

UNITED STATES OF AMERICA  
Before the  
OFFICE OF THRIFT SUPERVISION  
DEPARTMENT OF THE TREASURY

In the Matter of )  
)  
)

GRANT THORNTON, L.L.P., )  
formerly known as )  
ALEXANDER GRANT & COMPANY )

OTS Order No. AP 96-30

Former Outside Accountants of )  
San Jacinto Savings Association )  
Bellaire, Texas )

Date: October 3, 1996

Respondent. )  
)

OPINION AND ORDER ACCEPTING  
OFFER OF SETTLEMENT BY GRANT THORNTON LLP

Respondent Grant Thornton LLP ("Grant Thornton") has submitted an Offer of Settlement ("Offer") in the above-captioned proceeding, and entered into a Settlement Agreement with the Office of Thrift Supervision ("OTS"), and the Resolution Trust Corporation ("RTC"). Upon consideration, the OTS has determined to accept the Offer.<sup>1</sup> Solely on the basis of the consent evidenced by the Offer and the Settlement Agreement, and without

<sup>1</sup> In the Offer, without admitting or denying the allegations of the Notice of Charges ("Notice") in this proceeding, Grant Thornton acknowledges service of the Notice; admits the jurisdiction of OTS with respect to the matters set forth in the Notice; waives a hearing, all post-hearing procedures, judicial review of OTS's Order by any court, and any objection to the staff's participation in OTS's consideration of the Offer; and stipulates that the record basis for this proceeding consists of the Notice and the Offer.

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evidenced by the Offer and the settlement Agreement, and without any adjudication on the merits, OTS HEREBY ORDERS THAT:<sup>2/</sup>

I. GRANT THORNTON'S ACCOUNTING AND AUDITING POLICIES

1. In connection with accounting and audit engagements commencing on or after 60 days after the date of this Order, Grant Thornton shall provide accounting and auditing services to insured depository institutions for five (5) years from the date of this Order in accordance with the provisions of paragraphs 2 through 8 below.

To the extent that this Order addresses matters included within Grant Thornton's present policies, Grant Thornton shall continue to require adherence to those policies consistent with the terms of this Order.

2. Grant Thornton shall require, in connection with audits of insured depository institutions commencing on or after 60 days after the date of this Order:

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<sup>2/</sup> Solely by virtue of the Offer and not by an adjudication on the merits, this Order may be used in any proceeding brought by the OTS to enforce this Order; provided, however, that there shall be no use of the Notice in such a proceeding except in connection with a proceeding to enforce paragraphs 2 through 8 of this Order. The Notice, the Offer, and this Order, or the relief consented to by virtue of the Offer, shall not be used by OTS for any other purpose. The execution of the Settlement Agreement, the payment of the amount set forth in paragraph 9 of this Order, and the other terms and conditions of the Settlement Agreement do not constitute and shall not be deemed by the OTS to constitute evidence of or an admission by Grant Thornton as to any liability, fault, or wrongdoing. Negotiations of the terms of this Order and the Settlement Agreement, including conduct and statements made in connection therewith, shall not be admissible in accordance with Rule 408 of the Federal Rules of Evidence.

a. Each partner, senior manager, and manager assigned to such audits shall possess the requisite background and experience with respect to insured depository institutions to perform their duties competently and professionally.

b. Each partner, senior manager and manager assigned to such audits of insured depository institutions shall:

(i) have completed 16 hours of a Grant Thornton approved professional development accounting and auditing course(s) relating to insured depository institutions;

(ii) undergo, in each fiscal year commencing after the date of this Order, training totaling 20 hours per year in one or more subjects relevant to audits of insured depository institutions.

c. For audits of savings and loan associations with assets in excess of \$500,000,000, each of (1) the Engagement Partner and (2) collectively, the senior managers and managers assigned to such audit examinations shall each have had at least 300 chargeable hours in connection with insured depository institution audits.

d. For audits of savings and loan associations with assets in excess of \$500,000,000, either the Engagement Partner or the senior manager (or manager if a senior manager is not assigned) assigned to each such audit, or the two of them together, shall have had a total of at least 1,000 chargeable hours of relevant audit experience during

the immediately preceding three (3) year period, of which 300 hours are on the audits of insured depository institutions. For the purpose of this Order, "relevant audit experience" may have been obtained in connection with audits of insured depository institutions and their non-diversified holding companies, or audits of real estate companies, investment companies, insurance companies, securities companies, investment banking companies, universities, trusts, ESOPs, benefit plans, and not-for-profit exempt entities and similar companies whose principal business involves utilizing funds obtained from and held for the public.

3. As part of its annual national practice program, Grant Thornton shall include in its practice review a sample of Audit Engagement Partners assigned to audits of insured depository institutions. The practice review with respect to those Audit Engagement Partners shall include a review of a sample of the audits of insured depository institutions performed by those Audit Engagement Partners. The sample of Audit Engagement Partners shall include in each year at least twenty-five (25%) percent of the partners assigned as Audit Engagement Partners to audits of insured depository institutions and result in the inclusion of one hundred (100%) percent of such partners over the course of a three (3) year audit practice review cycle. Such practice review shall be performed by qualified personnel.

4. Prior to agreeing to provide audit services for the first time to an insured depository institution audit client, Grant Thornton shall document and retain:

a. The reasons provided for the change in auditors, including the specific nature of disagreements, if any, between the predecessor auditor and the prospective audit client;

b. A preliminary assessment of audit risks and hours of work required to perform the audit in light of these risks; and

c. Its determination that the required technical expertise is available within Grant Thornton to perform the necessary services. If the required expertise is not available at a given local office, arrangements shall be made to utilize resources from other offices to obtain the proper technical expertise. If the proper technical expertise is still not available, then Grant Thornton shall decline the engagement.

Grant Thornton shall cause a review and approval of the conclusion reached prior to Grant Thornton's agreement to provide such audit services.

5. Grant Thornton shall cause the Audit Engagement Partner and the Impartial Reviewer who shall be a Concurring Partner to perform the following procedures with respect to each insured depository institution audit engagement undertaken by Grant Thornton:

a. Audit Engagement Partner. The Audit Engagement Partner shall review and approve the audit plan documentation before any significant audit procedures are performed. The audit plan documentation shall be completed after performing an assessment of the risks associated with the client. The risk assessment shall include an assessment of the risk that errors and irregularities may cause the financial statements to contain a material misstatement and, based on that assessment, Grant Thornton shall design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements in accordance with SAS No. 53 (AU § 316). The risk assessment also shall include obtaining an understanding of the institution's internal control structure, including its loan underwriting policies. The audit plan shall include the plan for identifying and testing internal controls for the purpose of determining the nature, timing, and extent of the substantive tests to be performed. The Audit Engagement Partner shall be responsible for determining that the audit is conducted in accordance with GAAS and the audit plan, as appropriately modified and approved in response to information obtained during the course of the audit, and shall be satisfied that the audit is conducted with an independence in mental attitude and due professional care as required by SAS No. 1,

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Section 150 (AU § 150). The Audit Engagement Partner shall be responsible for determining that:

(i) sufficient competent evidential matter is obtained to afford a reasonable basis for an opinion regarding the financial statements under audit, as required by SAS No. 1, Section 150 (AU § 150);

(ii) the documentation referred to in paragraphs 7 and 8 of this Order has been prepared and included in the working papers.

In addition the Audit Engagement Partner shall review and approve the following:

(i) the key working papers (including appropriate planning documents) relating to sales or exchanges of real estate that resulted in significant gains or losses;

(ii) the audit summary memorandum or summary of significant matters;

(iii) important working papers, including related consultation memoranda, in technically difficult or highly judgmental areas; and

(iv) other working papers the Audit Engagement Partner considers necessary to obtain a clear understanding of the accounting, auditing, and reporting matters discussed in the audit summary memorandum or summary of significant matters.

b. Impartial Reviewer. Each audit of an insured depository institution must be reviewed by an Impartial Reviewer. For insured depository institutions with assets in excess of \$500,000,000, the Impartial Reviewer shall be a partner and shall perform the functions set forth in this paragraph b. For insured depository institutions with assets not in excess of \$500,000,000, the Impartial Reviewer need not be a partner and need not perform the function set forth in paragraph b(1):

(1) review and concur with conclusions in the key working papers (including the audit plan documentation) relating to significant accounting, auditing, and reporting matters, as considered appropriate, including sales or exchanges of real estate that resulted in significant gains or losses;

(2) review and concur with the conclusions in the audit summary memorandum or summary of significant matters after discussing with the engagement team any significant accounting, auditing, and reporting matters; and

(3) review and concur with the conclusions in additional working papers considered necessary by the Impartial Reviewer based upon the reviews described in (1) or (2) above.

In addition, for each audit of a savings and loan association designated by Grant Thornton for Technical

Review, the Impartial Reviewer shall review and concur with the conclusions in the audit plan before the completion of significant interim fieldwork.

c. Before the issuance of an opinion by Grant Thornton, the Audit Engagement Partner and Impartial Reviewer shall sign the Grant Thornton Report Guide sheet. Completion of this document shall indicate that the Audit Engagement Partner has concluded, and that the Concurring Partner concurs with the Audit Engagement Partner's conclusion, that (1) the audit was performed in accordance with GAAS; (2) the application of GAAP to significant accounting or reporting matters was proper; (3) the issuance of Grant Thornton's report on the financial statements is approved; and (4) the audit was performed in compliance with the terms of this Order in all respects material to the financial statements.

d. An Audit Engagement partner responsible for audit engagements of an insured depository institution with assets in excess of \$500,000,000 shall not serve in that capacity for more than seven consecutive years, and any Audit Engagement partner serving in such capacity on an audit engagement of an insured depository institution for seven consecutive years shall not serve as Audit Engagement Partner on audit engagements of that insured depository institution for the following two years. Time spent as audit engagement partner before the effective date of this

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Order is to be considered in applying the seven-year partner rotation requirement. However, the incumbent partner may serve as audit engagement partner for two consecutive annual audit engagements subsequent to the effective date of this Order.

6. Grant Thornton shall perform audits of insured depository institutions in accordance with GAAS, as promulgated by the AICPA, including making appropriate use of:

a. Audit procedures that give due consideration to the possibility that the substance of a particular transaction may be significantly different from its form and that acknowledge that generally accepted accounting principles recognize the importance of reporting transactions and events in accordance with their substance as described in SAS No. 69 (AU § 411).

b. Audit procedures sufficient to determine whether material real estate sales transactions have been properly accounted for in accordance with SFAS No. 66: (1) Grant Thornton shall not include payments other than direct property income of the property when determining whether the cash flow of the property is sufficient to service indebtedness; (2) In determining the initial investment made by the buyer, Grant Thornton shall only include the amount of bonded investor notes if repayment of the bond covering the notes is not guaranteed by the seller of the property and the bond was issued by an established institution not

affiliated with the seller; and (3) Grant Thornton shall not permit the recognition of income from a sale of a property to a limited partnership if the seller has indemnified the general partner or partners from any loss from the property or has guaranteed the obligations of the general partner(s) with respect to the property.

c. When providing accounting consultation or audit services to an insured depository institution, Grant Thornton shall follow the hierarchy of established accounting principles as set forth in paragraph 5 of SAS No. 69 (AU § 411). If, due to new developments such as legislation or the evolution of a new type of business transaction, there are no established accounting principles for reporting a specific transaction or event, then Grant Thornton shall give consideration to whether it might be possible to report the event or transaction by selecting an accounting principle that appears appropriate when applied in a manner similar to the application of an established principle to an analogous transaction or event in accordance with paragraph 9 of SAS No. 69 (AU § 411).

Grant Thornton shall conduct audit procedures related to the transactions and matters referred to in paragraphs 6.a. through 6.c. above to obtain sufficient competent evidential matter through independent inspection, observation, and confirmation, and written representations from the client, so as to afford a

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reasonable basis for an opinion regarding the financial statements under audit in accordance with SAS No. 31 (AU § 326).

7. Grant Thornton's documentation of audit procedures with regard to the transactions and matters set forth in paragraphs 6.a. through 6.c. above shall include a summary of the underlying facts of the transactions or matters, the applicable GAAP standards and their application, the results of the audit procedures performed and the nature of the evidential matter obtained and Grant Thornton's conclusions. Grant Thornton shall document the substance of discussions with OTS accounting staff concerning significant accounting and reporting matters if such discussions have occurred.

8. Grant Thornton's working papers for all insured depository institution audit engagements:

a. Shall be designed to meet the circumstances of a particular engagement and constitute the principal record of the work that Grant Thornton has performed and conclusions that it has reached concerning significant matters.

However, as permitted by SAS No. 41 (AU § 339), Grant Thornton may support its report by other means in addition to working papers;

b. Shall document the procedures applied, the tests performed, the information obtained, and the pertinent conclusions reached in the engagement, including facts obtained during interviews with insured depository

institution personnel and responses to significant issues identified during the review of the working papers.

## II. RESTITUTION

9. Grant Thornton shall pay restitution to the Resolution Trust Corporation in the amount of \$9.75 million as set forth in the Settlement Agreement.

## III. MISCELLANEOUS

10. Grant Thornton shall provide the Chief Accountant of the Office of Thrift Supervision with a copy of its current approved insured depository institutions training program materials and its current auditing and policy manual sections and other guidance which address the matters discussed in this Order. Grant Thornton shall submit to the Chief Accountant of the Office of Thrift Supervision all significant modifications of and additions to the materials referred to in this paragraph.

11. Grant Thornton shall require each partner, senior manager and manager, at the time he or she is assigned to an audit or practice review of an insured depository institution, to read a copy of this Order and acknowledge that he or she has done so. A copy of this Order also is to be provided to the accounting firm that performs the peer review of Grant Thornton beginning after the date of this Order.

12. Grant Thornton shall provide to the OTS, within 90 days of the effective date of this Order, and on or before the 31st day of December of each year thereafter a written report setting forth in detail the manner and form in which it has complied with

Paragraphs 2 and 3 of this Order and describing its program for monitoring compliance with this Order.

13. Grant Thornton shall promptly respond to any reasonable request from OTS for documents or other information that OTS reasonably requires to demonstrate compliance with this Order and provide copies at Grant Thornton's expense.

14. The working papers (as defined in SAS No. 41 (AU § 339)) described in this paragraph are those which are currently held by Grant Thornton or are generated in the future within the categories set forth. Grant Thornton's obligations pursuant to this paragraph shall expire and be of no further force or effect five (5) years from the date hereof.

a. Grant Thornton shall retain for a period of six (6) years from the date of a particular audit or accounting consultation engagement: (1) all its working papers prepared in connection with audit or accounting consultation engagements done in accordance with SAS 50 for insured depository institutions; and (2) all its administrative papers prepared in connection with the acceptance of insured depository institution audit clients.

b. Grant Thornton shall retain for a period of five (5) years after the Closing Date: (1) all its working papers prepared in connection with audit or accounting consultation engagements for former insured depository institution clients as of the date hereof; and (2) all its

administrative papers prepared in connection with the acceptance of such clients.

15. Grant Thornton shall fully and freely cooperate with the OTS, in accordance with applicable law, rules and regulation in connection with the investigation and prosecution of claims against individuals or entities other than Grant Thornton, with respect to claims pertaining to failed insured depository institutions. Cooperation under this Order shall consist of providing records and other factual information regarding professional services performed by Grant Thornton to insured depository institutions within Grant Thornton's possession and making personnel of Grant Thornton reasonably available to the OTS. It is expressly understood that nothing in this paragraph shall limit the OTS's ability to obtain information pursuant to any statute, regulation, this Order, or other legal process or shall limit Grant Thornton's ability to object to such process in accordance with applicable law, rules or regulations.

16. For the purpose of this Order, the following words and phrases have the respective meanings indicated below:

a. "AICPA" means the American Institute of Certified Public Accountants.

b. "APB" means an Opinion issued by the Accounting Principles Board of the AICPA.

c. "AU" means United States Professional Auditing Standards promulgated by the Auditing Standards Board of the AICPA.

d. "Audit" or "audit engagement" means an audit of financial statements performed in accordance with GAAS and includes written opinions regarding the application of GAAP provided to audit clients.

e. "Impartial Reviewer" means the partner or employee of Grant Thornton charged with the responsibilities of the Impartial Reviewer set forth in paragraph 5 above.

f. "Audit Engagement Partner" means the partner or other employee of Grant Thornton, whether or not so denominated by Grant Thornton, charged with the responsibilities of the Audit Engagement Partner set forth in paragraph 5 above.

g. "GAAP" means generally accepted accounting principles, as described and defined in SAS No. 69 (AU § 411).

h. "GAAS" means generally accepted auditing standards, as defined and described in SAS No. 1 Section 150 (AU § 150).

i. "Insured depository institution" means any savings and loan association, commercial bank, credit union and other similar entity that holds federally insured deposits, and any nondiversified holding company of such an institution.

j. "SAS" means a Statement on Auditing Standards promulgated by the Auditing Standards Board of the AICPA.

k. "Settlement Agreement" means the Agreement entered into by Grant Thornton with the OTS and RTC dated as of December 29, 1995.

l. "SFAS" means a Statement of Financial Accounting Standards promulgated by the Financial Accounting Standards Board.

17. The reference to any GAAP or GAAS literature in this Order shall include subsequent amendments, modifications and changes thereto. To the extent any of the undertakings herein are inconsistent with such amendments, modifications, or changes, the undertaking shall be deemed to be modified to be consistent with the amendments, modifications, or changes.

18. This Order constitutes the final disposition of all allegations in the Notice, and all further OTS proceedings related to the Notice herein against Grant Thornton are hereby terminated.

19. All notices, requests, demands and other communications required by or given pursuant to this Order shall be in writing and shall be hand delivered to the individual identified below, mailed by certified or registered mail, postage prepaid, return receipt requested, and delivered or addressed as follows:

If to the OTS:           Office of Thrift Supervision  
                          1700 G Street, NW  
                          Washington, DC 20552  
                          Attn: Chief Counsel

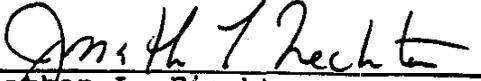
If to Grant               Grant Thornton LLP  
Thornton:                Attn: Chairman and Chief Executive  
  Officer

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With a copy to: Grant Thornton LLP  
Attn: General Counsel

20. Unless another date is specifically provided in this Order, all terms of this Order, other than note 2 supra, shall cease five years from the date of this Order.

A copy of this Order shall be served upon Respondent Grant Thornton at the address set forth in paragraph 19.

  
Jonathan L. Flechter  
Acting Director  
Office of Thrift Supervision

October 3, 1996  
Date

UNITED STATES OF AMERICA  
Before the  
OFFICE OF THRIFT SUPERVISION

\_\_\_\_\_)  
In the Matter of )

GRANT THORNTON LLP )

Former Outside Accountants of )  
San Jacinto Savings Association, )

Respondent. )  
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Re: Resolution No.  
OTS AP

OTS Order No. AP  
Dated:

OFFER OF SETTLEMENT BY GRANT THORNTON LLP

A.

Grant Thornton LLP ("Grant Thornton") hereby submits this Offer of Settlement ("Offer") to the Office of Thrift Supervision ("OTS"). This Offer is submitted for the sole purpose of disposing of the allegations and issues raised in the Notice of Charges and Hearing ("Notice") issued by the OTS in this matter.

B.

This Offer is submitted solely for the purpose of terminating this proceeding and shall be null and void and shall not be used in any manner in any proceeding if it is not accepted by OTS as hereinafter set forth.

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Without admitting or denying the allegations of the Notice in this proceeding, and before the taking of any further testimony and without adjudication of any issue of fact or law, Grant Thornton:

1. Acknowledges service of the Notice;
2. Admits the jurisdiction of OTS with respect to the matters set forth in the Notice;
3. Waives
  - a. A hearing,
  - b. All post-hearing procedures,
  - c. Judicial review with respect to issuance of OTS's Order by any Court,
  - d. Any objection to the staff's participation in OTS's consideration of this Offer,
4. Stipulates that the record basis for this proceeding consists of the Notice and this Offer.

Grant Thornton consents, solely by virtue of this Offer and not by any adjudication on the merits, to the issuance of an order of OTS ("Order") that contains the following terms:<sup>1/</sup>

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<sup>1/</sup> Solely by virtue of the Offer and not by an adjudication on the merits, the Order may be used in any proceeding brought by the OTS to enforce the Order; provided, however, that there shall be no use of the Notice in such a proceeding except in connection with a proceeding to enforce paragraphs 2 through 8 of this Order. The Notice, the Offer, and this Order, or the relief consented to by virtue of the Offer, shall not be used by OTS for any other purpose. The execution of the Settlement Agreement,  
(continued...)

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I. GRANT THORNTON'S ACCOUNTING AND AUDITING POLICIES

1. In connection with accounting and audit engagements commencing on or after 60 days after the date of this Order, Grant Thornton shall provide accounting and auditing services to insured depository institutions for five (5) years from the date of this Order in accordance with the provisions of paragraphs 2 through 8 below.

To the extent that this Order addresses matters included within Grant Thornton's present policies, Grant Thornton shall continue to require adherence to those policies consistent with the terms of this Order.

2. Grant Thornton shall require, in connection with audits of insured depository institutions commencing on or after 60 days after the date of this Order:

a. Each partner, senior manager, and manager assigned to such audits shall possess the requisite background and experience with respect to insured depository institutions to perform their duties competently and professionally.

b. Each partner, senior manager and manager assigned to such audits of insured depository institutions shall:

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the payment of the amount set forth in paragraph 9 of this Order, and the other terms and conditions of the Settlement Agreement do not constitute and shall not be deemed by the OTS to constitute evidence of or an admission by Grant Thornton as to any liability, fault, or wrongdoing. Negotiations of the terms of this Order and the Settlement Agreement, including conduct and statements made in connection therewith, shall not be admissible in accordance with Rule 408 of the Federal Rules of Evidence.

(i) have completed 16 hours of a Grant Thornton approved professional development accounting and auditing course(s) relating to insured depository institutions;

(ii) undergo, in each fiscal year commencing after the date of this Order, training totaling 20 hours per year in one or more subjects relevant to audits of insured depository institutions.

c. For audits of savings and loan associations with assets in excess of \$500,000,000, each of (1) the Engagement Partner and (2) collectively, the senior managers and managers assigned to such audit examinations shall each have had at least 300 chargeable hours in connection with insured depository institution audits.

d. For audits of savings and loan associations with assets in excess of \$500,000,000, either the Engagement Partner or the senior manager (or manager if a senior manager is not assigned) assigned to each such audit, or the two of them together, shall have had a total of at least 1,000 chargeable hours of relevant audit experience during the immediately preceding three (3) year period, of which 300 hours are on the audits of insured depository institutions. For the purpose of this Order, "relevant audit experience" may have been obtained in connection with audits of insured depository institutions and their non-diversified holding companies, or audits of real estate

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companies, investment companies, insurance companies, securities companies, investment banking companies, universities, trusts, ESOPs, benefit plans, and not-for-profit exempt entities and similar companies whose principal business involves utilizing funds obtained from and held for the public.

3. As part of its annual national practice program, Grant Thornton shall include in its practice review a sample of Audit Engagement Partners assigned to audits of insured depository institutions. The practice review with respect to those Audit Engagement Partners shall include a review of a sample of the audits of insured depository institutions performed by those Audit Engagement Partners. The sample of Audit Engagement Partners shall include in each year at least twenty-five (25%) percent of the partners assigned as Audit Engagement Partners to audits of insured depository institutions and result in the inclusion of one hundred (100%) percent of such partners over the course of a three (3) year audit practice review cycle. Such practice review shall be performed by qualified personnel.

4. Prior to agreeing to provide audit services for the first time to an insured depository institution audit client, Grant Thornton shall document and retain:

a. The reasons provided for the change in auditors, including the specific nature of disagreements, if any, between the predecessor auditor and the prospective audit client;

b. A preliminary assessment of audit risks and hours of work required to perform the audit in light of these risks; and

c. Its determination that the required technical expertise is available within Grant Thornton to perform the necessary services. If the required expertise is not available at a given local office, arrangements shall be made to utilize resources from other offices to obtain the proper technical expertise. If the proper technical expertise is still not available, then Grant Thornton shall decline the engagement.

Grant Thornton shall cause a review and approval of the conclusion reached prior to Grant Thornton's agreement to provide such audit services.

5. Grant Thornton shall cause the Audit Engagement Partner and the Impartial Reviewer who shall be a Concurring Partner to perform the following procedures with respect to each insured depository institution audit engagement undertaken by Grant Thornton:

a. Audit Engagement Partner. The Audit Engagement Partner shall review and approve the audit plan documentation before any significant audit procedures are performed. The audit plan documentation shall be completed after performing an assessment of the risks associated with the client. The risk assessment shall include an assessment of the risk that errors and irregularities may cause the

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financial statements to contain a material misstatement and, based on that assessment, Grant Thornton shall design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements in accordance with SAS No. 53 (AU § 316). The risk assessment also shall include obtaining an understanding of the institution's internal control structure, including its loan underwriting policies. The audit plan shall include the plan for identifying and testing internal controls for the purpose of determining the nature, timing, and extent of the substantive tests to be performed. The Audit Engagement Partner shall be responsible for determining that the audit is conducted in accordance with GAAS and the audit plan, as appropriately modified and approved in response to information obtained during the course of the audit, and shall be satisfied that the audit is conducted with an independence in mental attitude and due professional care as required by SAS No. 1, Section 150 (AU § 150). The Audit Engagement Partner shall be responsible for determining that:

- (i) sufficient competent evidential matter is obtained to afford a reasonable basis for an opinion regarding the financial statements under audit, as required by SAS No. 1, Section 150 (AU § 150);

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(ii) the documentation referred to in paragraphs 7 and 8 of this Order has been prepared and included in the working papers.

In addition the Audit Engagement Partner shall review and approve the following:

(i) the key working papers (including appropriate planning documents) relating to sales or exchanges of real estate that resulted in significant gains or losses;

(ii) the audit summary memorandum or summary of significant matters;

(iii) important working papers, including related consultation memoranda, in technically difficult or highly judgmental areas; and

(iv) other working papers the Audit Engagement Partner considers necessary to obtain a clear understanding of the accounting, auditing, and reporting matters discussed in the audit summary memorandum or summary of significant matters.

b. Impartial Reviewer. Each audit of an insured depository institution must be reviewed by an Impartial Reviewer. For insured depository institutions with assets in excess of \$500,000,000, the Impartial Reviewer shall be a partner and shall perform the functions set forth in subparagraph b. For insured depository institutions with assets not in excess of \$500,000,000, the Impartial Reviewer

need not be a partner and need not perform the function set forth in subparagraph b(1):

(1) review and concur with conclusions in the key working papers (including the audit plan documentation) relating to significant accounting, auditing, and reporting matters, as considered appropriate, including sales or exchanges of real estate that resulted in significant gains or losses;

(2) review and concur with the conclusions in the audit summary memorandum or summary of significant matters after discussing with the engagement team any significant accounting, auditing, and reporting matters; and

(3) review and concur with the conclusions in additional working papers considered necessary by the Impartial Reviewer based upon the reviews described in (1) or (2) above.

In addition, for each audit of a savings and loan association designated by Grant Thornton for Technical Review, the Impartial Reviewer shall review and concur with the conclusions in the audit plan before the completion of significant interim fieldwork.

c. Before the issuance of an opinion by Grant Thornton, the Audit Engagement Partner and Impartial Reviewer shall sign the Grant Thornton Report Guide sheet. Completion of this document shall indicate that the Audit

Engagement Partner has concluded, and that the Concurring Partner concurs with the Audit Engagement Partner's conclusion, that (1) the audit was performed in accordance with GAAS; (2) the application of GAAP to significant accounting or reporting matters was proper; (3) the issuance of Grant Thornton's report on the financial statements is approved; and (4) the audit was performed in compliance with the terms of this Order in all respects material to the financial statements.

d. An Audit Engagement partner responsible for audit engagements of an insured depository institution with assets in excess of \$500,000,000 shall not serve in that capacity for more than seven consecutive years, and any Audit Engagement partner serving in such capacity on an audit engagement of an insured depository institution for seven consecutive years shall not serve as Audit Engagement Partner on audit engagements of that insured depository institution for the following two years. Time spent as audit engagement partner before the effective date of this Order is to be considered in applying the seven-year partner rotation requirement. However, the incumbent partner may serve as audit engagement partner for two consecutive annual audit engagements subsequent to the effective date of this Order.

6. Grant Thornton shall perform audits of insured depository institutions in accordance with GAAS, as promulgated by the AICPA, including making appropriate use of:

a. Audit procedures that give due consideration to the possibility that the substance of a particular transaction may be significantly different from its form and that acknowledge that generally accepted accounting principles recognize the importance of reporting transactions and events in accordance with their substance as described in SAS No. 69 (AU § 411).

b. Audit procedures sufficient to determine whether material real estate sales transactions have been properly accounted for in accordance with SFAS No. 66: (1) Grant Thornton shall not include payments other than direct property income of the property when determining whether the cash flow of the property is sufficient to service indebtedness; (2) In determining the initial investment made by the buyer, Grant Thornton shall only include the amount of bonded investor notes if repayment of the bond covering the notes is not guaranteed by the seller of the property and the bond was issued by an established institution not affiliated with the seller; and (3) Grant Thornton shall not permit the recognition of income from a sale of a property to a limited partnership if the seller has indemnified the general partner or partners from any loss from the property



or has guaranteed the obligations of the general partner(s) with respect to the property.

c. When providing accounting consultation or audit services to an insured depository institution, Grant Thornton shall follow the hierarchy of established accounting principles as set forth in paragraph 5 of SAS No. 69 (AU § 411). If, due to new developments such as legislation or the evolution of a new type of business transactions, there are no established accounting principles for reporting a specific transaction or event, then Grant Thornton shall give consideration to whether it might be possible to report the event or transaction by selecting an accounting principle that appears appropriate when applied in a manner similar to the application of an established principle to an analogous transaction or event in accordance with paragraph 9 of SAS No. 69 (AU § 411).

Grant Thornton shall conduct audit procedures related to the transactions and matters referred to in paragraphs 6.a. through 6.c. above to obtain sufficient competent evidential matter through independent inspection, observation, and confirmation, and written representations from the client, so as to afford a reasonable basis for an opinion regarding the financial statements under audit in accordance with SAS No. 31 (AU § 326).

7. Grant Thornton's documentation of audit procedures with regard to the transactions and matters set forth in paragraphs 6.a. through 6.c. above shall include a summary of the underlying

facts of the transactions or matters, the applicable GAAP standards and their application, the results of the audit procedures performed and the nature of the evidential matter obtained and Grant Thornton's conclusions. Grant Thornton shall document the substance of discussions with OTS accounting staff concerning significant accounting and reporting matters if such discussions have occurred.

8. Grant Thornton's working papers for all insured depository institution audit engagements:

a. Shall be designed to meet the circumstances of a particular engagement and constitute the principal record of the work that Grant Thornton has performed and conclusions that it has reached concerning significant matters.

However, as permitted by SAS No. 41 (AU § 339), Grant Thornton may support its report by other means in addition to working papers;

b. Shall document the procedures applied, the tests performed, the information obtained, and the pertinent conclusions reached in the engagement, including facts obtained during interviews with insured depository institution personnel and responses to significant issues identified during the review of the working papers.

## II. RESTITUTION

9. Grant Thornton shall pay restitution to the Resolution Trust Corporation in the amount of \$9.75 million as set forth in the Settlement Agreement.

### III. MISCELLANEOUS

10. Grant Thornton shall provide the Chief Accountant of the Office of Thrift Supervision with a copy of its current approved insured depository institutions training program materials and its current auditing and policy manual sections and other guidance which address the matters discussed in this Order. Grant Thornton shall submit to the Chief Accountant of the Office of Thrift Supervision all significant modifications of and additions to the materials referred to in this paragraph.

11. Grant Thornton shall require each partner, senior manager and manager, at the time he or she is assigned to an audit or practice review of an insured depository institution, to read a copy of this Order and acknowledge that he or she has done so. A copy of this Order also is to be provided to the accounting firm that performs the peer review of Grant Thornton beginning after the date of this Order.

12. Grant Thornton shall provide to the OTS, within 90 days of the effective date of this Order, and on or before the 31st day of December of each year thereafter a written report setting forth in detail the manner and form in which it has complied with Paragraphs 2 and 3 of this Order and describing its program for monitoring compliance with this Order.

13. Grant Thornton shall promptly respond to any reasonable request from OTS for documents or other information that OTS reasonably requires to demonstrate compliance with this Order and provide copies at Grant Thornton's expense.

14. The working papers (as defined in SAS No. 41 (AU § 339)) described in this paragraph are those which are currently held by Grant Thornton or are generated in the future within the categories set forth. Grant Thornton's obligations pursuant to this paragraph shall expire and be of no further force or effect five (5) years from the date hereof.

a. Grant Thornton shall retain for a period of six (6) years from the date of a particular audit or accounting consultation engagement: (1) all its working papers prepared in connection with audit or accounting consultation engagements done in accordance with SAS 50 for insured depository institutions; and (2) all its administrative papers prepared in connection with the acceptance of insured depository institution audit clients.

b. Grant Thornton shall retain for a period of five (5) years after the Closing Date: (1) all its working papers prepared in connection with audit or accounting consultation engagements for former insured depository institution clients as of the date hereof; and (2) all its administrative papers prepared in connection with the acceptance of such clients.

15. Grant Thornton shall fully and freely cooperate with the OTS, in accordance with applicable law, rules and regulations in connection with the investigation and prosecution of claims against individuals or entities other than Grant Thornton, with respect to claims pertaining to failed insured depository

institutions. Cooperation under this Order shall consist of providing records and other factual information regarding professional services performed by Grant Thornton to insured depository institutions within Grant Thornton's possession and making personnel of Grant Thornton reasonably available to the OTS. It is expressly understood that nothing in this paragraph shall limit the OTS's ability to obtain information pursuant to any statute, regulation, this Order, or other legal process or shall limit Grant Thornton's ability to object to such process in accordance with applicable law, rules or regulations.

16. For the purpose of this Order, the following words and phrases have the respective meanings indicated below:

a. "AICPA" means the American Institute of Certified Public Accountants.

b. "APB" means an Opinion issued by the Accounting Principles Board of the AICPA.

c. "AU" means United States Professional Auditing Standards promulgated by the Auditing Standards Board of the AICPA.

d. "Audit" or "audit engagement" means an audit of financial statements performed in accordance with GAAS and includes written opinions regarding the application of GAAP provided to audit clients.

e. "Impartial Reviewer" means the partner or employee of Grant Thornton charged with the responsibilities of the Impartial Reviewer set forth in paragraph 5 above.

f. "Audit Engagement Partner" means the partner or other employee of Grant Thornton, whether or not so denominated by Grant Thornton, charged with the responsibilities of the Audit Engagement Partner set forth in paragraph 5 above.

g. "GAAP" means generally accepted accounting principles, as described and defined in SAS No. 69 (AU § 411).

h. "GAAS" means generally accepted auditing standards, as defined and described in SAS No. 1 Section 150 (AU §150).

i. "Insured depository institution" means any savings and loan association, commercial bank, credit union and other similar entity that holds federally insured deposits, and any nondiversified holding company of such an institution.

j. "SAS" means a Statement on Auditing Standards promulgated by the Auditing Standards Board of the AICPA.

k. "Settlement Agreement" means the Agreement entered into by Grant Thornton with the OTS and RTC dated as of December 29, 1995.

l. "SFAS" means a Statement of Financial Accounting Standards promulgated by the Financial Accounting Standards Board.

17. The reference to any GAAP or GAAS literature in this Order shall include subsequent amendments, modifications and changes thereto. To the extent any of the undertakings herein

are inconsistent with such amendments, modifications, or changes, the undertaking shall be deemed to be modified to be consistent with the amendments, modifications, or changes.

18. This Order constitutes the final disposition of all allegations in the Notice, and all further OTS proceedings related to the Notice herein against Grant Thornton are hereby terminated.

19. All notices, requests, demands and other communications required by or given pursuant to this Order shall be in writing and shall be hand delivered to the individual identified below, mailed by certified or registered mail, postage prepaid, return receipt requested, and delivered or addressed as follows:

If to the OTS:           Office of Thrift Supervision  
                          1700 G Street, NW  
                          Washington, DC 20552  
                          Attn: Chief Counsel

If to Grant               Grant Thornton LLP  
Thornton:                Attn: Chairman and Chief Executive  
  Officer

With a copy to:         Grant Thornton LLP  
  Attn: General Counsel

20. Unless another date is specifically provided in this Order, all terms of this Order, other than note 2 supra, shall cease five years from the date of this Order.

A copy of this Order shall be served upon Respondent Grant Thornton at the address set forth in paragraph 19.

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D.

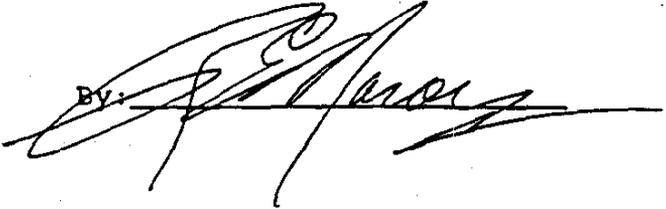
Grant Thornton hereby represents, warrants and states that this Offer is signed and submitted on its behalf by a duly authorized agent or representative.

E.

The undersigned states that he has read the foregoing Offer and declares that no promise or inducement of any kind has been made by OTS or its staff to induce the undersigned to tender this Offer, and that the submission of this Offer is a free and voluntary act on his part.

Respectfully submitted,

Grant Thornton LLP

By: 

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