

The enron scandal accounting



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Enron Scandal

Enron began its life in 1985 and appeared to be a rising star in the business world. In conjunction with the accounting firm Arthur Anderson Enron became one of the biggest accounting scandals in history. There were numerous ethical dilemmas in addition to the many illegal acts during rise and fall of Enron. This paper will discuss the history of the company, the actual crisis inside of Enron, and an analysis of how the company responded to the scandal.

The Enron scandal was the biggest bankruptcy in United States history which cost 4, 000 employees their jobs. Once it was obvious that something was amiss with Enron's bookkeeping, there was action on behalf of the Securities and Exchange Commission. By October 31, 2001 the inquiry had upgraded into a formal investigation and on December 2, 2001 Enron filed for bankruptcy. It was an event that will always be remembered as one of the most disastrous events in the financial world. In late 2001 Enron's shares drastically dropped from over \$90. 00 to just pennies which was seen as a catastrophe to the many investors, employees and the watching nation.

Enron's plunge occurred after it was revealed that much of its profits and revenue were the result of deals with special purpose entities. The result was that many of Enron's debts and losses that the company suffered were not reported in the financial statements. Enron had created offshore entities that were being used for planning and avoiding taxes, which in turn raised the profitability of the business. The executives and insiders at Enron faced an ethical dilemma because they knew about the offshore accounts that were

hiding losses for the company and the possible ramifications of this information being released. However the investors knew nothing of the fraudulent practices.

On August 14, 2001, Jeffrey Skilling, the chief executive of Enron, a former energy consultant at McKinsey & Company joined the company in 1990, announced he was resigning his position after only six months. People noticed that in the months leading up to his exit, Skilling had sold at minimum 450, 000 shares of Enron at a value of around \$33 million. During this time the Enron executives were encouraging people to invest much of their life savings into the company as they were simultaneously selling there own shares.

Enron's European operations filed for bankruptcy on November 30, 2001. On the day that Enron filed for bankruptcy, the company's employees were told to pack up their belongings and leave the building within the following thirty minutes. Thousands of Enron investors and employees lost all their savings, children's college funds, and pensions when Enron collapsed. The lawsuit accused twenty-nine of the executives and directors of insider trading and misleading the public. Had one of the executives or directors spoken up when they learned of these unethical acts the company may not have had to declare bankruptcy and ruin their business and reputations.

Former Enron CFO Andrew Fastow was the mastermind behind Enron's complicated network of offshore partnerships and questionable accounting practices. Fastow was indicted on November 1, 2002 by in Houston. He was convicted on 78 counts including fraud, money laundering, and conspiracy.

Fastow was sentenced to serve a ten year prison sentence and forfeit \$23. 8 million.

Another key player in the Enron scandal Ben Glisan Jr., a former Enron treasure, was the first man to be sent to prison for the scandal. His conviction really got the public interested in the shameful events. He pleaded guilty to one count of conspiracy to commit security and wire fraud. John Forney, a former energy trader, was also indicted in December 2002, on 11 counts of wire fraud and conspiracy.

The chief executive Jeffrey Skilling, who left his position only 6 months after being hired, was arrested on February 11, 2004, by the FBI. Skilling was convicted of 19 of 28 counts of securities fraud and wire fraud and acquitted on the remaining nine. Skilling was sentenced to 24 years, 4 months in prison for his illegal acts.

Kenneth Lay was the former Chairman of the Board and Chief Executive Officer for Enron and went to trial for the part he played in the scandal in January 2006. He was convicted of all six counts of securities and wire fraud for which he had been tried, and he faced a total sentence of up to 45 years in prison. He passed away on July 5, 2006 before his sentencing was scheduled.

This scandal quickly set off a wave of other accounting scandals. Enron's collapse also contributed to the creation of the U. S. Sarbanes-Oxley Act, signed into law on July 30, 2002. The purpose of this act is to protect people from the types of deceptive acts that took place within Enron. The act changed the way corporate records are to be stored because of the poor

decision Arthur Andersen made to shred many of Enron's financial documents. The act also strives to protect the individual that reports unethical or illegal acts. Sarbanes-Oxley is considered the most significant change to federal securities laws since FDR's New Deal in the 1930's.

Rather than Enron restructuring, they faced liquidation and later changed the company's name to “ Enron Creditors Recovery Corporation” to reflect its new task of managing payouts it owes from litigation and creditors.

The company's response to the scandal seemed to be evasive, with finger pointing and a great deal of executives tried for some type of conspiracy or fraud count. Criminal investigations began early January 2002. Fastow invoked the Fifth Amendment, while Skilling said that Enron had no problems when he left, Waktins said Fastow and Skilling had “ duped” Lay, and Lay declined to testify. Enron did come up with a plan to reorganize and try to sell off their assets for as much as possible in November 2004, when it emerged from bankruptcy.

This plan did take a while to formulate, and in the time it took to write it, Enron had not come up with a response to defend their actions. Realizing that there is no way to spin the events in their favor, Enron executives went to trial with a goal of simply getting through the scandal. It is hard to say how ethical or effective this lack of response is. They did brave the storm, so to say, and are now in the process of paying back what they owe, so it is effective in that manner. As for the ethical side, executives were brought to justice in the court of law, and the reasons for this scandal are simply explained away with greed and large ego.

Now that Enron is known as Enron Creditors Recovery Corporation, its response to the crisis is to just come up with as much as the cash as possible by any means. They are receiving money from MegaClaims, from businesses said to participate and profit from their collapse. With settlements of about \$1.76 billion made, and declined claims of about \$1.38 billion, they are still pursuing more from Citigroup. They have filed a suit to reclaim fraudulent commercial paper debt prepayments, and have received over \$170 million and still pursue over \$400 million. They are also involved with equity transaction litigation, and have received around \$250 million. Enron Creditors Recovery Corporation is slowly, but effectively, paying people back. So long as payments are being made this response is ethical as well.

Enron had initially appeared to be a successful and blossoming company. But the unethical and illegal decisions that were made throughout Enron's history caused thousands of employees to lose their jobs and many others to lose very substantial amounts of money. The Enron scandal will forever live in history and has prompted the Sarbanes-Oxley Act to prevent a catastrophe like this from ever taking place again. Hopefully the future of business will be a more ethical and law-abiding one.

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