

# Famous Accounting Scandals In Corporate Finance



Corporate finance may bore some, but there has been no shortage of corporate accounting scandals over the last 30 years.

From inflated valuations to false documents (including financial statements), companies aren't always as honest as we'd like them to be.

Following are some of the most famous accounting scandals out there. You'll find that some companies went defunct as a result, though there are a few that have weathered the storm to remain operational today.

## **Bank of Credit and Commerce International: 1991**

BCCI had more than 400 branches across 78 countries and assets worth more than \$20 billion USD.

Investigations showed that the company was involved in money laundering, a variety of financial crimes, and in the process had illegally gained controlling interest in a major American bank.

It ceased operations in 1991. A lawsuit against them was settled for \$175 million in 1998. More than 20 years later after 95,000 box files, and 415 million pounds and accountants in lawyer fees, the files were eventually closed in 2012.

## **Phar-Mor: 1992**

In August 1992, U.S based discount retailer Phar-Mor discovered an embezzlement and fraud scheme costing the company \$499 million in losses. It also involved criminal acts by the company's former president and Chief Operating Officer (COO), Michael Monus.

They released the news one day after the FBI confirmed that it was investigating the company. 1995, Mones was found guilty of more than 100 federal felony charges for his role in the \$1 billion dollar fraud that sent the company to bankruptcy. The company folded in 2002.

## **Waste Management: 1998**

Waste Management Inc., a publicly-traded waste management company in the United States, reported more than \$1.7 billion in fake revenue.

The Securities and Exchange Commission found the owner and former CEO, Dean Buntrock, and several other executives guilty.

The SEC fire their auditors over \$7 million. The company settled a shareholder class-action suit for \$457 million. The company remains operational today.

## **MicroStrategy: 2000**

Consulting firm MicroStrategy had many big-name clients, including AT&T, McDonald's, and Johnson & Johnson.

They reported a 100% increase in Revenue each year between 1990 and 1996.

A review of its accounting practices in 2000 led the US-based business analytics company to announce that it would restate its financial results for the previous two years.

The stock price had risen from \$7 per share to as high as \$333 per share in a year. It fell \$120 per share in a single day. a subsequent lawsuit was filed and settled with the SEC without admitting wrongdoing. The company agreed to pay 8.3 million dollars to shareholders in \$350,000 to the SEC.

The company may soon find itself hot water again as they are investing in massive amounts of Bitcoin to the tune of more than \$875 million.

## **Enron: 2001**

Perhaps the most famous accounting scandal on this list is the Enron scandal. Senior executives use accounting loopholes, poor financial reporting, and special purpose entities to hide billions of dollars in debt from failed deals.

Sherron Watkins, former Vice President of Corporate Development exposed the misconduct.

The top executives misled the board of directors and audit committee on their high-risk accounting practices and pressured their auditor to ignore issues.

Shareholders filed a \$440 billion lawsuit after the stock price plummeted. At the time, it was the largest corporate bankruptcy in US history.

Arthur Andersen, one of the top accounting firms in the United States, eventually went under as a result of its involvement with Enron.

CEO Jeff Skilling was found guilty of fraud and conspiracy in 2006 and sentenced to 24 years in prison.

His prison sentence was later reduced by more than 10 years.

He was released from federal custody in February 2019 and is pursuing another energy-finance venture.

After the Enron scandal came WorldCom (a telecommunications company rebranded as MCI, then taken over by Verizon), which turned out to be an even larger bankruptcy, with \$11 billion in fraud.

Ex-WorldCom CEO, Bernie Ebbers was sentenced to 25 years in prison and received an early release for medical reasons.

He passed away just over a month later, in February 2021.

As a result of these scandals, the U.S. Congress passed the Sarbanes-Oxley Act of 2002 (SOX Act) to protect investors from fraudulent financial reporting.

## **America Online: 2002**

Before America Online merged with Time Warner, the company engaged in some shady accounting practices. It was under federal investigation because of its accounting practices before and after its 2001 merger.

Time Warner said it restated Financial results for 2000 to 2002 by about \$500 million to correct its accounting. The company did not admit or deny wrongdoing but settled with the SEC for \$300 million dollars.

The SEC also settled with the company's finance chief, controller, and deputy controller who were accused of causing false financial reports to be filed with \$400 million worth of transactions put Time Warner had negotiated with a German media company.

## **Freddie Mac: 2003**

The Federal Home Loan Mortgage Corporation, better known as Freddie Mac is the US Federal-backed mortgage financing company based in Fairfax County Virginia.

In 2003, it was found that Freddie Mac had misstated more than \$5 billion in earnings. Several executives had intentionally overstated earnings. the discovery was made as a result of an SEC investigation into the company's accounting practices.

The involved executives were fired from the company and it was fined \$125 million.

## **American International Group (AIG):**

## **2004/2005**

AIG, a US multinational Insurance firm, has more than 88 million customers across 130 countries. In 2005, the CEO was found guilty of stock price manipulation.

The SEC investigation found accounting fraud amounting to nearly \$4 billion. The company booked loans as revenue in its books and forced their clients to use insurers with whom the company had pre-existing pay off Arrangements.

The company was forced to pay \$1.64 billion in fines to the SEC.

They also paid \$115 million to a pension fund in Louisiana and \$725 million to three pension funds in Ohio.

Maurice Greenberg, the former CEO of AIG admitted to fraud to settle a long-running lawsuit NY prosecutors filed. The suit filed in 2005, was settled in 2017. Greenberg must pay \$9 million, while his CFO, Howard Smith, has to pay \$900,000.

## **Lehman Brothers: 2008**

Lehman Brothers was a global financial services and investment firm based in New York City. At the time, it was one of the largest investment banks in the United States.

During the 2008 financial crisis, an SEC investigation found that the company had hidden more than \$50 billion in loans, disguising them as sales to remove the appearance of toxic assets, through the use of accounting loopholes.

By selling those toxic assets to banks in the Cayman Islands with promises to buy them back in the future, in cooperation with auditors Ernst & Young, they appeared to have more cash than they did. The company went bankrupt in the aftermath.

## **Bernie Madoff: 2008**

Bernie Madoff, a former stockbroker in the US, was behind the biggest Ponzi

scheme in history, but also one of the largest accounting scandals. He ran Bernard L. Madoff Investment Securities LLC.

After the 2008 financial crisis, it was found that he had tricked his investors out of more than \$64.8 billion.

Madoff, along with his chief financial officer (CFO) Frank Dipascalli and his CPA David Friehling, was convicted of the charges filed against them. Madoff was sentenced to 150 years in prison and required to pay \$170 billion in restitution.

## **Monsanto: 2009-2011**

A whistleblower reported the company to the SEC. After an investigation, the St. Louis, Missouri company agreed to pay \$80 million in penalties and retain an independent compliance consultant.

This was to settled charges that it had misstated company earnings and violated accounting rules for the Roundup product.

The SEC found that the company lacked the necessary internal controls to account for millions of dollars in rebates offered to RoundUp retailers and distributors after a generic undercut its prices, which caused a significant loss of market share.

## **Pescanova: 2013**

Spanish fishing firm Pescanova filed for bankruptcy on 1.5 billion euros worth of debt to fuel expansion before an economic crisis hurt its earnings. In 2018, 19 former company executives were on trial for money laundering, falsification of company accounts, and a number of other financial crimes.

The company had been in trouble since 2013 because it declined to provide details of its debt to regulators. The court ruled that BDO (Pescanova's accountancy firm), Pescanova, and six former directors needed to reimburse investors, for a total of 126.8 million pounds.

*Corporate finance scandals are nothing new. That's why it's crucial to ensure your reporting is compliant with all industry regulations.*

# **Toshiba: 2015**

In July 2015, Japanese company Toshiba, saw its CEO resign as a result of an accounting scandal.

The company, under pressure to report a profit, was found to have overstated its operating profits by about \$1.2 billion. The company was found to have been using improper accounting over the course of seven years, including two other CEOs before Tanaka.

It started as a result of the 2008 financial crisis affecting profit. Though the CEOs never directly instructed people to “cook” the books, they pressured them significantly and allowed the company culture to produce the results they were looking for.

# **Wells Fargo: 2017**

The San Francisco-based bank, also the fourth largest in the United States agreed to pay \$3 billion (in 2020) to settle issues with the bank’s fake account scandal.

Employees were pressured to cross-sell products to boost revenue and meet quotas. Employees created millions of saves and checking accounts for customers without their knowledge or approval.

They used their own contact information on forms so that customers wouldn’t discover the scam.

Employees were accused of created fraudulent accounts by moving money out of existing accounts into new ones. By pinning the accounts with “0000” as the customer’s PIN number, bankers could control the accounts and keep them unaware.

Eventually, customers noticed and questioned fees on accounts they didn’t know they owned or they didn’t ask for.

The number of complaints caught the attention of regulatory agencies. The company was fined \$185 million, in addition to over \$2.7 billion in civil and criminal lawsuits. The chief executive at the time of the scandal had to resign as a result.

# Luckin Coffee: 2020

Though this one is currently ongoing, the Chinese company is struggling to recover with investors.

The stock was removed from the US exchanges in June 2020 after it was discovered that prior management had created millions of dollars in fake revenue.

The former chairman was removed from his position. The company settled fines with the SEC and Chinese authorities, but now faces lawsuits from former shareholders and bondholders. Outside lawyers have been appointed to investigate the business so that it may potentially restructure debt to keep the company operational.

Other noteworthy scandals include the Tyco scandal with CEO Dennis Kozlowski and CFO Mark Swartz; the HealthSouth scandal with CEO Richard Scrushy, and the Satyam scandal involving founder Ramalinga Raju.

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