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June 6, 2008

Advisory Committee on the Auditing Profession
Office of Financial Institutions Policy
Department of the Treasury
1500 Pennsylvania Avenue NW Rm. 1418
Washington, D. C. 20220

Dear Committee Chair and Members:

Enclosed are my public comments for the Draft Report and Draft Report Addendum. They are these three documents:

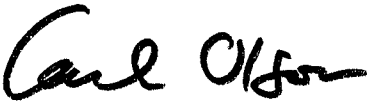
1. "CPA Auditors Should be Heroes to the Public, But They Currently are Listening to a Different Drummer".

2. "CPA Auditor Improvement Program".

3. "Statement on Accounting Graduates and Board Regulatory Failure".

You are working on a truly key part of ensuring the reliability and usefulness of financial information in our $13 trillion economy. Let us all know how we can help you achieve this improvement.

Sincerely,



Carl Olson

3 Enclosures

CPA Auditors Should be Heroes to the Public,

But They Currently are Listening to a Different Drummer

By Carl Olson,
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In a $13 trillion dollar economy, the public depends upon its CPA auditors to be heroes. The investing public depends upon the integrity of financial statements for entrusting their hard-earned funds, perhaps a life's savings. The cases of Enron, WorldCom, Rite Aid, Tyco, Lincoln Savings, Cedant, Waste Management and others keep ringing in our collective ears. Not just from the harm to direct and mutual fund investors, but also to employees, retirees, customers, lenders, labor unions, financial analysts, fund managers, and vendors.

CPA auditors serve a tremendous social function. They are presumed expert in applying the well-respected Generally Accepted Accounting Principles. They rightfully enjoy sizeable incomes. The enjoy monopolies for audit services. They enjoy the guaranteed legislated market for their audit services with publicly-traded corporations, nonprofit corporations, and many other organizations. In return for those advantages, the public expects sterling performance. In a real sense, the failings of auditors can be more dangerous than failings of doctors. When a doctor errs, one patient suffers. When an auditor gives an erroneous opinion, millions of investors may suffer potentially in the billions of dollars. In a real sense, an ounce of prevention may be worth a ton of cure.

The importance of watchmen watching the financial watchmen cannot be overstated. Investors can't personally comb the books and records of companies, and so must rely upon their CPA auditor watchmen. Indeed, the opinions of CPA auditors are directed not just to a corporation's directors, but to the stockowners. For publicly-traded companies, these opinions are ultimately directed to the entire public.

This basic philosophy is embodied in the law: "Protection of the public shall be the highest priority for the California Board of Accountancy in exercising its licensing, regulatory, and disciplinary functions. Whenever the protection of the public is inconsistent with other interests sought to be promoted, the protection of the public shall be paramount." (Business and Professions Code section 5000.1.)

Unfortunately, the CPA profession has been backpedaling for the past 30 years from accepting this social responsibility. During the bank and saving and loan meltdown of the 1980s, why did the auditing profession not find the $500 billion of losses in the hundreds of scams first? For this latest year, why were the billions of dollars of subprime lending losses not first found first by whistleblowing auditors? This downhill slide among CPA auditors can be seen in their malpractice insurance rates, their unwillingness to accept financial responsibility for their opinions, their attempts to eliminate much of the

Generally Accepted Accounting Principles, and their dominance over state boards of accountancy and other regulatory bodies.

Regulatory agencies have had a dismal recent record to encourage CPA auditors to perform ethically. The Securities and Exchange Commission, the U. S. Department of Justice, and state boards of accountancy have put white collar crimes and ethics on a low priority for enforcement budgets and actions. Fortunately, the recently-established Public Company Accounting Oversight Board is getting into high gear regarding the auditing profession, following certain reforms under the Sarbanes-Oxley Act of 2002.

Malpractice Insurance

Probably the most cogent measure of professional performance is its malpractice insurance rate. An industry with a 15% failure rate would be considered a poor example to all. Major CPA audit firms generally pay around 15% of their revenues as insurance premiums for malpractice, negligence, and fraud. Insurance companies are trying to tell the public something important.

Lack of Financial Responsibility

In my accounting class, I start out by asking, "What is the first thing you should say when you see a financial statement?" The correct answer should be, "I don't believe it. I never saw any of the underlying transactions or events." I then ask, "But what if the financial statements are printed in four-color ink on slick paper? Aren't they more credible?" The answer should be, "No. They are bigger numbers and present a bigger caution."

The only reason to believe a financial statement—especially from a large company—is that someone is willing to guarantee the accuracy. That is, to put their money where their mouths are. It's a type of insurance. That's the social function of CPA auditors. They are given complete access to all the accounting books and records to be evaluated under the Generally Accepted Accounting Principles using appropriate auditing standards. Auditors are paid well for their opinion that financial statements are reliable, that is they present fairly, in all material respects, the particular financial position and results under consideration.

But how do auditors put their money where their mouth is? It's and matter of dollars and cents: they are subject to loss if they render a faulty opinion. This fear of loss must always be present to motivate auditors to stay on the straight and narrow. For a corporation with a net worth of, say, $1 billion, just how much security should the stockowners require from an auditor to ensure that the $1 billion is a reliable figure?

In practice what surety from a CPA auditor backs up an audit opinion? It's the total of four things: the assets of the firm, the individual assets of the partners who work on the audit, the individual assets of all the other partners, and the malpractice insurance coverage.

Up through the 1980s CPA auditors had to be general partnerships. That is, all the personal assets of all the partners backed up the opinions of the firm. This method ensured that all partners kept a strict eye on all the others, because their personal fortunes could be imperiled by misdeeds of others. This form of quality control is the best, since it is the first line of defense against issuing faulty opinions.

However, when CPA auditors started losing malpractice lawsuits in the bank and savings and loan debacle of the 1980s, they started having to pay out hundreds of millions of dollars of judgments, penalties, and fines out of their own personal pockets. In a backwards move in the early 1990s, CPA auditors were allowed to become limited liability partnerships (those three letters LLP right after their names). This means that the only personal assets that are at stake are those of the individual one or two partners actually involved in an audit, rather than all the other partners. The Big Four CPA audit firms, KPMG LLP, Ernst & Young LLP, PricewaterhouseCoopers LLP, and Deloitte & Touche LLP, have thousands of partners, each of which is conservatively a millionaire. For a 4000-partner firm, this means that $4 billion of financial backup to opinions has been whisked away from aggrieved parties and investors. It has cheapened the value of opinions, and has removed an important self-regulating internal mechanism. (As a contrast, the legal profession still operates as general partnerships.)

Without the personal assets of al the partners, this leaves the investing public with only the net assets of the CPA auditing firm, the personal assets of the couple participating partners, and the malpractice insurance.

It would certainly be useful for the investing public to know just what does back up the CPA auditor's opinion for each company, so that an intelligent tradeoff can be computed. But in current practice, this information is secret. A stockowner resolution was proposed to LTV Corporation in 1998 to require a reporting of these figures to the stockowners. Unfortunately the stockowners were not even allowed to vote on the proposal because the Securities and Exchange Commission allowed LTV to omit the agenda item, saying the wherewithal of CPA auditors is a matter "relating to the conduct of the Company's ordinary business operations" and could not even be considered. ("No Action" letter of November 25, 1998, from SEC Office of Chief Counsel, Division of Corporation Finance)

<u>Low Priority at Federal Enforcement Agencies</u>

The "Ten Most Wanted" list of the Federal Bureau of Investigation is revealing. It currently has seven murderers, one bank robber, one sexual assailant, and one terrorist. It does not include any white collar criminals who have been causing vast damages in our economy. (<u>www.fbi.gov/wanted/topten/fugitives/fugitives.htm</u>)

The Sarbanes-Oxley Act of 2002 promised to impose criminal fines up to $5 million and sentences of up to 20 years in jail for corporate executives who issue false and misleading financial statements. (HR 3763, Sections 302 and 906) To date, the U. S. Department of Justice has prosecuted a total of zero. To put this in perspective, in 2005 there were 1599 restatements from publicly-traded corporations, and there were 1876 in 2006. Restatements, by definition, involve a previous statement that was materially false

and/or misleading. For every restatement, there was a CPA auditor involved. (The Wall Street Journal, February 12, 2007, "Restatements Still Bedevil Firms")

The Securities and Exchange Commission can investigate errant auditors. But its enforcement budget has remained static since 2002 rather than being dramatically increased since the Enron-inspired reforms. It should be doing more in such a target-rich environment. The Enron fiasco happened in 2001 with the complicity of Arthur Andersen LLP. The SEC—seven years later—has just gotten around to punishing the Arthur Andersen partners involved, David B. Duncan, Thomas H. Bauer, Michael M. Lowther, and Michael C. Odom, by barring them from appearing before the SEC as accountants, but no fines. "From 1998 to 2000, the accountant, David B. Duncan, was reckless in not knowing that the unqualified audit reports he signed on behalf of Arthur Andersen were materially false and misleading, the S.E.C. said." (The New York Times, January 29, 2008, "Accountant and S.E.C. Reach Deal in Enron Case")

State Boards of Accountancy

CPA auditors hold their licenses from state boards of accountancy, not from a federal agency. These boards have the power to revoke or suspend licenses under probation and impose fines and cost restitution. Anyone can lodge a complaint about CPA auditors based on news reports of wrongdoing unearthed by lawsuits and regulatory actions of the SEC and others. Unfortunately for the public, most boards of accountancy are dominated by license holders, and most meetings of boards of accountancy are not governed by open meeting laws.

In California, the largest state in the country, laws for open meetings and open records do apply. (www.dca.ca.gov/cba) The Board of Accountancy underwent considerable legislated restructuring in 2002 following the national debacles. The board now has a board of 15 composed of seven licensees and eight public members, instead of previous majority of licensees. Thirteen members are appointed by Governor Arnold Schwarzenegger, and one each is appointed by the leaders of the State Assembly and State Senate. (Bills AB270 and AB2873 www.leginfo.ca.gov)

The board has acted decisively on occasion. In 1994 it investigated Arthur Andersen's role in the Lincoln Savings fiasco that lost hundreds of millions of dollars under the direction of Charles Keating. (The "Keating Five" phrase refers to five U. S. Senators who tried to keep federal regulatory agencies from investigating Keating—Sen. John McCain of Arizona, Sen. Alan Cranston of California, Sen. Dennis DeConcini of Arizona, Sen. John Glenn of Ohio, and Sen. Donald Riegle of Michigan.) The board imposed fines and cost on Arthur Andersen of $1.4 million plus thousands of hours of training and pro bono work. (Board of Accountancy "Stipulation for Settlement AC-94-8, July 29, 1994)

KPMG helped to precipitate the largest bankruptcy of any county in the country, Orange County in California 1993. The board eventually punished KPMG with fines and costs of $1.8 million in 2002. (Board of Accountancy "Decision After Nonadoption" AC-98-17, July 25, 2002)

The board is limited, however, by personnel rules from Governor Schwarzenegger such that the enforcement staff does not even have an office in the southern part of the state, which accounts for 60 percent of the cases, and cannot offer competitive salaries for investigative CPAs.

These recent complaints about major CPA auditors have been deferred or turned down for investigation:

PricewaterhouseCoopers LLP: "The suit alleges, among other claims, that Tyco International Ltd. committed securities fraud by improperly accounting for acquisitions and manipulating quarterly results. Earlier this year, Tyco agreed to pay about $3 billion to settle the case, which would be the largest payout in a securities litigation by one company. Tyco's auditor at the time—PricewaterhouseCoopers LLP, which was also a defendant—has agreed to pay $225 million." (The Wall Street Journal, November 1, 2007)
Board of Accountancy position: "We will review your complaint and advise you as to the California Board of Accountancy's jurisdictional authority in this matter." (December 10, 2007, BOA letter to complainant)

Ernst & Young LLP: "In its report on Ernst & Young LLP for 2006 the [Public Company Accounting Oversight] Board said the firm appeared to have signed off on some public company audits without having sufficient evidence to support its opinions. The board cited problems related to eight Ernst & Young audits. The board had cited 10 audits for 2005." (The Wall Street Journal, May 3, 2007) Board of Accountancy position: "In conclusion, we believe the 2005 and 2006 PCAOB inspection reports referenced in your recent complaint are not clear and convincing evidence of violation of California's Accountancy Act and our review of your complaint is now complete." (December 18, 2007, BOA letter to complainant)

Deloitte & Touche LLP: "Deloitte & Touche, one of the Big Four accounting firms, agreed yesterday to pay $1 million to settle accusations that it had botched an audit of a pharmaceutical company by entrusting it to a partner it knew to be a poor auditor. The penalty was issued by the Public Company Accounting Oversight Board and was the first use of its disciplinary powers against a large accounting firm." (The New York Times, December 11, 2007) Board of Accountancy position: "We will review your complaint and advise you as to the California Board of Accountancy's jurisdictional authority in this matter." (December 27, 2007, BOA letter to complainant)

CPAs Oppose GAAP

The Generally Accepted Accounting Principles form the bulwark of clear and reliable financial reports. In approximately 20,000 pages it examines every nook and cranny of business operations, transactions, and events and specifies exact ways to record and present them under the direction of the Financial Accounting Standards Board. CPAs have enjoyed the cachet of having mastered GAAP for the benefit of their clients. GAAP provides a clear understanding for both the issuer and reader to rely upon.

However, under the leadership of the Chairman Christopher Cox, the SEC is actively working to eliminate GAAP in financial statements for publicly-traded securities.

It wants to replace GAAP with the International Financial Reporting Standards (IFRS) and have CPA auditors render opinions using this other system.

IFRS consists of about 2000 pages of principles and guidance, which give companies and auditors wide latitude in interpreting. The loss of 18,000 pages of direction means that the meaning of terms and figures can vary considerably among firms and CPA auditors, such that comparability and consistency are considerably impaired. "Materiality" will become even hazier.

GAAP is based on American commercial law. No particular national commercial law governs IFRS. Gerrit Zalm of the Netherlands is the current chairman of the IFRS governing body International Accounting Standards Committee Foundation. Americans are not required to be on the IFRS board. IFRS is not generally taught in American business schools, nor understood by the American investing community.

An example of differing results under GAAP and a foreign-based accounting system arose when Daimler-Benz AG wanted to trade on the New York Stock Exchange in 1993. Up until this coming year, the SEC has required foreign firms to provide a GAAP presentation of its financial statements in order to trade in the U. S. The $102 million net income under German rules turned into a $579 million loss under GAAP. "[Chairman Edzard] Reuter acknowledged that his and other German companies had obscured operating losses or propped up gains in lean quarters by injecting income from the fat ones. Daimler enjoyed windfall profits in the 1980s and saved a portion of those earnings as reserves 'for difficult times, and now we have such times,' he said." (Los Angeles Daily News, September 18, 1993)

On November 15, 2007, the SEC adopted this exception to allow foreign companies to use IFRS only and not include a GAAP translation. The SEC had solicited comments from the public for this regulatory change and had received many. In a revealing set of comments, each of the Big Four CPA firms favored the replacement of GAAP with IFRS. Indeed, James S. Turley, Chairman and CEO of Ernst & Young LLP, wrote an op-ed article for The Wall Street Journal on November 9, "At Ernst & Young, we will weigh in with strong support for the SEC to set a certain date for a shift to IFRS."

Not just content with having foreign-based firms using IFRS, the SEC is proposing to eliminate GAAP entirely for all publicly-traded firms. Again, the Big Four CPA firms are supporting this quantum leap away from GAAP to IFRS. The entire campaign, including comment letters, can be seen on the SEC website: www.sec.gov/spotlight/ifrsroadmap.htm.

Public Company Accounting Oversight Board

A positive reform in the Sarbanes-Oxley Act of 2002 was to create the Public Company Accounting Oversight Board. It now specifies the auditing standards for the country. It also examines the performance of CPA auditors. Its website shows inspection reports on CPA firms large and small, listing out many deficiencies. The website has about 500 inspection reports (www.pcaobus.org/Inspections/Public_Reports/index.aspx). Many

parts of the inspection reports are not made public, but the public portions provide illuminating revelations about the quality of audit work in this country.

Standing Up CPA Auditors Again

The essential beneficial social function of CPA auditors can be restored so that their opinions provide meaningful assurance as to the reliability of financial statements. Too much backsliding has been allowed to proceed. In a realistic world, one cannot expect the CPA profession to work against its own self-interest. After all, CPA auditors are a business lobbying group, like all self-interested lobbying groups representing their financial interests against all others. The public really can't CPA auditors to bite the hands that feed them.

The investing public needs to take appropriate political action at the federal and state levels. The non-CPA accounting profession has a vested interest in making sure that GAAP and proper accounting practices are maintained.

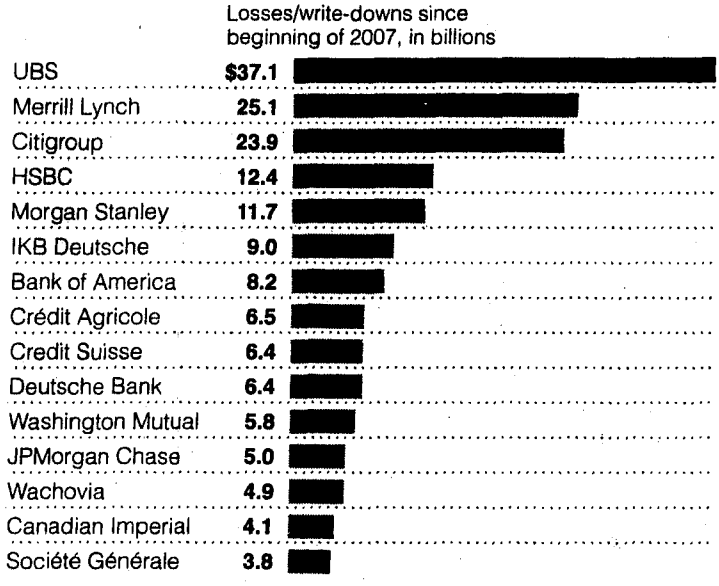
At the federal level, the two regulatory agencies PCAOB and SEC need to be monitored, and input needs to be provided for improvement. The President needs to be urged to appoint sympathetic members. In Congress the two oversight committees are the Senate Banking, Housing and Urban Affairs Committee (Christopher Dodd, D-CT, Chair, and Richard Shelby, R-AL, Ranking Member) and House Financial Services Committee (Barney Frank, D-MA, Chair, and Spencer Bachus, R-AL, Ranking Member).

At the state level, the legislatures and boards of accountancy need to be monitored, and input is needed for improvements. The new laws in California could be a good model. Accountants would be well advised to attend state boards of accountancy meetings to see if and how the accounting profession is in fact being supervised in their states. Moreover, anyone can file complaints against CPA auditor with boards of accountancy based upon news reports of possible misdeeds.

Yes, the public can be the watchmen who watch the (government) watchmen who watch the CPA auditor watchmen who watch the company accountant watchmen. If everybody energetically and ethically fulfills his or her duty, the only way is up.

Stung by Subprime

Many of the world's largest banks have suffered billions in losses in recent months because of their exposure to subprime loans in the United States.



Source: Bloomberg

THE NEW YORK TIMES

THE NEW YORK TIMES **NATIONAL** WEDNESDAY, APRIL 2, 2008

Where Were the CPA Auditors?

Restatements Still Bedevil Firms

Overall Total Hits a Record As Big Companies Improve; Backdating's Messy Wake

By DAVID REILLY

Publicly traded companies filed 1,876 restatements of financial results in 2006, setting a record for corrections of financial statements while showing that many still are struggling to get the accounting right for both simple and complex transactions.

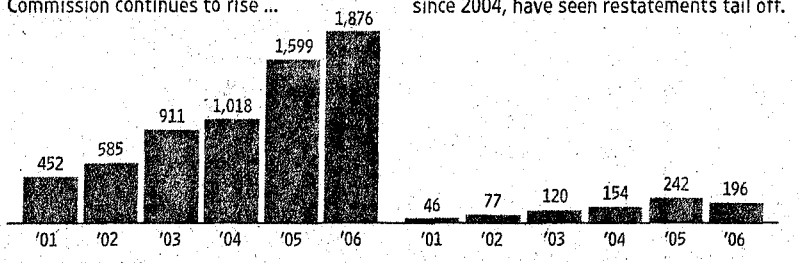
In a sign that some of the corporate-governance changes enacted this decade may be taking root, the number of restatements filed by large companies fell in 2006, the first such decline since 2001, according to a study by audit research firm AuditAnalytics. Large companies—those having more than $700 million in stock that the public is able to buy—filed 196 restatements in 2006, a nearly 20% drop from the previous year.

By contrast, companies with a public float of less than $75 million, which don't yet have to follow rules related to checks on their internal controls, continued to have restatements climb. In 2006, U.S. companies in this category filed 1,108 restatements, a 42% jump from the previous year. This group accounted for more than two-thirds of the 1,608 restatements filed by U.S. companies. "Presumably the difference is because internal controls are working better," said Mark Cheffers, chief executive of AuditAnalytics.

Restatements of financial results are akin to a product recall and mean that investors no longer can rely on figures companies previously provided and which may have formed the basis for their decision to buy or sell stocks or bonds. Restatements, a black mark both for financial executives within a company and its outside auditors, once were fairly rare and occurred only when major problems were found.

Oops!

The number of restatements filed each year by U.S. and foreign companies registered with the Securities and Exchange Commission continues to rise ... ... But large companies, which have had to follow controversial internal-controls rules since 2004, have seen restatements tail off.



Source: AuditAnalytics

That changed in the wake of corporate scandals such as Enron and WorldCom. Auditors who generally missed the frauds that rocked markets began doing a more-thorough job than they did during the technology boom. The Sarbanes-Oxley Act, passed in 2002, also created a regulator for accounting firms, causing them to further improve audits. Finally, Sarbanes-Oxley mandated that corporate executives attest to having internal systems designed to prevent accounting mistakes and fraud, and that auditors check these mechanisms, known as internal controls.

Combined, the changes caused restatements to soar to 1,876 in 2006 for both U.S. and foreign companies filing with the Securities and Exchange Commission, according AuditAnalytics. Restatements last year rose 17% from 2005 and compare with just 452 restatements in 2001.

Where did companies mess up the most in their accounting? Looking at all restatements filed in 2006, the measurement and recognition of debt and stock or equity instruments caused the most errors, accounting for about 27% of total restatements, according to AuditAnalytics. This seemed to be mainly a small-company problem. Among bigger companies, this area accounted for just 6% of restatements in 2006.

Big and small companies alike were tripped up by problems related to the backdating of stock options, Mr. Cheffers said. Restatements related to compensation issues accounted for the second-highest category of restatements among all companies. Among larger companies, this issue was the biggest problem, accounting for 38% of their 2006 restatements, according to AuditAnalytics.

Two other problem areas for the big guys: accounting related to cash-flow statements and tax issues. Each area accounted for 21% of 2006 restatements for big companies.

GE to Adjust Accounting in Bid to End Probe

By Kathryn Kranhold
And Randall Smith

General Electric Co. is expected to make changes to its accounting policies and procedures in an effort to end a long-running Securities and Exchange Commission probe, people familiar with the situation say.

The formal investigation has prompted GE to twice restate its financial results and to make three disclosures over additional accounting errors since 2005. Several employees have been disciplined or fired; the probe also contributed to the expected March retirement of GE's chief accounting officer, Philip Ameen, people familiar with the matter say. The audit committee of GE's board last year hired its own independent counsel for the probe.

Through a GE spokesman, Mr. Ameen, 59 years old, declined to comment. The spokesman, Russell Wilkerson, said, "Mr. Ameen's decision to retire had nothing to do with this probe. It was his personal decision and he had been planning to retire."

People familiar with the situation say the three-year-old probe could continue for another year. Those people say GE, its outside lawyers and regulators are looking more closely at how GE recognizes revenue. Problems with revenue recognition have cropped up in several GE units.

The sums involved at this point are modest for a company the size of GE, which reported $173 billion in revenue this past year. The biggest restatement, disclosed last year, reduced net income for 2002 by $1.2 billion. Correcting other mistakes would have increased GE's earnings during some years.

GE has disclosed some changes in its accounting procedures as a result of the investigation. The changes include adding staff in corporate accounting to review revenue matters and bolstering the internal-audit department, according to GE filings and officials.

GE is expected to file its 2007 SEC report soon, including a further update on its investigation. The Fairfield, Conn., conglomerate declined to provide details about the report.

Once GE completes its internal investigations, people familiar with the situation say, the company is likely to adopt additional accounting procedures and policies designed to reduce the chances for future missteps.

GE's Mr. Wilkerson declined to comment on the investigation's future. "We find the errors. We fix them and disclose them," he said. "We can't comment on when or how this will conclude."

The investigation started in January 2005 with a review of GE's accounting for complex financial transactions known as derivatives. In May 2005, GE restated financial results for the period from 2001 through 2004; it also corrected its derivative accounting for the first quarter of 2005.

The net effect of the derivative errors and subsequent accounting changes increased GE's net income over the period by $538 million, according to the company. In January 2007, GE restated its results from 2001 through the third quarter of 2006 for similar reasons. Those changes reduced net income over the period by $343 million.

The derivative probe opened the door for a deeper investigation into GE's accounting. GE's internal investigation is led by **Wilmer-Hale** LLC's William McLucas, a former head of the SEC's enforcement division. GE's board audit committee is represented by **Cravath, Swaine & Moore** LLP.

Mr. Wilkerson said the board audit committee hired Cravath because "we and the audit committee decided an independent investigation was warranted."

In each of the past three quarters, GE has corrected financial statements because it improperly booked income at its rail, aircraft-engines, health-care, energy and water units. For example, the water unit booked as revenue the sales of water-treatment chemicals that customers retained an option to return, Mr. Wilkerson said. In GE's aircraft-engine unit, managers booked revenue on spare parts that hadn't been installed or paid for under a long-term service contract, according to an SEC filing.

GE says it fired an unspecified number of employees at its locomotive and capital-markets services groups, where managers structured improper deals with finance companies that shifted locomotives off GE's books before rail customers bought them. GE retained possession of the locomotives and remained liable if they were damaged. The capital-markets services group works with the industrial units to line up financing for customers, and to structure deals.

The deals helped the locomotive unit book revenue in the fourth quarter during the years 2000 through 2003 that GE said should have been recorded in the first quarters of the following years. In the fourth quarter of 2003, for example, GE's locomotive unit overstated revenue by 22.6%, and profit by 16.6%, according to an SEC filing.

THE WALL STREET JOURNAL. | *Tuesday, February 19, 2008*

Another Enormous Re-Statement in the Billions.

Why Did Not GE's Auditors KPMG LLP Find Them First?

Daimler 1st German firm to enter Wall St.

Associated Press

BONN, Germany — Daimler-Benz AG reported a first-half loss of 949 million marks, or $579 million, Friday, adopting U.S. accounting rules as it prepared to become the first German company listed on the New York Stock Exchange.

REUTER

The figures, released by Daimler as a condition for gaining a foothold on Wall Street, marked a nadir for Germany's largest industrial firm, maker of Mercedes cars, jet fighters and electronic goods.

Chairman Edzard Reuter said the company was seeking to save 8 billion marks, or $4.9 billion, in costs by 1997. The conglomerate will cut 40,000 jobs — 20 percent of current payrolls — by the end of 1994, he said.

The financial report, the first published by a German company under U.S. Securities and Exchange Commission guidelines, also provided a revealing glimpse into the accounting procedures of German firms.

Using German rules, which allow firms to dip into reserves to bolster results, Daimler had a profit of 168 million marks, or $102 million, for the first six months of 1993.

Reuter acknowledged that his and other German companies had obscured operating losses or propped up gains in lean quarters by injecting income from the fat ones.

Daimler enjoyed windfall profits in the 1980s and saved a portion of those earnings as reserves "for difficult times, and now we have such times," he said.

Reuter, 65, is the unofficial leader of Germany's business community. His warning at a Stuttgart news conference that Daimler might have to shut German plants were expected to reverberate in the country.

"There is no room for protected species and taboos if production locations in Germany are to remain competitive," Reuter said.

German autoworkers' wages are on average 40 percent higher than their American counterparts, and big German corporations have been criticized as top-heavy.

July 2006

GAO
Accountability · Integrity · Reliability

Highlights

Highlights of GAO-06-678, a report to the Ranking Minority Member, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

FINANCIAL RESTATEMENTS

Update of Public Company Trends, Market Impacts, and Regulatory Enforcement Activities

Why GAO Did This Study

In 2002, GAO reported that the number of restatement announcements due to financial reporting fraud and/or accounting errors grew significantly between January 1997 and June 2002, negatively impacting the restating companies' market capitalization by billions of dollars. GAO was asked to update key aspects of its 2002 report (GAO-03-138). This report discusses (1) the number of, reasons for, and other trends in restatements; (2) the impact of restatement announcements on the restating companies' stock prices and what is known about investors' confidence in U.S. capital markets; and (3) regulatory enforcement actions involving accounting- and audit-related issues. To address these issues, GAO collected restatement announcements meeting GAO's criteria, calculated and analyzed the impact on company stock prices, obtained input from researchers, and analyzed selected regulatory enforcement actions.

What GAO Recommends

GAO recommends that SEC investigate potential noncompliance with current Form 8-K filing requirements and make consistent the guidance to registrants concerning required disclosures regarding certain restatements. SEC stated that it would examine the instances of potential non-compliance and carefully consider harmonizing guidance concerning Form 8-Ks.

www.gao.gov/cgi-bin/getrpt?GAO-06-678.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Orice M. Williams at (202) 512-5837 or williamso@gao.gov.

What GAO Found

While the number of public companies announcing financial restatements from 2002 through September 2005 rose from 3.7 percent to 6.8 percent, restatement announcements identified grew about 67 percent over this period. Industry observers noted that increased restatements were an expected byproduct of the greater focus on the quality of financial reporting by company management, audit committees, external auditors, and regulators. GAO also observed the following trends: (1) cost- or expense-related reasons accounted for 35 percent of the restatements, including lease accounting issues, followed in frequency by revenue recognition issues; and (2) most restatements (58 percent) were prompted by an internal party such as management or internal auditors. In the wake of increased restatements, SEC standardized disclosure requirements by requiring companies to file a specific item on the Form 8-K when a company's previously reported financials should no longer be relied upon. However, between August 2004-September 2005, about 17 percent of the companies GAO identified as restating did not appear to file the proper disclosure when they announced their intention to restate. These companies continued to announce intentions to restate previous financial statements results in a variety of other formats.

Although representing about 0.4 percent of the market capitalization of the major exchanges, which was $17 trillion in 2005, the market capitalization of companies announcing restatements between July 2002 and September 2005 decreased $63 billion when adjusted for market movements ($43 billion unadjusted) in the days around the initial restatement announcement. Researchers generally agree that restatements can negatively affect overall investor confidence, but it is unclear what effects restatements had on confidence in 2002–2005. Some researchers noted that investors might have grown less sensitive to the announcements. Others postulated that investors had more difficulty discerning whether restatements represented a response to aggressive or abusive accounting practices, complex accounting standards, remediation of past accounting deficiencies, or technical adjustments. Although researchers generally agree that restatements can have a negative effect on investor confidence, the surveys, indexes, and other proxies for investor confidence that GAO reviewed did not indicate definitively whether investor confidence increased or decrease since 2002.

As was the case in the 2002 report, a significant portion of SEC's enforcement activities involved accounting- and auditing-related issues. Enforcement cases involving financial fraud- and issuer-reporting issues ranged from about 23 percent of total actions taken to almost 30 percent in 2005. Of the actions resolved between March 1, 2002, and September 30, 2005, about 90 percent were brought against public companies or their directors, officers, and employees, or related parties; the other 10 percent involved accounting firms and individuals involved in the external audits of these companies.

the FBI's ten most wanted fugitives

Get e-mail updates when most wanted fugitives information is posted here

MURDER

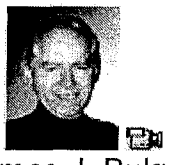
Jorge Alberto Lopez-Orozco
En Espanol

MURDER

Usama Bin Laden

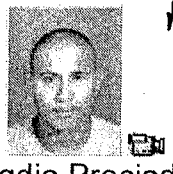
MURDER & ROBBERY

Jason Derek Brown



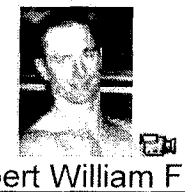
MURDER, EXTORTION, & ROBBERY

James J. Bulger
En Espanol
En Francais
In Italiano (pdf)
auf deutsch (pdf)
em portugues



ATTEMPTED MURDER

Emigdio Preciado Jr
En Espanol



MURDER & ARSON

Robert William Fisher

BANK ROBBERY

Victor Manuel Gerena
En Espanol

MURDER

Glen Stewart Godwin
En Espanol

SEXUAL ASSAULT & CHILD PORN

Jon Savarino Schillaci
En Espanol

MURDER & KIDNAPPING

Alexis Flores
En Espanol

Criminal referrals by FBI plummet

From the Associated Press

WASHINGTON — The FBI is submitting nearly 40% fewer criminal investigations to the Justice Department for prosecution than it did two decades ago, a study indicated Thursday.

The bureau has focused on terrorism investigations in recent years.

Other federal agencies also heavily engaged in white-collar criminal investigations are showing similar changes, said the study by the Transactional Records Access Clearinghouse, a private group at Syracuse University.

A top FBI official said the agency's new anti-terrorism emphasis was necessary and effective.

"To say the FBI is a shadow of its former self is to ask the question: What do you get for shifting FBI agents to the national security mission?" said John Miller, an assistant FBI director. "If the answer is going 6½ years without a successful attack by terrorists on U.S. soil, then I think it's a win."

Meanwhile, federal immigration investigations have soared, now accounting for more than a quarter of all criminal referrals to the Justice Department, according to TRAC.

Last year, 41,600 immigration cases went to the Justice Department for possible prosecution, more than double the figure from 2001. The latest figure is four times the number of cases two decades ago.

The FBI accounts for 16% of cases referred to the Justice Department for prosecution; 20 years ago the bureau accounted for 36%, TRAC said.

TRAC's findings are based on government data obtained under the Freedom of Information Act.

Miller said the FBI was "doing fewer low-end fraud and drug cases, the easy layups."

"At the same time hundreds of agents worked on Enron, HealthSouth, Qwest. Another priority, complex public corruption cases, may take two years, but the result is an achievement that transcends arrest numbers."

Last year, the FBI made 2,300 referrals to the Justice Department in white-collar investigations, an 82% decline from 2001. White-collar referrals peaked at 20,900 in 1993.

Other federal law enforcement agencies seeing dramatic declines in criminal referrals include the Secret Service, the Internal Revenue Service and the Postal Inspection Service.

LOS ANGELES TIMES FRIDAY, MARCH 7, 2008

trac.syr.edu

The New York Times

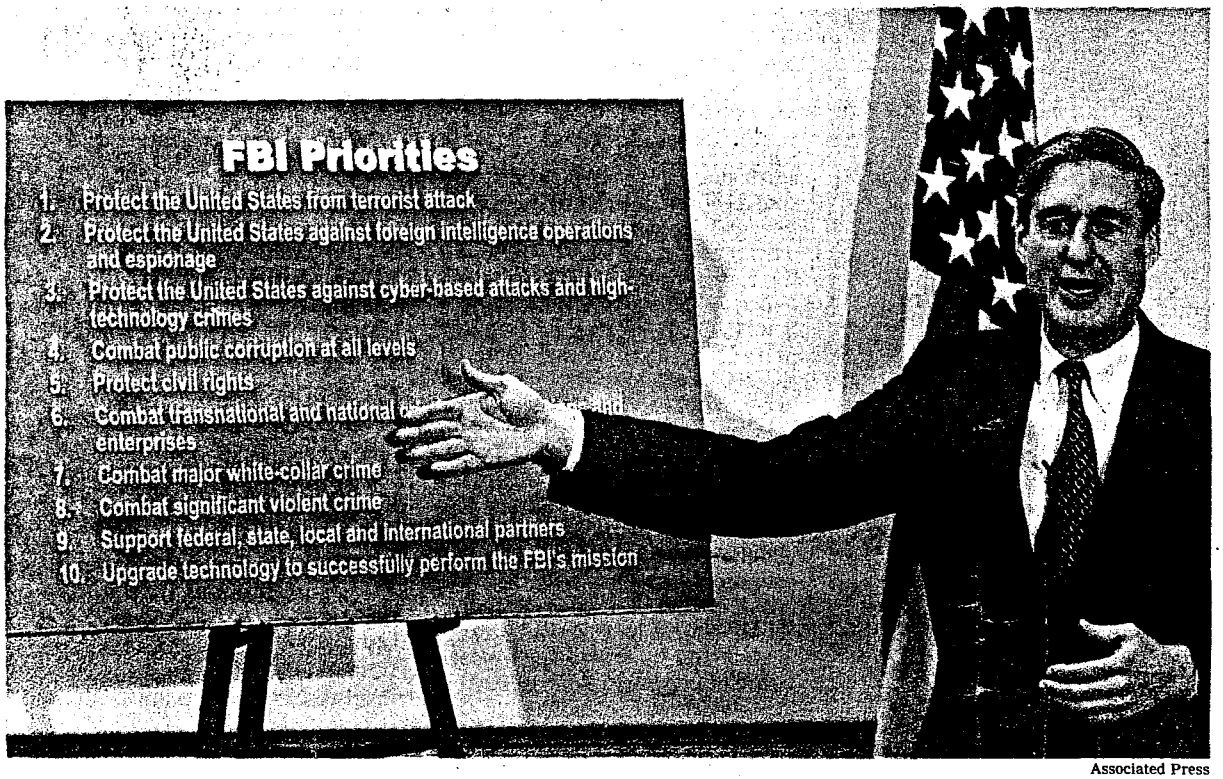
National Edition

Southern California: Patchy morning clouds. Fog along the coast, then mostly sunny. Highs from the 70's at the beaches to near 100 in the deserts. Weather map appears on Page A18.

yright © 2002 The New York Times

THURSDAY, MAY 30, 2002 + Printed in California ONE DOLLAR

F.B.I. Chief Admits 9/11 Might Have Been Detectable



Associated Press

The director of the F.B.I., Robert S. Mueller III, explaining plans to shift the bureau's priorities and resources.

#7

Terrorist Threat to Be Priority for Bureau

By NEIL A. LEWIS

WASHINGTON, May 29 — The director of the F.B.I., Robert S. Mueller III, acknowledged today for the first time that the attacks of Sept. 11 might have been preventable if officials in his agency had responded differently to all the pieces of information that were available.

As a result, Mr. Mueller said he was beginning an overhaul of the Federal Bureau of Investigation to aim more resources toward what he asserted is now its fundamental mission: the prevention of new terrorist operations. The changes, he said, are designed to bolster the bureau's capability to analyze information about terrorist threats and anticipate possible attacks.

"I cannot say for sure that there wasn't a possibility we could have come across some lead that would have led us to the hijackers," Mr. Mueller told reporters after listing several missed opportunities by offi

Government Will Ease Limits

Self-Criticism

Mind the GAAP

By James S. Turley

Discussions about accounting may seem a bit of a snooze, but don't tune out just yet. An accounting decision coming up soon will have major implications for the world's capital markets.

The Securities and Exchange Commission has already proposed allowing non-U.S. companies to file U.S. financial reports using International Financial Reporting Standards (IFRS) in lieu of U.S. Generally Accepted Accounting Principles (GAAP). Now, the agency is seeking comment, until Nov. 13, on whether to allow U.S. companies to make the shift as well. But there is an even larger question to answer: Should the SEC shed its former allegiance to GAAP and throw its weight behind the international reporting standards?

The SEC should adopt international financial reporting standards.

That would be a good idea. Much of the world is still speaking different languages when it comes to financial reporting. It's confusing, inefficient and outmoded. Just think of the chaos that would ensue at next year's Olympics in Beijing if teams from different countries played by different rules. That's the situation much of the business and investment world is living with today. Disparities in financial reporting caused by differing accounting standards may have been tolerable when cross-border investment was a fraction of what it is today. In today's global market, these disparities exact a high price.

By definitively lining up behind a single set of high-quality global accounting standards that everyone can use, the SEC would bring greater efficiency to companies that currently must pay internal and external legal and accounting experts—including firms like mine—to help them sort through accounting differences across multiple jurisdictions. The shift would be good for investors as well: A single set of standards would bring a new level of comparability and reliability for investors who place more and more bets in far away places.

There would also be benefits for emerging markets and the poorest countries of the world. A globally embraced set of standards can provide a readily available foundation for capital market activity. This could promote investment, strengthen the economy and improve people's lives.

I manage a firm with a presence in over 140 countries, and from my perspective it is clear that the fluidity of the world's capital markets is outstripping the reach and constraints of national regulatory approaches. The pace of change in capital markets begs for bold action. The willingness of the U.S. and other nations to embrace International Financial Reporting Standards and give up GAAP provides a glimpse of the prospect for more international collaboration—rather than stand-alone national approaches—in other areas of capital market regulation.

True, it can be difficult for national representatives to relinquish direct control and embrace international collaboration, and the transition will have its share of hurdles. Many U.S. companies are not ready to make the change, and they have legitimate concerns about the degree to which judgments about international standards will be respected by regulators and the courts.

In many countries, the shift to international standards is already underway. While English may be the dominant global language of business, IFRS—not U.S. GAAP—is becoming the dominant language for financial reporting. Today, more than 100 countries either require or permit IFRS as their accounting standard or base their own local standards on it. Canada shifts in 2011, while Brazil, Chile, India, Israel and Korea are among the countries that have also set a date for a move to IFRS.

Robert Herz, chairman of the Financial Accounting Standards Board, recently suggested establishing a target date or dates for transitioning to IFRS, following a series of IFRS improvements. To take his suggestion a step further, the U.S. should reject a wait-and-see approach, go beyond the *possibility* of a switch and declare that it will adopt IFRS as of a date certain for all public companies filing in the U.S.

Such a move would enable U.S. companies to begin preparing now and would provide impetus to confront needed legal and regulatory changes that would accompany the shift. It would motivate universities to train tomorrow's accountants in IFRS and promote similar moves by other jurisdictions to embrace these international standards instead of modifying them for local use. This would also help countries establish and work toward the improvement of a single standard, rather than devoting their energy to tweaking national standards to make them look more like IFRS.

At Ernst & Young, we will weigh in with strong support for the SEC to set a certain date for a shift to IFRS. As SEC Chairman Christopher Cox has said, "Having a set of globally accepted accounting standards is critical to the rapidly accelerating global integration of the world's capital markets."

Mr. Turley is chairman and CEO of Ernst & Young.

THE WALL STREET JOURNAL.

Friday, November 9, 2007

Loophole Lets Bank Rewrite The Calendar

It is not often that a major international bank admits it is violating well-established accounting rules, but that is what Société Générale has done in accounting for the fraud that caused the bank to lose 6.4 billion euros — now worth about $9.7 billion — in January.

FLOYD NORRIS

HIGH & LOW FINANCE

In its financial statements for 2007, the French bank takes the loss in that year, offsetting it against 1.5 billion euros in profit that it says was earned by a trader, Jérôme Kerviel, who concealed from management the fact he was making huge bets in financial futures markets.

In moving the loss from 2008 — when it actually occurred — to 2007, Société Générale has created a furor in accounting circles and raised questions about whether international accounting standards can be consistently applied in the many countries around the world that are converting to the standards.

While the London-based International Accounting Standards Board writes the rules, there is no international organization with the power to enforce them and assure that companies are in compliance.

In its annual report released this week, Société Générale invoked what is known as the "true and fair" provision of international accounting standards, which provides that "in the extremely rare circumstances in which management concludes that compliance" with the rules "would be so misleading that it would conflict with the objective of financial statements," a company can depart from the rules.

In the past, that provision has been rarely used in Europe, and a similar provision in the United States is almost never invoked. One European auditor said he had never seen the exemption used in four decades, and another said the only use he could recall dealt with an extremely complicated pension arrangement that had not been contemplated when

Continued on Page 9

Loophole Lets Bank Rewrite the Calendar

From First Business Page

the rules were written.

Some of the people who wrote the rule took exception to its use by Société Générale.

"It is inappropriate," said Anthony T. Cope, a retired member of both the I.A.S.B. and its American counterpart, the Financial Accounting Standards Board. "They are manipulating earnings."

John Smith, a member of the I.A.S.B., said: "There is nothing true about reporting a loss in 2007 when it clearly occurred in 2008. This raises a question as to just how creative they are in interpreting accounting rules in other areas." He said the board should consider repealing the "true and fair" exemption "if it can be interpreted in the way they have interpreted it."

No international body has the final say on accounting rules.

Société Générale said that its two audit firms, Ernst & Young and Deloitte & Touche, approved of the accounting, as did French regulators. Calls to the international headquarters of both firms were not returned, and Société Générale said no financial executives were available to be interviewed.

In the United States, the Securities and Exchange Commission has the final say on whether companies are following the nation's accounting rules. But there is no similar body for the international rules, although there are consultative groups organized by a group of European regulators and by the International Organization of Securities Commissions. It seems likely that both groups will discuss the Société Générale case, but they will not be able to act unless French regulators change their minds.

"Investors should be troubled by this in an I.A.S.B. world," said Jack Ciesielski, the editor of The Analyst's Accounting Observer, an American publication. "While it makes sense to have a 'fair and true override' to allow for the fact that broad principles might not always make for the best reporting, you need to have good judgment exercised to make it fair for investors. SocGen and its auditors look like they were trying more to appease the class of investors or regulators who want to believe it's all over when they say it's over, whether it is or not."

Not only had the losses not occurred at the end of 2007, they would never have occurred had the activities of Mr. Kerviel been discovered then. According to a report by a special committee of Société Générale's board, Mr. Kerviel had earned profits through the end of 2007, and entered 2008 with few if any outstanding positions.

But early in January he bet heavily that both the DAX index of German stocks and the Dow Jones Euro Stoxx index would go up. Instead they fell sharply. After the bank learned of the positions in mid-January, it sold them quickly on the days when the stock market was hitting its lowest levels so far this year.

In its annual report, Société Générale says that applying two accounting rules — IAS 10, "Events After the Balance Sheet Date," and IAS 39, "Financial Instruments: Recognition and Measurement" — would have been inconsistent with a fair presentation of its results. But it does not go into detail as to why it believes that to be the case.

One rule mentioned, IAS 39, has been highly controversial in France because banks feel it unreasonably restricts their accounting. The European Commission adopted a "carve out" that allows European companies to ignore part of the rule, and Société Générale uses that carve out. The commission ordered the accounting standards board to meet with banks to find a rule they could accept, but numerous meetings over the past several years have not produced an agreement.

Investors who read the 2007 annual report can learn the impact of the decision to invoke the "true and fair" exemption, but cannot determine how the bank's profits would have been affected if it had applied the full IAS 39.

It appears that by pushing the entire affair into 2007, Société Générale hoped both to put the incident behind it and to perhaps de-emphasize how much was lost in 2008. The net loss of 4.9 billion euros it has emphasized was computed by offsetting the 2007 profit against the 2008 loss.

It may have accomplished those objectives, at the cost of igniting a debate over how well international accounting standards can be policed in a world with no international regulatory body.

Floyd Norris comments on finance and economics in his blog at norris.blogs.nytimes.com.

MOBILE: FLOYD NORRIS

Get your favorite columns on your mobile phone. Text the author's name — for example, "norris" — to 698698.

THE NEW YORK TIMES, TUESDAY, JANUARY 29, 2008

Accountant And S.E.C. Reach Deal In Enron Case

WASHINGTON (Reuters) — A former partner at Arthur Andersen responsible for the **Enron** Corporation account has settled allegations that he violated securities laws when he signed audit reports that were false and misleading, the Securities and Exchange Commission said Monday.

From 1998 through 2000, the accountant, David B. Duncan, was reckless in not knowing that the unqualified audit reports he signed on behalf of Andersen were materially false and misleading, the S.E.C. said. Arthur Andersen is now defunct.

Mr. Duncan failed to exercise "due professional care and the necessary skepticism" required to ensure that financial statements for Enron, which collapsed under a string of accounting scandals, conformed to accounting rules, the S.E.C. said.

Mr. Duncan, who neither admitted nor denied the allegations, has agreed not to appear before the S.E.C. as an accountant. A fine was not levied against him.

In related proceedings, three other Andersen partners — Thomas H. Bauer, Michael M. Lowther and Michael C. Odom — settled S.E.C. allegations that they had each engaged in improper professional conduct in connection with their Enron work.

The three former partners, who neither admitted nor denied the allegations, have agreed not to appear or practice before the agency as an accountant. They can each petition the S.E.C. for reinstatement after two to three years.

MARCH 15, 1977 / ONE DOLLAR

FORBES

Accountants' Report

March 15, 1977

To the directors and stockholders:

We have examined the Consolidated Balance Sheet of the company and consolidated subsidiaries as of December 31, 1976 and 1975. In our opinion, these financial statements present fairly the financial position of the companies, in conformity with generally accepted accounting principles consistently applied.

On the other hand, there is a growing body of opinion that holds that our opinion is not worth a damn.

Hoskins, Anderson & Waterson

Certified Public Accountants

CPA Auditor Improvement Program

State Boards of Accountancy

1. File complaints about CPA auditor misbehavior as reported in the media. The complaints can cover any misdeed, conviction, lawsuit settlement, censure, and so on. Just forward the news report to your state's Board of Accountancy. The more complaints about the same misbehavior to each Board of Accountancy increases the likelihood that effective discipline will be imposed.

2. Attend meetings of Boards of Accountancy and speak up about enforcing the ethics of the profession. Emphasize the damage to the public in terms of investors, lenders, stockholders, employees, customers, and so on. CPA auditors of publicly-traded companies damage people in all states when they are negligent.

3. Support legislation to improve enforcement of CPA auditor accountability and ethics. Support legislation to open up the processes of the Boards of Accountancy, so that they are not dominated by the people they are supposed to supervise. Most state boards are dominated by CPA personnel.

Public Company Accounting Oversight Board

This new board is setting effective standards and conducting stringent inspections of CPA auditors. Support in Congress an improved budget for the agency. Request PCAOB to collect copies of all restatements for publicly-traded companies so that they can be posted on its website (about 10% every year). Check its website for reports of CPA auditor neglect. The current listing of Inspection Reports takes up 11 pages. www.pcaobus.org.

Securities and Exchange Commission and Department of Justice

Support in Congress increased budgets for enforcement for economic misbehavior and crimes involving CPA auditors.

Boards of Accountancy

STATE	MAIL ADDRESS	CITY STATE ZIP	WEBSITE
Alabama	P. O. Box 300375	Montgomery, AL 36130	www.asbpa.alabama.gov
Alaska	P. O. Box 110806	Juneau, AK 99811	www.commerce.state.ak.us/occ/pcpa.cfm
Arizona	100 N. 15th Ave. #165	Phoenix, AZ 85007	www.accountancy.state.az.us
Arkansas	101 E. Capitol #430	Little Rock, AR 72201	www.state.ar.us/asbpa
California	2000 Evergreen St. #250	Sacramento, CA 95815	www.dca.ca.gov/cba
Colorado	1560 Broadway #1350	Denver, CO 80202	www.dora.state.co.us/accountants
Connecticut	30 Trinity St.	Hartford, CT 06106	www.ct.gov/sboa
Delaware	861 Silver Lake Blvd. #203	Dover, DE 19904	www.dpr.delaware.gov/boards/accountancy
District of Columbia	941 N. Capitol St. #7200	Washington, DC 20002	www.dcra.dc.gov
Florida	240 NW 76 Drive #A	Gainesville, FL 32607	www.myflorida.com/dbpr/cpa
Georgia	237 Coliseum Dr.	Macon, GA 31217	www.sos.state.ga.us/plb/accountancy
Guam	335 S. Marine Corps Dr. #101	Tamuning, GU 96913	www.guamboa.org
Hawaii	P. O. Box 3469	Honolulu, HI 96801	www.hawaii.gov/dcca
Idaho	P. O. Box 83720	Boise, ID 83720	www.isba.idaho.gov
Illinois	320 W.Washington St., 3rd Fl.	Springfield, IL 62786	www.idfpr.com
Indiana	402 W. Washington St. #W072	Indianapolis, IN 46204	www.in.gov/pla/bandc/accountancy
Iowa	1920 SE Hulsizer Ave.	Ankeny, IA 50021	www.state.ia.us/government/com/prof
Kansas	900 SW Jackson #556	Topeka, KS 66612	www.ksboa.org
Kentucky	332 W. Broadway #310	Louisville, KY 40202	www.cpa.ky.gov
Louisiana	601 Poydras St. #1770	New Orleans, LA 70139	www.cpaboard.state.la.us
Maine	35 State House Station	Augusta, ME 04333	www.state.me.us/pfr/olr
Maryland	500 N. Calvert St., 3rd Fl.	Baltimore, MD 21202	www.dllr.state.md.us/license/occprof
Massachusetts	239 Causeway St. #450	Boston, MA 02114	www.mass.gov/dpl/boards/pa
Michigan	P. O. Box 30018	Lansing, MI 48909	www.michigan.gov/accountancy
Minnesota	85 E. 7th Pl. #125	St. Paul, MN 55101	www.boa.state.mn.us
Mississippi	5 Old River Pl. #104	Jackson, MS 39202	www.msbpa.state.ms.us
Missouri	P. O. Box 613	Jefferson City, MO 65102	www.pr.mo.gov/accountancy
Montana	P. O. Box 200513	Helena, MT 59620	www.publicaccountant.mt.gov
Nebraska	P. O. Box 94725	Lincoln, NE 68509	www.nbpa.ne.gov
Nevada	1325 Airmotive Way #220	Reno, NV 89502	www.nvaccountancy.com
New Hampshire	78 Regional Dr., Bldg. 2	Concord, NH 03301	www.nh.gov/accountancy
New Jersey	P. O. Box 45000	Newark, NJ 07101	www.state.nj.us/lps/ca/accountancy
New Mexico	5200 Oakland NE #D	Albuquerque, NM 87113	www.rld.state.nm.us/b&c/accountancy
New York	89 Washington Ave., 2nd Fl. E.	Albany, NY 12234	www.op.nysed.gov/cpa
North Carolina	P. O. Box 12827	Raleigh, NC 27605	www.nccpaboard.gov
North Dakota	2701 S. Columbia Rd.	Grand Forks, ND 58201	www.nd.gov/ndsba
Northern Marianas	P. O. Box 503198	Saipan, CNMI 96950	mackezzell9@guam.net
Ohio	77 S. High St., 18th Fl.	Columbus, OH 43215	www.acc.ohio.gov
Oklahoma	4545 Lincoln Blvd. #165	Oklahoma City, OK 73105	www.ok.gov/oab
Oregon	3218 Pringle Rd. SE #110	Salem, OR 97302	www.egov.oregon.gov/BOA
Pennsylvania	2601 N. Third St.	Harrisburg, PA 17110	www.dos.state.pa.us/account
Puerto Rico	P. O. Box 9023271	San Juan, PR 00902	www.estado.gobierno.pr/contador
Rhode Island	233 Richmond St. #236	Providence, RI 02903	www.dbr.state.ri.us/divisions/accountancy
South Carolina	P. O. Box 11329	Columbia, SC 29211	www.llr.state.sc.us/POL/Accountancy
South Dakota	301 E. 14th St. #200	Sioux Falls, SD 57104	www.state.sd.us/dol/boards/accountancy
Tennessee	500 James Robertson Pkwy 2nd Fl.	Nashville, TN 37243	www.state.tn.us/commerce/boards/tnsba
Texas	333 Guadalupe, Tower III #900	Austin, TX 78701	www.tsbpa.state.tx.us
Utah	P. O. Box 146741	Salt Lake City, UT 84114	www.dopl.utah.gov/licensing/accountancy
Vermont	26 Terrace St. #09	Montpelier, VT 05609	www.vtprofessionals.org
Virgin Islands	Rock Shopping Center	Christiansted, VI 00820	www.dlca.gov.vi
Virginia	3600 W. Broad St. #378	Richmond, VA 23230	www.boa.virginia.gov
Washington	P. O. Box 9131	Olympia, WA 98507	www.cpaboard.wa.gov
West Virginia	106 Capitol St. #100	Charleston, WV 25301	www.wvboacc.org
Wisconsin	P. O. Box 8935	Madison, WI 53708	www.drl.wi.gov/boards/acc
Wyoming	2020 Carey Ave. #702	Cheyenne, WY 82002	www.cpaboard.state.wy.us

CARL OLSON
P.O. Box 6102
Woodland Hills, California 91365
818-223-8080

March 27, 2008

Mr. Greg Newington
Enforcement Division
California Board of Accountancy
2000 Evergreen Street #250
Sacramento, California 95815

Re: Complaint against licensee KPMG LLP and the participating CPAs in the audit of New Century Financial Corp.

Dear Mr. Newington:

This is a complaint against licensee KPMG LLP and its participating CPAs with regard to the audits of New Century Financial Corp.

The Wall Street Journal of March 27, 2008, reports "A court-appointed investigator looking into the collapse of New Century Financial Corp. said in a report that its auditor, KPMG LLP, devised some of the improper accounting strategies that allowed the company to hide its financial problems for year. The investigator, Michael J. Missal, said the company might be able to recover money for its creditors by suing KPMG for professional negligence and negligent misrepresentation." A 550-page report is available at the U. S. Bankruptcy Court in Wilmington, Delaware.

Similar articles are in the March 28 New York Times, Los Angeles Times, and Daily News (Los Angeles).

New Century is headquartered in Irvine. Thousands of California investors, borrowers, employees, and taxpayers have been injured by New Century and KPMG's role. According to the WSJ article, New Century originated nearly $60 billion in subprime mortgages in 2006.

The California public deserves better protection from such irresponsible and dangerous CPAs and CPA firms.

Let me know what the Board will do to protect the public.

Sincerely,

Carl Olson

Carl Olson

Enclosures: 4 articles

Ernst & Young Is Criticized In Inspection

By JUDITH BURNS

The Public Company Accounting Oversight Board, criticized over how slowly it issues inspection reports, yesterday got one in well ahead of expectations.

In its report on **Ernst & Young** LLP for 2006, the board said the firm appeared to have signed off on some public-company audits without having sufficient evidence to support its opinions. The board cited problems related to eight Ernst & Young audits. The board had cited 10 audits for 2005. The inspection reports don't identify clients.

Ernst & Young defended its work while saying it had agreed to perform additional procedures for some clients in response to the findings. "In no instance did these actions change our original audit conclusions or affect our reports on the issuers' financial statements," the firm said in an April 5 letter to the board.

In one instance, Ernst & Young didn't identify a client's departure from generally accepted accounting principles with regard to lease accounting, the report said. It also faulted the auditor's handling of the client's self-insurance reserve and severance payments to former executives. Ernst & Young said that it supplemented its work papers and performed additional procedures but that its additional work didn't affect its original conclusions on the client's financial statement.

The board isn't known for issuing reports quickly. Its 2005 report on Ernst & Young was issued in January of this year.

THE WALL STREET JOURNAL. *Thursday, May 3, 2007*

Cendant Case Costs Ernst Almost $300 Million More

By David Reilly
And Nathan Koppel

Ernst & Young LLP settled for nearly $300 million a lawsuit brought against it by **Cendant** Corp., according to a securities filing late last year by a former Cendant subsidiary. In its suit, Cendant alleged that Ernst negligently failed to detect a massive fraud during its audits of a unit of the company.

Ernst had already, in 2000, paid out $335 million to Cendant shareholders as a result of the fraud. That is believed to be the largest-ever settlement by an auditor related to work for a single client. Cendant itself paid $2.85 billion to settle that shareholder litigation.

In a statement Friday, Ernst said: "This case was about a collusive management fraud that occurred over 10 years ago and led to two convictions and three guilty pleas by Cendant's former executives. While we had a strong case and believe we would have prevailed before a jury, this settlement allowed us to put this matter behind us and bring an end to nearly a decade of litigation and its attendant costs."

While the most recent settlement doesn't eclipse the size of Ernst's first Cendant payout, it is still one of the largest payments made by an audit firm. In 2007, for example, PricewaterhouseCoopers LLP agreed to pay $225 million to settle audit-malpractice claims arising from its audit of Tyco International Ltd. Deloitte & Touche LLP, in late 2006, said it would pay $210 million to resolve claims related to Adelphia Communications Corp.

According to Cendant's lawsuit, the fraud by senior managers of a subsidiary, CUC International Inc., started in 1986 and involved them inflating the unit's operating income. From 1995 to 1997 alone, Cendant alleged, CUC inflated its income by about $500 million.

Cendant was created through a 1997 merger of CUC, which ran travel clubs and other membership programs, and HFS Inc., an owner of hotel, car-rental, and real-estate franchises. Cendant's announcement in April 1998 that it had discovered accounting irregularities at CUC caused its stock to lose $14 billion in value in one day.

Walter Forbes, CUC's former chairman and chief executive, was sentenced to 12 years and seven months in prison.

Cendant in 2006 broke itself up into four units. It spun off its real-estate brokerage arm, Realogy, as well as its hospitality-services business, Wyndham Worldwide. The company also sold its travel-services business, Travelport, to an affiliate of private-equity firm Blackstone Group. Cendant retained its car-rental operations and is now named **Avis Budget Car Rental** LLC.

Law Firms to Ask For $460 Million In Tyco-Case Fees

By NATHAN KOPPEL

Three plaintiffs' firms are expected tomorrow to seek a court award of $460 million in legal fees that they said would be the largest fee payout in a securities class action.

The suit alleges, among other claims, that **Tyco International** Ltd. committed securities fraud by improperly accounting for acquisitions and manipulating quarterly results. Earlier this year, Tyco agreed to pay about $3 billion to settle the case, which would be the largest payout in a securities litigation by one company. Tyco's auditor at the time—**PricewaterhouseCoopers** LLP, which was also a defendant—has agreed to pay $225 million.

At a hearing tomorrow in federal court in New Hampshire, Judge Paul Barbadoro will be asked to approve the $3.2 billion settlement as well as the requested fees. The lead plaintiffs' firms, **Grant & Eisenhofer** PA; **Milberg Weiss** LLP; and **Schiffrin, Barroway, Topaz & Kessler** LLP—are seeking to recoup about $29 million in expenses in addition to the fees. The lead plaintiffs' counsel will share some of the fees and expenses awarded with other firms that played a supporting role in the case.

But the three law firms, which last week made a fee-request filing in a federal court in Concord, N.H., face a hurdle. Their fee request equals 14.5% of the proposed settlement. In similar cases, known as mega securities settlements, fees have averaged closer to 10%. "This is something of an outlier in terms of the percentage of the fee request," says Adam Savett, a director of the Securities Class Action Services Group, a unit of RiskMetrics Group.

Three state institutional investors that are plaintiffs have objected, saying the fees should be reduced. "A 14% fee is the norm for much smaller settlements," says H. Craig Slaughter, the executive director of the **West Virginia Investment Management Board**, one of the objectors. "I generally would expect the percentage fee award to fall as the dollar amount of a settlement increases, especially one the size of this settlement."

While the institutions were members of the plaintiffs' class, they weren't lead plaintiffs.

In the fee application, the firms stated that the plaintiffs' attorneys in the case spent more than 488,000 hours on the litigation and reviewed 83 million pages of records—more than the combined number of records reviewed in the 16 securities cases that have yielded the largest settlements to date, according to the filing.

"In light of the amount of work that has been done in the case, and the result, we feel the fee request is justified," said Jay Eisenhofer, co-lead plaintiffs' counsel and a partner at Grant & Eisenhofer.

THE WALL STREET JOURNAL.

Thursday, November 1, 2007

INQUIRY ASSAILS ACCOUNTING FIRM IN LENDER'S FALL

KPMG AUDITING FAULTED

Study Says New Century Losses Were Made to Look Like Profits

By VIKAS BAJAJ

A sweeping five-month investigation into the collapse of one of the nation's largest subprime lenders points a finger at a possible new culprit in the mortgage mess: the accountants.

New Century Financial, whose failure just a year ago came at the start of the credit crisis, engaged in "significant improper and imprudent practices" that were condoned and enabled by auditors at the accounting firm KPMG, according to an independent report commissioned by the Justice Department.

In its scope and detail, the 580-page report is the most comprehensive document yet made public about the failings of a mortgage business. Some of its accusations echo charges that surfaced about the accounting firm Arthur Andersen after the collapse of Enron in 2001.

E-mail messages uncovered in the investigation showed that some KPMG auditors raised red flags about the accounting practices at New Century, but that the KPMG partners overseeing the audits rejected those concerns because they feared losing a client.

From its headquarters in Irvine, Calif., New Century ruled as one of the nation's leading subprime lenders. But its dominance ended when it was forced into bankruptcy last April because of a surge in defaults and a loss of

Continued on Page A20

From Page A1

confidence among its lenders.

The report lays bare the aggressive business practices at the heart of the mortgage crisis.

"I would call it incredibly thorough analysis," said Zach Gast, an analyst at RiskMetrics who raised concerns about accounting practices at New Century and other lenders in December 2006. "This is certainly the most in-depth review we have seen of one of the mortgage lenders that we have seen go bust."

A spokeswoman for KPMG, Kathleen Fitzgerald, took strong exception with the report's allegations. "We strongly disagree with the report's conclusions concerning KPMG," she said. "We believe an objective review of the facts and circumstances will affirm our position."

The report zeros in on how New Century accounted for losses on troubled loans that it was forced to buy back from investors like Wall Street banks and hedge funds. Had it not changed its accounting, the company would have reported a loss rather a profit in the second half of 2006.

The report said that investigators "did not find sufficient evidence to conclude that New Century engaged in earnings management or manipulation, although its accounting irregularities almost always resulted in increased earnings."

Even so, the profits were the basis for significant executive bonuses and helped persuade Wall Street that the company was in fine health when in fact its business was coming apart, the report contends.

In bankruptcy court, creditors of New Century say they are owed $35 billion. The company's stock peaked at nearly $65.95 in late 2004 and was trading at a penny on Wednesday.

A spokesman for New Century, which is being managed by a restructuring firm under the supervision of the bankruptcy court, said the company was pleased that the report had been published.

The investigation was led by Michael J. Missal, a lawyer and former investigator in the enforcement division of the Securities and Exchange Commission who was hired by the United States Trustee overseeing the bankruptcy.

Mr. Missal, who also worked on an investigation of WorldCom's accounting misstatements, concluded that KPMG and some former New Century executives could be legally liable for millions of dollars in damages because of their conduct.

In the aftermath of the collapse of Enron, Arthur Andersen was indicted and convicted on obstruction of justices charges. The conviction was overturned by the Supreme Court in 2005, long after the company had ceased doing business.

Mr. Missal drew an analogy to Enron and said there was evidence that KPMG auditors had deferred excessively to New Century.

"I saw e-mails from the engaged partner saying we are at the risk of being replaced," Mr. Missal said in a telephone interview about a KPMG partner working on the audit of New Century. "They acquiesced overly to the client, which in the post-Enron era seems mind- boggling."

In one exchange in the report, a KPMG partner who was leading the New Century audit responded testily to a specialist, John Klinge, at the accounting firm who was pressing him on a contentious accounting practice used by the company.

"I am very disappointed we are still discussing this," the partner, John Donovan, wrote in the spring of 2006. "And as far as I am concerned we are done. The client thinks we are done."

KPMG said Wednesday that a national standards committee had approved that practice.

The accounting irregularities became apparent when a new chief financial officer, Taj S. Bindra, started asking New Century's accounting department and KPMG to justify their approach, beginning in November 2006.

Most of the mortgage company's executives from that period have resigned or been laid off. A spokesman for two of the company's three founders and top executives, Edward F. Gotschall and Robert K. Cole, said both had cooperated with the investigation but had not had a chance to review the report. A lawyer for Bradley A. Morrice, the third founder who was president and chief executive in 2006 and part of 2007, did not return a call.

The three founders together made more than $40.5 million in profits from selling shares in the company from 2004 to 2006, according to an analysis by Thomson Financial. They collected millions of dollars more in dividends, salaries, bonuses and perks.

The company and its executives are also the subjects of a federal investigation by the Justice Department. Investors have also filed numerous civil lawsuits against the company.

Deloitte to Pay $38 Million In Deal With Delphi Investors

Associated Press

Accounting firm Deloitte & Touche has agreed to pay $38 million as part of a $325 million settlement of investor claims of misconduct by **Delphi** Corp. and those that oversaw its finances.

Delphi, based in Troy, Mich., is the nation's largest auto-parts supplier. It filed for bankruptcy-court protection in 2005, acknowledging that hundreds of millions of dollars in earnings it had claimed since General Motors Corp. spun it off in 1999 were invalid.

A Securities and Exchange Commission investigation found that Delphi manipulated its earnings from 2000 to 2004 using several illegal schemes, including the concealment of a $237 million transaction in 2000 with GM involving warranty costs.

Deloitte & Touche, now part of **Deloitte Touche Tohmatsu**, was Delphi's outside accountant.

The agreement requires approval by U.S. District Judge Gerald Rosen in Detroit. It completes a $325 million settlement of investor claims over the accounting issue, lawyers for the investors said. Delphi agreed to pay about $205 million, with Delphi's insurers and banks paying the rest.

Deloitte & Touche spokeswoman Deborah Harrington said the company had a strong legal case but "concluded that it was in the best interests of the firm and its clients to settle this matter now rather than face the burden, expense and uncertainty of continued litigation."

In November, the Justice Department declined to file criminal charges against nine former Delphi officials involving allegations of accounting fraud.

THE WALL STREET JOURNAL. *Friday, December 28, 2007*

Auditing the Auditors

Created in 2002 by Congress, the Public Company Accounting Oversight Board has barred accountants or their aides, at least temporarily, from helping to certify financial statements of listed stocks. --*W.P.B.*

INDIVIDUAL | LOCATION	ALLEGATIONS INCLUDE ...
Clyde B. Bailey | San Antonio, Tex.	**not verifying big asset claims by management**
Thomas Benson | Okemos, Mich.	**improperly examining large financial items**
Susan E. Birkert | Levittown, N.Y.	**buying stock of company being audited**
Armando C. Ibarra Sr. | Chula Vista, Calif.	**blessing 600% overstatement of gross profit**
Stephen J. Nardi | Philadelphia, Pa.	**ordering subordinates to backdate documents**
Thomas E. Sewell | Hollywood, Fla.	**family holding stock in company being audited**
Kevin J. Williams | Spokane, Wash.	**failing to "exercise due care and professional skepticism"**

Source: www.pcaobus.org.

Arthur Andersen auditors sanctioned over WorldCom

The U.S. Securities and Exchange Commission barred two former Arthur Andersen LLC auditors to settle claims they inadequately scrutinized WorldCom Inc.'s earnings in 2001 while the company was defrauding investors.

Melvin Dick, 54, and Kenneth Avery, 41, should have arranged more thorough audits after learning WorldCom executives had reason and opportunity to deceive shareholders, the SEC said in statements Wednesday. – *Bloomberg*

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Attorneys for Complainant

BEFORE THE
CALIFORNIA BOARD OF ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS
STATE OF CALIFORNIA

In the Matter of the Accusation Against: KPMG LLP (In re: Tax Shelters) 355 South Grand Avenue, Suite 2000 Los Angeles, CA 90071 CPA Partnership Certificate No. PAR 157, Respondent.	Case No. AC-2006-28 STIPULATED SETTLEMENT AND DISCIPLINARY ORDER

In the interest of a prompt settlement of this matter, consistent with the public interest and the responsibilities of the California Board of Accountancy of the Department of Consumer Affairs (the "Board"), the parties hereby agree to the following Stipulated Settlement and Disciplinary Order (the "Stipulated Settlement") which will be submitted to the Board for approval and adoption as the final disposition of the Accusation No. AC-2006-28 against the Partnership Registration of KPMG LLP in re: the tax shelter matters.

2. Administrative Sanction. Respondent shall pay $1 million as a monetary sanction, which funds may be directed to enforcement and education efforts furthering the mission of the Board and the Department of Consumer Affairs.

3. Cost Reimbursement. Respondent shall reimburse the Board its costs of investigating and prosecuting this and related tax shelter cases pursuant to Business and Professions Code section 5107. This provision does not create a right by other parties to claim reimbursement or an offset for Board costs under this agreement.

4. Submit Written Reports and Personal Appearances. Respondent shall submit such written reports, declarations, and verification of actions to the Board, under penalty of perjury, as are required relative to Respondent's compliance with all the terms and conditions of probation. Respondent shall immediately execute all release of information forms as may be required by the Board or its representatives to confirm Respondent's compliance with the terms and conditions of probation. Respondent shall facilitate such contact with the Monitor and KPMG personnel as

Statement on Accounting Graduates and Board Regulatory Failure
Meeting of California Board of Accountancy
May 9, 2008

By Carl Olson
P. O. Box 6102
Woodland Hills, California 91365

This statement presents two important issues for the Board.

1. We in the accounting community are trying to encourage American accounting students and accounting professionals to consider the accounting profession to be a worthy pursuit with good pay. However, we are faced by an institutional undermining of the pay level and work opportunities of American accountants. In particular, various employers are subverting our workforce by importing cheap workers under the H-1B visa program. These replacement workers not only depress the wages of regular American workers, but American workers are often required to train the foreign replacements. You will find attached a listing of the top companies which used H-1B visas in 2007. You will note that of the list includes Ernst & Young with 302 foreign imported workers and Deloitte & Touche with 283. The Board should go on record urging accounting employers to support American accounting workers and to oppose the use of H-1B visas.

2. The second matter concerns the regulation petition that I presented to the Board at the February 25 meeting. You can see a copy of it attached to this packet. It regarded the re-statements of publicly-traded companies. You may know that the Government Code section 11340.7 requires that a public body that receives a regulation petition "shall notify the petitioner in writing of the receipt and shall within 30 days" either deny it or schedule it for hearings. So far, I have not received any acknowledgment of the petition, nor any notification of any denial or schedule hearing. This board is supposed to be a model of upholding the law, all laws. It is now way over the statutory deadline, which indicates the board has been operating illegally. I urge the board immediately to act on the petition. Any further delay can be considered a continuing illegal behavior by all the Board members. It may also be considered unethical behavior of the Board members. It's time to keep faith with the California public and make our system work.

Thank you very much for your consideration of both items.

Importing the Work Force

Among the top 10 companies that filed petitions last year for H-1B visas for high-skilled temporary workers, six were technology firms based in India. All India-based companies are highlighted below.

H-1B petitions approved in the 2007 fiscal year

EMPLOYER	PETITIONS APPROVED	HEADQUARTERS
Infosys Technologies Ltd.	4,559	Bangalore, India
Wipro Ltd.	2,567	Bangalore, India
Satyam Computer Services Ltd.	1,396	Hyderabad, India
Cognizant Tech Solutions U.S. Corp.	962	Teaneck, N.J.
Microsoft Corporation	959	Redmond, Wash.
Tata Consultancy Services Ltd.	797	Mumbai, India
Patni Computer Systems Inc.	477	Mumbai, India
U.S. Technology Resources L.L.C.	416	Aliso Viejo, Calif.
I-Flex Solutions Inc.	374	Mumbai, India
Intel Corporation	369	Santa Clara, Calif.
Accenture L.L.P.	331	Chicago
Cisco Systems Inc.	324	San Jose, Calif.
Ernst & Young L.L.P.	302	London
Larsen & Toubro Infotech Ltd.	292	Mumbai, India
Deloitte & Touche L.L.P.	283	New York
Google Inc.	248	Mountain View, Calif.
Mphasis Corporation	248	Bangalore, India
University of Illinois, Chicago	246	Chicago
American Unit Inc.	245	Schaumburg, Ill.
JSMN International Inc.	245	Jersey City

Source: U.S. Citizenship and Immigration Services

THE NEW YORK TIMES

(1) The court or administrative agency proceeding involves the party that sought the determination from the office.
(2) The proceeding began prior to the party's request for the office's determination.
(3) At issue in the proceeding is the question of whether the guideline, criterion, bulletin, manual, instruction, order, standard of general application, or other rule that is the legal basis for the adjudicatory action is a regulation as defined in Section 11342.600.

11340.6. Except where the right to petition for adoption of a regulation is restricted by statute to a designated group or where the form of procedure for such a petition is otherwise prescribed by statute, any interested person may petition a state agency requesting the adoption, amendment, or repeal of a regulation as provided in Article 5 (commencing with Section 11346). This petition shall state the following clearly and concisely:
(a) The substance or nature of the regulation, amendment, or repeal requested.
(b) The reason for the request.
(c) Reference to the authority of the state agency to take the action requested.

11340.7. (a) Upon receipt of a petition requesting the adoption, amendment, or repeal of a regulation pursuant to Article 5 (commencing with Section 11346), a state agency shall notify the petitioner in writing of the receipt and shall within 30 days deny the petition indicating why the agency has reached its decision on the merits of the petition in writing or schedule the matter for public hearing in accordance with the notice and hearing requirements of that article.
(b) A state agency may grant or deny the petition in part, and may grant any other relief or take any other action as it may determine to be warranted by the petition and shall notify the petitioner in writing of this action.
(c) Any interested person may request a reconsideration of any part or all of a decision of any agency on any petition submitted. The request shall be submitted in accordance with Section **11340**.6 and include the reason or reasons why an agency should reconsider its previous decision no later than 60 days after the date of the decision involved. The agency's reconsideration of any matter relating to a petition shall be subject to subdivision (a).
(d) Any decision of a state agency denying in whole or in part or granting in whole or in part a petition requesting the adoption, amendment, or repeal of a regulation pursuant to Article 5 (commencing with Section 11346) shall be in writing and shall be transmitted to the Office of Administrative Law for publication in the California Regulatory Notice Register at the earliest practicable date. The decision shall identify the agency, the party submitting the petition, the provisions of the California **Code** of Regulations requested to be affected, reference to authority to take the action requested, the reasons supporting the agency determination, an agency contact person, and the right of interested persons to obtain a copy of the petition from the agency.

11340.85. (a) As used in this section, "electronic communication" includes electronic transmission of written or graphical material by electronic mail, facsimile, or other means, but does not include voice communication.
(b) Notwithstanding any other provision of this chapter that refers to mailing or sending, or to oral or written communication:
(1) An agency may permit and encourage use of electronic

Statement on Petition Making
Meeting of California Board of Accountancy
February 25, 2008
By Carl Olson
P. O. Box 6102
Woodland Hills, California 91365

With respect to the agenda item on my petition for rule-making, let us examine where we are in the legal process before we proceed.

First, it is uncertain that any actual consideration by the board was made for the original submission of my petition in November. The record shows that a denial was issued by the Executive Director in December. The record shows only correspondence between the Executive Director and the DCA attorney without any input whatsoever from any other person.

There is no showing that the Executive Director has the power to deny or accept petitions for regulation-making. There is no showing that the board members themselves were involved in any way or even informed ahead of time in the purported denial of the proposed regulation-making, and thus they were prevented their statutory responsibilities. The board members did not vote. There is no showing that the President of the board has authority to decide denials or acceptances of petitions for regulation-making.

In summation, there does not appear to be any established process, and thus there has been no due process in this matter.

In order to proceed under the rule of law, these steps need to be taken:

1. Request the Office of Administrative Law to rescind the published denial in the Regulatory Notice Register.
2. Request an Attorney General opinion on the propriety of the process and nullity of the actions taken so far.
3. Request a board policy be adopted specifically for consideration of petitions for regulation-making with the requirement that the entire board consider petitions in full open meetings of the board.
4. Postpone any consideration of my petition until the legal issues have been resolved and presented in a public meeting of the board.
5. Finally, any consideration of a request for "reconsideration" of a denial would be premature at this time and should not be attempted.

Along with these steps about the previous petition, I am submitting the attached petition for regulation-making and request that it be considered with due process of law.

FUND FOR STOCKOWNERS RIGHTS

NATIONAL HEADQUARTERS
☐ Post Office Box 65563
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News Release
February 12, 2008
Contact: Carl Olson 818-223-8080

KPMG FINED $1 MILLION AND PUT ON PROBATION BY CALIFORNIA BOARD OF ACCOUNTACY FOR MULTI-BILLION DOLLAR TAX SHELTER SCAMS; BOARD STILL HURT BY GOV. SCHWARZENEGGER'S POLICIES

Big Four CPA firm KPMG has been fined $1 million and given three years of probation for its multi-billion dollar tax shelter scams by the California Board of Accountancy, it was announced by Carl Olson, Chairman of Fund for Stockowners Rights. Seven individuals also were sentenced to license revocations, cost assessments, and ethics training at the Board meeting on January 17-18 in San Francisco.

"Despite these needed prosecutions by the board, we are disappointed that Governor Arnold Schwarzenegger has refused to allow the board to hire sufficient investigators for the numerous complaints to the Board. No board office has been established in Southern California, even though 60 percent of the cases arise there," Olson commented.

KPMG had been under federal prosecution for tax shelter frauds it sold to clients involving $11.2 billion in bogus tax losses. Approximately 29% of the transactions were in California and 38% of KPMG's fees originated in California. According to the board's disciplinary order, "[f]rom 1996 through 2002, KPMG, through its tax partners, assisted high net worth United States citizens to evade United States individual income taxes in the billions of dollars in capital gains and ordinary income by developing, promoting, and implementing unregistered and fraudulent tax shelters. A number of KPMG tax partners engaged in conduct that was unlawful and fraudulent...."

KPMG settled the federal prosecution by agreeing, among other things, to pay $456 million to the U. S. government for disgorgement of fees, restitution for losses, and penalties. Upon completion of the federal prosecution in January 2007, the Board of Accountancy was able to take up the misdeeds of CPA licensee KPMG.

Eight other disciplinary cases were decided at the Board meeting. CPA Brett Miller of Brownsville was given three years of probation, 60 days of suspension, permanent revocation of auditing privileges, and $4112 cost penalty for gross negligence in the audits of Sacramento Urban Indian Health and Native Direction for 2002 and 2003.

CPA Bryan Paul Hopkins of Orange was given three years of probation, ethics schooling, and $16,115 cost penalty for receiving referral fees without properly informing the clients, including a fee of $165,000 on a $1.4 million insurance premium in 2004. He also was practicing under firm names that were not properly licensed from 2003 to 2007.

CPA Dale Alan Hoppes of Redding was given 60-day suspension, ethics and continuing education schooling, and $4267 cost penalty for practicing without a license from 2002 to 2006 and failure to complete required continuing education.

CPA Ronald James Goedde of Davis was given five years of probation, three years of suspension, ethics schooling, and $2850 cost penalty for being suspended from practice before the U. S. Securities and Exchange Commission in 2006.

CPA Lowell D. Sneathen of Santa Ana was given three years of probation and $2485 cost penalty for being suspended from practice before the Internal Revenue Service in 2006.

CPA David Scott Halcrow of Studio City was given revocation of license and $12,121 cost penalty for conviction of four felony counts involving falsely telling clients they were under IRS audits and embezzling clients' estimated tax payments.

CPA Marcelino David Contreras of Vallejo was given revocation of license and $2412 cost penalty for his plea of guilty to the felony of embezzlement by a public officer.

CPA Joe Paul DiBenedetto of Corona was given revocation of license and cost penalty for pleading guilty to 45 felony charges of grand theft, falsifying records, fraudulent computer access, and filing false tax returns.

--END--

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Attorneys for Complainant

BEFORE THE
CALIFORNIA BOARD OF ACCOUNTANCY
DEPARTMENT OF CONSUMER AFFAIRS
STATE OF CALIFORNIA

In the Matter of the Accusation Against: KPMG LLP (In re: Tax Shelters) 355 South Grand Avenue, Suite 2000 Los Angeles, CA 90071 CPA Partnership Certificate No. PAR 157, Respondent.	Case No. AC-2006-28 STIPULATED SETTLEMENT AND DISCIPLINARY ORDER

In the interest of a prompt settlement of this matter, consistent with the public interest and the responsibilities of the California Board of Accountancy of the Department of Consumer Affairs (the "Board"), the parties hereby agree to the following Stipulated Settlement and Disciplinary Order (the "Stipulated Settlement") which will be submitted to the Board for approval and adoption as the final disposition of the Accusation No. AC-2006-28 against the Partnership Registration of KPMG LLP in re: the tax shelter matters.

PARTIES AND JURISDICTION

1. Carol Sigmann, Complainant, is the Executive Officer of the Board. She brought this Accusation solely in her official capacity and is represented in this matter by Edmund G. Brown, Jr., Attorney General of the State of California, by Jeanne C. Werner, Deputy Attorney General.

2. Respondent KPMG LLP[1] is acting, in this proceeding, through Laura F. Mullen, California CPA Certificate 42768, who is KPMG's Western Regional Professional Practice

1. KPMG LLP is also referred to herein as KPMG or Respondent.

CARL OLSON
P.O. Box 6102
Woodland Hills, California 91365
818-223-8080

February 25, 2008

Mr. Donald Driftmeir
President
California Board of Accountancy
2000 Evergreen Street #250
Sacramento, California 95815

Re: Petition for Regulation Making
on Licensees and their Client Restatements

Dear President Driftmeir:

This is a petition for regulation making by the California Board of Accountancy. The Board has the power to adopt regulations, per Business & Professions Code section 5018.

Section 5063(b)(1) provides, "A licensee shall report to the board in writing the occurrence of any of the following events occurring on or after January 1, 2003, within 30 days of the date the licensee has knowledge of the events: (1) Any restatement of a financial statement and related disclosures by a client audited by the licensee."

Section 5000.1 provides, "Protection of the public shall be the highest priority for the Board of Accountancy in exercising its licensing, regulatory, and disciplinary functions. Whenever the protection of the public is inconsistent with any other interest sought to be promoted, the protection of the public shall be paramount."

The board has adopted a regulation Section 59 on "Reporting of Restatements."

I am interested in the proposed regulation as an individual California resident, as a college accounting teacher, and as a investor for my funds, my family's funds, and organizational funds.

The proposed regulation would require the following:

1. A licensee shall report to the board in writing any restatement of a financial statement and related disclosures by a client which issues any publicly-traded security.

2. All restatements and accompanying materials be kept permanently by the board.

The need for the regulation is as follows:

Restatements of audited financial statements and related disclosures are obvious failures of CPA individuals and firms. For publicly-traded companies, there were 1876 restatements in 2006 and 1599 in 2005. Considering that there are about 12,000 publicly-traded firms, these indicate failure rates of 13% to 16%.

The current regulation severely restricts the receipt of restatements such that only about 200 restatements for publicly-traded clients are reported, or under 15% of the total. The arbitrary exclusion of the other 85% is unwarranted.

The public of California has interests in all publicly-traded companies and the integrity of their financial reports. Regardless of where a publicly-traded corporation is incorporated or conducts business, its financial statements impact the entire United States and the rest of the world.

The audit opinions are addressed both to the directors and the stockowners of the corporation (see enclosures). Other interested persons are prospective investors, employees, retirees, labor unions, vendors, credit reporting agencies, investment evaluation firms, pension funds, mutual funds, academic researchers, regulatory agencies, publications, and others.

The statute did not limit the receipt of restatements to the very narrow category that is currently in the regulation. The statute requires that the public's interest is paramount.

The current policy of the board the throw away restatements after six months of receipt flies in the face of long-range intelligent and effective oversight of the profession.

The public through the board has a need to evaluate the performance of CPA auditors, including the incidence of restatements. The receipt and retention of restatements is key to a responsible and effective monitoring and enforcement program. The board should maintain a library of the restatements for itself and the public to utilize. Having a partial library on a transitory basis is no real public service and is an affront to the expectations of the public.

Please let us work together to enact this proposed regulation.

Sincerely,

Carl Olson

Carl Olson

Enclosures:

Audit opinion letters from Ernst & Young LLP (AT&T Inc.), Deloitte & Touche LLP (General Motors Corporation), KPMG LLP (Occidental Petroleum Corporation), and Pricewaterhouse Coopers LLP (Mattel, Inc.) showing their address to the directors and stockowners

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
AT&T Inc.

We have audited the accompanying consolidated balance sheets of AT&T Inc. (AT&T, formerly SBC Communications Inc.) as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of AT&T's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AT&T at December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, in 2003 AT&T changed its method of recognizing revenues and expenses related to publishing directories, as well as the method of accounting for the costs of removal of long-term assets.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of AT&T's internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 16, 2006 expressed an unqualified opinion thereon.

Ernst & Young LLP

San Antonio, Texas
February 16, 2006

Independent Auditors' Report

General Motors Corporation, its Directors, and Stockholders:

We have audited the Consolidated Balance Sheets of General Motors Corporation and subsidiaries as of December 31, 2002 and 2001, and the related Consolidated Statements of Income, Cash Flows, and Stockholders' Equity for each of the three years in the period ended December 31, 2002. Our audits also included the Supplemental Information to the Consolidated Balance Sheets and Consolidated Statements of Income and Cash Flows and the financial statement schedule listed at Item 15 (collectively, the financial statement schedules). These financial statements and financial statement schedules are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of General Motors Corporation and subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 1 to the financial statements, effective January 1, 2002, General Motors Corporation changed its method of accounting for goodwill and other intangible assets to conform to Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

/s/DELOITTE & TOUCHE LLP
DELOITTE & TOUCHE LLP

Detroit, Michigan
January 16, 2003
(March 12, 2003, as to Note 26)

Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements

To the Board of Directors and Stockholders
Occidental Petroleum Corporation:

We have audited the accompanying consolidated balance sheets of Occidental Petroleum Corporation and subsidiaries (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity, comprehensive income and cash flows for each of the years in the three-year period ended December 31, 2006. In connection with our audits of the consolidated financial statements, we also have audited the accompanying financial statement schedule. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Occidental Petroleum Corporation and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As explained in Note 3 to the consolidated financial statements, effective December 31, 2006, the Company changed its method of accounting for defined benefit pension and other postretirement plans. Effective July 1, 2005, the Company changed its method of accounting for share-based payments.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Occidental Petroleum Corporation's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 27, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Los Angeles, California
February 27, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Mattel, Inc.

We have completed integrated audits of Mattel, Inc.'s consolidated financial statements and of its internal control over financial reporting as of December 31, 2006, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedule

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Mattel, Inc. and its subsidiaries at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the consolidated financial statements, during the year ended December 31, 2006, Mattel, Inc. changed the manner in which it accounts for stock compensation costs and the manner which it accounts for defined benefit pension and other postretirement plans.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in Management's Report on Internal Control over Financial Reporting appearing under Item 8, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM (Cont'd.)

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Los Angeles, California
February 26, 2007

GE to Adjust Accounting in Bid to End Probe

By Kathryn Kranhold
And Randall Smith

General Electric Co. is expected to make changes to its accounting policies and procedures in an effort to end a long-running Securities and Exchange Commission probe, people familiar with the situation say.

The formal investigation has prompted GE to twice restate its financial results and to make three disclosures over additional accounting errors since 2005. Several employees have been disciplined or fired; the probe also contributed to the expected March retirement of GE's chief accounting officer, Philip Ameen, people familiar with the matter say. The audit committee of GE's board last year hired its own independent counsel for the probe.

Through a GE spokesman, Mr. Ameen, 59 years old, declined to comment. The spokesman, Russell Wilkerson, said, "Mr. Ameen's decision to retire had nothing to do with this probe. It was his personal decision and he had been planning to retire."

People familiar with the situation say the three-year-old probe could continue for another year. Those people say GE, its outside lawyers and regulators are looking more closely at how GE recognizes revenue. Problems with revenue recognition have cropped up in several GE units.

The sums involved at this point are modest for a company the size of GE, which reported $173 billion in revenue this past year. The biggest restatement, disclosed last year, reduced net income for 2002 by $1.2 billion. Correcting other mistakes would have increased GE's earnings during some years.

GE has disclosed some changes in its accounting procedures as a result of the investigation. The changes include adding staff in corporate accounting to review revenue matters and bolstering the internal-audit department, according to GE filings and officials.

GE is expected to file its 2007 SEC report soon, including a further update on its investigation. The Fairfield, Conn., conglomerate declined to provide details about the report.

Once GE completes its internal investigations, people familiar with the situation say, the company is likely to adopt additional accounting procedures and policies designed to reduce the chances for future missteps.

GE's Mr. Wilkerson declined to comment on the investigation's future. "We find the errors. We fix them and disclose them," he said. "We can't comment on when or how this will conclude."

The investigation started in January 2005 with a review of GE's accounting for complex financial transactions known as derivatives. In May 2005, GE restated financial results for the period from 2001 through 2004; it also corrected its derivative accounting for the first quarter of 2005.

The net effect of the derivative errors and subsequent accounting changes increased GE's net income over the period by $538 million, according to the company. In January 2007, GE restated its results from 2001 through the third quarter of 2006 for similar reasons. Those changes reduced net income over the period by $343 million.

The derivative probe opened the door for a deeper investigation into GE's accounting. GE's internal investigation is led by **Wilmer-Hale** LLC's William McLucas, a former head of the SEC's enforcement division. GE's board audit committee is represented by **Cravath, Swaine & Moore** LLP.

Mr. Wilkerson said the board audit committee hired Cravath because "we and the audit committee decided an independent investigation was warranted."

In each of the past three quarters, GE has corrected financial statements because it improperly booked income at its rail, aircraft-engines, health-care, energy and water units. For example, the water unit booked as revenue the sales of water-treatment chemicals that customers retained an option to return, Mr. Wilkerson said. In GE's aircraft-engine unit, managers booked revenue on spare parts that hadn't been installed or paid for under a long-term service contract, according to an SEC filing.

GE says it fired an unspecified number of employees at its locomotive and capital-markets services groups, where managers structured improper deals with finance companies that shifted locomotives off GE's books before rail customers bought them. GE retained possession of the locomotives and remained liable if they were damaged. The capital-markets services group works with the industrial units to line up financing for customers, and to structure deals.

The deals helped the locomotive unit book revenue in the fourth quarter during the years 2000 through 2003 that GE said should have been recorded in the first quarters of the following years. In the fourth quarter of 2003, for example, GE's locomotive unit overstated revenue by 22.6%, and profit by 16.6%, according to an SEC filing.

THE WALL STREET JOURNAL. *Tuesday, February 19, 2008*

Another Enormous Re-Statement in the Billions.

Why Did Not GE's Auditors KPMG LLP Find Them First?