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Apprehending the Wrongdoer

“CATCH that thief,” is a cry which one expects to hear issuing from the throats of a mob pursuing a common pick-pocket through the city streets. It might almost be adopted by public accountants as a slogan to guide them in their daily work.

Some sage has observed that facts are stubborn things. The facts with regard to embezzlements are that they are increasing alarmingly in number, amounts involved, and in the cleverness with which they are perpetrated. The causes underlying the increase might have certain interest to social reformers but no point in connection herewith. Business men, fidelity companies, and accountants are confronted rather with the effects.

Embezzlements in the United States now involve in the aggregate more than \$100,000,000 annually. The amount paid out by the fidelity insurance companies on embezzlement claims has increased 600% since 1910. The number of claims for losses through embezzlement increased 50% during the three years ended Decem-

ber 31, 1923. Embezzlement stands fourth in the classification of losses suffered by American business men.

Probably no one class of individuals has the opportunities for uncovering irregularities which are offered to public accountants. Perhaps from the point of view of reputation there is no line of work more hazardous. The popular conception of an accountant emphasizes his function as a detector of fiduciary shortcomings. The fact will generally be conceded that the true picture of the accountant's worth in the business world is distorted by this public conception. Errors of principle involving large amounts no doubt have been passed over many times without discovery. If the failure to discover them had become known it might not have resulted in criticism of the accountant. But a small shortage in cash is the occasion for reprehension entirely out of proportion to the importance involved.

As long as the public takes the attitude of expecting accountants to pass no short-ages accountants should make an earnest

effort to live up to what is expected of them. As long as embezzlements not only continue but increase at a rapid pace accountants must face the task of matching their brains against those who wilfully, or otherwise, are guilty of wrongdoing.

The problem of discovering irregularities is not as easy as it may sound. There is first to consider that lapses may fall in high places and low; that many employes who handle funds have had the confidence of their employers for years; that it is a serious matter to cast suspicion on a trusted employe. Strong-arm methods will not go. Tact in concentrated form is necessary.

On the other hand embezzlers are wont not only to cover their shortages but to use clever devices as well as deceit in throwing an investigator off any clues which he may have developed. Frequently only astuteness and unswerving perseverance, coupled with tact, will pierce the cloak of false representation. Generally these qualities are essential to successful apprehension.

But something further, namely, technical knowledge, is required to cope with stealing and manipulation of funds. Such technical knowledge must comprehend the typical and atypical ways in which funds may be diverted from their lawful uses; the manner in which irregularities may be covered; methods whereby they may be detected.

The increase in embezzlements is a challenge to accountants. The challenge may not be ignored without sacrifice of professional honor and standing. To accept it means greater diligence in acquiring technical knowledge; more energy in cultivating astuteness; unbounded tact in dealing with individuals who are presumed to have the confidence of their employers and to be innocent until proven guilty.

Apprehending wrongdoers is a duty which public policy and professional integrity impose on accountants. It is not a matter to be taken lightly. No more serious problem is to be found in the category of public practice.

Value of Unannounced Examinations

THE morning papers recently displayed on the front pages an account of a bank clerk who had in a brief space of time stolen over \$100,000 of the bank's funds. His job was to keep the depositors' ledger and charge against the individual credit balances checks which came back from the Clearing House after having been issued by the depositors.

His scheme of perpetrating the theft was to open accounts under fictitious names in other banks; issue forged checks against depositors' accounts in his own bank; deposit the checks in the fictitious-name accounts in the other banks; and when the checks came back through the Clearing House, his bank having been charged, tear them up. The money was then drawn out of the fictitious-name accounts. The

total of his individual ledger trial balance was reduced by him in the amount of the forged checks whenever he had occasion to report his balance to the general ledger bookkeeper. It thus appeared to be in agreement with the control. And everything apparently was well.

But one morning the young man failed to appear. Some of the forged checks came back and were detected as forgeries. The shortage was discovered. But it might have gone on for some time if illness or fear, or whatever it was that overtook the bank clerk, had not kept him away from his desk. Had he known of a forthcoming examination, with sufficient time he might have so adjusted his individual depositors' accounts that they would have produced a trial balance in perfect agreement.