

E&Y Settles SEC Case In \$2.8 Million Pact

By JUDITH BURNS

August 7, 2008; Page C5

WASHINGTON -- Ernst & Young LLP agreed to pay \$2.8 million to settle Securities and Exchange Commission allegations that it compromised its independence by engaging in separate business dealings with a director of three of its client companies.

The New York-based accounting firm was also censured. It settled the SEC's administrative proceeding without admitting or denying the allegations.

The SEC said Ernst & Young paid \$377,500 between October 2002 and May 2004 to Mark C. Thompson for hosting interviews with business leaders that were packaged into CDs and audio books. At the time, Mr. Thompson was serving on the boards of three companies that were E&Y clients and voted to retain E&Y as the companies' auditor, according to the SEC.

Mr. Thompson also sat on one company's audit committee, which is responsible for hiring, firing and overseeing outside auditors.

"Auditor independence is critical to the integrity of the financial reporting process. By entering into an independence-impairing business relationship with Mr. Thompson, Ernst & Young clearly violated the rules," said Scott Friestad, co-deputy director of enforcement at the SEC's Washington office.

He said regulators found it "particularly troubling" that Mr. Thompson failed to fully disclose the relationship with E&Y to the three companies where he was a director.

E&Y spokesman Charles Perkins said in a statement that the firm has revised its independence policies and procedures. "This settlement puts this matter behind us, and we remain committed to taking every possible step to maintain our independence."

Mr. Thompson, without admitting or denying the SEC's claims, agreed to return \$123,917 of his directors' fees, including interest, the SEC said.

"He's glad to put this behind him," said his attorney, Susan Resley.

Although the SEC didn't identify the three client companies, Best Buy Co. and Korn/Ferry International previously had disclosed the problem.

Mr. Thompson began as a director at Best Buy, the Minneapolis-based consumer-electronics retailer, in March 2000, and sat on its audit committee until August 2003. Best Buy secured his resignation in May 2004, after E&Y informed the company about its relationship with Mr. Thompson.

Mr. Thompson was a director at Korn/Ferry, an executive-search firm based in Los Angeles, from March 2000 until September 2003, and a director of TeleTech Holdings Inc., a Denver technology-consulting firm, from February 2004 until May 2004. Of the three, only Korn/Ferry is still an E&Y client.