U.S. GOVERNMENT ACCOUNTABILITY OFFICE
441 G St. N.W.
Washington, DC 20548

April 30, 2015

The Honorable Mary Jo White
Chair
U.S. Securities and Exchange Commission

Management Report: Improvements Needed in SEC's Internal Controls and Accounting Procedures

Dear Ms. White:

On November 17, 2014, we issued our report containing our opinion on the U.S. Securities and Exchange Commission's (SEC) and its Investor Protection Fund's (IPF)[1] fiscal years 2014 and 2013 financial statements.[2] The November 2014 report also included (1) our evaluation of SEC's compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements during fiscal year 2014 and (2) our opinion on the effectiveness of SEC's internal control over financial reporting as of September 30, 2014, including discussion of a significant deficiency in SEC's internal control over financial reporting resulting from continuing and new deficiencies in its accounting for disgorgement and penalty transactions.[3]

The purpose of this report is to (1) present additional information regarding the significant deficiency we identified in our November 2014 financial audit report, along with related recommendations; (2) communicate other less significant deficiencies we identified in SEC's internal controls during our fiscal year 2014 audit, along with our related recommended corrective actions; and (3) provide the status of our prior recommendations reported as new or open in our May 12, 2014, management report to the SEC (see enc. I).[4]

[1]IPF was established in 2010 to fund the activities of SEC's whistleblower award program and the SEC Office of Inspector General suggestion program for SEC employees. Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 922, 124 Stat. 1376, 1841 (2010) (*codified at* 15 U.S.C. § 78u-6(g)(2)). IPF is a separate fund reported on within SEC's financial statements, and its financial statements present a segment of SEC financial activity. Accordingly, IPF's financial transactions are also included in SEC's financial statements.

[2]GAO, *Financial Audit: Securities and Exchange Commission's Fiscal Years 2014 and 2013 Financial Statements*, GAO-15-166R (Washington, D.C.: Nov. 17, 2014).

[3]A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charges with governance. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

[4]GAO, *Management Report: Improvements Needed in SEC's Internal Controls and Accounting Procedures*, GAO-14-416R (Washington, D.C.: May 12, 2014).

Results in Brief

During our audit of SEC's fiscal year 2014 financial statements, we identified new deficiencies in SEC's financial reporting controls over its accounting for disgorgement and penalty transactions,[5] which contributed to a significant deficiency in SEC's internal control over financial reporting as of September 30, 2014. This significant internal control deficiency may adversely affect the accuracy and completeness of information used and reported by SEC's management. We are making 5 new recommendations to address this significant internal control deficiency.

In addition to this significant deficiency, our fiscal year 2014 financial audit identified other new deficiencies in SEC's internal control over financial reporting that while not considered to be material weaknesses or significant deficiencies, either individually or collectively, nonetheless warrant SEC management's attention. These deficiencies relate to the following:

- reinvestment of disgorgement funds,
- maintaining ongoing accuracy of property and equipment inventory records,
- documenting disposal of property and equipment,
- ensuring existence of capitalized bulk purchases,
- identifying and summarizing uncorrected misstatements, and
- information security.

We are making 8 new recommendations to address these deficiencies in SEC's controls over financial reporting.

Further, our follow-up on the status of recommendations we made in prior reports to address internal control deficiencies found that SEC took action to fully address 14 of 25 prior years' recommendations that remained open at the beginning of our fiscal year 2014 audit.[6] Consequently, SEC currently has 24 open recommendations that need to be addressed—the 11 prior recommendations as well as the 13 new ones we are making in this report. Enclosure I provides summary information on the status of SEC's actions to address the recommendations reported as open from our prior audits as of the conclusion of our fiscal year 2014 audit.

In addition, our follow-up on the status of internal control recommendations we made in prior reports to address deficiencies in information system controls (information security) found that SEC took action to fully address 37 of 52 prior years' recommendations that remained open at the beginning of fiscal year 2014.[7] We discussed with management the status of the 15 information security-related recommendations that remained open at the conclusion of our fiscal year 2014 audit.

---

[5]A disgorgement is the repayment of illegally gained profits (or avoided losses) for distribution to harmed investors whenever feasible. A penalty is a monetary payment from a violator of securities law that SEC obtains pursuant to statutory authority. A penalty is fundamentally a punitive measure, although penalties occasionally can be used to compensate harmed investors.

[6]GAO-14-416R.

[7]GAO issued a public report with two recommendations to address information system control weaknesses—see GAO, *Information Security: SEC Needs to Improve Controls over Financial Systems and Data*, GAO-14-419 (Washington, D.C.: Apr. 17, 2014)—and separate limited distribution reports from the fiscal year 2013 and prior audits with 50 detailed recommendations to correct specific information system weaknesses, for a total of 52 recommendations related to information security deficiencies open at the beginning of our fiscal year 2014 audit.

In commenting on a draft of this report, SEC acknowledged the findings related to disgorgements and penalties and that the report contained helpful recommendations on further enhancements to SEC's internal controls. Further, the SEC Chair stated that SEC is working diligently to address the recommendations contained in the report and that SEC remains committed to investing the time and resources necessary to maintain strong internal controls over financial reporting.

Scope and Methodology

As part of our audit of SEC's and IPF's fiscal years 2014 and 2013 financial statements, we evaluated SEC's and IPF's internal controls over financial reporting and tested SEC's compliance with selected provisions of applicable laws, regulations, contracts, and grant agreements. We designed our audit procedures to test relevant controls over financial reporting, including those designed to provide reasonable assurance that transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that assets are safeguarded against loss from unauthorized acquisition, use, or disposition. As part of our audit, we considered and evaluated the work performed and conclusions reached by SEC management in its internal control assessment.[8] A full discussion of our responsibility for the audit of SEC's and IPF's financial statements and internal control over financial reporting is included in our November 2014 report on our audit of SEC's and IPF's fiscal years 2014 and 2013 financial statements.[9]

We conducted our audit of SEC's and IPF's fiscal years 2014 and 2013 financial statements in accordance with U.S. generally accepted government auditing standards. We believe that the audit evidence we obtained is sufficient and appropriate to provide a reasonable basis for our findings and conclusions in this report.

Significant Deficiency over Accounting for Disgorgements and Penalties

As part of its enforcement responsibilities, SEC issues orders and administers judgments ordering, among other things, disgorgement, civil monetary penalties, and interest against violators of federal securities laws. When SEC is designated in an order or a final judgment to collect the assessed disgorgement, penalties, and interest on behalf of harmed investors or for payment to the general fund of the Department of the Treasury (Treasury), SEC records an accounts receivable for the amount the violator owes, accompanied by an equal and offsetting liability to reflect the amount payable to the harmed investors or to the Treasury. SEC recognizes amounts collected that are to be deposited in the general fund of the Treasury as revenue on its statement of custodial activity. In fiscal year 2014, SEC recorded approximately $3.7 billion of new disgorgement and penalty accounts receivables. As of September 30, 2014, SEC's disgorgement and penalty accounts receivable balance, net of an allowance for uncollectible amounts, was $381 million. SEC's custodial revenue collected from disgorgements and penalties and transferred to the general fund of the Treasury during fiscal year 2014 was $825 million.

[8]Office of Management and Budget, *Management's Responsibility for Internal Control*, OMB Circular No. A-123 (Dec. 21, 2004), defines management's responsibility for internal control in federal agencies and establishes requirements for documenting, testing, and assessing the effectiveness of internal controls.

[9]GAO-15-166R.

As we reported, our fiscal year 2014 audit identified continuing and new deficiencies in SEC's accounting for disgorgement and penalty transactions that increase the likelihood that the affected balance sheet amounts and custodial balances could be misstated and that such misstatements may not be detected and corrected in a timely manner. Specifically, we found continuing deficiencies related to (1) insufficient procedures for ensuring funds availability before transferring disgorgement and penalty-related funds to the Treasury; (2) ineffective monitoring of disgorgement and penalty-related cases filed in courts to ensure that all cases that should be recorded as receivables are timely identified; and (3) insufficient safeguarding controls at service providers that collect SEC cash receipts, including payments from violators for disgorgement, penalties, and related interest on SEC's behalf. We reported these issues to SEC management in May 2014, along with recommendations for corrective actions. SEC agreed with these actions and, as noted in this report, is in the process of taking corrective actions to address these recommendations.[10]

We also found new deficiencies related to disgorgements and penalties. Specifically, we found that SEC's controls were not effective in (1) timely and accurately recording disgorgement and penalty receivables, (2) timely and accurately recording adjustments to disgorgement and penalty receivables, and (3) reviewing disgorgement and penalty collections for errors.

Recording of Disgorgement and Penalty Receivables

During our fiscal year 2014 audit, we found that SEC's controls were not effective in providing reasonable assurance that disgorgement and penalty receivables were recorded timely and accurately in SEC's general ledger. SEC's routine monitoring procedures did not consistently and timely detect and correct errors. Instead, SEC identified errors in the accounting for certain of these receivables when a related subsequent event or transaction could not be recorded in the normal course of processing until the error was fixed. As these individual errors were found, SEC would investigate further to identify any other similar issues, and it was these ad hoc reviews that resulted in the identification and correction of additional errors. Specifically, we tested a statistical sample of 72 disgorgement and penalty accounts receivable amounts and found that 4 of the sampled transactions were not recorded in the general ledger in the proper accounting month. These errors resulted in understatements to gross accounts receivable, which aggregated to about $42 million, for the affected accounting months.[11] We also found that SEC recorded certain disgorgement and penalty accounts receivable amounts before the money was determined to be owed to SEC, resulting in an overstatement to gross accounts receivable of about $10 million. According to SEC's Office of Financial Management's (OFM) policy,[12] an accounts receivable amount and the related liability amount should be recorded after issuance of a final civil court judgment or administrative order. We found that 6 of the 72

[10]GAO-14-416R.

[11]We identified the four errors during testing of a statistical sample of 72 transactions covering receivables recorded during the 9-month period ending June 30, 2014. The four errors related to transactions that were not recorded in the correct accounting month, but were accurately recorded by the end of the audit period, Since the errors did not result in misstatements at the close of the audit period, there were no misstatements to project.

[12]U.S. Securities and Exchange Commission, Office of Financial Management, "Investments and Disgorgement Management: Enforcement Accounts Receivable Procedures Guide," ch. 46.07 of *OFM Reference Guide* (April 2014).

accounts receivable amounts we tested in our statistical sample were adjustments to correct amounts that SEC had originally recorded based on civil court judgments that were not final.[13]

These errors in recording disgorgement and penalty receivable transactions were caused by ineffective procedures for tracking, analyzing, and recording civil court judgments and administrative orders, including a lack of controls and systematic information sharing among SEC offices and divisions to properly record receivables or timely detect any errors in recorded amounts. Specifically, 3 of the 4 errors found in our testing occurred because OFM staff did not have sufficient information or guidance from the Division of Enforcement to properly interpret a court order, judgment, or other document that had been identified.[14] A lack of information sharing between OFM and the Division of Enforcement also caused the errors that resulted in SEC recording 6 adjustments to correct accounts receivable transactions. OFM is responsible for recording disgorgement and penalty transactions in the general ledger, while the Division of Enforcement is responsible for conducting investigations into possible violations of federal securities laws and prosecuting SEC's civil suits in the federal courts and carrying out its administrative proceedings. We found that OFM's procedures for recording disgorgement and penalty receivables did not include a process to consistently obtain sufficient information or guidance from the Division of Enforcement regarding these civil suits to ensure that any related accounts receivable amounts were timely identified and recorded in the general ledger in the proper accounting month.

Further, we found that SEC recorded certain disgorgement and penalty receivables to incorrect customer numbers in the general ledger.[15] For example, we found that 1 of the 45 randomly selected accounts receivable amounts we tested to evaluate controls was recorded to an incorrect customer number. In addition, as a result of ad hoc reviews, SEC identified a disgorgement and penalty accounts receivable amount that was recorded twice in the general ledger because it was initially recorded to an incorrect customer number, resulting in an overstatement of SEC's gross accounts receivable of $4.4 million for several months and into the following fiscal year, until SEC found and corrected this error. This was caused by ineffective implementation of existing SEC procedures. These procedures required staff to (1) determine whether an accounts receivable has already been recorded before initiating the recording of a new receivable and (2) review new receivables, including comparing the customer numbers against supporting documentation, as they were recorded. Although the controls were in place, OFM staff were not informed that an incorrect customer number could result in an accounts receivable amount being recorded twice. Consequently, the review of the recording of the receivable against supporting documentation did not detect the error.

Standards for Internal Control in the Federal Government provides that transactions should be promptly recorded to maintain their relevance and value to management in controlling

---

[13]We identified the six adjustments to correct accounts receivable transactions during testing of a statistical sample of 72 transactions covering receivables recorded during the 9-month period ending June 30, 2014. Since the receivables were accurately recorded by June 30, 2014, there were no misstatements to project to the entire population.

[14]One of the four errors found in our testing resulted from a system control deficiency, which SEC subsequently corrected.

[15]Customer number refers to the field in the general ledger that SEC uses to identify the specific securities law violator.

operations and making decisions.[16] This applies to the entire process or life cycle of a transaction or event from its initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded. Without effective procedures to reasonably assure the timely and accurate recording of disgorgement and penalty receivables, SEC will continue to be at risk that the affected balance sheet amounts and custodial balances could be misstated.

Recommendations for Executive Action

We recommend that you direct the Director of the Division of Enforcement, Chief Operating Officer (COO), and Chief Financial Officer (CFO) to take the following specific action:

1. Update current procedures for recording disgorgement and penalty receivable amounts to include new control procedures for consistent and systematic information sharing between OFM and the Division of Enforcement to reasonably assure that OFM is identifying and recording receivables timely and when money is payable to SEC.

We also recommend that you direct the COO and CFO to take the following specific action:

2. Inform responsible personnel through a memorandum or a directive that an incorrect customer number could result in an accounts receivable amount being recorded twice.

<u>Recording of Adjustments to Disgorgement and Penalty Receivables</u>

During our fiscal year 2014 audit, we found that SEC did not have effective controls to reasonably assure timely and accurate recording of adjustments to previously recorded disgorgement and penalty receivables, such as offsets.[17] For example, we tested a nonstatistical sample of 10 offsets[18] and found 1 instance where SEC did not record the offset in the proper period because of a lack of information sharing between OFM and the Division of Enforcement, as discussed above. OFM must at times rely on the Division of Enforcement to provide documentation related to offsets, such as when an offset depends on restitution in a criminal court case. However, SEC did not have a process in place to ensure that OFM, which is responsible for recording disgorgement and penalty receivables in the general ledger, routinely and timely received relevant documentation of offsets from the Division of Enforcement.

In addition, we noted that SEC did not record 4 of the 10 offsets tested in the proper accounting period. This was due to a lack of effective monitoring controls to overcome limitations in SEC's financial systems that did not permit recording of both receivables and any related adjustments at the same time. The final court judgments and orders related to these adjustments necessitated SEC's recording of both a new accounts receivable amount for amounts ordered payable to SEC and an offset amount. However, we determined that SEC procedures did not

---

[16]GAO, *Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999). GAO recently revised and reissued *Standards for Internal Control in the Federal Government*, with the new revision effective beginning with fiscal year 2016. GAO-14-704G (Washington, D.C.: September 2014).

[17]SEC records an offset when a court orders that an SEC debt may be satisfied in full or in part by the amount of criminal restitution or forfeiture imposed (or paid) in a parallel criminal action or when balances are reduced or collections paid to other entities for which the debtor receives credit toward the SEC debt.

[18]We reviewed a nonstatistical sample of the 10 largest offsets recorded from October 1, 2013, through June 30, 2014. Because we selected a nonstatistical sample of offsets, we cannot project the results to the respective populations.

include a process to track these final court judgments and orders from identification of the adjustment through recording of the adjustment in the financial system.

We also found that SEC did not always record offsets for the correct amount. In our test of 30 statistically selected disgorgement and penalty accounts receivable amounts recorded from July 1, 2014, through September 30, 2014, we found that SEC staff incorrectly applied a collection to a disgorgement accounts receivable rather than liquidating a related penalty accounts receivable.[19] This resulted in an understatement of the disgorgement accounts receivable balance. SEC staff subsequently recorded an offset for the understated balance. As a result, the related penalty accounts receivable was overstated. This occurred because SEC's collection procedures did not require staff to review receivables and related judgments and orders to ensure that all offsets and other adjustments to related receivables had been recorded before recording collections.

Further, we found that SEC did not record a waiver of an accounts receivable amount timely.[20] Specifically, for 1 of the 10 receivable adjustments we reviewed, we found that SEC did not record a waiver in the proper fiscal year, resulting in an overstatement of gross receivables of $14.9 million.[21] In this instance, the Division of Enforcement provided OFM with the necessary documentation to record the waiver. However, the waiver was left unrecorded over a period of 10 months due to deficiencies in SEC's controls for monitoring the recording of adjustments to related accounts receivables. Specifically, SEC's monitoring controls did not include procedures for reviewing recorded adjustments against all documentation that the Division of Enforcement sent to OFM relating to a possible adjustment to reasonably assure the completeness of recorded adjustments.

Standards for Internal Control in the Federal Government provides that transactions should be promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event, from the initiation and authorization through its final classification in summary records. In addition, control activities help to ensure that all transactions are completely and accurately recorded.[22] Deficiencies in SEC's process for recording adjustments to disgorgement and penalty receivables increase the risk that the affected balance sheet amounts and custodial balances could be misstated.

Recommendations for Executive Action

We recommend that you direct the Director of the Division of Enforcement, COO, and CFO to take the following specific action:

---

[19]We tested a statistical sample of 30 new accounts receivable transactions recorded from July 1, 2014, through September 30, 2014. Our procedures included determining whether any offset should be recorded against any of the transactions. Since our population was new accounts receivable transactions rather than offsets, we determined that it would not be appropriate to project the results to the entire population.

[20]SEC records a waiver when SEC or a court relieves a debtor of a portion of the legal debt.

[21]We reviewed a nonstatistical sample of 10 receivable adjustments that were recorded from October 1, 2013, through June 30, 2014. Because we selected a nonstatistical sample of adjustments, we cannot project the results to the respective populations.

[22]GAO/AIMD-00-21.3.1.

3. Develop policies and procedures requiring the Division of Enforcement to systematically provide OFM with all relevant documentation that could result in adjustments to accounts receivables to allow for timely and accurate recording of such adjustments in the general ledger.

We also recommend that you direct the COO and CFO to take the following specific action:

4. Develop and implement effective procedures to reasonably assure timely and accurate recording of adjustments to disgorgement and penalty receivables. These procedures should include the following:

    a. a process for tracking identified final judgments and orders that include language that would necessitate SEC recording both a new accounts receivable amount and an offset amount through recording of the adjustment in the financial system to reasonably assure the timely recording of adjustments and to overcome limitations in SEC's financial systems that do not permit recording of both receivables and any related adjustments at the same time;
    b. review of receivables and related judgments and orders to reasonably assure that all receivable adjustments, including offsets, are recorded before recording collections; and
    c. reviews of recorded adjustments against all documentation that the Division of Enforcement sent to OFM relating to a possible adjustment to reasonably assure the completeness of recorded adjustments.

Review of Recorded Disgorgement and Penalty Collections

During our fiscal year 2014 audit, we found that SEC did not always implement established procedures for the review of disgorgement and penalty collections to verify that the related amounts were recorded accurately in the general ledger. SEC's policy requires review of each disgorgement and penalty collection, which can vary greatly from a few dollars to millions of dollars. However, SEC was not able to provide evidence that SEC staff performed a daily review of collection transactions recorded in the general ledger compared to source documentation for 9 of the 45 randomly selected collections we tested.[23] The shared service provider, which operated SEC's financial system, sent SEC a daily list of recorded collection transactions, which SEC staff were required to review against source documentation. However, SEC did not perform a review for 7 of the collections because SEC did not have specific procedures in place to reasonably assure that the list provided by the shared service provider included every collection transaction recorded on a certain day. In addition, for 2 of the collections, SEC staff did not review every collection transaction on the list. SEC did not review all collection transactions because SEC's procedures did not require a review of the shared service provider's daily list of recorded collection transactions to reasonably assure that the list was complete, nor did SEC's procedures require a secondary review to reasonably assure that every collection was reviewed and that such review was documented.

Standards for Internal Control in the Federal Government provides that controls should be in place to provide reasonable assurance that financial transactions are completely and accurately recorded.[24] Without proper review of collection transactions, SEC is at increased risk that errors

[23]We identified these 9 collection transactions during control testing of a random sample of 45 transactions covering collections recorded from October 1, 2013, through June 30, 2014.

[24]GAO/AIMD-00-21.3.1.

in recorded disgorgement and penalty collection transactions will not be timely detected and corrected.

Recommendation for Executive Action

We recommend that you direct the COO and CFO to take the following specific action:

5. Revise current collection procedures to include

   a. a review of the shared service provider's daily list of recorded collection transactions to reasonably assure that the list is complete and
   b. a secondary review to reasonably assure that a review of all collections recorded in the general ledger against supporting documentation is performed and that such review is documented.

Other Deficiencies

Reinvestment of Disgorgement Funds

During our fiscal year 2014 audit, we found that SEC did not timely detect redemption of a disgorgement fund investment that was not reinvested in one-day securities. SEC policy required that investments in long-term securities be automatically reinvested in one-day securities when they mature. In February 2014, a $39 million investment of disgorgement funds matured, which the Department of the Treasury's Bureau of the Fiscal Service (BFS) redeemed and deposited in SEC's Fund Balance with Treasury account instead of reinvesting in one-day securities.[25] BFS processes investment transactions for SEC and other federal agencies and, as such, is considered a service provider for SEC. BFS's Statement on Standards for Attestation Engagements No. 16 report listed several user controls that should be in place at SEC, as a user organization, in order for SEC to rely on the specified internal controls of the service provider.[26] One such control provided that it was SEC's responsibility to perform monitoring procedures and notify BFS if investment and redemption requests have been processed incorrectly. However, SEC did not detect the redemption of the $39 million investment of disgorgement funds until July 2014, 5 months after the event occurred. SEC's investment procedures included reviews of investments and redemptions SEC initiated. However, the

[25]BFS was created in October 2012 as a result of the consolidation of two Department of the Treasury bureaus, the Financial Management Service and the Bureau of the Public Debt. Among other things, BFS is responsible for providing investment services to federal government entities, including SEC, that have legislative authority to invest funds.

[26]SEC's service provider contracts with an independent auditor to perform an audit of controls related to its service operations under Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization*. SSAE No. 16 provides authoritative guidance for service auditors to report on the design and operating effectiveness of controls at organizations that provide services to user entities, such as SEC, when those controls are likely to be relevant to user entities' internal control over financial reporting. The issuance of a service auditor's report prepared in accordance with SSAE No. 16 signifies that a service organization has had its control objectives and control activities examined by an independent auditing firm. The service auditor's report includes valuable information regarding the service organization's controls and the effectiveness of those controls, and also identifies complementary user entity controls that should be implemented by the user entity to ensure that its control objectives are met. AT Section 801, *Reporting on Controls at a Service Organization*, defines complementary user entity controls as controls that management of the service organization assumes, in designing the service to be provided, will be implemented by user entities, and that if necessary to achieve the control objectives stated in management's description of the service organization's system, are identified as such in that description.

procedures did not include specific steps to monitor and verify that investments in long-term securities were automatically reinvested in one-day securities when they matured.

Standards for Internal Control in the Federal Government provides that control activities are the policies, procedures, techniques, and mechanisms that enforce management's directives.[27] Without control activities to ensure that disgorgement investments are redeemed in accordance with SEC's policy, there is a risk that unauthorized redemptions of investments could occur and that SEC may not be maximizing return on its investments.

Recommendation for Executive Action

We recommend that you direct the COO and CFO to take the following specific action:

6. Revise existing procedures to include performing daily monitoring to detect any long-term investments that have been redeemed but not immediately reinvested in one-day securities, and to reinvest the funds when such errors are detected.

Maintaining Ongoing Accuracy of Property and Equipment Inventory Records

SEC maintained two asset inventory systems for recording its capitalized property and equipment. Specifically, a record of each capitalized asset was maintained in SEC's property register, a module linked to its general ledger system. The Office of Information Technology (OIT) also maintained an inventory system for SEC's capitalized information technology (IT) equipment—the IT inventory system—used primarily for tracking asset location. OIT electronically tracked asset movement of its capitalized IT equipment by attaching battery-operated tracking tags to the assets. SEC combines information from these inventory systems in developing the inventory list of capitalized assets, which SEC primarily used to locate assets during its annual physical inventory count of capitalized assets.

During our fiscal year 2014 audit, we found that SEC did not always update and maintain property and equipment information in its property register on an ongoing basis. Specifically, information relating to asset location (the personnel or office to which the equipment has been assigned) and serial numbers was not always accurate. SEC did not have controls in place to provide reasonable assurance that (1) the property register and IT inventory system were timely and accurately updated when the physical custody of capitalized assets changed and (2) monitoring of the ongoing existence or physical accountability of its capitalized assets was performed. For example, of the 13 capitalized depreciable property and equipment assets we randomly selected for testing,[28] 3 could not initially be located because of inaccurate location information in SEC's inventory list, 6 assets' serial numbers did not match related information reflected on the inventory list, and 2 assets did not have tracking tags attached to the equipment, as required.[29] SEC's Office of Inspector General (OIG) reported similar findings,

---

[27]GAO/AIMD-00-21.3.1.

[28]We reviewed a nonstatistical sample of 13 capitalized assets recorded in SEC's property register as of March 31, 2014. Because we selected a nonstatistical sample of capitalized assets, the results cannot be projected to the population.

[29]SEC affixes on each piece of capitalized electronic equipment a radio-frequency identification device to identify and track the location and movement of these assets within SEC's offices. When feasible, SEC also affixes electronic tags to most of its accountable assets.

stating that SEC's IT inventory system contained incorrect locations of assets and user information for a significant number of laptops.[30]

The issues we found occurred because SEC did not have controls in place to provide reasonable assurance that its property register and its IT inventory system were updated and accurate on an ongoing basis as capitalized IT equipment assets were moved. Policies and procedures were not in place to ensure that such location changes were timely and accurately recorded in the IT inventory system. In addition, SEC did not have effective monitoring controls to detect incorrect asset information, location information, or both in either its property register or the IT inventory system. Although SEC's regulations allowed for periodic sampling and inventory of certain property and equipment during the year before the annual physical inventory, there were no documented control procedures to ensure that this was routinely performed.[31] Consequently, SEC's physical inventory count of capitalized depreciable assets took approximately 6 months to complete and 194 assets could not initially be located during the count because of inaccuracies in the inventory records.

Standards for Internal Control in the Federal Government provides that management must establish physical control to secure and safeguard vulnerable assets, including security for and limited access to assets such as inventories and equipment, which might be vulnerable to risk of loss or unauthorized use. Such assets should be periodically counted and compared to control records.[32] Inaccurate property records could result in the loss of the physical asset and in misstatements in the financial statements to the extent that capitalized assets no longer exist but remain in the financial records.

Recommendation for Executive Action

We recommend that you direct the COO and CFO to take the following specific action:

7. Develop policies and implement controls for safeguarding of property and equipment to specifically include the following:

    a. detailed procedures for ensuring updates to SEC's property register and IT inventory system for changes to capitalized property and equipment, such as change in location, are timely and accurately performed and
    b. effective monitoring control procedures, such as periodic sampling and inventory of property and equipment to reasonably assure the ongoing accuracy of the physical custody and other property and equipment information in SEC's property register and IT inventory system.

<u>Documenting Disposal of Property and Equipment</u>

During our fiscal year 2014 audit, we found that SEC did not maintain documentation of numerous capitalized asset disposals. For example, SEC's own physical inventory found that it did not have documentation for 194 missing assets, as discussed above. In addition, in testing

---

[30]U.S. Securities and Exchange Commission, Office of Inspector General, *Controls Over the SEC's Inventory of Laptop Computers*, OIG Report No. 524, September 22, 2014.

[31]U.S. Securities and Exchange Commission, *SEC Administrative Regulation: Property Management Program*, SECR 09-02 Rev. 1 (September, 11, 2012).

[32]GAO/AIMD-00-21.3.1.

for the existence of 13 randomly selected capitalized property and equipment assets, we found that 2 could not be located. These 2 items were also initially identified as missing during SEC's 2014 physical inventory count. The 194 missing assets included computers and media devices that required sanitization during disposition. SEC's research and investigation into these missing assets subsequently determined that these assets had been scheduled for and were sent to the General Services Administration for disposition.[33] However, SEC was not able to provide documentation supporting the disposition of these assets. SEC's own investigation also concluded that these assets were disposed of without following SEC's required asset disposal process. SEC's procedures require that fixed asset retirement and disposal forms be completed and approved by SEC staff prior to disposal.[34]

According to an SEC official, SEC had processes in place to reasonably assure that all dispositions were proper and documented and that required media destruction procedures were followed. However, SEC did not have controls in place to reasonably assure that the disposal documents were completed and retained, or that any deviations from the requirements were documented. As a result, the official acknowledged that SEC did not consistently maintain the required authorizing documentation supporting the sanitization and disposition of many of these assets. Specifically, the policy for documenting dispositions was overridden by a supervisor for many of these assets; however, the rationale and cause for deviations from the policy were not documented. SEC's policy did not provide conditions under which its policy for properly documenting dispositions could be overridden, including required levels of approval necessary to authorize such deviations from policy. SEC's OIG also reported that SEC did not always store, inventory, or track information technology media during the sanitization process.[35]

Standards for Internal Control in the Federal Government states that internal control and all transactions and other significant events need to be clearly documented, and the documentation should be readily available for examination. In addition, transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority.[36] Although the status of the missing assets was eventually determined, insufficient enforcement of asset disposition procedures increases the risk of loss, theft, and unauthorized disclosure of sensitive or confidential information.

Recommendation for Executive Action

We recommend that you direct the COO and CFO to take the following specific action:

8. Implement controls, such as periodic reviews of asset dispositions, to help reasonably assure that SEC's procedures for the preparation and maintenance of documentation related to the disposition of assets are consistently implemented and that any deviations from established procedures are documented.

---

[33]The General Services Administration is the federal agency that manages federal property, which includes disposing of assets that are obsolete or that federal agencies no longer need.

[34]U.S. Securities and Exchange Commission, Office of Financial Management, "Property, Plant and Equipment: Process Narrative and Process Flows," ch. 55.03 of *OFM Reference Guide* (August 2012).

[35]U.S. Securities and Exchange Commission, Office of Inspector General, *Review of the SEC's Practices for Sanitizing Digital Information System Media*, OIG Report No. 521, Washington, D.C., May 30, 2014.

[36]GAO/AIMD-00-21.3.1.

Ensuring the Existence of Capitalized Bulk Purchases

During our fiscal year 2014 audit, we found that SEC did not verify the continued existence of capitalized bulk purchases (bulk purchases) of property and equipment assets as part of its annual physical inventory count.[37] Bulk purchases of property and equipment made up about $33 million, or 10 percent, of SEC's capitalized depreciable assets at the time of SEC's physical inventory count. In addition to its annual physical inventory count of capitalized depreciable assets, which excluded bulk purchases, SEC performed a separate wall-to-wall inventory count of its IT accountable assets to physically verify existence of these assets, which included (1) capitalized IT assets and (2) certain expensed IT assets that SEC considers important to track and therefore included in its IT inventory system.[38] SEC relied on this wall-to-wall physical inventory as its means for verifying the existence of certain of its capitalized bulk purchased IT assets. However, the assets counted were not reconciled to the related capitalized assets recorded in the financial records because SEC did not have a process for analyzing the extent to which capitalized bulk purchased IT assets were verified for existence through its wall-to-wall inventory count.

Standards for Internal Control in the Federal Government states that an agency must establish physical control to secure and safeguard vulnerable assets. Further, such assets should be periodically counted and compared to control records.[39] Until such time that SEC has established policies and procedures to verify the continued existence of its capitalized bulk purchases, the financial statements are at risk of including capitalized assets that may no longer exist.

Recommendation for Executive Action

We recommend that you direct the COO and CFO to take the following specific action:

9. Analyze the results of SEC's wall-to-wall physical inventory count to validate continued existence and completeness of its capitalized bulk purchased assets, as part of the annual physical inventory count procedures.

Identifying and Summarizing Uncorrected Misstatements

During our fiscal year 2014 audit, we found that SEC did not have effective procedures to reasonably assure that its prior period adjustment tracking sheet (PPA tracking sheet) was complete. SEC's OFM maintains a PPA tracking sheet that lists all identified uncorrected

[37]SEC defines its capitalized bulk purchases as acquisitions of multiple, similar items that cost less than $5,000 individually but in aggregate cost greater than or equal to $50,000 and have a useful life of 2 years or more. These could be purchases of computers and other electronic devices or furniture and fixtures. Each bulk purchase item is assigned a property tag and recorded in the property register. Each individual IT asset included in bulk purchases is assigned a unique asset number and recorded in SEC's IT inventory system with the associated bulk purchase property tag number. The IT inventory system also includes records of certain expensed IT assets that SEC considered important to track. SEC refers to these capitalized and expensed IT assets as accountable assets. (U.S. Securities and Exchange Commission, Office of Financial Management, "Property, Plant, and Equipment Policy," ch. 55.01 of *OFM Reference Guide*, June 2014, and "Property, Plant and Equipment: Process Narrative and Process Flows," ch. 55.03 of *OFM Reference Guide*, August 2012.)

[38]Capitalized depreciable IT assets include IT assets that were capitalized as part of SEC's capitalized bulk purchases and individually recorded IT assets, when cost of the individual asset meets or exceeds SEC's capitalization thresholds.

[39]GAO/AIMD-00-21.3.1.

misstatements—from the current year and prior period—that have been provided to OFM from throughout the organization.[40] OFM summarizes all uncorrected misstatements in this tracking sheet by line item and fiscal year to prepare the Schedule of Uncorrected Misstatements. Quarterly, OFM evaluates the materiality of such uncorrected misstatements on the schedule to determine whether any restatement of prior period financial statements may be necessary. During our audit, we found that SEC did not include in its PPA tracking sheet a prior period uncorrected misstatement relating to a disgorgement receivable of about $20 million, which SEC recorded in May 2014 but should have been recorded in May 2013. This omission occurred because (1) SEC's policies and procedures did not include sufficient details on how OFM accountants should identify a completed list of prior period adjustments and (2) SEC has not provided training to its staff on how to identify prior period uncorrected misstatements and timely communicate these to OFM. As a result, SEC's financial statements are at increased risk of misstatement.

Standards for Internal Control in the Federal Government provides that management should implement control activities through policies, procedures, techniques, and other mechanisms.[41] Although SEC has implemented policies and procedures for routinely evaluating the effect of prior period uncorrected misstatements in the current fiscal year financial statements, such procedures do not include specific steps to reasonably assure that prior period uncorrected misstatements are timely identified and reported to OFM, which increases the risk that SEC's financial statements may be misstated.

Recommendations for Executive Action

We recommend that you direct the COO and CFO to take the following specific actions:

10. Revise current policies and procedures to include sufficient details to provide SEC staff with clear guidance on how to identify prior period uncorrected misstatements and timely communicate such misstatements to OFM for review and evaluation.
11. Provide staff training on the revised prior period uncorrected misstatements policies and procedures.

<u>Information Security</u>

During our fiscal year 2014 audit, we found that SEC did not consistently implement effective internal controls over its information systems operations, including those affecting financial systems that support financial reporting. Weaknesses in information security controls, as identified, relate to the (1) maintenance and monitoring of SEC configuration baseline standards and (2) implementation of security configurations based on these standards in the areas of password settings and network services. If unresolved, these weaknesses can jeopardize the reliability of the data processed by key financial systems and increase the risk that unauthorized

[40]As defined in SEC's *Office of Financial Management Reference Guide,* chapter 11.03 *Financial Reporting: Policy and Procedures for Adjustments That Impact a Prior Period* (effective August 2012), these misstatements include (1) adjustments related to financial transactions recorded in the current fiscal year that should have been recorded in a previous fiscal year (referred to above as prior period uncorrected misstatements) and (2) uncorrected misstatements that can affect the current or previous fiscal year (referred to above as uncorrected misstatements in the current fiscal year). The latter occur toward the end of the current fiscal year when a financial event occurs after the agency has closed its books and prepared its financial statements; if such a misstatement is deemed significant, SEC will reopen its books to make the necessary adjustment(s) to fairly present its financial statements.

[41]GAO/AIMD-00-21.3.1.

individuals could gain access to financial systems and intentionally or inadvertently access, alter, or delete sensitive data or computer programs.

SEC Did Not Maintain and Monitor Configuration Baseline Standards

Configuration management is important for establishing and maintaining secure information systems and provides important support for managing security risks in those systems. It involves the identification and management of security features for all hardware, software, and firmware components of an information system at a given point, and systematically controls changes to that configuration during the system's life cycle. Configuration baseline settings prevent unauthorized users from making unapproved changes to the system, thereby protecting system integrity. The National Institute of Standards and Technology (NIST) guidance recommends, and SEC policy requires,[42] developing, documenting, and maintaining under configuration control a current baseline configuration of information systems.[43] NIST also states that security configuration management benefits from an information system inventory when each item in the inventory is associated with approved configuration baselines, configuration change control/security impact analysis, and monitoring/reporting. Some data elements typically stored in an information system component inventory include description of the inventory, host name, operating system version, database version, and physical location.

We found that SEC did not maintain and monitor configuration baselines for the significant financial systems and general support systems. For example, the agency did not maintain security configuration baseline settings for the database supporting a key financial system. In addition, SEC did not document a comprehensive baseline inventory of hardware, software, and firmware for significant financial systems. Specifically, SEC did not document all of the data elements necessary, such as host name, operating version, database version, and physical location, for maintaining and monitoring inventories at its data centers. These issues occurred because SEC did not prioritize its resources and efforts to adequately implement its configuration management policy. Not monitoring configuration baseline settings may result in exploitation without detection or user accountability. Without a complete and accurate system baseline designating critical components, SEC does not have an accurate inventory that can be used for determining approved configuration baselines, configuration change control/security impact analysis, and monitoring/reporting.

<u>Recommendation for Executive Action</u>

We recommend that you direct the COO and Chief Information Officer to take the following action:

12. Prioritize resources and efforts to reasonably assure that configuration management policy is followed, specifically with regard to (a) maintaining and monitoring of configuration baselines for financially significant systems and the general support system and (b) documenting data elements necessary for maintaining and monitoring inventories of IT assets for significant systems at SEC data centers.

---

[42]U.S. Securities and Exchange Commission, Office of Information Technology, *SEC OIT Security Policy Framework Manual* (Apr. 7, 2014).

[43]National Institute of Standards and Technology, *Guide for Security-Focused Configuration Management of Information Systems*, NIST Special Pub. 800-128 (August 2011). NIST provides standards and guidelines to agencies on information security.

SEC Did Not Consistently Implement Secure Configuration Settings

A computer system needs to be able to identify and authenticate each user so that activities on the system can be linked and traced to a specific individual. An organization does this by establishing the validity of a user's claimed identity by requesting some kind of information, such as a password, that is known only by the user—a process known as authentication. To help ensure that passwords cannot be guessed, attempts to log on to a system with invalid passwords should be limited. Passwords should also be designed to automatically expire after a designated date. SEC policy states that passwords must be at least eight characters, alphanumeric, and expire after 120 days.

We found that SEC network devices had insufficient passwords on each of the six assets we reviewed in the production environment.[44] In addition, the password settings for these devices did not follow SEC's password requirements, and thus passwords were susceptible to guessing when used for remote authentication. Further, SEC configured the administrative passwords of another 22 of 92 assets in the production environment to never expire. As a result, an attacker would potentially have an unlimited number of attempts to guess the password and an unlimited amount of time to use the password once it was guessed to gain unauthorized access to SEC systems and data.

NIST recommends that only authorized processes and services should be permitted in information systems and that they should be limited to those essential to effectively perform an entity's mission and business functions. Configuring systems only for necessary capabilities minimizes processes and services such that only required services are installed, consistent with the concept of least privilege. Controls related to processes and services include all of the technological and managerial safeguards established and applied to information systems to protect hardware, software, and data from accidental or malicious modification, destruction, or disclosure.

However, SEC enabled by default an unnecessary network service on each of the six network devices in the production environment. In addition, a web application for a key financial system stored sensitive information about the user in session in plain text. Weaknesses in information system identification, authentication, and authorization occurred because SEC did not have adequate controls in place to reasonably assure sufficient monitoring of security configuration settings. As a result, risk exists that attackers could find a security hole through the enabled protocol and plain text session, thereby gaining unauthorized access to SEC systems and data.

<u>Recommendation for Executive Action</u>

We recommend that you direct the COO and Chief Information Officer to take the following action:

13. Implement controls necessary to provide reasonable assurance that

    a. password configuration settings in network devices follow administrative requirements for remote authentication,
    b. expiration days for administrative passwords in the production environment are always set to expire,

---

[44]The production environment is the system environment where an entity performs its operational information processing activities.

c. default network protocol on network devices is disabled consistent with the concept of least privilege, and
d. user sessions are either disabled or encrypted to prevent viewing of sensitive information in plain text.

Status of Prior Audit Recommendations

During our audit of SEC's fiscal year 2014 financial statements, we found that SEC took action to address many of the recommendations from our prior reports. Specifically, as summarized in enclosure I, SEC took action to fully address 14 of the 25 recommendations reported as open in our May 12, 2014, management report.[45] The 11 recommendations that remained open as of the end of our fiscal year 2014 financial statement audit relate to budgetary resources, disgorgement and penalties, nonpayroll expenses, payroll, property and equipment, and information security.

In addition, we also found that SEC took action to fully address 37 of 52 prior years' recommendations from various information security reports that remained open at the beginning of fiscal year 2014.[46] We discussed with management the status of the 15 information security control recommendations that remained open at the conclusion of our fiscal year 2014 audit. Management is working on resolving these remaining open recommendations.

Agency Comments

In her April 23, 2015, written comment on a draft of this report, the SEC Chair stated that SEC is committed to strong financial reporting and accounting processes and that SEC is working diligently to address findings related to disgorgements and penalties. The focus of such efforts is on continuous monitoring and enhancement of financial processes and controls. Further, the SEC Chair stated that the report contained a number of helpful recommendations on further enhancements to SEC's internal controls and that SEC is working to address these recommendations, through efforts such as

- improving the process for reinvesting disgorgement funds on a timely basis,
- better maintaining accurate property and equipment records,
- enhancing the process for documenting the disposals of property and equipment,
- tightening the process for ensuring the continued existence of capitalized bulk purchases as part of SEC's annual physical inventory count,
- better identifying and documenting uncorrected misstatements, and
- bolstering information security related to financial systems.

Finally, the SEC Chair stated that SEC remains committed to investing the time and resources necessary to maintain strong internal controls over financial reporting.

SEC's written comments are reprinted in enclosure II.

---

[45] GAO-14-416R.

[46] GAO issued a public report with two recommendations to address information system control weaknesses—see GAO-14-419—and separate limited distribution reports from the fiscal year 2013 and prior audits with 50 detailed recommendations to correct specific information system weaknesses, for a total of 52 recommendations related to information security deficiencies open at the beginning of our fiscal year 2014 audit.

This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. § 720 to submit a written statement on actions taken on the recommendations to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Oversight and Government Reform no later than 60 days from the date of this report. A written statement also must be sent to the House and Senate Committees on Appropriations with your agency's first request for appropriations made more than 60 days after the date of this report.

This report is intended for use by SEC management. We are sending copies of this report to the Chairmen and Ranking Members of the Senate Committee on Banking, Housing, and Urban Affairs; the Senate Committee on Homeland Security and Governmental Affairs; the House Committee on Financial Services; and the House Committee on Oversight and Government Reform. We are also sending copies to the Secretary of the Treasury, the Director of the Office of Management and Budget, and other interested parties. In addition, this report is available at no charge on the GAO website at http://www.gao.gov.

We acknowledge and appreciate the cooperation and assistance provided by SEC management and staff during our audit of SEC's fiscal years 2014 and 2013 financial statements. If you have any questions about this report or need assistance in addressing these issues, please contact James R. Dalkin at (202) 512-3133 or dalkinj@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 members who made key contributions to this report are listed in enclosure III.

Sincerely yours,

James R. Dalkin
Director
Financial Management and Assurance

Enclosures - 3

Enclosure I: Status of Recommendations from Prior Audits Reported as Open in GAO's 2013 Management Report[47]

Audit area	Year initially reported	Status of corrective action: Completed	Status of corrective action: In progress
Budgetary resources			
1. Correct general ledger system configurations to properly account for upward and downward adjustments of prior years' undelivered orders in accordance with the *U.S. Standard General Ledger*.	2008		X
2. Augment existing policies and procedures for recording obligations to include, at a minimum, (a) backup procedures for the recording of obligations in the event that responsible employees are unable to perform their assigned duties and (b) controls designed to ensure that U.S. Securities and Exchange Commission (SEC) offices submit obligating documents to the Office of Financial Management for processing as obligations are incurred.	2011		X
3. Develop and implement documented control procedures to ensure liquidation, deobligation, or both of remaining travel obligations after the completion of the travel.	2011	X	
4. Revise SEC regulation (SECR) 14-1 to clearly delineate circumstances under which authority for obligating agency budgetary resources can be delegated to appropriate personnel other than the CO, compare current standard operating procedures and BPPs with SECR 14-1, and make any necessary conforming changes.	2012	X	
5. As part of the annual risk assessment process, include required steps for assessing SEC's monitoring controls to identify, document, and record any downward adjustment transactions to SEC's prior year obligations in the general ledger.	2013	X	
Disgorgement and penalties and investments			
6. Develop and implement an automated subledger that interfaces with the general ledger for investment and disgorgement and penalty liability transaction activity.	2010	X	
7. Develop and implement control procedures to include specific steps for the review, classification, and disposition of collections in order to properly apply collections to an SEC accounts receivable or transfer collections to either another entity or to the U.S. Treasury (Treasury).	2013		X
8. Revise existing procedures for the monitoring of accounts receivable transactions recorded in the general ledger to specifically require review of all types of accounting entries that could affect the accounts receivable balance, including correcting entries.	2013	X	
9. Develop and implement specific procedures for documenting (1) the funds availability validation procedures performed and (2) the supervisory review to ensure that the validation of funds availability procedures is appropriately performed prior to transferring disgorgement and penalty-related funds to Treasury.	2014		X

[47]GAO, *Management Report: Improvements Needed in SEC's Internal Controls and Accounting Procedures*, GAO-14-416R (Washington, D.C.: May 12, 2014).

Audit area	Year initially reported	Status of corrective action: Completed	Status of corrective action: In progress
10. Enhance current SEC procedures over the daily reconciliation process by developing and implementing sufficiently detailed operating procedures that include specific review procedures to be followed, such as verifying that the alert in *CourtLink* was actually established and documenting that this review procedure had been performed, to ensure that all SEC disgorgement and penalty judgment cases are tracked in *CourtLink* and uploaded into *ImageNow*.	2014		X
11. Coordinate with SEC's service provider to develop and implement controls to (1) physically secure cash receipts received by the service provider on SEC's behalf prior to delivery and processing in the general accounting branch and (2) log mail as it is opened in the general accounting branch and store checks in a safe or other locked facility until deposited.	2014		X
12. Coordinate with SEC's service provider to request that its service auditor test safeguarding controls over cash receipts received by the service provider on SEC's behalf and report on the design and operation of such controls in the service auditor's report.	2014		X
Financial reporting			
13. Establish and implement procedures for performing a comprehensive review of all posting configurations and recurring correcting journal entries to identify and address any additional departures from Treasury's prescribed posting models.	2010	X	
14. Document and implement quality assurance procedures over the preparation of the statement of net cost, including a procedure to compare the sum of all allocated costs to the total actual costs of the various organizations to ensure that all such costs are properly and fully allocated.	2012	X	
15. Establish a mechanism to ensure that existing supervisory review procedures over manual JV transactions are followed to ensure that all manual JV transactions are properly prepared and accurately and timely recorded. These procedures could include sending periodic reminders to JV reviewers emphasizing existing procedures and the importance of adhering to them.	2013	X	
16. Implement controls to ensure that procedures for reviewing legal contingencies reflected in the management schedule are followed and that such reviews are properly documented.	2014	X	
17. Develop and implement control procedures for timely assessment and, as applicable, timely recording of significant events with their financial consequences.	2014	X	
Nonpayroll expenses			
18. Develop and implement policies and procedures detailing the steps and documentation required to effectively control and monitor travel expenses paid through the central billing account, including steps required to ensure documented receipt of refunds or credits for travel/tickets that were previously paid for by SEC but subsequently canceled.	2011		X
Payroll			
19. Develop procedures to provide for documented evidence of a certifying official's approval of leave and compensatory time before recording such transactions in the time and attendance system.	2012		X
Property and equipment			

Audit area	Year initially reported	Status of corrective action: Completed	Status of corrective action: In progress
20. Establish and implement procedures to properly record property and equipment receipt transactions using capitalizable project and budget object class codes within the general ledger system.	2010	X	
21. Revise control procedures for conducting the annual physical inventory count of property and equipment to include specific steps required to (a) reconcile capitalized property and equipment to be counted with related general ledger balances, (b) reconcile division and office responses to the items listed in the property and equipment report used for the physical count, and (c) assess and appropriately reflect any financial statement impact of any issues identified during the physical count.	2013	X	
22. Develop and implement control procedures to ensure that responsible offices timely complete and submit the required documentation to the service provider for recording of an asset into the FA module in the same accounting month as it is received or placed in service.	2014		X
23. Develop and implement control procedures for the timely processing of reclassification forms into the FA module to ensure that such forms are processed in the same month that the assets are placed into service.	2014	X	
Information security			
24. Augment control procedures over SEC's information security to include specific steps for (a) configuring SEC's remote host and network infrastructure devices to require the use of strong passwords; (b) disabling access of all contractors and employees to SEC's networks or financial applications upon their separation from SEC; (c) monitoring compliance with information security policies, for example, by enabling audit and monitoring of software on servers that support financial applications; and (d) mitigating software vulnerabilities, for example, by requiring installation (or deployment) of high-risk patches, consistent with SEC policy.	2013		X
25. Restrict user roles in SEC's system for tracking and documenting processes leading to the recording of financial data related to disgorgement and penalty transactions to ensure proper segregation of duties and compliance with SEC's policies and procedures for assigning user roles.	2014	X	

Source: GAO analysis of SEC data. | GAO-15-387R

Enclosure II: Comments from the U.S. Securities and Exchange Commission

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

THE CHAIR

April 23, 2015

Mr. James R. Dalkin
Director
Financial Management and Assurance
United States Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Mr. Dalkin:

Thank you for the opportunity to respond to the draft report entitled *Management Report: Improvements Needed in SEC's Internal Controls and Accounting Procedures* (GAO-15-387R). The report contains a number of helpful recommendations to strengthen the SEC's internal controls over financial reporting.

The SEC is committed to strong financial reporting and accounting processes, and I am pleased that our audit results evidenced that once again. The SEC is working diligently to address findings related to disgorgements and penalties, which is an important and very complex process. A key focus for the SEC is also the continuous monitoring and enhancement of financial processes and controls.

Your draft report provided helpful recommendations on further enhancements that management should consider with respect to our internal controls. We are working to address these recommendations through efforts such as:

- Improving the process for reinvesting disgorgement funds on a timely basis;
- Better maintaining accurate property and equipment records;
- Enhancing the process for documenting the disposal of property and equipment;
- Tightening the process for ensuring the continued existence of capitalized bulk purchases as part of our annual physical inventory count;
- Better identifying and documenting uncorrected misstatements; and
- Bolstering information security related to financial systems.

The SEC remains committed to investing the time and resources necessary to maintain strong internal controls over financial reporting. I look forward to continuing to work with you in the coming months on the issues described above, as we begin the audit for FY 2015.

Mr. James R. Dalkin
Page 2

If you have any questions, please do not hesitate to contact Kenneth A. Johnson, the SEC's Chief Financial Officer, at (202) 551-4306.

Sincerely,

Mary Jo White
Chair

Enclosure III: GAO Contact and Staff Acknowledgments

GAO Contact

James R. Dalkin, (202) 512-3133 or dalkinj@gao.gov

Staff Acknowledgments

In addition to the contact named above, the following individuals made key contributions to this report: Kristen A. Kociolek (Assistant Director), Michael Gilmore, Meafelia P. Gusukuma, Gregory Loendorf, Emily Matic, Mary Osorno, Rebecca Riklin, and Henry Sutanto.

(194925)

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's website (www.gao.gov). Each weekday afternoon, GAO posts on its website newly released reports, testimony, and correspondence. To have GAO e-mail you a list of newly posted products, go to www.gao.gov and select "E-mail Updates."

Order by Phone

The price of each GAO publication reflects GAO's actual cost of production and distribution and depends on the number of pages in the publication and whether the publication is printed in color or black and white. Pricing and ordering information is posted on GAO's website, http://www.gao.gov/ordering.htm.

Place orders by calling (202) 512-6000, toll free (866) 801-7077, or TDD (202) 512-2537.

Orders may be paid for using American Express, Discover Card, MasterCard, Visa, check, or money order. Call for additional information.

Connect with GAO

Connect with GAO on Facebook, Flickr, Twitter, and YouTube. Subscribe to our RSS Feeds or E-mail Updates. Listen to our Podcasts. Visit GAO on the web at www.gao.gov.

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Website: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Katherine Siggerud, Managing Director, siggerudk@gao.gov, (202) 512-4400, U.S. Government Accountability Office, 441 G Street NW, Room 7125, Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548