Rough Draft of Undergraduate Term Paper

Contains initial in-text revision suggestions
Final version of document reflects additional substantive revision

Sarbanes-Oxley Act of 2002:
The ceremonial closing of the barn doors in response to the horses having bolted.

The Horses are Running: Character of Corporations in the 90s

> "It was the best of times, it was the worst of times, it was the age of wisdom, it was the age of foolishness, it was the epoch of belief, it was the epoch of incredulity…we had everything before us, we had nothing before us…"
>
> -Charles Dickens

Business in the 1990s and the New Economy had promised that recessions were an occurrence of the past. The bull market of the 90s was to become the norm. This was easy to believe at the time; after all, the stock market was at record-breaking highs and unemployment was nearly below four percent at the close of the decade (Stiglitz 2003).

The first two years of the new millennium showed us that the business cycle was still a fact of life when $8.5 trillion of value was erased from the stock exchange market. Unemployment skyrocketed with the loss of two million jobs in just one year (Stiglitz 2003). What had happened? How did $8.5trillion dollars simply "vanish"? One possible answer is that it was never there to begin with. We now know that it is possible to create the illusion of revenues and to manufacture profits as if it were an item for sale.

There are many reasons why the financial numbers in the 90s appeared strong and healthy but were in fact fabricated and sickly. While greed and personal gain may have been the strongest factors, it was the checks and balances that should have been in place to curtail those motivations, which truly failed. Rapid deregulation, corrupt accounting practices, and the revered stock option together played a part in the economic bubble burst in the early 2000s.

No illusion can last forever and the many business scandals that were uncovered in 2000 through 2002proved that an illusion must end eventually. The two most prominent creators of illusion were Enron and WorldCom.

Enron. In early 1992, the write out first time used with (SEC) following approved Enron's request for the use of mark-to-market accounting. This accounting method allows the entire value (actual or estimated) of a contract to be recorded as revenue on the day the contract was signed (Mclean 2003). The combination of booking revenues at the time of contract signing and the awarding of stock options to executives would become became a foundation for the illusion scandal.

Stock prices for companies with rapidly rising revenues sky rocket, which results in huge payouts to top executives. Enron also awarded executives' bonuses on the basis of the performance of the company's stock. Everything at Enron was about making the stock price go higher (McLean 2003). This added another layer to the foundation to the illusion for scandal.

The pressure to generate higher revenues was combined with the desire to hide mounting debt. The spell out CFO of Enron "solved" this problem by masterminding extremely complex off-balance-sheet entities to generate the illusion of more revenues and to conceal increased liabilities (McLean 2003).

During this time, Enron's auditor was the accounting firm of Arthur Anderson. While The auditors may not have been aware of the extent of accounting tricks that Enron was performing, but they know that the financial statements were not reasonably accurate and chose to sign off on the statements anyway. The main reason for this intentional blindness what the amount of fees that Anderson was receiving from Enron. In 2000 Anderson billed Enron $52 million for auditing and consulting services and future billing were expected to be $100 million per year (Toffler 2003).

Needs another paragraph here. How long did this last? What were the in-between years like?

When it all came crashing down, Enron declared bankruptcy in December 2001 with listed assets of $63.4 billion (Lyke 2002). Their employees saw $1 billion of their pensions vanish while top executives walked away with hundreds of millions of dollars in bonuses and profits from sales of stock (Stiglitz 2003).

WorldCom. Accounting maneuvers were also a factor in the collapse of WorldCom. Like Enron, they wanted to see the company's stock price rise. When the telecommunications demand began to drop during the 90s, WorldCom was forced to find other ways of generating income. They did this by classifying line costs, fees paid for use of other companies networks, as capital expenditures rather than the correct classification of expenses. This decision boosted net income and added to the assets of the balance sheet (Lyke 2002).

Once again, Arthur Anderson was WorldCom's auditor while these erroneous classifications were being made and maintains that they were unaware of them (Lyke 2002).

In June 2002, WorldCom issued a statement saying that it incorrectly classified $3.8 billion of expenses (line costs) as capital expenditures. Less than a month later, WorldCom filed for bankruptcy and reported $103.8 billion in assets (Lyke 2002).

Between the dates of Enron's and WorldCom's filings for bankruptcy, more financial scandals were revealed in Adelphia, Dynegy, Global Crossing, Quest Communications, and Tyco to name a few. With the public outraged by the loss of billions of dollars and confidence in the stock market at an all time low, something needed to be done.

The Closing of the Doors: Sarbanes-Oxley Act of 2002

Before WorldCom made headlines, federal lawmakers were reluctant to act on the public's outcry that something should be done. However, nine days after WorldCom declared bankruptcy, however, President George W. Bush signed the Sarbanes-Oxley (SOX) Act of 2002 on July 30, 2002 (Jeter 2003). The once controversial bill passed unanimously in the Senate and with a vote of 423-3 in the House of Representatives (Bungardner 2003). There ought to be a sentence or two about why this bill was initially controversial.

The first point of SOX was to establish the Public Company Accounting Oversight Board (PCAOB). This is correct; all initials need to follow this example. This non-profit corporation would be responsible for creating and enforcing standards concerning ethics, controls, and independence within the auditing community. Each accounting firm that audits public companies would be required to register with the board and be subject to inspections or investigation by the PCAOB if needed (SEC 2002).

The PCAOB would be comprised of five members who have "integrity and reputation" (SEC 2002 p.751). The terms for each position would be for five years with no more than two terms for each member. To demonstrate true independence, members are not permitted to participate in other businesses during their term; nor are they allowed to receive payments from any accounting firms, with the exception of prior fixed payments, as from a retirement account (SEC 2002).

The second point of SOX was to specifically define what would be the new standard for true auditor independence. An auditor may not provide a non-audit service for their public company client, unless the non-audit services are five percent or less of the total paid to the auditing firm.

SOX defines a non-audit service as any of the following:

- bookkeeping or other services related to the accounting records or financial statements of the audit client
- financial information systems design and implementation
- appraisal or valuation services, fairness opinions, or contribution-in-kind reports
- actuarial services
- internal audit outsourcing services
- management functions or human resources
- broker or dealer, investment adviser, or investment audit
- legal services and expert services unrelated to the audit
- any other service that the Board determines, by regulation is impermissible.

Tax services are not considered to be a conflict and may be performed by the auditor; however, the public company's audit committee must give approval. Also, the PCAOB does have the power to make an exception to any of the above points (SEC 2002).

Aside from the services themselves, a lead audit partner must remove himself after five consecutive years of auditing a specific public company and cannot be involved in that company's audit for another five years. Non-lead audit partners may be involved for seven years before a minimum two year break. Smaller firms, those with ten or fewer partners, are exempt from this rule as well as firms that audit five or less public companies per year. (Bumgardner 2003).

Another guideline meant to avoid conflicts of interest stated that an accounting firm cannot audit a public company if one of the company's top executives is a former member of the firm and participated in an audit of that company within the past year (SEC 2002).

SOX also placed stricter guidelines on public companies themselves, specifically in regards to their financial statements. Top executives must now sign all financial statements. In doing so, they certify that they have reviewed the statements and those statements are fairly represented and free of material errors. Executives are also responsible for creating a company culture where internal controls are enforced and effective. They are required to report directly to the company's audit committee any current or potential problems within that system of controls. If an executive would sign a financial statement and later the company would declare a restatement because of misconduct, that executive would forfeit any bonus or earnings from stocks sales made in the year prior to the restatement (SEC 2002).

SOX also increased the amount of disclosures that must be listed on the financial statements. All material off-balance sheet transactions, obligations, capital expenditures, and the like must be stated as well as any special purpose entities. Each of these items must also be valued in accordance with generally accepted accounting principles (SEC 2002).

Each public company's annual report must also contain an internal control report. This report shows that management has created and upheld an effective network of internal controls throughout the company. An assessment of the effectiveness of the internal controls during the past year is also included in the report. This section of a company's annual report is another part of what an auditor must attest to (SEC 2002).

Finally, the passage of SOX implemented longer prison terms and considerably larger fines for persons convicted of white collar crime. The maximum prison sentences for obstruction of justice, mail fraud, and wire fraud increased to 20 years. Securities fraud penalty went to 25 years (Bumgardner 2003).

New penalties were also created in relation to the financial statements. If an executive knowingly signed an inaccurate financial report, if convicted, that can be imprisoned for up to ten years and/or fined up to one million dollars. Those penalties increase if an executive "willfully certifies" the accuracy of the statements; the fine maximum is then five million with the highest prison term being twenty years (SEC 2002 p.806).

The Horses Need to Run vs Let's Guild the Doors: The Continued Debate of SOX

As with any enacted law, especially one that was passed during an intense time of scandal, there has been—and continues to be—a variety of opinions offered. The SOX Act is no different. Even during the first year after the passing of SOX , the question of had the law gone far enough to prevent future accounting scandal and executive malfeasance emerged. Larry Bumgardner is his article for the Graziadio Business Review entitled "Reforming Corporate America" compared the SOX Act of 2002 to the Securities Act of 1933 (2003). Needs a one or two sentence definition here. He theorizes that the loopholes of SOX may be closed or clarified in the passing of a follow-up act or was this an amendment? as happened when the Securities Exchange Act of 1934 was passed. Even five years later, Michael Oxley, one of original drafters of SOX, commented: "frankly, I would have written it differently. But it was not normal times." (Economist 2007)

Numerous studies have been conducted in order to measure the results of SOX. One study researched 230 alleged U.S. corporate frauds from 1996-2004. They found that post-SOX, auditors discovered the fraud 50% of the time compared to only 30% prior to SOX (Economist 2007). Another controversial study estimated that SOX's costs have surpassed the benefits by $1.4 trillion. However again, the word however does its job better if added in the sentence this figure is based on the theory that decreases in stock value during the implementation of SOX was caused only by the passing of the law (Economist 2007).

Roberta Romano wrote in the Yale Law Review that the law should be repealed since the regulations did not result in more accurate audits; therefore, might because be better here? stock holders are not receiving any benefit. She states "The more general implication is the cautionary note that legislating in the immediate aftermath of a public scandal or crisis is a formula for poor public policymaking…" (Romano 2005 p. 1602)

Ironically, one of the most controversial parts of SOX is also one of the smallest sections: Section 404 is only four paragraphs in length, ~~which is~~ a relatively small portion of an act that is over sixty pages long. Yet this section continues to inspire the most debate since it has been deemed one of the mostly costly standards to implement (Economist 2007). Two Harvard Law professors compiled a review of SOX published in 2014. Their conclusion stated that while the direct costs related to Section 404 are higher, there is currently no way to accurately measure the indirect costs nor the benefits. They do believe that the evidence suggests that Section 404 has lead to a higher quality of financial statements.

Final Version of Undergraduate Term Paper

Contains developmental revisions to both content and design/format
Revisions made directly to rough draft without showing editorial suggestions

Introduction

The Sarbanes-Oxley (SOX) Act of 2002 was created, passed, and enacted in response to the scandals of corporate America that captured the attention of much of the world during 2000 through 2003. As with many laws enacted in a democracy, there are varying opinions about their effectiveness. Using a cliché, the SOX Act of 2002 feels, to some extent, like a ceremonial closing of the barn doors after the horses have run away; it is too little too late and doesn't address the real problem: human greed. Because the focus and nature of this essay are neither psychological nor philosophical, further discussion of human greed will be brief and implicit.

We will first provide an overview of the character of corporations in the United States during the last decade of the twentieth century using two of the largest corporations as illustrations: Enron and WorldCom. The SOX Act of 2002 will have a few sections briefly defined in the second section and the third section will touch on some of the varying opinions regarding the long-term effects throughout the last twelve years.

> **"It was the best of times, it was the worst of times,**
> **it was the age of wisdom, it was the age of foolishness,**
> **it was the epoch of belief, it was the epoch of incredulity . . .**
> **we had everything before us,**
> **we had nothing before us."**
> —Charles Dickens

The horses are bolting: Character of corporations in the 1990s

In the 1990s, many believed the New Economy assured Americans that "recessions were a thing of the past" (Stiglitz, 2003, p. 1). The bull market was to become the norm. That was easy to believe at the time; after all, the stock market was at record-breaking highs and unemployment was hovering at four percent (Stiglitz, 2003). The first two years of the new millennium, however, showed us that the business cycle of growth and downturn was still a fact of life when $8.5 trillion "simply vanished" (Stiglitz, 2003, p. 7) from the stock exchange market. Unemployment skyrocketed with the loss of two million jobs in just one year (Stiglitz, 2003). What had happened? How did so many jobs and so much money simply vanish? One possible answer is that it was all based on an illusion; with the benefit of 20/20 hindsight, we now know that it is possible to create the illusion of revenues and to 'manufacture' profits as if they were an item to be produced.

There are many reasons why the financial numbers in the 1990s appeared strong and healthy but were in fact fabricated and sickly. While simple human greed and personal gain may have been the strongest factors, it was the checks and balances that should have been in place to curtail those motivations, which truly failed. The combination of "accounting chicanery" (Stiglitz, 2003, p. 268) and the revering of the stock market would become the foundation for the illusion of the New Economy. But as everyone knows, no illusion can last forever and the many business scandals that were uncovered during the first few years of the new millennium proved incontrovertibly that an illusion must end eventually. Although there were many corporations involved, the two most prominent creators of this illusion were Enron and WorldCom.

Enron

Enron was an energy company based in Texas that supplied oil and gas to public utility companies across the United States. In January 1992, the federal Securities and Exchange Commission (SEC) approved Enron's request to use mark-to-market accounting, a first for an energy company. The authors of *The Smartest Guys in the Room*, McLean and Elkind (2003), noted that the SEC "essentially caved" (p. 42) by acquiescing to Enron's determination to engage in this accounting method. (Mark-to-market is a method that allows the entire value (actual or estimated) of a contract to be recorded as revenue on the day the contract is signed.) Apparently, conventional accounting methods were too mundane for Enron's "conceit that the idea was all and the idea, therefore, should be the thing that was rewarded" (McLean & Elkind, 2003, p. 39).

Another flawed attitude within Enron was that it revered the stock market and like most of corporate America, used it to gauge success or failure. Stock prices for companies with rapidly rising revenues sky rocket, which of course, results in huge payouts to top executives. Because Enron also awarded executives' bonuses on the basis of the performance of the company's stock, everything at Enron was about making the stock price go higher (McLean & Elkind, 2003). And with each passing quarter, the pressure to generate higher revenues was combined with the desire to hide mounting debt. Enron's CFO 'solved' this problem by masterminding extremely complex off-balance-sheet entities to generate the illusion of more revenues and to conceal increased liabilities (McLean & Elkind, 2003). In fact, McLean and Elkind (2003) write that Enron's "off-balance-sheet vehicles, complex financing structures, and deals [were] so bewildering that few people can understand them even now" (p. 133). This added another layer to the illusion.

When it all came crashing down with Enron declaring bankruptcy in December 2001, employees not only lost their jobs but they also saw $1 billion of their pensions vanish. Top executives, on the other hand, walked away with hundreds of millions of dollars in bonuses and profits from sales of stock (Stiglitz, 2003). As was said later, Enron's executives knew they were crooks but "they thought they were profitable crooks" (McLean & Elkind, 2003, p. 21) who showed strong evidence of greed in action. At that time, Enron's bankruptcy was the largest in the United States. What no one knew was that they were to be upstaged by WorldCom less than a year later.

WorldCom

Accounting chicanery was also a factor in the collapse of WorldCom (formerly Long Distance Discount Services - LDDS), a telecommunications company in Mississippi. Like Enron they also wanted to see the company's stock price rise. They initially accomplished this through the rapid acquisition of smaller companies. According to the author of *Disconnected: Deceit and Betrayal at WorldCom* (2003), during a fifteen-year period (1986 - 2001) they focused on "gobbling up small long-distance resellers" (Jeter, p. 30) mostly in contiguous states. Throughout the early 1990s, though, they moved from a mid-sized copper-cable telecommunications company to a global conglomerate of fiber optic service providers. In May of 1995, the name was changed to WorldCom, they hired Michael Jordan to be a company spokesperson promoting "teamwork strategy" (Jeter, 2003, p. 57), and by the end of that year, "reported revenues of $3.63 billion and operating income of $676 million" (Jeter, 2003, p. 58).

When the telecommunications demand began to drop during the 1990s, WorldCom was forced to find other ways of generating income. In June 2001, a lawsuit claiming "detailed allegations of various accounting tactics and misdeeds—double bookings, uncollectible accounts receivables, delayed payments to vendors, hiding of back debt, backdating of contracts, and deliberate understatement of costs—all designed to boost profits" (Jeter, 2003, p. 153) was filed in federal court in Mississippi. A judge dismissed it "with prejudice, meaning he would not consider an amended filing" (Jeter, 2003, p. 152). In May of 2002, an internal WorldCom auditor discovered that the company had been classifying line costs (fees paid for use of other companies' networks) as capital expenditures rather than the correct classification of expenses. A month later, WorldCom issued a statement saying that it incorrectly classified $3.8 billion of expenses (line costs) as capital expenditures and less than a month after that, the corporation filed for bankruptcy (Lyke & Jickling, 2002).

In the end, the illusion was that both Enron and WorldCom were "wild, out-of-control" (McLean & Elkind, 2003, p. 114) experiments presented as healthy, well-run businesses generating growing profits. What no one, including some of the sharpest auditors, chose to acknowledge was that the Enron's version of mark-to-market accounting method was not only impossible to sustain but it was complex and corrupt. In the case of WorldCom, it was not the mark-to-market method of accounting, but rather, a "scandalous laundry list" (Jeter, 2003, p. 152) of deliberate violations of generally accepted accounting principles. But the question, "where were the auditors?" remains. Auditors are supposed to be the commonly viewed checks and balances of public companies, aren't they?

One of the largest accounting firms of that era was involved in both corporations during the 1990s: Arthur Anderson. While Anderson's individual auditors may not have been aware of the full extent of the mark-to-marketing accounting tricks Enron was performing, they surely knew that the financial statements were not reasonably accurate and chose to sign off on the statements anyway. It is speculated that the primary reason for this intentional blindness was the amount of fees that Anderson was receiving. From Enron alone, Anderson billed $52 million for auditing and consulting services in 2000, and future billings were expected to be $100 million per year (Toffler, 2003). Arthur Anderson was also WorldCom's auditor while these erroneous classifications were being made and maintains that they were unaware of them (Lyke & Jickling, 2002).

Public panic and outrage grew when more companies collapsed ; between the dates of Enron's and WorldCom's filings for bankruptcy, more financial scandals were revealed in Adelphia, Dynegy, Global Crossing, Quest Communications, and Tyco, to name a few. With outrage at the loss of billions of dollars, rising unemployment, and confidence in the stock market at an all time low, something needed to be done. Two United States congressmen came up with a plan of action: Paul Sarbanes and Michael Oxley.

Ceremonially closing the barn doors: The Sarbanes-Oxley Act of 2002

Prior to WorldCom's collapse, federal lawmakers were reluctant to act; however, nine days after WorldCom declared bankruptcy President George W. Bush signed the Sarbanes-Oxley (SOX) Act of 2002 (Jeter, 2003). The initially controversial bill passed unanimously in the Senate, and a vote of 423-3 in the House of Representatives (Bungardner, 2003). According to an article in the *Graziadio Business Review* (2003), the SOX bill "suddenly became very popular" (para. 5). Congress passed it before the August recess and President Bush overcame his previous skepticism and signed it into law on July 30, 2002. Some speculate that because 2002 was an election year, politicians were anxious to appease public outrage.

The first point of SOX was to establish the Public Company Accounting Oversight Board (PCAOB). This non-profit corporation would be responsible for creating and enforcing standards concerning ethics, controls, and independence within the auditing community. Accounting firms that audit public companies would be required to register with the board and be subject to inspections or investigation by the PCAOB if needed (SEC, 2002). The PCAOB itself would be comprised of five members who have “integrity and reputation” (SEC, 2002, p.751). The terms for each position would be for five years with no more than two consecutive terms for each member. To demonstrate true independence, members are not permitted to participate in other businesses during their term, nor are they allowed to receive payments from any accounting firms, with the exception of prior fixed payments, as from a retirement account (SEC, 2002).

The second point of SOX was to specifically define what would be the new standard for true auditor independence. An auditor may not provide a non-audit service for their public-company client unless the fees for the non-audit service are five percent or less of the total paid to the auditing firm with a non-audit service defined as any of the following:

- bookkeeping or other services related to the accounting records or financial statements of the audit client
- financial information systems design and implementation
- appraisal or valuation services, fairness opinions, or contribution-in-kind reports
- actuarial services
- internal audit outsourcing services
- management functions or human resources
- broker or dealer, investment adviser, or investment audit
- legal services and expert services unrelated to the audit
- any other service that the Board determines, by regulation, is impermissible.

Tax services are not considered to be a conflict and may be performed by the auditor; however, the public company’s audit committee must give approval. Also, the PCAOB does have the power to make an exception to any of the above points (SEC, 2002).

Aside from the services themselves, a lead audit partner must remove himself after five consecutive years of auditing a specific public company and cannot be involved in that company’s audit for another five years. Non-lead audit partners may be involved for seven years before a minimum two year break. Smaller firms, those with ten or fewer partners, are exempt from this rule as well as firms that audit five or less public companies per year (Bumgardner, 2003). Another guideline meant to avoid conflicts of interest state that an accounting firm cannot audit a public company if one of the company’s top executives is a former member of the firm and participated in an audit of that company within the past year (SEC, 2002).

SOX also placed stricter guidelines on public companies themselves, specifically in regards to their financial statements. Top executives must now sign all financial statements. In doing so, they certify that they have reviewed the statements and those statements are fairly represented and free of material errors. Executives are also responsible for creating a company culture where internal controls are enforced and effective. They are required to report directly to the company’s audit committee any current or potential problems within that system of controls. If an executive would sign a financial statement and later the company would declare a restatement because of misconduct, that executive would forfeit any bonus or earnings from stocks sales made in the year prior to the restatement (SEC, 2002).

Additionally, SOX increased the amount of disclosures that must be listed on financial statements. All material off-balance-sheet transactions, obligations, capital expenditures, and the like must be stated as well as any special purpose entities. Each of these items must also be valued in accordance with generally accepted accounting principles (SEC, 2002). Each public company's annual report must contain an internal control report. This report shows that management has created and upheld an effective network of internal controls throughout the company. An assessment of the effectiveness of the internal controls during the past year is also included in the report. This section of a company's annual report is another part of what an auditor must attest to (SEC, 2002).

Finally, the passage of SOX implemented longer prison terms and considerably larger fines for persons convicted of white collar crime. The maximum prison sentences for obstruction of justice, mail fraud, and wire fraud increased to 20 years. Securities fraud penalty went to 25 years (Bumgardner, 2003). New penalties were created in relation to the financial statements; for example, if an executive knowingly signed an inaccurate financial report, conviction could bring imprisonment for up to ten years or a fine up to one million dollars. Those penalties increase if an executive "willfully certifies" (SEC, 2002, p. 806) the accuracy of the statements, carrying a maximum fine of five million or a prison term of up to twenty years.

Those ceremonially locked doors: The continuing debate

As with any enacted law, especially one that was passed during an intense time of scandal, there has been—and continues to be—debate about its effectiveness and its cost. SOX is no different. During the first year after SOX was passed, there were questions of whether the law had gone far enough to prevent future accounting scandal and executive malfeasance. Larry Bumgardner (2003), is his article for the *Graziadio Business Review*, "Reforming Corporate America" compared SOX to the Securities Act of 1933 after the boom of the 1920s and the stock market crash of 1929. He theorized that the loopholes of SOX may be closed or clarified in the passing of a follow-up act, similar to what happened in 1934.

The opposing viewpoint uses stronger, much more derisive, language. In the *Yale Law Review*, in an article using the phrase "Quack Corporate Governance" (2005), Roberta Romano wrote that the law should be repealed since the regulations do not result in more accurate audits which means stock holders are not receiving any benefits. She further states, "The more general implication is the cautionary note that legislating in the immediate aftermath of a public scandal or crisis is a formula for poor public policymaking" (Romano, 2005, p. 1602). Others seem to agree, *The Economist* published the headline, "Five Years under the Thumb" (2007) and stated that SOX has come to be "despised by many businessmen" (para. 5). In that same article, the writer quotes Michael Oxley, one of original drafters of SOX, as saying: "Frankly, I would have written it differently. . . . But it was not normal times" (*Economist*, 2007, para. 4).

Then there are the numerous research studies that have been designed and conducted to measure the results of SOX. One study researched 230 alleged corporate frauds from 1996 - 2004. They found that post-SOX, auditors discovered fraud 50% of the time compared to only 30% prior to SOX (*Economis*t, 2007). Another, more controversial, study estimated that SOX's costs have surpassed the benefits by $1.4 trillion. This figure, however, is based on the limited theory that decreases in stock value during the implementation of SOX was caused only by the passing of the law (*Economist*, 2007). Some of the studies seem to forget that correlation is not the same as causation.

Ironically, one of the most controversial parts of SOX is also one of the smallest sections: Section 404 (Management Assessment of Internal Controls) is only four paragraphs in length, a relatively small portion of an act that is over sixty pages long. Yet this section continues to inspire the most debate since it has been deemed one of the mostly costly standards to implement (*Economist*, 2007). Two Harvard Law professors compiled a review of SOX published in 2014: Their conclusion stated that while the direct costs related to Section 404 are higher, there is currently no way to accurately measure the indirect costs or the benefits. They do concede that the evidence suggests that Section 404 has lead to a higher quality of financial statements (Coates & Srinivasan, 2014).

Conclusion

Regardless of the language one uses to discuss the SOX Act of 2002, it was nevertheless intended to re-boost public confidence in the federal government by providing more specific oversight and adding more severe consequences to corporate fraud and white collar crimes. At the same time, in a democracy of autonomous individuals such as this nation's society, no government can force any individual or corporation to abide by any law it enacts. Although that may have been the goal of SOX, many people outside the business world feel as if nothing much has changed. Many of those wild, out-of-control horses are still running free and some of them are still leading large corporations. Human greed is still a strong motivator and the message many people received in the aftermath of the corporate downfalls is that the "wealth and power enjoyed by those at the top of the loop in corporate America . . . demand no broader responsibility" (McLean & Elkind, 2003, p. 406). Because after all, no law can "regulate arrogancy[e]" (Jeter, 2003, p. 109) either.

In their epilogue, "Isn't Anybody Sorry?", McLean and Elkind (2003) further imply that based on the outcome of the trials of Enron and Arthur Anderson, one could argue that "ethical behavior requires nothing more than avoiding the explicitly illegal, that refusing to see the bad things happening in front of you makes you innocent, and that telling the truth is the same thing as making sure that no one can prove you lied" (p. 406). And their summation, "No matter who you asked, it was always somebody else's fault" (p. 409), is still true regardless of whether one is a corporate executive or an entry-level employee.

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