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“Smoothing” the Factory’s Accounts

As the young, newly appointed manager of a chemical plant, Alex learns that a team of internal auditors from his firm's home office will descend on his factory in two days. He prepares his staff as best he can. The day before the auditors arrive, one of his assistants discovers some disconcerting news. It appears, he says, that Woods, a 30-year veteran of the plant, has been systematically altering accounts for years. Month by month, Woods has been shipping products to customers without billing them—and then billing customers without shipping anything.

Alex is stunned. Seeking an explanation, he learns that the practice has nothing to do with fraud. Woods hasn't been lining his own pockets; he was simply trying to be helpful. His goal was to smooth out the cyclical nature of the orders so that, month by month, the figures sent to the home office appear level and consistent, with no peaks and valleys. On balance, Alex finds, no money has been lost or gained; it all balances out in the end. And while the amount is not immense, the funds affected amount to perhaps five percent of the plant's annual earnings.

In one sense, Woods's adjustments have benefited Alex, who has already been complimented by higher-ups for his astute forecasts and for meeting his targets so accurately. But Alex also knows that if these practices were to come to light, Woods would be fired instantly—he himself, though ignorant of the practice until now, might have some tough explaining to do. After all, for years Woods has been fudging records and misstating corporate revenues to management, shareholders, and the IRS.

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