

Press Releases

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OTS 97-40 - New Orleans Accounting Firm Consents to \$300,000 Restitution

Office of Thrift Supervision

NEWS

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OTS 97-40

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NEW ORLEANS ACCOUNTING FIRM CONSENTS TO \$300,000 RESTITUTION

WASHINGTON, D.C., June 24, 1997 - The former accounting firm for Eureka Homestead Society, New Orleans, has consented to an order from the Office of Thrift Supervision (OTS) requiring the firm to pay the thrift \$300,000 in restitution and to abide by certain provisions when auditing insured depository institutions.

Roth, Murphy performed the annual audit for Eureka Homestead for the years 1990 through 1993. OTS charged that the audit firm's reports, which were relied upon by Eureka Homestead's board of directors and the regulators, included the "unqualified" opinion that the thrift's books and records were true and accurate without material misrepresentation, when in fact, they were not.

In 1993, OTS examiners found that Eureka Homestead's president, Paul D. Clayton, had engaged in unauthorized securities trading on behalf of the institution every year between 1987 and 1993, which resulted in significant unrecognized losses to Eureka Homestead. Yet, none of the annual audits by Roth, Murphy had discovered or disclosed Clayton's continuing unauthorized securities trading.

OTS also said that although Roth, Murphy knew of continual regulatory criticism of Eureka Homestead's investment trading, the accounting firm failed to modify its annual audit plan to examine the trading more closely. The regulator also said that in the course of its audits, Roth, Murphy requested independent confirmation of Eureka Homestead trading from its brokerage firms, the firms were not responsive to specific questions posed, were inappropriately signed by account executives associated with the thrift's account, or not signed at all.

In another instance, OTS charged that Roth, Murphy received an audit confirmation letter from a brokerage firm reflecting the existence of an unrecorded, undisclosed and unauthorized margin account. Clayton then obtained a subsequent letter from the same firm which failed to disclose any information about the margin account. Roth, Murphy failed to pursue any of these discrepancies.

In March 1997, Clayton consented to orders prohibiting him from the banking industry and requiring payment of \$75,000 in restitution to the thrift.

The provisions of the OTS order imposed upon Roth, Murphy include: ensuring that all future audits of insured depository institutions be staffed by individuals with the requisite credentials, training and experience to conduct such audits; that all such audits will be prepared and performed in accordance with generally accepted accounting practices; that the firm obtain certain minimum information concerning the confirmation of investments and securities held by a party other than the institution; and that any Roth, Murphy employee who becomes aware of adverse information not in conformity with the institution's books and records, be required to "go up the ladder" to be certain the information is disclosed to the appropriate party.

Roth, Murphy, Sanford & Co., New Orleans, agreed to the cease and desist order without admitting or denying the allegations made by OTS and has paid the agreed upon restitution. The settlement does not affect the well-being of Eureka Homestead.

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The Office of Thrift Supervision (OTS), a bureau of the U.S. Treasury, regulates and supervises the nation's thrift industry. OTS' mission is to ensure the safety and soundness of thrift institutions and to support their role as home mortgage lenders and providers of other community credit and financial services.

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