



Highlights of [GAO-11-202](#), a report to the Chairman, U.S. Securities and Exchange Commission

Why GAO Did This Study

Pursuant to the Accountability of Tax Dollars Act of 2002, the United States Securities and Exchange Commission (SEC) is required to prepare and submit to Congress and the Office of Management and Budget audited financial statements. GAO, under its audit authority, audited SEC's financial statements to determine whether (1) the financial statements are fairly stated, and (2) SEC management maintained effective internal control over financial reporting. GAO also tested SEC's compliance with selected provisions of significant laws and regulations. In accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act, GAO also reported on SEC's assessment of its internal control over financial reporting.

What GAO Recommends

GAO will be separately reporting to SEC on additional details concerning the deficiencies discussed in this report along with recommendations for corrective actions and the status of recommendations from previously reported deficiencies.

View [GAO-11-202](#) or key components. For more information, contact James R. Dalkin at (202) 512-9406 or dalkinj@gao.gov.

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FINANCIAL AUDIT

Securities and Exchange Commission's Financial Statements for Fiscal Years 2010 and 2009

What GAO Found

In GAO's opinion, SEC's fiscal years 2010 and 2009 financial statements are fairly presented in all material respects. However, in GAO's opinion, SEC did not maintain effective internal control over financial reporting as of September 30, 2010, due to material weaknesses involving SEC's internal control over information systems and its financial reporting and accounting processes. GAO's opinion on SEC's internal control over financial reporting is consistent with SEC's assessment of its internal control over financial reporting. GAO found no reportable instances of noncompliance with the provisions of laws and regulations it tested.

Since SEC began preparing financial statements in 2004, it has struggled with maintaining effective internal control over financial reporting. SEC has taken actions to address previously reported deficiencies. For example, it took sufficient actions during fiscal year 2010 such that its controls over its fund balance with Treasury and its risk assessment processes are no longer considered significant deficiencies. Notwithstanding this progress, as of September 30, 2010, GAO identified continuing deficiencies over SEC's information security, financial reporting process, budgetary resources, and registrant deposits, combined with newly identified deficiencies in the areas of information systems, disgorgements and penalties and required supplementary information. These deficiencies were judged to represent two material weaknesses in internal control that have reduced assurance that data processed by its information systems are reliable and appropriately protected and have resulted in errors and misstatements in SEC's financial reporting during the fiscal year. SEC made the necessary adjustments and was able to prepare financial statements that were fairly stated in all material respects by fiscal year end.

These material weaknesses are likely to continue to exist until SEC's accounting system is either significantly enhanced or replaced, key accounting activity in other systems is fully integrated with the accounting system at the transaction level, information security controls are significantly strengthened, and appropriate resources are dedicated to maintaining effective internal controls.

In commenting on a draft of this report, SEC stated that, as part of its strategy for remediating the material weaknesses, SEC has initiated actions to replace its core financial system by migrating to a federal government shared service provider in fiscal year 2012.