

# United States Senate

WASHINGTON, DC 20510

October 27, 2016

Lynne Doughtie  
Chairman and Chief Executive Officer  
KPMG U.S.  
345 Park Avenue  
New York, NY 10154

Dear Ms. Doughtie:

We are writing regarding KPMG's role as the independent auditor of Wells Fargo's financial statements from 2011-2015, years in which the company was unable to detect and prevent illegal sales practices by thousands of employees.<sup>1</sup> Wells Fargo recently settled with federal regulators for the company's misbehavior in this massive fraud involving the creation of more than one million unauthorized deposit accounts and over 560,000 fraudulent credit card applications.<sup>2</sup>

Wells Fargo dismissed 5,300 employees over a five-year period for these actions.<sup>3</sup> But each year during what the Consumer Financial Protection Bureau's (CFPB) investigation concluded to be "fraudulent conduct ... on a massive scale,"<sup>4</sup> KPMG conducted audits assessing Wells Fargo's internal control over its financial statements.<sup>5</sup> These detailed audits were conducted by "obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating

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<sup>1</sup> <https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/sec-filings/2015/exhibit-13.pdf> (pp. 132, 263); <https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/annual-reports/2014-annual-report.pdf> (pp. 130, 259); <https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/annual-reports/2013-annual-report.pdf> (pp. 132, 263); <https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/annual-reports/2012-annual-report.pdf> (pp. 120, 243); <https://www08.wellsfargomedia.com/assets/pdf/about/investor-relations/annual-reports/2011-annual-report.pdf> (pp. 113, 231) [hereinafter Audits].

<sup>2</sup> Press Release, "Consumer Financial Protection Bureau Fines Wells Fargo \$100 Million for Widespread Illegal Practice of Secretly Opening Unauthorized Accounts," Consumer Financial Protection Bureau, Sept. 8, 2016, <http://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-fines-wells-fargo-100-million-widespread-illegal-practice-secretly-opening-unauthorized-accounts/>; Testimony of Richard Cordray, Director, Consumer Financial Protection Bureau before the Senate Banking Committee, Sept. 20, 2016, [http://www.banking.senate.gov/public/\\_cache/files/98a8db06-fd3b-4f3d-8a43-1b2a9b5b2561/33164C216F154EF9892D0EC31E165735.092016-cordray-testimony.pdf](http://www.banking.senate.gov/public/_cache/files/98a8db06-fd3b-4f3d-8a43-1b2a9b5b2561/33164C216F154EF9892D0EC31E165735.092016-cordray-testimony.pdf); Press Release, "OCC Assesses Penalty Against Wells Fargo, Orders Restitution for Unsafe or Unsound Sales Practices," Sept. 8, 2016, <http://www.occ.treas.gov/news-issuances/news-releases/2016/nr-occ-2016-106.html>; Stipulated Final Judgment, *The People of California v. Wells Fargo*, Sept. 8, 2016, <http://www.lacityattorney.org/allegations-against-wells-fargo>.

<sup>3</sup> *Id.*

<sup>4</sup> Testimony of Richard Cordray, Director, Consumer Financial Protection Bureau before the Senate Banking Committee, Sept. 20, 2016, [http://www.banking.senate.gov/public/\\_cache/files/98a8db06-fd3b-4f3d-8a43-1b2a9b5b2561/33164C216F154EF9892D0EC31E165735.092016-cordray-testimony.pdf](http://www.banking.senate.gov/public/_cache/files/98a8db06-fd3b-4f3d-8a43-1b2a9b5b2561/33164C216F154EF9892D0EC31E165735.092016-cordray-testimony.pdf).

<sup>5</sup> Audits, *supra* note 1.

effectiveness of internal control based on the assessed risk.”<sup>6</sup> But none of KPMG’s audits identified any concerns with illegal behavior that resulted in the creation of over two million unauthorized accounts by thousands of employees – and that ultimately resulted in the resignation of Wells Fargo’s CEO<sup>7</sup> and a decline in the company’s stock price of more than 10% in the days after the settlement with federal regulators.<sup>8</sup> In fact, in each of your audits, your firm concluded that Wells Fargo “maintained ... effective internal control over financial reporting.”<sup>9</sup>

The Sarbanes-Oxley Act of 2002 was passed into law in part to address the problem of companies like Enron whose internal auditors’ lack of independence enabled them to produce unreliable public financial reports and obscure problems with their companies. That is why the Act requires financial statements of public companies to be audited by an independent accountant and filed with the Securities and Exchange Commission (SEC).<sup>10</sup> But your firm’s failure to identify the illegal behavior at Wells Fargo raises questions about the quality of your audits and the effectiveness of the implementation of these Sarbanes-Oxley requirements by the Public Company Accounting Oversight Board (PCAOB).

Therefore, we request answers to the following questions:

- 1) Was KPMG aware of any of the illegal sales practices committed by Wells Fargo employees from 2011-2015 and addressed in the CFPB settlement?

If yes:

- a. Did KPMG communicate this knowledge with top executives at Wells Fargo? If so, please provide electronic or paper copies of any and all communications.
- b. Did KPMG have any internal discussions about Wells Fargo’s illegal sales practices and their potential impact on the company’s financial statements and on the outcome of the annual audits? If so, please provide all electronic or paper documents relating to these discussions.

If no:

- a. Please provide a detailed explanation of why KPMG failed to contemporaneously identify or otherwise learn of Wells Fargo’s illegal activity during your audits.
- b. Did you assess whether Wells Fargo had controls in place to prevent this illegal activity? What was your assessment about the quality of these controls and how well they were executed?

- 2) Did any employee of Wells Fargo mislead any employee of KPMG about the extent and impact of the unauthorized account creation addressed in the CFPB settlement during your audits?

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<sup>6</sup> *Id.*

<sup>7</sup> [https://www.wellsfargo.com/about/press/2016/ceo-john-stumpf-retires\\_1012/](https://www.wellsfargo.com/about/press/2016/ceo-john-stumpf-retires_1012/).

<sup>8</sup> <http://money.cnn.com/2016/09/26/investing/wells-fargo-stock-fake-account-scandal/>.

<sup>9</sup> See Audits, *supra* note 1.

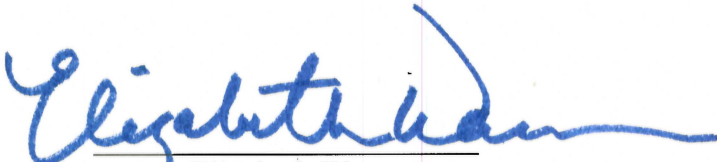

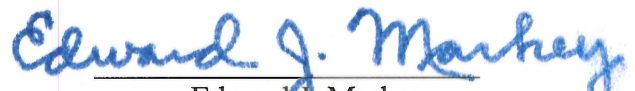
<sup>10</sup> Corporate and Auditing Accountability, Responsibility, and Transparency Act (Sarbanes-Oxley Act) of 2002, H. Rept. 107-414, Apr. 22, 2002, <https://www.congress.gov/107/crpt/hrpt414/CRPT-107hrpt414.pdf>.



- 3) Has KPMG conducted any internal reviews, reexaminations, or reassessments of its Wells Fargo audits in light of the information revealed in the settlement?
- 4) Has KPMG faced any disciplinary action or queries from the Public Company Accounting Oversight Board (PCAOB) in relation to your audits of Wells Fargo? If so, please provide details on these actions or queries.
- 5) Based on your present knowledge of the creation of unauthorized accounts at Wells Fargo, does your firm stand by its conclusions from 2011-2015 that "Wells Fargo maintained, in all material respects, effective internal control over financial reporting"?

Please provide complete answers to these questions by November 28, 2016. Thank you for your attention.

Sincerely,

  
Elizabeth Warren  
U.S. Senator  
Bernard Sanders  
U.S. Senator  
Mazie K. Hirono  
U.S. Senator  
Edward J. Markey  
U.S. Senator