**Memo**

**TO:** Tracy Bennington

**FROM:** Hong Zhang

**DATE:** 04/30/2013

**SUBJECT:** Internal controls for ASK Corporation

Today many companies recognize the desirability as well as the requirement to have an effective system of internal control because it can provide greater assurance to achieve these companies’ operating, financial reporting, and compliance objectives.

In order to safeguard its assets, I suggest ASK Corporation to design and implement a cost-effective system of internal control. According to the principles of internal control, ASK Corporation can take these steps, as follows:

1. Segregation of Duties

Firstly, ASK Corporation can establish the framework within which the company conducts its various activities. In other words, ASK must assign specific tasks within a process to different people. This allows each person to provide double-check on the other’s work. It matches the accounting principles of segregation of duties. For example, Cashiers work directly with cash, and the accountant determines which vendors to pay. Someone receives inventory from suppliers, and another one can verify the inventory while stocking the items on the shelf. This method reduces the risk of mistakes and inappropriate actions. If having no segregation of duties, employees perhaps steal inventories or charge customers higher prices, the financial records don’t match the stock.

1. Records Maintenance

Cash registers create receipt tapes of the transactions that occurred during each shift. Warehouses maintain copies of receiving documents and transfers to store shelves. Employees use punch cards or electronic logs to record the hours they work. We need keep all of these records. It matches the accounting principles of documentation procedures. In fact, maintaining appropriate records ensures that proper documentation exists for each business transaction. Also, appropriate back-up deters an employee or management from creating phantom transactions in the underlying accounting records. We know that a good records management program can reduce operating costs, improves efficiency and minimizes the risk of litigation. If not, employees perhaps sell the goods but he keeps the money in his pocket. When you notice the loss, you can’t sue him because you have no evidence.

1. Safeguards

Safeguards prevent unauthorized personnel from accessing valuable company assets, such as safety deposit boxes for cash and business papers, locked warehouses and storage cabinets for inventories and records, computer facilities with pass key access or fingerprint or eyeball scans. It matches the accounting principles of physical controls. Regardless of the methods, safeguards are a necessary feature of a company’s internal control system. Many business owners instinctively protect inventory, cash and supplies. However, blank checks, company letterhead and signature stamps are items that require safeguarding that are commonly overlooked. The most key point is the accountant should have neither physical custody of the asset nor access to it. Likewise, the custodian of the asset should not maintain or have access to the accounting records. If the employee has physical custody of the asset and maintains the record of the asset too, he has great opportunity to convert the asset to personal use.

1. Monthly reconciliations and reviews

Audits provide management with the opportunity to review the work completed throughout the month. An audit reproduces the work to see if the same answer occurs. It matches the accounting principles of independent internal verification. They accomplish two primary objectives. First, these reviews are one of the key processes in the system of checks and balances (internal controls) needed in the company to prevent fraud, theft, or inappropriate use of public funds. Second, these monthly reviews can assess the effectiveness and efficiency of the business practices in the company. Reviews and reconciliations are detective controls. If ASK don’t use audits, employees perhaps:

■Create fictitious invoices and forge the boss’ signature to reimburse themselves for fictitious business expenses

■Use the company’s fund to buy jewelry, clothes, and other personal items

■Enter overtime hours into the payroll system to pay themselves overtime (at 1.5 times their normal pay rate) for hours not worked

■Issue fictitious customer refunds to conceal funds stolen from daily cash receipts

.