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United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

KOLAN DAVIS, STAFF DIRECTOR AND CHIEF COUNSEL
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September 19, 2006

Via Electronic Transmission

The Honorable David M. Walker
Comptroller General
United States Government Accountability Office
441 G Street, NW
Washington, D.C. 20548

Dear Comptroller Walker:

The Securities and Exchange Commission (SEC) plays a critical role in helping to ensure the integrity of our financial markets and, by extension, capital formation and the health of the U.S. economy. The stated mission of the SEC is “to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation.” Based upon allegations I have received over the past few months, I have become increasingly concerned regarding the operations of the SEC, and whether the SEC is faithfully adhering to its mission. Accordingly, as Chairman of the Committee on Finance, I ask that you conduct a review regarding the operation of the Enforcement Division and the Office of Compliance, Inspection, and Examination (CIE)—including the district field offices—at SEC.

One of the most important authorities at SEC’s disposal is bringing civil enforcement actions and administrative proceedings against individuals and companies who violate our securities laws and regulations. SEC’s Enforcement Division and CIE, play vital roles in this process and must be adequately staffed with well-trained attorneys and support personnel and effectively managed. This includes having a well-established resource allocation process, regular coordination with other law enforcement agencies, and a system to prioritize cases to ensure that the most egregious violators are punished and serve as an example to deter others from similar offenses.

One area I am particularly concerned about is whether SEC is effectively managing the substantial increase in funds allocated to the Enforcement and CIE Divisions subsequent to the passage of the Sarbanes-Oxley Act in 2002. Without an independent evaluation, the Committee, Congress, and the public cannot be assured that SEC has taken all feasible steps to ensure the effective operation of the Enforcement and CIE Divisions and that additional resources are being used effectively.

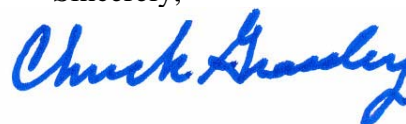
There are several issues that I believe should be included in the requested GAO evaluation of the SEC’s Enforcement and CIE divisions. Specifically, GAO should address the following:

- The planning, oversight, control and other management processes within the Enforcement and CIE Divisions,

- The processes for initiating and tracking investigations, civil actions, and referrals to law enforcement, administrative tribunals and/or prosecuting bodies,
- The timeframes for completing investigations, civil actions, administrative proceedings, and the reasons thereof,
- An analysis of the different types of investigations, civil actions, and administrative proceedings, brought by the SEC,
- An analysis of SEC dockets and ongoing caseloads compared against the referrals made by Self-Regulatory Organizations (SRO's) to determine how many referred cases actually become part of a regulatory action,
- The reported success rate in initiated investigations, civil actions, administrative proceedings, as well as penalties obtained in those actions,
- The number of cases that result in a civil regulatory or administrative proceedings, but face no criminal action – with specific attention to cases under investigation past the criminal statute of limitations,
- The processes for determining allocations to investors under the Fair Fund provisions of Sarbanes-Oxley and distributions of related funds;
- A review of Enforcement Division-wide measures for assessing and evaluating performance of division personnel,
- A review of human capital performance (e.g. statistics on attorney, accountant, and other compliance personnel, vacancy fill rate, and workload issues), and
- A review of the coordination with other agency divisions and law enforcement authorities.

Thank you in advance for your attention to this important matter. Should you have any questions please contact Emilia DiSanto or Nick Podsiadly of my staff at (202) 224-4515. Additionally, I request that GAO keep my staff apprised as this matter is ongoing including meetings with GAO staff throughout the course of the project and request a final report no later than June 2007.

Sincerely,



Charles E. Grassley
Chairman