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SECURITIES AND EXCHANGE COMMISSION

TASK FORCE REPORT
ON
COST REDUCTION STUDY
OF
NEW YORK REGIONAL OFFICE

SUBMITTED SEPTEMBER 3, 1965

TASK FORCE REPORT

NEW YORK REGIONAL OFFICE

BACKGROUND

The President, through the issuance by the Bureau of the Budget of Circular No. A-44 Revised, dated March 29, 1965, directed that each department and agency head put into effect and assume direct supervision of a formal, organized cost-reduction program for the purpose of (1) reducing the cost of Government, (2) financing new and needed programs, and (3) offsetting increased costs for personnel and other resources.

The cost-reduction program adopted by the Commission to implement this Presidential directive authorized studies of all Commission programs and activities and of the staffing of all its divisions and offices, by task forces appointed by the Chairman. By an order dated July 7, 1965, the Chairman designated a task force headed by Commissioner Budge to undertake a cost-reduction study of the Commission's field operations, beginning with the New York Regional Office. As the largest regional office, it represents the greatest potential for possible savings in the field and it was determined that the results of this task force study could furnish a framework within which to conduct similar reviews of other organizational units of the Commission.

INTRODUCTION

In preparation for its visitation to and cost-reduction study of the New York Regional Office, the task force held several meetings with key officials in various Divisions and Offices in the Headquarters Office responsible for policy review and direction of the work programs of the

regional offices, assembled various materials, reports and other available data and met with Commissioner Budge to make general plans and outlines for the cost-reduction survey to be made of the New York office.

Before the present Regional Administrator entered on duty in the New York Regional Office (June 26, 1961), he was invited to spend a few days in the Headquarters Office with key officials for briefing sessions on the general situation then existing in the New York Regional Office and the major problems to which he would be well advised to give his personal attention promptly upon assuming his duties as Regional Administrator. During these sessions particular reference was made to the fact that several career employees occupying top management positions in the New York Regional Office had been unable to resolve problems of long standing in that office. It was pointed out that he should exercise his prerogatives as a new Regional Administrator to give independent thought and attention to the problems and to devise steps to be taken which, in his own judgment, were necessary for their resolution.

It was the unanimous view of the task force members that a meaningful cost-reduction survey should include an in-depth review of the effectiveness of top and middle management in directing its work programs and activities, in addition to an examination of the organizational structure and staffing pattern, work flows, methods and procedures, etc., in order to identify possible cost-reductions in the overall operations of the office.

SCOPE OF THE STUDY

The task force determined that a minimum of one week in the New York Regional Office would be required to complete the cost-reduction survey. It

also concluded that identifying any areas for cost-reduction necessarily would require a review of every major activity of the office, including substantive evaluations of hiring policies and practices, work climate and habits, grade structure and career development, management and personnel programs, geographical jurisdiction, organizational and functional alignment, work process and procedure, and housing and general administration.

It was also decided to attempt to interview as many employees on the staff, both professional and clerical, as possible, as well as top and middle management officials. As it developed, the task force was able to interview all top and middle management officials. Of the 120 professional employees in the New York Office who were available for interview, the task force talked to 80. The task force also interviewed 10 of the 52 clerical employees available.

STUDY PROCEDURES

Monday, July 19th

Commissioner Budge and the task force arrived at the New York Office on Monday morning, July 19th. In accordance with a pre-arranged agenda for the first day, the task force proceeded as follows:

1. Commissioner Budge delivered a short talk to the New York Office staff who were assembled for this purpose, in which he outlined in general the reasons for the task force visit and study. He assured the staff that no reduction in force program was contemplated, but that any reductions, if

warranted, would be achieved by attrition and savings effected by increased efficiency and economy of operations wherever possible. He urged all employees to join with the task force in identifying means for savings and cost reductions by offering their ideas and suggestions;

2. Commissioner Budge and the task force then met with the Regional Administrator and his Special Counsel for approximately two hours during which the Regional Administrator presented his personal views on the problems existing in the office and offered suggestions which he felt might be useful in effecting cost savings;
3. Commissioner Budge then met privately with the Regional Administrator to provide him with an opportunity to express freely any views which he might have been reluctant to state in the meeting with the full task force;
4. The task force also met with the Associate Regional Administrator for approximately one hour to obtain his views and suggestions;
5. The task force then divided into two-man teams and commenced the interviewing of all other supervisory personnel and some of their subordinate employees.

Tuesday, July 20th through Friday, July 23rd

The task force members continued their interviews of supervisory and other personnel in two-man teams until the last

two days when they conducted some interviews singly in the interest of talking to the greatest number of individuals possible.

In addition to the interviewing described above, members of the task force made on-site inspections of and visits to all of the individual offices and other space occupied for the purpose of observing first-hand the work climate and work habits of the staff and the housing facilities available to them.

At the conclusion of each day, the task force reassembled to discuss the results of the day's work and to plan in detail the activities of the next day.

FINDINGS AND CONCLUSIONS

IN GENERAL:

It is the view of the task force that the New York Regional Office is not now operating overall at an acceptable level of efficiency and economy, although certain organizational units were found to be generally well staffed and effective in their particular operations. The task force has specific recommendations, which are set forth hereinafter, to bring about savings in manpower and money as well as improvements in the quality of the work performed. These recommendations may be implemented with no change in the overall objectives and limited change in the responsibilities of the New York Office. The task force recognizes that some of the problems represent a continuation of deficiencies inherited from prior periods. However, it is convinced that because present management has not been able to correct the problems it

inherited, and in fact, has created some new ones, it is not possible to attain acceptable levels of program and activity accomplishments and reduced costs without the injection of dynamic and aggressive leadership.

The task force finds that the absence of effective leadership within the New York Office is the central problem and has resulted in inadequate direction and coordination of the staff and the activities of the office. Manifestations of this basic deficiency include (1) overall poor quality of work, (2) excessive but inadequate review procedures, (3) proliferation of unnecessary paper work, (4) uneven distribution of workload, (5) a lack of motivation of staff members, (6) poor employee morale, and (7) excessive personnel turnover.

WORK CLIMATE AND HABITS

There is a prevalent lack of observance of the 9:00 a.m. to 5:30 p.m. prescribed official work hours, to wit:

1. A substantial number of employees habitually arrive in the morning after 9:15 and as late as 9:30 a.m., and leave the office before 5:30 p.m. Although employees had been admonished by management in the New York Office to observe office hours strictly during the task force visit, nevertheless, this condition persisted during the week of the survey;
2. Special office hours (e.g. 8:30 a.m. to 5:00 p.m.; 8:45 a.m. to 5:15 p.m.; and in some cases for periods less than the legally required eight-hour day - 9:00 a.m.

to 5:10 p.m.; 8:30 a.m. to 4:30 p.m.) have been informally established for some 28 employees. In many instances this has been done without proper authorization for their personal convenience rather than for good administrative reasons, and without due consideration for the efficient conduct of the official business of the office;

3. Inaccurate entries are made in the daily time sheets maintained in most units and these sheets do not reflect the actual time that employees arrive at or depart from the office;
4. It was reported to the task force that, in order to cover up tardiness in the morning or early departures at the end of the day, some employees represent that they are performing official work assignments outside the office, when, in fact, this is not the case; and line supervisors exercise insufficient control over the whereabouts of their employees away from the office during the day, purportedly on official work assignments;
5. In some cases, it appears that no charge is made to annual or sick leave for employees who absent themselves from the office for other than official business purposes.

There is little evidence of a general esprit de corps or sense of urgency among the employees of the New York Office, and management does not

fully appreciate the need for insisting upon high standards of ethics and conduct for employees called for by the Commission's Conduct Regulation.

1. In instances where it was necessary to discipline employees in the New York Office for gross misconduct, management in that office had to be urged to take action rather than to move on its own initiative;
2. There is a failure affirmatively to bring to the attention of the Office of Personnel possible or actual violations of the Commission's Conduct Regulation, or to raise questions about such matters; and there is evidence that drinking occurs during official hours in certain quarters to the extent that employees are unable to complete the work day and there has been a lack of candor in reporting this problem;
3. Despite the general climate of the office, the task force found instances where employees indicated a dedication to the Commission's work, including the voluntary performance of much overtime duty.

HOUSING ACCOMODATIONS

The space now occupied by the staff of the New York Regional Office on five floors of the Transportation Building at 225 Broadway is inadequate and not conducive to creating a good work climate. Some of the inadequacies include:

1. Poor lighting and ventilation in many areas;
2. A lack of conference and witness interview rooms, and a poorly ventilated and inadequately sized and equipped hearing room;
3. A serious shortage of space for files and cramped space particularly in the Public Reference Room;
4. The dispersal of the staff on five different floors, causing unnecessary loss of time in communication and flow of work between offices;
5. Inadequate office space for personnel.

The New York Regional Office is scheduled to be moved into a new Federal Building now under construction but not expected to be ready for occupancy before 1968.

HIRING POLICIES AND PRACTICES

The hiring policies and practices of the New York Regional Office are not realistic nor are they effectively designed to attract, screen and retain high quality persons with the background and training necessary for developing and maintaining an effective work force and career service.

1. Pre-appointment checks of prospective appointees apparently have not been of sufficient scope or depth to develop meaningful information on which to make an informed judgment on the question of general suitability; and in some instances and contrary to the recommendation of a line supervisor,

appointments have been made of individuals despite adverse information developed in the pre-appointment inquiries;

2. In some cases, line supervisors do not participate in the interviewing or selection of personnel assigned to their units, and individuals are so assigned contrary to their recommendations;
3. Applicants generally are subjected to excessive numbers of personal interviews (eight or nine) and some of the interviewers do not have the required sophistication or good judgment to make meaningful evaluations of job candidates;
4. There have been instances where selections for appointment do not appear to have been made solely on the basis of merit;
5. When job applicants initially are interviewed, frequently they are oversold on the duties and responsibilities they will be assigned and on the nature of the functions they will perform;
6. In hiring investigators, management has persisted in recruiting individuals with no broad accounting background and training, but rather persons with "back office" experience with brokerage firms who, aside from routine broker-dealer inspection work,

generally lack the skills, knowledges and abilities, as well as the imaginative qualities to be effective in developing evidentiary facts in the enforcement area. For the past several years, the New York Office has been urged to concentrate on recruiting recent college graduates with major study in accounting as trainees for investigator positions, or experienced accountants (preferably CPA's) with a broad public accounting background who could acquire any necessary brokerage accounting knowledge by on-the-job training.

CAREER ADVANCEMENT AND DEVELOPMENT

Almost without exception, employees interviewed complained that there was no clear-cut or well-defined promotion policy, nor were they kept informed as to their opportunities for career advancement in the New York Regional Office.

1. The consensus established through employee interviews is that the high rate of turnover among young attorneys is due to the failure of management to provide professional challenge in work assignments and a real opportunity for career advancement and development. The task force found that the attraction of higher salaries available in private practice was not a significant factor in the turnover rate;

2. In several instances, promotions and step increases have been effected by management without adequate basis where line supervisors had recommended against such action;
3. There have been instances where the Regional Administrator has recommended promotions for individuals who, in the past, had been identified as persons of limited ability and competence, which suggests and gives credence to employee observations that promotions are not based solely on merit;
4. In certain instances, particularly the newer Branch Chief appointees, the employees felt that they had been very well treated and were pleased with their rapid career advancement.

The consensus of the staff employees was that they are not given equal consideration with Headquarters personnel in filling vacancies in the home office.

ORGANIZATIONAL AND FUNCTIONAL ALIGNMENT

The present organizational and functional alignment in the New York Regional Office is over-fragmentized. It was placed in effect in March, 1965, without official approval of the Headquarters Office.

1. Major changes need to be made to effect a more orderly flow of work, and to eliminate or reduce program activities which are unnecessary or uneconomically or inefficiently performed;

2. The present organizational and functional alignment also fails to make maximum use of the staff and creates ill-defined lines of authority, excessive layers of review, and does not provide for the proper attention to, or emphasis on the highest priority work programs and activities;
3. A revised organizational structure providing for the elimination and consolidation of certain functions can result in producing a more expeditious flow of and higher quality of work at a reduced cost in manpower and money;
4. The often criticized "Committee" arrangement for directing the programs and activities of the New York Regional Office still exists. (The "Committee" presently consists of the Regional Administrator, Associate Regional Administrator, Special Counsel to the Regional Administrator, and the Special Investigations Consultant.) This "Committee" system results in the following deficiencies:
 - a. A failure to delegate to the Assistant Regional Administrator (Enforcement) and the Assistant Regional Administrator (Regulation) and their subordinates matters which should be decided and handled by them;

- b. A concomitant result is that the Committee becomes involved in routine matters and other action material, thereby delaying prompt disposition of such matters;
 - c. A by-passing of intermediate management in matters appropriately within its jurisdiction which, in turn, creates a feeling of lack of confidence and exclusion from the office team.
5. The Assistant Regional Administrator (Enforcement) and the Assistant Regional Administrator (Corporate Regulation), career employees with long years of service in the New York Office, are both competent attorneys. There also are a number of middle management supervisors who, though relatively inexperienced, have the competence and ability to serve effectively at their levels.

OFFICE OF ASSISTANT REGIONAL ADMINISTRATOR (ENFORCEMENT)

ORGANIZATION

The Office of the Assistant Regional Administrator (Enforcement) has responsibility for the functions of the New York Regional Office relating to the initiation and conduct of investigations deemed necessary to determine whether violations of any of the Acts, or the rules and regulations thereunder, have occurred or are about to occur and to recommend or take such enforcement action as deemed appropriate. In addition to the Assistant Regional Administrator, GS-15, the Office includes a Chief Enforcement Attorney,

GS-14 and five Branches of Enforcement consisting of a total of 30 Attorneys and 35 Investigators. Also, there is a Special Enforcement Group headed by a Special Counsel, GS-15, and consisting of 2 Attorneys and 5 Investigators which operates directly under the supervision of the Regional Administrator, and is responsible for performing special inspections and investigation tasks.

FINDINGS

The task force found significant problems in the performance by the New York Regional Office of its enforcement and investigative functions:

1. While valuable intelligence information flows into the New York Regional Office from which productive avenues of investigation can be identified, the task force finds that the office does not appear to be able to adequately select, concentrate upon and expeditiously complete those cases which offer the most significant enforcement value. This situation prevails despite the fact that the office has adopted a number of procedures purportedly designed to achieve this objective, including the use of limited preliminary investigative assignments, special surveillance measures, pre-investigation of complaints and inquiries, and similar procedures;
2. It is the view of the task force that the deficiency cited in (1) above results in large measure from the following factors:

- a. Improper direction of investigative personnel and inexperience, inadequate training and excessive turn-over of enforcement personnel, which results in poor work products and delays in completion of assignments and actions;
- b. Lack of development of effective co-worker relationships between the older investigators and the younger attorneys; (This observation was made by a substantial number of both the line enforcement attorneys and investigators. It appears to result in part from attempts by a number of the young, inexperienced attorneys to pursue investigations without sufficiently utilizing and consulting investigators, and in part from the over-estimation by some investigators of their ability.)
- c. Decreases in efficiency because of the advancing ages of the investigative personnel. There are, however, several outstanding exceptions in the case of some older investigators of exceptional ability and competence;
- d. The "Case Assignment Memorandum" requirement appears to be one of the numerous, and perhaps the most serious, paper operation in the New York Regional Office. These memoranda take as much as one day to prepare and type. It was almost the unanimous

view of all personnel, with the notable exception of the Associate Regional Administrator and Special Investigations Consultant, that these memoranda are useless and consume the time of attorneys and stenographers which could be more productively and effectively utilized in pursuing the objectives of the investigation. These memoranda and other reports relating to the case assignments flowing to the Special Investigations Consultant and the Associate Regional Administrator are required to be prepared in a precise format with numerous copies (14). These memoranda give rise to the flow of other memoranda to and fro involving inconsequential and meaningless editing. While cases must be opened, the present case assignment method and related procedures are highly complicated and place undue emphasis upon technical paper procedures and form;

- e. Undue emphasis upon paper rather than substantive performance; frequently cases are quickly opened, ineffectively pursued, and ultimately become candidates for closing;
- f. Division of assignments and time lost by virtue of transfer from one unit to another, e.g. shift from Special Enforcement Unit to regular enforcement branches for follow-up investigation;

- g. Changes of assignments including too frequent changes in the thrust of investigation and priorities, contribute to the failure to concentrate upon and complete investigations promptly;
- h. Failure to perceive enforcement areas which might be economically integrated;
- i. Emphasis upon completion of individual tasks and the manner in which the reporting memoranda are prepared, rather than achievement of substantive end results.

(3) An analysis of the caseload in the New York Regional Office revealed the following:

- a. The Task Force found a preoccupation with statistics as the primary measure of performance. As an example of this, the Task Force was told that next year the New York Regional Office would close 20% more cases, indicating that this would show an increase in efficiency, with little or no apparent concern with the results in such cases. This increase would be brought about by the device of classifying preliminary investigations as cases;
- b. While many of the enforcement personnel did not think their case load was too burdensome, we believe that the caseload must be reduced so that investigations may be conducted in greater depth and so that manpower may be concentrated on the

more significant investigations. The task force believes that this would lead to the more expeditious and successful completion of important enforcement actions, particularly so in the criminal reference area, where delays of over three years in the completion of criminal reference reports have been repeatedly called to the attention of the New York Regional Office.

BRANCH OF BROKER/DEALER INSPECTIONS

ORGANIZATION

The Branch of Broker-Dealer Inspections is headed by a Branch Chief (GS-14) and is divided into four sections, each of which is headed by a Section Chief (three GS-13's, one GS-12). The section chiefs perform no routine inspections, but do participate in some inspections for cause, a non-routine inspection made because some irregularity is suspected. In addition, an Inspector (GS-13) acts as deputy to the chief of the branch. In all, there are nineteen inspectors in the branch, including the Branch Chief.

FINDINGS

While the Branch of Broker-Dealer Inspections is officially assigned under the supervision of the Assistant Regional Administrator (Enforcement) it is apparent that the former head of the Broker-Dealer Inspection Section, now the Special Investigations Consultant, exercises considerable influence and control over this group.

1. There is a substantial question as to the full value of the broker-dealer inspection program of the New York Regional Office. Based on the information reported by that office in the cover sheets on inspection reports submitted to the home office, during the 15-month period ending March 31, 1965, a total of 448 inspections resulted in the detection of the following violations:

a. Fraud	
1. Pricing practices	3
2. Sales techniques	0
3. Secret profits	1
4. Miscellaneous fraud	<u>3</u>
Sub-total	7
b. Financial difficulties	27
c. Hypothecation rule	9
d. Regulation T rules	21
e. Confirmation rules	79
f. Bookkeeping rules	243
g. Disqualified personnel	2
h. Form BD inaccurate	13
i. Miscellaneous	<u>75</u>
Total	476

As indicated in the above table, only 7 fraud-type violations, 27 instances of financial difficulty,

9 violations of the hypothecation rule and 21 violations of Regulation T were found despite the fact that about 50% of the inspections allegedly were made for cause. During the period, violations appear to have resulted in the opening of only nine investigations, four of which resulted in the institution of administrative proceedings; (There was some indication by the Branch members that these reporting procedures may result in an understatement of the substantive violations and indirect benefits resulting from this program. The task force, however, was unable to confirm this observation.)

2. The New York Regional Office candidly told the Task Force that they do not make it a practice of inspecting the large non-member firms in the downtown area and believe they get more "return" by inspecting smaller upstate broker-dealers. (The Task Force was further informed that there were very few small firms in downtown New York to inspect.) The New York Regional Office has never inspected some of the large over-the-counter trading firms in the downtown area;
3. Members of the Branch stated that liaison between the New York Regional Office and the New York District Office of the NASD is poor in that net capital and

other violations found by the NASD are passed on to its Washington, D. C. office. Weeks or months after the inspection, the Washington Office of the NASD informs a member of the staff of T&M, who promptly relays the information to the New York Regional Office; (This appears inconsistent with the experience which the Home Office has had in relaying such information to the Regional Offices, including New York.)

4. There is little coordination in the inspection programs of the two organizations. Neither the NASD nor the New York Regional Office informs the other of the firms which it plans to inspect. When a story indicating that a particular firm may be in difficulty "breaks" in the newspapers, representatives of both organizations may find themselves conducting concurrent inspections. The NASD does, however, submit periodic lists of firms which it has inspected. Members of the Branch criticized the effectiveness of the NASD inspection program and expressed the view that the inspection program of the NASD could never be used in lieu of SEC inspections;
5. For fiscal 1965 a total of 14.9 man years at an annual salary cost of \$143,300 were charged by the personnel of the Office to broker-dealer inspections (work code 222).

[These figures are exclusive of annual and sick leave and executive supervision.] According to the inspection report cover sheets, only 3 man years were expended in the actual conduct of inspections, related travel, and preparation of inspection reports. These reports indicate that only about 20% of the manpower (3 man years out of 14.9 man years) were expended on the "firing line";

6. Of the 326 inspections in the past fiscal year, 247 or 76% were completed in 3 days or less. The following table illustrates this finding in more detail:

<u>Inspections Made and Reports Written in</u>	<u>Inspections</u>	
	<u>Number</u>	<u>% of Total</u>
1 day or under	69	21%
1 - 2 days	128	40
2 - 3 days	50	15
3 - 4 days	30	9
more than 4 days	<u>49</u>	<u>15</u>
	326	100%

7. There seems to be an emphasis on the number of broker-dealer inspections performed and not enough stress is placed upon the enforcement aspects of the program. There were complaints by staff members that they were not getting "credit" for limited inspections and that

they were required to assist the enforcement program, all of which they pointed out detracts from the number of broker-dealer inspections which they are able to perform.

OFFICE OF ASSISTANT REGIONAL ADMINISTRATOR (CORPORATE REGULATION)

ORGANIZATION

The Office of Assistant Regional Administrator (Corporate Regulation) has responsibility for the functions of the New York Regional Office relating to inspection and enforcement under the Investment Company Act of 1940 and the Investment Advisers Act of 1940, and the Commission's participation in reorganization proceedings under Chapter X of the Bankruptcy Act. The Office is divided into a Section of Legal Counsel (10 lawyers), a Section of Corporate Reorganization (3 financial analysts), a Branch of Investment Company Inspections (1 Branch Chief, 7 investigators) and a Section of Investment Adviser Inspections (4 investigators).

The task force found this Office to be the best run segment of the New York Regional Office from the standpoint of organization, staffing, morale and program accomplishments.

1. The Office of the Assistant Regional Administrator (Corporate Regulation) generally functions at acceptable levels of efficiency and quality. It is the view of the task force that this is because of the effective leadership of the Assistant Regional Administrator in charge, whose legal competency commanded the respect of all persons interviewed

by the task force. His legal ability is an incentive for high-quality persons to remain on his staff for relatively substantial periods of time; (It is interesting that the Regional Administrator believes that he has "serious problems" which were not identified by him, in this Office.)

2. The quality of the attorneys in the Section of Legal Counsel appears to be generally superior to that of the attorneys elsewhere in the New York Regional Office. There are no attempts, as there are elsewhere in the Regional Office, to assign personnel to this office without the consent of the Assistant Regional Administrator;
3. The personnel in the Office are less burdened by paper work than the personnel in the enforcement branches. This is because the Assistant Regional Administrator does not use memoranda as a substitute for personal contact with the staff members, because he has been able to retain personnel for a longer time than is true generally in the Regional Office and because he has delegated some responsibilities to senior attorneys. With respect to the delegation, however, there appears to be a need for more specific delineation of the delegation by the Assistant Regional Administrator to the senior staff members;

4. The case assignment memorandum is viewed as a need-
less irritation by the attorneys in this Office and
is not considered to be of any value other than to
establish the date of the assignment;
5. The morale and motivation of the attorneys in this
Office appear to be better than that of the attorneys
elsewhere in the Regional Office. It was suggested,
however, that problems in the area have been created
by a lack of firm Commission or Division policy as
to the extent of its enforcement activities under
the Investment Company Act. This is most noticeable
with respect to questions arising under Section 15
of that Act;
6. Largely because of a major investment company inves-
tigation of the Equity Corporation, other matters of
lesser importance which are uncovered by the inspection
program are not handled expeditiously. As a result,
this information is not available for inclusion in
current proxy statements and prospectuses where
Commission policy would require such disclosure. This
delay is caused in part by the involvement on a full-
time basis of intermediate supervisors in the Equity
investigation;

7. The existence of a major investment company investigation in the New York Regional Office places too great a drain upon the time of the attorneys assigned to this Office and detracts from the ability of the Assistant Regional Administrator and senior attorneys to give required guidance to staff members in other areas of the Office's activities. The Regional Office is not equipped to conduct an investigation of this magnitude nor is there special reason why such an investigation should be conducted by a Regional Office rather than the Headquarters Office, except for the allocation of personnel;
8. The allocation of a considerable amount of the Assistant Regional Administrator's time to court appearance in Chapter X proceedings also detracts from his ability to provide routine guidance to members of the staff. This is true even though the Assistant Regional Administrator has curtailed his court appearances in some respects and has on a number of occasions provided for court appearances by staff members. The Assistant Regional Administrator, however, views his position as requiring frequent court appearances in Chapter X proceedings because of his long-established relationships with certain members of the judiciary;

9. This Office has competently handled major enforcement actions requiring expeditious treatment but not requiring extensive investigation;
10. The Branch of Investment Company Inspections is for the most part staffed by a group of young but competent persons. Its Chief was not available for interview, but evaluations from the Assistant Regional Administrator, employees in the Branch, and representatives of the Division of Corporate Regulation all point to a single characterization: a highly competent technician who unfortunately has a tendency at times toward irascibility. This tendency has created some personality conflicts which are susceptible of correction by the Assistant Regional Administrator. Despite the existence of this situation, the morale of the more experienced and qualified personnel in this Branch appears to be good;
11. The task force finds that deficiency letters written as a result of investment company inspections, and inspection reports, are of quality acceptable to the home office. However, the procedures for reviewing reports of inspection have resulted in too much time elapsing between the inspection of an investment company and the completion of the report. (The task

force has not found any instance where appropriate enforcement action was delayed because of this time lag.) Although steps have been taken to reduce this time lapse, i.e., delegation of review responsibility to another member of the Branch, the time lag is still too great;

12. The Branch of Investment Company Inspections will be able to conduct investment company inspections on a two-year cycle with present personnel. A stepped-up inspection program, suggested by the Regional Administrator, would produce a better paper work-load record, but the views of the Assistant Regional Administrator and the Chief of the Branch, concurred in by the task force, are that such a cycle is not necessary from the standpoint of substantive accomplishment. Implementation of the inspection program generally has been effective. But certain policy questions are presented which must be resolved by the Commission. Thus, the Commission's new annual report form under the Investment Company Act of 1940, No. N-1R, which has just recently begun to be received in large numbers, raises questions as to the reorientation of the inspection program, the advisability of giving the Branch responsibility for reviewing the reports of companies in its area and the appropriate cycle of inspection;

13. It was not possible to determine whether the elimination of attorneys from investment company inspections has affected the quality of the present inspection program;
14. With respect to the investment adviser inspection program, the task force found that the Section is not now making effective use of its personnel;
15. For fiscal 1965 a total of 4.6 man years at a salary cost of \$39,800 were charged by the personnel of the office to investment adviser inspections (work code 262). (These figures also are exclusive of annual and sick leave and executive supervision.)
- According to the inspection report cover sheets, only 1 man year was expended in the actual conduct of inspections, related travel and preparation of inspection reports. These reports indicate that only 22% of the manpower (1 man year out of 4.6 man years) were expended on the "firing line";
16. Of the 109 investment adviser inspections, 86, or 78% were completed in 3 days or less. The following table illustrates this finding in more detail:

<u>Inspections Made and Reports Written In</u>	<u>Inspections</u>	
	<u>Number</u>	<u>% of Total</u>
1 day or less	38	35%
1 - 2 days	21	19
2 - 3 days	27	24
3 - 4 days	10	10
more than 4 days	13	12
	<u>109</u>	<u>100%</u>

17. The responsibilities under Chapter X appear to be fulfilled in a most acceptable manner. In these matters the Office works closely with and reports directly to the Headquarters Office in Washington, D.C.

BRANCH OF SMALL ISSUES

ORGANIZATION

This Section is responsible for the examination and processing of all filings made under Regulation A within the geographical area served by the New York Regional Office. It is headed by a Branch Chief, GS-13, 1 Attorney and 3 Accountants. Its work now is reviewed personally by the Regional Administrator.

FINDINGS

1. The existing personnel in the Branch of Small Issues is adequate, both in terms of numbers and experience, to handle the present workload of that Branch since it is not excessive;
2. The work product of the Branch is reviewed directly by the Regional Administrator. In a complex as large as the New York Office, there does not appear to be any reason why such a review function should be personally performed by the Regional Administrator;
3. All Regulation A filings are reviewed by the Regional Administrator shortly before they become effective and after all but the final steps of the processing

have been performed. There is no procedure for permitting the Branch Chief to select those filings which are of such a nature that review by the Regional Administrator should be unnecessary;

4. No procedure exists for making any determination early in the processing of a Regulation A filing whether suspension should be recommended. This fact sometimes results in a determination by the Regional Administrator that an exemption should be suspended after the staff has spent a substantial amount of time in processing the filing. As a result, the staff's efforts are expended unnecessarily when they could have been devoted to conducting a hearing if one was to be held;
5. The Branch Chief does not believe he has any real guidance on what the policies should be concerning suspension. Much time is expended in attempting to obtain compliance by issuers with the requirements that a 2A report be filed. Adequate enforcement of the Regulation A suspension provision, for failure to comply with this or other requirements of the Regulation, would eliminate some if not most of this follow-up work by alerting the industry to the fact that lack of prompt compliance will result in suspension.

SECTION OF INTERPRETATIONS

ORGANIZATION

This Section is responsible for the preparing and furnishing to the public and to staff members of the New York Regional Office oral advice and guidance and written interpretations with respect to the provisions of the 1933 and 1934 Acts, the Investment Advisors Act of 1940, and certain provisions of the Investment Company Act of 1940; the rules and regulations under these statutes; and policy and procedures related thereto. As a result of recent resignations, the Section presently is comprised of 2 Attorneys and 2 clerical employees.

FINDINGS

1. It is impossible for the Section of Interpretation as presently constituted to perform the functions assigned. This situation has occurred because of the following reasons:
 - a. The recent resignation of the two staff members most experienced in interpretative work, namely, the Regional Counsel and the Chief of the Section of Interpretation, and the resignation of a general attorney in the Section of Interpretations. As a result of these resignations a five man staff has been reduced to two, and the remaining staff members do not have the experience or the time to perform the functions

formerly performed by the Section. (In the case of the Chief of the Section, a long time career employee whose services could have been of incalculable value particularly in the critical period, his retirement apparently was prompted by the precipitous action of the Regional Administrator and Associate Regional Administrator;

- b. The New York Office does not appear to have available other experienced personnel not needed elsewhere whose transfer to the Section of Interpretation would be of any substantial benefit to the operation of that Section. In addition there is no existing program for the training of personnel to perform interpretative functions;
- c. A large part of the time of the personnel in the Section is devoted to answering of phone calls from and in conferring with members of the public and the legal profession who are desirous of obtaining immediate answers to questions they may have;
- d. A substantial amount of time is consumed in examining subordination agreements, and in negotiation with counsel for broker-dealers concerning such agreements, a function that could be performed by other members of the legal staff of the New York Office;

2. Members of the staff of the New York Regional Office refer special projects requiring the preparation of legal or interpretative memoranda to the Section in circumstances where the time of all concerned would be greatly conserved if the matter were referred in the first instance to the Office of the General Counsel, or the appropriate Divisions in the Headquarters Office;
3. Briefs and memoranda of law prepared in administrative proceedings or court actions for injunction are expected to be submitted to the Section for review for consistency with interpretative policy, but, as a practical matter, these are frequently not submitted, or are submitted immediately prior to the filing date with the result that adequate review cannot be made. In addition, the New York Office normally does not submit court papers to the Office of the General Counsel for review, although a litigation is subject to the supervision of the General Counsel's office;
4. There is poor coordination between the Headquarters Office and the Section. For example, the Section is sometimes not timely advised of changes that are contemplated in interpretative releases, with the result that staff members of the Section give inter-

pretations in situations in which none should be given pending final determination of what changes will be made;

5. The Section of Interpretations has adhered to Commission policy in not giving interpretations on matters involving underwriter and control person questions; however, interpretations have been given on other matters involving questions of at least as great difficulty and perhaps much more far reaching consequence to the Commission's administration of the securities laws.

PRE-INVESTIGATION AND INQUIRY SECTION

ORGANIZATION

The Pre-Investigation and Inquiry Section is structurally under the supervision of the Office of Regional Counsel; however, in practice it deals directly with the Associate Regional Administrator and the Special Investigative Consultant. The Section is headed by an Attorney (GS-11) and includes three investigators, a complaint processor and a clerical staff of three persons. Its function is to accept incoming complaints and inquiries, conduct a "pre-investigation", to recommend referral of matters requiring enforcement action to the appropriate persons (i.e., enforcement branches, the NASD, or a securities exchange), and to answer other complaints and inquiries.

FINDINGS

The functions of the Pre-Investigation and Inquiry Section are totally unacceptable for the following reasons:

1. Complaints received by the Section relating to matters under investigation by the New York Office or elsewhere in the Commission normally are not referred promptly to persons concerned with the subject matter of the complaints, but are retained in the Section for inordinate lengths of time during which the Section performs so-called "research" and "analysis", i.e., routine processing. It does not appear that effective procedures are followed to determine promptly whether the subject matter of the complaint is under investigation elsewhere;
2. The "research" and "analysis" done by the Section normally does not contribute information of substantial value in determining what ultimate disposition should be made of the complaints received, notwithstanding the length of time devoted to the so-called "research" and "analysis";
3. The personnel in the Section are not trained or qualified to conduct investigations into the subject matter of the complaints received and the methods used by them cannot reasonably be expected to develop promptly useful information. As a result, the Section frequently carries on extensive correspondence with persons who may be violating the

securities laws in circumstances in which it is evident that a complaint or inquiry should be referred promptly to the Enforcement Section for appropriate action, e.g., where the complaint may obviously indicate that an examination of a broker-dealer's books and records is necessary;

4. The inordinate delay in referring complaints to the appropriate Enforcement personnel has the effect of withholding from them current information which could be of assistance in the performance of their Enforcement functions;
5. The recommendations made by the Section are of no assistance to the Enforcement personnel. Whenever a complaint is disposed of, other than by reference to the files, the Section either submits the matter to the Associate Regional Administrator for such action as he deems appropriate, or submits the matter with a recommendation that it be referred to the Enforcement personnel for further action. In the latter instances, it is normally clear at the time the complaint is first received that this is the action that should be taken;
6. The Associate Regional Administrator and the Special Investigative Consultant devote unnecessary time to

reviewing recommendations prepared by the Section.

In view of the sterile nature of the recommendations, no real purpose is served by this review;

7. The routing of complaints to interested staff members or to staff members who could make prompt and appropriate disposition of the matters should eliminate the need for some of the personnel now assigned to the Section;
8. The work load statistics presented by this Section to the Regional Administrator are inflated and casual inquiry by his office into the activities of the Section should have revealed this fact long ago. Numerous personal calls and calls of no substantive content, e.g., requests for appointments, are included in a statistical presentation to the Regional Administrator as work items;
9. Long, unnecessary and unproductive memoranda, which in large measure, copy and restate material from the files, are prepared for the sole purpose of giving the appearance of activity by the Section. (Confirming this finding is a statistical presentation to the Regional Administrator which includes the total number of pages in such memoranda prepared each month.)

TASK FORCE RECOMMENDATIONS

NEW YORK REGIONAL OFFICE

PREAMBLE

In formulating its recommendations the task force has been guided by the basic policy that routine administration or performance of duties are not sufficient and that excellence and maximum achievement with the least expenditure of manpower and money is to be the constant objective in carrying out all of the Commission's work programs and activities.

INTRODUCTION

The task force estimates that a cost reduction of \$129,350 in fiscal 1966 and \$273,660 in fiscal 1967 can be achieved through implementation of its recommendations without any loss in efficiency and, indeed, with probable improvements in the quality of work product.

As a result of its cost-reduction survey of the New York Regional Office, the task force finds that major changes are required in overall management and in organizational, functional and staff alignments to effectuate greater efficiency and economy in its operations. Pending consideration of the task force's recommendations, it recommends that the following measures be taken immediately:

1. An appropriate policy directive should be sent to the New York Regional Office reaffirming and making it emphatically clear that all of its programs and activities are subject to the policy review and direction of the Office of the General Counsel, Chief Accountant, and the Divisions of Corporation

Finance, Trading and Markets, and Corporate Regulation in their respective areas of jurisdiction; and that the New York Office is to cooperate fully in carrying out instructions given to it by such organizations under their vested authority for policy review and direction;

2. Specific instructions should be issued to the Regional Administrator to take prompt and appropriate action to assure himself that all employees are adhering strictly to the high standards of ethical conduct called for by the Commission's Conduct Regulation, and to remove from his staff present employees known to him, or identified for him as unsatisfactory because of misconduct or unacceptable work performance.

(NOTE: The task force has been informed that one such employee brought to the Regional Administrator's attention submitted his resignation effective Friday, July 30th).

The Regional Administrator should be instructed to report promptly to the Director of Personnel all instances of employee misconduct of which he is now aware or which comes to his attention hereafter;

3. Until further notice, authority to recommend appointments to professional positions in the New York Regional Office

(normally GS-7 and above) be withdrawn, and all applicants for such positions should be referred to the Office of Personnel in Washington, D. C.;

4. The Regional Administrator should be advised that the reorganization of the New York Office that he proposed and discussed with the task force has been disapproved;
5. In view of the abuse of office hours, an appropriate directive should be issued to the New York Office admonishing all employees to adhere strictly to the 9:00 A.M. to 5:30 P.M. hours prescribed; that all special hours of duty now being observed are cancelled and will be reestablished only if requested in writing and approved by the Director of Personnel;
6. The Regional Administrator should be directed to reduce promptly the Complaint Section from its present complement of 8 to 3 employees and to eliminate the present pre-investigative functions being performed by this Section;

(NOTE: With the concurrence of the New York Office, since August 2 routine complaint letters received by that office are being forwarded to the Headquarters Office for

handling. Based on figures supplied by the New York Regional Office, this should remove 75% of the total number of complaint letters heretofore processed by that office. Based on the first few days of experience, the Chief of the Branch of Registration and Reports of the Division of Trading and Markets advises that his office can handle these letters without any additional personnel. Whether this can be continued will depend upon further experience.)

7. The interpretative letters requiring any research should be forwarded to the appropriate division in the Headquarters Office. This procedure has already been instituted with the concurrence of the New York Regional Office;

(NOTE: As a temporary measure the Division of Corporation Finance sent one attorney to New York for one week to replace one of the individuals assigned to the Interpretative Section, during his vacation.)

8. The New York Regional Office should be instructed to conform strictly with existing policy requiring that all court litigation memoranda and briefs be submitted to the General Counsel's office for review prior to their filing.

ADDITIONAL RECOMMENDATIONS

1. Division of Corporate Regulation Recommendation

It is recommended that (a) all investigations under the Investment Company Act of 1940 be directed and conducted by the Headquarters Office; and (b) that all inspections under that Act be conducted by a section of inspections operating out of the New York Regional Office under the direct supervision of the Division of Corporate Regulation.

Recommendation (a) might require the transfer of certain attorney positions from the New York office to the Division of Corporate Regulation in view of the transfer of this function. It may be, however, that certain attorneys should remain stationed in the New York office, if the field work there indicates that savings in travel and per diem could be effected by this arrangement;

2. Headquarters Office--Regional Office Relationship Recommendation

It is recommended that an orientation training program be instituted under which the newer professional personnel in the New York Regional Office would spend appropriate periods working in the Headquarters Office.

It is expected that this program would result in the following benefits:

- a. A better understanding of the operations of the Headquarters Office and the development of a better appreciation of the role performed by the Washington Offices in servicing field activities and in recommending actions to the Commission;
- b. The establishment of helpful professional and personal relationships between the staff members in both offices;
- c. indoctrination and training in all aspects of the Commission's activities.

3. Broker-Dealer Inspection Recommendation

The New York Regional Office's broker-dealer inspection program should be more intimately coordinated with its investigative and enforcement program and used as an arm to assist in the selection and aid in the concentration on more significant enforcement targets and violators. A pilot study should be made to determine the feasibility of redirecting the broker-dealer inspection program so

that primary reliance would be placed upon the NASD, stock exchanges and other self-regulatory organizations for routine inspections, such as financial stability and bookkeeping procedures. (Organizational realignment to facilitate this improved coordination are included in the recommendation for organizational changes.) Implementation of these recommendations should have the effect of (a) reducing overlapping performance of routine inspections and eliminating unnecessary inconveniences to regulated persons; (b) producing probable savings in manpower; and (c) improving the overall benefits from the inspection and enforcement activities;

4. Hiring Policy and Career Development Recommendations

- a. Top management in the New York Office should consult with and give line supervisors an opportunity to participate in evaluating job applicants rather than arbitrarily assigning individuals to their organizational units;
- b. In order to properly implement the Commission's established recruitment policy for attorneys, a Legal Examining Committee, similar to that employed in the Headquarters Office, should be formed in the New York Office. This Committee

should consist of 3 senior attorneys who will meet on some regularly scheduled basis to evaluate the written examination papers and to orally interview and rate attorney candidates. This would conform with the present procedure followed in the Headquarters Office which has proven to be effective in bringing high quality lawyers to the staff;

- c. In lieu of the present policy of concentrating on the hiring of "back office" men from securities firms for filling its investigator jobs, the New York Office should put emphasis on attracting young, imaginative accounting graduates (or, if possible, experienced CPA's) who could be easily trained to perform not only broker-dealer inspections or related securities investigative functions, but also financial audits. In addition, some positions should be reallocated from Securities Investigator, GS-9 or 11 to Accounting Clerk, GS-5, and the latter could be used to relieve the professional investigators of detail work and the more simple tasks such as the preparation of schedules and similar items;

- d. Better lines of communication need to be established between the supervisory officials and employees, so that all of the personnel in the New York Office know exactly where they stand as to their opportunities for promotion and long range career development and advancement; and by its actions, management must make it abundantly clear that all promotions are made solely on a merit basis;
- e. The task force heartily endorses a frequently repeated suggestion made by staff members of the New York Office that increased emphasis be given to the consideration of regional office personnel for promotional opportunities in filling vacancies in the Headquarters Office;
- f. When interviewing possible job candidates, the New York Office should be instructed to candidly apprise applicants for professional positions of the actual nature of the work they will be required to perform, including the non-glamorous functions.

5. Housing Recommendation

As promptly as possible the Office should be moved to more suitable quarters which we understand are available in the New York area, at a rental cost below that being paid for the present space. In this connection, efforts

should be made at that time to obtain more suitable hearing and conference room space; and to provide less cramped office space for staff personnel;

6. Geographical recommendation

Consideration should be given to a reexamination of all field and branch offices for the purpose of determining whether geographical reallocations are desired. In this connection, consideration should be given to the feasibility of transferring the upper New York State region to the Boston Regional Office;

7. Investigation and Enforcement Recommendations

- a. In addition to the proposed organizational realignments, the New York Regional Office should establish an effective system for pursuing and adhering to priority assignments (the present system of making pro forma assignments of priority to almost every assignment should be abolished);
- b. Review should be made of all pending investigations for the purpose of eliminating assignments which do not appear to have significant enforcement value. In this connection, the practice of reassigning old cases to younger attorneys should be eliminated. Instead, any such cases offering reasonable

opportunity for significant enforcement action should be selected out and concentrated upon for prompt completion. An intensive, regular review should be made of case progress reports and cases offering little possibility of enforcement value should be promptly eliminated. This would result in a saving of investigative time and manpower;

- c. Top priority should be given to those matters where criminal reference is clearly warranted. Additional personnel should be assigned where necessary to insure their prompt completion;
- d. The present Form 19 should be the only document specifically prepared for the opening of cases. In preparing the form, emphasis should be placed on a succinct summary of the facts. If there is a pre-existing memorandum (e.g., memorandum for formal order or any other pre-existing document) containing the essential facts of the case, it may be attached to the Form 19 in lieu of a summary on the form. Unnecessary copies should be eliminated. Advice of such openings to other interested sections or branches should be accomplished

- by routing of a minimum number of information forms. Multiple record-keeping in different offices of such case assignments should be eliminated;
- e. An administrative clerk should be designated to maintain control and tickler procedures over "chore" assignments (i.e., assignments resulting from requests made by other offices) and unnecessary memoranda presently used as a means of follow-up should be abolished. Simplified procedures for the assignment of such chore duties should be instituted and unnecessary conduit echelons removed from all assignment channels. Such assignment activity is now carried on by the Associate Regional Administrator, (GS-16) and the Special Investigations Consultant (GS-15);
- f. Greater delegation should be made to intermediate and subordinate supervisors consistent with their technical and administrative experience; i.e., maximum delegation should be made in routine matters, substantive review should be concentrated upon items of significance and stylistic and other technical changes should be eliminated in inter-office memoranda;
- g. Extra efforts should be made to keep all personnel assigned to a particular investigation aware of all developments. To the extent that the present lack of

coordination results from the inexperience of young attorneys, they should be urged to consult with their branch chiefs or senior investigators in the planning of their investigative activities;

- h. Branch chiefs should be instructed to participate more actively in the planning and directing of their enforcement activities, particularly coordinating the activities of the attorneys and investigators. In this connection, a special effort should be made by the younger attorneys to insure that investigators are given a broader view of the nature of their assignments so that they will have an informed understanding of the overall objective toward which their investigative work is directed;
- i. After recommendations (g) and (h) have been implemented, a review of the present ratio of one investigator to one attorney in the enforcement branches should be made, since at present investigators appear to have insufficient work. It should be determined whether this is a result of inadequate utilization of investigators or too high a ratio of investigators to attorneys.

8. Branch of Small Issues Recommendations

- a. The task force recommends that the Branch of Small Issues be placed under the supervision of and report to an Assistant Regional Administrator rather than report directly to the Regional Administrator;
- b. The task force recommends that the Regional Office adhere to Commission policy with respect to suspension of Regulation A filings and that procedures be established to identify those filings with respect to which suspension is appropriate prior to the expenditure by the Branch personnel of time in the processing of such filings.

9. Section on Interpretation Recommendations

In view of the improvements in communication that have occurred since the establishment of the Commission, the task force does not believe there is any present need for maintaining offices in different locations to handle interpretative matters. Furthermore, experience has indicated that persons seeking interpretative advice generally desire to obtain such advice from the headquarters office, rather than regional offices, especially on novel or difficult matters. The task force recommends:

- a. That non-routine written requests for interpretations received by the New York Office be forwarded to the appropriate headquarters office Division for disposition;
 - b. That the Section on Interpretation continue to dispose of interpretative requests received through telephone calls or personal visits, with the direction that persons making unusual or difficult requests be instructed to reduce them to writing for reference to the headquarters office;
 - c. Briefs and memoranda prepared in administrative proceedings should be reviewed by the respective Assistant Regional Administrator (Enforcement) for substance and for consistency with the Commission's interpretations;
 - d. The examination of broker-dealer subordination agreements should be performed by qualified personnel in the enforcement branches under the supervision of the respective Assistant Regional Administrator (Enforcement).
10. Organizational, Functional and Staff Realignment Recommendations
- a. The task force recommends that the present organizational and functional alignment in the New York Regional Office be changed at the earliest possible date (see attached chart), in the interest of greater efficiency and economy of operations in that office. The changes proposed are as follows:

1. The Special Enforcement and Surveillance Group should be abolished, and its necessary functions and present staff absorbed by the Branches of Enforcement;
2. The Pre-Investigation and Inquiry Section should be abolished. A maximum of three persons now assigned to that Section should be reassigned to the Section of Interpretation and given the function of receiving complaints and inquiries, routing them to appropriate persons for disposition, and making such search of the files as is necessary to insure proper and prompt routing;
3. The Public Reference Unit and its present staff should be transferred from the jurisdiction of the Office of the Regional Counsel to the Branch of Administrative Services (it will continue to operate as a separate organizational unit in this Branch);
4. The Office of Regional Counsel should be abolished and, in lieu thereof, an Office of Assistant Regional Administrator established with responsibility for directing the functions and staff

of a Branch of Reorganization, Branch of Small Issues, and a Branch of Interpretations and Complaint Inquiries;

5. The present Section of Legal Counsel should be abolished and the employees now assigned thereto reassigned to either the Branch of Reorganization, the Branch of Investment Company Inspections and Investigations or a Branch of Enforcement in a proportionate ratio keyed to the respective functional needs of these two Branches for the services of attorneys;
6. While the Branch of Investment Company Inspections and Investigations organizationally will continue to be located in the New York Regional Office, it will be responsible and will report directly to the Division of Corporate Regulation in the execution of its functions;
7. A second Office of Assistant Regional Administrator (Enforcement) should be established. The one such Office that now exists cannot effectively direct and supervise the work activities of approximately 100 employees under its jurisdiction;

8. The five existing Branches of Enforcement will be merged into four such Branches and the present Office of Chief Enforcement Attorney abolished;
9. The Branch of Broker-Dealer Inspections and the four Sections thereunder will be consolidated and reconstituted as two co-equal Branches of Broker-Dealer Inspections;
10. Each of the two Offices of Assistant Regional Administrator (Enforcement) provided for in this reorganization will have jurisdiction over:
 - a. Two Branches of Investigation and Enforcement;
 - b. One Branch of Broker-Dealer Inspection.One of these two Assistant Regional Administrators will have jurisdiction over the Branch of Investment-Adviser Inspections.
11. Management Recommendations

The task force recommends that appropriate action be taken promptly to provide the New York Regional Office with top management officials who are capable of giving that office the inspiring, dynamic and aggressive leadership presently lacking, and which is essential for achieving maximum efficiency and economy in its overall operations.

The task force members have considered several alternatives to solving this problem and are prepared to discuss them with the Chairman and/or Commission where the ultimate decision in this area needs to be made.

CONCLUSION

The task force believes that implementation of the foregoing recommendations will result in substantial cost reduction. By eliminating certain sections (i.e., Pre-Investigation and Inquiry Section and Special Enforcement and Surveillance Group), transferring certain overlapping functions to the headquarters office (i.e., Investment Company Act investigative work, supervision of the inspection program under that Act and non-routine interpretative matter under the 1933 and 1934 Acts), reducing excessive paperwork and establishing more effective procedures to channel assignments and coordinate investigative and enforcement activities (i.e., reorganize the branches of enforcement, eliminate present case assignment system, establish meaningful case priorities and require selectivity in the opening of assignments), would result in substantial cost savings both directly through reduction in manpower and indirectly through more efficient operations.

The task force believes that a well organized and effectively functioning office could accomplish better results with a smaller staff. Indeed, the present size of the staff of the New York Regional Office may be a hinderance to its operations rather than a positive factor. As of June 30, 1965, the New York Regional Office had 213 employees. For fiscal 1966, that

office has requested a complement of 210. The task force recommends that the figure for fiscal 1966 be reduced to no more than 200. As the foregoing recommendations are implemented, the task force believes that the further reductions in staff will be possible through attrition.

COST REDUCTION RECOMMENDATIONS

The Task Force has identified a total of 30 positions (see attached table) which appear to be unnecessary. As shown in the table, 24 of these positions could be eliminated in fiscal 1966 and an additional 6 positions in fiscal 1967. If this were done, total employment in the New York Regional Office would be reduced from 213 as of June 30, 1965, to 189 by June 30, 1966 and to 183 by June 30, 1967. Six of the thirty positions already are vacant as a result of retirements and voluntary resignations.

The means of implementing this cost reduction recommendation include the cancellation of vacancies which result from turnover and retirements, and the transfer of employees affected to necessary positions in the New York Regional Office, another regional office, or in the Headquarters Office.

The task force is of the opinion that even further staff reductions may become possible if its cost-reduction survey recommendations are implemented. A follow-up study should be made later in the year for this purpose.