CASE 7.6

Bud Carriker, Audit Senior

Since childhood, Louis Armstrong Carriker had been known simply as "Bud," a nickname given to him by his paternal grandmother.[1] Bud's father, a New Orleans native, was a lifelong fan of the famous blues musician after whom he named his only son. After graduating from high school, Elliot Carriker joined the military. In April 1951, Elliot, an African-American, married Bud's mother, a Mexican-American, while he was stationed at a military base in Texas. Two years later, Bud arrived. Sadly, Bud's mother died during childbirth. As a result, Bud spent most of his childhood in New Orleans being raised by his grandmother.

When he was a young teenager, Bud was reunited with his father in Dallas, Texas. Bud's new family included a stepmother and one-year old twin sisters. In high school, Bud excelled in both academics and athletics and earned a scholarship to play basketball at a small Division 1 school. Bud realized that his athletic career would end after college, so he dedicated himself to obtaining a degree that would provide him with an opportunity to earn a good livelihood following graduation. After leaving the military, Elliot Carriker had relied on the GI Bill to earn a college degree in finance. Because of his experience in the business world as a senior loan officer for a major metropolitan bank, Elliot encouraged his son to consider majoring in either accounting or finance. After several sessions with his high school career counselor, Bud decided to take his father's advice and pursue an accounting degree in college.

During his senior year in college, Bud interviewed with several of the international accounting firms and with two large Houston-based oil companies. After discussing his multiple job offers with his father, Bud decided to begin his career in the public accounting profession. Bud realized that a few years experience on the audit staff of a major accounting firm would provide him with a strong background in financial accounting. He intended to use that background to obtain a mid-level position on the accounting staff of a bank with an eventual career goal of becoming either a corporate controller or chief financial officer (CFO) in the financial services industry.

Bud launched his career in public accounting in June 1975 and was promoted to audit senior in the late fall of 1977, just prior to the beginning of his third busy season. Typically, Bud's firm considered audit seniors for promotion to audit manager during their fifth or sixth years with the firm. Throughout the early years of his career, the ever-thoughtful and deliberate Bud frequently reviewed and revised his career plan. By the time that his fifth busy season arrived in late 1979, Bud had decided that he would begin searching for a job in the private sector when he was promoted to audit manager, which he expected would be sometime during the following 18 months. Although he enjoyed public accounting, Bud was anxious to get his "real" career started.

In mid-November 1979, Alex Saunders, the managing partner of the practice office that Bud had been assigned to throughout his career, asked Bud to meet with him one afternoon. Saunders informed Bud that the firm had unexpectedly acquired a new client. The new client was a privately owned bank in a midsized city in central Texas.

1. This case is based upon factual circumstances. Although the key events occurred in the approximate time frame identified in the case, the names of all parties and locations have been changed.

Since accepting a position with his employer, Bud had made it known that he wanted to be assigned to a client in the banking or financial services industries. The acquisition of the new client provided Saunders an opportunity to finally grant Bud's request.

"Bud, when we picked up this client, I immediately thought of you since you have expressed an interest in gaining some experience in the banking industry. Plus, this is one of those clients where we really need an experienced audit senior to run the engagement."

"Thank you, sir. I am looking forward to this opportunity." Bud's practice office was quite large. As a result, he did not have a close relationship with Alex Saunders. Nevertheless, Bud had considerable respect for Saunders. Saunders, a native of Lubbock, was an imposing man physically, towering well over six feet. He spoke with a distinctive West Texas twang and often wore a bolo tie and cowboy boots to work. Saunders had spent his entire 35-year career in the practice office that he now managed and was well known and respected within the business community. Bud particularly appreciated Saunders' blunt, no-nonsense management style. He had a reputation for candor with his subordinates and with clients. You always knew where you stood with "Big Alex," as he was often referred to by his subordinates.

"Eric Jones will be the audit engagement partner. But I am going to shadow Eric on this job. Just like you, Eric doesn't have any past experience with a bank client. Since I have had a slew of bank clients, he can use me as a sounding board if problems develop. K. T. Wilson will be the audit manager. He's worked on a couple of savings and loan audits."

"Okay. Of course, I have worked with Eric and K. T. on a couple of audits in the past."

"Let me give you a little background on this client," Saunders said as he leaned back in his chair and folded his arms across his chest. This guy, Jim Charles, who owns the bank, is one of those 'self-made' millionaires who is more than happy to tell you his success story. He prides himself on being a 'good ol' boy' from West Texas." Alex paused. "Kind of like me, I guess," he added with a smile. "Ya know, he doesn't have a college degree."

"That's interesting."

"Well, that's what he claims, at least. He got lucky about 15 years ago and brought in a couple of wildcat wells in the Permian Basin. He used that money to buy a small bank in his hometown. In the past few years, the bank has grown by leaps and bounds because of the deregulation of the banking industry. I have reviewed his loan portfolio and it seems to me that he specializes in funding commercial real estate projects and high-risk oil and gas ventures." Bud listened intently as Saunders continued. "That's why I want an experienced audit senior running this engagement. I want you to spend a lot of time in the field. Ya know, in the past, bank clients were always considered extremely low risk. But that has totally changed in the past few years with the new legislation."

"Well sir, I will do my best."

"I know you will, Bud. What I would like you to do is meet with Eric this afternoon. As luck would have it, the firm has a three-day seminar on bank auditing next week in Houston. I want you and Eric to attend that seminar. K. T's schedule won't allow him to make it."

"Okay. Sir, what about the Garrett audit? Will I continue to work on that job?" For the past three years, Bud had spent the majority of the winter months assigned to the audit engagement team for Garrett Manufacturing, a local prefabricated housing company.

"No. You're gonna be too busy with this new client. I have already made arrangements to have Zach Payne take your spot on that job."

When Bud left Saunders' office, he felt a surge of excitement. This was just the type of assignment he had been hoping to land. Given the nature of the engagement and his required hands-on role, he would learn a great deal about the banking industry in a short time. Bud realized that this experience would position him well to obtain the type of job he wanted in the banking industry when he left public accounting.

In the two weeks following his meeting with Alex Saunders, Bud attended the banking seminar with Eric Jones and spent several days reviewing copies of the new client's prior-year workpapers that had been obtained from the previous auditor. On a Monday morning in early December, Bud made his first trip to the client's headquarters location. He and K. T. Wilson planned to introduce themselves to key client personnel and to do some preliminary internal control work.

The meetings with client personnel went well, at least until they met with Jim Charles, who was not only the principal owner of the bank but also its chief executive officer (CEO). During that meeting, Charles seemed annoyed for some reason. In fact, the meeting lasted no more than a few minutes. Charles told the two auditors that he had several important phone calls to make and rushed them out of his office. Although Charles had been less than cordial, Bud quickly dismissed the episode. He realized that as the audit senior he would have little interaction with Charles.

Bud and K. T. Wilson completed their initial work at the client's location and returned to their firm's office late on Tuesday afternoon. Over the next three days, Bud planned to draft a preliminary copy of the audit program and have it ready for a meeting that the two had scheduled with Eric Jones and Alex Saunders the following Monday afternoon. Just as he was completing a draft of the audit program on Friday afternoon, Alex Saunders unexpectedly dropped by the cubicle in which Bud was working. Alex asked Bud to come to his office.

"Do you want me to bring the draft of the audit program? It's almost done."

"No. That won't be necessary," Saunders replied.

As they walked silently down the hall together, Bud suspected that something was wrong. Although he didn't know Saunders well, Bud sensed that the partner was upset. Bud's suspicions were heightened when Saunders turned and closed the door behind them after they entered his office.

"Please sit down, Bud," Saunders said quietly. "Bud, I have decided to place you back on the Garrett audit. I have already spoken with Zach Payne. Zach will be taking your place on the bank engagement."

Bud was stunned, too stunned to speak. The unexpected news was both startling and extremely disappointing. Here was the assignment that he had literally coveted and now it was being taken away from him. For several awkward moments, Bud sat facing Saunders, who refused to look at him. Not making eye contact with whomever he was speaking to was very uncharacteristic of Saunders.

When Bud realized that Saunders did not intend to provide an explanation for removing him from the bank engagement, he took the initiative. "Sir, I don't understand. I was really looking forward to this assignment. I'm not sure why you believe Zach Payne is more qualified than me to run this job."

Saunders cleared his throat as he turned to the right and gazed out the large plate window that overlooked a busy street several blocks below. Finally, Saunders turned back and faced Bud. "This is not about Zach Payne, Bud. I've just decided that you are not the right person for this engagement. I'm sorry, but that's my decision." Saunders paused momentarily and then added, "Thanks for your time, Bud," signaling that the brief meeting had ended.

Still in shock, Bud rose slowly from the chair in which he had been sitting and turned toward the door. After taking a few steps, Bud turned back toward Saunders. "Mr. Saunders, I consider myself a professional. I work hard, I enjoy my work, and I believe I do a good job. I typically don't challenge the decisions of those above me. But, I believe I deserve an explanation for why you are taking me off this job." After speaking, Bud stood his ground, staring directly at Saunders, who was shuffling papers on his desk.

After several more moments of awkward silence, Saunders rose to his feet and made direct eye contact with Bud as he spoke. "You're right, young man. You deserve an explanation. I'm sorry that I wasn't more to the point. Avoiding issues is not my style." Saunders paused and cleared his throat again before speaking. "Jim Charles called me Wednesday afternoon and told me that he wanted a different senior assigned to the audit. He said that he wouldn't be comfortable working with you." After one final pause, Saunders continued. "That's why we are taking you off the job."

"Comfortable? What does that mean?" Bud blurted out.

Saunders shoved his hands into the pockets of his trousers and shrugged his shoulders in exasperation. "You know what I mean. Charles . . . Charles wants another . . . another type of person assigned to the audit."

Now, Bud understood. He had a crystal clear understanding of why he was being removed from the bank audit. As he stood there staring at Saunders, Bud felt several emotions, principally anger. He wanted to respond to Saunders, but he wasn't sure exactly what to say. Bud had always been aware that he was different from his colleagues. He was one of a handful of non-Caucasians in his office. In fact, it had been that way throughout his career. But, he had never considered his race to be an issue of any kind. At least, not until this moment.

Finally, after an extended period of silence, Saunders turned away from Bud and walked over to his window and stared down at the Friday afternoon traffic. Bud shook his head in disgust, let out a deep breath, and then left Saunders' office. It was the last time that Bud would speak to, or meet with, Alex Saunders.

EPILOGUE

Bud Carriker spent his final busy season with his employer supervising the fieldwork on the Garrett Manufacturing engagement. Shortly after that engagement was completed, he received a brief letter from Alex Saunders congratulating him on his promotion to audit manager that would take effect a few months later on July 1. However, Bud never officially became an audit manager with the firm. In June of that year, Bud resigned from the firm and accepted a position as an assistant controller with a large healthcare facility in Dallas.

The banking empire of Jim Charles collapsed suddenly in the early 1980s. Charles' bank was one of hundreds that regulatory authorities closed down during that time period for operating in an "unsafe and unsound" manner. Charles' equity in the bank, along with that of the bank's other investors, was wiped out by huge losses in the bank's loan portfolio.

Questions

1. How do you believe Alex Saunders should have reacted when Jim Charles insisted that Bud be removed from the bank's audit engagement team? What would you have done under similar circumstances if you had been Saunders?
2. In your opinion, did Saunders' decision to comply with Charles' request violate any professional or ethical standards? Defend your answer.
3. How do you believe that Bud should have reacted when Saunders told him why he had been removed from the audit engagement team?
4. The key events in this case transpired during the late 1970s. Do you believe that such a series of events could occur now? Explain.

CASE 6.4

Tommy O'Connell, Audit Senior

Tommy O'Connell had been a senior with a Big Five accounting firm for less than one month when he was assigned to the audit engagement for the Altamesa Manufacturing Company.[1] Tommy worked out of his firm's Fort Worth, Texas, office, while Altamesa was headquartered in Amarillo, the "capital" of the Texas Panhandle. The young senior realized that being assigned to the tough Altamesa engagement signaled that Jack Morrison, the Altamesa audit partner and the office managing partner, regarded his work highly. Serving as the audit senior on the Altamesa job would allow Tommy to become better acquainted with Morrison. Despite the challenges and opportunities posed by his new assignment, Tommy did not look forward to spending three months in Amarillo, a five-hour drive from Fort Worth. This would be his first assignment outside of Fort Worth since his marriage six months earlier. He dreaded breaking the news to his wife, Suzie, who often complained about the long hours his job required.

Altamesa manufactured steel girders used in the construction and renovation of bridges in West Texas, New Mexico, Colorado, and Oklahoma. The company's business was very cyclical and linked closely to the funding available to municipalities in Altamesa's four-state market area. To learn more about the company and its personnel, Tommy arranged to have lunch with Casi McCall, the audit senior on the Altamesa job the two previous years. According to Casi, Altamesa's management took aggressive positions regarding year-end expense accruals and revenue recognition. The company used the percentage-of-completion method to recognize revenue since its sales contracts extended over two to five years. Casi recounted several disputes with the company's chief accountant regarding the estimated stage of completion of jobs in progress. In an effort to "front-load" as much of the profit on jobs as possible, the chief accountant typically insisted that jobs were further along than they actually were.

Speaking with Casi made Tommy even more apprehensive about tackling the Altamesa engagement. But he realized that the job gave him an excellent chance to strengthen his fast-track image within his office. To reach his goal of being promoted to manager by his fifth year with the firm, Tommy needed to prove himself on difficult assignments such as the Altamesa engagement.

An Unpleasant Surprise for Tommy

It was late May, just two weeks before Tommy would be leaving for Amarillo to begin the Altamesa audit—the company had a June 30 fiscal year-end. Tommy, Jack Morrison, and an audit manager were having lunch at the Cattleman's Restaurant in the Cowtown district of north Fort Worth.

"Tommy, I've decided to send Carl with you out to Amarillo. Is that okay?" asked Jack Morrison.

"Uhh . . . sure, Jack. Yeah, that'll be fine," Tommy replied.

1. The facts of this case were reconstructed from an actual series of events. Names and certain background information have been changed to conceal the identities of the individuals involved in the case.

"Of all people," Tommy thought to himself, "he would send Carl Wilmeth to Amarillo with me." Carl was a staff accountant with only a few months' experience, having been hired in the middle of the just-completed busy season. Other than being auditors and approximately the same age, the two young men had little in common. Tommy was from Lockettville, a small town in rural West Texas, while Carl had been raised in the exclusive Highland Park community of north central Dallas. Texas Tech, a large state-supported university, was Tommy's alma mater. Carl had earned his accounting degree from a small private college on the East Coast.

Tommy did not appreciate Carl's cocky attitude, and his lack of experience made him a questionable choice in Tommy's mind for the Altamesa engagement. As he tried to choke down the rest of his prime rib, Tommy recalled the complaints he had heard about Carl's job performance. Over the past three months, Carl had worked on two audits. In both cases, he had performed admirably—too admirably, in fact, coming in well under budget on his assigned tasks. On one engagement, Carl had completed an assignment in less than 60 hours when the audit budget allotted 100 hours; the previous year, 110 hours had been required to complete that same task. Both seniors who had supervised Carl suspected that he had not completed all of his assigned audit procedures, although he signed off on those procedures on the audit program. The tasks assigned to Carl had been large-scale tests of transactions that involved checking invoices, receiving reports, purchase orders, and other documents for various attributes. Given the nature of the tests, the seniors would have had difficulty confirming their suspicions.

"Boss" Tommy

Six weeks later, in early July, the Altamesa audit was in full swing. Carl had just finished his third assigned task on the job, in record time, of course. "Boss, here's that disbursements file," Carl said as he plopped a large stack of workpapers in front of Tommy. "Anything else you want me to do this afternoon? Since I'm way ahead of schedule, maybe I should take off and work on my tan out on the golf course."

"No, Carl. I think we have plenty to keep you busy right here." Tommy was agitated but he tried not to let it show. "Why don't you pull out the contracts file and then talk to Alissa Myers in the sales office. Get copies of any new contracts or proposals over the past year and put them in the contracts file."

At this point, Tommy simply did not have time to review Carl's cash disbursements workpapers. He was too busy trying to untangle Altamesa's complex method of allocating overhead costs to jobs in process. Later that afternoon, he had an appointment to meet with the chief accountant and a production superintendent to discuss the status of a large job. Tommy and the chief accountant had already butted heads on two occasions regarding a job's stage of completion. Casi had been right: the chief accountant clearly meant to recognize profit on in-progress jobs as quickly as possible. With four decades of experience, Scrooge—a nickname Casi had pinned on the chief accountant—obviously considered the young auditors a nuisance and did not appreciate their probing questions. Each time Tommy asked him a question regarding an important issue, the chief accountant registered his disgust by pursing his lips and running his hand through his thinning hair. He then responded with a rambling, convoluted answer intended to confuse rather than inform.

To comprehend Altamesa's accounting decisions for its long-term contracts, Tommy spent several hours of nonchargeable time each night in his motel room flipping through copies of job order worksheets and contracts. Occasionally, he referred to prior-year workpapers, his firm's policy and procedures manual, and even his tattered cost accounting textbook from his college days. Carl spent most of his evenings in the motel's club being taught the Texas Two-step and Cotton-eyed Joe by several new friends he had acquired.

During July and August, Tommy and Carl worked 50 to 60 hours per week on the Altamesa engagement. Several times Tommy wondered to himself whether it was worthwhile to work so hard to earn recognition as a "superstar" senior. He was also increasingly concerned about the impact of his fast-track strategy on his marriage. When he tried to explain to Suzie that the long hours and travel would pay off when he made partner, she was unimpressed. "Who cares if you make partner? I just want to spend more time with my husband," was her stock reply.

To Tell or Not to Tell

Finally, late August rolled around and the Altamesa job was almost complete. Jack Morrison had been in Amarillo for the past three days combing through the Altamesa workpapers. Nothing seemed to escape Morrison's eagle eye. Tommy had spent 12 hours per day since Morrison had arrived, tracking down missing invoices, checking on late confirmations, and tying up dozens of other loose ends. Carl was already back in Fort Worth, probably working on his golf swing. Morrison had allowed Carl to leave two days earlier after he had finished clearing the review comments in his files.

"Tommy, I have to admit that I was a little concerned about sending a light senior out to run this audit. But, by golly, you have done a great job." Morrison did not look up as he signed off on the workpapers spread before him on Altamesa's conference table. "You know, this kid Carl does super work. I've never seen cleaner, more organized workpapers from a staff accountant."

Tommy grimaced as he sat next to Morrison at the conference table. "Yeah, right. They should look clean, since he didn't do half of what he signed off on," Tommy thought to himself. Here was his opportunity. For the past several weeks, Tommy had planned to sit down with Morrison and talk to him regarding Carl's job performance. But now he was reluctant to do so. How do you tell a partner that you suspect much of the work he is reviewing may not have been done? Besides, Tommy realized that as Carl's immediate supervisor, he was responsible for that work. Tommy knew that he was facing a no-win situation. He leaned back in his chair and remained silent, hoping that Morrison would hurry through the last few workpaper files so they could make it back to Fort Worth by midnight.

EPILOGUE

Tommy never informed Jack Morrison of his suspicions regarding Carl's work. Thankfully, no problems—of a legal nature—ever arose on the jobs to which Carl was assigned. After passing the CPA exam on his first attempt, Carl left the accounting firm and enrolled in a prestigious MBA program. Upon graduation, Carl accepted a job on Wall Street with one of the large investment banking firms. Tommy reached his goal of being promoted to audit manager within five years. One year later, he decided that he was not cut out to be a partner and resigned from the firm to accept a position in private industry.

Questions

1. Compare and contrast the professional roles of an audit senior and a staff accountant. In your analysis, consider the different responsibilities assigned to each role, the job-related stresses that individuals in the two roles face, and how each role contributes to the successful completion of an audit engagement. Which of these two roles is (a) more important and (b) more stressful? Defend your choices.
2. Assume that you are Tommy O'Connell and have learned that Carl Wilmeth will be working for you on the Altamesa audit engagement. Would you handle this situation any differently than Tommy did? Explain.
3. Again, assume that you are Tommy. Carl is badgering you for something to do midway through the Altamesa job. You suspect that he is not completing all of his assigned procedures, but at the time you are wrestling with an important and contentious accounting issue. What would you do at this point? What could you do to confirm your suspicions that Carl is not completing his assignments?
4. Now, assume that Jack Morrison is reviewing the Altamesa workpapers. To date, you (Tommy) have said nothing to Morrison about your suspicions regarding Carl. Do you have a professional responsibility to raise this matter now with Morrison? Explain.
5. Assume that at some point Tommy told Morrison that he suspected Carl was not completing his assigned tasks. The only evidence Tommy had to support his theory was the fact that Carl had come in significantly under budget on every major task assigned to him over a period of several months. If you were Jack Morrison, how would you have handled this matter?