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Waste management company fraud

Waste Management's company fraud occurred between 1992 to 1998, and the fraud activities involved accounting books. Some of the fraud activities involved avoiding the depreciation value of the company assets by giving false value on the company garbage trucks, which were updated in the company financial statements. Company officers did not record any expenses for assets that had decreased the values; thus, the company had fewer expenses on decreased value assets. It gave an opportunity for some of the employees to add assets without depreciation value in the financial statement making them defraud millions of money. To cover the fraud activities, the company increased areas of non-environmental importance so that it would not spend much on the cost of environmental conservation. There was an addition of false information in their financial statements, such as false profits and assists without increased liabilities making it have the highest net profit from 1992 to 1997 (Ellrich et al., 2017).

Waste Management Company was involved in fraud because it wanted to meet the financial earning targets required to achieve. The company was not doing well in the business; thus, to reach those earning targets; therefore, they had to expand profits and reduce or forgo the expenses. The chief officer earning was tired of the earnings of the west management total yearly earning. He had to engage in fraudulent activities to illustrate that company was making more profits, to maintain a high salary and his job. The scandal involved senior company officers such as Philip Rooney, the CEO, and Thomas Hau. The fraudulent financial statements were found by the company they ordered to audit their accounting books. The company that was hired identified errors in their accounting books and asked them to change but instead, they offered money for silence (Ellrich et al., 2017). A new CEO started to review the company's financial statement, and the involved people were terminated from their jobs. The company, under new management, agreed to pay 26.8 million dollars to settle lawsuits from different companies that resulted from the fraud in the financial statements. SOX could have prevented waste management company fraud through its financial statement. Sox helps avoid all aspects of the fraud triangle, such as opportunity, motive, and rationalization, which makes a company participate in fraud. SOX under section 404 would have enabled Waste Management Company to make their management assessment of internal controls, which could have prevented the managing officers' opportunity to collude with the accountants to forge financial statements. It could have found irregularities on its own before hiring an auditor to find the irregularities.

It also protects whistleblowers from being from the company's management, making it easy for the employees to report fraud in the statement without fear. The employees would have reported that fraud earlier to prevent further illegal activities. Registration with PCAOB, which investigates compliance with the company's accounting requirements, would have prevented the motive and rationalization of the chief officer's engagement in fraud. They would have known that they will be caught through those fraud activities.

SOX has successfully helped reduce fraud in public and private companies since enacted in 2002 (Foster et al., 2013). Before enacting the law, many companies had various fraud cases through their financial statements manipulation. Sox has helped to reduce the opportunity, motive and rationale of engagement in financial statement fraud because of tight measurements of financial reports and easy assessment of the company's financial information. Although the cost of implementation is high, it has helped the companies to prevent fraud through financial statements.

References

Ellrich, Neal Smith & Stohlman (2017) The Waste Management, Inc. 1998 Fraud Scandal retrieved from https://ensscpa.com/waste-management-inc-1998-fraud-scandal/#:~:text=Ultimately%2C%20the%20company%20had%20false,liabilities%20on%20their%20financial%20statements.&text=1998%20scandal%20occurred%20was%20in,pushing%20down%20or%20foregoing%20expenses.

Foster, B. P., Ornstein, W., & Shastri, T. (2007). Audit costs, material weaknesses under SOX Section 404. *Managerial Auditing Journal*.

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