Press Release

Ernst & Young, Former Partners Charged With Violating Auditor Independence Rules

First SEC Enforcement Actions for Auditor Independence Failures Due to Close Personal Relationships

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Washington D.C., Sept. 19, 2016 — The Securities and Exchange Commission today announced that public accounting firm Ernst & Young has agreed to pay $9.3 million to settle charges that two of the firm's audit partners got too close to their clients on a personal level and violated rules that ensure firms maintain their objectivity and impartiality during audits.

SEC investigations found that the senior partner on an engagement team for the audit of a New York-based public company maintained an improperly close friendship with its chief financial officer, and a different partner serving on an engagement team for the audit of another public company was romantically involved with its chief accounting officer. Ernst & Young misrepresented in audit reports issued with the companies' financial statements that it maintained its independence throughout these audits.

"These are the first SEC enforcement actions for auditor independence failures due to close personal relationships between auditors and client personnel," said Andrew J. Ceresney, Director of the SEC's Division of Enforcement. "Ernst & Young did not do enough to detect or prevent these partners from getting too close to their clients and compromising their roles as independent auditors."

According to the SEC's order finding that Gregory S. Bednar caused auditor independence rule violations at Ernst & Young from January 2012 to March 2015, he was specifically tasked by the firm to improve its relationship with the New York-based audit client because it was a "troubled account." Bednar and the company's CFO stayed overnight at each other's homes on multiple occasions and traveled together with family members on overnight trips with no valid business purpose, and they exchanged hundreds of personal text messages, emails, and voicemails during the auditing periods. Bednar also became friends with the CFO's son and often treated them to sporting events and other gifts. Certain Ernst & Young partners became aware of Bednar's excessive entertainment spending but took no action to confirm that Bednar was complying with his independence obligations.

Bednar and Ernst & Young consented to the SEC's order without admitting or denying the findings. The firm agreed to pay $4.975 million in monetary sanctions for these violations. Bednar must pay a $45,000 penalty and is suspended from appearing and practicing before the SEC as an accountant, which includes not participating in the financial reporting or audits of public companies. The SEC's order permits Bednar to apply for reinstatement after three years. Bednar no longer works at Ernst & Young.

According to the SEC's order finding that Pamela Hartford caused auditor independence rule violations at Ernst & Young from March 2012 to June 2014, she maintained a romantic relationship with financial executive Robert Brehl while she served on the engagement team auditing his company. Meanwhile another Ernst & Young partner named Michael Kamienski, who supervised Hartford on the audit, became aware of facts suggesting the improper relationship yet failed to perform a reasonable inquiry or raise concerns internally to Ernst & Young's U.S. independence group.

According to the SEC's order, Ernst & Young required audit engagement teams to follow certain procedures to assess their independence, and employees were asked whether they had familial, employment, or financial relationships with audit clients that could raise independence concerns. But these procedures did not specifically inquire about non-familial close personal relationships that could impair the firm's independence.

Ernst & Young, Hartford, Kamienski, and Brehl consented to the SEC's order without admitting or denying the findings. The firm agreed to pay $4.366 million in monetary sanctions for these violations, and Hartford and Brehl agreed to pay penalties of $25,000 each. Hartford, Kamienski, and Brehl are suspended from appearing and practicing before the SEC as accountants, which includes not participating in the financial reporting or audits of public companies. The SEC's order permits Brehl to apply for reinstatement after one year, and Hartford and Kamienski can apply after three years. Hartford and Kamienski no longer work at Ernst & Young.

The SEC's investigation involving the audit of the New York-based issuer was conducted by Vanessa De Simone, John O. Enright, Lisa Knoop, and Thomas P. Smith Jr., and was supervised by Sanjay Wadhwa. The investigation involving the audit of the other issuer was conducted by Deborah R. Maisel and Amanda deRoo, and was supervised by Jennifer S. Leete. The SEC appreciates the assistance of the Public Company Accounting Oversight Board.

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Related Materials

- SEC order - E&Y, Bednar
- SEC order - E&Y, Hartford et al