The Impact of the Crooked “E”
The Enron Fraud and Scandal And What It Means to Business Today

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The Enron Players – The Executives

Ken Lay – Enron Chairman and CEO
Convicted on 29 criminal counts including conspiracy, securities and wire fraud. Dies in Aspen Colorado on July 5 2006 while awaiting sentencing for his convictions.¹

Jeffrey Skilling – Enron CEO
Convicted for fraud, conspiracy, insider trading and lying to auditors in the largest corporate fraud in history. More than 4,000 Enron employees lost their jobs, many lost their life savings, when Enron declared bankruptcy in 2001. Investors lost billions of dollars.²

Andrew Fastow
Charged with 78 counts of fraud due to his role in using off-balance sheet entities that did business with Enron. Disguised the company’s financial condition, pled guilty to two counts, forfeited $30 million, and agreed to testify as a government witness.³

David Duncan – Andersen Partner – Enron
Partner responsible for Enron. Fired for failure to exercise “due professional care and the necessary skepticism”. Pled guilty to obstruction of justice – later rescinded plea, and struck deal with SEC.⁴

Sherron Watkins – Enron VP Internal Audit
Watkins, who has never been charged with insider trading, sold almost $50,000 in stock after her August 2001 meeting with Lay — and before Enron shares became worthless months later. “No,” she told prosecutor John Hueston when he asked her if her stock sales were proper. “I had more information than the marketplace did.”⁵

A complete list of executives involved in the fraud please see Appendix A.
Enron – So Many Dimensions of Fraud

- Energy Price Manipulation
- Stock Price Manipulation
- Financial Statement Fraud
- Wire Fraud
- Securities Fraud

Enron’s Multi-dimensional fraud
A Chronology of Enron’s Collapse

Feb 5
Andersen discusses dropping Enron as a client.

Feb 12
Jeffrey Skilling becomes CEO

May
Vice Chair Clifford Baxter complains about the “appropriateness” of Enron’s partnerships

Aug 15
Lay receives a warning letter from Sherron Watkins indicating improper accounting

Aug 20, 21
Lay sells 93000 shares – earns $2M, Urges employees to buy more stock

Oct 16
Enron reveals $1.2B loss of shareholder value

Oct 23
Andersen accelerates the shredding of Enron related documents

Nov 8
Andersen receives SEC subpoena, Enron admits inflating income by $600M since 1997

Dec 2
Enron files for bankruptcy

Jan 15
Enron suspended from NYSE

As information trickles out and the finger pointing begins, it’s clear that many people involved had spotted warning signs of Enron’s accounting malfeasance long before the company’s fall.
The Aftermath

“I didn’t set out to commit a crime. I certainly didn’t set out to hurt anyone. When I was working at Enron, you know, I was kind of a hero, because I helped the company make its numbers every quarter. And I thought I was doing a good thing. I thought I was smart. But I wasn’t.” – Andrew Fastow

“in my opinion, the problem today is 10 times worse than when Enron had its implosion … The things that Enron did, and that I did, are being done today, and in many cases they’re being done in such a manner that makes me blush — and I was the CFO of Enron.” He cited the continuing widespread use of off-balance-sheet vehicles, as well as inflated financial assumptions embedded in corporate pension plans. – Andrew Fastow

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1 Andrew Fastow

2 Andrew Fastow
What It Means

The Enron case is a classic example of the fraud triangle at work.

Companies today need to be exceptionally vigilant. It is too easy (seemingly) for corporate officers to commit fraud.

Fraud occurs at all levels of an organization. In Enron’s case it occurred at the highest levels of the company. Even those entrusted to protect the company from malfeasance (Sherron Watkins) were not immune to means, motive (pressure) and opportunity.

Sarbanes-Oxley signed into law in 2002 was passed by the US Congress in direct response to scandals such as Enron. The act requires:

a. CEO and CFO must review all financial reports.
b. Financial report does not contain any misrepresentations.
c. Information in the financial report is "fairly presented".
d. CEO and CFO are responsible for the internal accounting controls.
e. CEO and CFO must report any deficiencies in internal accounting controls, or any fraud involving the management of the audit committee.
f. CEO and CFO must indicate any material changes in internal accounting controls.

Access:
- Physical
- System
- Process

Opportunity

Means

Motive

(Pressure)

Personal Gain

Weak Internal Process & System Controls
Weak External Process & System Controls

Integrity?

Classical Criminal & Fraudulent Activity

1

2
Thank you
Endnotes

Slide 3

Slide 4
1 Elkind, P.; Gibney, Alex; McLean, Bethany. (2005). Enron: The Smartest Guys In The Room.

Slide 5

Slide 6
2 Ibid.

Slide 7

Appendix A
## Other Enron Guilty Pleas

<table>
<thead>
<tr>
<th>Date</th>
<th>Name and Role</th>
<th>Plea Details</th>
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<tr>
<td>December 2005:</td>
<td>Former Enron chief accounting officer Richard Causey. Originally indicted in January 2004, Causey was part of a unified defense team with Skilling and Lay for nearly two years until he decided to plead guilty to securities fraud.</td>
<td>Initially pleaded guilty to five counts of conspiracy, and aiding and abetting securities fraud, he was part of a defense team with Skilling and Lay. He decided to plead guilty to one count of conspiracy and one count of aiding and abetting securities fraud.</td>
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<td>July 2005:</td>
<td>Christopher Calger, a former executive in Enron's trading business, pleaded guilty to participating in an asset sale scheme to recognize earnings prematurely and improperly.</td>
<td>Pleaded guilty to one count of participating in a scheme to defraud investors by improperly recognizing earnings from an asset sale, and one count of lying to an auditor.</td>
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<td>October 2004:</td>
<td>Timothy DeSpain, former assistant treasurer, pleaded guilty to conspiracy, and admitted lying or withholding pertinent information from credit rating agencies at the request of multiple superiors so the energy giant's financial picture appeared healthier than it was.</td>
<td>Pleaded guilty to one count of conspiracy, and admitted to lying or withholding information from credit rating agencies.</td>
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<td>August 2004:</td>
<td>Kevin Hannon, former chief operating officer for the broadband unit, pleaded guilty to conspiracy for scheming with Rice and others to tout Enron's broadband network as having capabilities it didn't have to impress analysts and inflate company stock.</td>
<td>Pleaded guilty to one count of conspiracy.</td>
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<td>August 2004:</td>
<td>Mark Koenig, former head of investor relations, pleaded guilty to aiding and abetting securities fraud.</td>
<td>Pleaded guilty to one count of aiding and abetting securities fraud.</td>
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<td>July 2004:</td>
<td>Kenneth Rice, former broadband unit CEO, pleaded guilty to securities fraud. Admitted to conspiring with others to describe Enron's network control software as revolutionary and the network as up and running when neither was true so Enron stock would rise and he could profit from sales of inflated shares.</td>
<td>Pleaded guilty to one count of securities fraud.</td>
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<td>May 2004:</td>
<td>Paula Rieker, former No. 2 executive in investor relations. Plead guilty to insider trading for selling shares in mid-2001 upon learning that Enron's broadband unit lost more money than publicly disclosed.</td>
<td>Pleaded guilty to one count of insider trading.</td>
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<td>January/May 2004:</td>
<td>Lea Fastow, former assistant treasurer and wife of former finance chief Andrew Fastow, who quit Enron in 1997. Pleaded guilty first to a felony tax crime, admitting to helping hide ill-gotten gains from her husband's schemes from the government. Withdrew plea, then pleaded guilty in May to a newly filed misdemeanor tax crime. Released in July 2005 from year-long prison sentence.</td>
<td>Pleaded guilty first to a felony tax crime, and then pleaded guilty to a newly filed misdemeanor tax crime.</td>
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<td>October 2003:</td>
<td>David Delainey, former head of Enron's trading and money-losing retail energy units. Plead guilty to insider trading.</td>
<td>Pleaded guilty to one count of insider trading.</td>
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<td>February 2003:</td>
<td>Jeffrey Richter, former Enron trader. Plead guilty to wire fraud, admitting to manipulating the California power market.</td>
<td>Pleaded guilty to one count of wire fraud.</td>
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<td>November 2002:</td>
<td>Larry Lawyer, plead guilty to filing false tax returns that didn't identify more than $79,000 in income over four years he received as &quot;gifts&quot; from Kopper for his work in one of Fastow's schemes.</td>
<td>Pleaded guilty to one count of filing false tax returns.</td>
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<td>October 2002:</td>
<td>Timothy Belden, former top Enron trader. Plead guilty to wire fraud for participating in trading schemes to manipulate California power markets.</td>
<td>Pleaded guilty to one count of wire fraud.</td>
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<td>August 2002:</td>
<td>Michael Kopper, former top Fastow aide. First Enron insider to plead guilty; plead guilty to two counts of conspiracy. Admitted to helping Fastow carry out schemes to help Enron manipulate its books while skimming millions for himself, Fastow and selected friends and colleagues.</td>
<td>Pleaded guilty to two counts of conspiracy.</td>
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