

Whatever Happened to All Those Credit Slips?

Topic: Violations of Internal Control

Characters: William Dalton, President of Dalton Enterprises, Inc.
Chauncy Dalton, VP of Finance and future President (?)
Tim Johnson, In-charge CPA
George Smerlas, Controller

Tim Johnson, CPA, is the senior in-charge on an audit of a medium sized (\$20M in assets) client, Dalton Enterprises, Inc. This client is a family owned and operated corporation. Mr. William Dalton (67 years old) is the president who micro manages all aspects of the business except the finance area, which he leaves entirely to his son, Chauncy, who has been newly appointed as the VP of Finance. Chauncy, recently graduated with an MBA, and majoring in finance, is responsible for administering all the financial and accounting aspects of the business including the appointment of the auditors. Chauncy replaced Herb Castle who retired after thirty years with the organization. George Smerlas as controller reports directly to Chauncy.

The audit report has never circulated outside the organization. The report provides a basis for the tax return which George prepares. It also provides Mr. Dalton with supplemental schedules including comparative aging schedules and a detail comparative listing along with the changes in all of the general ledger accounts. Mr. Dalton used the audit report, along with the management letter, for administrative control purposes.

While analyzing the travel and entertainment expenditures, which were substantially (\$20,000) higher than last year's amount, Tim noted that most of the increase was attributable to payments made on Chauncy's behalf. The supporting documentation for these expenditures were very sketchy and in most cases, the only documentation was a check request initiated by Chauncy. All other T&E expenditures, including the modest payments on Mr. Dalton's behalf, were properly documented. When queried about this documentation problem, George acknowledged that the company's policy of having the immediate supervisor of the person requesting payment for T&E approve the voucher were circumvented here. But considering the circumstances, George was not concerned about the problem. When asked about the \$25,000 travel advance due from Chauncy, George replied, "He signed your confirmation request acknowledging the amount due, didn't he?"

Tim decided to discuss the problem of lack of approvals and documentation with Chauncy. Chauncy's response was to questions why the auditors would be skeptical of his honesty and motives here. He also stated that it was typical of "bean counters" to pursue areas that are of little significance, while ignoring areas where efficiency could be improved. He ended the interview by asking, "What are we paying you guys for anyhow?"

All other audit areas and financial statement disclosures are deemed satisfactory.

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