CASE 6.5

Avis Love, Staff Accountant

"Oh no, not Store 51," Avis Love moaned under her breath. For the third time, Avis compared the dates listed in the cash receipts journal with the corresponding dates on the bank deposit slips. Avis shook her head softly and leaned back in her chair. There was no doubt in her mind now. Mo Rappele had definitely held open Store 51's cash receipts journal at the end of October.[1]

Avis Love was a staff accountant with the Atlanta office of a large international accounting firm. Several months earlier, Avis had graduated with an accounting degree from the University of Alabama at Birmingham. Although she did not plan to pursue a career in public accounting, Avis had accepted one of the several offers she had received from major accounting firms. The 22-year-old wanted to take a two-or three-year "vacation" from college, while at the same time accumulating a bankroll to finance three years of law school. Avis intended to practice law with a major firm for a few years and then return to her hometown in eastern Alabama and set up her own practice.

For the past few weeks, Avis had been assigned to the audit engagement for Lowell, Inc., a public company that operated nearly 100 retail sporting goods stores scattered across the South. Avis was nearing completion of a year-end cash receipts cutoff test for a sample of 20 Lowell stores. The audit procedures she had performed included preparing a list of the cash receipts reported in each of those stores' accounting records during the last five days of Lowell's fiscal year, which ended October 31. She had then obtained the relevant bank statements for each of the stores to determine whether the cash receipts had been deposited on a timely basis. For three of the stores in her sample, the deposit dates for the cash receipts ranged from three to seven days following the dates the receipts had been entered in the cash receipts journal. The individual store managers had apparently backdated cash receipts for the first several days of the new fiscal year, making it appear that the receipts had occurred in the fiscal year under audit by Avis's firm.

Avis had quickly realized that the objective of the store managers was not to overstate their units' year-end cash balances. Instead, the managers intended to inflate their recorded sales. Before Avis began the cutoff test, Teddy Tankersley, the senior assigned to the Lowell audit and Avis's immediate superior, had advised her that there was a higher-than-normal risk of cash receipts and sales cutoff errors for Lowell this year. The end of Lowell's fiscal year coincided with the end of a three-month sales promotion. This campaign to boost Lowell's sagging sales included bonuses for store managers who exceeded their quarterly sales quota. This was the first time that Lowell had run such a campaign and it was a modest success. Fourth-quarter sales for the fiscal year just ended topped the corresponding sales for the previous fiscal year by 6 percent.

When Avis uncovered the first instance of backdated cash receipts, she had felt a noticeable surge of excitement. In several months of tracing down invoices and receiving reports, ticking and tying, and performing other mundane tests, the young

1. This case was developed from an actual series of events. Names, locations, and certain other background information have been changed to conceal the identities of the individuals involved in the case.

accountant had occasionally found isolated errors in client accounting records. But this was different. This was fraud.

Avis had a much different reaction when she uncovered the second case of backdated cash receipts. She had suddenly realized that the results of her cutoff test would have "real world" implications for several parties, principally the store managers involved in the scheme. During the past few months, Avis had visited six of Lowell's retail stores to perform various interim tests of controls and to observe physical inventory procedures. The typical store manager was in his or her early 30s, married, with one or two small children. Because of Lowell's miserly pay scale, the stores were chronically understaffed, meaning that the store managers worked extremely long hours to earn their modest salaries.

No doubt, the store managers who backdated sales to increase their bonuses would be fired immediately. Clay Shamblin, Lowell's chief executive officer (CEO), was a hard-nosed businessman known for his punctuality, honesty, and work ethic. Shamblin exhibited little patience with subordinates who did not display those same traits.

When Avis came to the last store in her sample, she had hesitated. She realized that Mo Rappelle managed Store 51. Three weeks earlier, Avis had spent a long Saturday afternoon observing the physical inventory at Store 51 on the outskirts of Atlanta. Although the Lowell store managers were generally courteous and accommodating, Mo had gone out of his way to help Avis complete her tasks. Mo allowed Avis to use his own desk in the store's cramped office, shared a pizza with her during an afternoon break, and introduced her to his wife and two small children who dropped by the store during the afternoon.

"Mo, what a stupid thing to do," Avis thought to herself after reviewing the workpapers for the cutoff tests a final time. "And for just a few extra dollars." Mo had apparently backdated cash receipts for only the first two days of the new year. According to Avis's calculations, the backdated sales had increased Mo's year-end bonus by slightly more than $100. From the standpoint of Lowell, Inc., the backdated sales for Mo's store clearly had an immaterial impact on the company's operating results for the year just ended.

After putting away the workpapers for the cutoff test, a thought dawned on Avis. The Lowell audit program required her to perform cash receipts cutoff tests for 20 stores . . . any 20 stores she selected. Why not just drop Store 51 from her sample and replace it with Store 52 or 53 or whatever?

EPILOGUE

Avis brooded over the results of her cutoff test the remainder of that day at work and most of that evening. The following day, she gave the workpaper file to Teddy Tankersley. Avis reluctantly told Teddy about the backdated cash receipts and sales she had discovered in three stores: Store 12, Store 24, and Store 51. Teddy congratulated Avis on her thorough work and told her that Clay Shamblin would be very interested in her findings.

A few days later, Shamblin called Avis into his office and thanked her for uncovering the backdated transactions. The CEO told her that the company's internal auditors had tested the year-end cash receipts and sales cutoff for the remaining 72 stores and identified seven additional store managers who had tampered with their accounting records. As Avis was leaving the CEO's office, he thanked her once more and assured her that the store managers involved in the scam "would soon be looking for a new line of work . . . in another part of the country."