

Jamaica water properties assignment



**ASSIGN
BUSTER**

Do you believe the 1988 “ retention agreement” that Ernst & Young made with JP was appropriate? 6. Why do you believe that Ernst & Young greed to pay a large settlement to JSP stockholders but chose to contest the lawsuit filed against it by the insurance companies? Facts In 1990, David Solo faced a problem that has stymied the careers of many business executives. AT the time, Solo served as president of Ogden Projects, Inc. , an environmental services company. Solo was motivated on becoming the company’s chief executive officer (CEO) but the bosses son stood in his way.

Company insiders believed that the chairman of the parent company Ogden Corporation had already decided to appoint his son as the next CEO of Ogden Projects. Solo in this year signed and left back home to Omaha, Nebraska. In 1991, Solo quickly landed a Job with a large Omaha construction and mining company. The firm was owned a controlling interest in California Energy, a public company based in San Francisco in which was struggling financially. The company gave Solo that task of turning the company around and made him the new CEO.

Solo majored in civil engineering at the University of Nebraska but spent several weeks scrutinizing the companies accounting records. Solo later implemented a program to reduce spending by cutting executive perks, cutting payroll by 25% and y moving the corporate headquarters from a pricey San Francisco Bay Area to an economical area in Omaha, Nebraska. In 1992, Corporate Boards around the nation started to recognize Solo’s strategy. He was offered a position of President and Chief Operating Officer (COO) of JP Inc. Ammoniac Water Properties), a large New York based company.

JAW had an impressive history of sustained profitability and revenue growth in which was being threatened by its sprawling operations and heavy administrative burden. In this year, the company had 117 offices and 23 subsidiaries scattered across the country, n several overseas operating units, and a huge new division that was competing in a lucrative Ana rapidly developing market. In 1886, the Jamaican Water Supply Company began operations as a small business delivering water to a few neighborhoods in the Queens borough of New York.

The company gradually expanded its geographic market to later become New York's largest water utilities. In the sass's, Martin Dwyer took control of JAW and realized that heavily regulated water utility industry limited his company's profits potential. He decided to branch out into other businesses and began offering various contracting and construction revise to local municipalities like installing telephone lines, working on street lighting projects and developing traffic control systems. The company continued to expand into other lines of businesses through acquisitions.

To finance the companies Dwyer borrowed heavily from banks and other lenders. In the Mid sass's, high interest rates, a severe nationwide recession, and a series of poor decisions by Dwyer and his management team had driven the company to the verge of bankruptcy. In 1978, to salvage the company Dwyer stepped down as its top executive and placed his 30 year old son Andrew in charge. Andrew Dwyer quickly disposed of the company's weakest divisions, paid off much of its debt and developed a new more focused business plan. The business plan called for the company to become the “ premier technical services” firm in the world.

In the mid sass's, the company renamed JP Ammoniac Water Properties) Inc. And offered a wide range of services involving the design, development, and maintenance of complex mechanical, electrical and computer systems. JP targeted its services to high tech industries and included financial services. The company developed sophisticated control systems that helped major Wall Street firms, such as Merrill Lynch and Goldman Sacks to more efficiently and cost effectively manage their operations. In the sass's, Andrew Dwyer converted JP into a multimillion dollar firm with a workforce of more than 20, 000 employees.

The company stock is listed in the New York Stock Exchange and included in the S 500. The performance of the company from 1979 to 1991 showed positive profits every quarter for these 12 years. The water utility division was still a part of the company but only attributes to 2% of the annual revenues. 1991 , Andrew purchased the large computer retailer Businesslike, Inc. Businesslike operations were integrated into a new division of JP that marketed computer hardware, business software, applications, and information systems development services in which competed with companies like IAMB and Microsoft.

JP realized that the new addition added more weight to the issues of having multi businesses to manage. The difficulty of managing the company divisions were weighted down by high administrative expenses. To remedy this problem, Andrew started to seek for an individual with a proven track record to managing companies facing difficult circumstances. Dwyer identified David Solo as the top candidate for COO position. In 1992, David

Solo accepted Andrew Dryer's offer to become JSP COO because he enjoyed tackling challenging assignments.

Solo was unaware of the biggest canalling en would race at JAW over ten previous several years, ten company's financial information had been embellished by a pervasive accounting fraud. The abusive accounting practices included misapplying the purchase method of accounting for acquisitions, recording fictitious assets, improper accounting for net operating loss (NOEL) cardboards, failing to record appropriate allowances for inconvertible receivables, and misapplying the percentage of completion method of accounting for long term contracts. Collectively, the accounting abuses had a significant impact on JSP reported profits.

In 1991, JP reported a net income of \$60. 1 million then, the SEC revealed that the company's actual profit for that year was only \$28. 9 million. The principal architect of JSP accounting fraud was Ernest Grinding, JSP CUFF. In addition, three senior accountants helped the CUFF conceal the fraud. Each individual were CPA and former employees of JSP audit firm Ernst & Young. Greed was the titivation for these employees as they received sizable bonuses linked to the company's overstated earnings and cashed in large gains in the stock market by selling JP securities at prices inflated by the fraudulent earnings figures.

The other top executives were not implicated in the fraud. Grinding relied on the far reaching authority granted by Andrew Dwyer to establish complete control over JSP accounting function. He also used his authority to neutralize various control functions and the internal audit staff. The internal auditors

feared being fired and it deterred challenging improper accounting treatments. By mid-1992, Solo uncovered several suspicious items including a \$46 million receivable in JSP corporate general ledger that had gone uncollected for an extended period of time.

Grinding attempted to conceal the past due receivables from the new COO by transferring them to JSP corporate general ledger. In addition Grinding had replaced the collective dollar amount of the transferred receivables with a large interception receivable. Solo then met with the CUFF of the division to which the receivables actually belonged and the CUFF explained to Solo that his division's impressive profits in previous years had been inflated by aggressive venue recognition policies in which overstated the division's receivables and total assets.

Various other division Coffs also explained similar situations. In July 1992, Solo met with Andrew Dwyer to discuss the issues and believed that JP should record a \$125 million in write offs to correct the company's accounting records. Also, told Dwyer that he wanted to dive in deeper into the financial records with the assist of a different audit firm other than Ernst & Young. Solo was concerned on the close relationships the CUFF and the 3 Senior accountants had with Ernst & Young. Dwyer agreed to retain Dolomite & Touché to carry out a large scale investigation of JSP accounting records.

In addition, Solo continued investigating and interviewed two of Grinder's subordinates. These individuals showed Solo the High Sierras charts that showed the unusual fluctuations in revenues. At this point, Solo realized that the financial data had to be intentionally distorted. Solo met with Dwyer and

wanted to leave the company. Solo stated that he was misled prior to joining JP. Dwyer pleaded with Solo not to leave until the extent of the restatements would be necessarily determined. Dwyer offered Solo a \$1 million stay Donuts.

In the following day David Solo met with ten Dora Ana turned over all AT the information he had collected regarding the company's accounting irregularities. Then, resigned as President and COO and terminated all ties with the company. Dolomite & Touches investigation continued for several months. When completed JP restated its previously reported earnings for 1990 and 1991 by about \$40 million. Also, it resulted in a \$653 million write down of the company's assets. In April 1993, Andrew Dwyer resigned as CEO and later resigned as the company's Chairman of the board.

Ernest Grinding was forced to resign as CUFF. The accumulation of all issues, the company was forced into bankruptcy. The bankruptcy courts reorganization plan wiped out the common stockholder's equity and resulted in the creation of new company known as Emcee Group Inc. The former creditors became the principal owners of this company when it emerged from the bankruptcy courts in December 1994. In 1995 and 1996, the SEC issued a series of accounting and auditing enforcement releases focusing on Ernest Grinding and the three other Senior Accountants involved in the accounting fraud.

Grinding can no longer practice accounting and was fined \$700,000 in restitution. The 3 senior accountants repaid the bonuses of up to \$51,000 and 2 agreed to pay civil fines of about \$90,000. None of them admitted or

denied the allegations by the SEC. The SEC did not sanction or even criticize Ernst & Young in the various enforcement releases that focused on the JP accounting fraud. The courts were not that easy on them as former stockholders and creditors resulted in losses. Ernst & Young officials agreed to settle the lawsuit by JSP stockholders in which amounted to \$23 million.

Other plaintiffs that sued Ernst & Young were a group of insurance companies and were awarded \$100 million of losses on loans. In April 1993, Challenges board of directors reappointed Solo as the company's president and CEO. In the late sass's, Solo with the financial backing of billionaire investor Warren Buffet orchestrated a \$9 billion dollar takeover of Mendicancy Energy Holdings accompany that supplied electricity and natural gas to three million residential customers in several Midwestern states.

In 2000, the Financial Times recognized David Solo as the chief executive of the year within the energy industries. Among the many lessons that Solo has learned his career is the critical importance of personal integrity, the importance of simply doing the right thing when problematic circumstances arise. Analysis 1. In David Solo's position, after discovering the suspicious items in JSP accounting records, I would have taken a different course of action than he did. Although, the actions that he took are very commendable, at no point in the case did he confront the Chief Financial Officer.

Before Solo realized that it was intentional, he should have confronted the Chief Financial Officer on the irregularities in the counting that were concerning to him. He went around the CUFF by investigating his

subordinates, talking to Division Coffs and later confronting the CEO in engage a different audit firm to investigate the accounting irregularities. Regardless of the outcome, the CEO should have been ultimately responsible for all areas of the business and should not have let it go this far.

The CEO when he initially took over, financially fixed the company when he became the CEO by the name AT Nils Tanner. Andrew was more than capable and skilled to recognize elevated receivables. Nevertheless, Andrew was not honest with Solo and I believe that he was trying to use him to rejuvenate the business to increase revenues to offset the foreseen future outcome that Andrew I think anticipated. Handling a fraud situation is never easy to handle these situations. I feel that Solo should have first reached out to the CUFF.

If nothing was done to handle the irregularities then, the next step was to reach out to the CEO. The CEO should have taken action on handling this situation. Solo did the right thing for not taking the \$1, 000, 000 stay bonus and resigning was a high integrity action. 2. There are measures that can and should be taken to make it easier for reporter employees to “blow the whistle” on a fraudulent scheme they uncover within their firm. The obvious general policies should be created and provided to all individuals of a company.

This policy should provide anonymity to the employees that present the fraudulent action. Even so, access to accounting information is very limited to a very few and selective jobs or positions. A good executive that is committing fraud would quickly recognize who the complainer can be. If the complaint turns out to be erroneous than that individual’s career could be in

jeopardy or various employees can be as well. No one likes a snitch in the group but these individuals should not be penalized and be protected from Job loss.

In so far, these whistle blowers should be rewarded if the results were proven to be true. The IRS provides an Informant Award of 30% and I believe weightlessness should be awarded accordingly. 3. Businesses, accounting firms, and other organizations should explicitly reward ethical behavior by their employees and executives. Aside from their regular merit annual increases, ethical behavior should be recognized within this process. Financial positive reinforcement is one method that can provide a security blank for the whistler's.

The individual will need some finances to help them get to another Job since they are either going to quit or lose their Job cause the company bankrupts. The IRS provides an Informant Award of up to 30% of the additional tax, penalty and other amounts the IRS collects. Publicly traded companies need to do the same type of reward program. The sooner the fraud is surfaced, the better the board of directors can protect the shareholders of the company. It can give the company a higher survival rating of getting through the fraudulent activity.

If Salomon Brothers did not react in time to get Warren Buffet to assist them out of the situation, they would have never survived. The point is to try to surface to fraud as soon as possible and react accordingly to save the company, its employees, its customers and its shareholders. Creating an Informant Award like the IRS will help weightlessness to gain the confidence

to interject and surface the fraud. 4. There are various measures that accounting firms can take to reduce risk that personal relationships between client personnel and members of an audit engagement team will adversely affect the quality of an audit.

Firms need to change the engaging partners frequently so that these relationships do not get too personal. The requirement is 2 years but just to be safe I would change it routinely and would not allow the same partner audit the company for at least three annual cycles. Some firms are too small and do not have enough partners to rotate out and can team up with other small firms to handle the rotations. The firms need to instill harsher penalties when it comes to fraudulent activities.

Pressing charges on the bad employees to make examples out of them would assist in deterring fraudulent behavior. The “three strikes law” has studies that show results that appear to have modestly influenced crime reductions in some states (Kelly & Data, 2009). The point is that there are a lot of companies that just fire the employee and do not press charges. This type of activity does not help the accounting and finance industry. These bad employees will just go on to the next company and continue committing fraud.

Harsher penalties need to be pressed to these individuals. 5. The 1988 “retention agreement” that Ernst & Young made with JP was appropriate. Making contracts to retain a firm for a fixed price for is healthy competition. The relationship between Ernest Grinding and the close friend and former colleague at Ernst & Young who in result was an audit partner is an issue.

Auditor's independence was completely affected. To keep the auditors independence intact, the close friend should not have been the engaging partner for any audits for JP.

Another partner should have taken the role to satisfy and protect auditor's independence. Waiting out a 2 year cycle before ever being the engaging partner of JP is what I would recommend. Then the close friend may jump in to be the engaging partner if necessary but if it can be avoided, then they should avoid it. . Ernst & Young lawsuit filed against it by the insurance companies. In particular, the amounts of were significantly different. The regular plaintiffs lawsuits were \$23 million and the insurance company's group lawsuit was about \$100 million.

I can understand their fiduciary duty was strictly to the company and its shareholders in which satisfying the \$23 million to pay those affected directly. The insurance companies and the firm did not realistically have any responsibility to each other. In essence, the insurance companies were set to protect the company against issues like fraud. That is their purpose so, why would they need to go after the accounting firm. If I learned anything from the Horizon Oil Spill, it is that lawyers will go after any related parties that had anything impact or influence in the issue to sue and hold accountable.

Nevertheless, I agree with the insurance companies. If the firm did its job as trusted to review the integrity of JSP financial properly, the insurance companies depended on these financial to continue to insurance or loan to JP. The audit firm was directly responsible for not doing its job, thus caused a chain reaction of inappropriate accounting behavior and losses to the public

shareholders and other related third parties that relayed on the accuracy and integrity of JSP financial.

To conclude on the David Solo's position and his course of action on handling the situation, I believe he handled the situation as best as possible and kept his integrity in tact. I would have first reached out to the CUFF and then confronted the CEO. Later verify that actions are being taken to address the issue in question. If nothing is adequately a satisfied corrective action then, external assistance would be needed. I would recommend the Solo next time address the issue first with the CUFF, then the CEO and collectively find a method to address the issue in a fashion that would not damage the company.

To conclude on the measures that can be taken to make it easier for corporate employees who blow the whistle, companies should instill a policy and routinely discuss the policy with its employees. In addition, create an anonymous hotline that employees can call anytime to provide fraudulent issues on hand. I would recommend providing this information at the time of hire of each employee and annual reminders of the policy. To conclude on rewarding their employees on ethical behaviors, I find that financial rewards are best to influence behavior.

The IRS has an Informant Reward program that pays out up to 30% of the additional taxes collected. I would recommend that publicly traded companies implement an Informant Reward program to help promote early detection of frauds. To conclude on the 1988 Retention Agreement between Ernst & Young and JP was a shaky relationship to start off with. Auditor

independence was definitely challenged with this relationship. I would recommend that in these types of cases that a different engaging partner take control of the audit and the close friend should not be the initial engaging auditor.