First let me say that this has nothing to do with me, but given my interest in all things financial and the government during this financial crisis, I read with interest the Office of Inspector General's Report to Congress regarding the SEC. The SEC deserves credit for casting such a critical eye at itself. It should happen more often in government.

First the humorous side of the report, the SEC apparently has issues with Porn usage among employees.

Now the Serious.

It never crossed my mind that it would be legal for employees of the SEC to trade stocks. Not that they shouldn't have rights to own whatever they want in a trust. They should. Trading individual stocks and bonds. Wow.

There is a SEC policy in place regarding trading and what employees can and can't do according to this report, but if you know about actions of one company, even if you don't trade that company, doesn't that provide you insight into an entire industry ?

But wait there is more. According to this report,

" we have determined that the Commission's current system in place to report the ownership and trading of securities **is insuf■cient to prevent and detect insider trading on the part of Commission employees** or violations of the Commission's rules.

The OIG investigation has found that the reports that employees are required to ■le when they buy, sell or own securities are not meaningfully reviewed or suf■ciently checked for con■icts of interest. Moreover, there is currently no system in place for the Commission to detect if an employee who has traded or owns a security failed to properly report such transaction. "

Double wow.

And then there is this:
Allegation of Retaliatory Investigation
The OIG is investigating an allegation that Commission staff **engaged in a retaliatory investigation of a company after it publicly complained about naked short selling**. During this reporting period, the OIG took extensive sworn, on-the-record testimony of the complainant and reviewed certain relevant documents. The OIG plans to interview additional witnesses identi■ed by the complainant and to take the sworn, on-the- record testimony of the Commission attorneys who worked on the matter.

If you want more information about Naked Shorting, this is one of my posts on the subject

The OIG report makes for interesting reading with ALLEGATIONS of intimidation, perjury, falsifying data to a court to get a judgment, and lots of abusive behavior within the employee ranks. Then there is the irony of their lack of a definitive policy on the distribution of material non public information.

Finally, there is this nugget from the study:

Referrals to Department of Justice for Prosecution 6. Thats 6 SEC employees being referred to the Department of Justice for consideration of criminal prosecution. For the 6 months between April 1 and Sep 30 of this year. Out of only 3500 employees.

No wonder they released it on the Friday after Thanksgiving without any press release to let people know its available…

Here is a link. Check it out for yourself

http://www.sec.gov/about/oig/audit/2008/seminov08.pdf

and

Help ensure the integrity of SEC operations by reporting to the OIG suspected fraud, waste or abuse in SEC programs or operations, and SEC staff or contractor misconduct by contacting the OIG.

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Of■ce of Inspector General

U.S. Securities and Exchange Commission

100 F Street, N.E.

Washington, D.C. 20549-2736

Email:

oig@sec.gov

Information received is held in con■dence upon request.

While the OIG encourages complainants to provide information on how they may be

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