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## **Memo to the Record**

**To:** LP-GWB Archivists

**From:** Elizabeth Lanier

**Date:** 08/15/2016

**Collection:** White House Office of Records Management (ORM)

**Series:** Subject Files – FG249 (Securities & Exchange Commission)

**FOIA ID:** 2014-0356-F

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**THE WHITE HOUSE  
CORRESPONDENCE TRACKING WORKSHEET**

ID# 528003

PAGE 1

DATE RECEIVED: 05/15/2002

NAME OF CORRESPONDENT: MR. HARVEY L. PITT

SUBJECT: SHARES THAT THE MANAGEMENT CONTROLS OF THE SECURITIES AND EXCHANGE COMMISSION FOR THE FISCAL YEAR ENDING SEP 30 2001 ARE IN COMPLIANCE WITH THE STANDARDS PRESCRIBED BY THE COMPTROLLER GENERAL.

ROUTE TO: OFFICE/AGENCY	(STAFF NAME)	ACTION		DISPOSITION		
		ACTION CODE	DATE YY/MM/DD	TYPE RESP	C D	COMPLETED YY/MM/DD
EXECUTIVE CLERK	TIM SAUNDERS	ORG	2002/05/15			
ACTION COMMENTS						
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COMMENTS ENCLOSURE  
CORRESPONDENCE RECEIVED IN ORM MAY 11 02

ADDITIONAL CORRESPONDENTS: 0      MEDIA: LETTER      INDIVIDUAL CODES:

REPORT CODES:      USER CODE:

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CODE = A  
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REFER QUESTIONS AND ROUTING UPDATES TO RECORDS MANAGEMENT (ROOM 72, OEOB) EXT-62590  
KEEP THIS WORKSHEET ATTACHED TO THE ORIGINAL INCOMING LETTER AT ALL TIMES AND SEND COMPLETED RECORD TO RECORDS MANAGEMENT.

528003

OFFICE OF THE EXECUTIVE CLERK

CORRESPONDENT:

Harvey L. Pitt  
Chairman

AGENCY:

U.S. Securities and  
Exchange Commission

DATE OF INCOMING: \_\_\_\_\_

ROUTE TO: Tim Saunders



THE CHAIRMAN

23707

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

December 31, 2001

The Honorable George W. Bush  
President of the United States  
The White House  
1600 Pennsylvania Avenue, N.W.  
Washington, D.C. 20500

Dear Mr. President:

I am pleased to report that the management controls of the Securities and Exchange Commission for the fiscal year ending September 30, 2001 are in compliance with the standards prescribed by the Comptroller General. This letter fulfills the reporting requirements of the Federal Managers' Financial Integrity Act of 1982 as they apply to the SEC. It has been prepared in conformity with the guidance provided by the Office of Management and Budget. A detailed discussion of the evaluation and review process supporting this conclusion is at Enclosure A.

I can provide assurance, based on the evaluations conducted by the staff, assurances by appropriate SEC officials, and other information provided that, taken as a whole, the agency's internal accounting and administrative systems comply with Section 2 of the Act.

The following material weakness was corrected during the year:

- The management controls for safeguarding sensitive, non-public information need to be strengthened to significantly enhance their effectiveness.

Safeguarding sensitive information is a critical activity at the SEC. To enhance the effectiveness of our controls over sensitive information, the Commission established a task force of senior staff to implement corrective actions, hired a security consultant to assist in a more comprehensive review of overall security, enhanced building access procedures, and issued an agency-wide policy that addresses employees' responsibilities to safeguard non-public information. The Commission has implemented the consultant's most significant recommendations and is continuing to monitor this area.

The agency continues to work aggressively on correcting the following material weakness that was identified previously and remains pending.

- ADP security controls should be enhanced, strengthened, and communicated to all SEC staff. Many of the security administration processes performed by the SEC are not standardized or formalized. The lack of formalized policies and communication of adequate ADP security policies and procedures has the potential to impair the mission of the agency.

The IT Security Program has substantially completed its mission, which is to protect the SEC's sensitive information. The SEC's public website and electronic filing systems have remained secure and available; our perimeter security has detected and repelled countless probes, scans, and scripted attacks; and our intranet e-mail and critical applications have remained safe and available during numerous virus scares, major software upgrades, infrastructure changes, planned and unscheduled disaster recovery tests and failures, and other potentially catastrophic events. However, the IT Security Program, while robust and effective, still has some work ahead to grow into a mature program that is well documented and meets all federal guidelines. Under the direction of the agency's new IT Security Officer, the IT Security Group is finalizing a series of technical bulletins to support the SEC's IT security policy and developing a rigorous set of procedures for security certification and accreditation of agency systems. These critical milestones are expected to be completed during fiscal 2002 and 2003, respectively.

Additionally, the agency's financial management systems in use during 2001 were reviewed as required by Section 4 of the Act. The review was based on the principles and standards developed by the Comptroller General and implemented through OMB Circular A-127.

The results of limited reviews conducted of all of the agency's financial management systems, assurances given by agency officials, and other information provided indicate that the accounting systems, taken as a whole, are generally in conformance with the principles and standards developed by the Comptroller General and implemented through OMB Circular A-127.

The following material non-conformance was corrected during the year:

- The SEC needs to track the receipt and allocation of filing fee and account data and provide on-line inquiry, on a real-time basis, of specific filing fee information. A new agency system (Entity, Filing and Fees (EFFS)) was implemented in late fiscal 1992. However, since implementation, problems have been identified that inhibit the agency from maintaining real-time, accurate data.

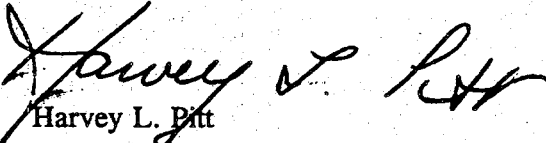
Through the efforts of a Commission task force assembled in November 1994, the agency improved significantly several features of the system and the reliability of EFFF financial data. However, the task force and an audit conducted by the SEC's Office of the Inspector General identified insufficient internal controls, lack of documentation, and difficulties maintaining the system such that a determination was made to redesign the system.

From fiscal 1995 to 1998, the task force worked on identifying EFFF system requirements and preparing a contract solicitation to replace the existing system. The EFFF redesign requirements were included with the EDGAR modernization initiative, which was awarded in July 1998. The EFFF replacement was implemented in September 2001. The design of the new system contains adequate financial controls.

Additional information regarding the agency's compliance with the Act and proposed corrective actions is contained in Enclosures B through D to this letter.

I would like to emphasize that the SEC is committed to the effective and efficient management of the resources entrusted to the agency.

Yours truly,



Harvey L. Pitt

Enclosures

Enclosure A

SECURITIES AND EXCHANGE COMMISSION  
REVIEW PROCESS

Description of Organization and Structure of Review Process

The Office of the Executive Director is responsible for coordinating and overseeing the management control review process (OMB Circular A-123) and evaluations of financial management systems (OMB Circular A-127). The evaluation process is carried out by the management control officer assigned in each component, based upon instructions provided by the Executive Director. The Office of the Executive Director monitors correction of material weaknesses.

Twenty-six divisions and offices are designated as components. The components range in size from 9 to 489 positions with an average of 122 positions within a component at the end of fiscal 2001. Agency components were identified by evaluating the organization and budgetary allocations of the SEC and its activities. This segmentation ensures comprehensive coverage of all components.

2001 Statistical Data for Review Process

	<u>Planned</u>	<u>Conducted</u>
Management Control Reviews	0	0
Alternative Reviews	22	22

Percentage of Assessable Components Reviewed: 62%

Comment on Results Versus Plan

Twenty-two alternative reviews were completed in 2001. These reviews are conducted by the Commission's Office of Inspector General. The components reviewed consisted of five field offices; the Offices of General Counsel, the Secretary, the Executive Director, Investor Education and Assistance, Information Technology, Administrative and Personnel Management, Filings and Information Services, and Compliance Inspections and Examinations; and the Divisions of Corporation Finance, Market Regulation, and Enforcement. Some components underwent multiple reviews, and some not included in the above list were reviewed as part of audits that were not completed by the end of the fiscal year.



Enclosure B

SECURITIES AND EXCHANGE COMMISSION  
STATISTICAL SUMMARY OF PERFORMANCE

Section 2. Management Control System

Overall Compliance  Yes  No Year Achieved  
1983  
(and all subsequent years)

Number of Material Weaknesses

<u>Period Reported</u>	<u>Reported</u>	<u>Corrected</u>	<u>Pending at Year-End</u>
Prior Years	31	28	3
1991	0	0	3
1992	0	0	3
1993	0	0	3
1994	1	2	2
1995	1	0	3
1996	0	1	2
1997	0	0	2
1998	0	0	2
1999	1	1	2
2000	0	0	2
2001	0	1	1

Pending Material Weaknesses

<u>Category</u>	<u>Number</u>
Program Management:	
Program Execution	0
Systems Development & Implementation	0
Asset Disposition	0
Environmental Impact	0
Safety, Health-Related	0
Other (Specify)	0

Functional Management:

Procurement	0
Grant Management	0
Personnel & Organizational Management	0
ADP Security	1
Payment Systems & Cash Management	0
Loan Management & Debt Collection	0
Document Management	0
Total	1

Section 4, Financial Management Systems

Compliance Assurance

Overall Compliance with Section 4	<u>Yes</u>	<u>No</u>	<u>Year Achieved</u>
• Conformance with Financial Information Standards	X		1989
• Conformance with Systems Functional Standards	X		1989

Number of Material Non-conformances

<u>Period Reported</u>	<u>Reported</u>	<u>Corrected</u>	<u>Pending at Year-End</u>
Prior Years	3	3	0
1991	0	0	0
1992	1	0	1
1993	1	0	2
1994	0	0	2
1995	1	0	3
1996	0	1	2
1997	0	0	2
1998	0	0	2
1999	0	1	1
2000	0	0	1
2001	0	1	0

2. Sensitive Information

Functional Category in Statistical Summary: Document Management

Bureau/Appropriation/Account Number: Office of the Executive Director

Administrative Activity/Program Activity: Safeguarding Sensitive Information

Pace of Corrective Action:

Year Identified: 1999

Original Targeted Correction Date: 2000

Targeted Correction Date in Last Year's Report: 2000

Current Target Date: 2001

Reason for Change of Date(s): Not applicable. Corrective actions were completed in 2001.

Description of Agency Impact: The management controls for safeguarding sensitive, non-public information need to be strengthened to significantly enhance their effectiveness.

Source of Discovery of Material Weakness: The weakness was identified during an audit conducted by the Office of Inspector General.

Critical Milestones in Corrective Action:

<u>Critical Milestone</u>	<u>Original Plan</u>	<u>Current Plan</u>	<u>Actual</u>
Establish Senior Level Task Force	1999	1999	1999
Implement New Building Access Procedures	1999	1999	1999
Hire Consultant to Review Information Security	1999	1999	1999
Issue Comprehensive Policy and Procedures to All Employees	2000	2000	2000
Implement Security Consultant Recommendations	2000	2001	2001

A. Completed actions/events: To address this weakness, the Commission established a task force of senior staff to enhance the effectiveness of the agency's controls over sensitive information, enhanced building access procedures, issued a new policy that addresses employees' responsibilities to safeguard non-public information and hired a security consultant to review sensitive information security. The Commission implemented the consultant's most significant recommendations in fiscal 2001.

Enclosure C  
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B. Planned actions/events (short-term, *i.e.*, next 12 months): The Commission will continue to monitor and improve information security.

C. Planned actions/events (long-term): Same as item B.

*Maintenance.* The current EFFE system is difficult to maintain due primarily to its structure and reliance on a few key individuals.

Source of Discovery of Non-conformance: The non-conformance was identified in early fiscal 1993 by the system manager and the Comptroller of the agency. Subsequently, two SEC task forces and an audit conducted by the Office of the Inspector General from January 1995 through October 1995 identified additional deficiencies.

Critical Milestones in Corrective Action:

<u>Critical Milestone</u>	<u>Original Plan</u>	<u>Current Plan</u>	<u>Actual</u>
Establish Task Force to Identify and Resolve System Problems	12/92	N/A	12/92
Identify and Resolve Critical Problems	9/93	N/A	9/94
Implement Programming Changes	9/93	N/A	8/95
Establish Second Task Force	11/94	N/A	11/94
Implement New Processing Procedures and Access Codes			2/96
Correct Audit Trail Weaknesses			2/96 <sup>1</sup>
Prepare Formal, Written Procedures			2/96
Requirements for Redesign	2/95	N/A	4/96
Completion of Redesign and Implementation of New System	12/97	2001	9/01

A. Completed actions/events: A task force was established by the Executive Director of the agency to identify and resolve system problems that inhibit agency needs and compromise compliance with OMB Circular A-127 requirements. Several critical problems were identified and resolved and some system changes were implemented. Due to the unusual complexity of the

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<sup>1</sup>Audit trail weaknesses were corrected in February 1996, with the exception of system changes to accommodate a "reason" code.