

Beal College

Course: Business Ethics

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Week #2 Case Study – HealthSouth: The Rise and Fall of the Scruschy Empire

Question #1

Richard Scruschy defense team blamed the fraud on the five CFO's that testified against Scruschy. The problem was they all pled guilty to the charges of fraud and the government couldn't prove without a reasonable doubt that Scruschy was involved in the fraud. Scruschy's lead attorney, Jim Parkman, stated "that there was not a single piece of evidence that linked Scruschy to the fraud." Jury member stated the government did not do a good job presenting evidence that was beyond a reasonable doubt that Scruschy was guilty. They also had credibility issues with some of its star witnesses. Jury one, Christopher Cooper, didn't believe CFO Owens's statement about Scruschy's involvement in the fraud after it was disclosed that Owens was late filing his tax returns and lied about a HealthSouth loan of more than \$1 million. Just a lot of question and doubt in the juries minds regarding evidence against Scruschy.

Question #2

Former HealthSouth Chief Financial Officer **Aaron Beam** was charged with, and pleaded guilty to bank fraud for making false representations to HealthSouth's lenders. Treasurer **Malcolm McVay** and former HealthSouth CFO **Michael Martin** have pleaded guilty to conspiracy to commit wire and securities fraud, and filing false information with the SEC. Five HealthSouth officers were also charged and pleaded guilty in connection with accounting fraud, including Chief Information Officer **Kenneth Livesay**. Vice President of Finance **Emery Harris** had previously pleaded guilty to accounting fraud charges, as had CFO **William Owens** and former CFO **Weston Smith**. (documents.uow.edu, n.d)

The impact this had on the company was huge. HealthSouth's loss of \$446 million resulted largely from the settlement of lawsuits related to the accounting fraud. The loss was \$271.5 million higher than the \$174.5 million loss in 2004. The loss in 2005 included a reserve of \$215 million to be paid for federal and state lawsuits. This was in addition to the \$230 million that HealthSouth insurers agreed to pay to settle \$445 million in lawsuits in Feb. 2006. HealthSouth agreed to pay the \$3 million in fines to avoid criminal prosecution for its actions that occurred during the accounting fraud. HealthSouth's stocks plummeted and they was delisted from the exchange for 3 1/2 years after the company struggled through resolving the issues of the fraud.

Question #3

I feel the Scrusby was very well aware of the fraud and was the driving force behind it, especially after finding out he was found guilty of bribing Governor Siegelman of Alabama. Scrusby may not have been the one that made the decisions within the company, that is all on the CFO's. That is why they all pled guilty, but I do believe he was in that meeting with them all making it very clear to them what he wanted to happen and that he didn't care how it was done.

I just find it very hard to believe that the CFO's would be able to pull this type of fraud off without the CEO knowing. I mean the benefit that they all took part in; you would think someone would have to see the error. Scrusby's lifestyle was very elaborate, he wasn't willing to give that up for anything, I go back to my previous statement, knowing he was found guilty of bribing the governor. He would have stopped at nothing.

Reference:

Understanding Business Ethics, Peter A. Stanwick & Sara D. Stanwich

(https://documents.uow.edu.au/~bmartin/dissent/documents/health/healthsouth_staff.html#:~:text=Five%20HealthSouth%20officers%20were%20also, n.d.)