Grassley calls SEC response on alleged retaliation 'extremely disturbing'

A senior Senate Republican is **calling into question** the Securities and Exchange Commission's response to allegations that top officials in the Fort Worth office retaliated against employees who raised concerns about an agency examination program.

Sen. Charles Grassley (Iowa), the ranking Republican on the Senate Finance Committee, has asked for a briefing from top SEC officials about the treatment of two employees in the Fort Worth office. The senator wanted to know why that although the inspector general recommended the SEC take disciplinary action against the Fort Worth officials none had been taken.

In a letter to SEC Chairman Mary Schapiro, Grassley wrote: "These facts and circumstances are extremely disturbing and paint a picture of a culture at the SEC, which endorses retaliation against employees who attempt to improve operations by reporting mismanagement to headquarter."

The letter follows a pair of reports by the SEC inspector general and an **article** in The Washington Post about the problems at the Fort Worth office.

The Post article cites an SEC inspector general's report that concluded that two SEC employees, Julie Preuitt and Joel Sauer, faced "inappropriate" sanctions from their bosses in Fort Worth when they raised concerns about a new review process for financial firms.

Preuitt, who had warned **presciently** about a potential scam at R. Allen Stanford's Houston-based business, told superiors she was concerned that the office was more interested in boosting statistics about the number of firms the office examines rather than actually uncovering fraud.

According to inspector general reports and interviews, Preuitt was also essentially demoted after vocalizing her complaints.

Later, the program she opposed was suspended in favor of programs to verify assets claimed by investment companies in the wake of the large number of Ponzi schemes disclosed in the past two years.

Grassley tied to the agency's actions in Fort Worth to its broader desire to attract whistleblowers, who can provide regulators with inside information on wrongdoing.

"You have previously assured me that in leading the Securities and Exchange Commission (SEC/Commission), you intend to value whistleblowers and ensure that they are able to make protected disclosures in order to help managers improve operations at the Commission," Grassley said. "However, it appears that this commitment to valuing dissent within the Commission is not being fully implemented."

Grassley asked the SEC to explain why it had not disciplined the Fort Worth managers. The SEC responded:

[P]rior to imposing discipline, the senior-level Ft. Worth managers had solicited advice . . . from other Commission officials responsible for disciplinary actions. It has not been alleged, nor is there any reason to believe, any of the advising parties had reason to retaliate against the two employees. Because the actions were deemed appropriate and senior-level Ft. Worth managers relied on the guidance that was provided, management determined their actions were not retaliatory.

Grassley was not pleased with this response.

"The implication ... is that a retaliatory personnel action can be laundered of its retaliatory intent by simply consulting with others who had no retaliatory intent and obtaining their concurrence," he wrote. "Such a policy would make a mockery of whistleblower protections throughout government."

By Zachary Goldfarb | August 30, 2010; 2:59 PM ET