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Washington, DC 20548

Comptroller General  
of the United States

**Accessible Version**

April 14, 2020

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 2019, we reported that on a government-wide basis, 77 percent of our recommendations made 4 years ago were implemented.<sup>2</sup> As of March 2020, SEC's 4-year implementation rate was 100 percent. Overall, SEC had 18 open recommendations. Fully implementing these open recommendations could significantly improve SEC's operations.

Since our April 2019 priority recommendation letter, SEC has implemented five of our six open priority recommendations. SEC has begun a new, more comprehensive workforce and succession planning process, which includes elements of guidance from the Office of Personnel Management. SEC also has taken action to implement communication and collaboration best practices that could benefit SEC. As a result of these efforts, SEC has improved its workforce and succession planning and improved communication and collaboration. In addition, to more effectively manage its information security program, SEC has updated its systems security plans with network diagrams and has created a hardware asset inventory. We ask your continued attention to the one remaining open priority recommendation we identified in the 2019 letter, as well as an additional priority recommendation we are adding this year. (See the enclosure for the list of these recommendations.)

The two priority recommendations relate to performance management for SEC employees. Both priority recommendations 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, including developing plans for focus groups with staff at the midpoint of the 2020 appraisal period. To fully implement the recommendation, SEC needs to conduct a validation of the system for its entire staff. In addition, in December 2019, we recommended that SEC develop and implement safeguards to

<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 2019*. [GAO-20-1SP](#) (Washington, D.C.: Nov. 19, 2019).

better ensure transparency and fairness in SEC's new performance incentive bonus program to help promote employee confidence in the integrity of the program. SEC stated that it concurred with the recommendation.

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As you know, in March 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.

The two priority recommendations identified in this letter are directly related to our [Strategic Human Capital Management](#) high-risk area. Several other government-wide high-risk areas, including (1) [Ensuring the Cybersecurity of the Nation](#), (2) [Improving the Management of Information Technology \(IT\) Acquisitions and Operations](#), (3) [Managing Federal Real Property](#), and (4) [Government-wide Personnel Security Clearance Process](#), also have direct implications for SEC and its operations.<sup>4</sup> We urge your attention to this government-wide high-risk issue as it relates 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 Daniel Garcia-Diaz, Managing Director, Financial Markets and Community Investment, at [garciadiazd@gao.gov](mailto: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 of the 18 open recommendations. Thank you for your attention to these matters.

Sincerely yours,



Gene L. Dodaro

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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>[GAO-19-157SP](#). See pages 75-77 for Strategic Human Capital Management, pages 178-184 for Ensuring the Cybersecurity of the Nation, pages 123-127 for Improving the Management of IT Acquisitions and Operations, pages 78-85 for Managing Federal Real Property, and pages 170-177 for Government-wide Personnel Security Clearance Process.

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Enclosure – 1

cc: Mr. James McNamara, Chief Human Capital Officer  
Mr. David Bottom, Chief Information Officer  
Mr. Kenneth Johnson, Chief Operating Officer

Enclosure

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

**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 Chief Operating Officer (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, after SEC has operationalized its pilot performance management system, it needs to conduct a validation of the system for its entire staff. As part of the validation, SEC should solicit input from supervisors and employees on the efficiency and effectiveness of the new system. 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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**Securities and Exchange Commission: Personnel Management Shows Improvement, but Action Needed on Performance Management System. GAO-20-208. Washington, D.C.: Dec. 19, 2019.**

**Recommendation:** The Chairman of SEC should direct the COO to develop and implement safeguards to better ensure transparency and fairness in SEC's new performance incentive bonus program. Such safeguards could include multiple levels of review of performance ratings and pay decisions and publishing aggregate data on the results of the performance cycle that allow employees to compare results across various groups within the agency while protecting the confidentiality of individual ratings and pay decisions.

**Action Needed:** SEC stated that it concurred with, and plans to implement, our recommendation. SEC stated that it appreciated our suggested practices, and that it will conduct research to consider additional safeguards.

**High-Risk Area:** [Strategic Human Capital Management](#)

**Director:** Michael E. Clements

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