Who s Watching The Watchdogs?

In The Wake of Enron: A Survey of State Accounting Board Membership and the Need for Reform

June 2002 **The State PIRGs**

Sed quis custodiet ipsos custodes?"
[But, who is to watch the watchdogs themselves?"]
--Juvenal, Roman poet, *Satires*

Written by Ellen Montgomery and Brad Heavner, Research Staff of the State PIRG Frontier Group and Edmund Mierzwinski, Consumer Program Director and Geri Weinstein, Research Assistant at the State PIRG National Office (U.S. PIRG). Special thanks to Alison Cassady, U.S. PIRG Research Director, Stephanie Haynes, State PIRG Webmaster, Wendy Wendlandt, State PIRG Political Director and Susan Rakov, State PIRG Frontier Group director. Special thanks also to Joey Fink, U.S. PIRG Production Coordinator and the entire administrative staff, Liz Hitchcock, U.S. PIRG Communications Director and Jennifer Mueller, U.S. PIRG Communications Associate. Thanks also to Barb Roper, Director of Investor Protection, Consumer Federation of America.

U.S. PIRG, the U.S. PIRG Education Fund, and the state PIRGs gratefully acknowledge the Colston Warne Program of Consumers Union of the United States and the Ann K. Lower State and Local Grants Program of the Consumer Federation of America for their ongoing support of our consumer research and education efforts.

Cover by Public Interest GRFX 215-985-1113

The state PIRG Enron Watchdog Campaign website is at www.enronwatchdog.org

For additional printed copies, send a check for $15 payable to U.S. PIRG.

U.S. PIRG
The National Association of State PIRGs
218 D St SE
Washington, DC 20003
www.uspirg.org
PH: 202-546-9707
Fax: 202-546-2461
Email: uspirg@pirg.org

Who s Watching The Watchdogs?

In The Wake of Enron: A Survey of State Accounting Board Membership and the Need for Reform

"There are government agencies that purport to regulate CPAs to some degree, but if you look behind the agency to the identity of the people who are controlling this profession, you will see that those people are largely CPAs making decisions that benefit and protect the CPA profession, rather than the public at large."

--Julianne D'Angelo Fellmeth, Center for Public Interest Law[1]

Summary

Conflicts of interest and lack of independent funding have doomed both the national and state level accounting oversight systems in the United States. The state accounting boards and the network of overlapping, mostly self-regulatory federal accounting overseers act as classic "captive" regulators, serving management instead of serving investors and taxpayers. In 1984, the U.S. Supreme Court famously called accountants "public watchdogs," yet while no one watched the watchdogs, they became lapdogs.[2]

The current Enron-Arthur Andersen debacle is illustrative of larger problems in the accounting oversight system. Despite a pattern of more frequent and more serious failed audits since the savings-and-loan failures of the 1980s that left the landscape littered with half-built shopping centers and emptied the pockets of taxpayers and small investors alike, bad auditors and bad audit firms just keep on auditing without threat of significant penalties for inaction or bad action.[3]

This report examines potential conflicts of interest in the 51 (50 states and the District of Columbia) state agencies with regulatory authority over accountants, known as the state boards of accountancy. It finds complicity between the boards' lapdog bite and their overwhelming dominance by accounting insiders.

The report also reviews national oversight of the accounting industry. In the noteworthy cases where the well-intentioned Public Oversight Board, a national self-regulatory organization, attempted to assert any independence from the industry, well-funded industry lobbying campaigns defeated its efforts to improve oversight.

Enron collapsed in a wave of accounting scandals in November 2001 after restating its balance sheet to include previously unreported losses. Enron's auditor, Arthur Andersen, signed off on Enron's financial statements every year, despite the fact that Enron was using fraudulent partnerships to conceal huge losses. Had Andersen blown the whistle on Enron's accounting practices when the first fake partnership was set up, Enron partners would not have been able to continue to set up more partnerships to conceal more losses.

The accounting discrepancies associated with the Enron scandal were not an isolated incident. Although the Enron accounting failure has captivated the media, the noted securities law expert John Coffee has said the only thing exceptional about Enron was its failure was "larger."[4] Enron's, and other, failures are indicative of the sort of accounting that is practiced when there is no significant fear of consequences. Enron's auditors, Arthur Andersen, operated in an atmosphere where they had more to gain by approving Enron's slippery accounting tricks than by conforming to accounting standards. The government regulatory agencies had no complaints about Arthur Andersen to respond to and the self-regulatory peer review process of the accounting industry was not likely to result in negative consequences.

Congress and several states are considering enacting accounting reform legislation. Among the principal goals of the best reform proposals is the establishment of independently-funded, majority-public-member accounting oversight boards.[5] Without ensuring that independent oversight agencies watch the watchdogs, we cannot prevent future accounting disasters that will cost investors, taxpayers, employees and retirees more untold billions.

Findings

(1) State Boards of Accountancy Are Dominated By The Industry

The following results are derived from a state PIRG survey of publicly-available information on the membership of each of the 51 (50 states and the District of Columbia) State Boards of Accountancy and a review of the enabling statutes of each state board.

- Nationally, 80% of board members were accountants and only 20% were public members.

- Nationally, 65% of board members were accountants affiliated with the accounting industry, and 8% of board members were accountants affiliated with the Big 5 firms. These industry-affiliated accountants vastly outnumber professors and CPAs who work for other industries or for non-profit organizations.

- Of the 51 state boards, 46 (90%) have boards where at least half of the members are known to be affiliated with accounting firms.

- There are 15 states where 75% or more of the board are members of the accounting industry and 9 states where there is not a single public or consumer member on the board.

- 73% of CPAs on state boards are affiliated with the accounting industry, whereas only 12% are professors or work for companies that are not accounting firms.

(2) A review of the enabling statutes governing the makeup of the State Boards of Accountancy confirmed these empirical findings.

No state law requires a majority of public members on its accountancy board. The average number of public non-accountant members provided by statute is 1.5 persons per board, representing only 21% of the total average number of board members.

- Four states[6] (Louisiana, Mississippi, Nevada, and North Dakota) have no (0%) statutory positions for public members on their boards.

- Only 3 states (California, Connecticut and New Mexico) provide that a significant minority (greater than 40%) of their boards be public non-accountant members.

- The average number of statutory board members in all fifty states and the District of Columbia is 7.7, ranging from nine (9) states with five (5) members to one (1) state with twenty (20) members.

The details of how the boards function and regulatory procedures vary from state to state. The members of the boards are chosen from certified public accountants (CPA), public accountants (PA) and public members.[7]

(3) State Board Actions Are Not Transparent To The Public:

Although state accountancy boards are public agencies, their enforcement actions are not sufficiently transparent to the public.

Only some State Boards of Accountancy disclose disciplinary actions to the public on their web sites. A PIRG review found that only 10 of 51 (19%) board websites disclosed any accountant disciplinary information.

The boards maintain a trade association, the National Association of State Boards of Accountancy (NASBA). It maintains an Enforcement Information Exchange (EIX): "a voluntary database of disciplinary actions taken by state boards against licensees. Developed by NASBA, it is designed to allow board staff the ability to efficiently search for actions taken against prospective licensees from other states.[8]"

Yet, NASBA, in replies from both staff and its legal department, refused to provide PIRG investigators access to the system following a Freedom of Information Act (FOIA) request, stating only that:

> "The enforcement information exchange system is available only to executive directors of the 54 jurisdictions' state boards of accountancy. Some boards list information on enforcement on their Web sites." [9]

All state accounting board enforcement actions resulting in any form of settlement of charges, penalty or administrative sanction, ranging from probation or letter of reprimand to suspension, should be disclosed to the public. This transparency would not only benefit investors and firms seeking to hire accountants, it also would improve the ability of citizen-taxpayers to evaluate the activities of an important public agency.

Analysis And Discussion

(1) The State Boards And Their Failure

"The state boards of accountancy are ineffective."
Lloyd Turman, Executive Director of the Florida Institute of CPAs.[16]

Government oversight of the accounting industry is limited and weak. Neither the State Boards of Accountancy nor the Securities and Exchange Commission (SEC) have a track record of cracking down on accounting misconduct. The State Boards of Accountancy have the power to subpoena information for investigative purposes, to issue warnings and reprimands, and the ultimate power to suspend or revoke an accountant's license.

ACCOUNTING FAILURES WITH INADEQUATE ACTIONS BY STATE BOARDS:

Example 1:
Baptist Foundation of Arizona

The Baptist Foundation of Arizona was a nonprofit organization that, instead of investing money in real estate to fund Baptist ministries, was using new investments to pay off old investors. Arthur Andersen, BFA s auditor, disregarded all warning signs of fraud, including media coverage of alleged problems with BFA finances.[10] Anderson also ignored a tip received at its Chicago headquarters about fraud at BFA.[11]

Arthur Andersen paid $217 million to settle investor lawsuits for its role in the Baptist Foundation of Arizona scandal without admitting wrongdoing.

Andersen agreed to pay $640,000 to the Arizona State Board of Accountancy to cover the costs of its investigation into Andersen s auditing of BFA.[12]

According to the state s investigative report, the Arizona State Board of Accountancy wanted to revoke or suspend three licenses of Andersen accountants involved with the BFA audit, including Jay Steven Ozer,[13] who was also an auditor for the notorious Lincoln Savings and Loan, which failed in 1989.[14] Ozer and Ann M. McGrath, another Andersen accountant who audited BFA, have voluntarily given up their Arizona accounting licenses. Because they have given up their licenses without any evidence of wrongdoing on their parts, they are free to apply for accounting licenses again in Arizona or in any other state.[15]

The SEC has not traditionally shared its investigative records with the state boards. Instead, the state boards have had to build their cases against CPAs from scratch.[23] This leads to more time lags and lack of follow-up by the state boards. For example, the *Washington Post* found that in 11 years, the state of New York took action against only a third of the accountants who were investigated by the SEC.[24]

The State Boards of Accountancy generally conduct their enforcement activities in response to complaints. Unfortunately, complaints are usually not filed until well after an incident occurs. After the state has conducted a full investigation, there is a time lag between a violation and a disciplinary action, sometimes of several years.

Over the past 20 years, there have been many incidents where State Boards of Accountancy had the opportunity to fully pursue an investigation to the end result of revoking or suspending the license of a major accounting firm. In many cases, however, the state boards have allowed accounting firms to settle allegations without admission of wrongdoing. Accounting firms prefer to settle cases before investigations are completed to avoid public trial; if they settle before the investigation is done, there is no concrete evidence of wrongdoing to taint their record.[25] Arthur Andersen has settled at least 12 cases over the past 20 years to end investigations by the government or by shareholders into their auditing practices.[26]

ACCOUNTING FAILURES WITH INADEQUATE ACTIONS BY STATE BOARDS:

Example 2:
Lincoln Savings and Loan

Savings and loan kingpin Charles H. Keating Jr. bought Lincoln Savings and Loan, then tricked its conservative depositors into converting their life savings and other insured deposits into risky uninsured investments in its holding company, American Continental Corporation, while cooking the books to confuse potential investors. The company failed in 1989 at an eventual cost of $2.9 billion to taxpayers, not including additional losses to investors.[17] Andersen audited Lincoln Savings and Loan in 1984 and 1985.[18]

Andersen paid $562,000 to the Arizona State Board of Accountancy in 1995 to settle the allegations of misconduct in the Lincoln Savings and Loan case.[19]

In California, the State Board of Accountancy threatened to revoke Arthur Andersen s license for its auditing failure in the Lincoln Savings and Loan audit.[20] However, in 1994, the board allowed Andersen to settle out of court without admitting any wrongdoing.[21]

In California, Andersen agreed to the 6-month suspension of partner Joseph Kresse s license followed by placing him on probation for three years. Andersen also paid the board of accountancy $1.7 million to cover investigation expenses and also agreed to perform 10,000 hours of community service.[22]

“It is right to have a balance between the interests of the Big 5 versus the interests of the small practitioner … I think we have the right mix,” said the director of the Texas State Board of Accountancy.[27] But the purpose of the boards of accountancy is not to represent the interests of the accounting industry at all. It is to represent the interests of the public. This statement reflects an attitude about the accounting industry that simply does not include public protection. The state boards should be independent of accounting industry dominance.

(2) Federal Oversight Of The Accounting Industry Also Dominated By Industry Leaders

Arthur Andersen had little fear of sanctions and chose to absorb legal settlements as a cost of doing business because the oversight of the accounting industry in the United States is woefully inadequate. While the purpose of regulating the accounting industry is to protect the interests of investors and the public, it is more often the interests of the accountants themselves being protected by the government agencies with serious conflicts of interests and the industry-controlled private sector organizations that both develop and enforce accounting standards. The problems this report identifies at the state level are paralleled at the federal level. There is no independent oversight of the accounting industry, no effective regulatory body that is accountable to the public, and the accounting industry to a large extent sets its own rules.

Here is an overview of the federal oversight system for accounting:[28]

(1) The Securities and Exchange Commission

The Securities and Exchange Commission (SEC) is a federal agency with five commissioners appointed by the President with approval from the Senate. To guarantee a bi-partisan commission, no more than three commissioners can be from the same political party. The current SEC has only three commissioners, Harvey L. Pitt, Isaac C. Hunt, Jr., and Cynthia A. Glassman, with two open seats. Commissioner Hunt’s term is expiring. The President has nominated Paul Atkins and Harvey Jerome Goldschmid to the SEC. He has announced an intention to nominate Roel C. Campos.[29]

The SEC has jurisdiction over accounting firms that audit publicly traded companies. If an investigation finds fraud or another violation, the SEC can ban the accountant or the firm from auditing publicly traded companies.

If President Bush’s latest nominee is confirmed, the SEC will have three commissioners on the five-seat commission who have worked with the Big Five firms.[30]

- The SEC Chair, Harvey Pitt, is a lawyer who used to represent the Big Five accounting firms and the AICPA.[31]

- Commissioner Cynthia Glassman is an economist who worked with Ernst & Young.
- Nominee Paul S. Atkins is a lawyer and partner with PricewaterhouseCoopers.
- In addition, the SEC's new chief accountant as of October 2001, Robert Herdman, was an Ernst & Young partner whose appointment was endorsed by the AICPA.[32]

(2) The Public Oversight Board:

In an effort to establish an independent federal-level oversight mechanism for accountants, while maintaining the industry's preferred voluntary self-regulatory scheme, the Public Oversight Board (POB) was established in 1977. However, the board was part-time and dependent on funding controlled by the industry's lobby – the American Institute of Certified Public Accountants (AICPA). In January 2002, following a series of AICPA-orchestrated industry efforts to rein in its independent activities, the POB voted to dissolve itself. It also released a white paper called a "Road Map To Reform," which documented the history of accounting self-regulation, including the flaws in its own original design.[34] According to the white paper, the board's reasons for dissolution were the following:

ACCOUNTING FAILURES WITH INADEQUATE ACTIONS BY STATE BOARDS:

Example 3:
Other failures

KPMG Peat Marwick paid $186.5 million to the federal government to settle all claims regarding faulty auditing of various savings and loans in the 1980s.

KPMG avoided suspension by the Oklahoma Board of Accountancy in 1993 by paying $315,000 and accepting a reprimand from the board for allowing partners to accept loans from the failed Penn Square Bank.[33]

- A May 2000 action by the accounting lobby's so-called AICPA SEC Practice Section (SECPS) to refuse to pay for "special reviews" of public accounting firms that had been requested by the SEC to be conducted by the POB.
- Follow-up efforts by the Big Five accounting firms to stymie and delay the more limited reviews agreed to by the firms as a compromise.
- Similar efforts by AICPA to delay the implementation of a charter structure formalizing the POB's independence from the industry for over a year, although a new charter finally took effect in February 2001.
- Finally, the POB argued that the "precipitating factor" in its vote to dissolve was the "decision of the SEC to develop a new regulatory structure in private talks with the AICPA and the Big 5 firms, with no consultation with the POB. The SEC did not consult with the POB even though the POB had been established by the AICPA, in consultation with the SEC, to protect the public interest."[35]

As POB Chair Charles Bowsher stated in a 21 January 2002 letter to SEC Chairman Harvey Pitt:

> It was obvious from your remarks at the press conference on January 17th that the proposals for changing the system of self-regulation of the accounting profession do not include a place for the POB. An oral outline of the proposed changes was provided to us, shortly before your announcement, by the President of the AICPA and the Chair of the SEC Practice Section ("SECPS") Executive Committee. They, along with Big 5 representatives, apparently had been in talks with you on this matter for some time. It is significant that there was no consultation with the POB, which is charged with representing the public interest, before these proposed changes were announced.[36]

(3) American Institute of Certified Public Accountants (AICPA)

In addition to these federal agencies and industry self-regulatory bodies, the industry's trade association has asserted itself into an oversight role. Enforcement of accounting law violations has largely fallen to the private sector, with a significant portion of enforcement done by the industry trade group, the American Institute of Certified Public Accountants (AICPA). AICPA is the largest professional organization for the accounting industry, with a powerful political presence felt through its lobbying efforts and sizable campaign contributions. In PIRG's view, it is inappropriate for the industry's trade organization's enforcement actions to be substituted for governmental enforcement actions. In addition, AICPA's purported enforcement program is limited and inadequate.

The majority of AICPA cases close without action or public disclosure.[37] Former SEC chief accountant Lynn Turner criticized the AICPA enforcement program on the grounds that there is no public accountability or public reporting in the process, and AICPA fails to take disciplinary action in cases where the SEC has already taken action.[38] A December 2001 study by the *Washington Post* found that AICPA took action in less than one-fifth of cases where SEC took disciplinary action.

The trade group's ability to investigate and discipline CPAs is limited by several factors. First, the AICPA has no legal authority to obtain information for an investigation. Second, it will not begin an investigation of a member until all other legal proceedings associated with the case have concluded. Third, it does not have the power to issue fines or to revoke or suspend a CPA's license.

AICPA investigates violations and takes disciplinary action in cases that are not necessarily reported to the state boards or to the SEC. The details of its investigations are not a matter of public record; if AICPA investigates an accountant, the details and the results of the investigation may never be shared with the government or with the public.

Conclusion And Recommendations

The primary theme running through the web of accounting oversight boards is a lack of control by independent public members despite the boards' mandate to act as "public watchdogs." Membership of the ineffectual state boards is dominated by industry insiders. The now-dissolved POB was nominally independent, but its funding was controlled by accounting lobbyists. Indeed, even the SEC is dominated by industry insiders and chaired by the industry's former chief lobbyist, Harvey Pitt.

When the boards do attempt to assert their watchdog role, as the POB notably did, their lack of independent funding has allowed the industry to roll over them. In POB's case, it was destroyed, but left a roadmap for reform. State legislatures should follow that roadmap and make their State Boards of Accountancy independent, transparent and accountable.

Although obscure, the State Boards of Accountancy have unique but almost dormant powers. No one can practice public accounting unless licensed by a state board; and, the state boards have powers that even the SEC does not have.

According to NASBA:

> "A primary role of the state boards of accountancy is to certify public accountants (CPAs). No one can practice public accountancy in the United States unless licensed by a state board of accountancy. The state board is the only body that can revoke a license to practice. While the Securities and Exchange Commission can prohibit a CPA from providing services for SEC registrants, the boards can revoke the ability to provide reserved services to any party."[39]

Yet, as the report above discusses, the state boards have often failed to use this power to de-certify CPAs even when the SEC finds the accountants' actions wanting. Nor have the boards, in general, made their actions transparent to the public.

The State Boards of Accountancy have become captive regulators, dominated by the industry they are supposed to regulate. The solution is to restore public control and transparency to the system.

The State PIRGS Recommend The Following:

(1) That all states amend their state accountancy board statutes to require that a majority of members be selected from the public to represent the interests of shareholders, investors, pension beneficiaries and future retirees. A minority of members may be current or former certified public accountants, but states shall adopt rules to ensure that these members have not been affiliated with public accounting firms for at least two years prior to the time of their service and agree to a three year cooling off period before rejoining or accepting consulting fees from a public accounting firm, after leaving the board. States also should adopt independence standards for the majority of public members to ensure that the public members or their employers are not, for example, the attorney or law firm for an accounting firm.

(2) That all states immediately post records of accountant disciplinary actions on their websites and otherwise increase the transparency of their activities.

(3) That state legislatures guarantee that state accountancy boards have adequate independent funding to ensure professional staffing and adequate investigatory resources. State legislatures also should ensure that state boards have adequate investigatory and sanctioning authority.

In addition, an independent regulatory oversight agency for the accounting industry, with the power to impose money penalties and other sanctions, should be created on the federal level with independent funding and a majority of independent public members. Legislation such as HR 3818 (Rep. LaFalce, D-NY) and a draft proposal by Senate Banking Committee Chairman Paul Sarbanes (D-MD) would do the job.[40]

Methodology

Information in the appendices is based on the membership of the state boards during the period when information was collected. **Information about the memberships of state boards of accountancy was obtained between 1 February 2002 and 31 March 2002 from the following sources:**

- State Board of Accountancy websites -- links found at www.nasba.org
- Emails received from the staff of the North Dakota, Hawaii, and Maine state boards of accountancy.
- Facsimile received from the Louisiana and New Jersey state boards of accountancy

Information about the professional affiliations of the Certified Public Accountant (CPA) and Public Accountant (PA) members of the state boards accountancy was obtained between 1 February 2002 and 31 March 2002 from the following sources:

- State Board of Accountancy websites -- links found at www.nasba.org
- CPAdirectory -- www.cpadirectory.com
- Accountant USA Directory – www.cpaweb.net
- AccountantsWorld.com – www.accountantsworld.com
- Switchboard Internet Yellow Pages and White Pages – www.switchboard.com

Important Note On Membership of Accountancy Boards

The members of the State Boards of Accountancy change often as terms expire and legislatures or governors appoint new members. In the view of the state PIRGs, the changes in personnel do not affect and are not material to our primary finding that the memberships are dominated by industry insiders. When an accountant member's term expires, she or he is replaced by another accountant. When a public member's term expires, the same occurs. The unbalanced ratio remains the same. All calculations in the printed report are based on the memberships current for February/March 2002 when data were collected for analysis. **See the website of this report at http://www.enronwatchdog.org/reports/states.html for a current listing of all members of State Accountancy Boards effective 20 June 2002.**

Attachments:

See charts summarizing results, attached. Appendix 1 summarizes the state PIRG analysis of membership of the boards. Appendix 2 reviews the statutes of each state. Appendix 3 describes whether disciplinary information is available on a board's website.

Endnotes

[1] Julianne D'Angelo Fellmeth, Center for Public Interest Law, *Comments to Assembly Committee on Business and Professions. Hearing on Accounting Practices and Corporate Audits: Protection of Consumers*, *Employees*, *and Shareholders*, 19 February 2002.
[2] U.S. vs. Arthur Young, 1984
[3] See "Bad Audits, Not Deep Pockets: Illustrations of Failed Audits By The Big 6," The State PIRGs and Public Citizen, 1993, for a detailed analysis of some of the S&L audit investigations. http://enronwatchdog.org/PDFs/bad_audits.pdf
[4] See testimony of professor John Coffee before Senate Commerce Committee, 18 December 2001 <http://commerce.senate.gov/hearings/121801Coffee.pdf>
[5] See http://enronwatchdog.org/newsroom/index.html for state PIRG testimony and press releases in support of reform proposals in California and New York.
[6] New York's enabling law requires the board only to consist of "no less" than twenty accountants. However, a separate section, S6508, of the Education Law modifies the membership requirements of several state professional boards, including the accountancy board, to require two public members on each.
[7] Definition of Public members in each state differs from state to state. For example in Alabama the public member must be a "resident of Alabama and be an active and reputable member of the Alabama business community." In Delaware, "To serve on the Board, the public members… shall not be nor ever have been a certified public accountant or public accountant, not a member of the immediate family of a certified public accountant or public accountant; shall not be nor ever have been employed by a person or firm which provides certified public accounting or public accounting services; shall not have a material financial interest in the providing of goods and services to any person or firm which provides accounting services; nor have been engaged in an activity directly related to accounting services." In Maryland the requirements for a public member are different, the public member is defined as the consumer member and the following restrictions apply, "Each consumer member of the Board: 1- shall be a member of the general public, 2- may not be a licensee or otherwise be subject to regulation by the Board, 3- may not be required to meet the qualifications for the professional members of the Board; and 4- may not, with in 1 year before appointment, have had a financial interest in or have received compensation from a person regulated by the Board.
[8] See http://www.nasba.org
[9] Email reply to Ellen Montgomery, state PIRG researcher, from Kim Ellis, NASBA, 5 April 02. Of course, NASBA is not a government agency, but a trade group of government agencies. Our request, however, was in the form and spirit of a Freedom of Information Act (FOIA) request.
[10] David S. Hilzenrath, "Andersen to Settle Arizona Claims for $217 Million," *The Washington Post*, 2 March 2002.
[11] David S. Hilzenrath, "Two Failures with a Familiar Ring; Arthur Andersen Audited Foundation, S&L that Collapsed," *The Washington Post,* 6 December 2001.
[12] Jonathan D. Glater, "Auditor to Pay $217 Million to Settle Suites," *The New York Times,* 2 March 2002.
[13] "BFA Auditor Made Same Mistakes with Lincoln Savings," *The New York Times,* 21 December 2000.

[14] David S. Hilzenrath, "Andersen to Settle Arizona Claims for $217 Million," *The Washington Post*, 2 March 2002.
[15] David S. Hilzenrath, "Andersen to Settle Arizona Claims for $217 Million," *The Washington Post*, 2 March 2002.
[16] David Hilzenrath, "Auditors Face Scant Discipline; Review Process Lacks Resources, Coordination, Will," *The Washington Post*, 6 December 2001.
[17] David S. Hilzenrath, "Andersen to Settle Arizona Claims for $217 Million," *The Washington Post*, 2 March 2002.
[18] "Arthur Andersen Settles," *National Mortgage News*, 29 August 1994.
[19] "BFA Auditor Made Same Mistakes with Lincoln Savings," *The New York Times*, 21 December 2000.
[20] "Andersen Keeps License," *World Accounting Report*, 1 October 1994.
[21] "Arthur Andersen Settles," *National Mortgage News*, 29 August 1994.
[22] "Andersen Settles with California Board," *The Accountant*, October 1994 and "Andersen Keeps California License," *World Accounting Report*, 1994.
[23] David Hilzenrath, "Auditors Face Scant Discipline; Review Process Lacks Resources, Coordination, Will," *The Washington Post*, 6 December 2001.
[24] David Hilzenrath, "Auditors Face Scant Discipline; Review Process Lacks Resources, Coordination, Will," *The Washington Post*, 6 December 2001.
[25] John Kelly, "Andersen's Past Dotted with Settlements for Audit Problems," *The Associated Press*, 18 January 2002.
[26] John Kelly, "Andersen's Past Dotted with Settlements for Audit Problems," *The Associated Press*, 18 January 2002.
[27] Stella M. Hopkins, "Big 5 CPA Firms Inch Way onto Watchdog Panels; in 10 years, corporate auditors triple their seats on state boards," *The Charlotte Observer*. 26 February 2002.
[28] In addition to the oversight system, accounting rules and financial disclosure requirements are set by the private Financial Accounting Standards Board (FASB). The FASB is a private sector seven-member board responsible for establishing financial accounting and reporting standards that are enforced by the SEC and the AICPA. The FASB does not have any enforcement or disciplinary power of its own and is dominated by industry insiders. Four of the seven member of the FASB have Big 5 ties.
[29] Glassman has not been confirmed, but sits as a voting member as a recess appointment. The Senate has received the Goldschmid and Atkins nominations, but taken no action.
[30] The newest nominees, Goldschmid and Campos, do not have known connections to the Big 5. Goldschmid is a law professor and Campos an attorney.
[31] "Former AICPA Lawyer Takes the Helm at SEC: Harvey Pitt" *California CPA*, 1 September 2001.
[32] "SEC appoints E&Y's Herdman as chief accountant." *The Accountant*, 26 October 2001.
[33] Diane Levick, "Settlement is Latest Blow to Profession Under Fire," *The Hartford Courant*, 5 May 1993.
[34] See POB white paper, http://www.publicoversightboard.org/White_Pa.pdf
[35] POB White Paper, page 2
[36] See letter from POB Chair Charles Bowsher to SEC Chairman Harvey Pitt at http://www.publicoversightboard.org/news_1C_21_02.htm
[37] David Hilzenrath, "Auditors Face Scant Discipline; Review Process Lacks Resources, Coordination, Will," *The Washington Post*, 6 December 2001.
[38] Ken Rankin, "SEC's Turner critical of AICPA's self-policing." *Accounting Today*, 2 April 2001.
[39] http://www.nasba.org
[40] See PIRG and consumer group letters on federal accounting reform proposals: http://enronwatchdog.org/newsroom/index.html

APPENDIX 1. RESULTS FROM PIRG ANALYSIS OF STATE BOARD MEMBERSHIP

	Total board members	Public members	Accountant members	Board members from accounting industry	Board members from Big 5	Board members with unknown professional status	% public members	% Accountants	% industry	% Big 5	% unknown
AK	7	2	5	2	1	1	29%	71%	29%	14%	14%
AL	6	0	6	6	1	0	0%	100%	100%	17%	0%
AR	7	2	5	4	0	0	29%	71%	57%	0%	0%
AZ	7	2	5	5	3	0	29%	71%	71%	43%	0%
CA	9	4	5	5	2	0	44%	56%	56%	22%	0%
CO	7	1	6	5	1	1	14%	86%	71%	14%	14%
CT	6	3	3	2	0	1	50%	50%	33%	0%	17%
DC	3	0	3	2	0	1	0%	100%	67%	0%	33%
DE	6	2	4	2	0	1	33%	67%	33%	0%	17%
FL	7	0	7	6	0	0	0%	100%	86%	0%	0%
GA	7	1	6	6	0	0	14%	86%	86%	0%	0%
HI	8	2	6	6	0	0	25%	75%	75%	0%	0%
IA	8	2	6	5	1	1	25%	75%	63%	13%	13%
ID	7	1	6	5	0	0	14%	86%	71%	0%	0%
IL	6	1	5	4	1	1	17%	83%	67%	17%	17%
IN	4	0	4	2	1	0	0%	100%	50%	25%	0%
KS	7	2	5	5	0	0	29%	71%	71%	0%	0%
KY	7	1	6	5	1	0	14%	86%	71%	14%	0%
LA	7	0	7	6	1	1	0%	100%	86%	14%	14%
MA	5	1	4	4	1	0	20%	80%	80%	20%	0%
MD	7	2	5	4	0	1	29%	71%	57%	0%	14%
ME	5	1	4	3	0	1	20%	80%	60%	0%	20%
MI	9	3	6	5	2	0	33%	67%	56%	22%	0%
MN	8	2	6	5	0	1	25%	75%	63%	0%	13%
MO	7	1	6	4	0	2	14%	86%	57%	0%	29%
MS	7	0	7	4	0	0	0%	100%	57%	0%	0%
MT	5	1	4	3	1	1	20%	80%	60%	20%	20%
NC	7	2	5	5	1	0	29%	71%	71%	14%	0%

Appendix 1 based on memberships of State Accounting Boards Feb-March 2002. For list of current (June 2002) members for each state, see <http://www.enronwatchdog.org/reports/states.html>. See report methodology for additional discussion.

APPENDIX 1. RESULTS FROM PIRG ANALYSIS OF STATE BOARD MEMBERSHIP

	Total board members	Public members	Accountant members	Board members from accounting industry	Board members from Big 5	Board members with unknown professional status	% public members	% Accountants	% industry	% Big 5	% unknown
ND	5	0	5	4	0	0	0%	100%	80%	0%	0%
NE	8	2	6	6	0	0	25%	75%	75%	0%	0%
NH	5	1	4	3	0	1	20%	80%	60%	0%	20%
NJ	12	3	8	6	1	1	25%	67%	50%	8%	8%
NM	7	3	4	4	1	0	43%	57%	57%	14%	0%
NV	7	1	6	5	1	0	14%	86%	71%	14%	0%
NY	22	3	19	9	1	4	14%	86%	41%	5%	18%
OH	9	1	8	6	2	0	11%	89%	67%	22%	0%
OK	6	0	6	5	0	1	0%	100%	83%	0%	17%
OR	7	1	6	5	0	1	14%	86%	71%	0%	14%
PA	13	3	10	9	2	0	23%	77%	69%	15%	0%
RI	5	1	4	4	0	0	20%	80%	80%	0%	0%
SC	8	1	7	7	0	0	13%	88%	88%	0%	0%
SD	5	1	4	4	0	0	20%	80%	80%	0%	0%
TN	10	1	9	8	0	0	10%	90%	80%	0%	0%
TX	15	5	10	8	2	1	33%	67%	53%	13%	7%
UT	5	1	4	3	1	0	20%	80%	60%	20%	0%
VA	7	2	5	5	0	0	29%	71%	71%	0%	0%
VT	5	1	4	4	0	0	20%	80%	80%	0%	0%
WA	9	1	8	5	1	0	11%	89%	56%	11%	0%
WI	5	1	4	2	1	0	20%	80%	40%	20%	0%
WV	6	0	6	5	0	0	0%	100%	83%	0%	0%
WY	5	1	4	3	0	0	20%	80%	60%	0%	0%
Total	**372**	**73**	**298**	**240**	**31**	**23**	**20%**	**80%**	**65%**	**8%**	**6%**

Appendix 1 based on memberships of State Accounting Boards Feb-March 2002. For list of current (June 2002) members for each state, see <http://www.enronwatchdog.org/reports/states.html>. See report methodology for additional discussion.

APPENDIX 2. RESULTS FROM REVIEW OF STATUTES

	Code/Statute Number	Total Number of Board Members By Statute	Number of Certified Public Accountants	Number of Public Accountants	Percentage of CPA and PAS of Total Board Members	Members of the Public (No Accting exp.)	Notes
AK	AS 08.04.020	7	5	or 5	71%	2	Total of 5 CPAs or PAs
AL	AL Code 34-1 to 34-22	7	5	1	86%	1	
AR	AR 17-12-201	7	4	1	71%	2	
AZ	AZ 6-32-701	7	5	1	86%	1	
CA	CA codes 5000-5025.1	11	6	N/A	55%	5	
CO	CO 12-2-101 to 132	7	5	N/A	71%	2	
CT	CT 389-20-279 to 20-287	7	4	N/A	57%	3	
DC	DC ST 47-2853.06	5	3	1	80%	1	
DE	DE 20-40- 103	9	4	2	67%	3	1 must be an attorney
FL	FL 32.473.303	9	7	N/A	78%	2	
GA	GA 43-3-1 to 43-3-38	7	5	1	86%	1	
HI	HI 10-466-4	9	7	N/A	78%	2	
IA	IA 542C	8	5	N/A	#VALUE!	3	1 must be accting practictioner
ID	ID 54-203	7	5	1	86%	1	
IL	ILCS 450/14	7	6	N/A	86%	1	
IN	IN code 25-2.1-2	6	4	1	83%	1	
KS	KS 1-201	7	5	N/A	71%	2	
KY	KY 325.230	7	6	N/A	86%	1	
LA	LA 1-2-37-74	7	7	N/A	100%	0	
MA	MA 1-2-13-33	5	3	1	80%	1	
MD	MD 2-202	7	4	1	71%	2	
ME	ME 32-113-2-12213	5	3	1	80%	1	
MI	MCL 339.721	9	6	N/A	67%	3	1-attorney
MN	MN 2001 326.17	9	5	2	78%	2	
MO	MO 10-1.010	7	6	N/A	86%	1	
MS	MS 73-33-3	7	7	N/A	100%	0	
MT	MT 2-15-1756	5	3	1	80%	1	
NC	NC 93-12	7	5	N/A	71%	2	

Appendix 1 based on memberships of State Accounting Boards Feb-March 2002. For list of current (June 2002) members for each state, see <http://www.enronwatchdog.org/reports/states.html>. See report methodology for additional discussion.

APPENDIX 2. RESULTS FROM REVIEW OF STATUTES

	Code/Statute Number	Total Number of Board Members By Statute	Number of Certified Public Accountants	Number of Public Accountants	Percentage of CPA and PAS of Total Board Members	Members of the Public (No Accting exp.)	Notes
ND	ND 43-02.2	5	4	1	100%	0	
NE	NE 1-107	8	6	N/A	75%	2	
NH	NH 30-309-B:4	5	3	1	80%	1	
NJ	NJ 45: 2B-46	12	7	2	75%	3	1- State executive dep member
NM	NM 179-30-61-28B:4	7	4	N/A	57%	3	
NV	NRS 628.045	7	6	1	100%	0	
NY	NY 149-7400 To 7409	22	20	N/A	91%	2	Public mbrs by S6508 Educ Law.
OH	OH 4701.02	9	8	N/A	89%	1	
OK	OK 59-15.2	7	6	N/A	86%	1	
OR	OR 973.410	7	5	1	86%	1	
PA	PA 49.11.1	15	8	2	67%	3	2 positions for public officials
RI	RI 5-3.1-4	5	3	1	80%	1	
SC	SC 40-2-70/80	9	5	2	78%	2	
SD	SD 36-20A-3	6	5	N/A	83%	1	
TN	TN 62-1-104	11	9	N/A	82%	2	1 must be an attorney
TX	TX 901.051 to 901.052	15	10	N/A	67%	5	
UT	UT 58-26a-201	5	4	N/A	80%	1	
VA	VA 54.1-4402	7	5	N/A	71%	2	1 must be an educator
VT	VT 26-1-2 51	5	2	1	60%	1	CPA or PA or Public Member
WA	RCW 18.04.035	9	8	N/A	89%	1	
WI	WI 15.405	7	5	N/A	71%	2	
WV	WV 30-9-3	7	5	1	86%	1	
WY	WS 33-3-103	5	4	N/A	80%	1	
Total		**397**	**282**	**28**	**78%**	**84**	

Appendix 1 based on memberships of State Accounting Boards Feb-March 2002. For list of current (June 2002) members for each state, see <http://www.enronwatchdog.org/reports/states.html>. See report methodology for additional discussion.

APPENDIX 3. RESULTS OF WEBSITE SURVEY--DISCIPLINARY INFORMATION

	Can Disciplinary Action Information Be Easily Found on the State Board website? (The PIRG researcher was able to locate the information within a five minute search of the website)	Accessibility Rank (1 = info available in list or database; 2 = info available in database that requires the name of an individual accountant or appearing in multiple locations on the website)
AK	No	n/a
AL	No	n/a
AR	No	n/a
AZ	Information "temporarily unavailable"	n/a
CA	Yes	1
CO	No	n/a
CT	No	n/a
DC	No	n/a
DE	No	n/a
FL	No	n/a
GA	No	n/a
HI	No	n/a
IA	No	n/a
ID	No	n/a
IL	Yes	2
IN	No	n/a
KS	Yes	1
KY	No	n/a
LA	No website	n/a
MA	Yes	2
MD	No	na/
ME	No	n/a
MI	No	n/a
MN	Yes	1
MO	No	n/a
MS	No	n/a
MT	No	n/a
NC	No	n/a

Appendix 1 based on memberships of State Accounting Boards Feb-March 2002. For list of current (June 2002) members for each state, see <http://www.enronwatchdog.org/reports/states.html>. See report methodology for additional discussion.

APPENDIX 3. RESULTS OF WEBSITE SURVEY--DISCIPLINARY INFORMATION

	Can Disciplinary Action Information Be Easily Found on the State Board website? (The PIRG researcher was able to locate the information within a five minute search of the website)	Accessibility Rank (1 = info available in list or database; 2 = info available in database that requires the name of an individual accountant or appearing in multiple locations on the website)
ND	No	n/a
NE	Yes	1
NH	No	n/a
NJ	No	n/a
NM	No	n/a
NV	No	n/a
NY	No	n/a
OH	Yes	1
OK	No	n/a
OR	No	n/a
PA	Yes	1
RI	No	n/a
SC	No	n/a
SD	No	n/a
TN	No	n/a
TX	No	n/a
UT	No	n/a
VA	No	n/a
VT	No	n/a
WA	Yes	1
WI	Yes	2
WV	No	n/a
WY	No	n/a
Total		

Appendix 1 based on memberships of State Accounting Boards Feb-March 2002. For list of current (June 2002) members for each state, see <http://www.enronwatchdog.org/reports/states.html>. See report methodology for additional discussion.