

Should State and Local Governments Adopt Provisions of the Sarbanes-Oxley Act

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ABSTRACT

Corporate accounting scandals resulted in the passage of the Sarbanes-Oxley Act (SOX) which was signed into law on July 30, 2002. Investors suffered major losses due to the misleading financial statements submitted by corporations as well as their unethical business practices. The primary objective of the law was to restore public confidence in the financial markets so investors would be comfortable investing their money in publicly traded corporations. While very costly the Act seems to have achieved its objective. The public's confidence in financial reporting by corporations has greatly increased in recent years as the number of cases of discovered fraud by corporate management has decreased.

In recent years SOX like provisions have been adopted for some federal government reporting practices as well as for nonprofit organizations. Since there have been many cases of fraudulent activities by these organizations as well, the goal is to improve the public's confidence in their management of the funds provided by taxpayers and contributors. While many analysts predicted that similar requirements would also be forced on state and local governments, little has happened at this time.

The current financial crisis facing state and local governments may be the factor that forces municipal governments to voluntarily adopt SOX like provisions to restore the public's confidence in their ability to effectively manage the tax revenues collected. This paper argues that adopting SOX like provisions could make it easier for the public to accept the tax increases necessary to meet the current financial crisis faced by municipal governments..