

# Managerial use and analysis

[Education](#)



**ASSIGN  
BUSTER**

ACCT504 - Accounting and Finance: Managerial Use and Analysis | Case Study 2 | Evaluation of LJB Company's Internal Controls | [Type the author name] | Due: February 10, 2013 | Table of Contents Paragraph Introduction 1 Accounting regulations 2 Establishing a Control Environment 3 Segregation of duties 4 Segregation of record keeping from physical custody 5 Policies for petty cash 6 Pre-numbered invoices 7 Distribution of paychecks 8 Hiring policies 9 Independent internal verification 10 Conclusion 11

The following is an evaluation of LJB Company's internal controls, based on the information provided by the President of the company in an effort to prepare his company for the requirements needed to be a publically run company. First, I will establish the legal requirement needed and the importance of internal controls for an organization. Then I will review the current policies and establish better internal controls for each area of concern. Once these policies have been instituted by the LJB Company, they should be ready to proceed with their plan to go public.

There are many accounting regulations required by a public company. All accounting reports must follow the FASB and SEC guidelines. However, the newest accounting guidelines fall under the Sarbanes-Oxley act of 2002. The Act mandates reform to improve financial disclosure from companies and to reduce fraud. It requires that senior management must verify the accuracy of the reported financial statement. Plus it requires that management and auditors maintain a system of internal controls and report the methods of these controls.

If the company doesn't comply with the requirements, they could be subject to hefty fines. Before establishing internal controls, it is essential that the <https://assignbuster.com/managerial-use-and-analysis/>

company establishes their control environment. The company's management must clearly outline its goals, standards and ethics since they "set the stage" for the atmosphere and integrity for the entire organization. With the control environment in place, management can then implement its internal controls. I will review what control activities the company is doing right and what the company will need to change.

The following control activities will be reviewed; segregation of duties, establishment of responsibility, adequate documents and records, physical control over assets and records and independent checks on performance. Currently, the LJB Company has one person who serves as the Treasurer and Controller. His responsibility includes purchases and paying for all of the supplies. This policy leaves the company vulnerable to fraud and increases the chances of errors. The company must establish a segregation of duties.

Responsibilities should be separate, so no employee should be in the position to both make and conceal errors or fraud in the normal course of their duties. Therefore, I would recommend one person should be in charge of purchasing the supplies and that all purchases should be approved by a supervisor. Another person should be in charge of paying for the supplies and verifying that the purchase is accurate and approved. This should reduce the risk of undetected errors and limit the opportunity for fraudulent behavior.

In addition to the purchasing/paying duties, the accounting person also receives the checks and completes the monthly bank reconciliation. When one individual is responsible for both activities, the potential for errors and irregularities is increased. There should be a segregation of record keeping

form and physical custody. The accountant should not have custody of the checks and be responsible for the monthly bank reconciliation. There should be a policy in which the work is either separated or reviewed by a supervisor. Next, I will review the company's policy for petty cash.

The current system allows every employee access to the cash and they are only required to leave a note if they remove any funds. This policy violates many proper internal control activities. The company needs to establish who is ultimately responsible for handling the petty cash. Only authorized personnel should have access to the funds. Expenses paid from the petty cash fund can only be made for the purpose the fund was authorized and must be supported by a receipt. When it is not in use, the petty cash box must be placed in a locked safe or cabinet.

An independent count of the receipts and cash on hand must be performed regularly by an accounting officer or supervisor. The new policy of using pre-numbered invoices is an excellent way to insure that all documents are accounted for. It will also help errors such as, entering the record in more than once or missing entries entirely. Any gap in the numerical sequence may indicate a problem and possibly catch errors. I would also recommend the purchase of indelible ink machine to print checks. This will insure that the ink cannot be erased or washed away for fraudulent use.

Next we will review the controls set up regarding issuing paychecks. The current procedure has the accountant picking up the paychecks and leaving them in his office for pick up. The checks are locked into a safe if he leaves for the weekend. When you pay employees, certain controls are needed to reduce the risk of fraud or errors. Whenever possible, the accountant should

hand the checks directly to the employee, and always lock up undistributed paychecks. Another solution would be to have your employees set their paychecks to be automatically deposited directly into their personal bank account.

The next step is to review your hiring policies. I would recommend counting the policy of having both the President and the accountant interview and make decisions on hiring an individual. However, I would also recommend implementing the following policies. If an employee handles cash, the company should have that employee bonded to protect the company from theft. A thorough background check should be run on each employee. All credentials should be verified by phone or by receiving a copy if applicable. After the employee has been vetted, be sure to cross train employees.

This will be useful when you require employees to take vacations and rotate employee's duties. All of these practices should lower the risk of employee theft. To ensure the reliability of the accounting information, an employee's duties should be verified by others who do not do the work themselves. I would also recommend that the company sets up a system for an independent internal verification. The company should audit data prepared by an employee periodically. This person should be independent of the activities or department of the person being audited.

All discrepancies will need to be reported to management, so corrective action should be taken. In conclusion, establishing a system of internal controls will create a system of checks and balances that will reduce fraud, errors, increase effectiveness and insure they are fully compliant with all laws and regulation. Each internal control is the means by which an organization's

resources are directed, monitored and measured. These recommendations will help the company establish specific policies and procedures they will need to reach their goals of becoming a publically traded company.

Resources