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Company owes the crook money!

Kurt L. Pauly

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Something new in defalcations –

The company owes

A MOST UNUSUAL IRREGULARITY came to light during a recent audit of a finance company. It was discovered through the perseverance of Kurt Pauly of our New York Office, the staff man assigned to make the test of payroll transactions. These tests are conducted at the home office of the company, a thousand miles from the branch where the irregularity occurred.

The company involved has a central payroll operation based on signed attendance and other reports from the branches. Because of the high degree of internal control, our semi-annual payroll tests are limited to one pay period and are made in 5% of the total branches and departments.

In checking the attendance sheet, Kurt Pauly found the signature of a person at one branch whose name did not appear on the payroll register. (This test is not made by the company–the attendance sheets are only checked for overtime work.) On inquiring, Mr. Pauly was informed that the person was undoubtedly a temporary employee and therefore would be paid out of petty cash by the branch manager.

To check this explanation, Mr. Pauly examined the petty cash vouchers, but these failed to disclose such payment. He then extended his examination to attendance sheets and payroll registers of the particular branch for several months prior and subsequent to the test period. The same situation was found in all instances. Dissatisfied with his findings, Mr. Pauly discussed the matter with the senior, Jack

BORN IN AACHEN, GERMANY Kurt L. Pauly is a graduate of the University of Pennsylvania and joined our firm in 1958. He was previously employed as a junior accountant by Socony-Mobil Oil Research and Development Laboratories.

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Gordon, and they decided to turn the matter over to the client's division office for further investigation.

This investigation ultimately disclosed that the employee had been hired temporarily at first, then changed to a permanent basis. The manager, however, had declined to change the employee's status because, as he explained at the time, the employee might soon resign for personal reasons. This, however, did not occur and the employee stayed on at the branch.

Further investigation disclosed that the manager had actually been paying the employee out of his personal funds. After his bank account was exhausted he began to divert company cash receipts, using a lapping procedure to cover his misappropriations. The manager was discharged immediately but the employee remained with the company for several weeks after the discovery of the irregularity.

Now for the surprise ending: A complete check of the branch by the division office disclosed that on balance the company owed the discharged manager about $700 – the excess of his payments for work done for the company's benefit over the cash receipts he had diverted. No attempt was made by the company to ascertain the manager's motives.

Nevertheless, had this irregularity not been discovered, the manager would undoubtedly have continued lapping receipts and eventually a substantial shortage would have resulted.