



Highlights of [GAO-09-173](#), a report to Chairman, United States 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, 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 determined whether, in all material respects, (1) SEC's fiscal year 2008 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 selected laws and regulations.

## FINANCIAL AUDIT

# Securities and Exchange Commission's Financial Statements for Fiscal Years 2008 and 2007

## What GAO Found

In GAO's opinion, SEC's fiscal years 2008 and 2007 financial statements were fairly presented in all material respects. A notable achievement during fiscal year 2008 was the significant progress SEC made in addressing the material weakness reported in GAO's previous financial statement audit 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 as of September 30, 2008. GAO did not find reportable instances of noncompliance with the laws and regulations it tested.

Last year, GAO identified significant control deficiencies in SEC's period-end financial reporting process, disgorgements and penalties accounts receivable, accounting for transaction fee revenue, and preparation of financial statement disclosures. These significant deficiencies, taken collectively, constituted a material weakness in SEC's financial reporting process. Based on our work during this year's audit, GAO concluded that SEC's improvements in internal controls over its financial reporting process were such that GAO no longer considers this area to be a significant deficiency or a material weakness as of September 30, 2008. However, SEC's financial reporting process continues to rely heavily on manual compensating measures that were labor-intensive and required heroic efforts from SEC and contractor personnel to produce reliable financial reporting within mandated time frames. SEC's ability to sustain improvements over its financial reporting process remains at risk until SEC fully integrates its subsidiary systems, and until its accounting system can readily produce financial reports without the need for significant manual processes.

As was the case last year, GAO continued to identify weaknesses in controls over information security, accounting for budgetary resources, and property and equipment, and therefore continues to consider these areas as significant deficiencies as of September 30, 2008.

In commenting on a draft of this report, SEC's Chairman cited GAO's recognition of the agency's substantial progress in strengthening internal controls during fiscal year 2008. The Chairman also stated SEC will continue working to enhance the reliability of its financial reporting, the soundness of its operations, and public confidence in the agency's mission.

To view the full product, including the scope and methodology, click on [GAO-09-173](#). For more information, contact Jeanette Franzel, (202)-512-9471 or [franzelj@gao.gov](mailto:franzelj@gao.gov).