Re: Segregation of Duties

Mr. Barnes,

We have completed our assessment of your financial systems and related processes. In a sound financial system, controls are in place that require segregation of duties in the authorization, approval, custody and record-keeping functions. After learning more about your company, we have identified deficiencies within our financial system where your employees can perpetuate fraud undetected. Following are details of our assessments and recommendations to improve the segregation of duties control within your accounting department.

During our review, we learned that the company accountant has many responsibilities that question the level of segregation of duties. The accountant has authority to provide access to others, process transactions, print checks and sign checks. This implies that the accountant can commit fraud through creating fictitious documents, providing unauthorized signatures and misappropriating company assets, including cash. Because there exists no oversight, this can all take place undetected.

As a start-up company, capital and processes may be limited as the business grows. However, it is important that you consider investing in services that will provide solutions to minimize loss to your company due to inadequate internal controls. We recommend you act now to restrict the access that your accountant has to your entire financial system. First, the president will need a new password - one that's stronger, alpha-numeric and difficult for others to detect. Secondly, additional employees need to be put in place to segregate responsibilities across more than 1 employee. While hiring additional staff may be challenging, it is a good idea for management to be actively involved in the daily financial processes. Also, check stock should be stored in a locked or limited access area and only accessible by authorized individuals. A stronger control would involve implementing a dual signature requirement for check disbursements.

We hope our review has provided for you insight into the current state of your operations and how strengthening your internal controls will help prevent fraud and losses as you grow your business.

Best,
Nikki Winston

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Re: Control Procedures

Ms. Maddox,

This memo will discuss the role of monitoring of internal control in improving corporate governance. Monitoring, along with risk assessment, information & communication, control environment and control activities make up the components of internal control. Some examples include focus groups, surveys and benchmark assessments. Its concept is the underlying premise of internal control - to continuously monitor risks in an ever-changing environment within an organization. In doing so, management can make well-informed decisions when designing controls with effectiveness to mitigate the risks. Monitoring also allows for more accurate and timely reporting which creates efficiencies and lowers costs.

In this case, the control procedures require at least two individuals in the accounting office always. Due to inadequate employee staffing, this control procedure is not performing effectively. As a result, one volunteer is tasked with completing the duties of two and without oversight. This employee may have never assumed sole responsibility for accounting and may not be well-versed in the entire procedure. This increases the likelihood of erroneous accounting & inaccurate financial reporting. Failed control procedures also increase the risk of fraud, collusion and misappropriation of company assets.

It is a best practice to periodically monitor internal control procedures. Businesses operate in an ever-changing environment so it is important to re-evaluate risks and ensure controls are well-designed to mitigate those risks. I hope this has provided adequate insight into the role of corporate governance and its importance in mitigating risk in your organization.

Best,
Nikki Winston

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Re: Enterprise Risk Management

Hello all,

More companies are looking to implement enterprise risk management systems. In recent years, companies impacted by accounting scandal and accusations of fraud have forced companies to think more strategically about mitigating risk at all levels within the organization. This memo will describe the purpose of an enterprise risk management system and whether implementing an ERM system will benefit your business.

A strong selling point of an ERM system is its ability to function across all departments within an organization. It provides a centralized source for real-time tracking of potential loss exposures. Management can rely on this data and act to manage risks within your company’s risk appetite. In addition, this data is helpful in projecting future risks that management can anticipate and proactively implement effective controls.

While there are many benefits to an ERM system, it also has its drawbacks. While it is useful in managing risk, ERMs are incapable of managing all risk. Companies operate in an ever-changing business environment with some unforeseen risks. Additionally, ERM systems are subject to collusion amongst employees if inadequate controls exist. No matter how sophisticated an ERM system may appear, it is subject to management override and this lessens the effectiveness of the system as it's unable to perform properly.

We hope we have provided valuable information to you in evaluating whether to move forward with the project. Enterprise risk management systems add value and provider greater perspective into risks in your business, however they are only effective when there exists no acts of collusion or management override. Please contact me should you have questions or require anything further.

Best,
Nikki Winston

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Re: Product Differentiation

Hello Mr. Jones,

Per your request, this memorandum is to provide insight and guidance around your product differentiation strategy and alternatives to explore if this strategy is not working.

The product differentiation strategy is used by organizations looking to compete in the market on factors other than price. It is advantageous in a market where many firms produce similar products because it gives consumers the perception that one product is superior to the others. Some common product differentiation strategies include using higher quality raw materials, sleeker packaging or a product enhancement that competitors aren't utilizing. Oftentimes this approach requires significant investment in technology, support or innovation that validates Urton Corp's higher selling price. While using this strategy is beneficial for creating perceived differences to your customers, it does come with a higher cost. Often, these costs are passed on to consumers in the form of higher prices. This may not be an issue for brand-loyal consumers, however, if your customer base does not see the added value in your product differentiation strategy, they will look to competitors for a comparable product at a lower price point. This may impact your margins and ability to maintain a competitive advantage. In that case, it would be a good practice to explore alternatives to product differentiation.

Another method to explore is competing on price, where the focus is a leaner organization where your production process is more cost-efficient than your competition. There are no superior differences between your product and others, however you are able to realize cost-savings by adopting production techniques that will have less adverse impact on your bottom line. This may involve implementing a just-in-time inventory method and taking measures to realize cost-savings without directly impacting your customer. A strategy that maximizes your competitive advantage will allow you to compete more effectively with both your domestic and international competitors.

I hope we have provided insight for you to make an informed decision regarding your firm's strategy going forward. I am glad to discuss further at your convenience.

Best,
Nikki Winston

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Re: Economic Output & GDP

Dear participants,

We're preparing this memo to discuss economic output measures. Specifically, we will detail GDP, its 3 measures (real, nominal, per capita) and its impact on your business planning for the upcoming year. Each measure will be defined as well as its use for analytical purposes.

Nominal GDP measures in today's prices the total output of **final** goods and services produced for exchange within a county in a given period (fiscal year, for example). It does not factor in partially finished goods requiring further production or goods produced by the entity in a foreign market. It's important to note that nominal GDP does not adjust for price changes over time. Nominal GDP is useful for analyzing market prices currently, however, because it does not adjust for price changes over time, use of this measure to evaluate changing prices is not ideal.

Real GDP is similar to nominal GDP, the key difference being that real GDP does account for price changes over time using a price index. Therefore, real GDP is a more useful measure in evaluating price changes over time.

Lastly, GDP per capita measures GDP per individual within a country – simply divide the real (or nominal) GDP by the country's population. It can be useful for nominal GDP but is more useful when calculated using real GDP. Real GDP is useful is assessing the living conditions of a given country and can be used to compare living conditions among different countries.

Please let us know if you require anything further or if you need more details regarding these economic output topics.

Best,
Nikki Winston

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