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Washington, DC 20548

Comptroller General
of the United States

Accessible Version

June 17, 2022

The Honorable Gary Gensler
Chair, Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 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 personal attention to areas where open recommendations should be given high priority.¹ In November 2021, we reported that on a government-wide basis, 76 percent of our recommendations made 4 years ago were implemented.² As of May 2022, SEC's implementation rate for these recommendations was 95 percent. Overall, SEC had 10 open recommendations. Fully implementing these open recommendations could significantly improve SEC's operations.

Since our May 2021 letter, SEC has implemented the one open priority recommendation. Specifically, SEC worked with the Office of Personnel Management (OPM) to validate its new performance management system, and will continue to work with OPM to conduct additional surveys and focus groups to identify needed improvements, as we recommended in our July 2013 report.³

We are adding three new priority recommendations related to SEC's oversight of the Financial Industry Regulatory Authority, Inc. (FINRA). (See enclosure for the recommendations and actions needed to implement them). Specifically,

- In December 2021, we recommended that SEC develop FINRA and Securities Industry Oversight (FSIO) performance measures that reflect leading practices, which would provide greater assurance that SEC was meeting its mission, including protecting investors and maintaining efficient markets.
- We also recommended that SEC develop and implement FSIO policies and procedures for tracking identified deficiencies and associated FINRA corrective actions.

¹Priority 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.

²GAO, *Performance and Accountability Report: Fiscal Year 2021*, [GAO-22-4SP](#) (Washington, D.C.: Nov. 15, 2021).

³GAO, *Securities and Exchange Commission: Improving Personnel Management Is Critical for Agency's Effectiveness*. [GAO-13-621](#). Washington, D.C.: July 18, 2013.

Establishing policies and procedures for tracking inspection or examination information and associated corrective actions could help SEC achieve its oversight goals and objectives for FINRA.

- In addition, we recommended that SEC develop and implement FSIO procedures to identify and communicate the significance of its inspection and examination findings. Identifying and communicating the significance of its findings to internal stakeholders and to FINRA would enhance SEC's oversight of FINRA.

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In March 2021, we issued our biennial update to our [High-Risk List](#), 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.⁴ One of our government-wide high-risk areas—[modernizing the U.S. financial regulatory system](#)—includes SEC.

Several other government-wide high-risk areas also have direct implications for SEC and its operations. These include (1) [improving the management of IT acquisitions and operations](#), (2) [managing federal real property](#), (3) [government-wide personnel security clearance process](#), (4) [improving strategic human capital management](#), and (5) [ensuring the cybersecurity of the nation](#).⁵ We urge your attention to the 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. In March 2022, we issued a report on key practices to successfully address high-risk areas, which can be a helpful resource as your agency continues to make progress to address high-risk issues.⁶

We are sending copies of this report to the Director of the Office of Management and Budget and appropriate congressional committees: the Committees on Appropriations, Banking, Housing, and Urban Affairs, Budget, and Homeland Security and Governmental Affairs, United States Senate; and the Committees on Appropriations, Budget, Financial Services, and Oversight and Reform, House of Representatives. In addition, the report will be available on the GAO website at <https://www.gao.gov>.

⁴GAO, *High-Risk Series: Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas*, [GAO-21-119SP](#) (Washington, D.C.: Mar. 2, 2021).

⁵With regard to cybersecurity, we also urge you to use foundational information and communications technology supply chain risk management practices set forth in our December 2020 report: GAO, *Information Technology: Federal Agencies Need to Take Urgent Action to Manage Supply Chain Risks*, [GAO-21-171](#) (Washington, D.C.: Dec. 15, 2020).

⁶GAO, *High-Risk Series: Key Practices to Successfully Address High-Risk Areas and Remove Them from the List*, [GAO-22-105184](#) (Washington, D.C.: Mar. 3, 2022).

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 Daniel Garcia-Diaz, Managing Director, Financial Markets and Community Investment, at garciadiazd@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 10 open recommendations. Thank you for your attention to these matters.

Sincerely yours,

A handwritten signature in black ink that reads "Gene L. Dodaro". The signature is written in a cursive style with a large, prominent "D" and a long horizontal flourish extending to the right.

Gene L. Dodaro
Comptroller General
of the United States

Enclosure – 1

cc: Ms. Shalanda Young, Director, Office of Management and Budget
Mr. James McNamara, Chief Human Capital Officer
Mr. David Bottom, Chief Information Officer
Mr. Kenneth Johnson, Chief Operating Officer

Enclosure 1

Priority Open Recommendations to the Securities and Exchange Commission (SEC)

Securities Regulation: SEC Could Take Further Actions to Help Achieve Its FINRA Oversight Goals. GAO-22-105367. Washington, D.C.: December 15, 2021.

Recommendation: The Director of the Division of Examinations should develop Financial Industry Regulatory Authority, Inc. (FINRA) and Securities Industry Oversight (FSIO) performance measures that reflect leading practices, including measuring progress in achieving FSIO's mission, setting targets against which actual performance can be measured, incorporating key elements of FSIO's oversight activities, and providing information on the outcomes of FSIO program activities related to its stated mission goals and objectives.

Actions Needed: SEC generally agreed with this recommendation. In January 2022, SEC stated that it was working on updating FSIO's existing performance measures to reflect leading practices. To fully implement this recommendation, SEC needs to develop measures that reflect leading practices that would allow FSIO to improve and better assess its oversight of FINRA. This would provide greater assurance that FINRA is carrying out its regulatory responsibilities and that SEC is meeting its mission, including protecting investors and maintaining efficient markets.

Recommendation: The Director of the Division of Examinations should develop and implement FSIO policies and procedures for tracking identified deficiencies and associated FINRA corrective actions, including establishing when and how to monitor findings and FINRA's implementation of corrective measures.

Actions Needed: SEC generally agreed with this recommendation. In January 2022, SEC stated that it was developing policies and procedures to formalize the process of tracking deficiencies and corrective actions proposed by FINRA. To fully implement this recommendation, SEC should include in these policies and procedures when and how to monitor findings and FINRA's implementation of corrective measures. This would provide SEC with reasonable assurance that it is gaining key information about the state of risk in its oversight of FINRA and the extent to which identified risks have been appropriately mitigated.

Recommendation: The Director of the Division of Examinations should develop and implement FSIO procedures to identify and communicate the significance of its inspection and examination findings.

Actions Needed: SEC generally agreed with this recommendation. SEC noted that the agency maintains an informal process for assessing the importance of and communicating findings. In January 2022, SEC stated that it was in the process of creating policies and procedures to identify and communicate the significance of its examination findings. To fully implement this recommendation, SEC needs to enhance its current process and adopt formalized written procedures. By establishing such policies and procedures, SEC would gain reasonable assurance that it has correctly and consistently identified and communicated its most important findings internally and to FINRA.

High-Risk Area: Modernizing the U.S. Financial Regulatory System

Director: Michael E. Clements, Financial Markets and Community Investment

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