

J. WISS AND SONS CO.

SYSTEM SURVEY

May, 1958

WISS SYSTEM SURVEY

Internal Control is a planned systematic method of coordinating the measures and policies of a company so as to protect its assets, measure the accuracy of internal reports and provide a scale against which can be seen any deviation from authorized company practice and procedure. The duty of seeing to the instituting and adherence to a system of internal control is one of the officers and management of the company.

Within the scope of a properly conducted audit, an independent certified public accountant must determine the effectiveness of the internal controls and point out any breaking down of the accounting system. When basic faults have been discovered, and are not corrected, the breakdown spreads into the entire plan of organization with the results being disinterested, disjointed and inefficient operation of the office and the hazardous growth of individual departmental empires.

A preliminary survey of the system in effect at J. Wiss and Sons Co. indicates a definite need for improvement and modernization. The following is a report of only a preliminary survey and is not intended to show all the problems which exist. From the problems, as set forth in this report, the thought is to bring further to the attention of the management the fact that these basic questions do exist, and the need for proper supervised corrective action.

WHY DID WE MAKE A PRELIMINARY SURVEY? FURTHER, WHY REVISE THE SYSTEM?

The answers to these two questions lie in the adverse answers necessarily given to the following eight basic questions of system review within the scope of an audit.

1. How good is the internal control, and are all procedures actually in operation?
2. Are there personnel problems, setting up obstacles in the accounting system and its operation?
3. Are there new mechanical devices on the market, which would be useful to the company and of which they have not availed themselves?
4. Do the executives desire more, better and more timely information and reports?
5. Are the executives overloaded with detail work?
6. Does a quick review of the system suggest ideas for improvement?
7. Does the office give an impression of efficiency?
8. Is a great deal of moving about in the office by office personnel necessary in order to do their work?

The eight questions above are from a published list used nationally by Certified Public Accountants in helping them determine the status of a client's present system. It is obvious that truthful realistic answers to these questions point up the need for a change in J. Wiss and Sons Co.

It was during our examination of the books and records of J. Wiss and Sons Co., that we have noted not only the existence of basic problems - but their multiplication and the failure of the company to take a positive stand in facing problematic issues. These particular problems have been pointed out individually in the past as we discovered them. Now they are becoming so numerous and complex that a thorough skilled review and overhauling appears necessary.

Immediate Questions come to mind regarding a system revision. Two of the basic questions are:

WHO SHOULD MAKE THE REVISION?

The officers and employees of the company have their everyday jobs to do, and in all but the largest organizations, these people are not trained in this type of work. This work cannot be performed on a part-time basis. It must be done by trained people, who know your business and its problems, and who by their independence from various departments can appraise the departments and needed information in its proper perspective.

- - -

HOW MUCH WILL IT COST?

It is not possible to quote a fixed fee in advance of this type of engagement. The time required is dependent on the cooperation of the company and its employees, but on the basis of our past performance and the amount of work involved, it is possible to estimate the total cost without specifying an exact amount. Per diem charges are the most satisfactory method of billing for this work from both the standpoint of the client and the accountant. Due to the nature of the work and the experience required, charges are substantially higher than the regular per diem auditing fees. It is customary to put in writing the extent of authority granted to the reviewing C.P.A.'s in order to provide the necessary freedom of action for the proper performance of their services.

GENERAL HISTORY

J. Wiss and Sons Co., is a New Jersey corporation, engaged in the manufacture and sale of Shears, Scissors and Snips. The business has been in existence for over 100 years and has the most respected name in its field. Its products are considered to be the best on the market and have commanded prices commensurate with this position.

Based on the principles of self financing, ultra conservative expansion, and operating as a closed corporation with the tightest family control, the company has established itself with a very sound financial position; but its general policies and labor relations because of this same ultra conservatism and tight control have been the result of evolution rather than planned development.

PLANTS, PROCESSES AND PRODUCTION

The main plant is located at 33 Littleton Avenue, Newark, New Jersey. Until 1957, this was the only plant operated by the company. Additional facilities in Maplewood, New Jersey have been secured on a long term lease in order to separate and more efficiently manufacture certain products.

The main plant is an old brick building almost fully depreciated. It has been kept in good repair but cannot be described as a well laid out plant in terms of modern production techniques or administration. The processes and production cycle necessarily suffer because of the plant arrangement and cannot be altered to any great extent because of physical limitations. These same limitations make the taking of physical inventory a very difficult job and also contribute to bogging down the administration of the office.

It must be pointed out that effort has been made in this direction through the use of the firm of Alexander Proudfoot which was hired to assist in plant and production system realignment.

PLAN OF ORGANIZATION

The plan of organization in J. Wiss and Sons Co. is at present non-existent to the outside observer, except through the authority of verbal command by virtue of seniority or executive position.

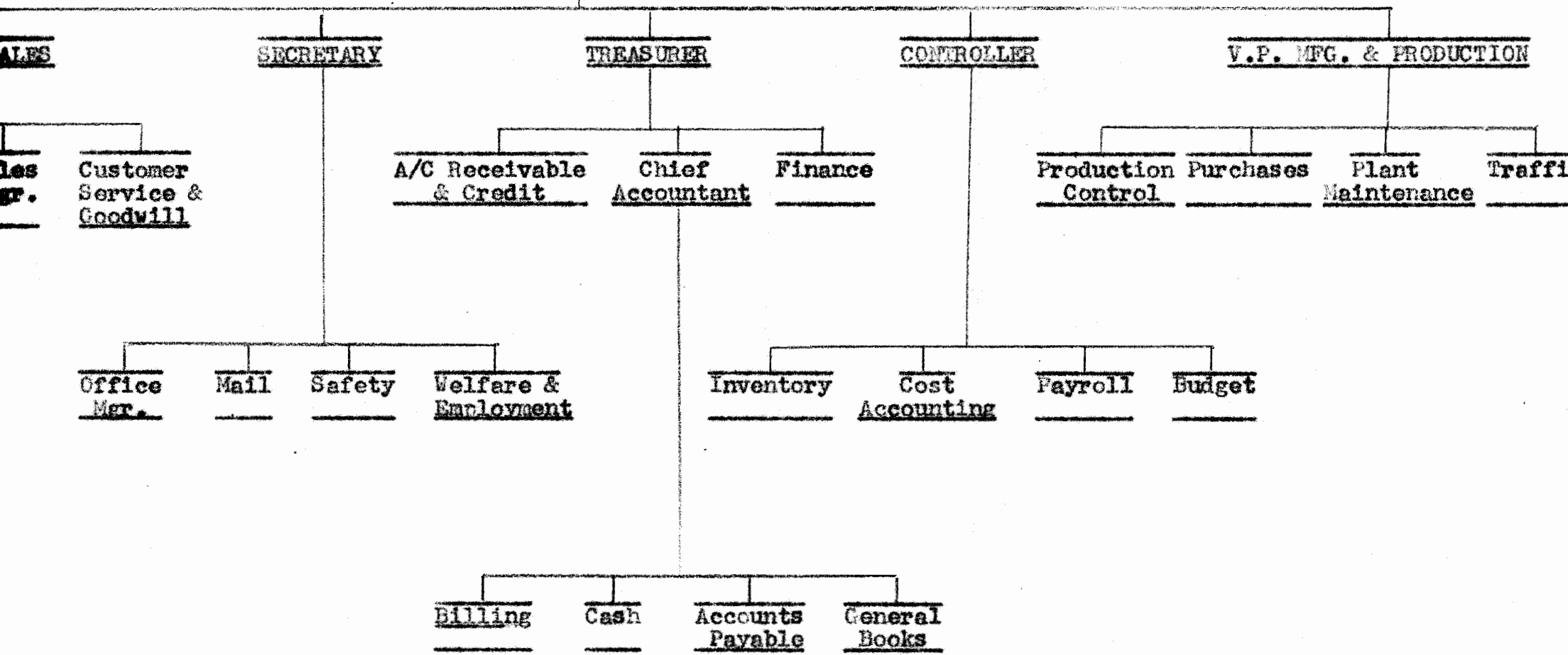
Without any definite plan of organization there is a constant sense of 'veto power by any executive' present in the employees and an unnecessary waste through overlapping of departments. Project committees are non-existent. Decisions are made on even the most minute details by executive personnel, and then, only when the particular question arises. Once again we have the evil shadow of overlapping responsibility and a resultant waste of executive ability and time.

In summary of the plan of organization it can be explained simply as unnecessary overlapping at all levels of administration.

A simple plan of organization is outlined on the following page as an example. It is with this type of plan, the delegation of authority and responsibility, the creation of a set of general rules and procedure, that a smooth functioning organization can be knit together. It is a false excuse to say that any firm is too large, too small, or too different to operate properly within a preconceived but flexible system of organization and budget. This includes job evaluation and salary rating to eliminate rivalry and competition. Each position should be considered independently of what someone else's job entails or is valued at in terms of compensation.

BOARD OF DIRECTORS

PRESIDENT



PERSONNEL

The degree of efficiency with which people perform their appointed tasks hinges not only on their personal ability, or the effectiveness of the system in use, but on conditions such as the following:

- 1) Morale
- 2) Space for Working
- 3) Lighting-facilities, etc.

These are only three of the more basic considerations.

1) MORALE

Is their work appreciated?
Are they commended on a job well done?
Is there a feeling of harmony prevalent in the office?
Are they inclined to put forth a little extra effort on a job because they enjoy working for the company and feel like a part of it?

2) SPACE FOR WORKING

Is there adequate room for the performance of duties?
Is there an appearance of a neat well organized office?
Is the office well integrated and laid out?

3) LIGHTING-FACILITIES, ETC.

Are the office facilities laid out for the benefit of the employees to obtain maximum efficiency?
Are there adequate rest facilities?
Are the lighting and decor the most conducive to good work?
Is there an obvious effort on the part of the company to provide the best facilities it can within reasonable economic limitations?
Do the executive and key personnel have a thorough understanding of their positions and duties?
Are they well trained for their jobs?
What specific controls are presently in force?
How are these controls exercised?
Who exercises these controls?

KEY PERSONNEL

- - -

Do the Key Personnel subject themselves to criticism by interfering in clerical details?
Have the Key Personnel become so engulfed by their jobs that they are losing sight of the end result?
Do the Key Personnel set a good example for the remainder of the office force?
What standards are in effect to measure efficiency?

PROTECTION

Has the company availed itself of the best possible protection it can have for its business and its assets?

Is the data available readily for verifying your position and protection as to

- 1) Legal Involvements
- 2) Finances
- 3) Insurance on the assets, profits and fidelity bonds
- 4) Customer Relations
- 5) Competition
- 6) Production

Are the officers of the company all acquainted with the overall picture, or are they bogged down in a mire of detail?

JAMES J. HASTINGS & CO.
CERTIFIED PUBLIC ACCOUNTANTS
605 BROAD STREET
NEWARK 2, N.J.

RECORD KEEPING

Are the most modern methods used in keeping your records - all records - filing - insurance - history and financial?

Are the records available at all times when needed?

Have you stumbled into the caverns of what you believe to be necessary secrecy?

Are your records correct?

Why is your Payroll Department so much more complex than even larger businesses find necessary?

Why haven't you taken advantage of mechanizing your Payroll Department to provide more accurate information, quicker and more economically?

The basic accounting system down to the details is beginning to show signs of wear. This has been pointed out and should be corrected - as it would be in a system revision.

Are the executive officers being supplied with and taking advantage of all the information they need and could have concerning the apparent inventory stockpiling?

Do you have individual cost figures for each type of product?

Do you know how you made a profit last year? On what product? How much on each product? Which product is your profit leader?

Your records are not supplying this information - but they could.

SUMMARY

We have set forth, strictly in question form, some of the basic system problems at J. Wiss and Sons Co. We have found the system, presently in use, to be woefully inadequate and outdated. Some of the most apparent faults encountered are listed below:

- 1) Poor Internal Control
- 2) Lack of Proper Controls on Inventory and Production
- 3) No Plan of Organization
- 4) Personnel Morale Problems
- 5) Inadequate Space
- 6) Improper Facilities
- 7) Overemphasis of Secrecy
- 8) Unavailability of Records
- 9) Insufficient Executive Data
- 10) Overall Office Inefficiency

The solutions to these problems can be attained, but not by wishing. As mentioned on Page 2, with proper freedom we can convert these ills.

Our plans for complete system revision include the following:

- 1) Revise the office and accounting systems
- 2) Supply management with better information through integrated data
- 3) Prepare a plan of organization
- 4) Lay out methods and plans for improving space, facilities and morale.
- 5) Improve the overall efficiency of the office

We recommend that the officers of J. Wiss and Sons Co., read this report again, discuss its implications, consider its questions, and finally, delay no longer in authorizing the revision of the system.