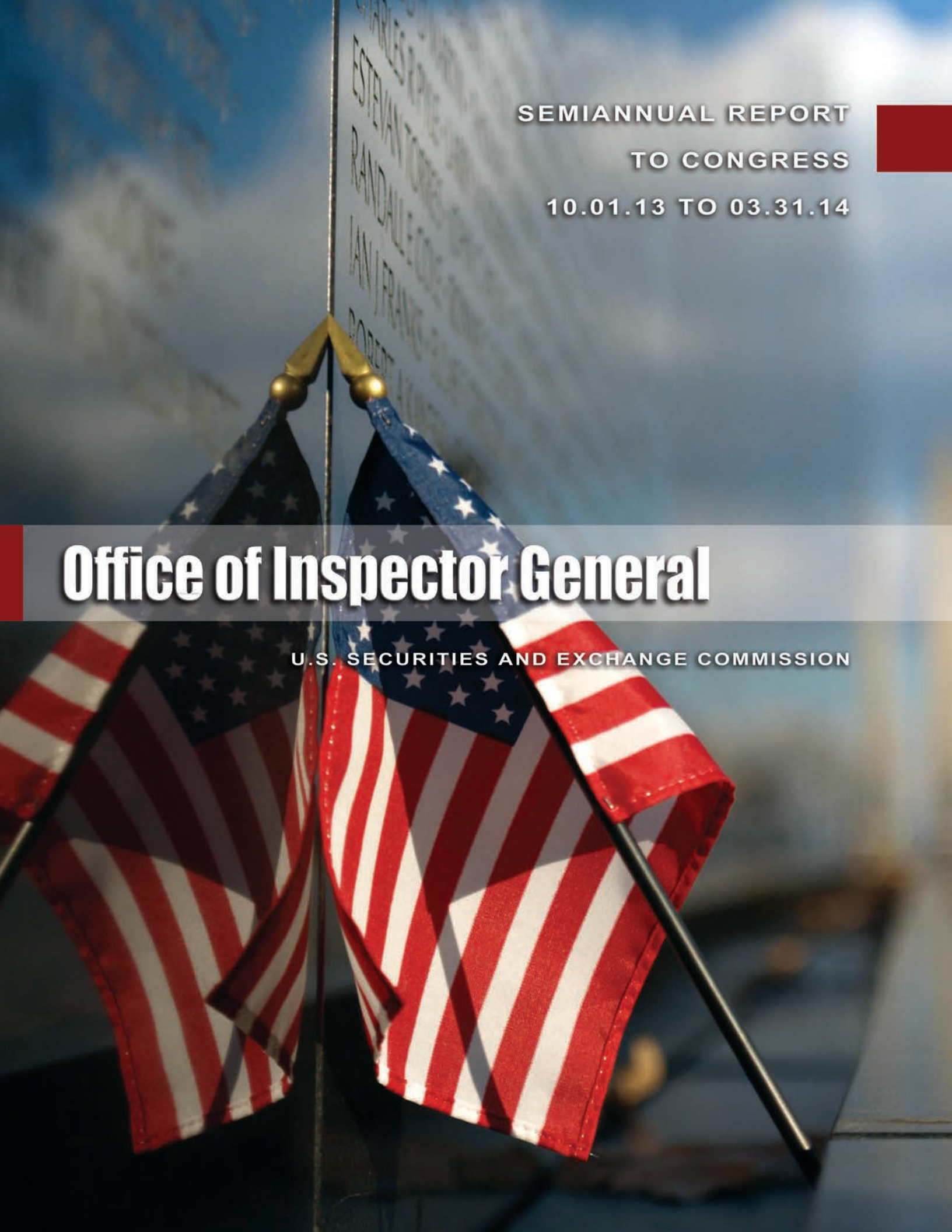


SEMIANNUAL REPORT

TO CONGRESS

10.01.13 TO 03.31.14

Office of Inspector General

U.S. SECURITIES AND EXCHANGE COMMISSION

OFFICE OF INSPECTOR GENERAL

SEMIANNUAL REPORT TO CONGRESS

OCTOBER 1, 2013, THROUGH MARCH 31, 2014

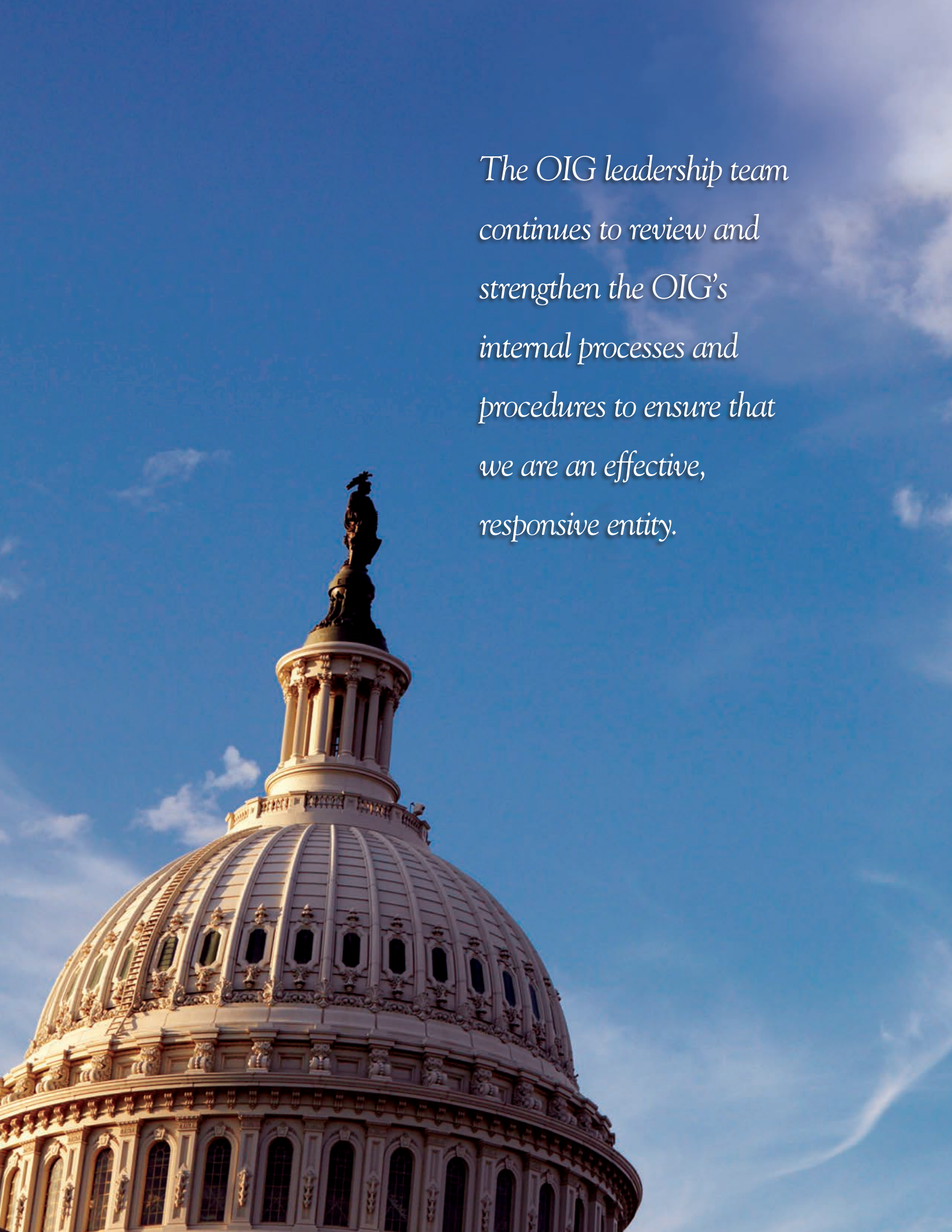
The mission of the Office of Inspector General (OIG) is to prevent and detect fraud, waste, and abuse and to promote the integrity, economy, efficiency, and effectiveness in the critical programs and operations of the U.S. Securities and Exchange Commission (SEC or agency). This mission is best achieved by having an effective, vigorous, and independent office of seasoned and talented professionals. Those individuals carry out the OIG's mission by performing these functions:

- conducting independent and objective audits, evaluations, inspections, investigations, and other reviews of SEC programs and operations;
- preventing and detecting fraud, waste, abuse, and mismanagement in SEC programs and operations;
- identifying vulnerabilities in SEC systems and operations and recommending constructive solutions;
- offering expert assistance to improve SEC programs and operations;
- communicating timely and useful information that facilitates management decision making and the achievement of measurable gains; and
- keeping the Congress and the Commission fully and currently informed of significant issues and developments.

CONTENTS

ABBREVIATIONS

Act	The Government Charge Card Abuse Prevention Act of 2012
AFR	Agency Financial Report
Agency	U.S. Securities and Exchange Commission
CIGFO	Council of Inspectors General on Financial Oversight
CIGIE	Council of the Inspectors General on Integrity and Efficiency
Dodd-Frank	Dodd-Frank Wall Street Reform and Consumer Protection Act
DOJ	Department of Justice
EEOC	U.S. Equal Employment Opportunity Commission
FAEC	Federal Audit Executive Council
FASB	Financial Accounting Standards Board
FINRA	Financial Industry Regulatory Authority
FISMA	Federal Information Security Management Act
FTE	full-time equivalents
FY	fiscal year
GAGAS	Generally Accepted Government Auditing Standards
IG	Inspector General
IPIA	Improper Payments Information Act
JOBS Act	Jumpstart Our Business Startups Act
LSC	Legal Services Corporation
MSRB	Municipal Securities Rulemaking Board
OA	Office of Acquisitions
OIG	Office of Inspector General
OMB	Office of Management and Budget
ORMS	Office of Records Management Services
OSO	Office of Support Operations
PCAOB	Public Company Accounting Oversight Board
PIV	Personal Identity Verification
SEC	U.S. Securities and Exchange Commission
SIPC	Securities Investor Protection Corporation
SO	Senior Officer
USAO	United States Attorney's Office



The OIG leadership team continues to review and strengthen the OIG's internal processes and procedures to ensure that we are an effective, responsive entity.

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, 2013, to March 31, 2014. It also reflects our responsibility to report independently to both the Congress and the Commission. The audits, evaluations, and investigations 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 programs and operations of the agency.

During this semiannual reporting period, I completed my first full year as the SEC IG. When I arrived in February 2013, the SEC OIG had been operating with several staffing deficiencies. We filled two key senior positions during the first half of the year and, during this half, we hired a senior leader responsible for overseeing the OIG's audits, evaluations, and special projects. With the pillar leadership in place, the OIG has begun to hire the auditors and investigators needed to fill shortages within our various functions. Rebuilding the OIG staff will enhance the OIG's ability to achieve its mission, and I will continue to work closely with the SEC to add OIG staff during the coming months. I am committed to carrying out the OIG's statutory oversight of the SEC's programs and operations and will work with the Commission to ensure that the OIG has the necessary resource levels to do so.

The OIG leadership team continues to review and strengthen the OIG's internal processes and procedures to ensure that we are an effective, responsive entity. To that end, we have formed a team of investigative analysts whose role is to receive, track, and triage all complaints we receive and also to assist our investigators in collecting and analyzing data to support the OIG's investigations. The OIG also issued an updated audit manual with procedures designed to increase planning and audit management involvement during all phases of our audits. Further, the OIG plans to implement a team approach to auditing, which will increase audit

quality and efficiency. We continue to improve our business support processes as we strive for increased efficiencies and responsiveness. In addition, we developed an OIG employee onboarding program and issued an OIG training and development policy.

During this reporting period, the Office of Audits issued two reports. On March 28, 2014, we issued a report entitled "Controls Over the SEC's Government Purchase Card Program." That report details our audit of the SEC's purchase card and convenience check operations and practices under the Government Charge Card Abuse Prevention Act of 2012. Also, on March 31, 2014, we issued "Federal Information Security Management Act (FISMA): Fiscal Year 2013 Evaluation," which is our assessment of the SEC's fiscal year (FY) 2013 implementation of information security requirements under FISMA.

The SEC OIG Office of Investigations completed seven investigations during this reporting period on various topics, including the disclosure, possession, or removal from the SEC, of nonpublic information; false statements about prohibited financial holdings; and violations of SEC Supplemental Ethics Rules. Our investigations resulted in eight referrals to the Department of Justice (DOJ), and the DOJ accepted two of those referrals for possible prosecution. We also issued an investigative memorandum recommending specific improvements that the agency could make in its policies and procedures for the SEC employee exit process.

The Office of Audits and the Office of Investigations also worked with SEC management to close 27 recommendations made in OIG reports issued during this and previous semiannual reporting periods.

Additionally, the OIG implemented its SEC outreach program during this reporting period. To date, OIG managers and I have visited 10 of the 11 SEC regional offices and have met with the Office of the Chief Operating Officer. We plan to visit the remaining regional office and other headquarters offices in the near future. The OIG's outreach presentation is now included in the SEC's biweekly new employee orientation sessions. These outreach efforts will increase the OIG's visibility and further enhance SEC employees' understanding of the role and functions of the OIG. They will also serve to educate employees on the applicable ethics requirements and their obligations to report fraud, waste, and abuse to the appropriate authorities.

In closing, I want to emphasize my firm commitment to executing the SEC OIG's mission of promoting the integrity, efficiency, and effectiveness of the programs and operations of the SEC and to reporting our findings and recommendations to the Congress and the Commission. The OIG will improve its efficiency and effectiveness by continuing to make organizational and procedural changes and by increasing its staffing resources. We will also continue to work collaboratively 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 the Congress and the Commission. We look forward to continuing to work closely with the SEC Chair, Commissioners, and employees, as well as the 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, accountability, effectiveness, teamwork, fairness, and commitment to excellence. The SEC's goals are to foster and enforce compliance with the Federal securities laws; establish an effective regulatory environment; facilitate access to the information investors need to make informed investment decisions; and enhance the SEC's performance through effective alignment and management of human resources, information, and financial capital.

The agency currently oversees over 11,000 investment advisers, almost 10,000 mutual funds, 4,450 broker-dealers, 450 transfer agents, as well as the Public Company Accounting Oversight Board (PCAOB), the Financial Industry Regulatory Authority (FINRA), the Municipal Securities Rulemaking Board (MSRB), the Securities Investor Protection Corporation (SIPC), and the Financial Accounting Standards Board (FASB). The SEC also has responsibility for reviewing the disclosures and financial statements of approximately 9,000 reporting companies. The agency has new or expanded responsibilities over the derivatives markets, an additional 2,500 exempt reporting advisers to hedge funds and other private funds, more than 1,000 municipal advisors, 10 registered credit rating agencies, and 7 registered clearing agencies. And, the agency has nearly 100 new rulemaking responsibilities under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) and the Jumpstart Our Business Startups Act (JOBS Act).

The SEC accomplishes its mission through 5 main divisions—Corporation Finance, Enforcement, Investment Management, Trading and Markets, and Economic and Risk Analysis—and 21 functional offices. The SEC's headquarters is in Washington, DC, and there are 11 regional offices located throughout the country. As of the end of FY 2013, the SEC employed 4,023 fulltime equivalent (FTE) employees, consisting of 3,903 permanent and 120 temporary FTE employees.

OIG STAFFING

In January 2014, the IG appointed a Deputy IG for Audits, Evaluations, and Special Projects. The Deputy IG's biography is on the OIG's website at *www.sec.gov/about/offices/oig/inspector_general_admin_bios.shtml*. During this reporting period, the OIG also hired eight other employees—three criminal investigators, three auditors, and two investigative analysts. Although the OIG is making progress towards operating at full capacity, filling other vacancies remains a priority for the OIG.

CONGRESSIONAL REQUESTS AND BRIEFINGS

The OIG continued to keep the Congress fully and currently informed of the OIG's activities through briefings, reports, meetings, and correspondence. Throughout the semiannual reporting period, OIG staff briefed Congressional staff and discussed with them OIG work and issues impacting the SEC.

In addition, on March 24, 2014, several members of the U.S. House of Representatives Committee on Financial Services requested that the OIG review whether any of the SEC's personnel practices have created a discriminatory workplace or otherwise systematically disadvantaged minorities from obtaining senior management positions. The OIG provided a preliminary response acknowledging the request on March 28, 2014, and sent a similar notification to the applicable Committee and Subcommittee Chairmen on March 31, 2014. As of the end of the semiannual reporting period, the OIG was continuing to review the request and plans to address it during the next reporting period.

OIG ADVICE AND ASSISTANCE

The OIG advises and assists the SEC in various ways. For one, the OIG maintains an open line of communication with the Commission and management officials through meetings and conversations. Also, the OIG has begun "outreach" efforts through visits to different SEC offices to explain the OIG's function as it relates to the responsibilities of SEC employees.

In addition, the OIG advises and assists the agency on various matters through memoranda and correspondence, as well as verbal communications. For example, during this reporting period, the OIG 1) relayed information to SEC management for possible action in response to its evaluation of employee suggestions; and 2) alerted SEC management about unsecured sensitive files located on an internal network drive.

OIG OUTREACH

During this semiannual reporting period, the IG regularly met with the SEC Chair and Commissioners and senior officers from various SEC divisions and offices to foster open communication at all levels between the OIG and the agency. These efforts ensure that the OIG is kept up to date on significant, current matters that are relevant to the OIG's work. This regular communication also allows the OIG and agency management to work cooperatively in identifying the most important areas for the OIG's work, as well as the best means of addressing the results of that work. The OIG continually strives to keep apprised of changes to agency programs and operations and will keep SEC management informed of the OIG's activities and concerns raised in the course of its work.

The OIG also implemented its SEC outreach program during this reporting period. The goal of this program is to increase the OIG's visibility and further enhance SEC employees' understanding of the OIG's role and function. The program is also designed to educate employees on the applicable ethics requirements and their obligations to report fraud, waste, and abuse to the appropriate authorities. During this semiannual reporting period, the IG and OIG managers visited 10 of the 11 SEC regional offices and met with the Office of the Chief Operating Officer. The OIG plans to visit the remaining regional office and other headquarters offices in the near future. Additionally, the OIG's outreach presentation is now included in the SEC's biweekly new employee orientation sessions.

EMPLOYEE SUGGESTION PROGRAM

During this 6-month reporting period, the OIG received eight suggestions and three allegations through the OIG SEC Employee Suggestion

Program. The OIG received responses from the agency for seven suggestions that we submitted to the agency for its review during this and previous reporting periods.

In two instances, regional office employees suggested that the agency could decrease the costs of creating and maintaining hard-copy documents within the Division of Enforcement. The employees stated that the Division required employees to maintain correspondence or other documents in hard-copy (paper) format. The employees suggested that instead of maintaining hard copies, documents could be digitally scanned and archived, eliminating the need for paper copies. In response, the agency stated that it would provide additional guidance about the Division's record retention requirements, including specific guidance explaining that employees are not required to maintain records in any particular media or maintain duplicate copies of records. The agency also indicated that it would provide informational sessions to employees about records retention policies and requirements.

OTHER ADVICE AND ASSISTANCE

During the ongoing evaluation of controls over the SEC's media sanitization practices, an information technology security firm, under contract with the OIG, found instances of unsecured sensitive and nonpublic information on a network drive that could be fully accessed by all SEC network users. To address the risk that such information could be improperly released and possibly harm the agency, the OIG notified SEC management of the risk posed by the unsecured, broadly accessible information on that drive. Management took immediate corrective action by disabling the drive, pending further review by the Office of Information Technology (OIT). However, when verifying the effectiveness of management's corrective actions, we identified, and brought to management's attention, another issue pertaining to unsecured folders on the network. When notified, management began to address this additional issue. We will update the agency's progress in the media sanitization report.

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 Dodd-Frank. The chairman of CIGFO is the IG of the Department of the Treasury. Other members of the Council, in addition to the IGs of the SEC and Treasury, are the IGs of the Board of Governors of the Federal Reserve System, the Commodity Futures Trading Commission, the Department of Housing and Urban Development, the Federal Deposit Insurance Corporation, the Federal Housing Finance Agency, the National Credit Union Administration, and also the Special Inspector General 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. Further, the SEC OIG's Office of Audits participated in a CIGFO working group that is assessing the extent to which the operations of the Financial Stability Oversight Council are consistent with the expectations outlined in its transparency policy.

The SEC IG also attended meetings of the Council of the Inspectors General on Integrity and Efficiency (CIGIE) and continues to serve as the Chairman of the CIGIE Investigations Committee. The mission of the Investigations Committee is to advise the Inspector General community on issues involving criminal investigations and criminal investigations personnel and to establish criminal investigative guidelines.

In addition, the Office of Audits continues to participate in various CIGIE activities. For example, a representative of the Office of Audits is a member of a working group that is revising the "Guide for Conducting External Peer Reviews of the Audit Organizations of Federal Offices of Inspector General." Office of Audits staff also participated in activities of the CIGIE Federal Audit Executive Council (FAEC), including serving on the FAEC's Audit Policies and Practices Committee and attending training that FAEC provided.

Moreover, the Office of Audits assisted two other Federal agency OIGs that were "benchmarking" certain of their agencies' practices to the business practices of other agencies, including the SEC. Specifically, the Office of Audits gathered and provided information on 1) the SEC's practices for revising its written policies and procedures governing its internal functions to assist an OIG with reviewing its agency's process for internal

management directives; and 2) the SEC's methods for allocating and managing its investor protection resources to assist another OIG in reviewing its agency's management of consumer protection resources.

Lastly, the Counsel to the IG participated in the activities of the Council of Counsels to the Inspectors General, and the SEC Legislative and External Affairs Counsel continued to participate in the CIGIE External Affairs liaisons' group and hosted a quarterly meeting.

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 behalf of the OIG. 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 audit 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 the Congress, SEC staff, the GAO, and the public.

The Office conducts audits in compliance with Generally Accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States. OIG evaluations follow applicable CIGIE Quality Standards for Inspections and Evaluations and GAGAS standards. At the completion of an audit or evaluation, the OIG issues an independent report in which it identifies deficiencies and makes recommendations to correct those deficiencies or increase efficiencies in an SEC program.

AUDITS AND EVALUATIONS CONDUCTED

Controls Over the SEC's Government Purchase Card Program (Report No. 517)

The SEC OIG conducted an audit of the SEC's purchase card program. Government purchase cards, by their nature, are at risk for misuse, fraud, waste, and abuse. The Government Charge Card Abuse Prevention Act of 2012 (Act) requires executive agencies that issue and use purchase cards to "establish and maintain safeguards and internal controls" over their usage. The Act further requires the IG of each executive agency to conduct, at a minimum, annual assessments of the agency's purchase card program and to perform analyses or audits, as necessary, of purchase card transactions. The Act also requires IGs to report to the Director of the Office of Management and Budget (OMB) 120 days after the end of each fiscal year on their agencies' progress in implementing OIG audit recommendations made to address the findings of any analysis or audit of the agency's purchase card program. We issued the required report to the OMB on January 27, 2014, stating that we were in the process of auditing the SEC's purchase card program.

We conducted a risk assessment of the SEC's purchase card program and determined an overall risk level of "moderate," and we issued our final audit report on March 28, 2014. We found that the SEC

Office of Acquisitions (OA), which is responsible for the management of the SEC's purchase card program, has established internal controls that reduce the risk of fraud, waste, and abuse in the use of purchase cards and convenience checks. Moreover, we did not find instances of illegal or erroneous use of purchase cards or convenience checks, although we did determine that certain areas of the program needed strengthening. Specifically, we found the following:

- purchase cardholders and approving officials did not complete or properly document all required training;
- controls over purchase card and convenience check transactions needed improvement;
- the OA did not always adjust monthly credit limits as necessary or meet all requirements of the Act;
- purchase cardholders and approving officials did not timely reconcile purchases with bank information;
- the OA did not develop a charge card management plan and other information for the agency's reporting to the OMB; and
- the OA did not review bank rebates for accuracy or verify that they were properly recorded.

In September 2012, the OA assigned a new Agency/Organization Program Coordinator, who has taken steps to improve the SEC's purchase card program. During our audit, the Coordinator identified and reported to management many of the deficiencies that we observed. However, additional management attention is warranted to ensure that the SEC's safeguards and internal controls over purchase card and convenience check use are adequate and effective.

To improve the SEC's controls over its purchase card program, we made 11 recommendations. The recommendations address training; controls over transactions; requirements of the Act; controls over monthly purchase limits; reconciliations with bank information; and reviews of rebates. SEC management agreed to implement all of the report's recommendations. The OIG's report is available on its website at *www.sec.gov/oig/reportspubs/2014/517.pdf*.

Also, the OIG's January 27, 2014, letter report to the OMB is available on its website at *www.sec.gov/oig/reportspubs/purchasecardabuseprevention_012714.pdf*.

Federal Information Security Management Act: Fiscal Year 2013 Evaluation (Report No. 522)

FISMA provides a comprehensive framework to ensure the effectiveness of security controls over information resources that support Federal operations and assets. FISMA also requires IGs to annually assess the effectiveness of agency information security programs and practices and report the results to the OMB. The overall objective of the FY 2013 FISMA evaluation was to assess the SEC's information systems and information security posture. The OIG contracted the services of Networking Institute of Technology, Inc. (collectively referred to as "we" and "our") to conduct the evaluation.

To assess the SEC's security controls over its information systems and information security posture, we reviewed the security assessment packages for seven of the SEC's major information systems (five internally hosted systems and two externally hosted systems). The scope of our review consisted of the following 11 areas specified in the OMB's FY 2013 FISMA reporting instructions:

1. continuous monitoring management;
2. configuration management;
3. identity and access management;
4. incident response and reporting;
5. risk management;
6. security training;
7. plan of action and milestones;
8. remote access management;
9. contingency planning;

10. contractor systems; and
11. security capital planning.

The OIG issued a final report to the agency on March 31, 2014. To strengthen the SEC's controls over information security, we reiterated that the OIT should take immediate action to address the outstanding recommendations from the OIG's FY 2011 and 2012 FISMA reports. We also made nine new recommendations for corrective action regarding contractor systems, multi-factor authentication, user accounts, and configuration management. In response to a draft of our report, SEC management concurred with eight of the nine recommendations and described corrective actions that management planned to take. SEC management did not concur with the remaining recommendation, but nonetheless did take actions to address the issue. A summary of the OIG's report is available on its website at *www.sec.gov/oig/reportspubs/522.pdf*.

Inspector General's Report of the SEC's Fiscal Year 2013 Compliance with the Improper Payments Information Act

On February 24, 2014, the SEC OIG reported the results of its review of the SEC's compliance with the Improper Payments Information Act of 2002 (IPIA) for FY 2013. To determine whether the SEC complied with IPIA, we reviewed the SEC's "Improper Payments Elimination and Recovery Improvement Act of 2012 Risk Assessment Summary Report," dated June 16, 2013; documentation supporting that report; and relevant disclosures in the SEC's FY 2013 Agency Financial Report (AFR), dated December 12, 2013. The result of the SEC's risk assessment was that none of the SEC's programs and activities are susceptible to significant improper payments. Further, the AFR stated that the SEC had determined that implementing a payment recapture program would not be cost effective, but that it nonetheless strives to recover overpayments that it has identified through other sources. Given our review of the information described above, we determined that the SEC was in compliance with IPIA for FY 2013. The OIG's letter report is available on its website at *www.sec.gov/about/offices/oig/reports/reppubs/other/2013_iperareport.pdf*.

PENDING AUDITS AND EVALUATIONS

Review of the SEC's Practices for Sanitizing Digital Information System Media

The SEC generates and collects commercially valuable, market sensitive, proprietary, and other nonpublic information. To safeguard against unauthorized disclosure of such information, the National Institute of Standards and Technology recommends that Federal agencies sanitize digital information system media before its disposal or release outside the organization. Further, the SEC requires that the agency's digital information system media, including hard drives, compact discs, and data tapes used to process and store information, be sanitized before disposal. Effective sanitization minimizes the risk of inadvertent releases of information that are potentially damaging to the agency, its employees and contractors, and those entities that the SEC regulates. To determine whether the SEC effectively sanitizes surplus media before its disposal, the OIG hired a contractor to evaluate the agency's media sanitization practices.

The contractor has completed its fieldwork and is drafting a report. We expect to issue a final report summarizing the contractor's findings during the next semiannual reporting period.

Audit of the SEC's Physical Security Program

The OIG has hired a contractor to audit the SEC Office of Support Operations' (OSO) controls for safeguarding SEC personnel and property under its physical security program. Specifically, the audit will examine (1) the OSO's compliance with governing physical security laws and regulations and the SEC's policies and procedures; (2) the effectiveness of the SEC's physical security policies and procedures; and

(3) the adequacy of preventive internal control procedures and practices for overseeing physical security at SEC facilities.

The contractor has completed its fieldwork and is drafting the audit report. We expect to issue a final report summarizing the contractor's findings during the next semiannual reporting period.

Audit of Controls Over the SEC's Inventory of Laptop Computers

Employees and contractors of the SEC use laptop computers, some of which store sensitive, nonpublic information, to support the agency's mission. In Inspection Report No. 441, "Controls Over Laptops," March 31, 2008, the OIG found that the SEC's property management guidance did not identify laptops as sensitive property and that the OIT did not have effective accountability for laptops. In addition, the OIG found that an SEC-wide inventory of laptops had not been performed since 2003. Finally, because there was no baseline inventory of laptops, the OIG was unable to trace custody of laptops to specific individuals.

In its 2008 report, the OIG made five recommendations to strengthen controls over the SEC's laptop inventory, and SEC management concurred that its accountability for laptops needed improvement. In August 2013, the OIG Office of Investigations referred information learned through an ongoing investigation of stolen SEC laptops to the OIG Office of Audits. The investigation revealed that the OIT did not maintain accurate inventory records to properly track laptops.

The OIG is conducting this audit to evaluate the effectiveness of the OIT's inventory program and its controls over laptops. The audit will focus on the OIT's policies and procedures governing the inventory and accountability for laptops, the accuracy and completeness of the current inventory, procedures for reporting lost or stolen laptops, and controls over information systems used to track the laptop inventory.

We expect to issue a final audit report during the next semiannual reporting period.

TERMINATED AUDIT

Termination of Assessment of the SEC's Hiring Practices for Senior Level Positions

In 2011, the OIG initiated an audit of the SEC's practices for hiring senior level officials. The audit objectives included examining whether the SEC Office of Human Resources adheres to applicable Federal statutes and regulations; ensures that the SEC carries out its hiring and promotion practices in accordance with applicable statutes, regulations, and requirements; and adequately and timely communicates to responsible officials its hiring authority, decisions, and changes.

During the course of this audit, the Office of Human Resources revised its hiring practices. In addition, we did not test data after March 31, 2012. To make the best use of our limited resources and in light of the changes that the Office of Human Resources has made, we have terminated this audit. We will use the information that we have collected during this audit, as appropriate, in other ongoing and planned audits or evaluations.

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 adheres to the CIGIE Quality Standards for Investigations and applicable guidelines that the U.S. Attorney General issues. 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.

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. It is through these efforts that 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.

STATUS OF PREVIOUSLY REPORTED INVESTIGATIONS

Allegations of Prohibited Personnel Practices (Report No. OIG-586)

As reported in our previous Semiannual Report, the OIG investigated allegations that certain SEC senior officers had violated merit system principles and committed prohibited personnel practices by hiring former colleagues. The OIG did not identify evidence that SEC senior officers intended to provide an improper advantage or preference in hiring. However, the OIG found that language in some of the documents that one senior officer had prepared and used for hiring was similar to language in materials that the senior officer had received from her former colleagues who then applied for and obtained the positions.

In September 2013, the OIG referred the report of its investigation to management for consideration of administrative action. In response to the OIG's report, during this semiannual reporting period, management verbally counseled two senior officers

about the need to remain vigilant in their adherence to merit system hiring principles and personnel practices, especially when hiring former colleagues.

Violations of SEC Ethics Rules (Report No. OIG-594)

Our previous Semiannual Report also described the results of the OIG's investigation of an SEC Senior Officer's (SO) failure to report, on financial disclosure statements, the securities holdings of the SO's spouse and to comply with the SEC's supplemental ethics rules about employee financial transactions. Through its investigation, the OIG found evidence that the SO had not complied with various provisions of those rules. The OIG also identified evidence of a possible conflict of interest and found that the SO had disclosed nonpublic information to the SO's spouse.

In September 2013, after the United States Attorney's Office (USAO) declined prosecution, the OIG reported its investigative findings to SEC management. In response to the OIG's report, during this reporting period, management decided to suspend the SO for 14 days, and the SO served the suspension.

INVESTIGATIONS CONDUCTED

Allegations of Improper Disclosure of Nonpublic and Personally Identifiable Information by an SEC Contractor (Case No. OIG-574)

The OIG investigated allegations that an SEC contractor allowed employees of a subcontractor that was based outside of the United States to access an SEC computer system and its data, which contained personal information of SEC employees, including their financial holdings. The SEC had entered into this contract, through which the contractor was to provide the SEC with a computer system to support the SEC's ethics program, on June 30, 2009.

The OIG investigation found that employees of the subcontractor located outside the United States appeared to have accessed the SEC computer system and its data, potentially including personally identifiable information. On learning that the subcontractor employees appeared to have accessed the system in September 2011, the SEC notified all SEC employees that this access occurred and offered them 12 months of credit monitoring paid for by the agency.

The OIG investigation found that the contractor had failed to inform the SEC that the subcontractor employees had access to the SEC computer system and may have misled the SEC about this issue. The OIG investigation further found that the contractor had not provided the names of the subcontractor employees to the SEC for background checks, as required by the contract, and also had failed to provide the SEC with executed nondisclosure agreements for those employees.

The OIG referred information from its investigation concerning the conduct of the SEC contractor and its principal to the DOJ as possible violations of civil and criminal law. In 2013, the DOJ declined to open a civil or criminal matter as a result of the OIG's investigation. Accordingly, the OIG closed its investigation.

Violations of SEC Supplemental Ethics Rules by an SEC Staff Accountant (Case No. OIG-585)

The OIG conducted an investigation into whether an SEC staff accountant held certain securities that SEC employees were prohibited from owning under the SEC's Supplemental Ethics Rules and failed to report those holdings on government financial disclosure forms.

The OIG found that the staff accountant held several securities that became prohibited in August 2010, when the Supplemental Ethics Rules went into effect. In addition, we learned during our investigation that the staff accountant had purchased additional shares

of a prohibited holding and had failed to obtain prior clearance of those transactions as required by the Supplemental Ethics Rules. We further found that the staff accountant did not report this prohibited holding on government financial disclosure forms even though the value of the holding exceeded the reporting threshold.

The OIG referred the matter to the USAO for possible prosecution and also reported the findings of its investigation to SEC management. Thereafter, the staff accountant resigned from the SEC. In February 2014, the USAO declined prosecution of the matter.

False Statements Related to Prohibited Financial Holdings (Case No. OIG-598)

The OIG investigated the accuracy of an SEC staff accountant's certifications that the securities he owned were in compliance with the SEC's Supplemental Ethics Rules, including rules that prohibit SEC employees from owning securities in entities that are directly regulated by the SEC. The OIG also investigated whether the staff accountant had subsequently divested the prohibited holdings as he claimed he had done. The OIG had discovered these issues in the course of another investigation.

Through its investigation, the OIG found evidence that the staff accountant had 1) falsely certified that his holdings were in compliance with the SEC's regulations when he held stock in several prohibited companies; and 2) falsely claimed that he had divested certain prohibited holdings when he had transferred them to a brokerage account that he controlled. The OIG referred the matter to the USAO, which accepted the case for prosecution.

The USAO filed a criminal complaint against the staff accountant, charging him with three counts of making false statements to the SEC about his ownership of prohibited securities, and the staff accountant was arrested on November 19, 2013. The criminal complaint alleged that, in January 2013, the staff accountant falsely certified—through the SEC's electronic system for preclearing and reporting securities transactions—that he was in compliance with the SEC's ethics rules as of December 31, 2012, when he in fact held stocks that were prohibited under the SEC's ethics rules. The complaint also alleged that on two occasions in February 2013, the staff accountant falsely stated that he no longer held certain prohibited securities. As of the end of the semiannual reporting period, the criminal complaint was pending.

Departing SEC Employee's Attempt to Remove Nonpublic Information From the SEC (Case No. OIG-600)

The OIG investigated allegations that a departing SEC employee may have stolen sensitive documents. Specifically, the OIG learned that the OSO Office of Records Management Services (ORMS) had identified sensitive information in materials that were being shipped from the SEC to the employee's new employer, a private firm, and that SEC management was concerned about the potential release of nonpublic information.

The OIG reviewed the employee's documents, identified nonpublic information, prevented information from leaving the SEC, and recovered other nonpublic information from the employee's residence. The OIG determined that this investigation did not uncover criminal violations and, therefore, did not refer the matter to the DOJ for possible prosecution. Further, because the employee had left the SEC, the OIG determined that a referral to management for administrative action was not warranted. However, the OIG identified certain areas that the SEC could improve in its employee exit process.

To address those issues, the OIG provided Investigative Memorandum IM-14-001 to SEC management on March 10, 2014. The ORMS had issued a new directive ("Operating Procedure 7-1e"), which included information about the types of documents that employees could not keep or remove upon their departure from the SEC and required employees to

complete a records clearance form. However, the OIG found that the directive did not provide for a review of documents that a departing employee plans to remove from the SEC by the departing employees' division or office. Therefore, the OIG recommended in IM-14-001 that the agency's exit procedures and policies be revised to require the divisions or offices of departing employees to 1) review the documents that the employees plan to remove from the SEC and 2) determine which documents departing employees are authorized to remove. The OIG also recommended that this determination be documented in the SEC's Electronic Exit Program prior to the employees' departure and that management advise employees, through training, correspondence, and other means, about the revised exit procedures and their obligation to ensure that nonpublic information is not improperly disclosed.

Management's action on the OIG's recommendations was pending at the end of the semiannual reporting period. The OIG's memorandum is available on its website at *www.sec.gov/about/offices/oig/reports/investigations/2014/im-14-001(employee_exit_process-records_review).pdf*.

Unauthorized Disclosure of Nonpublic Information From Executive Session Commission Meeting (Case No. OIG-601)

The OIG opened an investigation into concerns about the unauthorized disclosure of nonpublic information from an Executive Session of a "closed" (nonpublic) Commission meeting. Specifically, the OIG was notified that information about the Commission's deliberations and voting during the closed Commission meeting had been disclosed, without authorization, to a news reporter. Subsequently, nonpublic information was included in a news article by several reporters that was published before information about the closed Commission meeting was made public.

During its investigation, the OIG interviewed numerous staff members and Commissioners who had attended or had information about the closed Commission meeting. The OIG also reviewed SEC emails, telephone and BlackBerry records, and records showing the news reporters' access to the SEC headquarters building around the time of that closed meeting. The OIG was unable to determine which specific individual or individuals had improperly disclosed information from the closed Commission meeting. However, the OIG determined that an SEC employee may have confirmed to one of the news reporters certain nonpublic information. The OIG also learned during its investigation that certain Commission-related information was transmitted using personal, nonsecure email. The OIG provided the results of its investigation to the agency for appropriate action.

Former SEC Employee's Possession of SEC Documents Containing Nonpublic Information (Case No. OIG-610)

The OIG investigated allegations that a former SEC employee, who was a candidate for a position with an SEC regional office, possessed documents containing SEC nonpublic information that the former employee had obtained through his prior employment with the SEC.

During the course of its investigation, the OIG interviewed the former employee, who admitted possessing copies of SEC examination reports that he had worked on while employed with the SEC. The former employee agreed to cooperate with the investigation, and the OIG subsequently recovered from that former employee the documents containing nonpublic information. The OIG determined that one of the documents that the former employee had copied and taken with him when he left the SEC was marked "Privileged & Confidential."

The OIG referred the matter to the USAO for possible prosecution and the USAO declined prosecution. The OIG provided a report of its findings to SEC management for informational purposes and closed its investigation.

REVIEW OF LEGISLATION AND REGULATIONS

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

P.L. 113-6

Consolidated and Further Continuing Appropriations Act, 2013, Section 3003 (enacted March 26, 2013), and P.L. 113-76, Section 742, Consolidated Appropriations Act, 2014 (enacted January 18, 2014) (requiring Federal agencies to report conference costs and other conference data to Inspectors General);

5 C.F.R. Part 2641

Post-Employment Conflict of Interest Restrictions, Appendix A - Positions Waived From 18 U.S.C. §§ 207(c) and (f) (79 FR 1, January 2, 2014) (revoking certain exemptions of senior employee positions at the SEC from certain criminal post-employment restrictions); and

17 C.F.R. Part 200

Organization; Conduct and Ethics; and Information and Requests (79 FR 1734, January 10, 2014) (amending SEC rules to reflect that the SEC's General Counsel is responsible for investigating allegations of professional misconduct by Commission staff and, where appropriate, making referrals to state professional boards or societies).

MANAGEMENT DECISIONS

STATUS OF RECOMMENDATIONS WITH NO MANAGEMENT DECISIONS

Management decisions have been made on all audit 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 recommendations.

INSTANCES WHERE THE AGENCY REFUSED OR FAILED TO PROVIDE INFORMATION TO THE OIG

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

TABLES

Table 1. List of Reports: Audits and Evaluations

Report Number	Title	Date Issued
517	Controls Over the SEC's Government Purchase Card Program	3/28/2014
522	Federal Information Security Management Act: Fiscal Year 2013 Evaluation	3/31/2014
1-27-14 Letter report	Inspector General's Report to OMB on the SEC's Implementation of Purchase Card Program Audit Recommendations	1/27/2014
2-24-14 Letter report	Inspector General's Report of the SEC's Fiscal Year 2013 Compliance with the Improper Payments Information Act	2/24/2014

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	$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	$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 27 recommendations related to 12 Office of Audits and Office of Investigations reports. The following table lists recommendations open 180 days or more.

Report Number and Title	Rec. No.	Issue Date	Recommendation Summary
489 - 2010 Annual FISMA Executive Summary Report	5	3/3/2011	Complete the logical access integration of the Homeland Security Presidential Directive 12 card no later than December 2011, as reported to the OMB on December 31, 2010.
501 - 2011 Annual FISMA Executive Summary Report	1	2/2/2012	Develop and implement a detailed plan to review and update the OIT's security policies and procedures and to create OIT security policies and procedures for areas that lack formal policy and procedures.
501 - 2011 Annual FISMA Executive Summary Report	13	2/2/2012	Complete the implementation of the technical solution for linking multi-factor authentication to Personal Identity Verification (PIV) cards for system authentication and require use of the PIV cards as a second authentication factor by December 2012.
512 - 2012 FISMA Executive Summary Report	1	3/29/2013	Revise the information technology security assessment procedures to ensure they are consistent with current practices and include language to implement continuous monitoring and requirements for ongoing assessment of a subset of critical security controls.
514 - Audit of the SEC's Filing Fees Program	4	3/29/2013	Complete a review of nondormant registrant accounts according to the cost benefit analysis that the Office of Financial Management devised.
518 – Use of the Current Guidance on Economic Analysis in SEC Rulemakings	4	6/6/2013	Consider options for allowing the Division of Risk, Strategy, and Financial Innovation (now the Division of Economic and Risk Analysis) to include confidential information in the SEC's rules without releasing it to the public. The Office of the General Counsel and the Division should prepare a memorandum that documents a process, which they have vetted, to describe any potential new approaches to handling such information.

Table 4. Summary of Investigative Activity for the Reporting Period of October 1, 2013 to March 31, 2014

Investigative Caseload	Number
Cases Open at Beginning of Period	17
Cases Opened During Period	10
Cases Closed During Period	4
Total Open Cases at End of Period	23

Criminal and Civil Investigative Activities	Number
Referrals for Prosecution	8
Accepted	2
Declined	7*
Indictments/Informations	1
Arrests	1

Administrative Investigative Activities	Number
Suspensions	1
Reprimands/Warnings/Other Actions	2

Complaints Received	Number
Hotline Complaints	211
Other Complaints	485
Total Complaints During Period	696

*One declined matter was referred for prosecution in a previous reporting period.

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

Section	Inspector General Act Reporting Requirement	Pages
4(a)(2)	Review of Legislation and Regulations	17
5(a)(1)	Significant Problems, Abuses, and Deficiencies	6, 9–11, 14–16
5(a)(2)	Recommendations for Corrective Action	9–11, 15–16
5(a)(3)	Prior Recommendations Not Yet Implemented	20
5(a)(4)	Matters Referred to Prosecutive Authorities	14–16, 21
5(a)(5)	Summary of Instances Where the Agency Unreasonably Refused or Failed to Provide Information to the OIG	18
5(a)(6)	List of OIG Audit and Evaluation Reports Issued During the Period	19
5(a)(7)	Summary of Significant Reports Issued During the Period	9–11, 14–16
5(a)(8)	Statistical Table on Management Decisions with Respect to Questioned Costs	19
5(a)(9)	Statistical Table on Management Decisions on Recommendations That Funds Be Put to Better Use	19
5(a)(10)	Summary of Each Audit, Inspection, or Evaluation Report Issued Before the Beginning of the Reporting Period for Which No Management Decision Has Been Made	18
5(a)(11)	Significant Revised Management Decisions	18
5(a)(12)	Significant Management Decisions With Which the Inspector General Disagreed	18
5(a)(14)(B)	Date of the Last Peer Review Conducted by Another OIG	23

APPENDIX A

PEER REVIEWS OF OIG OPERATIONS

PEER REVIEW OF THE SEC OIG'S AUDIT OPERATIONS

In accordance with the CIGIE quality control and assurance standards, an OIG's audit functions are assessed by an external OIG audit team approximately every three years. The Legal Services Corporation (LSC) OIG conducted an assessment of the Office of Audit's system of quality control for the period ending March 31, 2012. The review focused on whether the SEC OIG established and complied with a system of quality control that is suitably designed to provide the SEC OIG with a reasonable assurance of conforming with applicable professional standards.

On August 23, 2012, the LSC OIG issued its report, concluding that the SEC OIG complied with the system of quality control and that it 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. Federal audit organizations can receive a rating of "pass," "pass with deficiencies," or "fail." The SEC OIG received a "pass" rating, and no recommendations were made. Further, there are no outstanding recommendations from previous peer reviews of our audit organization.

The peer review report is available on the SEC OIG's website at *www.sec.gov/about/offices/oig/reports/reppubs/other/finalpeerreviewreport-sec.pdf*.

PEER REVIEW OF THE SEC OIG'S INVESTIGATIVE OPERATIONS

During the semiannual reporting period, the SEC OIG did not have an external peer review of its investigative operations. The most recent peer review of the SEC OIG's investigative operations was conducted by the OIG of the U.S. Equal Employment Opportunity Commission (EEOC). The EEOC OIG issued its report on the SEC OIG's investigative operations in July 2007. That report concluded that the SEC OIG's system of quality for the investigative function conformed to the professional standards established by the President's Council on Integrity and Efficiency and the Executive Council on Integrity and Efficiency (now CIGIE).

A peer review of the investigative operations of the SEC OIG is planned for FY 2014.

OIG CONTACT INFORMATION

Help ensure the integrity of SEC operations. Report to the OIG suspected fraud, waste, or abuse in SEC programs or operations as well as SEC staff or contractor misconduct. Contact the OIG by:

PHONE	Hotline	877.442.0854
	Main Office	202.551.6061
WEB-BASED HOTLINE	*www.sec.gov/about/offices/oig/inspector_general_investigations_hotline.shtml*	
FAX	202.772.9265	
MAIL	Office of Inspector General U.S. Securities and Exchange Commission 100 F Street, NE, Washington, DC 20549–2977	
EMAIL	oig@sec.gov	

Information received is held in confidence upon request. While the OIG encourages complainants to provide information on how they may be contacted for additional information, anonymous complaints are also accepted.

This report is available on the Inspector General's website

www.sec.gov/about/offices/inspector_general.shtml