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Another cash case

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during a month would involve only a negligible amount of work. The vice-president of one large institution wrote, in part, as follows: "In the old days of writing up the pass book, it would have been a real hardship on banks to take off statements at odd periods, but under the new machine bookkeeping methods, where statements are made up daily, it is simply a matter of sending the old statement out and forwarding the balance to a new statement." Some banks even welcomed the possibility of rendering statements more frequently as being a means of reducing the pressure of work at the end of the month.

The remainder of the banks canvassed stated that although a slight disturbance to their routine would result from requests for statements at odd dates, the additional work would not be objectionable. They expressed themselves as being entirely willing to suffer the inconvenience, in view of the advantages to be derived from unexpected cash verifications.

A number of the banks asked that requests on the part of auditors for statements at odd dates be made promptly. A request for a balancing as of the close of a certain day should reach the bank not later than early the following morning. A statement with cancelled checks as of a date some time previous would involve considerable labor and inconvenience. This, however, does not apply to certifications, which may be obtained at any time as of any date.

The banks were almost unanimous in expressing their willingness and desire to co-operate with public accountants in the discovery and elimination of irregularities. One bank wrote as follows: "Our desire would be to co-operate in every way with the accountants to assist and facilitate their audits. We heartily commend your efforts in the establishment of a Research Department with the object in view of making a systematic and exhaustive study of methods used to perpetrate and conceal embezzlements and for the purpose of detecting all forms of such irregularities."

Bankers will find many advantages in co-operating with accountants. They have not always been the party to lose least in cases involving defalcations. Their assistance in the matter at hand affords the auditor one of the best means of detecting a shortage where a guilty employe has not had an opportunity of covering.

Another Cash Case

AN extremely interesting case has just come to light involving an irregularity in cash. The interest lies chiefly in the boldness of the embezzler and the simplicity of the audit procedure which would have detected the defalcation.

The shortage occurred at the plant of a manufacturing company. The company in question maintained a general office in a large city, where the general books were kept. The plant, where the manufacturing operations were carried on, was located in a small town in another state.

The plant received money from sales, which it deposited in a local bank, subject only to checks drawn by the main office. The plant itself was supplied with working funds by means of an imprest fund of $7,500, reimbursed, when necessary, by checks sent from the general office. It was in connection with this fund that the irregularity occurred—an embezzlement of nearly $14,000 over a period of less than two years.

The imprest fund normally consisted of cash in hand, cash on deposit in a separate bank account operated as a part of the fund, and vouchers representing payments for expenses not yet reimbursed by the home office. At times there was the additional item of cash in transit, consisting of expense vouchers being remitted to the home office for reimbursement, or reimbursement checks being sent to the plant in return therefor.

The fund was under the exclusive control of the plant cashier. He prepared vouchers in support of payments from the fund and kept all records used in connection therewith. He signed checks drawn on the fund bank account and made the bank reconcilements.

The record kept at the plant was a petty cash book. This book contained debit and credit columns for each of the following items: total, cash in hand, cash in bank, vouchers paid, and cash in transit. The vouchers paid debit column was charged with disbursements made from the fund. Such entries involved credits either to cash in hand or to cash in bank. The vouchers paid credit column was used for recording the amount of vouchers sent to the home office for reimbursement. These remittances were charged to cash in transit. The columns headed cash in hand were used to record cash withdrawn from the fund bank account for current use, and disbursements thereof. The cash in bank columns reflected remittances received from the general office, and payments made by check. The columns for cash in transit constituted a record of the fund's transactions with the home office. Debits were made therein when vouchers were sent to the home office for reimbursement, and credits when the reimbursement checks were received.

The debits and credits in these four sets of columns were summarized in the total columns. The balance of the latter always showed the fixed amount of the fund—$7,500. The distribution of this amount, as among cash in the till, cash on deposit, vouchers not yet reimbursed, and vouchers or reimbursement checks in transit, could be ascertained at any time by finding the balance in each of the various columns, the sum of which should total $7,500.

Several methods were used by the cashier in the perpetration of the embezzlement. Approximately $11,000 of the shortage consisted of abstrations from cash in hand. These thefts were recorded in the petty cash book as deposits, by credits to cash in hand and debits to cash in bank. Although this procedure kept the petty cash book in balance, it rendered a reconcilement impossible between the balance shown in the bank columns of the petty cash book, and the bank account. This latter point was a small matter to the cashier, however, since he alone saw the periodical bank statements.

The cashier found another lucrative means of embezzlement in the improper withdrawal of funds on deposit. This he effected in two ways. He obtained unnumbered checks from a check book no longer in current use, which he drew in favor of himself and cashed, retaining the proceeds. Such checks were not entered in the petty cash book, and were destroyed after they were returned by the bank. He also procured funds on numbered checks drawn to himself, taken from the check book in current use. In the latter case, however, he fell under the necessity of accounting in the petty cash book for the numbers of all checks withdrawn from the current check book. Consequently, the spurious checks were recorded as advances to employes or payments for expenses. Although neither of these methods of defalcation affected the balancing of the petty cash book, the former widened the breach between the book balance of cash on deposit and the actual status of the bank account.

These manipulations had an unfavorable reaction on the fund bank account. The failure to deposit currency, and the cashing of unrecorded checks gradually caused an overdraft. The account was overdrawn continuously during the four months prior to the discovery of the shortage. The overdraft finally represented almost the whole amount of the embezzlement. Although the bank had been instructed to notify an official of the company in case of an overdraft in the fund account, it permitted the overdraft to continue. The reason given was that the company's general account and the fund account taken together showed a credit balance. Under the state laws, the bank could consider the two accounts as one.

The irregularity was not discovered until after the cashier had absconded. It would unquestionably have been detected sooner had an effective simultaneous verification been made of cash in hand, in bank, and in transit. The cashier would have had difficulty in explaining the discrepancy between the overdraft in the bank account and the balance shown by the petty cash book to be on deposit. The auditors, however, were instructed by the client not to visit the plant and verify the imprest fund there during their annual audits.

Learning Every Day

TECHNICAL procedure in the execution of engagements long has been recognized as the most important phase of accountancy practice. There is another phase, however, which is so closely related to technical procedure that it is difficult to differentiate it therefrom if, indeed, it needs to be so differentiated. This phase might be described as the technique of professional relations. A careful analysis and strict classification of practice factors probably would place this item in the group of managerial functions. The proper classification of the item, however, is not so important as a recognition of its significance, a knowledge of what it comprehends, and prompt action in a situation where it is involved.

The technique of professional relations may be described in simpler words as procedure in handling situations which involve relations with clients and others growing out of the practice of accountancy. Accountancy practice, comparatively speaking, is a new profession. It is founded on a technical knowledge of accounting, economics, finance, business law, business organization, and business administration. Having to do largely with confidential affairs it requires, on the part of those who practice, honesty, integrity, and a high regard for the confidence which clients must of necessity repose in those whom they retain for professional service. In addition, the practice of accountancy calls for an understanding of human affairs, of a variety and complexity of situations which may arise, and ability to handle these situations with prompt and unerring judgment.

If the practitioner is unwilling to confess a limited knowledge of the technical side of his subject, if he bows to no other profession in the matter of integrity and appreciation of his responsible position, he must at least admit he has much to learn from experience in the matter of dealing with clients and related parties who become involved in the affairs thereof.

The following incident will serve to illustrate some of the foregoing philosophy better, perhaps, than any other attempt at elucidation. The officials of a certain bank recommended us to a concern in which the bank was interested through a line of credit. Our services were engaged to audit the client's accounts for a period of six months and prepare a report thereon. In the course of our work we encountered a situation which precluded the absolute verification of a certain item without an extensive investigation which the client preferred not to authorize, because of the time and expense involved and his pressing need for the report.

Proceeding in our usual manner under such circumstances, we qualified the item in the balance sheet and explained the situation in the comments of our report.