

Accounting control fraud: Not just "Mitch and Murray," but "Blake," too

Submitted by lambert on Sat, 02/16/2013 - 12:03am

"[BLAKE:] I'm here from downtown. I'm here from Mitch and Murray. ... 'Cause only one thing counts in this world: get them to sign on the line which is dotted. ... They're sitting out there waiting to give you their money. Are you gonna take it?" ^[1]* -- David Mamet, *Glengarry Glen Ross*

Yves buries this idea ^[2] but I think it's important:

[P]roducer level employees (heads of profit centers) at all save well run firms (that list probably stops at Goldman**) are seeking to maximize their returns, and that often includes gaming the firm's systems and pay policies. This is why Bill Black's accounting control fraud idea is inadequate when dealing with a financial firm that has large trading operations. The looting occurs not just at the executive level, but also at the profit center level. Hence the expression, "IBG, YBG" for "I'll be gone, you'll be gone." That refers to the widespread practice of doing business or putting on trades that show profits this year but have good odds of blowing up down the road.

Meaning: The rot in the financial system isn't *only* at the executive level*, with Mitch and Murray. It's not *only* downtown.

It's also at the profit centers, and all down the line, wherever the Blakes of this world are making their motivational speeches:

"[BLAKE:] These are the new leads. These are the Glengarry leads. And to you they're gold, and you don't get them. Why? Because to give them to you is just throwing them away. They're for closers. "

And of course, speeches like this were being made in mortgage origination operations all over the country.

By definition, accounting control fraud is perpetrated at the executive level, by those who control the accounting systems ("The best way to rob a bank is to own one.") A more complex model may be needed, since the profit centers have relative autonomy, and are fully capable of perpetrating frauds on their own.*

NOTE * I realize that "executives" is a fluid term, and could apply to the "heads of profit centers."

But that would make "accounting control fraud" a sort of fractal structure -- the same shape at all levels -- and if such a metaphor has been used in the accounting control fraud discussion so far, I haven't heard it.



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