

# Lessons from Diebold case

BY

Ramki

Jun 10

# Background

- Diebold is the famous ATM maker from USA
- It has paid \$25m to SEC to settle accounting fraud charges
- This company was also linked to alleged voting irregularities in 2004 Presidential election

# The case

- Several top executives created false transactions from 2002 to 2007 to boost sales and profits .
  - misstating earnings by \$127M

# The details

- The executives traded near-daily reports comparing company earnings to expectations of Wall street analysts and came up with 'opportunity lists' of often-fraudulent transactions to bridge the gap between actual and expected earnings.
- Schemes included
  - fraudulent use of bill-and-hold accounting,
  - improper recognition of lease-agreement revenue ,
  - manipulating reserves and accruals ,
  - fraudulently delaying and capitalising expenses and
  - improperly writing up value of used inventory.
    - between 2002 to 2007.

# What people say

- SEC director Robert Khuzami said:
  - " Diebold's financial executives borrowed from many different chapters of the deceptive accounting play book to fraudulently boost the company's bottom line."

# The guys behind

- SEC has charged former finance executives with fraud. Former controller Gregory Geswein, former deputy of corporate accounting Sandra Miller and CFO Kevin Krakora are charged
- Kevin Krakora CFO has resigned

Did the top guys know?

- CEO Walden O'Dell agreed to give back \$470k cash bonus, \$1 M in stock and 85k options.
- As in any settlement he has not accepted the charge

# What next?

**SEC seeks monetary penalties against the execs  
and disgorgement of ill-gotten gains.  
It also seeks director bars against Geswein and  
Krakora.**

# Lessons for us

- Revenue recognition is a BIG risk area
- Wall street expectations are behind many frauds
- Remember Roach theory- if there is one fraud , there will be many
- Greed is the cause of all frauds!
- According to recent survey of Certified fraud examiners , organisations around the world lose around 5% of annual revenues to fraud.
  - **That translates to \$2.9 T across the world!**
- **SO BE AWARE THAT FRAUD COULD BE VERY NEAR YOU!**

## Sources

- Washington Post
- NY times
- CFO.com