Romeo & Juliet’s: A case of employee embezzlement

David Glodstein
SUNY College at Old Westbury

Wendy C. Estabrook
SUNY College at Old Westbury

Stephanie Williams
SUNY College at Old Westbury

ABSTRACT

The case involves a small, family-owned business that leaves two managers in charge of the business operations. The managers take advantage of their position by embezzling funds to help pay off their debts. Over the span of one year, the two managers stole money by skimming money from the deposits that they oversaw. The fraud was detected by the owners’ accountant. The accountant suggested the use of their firm’s forensic team to detect what could be going wrong within the business. It is important to understand the operations of the business, the backgrounds of the employees, and the components of the fraud triangle to explain the risk for the occurrence of fraud.

This case showcases the importance of internal controls, keeping proper records, and various types of evidence that can be collected to come to a conclusion of how a fraud occurred to determine the perpetrator.

Keywords: embezzlement, audit, fraud, fraud triangle, internal control

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1 Teaching notes and supporting material is available to university faculty members. Email Dr. Glodstein at glodstein@oldwestbury.edu from your university email to receive a copy of the teaching notes.
BACKGROUND FACTS

Romeo and Juliet’s is a restaurant and pizzeria in East Aurora, New York. It was opened by Italian immigrants, Roman and Julia Sirchia. They immigrated to the United States in 1994 and used the money and goods they brought with them to open a small pizza shop in East Aurora, New York called Romeo and Juliet’s Pizza. As the business’ popularity grew, they decided to expand their shop. Their Pizzeria became Romeo and Juliet’s and grew into a full-service restaurant and pizzeria.

Romeo and Juliet’s offers dine in, take out, and on-site/off-site catering. The restaurant consists of counter seating, dining room seating, and a medium room available for catering events. The restaurant is open 6 days a week on the restaurant and pizzeria side, and open 7 days a week on the catering side. This means they will allow on-site catering during all days and have the capacity to hold larger events on the day when the restaurant and pizzeria is not open. Roman and Juliet are 62 and 60 years old, respectively. They are on-site regularly, but leave the hard work to their 20 employees and 2 managers, Rosaline Montague and Peter Capulet. While Roman and Julia work on the service side, the financial side is left to Rosaline Montague.

Rosaline has worked for the Sirchias for 15 years and has become a trusted employee. She was promoted to head manager due to her skills and proven integrity. She is 30 years of age and lives in a small apartment that she moved into after the passing of her parents 5 years ago. Upon their passing, she was held responsible for their outstanding debt that she was a signor on. In 2015, she was given the position of head manager. She has a close relationship with the Sirchias and is considered a part of the family. They helped her through a lot of tough times, including the passing of her parents and they continue to help her out when she needs it.

Peter Capulet has been the manager of the catering side of the business since 2015. He is Roman and Julia’s nephew. He is very close with his aunt and uncle and had the experience they needed in the catering business to be manager over their catering services. He is 31 years of age and involved in a relationship with the head manager, Rosaline. Unlike Rosaline, he lives in a luxury apartment and enjoys living a lavish lifestyle. In secret, Peter has a gambling problem which funded his addiction to luxury.

As head manager, Rosaline has the following duties:
- Main access to the point of sale (POS) system – deletes, voids and alters transactions.
- Closing out the register, counting the cash, reconciling to the POS reports.
- Access to bank account, deposit cash, preparing bank reconciliations.
- Managing the work papers for sales tax returns and submitting to accountant.
- Keys to head office, safe, front door, and passcode to the alarm system.

As manager of catering, Peter has the following duties:
- Scheduling and hosting all catering events.
- Ordering supplies and food for all catering events and restaurant.
- Access to checks to pay off suppliers and purchasers.
- Keys to the main office and safe.

On December 19, 2017, Rosaline was notified by her landlord that she would soon be evicted due to her being past due on her rent for two months. In order to not be evicted Rosaline needed to pay $7,000 within 30 days in order to become current on her rent. Rosaline worked
very hard and always tried to be frugal with her money, but her parent’s debt, her rent, and unexpected car problems became too much for her to handle, and she was in deep financial trouble. This was a place she had never been before in her finances.

During this time Peter had also been receiving threatening messages from his bookie. Peter had a gambling problem which he got into because he could not afford his lavish lifestyle on his salary. He started off winning, but he eventually was in debt by $20,000. As the threatening messages from his bookie started getting worse, Peter realized he was in a tougher spot than he ever had been before.

On December 31, 2017, Romeo and Juliet’s was hosting an on-site catering event. The event was a New Year’s Eve party which continued after the hours that the restaurant and pizzeria were open. It went on to the early hours of January 1, 2018. Rosaline was working in the office counting the cash from the registers and making sure all was well to begin the new year while Peter was working the catering event. After the event ended, Peter made his way to the back office, the lights were dimmed so he believed it was empty. He unlocked the door to get his things and drop off the payment from the catering client. He walked in on Rosaline crying in the corner of the office. He asked her what was wrong and learned about her dire situation. Rosaline asked shamefully if Peter could offer any help.

As Peter thought over Rosaline’s request, he looked down at his Gucci shoes on his feet and told her it was impossible for him to help. He confessed about his $20,000 gambling debt and told Rosaline that his situation was just as hopeless as hers. As they both learned about each other’s plight, Peter noticed all the cash sitting on the office desk and the check he had in hand from the client who had the catering event. Peter came up with the idea to borrow money from the business by taking some of the money that the two managers had access to. It would only be until they had enough to get themselves out of the holes they were in, and they would keep a log of how much they took so they could pay back the Sirchias.

On January 15, 2019, the Sirchias were working the front pizza counter of Romeo and Juliet’s. As they were talking to some of their regular customers, Karen Russo, their CPA, came in. She asked to speak to them privately. She told them that according to the records they had given her to compile their quarterly taxes, she ran across something that alerted her. After finding the discrepancies, she looked back into their records and had found some tell-tale signs of skimming and embezzlement going back one year. Karen Russo suggested that they hire the forensic auditing team led by John Foal, in her firm to dive in deeper to find out what could be going on. The Sirchias agreed and sat down with Karen to go over what she had found.

**AUDITORS NOTES: KAREN RUSSO**

1. Company has been chosen for an audit from December 2015 to December 2018. Books and records were provided for review.
2. A transcript of the records for the full years of 2016 and 2017 were reviewed and deemed adequate for auditing conditions.
3. All gross sales reconciliations were performed and accepted as reported.
4. Sales tax returns and backup documentation were reviewed and accepted as reported.
5. Bank statements reconciled to the sales tax returns and federal income tax returns.
6. Bank deposits reconciled to the catering sales and register sales.
7. Purchases per the taxpayers records reconciled to purchases per Federal business tax return.
8. Final work papers were signed off for the years of 2016 and 2017.
9. For the year of 2018, the auditor declined to sign off on final work papers and requested the case to be forwarded to a forensic accountant for further investigation.
10. The auditors final work papers for the full years of 2016 and 2017 were accepted by the forensic accountant for comparative reasoning.
11. There were two part-time employees that reached out to the auditor once they heard about the investigation: Denise Richard and Tom Sawyer, 21 and 22 years of age, respectively. Both were willing to submit affidavits on suspicious activity they witnessed the past year.
12. Gross receipts reported on the 2018 business tax returns were $662,000. The total purchases reported on the 2018 business tax returns were $360,000.

The student should put themselves in the position of the forensic accountant when reviewing the records and answering the following questions.

DISCUSSION POINTS AND QUESTIONS

1. The fraud triangle consists of three sides: pressure, opportunity, and rationalization. Identify facets of this case that form the fraud triangle and explain how they do so.
2. Prepare a memo to present to the Sirchias outlining which documents you would review in the order that you would review them.
3. After analyzing the materials provided, approximately how much money do you think Rosaline and Peter have embezzled?
4. Identify and list all aspects of the internal controls. Provide a management letter to the Sirchias with recommendations to improve their control procedures based on your observations during the examination.