

Internal Control: A Refresher



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Exercise #1: COVID-19 and Internal Control



The changes in operations that have occurred due to COVID-19 are many and varied. The potential for internal control breakdowns and failures has been greatly increased. As a first step in taking action to identify and fix or mitigate internal control problems that may now be present:

Exercise #1: COVID-19 and Internal Control

COVID-19 and Internal Control

1. How did operations change due to COVID-19? Think about something that normally happens at the office and then think about how it was handled during the shut-down (or if you are still shut-down, think about how it is being handled now).
2. Identify internal control procedures that were not performed or were changed.
3. How can you now check to determine if problems occurred?

How did operations change?

- GovGuam
 - Governor Guerrero declared state of emergency March 14, 2020
 - Suspension of laws that “prevent, hinder or delay necessary action to respond to the emergency” including purchases and hiring
 - Price gouging prohibited
 - Goods, services, dwelling rentals



How did operations change?

- Authorization of hiring, overtime, and any procurement related to public health emergency
- Overtime authorized for mitigating and responding to COVID-19
 - Authorized by Office of Civil Defense Administrator
 - Approved by Bureau of Budget Management
- Documentation of emergency expenses required

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How did operations change?

- Governor Guerrero issued Executive Order April 5, 2020
- Authorized COVID differential pay for essential employees whose work required exposure to virus
 - Remote work not possible
- Retroactive to March 14, 2020

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How did operations change?

- Differential pay rates
 - 25% for those in direct contact
 - Public safety/law enforcement, healthcare
 - 15% for incidental contact or close proximity
 - Humanitarian services, direct public assistance
 - 10% for those who cannot telework and are mandated to work at a physical site

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How did operations change?

- Governor Guerrero issued Executive Order May 28, 2020
- Level 2 announced
 - Mandatory social distancing
 - Face masks required
 - Groups limited to 25
 - Schools remain closed
 - Quarantine for new arrivals

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How did operations change?

- Level 2 announced
 - Public parks and beaches opened
 - Business/church reopen up to 50% capacity or 10 people
 - GovGuam reopen June 1
 - Teleworking encouraged
 - End of differential pay
 - Moratorium on foreclosure and eviction

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How did operations change?

- Key operational support staff worked “half days” or more to ensure operations continued.
- Employees placed on administrative leave

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Internal controls skipped or changed

- Payroll
 - No employee signature
 - Overtime approvals
 - Payroll checks?
- Now moving toward adoption of electronic processing and digital signatures
- Also reviewing applications, employee clearances and other standard operations.

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How to check now

- Review of payroll registers by department heads
- Variance analysis and investigation of significant variances
- Areas known to have weaknesses in payroll controls
 - Samples and testing
- Areas with high overtime and differential expenses
 - Samples and testing

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Exercise #2: Assessing the Control Environment

Management is responsible for designing and maintaining the internal control system. A key component of that system is the control environment. It can be difficult to identify and assess a control environment because its all-encompassing and pervasive nature means that it affects many different areas in many different ways. Here are a few questions to help identify the control environment present in your organization.

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Exercise #2: Assessing the Control Environment

1. Are you familiar with the organization's code of conduct? Where is it located? What does it cover?

- New hire orientation
- Ongoing ethics training
- Living, breathing document
- Do employees know what it is and what it contains?

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Exercise #2: Assessing the Control Environment

2. Have you ever used the code to answer a question or to look something up? If yes, how did you use the code?

- Do employees have ready access to the code?
- Is the code useful?
- Does the code answer questions?

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Exercise #2: Assessing the Control Environment

3. What control-related activities do you perform? Why are they important? What areas do they affect?

- Do employees recognize controls that they perform?
- Do they understand what the controls are preventing (or detecting)?
- Do they understand that controls are essential?

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Exercise #2: Assessing the Control Environment

4. Have you observed unacceptable behavior on the job? If so, what did you observe?
 - What is considered to be “unacceptable” behavior?
 - Is “everyone” doing it?
 - Everyone takes supplies home. It is an accepted practice.
 - Does that make it right?

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Exercise #2: Assessing the Control Environment

5. If you were to report unacceptable or unethical behavior to senior management, what do you think senior management would do?
 - What message is being sent by senior management?
 - Tell me and I will take appropriate action.
 - Tell me and I will blame the messenger.
 - I’m a “good news only” kind of person.

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Exercise #3: Risk Assessment

You are part of the senior management team for Magical Garden Park, a nature preserve and amusement park located on Guam. The Park includes a steel roller coaster, flying swings, carousels, bumper car rides, log flume rides, swimming and wave pools, and raft rides. It operates a grab-and-go cafeteria and a gift shop. Normal operations would include the hiring of several hundred additional employees over the summer.

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Exercise #3: Risk Assessment

The Park had not yet opened when the COVID-19 lockdown instructions were issued. The restrictions have now been lifted and the Park is planning to open for the summer.

- What risks can you identify – for guests, for employees, for the community?
- How can these risks be addressed so that the Park can reopen?

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Magical Garden Park

- **Risk:** Crowds and inability to social distance
- **Response:** Limit attendance to 50% of capacity

Park Capacity Control:

Until Guam reaches Stage 5 of the "Back on Track" plan set forth by the Governor, Holiday World & Splashin' Safari will utilize date-specific online ticket sales and various tools to limit daily attendance to 50% capacity. As safe operations are examined and executive guidance allows, the attendance limits may be increased to allow more Guests to visit the park.

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Magical Garden Park

- **Risk:** Infection and spread
- **Response:** Employee screening and masks



Team Member Screening:

All Team Members are screened daily in accordance with CDC guidelines prior to the start of each shift. Team Members are trained to self-screen and stay home if they are not feeling well.

Face Coverings:

All Team Members are provided face coverings and other Personal Protective Equipment (PPE). Team Members are required to wear face coverings based on guidance provided by the state and local health departments. Face coverings are available for purchase in gift shops for Guests.

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Magical Garden Park

- Risk: Exposure on surfaces
- Response: 90 hand sanitizer stations + disinfection of high touch areas e.g., handrails

Hand Sanitizer:



"Hand Santatizer" stations have been strategically located throughout the park in areas that are easily accessible by all Guests and Team Members. These locations include areas near attractions, food locations, outside restrooms, and on cash register counters. "Hand Santatizer" is a 60% alcohol-based hand sanitizer that complies with CDC recommendations. Guests and Team Members are reminded that soap and water are more effective than sanitizer at removing certain germs and visible soil and grease from hands.

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Magical Garden Park

- Risk: Exposure from other guests in log flume line
- Response: Plywood boards erected to keep guests from breathing on each other in tight spaces



<https://www.holidayworld.com/rides/frightful-falls/>

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Magical Garden Park

- Risk: Repeated close contact in bumper car ride
- Response: Closure for now



<https://www.holidayworld.com/rides/rough-riders/>

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Magical Garden Park

- Risk: Exposure due to hiring process (normally, group interviews with 10-15 people)
- Response: Phone interviews

Our Work Is Play!

We're still hiring! If you're 14+, please **apply online now** and we'll email you to set up an interview.

If you've already applied, please watch for our call—our team at Holiday World will be calling you for phone interviews to limit face-to-face interaction.

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Magical Garden Park

- Risk: Exposure in cafeteria lines
- Response: Food runners bring meals to guests



<https://www.holidayworld.com/park-tickets/food-snacks/#santasmerrymarketplace>

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Magical Garden Park

- Risk: Exposure in lines for rides
- Response: Virtual queuing system
 - Electronic alert when time to line up
 - 75 benches



<https://www.holidayworld.com/rides/mammoth/#>

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Magical Garden Park

- Risk: Exposure during lifeguard training
- Response: Purchase of 10 mannikins with “lung” for training; provision of single-use plastic mask for rescues



<https://www.holidayworld.com/rides/mammoth/#>

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Reopening in a COVID World

- “Reopening a Theme Park is a Topsy-Turvy Ride,” by Chip Cutter in WSJ 6/20/20
- Holiday World, Santa Claus, Indiana



<https://www.holidayworld.com/>

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Risk Assessment

- Reconsideration of every aspect of operations
 - Look with “new eyes”
- What is our primary objective?
 - What are essential steps?
 - Can they be done a different way?
- Has human nature been taken into consideration?



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Exercise #4: Fraud Prevention & Detection

Lesley Wade was employed by the Franklin County Board of Education (FCBOE) for 19 years, eventually rising to the position of Financial Director. Beginning in February 2011, she wrote unauthorized FCBOE checks to herself, then falsified the records and invoices to cover up the theft. She created fake invoices with real companies' names and then modified the checks before depositing them in her bank accounts.

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Exercise #4: Fraud Prevention & Detection

Wade also served as treasurer of Leestown Gospel Church in Frankfort. As treasurer, she had complete control over the church's financial management with little oversight or internal controls. Periodically, Wade used her control over the church's finances to launder money she had stolen from the FCBOE. Wade deposited the FCBOE checks into the church accounts and then wrote checks to herself out of the church accounts. The thefts continued through June 2019 and totaled \$1,624,593.

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Exercise #4: Fraud Prevention & Detection

FCBOE

- What controls might have prevented Wade's thefts?
- What controls might have detected Wade's thefts?

Church

- What controls should the Church have over its financial management?

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Franklin County Board of Education

- Preventive controls
 - Segregation of duties within Finance office
 - Entries into accounting system
 - Preparation of checks
 - Verification of vendors
 - Board supervision and approval of Finance Director's activities and responsibilities
 - Annual audit

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Franklin County Board of Education

- Detective controls
 - Board review of financial reports
 - Analysis and investigation of variances
 - Annual audit
 - Test of cash disbursements including examination of cancelled checks

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Leestown Gospel Church

- Preventive
 - Board supervision and approval of treasurer's activities and responsibilities
 - Copy of bank statement to independent person
- Detective
 - Review of bank reconciliation by independent person

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Lesley Wade

- Caught when she attempted to deposit a check in her credit union account
 - Credit union contacted FBI
- Annual audit did not catch fraud
 - Noted lack of accounting expertise
- Pleaded guilty in federal court in Frankfort 5/26/20 to concealing money laundering and filing a fraudulent tax return
- Sentencing scheduled for Sept. 2020

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Exercise #5: Information Technology Controls

- Identify the best type of information technology control to address each threat
- Hint: Look at the input controls on slide #145

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Exercise #5: Information Technology Controls

1. The time worked field in a payroll transaction record contained the value 240 instead of 24. As a result, the employee received a paycheck for \$3,567.89 instead of \$358.12.

D. Limit check

Tests a numerical amount against a fixed value

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Exercise #5: Information Technology Controls

2. During processing of customer payments, the digit 0 in a payment of \$105 was mistakenly typed as the letter "O." As a result, the transaction was not processed correctly and the customer erroneously received a letter that the account was delinquent.

A. Field check

Determines that characters in a field are the right type

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Exercise #5: Information Technology Controls

3. Sunspot activity resulted in the loss of some data being sent to the regional office. The problem was not discovered until several days later when managers attempted to query the database for that information.

H. Echo check

Hardware control that verifies transmitted data by having receiving device send message back to sending device for comparison

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Exercise #5: Information Technology Controls

4. A batch of 47 time sheets was sent to the payroll department for weekly processing. Somehow, one of the time sheets did not get processed. The mistake was not caught until payday, when one employee complained about not receiving a paycheck.

C. Record count

Total of the number of input documents or number of records processed

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Exercise #5: Information Technology Controls

5. A customer filled in the wrong account number on the portion of the invoice being returned with the payment. Consequently, the payment was credited to another customer's account.

J. Closed loop verification

Uses entered data to retrieve and display related information

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Exercise #5: Information Technology Controls

6. After processing several transactions, the inventory report showed a negative quantity on hand for several items.

F. Sign check

Determines if data in a field have the right arithmetic sign

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Exercise #5: Information Technology Controls

7. A taxpayer's application for refund of an overpayment did not include the taxpayer's address. As a result, the refund was not processed and the taxpayer called to complain.

E. Completeness check

Determines that all required data items have been entered

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Exercise #5: Information Technology Controls

8. A tsunami destroyed the data center, including all backup copies of the general ledger files.

G. Offsite backup storage

Storage of backup data or applications at location outside the organization

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Exercise #5: Information Technology Controls

9. The clerk entering details about a large tax bill due mistakenly typed in a nonexistent account number. As a result, the government never received payment for the bill.

I. Validity check

Compares number to list of valid numbers in master file to verify that it exists

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Exercise #5: Information Technology Controls

10. A visitor to the department's website entered 100 characters into the five-digit zip code field, causing the server to crash.

B. Size check

Ensures that input data will fit into the assigned field

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Exercise #6: Communication

Email has become the primary means of business communication both within and outside the organization. Given the large and increasing amount of business being conducted via email, it is important to ensure that our email messages and behavior are effective in enabling business objectives to be accomplished.

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Exercise #6: Communications

Each of the situations below involves email communications and behaviors. What do you think?

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Exercise #6: Communications

John in Engineering sent an email to Ella in Accounts Payable Thursday morning at 9 AM asking her to call regarding the bridge construction project. He is working on the reports required for the next progress payment and needs additional information. Ella had not responded by noon. What should John do now?

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Exercise #6: Communications

- **Email faux pas #1: Not giving the person enough time**
 - An immediate reply would be wonderful but it is unlikely.
 - The recipient may be out of the office, in meetings, or prioritizing email responses.
 - It doesn't appear that John has waited long enough.



Exercise #6: Communications

Ella was buried in meetings. The government was experiencing cash flow difficulties and the meetings on how to address the problems were nonstop. The current meeting has 10 attendees crowded around a table. The current speaker has been droning on for 15 minutes. Should Ella check her email under the table?



Exercise #6: Communications

- **Email faux pas #2: Checking emails during a meeting**
 - It is rude to look away from a person you are having a conversation with.
 - What about a large group meeting where you aren't conversing?
 - Think about the example you are setting.
 - Why are you in the meeting?
 - How good will your responses be?

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https://www.huffpost.com/entry/5-business-email-etiquette-faux-pas_b_6437122

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Exercise #6: Communications

John (who doesn't have a lot of patience anyway) has sent a follow-up email to Ella. It starts off with "hello, anyone home?" Will this email get a better response?

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Exercise #6: Communications

- **Email faux pas #3: Sending sarcastic reminders**
 - Response likely to be irritation (and/or nonresponse)
 - A better reminder might be:
 - Subject line: Following up on my previous email

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https://www.huffpost.com/entry/5-business-email-etiquette-faux-pas_b_6437122

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Exercise #6: Communications

Ella sees herself stuck for another hour at least. She has ducked out of the meeting to send a quick email to her assistant telling her when she expects to be back in the office. She ends her email with 🙄. In the meanwhile, John has emailed the assistant in desperation asking where Ella is. The assistant forwards Ella's email to John. Will this satisfy John?



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Exercise #6: Communications

- **Email faux pas #4: Using cutesy emoticons**
 - Unprofessional
 - Can be misinterpreted
 - John is not likely to be satisfied with the information.



Exercise #6: Communications

How could these emails have been written and handled to ensure a more positive and effective experience?



Exercise #6: Communications

John's email:

- Sent early (leaving time for response)
- Identifying info needed and reason
- Identifying due date or time
- Requesting call or email response

John:

- Call office if urgent. Ask assistant to notify Ella about the request.

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Exercise #6: Communications

Ella:

- Plan out when emails will be answered
 - Beg. of day, end of day
- Provide schedule to assistant
- Provide instructions to assistant regarding urgent requests
 - E.g., Will respond at end of day or beg. of next

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