

JUDGMENT DAY

Pamela Turner
Mary Dittman
Francis Marion University

Marko Horn
Mercer University

A young accounting executive's past catches up to her present as she navigates a questionable accounting system. Her inexperience, a controller who has total control, and her dream job collide as she tries to determine what is happening in a small business. This case examines the issues of internal control systems, fraud, and system structure. Students will have the opportunity to analyze the problems and present solutions.

Kendra Johnson, a new accounting hire at Garrett & Associates, the area's top CPA firm, was thrilled with where she landed after her graduation from the University of North Carolina Charlotte in August of 2017. The job market was tough in her graduation year, even for accountants. After a short, nightmarish employment at a temporary agency, she finally landed her dream job in January 2018. Hired as a junior associate, she would do taxes during tax season and audit work for the rest of the year.

Johnson had developed some good routines working on clients' tax returns, and the work load had been manageable. The auditing part of her job was about to start, and she was a little nervous. She had little experience with auditing work and was intimidated by its complexity. To her it felt a bit intrusive to go into a business and dig through their files. During her job interview with Garrett, she shared her anxiety with Paul Smith, the Vice President of the Auditing Division. He chuckled and said, "Yeah, I can see that," but he assured Johnson her first audit would "be a breeze." At that point Johnson was months away from doing audits, but Smith's encouragement soothed her anxiety at the time.

Now the day was finally here. One morning, Smith told her to grab her audit bag and meet him in the lobby in ten minutes. Johnson was very nervous about her audit duties, especially in this ad-hoc fashion, but flattered that Smith wanted to bring

her along for the site visit and not just have her do the back-office work. As they walked to Smith's car, he filled her in on the situation.

Smith explained to her: Their client Charles Finway, Owner and CEO of Finway Construction, had received an urgent call from his bank. Finway was a long-term and highly valued client. Finway Construction was a mid-size construction company that Charles Finway had built from the ground up, taking a mom-and-pop operation to the sought-after company it was today. Finway Construction now built commercial buildings and an occasional luxury home, generating about five million dollars in annual revenue. The bank manager had informed Finway that Finway Construction had exhausted its line of credit, and the bank could no longer cover the large overdraft in the firm's checking account. Finway had checked his most current financial statement generated by the accounting system, which showed the account to have a significant positive balance. Smith stated, "I'm sure there's a simple explanation. They have a fancy new accounting system, so we will be able to figure things out in a jiffy."

Johnson's heart started racing, and she felt like she was about to faint. She thought to herself: "Oh no, Finway Construction. Not Finway Construction, please no. Anything but Finway!"

When Johnson couldn't find a job right after graduation, she had hired on at FastTemp, a temporary staffing agency, and that agency had sent her to Finway Construction as a bookkeeper. At Finway she was asked to help with a variety of tasks, and her first project was to reconcile the bank statement. It seemed like a simple task given her accounting degree, but she couldn't get it to add up. The company, just one year prior, had installed a computerized accounting system. The new controller, Sharon Miller, was excited to bring the company "out of the Stone Age." Finway's accounting department at the time included Miller, three bookkeepers, and now Johnson.

Johnson found Finway's bank records to be very disorganized. Canceled checks were separated from their bank statements and filed in a box. Some checks were in numerical order, some checks were missing, and some were out of sequence. Bank statements had missing pages. To lift some of the confusion, Johnson asked Miller about a few missing checks that were not noted in the check register. She also inquired about the pages that were missing from the bank statement.

Miller became agitated by Johnson's questions and sternly told her, "You don't need those things to reconcile the bank account. If you knew what you were doing, you wouldn't be wasting my time asking silly questions." Later, Johnson overheard Miller on the phone complaining to FastTemp. "You sent us a completely

incompetent excuse for a temp. Do not send this girl back here again!” Miller screamed into the phone.

That evening, as Johnson was leaving Finway, she watched Miller drive out of the parking lot in a car that was in worse condition than hers. “Maybe Sharon still has a bunch of student loans or is under a lot of financial pressure and that’s why she got so mad at me,” Johnson thought. “That could also explain her dowdy, old suit. I thought a CFO would have a better car and a nice wardrobe.” Her ringing cell phone jolted her out of her wondering. The call was from her placement officer at FastTemp. She told Johnson to swing by the FastTemp office the next morning - she was being reassigned.

Johnson was devastated. She felt like an utter failure. Did they not teach her right at the University? She was sure those documents were supposed to be there, but Miller had years of experience. “Maybe I didn’t really know what I was doing,” Johnson questioned herself. She was very embarrassed, but also relieved that she would not have to go back to Finway. That experience was horrible and left her deflated. She was disappointed that FastTemp never asked her what had happened at Finway; they just sent her to other assignments. At least at the other companies she was able to complete everything she was asked to do. She was glad she would never have to cross paths with Sharon Miller again!

Johnson had never told anyone about her inability to reconcile the bank statement at Finway. She had pretty much put the unpleasantness of that assignment behind her. To Johnson, it seemed like the experience at Finway had happened forever ago, but it had been only a few months. All these negative feelings, the doubt in her own abilities, the humiliation, and the embarrassment came bubbling up again. What would her new boss think of her when he learned what happened? Would she get fired at Garrett too? Would they think negatively of her? Tense anxiety grabbed Johnson.

Sitting in the passenger seat of Smith’s Mercedes on the way to Finway, Johnson realized she had to tell him about her experience at Finway. She was terrified, but she knew as soon as she walked into Finway she would be recognized, and Smith would hear of her failure anyway.

Johnson confessed, “Paul, I need to tell you that I worked at Finway for a couple of days last October. I was supposed to just balance the bank statement, but I couldn’t get it done. Some of the checks were missing, and I couldn’t find some of the pages from the bank statements. I asked the controller about it, but she got angry at me and told the agency not to send me back.”

Smith was puzzled. “Okay,” he sighed “Let’s just see what we’re dealing with when we get there. We can always call the bank and get the statements.”

Arriving at Finway, Smith and Johnson were ushered into Mr. Finway’s office. Finway was red-faced, shouting into the phone, “Just call me back when you get these messages!” As soon as he saw Smith, Finway slammed the phone down and exclaimed, “Paul - thank goodness! I can’t get my controller on the phone, the bank is saying there’s no money in my account, and I can’t get another line of credit because I’ve exhausted the one I had. I didn’t even know we had a line of credit!”

“Look, Chuck, we’ll get to the bottom of this,” Smith cooed, trying to calm the panicking executive. “This is my associate, Kendra Johnson. Where can we find all the bank statements, checks, and the like?”

“I think everything is in Sharon’s office,” Finway said as he went into Sharon Miller’s office. “I just let her take care of everything - I never had to worry about any of it. Maybe that wasn’t such a great thing, after all.”

While Johnson sorted through the checks and statements she could find, Smith accessed Finway Construction’s bank account online. He began printing statements from the past two years.

Smith and Johnson discovered that the bank was correct. Finway’s funds were drastically overdrawn, but not by mistake. It appeared that deposits were being posted to the accounts, but withdrawals were not accounted for with canceled checks. They could see the withdrawals on the account, but they didn’t match the books at Finway. To make matters more complicated, Mr. Finway told them the new accounting system had been suggested by Miller, who oversaw its installation. She could access all the accounts that the bookkeepers were responsible for and had authority to sign checks without a second signature being required.

Smith went pale. “My goodness Chuck, there are no controls in the system. I am afraid we might be dealing with fraud here. Give us a little while to figure it out, but please prepare yourself, we might have to call the police.”

Johnson was shocked. As much as this would explain why she couldn’t get the bank statement reconciled, and would exonerate her and her work abilities, she felt devastated for Mr. Finway. He worked so hard to build his business, just to have somebody he trusted steal from him. She wondered how in the world this could have been avoided as well as what advice they needed to give their client now so that this may not ever happen again. Was her new employer Garrett & Associates at fault for not advising Mr. Finway better through the software installation? Could there be liability claims that put Garrett & Associates and her dream job into

jeopardy? Her heart started racing again, she needed answers, quick. Her most pressing question was, what should she do now to gain a better understanding of the situation and what could she do to help Mr. Finway?