

Why GAO Did This Study

Section 961 of the Dodd-Frank Wall Street Reform and Consumer Protection Act directs SEC to assess and report annually on internal supervisory controls and procedures applicable to staff performing examinations, investigations, and securities filing reviews. The act also contains a provision for GAO to report on SEC's internal supervisory control structure and staff procedures. GAO's last report was in 2016 ([GAO-17-16](#)).

This report examines SEC's internal supervisory control framework and assessment of staff procedures, the design of selected controls, and the operation of selected controls.

GAO analyzed SEC's internal supervisory control framework and related policies and guidance and evaluated the design and execution of a non-generalizable sample of controls selected because they addressed high-risk processes.

What GAO Recommends

GAO is making five recommendations to SEC related to developing policies to assess the effectiveness of staff procedures and ensuring that all relevant divisions and offices follow SEC guidance and federal internal control standards for implementing control activities through documented policies. SEC agreed with the recommendations.

View [GAO-20-115](#). For more information, contact Michael Clements at (202) 512-8678 or ClementsM@gao.gov.

SECURITIES AND EXCHANGE COMMISSION

Systematically Assessing Staff Procedures and Enhancing Control Design Would Strengthen Internal Oversight

What GAO Found

As of fiscal year 2018, the Securities and Exchange Commission's (SEC) internal supervisory control framework—which provides guidance for division and office staff responsible for assessing the effectiveness of internal supervisory controls—reflected federal internal control standards. GAO determined that SEC's framework included elements covering each of the five components of internal control—control environment, risk assessment, control activities, information and communication, and monitoring. However, SEC does not have written policies or guidance to ensure that relevant SEC divisions and offices systematically assess the effectiveness of procedures applicable to staff who perform examinations of registered entities, enforcement investigations, and reviews of corporate securities filings. Establishing such policies would provide SEC greater assurance that these procedures are effective at achieving their objectives.

All the SEC controls GAO evaluated were designed consistent with standards, and a majority operated as intended. SEC guidance and federal internal control standards state that (1) controls should be designed to address objectives and respond to risks and (2) control activities should be implemented through policies, including documentation requirements, and include detail to enable management to monitor control execution.

- **Control design.** All 39 controls GAO evaluated included design elements to achieve SEC's control objectives and respond to risks it identified. However, 10 of these 39 controls did not include key attributes, such as requirements to document, and set time frames for, control execution (see fig.).
- **Control operation.** GAO could not assess the operation of three of 18 selected controls because documentation of control execution did not exist. Of the remaining controls, 12 operated as intended and three partially operated as intended. Examples of controls that operated as intended include SEC's approval of examinations and tracking of investigations.

By more consistently following SEC guidance and federal internal control standards for developing control activities, including documentation requirements, relevant SEC divisions and offices would enhance their ability to monitor and ensure the effectiveness of their internal supervisory controls.

Evaluation of Control Activity Attributes for Selected SEC Controls, Fiscal Year 2018

	Total	Corporation			OCR
		OCIE	Finance	Enforcement	
Number of controls that incorporated all attributes	29	6	6	7	10
Number of controls that lacked at least one attribute	10	2	2	3	3
Total number of controls reviewed	39	8	8	10	13

Legend: Corporation Finance = Division of Corporation Finance; Enforcement = Division of Enforcement; OCIE = Office of Compliance Inspections and Examinations; and OCR = Office of Credit Ratings.

Source: GAO analysis of Securities and Exchange Commission (SEC) documents. | GAO-20-115