GAO

Accountability * Integrity * Reliability

Highlights

Highlights of GAO-12-219, a report to the Chairman, United States 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. Pursuant to the Securities Exchange Act of 1934, amended in 2010 by the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), SEC is also required to submit audited financial statements for the Investor Protection Fund (IPF) to Congress. GAO, under its audit authority, audited SEC's and IPF's financial statements to determine whether (1) the financial statements are fairly presented, and (2) SEC maintained effective internal control over financial reporting. GAO also tested SEC's compliance with selected provisions of laws and regulations. In accordance with the 1934 act, as amended by the Dodd-Frank Act, GAO also reported on SEC's assessment of its internal control over financial reporting.

What GAO Recommends

GAO is not making recommendations in this report, but will be reporting separately on the control issues identified during its audit, along with recommendations for corrective actions.

In commenting on a draft of this report, SEC stated that, as part of its strategy for addressing financial reporting control issues, SEC will complete migration of its core financial system to a federal government shared service provider in fiscal year 2012. SEC also plans to continue to remediate deficiencies in other areas.

View GAO-12-219. For more information, contact James R. Dalkin, (202) 512-9406, or dalkinj@gao.gov

November 2011

FINANCIAL AUDIT

Securities and Exchange Commission's Financial Statements for Fiscal Years 2011 and 2010

What GAO Found

In GAO's opinion, SEC's fiscal years 2011 and 2010 financial statements are fairly presented in all material respects. Also in GAO's opinion, IPF's fiscal years 2011 and 2010 financial statements are fairly presented in all material respects. In addition, GAO concluded that although internal controls could be improved, SEC maintained, in all material respects, effective internal control over financial reporting for both the agency as a whole and IPF as of September 30, 2011. GAO's conclusion on the effectiveness of SEC's internal control over financial reporting is consistent with SEC's assessment of its internal control over financial reporting as of September 30, 2011. GAO found no reportable noncompliance for either SEC or IPF in fiscal year 2011 with the provisions of laws and regulations it tested.

During fiscal year 2011, SEC made important progress in addressing previously reported material weaknesses in internal control over its information systems and over its financial reporting and accounting processes. Because of these improvements, GAO concluded that the deficiencies that comprised these weaknesses no longer constitute material weaknesses. However, GAO also concluded that, because of the remaining control deficiencies along with newly identified deficiencies in fiscal year 2011, SEC had significant deficiencies in its internal control in four areas: (1) information security, (2) financial reporting and accounting processes, (3) budgetary resources, and (4) registrant deposits and filing fees. These significant deficiencies pertain to SEC's financial reporting, but not that of IPF because of the nature of IPF's financial transactions during fiscal year 2011. While these significant deficiencies are not material weaknesses, they nonetheless warrant the attention of those charged with SEC's governance. SEC's ability to establish and maintain effective internal control over financial reporting remains at risk until it can reduce its reliance on compensating manual financial reporting and accounting processes.

GAO will be separately reporting at a later date to SEC on additional details regarding these significant deficiencies along with recommendations for corrective action. GAO noted other matters involving SEC's internal control that were less significant than a material weakness or significant deficiency and will also be reporting separately to SEC management on these matters.