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How Scandals Affect Our Society and the Role of Government: Bernard Madoff's Ponzi Scheme

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Abstract- The amount that investors usually receive after discovering the crime is only a small fraction of their investments. Unfortunately, the investors put their trust on companies and believe they can generate high returns claiming that the investment is safe and guaranteed. Many of the investors lack the knowledge and experience about these activities and most of them are senior citizens who dream that they can wisely invest their pensions and receive the highest return. Although the high return is linked to high risk, those people only focus on the dream of being wealthy in a short period of time. As a result, crimes occur and unethical people work hard to steal others who may not have another source of money.

Introduction

Even though government should play an important part to regulate companies and save investors, we have to be careful of selfish people who only think about their own interests and act unethically with greed to cheat us. The case will be worse if the government agencies did not intervene to stop wrong activities that may destroy our lives. Some people lost their jobs and houses while others committed a suicide because they put everything they have in fake businesses and just received some pennies on their investments.

Negative Consequences of the Crimes

There are a lot of negative amplifications that crimes cause to our future. For example, we will pay higher taxes for many years for a crime happened long time ago just because the money went to the pocket of bad people. If the government did not have a responsive or proactive role, people will lose faith in the legal system. Moreover, they will feel depressed to pay more money from their own pocket instead of catching those who stole the money or used their positions in the wrong manner. It is not only that middle-class people will be poorer but unethical people will continue acting this way. They will benefit from the opportunities they have since the government is not taking the right action to stop them earlier and punish them for their immoral behaviors. The overall consequences will affect the whole country because our economy will be badly affected. It is important to make sure that our money will be used efficiently to ensure we live better and to enhance prosperity in the country through development projects and improvement plans.

The Story of Madoff Scandal

Madoff investment scandal is considered as the greatest Ponzi scheme in history. One important point to include is that Bernard Madoff has a lot of knowledge that made it easy for him to deceive people and put a trust on him. Besides working as a stock broker and investment advisor, he was a former chairman of NASDAQ. As a result, it was not difficult for him to encourage people to bring their money looking for the high return as Mr. Madoff promised. Moreover, it is clear that many unethical behaviors have been raised in this scheme. This includes, but not limited to, breaking the laws and regulations, lack of integrity, lack of veracity, dishonesty, greed and disrespect for people. Mr. Madoff hid the information from his clients and was not transparent with them.

Although Bernard Madoff claimed that he was acting alone, prosecutors have found a lot of participants who supported him in this scheme. Mr. Madoff lied to his clients when he promised a high investment return which did not happen. With the support of many office workers, they used a software program that allowed them to manipulate the accounts of clients and issued false trading reports. The program showed a return for orders made by Mr. Madoff but they were only factual numbers (Hays and Sedensky, 2010).

In 1960, he established Wall Street firm Bernard L. Madoff Investment Securities LLC and became the CEO until his arrest on December, 2008. To facilitate his operations, he paid bribes and hired his family members in the company. For example, he hired his brother, Peter, as a Senior Managing Director and Chief Compliance Officer. Later on, he has received a sentence of 10 years in prison for his role in the fraud. Madoff's sons Andrew and Mark, who became directors of their father's London office, informed authorities about their father who told them that his operation is only a massive Ponzi scheme. Then, he was arrested and sentenced to 150 years in prison. On March 12, 2009, He "pled guilty to 11 federal felonies including money laundering, perjury, and wire fraud" and he said "I have left a legacy of shame" (Crime Museum). The persecutors estimated the total size of the fraud to be $ 64.8

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billion (Graybow, 2009). Two years after his father's arrest, Mark committed suicide in his apartment and Andrew passed away of lymphoma on September 3, 2014 (Gregorian, 2014). Ruth Madoff, Bernard's wife has not been charged with any crime related to the fraud of her husband.

Other Participants in the Scheme

Paul Konigsberg, an accountant and a good friend of Madoff, prepared tax returns for Madoff Family Foundation and Madoff's clients were directed to him to prepare the tax returns. "On April 20, 2009, Steven Leber filed a $4 million lawsuit against Konigsberg and his accounting firm for negligence, and breach of fiduciary duty" (PACER, 2009). Norman F. Levy, a real-estate mogul and philanthropist died in 2005, wan involved in international transfer of money and investigators believed he worked with Paul Konigsberg to move billions of dollars' worth of checks for Madoff (Franks, 2009). Frank DiPascali worked as director of trading securities and CFO at Madoff Securities, pleaded guilty to a variety of charges like securities fraud, perjury, income tax evasion and international money laundering. "He faces a maximum of 125 years in prison. Prosecutors are seeking more than $170 million in forfeiture, the same amount sought from Madoff, which represents about double the funds deposited by investors and later disbursed to other investors" (Bray and Lauricella, 2009).

Additionally, there are five backroom employees who pleaded guilty to fraud securities and were sentenced between 2 ½ and 10 years in prison. First, Annette Bongiorno who worked as a personal secretary for Madoff, was sentenced to 6 years in prison for her involvement in the Madoff scandal (Calder, 2014). The second employee, Daniel Bonventre, worked as company director of operations and as an accountant for Madoff since the establishment of the company. He was charged with false records, conspiracy, tax avoidance and other related crimes and was sentenced to 10 years in prison for his participation in the fraud (Larson, 2014). Third, Joann Crupi, a former investment advisor to Madoff was sentenced to 6 years in prison for his role in the scheme. The last two employees, George Perez and Jerome O'Hara, are former computer programmers of Madoff and both were sentenced 2 ½ years for their involvement in the scam (McCoy, 2014 & Raymond, 2014).

The Clients of Madoff

The number of Madoff's clients exceeded 4,800 which include corporations, business people and small investors. According to The Wall Street Journal, the largest eight investors encountered a loss of more than $ 21.32 billion. The largest stake holders include Fairfield Greenwich Group, $7.50 billion; Tremont Capital Management, $ 3.30 billion; Banco Santander, $2.87 billion; Bank Medici, $2.10 billion; Ascot Partners, $1.80 billion; Access International Advisors, $1.40 billion, Fortis, $1.35 billion; and HSBC, $1 billion (Madoff's Victims, 2009). In addition, universities, charity foundations and other non for profit organizations were badly affected and some projects were stopped due to the fraud. For example, Jeanne Levy-Church losses forced her to shut down both her foundation, JEHT, and that of her parents, the Betty and Norman F. Levy Foundation with a loss of $ 244 million (Franks, 2009).

Madoff Scandal and Red Flags

Some of the red flags about Madoff operations were raised by a financial analyst and portfolio manager called Harry Markopolos. In 1999, Mr. Markopolos started to blow the whistle to the Securities and Exchange Commission (SEC) and he informed them that the promise of Mr. Madoff was not realistic and not logical. He concluded that it was mathematically impossible for Madoff to achieve the return he claimed because the numbers did not add up. However, Boston SEC ignored Markopolos in 2000 and 2001 when he was trying to discover the truth. Later on, Markopolos presented further evidence in 2005 and 2007 about Madoff fraud but he was ignored again by Meaghan Cheung at the New York SEC (CBS News, 2009). After that, he has published a book, No One Would Listen, to be an evidence of Madoff fraud, verifying that government and press have not acted properly to manage the situation.

Conclusion

Summing up, I believe that clients were also one part of this scheme due to the over trust. They were looking for high return but they forgot the high risk associated with it. Before deciding to invest, we need to be careful, get information about the investment and continue monitoring it over the time. At last, Would Madoff fraud have occurred if SEC listened to whistle blowers like Markopolos?!

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