

# Presentation about the case

Finance



Freeze-Time Flowchart Purchasing Process: First of all, Freeze-Time uses low-end accounting software package to prepare documents and reports. When employees need to purchase supplies, they inform either Benita or Rosa, who will give the employee a note. Then Benita or Rosa enters the order information into the accounting system and a purchase order is created. This purchase order is then faxed to the supplier of the goods. If the order is specialized, then Benita or Rosa will call the supplier to check if there are any problems. Receiving Process: After the supplies have arrived at Freeze-Time's factory, Benita or Rosa checks to see if the goods are correct and whether they are in good condition. A copy of the purchase order is used to authenticate this process. Once the goods have been given the green light, Benita or Rosa will enter the new inventory into the computer system.

Payment Process: Rosa is in charge of paying the bills on fortnightly basis. She has to check the computer system for outstanding invoices and checks that the goods entered into the computer have actually been received. If any information has not been entered into the computer, then Rosa does this and prints the checks from the accounting system. Freeze-Time then mails checks and remittance invoices to the supplier. Occasionally, portions of the vendor bill will be returned to the company. Possible Internal Control

Weaknesses For the purchasing flowchart, there are not really any internal control weaknesses that stand out except for the fact that Benita Goldberg and her mother Rosa control the whole process. There is nothing to suggest that any collusion is going on, but the flexibility in their roles (they take turns at different points in the process) and lack of accountability mean that the opportunity is there for them to engage in unethical conduct. To prevent any possible conspiracy from occurring, an outsider could be brought in to

oversee the whole process. This way, both Benita and her mother would have to report to a CEO, who would be able to intercept any colluding between the pair. Also, Benita and Rosa need to have set roles so that the purchasing process remains transparent. Not only would this provide some solidity to the workplace, but it would help Freeze-Time to become more efficient as Benita and Rosa became used to their jobs. The use of a low-end accounting software package to prepare documents and reports is not very secure because the information could easily be tampered with. Freeze-Time should invest in better quality accounting software so that there is no chance of any recorded inventory being compromised. Finally, another internal control weakness could be due to the fact that either Benita or Rosa is entering order information into the accounting system and then creating purchase orders. Ideally, there should be a separate accounting department that enters purchase order information into the system, which then creates an automatic purchase order. Once the purchase order is made, someone from the sales department should fax it to the supplier. By setting up the purchasing process this way, there is not one single or pair of persons that have a part to play in every step in the purchasing process. For the receiving flowchart, someone else other than Benita or Rosa should check the goods because those two were involved in the purchasing process. It is possible that either of these two could change the records to show that a lesser quantity of goods was purchased and then they pocket the difference in price. The way that one of them could do this is because they enter the order information into the accounting system during the purchasing process and they also enter new inventory into the computer system during the receiving process. It would not be very hard just to change some numbers around to

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cover their tracks. For the payment flowchart, once again there is a problem of a lack of transparency. Unlike the purchasing process, where at least Benita was involved too, Rosa is doing everything by herself. There should be someone else involved in the process to make sure that there is no unethical behavior going on or there are trading mistakes being made. Someone else should check the payments made because if Rosa does it then it is a conflict of interest. Benita could assist Rosa if there was no other option, but ideally someone else would be appointed to the role. Bringing in an outsider would have its downsides, like having to bring that person up to speed, which could take months, but at least there could be no complaints made against Rosa that she is conducting illegal business activities. It is not clear who mails the checks to suppliers because the only information given is Freeze-Time. This could mean anyone, but most likely it is Rosa.

Assumptions Some assumptions that I have taken include the fact that Benita and Rosa are colluding just for the fact that they are related. This could be considered unfair because two unrelated employees could also be helping each other to fudge the books. The problem is that there is no accountability for either of them because no one else is mentioned in the case except for general employees needing a note for supplies. Another assumption is that Freeze-Time does not have any departments, such as for sales, accounting, and marketing. It may be that Freeze-Time does have these different departments, but from reading the case it sounds as though Benita and Rosa do everything. Of course, if the business only employees Benita and Rosa, apart from a few minor employees, there is very little need for either of them to steal from the company. However, if the company is

ever going to expand, then Benita and Rosa will have to hire other employees to take on some of the tasks involved with the business.