**Case Study:** **The Importance Of Timing 2**

2Several names and details have been changed to preserve anonymity.

What about a scheme in which nobody gets any money? One that was never intended to enrich its players or to defraud the company they worked for? It happened in Huntsville, Alabama, on-site at a major aluminum products plant with over $300 million in yearly sales. A few shrewd men cooked the company’s books without taking a single dime for themselves.

Terry Isbell was an internal auditor making a routine review of accounts payable. He was running a computer search to look at any transactions over $50,000 and found among the hits a bill for replacing two furnace liners. The payments went out toward the last of the year, to an approved vendor, with the proper signatures from Steven Leonyrd, a maintenance engineer, and Doggett Stine, the sector’s purchasing manager. However, there was nothing else in the file. Maintenance and repair jobs of this sort were supposed to be done on a time-and-material basis. So there should have been work reports, vouchers, and inspection sheets in the file along with the paid invoices. But there was nothing.

Isbell talked with Steven Leonyrd, who showed him the furnaces, recently lined and working to perfection. So where was the paperwork? “It’ll be in the regular work file for the first quarter,” Leonyrd replied.

“The bill was for last year, November and December,” Isbell pointed out. That was because the work was paid for in “advance payments,” according to Leonyrd. There wasn’t room in the work schedule to have the machines serviced in November, so the work was billed to that year’s nonrecurring maintenance budget. Later, sometime after the first of the year, the work was actually done.

Division management okayed Isbell to make an examination. He found $150,000 in repair invoices without proper documentation. The records for materials and supplies, which were paid for in one year and received in the next, totaled $250,000. A check of later records and an inspection showed that everything paid for had in fact been received—just later than promised.

So it was back to visit Leonyrd, who said the whole thing was simple. “We had this money in the budget for maintenance and repair, supplies outside the usual scope of things. It was getting late in the year, looked like we were just going to lose those dollars, you know, they’d just revert back to the general fund. So we set up the work orders and made them on last year’s budget. Then we got the actual stuff later.” Who told Leonyrd to set it up that way? “Nobody. Just made sense, that’s all.”

Nobody, Isbell suspected, was the purchasing manager who handled Leonyrd’s group, Doggett Stine. Stine was known as “a domineering-type guy” among the people who worked for him, a kind of storeroom bully. Isbell asked him about the arrangement with Leonyrd. “That’s no big deal,” Stine insisted. “Just spent the money while it was there. That’s what it was put there for, to keep up the plant. That’s what we did.” It wasn’t his idea, said Stine, but it wasn’t really Leonyrd’s either, just a discussion and an informal decision. The storeroom receiving supervisor agreed it was a grand idea, and made out the documents as he was told. Accounting personnel processed the invoices as they were told. A part-time bookkeeper said to Isbell she remembered some discussion about arranging to spend the money, but she didn’t ask any questions.

Isbell was in a funny position, a little bit like Shakespeare’s Malvolio, who spends his time in the play *Twelfth Night* scolding the other characters for having such a good time. Leonyrd hadn’t pocketed anything, and neither had Stine; being a bully was hardly a fraudulent offense. There was about $6,000 in interest lost, supposing the money had stayed in company bank accounts, but that wasn’t exactly the point. More seriously, this effortless cash-flow diversion represented a kink in the handling and dispersal of funds. Isbell wasn’t thinking rules for their own sake or standing on ceremony—money this easy to come by just meant the company had gotten a break. The next guys might not be so civic-minded and selfless; they might start juggling zeros and signatures instead of dates.

Under Isbell’s recommendation, the receiving department started reporting directly to the plant’s general accounting division, and its supervisor was assigned elsewhere. Doggett Stine had subsequently retired. Steven Leonyrd was demoted and transferred to another sector; he was fired a year later for an unrelated scheme. He had approached a contractor to replace the roof on his house, with the bill to be charged against “nonrecurring maintenance” at the plant. But the contractor alerted plant officials to their conniving employee, who was also known to be picking up extra money for “consulting work” with plant-related businesses. *Rats*, Leonyrd must have thought, *foiled again*.