CRIMES OF CASH

The 10 Worst Corporate Accounting Scandals of All Time

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If there is one theme to rival terrorism for defining the last decade-and-a-half, it would have to be corporate greed and malfeasance. Many of the biggest corporate accounting scandals in history happened during that time. Here's a chronological look back at some of the worst examples.

Waste Management Scandal (1998)

- Company: Houston-based publicly traded waste management company
- What happened: Reported $1.7 billion in fake earnings.
- Main players: Founder/CEO/Chairman Dean L. Buntrock and other top executives; Arthur Andersen Company (auditors)
- How they did it: The company allegedly falsely increased the depreciation time length for their property, plant and equipment on the balance sheets.
- How they got caught: A new CEO and management team went through the books.
- Penalties: Settled a shareholder class-action suit for $457 million. SEC fined ArthurAndersen $7 million.
- Fun fact: After the scandal, new CEO A. Maurice Meyers set up an anonymous company hotline where employees could report dishonest or improper behavior.

Enron Scandal (2001)

- Company: Houston-based commodities, energy and service corporation
- What happened: Shareholders lost $74 billion, thousands of employees and investors lost their retirement accounts, and many employees lost their jobs.
- Main players: CEO Jeff Skilling and former CEO Ken Lay.
- How they did it: Kept huge debts off balance sheets.
- How they got caught: Turned in by internal whistleblower Sherron Watkins; high stock prices fueled external suspicions.
- Penalties: Lay died before serving time; Skilling got 24 years in prison. The company filed for bankruptcy. Arthur Andersen was found guilty of fudging Enron's accounts.
- Fun fact: Fortune Magazine named Enron "America's Most Innovative Company" 6 years in a row prior to the scandal.

WorldCom Scandal (2002)

- Company: Telecommunications company; now MCI, Inc.
- What happened: Inflated assets by as much as $11 billion, leading to 30,000 lost jobs and $180 billion in losses for investors.
- Main player: CEO Bernie Ebbers
- How he did it: Underreported line costs by capitalizing rather than expensing and inflated revenues with fake accounting entries.

- How he got caught: WorldCom's internal auditing department uncovered $3.8 billion of fraud.
- Penalties: CFO was fired, controller resigned, and the company filed for bankruptcy. Ebbers sentenced to 25 years for fraud, conspiracy and filing false documents with regulators.
- Fun fact: Within weeks of the scandal, Congress passed the Sarbanes-Oxley Act, introducing the most sweeping set of new business regulations since the 1930s.

Tyco Scandal (2002)

- Company: New Jersey-based blue-chip Swiss security systems.
- What happened: CEO and CFO stole $150 million and inflated company income by $500 million.
- Main players: CEO Dennis Kozlowski and former CFO Mark Swartz.
- How they did it: Siphoned money through unapproved loans and fraudulent stock sales. Money was smuggled out of company disguised as executive bonuses or benefits.
- How they got caught: SEC and Manhattan D.A. investigations uncovered questionable accounting practices, including large loans made to Kozlowski that were then forgiven.
- Penalties: Kozlowski and Swartz were sentenced to 8-25 years in prison. A class-action lawsuit forced Tyco to pay $2.92 billion to investors.
- Fun fact: At the height of the scandal Kozlowski threw a $2 million birthday party for his wife on a Mediterranean island, complete with a Jimmy Buffet performance.

HealthSouth Scandal (2003)

- Company: Largest publicly traded health care company in the U.S.
- What happened: Earnings numbers were allegedly inflated $1.4 billion to meet stockholder expectations.
- Main player: CEO Richard Scrushy.
- How he did it: Allegedly told underlings to make up numbers and transactions from 1996-2003.
- How he got caught: Sold $75 million in stock a day before the company posted a huge loss, triggering SEC suspicions.
- Penalties: Scrushy was acquitted of all 36 counts of accounting fraud, but convicted of bribing the governor of Alabama, leading to a 7-year prison sentence.
- Fun fact: Scrushy now works as a motivational speaker and maintains his innocence.

Freddie Mac (2003)

- Company: Federally backed mortgage-financing giant.
- What happened: $5 billion in earnings were misstated.
- Main players: President/COO David Glenn, Chairman/CEO Leland Brendsel, ex-CFO Vaughn Clarke, former senior VPs Robert Dean and Nazir Dossani.
- How they did it: Intentionally misstated and understated earnings on the books.
- How they got caught: An SEC investigation.

- Penalties: $125 million in fines and the firing of Glenn, Clarke and Brendsel.
- Fun fact: 1 year later, the other federally backed mortgage financing company, Fannie Mae, was caught in an equally stunning accounting scandal.

American International Group (AIG) Scandal (2005)

- Company: Multinational insurance corporation.
- What happened: Massive accounting fraud to the tune of $3.9 billion was alleged, along with bid-rigging and stock price manipulation.
- Main player: CEO Hank Greenberg.
- How he did it: Allegedly booked loans as revenue, steered clients to insurers with whom AIG had payoff agreements, and told traders to inflate AIG stock price.
- How he got caught: SEC regulator investigations, possibly tipped off by a whistleblower.
- Penalties: Settled with the SEC for $10 million in 2003 and $1.64 billion in 2006, with a Louisiana pension fund for $115 million, and with 3 Ohio pension funds for $725 million. Greenberg was fired, but has faced no criminal charges.
- Fun fact: After posting the largest quarterly corporate loss in history in 2008 ($61.7 billion) and getting bailed out with taxpayer dollars, AIG execs rewarded themselves with over $165 million in bonuses.

Lehman Brothers Scandal (2008)

- Company: Global financial services firm.
- What happened: Hid over $50 billion in loans disguised as sales.
- Main players: Lehman executives and the company's auditors, Ernst & Young.
- How they did it: Allegedly sold toxic assets to Cayman Island banks with the understanding that they would be bought back eventually. Created the impression Lehman had $50 billion more cash and $50 billion less in toxic assets than it really did.
- How they got caught: Went bankrupt.
- Penalties: Forced into the largest bankruptcy in U.S. history. SEC didn't prosecute due to lack of evidence.
- Fun fact: In 2007 Lehman Brothers was ranked the #1 "Most Admired Securities Firm" by Fortune Magazine.

Bernie Madoff Scandal (2008)

- Company: Bernard L. Madoff Investment Securities LLC was a Wall Street investment firm founded by Madoff.
- What happened: Tricked investors out of $64.8 billion through the largest Ponzi scheme in history.
- Main players: Bernie Madoff, his accountant, David Friehling, and Frank DiPascalli.
- How they did it: Investors were paid returns out of their own money or that of other investors rather than from profits.

- How they got caught: Madoff told his sons about his scheme and they reported him to the SEC. He was arrested the next day.
- Penalties: 150 years in prison for Madoff + $170 billion restitution. Prison time for Friehling and DiPascalli.
- Fun fact: Madoff's fraud was revealed just months after the 2008 U.S. financial collapse.

Satyam Scandal (2009)

- Company: Indian IT services and back-office accounting firm.
- What happened: Falsely boosted revenue by $1.5 billion.
- Main player: Founder/Chairman Ramalinga Raju.
- How he did it: Falsified revenues, margins and cash balances to the tune of 50 billion rupees.
- How he got caught: Admitted the fraud in a letter to the company's board of directors.
- Penalties: Raju and his brother charged with breach of trust, conspiracy, cheating and falsification of records. Released after the Central Bureau of Investigation failed to file charges on time.
- Fun fact: In 2011 Ramalinga Raju's wife published a book of his existentialist, free-verse poetry.

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