Joe and Mary Gray started their multimillion-dollar home electronics and car audio store chain in Texas in the late 1970’s. By mid-1983, their company had grown to 10 stores in 3 states with 500 employees and gross sales of $30 million. The decline of the oil industry in the mid-1980’s led to the company losing almost half of their employees. Additionally, as people moved to more economically viable states, employee turnover continued to increase. During this time, Grays needed to fill a recently vacated Controller position in their main office. The position was crucial and required a person who was highly motivated and knowledgeable of operations. After interviewing several candidates, they decided to give Jeff Smith the position.

Jeff was nothing like the previous Controller. He was quickly labeled a “maverick” and was completing tasks that had been languishing for months. Many of the employees noticed Jeff in the office working early in the morning, late at night, and on weekends. On many occasions, Jeff stayed at the office all night and through the next day. He was eager to fill in for people away from the office due to illness, vacation, or business travel. He was improving the efficiency of the office and the Grays were elated at his performance. Within six months of Jeff’s arrival, the Grays expanded the Controller duties to include many office operations, and transferred these responsibilities to Jeff. Jeff’s charismatic personality and work ethic motivated many in the office to improve their work habits and efforts. The general consensus was that Jeff was an “inspired” choice for the position and had brought about a complete renewal of the business.

Approximately one year after Jeff was hired; Joe Gray noticed some anomalies after completing the physical inventories and year-end closing of the books. He met with Jeff on numerous occasions to try to resolve the discrepancies, but to no avail. Jeff and Joe worked on identifying the anomalies for about a month, meeting at the main office one Sunday afternoon to continue their search. Only Jeff and Joe were in the office that day. They took advantage of Joe’s extra long meeting table to lay out all of the ledgers and journals on the table in preparation for their search. After several hours, Joe began to make headway for the first time that afternoon. Jeff excused himself to take a smoking break while Joe continued to close in on the problem. Twenty minutes went by and Joe noticed that Jeff had not yet returned. He waited a few minutes and then went to see where Jeff had gone. Not finding him anywhere in the building, Joe checked outside—Jeff’s car was gone. Joe tried to call Jeff’s house later that day, but there was not answer. The following day, Jeff did not show up for work. Joe tried to contact him again at home, but he had moved, leaving no forwarding address.

As it turned out, Jeff had a long history of embezzling form companies—police and federal agencies had been looking for him for some time. Some of the ways Jeff was able to steal over $2 million included:

·         Printing checks and making the necessary reversing entries and using backup files to cover his tracks.

·         Setting himself up as a vendor with a P.O. Box address, with checks mailed to that address every few weeks. The amounts on the checks were small, so they did not require a second signature.

·         Jeff handled the cash collections, disbursements, and account reconciliations.

·         Jeff was able to divert some of the checks received as payments on invoices by using the company’s check endorsement stamp, signing the checks over to himself, and depositing them in his personal account.

When Joe came too close to the truth that Sunday afternoon, Jeff realized he was caught and left town. The authorities were contacted, but Jeff got away one more time by befriending everyone’s, having exemplary performance for the time he was with the company, and gaining everyone’s trust—he was the “perfect employee.”

**What were some of the factors that contributed to the situation, and what internal controls could have been in-place to prevent this fraud from happening?**