

Llc company's system case study

Business



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Internal control procedures are crucial to any business to make sure things stay on the right track, not just help the business to detect dishonesty but also can help the company to reduce the risk of not having a clear view of the company's financial position due to mistakes done when recording transactions. Internal controls consist of all the related methods and measures adopted within an organization to safeguard its assets, enhance the reliability of its accounting records, increase efficiency of operations and ensure compliance with laws and regulations.

It is our session to evaluate LLC Company's system of Internal controls and will be our goal to help LLC Company to identify current problems and to implement new Internal controls that will promote and develop a better organization and effectiveness in their operations. Since it is the desire of LLC Company to go public in the future, we will go over the Sarbanes-Oxley Act of 2002 (SOX) which required to all publicly traded U. S companies to maintain an adequate system of internal control and based on current internal controls applied we will generate recommendations that will improve LLC Company current system.

1 . New Internal Control Requirements It is my pleasure to assist your company providing all information you might need since LLC Company is planning to go public in the future. It is important to understand that under the Sarbanes-Oxley Act of 2002 (SOX) all U.

S corporations are required to maintain an adequate system of Internal control. Corporate executives and boards of directors must ensure that these control are reliable and effective.

In addition, independent outside auditors must attest to the adequacy of the internal control system. LLC Company should be aware that if they decide to go public and the many fails to comply with the requirements they will be subject to fines and company officers can be imprisoned. Let's start then reviewing the six principles that can reduce the occurrence of fraud and how LLC Company is currently implementing them. 1. Establishment of responsibility 2. Segregation of duties 3.

Documentation procedures 4.

Physical controls 5. Independent Internal verification 6. Human resource controls The first requirement is establishment of responsibility to specific employees. Control is most effective when only one person is responsible for a given task.

The second requirement is segregation on duties which I consider it indispensable in an internal control system, due to different individuals would have responsibility in related activities this way the probability of fraud decreases. The third requirement is documentation procedures, which help us to know what transactions, have taken place. Documents will provide the evidence that certain events have occurred.

Receipts, pre-numbered documents, invoices and signatures or initials on papers would contribute in the process of recognizing the individual responsible for each renovations or event. Fourth requirement is physical inventory; which is related to the safeguarding of assets and enhance the accuracy and reliability of the accounting records and will prevent unauthorized access to sensitive material.

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Examples of this are picture 'id's, password, biometrics, surveillance cameras, etc. Fifth requirement is independent internal verification which states that companies should verify records periodically or on surprise basis and any discrepancy should be reported to management so that it can be corrected properly.

The last requirement that I should mention to you is human resources controls; this principle will include: Bond employees who handle cash, rotate employees and require employees to take vacation and conduct backgrounds check. 2. Reviewing LLC internal controls: Now Tanat you are Tally aware AT want ten requirements are, I would Like so reviewing the internal controls that LLC Company has already implemented.

It is my understanding that LLC Company has recently started using pre numbered invoices and I am glad to know that because as I mentioned before this would be part of the third requirement: Documentation procedures. The idea of buying an indelible ink machine to print the checks is definitely worth it and I believe you should go for it because this way the checks can't be altered or deleted.

Also, I know that you are currently using a safe box in the office to storage the checks in there once the accountant leaves the office; this is a good practice that shows physical control at LLC Company so unauthorized people wouldn't have access to private information. LLC Company is going in the right direction and firing your employee for his behavior of misusing the computer of the company is another step towards development of good internal control; not having him and all employees with their own personal

passwords to access to the computers violates the principle of independent internal verification; additionally I see a lack of control on human resources department because there was not fingerprints or any kind of background check prior hiring him.

However LLC fired him and it will set an example for the rest of the company.

I encourage you to please continue with the activities of internal control you have implemented and I invite you to re enforce them and to adopt new ones. 3. Recommendations LLC Company must implement more internal controls in order to be in compliance to the accounting standards and that will help the Company to reduce the risk of fraud and to improve the effectiveness of the operations. I strongly recommend practicing the segregation of duties. After studying your internal controls I must say that I don't find recommendable the fact that LLC Company has one accountant who serves as treasurer and controller at the same time.

I believe there is a lot of room for irregularities.

Making one individual responsible for related activities increases the potential for errors. So that is something that needs to be changed. My recommendation on segregation duties will be that the person you have right now that is in charge of purchasing should not be in charge of paying the suppliers as well. The other hand this person also handles the checks and completes the monthly bank reconciliation which give even more room from fraud because eventually an employee could altered the checks and deposit it to personal accounts and since this person completes the bank reconciliation nobody else would notice the alteration per say.

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That is just one scenario but many other things might happen because LLC has not properly segregated the purchasing activities either the segregation of record keeping so far. Now, I would like to bring to your attention the way petty cash has been handled.

Petty cash funds must be safeguarded and documented; I see that in LLC Company all employees have access to it. So my suggestion here is to please make sure that petty cash funds go to that safe box that you have where the accountant stores the checks. So that you establish responsibility and whoever needs to use the funds should complete a form and later submit a receipt for the purchases and if necessary to return any change. Remember that receipts are evidence and documentation procedures are a very important requirement.

LLC has already experienced a very uncommon situation. When ten employees used the company's devices wrongly; In order to avoid a similar situation like that one in the future it is important to assign independent internal verification to all employees, and to make sure that human resources conduct a background check.

This is an inexpensive measure that LLC could have done and find out that this person was a convicted felon. Summary and Conclusion Even though LLC Company is in great need of implementation of new internal control requirements I am confident that applying all recommendations on internal controls can improve tremendously the trustworthiness of the company and its environment and will definitely help the company to increase reliability of information and comply with rules and regulations.

As part of the physical controls I recommend LLC Company to acquire surveillance cameras as a preventive control attempt that way you can monitor your facility and in case of an incident the videos recorded will help o verify the facts in timely manner. If you have any questions on any of the requirement or suggestions please feel free to contact me, I am available to provide advice and expertise and will gladly go over the subjects with you. I'm positive we can accomplish your goals together and following all suggestions made will take LLC to be fully prepared for its new challenge of becoming public in the near future. Best Regards, <http://diver>.

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