

PROBLEM SET A

Problem 8-1A

Analyzing internal control

C1



For each of these five separate cases, identify the principle(s) of internal control that is violated. Recommend what the business should do to ensure adherence to principles of internal control.

1. Chi Han records all incoming customer cash receipts for her employer and posts the customer payments to their respective accounts.
2. At Tico Company, Julia and Trevor alternate lunch hours. Julia is the petty cash custodian, but if someone needs petty cash when she is at lunch, Trevor fills in as custodian.
3. Nori Nozumi posts all patient charges and payments at the Hopeville Medical Clinic. Each night Nori backs up the computerized accounting system to a tape and stores the tape in a locked file at her desk.
4. Benedict Shales prides himself on hiring quality workers who require little supervision. As office manager, Benedict gives his employees full discretion over their tasks and for years has seen no reason to perform independent reviews of their work.
5. Carla Farah's manager has told her to reduce costs. Carla decides to raise the deductible on the plant's property insurance from \$5,000 to \$10,000. This cuts the property insurance premium in half. In a related move, she decides that bonding the plant's employees is a waste of money since the company has not experienced any losses due to employee theft. Carla saves the entire amount of the bonding insurance premium by dropping the bonding insurance.