

Cost-cutting May Invite Errors or Fraud

Q: In order to survive through this difficult economy, I have had to cut back on personnel in several areas of my company. How can I be sure that I have not compromised my financial controls?

A: Business owners may feel especially vulnerable at this time due to the need to reduce personnel in key areas. If your company has an annual financial audit performed by an independent CPA firm, deficiencies and weaknesses in internal controls should come to light and be reported in a Management Letter. The auditors' recommendations should be acted upon to eliminate or minimize the deficiencies/weaknesses and reduce the potential for an error or fraud to occur. Non-audited companies can engage the services of a CPA firm to evaluate the company's existing internal controls system and recommend ways in which it can be strengthened, or to develop an internal controls system if one is not already in place.

Often, when personnel cutbacks have occurred, employees in higher levels of supervision or management may need to assume additional responsibilities in order to segregate financial duties as much as possible for the internal controls to work properly, such as managing the company's approved vendor list or approving invoices and other supporting documentation prior to payment.

For more information regarding internal controls and fraud prevention, please contact:

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