



U.S. Securities and Exchange Commission

# Management Report to Accompany the Office of Inspector General Semiannual Report to Congress

for the period April 1, 2019 through September 30, 2019

November 2019

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April 1, 2019 – September 30, 2019

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 of April 1, 2019 through September 30, 2019.

### I. Overview of SEC Audit Follow-up Activities

The SEC is committed to timely completion of corrective actions on OIG audit recommendations. At the commencement of this semiannual reporting period, there were 57 open recommendations and 9 reports. During the period, management successfully closed 31 recommendations and four reports with OIG’s concurrence. Management completed corrective actions on 55 percent of these closed recommendations in less than one year. At period-end, final action was pending on 8 reports.

### 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, inspection, 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.

Table 1. Status of Final Action on Audit, Inspection and Evaluation Reports  
with Disallowed Costs

(Reporting Period April 1, 2019 through September 30, 2019)

Audit, Inspection and Evaluation Reports	Number of Reports	Dollar Value of Disallowed Costs (in thousands)
A. For which final action had not been taken by the beginning of the reporting period	0	\$0
B. On which management decisions were made during the reporting period	0	\$0
C. For which final action was taken during the reporting period	0	\$0
(i) Dollar value of disallowed costs that were recovered through collection, offsets, property in lieu of cash, or otherwise		\$0
(ii) Dollar value of disallowed costs that were written off by management		\$0
D. For which no final action has been taken by the end of the period	0	\$0

While there were no disallowed costs identified during this reporting period, there were questioned costs of \$42,801 and unsupported costs of \$2,977,379 identified in the OIG Report 554: *The SEC Can Better Manage Administrative Aspects of the ISS Contract*. The term “questioned cost” means a cost that is questioned because of (A) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (B) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (C) a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable. The term “unsupported cost” means a cost that is questioned because the OIG found that, at the time of the audit, such cost is not supported by adequate documentation. In this instance, the auditors identified the questioned costs because four contractor employees did not meet ISS contract minimum labor category requirements. The auditors identified the unsupported costs because SEC lacked evidence of agency pre-approval for labor hours outside the normal hours of performance charged to the ISS contract or because available documents did not clearly support the employee’s qualifications for the charged labor category.

*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 2. Status of Final Action on Audit, Inspection and Evaluation Reports with Funds Put to Better Use  
(Reporting Period April 1, 2019 through September 30, 2019)

Audit, Inspection and Evaluation Reports	Number of Reports	Dollar Value of Funds Put to Better Use (in thousands)
A. For which final action had not been taken by the beginning of the reporting period	0	\$0
B. On which management decisions were made during the reporting period	0	\$0
C. For which final action was taken during the reporting period	0	\$0
(i) Dollar value of recommendations that were actually completed		\$0
(ii) Dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed		\$0
D. For which no final action has been taken by the end of the reporting period	0	\$0

### III. Reports More than One Year Old with Pending Corrective Action

Section 5(b)(4) of the Inspector General Act, as amended, 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 presents the required information.

Table 3. Audits and Other Reports More than One Year Old  
(Reporting Period April 1, 2019 through September 30, 2019)

Report No./Title	Report Date	Funds Put to Better Use	Disallowed Costs	Status of Final Action
<b>Report 546: Audit of SEC's Compliance with the Federal Information Security Modernization Act for Fiscal Year 2017</b>	3/30/2018	\$0	\$0	Eight of the report's 20 recommendations have been closed with OIG's concurrence. As of November 13, 2019 the SEC has completed corrective actions on 3 other recommendations and is waiting for the OIG's concurrence on closure. The SEC continues to implement the remaining recommendations. The SEC anticipates the remaining recommendations to be completed before the end of the next semiannual reporting period.
<b>Report 547: Audit of the SEC's Internal Controls for Retaining External Experts and Foreign Counsel for the Division of Enforcement</b>	6/15/2018	\$0	\$0	Six of the report's 7 recommendations have been closed with OIG's concurrence. The SEC continues to address the 1 remaining recommendation and will share appropriate documentation of actions taken with OIG for concurrence on closure. Due to the complexities and number of stakeholders involved, anticipated completion is now summer 2020.
<b>Report 549: The SEC Made Progress But Work Remains To Address Human Capital Management Challenges and Align With the Human Capital Framework</b>	9/11/2018	\$0	\$0	Seven of the report's 9 recommendations have been closed with OIG's concurrence. The SEC continues to actively work on the remaining two recommendations. Due to the need to conduct an adequate assessment, the anticipated completion is spring 2021.
<b>Report 550: Evaluation of the EDGAR System's Governance and Incident Handling Processes (NONPUBLIC REPORT)</b>	9/21/2018	\$0	\$0	Twelve of the report's 14 recommendations have been closed with OIG's concurrence. The SEC continues to implement the remaining two recommendations, with anticipated completion before the end of the next semiannual reporting period.