



October 2016

# SECURITIES AND EXCHANGE COMMISSION

Management Has  
Enhanced  
Supervisory Controls  
and Could Further  
Improve Efficiency

# GAO Highlights

Highlights of [GAO-17-16](#), a report to congressional committees

## Why GAO Did This Study

Section 961 of the Dodd-Frank Act directs SEC to assess and report annually on internal supervisory controls for staff performing corporate financial securities filing reviews, investigations, and examinations. The act also contains a provision for GAO to report at least every 3 years on SEC's framework for internal supervisory controls applicable to staff performing those activities. GAO first reported on this framework in 2013 (GAO-13-314).

This second triennial report examines (1) the extent to which SEC's framework during 2013–2015 and any changes since GAO's first review reflect key components of internal controls, (2) the extent to which selected controls operated as intended in fiscal year 2015, and (3) SEC's process for developing its annual report to Congress in 2013–2015.

GAO analyzed the internal supervisory control framework and the section 961 assessments and reports of the relevant divisions and offices; selected a nongeneralizable sample of 58 of a total of 104 supervisory controls for testing based on risk and prior deficiencies; and used random samples, inspections, and observations, as appropriate.

## What GAO Recommends

The SEC Chair should formalize the informal 961 working group or otherwise establish a formal body to facilitate the coordination of compliance with section 961 of the Dodd-Frank Act across divisions and offices. SEC agreed with GAO's recommendation.

View [GAO-17-16](#). For more information, contact Michael Clements, 202-512-8678, [clements@gao.gov](mailto:clements@gao.gov).

October 2016

## SECURITIES AND EXCHANGE COMMISSION

# Management Has Enhanced Supervisory Controls and Could Further Improve Efficiency

## What GAO Found

As of the end of fiscal year 2015, the internal supervisory control framework of the Securities and Exchange Commission (SEC) reflected key components of federal internal control, including identifying and assessing risks; designing, implementing, monitoring, and evaluating controls; and reporting the results. Internal supervisory controls are management processes to help ensure that procedures applicable to staff are performed completely, consistent with applicable policies and procedures, and remain current. SEC's Divisions of Corporation Finance and Enforcement, and Offices of Compliance Inspections and Examinations and Credit Ratings (collectively, the divisions and offices) are subject to requirements of section 961 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) to assess and certify the effectiveness of SEC's internal supervisory controls and report annually to Congress. GAO assessed the framework and each division and office's implementation and determined that it reflected key components of internal control. Since GAO's first review in 2013, the divisions and offices have taken steps to enhance the framework, including developing electronic workflow tracking systems and creating a permanent standards monitoring office.

GAO found that 52 of the 58 tested controls were operating as intended in fiscal year 2015. Of the six controls in which GAO identified deficiencies, none appeared likely to prevent the divisions and offices from achieving the controls' objectives (for reasons that included mitigating evidence or circumstances). For example, for three controls with deficiencies, GAO found that the supervisory control activities had occurred, so the controls' objectives were achieved. SEC officials said that the divisions and offices planned to or already have addressed most of the deficiencies. SEC also generally improved the design and operation of the tested controls. SEC implemented GAO's 2013 recommendation that it should make certain that existing and future supervisory controls have clearly defined activities and clear and readily available documentation demonstrating execution of the activities.

SEC's annual 961 reports to Congress during fiscal years 2013–2015 were consistent with Dodd-Frank Act requirements and the divisions and offices' processes for developing the annual reports reflected components of internal control. The divisions and offices shared information about the report development process through an informal working group. However, GAO found variations among divisions and offices in the design of controls addressing similar risks or objectives, and in testing approaches and documentation, among other differences. Federal internal control standards allow for variation but also emphasize the importance of efficiency and effectiveness. The variations illustrate that SEC has opportunities to improve efficiency and effectiveness through further information sharing about the design, implementation, and testing of internal supervisory controls. The variations occurred, in part, because the working group is informal and thus lacks a clear leadership structure and mandate to improve efficiency and effectiveness. Clarifying the working group's mandate in this way could enable the group to leverage its coordinating role and further promote information sharing with the goal of improving efficiency and effectiveness of filing reviews, investigations, and examinations.

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### Abbreviations

Corporation Finance	Division of Corporation Finance
COSO	Committee of Sponsoring Organizations of the Treadway Commission
DERA	Division of Economic and Risk Analysis
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
DSO	Disclosure Standards Office
EDGAR	Electronic Data Gathering, Analysis, and Retrieval
Enforcement	Division of Enforcement
FACTS	Filing Activity Tracking System
FMFIA	Federal Managers' Financial Integrity Act of 1982
IPO	initial public offering
MUI	matter under inquiry
NEP	National Examination Program
OCIE	Office of Compliance Inspections and Examinations
OCR	Office of Credit Ratings
OMB	Office of Management and Budget
OMI	Office of Market Intelligence
SEC	Securities and Exchange Commission
SWAT	System for Workflow Activity Tracking
TCR	tip, complaint, or referral
TRENDS	Tracking and Reporting Examinations-National Documentation System

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October 6, 2016

The Honorable Richard C. Shelby  
Chairman  
The Honorable Sherrod Brown  
Ranking Member  
Committee on Banking, Housing, and Urban Affairs  
United States Senate

The Honorable Jeb Hensarling  
Chairman  
The Honorable Maxine Waters  
Ranking Member  
Committee on Financial Services  
House of Representatives

The failure of the Securities and Exchange Commission (SEC) to detect high-profile cases of fraud before and during the 2007–2009 financial crisis raised concerns about SEC’s internal controls over its oversight activities. Internal control comprises the plans, methods, and procedures used to meet an agency’s mission, goals, and objectives. SEC maintains internal controls to help staff effectively manage its operations and financial resources, achieve its objectives, and ensure procedures are performed consistently with its standards.

Section 961 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) directs SEC to provide Congress with an annual report on the effectiveness of its internal supervisory controls and the procedures applicable to staff who perform reviews of corporate financial securities filings, enforcement investigations, and examinations of registered entities.<sup>1</sup> These reports include certification by the directors of the Division of Corporation Finance (Corporation Finance), Division of Enforcement (Enforcement), Office of Compliance Inspections and Examinations (OCIE), and, since 2012, Office of Credit Ratings (OCR)—to which we refer collectively as the divisions and offices—that they have evaluated the effectiveness of the internal supervisory controls and

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<sup>1</sup>Pub. L. No. 111-203, § 961, 124 Stat. 1376, 1907 (2010) (codified at 15 U.S.C. § 78d-6).

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disclosed to the Commission any significant deficiencies in their design or operation.<sup>2</sup> SEC has completed six annual reports, all of which certified that the internal supervisory controls presented no significant deficiencies and that procedures were effective.

Section 961 also includes a provision that GAO review SEC's internal supervisory control structure and procedures and report to Congress at least every 3 years. Section 961 does not define "internal supervisory control." For our report, we define internal supervisory control as the processes management establishes to help ensure that procedures applicable to staff are performed completely, consistent with applicable policies, and remain current.<sup>3</sup> We interpret internal supervisory controls as a subset of an overall internal control framework, with an emphasis on supervisory review and oversight of work SEC staff conduct.

In our first report on this issue in 2013, we found that SEC's overall control framework generally was consistent with federal internal control standards, which include identifying and assessing risks, identifying and assessing internal controls, and reporting the results of testing to management and Congress.<sup>4</sup> However, we also found weaknesses in the design and operation of some controls. We therefore recommended that SEC make certain that existing internal supervisory controls and any developed in the future have clearly defined activities and clear and readily available documentation demonstrating execution of the activities.

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<sup>2</sup>Under section 961, the certification must be signed by the directors of Enforcement, Corporation Finance, OCIE, and the head of any successor division or office. 15 U.S.C. § 78d-6(c)(1). SEC determined that OCR is a successor of OCIE, subject to section 961's reporting and certification requirement. For this report, we reviewed the internal supervisory controls for Corporation Finance, Enforcement, OCIE, and OCR.

<sup>3</sup>Similarly to our definition, SEC defines internal supervisory control as the processes management established for monitoring that procedures applicable to staff are performed consistently with professional competence and integrity, and also remain reasonable, adequate, and current.

<sup>4</sup>See GAO, *Securities and Exchange Commission: Continued Management Attention Would Strengthen Internal Supervisory Controls*, [GAO-13-314](#) (Washington, D.C.: Apr. 18, 2013). Also see GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1, 1999). The standards for internal control provide the overall framework for establishing and maintaining internal control in federal agencies.

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In this report, we examine the extent to which (1) SEC's internal supervisory control framework during 2013–2015, including any changes since our prior review, reflects key components of federal internal control; (2) selected controls operated as intended in fiscal year 2015; and (3) SEC's 961 reports to Congress in fiscal years 2013–2015 met the requirements of section 961 and reflected accepted standards.

For our first objective, we reviewed SEC's internal supervisory control framework for fiscal years 2013–2015.<sup>5</sup> We collected and reviewed documentation on policies and procedures and interviewed relevant SEC staff to assess SEC's framework against internal control standards for the federal government and determine the extent to which the framework was consistent with these standards.<sup>6</sup> We compared information on changes SEC made to its framework with information from our first review and federal internal control standards to determine the extent to which the framework continued to reflect internal control standards as of fiscal year 2015.<sup>7</sup> We also reviewed the internal supervisory controls in place in each division and office in fiscal year 2015. Together, the divisions and offices maintained 104 internal supervisory controls in fiscal year 2015—Corporation Finance and Enforcement each maintained 25 controls; OCIE maintained 41 controls; and OCR maintained 13 controls.

For our second objective, we used the policies, procedures, and stated control objectives of the four divisions and offices to determine if selected internal supervisory controls in place during fiscal year 2015 were designed in a manner capable of achieving their stated objectives and operating as intended. We reviewed documents and interviewed staff to obtain a thorough understanding of the processes for conducting

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<sup>5</sup>The focus of this report is on the internal supervisory controls of the divisions and offices for conducting financial securities filing reviews, investigations, and examinations. Therefore, it does not include information on other internal controls for areas such as financial management, information technology, or information security.

<sup>6</sup>See [GAO/AIMD-00-21.3.1](#). GAO published an updated set of standards in 2014. GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014), which took effect October 1, 2015. We evaluated SEC's controls against the prior version of the standards because the scope of our review covered activities conducted before the effective date for the updated standards. However, we make references to updated terms and concepts as appropriate in this report.

<sup>7</sup>See [GAO-13-314](#).

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securities filing reviews, investigations, and examinations, and to identify the internal supervisory controls used to oversee these activities. We selected a nongeneralizable sample of 58 of 104 controls in place during fiscal year 2015 for review and testing—15 controls each in Corporation Finance, Enforcement, and OCIE, and 13 controls in OCR. We selected about half of the 58 controls using a nonprobability sample based on known information regarding past internal control failures and high-risk activities. We randomly selected the other controls. We obtained evidence to determine the extent to which tested controls were operating as intended. We assessed the electronic database systems that stored the data we used for our testing and determined that the systems were sufficiently reliable for the purposes of our review.

For our third objective, we assessed the extent to which SEC's 961 reports and certification to Congress for fiscal years 2013–2015 met the act's requirements and reflected internal control standards for information and communication and monitoring, and SEC's internal policy guidance for the 961 process. For example, we reviewed the reports' assessment of the effectiveness of the internal supervisory controls and procedures applicable to relevant staff. We compared the four divisions and offices' testing methodologies and their communications to senior SEC leadership of testing results with accepted standards and SEC guidance.

We conducted this performance audit from July 2015 to October 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

SEC is responsible for protecting investors, maintaining fair, orderly, and efficient markets, and facilitating capital formation. To fulfill this mission, SEC requires public companies to disclose meaningful financial and other information to the public, examines firms it regulates, and investigates potential violations of securities law. SEC identifies potential violations of securities law and brings hundreds of civil enforcement actions against individuals and companies each year.

SEC's responsibilities are divided among five divisions and 23 offices. Of those, certain activities within Corporation Finance, Enforcement, OCIE,

and OCR are subject to section 961 of the Dodd-Frank Act. The roles and responsibilities of these divisions and offices are summarized in table 1.

**Table 1: Roles and Responsibilities of Securities and Exchange Commission (SEC) Divisions and Offices with Section 961 Responsibilities**

Division or office	Roles and responsibilities
Division of Corporation Finance	Reviews corporate disclosures, assists companies in interpreting SEC's rules, and recommends new rules for adoption.
Division of Enforcement	Conducts investigations of potential violations of the federal securities laws, including the conduct of registered entities (such as broker-dealers and investment advisers) and unregistered entities (such as those offering unregistered or fraudulent securities offerings). Recommends, when appropriate, that SEC bring civil actions (either in a federal court or in an administrative proceeding before an administrative law judge), litigates these actions, negotiates settlements on behalf of SEC, and works with criminal law enforcement agencies when warranted.
Office of Compliance Inspections and Examinations	Administers a nationwide examination and inspection program for registered entities including self-regulatory organizations, broker-dealers, transfer agents, clearing agencies, and investment companies and advisers to improve compliance, prevent fraud, monitor risk, and inform policy.
Office of Credit Ratings	Conducts examinations of nationally recognized statistical rating organizations, which are SEC-registered credit-rating agencies.

Source: SEC. | GAO-17-16

Notes: Activities covered in section 961 of the Dodd-Frank Wall Street Reform and Consumer Protection Act fall under the purview of the Division of Corporation Finance, Division of Enforcement, Office of Compliance Inspections and Examinations (OCIE), and the Office of Credit Ratings (OCR)—collectively, the divisions and offices. SEC determined that OCR is a successor of OCIE, subject to section 961's reporting and certification requirement. See 15 U.S.C. § 78d-6(c)(1).

## Federal Internal Control Standards

*Standards for Internal Control in the Federal Government* provides the overall framework for establishing and maintaining internal control in federal agencies.<sup>8</sup> Management is responsible for adapting the internal control standards as a framework for that agency. An agency may use the framework to organize its development and implementation of internal controls and implement its standards agencywide or at an office level. SEC took an office-level approach to its framework. The framework adapted by the agency should help staff carry out specific program activities according to its policies and procedures.

Five interrelated components establish the minimum level of quality acceptable for internal control:

<sup>8</sup>See [GAO/AIMD-00-21.3.1](#).

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- **Control environment.** Management and employees should establish and maintain an environment throughout the organization that sets a positive, supportive attitude toward internal control. A positive control environment is the foundation for all other standards and provides the discipline, structure, and climate that influence the quality of an organization's internal control. Management's philosophy (including towards monitoring, audits, and evaluations) and operating style also affect the environment.
  - **Risk assessment.** After establishing clear and consistent agency objectives, management should assess the risks from external and internal sources associated with achieving the agency's control objectives and analyze the potential effects of the risk. Risk identification methods may include qualitative and quantitative ranking activities, management discussions, strategic planning, and consideration of findings from audits and other assessments. Risk analysis should include estimates of a risk's likelihood of occurrence and possible effects, including significance or impact if the risk were to occur. Because governmental, economic, regulatory, and operating conditions continually change, mechanisms also should be provided to identify and appropriately deal with additional risk resulting from such changes.
  - **Control activities.** Management also should establish policies and procedures to help carry out its directives and help ensure that actions are taken to address risks. Control activities are integral to planning, implementation, and review, and help entities to ensure accountability for stewardship of government resources.
  - **Information and communication.** Key information should be recorded and communicated to management and others in the entity who need it and in a form and within a time frame that enables them to carry out their internal control and other responsibilities.
  - **Monitoring.** Management should assess the quality of internal control performance over time and ensure that the findings of audits and other reviews are promptly resolved.

To be effective, an agency's internal control system must incorporate a series of actions and activities that occur throughout its operations and on an ongoing basis. Once in place, internal control provides reasonable, not absolute, assurance of meeting those objectives. When evaluating the design of internal control, management determines if controls individually and in combination with other controls are capable of achieving an objective and addressing related risks. To the extent a control does not

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fully achieve an objective or address related risks it is deficient, and such deficiencies may be associated with a control's design or operation.

- A **deficiency in design** exists when (1) a control necessary to meet a control objective is missing or (2) an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met.
- A **deficiency in operation** exists when (1) a properly designed control does not operate as designed or when (2) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

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## Establishment of SEC's Internal Supervisory Control Framework

In response to section 961 of the Dodd-Frank Act, senior officers and staff from Corporation Finance, Enforcement, OCIE, and the offices of the Chief Accountant, General Counsel, and Executive Director formed SEC's informal 961 Working Group (Working Group) to coordinate the annual assessment and certification.<sup>9</sup> The Working Group included senior-level managers, who also were tasked with leading their divisions and office's 961 annual assessment efforts. In fiscal year 2011, the Working Group expanded to include SEC's Office of the Chief Operating Officer and, in 2012, OCR.

In our 2013 review, we found that the Working Group had put in place an internal supervisory control framework for the divisions and offices, drawing on sources such as federal internal control standards and the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework.<sup>10</sup> The Working Group also documented definitions, criteria, and guidance in SEC's 961 Reference Guide, which the Working

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<sup>9</sup>This group also helps coordinate the section 961 assessments with agencywide efforts to comply with the internal control requirements of the Federal Managers' Financial Integrity Act of 1982. See Pub. L. No. 97-255, § 2, 96 Stat. 814. The offices of the Chief Accountant and Executive Director participated in the set-up of the Working Group but have not participated significantly since then, according to Working Group members.

<sup>10</sup>Federal standards for internal control are similar to the framework for internal control developed by COSO, which develops frameworks and guidance on enterprise risk management, internal control, and fraud deterrence (see <http://www.coso.org/>). COSO introduced the concept of principles related to the five standards (components) of internal control. GAO adapted these principles for a government environment in *Standards for Internal Control in the Federal Government*.

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Group updated annually. We also found that, consistent with the 961 Reference Guide, each division and office had developed and implemented a formal process for identifying and assessing risks, identifying key internal controls that address those risks, assessing the operating effectiveness of internal controls, and reporting the results of the testing. For example, as part of developing and applying the internal supervisory control framework, each division and office carried out a risk assessment that resulted in a set of controls intended to address the identified risks. The divisions and offices documented these controls in a risk-assessment tool called a risk and control matrix. The internal supervisory controls then were built into the divisions and offices' work processes—that is, the processes they use to carry out examinations, filing reviews, and investigations. Furthermore, although the divisions and offices followed the common guidance laid out in the 961 Reference Guide, each division and office separately developed, implemented, and tested its own controls and reported its annual results separately to its directors and the SEC Chair. The Office of the Chief Operating Officer compiled the final report to Congress based on these four separate reporting processes.

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### Federal Managers' Financial Integrity Act and SEC Management Assurance Process

In addition to the internal supervisory control requirements SEC must implement under section 961 of the Dodd-Frank Act, SEC is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA).<sup>11</sup> FMFIA requires agencies to annually assess and report on the internal controls that protect the integrity of their programs and whether financial management systems conform to related requirements. The Office of Management and Budget's (OMB) Circular A-123, which requires agencies to provide an assurance statement on the effectiveness of programmatic internal controls and financial system conformance, provides guidance for implementing FMFIA.<sup>12</sup>

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<sup>11</sup>See 31 U.S.C. § 3515.

<sup>12</sup>Office of Management and Budget, Circular No A-123: *Management's Responsibility for Internal Control* (Washington, D.C.: Dec. 21, 2004).

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We review SEC's internal controls over financial reporting as part of our annual financial audit of the agency and therefore these controls are not examined in this report.<sup>13</sup> In the financial audit reports, we generally found that SEC's management assurance process included controls intended to provide reasonable assurance that transactions were properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles, and assets were safeguarded against loss from unauthorized acquisition, use, or disposition. We found that transactions were executed in accordance with provisions of applicable laws, including those governing the use of budget authority, regulations, contracts, and grant agreements (noncompliance with which could have a material effect on the financial statements). We also found that SEC has met FMFIA requirements that agencies annually assess the conformance of their financial management systems to related requirements. SEC has provided annual assurance statements over operations and financial reporting.

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## Framework for SEC's Internal Supervisory Control and Recent Enhancements Continued to Reflect Key Components of Internal Control

As of fiscal year 2015, SEC's internal supervisory control framework continued to reflect key components of internal control. Each division and office that we reviewed in 2013 continued to maintain a framework for internal supervisory control that reflected standards. OCR, which we reviewed for the first time in this report, implemented a framework for internal supervisory control that generally reflected standards.

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<sup>13</sup>For our most recent audit, see GAO, *Financial Audit: Securities and Exchange Commission's Fiscal Years 2015 and 2014 Financial Statements*, [GAO-16-145R](#) (Washington, D.C.: Nov. 16, 2015).

**SEC’s Framework Continued to Reflect Key Components of Internal Control and Has Been Further Integrated with Management Assurance Process**

As of the end of fiscal year 2015, SEC’s internal supervisory control framework (structures, procedures, and controls) continued to reflect key components of internal control. We compared the framework as documented by the Working Group in the 961 Reference Guide against federal internal control standards. Specifically, we assessed the extent to which the framework implemented in the four divisions and offices reflected the five components of internal control—control environment, risk assessment, control activities, information and communication, and monitoring.

The divisions and offices we reviewed had structures, policies and procedures, and activities in place to address these five components of internal control.<sup>14</sup> As shown in table 2, examples include participating in the Working Group, maintaining and updating risk and control matrixes, maintaining and updating policies and procedures, and testing controls.

**Table 2: Examples of Key Internal Control Components in the Internal Supervisory Control Framework of the Securities and Exchange Commission (SEC) Divisions and Offices with Section 961 Responsibilities**

Key components of internal control	Examples of activities or structures in internal supervisory control framework associated with the component
Control environment	<ul style="list-style-type: none"> <li>• SEC maintains an informal 961 Working Group (Working Group) to establish policies and help ensure coordination among the four divisions and offices subject to internal supervisory control reporting.</li> <li>• Divisions and offices assign staff to participate in the Working Group and carry out control testing and reporting.</li> </ul>
Risk assessment	<ul style="list-style-type: none"> <li>• Divisions and offices annually conduct a risk assessment that includes identifying and analyzing risks.</li> </ul>
Control activities	<ul style="list-style-type: none"> <li>• Divisions and offices design and implement supervisory controls to mitigate risks throughout their processes for filing reviews, investigations, and examinations.</li> </ul>
Information and communication	<ul style="list-style-type: none"> <li>• The Working Group meets regularly and annually updates the 961 Reference Guide, which describes policies and procedures for implementing SEC’s internal supervisory control framework.</li> <li>• Divisions and offices maintain policy guidance (including manuals) and relevant resources, some of which are posted on their respective intranet sites.</li> </ul>

<sup>14</sup>We previously reviewed the internal supervisory control framework in Corporation Finance, Enforcement, and OCIE as part of our 2013 review. For our current review, we confirmed that the key elements of the framework continued to be in place for the two divisions and OCIE during 2013–2015 and assessed any changes and the extent to which these changes reflected internal supervisory control components. OCR was created in 2012 and was not included in our first review.

Key components of internal control	Examples of activities or structures in internal supervisory control framework associated with the component
Monitoring	<ul style="list-style-type: none"> <li>• Divisions and offices conduct testing of controls throughout the year as part of their management assurance and 961 processes and brief their senior management, and the SEC Chair, annually on testing results.</li> <li>• SEC submits an annual report to Congress certifying evaluation of effectiveness of controls.</li> </ul>

Source: GAO analysis of SEC information. | GAO-17-16

Note: Activities covered in section 961 of the Dodd-Frank Wall Street Reform and Consumer Protection Act fall under the purview of the Division of Corporation Finance, Division of Enforcement, Office of Compliance Inspections and Examinations (OCIE), and Office of Credit Ratings (OCR)—collectively, the divisions and offices. SEC determined that OCR is a successor of OCIE, subject to section 961’s reporting and certification requirement. See 15 U.S.C. § 78d-6(c)(1). The Working Group is made up of senior officers and staff from the four divisions and offices, and also SEC’s Offices of General Counsel and Chief Operating Officer. Under section 961, the four divisions and offices report annually to Congress on SEC’s internal supervisory controls and procedures applicable to staff who perform reviews of corporate financial securities filings, investigations of possible securities law violations, and examinations of registered entities. The annual reports include certification by the divisions and offices’ directors that they have evaluated the effectiveness of the internal supervisory controls and disclosed to SEC any significant deficiencies in their design or operation. The testing noted in this table refers to this evaluation process.

SEC also has continued to integrate the internal supervisory control assessments into its management assurance process, using the results of the four divisions and offices’ annual evaluations of internal supervisory controls in the assurance process. According to OMB Circular A-123, “the requirements of FMFIA serve as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management’s assertion about the effectiveness of internal control over operations, financial reporting, and compliance with laws and regulations.” The steps Enforcement, OCIE, and OCR took to further integrate the 961 and assurance processes include designating risk officers to oversee both 961 and management assurance testing. Enforcement, OCIE, and OCR have combined their 961 and management assurance risk controls and each maintains a single risk and control matrix for its management assurance and 961 controls. Enforcement, OCIE, and OCR also coordinate their management assurance and 961 testing. In addition to providing support for the 961 report to Congress, the results of this testing inform SEC management assurance statements.

Corporation Finance took a different approach to oversee its 961 and management assurance testing. Rather than using a risk officer to carry out its internal supervisory control testing under section 961 of the Dodd-Frank Act, the division relies on its Disclosure Standards Office (DSO). According to Corporation Finance officials, DSO submits the results of its testing to its managing executive for use in the division’s management assurance statements.

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## Internal Supervisory Controls, Including Recent Changes, Reflected Standards

We analyzed the extent to which each division and office maintained, since our first review, a framework (structures, procedures, and activities) for internal supervisory control that reflected the five components of internal control. We also reviewed recent changes to the divisions and offices' procedures that were intended to strengthen aspects of the internal supervisory controls.

## Corporation Finance Created a New Standards Office and Has Been Developing a Workflow Tracking System

Corporation Finance selectively reviews filings made under the Securities Act of 1933 and Securities Exchange Act of 1934.<sup>15</sup> We analyzed documentation about the division's operations, reviewed its risk and control matrix of 25 internal supervisory controls, and interviewed officials from the division. We found that the division has maintained structures, procedures, and controls that reflected key components of internal control, as illustrated in the examples below.

- Federal internal control standards state that one principle of establishing a control environment is that management should establish an organizational structure, assign responsibility, and delegate authority to achieve the entity's objective. Reflecting this principle, Corporation Finance maintains an organizational structure under which it delegates authority to carry out the corporate financial securities filing review process to accounting and legal staff in 11 offices, organized by industry. In addition, the Office of the Managing Executive oversees the division's operations, including human resources, and Corporation Finance's contribution to the SEC-wide management assurance process. Furthermore, DSO (which is under the leadership of an associate director reporting to the Corporation Finance deputy director) is responsible for managing the division's internal supervisory control and quality and process improvement efforts. Assigning responsibility for internal controls to a senior-level

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<sup>15</sup>Companies submit their filings to SEC, which include annual reports, registration statements, and other types of filings. Corporation Finance accounting and legal staff selectively review filings to determine the level of review each filing is to receive based on the requirements of the Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, tit. IV, 116 Stat. 745, 785, and review goals established by senior leadership. For each filing review undertaken, staff perform an initial review and draft comments, if warranted. Generally, a second accountant, attorney, or both conduct a second-level review of the filing and approve comments for communication to the company. After Corporation Finance and the company resolve the comments, the review is closed. The filing review correspondence is publicly disseminated no earlier than 20 business days after the completion of the review.

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manager demonstrates a commitment to internal control and is consistent with establishing a positive control environment.

- Corporation Finance’s control activities, as during our first review, continued to include a system in which two levels of review take place at key steps in the filing review process. Once selected for review, a filing enters the review cycle, which generally includes evaluating the disclosure for material compliance with securities laws, preparation and review of comments, and public posting of filing review correspondence on the SEC website.<sup>16</sup> For most filings, a second-level review is required during each of these phases.
- Corporation Finance control activities also continued to include systems to record and store filing review data. Recording significant events in the filing review process and ensuring that documentation is readily available for review are consistent with the federal internal control activities component, which emphasizes management establishing policies and procedures to help ensure that actions are taken to address risks. The division maintains four distinct electronic databases to track, document, and report on different aspects of its filing review program. The two key systems are Electronic Data Gathering, Analysis, and Retrieval (EDGAR)—the division’s primary record-keeping system—and the Filing Activity Tracking System (FACTS), which is used to track the progress of filing reviews.<sup>17</sup> EDGAR conducts automated collection, validation, indexing, acceptance, and forwarding of submissions by companies and others that voluntarily file or are required by law to file forms with SEC.

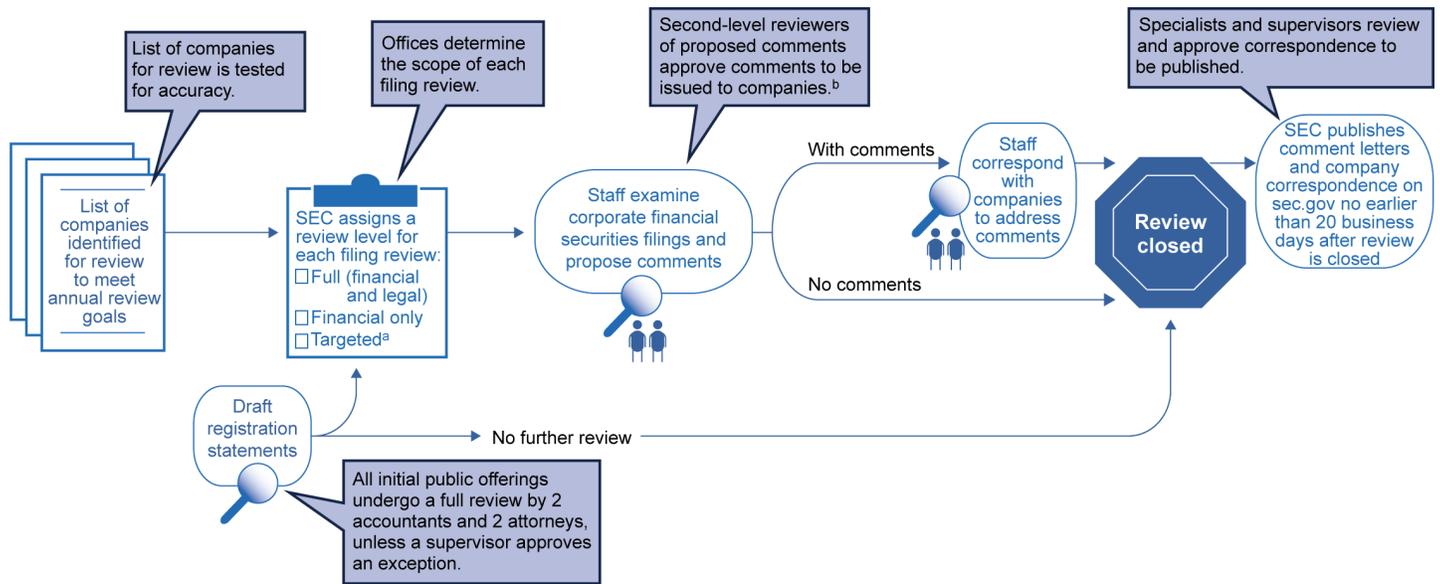
See appendix II for more information about Corporation Finance’s internal supervisory control structures, procedures, and activities. Also see figure 1 for examples of internal supervisory controls used throughout Corporation’s Finance’s filing review process.

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<sup>16</sup>Second-level reviewers are sometimes supervisory staff, but may not be depending on workload and an assistant director’s determination of the capabilities of other staff to undertake the reviews.

<sup>17</sup>In addition to EDGAR and FACTS, SEC maintains two other systems: The Comment Letter Dissemination system enables staff to schedule filing review correspondence for dissemination, review the correspondence before dissemination, confirm that the correspondence is associated with the correct review, and ensure that the correspondence to be disseminated does not contain confidential or personally identifiable information. The Confidential Treatment Request system is used to track the status and disposition of the division’s processing of confidential treatment requests.

**Figure 1: Examples of Internal Supervisory Controls for the Division of Corporation Finance’s Filing Review Process**



Internal control(s) used at this stage in the process  
 SEC Securities and Exchange Commission

Source: GAO summary of Securities and Exchange Commission information. | GAO-17-16

<sup>a</sup>A targeted issue review is one in which the staff will examine the filing for one or more specific items of disclosure for compliance with the applicable accounting standards and/or the disclosure requirements of federal securities laws and regulations.

<sup>b</sup>Second-level reviewers are sometimes supervisory staff, but may not be depending on workload and an assistant director’s determination of the capabilities of other staff to undertake the reviews.

In addition, Corporation Finance undertook the following changes during 2013–2015 that were intended to strengthen its internal supervisory control structures and procedures:

- DSO was created in fiscal year 2013 to establish and oversee a quality review program by evaluating the division’s review policies and results, and, thus, strengthen Corporation Finance’s control environment as well as its monitoring ability. In addition to the testing of internal supervisory controls, DSO also serves to recommend continuous process and quality improvements within Corporation Finance.
- Since 2013, Corporation Finance has been developing a new documentation and reporting system—the System for Workflow Activity Tracking (SWAT)—to improve the efficiency of the filing review process. The division expects the first releases of the system

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Enforcement Updated  
Guidance and Enhanced Its  
Management Reporting

in late 2016. SWAT is intended to replace FACTS and replace some internal control features of EDGAR.<sup>18</sup> Corporation Finance uses EDGAR and FACTS to manage its company filing review workflow. The division has described these and its other workflow systems as outdated and not well integrated with one another. As a result, the division has had to use many manual internal supervisory controls. Federal internal control standards note that automated controls embedded in workflow systems tend to be more reliable and efficient than manual controls.

Enforcement investigates and, following Commission approval, initiates civil and administrative actions concerning possible violations of federal securities laws. The division maintains supervisory controls over its investigation process, which includes several steps outlined in figure 2. We reviewed Enforcement's risk and control matrix of 25 supervisory controls, analyzed documentation about the division's operations, and interviewed officials from the division. We found Enforcement's framework reflected key components of internal control as illustrated by the following examples.

- Enforcement management maintained organizational structures during the period of our review that reflected the federal internal control principle of establishing an organizational structure, assigning responsibility, and delegating authority to achieve the entity's objectives. For example, Enforcement maintained its structure of a headquarters staff and 11 regional offices, each headed by a regional office director, one or two associate directors, and multiple assistant directors to oversee investigations. Enforcement also established a division risk officer position within the Office of the Managing Executive. The risk officer is responsible for all 961 and management assurance-related testing and reports to an assistant director in the Office of the Managing Executive. The Office of Market Intelligence (OMI) within Enforcement is responsible for screening every tip,

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<sup>18</sup>EDGAR has a public interface that performs automated collection, validation, indexing, acceptance, and forwarding of submissions by companies and others required by law to file forms with SEC.

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complaint, or referral (TCR) that SEC receives from the public and other organizations.<sup>19</sup>

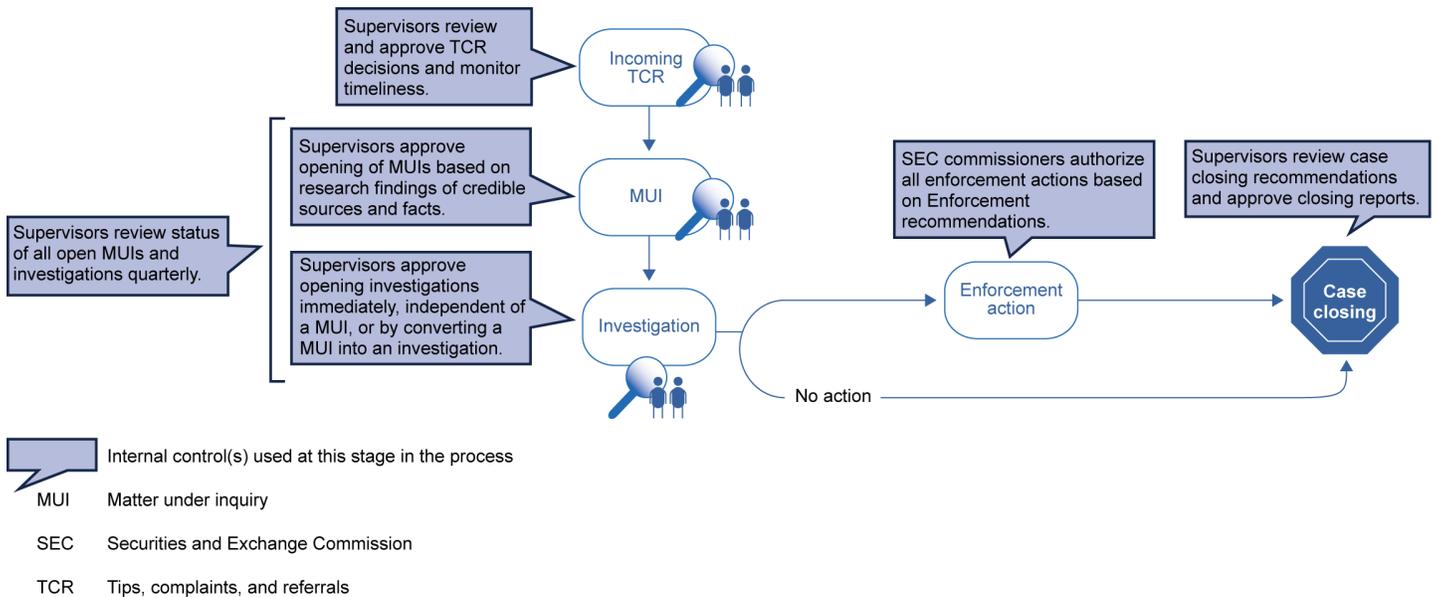
- Control activities that Enforcement maintained include assistant directors' review of ongoing investigations and reporting on the status of these investigations to senior management on a quarterly basis. Enforcement holds quarterly review meetings between supervisors and senior staff to discuss major milestones, resources, and other feedback for all open and active investigations. Supervisors document quarterly reviews through check sheets that list all open investigations categorized according to their status.
- During the period of our review, Enforcement also maintained the Hub, the electronic workflow system that contains information on investigations and helps effect control activities. Staff and supervisors have access to the Hub, which also enables supervisors to monitor, and staff to share information about, open investigations.

See appendix II for more information about Enforcement's internal supervisory controls and framework.

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<sup>19</sup>After reviewing a TCR, Enforcement staff may decide to resolve the TCR by closing it or opening a matter under inquiry (MUI) or investigation if a sufficiently credible source or set of facts suggests that the matter could lead to an enforcement action that would address a suspected violation of the federal securities laws. If a MUI is opened, Enforcement may either close the MUI or recommend an investigation. During an investigation, staff gather evidence (including through subpoenas). If Enforcement recommends an enforcement action based on the facts gathered during the investigation, staff prepare a memorandum for the Commission, which is reviewed by senior officers for approval. The Commission must authorize the filing or initiation of any enforcement action. If an enforcement action is not recommended, Enforcement closes the investigation upon senior officer approval.

**Figure 2: Examples of Internal Supervisory Controls in the Division of Enforcement’s Investigative Processes**



Source: GAO summary of Securities and Exchange Commission information. | GAO-17-16

Enforcement also made changes to its operations and procedures since our prior review that were intended to strengthen its internal supervisory control framework, including the following:

- Enforcement revamped its intranet—EnforceNet—to provide more centralized and comprehensive guidance for staff, with the goal of improving staff knowledge and abilities to carry out their work. Enforcement uses EnforceNet to communicate relevant information for investigations, such as policies, procedures, and guidance. This enhancement serves to strengthen Enforcement’s controls related to the standard for information and communication.
- Enforcement also has made improvements to senior management’s ability to monitor the investigative progress—another key internal control component. The Hub was modified to generate reports that provide managers with a real-time dashboard. Managers can view the status of investigations in the division and the progress of investigations under the supervision of each senior officer. Other new reports enable senior managers to monitor division progress over time.

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OCIE Published Its National Priorities and Fully Implemented a Workflow Tracking System

OCIE administers SEC's National Examination Program (NEP), which establishes standards for conducting examinations of registered entities. Under NEP, the office divides examinations into three key steps: pre-fieldwork, fieldwork, and post-fieldwork.<sup>20</sup> We reviewed OCIE's risk and control matrix of 41 internal supervisory controls and supporting documents, and interviewed OCIE officials. We found OCIE's framework for internal supervisory control reflected key components of internal control, as illustrated by the following examples.

- OCIE's NEP defines areas of authority and responsibility. For example, senior officers head each of the five examination program areas—investment advisers and investment companies, broker-dealers, market oversight of national securities exchanges and self-regulatory organizations, clearing agencies and transfer agents, and technology controls.<sup>21</sup>
- OCIE's control activities also include the supervisory approval of key steps of the examination process, such as the pre-fieldwork background research and scoping process; the fieldwork documentation; and the deficiency, no-further-action, or close-out letters.

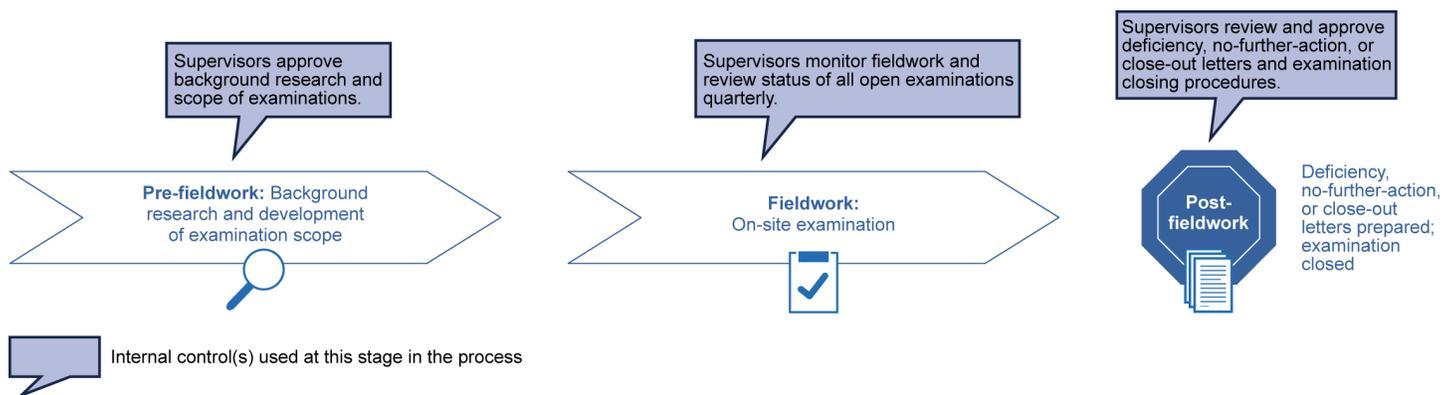
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<sup>20</sup>The three steps are pre-fieldwork, fieldwork, and post-fieldwork. (1) Once an examiner completes background research and determines the scope of each examination, supervisors must approve these steps. OCIE's Tracking and Reporting Examinations-National Documentation System (TRENDS), the office's workflow tracking system, maintains checklists for the background research and examination scoping process that examiners must complete and supervisors approve. (2) Examiners document their fieldwork in workpapers and upload findings to TRENDS. Managers may monitor fieldwork on site and must approve all workpapers and findings, by approving the documentation in TRENDS. (3) TRENDS also helps OCIE track examination outcomes. Examination staff generate deficiency, no-further-action, or close-out letters to registrants that assistant directors approve and sign before they are sent to registrants. These letters are uploaded to TRENDS. Examiners upload responses from the registrant to TRENDS. TRENDS also documents examination closing procedures, including supervisory approval of examination closings.

<sup>21</sup>Self-regulatory organizations include the Financial Industry Regulatory Authority, the Municipal Securities Rulemaking Board, the Securities Investor Protection Corporation, and the Public Company Accounting Oversight Board. In the second quarter of 2016, OCIE announced that it would realign some of its program areas to focus on reallocating examiners to increase coverage of investment advisers and enhance oversight of the Financial Industry Regulatory Authority.

See appendix II for more information about OCIE’s internal supervisory controls and framework. Also see figure 3 for an illustration of supervisory controls in the three stages of OCIE’s examination process.

**Figure 3: Examples of Internal Supervisory Controls in the Examination Process of the Office of Compliance Inspections and Examinations**



Source: GAO summary of Securities and Exchange Commission information. | GAO-17-16

During 2013–2015, OCIE implemented a number of changes intended to enhance its internal supervisory control framework:

- OCIE began to publish an annual report of its national examination priorities publicly on the SEC website to improve its communication with registered companies it examines and with the general public. Federal internal control standards emphasize the importance of communication externally.
- OCIE fully implemented a workflow tracking system—the Tracking and Reporting Examinations-National Documentation System (TRENDS), which documents each step in the examination process and incorporates control activities related to approval of documents and examination steps. Federal internal control standards consider automated controls an efficient way to monitor operations. TRENDS documents all data generated during examinations and stores all relevant workpapers, including documentation of deficiencies.
- OCIE enhanced senior management’s ability to monitor staff performance. In 2015, OCIE officials told us they began to use an online dashboard to monitor examination activities. We reviewed the dashboard, which presents real-time examination summary information to supervisors by pulling data from TRENDS. The

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information includes summaries of findings and examination types, the number of examinations with deficiencies, and examination outcomes. Before OCIE implemented this dashboard, according to OCIE officials, this information was compiled and reviewed manually and tracked in Excel spreadsheets.

- OCIE revamped ExamNet, its office intranet, according to OCIE officials, with the goal of improving its usefulness to staff. The revised intranet is consistent with the internal control component that emphasizes processes for informing and communicating with staff. The current version of ExamNet, in place since our prior review, is organized by OCIE’s program offices: Investment Adviser/Investment Company; Broker-Dealer; Market Oversight; Clearance and Settlement; and Technology Controls. Each program area has its own website within ExamNet and OCIE has designated a “business owner” for each website who controls the information that appears on that site—allowing for better communication.

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## OCR Implemented a Framework for Internal Supervisory Controls That Reflected Standards

OCR monitors the activities and conducts examinations of nationally recognized statistical rating organizations to assess and promote compliance with statutory and Commission requirements.<sup>22</sup> We did not review OCR’s internal supervisory control procedures as part of our 2013 review because OCR was established in June 2012, after we had begun our review. For this report, we assessed OCR’s internal supervisory controls, including policies and procedures and supporting documents. We found that OCR’s framework for internal supervisory control generally reflected the five key components of internal control, as the following examples illustrate.

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<sup>22</sup>OCR is the smallest SEC office subject to section 961. OCR had a full-time equivalent staff of 37 in fiscal year 2015, divided between headquarters in Washington, D.C., and a field office in New York City. According to OCR officials, the field office houses about 24 staff, including OCR’s director. Nationally recognized statistical rating organizations are SEC-registered credit rating agencies. According to SEC, these rating organizations are credit rating agencies whose ratings could be relied upon to determine capital charges for different types of debt securities broker-dealers held. The notion of “national recognition” was designed to help ensure that credit ratings were credible and could reasonably be relied upon by the marketplace. Institutional investors, such as mutual funds, pension funds, and insurance companies, are among the largest owners of debt securities in the United States, and continue to use credit ratings issued by these rating organizations.

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- **Control environment.** Reflecting the control environment principle of management establishing and delegating authority to achieve its objective, OCR has an organizational structure of three branches, each led by an assistant director: Examinations, Monitoring and Policy, and Operations. Similar to Enforcement and OCIE, OCR has a Division Risk Officer position responsible for carrying out 961- and management assurance-related testing and the 961 report development process. This officer reports to the assistant director responsible for OCR operations.
  - **Risk assessment.** OCR, like the other divisions and office, undertook a risk assessment and risk analysis to develop a risk and control matrix, consistent with the 961 Reference Guide, to implement its internal supervisory control framework. OCR also annually reviews and updates the risk and control matrix.
  - **Control activities.** OCR maintained 13 internal supervisory controls to help ensure its examinations are conducted completely and consistently. These reflected various control activities noted in federal internal control standards. For example, OCR requires supervisory approval for key steps in the examination process, such as background and scoping, approval of examination findings, and summary letters.<sup>23</sup> OCR uses an electronic workflow tracking system called RSA Archer to standardize the examination process and help ensure that OCR's controls are automated. According to federal internal control standards, automated controls are typically more reliable than manual controls. RSA Archer allows OCR staff to see all examination information and supervisor approvals at once, which also reflects the monitoring component.
  - **Information and communication.** OCR managers hold regularly scheduled meetings with staff, according to OCR officials, consistent with the internal control component that emphasizes processes for informing and communicating with staff. For example, OCR officials told us that branch chiefs lead weekly team meetings with staff and OCR management conducts monthly meetings to monitor examination progress. OCR managers also conduct an annual

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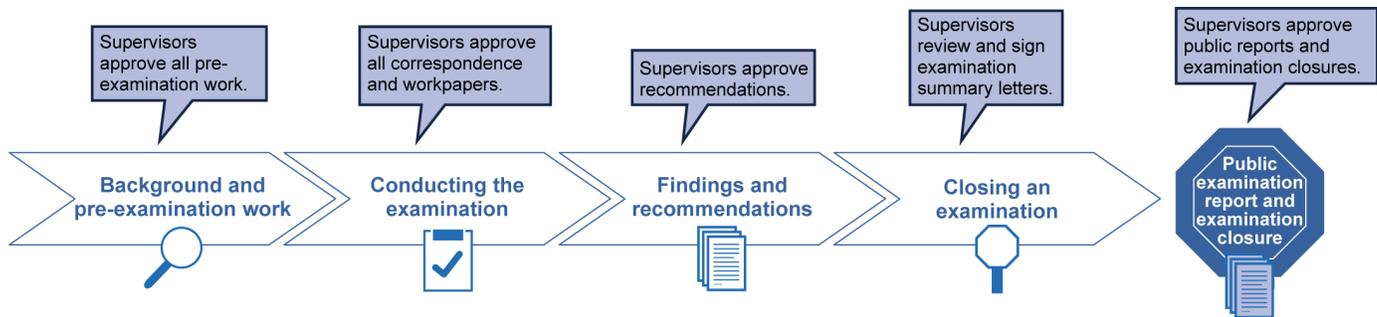
<sup>23</sup>The OCR examination process starts with a risk assessment to determine key issues that may play a role in the upcoming examination. Examiners draft a scope memorandum (based on the results of the risk assessment) to document their examination approach, including focus areas. Examiners then conduct fieldwork and record their analyses in worksheets. Finally, examiners document examination results and draft recommendations.

meeting with staff to discuss the annual examination plan and staffing. OCR developed a policy and program manual that communicates its procedures to staff, which it updated in 2015.

- **Monitoring.** Management and staff consult on a regular basis to discuss examination progress, consistent with the internal control component that recommends monitoring performance over time. In addition, the office tests its 13 controls as part of the reporting process required under section 961.

See figure 4 for examples of supervisory controls in OCR’s examination process.

**Figure 4: Examples of Internal Supervisory Controls in the Office of Credit Ratings’s Examination Process**



Internal control(s) used at this stage in the process

Source: GAO summary of Securities and Exchange Commission information. | GAO-17-16

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## Selected Controls Generally Operated as Intended and Divisions and Offices Improved Design, Operation, and Documentation

Of the 58 internal supervisory controls that we tested, 52 were operating as intended during fiscal year 2015 and were designed appropriately; documentation of the controls also has improved since our previous review.<sup>24</sup> For our sample, we assessed whether the control was operating as intended and whether the control design provided reasonable assurance of the control meeting its objective. We defined controls as deficient that are not properly designed to achieve an objective or do not operate as designed.<sup>25</sup> We also categorized controls with deficiencies according to whether (1) the controls lacked clearly defined control activities (such as approvals); (2) descriptions of the control activity did not accurately reflect policy or practice; and (3) documentation demonstrating the controls' execution was not complete, clear, or consistent.

Although we found six controls with deficiencies, documentation of control design and operation generally improved since our previous review, reducing the significance of the deficiencies we identified (see table 3). When we discussed our findings with the divisions and offices, officials told us they had already addressed or planned to address most of the deficiencies we identified. Of the six controls with deficiencies, we found two without clear control activities, three in which control testing showed that a key element of the control did not align with current policy and

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<sup>24</sup>We selected a nongeneralizable sample of 58 controls from a total of 104 internal supervisory controls the divisions and offices had in place in fiscal year 2015 and identified as related to the 961 process. Our sample (a combination of nonprobability and random sampling methods) included controls that reflected each internal control component; our knowledge of internal control deficiencies found in our previous review; and controls the divisions or offices identified as high risk. We tested all 13 controls OCR had in fiscal year 2015 that related to the 961 process.

<sup>25</sup>More specifically, we defined a deficiency as a shortcoming that could prevent a control from achieving its objective. As previously discussed, a deficiency in design exists when (1) a control necessary to meet a control objective is missing or (2) an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed, or when the person performing the control does not possess the necessary authority or competence to perform the control effectively. For the testing of several controls, we randomly sampled and assessed investigations, filing reviews, and examinations as evidence of controls operating as intended. We determined that controls with exceptions for more than 10 percent of the sample constituted a deficiency.

practice, and one with documentation shortcomings.<sup>26</sup> We discuss the six deficiencies in more detail later in this section.

**Table 3: Deficiencies Identified in Sampled Internal Supervisory Controls of Securities and Exchange Commission (SEC) Divisions and Offices with Section 961 Responsibilities during Fiscal Year 2015**

SEC division or office	SEC control descriptions	GAO testing results
<b>Control design lacked clearly defined control activities</b>		
Office of Compliance Inspections and Examinations (OCIE)	1. Examination work product and supporting documentation is generally captured in Tracking and Reporting Examination National Documentation System (TRENDS). Some records may be maintained on a network drive or in paper files. Management reviews and electronically approves TRENDS workbooks, including pre-fieldwork background research, scoping decisions, control sheets, supporting documents, and deficiency letters or no-further action letters at the time of the examination.	Of the 92 examinations sampled to test this control, 11 examinations lacked the internal control element of segregation of duties. Specifically, the same supervisors (examination managers) submitted workbooks for approval and also approved the workbooks for 11 examinations. OCIE officials stated that examination managers may submit and approve workbooks when the lead examiner is out of the office. Mitigating this deficiency, we found that at the end of each of the 11 examinations, assistant directors signed a deficiency letter or no-further-action letter. OCIE officials explained that assistant directors' signatures on the letters indicated their approval of the entire examination, including supporting workbooks, and thus reflected a segregation of duties.
	2. Each tip, complaint, or referral (TCR) submitted or assigned to OCIE is initially reviewed by one of OCIE's TCR points of contact. These staff will then assign TCRs to the appropriate regional office, program office, or another SEC division for disposition. When more than one office may have an interest in the TCR, the points of contact advise the other offices of the TCR.	The control design does not describe a supervisory action for the initial review of TCRs or specify how the points of contact document the review and assignment of TCRs. OCIE officials plan to modify the control to reflect the supervisory practice.
<b>Control did not reflect policy or practice</b>		
Division of Enforcement (Enforcement)	3. The annual report on the Dodd-Frank Whistleblower Program is to be reviewed by stakeholders, including General Counsel, Enforcement senior officers, and the Division of Economic and Risk Analysis (DERA).	The documentation of stakeholder review showed that DERA did not review the annual report on the Whistleblower Program. Instead, the Office of Financial Management and Office of Legislative and Intergovernmental affairs reviewed the report. Enforcement updated the control description in April 2016 to reflect current practice.

<sup>26</sup>We developed the methods to test each control based on the nature of the control and the quality or availability of data. The divisions and offices previously tested many of these controls as part of their development of the annual report to Congress on their internal supervisory control framework and procedures for fiscal year 2015. See appendix I for more information about our scope and methodology.

SEC division or office	SEC control descriptions	GAO testing results
OCIE	4. OCIE's TCR points of contact participate in two TCR business groups that provide to management recommendations and guidance for operating the TCR system. The points of contact organize training sessions for TCR staff, including the annual TCR "boot camps."	The annual TCR boot camp has not taken place since 2013 due to budget constraints and a pending redesign of the TCR system. OCIE officials plan to update the control to more accurately reflect the frequency of training.
Office of Credit Ratings	5. Approvals to close are reviewed and approved (by e-mail) by the director or an assistant director.	The director and assistant director recorded their approval of closing of examinations in the RSA Archer tracking system rather than by e-mail. OCR officials plan to update the control description to reflect this practice.
<b>Documentation of control design or execution was not clear, complete or consistent</b>		
Enforcement	6. The Chief of the Office of Market Intelligence (OMI) reviews TCRs that staff have in their queues. If any TCR has aged more than 60 business days from the date of assignment, an OMI manager follows up with the staff member to whom the TCR was assigned.	The control design does not specify how an OMI manager is to document results of any follow-up conducted on overdue TCRs. Enforcement officials stated that in August 2016 they updated the control to clarify that the OMI managers will report to the chief by e-mail on the status of addressing aged TCRs.

Source: GAO analysis. | GAO-17-16

Note: Activities covered in section 961 of the Dodd-Frank Wall Street Reform and Consumer Protection Act fall under the purview of the Division of Corporation Finance, Division of Enforcement, Office of Compliance Inspections and Examinations (OCIE), and the Office of Credit Ratings (OCR). SEC determined that OCR is a successor of OCIE, subject to section 961's reporting and certification requirement. See 15 U.S.C. § 78d-6(c)(1).

In our current review, none of the deficiencies in the six controls in which we identified deficiencies appeared likely to prevent management from helping ensure that divisions and offices' activities were conducted completely and in accordance with policy. For example, for most controls, the divisions and offices had plans in place to address the deficiencies we identified. In addition, for half of the controls with deficiencies, the control objectives were still achieved. The divisions and offices also had complementary controls in place for some controls that helped to reduce the significance of the deficiencies. Furthermore, the divisions and offices have established procedures (such as corrective action plans) to address deficiencies in general, consistent with federal internal control standards. In contrast, in 2013, we identified deficiencies for almost half (27 of 60) of the sampled controls.<sup>27</sup>

<sup>27</sup>For our 2013 review, we tested controls in place during fiscal year 2011. See [GAO-13-314](#).

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As discussed previously, we considered whether the divisions and offices appropriately designed and implemented the selected controls and found improvements—and few deficiencies—in three categories (the types of deficiencies we commonly found in 2013), as detailed in the following section.

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### Divisions and Offices Addressed Past Deficiencies and Generally Clearly Defined Control Activities

Each division and office generally addressed several design deficiencies we identified in 2013. Federal internal control standards require that management identify actions and control activities needed to address the risks and direct their implementation. The divisions and offices addressed several past deficiencies related to unclear control activities, as described in the following examples.

- In 2013, we found it difficult to test a Corporation Finance control that addressed the override of a review of an initial public offering (IPO). At the time, Corporation Finance required that division staff review all IPOs unless the associate director confirmed otherwise, but the control design did not specify how the associate director would record overrides of this review. In our 2015 review, we found that Corporation Finance had created a control and specific policies for documenting overrides of IPO reviews. Consequently, we were able to test the control and found that the control appears to be appropriately designed and operating as intended.
- In 2013, we also found it difficult to review an Enforcement control for ensuring that all existing Enforcement procedures are reviewed, updated, and approved on an annual basis because the division did not have a mechanism in place to ensure these actions occurred. Since that time, Enforcement has addressed this limitation. As of April 2013, the division provides its policies, procedures, guidance, and training relating to enforcement over its intranet (EnforceNet). Enforcement also has maintained a process for periodic review and updating of EnforceNet on a regular basis.

While in 2013 we found that 12 of the 60 controls we tested lacked clearly defined control activities, in 2015 we found two controls that lacked clearly defined activities.

- The first control, in which OCIE management reviews and approves examination work product and supporting documentation, was not clear because it did not specify a second-level review—a key element of internal control that helps reduce the risk of error. To test this control, we reviewed a random sample of 92 examinations in

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TRENDS and found that in 11 instances, the same supervisors submitted the examinations for approval and approved the examination. OCIE officials explained that policy allows the same supervisors (generally examination managers) to submit and approve examination workbooks in cases in which the lead examiner is temporarily out of the office, to ensure the team can meet the statutory requirement that examinations be completed within 180 days.<sup>28</sup> Federal internal control standards highlight the importance of dividing key duties among different people to reduce the risk of error or fraud. Internal control guidance would suggest the next-highest level manager, such as the assistant director, should approve the workbooks if only the examination manager is available to submit them. We found other documentation that mitigated this deficiency. In all 11 examinations, assistant directors signed a deficiency letter or a no-further-action letter. OCIE officials explained that the assistant directors' signatures on the letters indicated their approval of the entire examination, including supporting workbooks.

- The second control, which described the responsibilities of OCIE staff designated to review TCRs, was not clear because it did not also describe needed supervisory actions. More specifically, OCIE's control related to the review and assignment of TCRs discussed the process for reviewing TCRs referred to OCIE and assigning them to an OCIE regional office, program office, or another Division within SEC, but did not describe a supervisory action for the initial review of TCRs or specify how the TCR points of contact were to document the review and assignment of TCRs. According to OCIE policies and procedures, OCIE staff responsible for TCRs should record in a spreadsheet steps taken when reviewing and assigning TCRs. We reviewed one such spreadsheet and confirmed that it contained the required information.

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<sup>28</sup>By statute, within 180 days of the completion of an on-site examination or inspection or the receipt of all documents requested from an entity, SEC generally must provide the examined or inspected entity written notification that the examination or inspection has concluded, has concluded without findings, or that the entity must undertake corrective action. 15 U.S.C. § 78d-5(b)(1).

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## Divisions and Offices Improved the Alignment of Their Controls with Policies and Practices

Alignment of Corporation Finance's, Enforcement's, and OCIE's internal supervisory controls with their policies and practices improved since our 2013 review. Controls help ensure that agency staff implement required policies and practices, so it is important that controls accurately reflect policies and practices. Federal internal control standards require that appropriate policies, procedures, techniques, and mechanisms exist for each of the agency's activities. Since our 2013 review, we found that the divisions and offices improved alignment of control activities with information in manuals or practices, as the following examples illustrate.

- In 2013, we found that Corporation Finance's manual did not reflect the procedures for referring matters to Enforcement. Corporation Finance updated its Enforcement Liaison Manual to reflect the procedures and shared the updated manual with staff.
- In 2013, we found that OCIE did not require staff to use examination control sheets to document their workpapers. In our review of fiscal year 2015 controls, we found that OCIE's new TRENDS system captures the supervisory review controls and approvals of examination control sheets. Additionally, OCIE cited relevant policies and procedures in its risk and control matrix to help ensure controls generally aligned with them.
- In 2013, we found that one Enforcement control described an automated process for routing a potential matter under inquiry (MUI) or investigation that did not occur in practice. In 2013, Enforcement modified this control to describe the current practice of senior officers reviewing MUIs and investigations.

While in 2013 we identified six controls with descriptions that did not accurately reflect policies and practices, we found three controls with this deficiency in 2015. Officials told us they addressed or plan to address these findings.

- One Enforcement control required that specified stakeholders review the annual Office of the Whistleblower report to Congress before the report's submission to the Commission, but our testing of the documentation showed that in practice consultation occurred among other stakeholders. We confirmed that Enforcement achieved the control objective of ensuring review of the report prior to submission despite our testing result. In April 2016, Enforcement officials said they revised the control description to include the stakeholders who appear in the report documentation, thus more accurately reflecting current practice.

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- One OCR control specified that managers approve the closing of examinations through e-mail. However, we found that in practice OCR officials approved examination closures in RSA Archer. We confirmed that OCR achieved the control objective of ensuring examinations are complete despite our testing result. OCR officials told us that they plan to update the control description to reflect current practice.
  - One OCIE control specified that office staff who serve as TCR points of contact participate in organizing an annual training event for TCR staff. Officials stated that although the TCR points of contact planned the annual training event in 2014 and 2015, SEC ultimately cancelled the training due to budget constraints and a pending redesign of the TCR system. As a result, the training has not taken place since 2013. In May 2016, OCIE officials stated that they plan to remove or update the control to more accurately reflect the frequency of the training.

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## Divisions and Offices Improved Their Documentation of Control Design and Execution

Enforcement and OCIE improved the documentation of control design and execution since our 2013 review.<sup>29</sup> Federal internal control standards require that documentation of control design and implementation be complete and accurate. Complete documentation helps managers and other agency officials more effectively evaluate operations across offices and programs. Since our 2013 review, we found Enforcement and OCIE addressed several past deficiencies related to lacking documentation of control design and execution, as shown in the following examples.

- In 2013, we found that Enforcement did not document supervisory review of action memorandums before placing them on a meeting agenda. Enforcement modified this control by omitting reference to the meeting agendas and by clarifying the review process.
- In 2013, we found that documentation of OCIE management's quarterly reviews of open examinations varied. In our review of fiscal year 2015 controls, we determined that OCIE used a standard form to document these reviews and that its use was consistent across the regional offices and headquarters. Additionally, managers share the completed reviews on OCIE's ExamNet, which helps ensure that documentation and records are properly maintained.

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<sup>29</sup>In 2013, we did not find any deficiencies for Corporation Finance related to this category.

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- In 2013, we found that several of OCIE’s scope memorandums did not contain evidence of staff review of previous examinations. In our 2015 review, we tested a sample of 92 examinations and found that examiners had documented their reviews of each examination in our sample.

While in 2013 we identified nine controls that lacked clear, complete, and consistent documentation of execution, we identified one deficiency in 2015. An Enforcement control did not specify in what ways the senior officer should follow up with staff about overdue TCRs. The objective of the control is to ensure that TCRs are reviewed and resolved in a timely manner. The control description stated that “an aging analysis of TCRs ... is sent to and reviewed by the Chief of OMI. If any TCR has aged more than 60 business days from the date of assignment, an OMI Manager follows up with that individual.” The chief of OMI told us that he generally follows up verbally in weekly meetings with assigned OMI staff who have not taken action on TCRs within the specified 60-day time frame. The control description also did not specify how the manager should document the follow-up with staff. Enforcement officials stated that in August 2016 they updated the control to clarify that the OMI managers will report to the chief of OMI by e-mail on the status of aged TCRs.

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## Report Development Process Reflected Standards but Opportunities Exist to Improve Efficiency

SEC’s reports to Congress in 2013, 2014, and 2015 under section 961 of the Dodd-Frank Act included statutorily required elements and reflected federal internal controls. The divisions and offices varied in their control designs, testing approaches, and documentation of the 961 report development process. The process included some information sharing across the divisions and offices, largely through the Working Group, but opportunities exist for greater coordination across the agency.

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## Annual Reports to Congress Met Dodd-Frank Act Requirements and Reflected Internal Controls

The 961 reports SEC submitted to Congress in 2013, 2014, and 2015 included statutorily required elements and reflected federal internal controls related to information, communication, and monitoring. All three annual reports included the elements required by section 961: (1) an assessment of the effectiveness of SEC’s internal supervisory controls and the procedures applicable to staff who perform examinations, enforcement investigations, and reviews of corporate financial securities filings; (2) a certification that SEC has adequate internal supervisory controls to carry out examinations, reviews of corporate financial securities filings, and investigations; and (3) a summary of the Comptroller General’s findings on the adequacy and effectiveness of SEC

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internal supervisory controls.<sup>30</sup> SEC's annual reports for fiscal years 2013, 2014, and 2015 also reported no significant deficiencies in internal supervisory controls.<sup>31</sup>

In addition to assessing the Dodd-Frank Act requirements for the reports to Congress, we assessed the extent to which the reports and their underlying documentation—including testing results and summaries—reflected federal internal control standards. We found that SEC officials generally prepared these materials and communicated them to management in a form and within a time frame that enabled them to carry out their internal control responsibilities. For example, we reviewed documentation and interviewed representatives of the divisions and offices and found that as part of their preparation of the report to Congress, the staff of each division and office communicated the results of their internal supervisory control testing in memorandums to or meetings with senior management. The memorandums contained information about the controls tested and the results. These materials also reflected the internal control specifying that information should flow down, across, and up the organization. For example, each division and office prepared memorandums for the SEC Chair that summarized the testing results and presented these to the Chair's office in a briefing. The divisions and offices also shared their memorandums with each other.

The annual reports to Congress and the underlying documentation also reflected standards for monitoring, which include assessing performance quality over time and ensuring that the findings of audits and other reviews are promptly resolved. For example, the annual documentation for senior management included summaries of the testing performed throughout the year. The memorandums from some of the divisions and offices also included the status of issues raised in prior years. Three of the divisions and offices went beyond the immediate requirements (to discuss internal supervisory controls) by also including information on broader issues for senior SEC leadership's attention. According to one

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<sup>30</sup>See 15 U.S.C. § 78d-6(b).

<sup>31</sup>Other required elements of the report include a summary GAO's review of the adequacy and effectiveness of SEC's internal supervisory control structure. See 15 U.S.C. § 78d-6(b)(3). The reports, accessed on June 10, 2016, are available at [https://www.sec.gov/reports?ald=TheSubtype\\_11&TheYear=&TheSubtype=Internal+Supervisory+Controls&TheDivision=](https://www.sec.gov/reports?ald=TheSubtype_11&TheYear=&TheSubtype=Internal+Supervisory+Controls&TheDivision=).

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official, the memorandum discussion reflected the office management's collective judgment about issues that could affect the overall control environment within each office. Corporation Finance and Enforcement also included a discussion of opportunities for process improvements. Additionally, the Working Group—consisting of staff from each office with responsibilities for the testing and reporting processes—met periodically to discuss issues and approaches to testing, among other topics. Such meetings helped the divisions and offices coordinate their work and ensure that timelines for developing the report were met, according to Working Group members.

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### Working Group Promotes Coordination, but Opportunities Exist to Further Expand Coordination across Divisions and Offices

#### Variations across Divisions and Offices

In our review of the report development process, we found that the divisions and offices varied in how they designed controls addressing similar risks, the number of controls each division and office tested, approaches for testing their controls, and how they documented their testing results. We also found variation in how each division and office allocated staff to carry out the control testing and report preparation and in the content of the documentation and memorandums communicated to their directors and the SEC Chair. Federal internal control standards emphasize the importance of ensuring efficiency and effectiveness of operations. Following is a summary of variations we found that highlight areas in which the divisions and offices have opportunities to improve efficiency or effectiveness of the report development process.

- **Design of controls addressing similar risks.** We found that the designs of similar control activities varied across divisions and offices. For example, employees in the divisions and offices are subject to SEC-wide employee performance review procedures. Corporation Finance, OCIE, and OCR included in their risk and control matrix at least one internal supervisory control related to employee

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performance, all three of which we tested and found to be operating effectively. These control activities generally address the risk that staff are not capable of fulfilling their responsibilities.<sup>32</sup> We found that Corporation Finance, OCIE, and OCR each wrote a slightly different control objective to mitigate this risk and a different control description to achieve the objective. Corporation Finance, OCIE, and OCR then tested different elements of the performance work plans that document feedback sessions between management and staff, although SEC-wide procedures and requirements are common to all divisions and offices. SEC plans to revise its performance work plans, which may require these divisions and offices to revise these internal supervisory controls.

We also found variations in the design of controls related to the handling of TCRs in three divisions and offices. A representative of one office told us that because each division and office's procedure for handling TCRs varies, the divisions and offices did not discuss the design of their TCR-related controls with one another. As noted previously in this report, we found two deficiencies in TCR-related controls, one in OCIE and one in Enforcement. At least one of these deficiencies might have been prevented if the offices had shared information about their TCR control designs.

- **Number of controls tested.** Divisions and offices tested different numbers of controls as part of their preparation of the annual report. For example, in fiscal year 2015, two divisions each had 25 controls, one office had 13 controls, and one office had 41 controls. In fiscal year 2016, two divisions and one office tested all their internal supervisory controls, while OCIE tested almost three-quarters of its controls. OCIE officials told us that resource constraints made it difficult to conduct operational effectiveness tests on all of its controls. Through greater sharing of information, offices could develop and share best practices to streamline testing.

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<sup>32</sup>Enforcement did not include any control activity related to human resources in its matrix of internal supervisory controls, because it relies on SEC's agencywide procedures in this area, according to Enforcement officials. A separate mandated report on SEC's personnel management is forthcoming. For prior work on this topic, see GAO, *Securities and Exchange Commission: Improving Personnel Management Is Critical for Agency's Effectiveness*, [GAO-13-621](#) (Washington, D.C.: July 18, 2013).

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- **Testing approaches that included random sampling.** We found variation in how divisions and offices selected samples for testing for similar types of controls, illustrated in the following examples.
    - As part of their testing of controls related to supervisory approval of individual filings, investigations, or examinations, the divisions and offices generated random sample selections, using off-the-shelf software to verify that supervisors approved key steps in the process. In contrast, OCIE also relied on SEC's Division of Economic and Risk Analysis (DERA) staff to select statistically valid random samples of examinations for some of its control testing.
    - For certain controls, Corporation Finance and Enforcement tested 100 percent of their populations of more than 1,000 records, although the 961 Reference Guide would have allowed for sampling in such cases. One representative explained that testing 100 percent of the population required the same level of effort as drawing a random sample because the entire population was simple to export from the office's electronic workflow tracking system. In contrast, OCR sampled 3 examinations out of a total population of 10 for tests of several controls, although information for the entire population was maintained in a comparable electronic workflow system and few additional resources likely would have been required to test the entire population.

By sharing information about testing procedures, such as the most appropriate sampling methods for certain controls, the divisions and offices could improve the efficiency and effectiveness in their internal supervisory control process.

- **Summary documentation of testing results.** As noted above, the divisions and offices documented their testing steps, summarized the results, and provided documentation supporting their testing for the 58 controls we selected for testing. The formats of the divisions and offices' testing summaries varied, with some divisions and offices providing clearer, more thorough documentation than others. For example, OCIE's testing summary sheets included a section for detailed explanations of each office's design assessment of a given control. This testing summary sheet also featured check boxes (listing aspects of operational effectiveness testing, for example) that helped to ensure the completeness of the review. In contrast, the testing summaries for Corporation Finance, Enforcement, and OCR had minimal or no description of how the offices assessed the design of each control. The variation of testing summary sheet formats indicates

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an opportunity to streamline documentation across the divisions and offices, which would improve efficiency and effectiveness of the testing process.

- **Staff resources dedicated to internal supervisory control testing.** Each division and office differs in how it allocates staff to conduct the annual control assessment, ranging from a department of up to a dozen full-time, permanent staff with responsibility for control testing, to one or two staff members with primary responsibility for all testing who call on other staff members across the office as needed. Federal internal control standards emphasize the importance of management delegating authority as appropriate. Having one or two staff in a division or office responsible for testing raises risks that if these individuals leave the organization, senior management's monitoring ability may be negatively affected.
- **Communicating results to senior management.** The management within each office sent memorandums or documentation to division or office directors and to the SEC Chair that discussed the results of internal control testing. We found that some divisions and offices also discussed management challenges, opportunities for process improvement, and other issues that arose outside of the control testing process that management considered relevant to the overall internal supervisory control environment. For example, divisions and offices highlighted efforts to bolster information technology infrastructure or improve quality. While such discussions are not specifically required by section 961 of the Dodd-Frank Act, they are examples of management taking a comprehensive view of the objectives of section 961, namely to strengthen supervisory oversight over filing reviews, investigations, and examinations.

Variation, in and of itself, is not indicative of deficient conditions, but the variations we found may hinder efficiency or effectiveness, which are objectives of internal control systems. Federal internal control standards and the 961 Reference Guide allow for variation because of the different missions, operations, and activities of each division and office. For example, federal internal control standards and the 961 Reference Guide do not recommend specific numbers of controls that should be tested. Also, according to federal internal control standards, OMB guidance, and the 961 Reference Guide, offices may tailor their testing to the specific control activities based on their judgment within certain recommended guidelines. In the previous examples, however, we found variations that indicated the divisions and offices have an opportunity to improve efficiency or effectiveness. For example, some divisions and offices had more effective control designs, more efficient testing approaches, and

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more streamlined or effective documentation, than others. Thus, greater coordination could improve the overall efficiency and effectiveness of SEC's 961 reporting.

## Working Group

The Working Group plays an informal coordinating role in the internal supervisory control process through its meetings throughout the year and its maintenance of the 961 Reference Guide. Working Group members from all four divisions and offices told us that they find the group useful. For example, two representatives told us that the Working Group enables the divisions and offices to ensure timelines are met during the report development process. One member described the Working Group as “collaborative” and another described the structure as “bottom up,” which facilitated communication. The Working Group generally meets during the second half of the year, when the divisions and offices carry out their year-end internal control testing, document their results, and prepare memorandums to their respective division or office directors and SEC’s Chair, and the report to Congress.

In contrast, Working Group members said that they do not generally share each division or office’s risk and control matrix and do not routinely share information on specific control design and operation—rather, Working Group members said they share information on an ad hoc basis. For example, one representative said that he has informally exchanged information with another member about control testing methods. Another representative said he once shared his office’s risk and control matrix with another office and found it helpful. The 961 Reference Guide does not provide guidance about the extent to which each office should share information about individual control design, implementation, operation, or testing.

Based on our discussions with representatives and review of documentation, as an informal body, the Working Group has no charter and no formal leadership structure, so its roles and responsibilities are unclear. For example, one representative commented that there is no clear structure for meetings. Moreover, as a coordinating rather than an authoritative function, the Working Group has no explicit mandate to help ensure that the internal supervisory control framework and assessment process in each division and office operate effectively and efficiently. Rather, according to one Working Group member, that is considered the responsibility of each division and office for its individual program. Federal internal control standards emphasize the importance of management assigning responsibility and delegating authority to key roles throughout the entity. As noted previously in this report, federal internal controls also

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emphasize the importance of ensuring efficiency and effectiveness of operations.

The Working Group formed as an informal group because SEC officials could find no existing guidance in 2010–2011 about how to develop an internal supervisory control framework, and the divisions and office had to coordinate to comply with section 961 of the Dodd-Frank Act, according to the group's first leader.<sup>33</sup> According to the Working Group members, in mid-2016 they considered drafting a formal charter for the Working Group that establishes the key purposes for the group and describes a formal leadership structure. Members had not yet done so as of July 2016, however, because of a lack of consensus about the value of formalizing the Working Group.

Because of the informal nature of the Working Group and its lack of specific mandates, the divisions and offices coordinate on a limited basis and do not regularly share information that could improve efficiency and effectiveness. By routinely coordinating to share information and best practices through the Working Group, the divisions and offices could more efficiently design, carry out, and document testing of controls; consider staffing approaches from multiple perspectives; and enhance communications of the 961 process.

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## Conclusions

SEC divisions and offices have adopted a framework for considering and implementing internal supervisory controls in their effort to more effectively detect fraud and, since our first review in 2013, the divisions and offices have updated and enhanced that framework. In addition, the divisions and offices have improved their documentation of control design and operation. The scope of improvement has been reflected in our findings—in 2015 most controls we tested were operating as intended, whereas in 2013 almost half of the controls had deficiencies. Our analysis shows that this improvement has relied on the divisions and offices coordinating their reviews of their internal supervisory controls through the Working Group, as well as direction provided by the 961 Reference Guide and the management assurance process. Such horizontal and

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<sup>33</sup>OCR was formed in 2012 so was not one of the offices subject to section 961 of the Dodd-Frank Act in 2010-2011.

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cross-functional coordination helps ensure the accuracy of SEC's annual report to Congress on internal supervisory controls. But we also found variation across divisions and offices in a number of areas, including control design, resources dedicated to supervisory internal controls, and testing. This variation increases the potential for inefficiency in the divisions and offices' internal supervisory control framework and reporting process. By formalizing the Working Group, the divisions and offices could leverage their experiences and expand their collaboration to share best practices and streamline procedures and documentation, thereby improving the efficiency and effectiveness of the process. This, in turn, could increase the divisions and offices' operating efficiency and effectiveness.

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## Recommendation for Executive Action

To improve and regularize consultation among Corporation Finance, Enforcement, OCIE, and OCR, and make their internal supervisory controls more efficient and effective, the Chair of the Securities and Exchange Commission should formalize the Working Group or otherwise establish a formal body to enhance coordination of compliance with section 961 of the Dodd-Frank Act across the divisions and offices.

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## Agency Comments

We provided a draft of this report to SEC for review and comment. SEC provided written comments, which are reprinted in appendix III. In its letter, SEC agreed with our recommendation. Specifically, SEC agreed that opportunities exist to further expand coordination across SEC divisions and offices and stated that it will implement our recommendation to formalize the 961 Working Group or otherwise establish a formal body to leverage the divisions and offices' experiences, expand their collaboration to share best practices, and streamline procedures and documentation. SEC also stated that our description of SEC's supervisory control framework was accurate and that our review recognized the enhancements and improvements SEC has made since our prior triennial review. SEC also provided technical comments on the draft report, which we incorporated as appropriate.

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We are sending copies of this report to the appropriate congressional committees, the Chair of the Securities and Exchange Commission, and other interested parties. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

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If you or your staff have any questions about this report, please contact me at 202-512-8678 or [clementsm@gao.gov](mailto:clementsm@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.



Michael Clements  
Acting Director, Financial Markets and Community Investment

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# Appendix I: Objectives, Scope, and Methodology

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This report focuses on functions performed through the Division of Corporation Finance (Corporation Finance), Division of Enforcement (Enforcement), Office of Compliance Inspections and Examinations (OCIE), and Office of Credit Ratings (OCR) at the Securities and Exchange Commission (SEC)—to which we refer collectively as the divisions and offices. We examined the extent to which (1) SEC’s internal supervisory control framework during 2013–2015, including any changes since our prior review, reflects key components of federal internal control; (2) selected internal supervisory controls operated as intended in fiscal year 2015; and (3) SEC’s reports to Congress in fiscal years 2013–2015 met the requirements of section 961 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) and reflected accepted standards.<sup>1</sup>

For our first objective, we reviewed the internal supervisory control framework of SEC for fiscal years 2013–2015. We collected and reviewed documentation on policies and procedures and interviewed relevant SEC staff to assess SEC’s framework against GAO’s *Standards for Internal Control in the Federal Government* and determined the extent to which the framework reflected these standards.<sup>2</sup> We assessed the framework against the five components of internal control—control environment, risk assessment, control activities, information and communication, and monitoring. We also reviewed the internal supervisory controls in place in each division and office and categorized the controls according to the internal control component each predominantly demonstrated. Together, the divisions and offices maintained 104 internal supervisory controls in fiscal year 2015—Corporation Finance and Enforcement each maintained 25 controls; OCIE maintained 41 controls; and OCR maintained 13

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<sup>1</sup>Section 961 directs SEC to provide Congress with an annual report on its internal supervisory controls and the procedures applicable to staff who perform reviews of corporate securities filings, enforcement investigations, and examinations of registered entities. See Pub. L. No. 111-203, § 961, 124 Stat. 1376, 1907 (2010) (codified at 15 U.S.C. § 78d-6).

<sup>2</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1, 1999). GAO published an updated set of standards in 2014 that took effect October 1, 2015. See GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014). Because the scope of our review included the period prior to this date, we evaluated SEC’s controls against the prior version of the standards, though we make references to updated terms and concepts as appropriate in this report.

controls. We compared information on changes SEC made to its framework with information from our first review and federal internal control standards to determine the extent to which the framework, together with the changes, continued to reflect internal controls.

For our second objective, we used the policies, procedures, and stated control objectives of the four divisions and offices in SEC to determine if selected internal supervisory controls were designed to achieve their stated objectives and were operating as intended. We reviewed documents and interviewed staff to obtain a thorough understanding of the processes for conducting examinations, investigations, and securities filing reviews and to identify the internal supervisory controls used to oversee these activities. We selected a nongeneralizable sample of 58 controls the divisions and offices had in place in fiscal year 2015. We selected 22 controls using a nonprobability sampling method and randomly selected 23 controls for Corporation Finance, Enforcement, and OCIE that the divisions and offices identified as related to the 961 process. OCR had only 13 controls related to the 961 process in fiscal year 2015 so we tested all of them. The nonprobability sample included controls that reflected each internal control component, our knowledge of internal control deficiencies we found in our previous review, and controls the divisions and offices identified as high risk. More than one quarter of the controls in the sample related to deficiencies identified in our previous review. For each control, we assessed whether the control design provided reasonable assurance of meeting its objective and whether the control was operating as intended to achieve the control objective.

We obtained evidence to determine the extent to which tested controls were operating as intended in fiscal year 2015. We developed the methods to test each control based on the nature of the control and the quality or availability of data. We assessed the electronic database systems that stored the data we used for our testing and determined that the systems were sufficiently reliable for the purposes of our review. To review the operational effectiveness of the selected controls, we directly observed the electronic databases or spreadsheets described in some controls, obtained documentation to analyze other controls, and compared the evidence with each control's description to determine whether the control functioned as intended. The divisions and offices previously tested many of these controls as part of their development of the annual report to Congress on their internal supervisory control framework and procedures for fiscal year 2015. We reviewed the testing documentation for controls that the divisions and offices had tested for fiscal year 2015. The results of our reviews of the design and functioning

of the specified controls are applicable only to the tested control for the audited time period and therefore are not generalizable to all of SEC's internal supervisory controls. Because our review did not identify or test every control, it should not be interpreted as an attestation of the divisions and offices' internal control.

For our third objective, we assessed the extent to which SEC's 961 reports and certification to Congress for fiscal years 2013–2015 met the Dodd-Frank Act's requirements and reflected federal internal control standards for information and communication and monitoring and SEC's internal policy guidance for the 961 process. We reviewed the reports' assessment of the effectiveness of the internal supervisory controls and procedures applicable to relevant staff. We compared the four divisions and offices' testing methodologies, and their communications of testing results to senior SEC leadership, with accepted standards and SEC guidance. We obtained documentation of the testing conducted on the 58 controls we selected for our own testing and assessed the testing methodologies and documentation of testing results. We also assessed SEC's guidance (the 961 Reference Guide) with federal internal control standards.

We conducted this performance audit from July 2015 to October 2016 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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# Appendix II: Summary of Our Assessment of Securities and Exchange Commission (SEC) Internal Supervisory Control Framework

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As required in section 961 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), SEC's Divisions of Corporation Finance (Corporation Finance) and Enforcement (Enforcement), Office of Compliance Inspections and Examinations (OCIE), and Office of Credit Ratings (OCR)—collectively, the divisions and offices—have implemented an internal supervisory control framework (structures, procedures, and controls) that generally reflects federal standards of internal control, based on our review.<sup>1</sup> This appendix reports our assessment of the implementation of the internal supervisory control framework within Corporation Finance, Enforcement, and OCIE with internal control standards. Because we have not previously reviewed the internal supervisory control structure and procedures in OCR, we included our full assessment for that office in the body of this report.

*Federal Standards for Internal Control in the Federal Government* identify five components that define the minimum level of quality acceptable for all government internal controls.<sup>2</sup> These components are (1) the control environment, (2) risk assessment, (3) control activities, (4) information and communication, and (5) monitoring. The principal ways in which these components can be effected are summarized below.

- **Control environment.** Establish and maintain an environment throughout the organization that sets a positive, supportive attitude toward internal control. A positive control environment is the foundation for all other standards and provides the discipline, structure, and climate that influence the quality of an organization's internal control.

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<sup>1</sup>Section 961 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requires internal control certification by the Directors of the Division of Corporation Finance, Division of Enforcement, Office of Compliance Inspections and Examinations (OCIE), and the head of any successor division or office. See 15 U.S.C. § 78d-6(c)(1). SEC determined that the Office of Credit Ratings is a successor of OCIE, subject to section 961's reporting and certification requirement.

<sup>2</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: Nov. 1, 1999). GAO published an updated set of standards in 2014 that took effect October 1, 2015. See GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: September 2014). Because the scope of our review included the period prior to this date, we evaluated SEC's controls against the prior version of the standards, though we make references to updated terms and concepts as appropriate in this report.

- **Risk assessment.** After establishing clear and consistent agency objectives, management should assess the risks from external and internal sources associated with achieving the agency’s control objectives and analyze the potential effects of the risk.
- **Control activities.** Provide oversight to management in the development and performance of control activities.
- **Information and communication.** Analyze and discuss information relating to the entity’s achievement of objectives.
- **Monitoring.** Scrutinize the nature and scope of management’s monitoring activities as well as management’s evaluation and remediation of identified deficiencies.

As part of our review of the divisions and offices’ internal supervisory controls, we reviewed the control activities each division and office identified in its risk and control matrix—the tool that summarizes the controls designed as a result of each division and office’s risk assessment and analysis—and assessed the extent to which each division and office maintained control activities in fiscal year 2015 that reflected each of the five components. We reviewed each internal supervisory control from each division and office (25 in Corporation Finance, 25 in Enforcement, 41 in OCIE, and 13 in OCR) and categorized the controls by internal control component. See table 4 for a summary of our categorization. *Standards for Internal Control in the Federal Government* is necessarily flexible; therefore, the same control could be determined to meet the characteristics of more than one component. Although we use examples of internal supervisory controls from each division and office that reflect each of the internal control components, each division and office has controls that can be characterized as reflective of more than one internal control component.

**Table 4: GAO Categorization of Securities and Exchange Commission (SEC) Internal Supervisory Controls by Division and Office with Section 961 Responsibilities, Fiscal Year 2015**

Component (standard) to which control activity primarily related <sup>a</sup>	Corporation Finance	Enforcement	OCIE	OCR
Control environment	2	3	9	2
Risk assessment	1	1	6	1
Control activities	13	12	10	6
Information and communication	4	1	8	2
Monitoring	5	8	8	2
<b>Total</b>	<b>25</b>	<b>25</b>	<b>41</b>	<b>13</b>

Source: GAO analysis of SEC data. | GAO-17-16

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**Appendix II: Summary of Our Assessment of  
Securities and Exchange Commission (SEC)  
Internal Supervisory Control Framework**

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Notes: Activities covered in section 961 of the Dodd-Frank Wall Street Reform and Consumer Protection Act fall under the purview of the Division of Corporation Finance, Division of Enforcement, Office of Compliance Inspections and Examinations (OCIE), and the Office of Credit Ratings (OCR)—collectively, the divisions and offices. SEC determined that OCR is a successor of OCIE, subject to section 961's reporting and certification requirement. See 15 U.S.C. § 78d-6(c)(1).

<sup>a</sup>Controls may be related to more than one internal control component; this table reflects GAO's assessment of the component to which each control was primarily related.

Because we previously reviewed the implementation of the internal supervisory control framework in each division and office as part of our 2013 review, for our current review we confirmed that the key elements of the framework continued to be in place during 2013–2015 and assessed any changes and the extent to which these changes reflected internal supervisory control components. We summarize our review below, including descriptions of key controls in each division and office that reflected four of the five internal control components. Because the risk-assessment process is common to all divisions and offices, we did not include that discussion below.<sup>3</sup> See appendix I for more information on the methodologies we used to assess the framework and controls.

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**Corporation Finance's  
Internal Supervisory  
Controls Generally  
Reflected Internal Control  
Standards**

Corporation Finance selectively reviews filings made under the Securities Act of 1933 and Securities Exchange Act of 1934 to monitor and enhance compliance with applicable disclosure and accounting requirements. Corporation Finance implemented several internal supervisory controls to help ensure that its corporate financial securities filing review process is complete and internally consistent, and to address risks, such as not effectively identifying companies for review and not identifying and addressing material noncompliance in new issuers and public company disclosures. The Corporation Finance controls we reviewed generally reflected internal control standards, as summarized below.

**Control Environment**

Federal internal control standards state that one principle of establishing a control environment is that management should establish an organizational structure, assign responsibility, and delegate authority to

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<sup>3</sup>Consistent with federal internal control standards and SEC's 961 Reference Guide, the divisions and offices use a top-down, risk-based approach to identify the risks of their programs. According to the 961 Reference Guide, the purpose of the top-down risk assessment is to focus on the risks that management has determined could significantly inhibit the division or office from meeting the objective of consistently conducting examinations, investigations, or reviews with professional competence and integrity.

achieve the entity's objective. Reflecting this principle, Corporation Finance maintains an organizational structure under which it delegates authority to accounting and legal staff in 11 offices—organized by industry—to carry out the filing review process.<sup>4</sup> In addition, the Office of the Managing Executive oversees operational issues, including the human resources issues, and Corporation Finance's contribution to the SEC-wide management assurance process under the Federal Managers' Financial Integrity Act of 1982 (FMFIA). More recently, to establish an oversight structure for its internal supervisory control process and its continuous quality and process improvement effort, Corporation Finance established the Disclosure Standards Office (DSO) under the leadership of an associate director reporting to the Corporation Finance deputy director. DSO is responsible for managing the division's internal supervisory control and quality and process improvement efforts related to the corporate financial securities filing review program.<sup>5</sup> Assigning responsibility for internal controls to a senior-level manager demonstrates a commitment to internal control and is consistent with establishing a positive control environment.

## Control Activities

To help ensure the effectiveness of reviews of corporation financial securities filings, Corporation Finance has maintained a number of internal supervisory controls. These controls address the accuracy of the division's filing review goals, second-level supervisory review of filing reviews, and documentation of reviews, among other areas.

- Controls to ensure accuracy of annual filing review goals. At the start of each fiscal year, division management develops goals for the filing

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<sup>4</sup>The Securities Act of 1933 regulates public offerings of securities, requiring that issuers register transactions with SEC and provide certain disclosures, including a prospectus, to investors at the time of sale, unless an exemption from registration is available. Securities Act of 1933, Pub. L. No. 73-22, 48 Stat. 74 (codified as amended at 15 U.S.C. §§ 77a - 77aa). The Securities Exchange Act of 1934 established SEC and provided it with broad authority over all aspects of the securities industry; this includes the power to require periodic reporting of information by companies with publicly traded securities. Securities Exchange Act of 1934, Pub. L. No. 73-291, 48 Stat. 881 (codified as amended at 15 U.S.C. §§ 78a -78pp).

<sup>5</sup>For the purposes of the 961 assessments, Corporation Finance defines "corporate financial securities filings" to mean filings containing financial information that (1) public companies file with SEC in accordance with the requirements of the Securities Act of 1933, Securities Exchange Act of 1934, and Commission rules and regulations, and (2) fall within the scope of authority delegated by the Commission to the division.

review program.<sup>6</sup> Corporation Finance DSO staff also tests the process under which Corporation Finance identifies corporations for annual review.

- Second-level supervisory review. Once identified for review, a filing enters the review cycle, which generally includes four phases: screening, examination, closing, and the public posting to www.sec.gov. For most filings, a second-level review is required during each of these phases.
- Recording and storing data and documentation. Corporation Finance control activities also included systems to record and store filing review data. Recording significant events in the filing review process and ensuring that documentation is readily available for review reflect the control activities component. The division maintains four distinct electronic databases to track, document, and report on different aspects of its filing review program. The two key systems are the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system—the division’s primary record-keeping system—and the Filing Activity Tracking System (FACTS), which tracks the progress of filing reviews.
- Electronic workflow tracking system. Since 2013, Corporation Finance has been developing a new documentation and reporting system—the System for Workflow Activity Tracking (SWAT)—to improve the efficiency of the filing review process. The division expects the first release of the system in late 2016. SWAT is intended to replace FACTS and replace some internal features of SEC’s EDGAR system. Federal internal control standards note that automated controls embedded in workflow systems tend to be more reliable and efficient than manual controls.

Information and  
Communication

Consistent with the internal control standard for information and communication, Corporation Finance maintained numerous meetings and reporting structures. For example, Corporation Finance’s director meets

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<sup>6</sup>The goals include reviewing companies pursuant to section 408 of the Sarbanes-Oxley Act and internally defined criteria. The Sarbanes-Oxley Act of 2002 requires the division to review disclosures made by issuers reporting under section 13(a) of the Securities Exchange Act of 1934 (including reports filed on Form 10-K) and which have a class of securities listed on a national securities exchange or traded on an automated quotation facility of a national securities association. Pub. L. No. 107-204, § 408(a), 116 Stat. 745, 790 (codified at 15 U.S.C. § 7266(a)). The reviews are to be conducted at least once every 3 years and include a review of an issuer’s financial statements. 15 U.S.C. § 7266.

weekly with SEC's Chair and directors of other SEC divisions and offices such as OCIE. In addition, Corporation Finance's director meets weekly with division senior staff. Every other week, the deputy director meets with senior staff responsible for the corporate financial securities filing review program to discuss internal supervisory control and process and quality improvement issues. Furthermore, Corporation Finance industry office heads generally set up weekly or monthly meetings. Corporation Finance also posts relevant guidance and other information on its division's intranet site and managers generate reports on filing review staff performance as needed.

## Monitoring

Corporation Finance has used the meetings noted above as well as other mechanisms that reflected the internal control component related to monitoring. For example, weekly reports that document progress on filing reviews and monitoring of staff assignments help Corporation Finance monitor staff performance on filing reviews. Other internal supervisory controls that demonstrated the monitoring standard include the division's practices of releasing its correspondence with companies to the public, which allows for public scrutiny of its work.

Corporation Finance also established and staffed DSO between 2013 and 2015. DSO helps improve consistency in oversight of filing reviews of corporate financial securities filings and related controls by conducting testing throughout the year of internal supervisory controls. DSO also serves to recommend continuous process and quality improvements within Corporation Finance. Its work encompasses both supervisory controls testing and process improvement initiatives. In this way, Corporation Finance has strengthened its control environment as well as its monitoring ability.

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## Enforcement's Internal Supervisory Controls Generally Reflected Internal Control Standards

Enforcement investigates potential violations of the federal securities laws and litigates SEC's enforcement actions. Enforcement identified key risks to the division's mission including (1) untimely identification and investigation of potential securities fraud, and (2) failure to bring enforcement actions that could deter potential violators and protect investors. Enforcement had 25 internal supervisory controls in place in fiscal year 2015 to help ensure that staff conduct complete and consistent investigations into possible violations of the federal securities laws. The Enforcement controls we reviewed generally reflected internal control standards, as summarized below.

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Control Environment

Enforcement management maintained organizational structures during the period of our review that reflected the federal internal control principle of establishing an organizational structure, assigning responsibility, and delegating authority to achieve the entity's objectives. For example, Enforcement maintained its structure of a headquarters staff and 11 regional offices, each headed by a regional office director and one or two associate directors, and multiple assistant directors, to oversee investigations. Enforcement also established a division risk officer position within the Office of the Managing Executive, responsible for all 961 and management assurance-related testing and reports to the assistant managing executive. The Office of Market Intelligence (OMI) within Enforcement is responsible for screening every tip, complaint, or referral (TCR) that SEC receives from the public and other organizations.

Control Activities

The division maintains procedures that reflected the internal control standard for control activities and are intended to help ensure that investigations are being carried out according to Enforcement's policies. Such control activities are built into the entire investigation process. Examples of control activities include the following:

- Processing TCRs. Enforcement's OMI manages a three-stage process, which involves screening TCRs to determine the nature of follow-up or referral to another SEC office or external entity, confirming screening decisions, and researching TCRs to determine if they merit further investigation. TCRs that OMI staff recommend closing because they are not worth further investigation all undergo a secondary review to ratify such recommendations. OMI uses the TCR system (a searchable database) to make and memorialize TCR handling decisions and to assign or refer potential investigative leads. The OMI chief monitors the timeliness with which staff address TCRs and leads a quarterly audit of closed TCRs to help ensure that they were closed appropriately, among other controls. He or she also monitors weekly and monthly reports and follows up with individual staff about any overdue TCRs.
- Approvals to open a matter under inquiry (MUI) or investigation. The investigation process may begin with staff screening and reviewing TCRs from the public or other sources or initiating their own investigation. Enforcement senior officers also may open an investigation immediately, based on their judgment about conduct they discover that potentially violates securities laws. Staff may open a MUI from a TCR, which Enforcement officials describe as an early-stage investigation. Senior officers must approve the opening of all

MUIs. After the MUI phase, staff either close the MUI or recommend an investigation, also subject to a senior officer's approval.

- Quarterly reviews of ongoing investigations. Assistant directors review all ongoing investigations and report to senior management on a quarterly basis. Enforcement holds quarterly review meetings between supervisors and senior staff to discuss major milestones, resources, and other feedback for all open and active investigations. Supervisors document quarterly reviews through check sheets, which list all open investigations categorized according to their status.
- Recommendations for enforcement actions. Once senior officers agree to recommend an enforcement action, Enforcement staff prepare a recommendation memorandum and submit it to SEC commissioners for approval.
- Documentation and tracking of investigations. During the period of our review, Enforcement also maintained the Hub, an electronic workflow system that contains information about investigations. Staff and supervisors have access to the Hub, which enables communication among staff about investigations.

## Information and Communication

During the period of our review, Enforcement maintained a number of mechanisms intended to facilitate communication across the division and with the public, reflecting the internal control component for information and communication. For example, Enforcement updates its Enforcement Manual periodically and posts it on SEC's website. In addition, as noted above, senior officers hold regular meetings to monitor ongoing investigations.

Furthermore, since our 2013 review, Enforcement revamped its intranet—EnforceNet—to provide more centralized and comprehensive guidance for staff, with the goal of improving staff knowledge and abilities to carry out their work. For example, EnforceNet maintains pages with updated guidance on key investigative subject areas such as insider trading, market manipulation, and digital currencies; and guidance such as standards for investigations.

## Monitoring

Enforcement's procedures for conducting and reporting its 961 assessment, in addition to many of the activities noted above, reflected the internal control standard for monitoring. Monitoring controls help management oversee and assess the quality of the work of Enforcement staff. For example, Enforcement issues an annual report to Congress on SEC's Whistleblower Program (which was created under the Dodd-Frank Act). Recently, Enforcement has made improvements to senior

management's ability to monitor the investigative progress—another key internal control component. The Hub, the electronic repository for all Enforcement actions and documentation, now generates reports that provide a real-time dashboard for senior managers. Managers can view the status of investigations in the division and the progress of investigations under the supervision of each senior officer. Other new reports enable senior managers to monitor division progress over time.

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OCIE's Internal  
Supervisory Controls  
Generally Reflected  
Internal Control Standards

OCIE has implemented internal supervisory controls to help administer SEC's nationwide examination and inspection program, as part of SEC's mission to protect investors. Key risks to ensuring that examinations are conducted in a manner consistent with OCIE objectives include (1) not effectively or efficiently selecting high-risk examination candidates and (2) examination findings that are not generally supported by workpapers. To address these and other identified risks, OCIE maintained 41 internal supervisory controls in fiscal year 2015 to provide supervisory oversight of its three-step examination process: pre-fieldwork, fieldwork, and post-fieldwork. The OCIE controls we reviewed generally reflected internal control standards, as summarized below.

Control Environment

OCIE's national examination program (NEP) defines areas of authority and responsibility, which reflected the internal control environment component. For example, under NEP senior officers head each of the five examination program areas—(1) investment advisers and investment companies, (2) broker-dealers, (3) market oversight of national securities exchanges and self-regulatory organizations, (4) clearing agencies and transfer agents, and (5) technology controls.<sup>7</sup> The senior officers set goals and help ensure consistency across NEP. Under NEP, OCIE has examiners that conduct examinations of the nation's registered entities in Washington, D.C., and in the Commission's 11 regional offices. In addition, the Office of the Managing Executive was responsible for general operational areas and oversight of internal controls during the

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<sup>7</sup>Self-regulatory organizations include the Financial Industry Regulatory Authority, the Municipal Securities Rulemaking Board, the Securities Investor Protection Corporation, and the Public Company Accounting Oversight Board. In the second quarter of 2016, OCIE announced that it would realign some of its program areas to focus on reallocating examiners to increase coverage of investment advisers and enhance oversight of the Financial Industry Regulatory Authority.

## Control Activities

period of our review. In spring 2016, the Office of Risk and Strategy became responsible for overseeing the internal supervisory control framework that meets the objectives of FMFIA and section 961 of the Dodd-Frank Act.<sup>8</sup> Like Enforcement, OCIE created a Risk Officer position with primary responsibility for the internal supervisory control process.

OCIE maintains policies and procedures for conducting examinations under NEP. The policies and procedures outline OCIE's examination process, which consists of three phases: (1) pre-fieldwork, including the background research, developing the examination scope, and management approval; (2) fieldwork, including the scope and examination finding; and (3) post-fieldwork, including the scope, focus areas, and examination summaries. OCIE's risk and control matrix includes control activities that involve supervisory oversight of elements of each phase of this process.

OCIE fully implemented a workflow tracking system—the Tracking and Reporting Examinations-National Documentation System (TRENDS), which documents each step in the examination process and incorporates control activities related to supervisory approval of documents and examinations steps. Federal internal control standards consider automated controls an efficient way to oversee operations. TRENDS documents all data generated during examinations and stores all relevant workpapers, including documentation of deficiencies. Examples of control activities documented in TRENDS include the following:

- OCIE's pre-fieldwork phase requires staff to do background research and document their recommendations for the scope of each examination. Supervisors must approve these scoping recommendations.
- Supervisors also approve all examination workpapers, examination findings, deficiency, no-further-action or close-out letters, which are also documented in TRENDS.

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<sup>8</sup>OCIE created the Risk and Strategy office as an office separate from the Office of the Managing Executive. OCIE's operational risk officer position will now report to an assistant director in this new office.

Information and  
Communication

- Supervisors also must review the evidence provided to determine if it sufficiently supports the findings and conclusions. TRENDS documents these supervisory approvals.

OCIE developed a series of meetings and reporting functions that reflected the internal control component of information and communication. For example, OCIE supervisors and staff hold regularly scheduled meetings during key phases of an examination.

Recently, OCIE revamped ExamNet, its office intranet, with the goal of improving its usefulness to staff, according to OCIE officials. The current version of ExamNet, in place since our prior review, is organized by OCIE's program offices and each program area has its own site. OCIE also communicates changes in policies or personnel to the office through ExamNet. OCIE also recently began to publish annually its national examination priorities publicly on the SEC website to improve its communication with registered entities it examines and with the general public. Federal internal control standards emphasize the importance of communication externally.

Monitoring

OCIE also implemented a number of controls that reflect internal control standards for monitoring. As with the other offices, OCIE monitors its operations using the 961 internal supervisory control and management assurance processes. In addition to its supervisory oversight of examinations, and management review of regular reports and the meetings, OCIE enhanced senior management's ability to monitor staff performance. In 2015, OCIE developed an online dashboard that pulls information from TRENDS in order for senior management (assistant directors and above) to monitor examination activities. This online dashboard delivers real-time examination summary information to supervisors and includes aggregated information on findings and examination types, among other data.

# Appendix III: Comments from the Securities and Exchange Commission



THE CHAIR

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

September 16, 2016

Mr. Michael E. Clements  
Acting Director  
Financial Markets and Community Investment  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Clements:

Thank you for the opportunity to review the draft of the report entitled "Securities and Exchange Commission: Management Has Enhanced Supervisory Controls and Could Further Improve Efficiency" (GAO-17-16). The report provides a detailed and accurate description of the Commission's supervisory controls framework required under Section 961 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

We appreciate the GAO's recognition of the substantial enhancements and improvements the SEC has made since the prior triennial review. We concur with your conclusion that opportunities exist to further expand coordination across divisions and offices. We will implement your recommendation to formalize the 961 Working Group or otherwise establish a formal body to leverage the divisions' and offices' experiences, expand their collaboration to share best practices, and streamline procedures and documentation.

We appreciate the GAO's careful and thoughtful attention to this important issue and would like to thank you and your staff for your excellent work.

Sincerely,

A handwritten signature in blue ink, appearing to read "Mary Jo White".

Mary Jo White  
Chair

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# Appendix IV: GAO Contact and Staff Acknowledgments

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## GAO Contact

Michael Clements, 202-512-8678, [clementsm@gao.gov](mailto:clementsm@gao.gov)

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## Staff Acknowledgments

In addition to the contact named above, John Forrester (Assistant Director), Catherine Gelb (Analyst in Charge), Bethany Benitez, David Dornisch, Juliann Gorse, Camille A. Keith, Kristen Kociolek, Marc Molino, Dae Park, and Barbara Roesmann made key contributions to this report.

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