**STATE OF MINNESOTA**
**BOARD OF ACCOUNTANCY**

In the Matter of the CPA Firm Permit of

Ernst & Young LLP
CPA Firm Permit No. 00941

**STIPULATION AND CONSENT ORDER**

Board File No. 2023-014

**STIPULATION**

Ernst & Young LLP ("Respondent") and the Minnesota Board of Accountancy's Complaint Committee stipulate that, subject to Board's review and discretionary approval, the Board may issue a consent order that imposes the following sanctions:

A. Respondent's CPA firm permit, No. 00941 is CENSURED and REPRIMANDED pursuant to Minn. Stat. § 326A.08 (2022).

B. Respondent shall pay to the Board a CIVIL PENALTY of One Hundred Thousand dollars ($100,000). Respondent shall submit a civil penalty of $100,000 by check to the Board within sixty (60) days of the Board's approval of this Stipulation and Consent Order.

C. Respondent shall remain law abiding and comply with all statutes and rules within the Board's jurisdiction. *See* Minn. Stat. ch. 326A (2022) and Minn. R. ch. 1105 (2021).

Respondent and the Committee enter into this stipulation based on the following findings of fact (which findings Respondent admits to the same extent admitted in the June 28, 2022 SEC Order described below), conclusions of law, and other provisions:

## Findings of Fact

1. The Board issued Respondent a CPA firm permit on January 20, 1995.

2. In December 2014, an internal Ernst & Young whistleblower reported a flaw in the firm's software that allowed professionals to pass CPE exams without the required number of correct responses. This vulnerability allowed exam takers to achieve a passing score while answering as little as one question correctly. The firm's investigation of this matter determined that from 2012 to 2015, over 200 Ernst & Young audit professionals in multiple offices exploited this flaw to pass CPE exams.

3. Ernst & Young took a variety of disciplinary actions against the audit professionals who engaged in this misconduct. To prevent further cheating, Ernst & Young added prominent warnings to CPE exams reminding test-takers that assessments must be taken independently, and that a failure to do so reflected a lack of integrity. The firm repeatedly reminded its personnel that cheating on exams was highly improper and violates Ernst & Young's Code of Conduct, which requires professionals to act with integrity and requires those who become aware of misconduct to report any deviations or violations of the Code to the firm.

4. However, Ernst & Young learned that, despite these warnings, certain audit personnel were continuing to cheat. For example, in 2016, Ernst & Young learned that professionals in its Denver office improperly shared answer keys. In response, the office's managing partner warned staff that these actions constituted a serious violation of the firm's Code of Conduct and underscored the importance of ethical behavior in connection with CPE. After the firm learned of two employees who had cheated on a CPA ethics exam in 2017, Ernst & Young issued the following warning to U.S. personnel:

> "Cheating" on internal or external tests, assessments or evaluations can result in disciplinary action, including termination. You must complete them without

> assistance from others. Assessments will further your professional development. Not completing a test on your own or sharing or soliciting answers from others during an assessment, is CHEATING. This conduct is contrary to our Global Code of Conduct and our values. Take it seriously!

5. These recurring instances of cheating reflected that the problem was persisting notwithstanding the firm's warnings. Though Ernst & Young continued to warn its personnel not to cheat, it did not implement any additional controls to detect this misconduct during the relevant period.

6. On June 17, 2019, the Securities and Exchange Commission ("SEC") issued an order finding that another large audit firm engaged in misconduct that included, among other things, cheating on internal training exams. The SEC imposed a $50 million penalty on that firm.

7. On June 19, 2019, Ernst & Young's U.S. Chair and Managing Partner sent a message to all U.S. personnel regarding that matter. The message warned, "[s]haring answers on internal or external tests or evaluations is highly unethical behavior, in violation of our Code of Conduct, and will not be tolerated at EY." The SEC's action against the other firm, she wrote, "serves as an important reminder of our responsibility to serve the public interest and the need to always act with integrity and honesty."

8. That day, the SEC's Division of Enforcement sent Ernst & Young a formal request asking whether Ernst & Young had received any ethics or whistleblower complaints regarding testing associated with any Ernst & Young training program or continuing professional education course.

9. As requested, Ernst & Young responded on June 20. EY provided a narrative submission that described five matters "related to cheating or other misconduct on training programs and assessments." One of those matters was the 2017 tip about two employees cheating on a CPA ethics exam. None of the matters in Ernst & Young's submission involved

potentially ongoing misconduct by current employees or misconduct that the firm did not appear to have appropriately addressed.

10. Ernst & Young's June 20 submission created the impression that Ernst & Young did not have current issues with cheating—either on training programs and assessments or CPA ethics exams. However, on June 19, the day before Ernst & Young made its submission, an employee reported to a manager that a professional in the firm's audit group had emailed the employee answers to a CPA ethics exam. That afternoon, the manager informed an Ernst & Young human resources employee of the tip, which was then relayed to others in Ernst & Young's human resources group.

11. Various senior Ernst & Young attorneys received the SEC Division of Enforcement's June 19 request. They reviewed Ernst & Young's June 20 submission, which conveyed that the firm's personnel were not cheating on exams. And by no later than June 21, they were apprised of the employee's June 19 tip about receiving an answer key to a CPA ethics exam.

12. The tip Ernst & Young's submission failed to include involved cheating on a CPA ethics exam. It was sufficiently concerning to the firm that it began an extensive investigation. Yet, despite the message from Ernst & Young's U.S. Chair and Managing Partner only two days earlier about the importance of integrity and honesty, Ernst & Young did not correct its submission to the SEC's Enforcement Division.

13. By the fall of 2019, Ernst & Young's investigation revealed significant misconduct: despite all of the warnings, Ernst & Young audit professionals had continued to cheat by using answer keys they had received from colleagues to pass exams and sharing answer keys with others. The investigation confirmed that audit professionals in multiple offices cheated on CPA ethics exams. They also cheated on a wide variety of CPE courses, including courses on ethics and

other topics, such as the Summary of Audit Differences, which are designed to ensure that audit professionals can properly evaluate whether clients' financial statements are presented fairly in all material respects and comply with Generally Accepted Accounting Principles.

14. Many professionals acknowledged during the firm's investigation that they knew their conduct violated Ernst & Young's Code of Conduct, but they cheated because of work commitments or an inability to pass training exams after multiple attempts.

15. Notably, ninety-one audit professionals requested, used, or shared answer keys with colleagues after Ernst & Young's U.S. Chair and Managing Partner sent the message highlighting the SEC enforcement action against the other large audit firm, yet again reminding personnel not to cheat, and yet again discussing the importance of integrity.

16. Despite the requirement in Ernst & Young's Code of Conduct and the firm-wide warnings that audit professionals are obligated to report unethical conduct, a significant number of audit professionals who knew their colleagues were using and sharing answer keys failed to report this misconduct. Many of these Ernst & Young professionals attributed their silence to a lack of appreciation that sharing exam answers constituted cheating and violated Ernst & Young's Code of Conduct, and a desire to avoid getting colleagues in trouble.

17. Ernst & Young's General Counsel's Office discussed the firm's investigation as it was ongoing with the firm's Executive Committee in October 2019. By then, members of the firm's senior management and various Ernst & Young senior attorneys understood that (i) the SEC had sanctioned another large audit firm for exam cheating by its professionals, (ii) SEC staff had asked Ernst & Young about tips it had received involving exam-related misconduct, (iii) Ernst & Young had received a tip about sharing answer keys to a CPA ethics exam, (iv) the cheating

involved more than a small number of individuals in a single office; and (v) the firm had not disclosed the tip to the SEC.

18. Following these discussions, Ernst & Young broadened its investigation. Yet, despite the U.S. Chair and Managing Partner's message to others about integrity, Ernst & Young did not correct its submission to the SEC.

19. Instead, Ernst & Young decided to inform the PCAOB. However, it would not do so yet. Ernst & Young decided to delay disclosing the misconduct even to the PCAOB until "the extent of the misconduct within the Firm was clearer and EY had a credible plan in place to address the problem." That took four more months.

20. The SEC did not learn about the issue until March 2020 – almost nine months after the June 19, 2019 request—when the PCAOB notified the SEC that Ernst & Young had disclosed that a significant number of its employees had cheated on training exams.

21. In 2022, the SEC issued an order (the "SEC Order") disciplining Respondent based on the foregoing conduct.

22. Forty-four of the Ernst & Young employees who were disciplined for violating Ernst & Young's Code of Conduct in connection with answer key sharing, use, or failure to report sharing or use with respect to the AICPA ethics exam or CPE courses hold Minnesota CPA certificates. None of those forty-four held the rank of Partner or higher.

23. Ernst & Young timely reported the SEC Order to the Board but did not notify the Board that Minnesota licensees were involved in this matter until after that information was requested of Respondent by the Complaint Committee.

24. The California, Colorado, and North Carolina Boards of Accountancy have all disciplined Ernst & Young based on the foregoing conduct. Ernst & Young failed to report those

disciplinary actions to the Board within thirty days of the discipline.

25. The Board requested fifteen additional categories of information from Ernst & Young in April 2023. Ernst & Young provided the requested information, including information regarding its extensive investigative and remedial measures and the conduct of individual Minnesota licensees.

**Conclusion of Law**

1. The Board has authority to license and regulate certified public accountants and to take disciplinary action as appropriate. Minn. Stat. ch. 326A (2022).

2. Respondent violated AICPA Code of Conduct § 1.400.001.01; *see also* Minn. R. 1105.0250(B)(1), .7800(A) (2023) (requiring compliance with AICPA Code of Conduct).

3. Respondent violated PCAOB Quality Control § 20; *see also* Minn. R. 1105.0250(D), .7800(F) (requiring compliance with PCAOB Standards).

4. Respondent violated Minn. Stat. § 326A.08, subd. 5(a)(1), (7) (2022).

5. Respondent violated Minn. R. 1105.5600, subp. 1(E) (2023).

6. This stipulation and consent order is in the public interest.

**Other Provisions**

1. This stipulation and consent order must be approved by the Board to become effective.

2. Respondent agrees that the Committee may move the Board *ex parte*, with or without advance notice to the Respondent, to approve this stipulation and consent order. Respondent understands that the Board may either approve the stipulation and consent order or not approve it. This stipulation and the files, records, and proceedings associated with this

matter may be reviewed by the Board in its consideration of the Committee's motion.

3. If approved by the Board, this stipulation and consent order shall be classified as public data. Minn. Stat. § 13.41, subd. 5 (2022).

4. If the Board does not approve this stipulation and consent order, then the matter remains unresolved and the Committee may either seek to negotiate a revised stipulation and consent order with Respondent to present to the Board or issue an order commencing a contested-case hearing before an Administrative Law Judge at the Office of Administrative Hearings. *See* Minn. Stat. §§ 14.57–.62, 214.10, subd. 2 (2022) (describing administrative hearing process).

5. Respondent agrees that if this case comes before the Board again after it reviews and discusses this stipulation and consent order, Respondent waives any claim that the Board was prejudiced by its review and discussion of this stipulation and consent order and any records relating to it.

6. Respondent acknowledges that it was advised by the Committee of its rights to a contested-case hearing in this matter before an Administrative Law Judge, to file exceptions and make argument to the Board after the hearing, and to seek judicial review from any adverse decision rendered by the Board. Respondent understands that should this matter be resolved via approved stipulation and consent order, it would no longer have the foregoing rights. Respondent was further advised by the Committee of its right to be represented by counsel and that it is represented by counsel.

7. Respondent has read, understands, and agrees to this stipulation and has voluntarily signed it. It is expressly understood that this stipulation contains the entire agreement between the parties, there being no other agreement of any kind, verbal or otherwise. If

approved by the Board, a copy of the final stipulation and consent order shall be served personally or by first class mail on Respondent. The Board's order shall be effective when it is signed by the Chair of the Board or the Chair's designee.

8. Pursuant to Minn. Stat. § 16D.13 (2022), any civil penalty imposed by this stipulation and consent order shall begin to accrue simple interest in accordance with that section thirty days after the civil penalty is due. Pursuant to Minn. Stat. § 16D.17 (2022), thirty days after any civil penalty imposed by this stipulation and consent order is due, the Board may file and enforce any unpaid portion of the civil penalty as a judgment against Respondent in district court without further notice or additional proceedings.

Dana S. Douglas
Ernst & Young LLP
By: Dana S. Douglas
Its: Principal

STATE OF State of NEW YORK ~~County of WESTCHESTER~~

COUNTY OF__________

This instrument was acknowledged before me on JAN 21 2025 by DANA S DOUGLAS.

(stamp)

HARRY OTTO
NOTARY PUBLIC, STATE OF NEW YORK
Registration Number # 01OT6378080
Qualified in Westchester County
Commission Expires 07/16/2026

Harry Otto
(Signature of notary officer)

My commission expires: JUL 16 2026

**COMPLAINT COMMITTEE**

ANN ETTER, CPA
Chair

Dated: Feb 5, 2025

**CONSENT ORDER**

Upon consideration of this stipulation and consent order, and based upon all the files, records, and proceedings herein, all terms of the stipulation and consent order are approved. Accordingly, the Board hereby ADOPTS the stipulation and issues the ORDER described above.

STATE OF MINNESOTA
BOARD OF ACCOUNTANCY

Dated: 2/5, 2025

CHARLES SELCER, CPA
Board Chair