

FUND FOR STOCKOWNERS RIGHTS

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May 27, 2009

**Mr. Joe Dear, Chair
Council of Institutional Investors
c/o Cal PERS, 400 Q Street
Sacramento, California 95814**

Re: CPA Auditor Policy Improvements

Dear Mr. Dear:

Thank you for the heartening letter of May 18, 2009, from Jonathan D. Urick of your staff regarding needed improvements in auditor performance. Here are some additional concepts for your policies:

1. No Effective Disciplining of CPA Auditors by state Boards of Accountancy

You can read my report of the California Board of Accountancy meeting of May 15. It is self-destructing, and the public is losing out big time. The California board is the third largest auditor regulatory agency in the country behind the SEC and PCAOB. The rest of the 55 boards of accountancy are in even worse shape. Our survey found the public striking out 0-55 with complaints filed about misbehaviors of the Big 4. You can read more on our website www.cpawatch.org.

2. Ratification Votes by Stockowners are Perfunctory at Best

Votes on ratification of auditors need two improvements. There should be an opposing statement. The vote should also determine whether the auditors are retained. You can read in the proxy statement of Occidental Petroleum that, regardless of what the stockowners vote on ratification, the corporation could retain the rejected auditors. (It was my stockowner proposal that resulted in the explanation of what the vote actually means. Other corporations should also adopt this explanatory language requirement.)

3. Auditor Liability is Woefully Minimal

The worst limit on auditor liability is found in the three letters LLP after their names. Limited liability partnerships mean that only the partners who work on an audit are personally liable for malpractice. The rest of the partners get off with no liability. For a 5000-partner Big 4 firm with partners who are each, conservatively, millionaires, this means that \$5 billion is NOT backing the opinion of the firm. That financial responsibility used to be true up until the 1990s when audit firms were required to be general

partnerships. The only other two sources to pay damages are the assets of the firm (minimal) and liability insurance (premiums now cost about 15% of revenues). All CPA audit firms should go back to being general partnerships. Then all partners will have a stake in keeping all the others on the straight and narrow, and will need to put their own money where their mouths are.

4. Stockowners Can't Vote on Anything Regarding Auditors

You might not realize it, but the stockowners cannot propose resolutions on auditors or auditing policy. The SEC has always ruled that anything about the auditors was "ordinary business". Audit opinions are addressed to both the board and the stockowners. The U. S. Supreme Court has ruled that auditors have duties to the investing public. The retention of auditors is not the same as ordering office supplies.

So many billions of dollars are at stake due to the failures of CPA auditors to fulfill their duties to certify only accurate and reliable financial statements.

Let me know how we can work together to make a permanent fix. Direct all replies to our West Coast Office.

Sincerely,

Carl Olson
Chairman

Cc: Ann Yerger, Executive Director
Jonathan D. Urick, Research Analyst ✓