U.S. Securities and Exchange Commission

# Office of Inspector General

Office of Audits

# Audit of the SEC's Compliance with the Digital Accountability and Transparency Act for Fiscal Year 2017

# M E M O R A N D U M

November 7, 2017

**TO:** Caryn Kauffman, Acting Chief Financial Officer, Office of Financial Management

**FROM:** Carl W. Hoecker, Inspector General

**SUBJECT:** *Audit of the SEC's Compliance with the Digital Accountability and Transparency Act for Fiscal Year 2017,* Report No. 545
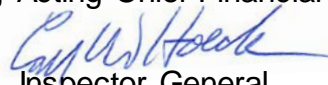
Attached is the Office of the Inspector General (OIG) final report detailing the results of our audit of the U.S. Securities and Exchange Commission's (SEC) compliance with the Digital Accountability and Transparency Act (DATA Act) for fiscal year 2017. The report contains two recommendations that should help the SEC ensure it (1) properly maps program activities and codes before submitting information to the DATA Act Broker, and (2) maintains guidance for reviewing and correcting material exceptions identified in the SEC's DATA Act submission.

On October 25, 2017, we provided management with a draft of our report for review and comment. In its November 6, 2017, response, management concurred with our recommendations. We have included management's response as Appendix II in the final report.

Within the next 45 days, please provide the OIG with a written corrective action plan that addresses the recommendations. The corrective action plan should include information such as the responsible official/point of contact, timeframe for completing required actions, and milestones identifying how the SEC will address the recommendations.

We appreciate the courtesies and cooperation extended to us during the audit. If you have questions, please contact me or Rebecca L. Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects.

Attachment

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# Executive Summary

Audit of the SEC's Compliance with the Digital Accountability and Transparency Act for Fiscal Year 2017
Report No. 545
November 7, 2017

## Why We Did This Audit

When fully implemented, the Digital Accountability and Transparency Act of 2014 (DATA Act or Act) will enable taxpayers and policy makers to track Federal spending more effectively. The Act directs the Office of Management and Budget (OMB) and the Department of the Treasury (Treasury) to establish Governmentwide financial data standards to ensure the reporting of reliable, consistent Federal spending data for public use. The Act also requires the Inspectors General of each Federal agency to select a sample of agency spending data and assess the completeness, timeliness, quality, and accuracy of the data and the agency's implementation and use of the Governmentwide financial data standards. To meet the requirements of the DATA Act, we conducted an audit of the U.S. Securities and Exchange Commission's (SEC or agency) compliance with the DATA Act, specifically related to the agency's fiscal year 2017, second quarter (FY17Q2) data.

## What We Recommended

To improve the SEC's processes for complying with the DATA Act, we recommend that the Acting Chief Financial Officer (1) verify that the agency's fiscal year 2017, fourth quarter File B properly maps all required program activities and codes before submitting the file to Treasury, and (2) finalize OFM's DATA Act Reference Guide and ensure it outlines processes for reviewing and correcting material exceptions identified in the agency's DATA Act submissions to date. Management concurred with the recommendations, which will be closed upon completion and verification of corrective action.

## What We Found

We determined that the SEC's Office of Financial Management (OFM) successfully prepared and submitted to Treasury the SEC's first set of agency-generated files (known as File A, File B, and File C) in accordance with the DATA Act. Specifically, the SEC's Senior Accountable Official certified the agency's FY17Q2 files within 30 days of quarter-end; therefore, the files were considered timely. In addition, we identified no concerns with the data's overall quality and found that the SEC's FY17Q2 Files A through C were generally complete and accurate as described below, with one exception warranting corrective action.

**File A.** The SEC's FY17Q2 File A contained all required DATA Act elements, which were presented in accordance with the data standards. We compared the data in File A to information reported to OMB and found that all data matched with no exceptions.

**File B.** The SEC's FY17Q2 File B also contained all required DATA Act elements, which were presented in accordance with the data standards. However, the SEC's shared service provider incorrectly mapped FY17Q2 spending by the SEC's Office of Compliance Inspections and Examinations to the program activity code for the SEC's Division of Enforcement. Although staff from the SEC's OFM and shared service provider learned of this discrepancy shortly after submitting to Treasury the agency's FY17Q2 files, staff did not take corrective action to avoid repeating the discrepancy in the SEC's fiscal year 2017, third quarter submission (completed on August 10, 2017).

**File C.** The SEC's FY17Q2 File C also contained all required DATA Act elements, which were presented in accordance with the data standards. We tested the accuracy of a statistically valid sample of 200 of the 414 File C detail award transactions and concluded that the sampled transactions were accurate with no exceptions. In addition, we concluded that all 200 sampled transactions were appropriately linked to information reported in File D1 (a file generated by Treasury's system for DATA Act reporting).

Finally, we noted that OFM management created a DATA Act Reference Guide to establish, among other things, written data validation and reconciliation processes. However, at the time of our audit, management had not finalized the reference guide because the USAspending.gov beta site was not yet fully operational to allow for a complete two-way reconciliation. While the SEC's first DATA Act submission generally met requirements, improvements can be made for future reporting periods.

For additional information, contact the Office of Inspector General at (202) 551-6061 or http://www.sec.gov/oig.

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# ABBREVIATIONS

| | |
|---|---|
| Broker | DATA Act Broker |
| DATA Act or Act | Digital Accountability and Transparency Act of 2014 |
| ESC | Enterprise Services Center |
| FFATA | Federal Funding Accountability and Transparency Act of 2006 |
| FY17Q2 | fiscal year 2017, second quarter |
| GAO | U.S. Government Accountability Office |
| IG | Inspector General |
| IG Guide | Inspectors General Guide to Compliance Under the DATA Act |
| OA | Office of Acquisitions |
| OFM | Office of Financial Management |
| OIG | Office of Inspector General |
| OMB | Office of Management and Budget |
| Playbook | DATA Act Implementation Playbook |
| Schema | DATA Act Information Model Schema |
| SEC or agency | U.S. Securities and Exchange Commission |
| Treasury | Department of the Treasury |

# Background and Objectives

## Background

The Digital Accountability and Transparency Act of 2014 (DATA Act or Act)[1] seeks to connect more than 400 interconnected data elements from hundreds of financial and management systems across the Federal government to provide a more transparent accounting of Federal funds. The Act expands the reporting requirements of the Federal Funding Accountability and Transparency Act of 2006 (FFATA).[2] When fully implemented, the DATA Act will enable taxpayers and policy makers to track Federal spending more effectively. Among other things, the Act directs the Office of Management and Budget (OMB) and the Department of the Treasury (Treasury) to establish Governmentwide financial data standards, including common data elements, to ensure Federal agencies report reliable, consistent Federal spending data for public use. In general, the Act requires agencies to begin reporting financial spending data using these data standards by May 2017 and to publicly post on *USAspending.gov* spending data in machine-readable formats by May 2018.

OMB and Treasury have issued guidance to Federal agencies on DATA Act implementation. Specifically, OMB issued memoranda that outline how Federal agencies are to implement new and existing reporting requirements and link information in agency financial systems to Federal award management systems.[3] In addition, Treasury developed a *DATA Act Implementation Playbook* (Playbook).[4] The Playbook provides a high-level discussion of the vision and objectives of the DATA Act and an eight-step agency implementation plan that agencies can use to develop methodologies for DATA Act implementation.

**Data Definition Standards, Reporting Schema, and the DATA Act Broker.** A core requirement of the DATA Act is the development of Governmentwide financial data standards to ensure the reporting of reliable, consistent Federal spending data for public use. Since the DATA Act was enacted on May 9, 2014, OMB and Treasury finalized

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[1] Public Law 113-101 (May 9, 2014).

[2] As amended, FFATA requires Federal agencies to report certain Federal award information to a single, searchable, publicly accessible website (*USAspending.gov* or a successor system). Public Law 109-282 (September 26, 2006).

[3] OMB memoranda included OMB Memorandum M-15-12, *Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable* (May 8, 2015), and OMB Memorandum M-17-04, *Additional Guidance for DATA Act Implementation: Further Requirements for Reporting and Assuring Data Reliability* (November 4, 2016).

[4] Treasury issued the Playbook, Version 1.0 in June 2015 and subsequently issued Version 2.0 in June 2016. Version 2.0 updated recommended steps and guidance that are consistent with progress made since the issuance of Version 1.0. Unless otherwise noted, references to the Playbook are to Version 2.0.

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57 data definition standards, which Treasury used to develop the initial draft of the *DATA Act Information Model Schema* (Schema).[5]  The Schema gives an overall view of the hundreds of distinct data elements used to explain how Federal dollars are spent. The Schema also provides agencies technical guidance about what data to report to Treasury, including sources of data elements and the submission format.

To comply with the DATA Act, on a quarterly basis, Federal agencies are to ensure their spending data are valid and submit the data to Treasury for publication on *USAspending.gov* by uploading the data to Treasury's DATA Act Broker (Broker).  The Broker is a system that receives agency data, validates the data against the Schema, and tests linkages between financial data produced by agencies with other spending data on Federal awards, including grants, loans, and procurement data.  While agencies submit some data to the Broker, the Broker extracts other data from existing Governmentwide reporting systems and helps ensure the files are in the standard format.  Specifically, agencies submit to the Broker data in files known as File A, File B, and File C, and the Broker extracts from existing systems data to generate files known as File D1, File D2, File E, and File F.  Table 1 describes each file and its source.

**Table 1.  Files Submitted To and Generated By the Broker**

| File | Description and Data Source |
|---|---|
| File A | Appropriations Account; Data submitted by agency. |
| File B | Object Class and Program Activity; Data submitted by agency. |
| File C | Award Financial; Data submitted by agency. |
| File D1 | Award and Awardee Attributes – Procurement Awards; Data extracted from the Federal Procurement Data System-Next Generation. |
| File D2 | Award and Awardee Attributes – Financial Assistance Awards; Data extracted from the Award Submission Portal. |
| File E | Additional Awardee Attributes; Data extracted from the System for Award Management. |
| File F | Sub-Award Attributes; Data extracted from the FFATA Subaward Reporting System. |

Source:  OIG-generated based on the *Schema*.

OMB Memorandum M-15-12 directs agencies to designate a point of contact, the Senior Accountable Official, who is a senior official in the agency with the ability to coordinate across multiple communities and Federal lines of business.  As a part of each agency's quarterly submission to Treasury, the agency Senior Accountable Official must provide reasonable assurance (or certification) that internal controls support the reliability and validity of the agency's account-level and award-level data.

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[5] Treasury released the *DATA Act Information Model Schema*, version 1.1, in June 2017.  Prior to its release, Treasury released several earlier versions including version 1.0 in April 2016, version 0.2 in May 2015, version 0.5 in July 2015, version 0.6 in October 2015, and version 0.7 in December 2015.

In 2012, the U.S. Securities and Exchange Commission (SEC) entered into an interagency agreement with a Federal shared service provider—the Department of Transportation's Enterprise Services Center (ESC)—for operation and maintenance of the SEC's financial management and procurement systems (known as Delphi and PRISM, respectively). The SEC is responsible for agency compliance with the DATA Act and the SEC's Acting Chief Financial Officer serves as the agency's Senior Accountable Official. However, the SEC depends on ESC to inventory and map data elements, make any system changes needed to create files for submission to Treasury, and submit required files by the deadlines established in the DATA Act.

**Inspector General Reviews.** The DATA Act also requires the Inspector General (IG) of each Federal agency to (1) review statistical samples of data submitted by the agency under the DATA Act, and (2) report on the completeness, timeliness, quality, and accuracy of sampled data[6] and the agency's use of the data standards.

The first IG reports were due to Congress in November 2016; however, Federal agencies were not required to submit spending data until May 2017. To address this timing anomaly, in 2016 some Federal IGs, including the SEC Office of Inspector General (OIG), conducted readiness reviews of agencies' progress toward compliance with the DATA Act.[7] IGs must provide Congress the first required reports in November 2017, with subsequent reports following on a 2-year cycle, in November 2019 and November 2021.

To help IGs meet their DATA Act responsibilities, the Federal Audit Executive Council DATA Act Working Group created the *Inspectors General Guide to Compliance Under the DATA Act* (IG Guide).[8] The IG Guide created a common methodology and reporting approach for the IG community to use in performing its mandated work. This included (1) defining the type of audit IGs should conduct—attestation or performance—in accordance with the Government Accountability Office's (GAO) *Government Auditing Standards*; (2) reiterating, as stated in the Playbook, that IG's first required reports would include an assessment of fiscal year 2017, second quarter (FY17Q2) data (the

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[6] IGs assess completeness by determining whether all transactions that should have been recorded were recorded in the proper reporting period. IGs also measure completeness as the percentage of transactions that contained all applicable data elements required by the DATA Act. IGs measure timeliness as the percentage of transactions reported within 30 days of the end of the quarter. IGs measure accuracy as the percentage of transactions that were complete and agreed with the systems of record or other authoritative sources. Finally, IGs assess quality as a combination of utility, objectivity, and integrity. Utility refers to the usefulness of the information to the intended users. Objectivity refers to whether the disseminated information is presented in an accurate, clear, complete, and unbiased manner. And integrity refers to the protection of information from unauthorized access or revision.

[7] U.S. Securities and Exchange Commission Office of Inspector General, *Final Management Letter: Readiness Review of the SEC's Progress Toward Compliance With the Digital Accountability and Transparency Act of 2014* (November 2, 2016).

[8] Federal Audit Executive Council DATA Act Working Group, *Inspectors General Guide to Compliance Under the DATA Act* (Treasury OIG: OIG-CA-17-012; February 27, 2017).

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first data required to be submitted to Treasury under the DATA Act); and (3) suggesting information IGs should obtain, assess, and review.

In accordance with the DATA Act and IG Guide and as part of the first mandated audits of agencies' compliance with the Act, IGs are to assess their agency's internal controls, including internal controls over agencies' source systems and FY17Q2 DATA Act submission. Specifically, IGs are to test summary level data in Files A and B; determine whether File C was complete and suitable for sampling; test a statistically valid, random sample of certified spending data from File C; and, as appropriate, test award-level linkages from File C to Files D1/D2 and from Files D1/D2 to Files E and F. Finally, IGs are to assess the completeness of all award-level transaction data to determine if all transactions were recorded in FY17Q2 and contained all applicable data elements required by the DATA Act.

## Objectives

The overall objective of this audit was to assess (1) the completeness, timeliness, quality,[9] and accuracy of the FY17Q2 financial and award data submitted by the SEC for publication on *USAspending.gov*, and (2) the SEC's implementation and use of the Governmentwide financial data standards established by OMB and Treasury.

To address our objective, we followed the methodology established in the IG Guide and assessed the SEC's FY17Q2 Files A through C (including the agency's use of the required data elements), and the linkage between those files and files generated by the Broker (File D1, File E, and File F). Because the SEC did not have any financial assistance transactions—such as grants or loans—to report in FY17Q2, the Broker did not generate File D2 and we did not include File D2 in our audit. We also evaluated a statistically valid sample of 200 detail award transactions included in the SEC's certified FY17Q2 File C data submission. While we reviewed the linkage of our statistical sample to File D1 and the linkage of File D1 to Files E and F, we did not review Files E and F in detail.

Appendix I includes additional information about our objective, scope, and methodology; our review of internal controls; and prior coverage.

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[9] According to guidance from the Federal Audit Executive Council DATA Act Working Group, until agencies address identified weaknesses, IG efforts to assess data quality will be limited.

# Results

## The SEC's First DATA Act Submission Generally Met Requirements, But Improvements Can Be Made

The SEC's Office of Financial Management (OFM) successfully prepared and submitted to the Broker the SEC's first set of agency-generated files, in accordance with the DATA Act. Specifically, the SEC's FY17Q2 File A, File B, and File C were timely and generally complete and accurate. Moreover, we identified no concerns with the data's overall quality. However, some program activity was incorrectly mapped and, therefore, incorrectly reported in File B. In addition, OFM management created a DATA Act Reference Guide to establish, among other things, written data validation and reconciliation processes. Yet, at the time of our audit, management had not finalized the reference guide. While the agency's first DATA Act submission generally met requirements, improvements can be made for future reporting periods.

**File A Was Complete, Timely, and Accurate.** File A reports fiscal year cumulative Federal appropriations account summary-level data. We determined that the SEC's FY17Q2 File A contained all required DATA Act elements, which were presented in accordance with the data standards. We compared the appropriations account summary-level data in the SEC's FY17Q2 File A to the SEC's corresponding SF 133 report[10] and found that all data matched with no exceptions.

Additionally, we noted that the SEC's Senior Accountable Official certified the SEC's FY17Q2 files, including File A, in the Broker on April 27, 2017, within 30 days of quarter-end. Therefore, the SEC's FY17Q2 files, including File A, were considered timely.

Finally, we reviewed the accuracy of the Treasury Account Symbols[11] reported in the SEC's FY17Q2 File A by comparing the File A Treasury Account Symbols to the

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[10] According to OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*, unless otherwise specified by OMB, all executive branch agencies must electronically submit to OMB SF 133 (Report on Budget Execution and Budgetary Resources) information each quarter for each open Treasury appropriation fund symbol. Among other things, SF 133 reports provide a consistent presentation of information across programs within each agency, and across agencies.

[11] A Treasury Account Symbol is the account identification code assigned by Treasury to an individual appropriation, receipt, or other fund account. All financial transactions of the Federal Government are classified by a Treasury Account Symbol for reporting to Treasury and OMB. Our review of Treasury Account Symbols included the reported agency identifier, main account code, and sub account code, as well as the budget authority appropriated amount, budget authority available amount, gross outlay amount by Treasury Account Symbol, and unobligated balance.

accounts reported in the corresponding SF 133 report. We noted no exceptions in the File A reporting of Treasury Account Symbols.

We also reviewed the processes OFM staff used to validate and reconcile the data reported in File A for FY17Q2. OFM staff used an automated tool to reconcile File A data from OFM's records to ESC's records and ensure that ESC generated a valid and reliable File A for submission. Staff reconciled all totals reported in File A and did not identify any exceptions. OFM's DATA Act Reference Guide outlines the data validation and reconciliation processes. However, at the time of our audit, OFM management had not finalized the reference guide.

**Some Program Activity Was Incorrectly Mapped and, Therefore, Incorrectly Reported In File B.** File B reports fiscal year cumulative Federal object class and program activity summary-level data. Each agency's program and financing schedule (Schedule P) in the President's annual budget presents information on agency programs, the allocation of budgetary resources by activity, the status of those resources, and spending patterns. We compared the program activity codes and names included in the SEC's fiscal year 2017 Schedule P (shown in Table 2 below) with the program activity codes and names included in agency's FY17Q2 File B submission. We determined that the SEC's FY17Q2 File B contained all required DATA Act elements, which were presented in accordance with the data standards. In addition, as previously stated, the SEC's Senior Accountable Official certified the SEC's FY17Q2 files, including File B, in the Broker on April 27, 2017, within 30 days of quarter-end. Therefore, the SEC's FY17Q2 files, including File B, were considered timely. However, we found that some program activity was incorrectly mapped and, therefore, incorrectly reported in File B.

**Table 2: SEC Program Activity Codes and Names**

| Program Activity Code | Program Activity Name |
|---|---|
| 0001 | Enforcement |
| 0002 | Compliance Inspections and Examinations |
| 0003 | Corporation Finance |
| 0004 | Trading and Markets |
| 0005 | Investment Management |
| 0006 | Economic and Risk Analysis |
| 0007 | General Counsel |
| 0008 | Other Program Activities |
| 0009 | Agency Direction and Administrative Support |
| 0010 | Inspector General |

Source: OIG-generated based on information in the SEC's program and financing schedule (Schedule P) included in the fiscal year 2017 President's Budget.

Specifically, we noted that the SEC's FY17Q2 File B did not include program activity code 0002, Compliance Inspections and Examinations.  OFM staff acknowledged the missing program activity and explained that ESC staff incorrectly mapped FY17Q2 spending by the SEC's Office of Compliance Inspections and Examinations as program activity code 0001, Enforcement, in its crosswalks developed to create the SEC's DATA Act files.  OFM staff stated that OFM discovered the issue in May 2017, after submitting and certifying the SEC's FY17Q2 files, and requested that ESC staff correct the crosswalks for future DATA Act submissions.  Because ESC staff incorrectly mapped spending for the SEC's Office of Compliance Inspections and Examinations to the agency's Division of Enforcement, the SEC's FY17Q2 File B included amounts for program activity code 0002 in program activity code 0001.

After we raised this issue with OFM staff in August 2017, OFM staff followed up with ESC and, on September 7, 2017, received confirmation that ESC staff had corrected the crosswalks.  However, ESC staff had already prepared and the SEC's Senior Accountable Official had already certified and submitted the SEC's fiscal year 2017, third quarter DATA Act files using the incorrect crosswalks.[12]  For future submissions of File B to be accurate, OFM staff must verify that ESC's crosswalks ensure program activity is correctly mapped and reported.  Additional verification steps in OFM's DATA Act Reference Guide may help correct this issue.

We also reviewed the accuracy of the object class codes reported in the SEC's FY17Q2 File B by comparing those codes to the codes defined in Section 83 of OMB Circular No. A-11.[13]  We successfully matched all object class codes used with one immaterial exception.  Specifically, we noted that the SEC's FY17Q2 File B included one small-dollar amount ($25) with an invalid object class code of "000."  According to OFM staff, on occasion, staff incorrectly post transactions with the invalid "000" object class code.  OFM staff are aware of and monitor for this activity so they can review and correct it in a timely manner.  OFM staff also explained that the Broker will issue a warning for this activity and that the transaction we identified occurred in March 2017 and was corrected in April 2017.  Because this posting anomaly (1) is well-known and monitored, and (2) occurs infrequently, we concluded that corrective action was not warranted.

**File C Was Generally Complete and Was Timely and Accurate.**  File C reports award-level transaction data.  The SEC's FY17Q2 File C included 414 detail award transactions, all of which were procurement transactions, as the SEC did not have any financial assistance transactions to report.  We assessed processes OFM staff used to

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[12] The Senior Accountable Official certified and submitted the SEC's fiscal year 2017, third quarter files on August 10, 2017.

[13] OMB Circular A-11, Section 83, *Object Classification*, is the authoritative source for object class data. According to Section 83, object classes are categories that present obligations by the items or services purchased by the Federal Government.  Examples of major object classes include personnel compensation and benefits, contractual services and supplies, and acquisition of assets.  Object class codes are three-digit codes used in the object classification system to report and track Federal spending.

review and reconcile the data reported in File C, including process for reviewing draft DATA Act files prepared by ESC before submission to Treasury. OFM staff reconciled the SEC's general ledger to File C for FY17Q2 and, before certifying and submitting the data to the Broker, identified five transactions that should have been reported in File C but were not. OFM staff stated that they planned to present the five transactions to the Office of Acquisitions (OA) and ESC for review. Although five transactions were missing from File C, we concluded that the file was substantially complete and suitable for testing.

In accordance with the IG Guide, we selected a statistically valid, random sample of File C transactions for detailed testing. Using the methodology prescribed in section 430 of the IG Guide and with the assistance of our contractor, we selected a sample of 200 File C detail award transactions for testing.[14] We determined that File C was complete as it contained all required DATA Act elements, which were presented in accordance with the data standards. We obtained access to PRISM, the procurement system maintained by ESC and used by the SEC to document procurement awards, to review the accuracy of each sampled transaction and verify that the award date for sampled transactions occurred in FY17Q2. We concluded that sampled transactions were accurate, as they matched the source system and supporting documentation. We noted no exceptions in the SEC's FY17Q2 File C reporting and have no errors to report.

As previously stated, the SEC's Senior Accountable Official certified the SEC's FY17Q2 files, including File C, in the Broker on April 27, 2017, within 30 days of quarter-end. Therefore, the SEC's FY17Q2 files, including File C, were considered timely.

OFM management has documented in its DATA Act Reference Guide several processes for validating and reconciling the data reported in File C. These processes include reviewing Broker warning reports, reconciling the SEC's procurement system and accounting system, comparing purchase order totals to the general ledger, and comparing the general ledger to File C. However, as previously stated, at the time of our audit, OFM management had not finalized the reference guide because the USAspending.gov beta site was not yet fully operational to allow for a complete two-way reconciliation.

**File C Transactions Were Linked to File D1.** File D1 reports award and awardee attribute data for procurement transactions. The Broker generates File D1 by extracting data from the Federal Procurement Data System-Next Generation. Because all spending transactions reported in the SEC's FY17Q2 File C were procurement transactions, we tested the linkage of our File C sample to File D1. We concluded that all 200 detail award transactions included in our sample were appropriately linked to the procurement attribute information reported in File D1.

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[14] Appendix I includes our detailed sampling methodology, including sampling criteria.

We also compared non-financial elements—including awardee/recipient legal entity name and address, and primary place of performance—reported in File D1 to information in the Federal Procurement Data System-Next Generation. We identified five exceptions in the non-financial elements reviewed, including missing or blank legal entity address information and places of performance that did not match. However, the exceptions were minor and infrequent and we concluded that corrective action was not warranted.

**Files E and F.** Files E and F report awardee attribute and sub-award attribute data, respectively. The Broker generates Files E and F by extracting data from the System for Award Management and from the FFATA Subaward Reporting System. Data extracted from these two systems are presented to the agency for final confirmation before being displayed on *USAspending.gov*. However, prime awardees—not agencies— are responsible for reporting accurate and complete information in the two systems. As outlined in OMB's Management Procedures Memorandum 2016-03, the two systems are the authoritative sources for the data reported in Files E and F and no additional action is required of Federal agencies.[15] As such, we did not assess the completeness, timeliness, quality, or accuracy of the data extracted from the System for Award Management and the FFATA Subaward Reporting System via the Broker for the SEC's FY17Q2 Files E and F. We tested the linkage of the additional awardee attribute and sub-award data reported in Files E and F to File D1 and concluded that all information was properly linked.

## Recommendations, Management's Response, and Evaluation of Management's Response

The SEC's first DATA Act submission generally met requirements as the agency's FY17Q2 File A, File B, and File C were timely and generally complete and accurate. Moreover, we identified no concerns with the data's overall quality. However, improvements can be made for future reporting periods. To improve the SEC's processes for complying with the DATA Act, we recommend that the Acting Chief Financial Officer:

**Recommendation 1:** Verify that the agency's fiscal year 2017, fourth quarter File B properly maps all required program activities and codes before submitting the file to the DATA Act Broker.

> **Management's Response.** The Acting Chief Financial Officer concurred with the recommendation and stated that the Office of Financial Management is working to improve its business and accounting system processes so that its general

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[15] OMB Management Procedures Memorandum 2016-03, *Additional Guidance for DATA Act Implementation: Implementing Data-Centric Approach for Reporting Federal Spending Information*, (May 3, 2016).

accounting system allocation output will more exactly match File B DATA Act allocations by program. Management's complete response is reprinted in Appendix II.

**OIG's Evaluation of Management's Response**. Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

**Recommendation 2:** Finalize the Office of Financial Management DATA Act Reference Guide and ensure it outlines processes for reviewing and correcting material exceptions identified in the agency's DATA Act submissions to date.

**Management's Response**. The Acting Chief Financial Officer concurred with the recommendation and stated that the Office of Financial Management planned to finalize its reference guide for the *beta.usaspending.gov* website to provide download capability and allow for a complete two-way reconciliation. However, if the Department of the Treasury is further delayed, the Office of Financial Management will issue an interim procedure and update when the website is fully operational. Management's complete response is reprinted in Appendix II.

**OIG's Evaluation of Management's Response**. Management's proposed actions are responsive; therefore, the recommendation is resolved and will be closed upon verification of the action taken.

# Appendix I.  Scope and Methodology

We conducted this performance audit from June 2017 through November 2017 in accordance with general accepted government auditing standards.  Those standards require that we plan and perform the audit to obtain evidence sufficient to provide a reasonable basis for our findings and recommendations.  We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**Scope.**  We assessed the (1) completeness, timeliness, quality, and accuracy of the FY17Q2 financial and award data submitted by the SEC for publication on *USAspending.gov,* and (2) SEC's implementation and use of the Governmentwide financial data standards established by OMB and Treasury.  As described below, we also reviewed applicable procedures and controls related to this process.

**Methodology.**  We conducted fieldwork at the SEC's Headquarters in Washington, DC.  As previously noted, we followed the prescribed IG Guide and performed the following steps, among others:

- reviewed applicable Federal laws, directives, and other guidance, including, but not limited to, the DATA Act, FFATA, OMB memoranda,[16] OMB Circular A-11, the Playbook, and the Schema;

- interviewed officials from OFM and OA to gain an understanding of (1) the policies, procedures, and guidelines OFM and OA staff followed when preparing and submitting to Treasury the SEC's FY17Q2 DATA Act files; and (2) the reconciliations OFM staff performed to validate submitted data;

- reviewed applicable OFM and OA policies and procedures;

- assessed the SEC's systems, processes, and internal controls for data management[17] under the DATA Act;

- assessed the general and application controls pertaining to the financial management systems from which data elements were derived and linked; and

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[16] OMB memoranda we reviewed included OMB Memorandum M-10-06, *Open Government Directive* (December 8, 2009); OMB Memorandum M-15-12, *Increasing Transparency of Federal Spending by Making Federal Spending Data Accessible, Searchable, and Reliable* (May 8, 2015); and OMB Memorandum M-17-04, *Additional Guidance for DATA Act Implementation:  Further Requirements for Reporting and Assuring Data Reliability* (November 4, 2016).

[17] Data management refers to the SEC's policies and procedures for managing the flow of Federal spending data throughout the data's life cycle.

- assessed the SEC's internal controls over financial and award data submitted to Treasury for publication on *USAspending.gov*.

We also engaged a contractor—Data and Analytic Solutions, Inc.—to develop a sampling methodology consistent with the requirements of the IG Guide[18] and to select a statistically valid sample of the SEC's FY17Q2 financial and award data submitted to Treasury for publication on *USAspending.gov*. To determine the sample size, Data and Analytic Solutions, Inc. used the following parameters established in the IG Guide:

- *Population:* The total number of detail award transactions from the SEC's certified FY17Q2 File C data submission (or 414 transactions).

- *Confidence Level:* 95 percent

- *Initial-year Expected Error Rate:* 50 percent

- *Desired Sampling Precision:* ±5 percent

Due to the size of the population, Data and Analytic Solutions, Inc. used the recommended finite correction factor.[19] This methodology resulted in a statistically valid sample of 200 of the 414 detail award transactions included in the SEC's certified FY17Q2 File C submission. As described in this report, we tested the sample for completeness, timeliness, and accuracy, and to assess the SEC's implementation and use of the 57 data definition standards established by OMB and Treasury and required for File C. In accordance with guidance from the Federal Audit Executive Council DATA Act Working Group, we based our assessment of data quality on the results of our testing and internal controls assessment.

We also assessed the SEC's FY17Q2 Files A, B, and D1, as described in this report. As previously stated, the agency did not have any financial assistance transactions to report in FY17Q2. Therefore, the Broker did not generate File D2 for this reporting period, and we did not include File D2 in our audit. Finally, as previously stated, prime awardees—not agencies—are responsible for reporting accurate and complete information used to generate Files E and F, and no additional action is required of Federal agencies. As such, we did not assess the completeness, timeliness, quality, or accuracy of the data in the SEC's FY17Q2 Files E and F.

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[18] *Inspectors General Guide to Compliance Under the DATA Act*, section 430.01, "The engagement team should randomly select a statistically valid sample of certified spending data from the reportable award-level transactions included in the agency's certified data submission for File C, or Files D1 and D2 if File C is unavailable…File C is the preferred source to select a statistically valid sample of data."

[19] *Inspectors General Guide to Compliance Under the DATA Act*, section 430.02, "For agencies with a smaller population, where the recommended sample size of 385 represents 5 percent or more of the population, the IG may reduce the sample size by applying the finite correction factor using the following formula to determine the recommended sample size: 385/[1+(385/N)], where "N" represents the population size."

**Internal Controls.**  Management is responsible for the design, implementation, and operating effectiveness of the agency's internal controls.  We assessed applicable internal controls to determine the nature, timing, and extent of testing in accordance with GAO's *Standards for Internal Control in the Federal Government*.  Specifically, we evaluated whether the SEC's internal controls over spending data were properly designed, implemented, and operating effectively to manage and report financial and award data in accordance with the DATA Act.  As part of our assessment, we reviewed OFM's and OA's fiscal year 2016 management assurance statements and risk assessments and determined that neither OFM nor OA identified significant deficiencies or material weaknesses.  OFM and OA reported that the SEC's financial data and reporting were reliable, operations and programs were effective and efficient, and staff abided by applicable laws and regulations in the conduct of their work.

We also reviewed the SEC's Fiscal Year 2016 Agency Financial Report, Fiscal Year 2016 Internal Control over Financial Reporting IT General Controls Assessment, and 2016 Management Representation Letter.  In addition, we relied on internal control and substantive testing performed by the Department of Transportation OIG, which included a review of ESC's quality controls and concluded that ESC suitably designed and implemented internal controls over hosting and operating Delphi and PRISM.  We concluded that (1) the internal control testing performed was sufficient in scope and reliability, (2) ESC designed and effectively implemented applicable controls, and (3) we could rely on Delphi and PRISM as authoritative sources for the information reported by the SEC in accordance with the DATA Act.

**Computer-processed Data**.  GAO's *Assessing the Reliability of Computer-Processed Data* (GAO-09-680G, July 2009) states that "data reliability refers to the accuracy and completeness of computer-processed data, given the uses they are intended for.  Computer-processed data may be data (1) entered into a computer system or (2) resulting from computer processing."  Furthermore, GAO-09-680G defines "reliability," "completeness," and "accuracy" as follows:

- "Reliability" means that data are reasonably complete and accurate, meet intended purposes, and are not subject to inappropriate alteration.

- "Completeness" refers to the extent that relevant records are present and the fields in each record are appropriately populated.

- "Accuracy" refers to the extent that recorded data reflect the actual underlying information.

To address our objective, we requested access to PRISM and the Broker.[20]  We assessed the reliability of data from these systems by reviewing related documents, reviewing related internal controls (as described above), interviewing knowledgeable

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[20] We did not request access to Delphi and, instead, relied on financial information provided by OFM staff.

OFM and OA staff, and performing a walkthrough of PRISM.  Based on our assessments, we found the systems to be sufficiently reliable for the purpose of this audit.

**Prior Coverage**. Between 2016 and 2017, the SEC OIG and GAO issued the following four reports of particular relevance to this audit:

SEC OIG:

- *Final Management Letter: Readiness Review of the SEC's Progress Toward Compliance With the Digital Accountability and Transparency Act of 2014* (November 2, 2016).

GAO:

- *DATA Act: Office of Inspector General Reports Help Identify Agencies' Implementation Challenges* (GAO-17-460, April 2017).

- *DATA Act: Implementation Progresses but Challenges Remain* (GAO-17-282T, December 2016).

- *DATA ACT: Improvements Needed in Reviewing Agency Implementation Plans and Monitoring Progress* (GAO-16-698, July 2016).

These reports can be accessed at:  https://www.sec.gov/oig (SEC OIG) and https://www.gao.gov (GAO).

# Appendix II. Management Comments

UNITED STATES
**SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, DC 20549

MEMORANDUM

TO:        Rebecca L. Sharek
           Deputy Inspector General for Audits, Evaluations, and Special Projects
           Office of the Inspector General

FROM:      Caryn E. Kauffman
           Acting Chief Financial Officer
           Office of Financial Management

RE:        Office of Financial Management's Response to the Office of Inspector
           General's Report, *Audit of the SEC's Compliance with the Digital
           Accountability and Transparency Act for Fiscal Year 2017*

DATE:      November 6, 2017

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The Office of Financial Management ("OFM") submits this memorandum in response to
the Office of Inspector General ("OIG") draft of report number 545- Audit of the SEC's
Compliance with the DATA Act for FY 2017 ("Report").

We welcome the OIG's recommendations to strengthen our compliance with the Digital
Accountability and Transparency Act. Our response to the recommendations is below.

**Recommendation 1:** Verify that the agency's fiscal year 2017, fourth quarter File B
properly maps all required program activities and codes before submitting the file to the
DATA Act Broker.

*OFM ran the reconciliation report comparing SEC fourth quarter File B Data Act
amounts to our accounting system generated data. The report shows that the fourth
quarter File B Data Act amounts were all mapped to programs. We are currently
working to improve our business and accounting system processes so that our general
accounting system allocation output will more exactly match File B DATA ACT
allocations by program.*

**Recommendation 2:** Finalize the Office of Financial Management DATA Act Reference
Guide and ensure it outlines processes for reviewing and correcting material exceptions
identified in the agency's DATA Act submissions to date.

*OFM had been waiting to finalize the reference guide for the beta.usaspending.gov site
to provide download capability and allow for a complete two way reconciliation. If it*

*appears that Treasury will be further delayed, we will finalize an interim procedure and update when the site is fully operational.*

We appreciate the opportunity to review and comment on the Report. Please contact Todd Johnson, Assistant Director Reporting and Analysis Branch if you have any questions.

## Major Contributors to the Report

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## Comments and Suggestions

If you wish to comment on the quality or usefulness of this report or suggest ideas for future audits, evaluations, or reviews, please send an e-mail to OIG Audit Planning at AUDplanning@sec.gov.  Comments and requests can also be mailed to the attention of the Deputy Inspector General for Audits, Evaluations, and Special Projects at the address listed above.