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Home > Featured Articles > **Enron**

Andersen died in vain 10 years after an ill-fated indictment

March 14, 2012

On this day a decade ago, the federal indictment of the Andersen accounting firm destroyed one of Chicago's signature companies.

The obstruction of justice charges against Andersen unveiled on March 14, 2002, put 85,000 worldwide employees out of work in short order. The vast majority of them had nothing to do with Enron Corp., the lucrative Andersen client that turned out to be a cesspool of financial fraud, but they were sent to the unemployment line.

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In 2005, the U.S. Supreme Court overturned the guilty verdict against Andersen, criticizing the government's prosecution of the case. By then, it was far too late to put the firm back together.

The fallout from Andersen's demise changed how the Justice Department tackled white-collar crime. Instead of prosecuting companies like Andersen, "deferred prosecution" became the standard response to wrongdoing at going concerns. Those agreements enable

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companies to avoid indictments — for many the equivalent of corporate death penalties — in exchange for cooperation and reform. They work like probation without the guilty finding.

That's far better for innocent employees, who don't necessarily become collateral damage. But there's a question about whether the Justice Department as a result of the Andersen case got gun-shy about prosecuting corporate leaders who are guilty of wrongdoing.

What's often forgotten is how a once-proud firm found itself at the mercy of federal prosecutors in the first place.

In the beginning, Andersen was a watchdog. Founder Arthur Andersen made the firm's name stand for something nearly a century ago, when he refused a client's demand to approve a ledger that falsely inflated profits. For decades thereafter, an auditing opinion from Andersen was the gold standard for corporate books and records. If Andersen said the numbers were solid, then investors, bankers, regulators and the public at large could count on it.

Over time, greed corrupted Andersen. Its leaders became more devoted to collecting hefty fees than keeping books straight. Clients paid a fortune for Andersen's consulting services, making its basic function of auditing into little more than an afterthought. The firm's most experienced accounting technicians, the sticklers who maintained its principles, saw their status plunge in the partnership's hierarchy. As Enron ran wild, Andersen's Professional Standards Group proved too weak to intervene. Money had trumped honest services.

Enron's executives were able to lie about their business performance and prospects because Andersen went along. When the lies caught up with its client, instead of admitting its failure to safeguard the public trust, Andersen engaged in a cover-up. Its employees shredded not just a few Enron-related documents, but box after box, day after day, for a period of weeks.

The Enron debacle followed a series of debacles at Andersen, which had bungled audits at Waste Management Inc. and Colonial Realty Co., to name but two prior scandals that cost investors dearly. Prosecutors who previously had stopped short of bringing charges against Andersen came to believe that its leaders considered civil penalties and promises of reform to be mere speed bumps on the road to ever-greater profits.

A decade ago this month, Andersen's brass arrived in Washington for Enron-related settlement talks — myopic, arrogant and devoid of remorse. Justice Department officials concluded that the repeat offenders across the table would offend again if they weren't stopped.

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Did Andersen's demise serve the public interest? No.

There were thousands of innocent victims, the out-of-work employees. The fall of Andersen could have put auditors, lawyers, regulators and other financial watchdogs on notice, but the backlash it engendered spoiled any deterrent effect.

Andersen's actions shaped the Sarbanes-Oxley legislation that tightened rules for corporate internal controls and public disclosures, while clarifying the obligation to preserve important business documents. But SOX, as it's called, has proven to create problems, substantially raising compliance costs for law-abiding public companies, which pay more

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now in audit fees to Andersen's onetime competitors.

The greatest tragedy of Andersen's fall? It fell for nothing. What a loss for Chicago, and what a disservice to all those like Arthur Andersen himself who never would sell their integrity, at any price.

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