

APIPA 2020 – Internal Control: A Refresher – Exercises

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:

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?

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.

Question	Response
1. Are you familiar with the organization's code of conduct? Where is it located? What does it cover?	
2. Have you ever used the code to answer a question or to look something up? If yes, how did you use the code?	
3. What control-related activities do you perform? Why are they important? What areas do they affect?	
4. Have you observed unacceptable behavior on the job? If so, what did you observe?	
5. If you were to report unacceptable or unethical behavior to senior management, what do you think senior management would do?	

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.

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?

Risk	Proposed Response

Exercise #5: Information Technology Controls

Identify the best type of information technology control to address each threat listed below:

Threat	Control	Control Choices
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.		A. Field check B. Size check C. Record count D. Limit check E. Completeness check F. Sign check G. Offsite backup storage H. Echo check I. Validity check J. Closed-loop verification
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.		
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.		
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.		
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.		
6. After processing several transactions, the inventory report showed a negative quantity on hand for several items.		
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.		
8. A tsunami destroyed the data center, including all backup copies of the general ledger files.		
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.		
10. A visitor to the department's website entered 100 characters into the five-digit zip code field, causing the server to crash.		

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.

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

Situation	Response
<p>1. 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?</p>	
<p>2. 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?</p>	
<p>3. 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?</p>	
<p>4. 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?</p>	

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