

Updating Assessments of Staff Procedures Could Improve Key Agency Operations

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A report to congressional committees

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What GAO Found

Section 961 of the Dodd-Frank Wall Street Reform and Consumer Protection Act directs the Securities and Exchange Commission (SEC) to annually assess and report on (1) internal supervisory controls to oversee the work SEC staff perform and (2) procedures staff must follow in performing examinations, investigations, and securities filing reviews. Effective supervisory controls and staff procedures help ensure that SEC's Divisions of Corporation Finance, Enforcement, and Examinations, and Office of Credit Ratings conduct their work with competence and integrity.

GAO determined that SEC's framework for assessing the effectiveness of internal supervisory controls aligned with federal internal control standards. GAO also found that in fiscal year 2024, SEC's three divisions and one office implemented processes generally consistent with this framework.

However, GAO identified needed improvements:

- The Division of Enforcement did not always apply specific, measurable testing standards to evaluate whether controls were operating effectively. Using such standards would reduce the need for evaluators to use professional judgment to interpret ambiguous evidence, enabling them to draw clearer and more objective conclusions.
- The Division of Corporation Finance did not have documented controls for supervisors to verify how staff conducted filing reviews. Instead, supervisors used undocumented oversight protocols. Establishing and using documented supervisory controls is important for ensuring consistent application of guidance and improving the quality of information available to investors.

GAO found that the divisions' and office's assessments of staff procedures generally were consistent with applicable SEC guidance. However, the Division of Enforcement and the Office of Credit Ratings did not document several assessment steps in their plans, as SEC guidance recommends. Doing so would help communicate responsibility for the assessment and retain organizational knowledge.

SEC's section 961 Working Group—a staff-level coordination group for section 961 compliance—updated its guidance to encourage the divisions and office to adopt a framework for monitoring and revising staff procedures and to evaluate that framework. Adopting and evaluating such frameworks would help the divisions and office better identify and revise ineffective staff procedures.

As encouraged by the 961 Working Group, the Division of Examinations performed an evaluation for the fiscal year 2024 assessment, but the other divisions and office did not. As a result, they missed opportunities to help ensure that SEC carries out its examinations, investigations, and filing reviews consistently.

Why GAO Did This Study

Section 961 of the Dodd-Frank Wall Street Reform and Consumer Protection Act contains a provision for GAO to report on SEC's internal supervisory control structure and staff procedures at least every 3 years.

Among its objectives, this report examines the extent to which SEC in fiscal year 2024 (1) assessed the design and operating effectiveness of its internal supervisory controls, and (2) assessed the effectiveness of its staff procedures.

GAO analyzed SEC's policies and guidance for conducting section 961 assessments and developing and monitoring staff procedures, reviewed records supporting the fiscal year 2024 assessment processes, and interviewed SEC officials.

What GAO Recommends

GAO is making six recommendations to SEC, including to improve testing of controls, require documented supervisory controls to verify how staff conduct filing reviews, and update staff procedure assessment plans to reflect the latest guidance of the SEC working group. SEC agreed with the recommendations and plans to implement them.