

1960

Defalcation

Edward C. Davis

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Federal Welfare and Pension Plans Disclosure Act was, of course, to assist participants and other interested parties to appraise the effectiveness of the plans and actions taken under the plans. It is also hoped that this public appraisal will deter dishonesty and mismanagement where it occurs. We should not forget that the public accountant may benefit in yet other ways.

The publication of the Act assists our profession in making inroads into what has generally been an undeveloped area. We have, of course, been performing examinations of some plans for a number of years, but it has been my impression that audits have been performed in the minority of pension plans and audits of unfunded plans have been performed in very few instances.

The mandatory publication of plan information strongly influences the client in his consideration of the public relations benefits of independent examinations.

In some cases, the cost of performing annual examinations of all plans relating to a particular employer may be too high for the company to justify. In those cases we should explore the possibility of examining plans on a cycle basis or, alternatively, every two or three years.

In those cases where the single employer of a plan is our client, benefits other than the results of the examination of the plan itself may accrue. We may discover cost savings which may be made both

The confirmation letter said . . .

by EDWARD C. DAVIS
New York

DURING THE VISIT OF OUR REPRESENTATIVES to the branch accounting office of X Credit Company for the regular June, 1960 semi-annual audit, and as a result of follow-up work under our confirmation of receivables, Stephen Raftery uncovered an instance of fraud. The culprit was a contractor who had financed a property improvement plan loan with the New England branch of this company.

During our confirmation work a reply was received disclaiming any account with the finance company. The customer stated, "There must be some mistake. I have never had any dealings with X Credit Company, and do not owe them any money." The reply was given to the

in the administration of the fund and in the work performed by the employer's personnel in furnishing information for the plan. This discovery may be more likely where the plan is self-administered by the employer-client. We may also find methods of improving controls relating to the furnishing of such information which would not be disclosed in our normal examination of the financial statements of the employer.

We, as a profession, should look upon the enactment of this Act, not just as an additional regulation, but as another opportunity to show the value of a qualified professional certified public accountant's independent look at financial operations.

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"There must be some mistake!"

branch office to investigate. Mr. Raftery did not feel satisfied with the possible reasons offered as to why the customer disclaimed the account, and sent out a second request.

This second request was returned to us via "Certified Mail—return receipt requested" during the time we were completing our preliminary work. This reply also disclaimed any borrowings and stated that the writer had never heard of X Credit Company until he received our confirmation request.

When Mr. Raftery arrived at the credit company's branch office for the audit work in July, they gave him a letter—supposedly from the

customer—acknowledging the account, stating that he was under the impression the financing was with a savings bank.

At this time, to see if the customer was aware of the current balance, a third confirmation was mailed. This was received once again disclaiming an account. Mr. Raftery then noticed the difference in handwriting between the confirmation requests and the letter sent by the branch acknowledging the account. A check of the actual note signed by the customer indicated some resemblance to the handwriting on the acknowledgement letter. The file was then turned over to the credit company's branch office auditor, who sent it to his supervisor at the home office for investigation. For control purposes, the supervisor took photostats of all records and then turned the file over to the operating department for investigation on July 18, 1960.

The investigation showed that the note was a forgery. A Mr. X had forged his father-in-law's and mother-in-law's signatures and had received \$2,570. As a result of our request, the branch had already discovered the fraud and had secured a confession. They also obtained a \$1,000 repayment plus the second regular monthly payment of \$57.82 which was applied to the loan on June 17, 1960. But because of two violations of company procedures, the branch had not reported the fraud to the operating division.

1 — All loans over \$1,500 are supposed to be approved by the supervising office. This loan was never submitted for approval.

2 — The first five deals purchased from a contractor are supposed to be physically inspected to check the work. Instead the branch made a telephone check of the work. The call was interrupted by Mr. X who naturally assured the branch the work was all right. Mr. X also intercepted the usual acknowledgement letter which showed the credit company as a return address. But, since our confirmation letters are mailed in a plain envelope bearing only a post office box number as a return address, with no name, Mr. X did not realize these letters concerned the loan. His father-in-law received all three.

Not being satisfied that this is the only instance of fraud and breakdown in company procedures at the branch, the credit company is continuing to investigate. As of last October there is no new information.

Two audit points are illustrated in this situation — 1) wherever possible we should use mailing envelopes without our name on the corner card and 2) when subsequent correspondence is received from a client's customer we should make certain that signatures are the same.