



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

THE CHAIRMAN

January 8, 2010

Ms. Danielle Brian
Executive Director
Project on Government Oversight
1100 G Street, NW
Washington, DC 20005-3806

Dear Ms. Brian:

Thank you for your recent letter regarding the progress of the Securities and Exchange Commission in addressing recommendations issued by the agency's Office of Inspector General since December 2007. We are committed to independent audits and have been improving our process for following up on audits, completing action on OIG recommendations at an increased pace, and providing additional resources to the OIG.

Improving the Follow-Up Process

Since becoming Chairman of the SEC, I have made it a top management priority and have taken action to strengthen the agency's program for ensuring appropriate and timely followup on OIG recommendations. This past year, I approved a new internal rule, "Audit Follow-up and Resolution" (SEC-R 30-2), to strengthen controls and accountability over audit followup activities. The new rule, which was prepared with the assistance of the SEC's Inspector General, sets forth formal policies, procedures, and responsibilities for SEC staff governing audit followup. Among other things, the rule requires that offices prepare and share with the OIG a formal corrective action plan for all resolved audit recommendations, as a way of ensuring consultation with the OIG through the audit followup process.

Separately, I appointed the agency's Deputy Chief of Staff to serve as the agency's Audit Followup Official and empowered her to ensure that agency managers are held accountable for timely and appropriate followup on OIG recommendations.

Increasing the Pace of Close-Outs

With these efforts, the agency has made significant progress to complete corrective action and close out recommendations. The attached Management Report to Congress on audit followup activities documents the significant actions that the agency has taken between April 1, 2009, and September 30, 2009, to address recommendations made in OIG audit, evaluation, and inspection reports. During that six-month reporting period, the SEC completed action on 92 OIG recommendations, a rate of closure activity that is more than double that of the preceding 12 months. In total, during my first full 10 months as Chairman, the agency completed action on

129 OIG recommendations. In addition, agency managers have completed corrective action on 21 other recommendations, for which appropriate documentation has been submitted to the OIG.

We also have directed SEC managers to put a priority on addressing recommendations that have been outstanding the longest. During the recently-concluded reporting period, the agency completed action on 76 of the 126 open audit recommendations from 2008 or older. As a result, through September 30, 2009, the SEC had closed 91 percent of the 551 OIG audit recommendations issued between fiscal 2004 and 2008.

Investigative Recommendations

I also want to take the opportunity to provide you with current and more complete information with respect to the two documents that were enclosed with your letter. The first attachment to your letter is a list showing 52 investigative recommendations issued since December 2007, for which 27 show "no action taken." Of the 27 items:

- Final action has in fact occurred on eight of the recommendations.¹
- In two instances, followup action is being deferred pending the conclusion of other law enforcement investigations.²
- In seven cases, there was no disciplinary recommendation proposed by OIG, but offices are implementing the recommendation in other ways.³
- We are actively conducting appropriate follow up on each of the remaining ten recommendations, seven of which were referred by the OIG as recently as September. Following current practice, once final action is taken SEC management will communicate disciplinary outcomes to the OIG so that the OIG can include summary data on investigative followup in its semiannual report to Congress.

Audit Recommendations

The second attachment to your letter is a list of 197 pending OIG audit recommendations issued since December 2007. Of those recommendations, 10 are now closed⁴ and 18 others have been completed and documentation has been submitted to the OIG.⁵

¹ See recommendations from Reports 472, 431 (first three), 483, 477 (first one), 501, and 501.

² See recommendations from Report 481 (first two).

³ See recommendations from Reports 431 (last two), 477 (second one), 509, 502 (two), and 517.

⁴ See recommendations C, D, E, F, G, J, K, L, and Q from Report 439 and recommendation 2 from Report 456.

⁵ See recommendations A, B, I, and P from Report 439; recommendations 20 and 21 from Report 440-A; recommendations 2 and 3 from Report 448; recommendation 2 from Report 451; recommendations 1, 2, 5, 6, 7, 10, and 12 from Report 459; and recommendation 2 from Report 465.

Of those 169 that remain:

- 146 (86 percent) were issued in 2009, including 112 (66 percent) in August 2009 or later. Corrective action is underway on these recommendations to ensure completion by the one-year statutory deadline.
- Corrective action on nearly all of the remaining 23 recommendations, which are more than one year old, is expected to be completed in early 2010. The agency's most recent Management Report to Congress, which is attached, provides additional details on the status of corrective actions to address these open recommendations.

Providing More Resources

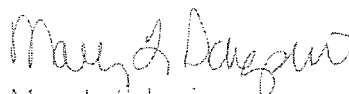
In addition to working to address each of these OIG recommendations, the SEC has provided significant support in the past two years for the work and mission of the OIG, including a significant increase in its staffing and resources. Since December 2007 (the date mentioned in your letter), the agency has increased the authorized number of OIG staff positions, including the creation of new senior OIG management positions. In addition, the agency has provided a 60 percent budget increase to the OIG over this same period, from \$2.36 million in FY07 to \$3.75 million in the recently-ended fiscal year.

Finally, as you know, each OIG semiannual report to Congress is required to include information on several important indicators of agency cooperation and followup. In the SEC OIG's most recent semiannual report to Congress—issued November 30, 2009, for the six-month reporting period ending September 30, 2009—the OIG reports:

- agreement with all significant management decisions regarding audit recommendations;
- that management had made timely management decisions on all audit recommendations issued in prior periods; and
- that there was no instance where agency management refused to produce requested information.

It should be evident from the information presented in this response that I share your commitment to independent audits, which are essential to ensuring the accountability of government agencies to the public and to taxpayers. Please do not hesitate to contact me in the future if you have additional questions or concerns.

Sincerely,



Mary L. Schapiro
Chairman

Attachment: November 30, 2009 Management Report

**U.S. SECURITIES AND EXCHANGE COMMISSION
MANAGEMENT REPORT TO ACCOMPANY THE
SEMIANNUAL REPORT OF THE INSPECTOR GENERAL
(APRIL 1, 2009 – SEPTEMBER 30, 2009)**

Section 5(b) of the Inspector General Act of 1978, as amended, requires the Chairman to transmit to the appropriate committees of Congress the Office of Inspector General's ("the OIG's") Semiannual Report, along with certain statistical tables and any comments deemed appropriate. This Management Report presents this required information for the reporting period between April 1, 2009 and September 30, 2009.

I. OVERVIEW OF AUDIT FOLLOWUP ACTIVITIES

During the reporting period, SEC management significantly strengthened the agency's commitment to prompt and appropriate implementation of recommendations resulting from OIG audits and reports. This included the issuance of a new internal administrative regulation (SEC-R 30-2, "Audit Follow-Up and Resolution") setting forth for agency staff the roles, responsibilities, and procedures for audit resolution and follow-up. The rule, which was prepared in consultation with the OIG, was developed by looking to the authoritative requirements imposed by, most notably, the Inspector General Act and OMB Circular A-50 ("Audit Followup") as well as to best practices in place at other federal agencies. By formalizing agency practices into a written rule, SEC management expects to strengthen controls and accountability over audit follow-up activities.

During the reporting period, SEC divisions and offices were successful in completing corrective action on a significant number of recommendations contained in OIG audits and other reports issued during previous reporting periods. By September 30, the SEC had successfully implemented 92 (46%) of the 198 OIG recommendations open at the start of the period. This included the implementation of 76 (60%) of the 126 recommendations issued in 2008 or earlier, and the closure of 11 OIG reports (which included three reports from 2005 and two reports from 2007). During this period the OIG issued 102 new recommendations to management for improvements to agency operations. As a result, the SEC ended the reporting period responsible for following up on 208 active recommendations.

II. REPORTS WITH DISALLOWED COSTS

The Office of Inspector General from time to time may find reason to question whether certain costs incurred by the agency are necessary, supported by adequate documentation, or in accordance with law, regulation, or contracts governing the use of funds. When such questioned costs are identified in OIG reports, SEC management is responsible for reviewing the facts in each such instance and determining, as part of its management decision, whether such costs should be officially disallowed. If SEC

management 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.

The Inspector General Act, at Section 5(b)(2), requires the SEC's semiannual Management Report to include statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the dollar value of disallowed costs. This table, along with supplemental information, is provided below (see Table 1).

At the start of the reporting period, there were two reports with disallowed costs for which final action had not been taken by the beginning of the period: (1) Student Loan Program (Report No. 439), \$30,561.50, and (2) Transit Benefits Program (Report No. 456), \$619. During the period, management determined, and OIG agreed, that only \$549 of the \$619 should be disallowed, bringing the total dollar value of audit reports needing final action to \$31,110.50 at the beginning of the period. Of this amount, during the period, management collected a total of \$7,544.62, consisting of \$6,995.62 in student loan repayments and \$549 in transit benefits. The SEC also collected an additional \$1,446.37 in interest payments on the student loan debt, which is not reflected in this table. The SEC will continue to seek collection of the remaining \$23,565.88.

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

<i>Audit, Inspection, and Evaluation Reports...</i>	<i>Number</i>	<i>Dollar Value of Disallowed Costs</i>
A. For which final action had not been taken by the beginning of the reporting period (4/1/09)	2	\$31,110.50
B. On which management decisions were made during the reporting period (4/1/09 – 9/30/09)	0	\$0
C. For which final action was taken during the reporting period	1	
(i) Dollar value of disallowed costs that were recovered through collection, offsets, property in lieu of cash, or otherwise		\$7,544.62
(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 reporting period (9/30/09)	1	\$23,565.88

III. REPORTS WITH FUNDS PUT TO BETTER USE

The OIG may also recommend specific dollar amounts that it believes management can save by improving the efficiency of agency operations. When such funds are identified in OIG reports, SEC management is responsible for reviewing the facts in each such instance and determining, as part of its management decision, whether to implement such recommendations. "Funds put to better use" refers to the specific dollar value of efficiencies that SEC management has agreed can and should be implemented. If SEC management agrees, the agency will then take appropriate corrective action to address the specific recommendation.

The Inspector General Act, at Section 5(b)(3), requires the SEC's semiannual Management Report to include statistical tables showing the total number of audit reports, inspection reports, and evaluation reports and the dollar value of recommendations that funds be put to better use by management agreed to in a management decision. This table, along with supplemental information, is provided below (see Table 2).

Table 2. Status of Final Action on Audit, Inspection, and Evaluation Reports With Funds Put to Better Use

<i>Audit, Inspection, and Evaluation Reports...</i>	<i>Number</i>	<i>Dollar Value of Disallowed Costs</i>
A. For which final action had not been taken by the beginning of the reporting period (4/1/09)	0	\$0
B. On which management decisions were made during the reporting period (4/1/09 – 9/30/09)	0	\$0
C. For which final action was taken during the reporting period		
(i) Dollar value of recommendations that were actually completed	0	\$0
(ii) Dollar value of recommendations that management has subsequently concluded should not or could not be implemented or completed	0	\$0
D. For which no final action has been taken by the end of the reporting period (9/30/09)	0	\$0

During the previous reporting period, OIG issued a report (No. 452, Disgorgement Waivers) that questioned the Division of Enforcement's assessment of the collectability of \$386,237.78 in assets from two defendants who had been previously required to pay disgorgement. The Division of Enforcement disagreed with the finding. Senior staff from OIG and the Division of Enforcement are working to resolve this

disagreement, but the matter had not been resolved prior to the end of the reporting period.

IV. AUDIT REPORTS MORE THAN ONE YEAR OLD

The Inspector General Act, at Section 5(b)(4), requires the SEC's semiannual 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.

During the reporting period, SEC divisions and offices were successful in completing corrective action on 76 of the 126 recommendations issued in fiscal 2008 or earlier. SEC divisions and offices also closed 10 OIG reports from fiscal 2008 or earlier. Table 3 presents the required information on open audit reports that, as of the end of the reporting period, are more than one year old. The table lists eight audit reports; of the 113 recommendations contained in those reports, 82 (73%) had been closed by September 30, one was closed shortly thereafter, and management has submitted documentation requesting closure of 19 additional recommendations.

Table 4 provides supplemental information on the status of recommendations from other, non-audit reports (such as inspection or evaluation reports, or investigative or other memoranda to management) that are more than one year old. The table lists nine other such reports; of the 50 recommendations contained in those reports, 31 (62%) had been closed by the end of the reporting period.

Table 3. Audit Reports Open More Than One Year

<i>Audit Report No./Title</i>	<i>Report Date</i>	<i>Funds Put to Better Use</i>	<i>Disallowed Costs</i>	<i>Status of Final Action</i>
365, IT Capital Investment Decision-making Follow-up	3/29/04	\$0	\$0	24 of 25 recommendations from this report have been closed. With respect to the sole remaining recommendation, the IT Capital Planning Committee took action after the close of the reporting period to approve the Information Officers charter. Supporting documentation will be sent to the OIG, along with a request to close the recommendation.
412, Oversight of Public Company Accounting Oversight Board	9/28/06	\$0	\$0	Five of seven recommendations from this report have been closed. Management has provided OIG with documentation to close the two remaining recommendations.
421, Investment Company Disclosure Initiatives	9/25/07	\$0	\$0	The Commission in early 2009 adopted final rules for the disclosure initiatives covered by this recommendation. The Division of Investment Management is working to prepare outcome-based performance indicators significantly in advance of the mandatory compliance dates for these initiatives and has consulted with OIG in that process. A draft of the performance indicators was provided to OIG after the reporting period ended.
439, Student Loan Program	3/27/08	\$0	\$129,336	Two of 19 recommendations from this report have been closed, and management has requested closure of 15 other recommendations. Work continues on the two final recommendations: (1) a review is underway concerning redistribution of funds, and (2) a delegation of authority has been drafted. Final action is expected to occur in 2010. Regarding disallowed costs, the SEC collected an additional \$8,441.99 in principal and interest on student loan debt, leaving \$23,565.88 to be recovered.

<i>Audit Report No./Title</i>	<i>Report Date</i>	<i>Funds Piv to Better Use</i>	<i>Disallowed Costs</i>	<i>Status of Final Action</i>
438, Self Regulatory Organization (SRO) Rule Filing Process	3/31/08	\$0	\$0	18 of 19 recommendations have been closed. With respect to the remaining recommendation, the SROs are testing system enhancements for FY 2010 deployment.
446A, Oversight of Bear Stearns and Related Entities: Consolidated Supervised Entities (CSE) Program	9/25/08	\$0	\$0	22 of 26 recommendations from this report have been closed. Since the SEC ended the voluntary CSE program in 2008, management officials are now working with OIG to determine what, if any, further actions are required to close the open recommendations.
446B, Oversight of Bear Stearns and Related Entities: Broker-Dealer Risk Assessment Program	9/25/08	\$0	\$0	Seven of 10 recommendations from this report have been closed. To address the remaining recommendations, the Commission is expected to consider amending its Broker Dealer Risk Assessment rules in early 2010. In addition, efforts are underway to complete enhancements to the Broker-Dealer Risk Assessment system by summer 2010.
447, Audit of Premium Travel	9/29/08	\$0	\$0	Four of six recommendations from this report have been closed. An updated policy and standard operating procedures are expected to be issued by calendar year-end.

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

<i>Report No./Title (Type)</i>	<i>Report Date</i>	<i>Funds Put to Better Use</i>	<i>Disallowed Costs</i>	<i>Status of Final Action</i>
428, Electronic Documents Program (Evaluation)	7/25/07	\$0	\$0	16 of 19 recommendations from this report have been closed. To address the remaining recommendations, program guidance and standard operating procedures are expected to be issued in early 2010. Work continues on the implementation of a larger forensics lab, which is planned for year-end 2010.
430, Contract Ratifications (Inspection)	9/25/07	\$0	\$0	Eight of 10 recommendations from this report have been closed. To address the remaining recommendations, headquarters procurement officials continue to train regional office staff on the acquisitions function. Staff in four regional offices received training in 2009. Assistance visits are planned for 2010 for the remaining regional offices. Final action is expected to occur in May 2010.
437, Security Enhancements in Station Place Parking Garage (Management Memorandum)	10/22/07	\$0	\$0	Negotiations have concluded with the landlord, who has agreed to install cameras in the garage. OIG has agreed to close the recommendation after the cameras are installed.
432, Oversight of Receivers and Distribution Agents (Evaluation)	12/12/07	\$0	\$0	Final action was completed after the reporting period ended. OIG closed this audit in October 2009.

<i>Report No./Title (Type)</i>	<i>Report Date</i>	<i>Funds Put to Better Use</i>	<i>Disallowed Costs</i>	<i>Status of Final Action</i>
442, Enterprise Architecture (Inspection)	3/31/08	\$0	\$0	Two of seven recommendations from this report have been closed. To address the remaining recommendations, the Chief Information Officer took action after the close of the reporting period to approve a charter for the new Enterprise Architecture (EA) Steering Committee. In addition, metrics have been drafted to measure the value of the agency's EA services. These metrics are expected to be presented to the IT Capital Planning Committee by calendar year-end 2009.
455, Attorney Annual Certification of Bar Membership (Memorandum)	9/9/08	\$0	\$0	Attorneys have been notified of the agency's requirements concerning Bar memberships. Efforts are underway to incorporate this requirement into the new Ethics Program System that was deployed in November 2009.
454, Enforcement's Draft Policies and Procedures Governing the Selection of Receivers, Fund Administrators, Independent Distribution Consultants, Tax Administrators, and Independent Consultants (Investigative Memorandum)	9/16/08	\$0	\$0	The OIG recommendations on the draft policies and procedures are being considered as the agency works to develop a final policy.
451, 2008 Federal Information Security Management Act (FISMA) Executive Summary (Review)	9/29/08	\$0	\$0	Corrective actions were completed on September 30, 2009. OIG is considering the actions taken and the supporting documentation to close the recommendation.
433, Corporation Finance and Enforcement Coordination (Inspection)	9/30/08	\$0	\$0	One of three recommendations from this report has been closed. To address the remaining recommendations, a new agency-wide tips, complaints, and referrals intake system is being deployed in early 2010.