


Typical Fraud Cases of US Listed Companies:
Waste Management Scandal –
Income was overstated by \$1.7 billion



假账丑闻 – 3: 17亿美元的虚假收入

“垃圾中的黄金” 沦落到
“看起来更像是垃圾”

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CCS Insights

Typical Fraud Cases and Characteristics
of US Listed Companies: Waste Management Scandal

美国上市公司典型舞弊案及特征:
废物管理 – 17亿美元的虚假收入

Feel the CCS & Co Difference



The Treasure Hidden in the Garbage



- Waste Management Inc. is the world's largest waste disposal company, founded in 1968 by Dean L. Buntrock and Wayne Huizenga and listed on the New York Stock Exchange in 1971.
- During the 1970s and 1980s, the company was the world's largest waste disposal company, and it was the most prominent stock on Wall Street.



- The company's revenues increased from \$16 million in 1971 to \$75 million in 1991, with an average annual revenue growth rate of 36 % and an average annual net income growth rate of 36 %.



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Turn into appeared to be more like garbage



- One of the keys to its quick success was horizontal expansion through acquisitions and mergers.
- The company stunned Wall Street by completing 200 acquisitions and mergers in a single year, demonstrating its ability to expand horizontally.
- At its peak in the 1980s, when Waste Management Inc. was at its best, the Washington Post referred to it as "the treasure hidden in the garbage."
- After a few years, the Washington Post claimed unequivocally that it "appeared to be more like garbage." What exactly is going on here?



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The rise of Waste Management Scandal



- According to estimates, the worldwide waste management industry was worth more than two trillion dollars in 2019, and it is likely to continue to develop at a rapid pace in the future years. Waste management companies are responsible for the collection, transportation, processing, and disposal of waste materials.
- In the United States, garbage is dealt with in a variety of methods, including recycling, waste-to-energy, and composting, among others.
- Landfilling, on the other hand, continues to be the most frequent technique of waste disposal in the United States.
- Landfills received more than 146 million metric tones of municipal solid waste (MSW) in 2018, accounting for more than half of all MSW disposal.



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Waste Management Scandal



- Waste Management Inc., is a North American corporation providing waste management, integrated waste management, and environmental services.
- 346 transfer stations, 293 active landfill disposal sites, 146 recycling plants, 111 landfill gas facilities for beneficial use, and six independent power plants are part of the organization's infrastructure.
- Waste Management provides environmental services to about 21 million customers in the United States, Canada, and Puerto Rico, including private, manufacturing, government, and commercial enterprises.



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2 Biggest Waste Management Companies



2019	Waste Management, Inc.	Veolia Environmental Services (Private)
Revenue of the company (in 000's of dollars)	15,455	12,505
Total comprehensive income of the company (in 000's of dollars)	1,749	328
Total assets of the company (in 000's of dollars)	27,743	18,867

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Waste Management Scandal



- However, when Waste Management Inc. engaged a new chief executive in 1997, he managed to unravel the company's pre-tax earnings were overstated by approximately US\$1.7 billion between 1992 and 1998.
- Waste Management's issues originate from the group's revenues not expanding as quickly as they would want and the fact that management's remuneration is related to the company's profitability. This puts the company's management in jeopardy if they do not meet their earnings targets.
- Therefore, they began to participate in fraudulent activities involving accounting books for the business.

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Fraudulent Activities



- Reduce depreciation costs by inflating the salvage value or residual value of assets (assigning salvage value to assets that previously did not have any salvage value) and increasing the useful life of garbage trucks owned by the company;
- Not to impair the costs of ineffective and abandoned landfill development projects
- Capitalizing several costs especially interest expenses improperly
- Essentially, one of the factors contributing to the company's rapid growth is its "conservative" approach to asset amortization, which blurs the line between capital assets and expenses to generate virtual assets and false income, thereby increasing the company's surplus without changing its liabilities.



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Didn't the Auditor Notice?



- Waste Management Inc. was audited by Arthur Andersen, among the Big Five companies.
- Arthur Andersen detected errors in its accounting records and proposed amendments and strategies to address them.
- However, the officers of Waste Management, Inc. declined to accept the adjustments recommended by Arthur Andersen.



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When The Big Five Accounting Firms Became The Big Four



- As part of their bribery scheme, the stakeholders informed Arthur Andersen that they would receive additional fees upon completion of the audit work.
- Eventually, Arthur Andersen provided unqualified audit opinion in the Waste Management Inc.'s audit report and, over time, concealed accounting irregularities to hide the fraud.
- Waste Management Inc. was not only engaging in accounting fraud, but they were also engaging in unlawful activity by bribing Arthur Andersen, which was a violation of the law.



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Waste Management Scandal



- Waste Management Inc. continues to operate after the accounting scandal, they were able to get back to success after the company received a new CEO by buying new technology, keeping up with safety standards and operating practices that helped the business to get back on its feet and have a fresh start.
- But many of the workers involved in the scandal were unable to return to the business world. Many of them have also been fined for their offences.
- Perhaps it was this painful experience that led Arthur Andersen to take the plunge and destroy the audit files on the eve of the Enron revelations, ultimately bringing the firm's 89-year "glorious history" to a close with an "obstruction of justice" charge.



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垃圾中的黄金 – 废物管理公司



- 废物管理公司是世界上最大的废物处理公司，由狄恩·班特若克 (Dean L. Buntrock) 和韦恩·休真格 (Wayne Huizenga) 于1968年创立，1971年在纽约证券交易所上市。



- 在20世纪7、80年代，该公司是世界上最大的废物处理公司，它是华尔街上最耀眼的明星股。
- 公司的收入从1971年的1600万美元增加到1991年的7500万美元，平均每年收入和净收入增长率都达到36%。

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几年后看起来更像是垃圾 – 废物管理公司



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废物管理公司



- 据估计，2019年全球废物管理行业的价值超过两万亿美元，并且在未来几年可能继续快速发展。废物管理公司负责收集、运输、处理和处置废物材料。
- 在美国，处理垃圾的方法多种多样，包括回收、转化为能源和堆肥等等。
- 另一方面，垃圾填埋场 [Landfill] 仍然是美国最常见的废物处理技术。
- 2018年，垃圾填埋场接收了超过1.46亿公吨的城市固体废物 (MSW) [指人们在生产建设、日常生活中产生的、对产生者来说是不能用或暂时不能用、抛弃后会污染环境的废弃物质]，占有 MSW 处置的一半以上。

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废物管理公司



- 废物管理公司，是一家提供废物管理、综合废物管理和环境服务的北美公司。
- 346个转运站、293个活跃的垃圾填埋场 [Landfill]、146个回收厂、111个用于有益用途的垃圾填埋气设施和6个独立发电厂是该组织基础设施的一部分。
- 废物管理公司为美国、加拿大和波多黎各的约2100万客户提供环境服务，包括私人、制造业、政府和商业企业。

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2家最大的废物管理公司



2019	废物管理公司	威立雅环境服务
公司的收入 (单位: '000 美元)	15,455	12,505
公司的综合收入总额 (单位: '000 美元)	1,749	328
公司的总资产 (单位: '000 美元)	27,743	18,867

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废物管理公司



- 然而，1997年，当废物管理公司任命了一位新的首席执行官时，他解开了公司在1992-1998年之间，虚报了大约17亿美元的税前收益的丑闻。
- 废物管理公司的问题源自于集团的收入并没有如他们想象中那样地快速增长，再加上管理层的薪酬与公司的利润有关。
- 如果不努力实现其目标收益，这将使公司的高管面临风险。
- 因此，他们开始参与涉及企业会计的欺诈活动。



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废物管理公司



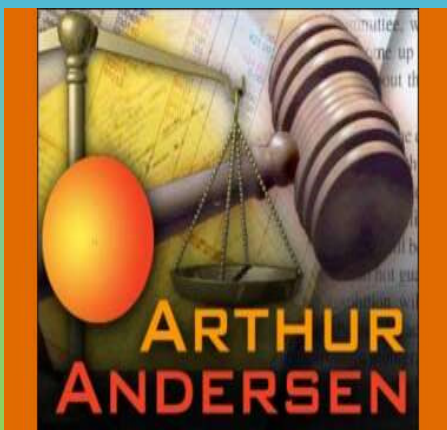
- 通过夸大资产的残值或剩余价值（给以前没有任何残值的资产分配残值）(Salvage value/Residual Value) 和增加公司所拥有的垃圾车的使用寿命来减少折旧费用。
- 没有对无效及废弃的垃圾填埋场开发项目的成本，进行资产减值损失 (asset impairment loss)。
- 不恰当的资本化利息费用累计已经高达1.5亿美元
- 基本上，该公司快速成长的法宝之一是在资产摊销上的“保守”，模糊资本性资产和费用性支出的界限，以制造虚拟资产及虚假收入从而达到增加企业的盈余至于负债没有出现任何变化的目的。

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什么时候五大会计师事务所变成四大



- 作为其贿赂计划的一部分，利益相关者通知安达信 [Arthur Andersen]，他们将在审计工作完成后收到额外的费用。



- 最终，安达信在废物管理公司的审计报告中提供了无保留的审计意见 [unqualified audit opinion]，并且随着时间的推移，隐瞒了会计违规行为以掩盖欺诈行为。
- 废物管理公司不仅从事会计欺诈，而且他们还通过贿赂安达信公司从事非法活动，这在是违反法律的。

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什么时候五大会计师事务所变成四大



- 废物管理公司在会计丑闻后继续运营，他们在公司获得新的首席执行官后，通过购买新技术、跟上安全标准和操作规范，帮助企业重新站起来，有了一个新的开始，从而重获成功。
- 但许多卷入丑闻的工人无法回到商业世界，许多人还因其罪行而被罚款。
- 或许是由于这个“惨重教训”的缘故，安达信才会在安然事件曝光前夕，孤注一掷，销毁审计档案，并最终因“妨碍司法罪”终结了自己89年的“光辉历史”。
- 安然丑闻案曝光于2001年10月，导致一度贵为全球五大审计会计事务所之一的安达信会计师事务所解体。

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