

Internal control weakness and corrective actions



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Fan Company A has eight weaknesses with the current internal control system. I will name each weakness and the corrective action for each weakness identified that will improve the internal control system to help protect the company's cash and inventory assets and to prevent unethical actions of employees. The first internal control weakness that I found is the accountant decided not to check the references on the two part time employees. The accountants reasoning were that the references that she had previous experience with did not provide useful information.

This procedure is bad internal control because the employer can be held liable if the employee does any unlawful act and the employer did not investigate the background and references of the employee. The correct internal control procedure that the accountant should do is check both part time employees references before hiring and do a background check. The second internal control weakness that I found was that the two employees from the two shifts share the same cash draw. This can cause a problem because neither employee can be held liable if a shortage of cash occurs.

The corrective action would be for each employee to have their own cash drawn that is counted at the beginning of the shift and end of the shift and a paper signed to validate the amount in the draw. This way the employee is held accountable for the amount of money in the cash draw. The third internal control weakness that I found was that the cash is kept in the office until Friday night when the accountant makes the weekly deposit. This can cause cash to be stolen or lost in addition can make finding out a problem with the cash receipts harder when not processed on a daily basis.

The corrective action would be for the cash receipts and cash to be counted daily and deposited into Fan Company A's bank account. The fourth internal control weakness is that the accountant was the only person handling the cash receipts and making the weekly deposits. The corrective action would be for the duties to be split between two individuals with one person handling the cash and the other person doing the bookkeeping of the cash. This will decrease the chance of theft in the office.

The fifth internal control weakness that I found was that the afternoon shift employee summarized the day's receipts and printed off the daily cash and credit sales tallies. The corrective action that should be taken here is for the employee to count their draw at the end of their shift but the employee should not have access to the accounting records. This should be handled by another employee. The sixth internal control weakness that I found was that the accountant was overseeing the retail outlet by him/herself.

The corrective action would be for more than one person to oversee the retail outlet to perform different duties including placing orders, receiving product, and paying vendors. Having separation of duties lessens the chance of theft and errors. The seventh internal control weakness that I found was that inventory was not done on a regular basis. The last inventory was completed by the store employees six months ago. The corrective action that I found was that for the inventory to be counted daily or weekly to help keep all supplies and product needed on hand.

This will also decrease the chance of theft of product or loss of product if kept track of more closely. The eighth internal control weakness that I found

was that the product has a bar code but the partners did not purchase a bar code scanner. The corrective action would be to purchase the bar code scanner to keep track of the companies' merchandise. This will allow for the company to order only when necessary and to reduce theft and loss of product. The bar code scanner will also cut back on the amount of time needed to take inventory allowing for inventory count more often and efficiently.