

# Rolling Stone

## SEC Rocked By Lurid Sex-and-Corruption Lawsuit

### Taibblog

by: Matt Taibbi



Chip Somodevilla/Getty Images

Move over, adulterous generals. It might be time to make way for a new sexual rats' nest at America's top financial police agency, the SEC.

In a salacious [77-page complaint](#) that reads like *Penthouse Forum* meets *The Insider* meets the *Keystone Kops*, one David Weber, the former chief investigator for the SEC Inspector General's office, accuses the SEC of retaliating against Weber for coming forward as a whistleblower. According to this lawsuit, Weber was made a target of intramural intrigues at the agency (which has a [history](#) of such retaliation) after he came forward with concerns that his bosses may have been spending more time copulating than they were investigating the SEC.

[Weber vs. the SEC: The Full Complaint](#)

Weber claims that in recent years, while the SEC Inspector General's office has been attempting to investigate the agency's seemingly-negligent responses in such matters as the [Bernie Madoff case](#) and the less-well-known (but nearly as disturbing) [Stanford Financial Ponzi](#) scandal, two of the IG office's senior officials—former Inspector General David Kotz and his successor, Noelle Maloney—were sleeping together.

Weber also claims that Kotz was also having an affair with a lawyer representing a key group of Stanford victims, a Dr.

Gaytri Kachroo. Where the story gets really strange is where Weber claims that Maloney last year refused to meet with Kachroo as part of the Stanford investigation. By then, Kotz had stepped down as SEC IG and Maloney had replaced him as Acting IG. The complaint describes Weber confronting Maloney over the issue, asking why she wouldn't meet with the lawyer representing a key group of Stanford victims.

Maloney asked Weber to close the door to her office. Maloney told Weber that she would deny the following conversation if Weber were to repeat it.

Maloney then said that, "David [Kotz] was fucking that lady . . ." Maloney stated that Kachroo had received special treatment. Maloney even questioned whether the OIG would have ever opened an investigation into the SEC's oversight over the Court-Appointed Receivership in *SEC v. Stanford*.

The Weber lawsuit is the latest chapter in an ongoing drama that began when Kotz stepped down last January amid not-world-shaking ethics questions (including, of all things, [receiving](#) Philadelphia Eagles tickets from a financial adviser). Subsequently, however, an [investigation](#) by the U.S. Postal Service Inspector General David Williams concluded more seriously that Kotz violated rules by overseeing investigations involving people with whom he had "personal relationships."

Weber's complaints, made early last year, were apparently the impetus for that Williams investigation. If what happened to Weber subsequently was retaliation, it didn't take long. Weber was placed on leave in May after being accused of being a "personal threat" who wanted to bring a gun into the office. The "gun" incident was highly publicized, and Weber was ridiculed in the media (sample from the [Atlantic Wire](#): "Do You Really Need a Gun to Police the SEC?").

Weber was fired on October 31st. Apparently he has decided not to take the firing quietly. "When David Weber began to uncover the depth of dysfunction at the SEC, they fired him," his attorney Cary Hansel [said](#). "He has no intention of being silenced by threats and false allegations."

The filing of this lawsuit now by Weber officially begins the raging clusterfuck portion of the story, as he and his lawyers are releasing lurid details not only about Kotz and Maloney, but about a host of other SEC and SEC IG officials. It's very strong stuff: the only things missing from this lawsuit are tales of SEC officials running white-slavery rings and snorting [brown-brown](#) off the corpses of strippers with West African rebels.

There are, for instance, allegations that officials handed out SEC contracts to buddies at influential Beltway consulting firms, claims that sexual harassment cases were covered up and accusations that the SEC failed to properly screen contractors who were given full access to SEC databases (it cites an example of one contractor who was on early parole from a 10-year narcotics bid in Virginia). The suit also alleges that the SEC security chief, William Fagan, "watched the video feed from security cameras outside of the [Inspector General's] suite, in order to determine the identities of . . . potential whistleblowers."

Perhaps most crazily, however, the suit alleges major security violations. In one section, Weber claims that SEC investigators took sensitive, highly-protected system data from financial exchanges like the NYSE systems so carefully protected that they have to be "air gapped," i.e. not connected to the internet and loaded them on unencrypted laptops before flying to Vegas to attend a ["Black Hat" convention](#) for security specialists and hackers. From the suit:

Many government and law enforcement officials who attend the "Black Hat" conference register under aliases, keeping their identities and employers secret. However, the SEC staff who attended, with

unencrypted laptops containing sensitive exchange information, registered under their own names and identified their employer. Walking around this convention with a name tag and, regardless of name tag, registered as an SEC IT information security examiner, is the equivalent of wearing a giant target on one's back.

Reassuring!

It's hard to say how all of this will shake out. Certainly, from a P.R. standpoint, it'll be ugly for the SEC. One other storyline to follow: If the Weber retaliation claims are true, they fall within an ongoing and increasingly disturbing pattern of federal whistleblowers who have come forward and experienced reprisals themselves instead of having their claims investigated properly.

Another story to follow is the possibility that the SEC Inspector General's office in recent years was weakened or compromised by these sexual scandals in any way. If all this kink was common knowledge within the agency, it is not hard to imagine that OIG investigations into things like the Madoff mess might have had their momentum slowed by internal politics.

Anyway, crazy stuff, more to come down the line. SEC spokesman John Nester by the way had no comment on the story today, except to say: "We look forward to filing our response with the court."