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GRETCHEN MORGENSON

The Scandal That Refuses To Go Away

COMPUTER ASSOCIATES, embroiled in one of the nation's longest-running accounting fraud investigations, announced on Friday that Sanjay Kumar, its chief software architect and former chief executive, was finally making his exit.

In a blinding glimpse of the obvious, Mr. Kumar, who clung to the company even as investigators from the Justice Department and the Securities and Exchange Commission inched closer, said: "It has become increasingly clear to me in the past few days that my continued role at C.A. is not helping the company's efforts to move forward."

Is the company really trying to move forward? Mr. Kumar's defenestration is only the last in a line of disappointingly incremental moves by **Computer Associates International** to clean house. The company does not seem to understand that such big problems — a recent $2.2 billion restatement of sales booked during 1999 and 2000 and a federal investigation that has produced four guilty pleas among former managers, including a chief financial officer — require decisive and comprehensive action.

Associated Press

Lewis S. Ranieri

Lewis S. Ranieri, a Computer Associates director since 2001 and former Wall Streeter, is running the company now. It is something of a mystery why Mr. Ranieri, known as an aggressive trader in his years at Salomon Brothers, has not acted more boldly to set the company on a fresh course.

An especially odd move was the company's ludicrously lowball, $10 million offer to the United States government to make the twin investigations go away. The offer, described as "initial," was disclosed in a company filing last month.

The $10 million offer matches what Computer Associates paid two years ago to Sam Wyly, a dissident shareholder, to get him to pipe down. Mr. Wyly, a Texas investor, accepted the money and dropped a challenge he had made to elect five new members to the Computer Associates board.

Maybe the company figured that what worked with Mr. Wyly could work with Uncle Sam. But offering the same amount to the government investigating allegations of accounting fraud seems wildly inappropriate, to put it mildly.

An even larger question is this: What's up with the notion of offering $10 million of shareholders'

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INSIDE

Lockboxes, Iraqi Loot And a Trail To the Fed

How Regulators Traced a Hoard Of U.S. Cash

Maj. Rodney King with some of the millions in cash that American troops found during raids in Iraq in April 2003.

Polaris

By TIMOTHY L. O'BRIEN

WHEN a United States Army sergeant broke through a false wall in a small building in Baghdad on a Friday afternoon a little over a year ago, he discovered more than three dozen sealed boxes containing about $160 million in neatly bundled $100 bills.

Later that day, soldiers found more cash in other hideaways near the Tigris River, in an exclusive neighborhood that elite members of Saddam Hussein's government once called home. By the end of the evening, they had amassed 164 metal boxes, all riveted shut, that held about $650 million in shrink-wrapped greenbacks.

The cash was so heavy, and so valuable, that the Army needed a C-130 Hercules cargo plane to airlift it to a secure location.

Just two days later, on Sunday, April 20, 2003, Thomas C. Baxter, head of the legal unit of the Federal Reserve Bank of New York, read a brief news account of the discovery. Most of the money that turned up in Baghdad was new, bore sequential serial numbers and was stored with documents indicating that it had once been held in Iraq's central bank. One fact particularly bothered Mr. Baxter: the money had markings from three Fed banks, including his own in New York.

Iraq, of course, had been subject to more than a decade of trade sanctions by the United States and the United Nations, so large piles of dollars, especially new bills, were not supposed to have found their way to Baghdad.

"How could that happen?" Mr. Baxter thought to himself, as he recalled later in Senate testimony. "Not only with U.S. sanctions, but with U.N. sanctions. How could that happen?"

Mr. Baxter and the New York Fed, along with the Treasury Department and the Customs Service, immediately began an investigation into Baghdad's currency stockpile. The continuing inquiry offers a rudimentary road map of illicit dealings — including lucrative oil smuggling — in Iraq and neighboring countries during the Hussein years, the federal authorities say.

The investigation led quickly to the vaults of four

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Defending a Colossal Flop, in His Own Way

By ANDREW ROSS SORKIN

SITTING on the witness stand in a tiny courtroom in northern Connecticut last week, Theodore J. Forstmann looked every bit the Wall Street Master of the Universe that he is. He just didn't sound like one.

"What is a junk bond?" a lawyer inquired.

"You're really asking the wrong person," Mr. Forstmann replied.

Indeed, the usually loquacious Mr. Forstmann, who made billions of dollars for investors by betting on buyouts like Gulfstream Aerospace, Dr Pepper and General Instrument in the 1980's and 90's, appeared visibly frustrated and at times incapable of answering the most basic questions about his business.

"Frankly, this is kind of over my head," he told the courtroom at one point, when asked a question related to the structure of one of his deals.

"I cannot answer that to your satisfaction," he responded to another question, wearing a pained look on his face. "Can I get some water?"

Mr. Forstmann was in court to explain his biggest flop: how he managed to lose $2 billion of his investors' money gambling on two upstart telecommunications companies, XO Communications and McLeodUSA, just before the entire industry collapsed in 2001.

In an unprecedented case that, if successful, could potentially cripple Mr. Forstmann's business and expose legions of other private equity firms to debilitating lawsuits from their own investors, Connecticut's attorney general and state treasurer have sued him and his firm, **Forstmann Little** & Company, contending that they invested improperly and lost $125 million of the state's pension fund money.

Bloomberg News

Theodore J. Forstmann, right, with his lawyer, Fred Bartlit, is being sued over failed investments.

The state has accused the firm of a bait-and-switch scheme: luring the state's pensions to invest with the fund on the promise of a conservative investment strategy and then pursuing highly speculative deals.

"This case is not about simply a failed investment," Gerald J. Fields, the lead lawyer for Connecticut, said in State Superior Court in Rockville, Conn., a hamlet about 130 miles northeast of Manhattan, during his opening statement, accusing Forstmann Little of breach of contract and fiduciary duty. "The firm invested in two high-risk ventures that Connecticut had not bargained for."

Forstmann Little's lawyer, Fred Bartlit, who represented the Bush campaign in the 2000 Florida recount, said the case was without merit. Mr. Bartlit, a commanding figure with a booming voice, argued in the court that the deals were explicitly permitted under the agreement signed by Connecticut. He said the state was now simply engaged in Monday-morning quarterbacking, trying "to rewrite the contract in court."

Indeed, he pointed out that Connecticut never complained about the investments in question — which were all disclosed to the state before they were made and initially rose in value — until they began to lose money. He

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