

Securities and Exchange Commission

Management Report to Accompany the Semiannual Report of the Inspector General

for the period October 1, 2011 through March 31, 2012



May 2012

**U.S. SECURITIES AND EXCHANGE COMMISSION
MANAGEMENT REPORT TO ACCOMPANY THE
SEMIANNUAL REPORT OF THE INSPECTOR GENERAL**

(October 1, 2011 – March 31, 2012)

Section 5(b) of the Inspector General Act of 1978, as amended, requires the Commission to transmit to the appropriate committees or subcommittees of the U.S. Congress a Management Report, containing certain statistical tables and any comments deemed appropriate, to accompany the Office of Inspector General's (OIG's) Semiannual Report. This Management Report presents the required information for the reporting period between October 1, 2011 and March 31, 2012.

I. OVERVIEW OF SEC's AUDIT FOLLOW-UP ACTIVITIES

Timely completion of audit recommendations is a priority for the SEC. Over the last six months, the Office of the Chief Operating Officer (OCOO) continued to hold bi-weekly meetings with select SEC offices to ensure timeliness of resolution decisions and corrective actions, and to receive regular progress reports from all SEC offices. The OCOO also maintained continuous liaison with the OIG to facilitate the audit resolution and closure process. For the six-month period ending March 31, 2012, SEC offices closed 115 recommendations with the OIG's concurrence. The closed recommendations include 86 audit report recommendations and 29 investigative report recommendations for improvements in policies, procedures and internal controls. Further, OIG was reviewing management's closure requests and documentation for an additional 15 recommendations at period-end.

Also during the reporting period, OIG issued 56 new recommendations for management action, resulting from 5 audit reports and 4 investigations and preliminary investigations. Management completed corrective action and, with OIG's concurrence, closed 5 of the new recommendations before the period ended. As a result, the SEC ended the reporting period with 104 pending OIG recommendations.

During the reporting period, SEC offices completed final action and closed the following 14 OIG reports:

- SEC's Oversight of Bear Stearns and Related Entities: Broker-Dealer Risk Assessment Program (Audit 446-B, Sept. 25, 2008)
- Transit Benefit Program (Audit 456, Oct. 31, 2008)
- Assessment of Budget Execution Process (Audit 488, July 8, 2010)
- Real Property Leasing Procurement (Audit 484, Sept. 30, 2010)
- Time-and-Material and Labor Hour Contract (Audit 487, Dec. 22, 2010)
- Review of SEC Contracts for Inclusion of Language Addressing Privacy Act Requirements (Audit 496, July 18, 2011)

- Assessing the Efficiency of the Office of Investor Education and Advocacy (Audit 498, Sept. 30, 2011)
- Allegations of Conflict of Interest and Investigative Misconduct (ROI-470, Feb. 24, 2010)
- Improper Use of Leave Without pay to Receive Full-time Benefits (ROI-524, July 23, 2010)
- Investigation of LARO Failure to Uncover Fraud (Investigation #ROI-533, Oct. 25, 2010)
- Abuse of Compensatory Time for Travel and Ineffective Supervision (ROI-538, 2/15/2011)
- Improper Actions Relating to the Leasing of Office Space (ROI-533, May 17, 2011)
- Excessive Payment of Living Expenses in Contravention of OPM Guidance (Investigation ROI-561, Sept. 7, 2011)
- Violation of the Anti-deficiency Act Resulting from the Hiring of a Non-U.S. Citizen (PI-11-45, 10/25/11)

II. REPORTS WITH MONETARY SAVINGS

Sections 5(b)(2) and (3) of the Inspector General Act require the SEC Management Report to include statistical tables summarizing the progress that the agency has made in responding to audit reports, inspection reports, and evaluation reports containing “disallowed costs” and “recommendations that funds be put to better use.”

Disallowed Costs. Whenever OIG questions whether costs incurred by the agency are necessary, supported by adequate documentation, or in accordance with law, regulation, or contracts governing the use of funds, SEC management will review the facts and determine whether such costs should be officially disallowed. If the SEC agrees that such costs should not be charged to the government, the agency will then take appropriate action, such as commencing collection efforts to recover the disallowed costs.

Funds Put to Better Use. Whenever OIG recommends specific dollar amounts that it believes can be saved by improving the efficiency of agency operations, SEC management will review the facts and determine whether to implement such recommendations. “Funds put to better use” refers to the specific dollar value of cost savings that the SEC has agreed can and should be implemented through appropriate corrective action.

Table 1 (below) presents the required information on audit, inspection, and evaluation reports with disallowed costs or recommendations that funds be put to better use.

Table 1. Status of Final Action on Audit, Inspection, and Evaluation Reports with Disallowed Costs or Funds Put to Better Use

Audit, Inspection, and Evaluation Reports	Number	Dollar Value of Disallowed Costs	Dollar Value of Funds Put to Better Use
A. For which final action had not been taken by the beginning of the reporting period (10/1/11)	2	\$6,241.00	\$1,307,003.00
B. On which management decisions were made during the reporting period (10/1/11 –3/31/12)	2	\$2,079.58	
C. For which final action was taken during the reporting period	2	\$2,079.58	
(i) Dollar value of disallowed costs that were recovered through collection, offsets, property in lieu of cash, or otherwise		\$2,000.00	\$766,688.61
(ii) Dollar value of disallowed costs that were written off by management		\$79.58	---
(iii) Dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed			
D. For which no final action has been taken by the end of the reporting period (3/31/12)	2	\$6,241.00	\$540,314.39
• \$6,241 (Student Loan Program, Audit 439)			
• \$540,314.39 (IAAs, Audit 460)			

In addition to the information required by the Inspector General Act, SEC management is providing supplemental information (see Table 2 on the following pages) on the status of management’s actions with respect to individual OIG reports with disallowed costs or funds put to better use. This additional information is intended, among other things, to make it easier to understand how management’s actions on these reports relate to the summary data included in Table 2 of the OIG Semiannual Report, which includes cost savings identified not only in OIG audit, inspection, and evaluation reports but also in investigative reports and employee suggestions.

Table 2. Status of Specific OIG Reports with Questioned Costs or Recommendations that Funds be Put to Better Use (Includes Investigative Reports)

Report	Potential Savings Identified by OIG	Amount Sustained by Management	Amount Collected, Written Off, or Put to Better Use as of 3/31/12	Amount Remaining as of 4/1/12	Status of Final Action
439, Student Loan Program (3/27/08)	\$129,336	\$129,336	\$123,095	\$6,241	Management to date has taken final action with respect to \$123,095 (95%) of the disallowed costs. The one remaining debt—totaling \$6,241—was referred to Treasury for collection in August 2008. No collections were received from Treasury during the reporting period.
460, Interagency Acquisition Agreements (3/26/10)	\$6,945,831	\$6,832,414	\$6,292,099.61	\$540,314.39	Management concurred with OIG’s recommendation to deobligate unused funds remaining on 23 expired Interagency Acquisition Agreements (IAAs). Management has taken final action with respect to 22 of these IAAs, and has reduced balances by a total of \$6,292,099.61, including \$766,688.61 during the reporting period. The remaining amount cannot be deobligated until GSA closes its underlying contract. GSA will submit its final invoice once the contract with the service provider is closed. SEC expects that all or most of the remaining \$540,314 can be deobligated at that time.
487, Time & Materials Contracts (12/22/10)	\$156,532	\$79.58	\$79.58	\$0	As part of its audit of certain time-and-materials contracts, OIG asked the SEC to review \$156,532 in payments made in 2007 and 2008 to a contractor for eight invoices that did not contain the same level of supporting documentation that was provided for the other 47 invoices that OIG reviewed. Management reviewed the invoices and determined that the contractor was overpaid \$79.58. Because the administrative costs necessary to recoup the \$79.58 would exceed the total amount of the overcharge, management determined that no further action was warranted.
492, Employee Recognition Program (8/2/11)	\$2,000	\$2,000	\$2,000	\$0	This report questioned whether there were any improprieties in the granting of a cash award to an SEC Schedule C employee in fiscal year 2010, considering OPM guidance restricts awards, bonuses, and similar payments to political appointees. Management agreed with OIG’s recommendation and cancelled the personnel action. The SEC has collected the full amount sustained by management.

Report	Potential Savings Identified by OIG	Amount Sustained by Management	Amount Collected, Written Off, or Put to Better Use as of 3/31/12	Amount Remaining as of 4/1/12	Status of Final Action
ROI-553, Improper Actions Relating to the Leasing of Office Space (6/15/11) (Investigation)	\$556,811,589	\$0	\$0	\$0	At the time of this investigation, the \$556,811,589 in costs associated with the SEC's leasing of Constitution Center represented an estimated total life cycle cost estimate for 900,000 rentable square feet of space for FY11-FY21. As of September 30, 2011, the SEC has released the bulk of the space to other tenants. GSA is expected to assume the lease for the remaining space. The Constitution Center landlord has expressed an opinion that it is entitled to additional costs arising from administration of the lease, but has not filed a claim with the SEC. If the landlord files a claim, the SEC will address the matter at that time.
ROI-561, Excessive Payment of Living Expenses in Contravention of OPM Guidance for a Headquarters Senior Official (9/7/11) (Investigation)	\$102,279.64	\$0	\$0	\$0	This Investigative Report concluded that a Senior Official received payments of living expenses from the SEC under his Intergovernmental Personnel Act (IPA) agreement that were "contrary to OPM guidance and SEC practice based on that guidance regarding IPA agreements." Based upon consultation with the agency's Office of General Counsel, management has determined that the SEC lacks adequate basis to support a cause of action against the former Senior Official that the contract or payments were improper. Both parties agreed through representations, actions and the actual payments, that such funds included travel/per diem from the permanent duty station to the assignment location. Management has implemented OIG's three recommendations for improved internal controls with respect to temporary assignments under the IPA Mobility Program, including a policy that requires the assignment duty station will be where the hiring office of SEC is located.

III. EMPLOYEE SUGGESTIONS WITH MONETARY SAVINGS

Section 966 of the Dodd-Frank Act requires that the Office of Inspector General establish an employee suggestion program, consider suggestions, and recommend appropriate action. During the reporting period, management received no employee suggestions that resulted in monetary savings. SEC received two suggestions to improve efficiency in (1) the process by which the Office of Financial Management receives and reviews filings made through the EDGAR system involving a fee payment, and (2) the building entrance process for SEC employees who forget their identification badges. SEC is implementing both suggestions.

IV. REPORTS MORE THAN ONE YEAR OLD WITH PENDING CORRECTIVE ACTION

Section 5(b)(4) of the Inspector General Act requires the SEC Management Report to include a statement with respect to audit reports on which management decisions have been made but final action has not been taken, other than audit reports on which a management decision was made within the preceding year.

Table 3 (on the following page) presents the required information on OIG audit reports with open recommendations that are more than one year old as of the end of the reporting period. The table lists 8 pending audit reports that contained a total of 102 recommendations. As of March 31, 2012, management had successfully closed 85 of these recommendations and was taking corrective action on the remaining 17.

Although the Inspector General Act does not require federal agencies to report on non-audit reports (such as inspections, evaluations, investigations, or memoranda to management) with open recommendations that are more than one year old, SEC management is also providing this supplemental information (see Table 4). The table lists 7 such pending reports that contained a total of 25 recommendations. As of March 31, 2012, management had successfully closed 12 of these recommendations, had requested closure of 3 additional recommendations, and was taking corrective action on the remaining 10 recommendations.

Table 3. Audit Reports Open More Than One Year

Audit Report No./Title	Report Date	Funds Put to Better Use	Disallowed Costs	Status of Final Action
439, Student Loan Program	3/27/08	\$0	\$129,336	Eighteen of nineteen recommendations from this report have been closed. Management is addressing the final recommendation, which asked that a plan be established for handling excess student loan funds, in the ongoing collective bargaining negotiations with the National Treasury Employees Union. Final action will take place after completion of those negotiations.
460, Management and Oversight of Interagency Acquisition Agreements	3/26/10	\$6,945,831	\$0	Thirteen of fifteen recommendations from this report have been closed. Two recommendations require closure of an interagency agreement entered into with GSA's FEDSIM program. While 92% of the IG's identified funds put to better use has been deobligated, the remaining amount cannot be closed until GSA closes its underlying contract. GSA will submit its final invoice once its contract with the service provider is closed. We expect that all or most of the remaining \$540,314 can be deobligated at that time.
474, Assessment of SEC's Bounty Program	3/29/10	\$0	\$0	Four of nine recommendations from this report have been closed. In addition, final action on two additional recommendations has been taken, and the Enforcement Division plans to submit a request to close those recommendations. The actions that have been taken include the adoption of rules to implement the new program, the creation of a new Whistleblower Office in the Enforcement Division, the development of a publicly-available website containing information for potential whistleblowers, and the implementation of a system for tracking tips and complaints from whistleblowers. The Division continues to promote the whistleblower program both internally and externally and to consider how to incorporate best practices from other bounty programs, in light of currently available resources. Final action on this audit should be completed by the end of FY12.
480, Review of SEC's Section 13(f) Reporting Requirements	9/27/10	\$0	\$0	Eleven of twelve recommendations from this audit have been closed. Significant measures already have been taken to address the remaining recommendation, including coordination between the Division of Investment Management and Office of Information Technology to develop a more structured format for Form 13F, consistent with the modernization of certain other EDGAR forms. Final action is projected to be completed in September 2012.
481, SEC's Implementation of and Compliance with HSPD-12	3/31/11	\$108,000	\$0	Twenty-three of twenty-five recommendations from this audit have been closed. Management submitted documentation to OIG to close an additional recommendation in February 2012. Corrective actions have been completed to address the remaining recommendation and a closure request is being prepared for OIG's consideration. Management agreed with the recommendation for funds put to better use during a prior reporting period and began realizing these savings in July 2011.

Audit Report No./Title	Report Date	Funds Put to Better Use	Disallowed Costs	Status of Final Action
485, Assessment of the SEC's Privacy Program	9/29/10	\$0	\$0	Sixteen of twenty recommendations from this report have been closed. OIT is addressing the remaining recommendations in FY12 by fully implementing oversight tools acquired in FY11, and providing training to SEC staff on portable media disposal.
489, Federal Information Security Management Act (FISMA) 2010 Assessment	3/3/11	\$0	\$0	Seven of eight recommendations from this report have been closed. The Office of Information Technology is addressing remaining areas of concern with remote access. The target completion date is December 31, 2012.
493, Examination of Issues Affecting the Office of Compliance Inspections and Examinations	3/26/10	\$0	\$0	Six of seven recommendations have been closed. Efforts are underway to assess possible implementation of systems-based links between the case tracking system, examinations tracking system, and the Tips, Complaints and Referral system to address the remaining recommendation. The targeted completion date is the 1 st quarter of FY13.
495, SEC's Oversight of the Securities Investor Protection Corporation's Activities	3/30/11	\$0	\$0	Ten of twelve recommendations have been closed. Management took final action on the two remaining recommendations in April, after the reporting period ended, and provided a closure request to OIG for consideration.

Table 4. Inspection, Evaluation, and Other Reports Open More Than One Year

Report No./Title (Type)	Report Date	Funds Put to Better Use	Disallowed Costs	Status of Final Action
PI-09-05, Access Card Readers in Regional Offices (Preliminary Investigation)	2/22/10	\$0	\$0	The exit card readers are in the process of being installed in the 11 regional offices as part of a scheduled system upgrade. The projected completion is October 2012.
ROI-505, Failure to Timely Investigate Allegations of Financial Fraud (Investigative Report)	2/26/10	\$0	\$0	Two of six recommendations from this report have been closed. Management received OIG's agreement to close three additional recommendations after the period ended. Closure of the remaining recommendation requires significant development relating to the Tips Complaints and Referral and HUB systems. The changes needed to complete the TCR/HUB interface are being assessed and prioritized against other development priorities for these applications. The Division of Enforcement hopes to complete action in FY13.
PI-09-07, Employee Recognition Program and Grants of Employee Awards (Preliminary Investigation)	3/10/10	\$0	\$0	Four of five recommendations have been closed. Management submitted a closure request and documentation to OIG to support closing the one remaining recommendation after the period ended.
ROI-491, Allegations of Fraudulently Obtained Award Fees (Investigative Report)	3/29/10	\$0	\$0	Two of three recommendations have been closed. With respect to the remaining recommendation, GSA and internal SEC records have been unable to substantiate an overpayment of award fee due to potentially inaccurate data that the SEC OIG identified in its report. SEC staff's assessment of ticket changes that were the subject of this recommendation does not support a conclusion that the award fee was overpaid, and therefore we do not expect recovery of any award fee from GSA's vendor. The Department of Justice declined a referral. The Office of Acquisitions will meet with the OIG to discuss next steps in May.
ROI-544, OIT Contract Employee Given Access to SEC Buildings and Computer Systems for Several Weeks before Background Investigation Clearance (Investigative Report)	1/20/11	\$0	\$0	Two of four recommendations from this investigative report have been closed. Significant measures have already been taken to address the remaining recommendations, including a review of all employee and contractor personnel security files and implementation of new policy and procedures. Final action is expected to occur by the end of June 2012.
ROI-540, Investigation of Whether Former Associate Director Violated Conflict of Interest Restrictions (Investigative Report)	1/25/11	\$0	\$0	Three of five recommendations have been closed, including one after the period ended. Management expects to complete final action on a fourth recommendation shortly, and is consulting with the Office of Government Ethics as it addresses the remaining recommendation.

Report No./Title (Type)	Report Date	Funds Put to Better Use	Disallowed Costs	Status of Final Action
ROI-551, Allegations of Unauthorized Disclosure of Non-Public Information (Investigative Report)	3/30/11	\$0	\$0	The Office of Information Technology is re-examining a cost analysis for technology that will enable the SEC to maintain records of phone calls made from and received by agency telephones. OIT is also soliciting a legal opinion from OGC as well as the NTEU's opinion.