts that it believes can be saved by improving the efficiency of agency operations, SEC management will review the facts and determine whether to implement such recommendations. “Funds put to better use” refers to the specific dollar value of cost savings that the SEC has agreed can and should be implemented through appropriate corrective action.

Table 2. Status of Final Action on Audit, Inspection and Evaluation Reports with Funds Put to Better Use

| Audit, Inspection and Evaluation Reports | Number | Dollar Value of Funds Put to Better Use |
|---|--------|---|
| A. For which final action had not been taken by the beginning of the reporting period | 1 | \$216,000 |
| B. On which management decisions were made during the reporting period | 0 | \$0 |
| C. For which final action was taken during the reporting period | 0 | \$0 |
| (i) Dollar value of recommendations that were actually completed | | \$0 |
| (ii) Dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed | | \$0 |
| D. For which no final action has been taken by the end of the reporting period | 1 | \$216,000 |

On March 31, 2016, the OIG issued a report on the SEC’s Student Loan Repayment Program (SLRP) (Report No. 534). The audit identified about \$216,000 in student loan benefits owed to the SEC by 17 former employees. While final action remains underway, during the six-month period, the SEC recovered \$66,648 (includes full payment from seven former employees). Three former employees have established repayment plans with balances totaling \$57,455. The remaining balance of \$91,902 has been referred to Treasury for collection.

III. Reports More than One Year Old with Pending Corrective Action

Section 5(b)(4) of the Inspector General Act, as amended, requires the SEC Management Report to include a statement with respect to audit reports on which management decisions have been made but final action has not been taken, other than audit reports on which a management decision was made within the preceding year. Table 3 presents the required information.

Table 3. Audits and Other Reports More than One Year Old (Reporting Period April 1, 2016 through September 30, 2016)

| Report No./Title | Report Date | Funds Put to Better Use | Disallowed Costs | Status of Final Action |
|--|-------------|-------------------------|------------------|---|
| 529, Federal Information Security Management Act: FY 2014 Evaluation | 2/5/2015 | \$0 | \$0 | The Office of Information Technology provided the OIG with additional documentation to close the remaining recommendation after the period ended. OIG is reviewing the documentation. |