



Our firm was engaged by the Court for me to act as a neutral accounting referee. This was after about 20 accounting firms were interviewed in the offices of a large national law firm. Almost 30 thick files were delivered to me with instructions to familiarize myself with the contents and work in conjunction with a large national firm of accountants whom I would also supervise. We kept

---

Double-dealing: dishonest behavior and  
actions intended to deceive.

Cambridge Dictionary

---

getting additional files as the court proceedings continued. It took a few years before the courts made their decision between the parties and neither I nor the accounting firm were called upon to issue any reports on our findings.

Millions of dollars were incurred in legal expenses by both parties.

\*\*\*\*\*

### ***Double Dealing by a Licensee***

Several years ago, we were engaged by a major not-for-profit organization to audit one of their licensees. The license was for pet products. Despite our typical advice that our clients should “audit” their licensees sooner rather than later, this licensor waited about 4 years before proceeding.

On visiting the licensee’s facilities, we did our typical walkthrough to familiarize ourselves with the product and the licensee’s operation. The product was equipment to allow dogs to exercise indoors by utilizing this apparatus. We noted that the licensee had essentially two lines of the same product—none of which were branded with our client’s trademark. We also reviewed their advertising material, including ads that they had run in airline magazines displaying the equipment with complete details about the product and its benefits.

During our engagement, we soon found that the licensee was advertising the branded version of the licensed product. While they were advertising the branded products on which they were paying royalties, they were also selling the identical, unbranded version the sales of which were not being recorded for royalty purposes. When we questioned the licensee, he denied that he intended

to avoid royalty payments, stating that these products were developed by him and not subject to royalty payments although this unbranded line had the exact specifications and design as the branded line.

We communicated this to the licensor and computed the royalties owed, which came to a significant sum. The licensee did not have the funds to pay these unreported royalties and, after legal intervention, eventually filed for bankruptcy. Unfortunately, the licensor's delay in finally conducting the audit long after the commencement of the agreement, with no follow-up in the interim, enabled the licensee to spend the funds otherwise due to the licensor. A significant amount was lost and irrecoverable by the not-for-profit licensor.

The moral of this story? Audit early and often.

\*\*\*\*

### ***What Conflict of Interest?***

After several meetings with a property owner's licensing manager of a public company, including proposals of different levels of service i.e., "audit", agreed-upon procedures, and consulting, we were engaged to "audit" their licensees' fashion products.

We communicated with the licensee requesting certain documents such as invoices in advance. However, they insisted that we first meet with their owner/CEO, accountant, and CPA. We agreed, and together with our client, attended the meeting. Before the commencement of the meeting, we had a walk through with the licensee to observe operations and inventory.

Thereafter, we had a full meeting discussing the audit provisions of their license agreement that had been in effect for several years. We also told them what documents we would require.

Shortly after returning to our office, we received a phone call from the licensing manager stating that the CEO's of both the licensor and licensee had agreed that no audit was necessary. We were told that these parties were friends, trusted each other, and saw no need to audit the royalty transactions. We were very surprised, as was the manager but obviously, the licensee had used its influence to stop the procedures despite possible violations of the license agreement.

