



OFFICE OF
INSPECTOR GENERAL

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

M E M O R A N D U M

November 2, 2016

TO: Jeffery Heslop, Chief Operating Officer

FROM: Carl W. Hoecker, Inspector General

SUBJECT: *Final Management Letter: Readiness Review of the SEC's Progress Toward Compliance With the Digital Accountability and Transparency Act of 2014*

The U.S. Securities and Exchange Commission (SEC or agency) Office of Inspector General (OIG) has completed a readiness review of the SEC's progress toward compliance with the Digital Accountability and Transparency Act of 2014 (DATA Act or Act).¹ This management letter summarizes the results of our review.

Executive Summary

According to the Department of the Treasury's (Treasury) *DATA Act Implementation Playbook*,² the DATA Act provides a significant opportunity for creating government-wide improvements in transparency and accountability. When fully implemented, the DATA Act will enable taxpayers and policy makers to track Federal spending more effectively. The Act requires that Federal agencies report, by May 2017, financial and payment data using government-wide data standards established by Treasury and the Office of Management and Budget (OMB). To help agencies meet the Act's reporting requirements, Treasury, in coordination with OMB, issued the *DATA Act Implementation Playbook* which included a suggested eight-step implementation plan. Between June and October 2016, we assessed the SEC's progress in completing steps one through six of the eight-step implementation plan, and determined that the SEC appears to be on schedule to meet the first established reporting deadline of May 2017. However, the SEC must depend on its Federal Shared Services Provider—the Department of Transportation's Enterprise Services Center (ESC)—to obtain and apply to the SEC's financial system software patches necessary to create the required DATA Act submission files. ESC staff believe that this work will be completed on time; however, neither ESC nor the SEC has a workaround to ensure compliance with the DATA Act if the software patches are not timely installed.

¹ Pub. L. No. 113-101, 128 Stat. 1146 (May 9, 2014). The DATA Act amended the Federal Funding Accountability and Transparency Act of 2006. Pub. L. No. 109-282, 120 Stat. 1186 (Sept. 26, 2006), codified at 31 U.S.C. § 6101, note.

² Treasury released versions 1.0 and 2.0 of the *DATA Act Implementation Playbook* in June 2015 and June 2016, respectively.

Background

To improve the transparency and quality of the Federal spending data made available to the public, the DATA Act directs Treasury and OMB to establish government-wide data standards that include common data elements for reporting financial and payment information. In general, the Act requires agencies to begin reporting financial spending data using these data standards by May 2017 and publicly post spending data in machine-readable formats by May 2018. According to the Government Accountability Office, “Full and effective implementation of the DATA Act will allow funds to be tracked at multiple points in the federal spending lifecycle. For example, once fully implemented, amounts appropriated, obligated, and subsequently outlayed for a particular program activity would all be publicly available on USAspending.gov or a successor website.”³

Since the DATA Act was enacted on May 9, 2014, Treasury and OMB have developed 57 data definition standards and issued guidance to Federal agencies, including the *DATA Act Implementation Playbook*. The *Playbook* provides a high-level discussion of the vision and objectives of the DATA Act, followed by an eight-step agency implementation plan which agencies can use to develop methodologies for DATA Act implementation.

The DATA Act also requires the Inspector General 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 the sampled data and the agency’s use of the data standards. The first Inspector General reports are due to Congress in November 2016; however, Federal agencies are not required to submit spending data until May 2017. To address this timing anomaly, we conducted a readiness review of the SEC’s progress toward compliance with the DATA Act, and we plan to provide Congress with the first required report in November 2017, with subsequent reports following on a 2-year cycle, in November 2019 and November 2021.⁴

OMB has directed agencies to use a shared approach to information technology service delivery for the purposes of improving return on investment, closing productivity gaps, and increasing communications with stakeholders.⁵ In 2012, the SEC entered into an interagency agreement with a Federal Shared Service Provider—the Department of Transportation’s ESC. ESC provides the SEC’s financial management and procurement systems operations and maintenance services. The SEC’s goal of using ESC for its financial system is to have a system that (1) provides timely and accurate data, (2) facilitates stronger internal controls, and (3) provides a standardized system, business processes, and data elements.

³ U.S. Government Accountability Office, *DATA ACT Data Standards Established, but More Complete and Timely Guidance is Needed to Ensure Effective Implementation* (GAO-16-261, January 2016).

⁴ On December 22, 2015, the chair of the Council of the Inspectors General on Integrity and Efficiency issued a letter memorializing this strategy for dealing with the Inspector General reporting date anomaly and communicated it to the Senate Committee on Homeland Security and Governmental Affairs and the House Committee on Oversight and Government Reform.

⁵ U.S. Office of Management and Budget, *Improving Financial Systems Through Shared Services* (OMB M-13-08, March 2013).

Objectives, Scope, and Methodology

The objective of our readiness review was to gain an understanding of the processes, systems, and controls which the SEC and ESC have implemented, or plan to implement, to report the agency's expenditures and link its Federal contract, loan, and grant spending information in accordance with the DATA Act. We reviewed the SEC's progress toward DATA Act compliance within the structure of Treasury's suggested eight-step implementation plan. Specifically, we assessed the SEC's progress in completing steps one through six, as early Treasury guidance anticipated that progress would be made in these six steps by the time of our review. We also obtained information necessary to perform future reviews required by the Act.

We conducted our work at the SEC's Headquarters between June and October 2016. We interviewed personnel from the SEC's DATA Act working group (including the Chief Financial Officer and the Director of the Office of Acquisitions), Department of Transportation OIG personnel performing a readiness review of ESC, and ESC working group members. We also reviewed the SEC's and ESC's implementation plans, documents summarizing the project's progress, and ESC timelines.

Results

The SEC Appears To Be on Schedule To Meet the May 2017 Deadline; However, the SEC Is Dependent on ESC for Timely Compliance. The SEC appears to be on schedule to meet the first reporting deadline of May 2017. However, the SEC, like ESC's other customers, must depend on ESC for timely compliance. Specifically, the SEC's financial and procurement data—key to DATA Act compliance—is processed and stored in ESC's systems. Under an interagency agreement, ESC is implementing the DATA Act requirements on the SEC's behalf. The SEC's and ESC's implementation of the DATA Act has followed the eight-step implementation plan. ESC has a comprehensive plan for timely implementing the DATA Act and the SEC has concurrently performed some of the steps outlined in the plan. For example, the SEC formed a working group with subject matter experts and performed its own review of data element definitions. For those tasks that the SEC cannot perform, the SEC working group informally tracks the progress of the work that ESC conducts on the SEC's behalf, and the SEC working group reports progress monthly to the SEC's Chief Operating Officer.

Although the SEC is responsible for agency compliance with the DATA Act, the SEC depends on ESC to inventory and map data elements, make any systems changes needed to create the required submission files, and to submit the required files by the deadlines established in the Act. ESC's timely implementation is, in turn, dependent on a software developer to create and timely deliver software patches that will allow ESC to make needed system changes to ensure the SEC can comply with the DATA Act. If ESC does not receive the patches in time to test and implement them by March 2017 (a date established by ESC), ESC may not be able to create the required DATA Act submission files for the SEC.

As of October 31, 2016, ESC required three software update patches from the developer of the agency's financial system to map financial and procurement data by a common identifier and to create the required submission files. ESC staff believe that the developer will deliver the patches in time to allow ESC to test and implement them. However, if the developer does not

deliver the patches on time, neither ESC nor the SEC has a workaround to ensure compliance with the DATA Act.

The chart below summarizes the progress we observed during our review of the first six steps of the eight-step implementation plan.

Chart: Summary of SEC/ESC Progress Toward Compliance With DATA Act

Eight Suggested Implementation Steps for Agencies	Action Taken
1) Organize Team Create an agency DATA Act working group including impacted communities and identify Senior Accountable Official.	The SEC has a seven-member DATA Act working group including a subject matter expert from the Office of Financial Management, the Chief Financial Officer, the Director of the Office of Acquisitions, and an expert in the agency's procurement system. In addition, ESC has a DATA Act working group composed of a project manager and technical experts.
2) Review Elements Review list of DATA Act elements and participate in data definitions standardization.	ESC completed its review of data elements in August 2015. The SEC reviewed data element definitions concurrently with ESC and found the data elements to be consistent with current definitions. The SEC did not participate in data definitions standardization.
3) Inventory Data Perform inventory of agency data and associated business processes.	ESC is working on this step and is waiting on software patches from the software developer. ESC performed an inventory of agency data by identifying source systems for each of the 57 data elements. The SEC relied on ESC's work and noted that that only eight of the data elements are financial and are already required for other financial reporting.
4) Design and Strategize Plan changes to systems and business processes to capture data that are complete, multilevel, and fully linked.	The SEC submitted the required agency implementation plan in September 2015. The SEC's implementation plan clearly points to the work for ESC to perform. ESC submitted its implementation plan in August 2015 and updated it in July 2016. ESC's implementation plan and more detailed project plan cover the topics and considers the factors that will allow ESC to fully implement the DATA Act. The SEC informally tracks ESC's progress and reports progress monthly to the Chief Operating Officer.
5) Prepare Data for Submission to the Broker Implement system changes and extract data iteratively.	The SEC is relying on ESC to implement necessary system changes. ESC is working on this step. ESC has not yet mapped data elements via a common identifier (Award ID) between the SEC's financial and procurement systems because ESC is waiting on the software patches from the software developer.
6) Test Broker Outputs and Ensure Data are Valid Test broker outputs to ensure data are valid iteratively.	The SEC is relying on ESC to test data validity. ESC has tested the broker using only sample data. ESC will test SEC data after software patches are installed.
7) Update Data and Systems Implement other system changes iteratively.	We did not include this step in our readiness review.
8) Submit Data Update and refine process (repeat steps 5-7 as needed).	We did not include this step in our readiness review.

Source: *Data Act Implementation Playbook* and OIG work performed.

We do not plan to perform additional readiness reviews of SEC's progress toward compliance with the DATA Act. However, as required by the Act, we will review statistical samples of the data submitted by the SEC under the DATA Act. We will also report on the completeness, timeliness, quality, and accuracy of the data sampled, and on the SEC's use of the data standards. We plan to complete the first required report in November 2017, with subsequent reports following on a 2-year cycle, in November 2019 and November 2021.

We are not making formal recommendations to improve the SEC's progress toward compliance with the DATA Act. On October 25, 2016, we provided SEC management with a draft of this management letter for review and comment. At an exit conference held on October 28, 2016, management requested that we include additional background information on ESC. After considering management's request, we included the additional information. We offered management an opportunity to provide written comments on the draft management letter. Management stated that written comments were not necessary.

We appreciate management's cooperation. If you have questions, please contact Rebecca L. Sharek, Deputy Inspector General for Audits, Evaluations, and Special Projects.

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