



## Accessible Version

April 3, 2019

The Honorable Jay Clayton  
Chairman, Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

### Priority Open Recommendations: Securities and Exchange Commission

Dear Mr. Chairman:

The purpose of this letter is to provide an update on the overall status of the Securities and Exchange Commission's (SEC) implementation of GAO's recommendations and to call your continued personal attention to areas where open recommendations should be given high priority.<sup>1</sup> In November 2018, we reported that on a government-wide basis, 77 percent of our recommendations made 4 years ago were implemented.<sup>2</sup> SEC's recommendation implementation rate was 95 percent. As of February 12, 2019, SEC had 20 open recommendations. Fully implementing these open recommendations could significantly improve SEC's operations.

Since our March 6, 2018, priority recommendation letter, we have closed two of our eight open priority recommendations based on actions taken by SEC. SEC has conducted a skills gap analysis for five jobs and used the results to inform its training curriculum. SEC also has performed continuous monitoring using automated configuration and vulnerability scanning tools on its operating systems, databases, and network devices. As a result of these efforts, SEC had improved its workforce and succession planning and worked to mitigate its information security deficiencies. We ask your continued attention on the six open priority recommendations we identified in the 2018 letter. We are not adding any new recommendations this year. (See the enclosure for the list of these recommendations.)

The six priority recommendations fall into the following four areas:

#### Workforce and succession planning.

Two of the six priority recommendations would help SEC improve workforce and succession planning. In July 2013, we made two recommendations designed to help SEC develop comprehensive workforce plans. SEC agreed with these recommendations. SEC has taken some steps that included conducting a competency survey and a succession needs survey and plans to issue an updated agency workforce plan by summer 2019. To fully implement these

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<sup>1</sup>Priority recommendations are those that GAO believes warrant priority attention from heads of key departments or agencies. They are highlighted because, upon implementation, they may significantly improve government operation, for example, by realizing large dollar savings; eliminating mismanagement, fraud, and abuse; or making progress toward addressing a high-risk or duplication issue.

<sup>2</sup>GAO, *Performance and Accountability Report: Fiscal Year 2018*, [GAO-19-1SP](#) (Washington, D.C.: Nov. 15, 2018).

recommendations, SEC needs to ensure that the results of these surveys are incorporated into an updated agency workforce plan.

### Performance management.

Another priority recommendation would help enhance the credibility of SEC's performance management system among its staff, including the ratings, recognition, or feedback that they receive as a result. In July 2013, we recommended that SEC conduct periodic validations (with staff input) of the performance management system and make changes, as appropriate, based on these validations. SEC agreed and has taken some steps. To fully implement the recommendation, SEC should complete a validation of the pilot performance management system for its entire staff and make changes to the system, as appropriate.

### Communication and collaboration.

Two priority recommendations would improve intra-agency communication and collaboration. SEC has made progress in addressing our July 2013 recommendation in this area by hiring a consultant to review its communication and collaboration practices. To fully implement the recommendation, SEC needs to review and implement, as appropriate, the consultant's recommendations from September 2018.

In addition, in our December 2016 report, we recommended that the SEC Chair enhance the authority of the Chief Operating Officer to ensure that improvements to communication and collaboration are made. SEC did not agree with our 2016 recommendation. We maintain that SEC needs to identify a single point of contact with the responsibility and authority to ensure that each mission-critical office and division establishes a mechanism or develops procedures to facilitate communication and collaboration. We plan to further discuss possible actions SEC could take to address this recommendation in our current engagement on SEC personnel management, which we expect to issue in late 2019.

### Cybersecurity.

The last of the six priority recommendations would address information security control deficiencies. Having effective information security controls in place is essential to protecting SEC's information systems and the information they contain. For example, SEC relies extensively on its Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system to perform the automated collection, validation, and acceptance of submissions by companies and others that are required to file certain information with SEC. Although SEC has made significant progress in remediating previously reported deficiencies, it has not yet fully implemented aspects of its information security program.

As a result, in July 2017, we recommended that SEC maintain up-to-date network diagrams and asset inventories in key system security plans. While SEC agreed with this recommendation and has taken some actions to address it, it did not update the network diagrams and asset inventories in key system security plans to reflect recent changes to system components. To fully implement this recommendation, SEC should include recent changes to key components in its system security plans in order to provide more certainty on the status of systems' information security controls.

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In addition, on March 6, 2019, we issued our biennial update to our high-risk program, which identifies government operations with greater vulnerabilities to fraud, waste, abuse, and

mismanagement or the need for transformation to address economy, efficiency, or effectiveness challenges.<sup>3</sup> Our high-risk program has served to identify and help resolve serious weaknesses in areas that involve substantial resources and provide critical service to the public.

Five of the six priority recommendations identified in this letter are directly related to one high-risk area: Strategic Human Capital Management.<sup>4</sup> The other priority recommendation is related to the area of Ensuring the Cybersecurity of the Nation.<sup>5</sup> Several government-wide high-risk areas, including (1) Improving Management of IT Acquisitions and Operations, (2) Managing Federal Real Property, and (3) Government-wide Personnel Security Clearance Process, also have direct implications for SEC and its operation. We urge your attention to these government-wide high-risk issues as they relate to SEC. Progress on high-risk issues has been possible through the concerted actions and efforts of Congress, the Office of Management and Budget, and the leadership and staff in agencies, including SEC.

Copies of this report are being sent to the Director of the Office of Management and Budget and appropriate congressional committees: the Committees on Appropriations, Budget, and Homeland Security and Governmental Affairs, United States Senate; and the Committees on Appropriations, Budget, and Oversight and Reform, House of Representatives. In addition, the report will be available at no charge on the GAO website at <https://www.gao.gov>.

I appreciate SEC's continued commitment to these important issues. If you have any questions or would like to discuss any of the issues outlined in this letter, please do not hesitate to contact me or Lawrence Evans, Jr., Managing Director, Financial Markets and Community Investment, at [evansl@gao.gov](mailto:evansl@gao.gov) or 202-512-8678. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Our teams will continue to coordinate with your staff on all of the 20 open recommendations. Thank you for your attention to these matters.

Sincerely yours,



Gene L. Dodaro  
Comptroller General  
of the United States

Enclosure

cc: Mr. James McNamara, Chief Human Capital Officer, Office of Human Resources  
Mr. Charles Riddle, Acting Chief Information Officer, Office of Information Technology

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<sup>3</sup>GAO, *High-Risk Series: Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas*, [GAO-19-157SP](#) (Washington, D.C.: Mar. 6, 2019).

<sup>4</sup>For a full discussion of this government-wide high-risk area, see [GAO-19-157SP](#) pp.75-77.

<sup>5</sup>For a full discussion of this government-wide high risk area, see [GAO-19-157SP](#) pp.178-184.

## Enclosure -- Securities and Exchange Commission Priority Open Recommendations

### Workforce and Succession Planning

**Securities and Exchange Commission: Improving Personnel Management Is Critical for Agency's Effectiveness. GAO-13-621. Washington, D.C.: July 18, 2013.**

**Recommendation:** To help the Securities and Exchange Commission (SEC) address identified personnel management challenges, and to enhance SEC's ability to strategically hire and retain the appropriate number of staff with the requisite skill sets for today and in the future, the Chairman of SEC should direct the Office of the Chief Operating Officer (COO) and Office of Human Resources to prioritize efforts to expeditiously develop a comprehensive workforce plan, including a succession plan, and establish time frames for implementation and mechanisms to help ensure that the plans are regularly updated.

**Action Needed:** SEC agreed with this recommendation. To fully implement it, SEC needs to use the results from its competency survey and succession needs survey to complete the resulting workforce plan for fiscal years 2019–2022.

**High-Risk Area:** Strategic Human Capital Management

**Director:** Michael E. Clements

**Contact Information:** [clementsm@gao.gov](mailto:clementsm@gao.gov), (202) 512-8678

**Securities and Exchange Commission: Improving Personnel Management Is Critical for Agency's Effectiveness. GAO-13-621. Washington, D.C.: July 18, 2013.**

**Recommendation:** To help SEC address identified personnel management challenges, and to enhance SEC's ability to strategically hire and retain the appropriate number of staff with the requisite skillsets for today and in the future, the Chairman of SEC should direct the Office of the COO and the Office of Human Resources to incorporate Office of Personnel Management guidance as they develop their workforce and succession plans, by developing a formal action plan to identify and close competency gaps, and fill supervisory positions; and institute a fair and transparent process for identifying high-potential leaders from within the agency.

**Action Needed:** SEC agreed with this recommendation. To fully implement it, SEC needs to use the results from its competency survey and succession needs survey to complete the resulting workforce plan for fiscal years 2019–2022.

**High-Risk Area:** Strategic Human Capital Management

**Director:** Michael E. Clements

**Contact Information:** [clementsm@gao.gov](mailto:clementsm@gao.gov), (202) 512-8678

## Performance Management.

### **Securities and Exchange Commission: Improving Personnel Management Is Critical for Agency's Effectiveness. GAO-13-621. Washington, D.C.: July 18, 2013.**

**Recommendation:** To help SEC address identified personnel management challenges, and to help enhance the credibility of its performance management system, the Chairman of SEC should direct the COO and the Office of Human Resources to conduct periodic validations (with staff input) of the performance management system and make changes, as appropriate, based on these validations.

**Actions Needed:** SEC agreed with this recommendation. To fully implement it, SEC needs to validate its pilot performance management system for its entire staff. Going forward, SEC should plan to conduct periodic evaluations of the performance management system to identify needed improvements.

**High-Risk Area:** Strategic Human Capital Management

**Director:** Michael E. Clements

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## Communication and Collaboration

### **Securities and Exchange Commission: Improving Personnel Management Is Critical for Agency's Effectiveness. GAO-13-621. Washington, D.C.: July 18, 2013.**

**Recommendation:** To help SEC address identified personnel management challenges, and to build on SEC's efforts to enhance intra-agency communication and collaboration, the Chairman should direct the COO to explore communication and collaboration best practices and implement those that could benefit SEC.

**Actions Needed:** SEC agreed with this recommendation. To fully implement it, the COO's office needs to implement the best practices based on its consultant's recommendations to improve communication and collaboration among divisions on the full range of their day-to-day work activities.

**High-Risk Area:** Strategic Human Capital Management

**Director:** Michael E. Clements

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### **Securities and Exchange Commission: Actions Needed to Address Limited Progress in Resolving Long-Standing Personnel Management Challenges. GAO-17-65. Washington, D.C.: December 29, 2016.**

**Recommendation:** To help SEC address identified personnel management challenges, the Chair should enhance or expand the responsibilities and authority of the COO or other official or office so they can help ensure that improvements to communication and collaboration across SEC are made. For instance, if the duties of the COO were expanded,

the COO could establish liaisons in each mission-critical office and division for SEC employees to contact or develop procedures to help facilitate communication and collaboration among the mission-critical office and divisions.

**Actions Needed:** SEC disagreed with this recommendation. SEC stated that the agency's structure and the authority of the Chief of Staff and the Deputy Chiefs of Staff enable these officials, in close consultation with the Chair, to effectively pursue changes to enhance coordination and collaboration throughout SEC. We maintain that identifying a single point of contact with the responsibility and authority to address management weaknesses that are deeply entrenched and long-standing and to lead transformational change is necessary. As part of a current engagement on SEC personnel management, which we expect to issue in late 2019, we plan to discuss with SEC steps that it can take to fully implement this recommendation.

**High-Risk Area:** Strategic Human Capital Management

**Director:** Michael E. Clements

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## Cybersecurity

**Information Security: SEC Improved Control of Financial Systems but Needs to Take Additional Actions. GAO-17-469. Washington, D.C.: July 27, 2017.**

**Recommendation:** To more effectively manage its information security program, the Chairman of the SEC should maintain up-to-date network diagrams and asset inventories in the system security plans for the General Support System and a key financial system to accurately and completely reflect the current operating environment.

**Actions Needed:** SEC agreed with this recommendation. To fully implement it, SEC should include recent changes made to key components in its system security plans in order to provide more certainty on the status of systems' information security controls.

**High-Risk Area:** Ensuring the Cybersecurity of the Nation

**Director:** Nick Marinos

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