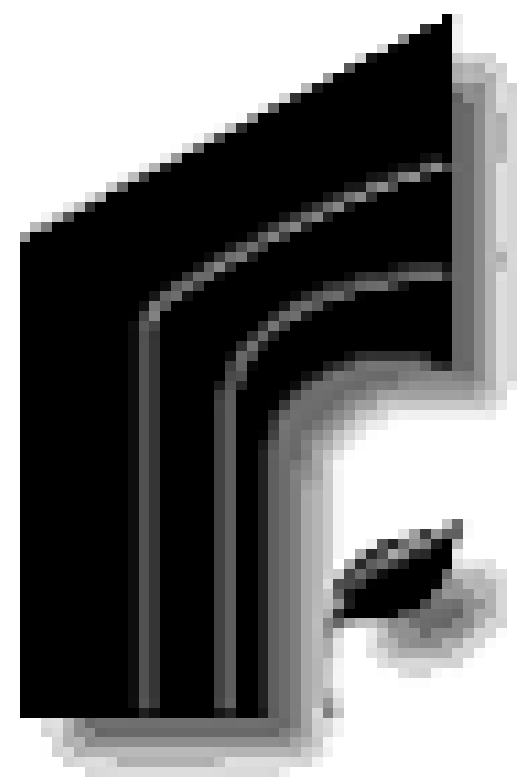


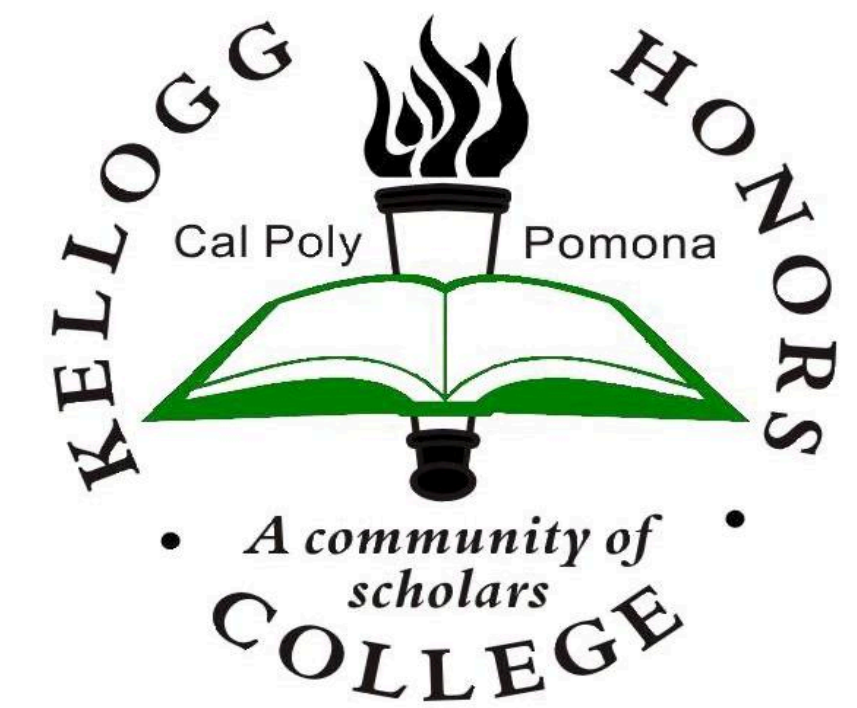
Corporate Scandals: Causes and Cures



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Abstract

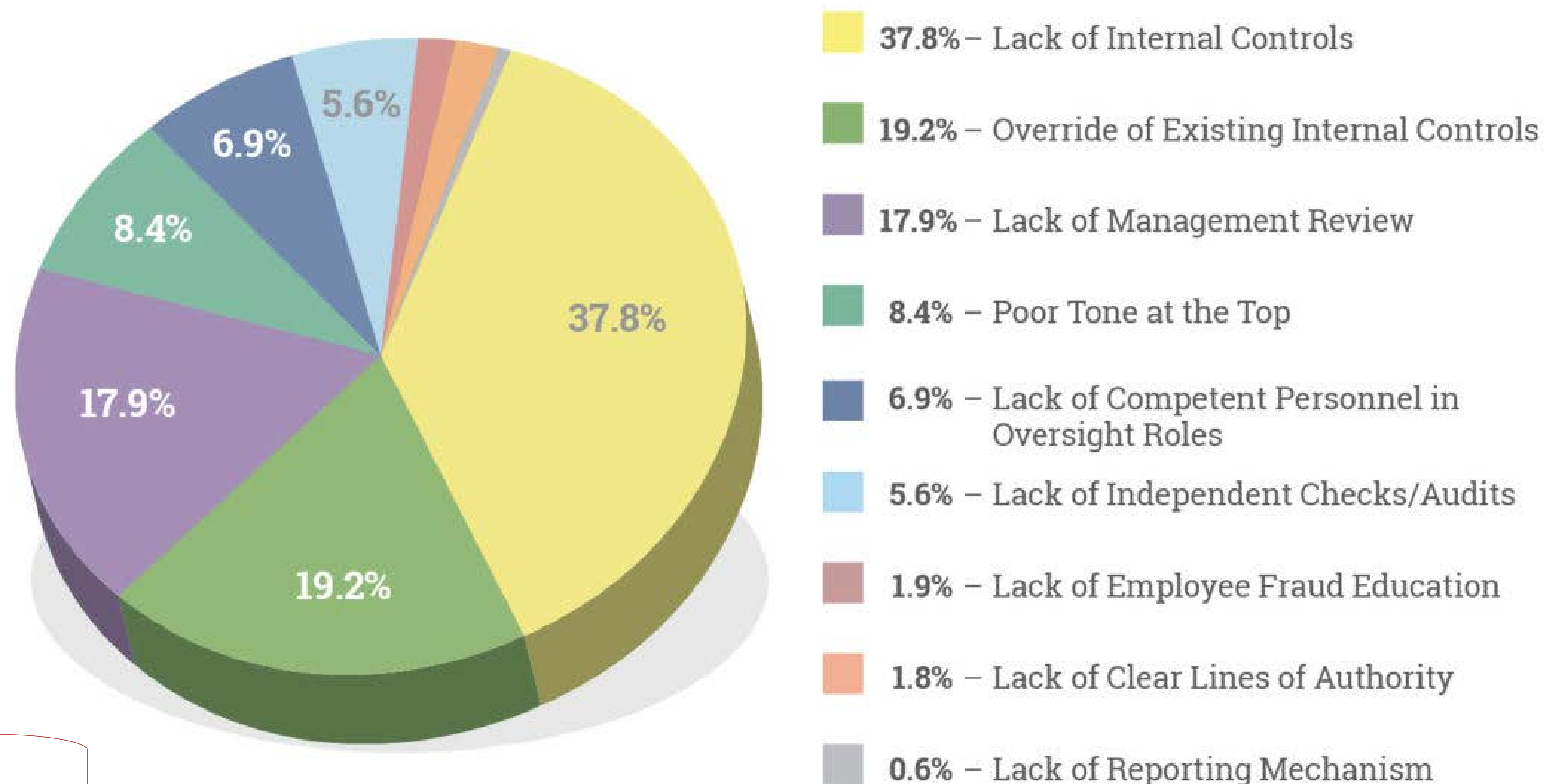
Corporate accounting fraud is a major problem that is increasing both in its frequency and severity. Thus, an attempt is made to examine and analyze the root causes of accounting fraud and to find the cure in preventing or reducing its likelihood among corporate businesses. Based on the 30 case studies I have compiled, I have discovered an occurring pattern in these fraud cases: poor tone at the top, lack of separation of duties, and ineffective checks and balances. Through this research, it was discovered that poor tone at the top is the source of accounting fraud which is ultimately the result of weak internal controls. Top executives seize this as an opportunity to take advantage of the flawed system and use it for their own personal gains. Therefore, in order to mitigate the main issue, more stringent internal controls should be implemented into all entities. A few examples include assigning a key role to only one individual, having additional accountants or auditors to verify all business records and to prevent collusions with top executives, an internal control element that monitors and detects unusual sums of money transactions, and a positive tone beginning with the board of directors

Compilation of Fraud Cases within the last 5-10 Years

1. Wells Fargo's Fake Accounts
2. Tesco Fraud
3. Weatherford International Scandal
4. Toshiba Accounting Scandal
5. Nick's Roast Beef Skimming Scandal
6. MF Global Goes Bankrupt
7. Caterpillar Inc. Failed to Comply with US Financial Reporting Rules
8. Owner of New York Produce Distributor Embezzled Thousands
9. Samsung America Director Fraud Scandal
10. Holy Cow CEO on Fraud
11. Former Executive of Nuclear Power Company Pleaded Guilty
12. Rothstein Case Ponzi Scheme
13. Marketing Agency Fraud and Kickback Scheme
14. \$21 Million Ponzi Scheme
15. CEO of Hollywood Payroll Co. Fraud Scandal
16. Embezzlement at OKC Pipe Company
17. HBO Federal Fraud Scheme
18. Accountant Indicted in Fraud Scheme
19. Kennewick Man Fraud Scandal
20. CEO \$25 Million Fraud Scheme
21. Connecticut Business Owner Sentenced
22. Michigan Company President Sentenced for Fraud
23. Investment Manager Prison for \$33 Million Fraud Scheme
24. CFO Sentenced for Embezzling \$5.7 Million
25. Construction Project Manager Charged for Fraud
26. Ex-NY Giant Accused of Running Ponzi Scheme
27. NJ Plastic Surgeon Fraud Scandal
28. Austin Businessman Found Guilty for Fraud
29. President/CFO and Chairman Conspired Together
30. Former Public Works Authority Official Sentenced for Wire Fraud

Weak Internal Controls – The Primary Enabler of Fraud

Internal Control Weaknesses Observed by Certified Fraud Examiners



Fraud Statistics Every Business Should Know

Financial Impact of Fraud

- According to the ACFE, the median loss caused by fraud was \$145,000, with 22% of those cases reporting losses of at least \$1 million.

Who's Committing Occupational Fraud?

- ACFE found that 77% of occupational frauds were committed by employees working in accounting, operations, sales, executive management, and so forth.

Combating Fraud in the Workplace

- Instituting management review procedures and fraud training for employees, managers, and executives
- Conducting surprise audits
- Conducting external audits of internal controls used in financial reporting
- Implementing stricter regulations for separations of duties
- Implementing systems that actively monitor and analyze company data
- Additionally: establishing an anti-fraud hotline

Principles of Control Activities

Segregation of Duties	Checks and Balances	Monitoring Activities	Control Environment
<ul style="list-style-type: none"> • Enforce stricter regulations • Implements its own guidelines and criteria • For example: each role should be assigned only once and to one specific individual • If not met, this may show clear indication that the entity lack this control 	<ul style="list-style-type: none"> • Responsibility of external and internal auditors • Conducts quarterly audits of internal controls • Have more than one accountant and auditor to prevent collusions • Every tasks completed should be reviewed and verified by another person 	<ul style="list-style-type: none"> • Implement auto-checking system • Actively monitor and analyze company data • Set a cap in all accounts to alert unusual transactions 	<ul style="list-style-type: none"> • Begins with Board of Directors • Demonstrates commitment to integrity and ethical values • Exercises oversight responsibilities • Establishes structure, authority, and responsibility • Demonstrates commitment to competence • Demonstrates positive chemistry



More than 5.1 Billion in Total