



SEC OPERATIONS

Oversight of Mutual Fund Industry Presents Management Challenges

Highlights of [GAO-04-584T](#), a testimony to the Subcommittee on Government Efficiency and Financial Management, Committee on Government Reform, House of Representatives

Why GAO Did This Study

Having grown to over \$7.5 trillion in assets, mutual funds have become vital components of the financial security of more than 95 million American investors. However, in 2003, various allegations of misconduct and abusive practices involving mutual funds came to light. Therefore, ensuring that the Securities and Exchange Commission (SEC), which has primary oversight of the mutual fund industry, has the necessary resources and strategic focus to adequately oversee fund practices has never been more important. To assess how SEC is positioned to oversee mutual funds, GAO reviewed (1) how the abusive mutual fund practices were identified and SEC's subsequent responses, (2) SEC's plans for increasing its staffing in the divisions and offices responsible for overseeing mutual funds and its progress in developing a new strategic plan to guide staff deployment, and (3) the challenges SEC faces in overseeing the mutual fund industry.

What GAO Recommends

Although this testimony statement makes no recommendations, GAO discusses challenges that SEC will have to successfully overcome to improve its effectiveness and restore investor confidence in the securities markets.

www.gao.gov/cgi-bin/getrpt?GAO-04-584T.

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

What GAO Found

In late 2003, state law enforcement authorities were the first to bring to light various abusive practices in the mutual fund industry. SEC did not identify these practices because detecting fraud in routine examinations is difficult and it has been challenged to keep pace with the rapid growth of the mutual fund industry using its existing resources. However, since the abuses were identified SEC has acted vigorously to address these inappropriate practices, including taking various enforcement actions to punish wrongdoers and issuing numerous rule proposals designed to better prevent or detect abusive practices in the future.

After years during which its workload grew faster than its resources, SEC recently received budget increases that have allowed it to significantly increase its staffing. As shown in the table below, SEC also plans to significantly increase the numbers of staff that oversee mutual funds. However, SEC made these allocation decisions without the benefit of an updated and complete strategic plan, which it is preparing but has yet to finalize. As a result, GAO was unable to determine whether SEC has optimally allocated its limited resources to achieve the greatest benefits.

Although it has received additional resources in recent years, SEC faces a number of agencywide challenges impacting its mission and ability to oversee the mutual fund industry. These include improving its ability to better anticipate and detect problems in the industry and identifying and obtaining all the staff it needs to achieve its mission. SEC has experienced difficulty in effectively implementing various agencywide information technology initiatives, such as an electronic document imaging system and projects needed by units responsible for mutual funds. SEC also has various gaps in its authority that impede its ability to gather information, cooperate with other law enforcement authorities, and collect monies owed by violators.

Staff Positions for SEC Divisions and Offices with Responsibilities for Mutual Fund Regulation, Oversight, and Enforcement, at Fiscal Year End

| SEC Unit | Actual 2002 | Actual 2003 | Estimated 2004 | Requested 2005 | Percent change, 2002-2005 |
|--|-------------|-------------|----------------|----------------|---------------------------|
| <i>Investment Management Division</i> | 173 | 167 | 190 | 200 | 16% |
| <i>Office of Compliance Inspections and Examinations^a</i> | 397 | 439 | 545 | 579 | 46 |
| <i>Enforcement Division^b</i> | 980 | 1,016 | 1,248 | 1,278 | 30 |

Source: GAO analysis of SEC data.

Notes:

^a These include only staff conducting or supporting mutual fund and investment adviser examinations.

^b These include staff that conduct enforcement of all securities activities.