American international group

One such accounting scandal occurred to American International Group or AIG. Before dealing with the specific matters of the case, it would be important to understand the nature of the industry of AIG, its operations and the different matters affecting the operations of the company.

The history of AIG goes back a long way into history. It started in 1919 in Shanghai, China with the establishment of an insurance company by Cornelius Vander Starr. Before long, the business expanded to different continents and all over the world. AIG is considered as one of, if not, the largest financial and insurance companies all over the world.

Its operations are present in 130 countries all over the world. The different companies under the AIG conglomerate are providing financial services to institutions, individuals and commercial establishments.

The company is also engaged in the lease of aircrafts, trading, market making, and offering financial products (" About AIG", 2006). In addition to this, AIG is ranked by Forbes (2007) as the third leading company all over the world through its Forbes 2000 list. As a financial institution therefore, AIG enjoys prestige and enormous acclaim all over the world.

Financial Scandal

The exemplary image of AIG, however, was tainted after the reports of an accounting fraud in 2005. In May 2005, AIG itself disclosed that it will restate its financial reports for the period covering the years 2000-2004 financial years because of accounting errors that the internal auditors and reviewers discovered.

According to the company, itself, the net worth of AIG was overstated by as much as $2. 7 billion! The internal investigation on the part of AIG was spurred by an initial investigation conducted by the New York Attorney General and by the Securities and Exchange Commission of the United States.

Apparently, Martin S. Feldstein, which was a director of AIG received donation from the Starr Foundation, a non-profit organization, which, incidentally was headed by the then AIG Chairman and CEO Maurice Greenberg. It is also worth noting that Feldstein used to be the president and CEO of the National Bureau of Economic Research.

Based on this information alone and the interconnection of events and positions, it was clear that something incorrect was afoot. Feldstein's NBER received donations of almost $3 million in 2001 and 2002. Apparently, Greenberg was already playing with the financial reporting schemes of AIG and it involved Feldstein (Hernandez, 2005).

This incident is but one of several issues that led to the ouster of Greenberg from AIG. From AIG's own investigation, they discovered that the senior management of AIG during the financial years covered were trying to find ways to subvert financial reporting and even went as far as making dubious accounting entries that bloated the value of AIG by $100 million beginning in the year 2000.

The senior management members being referred to by AIG's report was Maurice Greenberg and Howard Smith (Jenson, 2005).

Conclusion of the Scandal

Notwithstanding the role of Greenberg and Smith, the conclusion of the case is the settlement of the case when AIG agreed to pay $1. 6 billion. Part of the deal was for AIG to reform its business processes and practices to make sure that its accounting processes will adhere to legal standards.

With such a legal settlement, AIG was spared criminal prosecution that other companies involved in fraudulent accounting had to go through (Associated Press, 2006).

In addition to the $1. 6 billion that AIG had to pay, four former executives of AIG were convicted of fraud in February 2008 because of the way that they manipulated the financial accounting of AIG. These former executives now face maximum terms of 20 years in prison (WebCPA, 2008).

The accounting fraud was completed by incorrectly reporting $500 million transactions in the months between 2000 and 2001 in order to give the false impression that AIG’s reserves are not declining. Four of the former executives of AIG pleaded guilty with the charges brought against them.

AIG had to pay large sums to the policyholders of the company as well as investors and even state workers due to the false and misleading information generated by the fraudulent finance reporting and accounting that occurred (Associated Press, 2006).

The company managed to hide the accounting errors because of vested interest on the part of Greenberg, especially because his other company affiliations had significant interest in the good performance of AIG as Starr International Co., C. V. Starr & Co., and Starr Foundation own 16% in the company (Jenson, 2005).

By involving other executives of the company and allowing them to receive money as donations, as the case of Feldstein showed, they managed to conceal the accounting fraud for five years.

Although the payments that AIG had to pay are big amounts, it nonetheless showed willingness on the part of the company to resolve the accounting issues and implement reforms in the business practices of the company.

Based on the facts of the case and the involvement of the AIG CEO and Chairman in the issue, the apparent motivation is the prospect of raking in more profits as a result of the misstatement of the actual net worth of the company.

The senior management who do have significant interests in the continuous good performance of AIG would therefore keep silent because they are benefitting from such an arrangement no matter how fraudulent it might be.

The accounting irregularity gave stakeholders such as policyholders and investors that the company is worth more than it actually is. As such, the stakeholders held on to their stakes based on wrong and deceitful information.

They were, in fact, cheated because the financial figures on which they were basing their decisions concerning their interest in the company are bloated and incorrect. The mere thought that the company would lie to its stakeholders and policyholders is unthinkable and deserves to be punished, of course.

Fair trade is based upon rules and correct information. Without these, it would be difficult for policyholders and stakeholders to make informed decisions regarding important matters that affect their finances.