
A U D I T M E M O R A N D U M N O . 1 8

July 19, 1999

To: Richard Walker
From: Walter Stachnik
Re: Reporting the Case Origins of Enforcement Investigations

The Office of Inspector General is conducting an audit of the Commission's Investor Education and Assistance Program (IEAP). During the audit, we identified an issue that relates to the Enforcement Program.

We sought to determine how often IEAP investor complaints were the cause (either the primary or secondary origin) of an Enforcement investigation (including the field offices). We reviewed a representative sample of 50 Enforcement investigations, which were closed in fiscal year 1998.¹ We interviewed an Enforcement attorney who was knowledgeable about each investigation. Based on our interviews, 32% of the Enforcement investigations that we reviewed were initiated, at least in part, by investor complaints received somewhere within the Commission (although not necessarily by the IEAP).

We reviewed the Division of Enforcement's NRSI computer system to validate some of the information provided by the Enforcement attorneys. According to the NRSI system, only 12% of the same 50 Enforcement investigations were initiated, at least in part, by investor complaints. The Commission has reported (*e.g.*, in the budget) that approximately 17% to 20% of all Enforcement investigations are initiated, at least in part, by investor complaints. Thus, the findings from our review of the NRSI system are materially consistent with the information that has been reported by the Commission.

In order to identify the cause(s) of the discrepancy between the NRSI system and our interviews, we identified those Enforcement investigations where the NRSI information differed from what the Enforcement attorneys stated in the interviews. We found that the discrepancies are due mainly to how Enforcement attorneys interpret the case origin

¹ Audit Report 288 on the IEAP will discuss in further detail, the purpose, methodology, and results of our testing.

terms on Enforcement Form 19A.² For instance, in some of these Enforcement investigations, the Enforcement attorneys stated in our interviews that an investor complaint was the primary origin of the investigation. However, NRSI recorded the case origin as an informant. A few Enforcement attorneys stated that there are other instances where there is uncertainty as to how they should interpret the case origin of the investigation. For example, if the complaint is received by another Division and then referred to Enforcement. Depending on how one interprets the case origin terms on Enforcement Form 19A, the reported number of Enforcement investigations that are initiated, at least in part, by investor complaints could be materially understated.

Recommendation A

The Division of Enforcement should review the case origin terms, as well as, any other potentially confusing terms (*e.g.*, Case Classification) on Enforcement Form 19A, and issue guidance to all Enforcement attorneys to clarify any potentially confusing terms.

Enforcement management agreed with our recommendation and has reviewed the terms. New case origins and accompanying guidance will go into effect when the new case tracking system, CATS 2000, goes on line.

cc: Mike Burnett
Diane Campbell
Steve Cutler
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Jim McConnell
Joan Mckown
Darlene Pryor
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² The data from Enforcement Form 19A is entered into the CATS system, which interfaces with NRSI.