



U.S. Securities and Exchange Commission
Office of Inspector General
Office of Audits

Evaluation of the SEC's FY 2019 Compliance With the
Improper Payments Elimination and Recovery Act of
2010





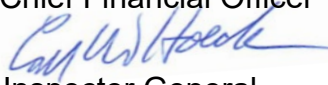
OFFICE OF
INSPECTOR GENERAL

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

M E M O R A N D U M

April 27, 2020

TO: Caryn Kauffman, Chief Financial Officer

FROM: Carl W. Hoecker, Inspector General 

SUBJECT: *Evaluation of the SEC's FY 2019 Compliance with the Improper Payments Elimination and Recovery Act of 2010, Report No. 561*

Attached is the Office of Inspector General (OIG) final report detailing the results of our evaluation of the U.S. Securities and Exchange Commission's (SEC) compliance with the Improper Payments Elimination and Recovery Act of 2010 for fiscal year (FY) 2019. The report contains two recommendations that should help improve the SEC's risk assessment and vendor invoice testing.

On April 13, 2020, we provided management with a draft of our report for review and comment. In its April 21, 2020, response, management concurred with our recommendations. We have included management's response as Appendix IV 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 Office of Financial Management will address the recommendations.

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

Attachment

cc: Jay Clayton, Chairman
Sean Memon, Chief of Staff, Office of Chairman Clayton
Bryan Wood, Deputy Chief of Staff, Office of Chairman Clayton
Kimberly Hamm, Chief Counsel/Senior Policy Advisor, Office of Chairman Clayton
Peter Uhlmann, Managing Executive, Office of Chairman Clayton
Hester M. Peirce, Commissioner
Benjamin Vetter, Counsel, Office of Commissioner Peirce
Elad L. Roisman, Commissioner
Matthew Estabrook, Counsel, Office of Commissioner Roisman
Allison Herren Lee, Commissioner
Andrew Feller, Counsel, Office of Commissioner Lee
Kenneth Johnson, Chief Operating Officer
Vance Cathell, Director, Office of Acquisitions

Gabriel Benincasa, Chief Risk Officer

Matthew Keeler, Management and Program Analyst, Office of Chief Risk Officer

John J. Nester, Director, Office of Public Affairs

Holli Heiles Pandol, Director, Office of Legislative and Intergovernmental Affairs

Robert B. Stebbins, General Counsel

Allen Blume, Deputy Chief Financial Officer, Office of Financial Management

Todd Johnson, Assistant Director, Office of Financial Management

Richard Bamber, Branch Chief, Office of Financial Management

Renee Stroud, Branch Chief, Office of Financial Management

Executive Summary

Evaluation of the SEC's FY 2019 Compliance With the Improper Payments Elimination and Recovery Act of 2010

Report No. 561

April 27, 2020

Why We Did This Evaluation

Improper payments—payments that should not have been made or that were made in incorrect amounts—are an area of fiscal concern in the federal government. The Improper Payments Elimination and Recovery Act of 2010 (IPERA) requires executive branch agencies to review all programs and activities; identify those susceptible to significant improper payments (that is, improper payments over specific dollar value thresholds); and, if necessary, submit to Congress an estimate of the annual amount of improper payments from susceptible programs. IPERA also established additional agency reporting requirements and that each agency Inspector General will annually determine whether their respective agency complied with those requirements.

We conducted this evaluation to determine whether the U.S. Securities and Exchange Commission (SEC or agency) complied with the requirements of IPERA for fiscal year (FY) 2019.

What We Recommended

To improve the SEC's risk assessment and testing methodology, we recommended that OFM (1) update OFM Reference Guide Chapter 60.08 to ensure risk assessments include for consideration deficiencies and improper payments identified, even if not considered significant, and (2) develop a risk-based approach for routinely selecting and testing vendor invoice transactions. Management concurred with these recommendations, which will be closed upon completion and verification of corrective action.

What We Found

As required, the SEC conducted a program-specific risk assessment and published the results in the agency's FY 2019 Agency Financial Report. The other IPERA reporting requirements were not applicable because the SEC did not identify any programs susceptible to significant improper payments.

Although the SEC complied with IPERA for FY 2019 and has consistently reported that its programs are not susceptible to significant improper payments, the agency can improve its risk assessment and testing methodology by making better use of available information. We noted that, between FY 2017 and FY 2019, seven Office of Inspector General (OIG) audit and evaluation reports and the SEC Office of Financial Management's (OFM) own monthly vendor invoice transaction testing identified improper payments and conditions that increased the risk of improper payments. Although the SEC's FY 2019 risk assessment summary report stated that its risk assessment included a review of information from OIG audits, the report and accompanying information did not address or acknowledge specific OIG findings. In addition, OFM personnel did not alter their methodology for routinely selecting and testing vendor invoice transactions despite the repeated, albeit small, improper payments they had previously identified. These conditions occurred because, in accordance with OFM policy, the organization only considered the results of relevant audit findings categorized as "significant deficiencies." In addition, the methodology OFM's Accounts Analysis Branch personnel used to test monthly vendor invoice transactions was not risk-based and therefore was not updated based on prior results.

Despite the SEC's lack of significant improper payments, we have made recommendations related to improper payments in prior OIG reports that warranted management's attention and demonstrate a continued pattern of improper payments related to contracts and vendor invoices. Improving the agency's risk assessment and testing methodology by making better use of available information from OIG audits and evaluations and from OFM's own testing could:

- provide a more complete picture of the risk improper payments pose to the SEC, particularly for internal and external reporting purposes; and
- identify, correct, and prevent the types of improper payments that have occurred and that otherwise may go undetected.

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

TABLE OF CONTENTS

Executive Summary	i
Abbreviations	ii
Background and Objective	1
Background	1
Objective	4
Results	5
Finding. The SEC Complied With IPERA in FY 2019 But Can Improve Its Risk Assessment and Testing Methodology	5
Recommendations, Management's Response, and Evaluation of Management's Response	9
Figure and Tables	
Figure. SEC Programs and Risk Factors	2
Table 1. IPERA Compliance Reporting Table, FY 2019	6
Table 2. Number of Transactions Tested	7
Table 3. SEC OIG Audit and Evaluation Reports That Identified Contract-Related Questioned Costs, Unsupported Costs, and Overpayments (FY 2017 – FY 2019) ..	16
Appendices	
Appendix I. Scope and Methodology	10
Appendix II. Methodology and Results From Tests of SEC Programs	13
Appendix III. Relevant OIG Audit and Evaluation Reports Issued Between FY 2017 and FY 2019	16
Appendix IV. Management Comments	17

ABBREVIATIONS

AFR	Agency Financial Report
FY	fiscal year
GAO	U.S. Government Accountability Office
IPERA	Improper Payments Elimination and Recovery Act of 2010
OFM	Office of Financial Management
OHR	Office of Human Resources
OMB	Office of Management and Budget
OIG	Office of Inspector General
SEC or agency	U.S. Securities and Exchange Commission

Background and Objective

Background

In general, an improper payment is any payment that (1) should not have been made or that was made in an incorrect amount; (2) was made to an ineligible recipient; (3) was for ineligible goods or services; or (4) was for goods or services not received. In addition, a payment is considered improper if it lacks sufficient documentation.

The Improper Payments Elimination and Recovery Act of 2010 (IPERA) requires executive branch agencies to review all programs and activities (collectively referred to hereafter as “programs”), identify those susceptible to significant improper payments, and submit to Congress an estimate of the annual amount of improper payments from the susceptible programs.¹ Agencies must review their programs at least once every 3 years in accordance with Office of Management and Budget (OMB) guidance.² “Significant improper payments” is defined as gross annual improper payments (the total of overpayments plus underpayments) exceeding both 1.5 percent of program outlays and \$10 million of all program payments made during the fiscal year (FY) reported, or \$100 million of improper payments regardless of percentage.

IPERA also established additional agency requirements and that each agency Inspector General will annually determine whether their respective agency complied with those requirements. As stated in IPERA, section 3, and further explained in OMB Circular A-123, Appendix C, to be compliant, each agency must:

1. Publish an annual financial statement (that is, an Agency Financial Report [AFR] or Performance and Accountability Report) for the most recent FY and post that report and any accompanying materials required by OMB on the agency website;
2. Conduct a program-specific risk assessment for each program that conforms with section 2(a) of the Improper Payments Information Act of 2002 (31 U.S.C. 3321 note) (if required);
3. Publish improper payment estimates for all programs identified as susceptible to significant improper payments under its risk assessment (if required);
4. Publish programmatic corrective action plans in the AFR or Performance and Accountability Report (if required);

¹ Public Law 111-204, 124 Stat. 2224 (July 2010).

² Office of Management and Budget, Memorandum M-18-20, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement* (June 26, 2018) (OMB Circular A-123, Appendix C).

5. Publish and have met annual reduction targets for each program assessed to be at risk (if required and applicable); and
6. Report a gross improper payment rate of less than 10 percent for each program for which an improper payment estimate was obtained and published in the AFR or Performance and Accountability Report.

The U.S. Securities and Exchange Commission (SEC or agency) assessed its programs in FY 2016. Because the SEC’s risk assessments have consistently indicated that none of its programs are susceptible to significant improper payments and there have been no significant changes in legislation or funding, the SEC was not required to (and therefore did not) perform its next risk assessment until 3 years later in FY 2019.³ The SEC’s FY 2019 risk assessment—performed by personnel from the agency’s Office of Financial Management (OFM), Internal Controls Branch—covered the eight programs and seven risk factors shown in the following figure.

Figure. SEC Programs and Risk Factors

Programs	Risk Factors
<ul style="list-style-type: none"> • Vendor payments; • Disbursement and penalty distributions (made by the SEC to fund and tax administrators and directly to harmed investors); • Returned deposits of registration filing fees under Section 6b of the Securities Act of 1933 and Sections 13 and 14 of the Securities Exchange Act of 1934 (commonly referred to as “filing fee refunds”); • Payroll and benefit payments (including base pay, overtime pay, and agency contributions to retirement plans, health plans, and thrift savings plans); • Supplemental retirement payments; • Government purchase card payments; • Travel payments; and • Whistleblower payments. 	<ul style="list-style-type: none"> • Whether the program reviewed is new to the agency; • The complexity of the program reviewed; • The volume of payments made annually; • Whether payments or payment eligibility decisions are made outside of the agency; • Recent major changes in program funding, authorities, practices, or procedures; • The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; and • Significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the Government Accountability Office (GAO).

Source: OIG-generated based on information received from OFM.

³ As outlined in OMB Circular A-123, Appendix C.

To complete their review and determine each program's risk as high, medium, or low, Internal Controls Branch personnel assessed information from agency program administrators, work completed by the SEC Office of Inspector General (OIG), and the results of U.S. Government Accountability Office's (GAO) annual financial statements audit.⁴ They also performed additional testing as needed. In addition, other OFM branches and SEC divisions and offices established controls and testing to ensure the accuracy and completeness of payments made on behalf of the agency. A description of key controls and testing performed for each SEC program follows.

Vendor and Travel Payments. OFM's Accounts Analysis Branch personnel randomly select 45 vendor invoice transactions to test each month, determining whether the amounts are accurate and the information in each invoice, corresponding contract, and the SEC's financial system match. Accounts Analysis Branch personnel also oversee the SEC's travel card program and perform (1) post-payment matching of travel vouchers to the monthly bill paid for expenses charged to the agency's centrally billed account, and (2) audits of certain travel vouchers. All travel vouchers must be approved by an authorizing official before a payment is processed in the financial system.

Disgorgement and Penalty Distributions and Whistleblower Payments. OFM's Enforcement Treasury Operations Branch personnel oversee payments made for disgorgement and penalty distributions and payments made to whistleblowers. Specifically, personnel receive information from Division of Enforcement offices, ensure that funding is available, make payments, and track transactions from funding verification through payment processing.

Filing Fee Refunds. Registrants who pay in excess of required filing fees may request refunds from the SEC. OFM's Filing Fees Branch personnel process registrants' requests. Specifically, a Filing Fees Branch accountant determines whether the amount requested is available to the registrant, a secondary review is completed, and the Department of the Treasury is asked to process the payment. Filing Fees Branch personnel then verify that the payment was made to the correct registrant and for the correct amount.

Payroll and Benefit Payments. OFM's Financial Reporting Branch personnel annually test 45 employee payroll disbursements to verify completeness and accuracy of payroll information used by the Department of the Interior—the SEC's payroll shared service provider—in making payroll disbursements. As necessary, Financial Reporting Branch personnel coordinate with the SEC's Office of Human Resources (OHR) to resolve discrepancies.

Supplemental Retirement Payments. OHR's Benefits Branch personnel complete a bi-weekly validation of a randomly selected sample of 50 supplemental retirement

⁴ Because of the timing of the FY 2019 risk assessment, completed in early September 2019, Internal Controls Branch personnel considered the results of GAO's FY 2018 financial statements audit. See U.S. Government Accountability Office, *Financial Audit: Securities and Exchange Commission's Fiscal Years 2018 and 2017 Financial Statements* (GAO-19-182R; November 15, 2018).

disbursements to test for completeness and accuracy. An OHR specialist verifies the amount listed as paid for supplemental retirement in the payroll system, manually calculates the amount that the employee should have received based on their Thrift Savings Plan payment, and verifies that the correct amount was paid to the employee's supplemental retirement account. The specialist also verifies that separated employees do not receive a supplemental retirement payment.

Government Purchase Card Payments. The SEC's Office of Acquisition's Government Purchase Card Agency Program Coordinators regularly review purchase card statements and annually review and test government purchase card payments to ensure cardholders and approving officials comply with established procurement management practices, operating procedures, and controls. In addition, as required by the Government Charge Card Abuse Prevention Act of 2012,⁵ the SEC OIG annually assesses the SEC's purchase card program to identify and analyze the risks of illegal, improper, or erroneous purchases and payments.

Objective

Our objective was to determine whether the SEC complied with the requirements of IPERA for FY 2019. To address our objective, we followed *Guidance for Improper Payments Elimination and Recovery Act Compliance Reviews* (July 9, 2019), developed by the Council of the Inspectors General on Integrity and Efficiency, and OMB Circular A-123, Appendix C. We also (1) met with staff from the SEC's OFM, OHR, and Division of Enforcement; (2) reviewed applicable Federal laws and OFM policies and procedures; (3) assessed OFM's FY 2019 improper payments risk assessment and risk assessment summary report; and (4) tested transactions from programs included in the SEC's FY 2019 risk assessment.

Appendix I includes additional information about our objective, scope, and methodology; our review of internal controls; and prior coverage. Appendix II includes details on our testing of the SEC's programs. Appendix III includes details on OIG audit and evaluation reports issued between FY 2017 and FY 2019 that identified actual and/or estimated questioned costs, unsupported costs, and overpayments.

⁵ Public Law 112-194, 126 Stat 1445 (October 2012).

Results

Finding. The SEC Complied With IPERA for FY 2019 But Can Improve Its Risk Assessment and Testing Methodology

The SEC complied with IPERA for FY 2019; however, the agency can improve its risk assessment and testing methodology by making better use of available information. We noted that, between FY 2017 and FY 2019, seven OIG audit and evaluation reports and OFM's own monthly vendor invoice transaction testing identified improper payments and conditions that increased the risk of improper payments. Although the SEC's FY 2019 risk assessment summary report stated that OFM included in the risk assessment a review of information from OIG audits, the report and accompanying Appendix A did not address or acknowledge specific OIG findings. In addition, OFM personnel did not alter their methodology for routinely selecting and testing vendor invoice transactions despite the repeated, albeit small, improper payments they had previously identified. These conditions occurred because, in accordance with OFM policy, the organization considered only the results of relevant audit findings categorized as "significant deficiencies."⁶ In addition, the methodology OFM's Accounts Analysis Branch personnel used to test monthly vendor invoice transactions was not risk-based and, therefore, was not updated based on prior results. Although the SEC has consistently reported that its programs are not susceptible to significant improper payments, improving the agency's risk assessment and testing methodology by making better use of available information from OIG audits and evaluations and from OFM's own testing could:

- provide a more complete picture of the risk improper payments pose to the SEC, particularly for internal and external reporting purposes; and
- identify, correct, and prevent the types of improper payments that have occurred and that, otherwise, may go undetected.

The SEC's Compliance With IPERA for FY 2019. As required, the SEC conducted a program-specific risk assessment and published the results in the agency's FY 2019 AFR. The other IPERA reporting requirements were not applicable because the SEC did not identify any programs susceptible to significant improper payments. The

⁶ As defined by OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control* (OMB Memorandum M-16-17; July 15, 2016), a significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

following table shows the agency's compliance with the IPERA requirements that were applicable, and the IPERA requirements that were not applicable.

Table 1. IPERA Compliance Reporting Table, FY 2019

Program Name	Published an AFR or Performance and Accountability Report	Conducted a Risk Assessment	Published an Improper Payment Estimate	Published Corrective Action Plans	Published and is Meeting Reduction Targets	Reported an Improper Payment Rate of Less than 10 Percent
Vendor payments	✓	✓	N/A	N/A	N/A	N/A
Disgorgement and penalty distributions	✓	✓	N/A	N/A	N/A	N/A
Filing fees refunds	✓	✓	N/A	N/A	N/A	N/A
Payroll and benefit payments	✓	✓	N/A	N/A	N/A	N/A
Supplemental retirement payments	✓	✓	N/A	N/A	N/A	N/A
Government purchase card payments	✓	✓	N/A	N/A	N/A	N/A
Travel payments	✓	✓	N/A	N/A	N/A	N/A
Whistleblower payments	✓	✓	N/A	N/A	N/A	N/A

Source: OIG-generated based on evaluation work performed and OMB Circular A-123, Appendix C.

As previously stated, OFM personnel considered specific risk factors during the FY 2019 risk assessment and did not identify any risk factors that were likely to contribute to significant improper payments in any of the SEC's eight programs reviewed.

To determine whether the SEC complied with IPERA, we evaluated the accuracy and completeness of the agency's required reporting. That is, we confirmed that the SEC published a financial report in FY 2019, posted that report and any accompanying materials required by OMB on the agency website, and completed a program-specific risk assessment. We also verified that the information in those documents was generally accurate and complete by, among other things, performing limited tests of program transactions, as shown in Table 2 and as further described in Appendix I and Appendix II.

Table 2. Number of Transactions Tested

Program Name	Number of Transactions Tested
Vendor payments	10
Disgorgement and penalty distributions	5
Filing fees refunds	5
Payroll and benefit payments	3
Supplemental retirement payments	4
Government purchase card payments	0*
Travel payments	10
Whistleblower payments	5

Source: OIG-generated based on sampling methodology.

*We excluded from our testing the SEC's FY 2019 government purchase card payments because the OIG separately assessed those transactions as required by the Government Charge Card Abuse and Prevention Act of 2012. See U.S. Securities and Exchange Commission, Office of Inspector General, *Results of the Inspector General's Fiscal Year 2019 Purchase Card Program Risk Assessment*, March 31, 2020.

With the exception of one improper vendor invoice payment, all transactions we tested were proper, complete, and accurate. The one improper vendor invoice payment we identified resulted in the vendor repaying the SEC \$4,670.

Additionally, although our limited testing did not identify any improper travel payments, we noted that, in March 2020, the OIG reported questioned and unsupported travel card program costs because of a lack of supporting documentation, such as missing receipts, among other findings. We encourage agency management to fully address the OIG's recommendations in this area to reduce questioned costs and improve support and justifications for travel payments.⁷

The SEC Can Improve Its Risk Assessment and Testing Methodology. According to OMB A-123, Appendix C, agency risk assessments should take into account those risk factors that are likely to contribute to a susceptibility of significant improper payments. In addition, GAO's *Standards for Internal Control in the Federal Government* (GAO-14-704G; September 2014) states that management should identify, analyze, and respond to risks related to achieving defined objectives. Moreover, GAO makes clear that risk identification methods may include consideration of deficiencies identified through audits and other assessments. Finally, the SEC's FY 2019 risk assessment summary report stated that, to perform the risk assessment, OFM reviewed "existing data, including the GAO and OIG audits/reports."

⁷ U.S. Securities and Exchange Commission, Office of Inspector General, *Controls Over the SEC's Travel Charge Card Program Could Be Strengthened to More Fully Comply With Requirements and Maximize Benefits*, (Audit Report No. 560, March 30, 2020).

We reviewed all OIG audit and evaluation reports issued between FY 2017 and FY 2019 and determined that seven reports identified improper payments and conditions that we believe increased the SEC's risk of improper payments.⁸ Specifically, the seven reports identified actual or estimated questioned and unsupported costs (all related to vendor payments) totaling \$8,943,997.50, and overpayments made to vendors totaling \$223,582.25. These overpayments occurred because of improper rates billed for goods and services and were subsequently not identified by the agency. While management did not sustain all these costs as disallowed, we believe they are relevant to management's assessment of its risk for improper payments. Appendix III provides additional details on these issues.

In addition, each month, OFM's Accounts Analysis Branch personnel select and test 45 vendor invoice transactions to assess the completeness and accuracy of vendor invoice payments. In FY 2019, OFM staff identified improper vendor payments that totaled almost \$15,000. In one instance, a vendor billed the correct rate, but the SEC paid against a different year's rate, resulting in an overpayment of more than \$1,500. In another instance, a purchase order number was transposed, resulting in more than \$4,500 paid to an incorrect contractor. Other circumstances that resulted in improper payments in FY 2019 included incorrect billing rates and amounts billed to an incorrect contract line item number, resulting in improper payments of \$115.56 and \$7,223.07, respectively.

Despite the improper payments and other conditions identified in OIG audit and evaluation reports, OFM did not include specific OIG findings as a risk factor in the SEC's FY 2019 risk assessment. In fact, neither the FY 2019 risk assessment summary report nor the accompanying Appendix A mentioned or acknowledged any of the improper payments or other conditions identified and reported to the agency by the OIG between FY 2017 and FY 2019. Similarly, OFM did not alter its methodology for routinely selecting and testing vendor invoice transactions in light of the repeated, albeit small, improper payments identified by OFM's own staff throughout FY 2019.

These conditions occurred because, in accordance with OFM policy—Chapter 60.08, *General Guidance: Improper Payments Execution* (March 2018), of OFM's Reference Guide—the organization considered only the results of relevant audit findings categorized as “significant deficiencies.” Additionally, although OFM's Accounts Analysis Branch personnel tested a sample of vendor payments each month, the approach used was based on random-selection (not risk) and, therefore, was not updated based on prior results.

Although the OIG did not formally categorize the results of prior audits and evaluations as significant deficiencies in the context of OMB Circular A-123, we made recommendations regarding improper payments and related conditions that warranted management's attention. In addition, between FY 2017 and FY 2019, the OIG annually

⁸ We note that one of these reports (Report No. 555) was issued on September 19, 2019. Therefore, the final results were not available when OFM issued its FY 2019 summary risk assessment report on September 6, 2019.

reported that contract management represented an SEC management and performance challenge, in part, because of repeated findings related to payments to SEC vendors. Finally, we noted that, according to GAO assistant directors who oversaw the SEC's FY 2019 financial statements audit, GAO identified three transaction errors related to vendor payments. Although these errors did not meet the criteria of "significant deficiency" or "significant improper payment" and the SEC has consistently reported that its programs are not susceptible to significant improper payments, the improper payments that have been identified demonstrate a continued pattern related to contracts and payment of contractor invoices. Improving the agency's risk assessment and testing methodology by making better use of available information from OIG audits and evaluations and from OFM's own testing could improve internal and external stakeholders' understanding of the risk improper payments pose to the agency. Additionally, doing so could help identify, correct, and prevent the types of improper payments that have occurred and that otherwise may go undetected.

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

To improve its risk assessment and testing methodology, we recommend that OFM:

Recommendation 1. Update OFM Reference Guide Chapter 60.08 to ensure the SEC's risk assessments include as risk factors for consideration deficiencies and improper payments identified through internal and external reviews and audits, as well as conditions that increase the risk of improper payments, even if not considered significant.

Management's Response. Management concurred with the recommendation. The Office of Financial Management will update the OFM Reference Guide Chapter 60.08.

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

Recommendation 2. Develop a risk-based approach for routinely selecting and testing vendor invoice transactions based on the results of previous internal and external reviews and audits.

Management's Response. Management concurred with the recommendation. The Office of Financial Management will develop a risk-based approach for selecting and testing vendor invoice transactions as part of its monthly monitoring process.

OIG's Evaluation of Management 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 evaluation from November 2019 through April 2020 in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspection and Evaluation* (2012). Those standards require that we plan and perform the evaluation to obtain sufficient, competent, and relevant evidence to provide a reasonable basis for our findings, conclusions, and recommendations based on our evaluation objective. We believe that the evidence obtained provides a reasonable basis for our findings, conclusions, and recommendations based on our evaluation objective.

Scope and Objective. The scope of the evaluation included the eight SEC programs identified and tested by OFM in FY 2019 and any work completed by OFM to meet IPERA requirements. The overall objective was to determine whether the SEC complied with the requirements of IPERA for FY 2019.

Methodology. We conducted fieldwork at the SEC's Headquarters in Washington, D.C. To determine whether the SEC complied with the requirements of IPERA for FY 2019, we:

- followed *Guidance for Improper Payments Elimination and Recovery Act Compliance Reviews* (July 9, 2019), developed by the Council of the Inspectors General on Integrity and Efficiency, and OMB Circular A-123, Appendix C;
- interviewed OFM staff from its Internal Controls, Enforcement Treasury Operations, Financial Reporting, Account Analysis, and Filing Fees branches, as well staff from the Division of Enforcement's Office of Distributions and Office of Whistleblower, and OHR's Total Rewards and Business Management Groups;
- reviewed applicable Federal laws, regulations, guidance, and relevant program policies and procedures;
- assessed the SEC's AFR and FY 2019 risk assessment summary report and accompanying Appendix A;
- performed walkthroughs of programs and processes; and
- reviewed the results of internal testing.

We also tested transactions from programs included in the SEC's FY 2019 risk assessment (see Appendix II), and analyzed the results of OIG audit and evaluation reports issued between FY 2017 and FY 2019 to identify reports with questioned costs, unsupported costs, and overpayments (see Appendix III).

Internal Controls. To assess internal controls relative to our objective, we reviewed OFM's Management Assurance Statement and Risk Control Matrix for FY 2019. We

identified relevant internal controls and determined that the SEC has identified specific risks and implemented controls in place to reduce those risks. In its Management Assurance Statement, OFM identified one non-payroll deficiency that related to vendor payments identified by GAO. We reviewed the deficiency, spoke with OFM management that oversees the program, and spoke with GAO auditors that also identified the deficiency. We agreed with GAO's assessment that the issue was minor and non-significant. Additionally, the SEC manager that oversees the program stated that controls have since been put in place to reduce the likelihood that a similar error will occur again.

The SEC also completed additional control activities to meet financial requirements for the Federal Managers' Financial Integrity Act⁹ that relate to IPERA requirements. Specifically, the SEC completed reports on the internal controls for financial reporting and financial systems internal controls testing. Both reports identified program and systems deficiencies. The program deficiencies related to a program that was out-of-scope for our work and, according to OFM Internal Controls Branch management, has been resolved. Similarly, the financial systems report identified a partial deficiency on a system that, according to staff that completed the assessment, has been resolved.

As stated in the Results section of this report, although the SEC has consistently reported that its programs are not susceptible to significant improper payments, the SEC could improve its risk assessment and testing methodology by making better use of available information from OIG audits and evaluations and from OFM's own testing. Our recommendations, if implemented, should help address the conditions we observed.

Computer-Processed Data. GAO's *Assessing Data Reliability* (GAO-20-283G, December 2019) states reliability of data means that data are applicable for audit purpose and are sufficiently complete and accurate. Data primarily pertains to information that is entered, processed, or maintained in a data system and is generally organized in, or derived from, structured computer files. Furthermore, GAO-20-283G defines "applicability for audit purpose," "completeness," and "accuracy" as follows:

"Applicability for audit purpose" refers to whether the data, as collected, are valid measures of the underlying concepts being addressed in the audit's research objectives.

"Completeness" refers to the extent that relevant data records and fields are present and sufficiently populated.

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

We determined that data, as collected, was applicable and a valid measure of the underlying concepts addressed, given our objective. We assessed the completeness of

⁹ Public Law 97-255, 96 Stat 814 (September 1982).

the data we collected by verifying that the information we received from any system had completed data fields. We verified the accuracy of that information by reviewing the data fields to determine whether the data reflected the actual underlying information. We did not identify any errors related to data completeness or accuracy and believe the data we used was sufficiently reliable for the purposes of this evaluation.

Prior Coverage. In addition to the reports discussed in Appendix III, between FY 2017 and FY 2019, the SEC OIG and GAO issued the following management letters or reports of particular relevance to this evaluation:

SEC OIG:

- *Inspector General’s Report on the U.S. Securities and Exchange Commission’s Fiscal Year 2016 Compliance with the Improper Payments Information Act* (March 22, 2017).
- *Inspector General’s Report on the U.S. Securities and Exchange Commission’s Fiscal Year 2017 Compliance with the Improper Payments Information Act* (March 23, 2018).
- *The U.S. Securities and Exchange Commission’s Compliance with Improper Payments Requirements for Fiscal Year 2018* (February 14, 2019).

GAO:

- *Improper Payments—Additional Guidance Could Provide More Consistent Compliance Determinations and Reporting by Inspectors General* (GAO-17-484; May 31, 2017).
- *Improper Payments—Additional Guidance Needed to Improve Oversight of Agencies with Noncompliant Programs* (GAO-19-14; December 7, 2018).
- *Financial Audit—Securities and Exchange Commission’s FY 2019 and FY 2018 Financial Statements* (GAO-20-204R; November 15, 2019).

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

Appendix II. Methodology and Results From Tests of SEC Programs

We tested for accuracy and completeness a judgmental, random sample of FY 2019 transactions from each of the SEC's programs except for government purchase card payments.¹⁰ The samples were nonstatistical and not representative of each program's population, and our results cannot be projected. We based our sample design, sample selection, and testing on interviews with knowledgeable staff, walkthroughs of processes (where necessary), our understanding of program policies and procedures, and results from OFM's risk assessment. We also reviewed and considered program testing performed by OFM, GAO, and other OIG audits and evaluations. Although we modified our testing methodology based on each program's processes, risk factors, and other information, for transactions we tested, we generally (1) verified that a payment request was made to the agency and/or a regularly scheduled disbursement should have occurred, (2) reviewed each payment's supporting documentation, (3) tested the payment amount, and (4) validated the information. A description of our testing methodology and results by program follows.

Vendor Payments. We randomly selected 10 of 928 transactions from OFM's list of June 2019 invoices.¹¹ We compared information such as vendor name, contract number, invoice number, and amount paid as recorded in the SEC's financial payment system—Delphi—to information from each invoice's contract. We also reviewed each contract to verify that detailed information existed to support each invoice, validated invoice rates to those in the contracts, determined whether the payments were made for eligible goods/services, and confirmed that documentation existed to ensure improper payments did not occur. Finally, we verified that the expended amount did not exceed the amount allocated for the contract.

Results: One transaction was an improper payment. The vendor overcharged the SEC \$50 for two line items that should have been charged as a monthly flat rate. A review of the invoices from October 2018 to January 2020 identified a cumulative overpayment of \$4,670.

Disgorgement and Penalty Distributions. We randomly selected 5 of 43 disgorgement transactions processed in FY 2019. For each transaction tested, we (1) validated the total amount paid and the number of harmed investors/funds paid; (2) confirmed that supporting documentation existed, such as a Commission or court order, and that information in Delphi matched the documentation; (3) verified funding

¹⁰ As previously stated, the OIG separately assessed the SEC's FY 2019 government purchase card transactions as required by the Government Charge Card Abuse and Prevention Act of 2012. See U.S. Securities and Exchange Commission, Office of Inspector General, *Results of the Inspector General's Fiscal Year 2019 Purchase Card Program Risk Assessment*, March 31, 2020.

¹¹ We selected invoices from June 2019 because, according to OFM Accounts Analysis Branch staff, those invoices were most representative of the types of vendor invoices the SEC receives.

levels provided by the Office of Distribution, and if applicable, a disbursement plan; and (4) verified that the SEC checked the national Do Not Pay database before processing a payment.

Results: All transactions tested were complete and accurate. We did not identify any improper payments.

Filing Fee Refunds. We randomly selected 5 of 186 transactions from the FY 2019 filing fee refund requests processed. For each transaction tested, we (1) validated the date the payment was issued and the refunded amount; (2) verified that support existed for a request made by the registrant, that the filing fees analyst verified that the refund amount was available, and that a second line supervisor reviewed and approved the payment; and (3) confirmed that the Department of Treasury made a payment on behalf of the SEC and that the amount paid matched the amount approved by the Filing Fees Branch.

Results: All transactions tested were complete and accurate. We did not identify any improper payments.

Payroll and Benefit Payments. We randomly selected 3 of 45 transactions from FY 2019 employee biweekly statements tested by OFM's Financial Reporting Branch. Because OFM already completes extensive and thorough testing for payroll, we validated the information manually input by the Financial Reporting Branch accountant and compared it to support for the three transactions we selected. To test for accuracy and completeness, we confirmed that the manual input into the testing spreadsheet matched the supporting documentation. Our validation included confirming correct employee pay (biweekly and annual), total and biweekly leave, total paid to retirement benefits, and total paid. As necessary, we confirmed the accuracy of any calculations performed and verified that any discrepancies identified by the accountant were resolved.

Results: All transactions tested were complete and accurate. We did not identify any improper payments.

Supplemental Retirement Payments. We randomly selected 4 of 50 biweekly payments tested as part of OHR's pay period 25 review.¹² For each transaction tested, we (1) verified the pay period, retirement plan, biweekly amount paid, biweekly Thrift Savings Plan contribution, and amount listed for supplement payment in the SEC's payroll system; (2) verified OHR's calculated supplemental amount (as part of biweekly testing) and OHR's findings for the payment; (3) calculated the percent of Thrift Savings Plan contributions to biweekly salary, determined the available percentage to match based on the Thrift Savings Plan contribution percentage, and calculated the amount of supplemental retirement benefits the employee should have received; and (4) compared our calculated amount to the amount listed as paid to the supplemental

¹² Pay period 25 occurred in December 2019. We selected this pay period because it was the current pay period being tested by OHR and we were able to more easily obtain supporting documentation from a current pay period than a previous one.

retirement account and the amount calculated by the OHR specialist. If the amounts matched, we considered the payment accurate and complete.

Results: All transactions tested were complete and accurate. We did not identify any improper payments.

Travel Payments. We randomly selected 10 from 281 individually- and centrally billed transactions from testing completed by the OIG personnel during an ongoing audit of the SEC's government travel card program. Their work, completed in March 2020, included transactions from FY 2018 and the first and second quarters of FY 2019, and they compared employees' travel vouchers submitted for repayment to supporting receipts. For each transaction we tested, we validated the voucher amount to the amount paid, as recorded in Delphi.

Results: All transactions tested were complete and accurate. We did not identify any improper payments. However, in March 2020, the OIG reported questioned travel card program costs because of a lack of supporting documentation, such as missing receipts, among other findings.¹³

Whistleblower Payments. We randomly selected 5 of 39 whistleblower transactions processed in FY 2019. For each transaction tested, we (1) validated the total amount owed, the percentage to be paid to the whistleblower, the month the payment was made, and the number of whistleblowers to be paid; (2) confirmed that supporting documentation existed, such as a Commission Order, and payment information from the Division of Enforcement's Whistleblower Branch; (3) verified that the SEC checked the national Do Not Pay database before processing a payment; (4) verified that the SEC made the payment; and (5) calculated the percentage from the Commission Order to validate that the payment made to the whistleblower matched the amount paid by the SEC.

Results: All transactions tested were complete and accurate. We did not identify any improper payments.

¹³ U.S. Securities and Exchange Commission, Office of Inspector General, *Controls Over the SEC's Travel Charge Card Program Could Be Strengthened to More Fully Comply With Requirements and Maximize Benefits*, (Audit Report No. 560, March 30, 2020).

Appendix III. Relevant OIG Audit and Evaluation Reports Issued Between FY 2017 and FY 2019

To identify improper payments and conditions that we believe increased the risk of improper payments reported by the OIG between FY 2017 and FY 2019, we reviewed all OIG audit and evaluation reports issued during that timeframe. As discussed in the Results section of this report and as summarized in Table 3, seven OIG audit and evaluation reports issued during the period in question identified actual and/or estimated questioned costs, unsupported costs, and overpayments.¹⁴ All these costs were related to the SEC's processing and payment of vendor invoices. While management did not sustain all these costs as disallowed,¹⁵ we believe they are relevant to management's assessment of its risk for improper payments. The seven OIG audit and evaluation reports can be accessed, by report number, at: <https://www.sec.gov/oig>.

Table 3. SEC OIG Audit and Evaluation Reports That Identified Contract-Related Questioned Costs, Unsupported Costs, and Overpayments (FY 2017 – FY 2019)

Report No.	FY	Questioned Costs	Unsupported Costs	Overpayments	Total
543	2017	\$537,205.00	\$2,800,000.00*	\$217,159.00	\$3,554,364.00
544	2017	\$228,750.00	--	--	\$228,750.00
547	2018	--	\$41,679.50	\$753.25	\$42,432.75
548	2018	\$399,345.00	\$1,443,838.00 ¹⁶	\$5,670.00	\$1,848,853.00
550	2018	\$83,000.00*	--	--	\$83,000.00
554	2019	\$42,801.00	\$2,977,379.00 ¹⁷	--	\$3,020,180.00
555 ¹⁸	2019	\$390,000.00*	--	--	\$390,000.00
Total		\$1,681,101.00	\$7,262,896.50	\$223,582.25	\$9,167,579.75

Source: OIG-generated based on our analysis of OIG audit and evaluation reports issued between FY 2017 and FY 2019. An "*" indicates an estimated amount.

¹⁴ As defined by the Inspector General Act of 1978, as amended (Public Law 95–452; 5 U.S.C. App.), questioned costs include those costs questioned because of an alleged violation of a provision of a contract, and expenditures of funds that are unnecessary or unreasonable; and unsupported costs are those costs questioned because, at the time of the audit, the costs were not supported by adequate documentation. We defined "overpayments" as mismanagement, inappropriate actions, and inadequate oversight that led to an overpayment and/or overcharge where the SEC agreed to recoup its losses either through refund from the vendor or an offset in future billing cycles.

¹⁵ As defined by the Inspector General Act of 1978, as amended (Public Law 95–452; 5 U.S.C. App.), disallowed costs are questioned costs that management, in a management decision, has sustained or agreed should not be charged to the Government.

¹⁶ Of this amount, \$1.1 million is estimated.

¹⁷ Of this amount, \$2,431,612 is estimated.

¹⁸ This report was issued on September 19, 2019. Therefore, the final results were not available when OFM issued its FY 2019 summary risk assessment report on September 6, 2019.

Appendix IV. Management Comments



OFFICE OF
FINANCIAL MANAGEMENT

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

MEMORANDUM

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

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

RE: Office of Financial Management's Response to the Office of Inspector
General's Report, *Evaluation of the SEC's FY 2019 Compliance With the
Improper Payments Elimination and Recovery Act of 2010*

DATE: April 21, 2020

The Office of Financial Management ("OFM") submits this memorandum in response to the Office of Inspector General ("OIG") draft of report *Evaluation of the SEC's FY 2019 Compliance with the Improper Payments Elimination and Recovery Act of 2010* ("Report").

We welcome the OIG's recommendations to improve our risk assessment and testing methodology. Our response to the recommendations are below:

Recommendation 1: Update OFM Reference Guide Chapter 60.08 to ensure the SEC's risk assessments include as risk factors for consideration deficiencies and improper payments identified through internal and external reviews and audits, as well as conditions that increase the risk of improper payments, even if not considered significant.

OFM concurs with this recommendation and will update the OFM Reference Guide Chapter 60.08 to incorporate the recommendation.

Recommendation 2: Develop a risk-based approach for routinely selecting and testing vendor invoice transactions based on the results of previous internal and external reviews and audits.

OFM concurs with this recommendation and will develop a risk-based approach for selecting and testing vendor invoice transactions as part of our monthly monitoring process.

We appreciate the opportunity to review and comment on the Report. Please contact Renee Stroud, Branch Chief Internal Controls Branch, if you have any questions.

Major Contributors to the Report

Colin Heffernan, Audit Manager

Suzanne Heimbach, Lead Auditor

To Report Fraud, Waste, or Abuse, Please Contact:

Web: <https://www.sec.gov/oig>

Telephone: 1-833-SEC-OIG1 (833-732-6441)

Address: U.S. Securities and Exchange Commission
Office of Inspector General
100 F Street, N.E.
Washington, DC 20549

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.