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When Elmer ran the show

by Howard P. Maloney
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THE CREDIT UNION OFFICIAL SQUIRMED UNCOMFORTABLY and with evident chagrin muttered "Well, we just let Elmer run the whole show."

Elmer ran the whole show all right–but a few of the featured acts never appeared in the program. For instance, Elmer had very definite ideas about who were playing the clowns in his production and most of his efforts were to prevent his cast from finding out their assignment. Elmer was pretty successful in this regard, too, since he kept his show running for approximately five years while he snared some $65,000 of the members' savings. Elmer was helped a little bit by the aversion of the membership to spending money unnecessarily for auditing. After all, the members reasoned, the State Department of Finance auditor appeared one afternoon a year, "checked things over" for a modest fee, and gave his annual blessing. Then, too, the Supervisory Committee did some auditing each year–and after all this is the era of "do-it-yourself." Elmer had a "magic act" too that helped him get by these auditing sessions–he could always produce an adding machine tape that listed all of the members' share and loan accounts (which he kept in substantial accuracy) but Elmer's magic made the tape show a total agreeing with ledger controls rather than the total of all amounts shown thereon. None of Elmer's audience were ever skeptical enough to suggest footing the tape themselves–so even though doctoring an adding machine tape is not very original, Elmer made it work every time.

"We countersigned those blank checks in advance because Elmer didn't want to run all over the plant looking for us every time someone wanted a few dollars."

Well, Elmer put on a pretty good running act in his show–right to the most convenient bank to cash all those checks he made payable to himself–and not for a few dollars. Elmer didn't want to clutter up the books a lot with his own name as payee for these too frequent disbursements, so as an encore in his second-rate magic act he didn't bother to enter these "personal-purpose" checks but raised the amounts of legitimate checks enough to balance the checking account. Elmer did his own bank reconciliations, too, so none of his seemingly enchanted audience ever had the opportunity to question him concerning the discrepancies between amounts for which checks were entered and the amounts for which the checks were actually drawn.

"Elmer was a good organizer and persuaded a lot of members to join and deposit money with us" glowed our Credit Union friend.

Elmer was real eager, for deposits–cash deposits–conserved his supply of pre-signed checks. Elmer always gave his depositors a signed receipt–not pre-numbered, you understand, and he filed them very carefully in an old Kleenex box. Elmer wasn't nearly as careful with the cash itself–most of the time it seemed to get mixed up in his wallet and never made it to the bank for deposit. Elmer credited the depositors' account all right–after all he could always fall back on the adding machine trick–and general ledger controls had ceased to exist a long time ago. Some of the depositors were uncooperative enough to give checks for deposit, so Elmer, although forced to make the bank deposit, ingeniously credited one of the larger ones ($2,000) to his own account.

"He did a good job on delinquent loans" defensively stated the Credit Union officer, "he was really rough with co-signers and made them pay up."

Elmer, of course, was the most delinquent borrower of all, but he never applied any of these collection efforts to himself. As with most practicing embezzlers, his early withholdings were moderate unauthorized loans which he probably intended to repay, but the snowball was accumulating to the avalanche stage of the later years and the loan didn't bear interest anyway.

Elmer's ingenuity in spending other people's money extended from down-payments on automobiles to payment for uniforms for an after-hours public affairs activity. After his apprehension he admitted his tastes ran to credit cards, Bahamas vacations, home swimming pools and creating good impressions by picking up tabs for a free-spending group with whom he associated.

The curtain fell on Elmer's tent show when a state examiner uncovered in the debris of Elmer's filing system a packet of cancelled checks made payable to Elmer (of all people!). Checking the footing of Elmer's trial balance tape followed. When a hurried conference of the supervisory committee was held and Elmer's ad-libs weren't very convincing, an independent audit suddenly became a necessity rather than a luxury.

Our examination covered the five years of Elmer's regime and consisted primarily of vouching the recorded cash transactions, which disclosed the existence of a considerable amount of non-recorded transactions. Confirmation of all share and loan accounts of members was made on a positive basis. Except for Elmer's tendency to pile rather than file, supporting records were found to be available to account for specific transactions involving over $55,000 of the total loss. The remaining $10,000 was believed to result from the withholding of individual small cash payments and the accumulation of bookkeeping errors. A claim for the full loss was made with the bonding company, whose field examiner reviewed the organization's records and our audit papers and, after disallowance of two items aggregating approximately $900, honored and paid the claim.

In the past few months two other credit unions in the St. Louis area have suffered substantial losses from defalcations. Elmer's production (although not intended as a morality play) should convince us that all audit programs should include an inquiry into auxiliary activities sponsored by our clients for the benefit of employees and the frequency and effectiveness of audit thereof. Such a relationship may be maintained on a distant basis as a matter of client policy, but should difficulty arise, the association becomes very close. By requesting the opportunity of audit of such activities when deemed necessary, we expand our service to the client and may prevent this type of situation in which Elmer's show became a sorry public spectacle.