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Highlights

Highlights of GAO-08-167, a report to the Chairman, United States Securities and Exchange Commission

FINANCIAL AUDIT

Securities and Exchange Commission's Financial Statements for Fiscal Years 2007 and 2006

Why GAO Did This Study

Established in 1934 to enforce the securities laws and protect investors, the Securities and Exchange Commission (SEC) plays an important role in maintaining the integrity of the U.S. securities markets.

Pursuant to the Accountability of Tax Dollars Act of 2002, SEC is required to prepare and submit to Congress and the Office of Management and Budget audited financial statements. GAO agreed, under its audit authority, to perform the audit of SEC's financial statements. GAO's audit was done to determine whether, in all material respects, (1) SEC's fiscal year 2007 financial statements were reliable and (2) SEC's management maintained effective internal control over financial reporting and compliance with laws and regulations. GAO also tested SEC's compliance with certain laws and regulations.

For a fuller understanding of GAO's opinion on SEC's financial statements for fiscal years 2007 and 2006, readers should refer to the complete audit report, available by clicking on GAO-08-167 which includes information on audit objectives, scope and methodology. For more information, contact Jeanette Franzel, 202-512-9471, franzelj@gao.gov.

What GAO Found

In GAO's opinion, SEC's fiscal year 2007 and 2006 financial statements were fairly presented in all material respects. However, because of a material weakness in internal control over SEC's financial reporting process, in GAO's opinion, SEC did not have effective internal control over financial reporting as of September 30, 2007. Recommendations for corrective action will be included in a separate report. Although certain compliance controls should be improved, SEC did maintain in all material respects effective internal control over compliance with laws and regulations material in relation to the financial statements as of September 30, 2007. In addition, GAO did not find reportable instances of noncompliance with the laws and regulations it tested.

In its 2006 report, GAO reported on weaknesses in the areas of SEC's (1) recording and reporting of disgorgements and penalties, (2) information systems controls, and (3) property and equipment controls. During fiscal year 2007, SEC improved its controls over the accuracy, timeliness, and completeness of the disgorgement and penalty data and used a much improved database for the initial recording and tracking of these data. However, the processing of these data for financial reporting purposes is still done through a manual process that is prone to error. GAO found that the internal controls that compensated for the manual processing of the related accounts receivable balances in fiscal year 2006 were not effective in fiscal year 2007. This issue is included in the material weakness in SEC's financial reporting process for fiscal year 2007. Other control deficiencies included in this material weakness concern SEC's period-end closing process, accounting for transaction fee revenue, and preparation of financial statement disclosures.

GAO also identified three significant deficiencies in internal control during fiscal year 2007. Although SEC has taken steps to strengthen its information security, some of the weaknesses identified in GAO's previous audit persisted and GAO found new weaknesses during this year's audit. Therefore, GAO is reporting information security as a significant deficiency as of September 30, 2007. In addition, GAO continued to identify the same weaknesses in controls over property and equipment and therefore considers this area a significant deficiency as of September 30, 2007. GAO also identified a new significant deficiency concerning SEC's accounting for budgetary transactions.

In commenting on a draft of this report, SEC's Chairman emphasized SEC's commitment to enhance its controls in all operational areas and to ensure reliability of financial reporting, soundness of operations, and public confidence in SEC's mission.