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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)

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

**RE:** 555820

***Notes:***

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THE WHITE HOUSE  
CORRESPONDENCE TRACKING WORKSHEET

ID# 555820  
PAGE 1

DATE RECEIVED: 03/10/2003

NAME OF CORRESPONDENT: MR. HARVEY L. PITT

SUBJECT: REPORTS THE MANAGEMENT CONTROLS OF THE SECURITIRS AND EXCHANGE COMMISSION FOR THE FISCAL YEAR ENDING SEP 30 02, AND ALSO ACHIEVING THEIR INTENDED OBJECTIVES 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	2003/03/10			
ACTION COMMENTS						
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COMMENTS

ADDITIONAL CORRESPONDENTS: 0

MEDIA: LETTER

INDIVIDUAL CODES:

REPORT CODES:

USER CODE:

ACTION CODES:

- A - APPROPRIATE ACTION
- C - COMMENT/RECOMMENDATION
- D - DRAFT RESPONSE
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- A - ANSWERED
- B - NON-SEPC-REFERRAL
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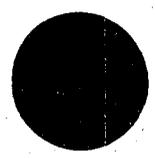
OUTGOING CORRESPONDENCE:

- TYPE RESP = INITIALS OF SIGNER
- CODE = A
- COMPLETED = DATE OF OUTGOING

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.

Filed by George W. Bush Library Staff

555820



**OFFICE OF THE EXECUTIVE CLERK**

**CORRESPONDENT:** Harvey Z. Pitt  
Chairman

**AGENCY:** U.S. Securities and  
Exchange Commission

**DATE OF INCOMING:** 1/31/03

**ROUTE TO:** Tim Saunders

6 552



THE CHAIRMAN

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

January 31, 2003

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, overall, the management controls of the Securities and Exchange Commission for the fiscal year ending September 30, 2002 are adequate and effective and are achieving their intended objectives 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. A detailed discussion of the evaluation and review process supporting this conclusion is at Enclosure A.

I can provide qualified assurance, based on (1) the knowledge of the operations and evaluations conducted by the staff, (2) assurances by appropriate SEC officials, (3) the audits conducted by SEC's Office of Inspector General and the General Accounting Office, (4) the Office of Inspector General's review of the financial management systems, (5) the staff and the information security program under the Government Information Security Reform Act, and (6) other information provided that, taken as a whole, the agency's system of controls are achieving their intended objectives under Section 2 of the Act. This qualified statement of assurance considers the following noted exceptions.

Two new material weaknesses were identified:

- The SEC has not developed adequate internal control procedures to track purchases of accountable assets and to ensure reporting of these assets in its property management system. The ineffective controls increase the potential for theft and misuse of government equipment.

Safeguarding the Commission's assets is a critical activity at the SEC, and aggressive steps are being taken to enhance our controls in this area. For example, a task force is working to develop new property management policies and procedures and a standardized reconciliation process, among other improvements. In addition, we hired a contractor to review the SEC's property system and procedures. The contractor has recommended best practices, which the task force is now considering. The task force's work is scheduled for completion by the end of fiscal 2003.

- The SEC needs to ascertain its regulatory and financial accountability and reporting authorities and responsibilities for disgorgement funds and whether these funds should be treated as accounts receivable and recorded and monitored in the Commission's financial systems. Until this decision is made, SEC cannot ascertain appropriate internal controls to establish over these funds.

SEC officials are in deliberation regarding the treatment of disgorgement funds as accounts receivable. The outcome will determine the appropriate internal controls necessary to account for and monitor these funds.

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. Those that are formalized have no sanctions for noncompliance. The agency also needs to ensure compliance with OMB Circular A-130, Appendix III, regarding accreditation of applications and the Federal Information Security Management Act of 2002 (FISMA). The lack of formalized policies and standards for security administration has the potential to impair the mission of the agency. In addition, failure to certify sensitive application systems may result in loss of sensitive information if a problem goes undetected due to lack of timely review.

The SEC is continuing to make progress in developing, implementing, and maturing its information security program. During the year, the agency established the framework and controls for certifying and accrediting Commission systems and applications, educated program officials on their information security responsibilities, and established a contract vehicle to procure services to assist program offices in certifying and accrediting Commission systems and applications. Three of the SEC's most sensitive and visible major applications have begun the certification and accreditation process. We also made considerable progress in improving agency-wide security awareness participation and formalizing security policy. I am encouraged by the progress that the agency has made and can assure you that we are working hard to achieve a fully mature and effective security program.

Additionally, the agency's financial management systems in use during 2002 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 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 instance of material non-conformance was identified during the year:

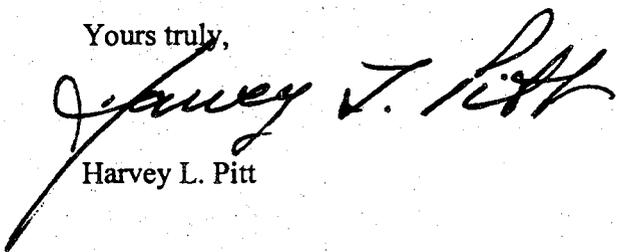
- The Disbursement and Penalties Tracking System (DPTS) cannot be relied upon for financial accounting purposes. This has a substantial impact on the agency's ability to correctly report on the aging and status of the miscellaneous receivables to the U.S. Treasury.

Commission officials are working to seek a long-term solution to assure that the financial management needs of the agency are met, as well as case tracking requirements. The SEC's Capital Planning Committee is expected to fund in fiscal 2003 a requirements analysis to design a system to meet requirements for audited financial statements and to improve the efficiency of system maintenance and use. Meanwhile, new procedures have been implemented to ensure that information in DPTS is accurate and current.

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 6 to 508 positions with an average of 122 positions within a component at the end of fiscal 2002. 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.

2002 Statistical Data for Review Process

	<u>Planned</u>	<u>Conducted</u>
Management Control Reviews	0	0
Alternative Reviews	22	20

Percentage of Assessable Components Reviewed: 100%

Comment on Results Versus Plan

Twenty alternative reviews were completed in 2002. These reviews were conducted by the Commission's Office of Inspector General. All Commission components were reviewed. Some components underwent multiple reviews.

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
2002	2	0	3

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	1
Document Management	0
Property Management	1
Total	3

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
2002	1	0	1

Enclosure C

SECURITIES AND EXCHANGE COMMISSION  
MATERIAL WEAKNESSES/CORRECTIVE ACTION

1. ADP Security

Functional Category in Statistical Summary: ADP Security

Bureau/Appropriation/Account Number: Office of Information Technology

Administrative Activity/Program Activity: Data Processing--Nationwide

Pace of Corrective Action:

Year Identified: 1989

Original Targeted Correction Date: 1990

Targeted Correction Date in Last Year's Report: 2003

Current Target Date: 2003

Reason for Delay: Several policies are being finalized and implemented. In 2002, the certification and accreditation policy was finalized, and a support contractor was identified and funded. Work is currently underway to certify and accredit the SEC's general support platforms and major applications by the end of 2003.

Description of Agency Impact: 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. Those that are formalized have no sanctions for noncompliance. The agency also needs to ensure compliance with OMB Circular A-130, Appendix III, regarding accreditation of applications and the Federal Information Security Management Act of 2002 (FISMA). The lack of formalized policies and standards for security administration leaves the SEC vulnerable to fraud, mismanagement, and abuse of government resources. In addition, failure to certify sensitive application systems may result in loss of sensitive information if a problem goes undetected due to lack of timely review.

Source of Discovery of Material Weakness: Management identified the weakness during the 1989 annual certification process, and an outside auditor noted it in a 1995 review. Additionally, a financial management system audit performed in 2002 confirmed that security controls for certain financial systems were not adequate, and that the security management role did not have sufficient authority to enforce compliance of security policies and procedures.

Critical Milestones in Corrective Action:

<u>Critical Milestone</u>	<u>Original Plan</u>	<u>Current Plan</u>	<u>Actual</u>
Final ADP Security Policy	5/92	1998	12/98
Final Automated Information Security Manual (Technical Bulletins)	6/92	2002	--
ADP Security Review Program	6/92	1998	1998
Educate Program Officials	2002	2002	2002
Certification and Accreditation Reviews	6/92	2003	--

A. Completed actions/events: During fiscal 2002, the Commission continued to make notable progress in developing, implementing, and maturing its information security program. For example, in 2002, the Commission issued a regulation for certifying and accrediting SEC applications and systems. This policy places certification responsibilities with the agency's program officials and assigns the accreditation role to the Chief Information Officer. It provides the opportunity to engage senior executives in discussions of security issues, including costs for security, adequacy of controls, and accountability. We also obtained a contracting vehicle to acquire certification and accreditation services, beginning the process with three of SEC's most visible information systems. Numerous policies are being drafted to formalize the many excellent security configurations, processes, and procedures already in use at the agency.

In addition, a renewed emphasis was placed on IT security awareness in 2002, and in a few short months, we achieved a 75% attendance rate, with the video to be made available to the rest of the Commission staff.

B. Planned actions/events (short-term, *i.e.*, next 12 months): Technical bulletins will be issued to assist in implementing the IT Security Program. One-fourth of the agency's sensitive systems will be formally certified and accredited with contractor support.

C. Planned actions/events (long-term): The remaining sensitive systems will be certified and accredited. We will continue to improve the IT security program.

2. Disgorgement, Fines and Penalties

Functional Category in Statistical Summary: Loan Management and Debt Collection

Bureau/Appropriation/Account Number: SEC/Division of Enforcement, Office of the Secretary,  
and Office of Financial Management

Administrative Activity/Program Activity: Collections--Nationwide

Pace of Corrective Action:

Year Identified: 2002

Original Targeted Correction Date: 2004

Targeted Correction Date in Last Year's Report: Not applicable. This is a new item.

Current Target Date: 2004

Reason for Change of Date(s): Not applicable.

Description of Agency Impact: The SEC needs to ascertain its regulatory and financial accountability and reporting authorities and responsibilities for disgorgement funds and whether these funds should be treated as accounts receivable and recorded and monitored in the Commission's financial systems. Until this decision is made, SEC cannot ascertain the appropriate internal controls to establish over these funds.

Source of Discovery of Material Weakness: The weakness was identified by the office head during the 2002 annual certification process and in a review by an outside auditor.

Critical Milestones in Corrective Action:

<u>Critical Milestone</u>	<u>Original Plan</u>	<u>Current Plan</u>	<u>Actual</u>
Determine Whether Disgorgement Funds Should be Treated as Accounts Receivable	2003	2003	
Implement Appropriate Internal Controls	2003/04	2003/04	

A. Completed actions/events: None. This is a new item.

B. Planned actions/events (short-term, *i.e.*, next 12 months): SEC officials will determine whether disbursement funds should be treated as accounts receivable. The outcome will determine the appropriate internal controls necessary to account for and monitor these funds.

C. Planned actions/events (long-term): The SEC will implement appropriate internal controls necessary to account for and monitor disbursement funds.

### 3. Property Management

Functional Category in Statistical Summary: Property Management

Bureau/Appropriation/Account Number: SEC/Office of Administrative and Personnel Management and Office of Financial Management

Administrative Activity/Program Activity: Administrative Support

Pace of Corrective Action:

Year Identified: 2002

Original Targeted Correction Date: 2003

Targeted Correction Date in Last Year's Report: Not applicable. This is a new item.

Current Target Date: 2003

Reason for Change of Date(s): Not Applicable

Description of Agency Impact: The SEC has not developed adequate internal control procedures to track accountable assets and to ensure reporting of these assets in its property management system. The ineffective controls increase the potential for theft of government equipment.

Source of Discovery of Material Weakness: The weakness was identified by the office head during the 2002 annual certification process and in a review by an outside auditor.

Critical Milestones in Corrective Action:

<u>Critical Milestone</u>	<u>Original Plan</u>	<u>Current Plan</u>	<u>Actual</u>
Prepare Documentation for Board of Survey	2003	2003	
Physical Inventory with Certifications	2003	2003	
Review Property System in Light of New Requirements to Complete Audited Financial Statements	2003 2003	2003 2003	

A. Completed actions/events: The following is a sampling of completed actions:

- Established a task force to address weaknesses in the property system.
- Hired a contractor to look at the SEC's property system and procedures.
- Conducted physical inventory.

B. Planned actions/events (short-term, *i.e.*, next 12 months): The SEC property regulation has been revised and will soon be issued in final.

C. Planned actions/events (long-term): The SEC will continue to review the property system for compliance with audited financial statement requirements.

Enclosure D

SECURITIES AND EXCHANGE COMMISSION  
MATERIAL NON-CONFORMANCE/CORRECTIVE ACTION

1. Disgorgement and Penalties Tracking System (DPTS)

Bureau/Appropriation/Account Number: SEC/Division of Enforcement, Office of the Secretary, and Office of Financial Management

Administrative Activity/Program Activity: Monitor financial judgments ordered in Commission litigation

Pace of Corrective Action:

Year Identified: 2002  
Original Targeted Corrective Action Date: New item.  
Targeted Corrective Date in Last Year's Report: N/A  
Current Target Correction Date: 2004  
Reason for Change in Date(s): N/A

Description and Agency Impact: The Disgorgement and Penalties Tracking System cannot be relied upon for financial accounting purposes. This has a substantial impact on the agency's ability to correctly report on the aging and status of the miscellaneous receivables to the U.S. Treasury.

Source of Discovery of Non-conformance: The non-conformance was identified in the system manager's review and during an audit conducted by an outside auditor.

Critical Milestones in Corrective Action:

<u>Critical Milestone</u>	<u>Original Plan</u>	<u>Current Plan</u>	<u>Actual</u>
Develop Procedures to Update DPTS	2002	2002	2002
Develop Performance Measures Based upon the Timeliness of Collections	2003	2003	
Issue Collections Guidelines to Staff	2002	2002	2002
Requirements Analysis	2003	2003	
Design and Implement System Changes	2004	2004	

A. Completed actions/events: Below is a sampling of the actions completed during fiscal 2002:

- Developed and implemented a new form for staff to use to update the DPTS system.
- Issued collections guidelines to the staff and designated a "collections monitor" at headquarters and the regional and district offices.
- Developed and implemented an interim database to track delinquent collection cases and to track certain information on disgorgement distributions.

B. Planned actions/events (short-term, *i.e.*, next 12 months): During fiscal 2003, the SEC's Capital Planning Committee is expected to fund a requirements analysis to design a system to meet requirements of audited financial statements and to improve the efficiency of system maintenance and use.

C. Planned actions/events (*i.e.*, long-term): The SEC will design and implement system changes in fiscal 2004.