Sarbanes-oxley act of 2002 narrative

Sarbanes-Oxley Act of 2002 Prepared For Up and Coming Accountants Prepared By February 16, 2008 Letter of Intent February 16, 2008 To: Up and Coming Accountants I have written this report in order to fulfill my graduation requirements at Southwestern College.

Also to become more knowledgeable on the Sarbanes-Oxley Act of 2002 (SOX) and the impact it has had on the business world. Today I am addressing you on information that can help you have a quick overview of SOX. You may not be an accountant today but if you are studying a business or financial degree program you will learn the role that SOX has set in the business world. You must be informed, on what SOX is set up for and the intent in which it is to be used. I have enclosed a report on the importance of understanding definitions and common terms as well as the changes made. I will show you how not to make the errors other company's have.

We will also take a quick glimpse at court cases that helped SOX to come about. I would like for you to take from this report the knowledge and confidence that you are better informed on SOX. Tanya D. Lange, Undergraduate Student Southwestern College Table of Contents Letter of Intenti Introduction1Purpose and Scope1 Assumptions1 Fraud Enron2 Tyco2 World Com3 Understanding SOX4 Conclusion5 References 6 INTRODUCTION Sarbanes-Oxley Act of 2002 is the most far-reaching change in organizational control and accounting regulations since the Securities and Exchange Act of 1934.

The new law made securities fraud a criminal offense and made more strict penalties for corporate fraud. The law now requires top executives to sign off on their firms financial reports, and they risk fines and long jail sentences if they misrepresent their company's financial position. Purpose and ScopeThe purpose for writing this report is to inform. It is important to know where we were before the act and where we are now. There are three main points to look at: ? Understanding Sarbanes-Oxley Act of 2002 ? Before SOX ? Top Cases The Sarbanes-Oxley Act of 2002 is mandatory.

All public organizations, large and small, must comply. However the act does not apply to private companies. Assumptions The assumptions I have are not all persons are aware of what SOX is, or why it was put into place. I also assume not everyone knows all that was involved with the fall of Enron and other such companies. As I had said previously I would be giving an overview and I hope you will remember this information if ever needed.

Fraud Enron Before its bankruptcy in late 2001, Enron employed around 22, 000 people and was one of the world's leading electricity, natural gas, pulp and paper, and communications companies, with claimed revenues of $111 billion in 2000. Fortune named Enron " America's Most Innovative Company" for six consecutive years. At the end of 2001 it was revealed that its reported financial condition was sustained mostly by institutionalized, systematic, and creatively planned accounting fraud (McLean & Elkind, 2003). Tyco In 1992, Dennis Kozlowski became the CEO of Tyco International, and for the next several years, the company adopted an aggressive acquisition strategy, eventually acquiring some accounts over 1000 other companies between 1991 and 2001. Prior to 1997, Tyco was incorporated in Massachusetts. That July it merged with a wholly-owned subsidiary of a smaller publicly-traded security services company named ADT Limited.

Upon consummation of the merger, Tyco International Ltd. of Massachusetts became a wholly-owned subsidiary of ADT Limited. In 1999, just prior to a stock split, rumors of accounting irregularities surfaced. The rumors were strongly denied by Tyco’s leadership, who accused the sources of selling Tyco shares short for personal gain. On November 27, 2002, the State of New Jersey filed federal suit against Tyco and former personnel, with charges in part of violating the New Jersey RICO statute, stemming from the Kozlowski scandal.

As a result of the scandal, Tyco and some former directors and officers were named as defendants in more than two dozen securities class-action lawsuits. Most of the cases were consolidated and transferred to the United States District Court for the District of New Hampshire and filed by court-appointed lead plaintiffs on January 28, 2003, as the case In Re Tyco International Securities Litigation, citing causes of action under the Securities Act of 1933 and the Securities Exchange Act of 1934. That March 31, Tyco made a motion to dismiss, which was granted in part over a year later, on October 14, 2004 (Ferrell, Fraedrich, and Ferrell, 2005). World Com Bernard Ebbers became very wealthy from the rising price of his holdings in WorldCom’s stock (Cooper, 2008). However, shortly after the MCI acquisition in 1998, the telecommunications industry entered a downturn and WorldCom’s growth strategy suffered a serious blow when it was forced to abandon its proposed merger with Sprint in late 2000. By that time, WorldCom’s stock was declining and Ebbers came under increasing pressure from banks to cover margin calls on his WorldCom stock that was used to finance his other businesses such as timber and yachting (Jeter, 2003).

During 2001, Ebbers persuaded WorldCom’s board of directors to provide him corporate loans and guarantees in excess of $400 million to cover his margin calls (Malik, 2003). The fraud was accomplished primarily in two ways: Underreporting ‘ line costs’ (interconnection expenses with other telecommunication companies) by capitalizing these costs on the balance sheet rather than properly expensing them. Inflating revenues with bogus accounting entries from ‘ corporate unallocated revenue accounts’ (Malik, 2003). Understanding Sarbanes-Oxley Act of 2002The Sarbanes-Oxley Act of 2002, also known as the Public Company Accounting Reform and Investor Protection Act of 2002 but commonly called SOX or Sarbox was enacted into United States federal law on July 30, 2002 as a response to the major corporate and accounting scandals including those affecting Enron, Tyco International, Adelphia, Peregrine Systems and WorldCom. These scandals cost investors billions of dollars when the share prices of the companies collapsed and took the public’s confidence in securities markets.

The Act was named after Senator Paul Sarbanes and Representative Michael G. Oxley the Act was approved by the House with a vote of 423-3 and by the Senate 99-0. President George W. Bush signed it into law. SOX has 11 titles which are pertinent to the Act: TITLE I — “ Public Company Accounting Oversight Board (PCAOB)” TITLE II – “ establishes standards for external auditor independence, to limit conflicts of interest. It also addresses new auditor approval requirements, audit partner rotation policy, conflict of interest issues and auditor reporting requirements” TITLE III — “ Corporate Responsibility” TITLE IV — “ Enhanced Financial Disclosures” TITLE V — “ Analyst Conflicts of Interest” TITLE VI — “ Commission Resources and

Authority” TITLE VII — “ Studies and Reports” TITLE VIII — “ Corporate and Criminal Fraud Accountability” TITLE IX — “ White Collar Crime Penalty Enhancement” TITLE X — “ Corporate Tax Returns” TITLE XI — “ Corporate Fraud Accountability” With this Act in place it created an accounting oversight board that would require corporations to establish codes of ethics for financial reporting and to develop greater visibility in financial reports to investors and others.

Also remember the law requires top executives to sign off on their firms’ financial reports. Lastly it requires company executives to disclose stock sales immediately and prohibits the companies from giving loans to top managers. Conclusions The federal government has found that it was necessary to get involved with companies and their accounting practices because of great deal of fraud that had been accruing which cost investors billions of dollars. Although I went into great detail about Enron, Tyco, and WorldCom it was important to do so to show how far off these companies were.

Such companies had a great deal to do with SOX being put into effect. Just remember in accounting, just as anything else there will be errors but ensure they are corrected and that you acting in ethical manner in your practices. If you were to lie or cheat on your accounting sheets there is a big consequence to pay for not just you but all the others who sign off on the document as well. Please remember I have given you a quick overview and I highly suggest you go to http://www.

soxlaw. com/index. htm to get further information. ResourcesBethany McLean, Peter Elkind, Smartest Guys in the Room: The Amazing Rise and Scandalous Fall of Enron, (Portfolio, 2003) Pg 6-10 Cynthia Cooper (2008). Extraordinary Circumstances: The Journey of a Corporate Whistleblower. Wiley.

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