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SECURITIES AND EXCHANGE COMMISSION

Preliminary Observations on SEC's Spending and Strategic Planning

Statement of Richard J. Hillman, Director,
Financial Markets and Community Investment

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Highlights

Highlights of GAO-03-969T, a testimony to the Chairman, Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives

SECURITIES AND EXCHANGE COMMISSION

Preliminary Observations on SEC's Spending and Strategic Planning Efforts

Why GAO Did This Study

In February 2003, the Securities and Exchange Commission (SEC) received the largest budget increase in the history of the agency. The increased funding was designed to better position SEC to address serious issues identified in the Sarbanes-Oxley Act and to better enable SEC to address numerous operational and human capital management challenges discussed in the GAO report entitled *SEC Operations: Increased Workload Creates Challenges* (GAO-02-302). To help ensure that SEC spends its budgetary resources in an efficient and effective manner, GAO was asked to review the SEC's efforts to address the issues raised in the 2002 report and to report on how SEC intends to utilize its new budgetary resources. GAO's final report on these matters is expected to be completed this Fall.

This testimony provides requested information on the status of SEC's current spending plan and preliminary observations on SEC's strategic and human capital planning efforts.

www.gao.gov/cgi-bin/getrpt?GAO-03-969T.

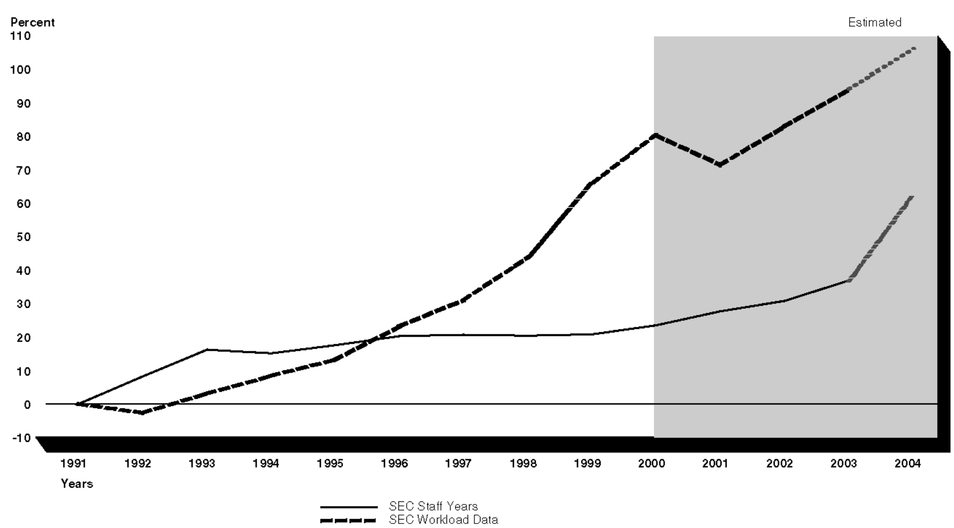
To view the full product, including the scope and methodology, click on the link above. For more information, contact Richard J. Hillman at (202) 512-8678 or hillmanr@gao.gov.

What GAO Found

In GAO's 2002 operations report, GAO identified a number of operational challenges facing SEC stemming from an increasing workload (e.g., filings, applications, and examinations) and staffing imbalances that threatened to impair SEC's ability to fulfill its mission. As illustrated below, SEC's workload had grown at a much higher rate than its staffing since the mid-1990s. In response to congressional concerns involving a number of high-profile corporate failures and accounting scandals, SEC's funding was increased 45 percent in 2003. SEC plans to spend most of its 2003 and 2004 budget increases to fund 842 new staff positions and double its information technology budget. However, given the late appropriation and hiring challenges, SEC has to date filled few of these positions, and it is unlikely that SEC will be able to utilize all of its 2003 funds.

GAO also found that SEC recognizes the need to develop a new strategic plan and that such a plan is a vital component of its staff allocation and human capital planning processes. A new strategic plan is also vital to SEC's ability to develop performance-oriented, outcome-based performance measures. GAO found that while SEC has not updated its strategic plan, it has begun efforts to overhaul its performance measures to make them more outcome-oriented. This effort seems premature given its lack of a new strategic plan. Moreover, while GAO found that SEC has completed certain aspects of a strategic human capital plan, including development of a new pay structure comparable to other federal financial regulators, greater flexibility to expedite the hiring of certain critically needed professions, plans for more training, and implementation of agencywide-worklife programs, the lack of a new strategic plan inhibits SEC's ability to develop a formal human capital plan.

Percent Change in SEC Staff Years and Workload, 1991-2004



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss the Securities and Exchange Commission's (SEC) plans for spending the significant increases in its 2003 budget appropriation and its 2004 budget request as well as its response to our recommendations for enhancing its strategic planning and human capital planning processes, which are critical ingredients for ensuring that the new appropriations are put to the best possible use.[1]

As you know, in March 2002 we issued a report entitled *SEC Operations: Increased Workload Creates Challenges* (GAO-02-302), which identified numerous resource challenges SEC faced as its workload increased in volume and complexity.[2] We also cited other issues, including a turnover rate among accountants, attorneys, and examiners that was almost twice as high as the governmentwide average for comparable positions that was draining staff from SEC and slowing its operations. To address these issues, we recommended, among other things, that SEC broaden its strategic planning process to systematically determine its regulatory priorities and the resource levels needed to fulfill its mission. We also recommended that SEC engage in a comprehensive coordinated workforce planning effort to ensure that critical human capital goals and strategies were implemented.

In the wake of several high-profile corporate failures and accounting scandals, in February 2003 SEC was given the largest spending increase in its history. Given this substantial budget increase and the importance of efficiently and effectively utilizing these gains, you requested that we review SEC's efforts to address the issues we raised in March 2002 and report on how well SEC has utilized its new budgetary resources. We expect to complete our report on these matters in the Fall. In advance of the completion of this study, this statement provides requested information on the status of SEC's current spending plans for 2003 and 2004 and preliminary observations on SEC's strategic planning and human capital planning efforts.

Our observations about the status of SEC's 2003 and 2004 spending plans and related planning activities to date are based on our review and

[1] All years are fiscal years unless otherwise noted.

[2] U.S. General Accounting Office, *SEC Operations: Increased Workload Creates Challenges*, GAO-02-302 (Washington, D.C.: Mar.5, 2002).

independent analysis of workload, budget, and staffing data provided by SEC officials or presented in SEC's 2003 revised budget estimate and 2004 budget request. In addition, we solicited views from a variety of SEC officials, collected relevant information on SEC's strategic planning and human capital efforts, and analyzed statistics on staff turnover. This study was completed in accordance with generally accepted government auditing standards.

In summary, the 2003 appropriation of $716 million in February 2003 increased SEC's budget 45 percent over its previous year's spending level, giving it additional resources to address critical staffing shortages and information technology needs, among other things. However, SEC spent the first 5 months of the fiscal year operating under a continuing resolution and thus could not fully implement a spending plan based on its new budget authority. In addition, SEC faced difficulties in hiring accountants, economists, and examiners, further constraining its ability to acquire needed expertise. Once it received its 2003 appropriation, SEC determined that most of its increase would be used to fund new positions and upgrade its technological resources, including doubling the operating budget of the Office of Information Technology. However, given the late appropriation and hiring challenges, to date SEC has filled few of these positions, and it is unlikely that SEC will be able to fully utilize all of its 2003 funds.

We also found that SEC recognizes that it needs to develop a new agencywide strategic plan and that such a plan is a vital component of its workforce planning and human capital allocation process. However, SEC has embarked on an effort to allocate resources and determine its needs without the benefit of an updated strategic plan. Instead, SEC has relied on views from its senior managers and on an internal study commissioned by then Chairman Pitt that assessed the commission's workload and evaluated the resources available for doing that work. This study, currently under review by Chairman Donaldson, has not been widely distributed throughout the organization. We commend SEC for conducting this study. Its findings confirm many of the workload and resource challenges we discussed in our March 2002 report, and it includes numerous recommendations for improving the agency's operations. SEC has also initiated a number of other efforts but because all of them are grounded in SEC having a clear strategic direction and goals, all of them hinge on SEC completing a new strategic plan. Among these are efforts to develop more outcome-oriented performance measures to gauge the effectiveness of its regulatory operations in fulfilling its statutory mission and formalization of its strategic human capital plan.

SEC Plans to Spend Most of Its Budgetary Increase on Staffing and Information Technology

In March 2002, we reported that SEC's workload and staffing imbalances had challenged SEC's ability to protect investors and maintain the integrity of securities markets. Appendix I graphically depicts SEC's workload and staffing imbalance from 1990 through 2000 as reported in our 2002 report and appendix II updates this graphic using SEC budget documents including its 2003 and 2004 workload and staffing estimates. As reported in March 2002, we found that SEC generally managed to bridge the gap between its workload and staff by determining which of its statutorily mandated duties it could accomplish with existing resources or only marginally increased resource levels. This approach, while practical, forced SEC to be largely reactive rather than proactive. We also reported that SEC tended to develop its annual budget request based on the previous year's appropriation rather than on what it would actually need to fulfill its mission. In 2003, this practice resulted in a modest increase over the previous year's request. But several high-profile corporate failures and accounting scandals, plus concerns that public companies should be held more accountable for information they report to investors, led Congress to pass the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act).[3] The act addresses a number of concerns involving corporate governance, auditor independence, regulation and oversight of the accounting profession, and SEC's resource limitations. In part because of the level authorized in the Sarbanes-Oxley Act, SEC increased its initial 2003 budget request of $466 million to $769 million. Ultimately, Congress appropriated $716 million. For 2004, SEC requested a budget of almost $842 million reflecting a supplemental carryover, annualization of new 2003 positions, inflation (pay and nonpay), and merit pay increases less one-time 2003 information technology costs.

[3] Pub. L. 107-204.

A Significant Portion of SEC's Budget Increase Has Been Allocated to New Staff Positions

SEC's planned allocations appear to be consistent with the Sarbanes-Oxley Act, which mandated that the $776 million authorization be used to:

- fund pay parity, allowing SEC to set salaries for certain staff positions at levels comparable to those at other federal financial regulators;[4]
- fund information technology, security enhancements, and recovery and mitigation activities in light of the terrorist attacks of September 11, 2001; and
- fund no fewer than 200 additional professional staff to increase oversight of auditors and audit services in order to improve SEC's investigative and disciplinary efforts as well as additional professional support staff necessary to strengthen existing program areas.

SEC's allocations were also apparently influenced by its internal review of operations and resource needs and on justifications made by each division and office. SEC determined that most of the planned increase would be used to hire an additional 842 staff, primarily accountants, attorneys, and examiners, and to upgrade its technological resources over the next few years.

Table 1 provides information on SEC's staff allocation as of July 1, 2003, by program area. The 2002 numbers include 125 new positions that were authorized by a supplemental appropriation to SEC's 2002 budget to deal with the increasing workload from financial fraud and reporting cases, to improve and expedite the review of periodic filings, and to deal with new programmatic needs and policy. According to an SEC official, the current and proposed budgets factor in the increased workload resulting from SEC's new responsibilities under various new laws including the Sarbanes-Oxley Act, Gramm-Leach-Bliley Act, and Commodity Futures Modernization Act.[5] For example, between 2002 and 2004, the full disclosure program is slated to receive the largest percentage increase in positions — 39 percent. This program includes the Division of Corporation

[4] The crisis in the thrift industry in the 1980s led Congress to pass the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA). Among other things, FIRREA authorized certain financial regulators, such as the Federal Deposit Insurance Corporation, the National Credit Union Association, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision to determine their own compensation and benefits so that they could more effectively compete in the marketplace for qualified applicants. P. L. No. 101-73 §1206, codified at 12 U.S.C. §1833b. The Federal Reserve Board of Governors also has independent authority to set the compensation of its employees. 12 U.S.C. §248l(l).

[5] Pub. L. 107-204, 116 Stat. 745 (2002), Pub. L. 106-102, 113 Stat. 1338 (1999), and Pub. L. 106-554 (H.R. 5660).

Finance and the Office of the Chief Accountant, which are responsible for reviewing the financial statement filings for over 17,000 reporting public companies and providing rule-making and interpretive advice. In this area, staffing is driven in part by the Sarbanes-Oxley Act, which requires SEC to review the financial statements of each reporting company every 3 years. In 2002 SEC's average translated into a review once every 6 years. The area slated to receive the next largest percentage increase (35 percent) is the supervision and regulation of securities markets. This program includes the Division of Market Regulation and part of the Office of Compliance, Inspections and Examinations and is responsible for establishing and maintaining policies for fair, orderly, and efficient markets and conducting examinations and inspections of 9 registered securities exchanges and an estimated 8,000 brokerage firms among others. The prevention and suppression of fraud program, which includes the Division of Enforcement, is slated to receive a 21 percent increase, which SEC said would help with the increasing number of investigations into possible violations of securities laws.

Table 1: SEC Staff Allocations from 2002 to 2004

Program Positions	2002 Actual	2004 Request	Change in Allocation	Percentage Change
Full disclosure	508	704	+196	39 percent
Prevention and suppression of fraud	1,037	1,255	+218	21
Supervision and regulation of securities markets	465	627	+162	35
Investment management regulation	593	790	+197	33
Legal and economic services	175	194	+19	11
Program direction	387	437	+50	13
Total	**3,165**	**4,007**	**+842**	

Source: SEC.

Notes: GAO did not verify the reliability of SEC's budget data. SEC's 2003 budget estimate is omitted because these numbers were unavailable at the time of the hearing. The 2004 figures are estimates subject to revision.

SEC's staff allocations appear consistent with legislative requirements and what is currently known about its operating environment. However, because SEC's staff positions were allocated without the benefit of a strategic plan, we are unable to fully assess the appropriateness or effectiveness of this use of its budget increase.

Given that staff salaries and benefits average about 70 percent of SEC's budget, we would expect the spending allocations to roughly correlate to its staffing allocations. However, SEC was unable to provide us information to analyze SEC's budgetary allocation across each program area. At the time of this study, SEC was in the process of completing its 2005 budget request for OMB, which will include its allocation of its budgetary resources for its 2004 budget estimate by program area. SEC expects to have these estimates completed by sometime in late August or early September.

In 2002, we reported the difficulty SEC faced in hiring accountants for the 125 positions authorized by its 2002 supplemental appropriation.[6] SEC had identified the existing competitive service hiring requirements as hampering its ability to fill these and other positions because of the length of time involved. SEC subsequently asked for and received relief from competitive hiring requirements under the Accountant, Compliance and Enforcement Staffing Act of 2003, which was enacted in July 2003. This new legislation is designed to enable SEC to expedite the hiring of accountants, economists, and examiners so that the agency can more quickly fill the 842 positions created. As of July 1, 2003, SEC has only filled a few of the vacancies for the allocated positions but is now better positioned to hire under its new authority. It is too soon to determine whether this new authority will enable SEC to quickly fill the hundreds of vacancies it needs to fill by the end of 2004.

Information Technology Will Also Receive a Significant Increase

Information technology was another area identified in our 2002 report as having funding gaps that had contributed to existing inefficiencies. Like the rest of the government, SEC's needs in the area of information technology continue to increase, and SEC staff must have the necessary tools to successfully meet the agency's increasing demands. SEC maintains a list of technology improvement projects that have not been funded due to budgetary constraints, which SEC officials said include applications to improve the manipulation and connectivity of various SEC data systems and computerized reports. The budget increase has allowed SEC to begin improving its information technology capabilities. SEC's Office of Information Technology, which supports the agency's

[6] U.S. General Accounting Office, *Financial Statement Restatements: Trends, Markets Impacts, Regulatory Responses, and Remaining Challenges*, GAO-03-138 (Washington, D.C.: Oct. 4, 2003).

information systems and computer users, received an increase in its 2003 operating budget of more than 100 percent, from around $44 million to $100 million. Our understanding is that SEC plans to undertake a few small projects each year such as system upgrades and software purchases, to enhance its systems and will implement larger long-term projects over time. SEC began developing an enterprise architecture— a strategic approach to information technology planning in 2001. This architecture is designed to allow SEC to fund and develop information technology initiatives based on agencywide needs by strategically identifying and organizing technology projects. In 2002, SEC continued to develop its enterprise architecture in order to identify and document relationships between agency business functions and supporting technologies. SEC management also began incorporating the enterprise architecture into its information technology capital planning process. Although most of SEC's long-term projects are in the developmental stages, we are cautiously optimistic that, if properly implemented, they can improve SEC's operational efficiencies. Some of these longer-term projects include

- Converting SEC's Electronic Data Gathering Analysis and Retrieval (EDGAR) system into a searchable database that would help SEC conduct various types of industry and trend analyses. EDGAR is the database system that public companies use to file registration statements, periodic reports, and other forms electronically. Currently, EDGAR receives and archives data, but staff cannot immediately and easily analyze it. The goal is to create filings that will allow anyone to extract relevant data.

- Implementing a document management and imaging initiative, intended to eventually eliminate paper documents and allow SEC staff to review and electronically file the large volumes of information that are part of litigation, examination, and enforcement activities. Staff told us that the planned system will provide an agencywide electronic capture, search, and retrieval mechanism for all investigative and examination materials.

- Implementing a disaster recovery program that is being designed to store and move large amounts of data among regional or district offices without first going through Washington, D.C. The current project, when completed, will allow the agency to back up critical information and data on a daily basis at multiple locations.

SEC Has An Outdated Strategic Plan and An Incomplete Human Capital Plan

In 2002, we found that SEC had not engaged in a comprehensive agencywide strategic planning process and little has changed in this regard in 2003. As we have previously reported in earlier reports, high-performing organizations identify their current and future human capital needs—including the appropriate number of employees, the key competencies needed, and plans for deploying staff across the organization—and then create strategies to fill any gaps.[7] Given the SEC's role in the securities industry's self-regulatory structure, a critical element of SEC's strategic planning process is an evaluation of the external environment in which the agency operates. SEC's budget increase has heightened the need for strategic planning and the significance of the process, as SEC's spending plan will have to withstand considerable scrutiny. SEC's lack of a current strategic plan may also affect other aspects of SEC's operations as strategic plans are the starting point for each agency's performance measurement efforts and should provide the basis for strategic human capital planning.

SEC's Internal Study Provides a Framework for Strategic Planning

In 2002, SEC took a critical step toward developing a strategic plan when it conducted an internal study of SEC's current operations, workload, resource allocations, methods for assigning and managing work, and measures of performance, productivity and quality of effort. The study, which was facilitated by a consulting firm (McKinsey & Company) and includes discussions of staffing and resource allocation issues, appears to have been a factor in SEC's allocation of many of the 842 new positions. But this confidential study has not been widely distributed within SEC, and it is unclear whether it will be in the near future. This study serves as a useful framework for SEC as it begins developing a dynamic comprehensive strategic plan that will better enable it to identify its mission and staffing needs. More immediately, such an effort is vital as it determines how best to use its additional resources. We acknowledge that over the past year and a half, SEC has had to deal with a considerable amount of change, which has limited its ability to focus on a new strategic plan. SEC has had to acclimate itself to two new chairmen and adjust to new management teams, manage a 45 percent budget increase, negotiate its first agreement with its newly organized union, implement and manage a new fee rate structure, prepare for its first financial statement audit, and

[7] U.S. General Accounting Office, *Securities and Exchange Commission: Human Capital Challenges Require Management Attention*, GAO-01-947 (Washington, D.C., Sept. 17, 2001).

respond to dozens of new requirements under the Sarbanes-Oxley Act. However, since SEC issued its existing plan in September 2000, the financial world has changed significantly.

Although SEC's Government Performance and Results Act (GPRA) annual reports attempt to provide a tactical focus, a new long-range planning effort is long overdo. As stated in SEC's 2000 plan, "Our strategic plan is a living document, one that must be continually reexamined and modified to assure it remains responsive and relevant in an ever-changing environment." In addition to the changing external environment, a number of internal processes and organizational efforts within SEC hinge on SEC completing a new strategic plan, including developing more outcome-oriented performance measures to gauge the effectiveness of its regulatory operations in fulfilling its statutory mission and formalizing its strategic human capital plan. Rather than measuring outputs, SEC is working to develop measures for how effectively its actions achieve its goals and fulfill its mission. SEC is also beginning to take steps that will improve its ability to leverage its technological capabilities.

SEC Has Embarked on an Effort to Develop Outcome-Oriented Performance Measures

Consistent with the findings in our March 2002 report, SEC's subsequent GPRA 2002 annual performance report continued to use measures of outputs rather than outcomes.[8] For example, under the goal of protecting investors by improving public awareness and educating investors, SEC tracks the number of investor education events organized by senior Commission staff in a given year. Within the goal of maintaining fair, honest, and efficient markets SEC uses the number self-regulatory organization rule changes reviewed as a measure of performance. As we reported, performance measures can help to provide detailed information SEC needs to make informed workforce decisions, including (1) the relationship between its budget request for full-time equivalent staff years and the agency's plans and ability to meet individual strategic goals and (2) any excesses or shortages in needed competencies.

In late June, SEC began to take steps to transform its annual plan into a management tool aimed at helping SEC move to a more outcome-oriented approach to measuring the performance of its regulatory activities—an important part of strategic planning. To achieve this end, each program

[8] In 2003, as directed by OMB, SEC is merging its GPRA annual plan with its annual budget document.

area is to develop a “performance dashboard”—a collection of measures identifying those key performance measures that will allow each program area manager to track performance. This movement to a performance dashboard, also involves managing the budget at the program level with each division head being held accountable for managing its individual budgetary resources.

While this outcome-oriented approach is promising, we are concerned that SEC is developing new performance measures before it has completed or even started its new agencywide strategic plan. By identifying performance measures before it develops a new strategic plan, SEC runs the risk of having to redo any measures that are inconsistent with its newly defined strategic vision or allowing the existing measures to constrain its planning so that the new plan is consistent with them. We see this approach as analogous to a commuter rail company exploring the most efficient way to expand rail service to a new location before deciding whether that location is the best place for the new line.

An Agencywide Strategic Plan is Vital to a Strategic Human Capital Plan

We are also reviewing the status of SEC’s strategic human capital planning. As you may recall, in our September 2001 report, we examined SEC’s strategies for managing its human capital and found that its human capital practices were driven by its need to confront its growing staffing crisis. This crisis was evidenced in a turnover rate that was almost twice the government average for attorneys, accountants, and examiners; hundreds of vacant positions; and the average tenure for examiners and attorneys had fallen below 3 years. We found that to counter its compensation challenge, SEC—more than the rest of the government—was aggressively using special pay rates and retention allowances to improve staff compensation. However, such actions were not stemming their turnover problems. We also identified a number of nonpay issues that threatened to impair SEC’s ability to carry out its mission and thus warranted SEC management’s attention.

As we have reported, strategic planning is a key part of human capital management. Strategic human capital planning focuses on developing long-term strategies for acquiring, developing, and retaining an organization’s employees and for implementing human capital approaches that are clearly linked to achieving programmatic goals.[9] In our 2001

[9] GAO-01-947.

human capital report, we found that SEC had begun to take key steps toward developing a strategic human capital plan but lacked adequate succession planning because of its high turnover rate. Moreover, we found that SEC had not articulated the details of its plans for carrying out its recruiting and retention efforts. SEC also lacked any formal mechanism to evaluate the effectiveness of its recruiting efforts and ways to gauge the effectiveness of its worklife programs. We also found that SEC had not created a culture that ensured ongoing attention to human capital issues, that human capital management was still focused on traditional personnel functions, and that it was not a priority for senior management in decisionmaking. We made a number of recommendations to SEC aimed at improving its human capital management, including a recommendation that it expand its annual performance plan into a comprehensive human capital plan that includes all program areas.

We are looking into SEC's progress in the above identified areas. However, we have found that SEC has not yet developed a formal strategic human capital plan that articulates how it intends to align its human capital approaches with its organizational goals. While it has yet to do this, we have found that SEC continues to take important steps to improve its strategic human capital management. First, as previously discussed, SEC has taken steps to improve its recruiting/hiring process. Second, SEC has begun to take steps to develop its people and has announced plans for an agencywide training program. One key training component that is currently in the early stages of development is targeted training for supervisors—which was an area identified in our 2001 human capital report as warranting management's attention. However, it is too soon to determine the effectiveness of this new training effort.

Third, SEC has taken actions to retain its human capital and address its staffing crisis. Most significantly, SEC has negotiated an agreement with the union, which outlines a uniform program for various worklife programs, such as flextime, flexiplace, and tuition reimbursement, among others, and has standardized various of these human capital policies. Historically, many of these programs have varied by division and office. SEC has just begun to review the use and effectiveness of these programs, therefore, it is too soon to determine what effect, if any, they will have on employee retention and morale.

In our 2001 report we found that the single largest retention issue among attorneys, accountants, and examiners involved compensation. To enhance SEC's ability to adequately compensate its employees, Congress enacted legislation that allows SEC to create a new pay system.[10] In May 2002, acting on its new compensation authority, SEC implemented a new system, which established a pay structure more comparable with other federal financial regulators. This new pay structure increased base pay for attorneys, accountants, and examiners similar to that of other federal financial services regulators. More specifically, this new system structure consists of 20 grade levels, some with up to 31 steps. This new system has also provided additional compensation based on performance and has established new pay categories to compensate staff in supervisory positions. In conjunction with this new merit-based compensation system, SEC has also implemented a new performance management system, which is also an important part of the human capital planning process.

Since our 2001 human capital report, we found that at least one symptom of SEC's staffing crisis has improved. SEC's turnover rate for attorneys, accountants, and examiners has decreased from 9 percent in 2001 to 6 percent on average in 2002, which in part may be attributed to pay parity. To date SEC reports that its average turnover rate is about 4 percent. However, the declining turnover rate may also reflect the state of the economy and resulting changes in the job market.

Observations

SEC's dynamic regulatory environment and tumultuous past year has made focusing on a strategic direction and vision for the agency difficult. Moreover, because SEC operated under its 2002 allocation for five months of the year, and had difficulty hiring needed expertise, it has been unable to fully implement its 2003 spending plan. Although SEC has begun to take a number of important steps aimed at addressing its operational and human capital challenges, additional work is needed to ensure that it has appropriately positioned itself to operate more efficiently and effectively in the 21st century. First, it is critical that SEC complete its strategic planning effort, which includes the systematic reevaluation of all of its current approaches, efforts, goals and activities in light of its current regulatory environment. An important part of any such effort would include working with the industry to ensure that SEC has accurately established priorities that reflect the current environment. For example,

[10] P.L. 107-123

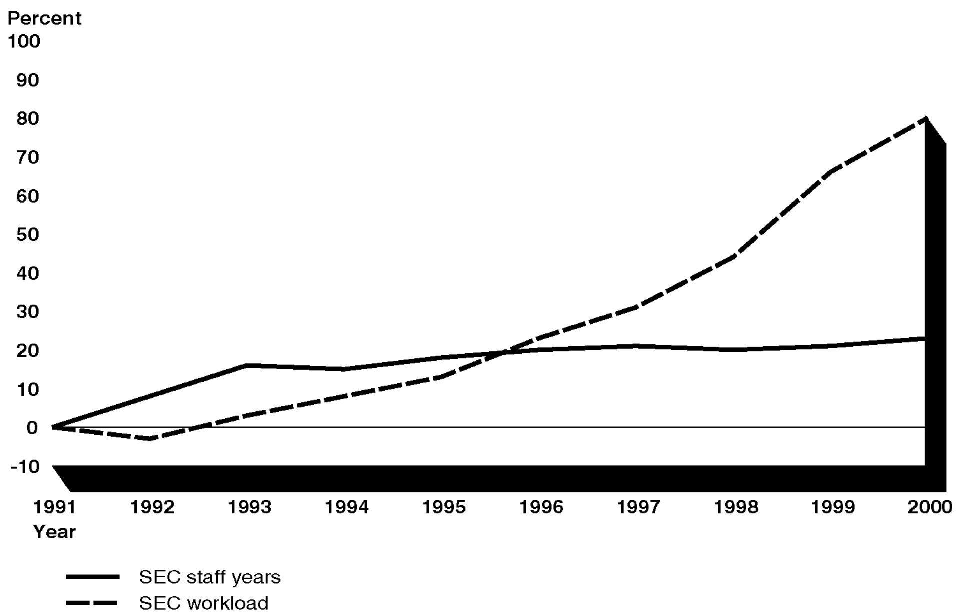
SEC would be benefited by reevaluating its existing rules, regulations, and regulatory approaches to ensure that they continue to reflect the realities of today's financial markets and are consistent with the mission and goals established by SEC. Second, a critical step involves identifying ways to leverage existing resources, be it through better technology or regulatory processes. For example, SEC needs to fully fund and follow through on technology initiatives that offer the greatest opportunities to increase its effectiveness. SEC's technology evolution could perhaps be one of the most important aspects in improving the efficiency of SEC's operations and will likely require a sustained and ongoing resource commitment. SEC could also reevaluate its historical focus in areas such as small businesses and initial public offerings to ensure that it continues to meet the needs of the securities markets. Finally, aligning SEC's human capital with its strategic plan is an important part of strategic human capital planning. To date, SEC has taken important steps aimed at establishing a coordinated human capital management approach but still lacks a formal plan.

Thank you for your attention to SEC's operations and planning processes. The leadership this subcommittee has shown, by holding this hearing should help to maintain the momentum needed for change at SEC. Mr. Chairman, this concludes my prepared statement. I would be pleased to answer any questions you or other members of the subcommittee may have at this time.

Contacts and Acknowledgements

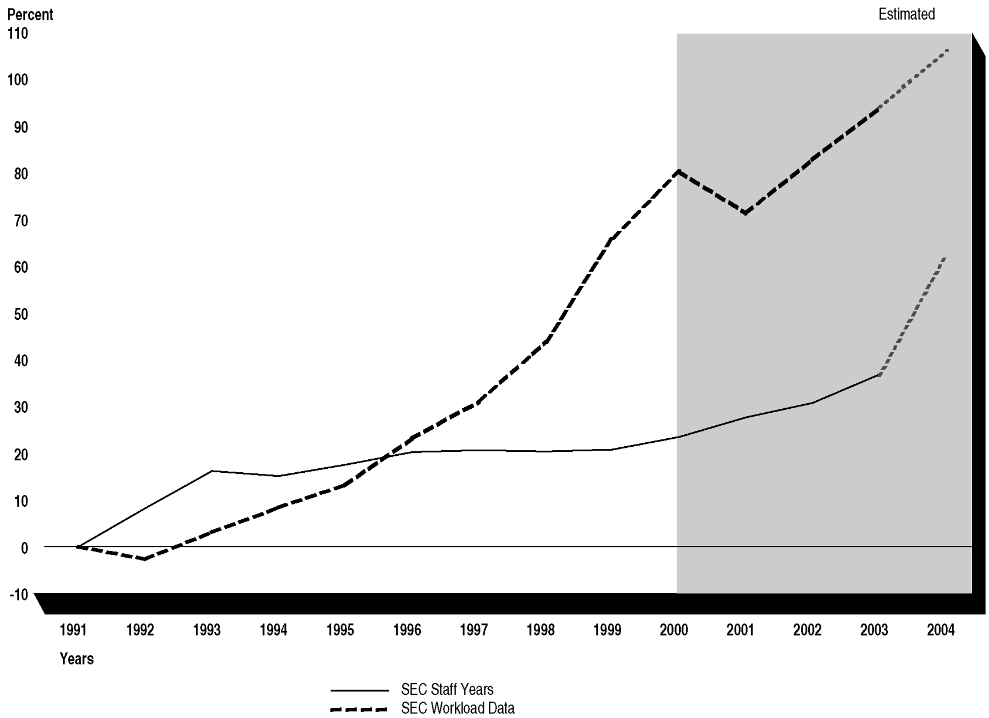
For further information regarding this testimony, please contact Orice M. Williams at (202) 512-8678. Individuals making key contributions to this testimony include Toayoa Aldridge, Joe E. Hunter, Jose Martinez-Fabre, and David Tarosky.

Appendix I: Percent growth in SEC staff years and workload, 1991 - 2000



Source: GAO.

Appendix II: Percent growth in SEC staff years and workload, 1991 - 2004



Source: GAO analysis of SEC data.

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