

Alleged fund fraud leads to charges

6 ex-Putnam Fiduciary Trust execs accused

By Edward Iwata
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Six former executives of Putnam Fiduciary Trust have been charged with scheming to defraud corporate client Cardinal Health and a group of Putnam mutual funds of \$4 million, the Securities and Exchange Commission said Tuesday.

The SEC civil complaint, filed Friday in U.S. District Court in Boston, accuses the executives of hiding a 2001 trading error that caused Cardinal Health's employee retirement assets — invested in several Putnam mutual funds — to miss out on \$4 million in stock market gains. Putnam Fiduciary is the transfer agent for Putnam Investments, a large mutual fund company.

The complaint charges former senior managing director Karnig Durgarian; former vice president Ronald Hogan; and former managing directors Donald McCracken, Virginia Papa, Sandra Childs and Kevin Crain.

At least four of them plan to fight the charges, their attorneys said.

According to the SEC complaint, Cardinal Health transferred an undisclosed amount of retirement plan assets to Putnam on Jan. 2, 2001, to invest in Putnam mutual funds.

But for an unknown reason, the assets were not invested until the next day.

This one-day delay caused the retirement plan to be "deprived of nearly \$4 million in market appreciation," the complaint reads.

The SEC alleges that the defendants used "deception, illegal trade reversals and accounting machinations" to shift \$3 million of the losses to shareholders of other Putnam mutual funds.

The defendants also "improperly allowed Cardinal Health's (retirement) plan to bear approximately \$1 million of the loss without disclosing to Cardinal Health that they had done so," the SEC alleges.

The conduct was discovered last January, the SEC said.

SEC officials decided not to charge Putnam because the company has cooperated fully with the investigation, according to David Bergers, an SEC enforcement official in Boston.

Putnam made full restitution of the \$4 million, fired or disciplined employees involved and strengthened the company's financial oversight and compliance "to make sure a situation like this could not happen again," Putnam Investments CEO Ed Haldeman said.

Attorney Anthony Mirenda, who represents Crain, said in a statement, "Mr. Crain will fight this to clear his name because he did not participate in any fraud."

Crain "proactively brought this situation to the attention of internal auditors and has cooperated in the government's investigation throughout," Mirenda said.

The accounting transactions used to correct the errors were approved by higher-ups and were "the normal safeguards and internal controls at Putnam at the time," Mirenda said.

The Associated Press reported attorneys for Durgarian, Hogan and Papa also said their clients would contest the charges.