



Highlights of [GAO-07-134](#), a report to Chairman of the Securities and Exchange Commission

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, the 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 2006 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.

FINANCIAL AUDIT

Securities and Exchange Commission's Financial Statements for Fiscal Years 2006 and 2005

What GAO Found

In GAO's opinion, SEC's fiscal year 2006 and 2005 financial statements were fairly presented in all material respects. A notable achievement during fiscal year 2006 was the significant efforts SEC made in addressing the material weaknesses reported in GAO's previous years' financial statement audits of SEC. As a result, GAO concluded that, although certain controls should be improved, SEC had effective internal control over financial reporting and compliance with laws and regulations. GAO did not find reportable instances of noncompliance with the laws and regulations it tested.

In its 2005 report, GAO identified material weaknesses in the areas of SEC's (1) reporting of disgorgements and penalties, (2) information systems controls, and (3) financial reporting process. Based on SEC's efforts to address concerns with controls over disgorgements and penalties and with information systems, and based on improvements GAO found in these areas during its fiscal year 2006 audit, GAO has concluded that these two previously reported weaknesses are no longer material. Because many of these efforts represent compensating controls rather than permanent systemic solutions, deficiencies in the design and operation of internal control in these areas remain and could adversely affect SEC's recording and reporting of disgorgements and penalties and its information security. Therefore GAO considered these areas to still be reportable conditions. In addition to reportable conditions over reporting of disgorgements and penalties and information systems controls, during this year's audit, GAO identified a new reportable condition concerning SEC's controls over recording property and equipment.

It is important that SEC sustain its commitment to strengthening internal controls to reduce the risks of inaccurate or incomplete reported disgorgements and penalties amounts. SEC also needs to implement key elements of its agencywide information security program to remediate existing weaknesses and have sufficient assurance that financial information and financial assets are adequately safeguarded from inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction. Finally, SEC needs to improve controls over the recording of property and equipment transactions in order to have sufficient assurance over the accuracy and completeness of these reported balances.

In commenting on a draft of this report, SEC's Chairman emphasized his commitment to further enhancing internal controls to ensure reliability of financial reporting, soundness of operations, and public confidence in the agency's mission.

www.gao.gov/cgi-bin/getrpt?GAO-07-134.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jeanette Franzel, 202-512-9471, franzelj@gao.gov.