

Securities and Exchange Commission Historical Society
Interview with Charles Bowsher
Conducted on March 4, 2020 by Lucy Harvey

Lucy Harvey:

Hello, it's Lucy Harvey. I'm here with Charles Bowsher, 6th Comptroller General of the United States. We're doing an oral history for the SEC Historical Society on the PCOB, the founding of the PCOB. We're at the Metropolitan Club in Washington, D.C., and today is Wednesday, March 4th, 2020. Thank you, Mr. Bowsher for joining me.

Charles Bowsher:

I'm glad to have you, and pleased you're here.

Lucy Harvey:

Mr. Bowsher, tell me about your early life and early education.

Charles Bowsher:

Well, my early life begins in Elkhart, Indiana, May 30th, 1931. And as I've always said, my mother went to get her last exam and a doctor said, "I think I hear two heartbeats." And by God, he was right. Both Jack and I came into this world healthy, and that was the good news, but 400 banks that weekend or that week closed in Chicago in the Midwest. So that was the beginning of the bank crisis and the depression. And so that was a tough time. My dad was unemployed for two years. And we had to split up and go to Canada where my mother is from. But then when we got back together, we were in Chicago for a couple of years, and then we moved to Elkhart, Indiana where we had originally been born. And then we did up to the sixth grade there. We went back to Chicago and dad got promoted to be an engineer. And we did junior high and high school there. And then we both, we wanted to go to Notre Dame, but my dad couldn't afford it, so we went to the University of Illinois and majored in accounting.

Lucy Harvey:

And you're identical twins?

Charles Bowsher:

We are identical twins, yeah.

Lucy Harvey:

I heard that the Bowsher boys got the best jobs coming out of college.

Charles Bowsher:

That's right. See, we had to serve in the Army and when we graduated 1953 to '55, but then we came back and got an MBA at the University of Chicago. And Jack got the IBM job and I got the Arthur Andersen job, which I think at the time were the two best companies.

Lucy Harvey:

After conferring with your brother at IBM, you began to go into Andersen's Systems project. So, talk about that work a little bit.

Charles Bowsher:

Yeah. Well, actually I went in audit like everybody else. And I had one big client in Chicago, whose books were kind of messed up. And at the end of the second year the partner said that they've agreed to see if they can straighten them out, I said, "They got to straighten them out. This is just terrible." So he said, "I'll leave you here, Chuck to work with a guy from the systems division." And so I did that. I just worked with him, everything at the end why Sid Lyon said to me, "You have a flair for this. Why don't you think of moving over?" And that's when I thought about my brother. He was with IBM, he was in the computers. And see, I'd had six months with Chrysler before I went in the Army. And everything was big ledgers. There was no mechanism or anything like that. That was just a few years earlier.

But here, all of a sudden they were coming up this new thing called a computer. And Leonard Spacek at Andersen had the foresight to realize that this was going to change the accounting world as far as, how do you keep all the records? How do you think that? And so I thought maybe I'd switch in, and that's what I did. I went into the systems division of Andersen, which I thought was a terrific move, although a lot of partners told me it was the biggest decision I would ever make. And because when you design a new system, you really start to understand accounting and auditing, rather than just going to audit somebody's books like that. When I got to be Navy assistant secretary, I had a lot of background.

Lucy Harvey:

So, from 1967 to 1971, you served as the assistant secretary of Navy for financial management and Comptroller?

Charles Bowsher:

That's right.

Lucy Harvey:

How did you get that appointment?

Charles Bowsher:

Well, that's an interesting story, because after we did our basic training at Fort Leonard Wood we got to Camp Kilmer, New Jersey, which was the immigration point to Europe. All the troops going to Europe came through Camp Kilmer. And we had jobs in post headquarters. And I don't know, three or four months into the job they decided to have one airplane a week go overseas. And everybody else, of course was still going on troop ships. And the captain, who was the aide, General Zwicker of Zwicker being the famous McCarthy Hearing General. Why came down and said, "I have a classmate from West Point that I was going over and I'd like him to go on that airplane." And I said, "How do we do that?" And he says, "You have the manifest, Private Bowsher. Why don't you just write his name in?" See, so I did.

I learned that I could do that, because the plane was never full. And then a few months later I got a call from one of my fraternity brothers who was finishing up his training at Fort Orton. He says, "I have a friend coming through, and he didn't really take to the Army too well, but maybe you can help him." So he to the day, his dying day told about how he arrived there. "And the Bowsher twins took over and even got me on an airplane." See? And so anyway, he got discharged. He was an art history major, and

then he went with Morgan because he didn't get a pay increase at the Frick Gallery. But then long story short is, he was working on the Lindsay campaign and he was the budget guy, and Lindsay made him the budget director. And then a couple of years later he became Assistant Secretary of the Army under Cy Vance.

And I came down here to help the firm on one of the promotions here, while we had dinner, and he said, "The Navy jobs come open." He said, "I'd like to put your name up." I said, "Don't do that. I just made partner." I came back two weeks later, it was with the Catholic University to meet the bishops, and he said, "I've got it all set up with breakfast with the Secretary of the Navy on Saturday. You can't turn that down." I said, "No, I won't turn that down." Two and a half hours later and the breakfast, why they offered me the job. And I said, "God, that's FDR's job, I accept on the spot." Yeah.

Lucy Harvey:

That's wonderful. Then you went back to Anderson for another decade really after that four years?

Charles Bowsher:

Yeah, so it was four years. See, I was one year under the Democrats. McNamara Johnson was the guy that officially appointed me. And McNamara. I was the last of the McNamara team, and then Clifford, Clark Clifford came in, and then Nixon won the election. I thought I was going back with the firm. But anyway, the new team, Al Laird, Dave Packard, John Chafee, they asked me to stay on for a while, and I did. And I stayed for three years. Then I went back with the firm, but they asked me to stay in Washington and be head of all our government work worldwide.

Lucy Harvey:

And you had some pretty interesting challenges during those next 10 years. Talk about some of the things that you worked on.

Charles Bowsher:

Yeah. Well, it was very interesting, because I worked on the wage price program of Nixon. That was the first one, because they came up with a plan on how to justify a price increase, but they had a very good board, but they didn't have anybody that knew how to design systems or the process or new government. And I got a call one night and would I come over and meet with him? I said, "Sure." So anyway, I had 40 people down here working with me before it was all over. And that was fascinating, because we saw all the industry people coming from U.S. Steel and General Motors and everything like that, waving the piece of paper that I had designed how you put down all the facts, but we stuck with their own systems. We didn't tell them they had to change system, anything like that.

But that was the first. And then I got the job, we got an engagement to do the first audit of the Federal Reserve system and then a review in the Department of Interior. And then all of a sudden, one summer, the managing partner came back and said, "What would they do?" He said, "I was in Europe and they're all worried about America." And I said, "Maybe we should have a balance sheet at the end of the year." And they said, "Well, that'd be great. What do you think?" And he said, I said, "Geez, I'm not sure, Harvey whether anybody would be waiting for that." And he says, "Well, I think we should try it." He said, "I'll give you whoever you want for the summer and you do it." So with 12 guys we produced the first balance sheet in a 35-page little booklet of the federal government.

It got big play, Fortune Magazine, everybody else really took it. Then all of a sudden, the New York City fiscal crisis. And the Secretary Treasury went up to find out what the financial condition in New York City was. And he said, "Christ, I don't even know their financial condition. I've got to hire one of the big

firms." And three of us were considered, we came with our little booklet, he hired us, and then why we did the New York City fiscal crisis. And so that got me, well known you might say, in the state and local government. I had a lot of great assignments in that 10 years, and it became very prominent in the state and local accounting budgeting world as well as the Congress here, because I testified a lot in that. Anyway, I was in the private sector, but I was very much spending most of my time in the government, including overseas.

Lucy Harvey:

During that time, 1976 to 1979, there are a series of accounting failures and scandals. And so, Congress, they react with two very significant hearings, and that's, or investigations, the Metcalf investigations and the Moss investigations. Talk a little bit about what those did and how the profession reacted.

Charles Bowsher:

Well, if you think about this, that the SEC was formed in 1933. And they worked it out with kind of the AICPA, but it was the New York group of the CPA group that finally convinced them to have the profession set the accounting standards and the SEC approve or disapprove them. And so, there was no more congressional hearings until all of a sudden Moss and Metcalf. So when you think about it was about a 40-some year period where everything was the same. And then all of a sudden they had these hearings. And the one big thing that the staff guys thought was that the Big eight was too few, too concentrated. But they were going into a lot of areas. And so all the firms came down and testified, and when it was over, why Harvey Kappenick, the managing partner of Andersen, asked me, "What do you think?" And I said, "Well, look, let's come with recommendations. And that might mean that they won't have to pass legislation." And that's why we came up with some of our ideas at that time.

But those were important hearings. There was never any legislation passed by Congress, but they got the kind of a new look to the profession, and there were some things that needed to be improved.

Lucy Harvey:

One of the big responses from the profession was the Auditing Standards Board.

Charles Bowsher:

Right.

Lucy Harvey:

Talk a little bit about what those-

Charles Bowsher:

Yeah, see what had happened, they had an Auditing Standards Board in the AICPA, but that was just the firm's meeting in a hotel room and things like that. No outsiders were at the meetings, anything like that. This formalized that and had more things in the open. And it was just a much more professional way of coming up of auditing standards. And of course, we eventually had the PCAOB up, not the PCAOB, but the group up in Stanford that set the accounting standards.

Lucy Harvey:

They created the SEC practice section.

Charles Bowsher:

Yeah.

Lucy Harvey:

They also started peer review.

Charles Bowsher:

That's right. That was one of our ideas, the peer review.

Lucy Harvey:

Oh, great.

Charles Bowsher:

And that worked well at first. Because we got an outside group, generally one of the other Big Eight asking themselves, looked at Arthur Andersen, and they came up with some very good ideas how we could improve everything like that. Then it deteriorated, because the accounting firms, although they always hated when their clients didn't think they had to be looked at so strangely or carefully, by God, they themselves didn't want to be. And so I thought that the peer reviews was very good for four or five, six years and then somewhat deteriorated.

Lucy Harvey:

And they also created the Public Oversight Board?

Charles Bowsher:

Yeah.

Lucy Harvey:

Okay. They also, oh, minimum levels of CPE continuing education.

Charles Bowsher:

Yes that's right.

Lucy Harvey:

Audit partner rotation. They were-

Charles Bowsher:

Yes.

Lucy Harvey:

Okay.

Charles Bowsher:

Well, that's important. Because see, I think even to this day, one of the problems is the accounting profession hates audit rotation. But General Electric had the same auditors for over 100 years, and I think you need a fresh look. And so when I was Comptroller General and we did the Yellow Book standards, we put in there that you'd have to rotate every seven years. And the government still adheres to that. But I'm a great believer that it makes the company and the auditing firm much more independent if they ... In two ways. The firm that's leaving in the seventh year is going to really make sure everything's okay and clean, and the new firm is coming in and giving you fresh eyes. So, it's a very good check, and I know the accounting profession doesn't like it.

Lucy Harvey:

The next thing that came along was the S&L crisis about 1980 to 1985.

Charles Bowsher:

That's right.

Lucy Harvey:

And we had Representative John Dingell and Ron Wyden put on 20 hearings, but still there was no legislation that kind of came out of this. So, the profession responds with the Treadway Commission and the Andersen Commission. Talk about what those put forth.

Charles Bowsher:

Well, I was now Comptroller General in the S&L crisis. And so, we were the auditors of FSLIC, which is like the FDIC is the insurance organization and the government for the banks, and FSLIC was for the S&L industry. And when we audited them, all of a sudden one year, all of a sudden we saw how the fund was going way, way down very quickly because some of the S&Ls were going out of business. I reported that to Congress in testimony, and then pretty soon they ran out of their fund. Then the question was, how much more money would the Congress have to approve to keep that fund going? And so I in the GAO became the monitor of the whole S&L crisis, and 1,000 S&Ls went out of business. It really was a bad situation, and it happened to a certain extent because the Garn-St Germain legislation was passed as soon as the Republicans came to power. And their lobbyists got more freedom for the S&Ls.

In other words, S&Ls were generally restricted to a certain area, not even if you were a Chicago S&L, you only got the south side or the west side or something like that. Now you could make loans to country clubs in Memphis and places like that, and that's where they got into big trouble. So the S&L crisis was one of the crisis that never needed to happen, but when it did happen, it was big. It was really big. And then the firms had to react to that. That was a milestone. Yeah.

Lucy Harvey:

Let's talk about your appointment as the 6th Comptroller General of the United States. And you were appointed by Ronald Reagan in 1981. How did you actually get that appointment?

Charles Bowsher:

Well, it's very interesting. And that is that the job was set up in the Budget and Accounting Act in 1921. And that took the budget year out of the Treasury and gave it to the president, which was Teddy Roosevelt won, and Wilson won. And they only got it done in the Harding administration. At the same time that the debated that the Congress said, "We better get the auditors out, make them independent

so they can tell us how the money was spent." And so that's how the GAO became, and next year will be 100 years, see a celebration over at GAO. And then they put a 15-year term in there to give it independence. And I was, I think the 6th, and now there's the 8th, but there's no other agency in the government that has had that continuity of leadership over 100 years, so it's worked what they wanted to do.

But anyway, Elmer Staats' term was coming to an end, and most people, including myself, didn't know it was a term. We thought Elmer Staats had been in there for so long, and he was like the Supreme Court. He was there for life. But I was playing golf out at Burning Tree, and on the second hole, Barry Shillito, who'd been assistant secretary with me at the Navy, came over and said, "Mal Laird, who was in the force, some of the Secretary of Defense, thinks you'd be a good replacement for Elmer Staats." And I said, "Where is Elmer going?" And then he explained it to me. And so later on I said to Laird, "Sure, I'd be willing to be a candidate."

Well, then when had happened, it used to be just a presidential appointment confirmed by the Congress. What happened was Jack Brooks in the House, excuse me, he said, "Look at the Senate confirms. The President gets to select, and where's the House? And most of the jail reports come to the house." So anyway, he finally got a new rule where five leaders of the House, five leaders of Senate would meet a temporary commission and come up with three or more names for the president. The president didn't have to select to keep the separation of powers intact, but if he didn't, of course, the Congress might not be happy. Well, so I went through that process the first time it ever occurred, and there were eight names. And all the other were Republicans, and I was a Democrat from Chicago, so I didn't think I was going to get it. See, but Mel Laird and a few other people like Ed Meese and things like that, they were my big backers. And by God, I did get selected by Ronald Reagan.

Lucy Harvey:

Going back to the Treadway Commission, there's just some recommendations that then come forward to ultimately what was in SOX. And I wanted to talk a little bit about that. And some of the things that they talked about was the Committee of Sponsoring Organizations, and that still exists today.

Charles Bowsher:

Yeah.

Lucy Harvey:

And the COSO report on internal control.

Charles Bowsher:

See, what's interesting, you're bringing up a very good point. What's interesting is coming out of the Moss, Metcalf hearings was a series events. And all of a sudden what it was really saying is, "We got to be looking at a lot of the issues here in the accounting and auditing world." And what you've just announced is coming two or three of those efforts. Now, take internal controls and systems. What had happened, if you think about it going back when I said I switched out of auditing into consulting, the computers were very primitive. By this time the computers were up and running, and in every major organization it was highly mechanized. And so, if you audited the way you audited the old manual systems or those early computer system, you weren't really checking the internal controls the way you had to check them.

And so, these were efforts now to start to get the accounting profession and the big firms to recognize that checking internal controls the old way, that wasn't getting the job done, you had to do it the new

way. And that has checked the big computer systems. And a lot of auditors didn't have that background. See, Arthur Andersen did because they had a systems division, things like that. But then eventually they all built them.

Lucy Harvey:

As you're finishing your 15-year term, the SEC at the Comptroller General, the SEC and the AICPA created the Independent Standards Board, and that was in 1997. And what was that trying to accomplish?

Charles Bowsher:

That was trying to accomplish just more independence on doing the things that had been done before the board was established, is the best way to put it.

Lucy Harvey:

Okay. And they're trying to look at more independence standards for-

Charles Bowsher:

Right, that's right. That's right.

Lucy Harvey:

And the SEC at that time was beginning to feel that non-audit services were a contributing factor in the growing number of audit failures?

Charles Bowsher:

Yeah.

Lucy Harvey:

Okay.

Charles Bowsher:

And that was an interesting time, because except for Andersen, most of the other firms didn't have big consulting. But Andersen's was very constrained. Leonard Spacek never wanted us to become a general consulting firm like McKinsey or Booz Allen. The other firms all of a sudden started going that way. And what Leonard wanted was that we would just be able to help clients improve their systems, not tell them how to be organized, not tell them, things like that. And so anyway, you had to start to get your auditors trained up and everything like that. We were able to do it because we had the talent and everything like that. It came harder for the other firms. And also, they still like this broader-based stuff. And so, that's what started to be, how independent are you if you're helping them do this and helping them do that and helping them do this and helping you do that? And then you come in and later say, "I'm independent, now I'm going to audit it." But you created it. It was a valid concern. It really was.

Lucy Harvey:

Now we're in the late 1990s, what are the pressures that are on the profession right now?

Charles Bowsher:

Well, what's on the pressure at that time is you had some big crisis in the economy. And you had had some audit failures and things like that. Everybody was discussing, "How can we have a more independent audit, a more capable audit?" And there was a guy in New York with the Willkie Law firm, I forget his name now. But he wrote a great book or small book. And the fact that one of the problems of the accounting profession was that they would spot problems when they were doing the audits. The young guys would spot them. But then they would say, "Well, that's not too big of a problem, and we still want to keep that client as a client." And so maybe that'll get straightened out. We'll tell them what the problem is. They'll straighten it out, so we don't have to make too big of a deal.

But then lots of time the client didn't do it. Then, as he said in his write-up, the gray issue became darker, and then sometimes it exploded, and then you had a big crisis, and it was in all the newspapers and the magazines and everything like that. And so, that I have always thought was one of the big problems with the accounting profession. The younger guys catch the problems. The older guys sometimes don't make the right decisions when they're faced with it. And I felt that all the way down to when I came out and served on boards and that I had a couple problems. I was chairman of the audit committees, a couple of big. And they had problems. And I was amazed how the accounting firms didn't think it was too big of a problem. One of them went out of business because there was a big problem.

Lucy Harvey:

Now we are at September 28, 1998, and we are at Arthur Levitt's, the numbers game speech. Where he is talking about earnings management, and he calls for two big panels to come up with recommendations. And that's the Blue Ribbon panel to improve the effectiveness of the corporate audit and then the panel on audit effectiveness. And so, did you have a role in any of this?

Charles Bowsher:

Yes. I was on the Blue Ribbon panel there. And I worked hard on that, because I thought there was a great opportunity and the people were with me and Arthur Levitt wanted to do the right thing and everything like that. And so we came up with some really good recommendations in a report there. And then we decided to go around the country and explain it to everybody. We kind of used the law firms of the accounting firm, the big college, the universities as our forum. And so we did a good job, but nothing happened. Now, later on when we went to the SOX legislation that review, those efforts came into play. Because actually we had discovered some of the problems. We had come up with good solutions. And so those reviews were very important in the evolution of the accounting and auditing profession.

Lucy Harvey:

Now at this time you are head of the Public Oversight Board, right?

Charles Bowsher:

Yes. I became head. At first, I went on it, and then there was a change of leadership. Al Summers left as the, he had been formerly an SEC Commissioner, and then I was selected to be the new chairman.

Lucy Harvey:

And then Enron hits.

Charles Bowsher:

And then Enron hits.

Lucy Harvey:

Describe how the POB reacts to that.

Charles Bowsher:

Well, it was a case where the POB knew they had a problem. And of course, that was my old firm was the auditors. And I thought they had a big problem. Now, this is a little interesting sidebar, and that is Ken Lay was the CEO of Enron. Okay, go back to when I was Assistant Secretary of the Navy. McNamara always kept saying that the Vietnam War is costing X, and a lot of people thought it was costing X plus. Especially the Bureau of the Budget over here. So anyway, McNamara leaves, Clark Clifford comes in, the Bureau of the Budget says, "We're going to take a look there," because McNamara had always been able to snow them with numbers, see? And Clifford decided he didn't want to go over and meet with all those budget guys. So he asked the Comptroller, Bob Moot, to go over, and Bob asked me to go with him, and I said, "We're riding over."

He said, "Chuck, why don't you make the presentation?" He said, "You're credentialed and everything like that." So we did. And then we came back and the undersecretary of the Navy said to me, "How'd it go?" And I said, "Well, I think we did okay." But I said, "They've got a lot of PhD economists. And do we have any of those around the Navy?" And he said, "Not that I'm aware." That night he went to a dinner here of the oldest standard oil guys. There was a half dozen that were in government. One was a Deputy Secretary of Treasury, and he was telling him about really looking at the cost of the war in Vietnam. And the deputy said, "We got a great young guy coming out of Navy OCS. He was at corporate headquarters at the Standard Oil. His name is Ken Lay, and you ought to give him some thought."

And so Chuck Barrett asked me, "What do you think?" I said, "How can we lose? Why don't we get him?" Well, he came and worked for me for three years at the Navy. All of a sudden here he was, the chairman of Enron. And unfortunately Ken made some big mistakes, and so had Skilling as the deputy and everything like that. Also, Ken had developed some arrogance, like a lot of those CEOs developed and that. Anyway, when the trials came out and everything like that, there was no question that they had cooked the books and the auditing firm hadn't caught it all and reported it all. And from that point on why Ken's life went downhill and so did Arthur Andersen.

Lucy Harvey:

Yeah. In terms of the POB, you guys wanted to make some real reforms, but you came up against some resistance.

Charles Bowsher:

Yes.

Lucy Harvey:

So, describe what happened there with-

Charles Bowsher:

Well, what happened there was that Harvey Pitt came in to be a chairman of the SEC and the AICPA, Barry Melancon decided that maybe they should work together and figure out what the reforms were, because they weren't sure that we were going to be a little too tough or anything like that. And so anyway, we got wind of this effort, and they were really planning to put us out of business and then form a new group. What we did, we resigned, called in the newspapers, said, "We're resigning. Here's

why we're resigning." They didn't expect that, needless to say. The Congress took note of all this and everything like that. Anyway, they tried to do it, but then pretty soon the Congress said, "Maybe we need to get something more independent here." And that's when they came up with the PCAOB and some of the people like Harvey were not happy, and the AICPA was not happy, but it was really something that was long overdue.

Lucy Harvey:

You described a dinner with other POB members, Aulana Peters.

Charles Bowsher:

Yeah.

Lucy Harvey:

And you were talking to the AICPA? Describe that-

Charles Bowsher:

Well, no, we were talking mostly that night to the SEC.

Lucy Harvey:

Okay.

Charles Bowsher:

Yeah. Harvey Pitt was there with his legal counsel, Becker, very nice guy. And the chief accountant and a couple, but they had about four guys, and we had two or three off our POB board. Aulana Peters was one of them, and they started to come at us like we didn't know what we were doing. Aulana Peters just, she didn't wait for me to answer. She was the litigator. She really went after them and told them in no uncertain terms, "Look, this is a big problem. You got to do something about it," and things like that. And it got pretty heated, the discussion. And then all of a sudden the restaurant owner came and said they were closing the restaurant, we were in a small room, and we'd have to leave. And I always remember Becker, the lawyer, saying, "We could continue this fight out on the street here." But anyway, we went before the AICPA the next day. Aulana Peters was with me again. And so, we were very strong about the fact that the POB needed strengthening and something like a PCAOB was what they needed. And eventually that's what we got. Yeah.

Lucy Harvey:

Now, you talked about at train ride home from New York from that trip, right? And that's where you got a yellow pad out. Describe that.

Charles Bowsher:

Well, my lawyer, by the way, he was at the dinner. Alan Levinson was a partner of Fulbright & Jaworski, but he had been head of Corp Finn at the SEC, highly regarded. And as we got on the train coming back for three hours on the train, he got out his yellow pad and said, "Chuck, let's maybe sketch out how the PCAOB should be organized and everything like that." For three hours we sketched out the PCAOB. And a lot of what was on that yellow pad is what the PCAOB, how it was organized, how it was financed, how they selected the board and everything like that. So, we had a big input, no question.

Lucy Harvey:

When you came back then to Congress, you realized you would have to work with Congress. So, you approached someone in the house and someone in the Senate, and describe how you selected to work Sarbanes.

Charles Bowsher:

Well, Sarbanes, we started to work with Steve Harris and some of those guys. And then of course, Sarbanes, the principal came in and got interested in a lot of times the members of Congress don't get too interested in the county issues. But he got very interested in it. And so we worked a lot with him. And we did it pretty fast, but we could do it and everything like that. And so pretty soon they started putting together some legislation, see? And then somebody said, "We got to go over and see Dingell," because he was the powerhouse in the House. But I had watched Dingell when I was Comptroller General, and sometimes he wasn't the most popular guy in the House. If he was for X, the rest of the house wasn't for him. And so I said, "Let's keep working with the Senate, and let's get this finalized, and then go over to the House." And that's what we did.

And by that time the Enron thing was on the front page of Forbes and every major magazine. It was everything like that. And the Bush family was getting nervous. Because Ken Lay had been very close to the Bush family down in Houston. He had flown them on his private plane to the inauguration and everything like that. And the last thing they wanted was the Bush family to be tainted by this Enron scandal. Oxley told me years later that he got called over to the White House and said, "Look at it, we got to get this off the front pages." And he said, "They've got this bill in the Senate. It looks pretty good to us. Why don't you go over and just accept it?" And Oxley did. So it became the Sarbanes-Oxley bill. It was strictly the Senate bill. And it passed. Yeah. And Bush signed it. Yeah.

Lucy Harvey:

Talk about internal control. That was your recommendation or your input.

Charles Bowsher:

Yeah. See, with my background, I always felt comfortable looking at internal controls and systems. And I always thought that as the place got more and more computerized, you got to understand now, right now I always say to anybody, "If you want to see if the big banks got everything under control, go to their trading floor up in New York or somewhere. They're huge. They're practically the size of a half a football field. Everybody's got a computer. Everybody is trading not millions, sometimes billions of dollars." See, now, if you ask the CEO like Jamie Dimon, "Are you on top of all this?" "Oh, sure, sure. No question."

Well, as an old systems person, I can walk around and ask a few questions and say, like he got in trouble in London. Big time later on. And that is, so today, if you don't get your controls, not only well-designed under control, but being checked from time to time, you're taking a big risk. And the banking industry of all the industries today is the one I worry about most. And when we had the banking crisis in '07 and '08, Christ, all the banks were in trouble. They weren't on top of their systems at all. And they were getting clean opinions from their accounting firms.

Lucy Harvey:

So, they do call you the father of internal control within the Sarbanes-Oxley bill?

Charles Bowsher:

Yeah.

Lucy Harvey:

And what about the accounting support fee? Who came up with that idea?

Charles Bowsher:

Well, we did that on the train with the yellow pad. In other words, we didn't want the group to be dependent on federal funding. Then how are you going to do it? Well, we came up with this idea how the private sector could provide the money, but not any one person or group in the private sector would provide that much money that they could dominate. We wanted to be independent. We wanted the money to come from the private sector, not the government. And that was all decided on the train. And we put into the Sarbanes bill as a result.

Lucy Harvey:

Yeah. What were the sessions like as the Sarbanes bill was getting written? They would write, they would send it to you. Tell me about that.

Charles Bowsher:

Well, we'd just go over and we had kind of an outline or some notes, I forget initially. And then as they would do the writing, and they had a very good staff, very good staff, Steve Harris, Marty Gruenberg, everybody like that. We were dealing with first-rate people on the banking committee. And so it just got put, they put it together. We didn't come and say, "Here's what Sarbanes actually should look like." We didn't do that at all. We came over, advised them, gave them ideas, gave them sometimes a piece of paper that would explain that idea. But they put it together, a great bill.

Lucy Harvey:

And there was some concern that it was a little bit dead in the water in the middle of the summer. And then WorldCom hit, and then the pressure from the White House came. Describe that.

Charles Bowsher:

Well, that was the pressure where they wanted to get Oxley to come over and just accept the bill. They wanted to get the whole thing behind them and off the newspaper front pages and everything like that, and not get the Bush family and the Bush administration is looking like they were all part of the Enron scandal and some of these other scandals. That was their big motivation. The White House didn't get involved at all, and whether they needed to do something change here or there or something like that, "Just take the Sarbanes bill and pass it." That was the White House.

Lucy Harvey:

There was an effort to try and save Andersen.

Charles Bowsher:

Yes.

Lucy Harvey:

The firm.

Charles Bowsher:

Yes.

Lucy Harvey:

Talk about that.

Charles Bowsher:

Well, see, I had completed my Comptroller General jobs, so now I was serving on some boards and things like that. And so, when it all blew up, why the new management partner called me from New York. He'd just been in the office a few months and said, "Chuck, can you come up? I need your background from government and everything like that." I got on the train the next morning and went up there, had a three-hour lunch with him. Explained to him how you got to determine how you're going to fix it. You got to plan. You got to promise you're going to fix it. Andersen's got a great history. You should have credibility when you're talking like that, and you're going to have to have a financial penalty, and you got to keep it where the partners can afford it, but it could be a pretty big number and things like that.

And I said, "One other thing you might want to do is get an advisory committee that looks like, by God, not only is the partners coming up with this solution, but the advisory committee." And he said, "Who would you recommend?" I said, "Arthur Levitt." He went down to see Arthur Levitt, and Arthur Levitt says, "Chuck's giving you good advice, but I think you'd have a better chairman if you had Paul Volcker." And so, Paul Volcker took it on the basis that I'd be one of his three things. And then he had worked on a difficult situation at Prudential when he went on that board, it was quite a few years earlier when the guy that really helped him was the chairman, CEO of Merck. And so he said, "I think we'll get him. The three of us will be the [inaudible 00:43:58]."

So that's what we did. We got like that, and we started to give them advice, but they weren't taking it. They were sending us to partners all the time to meet with us. The management partner was off in Japan trying to save clients. There was lots of partners in Andersen who were just like Ken Lay quite arrogant. And by God, they tell them government what the solution should be. And then the real problem was that at the last minute we were supposed to come down and meet with the Justice Department, the advisory board with the management partner. They switched lawyers out in New York to a Chicago firm, because some of the partners thought the New York firm wasn't being tough enough. By God, the Chicago firm says, "Yeah, we know how to handle this. We don't need the advisory board at the meeting and everything like that."

So they went in and they were tough. And what happened was the government got tough. Yeah. It was arrogance on the part of the ... A lot of people, even in Paul Volcker's latest book he says, "The government made the big mistake by putting Andersen out." That's true. But boy, the leadership of Andersen at that time bears a lot of responsibility for why the Justice Department did what they did. And of course, the whole thing was overturned by Supreme Court nine to nothing years later. And that was on the basis that, not about the audit or anything else. It was on the basis that Andersen that destroyed records, and that's what they were indicted for. They were found guilty, and then they appealed it to the Appellate Court, and they lost two to one, came to the Supreme Court. I was there that day as a guest of one of the Supreme Court justices. I looked over and saw who was there from Andersen.

And afterwards I walked out and I said, "Well, all the questions were favorable." And they said, "Yeah, but that was the same at the Appellate court, and we lost." But anyway, this time they won nine to nothing. And of course, that makes the Justice Department look terrible that they brought the case. And so there was two people that made the wrong decision, the Justice Department and the leadership of Arthur Andersen.

Lucy Harvey:

Back to Sarbanes-Oxley, it's getting passed. Did the profession try to lobby when Sarbanes was writing his bill? Were they actively-

Charles Bowsher:

They did, but they didn't have any credibility. They were down here quite a bit, and the congressional people would listen to him, but then they tell us what they said. And we had the credibility. They lacked it at that point. So they had very little influence on the SOX legislation. Yeah.

Lucy Harvey:

Okay. Now it's passed, and now they've got to stand up the PCOB.

Charles Bowsher:

Right.

Lucy Harvey:

Talk about how you came up with the idea of the nominating committee for the five board members.

Charles Bowsher:

The nominating committee, again, was on the train in the yellow pad, because Alan said, "How do we set up the nominating process?" And I said, "Well, one of the best that I've seen, and I was a participant, was when I first became Comptroller General, one of my side jobs was being on the Chrysler Loan Board. And that had a three-member board. It was the Federal Reserve Chairman was Paul Volcker, the Secretary Treasury was Chairman, and that was Don Regan and the Comptroller General. That was me, new. And we worked very good. And that was the three-member team. That was really first-rate. And so anyway, I said "Maybe something like that would be a good way to do it." So that got written into the bill, and it hasn't worked too well. Because the Federal Reserve Chairman after Paul Volcker never was much interested in accounting or any of this stuff.

And he would generally come up with a name that somebody gave him the day before. You know what I mean? And the Secretary of Treasury didn't take the same interests. And pretty soon, just, let me put it this way, it has not worked as well as I envisioned it. And now that I look back, I was too impressed by one board that I served on. Yeah, yeah.

Lucy Harvey:

Now, were you approached for becoming one of the [inaudible 00:48:47]-

Charles Bowsher:

I was, and I was written up in the Wall Street Journal and everybody else said I'd probably be the new Chairman, but Harvey Pitz interviewed me, and I knew it was just for show that I ... And I didn't expect to

be, because I played a strong hold. And I knew that Harvey and the kind of profession did not appreciate my leadership on getting the Sarbanes-Oxley legislation passed. I was out of the running pretty quickly.

Lucy Harvey:

Yeah. Talk about the tension between the SEC and the PCOB and how the SEC does oversee the PCOB.

Charles Bowsher:

Yeah, that's a very good question, because our idea was always for the PCOB to be very independent and the SEC, to just have kind of an oversight thing like that. Right from the beginning the SEC really wanted to tell the PCOB what to do. And at first it wasn't too bad. Then it got a little worse, and then it got worse. And I think right now it's terrible. And so, I remember Harvey Pitz saying to me, "Well, I think the guy that should really be the interface is the Chief Accountant of the SEC." And I said, "No, no, no, no. The Chief Accountant of the SEC has his job. The PCOB has their job. The SEC board is what should be in way." But as it's worked out, the chief accountants have kind of thought that they should tell the PCOB what to do.

Lucy Harvey:

And often the chief accountant comes from the profession, from the large firms?

Charles Bowsher:

Absolutely. And then they put in this other bad feature was these accounting fellows who come from the big firms get to know a little bit about the government, the SEC and everything like that, go back to the old firm, rise up, and their loyalty is to the old firm, not to the SEC, not the shareholders. And the guy that became a dean at Columbia University, Sandy Burton, he was a typical professor who thought every professor should have some accounting fellows. And that's why he set it up that way. But it was a mistake. Yeah.

Lucy Harvey:

You also made a big effort to assist auditing committees within the Sarbanes-Oxley bill. Talk about that effort.

Charles Bowsher:

Yeah. One thing we saw when we did that Blue Ribbon Panel review with O'Malley and everybody like that was we actually interviewed audit committees, went out and interviewed, and most of them, they weren't qualified. Most of the people were serving on audit committees, didn't have a clue of how to be a member of the audit committee. In that report we put in the qualifications that we thought, and one was you should have financial management literacy. One of my favorite stories is that when we were at Stanford University, some guy raised his hand and he said, "You know, this qualification thing, hardly anybody would meet those things, and even Jesus Christ wouldn't meet those things." And I said, "Well, we hadn't considered that," but it was awful important to get. And then later years later, when I came out from being, well, not too many years later, I was on the board of an organization called the Rye University.

It was one of these for-profit universities. And the reason they asked me to come on, like most of the boards I served on, they wanted me to be chairman of the audit committee. And so I went on there. I was a chairman of the audit committee, and we had a person on the audit committee who was a nun.

She was president of Mundelein College. Really bright person, wonderful person. After the first couple of meetings of the audit committee she said to me, "Chuck, we didn't even know what questions they ask until you got here." Now, she was terrific, because when I had asked the right questions, and we might not get there, and we'd finally tell them what the auditing firm, what we want to do, she stepped in and half these guys had been raised in the Catholic school system. By God, they paid more attention to her than I think they did to me.

But that was the whole framework. In other words, you got to have competent people in the audit committee, and you've got to have them doing their job. And see, my theory on how do you really run a good financial apparatus for any big, I was on the board in Newport News Shipbuilding, that's the biggest employer in Virginia. They're the most big and involved shipbuilder in the world. They build carriers, nuclear submarines, everything like that. And what they did there was that they really were treating the audit function as something to kind of interface with the broker dealers in New York and made sure they got a favorable view. And I said, "No, no, that's not the role of the audit committee. The role of the audit committee is make sure the financial statements are right in that." There was a lot of the coziness I would call it, in the business world, in the financial world that still needed.

And one of the keys, my key is, if you really want to do it right you got to have a good chairman of the audit committee who knows what he's doing, and that you got to have a good CFO who really knows how to keep the books. And you got to have a good partner from a good firm. If you have those three, you'll never have any trouble. And a good illustration of that is that in '79, well, when the federal election law was passed, 1971. You had to all of a sudden have an audit, and you had to have good financial records when you were running for president. And we had a partner from Lazard, who was a big client of ours, come down and says, "I'm going to be a treasurer of the McGovern campaign. You got to do my work as usual."

We did. We got the DNC as a client too. And then also the Democratic Convention. Now, if you think about it, the Nixon Republican Party exploded into Watergate. See, and that, so in '76 and '80 we had everyone. We had the RNC, the DNC, the conventions everybody was running for, because the other county firms thought that was dirty stuff. They didn't want anything like that. But I always went through, even with Dave Packard, who I'd worked for, very prominent guy when he was going to be the finance chairman for Ford. I said, "Dave, you might want to get somebody else, because we got the Democrat." He said, "No, no, Charlie, we depend on you. If you get in trouble, we're all going to be in trouble," he said, so we went like that.

But I explained to Dave, "Dave, if somebody in your organization starts to play hanky-panky or does the wrong thing, we're going to resign and we're not going to go quiet. We're going to tell them why we resigned." And I said that to every one of those presidential candidates, and we kept them all clean in that. And then I've always used that in the future, whether I was on an audit committee or anything else, to anybody, "You've got to be willing to have three positions with the right people. I'm over here at the NTI, the Nuclear Threat Initiative. I'm chairman of that audit committee, and they didn't have the right audit firm." When I got there, the right partner, and I said, well, look at, and they didn't really have the right CFO. I finally got a terrific CFO from them who was an African-American woman who was from Pricewaterhouse. She'd been at the SEC, she'd been at the PCOB, and now she's a controller over there. She's terrific. We've got a new auditing firm, and they've got a great audit partner.

I'm chairman of the audit committee, as Sam Nunn says, "When I go around to raise big money from Warren Buffett and a few of these guys, they all asked the same question. How do I know my money's going to be well spent and controlled?" He says, "I tell them about Chuck Bowsher, who's the Comptroller General, and how he has it all organized," he said. And everybody should be doing something like that. Yeah.

Lucy Harvey:

So, we're winding down now. You have served on a confidential advisory board for the PCOB, at least you did in the very beginning.

Charles Bowsher:

Yeah.

Lucy Harvey:

Did you find that helpful? Did you help guide them through this early days?

Charles Bowsher:

Yes. I worked with Charlie Neimeyer was one in the picture. And so I thought that ... And McDonough was a banker, and I wouldn't have picked him for the first guy. But he really did a good job, because he relied on Charlie Neimeyer a lot and myself and a few people like that. I thought they got off to a pretty good start. Yeah, I did.

Lucy Harvey:

And do you think that the profession has been able to rebuild its credibility?

Charles Bowsher:

It has, but every once in a while you can see they're slipping back. And right now they're slipping back because they've got somebody in the SEC who wants to make everything good for the Sullivan & Cromwell clients that he comes from, and he's probably going to go back to. And so that's what gums up the work, as I always say, is when people have conflicts. In other words, we do a big deal about going through congressional hearings and everything like that, but a lot of people promise they're going to do the right thing and everything like that. But they had come down here with a second agenda. And that's where a lot of organizations get into trouble. And when it explodes, it all becomes very apparent. Yeah.

Lucy Harvey:

And lastly, do you think that the PCOB has been able to fulfill its mission?

Charles Bowsher:

I think it started out fulfilling its mission quite well. I think it went quite well for quite some time. I'm very worried about it right now. Yeah.

Lucy Harvey:

Well, thank you so much for sharing your insight with us.

Charles Bowsher:

Okay. Well, I've enjoyed this, and I think it's wonderful that you're doing this history program.