

## Module 2 Case Study:

### **Case Study Instructions:**

For this case study, you will be acting as an auditor on a team assigned to audit how well an entity is achieving its mission.

The class will be divided into groups. All groups will receive the same background information below. However, each group will be responsible for evaluating the design, implementation, and operating effectiveness of a different component of internal control. In each group, participants will work together to discuss the issues and answer the questions. One person will represent each group and report out at the end of the allotted time.

Please note that everything in the following case study is fictitious and is meant to aid in the instruction of internal control concepts and their application.

### **Case Study Background:**

Congress passed the Bright Future of America Act (Act), authorizing the Department of Education to establish the Office of Promising Talent (Office) to support students in America from middle school through undergraduate school to improve academic performance in key areas of cultural, scientific, and economic studies. This Act requires that the Department of Education report to Congress 45 days after fiscal year-end on how the funds are being used. The Department of Education will provide only limited oversight to the Office, and the Office's appropriations will be a separate line item on the department's annual budget request to Congress.

#### Office Strategic Goal:

- Support students in America from middle school through undergraduate school to improve academic performance in key areas of cultural, scientific, and economic studies.

#### Office Objective:

- Establish a grant program that sponsors academic competitions in key educational areas to encourage educational achievement.

Now that the Office is entering year two of operations, your audit will evaluate whether the Office has developed effective programs to support students in

middle school through undergraduate school in order to improve academic performance in the three key areas of study outlined in the Act.

### **Control Environment:**

Your audit team visited the Office to obtain an understanding of internal control, especially as it related to the academic competition grant program. You noted the following:

- The Office has documented standards of conduct, oversight controls, an organizational structure, recruitment and retention policies, as well as disciplinary policies evidencing that the Office designed a control environment.

Office management determined that to achieve its goal of supporting students in America to improve academic performance in the key areas of cultural, scientific, and economic studies, the Office would need to hire subject matter experts (SME) for each of those three areas. You reviewed the Office's policy documents relating to recruitment and retention of key personnel and noted that there were key roles defined for these SMEs as shown below:

- Policy Excerpt: "Management will recruit, train, and maintain at least one SME for each of the three areas of expertise: cultural, scientific, and economic. Each shall have at least a doctorate-level education. With respect to the academic competition grant program, SMEs will have responsibility for reviewing grant applications for competitions in their respective areas."

During your review of the design of the controls related to the SMEs, you noted the following control to achieve the Office's objective:

- Control: When a grant program application is received for an academic competition, grant officers send applications to the SMEs tasked to review the type of application (cultural, scientific, or economic competition) for evaluation. **SMEs evaluate the technical portion of the application and sign the Grant Award Review Cover Sheet to document their review.**

You determined that this control was effectively designed to achieve the Office's objective. Your team determined that the next step was to test implementation of this control.

To test implementation of the control, you met with a scientific SME to observe her role in reviewing grant applications. You observed that she was reviewing an application for a cultural competition. The scientific SME mentioned that she sometimes reviews applications related to cultural competitions. She stated that in order to expedite review, grant officers regularly ask SMEs to review applications that are not related to their areas of expertise.

You think that this is a potential issue with implementation of the control. When you spoke to management regarding the issue, management informed you that it was unaware that the applications were not consistently being evaluated by the correct SME.

You determined that this control was not effectively implemented to achieve the Office's objective and that this is a deficiency related to management's implementation of the control.

1. What principle(s) in the Green Book under Control Environment might apply to this deficiency?
2. What paragraph(s) in the principle(s) in the Green Book might apply?
3. Complete the four elements of a finding (condition, criteria, cause, effect) for this deficiency.

**Risk Assessment:**

Your audit team visited the Office to obtain an understanding of internal control, especially as it related to the academic competition grant program. You noted the following:

- The Office has three key types of personnel related to the grant application review process: grant officers, subject matter experts (SME), and program managers. Each is responsible for reviewing specific aspects of all applications. Grant officers are responsible for determining whether the academic competition meets basic requirements, such as being within the correct age demographic; ensuring SMEs have reviewed applications and returned applications to

grant officers; and determining whether the applicant has completed all required documents. SMEs are responsible for determining whether the technical portion of the academic competition meets the Office's requirements. Program managers ensure that an application review checklist has been completed, perform a final review of the application, and approve the funding for the academic competition.

The Office performed a risk assessment related to factors that might inhibit it from achieving its strategic goal of supporting students in America from middle school through undergraduate school to improve academic performance in key areas of cultural, scientific, and economic studies. As part of this process, the Office has identified the risk that grant program applications may not be consistently evaluated by various grant officers and program managers.

Office management determined that to achieve its goal of supporting students in America to improve academic performance in the key areas of cultural, scientific, and economic studies, the Office would need to address the risks identified in its risk assessment process. The Office determined that it needed specific guidelines in policy documents for key personnel reviewing applications to follow. You reviewed the Office's policy documents relating to the academic competition application review process and noted the following:

- Policy Excerpt: "Management will maintain and periodically update as needed a checklist to be used for application review. The checklist will have a section detailing the review responsibilities for the grant officer and program manager to ensure application review consistency. Grant officers are responsible for determining whether the academic competition meets basic requirements, such as being within the correct age demographic, and whether the applicant has completed all required documents. Program managers ensure that the checklist has been completed, perform a final review of the application, and approve the funding for the academic competition."

During your review of the design of the controls related to application review by key personnel, you noted the following control to achieve the Office's objective:

- Control: Grant officers and program managers review the applications to determine, among other things, whether academic competitions meet the program's age requirements and whether all documents are in each application packet. **Grant officers and program managers sign the checklist to indicate their review.**

You noted that the Office did not identify inconsistent SME review as a significant risk, even though the Office identified SMEs as key personnel. You determined that this control was not effectively designed to achieve the Office's objective and that this is a deficiency related to management's design of the control.

1. What principle(s) in the Green Book under Risk Assessment might apply to this deficiency?
2. What paragraph(s) in the principle(s) in the Green Book might apply?
3. Complete the four elements of a finding (condition, criteria, cause, effect) for this deficiency.

### **Control Activities:**

Your audit team visited the Office to obtain an understanding of internal control, especially as it related to the academic competition grant program. You noted the following:

- The Office has a documented academic competition application review process for grant officers, subject matter experts (SME), and program managers.

Office management determined that to achieve its goal of supporting students in America to improve academic performance in the key areas of cultural, scientific, and economic studies, each division must have duties and controls related to its program functions.

You reviewed the Office's policy documents relating to the academic competition grant application review process and noted the following:

- Policy Excerpt: "Grant officers are responsible for determining whether the academic competition meets basic requirements, such as being within the correct age demographic; ensuring that SMEs have reviewed applications and returned applications to grant officers; determining whether the applicant has completed all required documents; initially approving applications; and making recommendations to program managers on whether to give final approval for the funding. SMEs are responsible for determining whether the technical portion of the academic competition meets the Office's requirements. Program

managers ensure that an application review checklist has been completed and approve the funding for each academic competition.”

During your review of the design of the controls related to academic competition application review, you noted the following control to achieve the Office’s objective:

- Control: **Grant officers review and initially approve and recommend academic competition applications, releasing funding to the competitions, and then forward the applications to program managers for final review and approval.**

You noted that the Office’s policy states that program managers approve funding for each academic competition, but the relevant control states that funding is disbursed upon grant officer approval. You think this is a potential issue with design of the control.

When you inquired about this discrepancy, Office management informed you that program managers review applications after the grant officers disburse funding. You determined that this control was not effectively designed to achieve the Office’s objective and is a deficiency related to management’s design of the control.

1. What principle(s) in the Green Book under Control Activities might apply to this deficiency?
2. What paragraph(s) in the principle(s) in the Green Book might apply?
3. Complete the four elements of a finding (condition, criteria, cause, effect) for this deficiency.

#### **Information & Communication:**

Your audit team visited the Office to obtain an understanding of internal control, especially as it related to the academic competition grant program. You noted the following:

- The Office has a documented process whereby grant officers report to program managers the status of academic competition application

review. When academic competition application review is completed, grant officers forward applications to program managers for approval.

Office management determined that to achieve its goal of supporting students in America to improve academic performance in the key areas of cultural, scientific, and economic studies, each grant officer and program manager should design controls related to his or her responsibilities within the program that help to achieve the program objectives.

You reviewed the Office's policy documents relating to the academic competition application review process and noted the following:

- Policy Excerpt: "Program managers manage all aspects and personnel involved in the academic competition application review process. Specifically, grant officers review and initially approve the applications, and then assign the applications to program managers who perform a final review and approval of the applications. Program managers and grant officers can review and approve any cultural, scientific, or economic academic competition application."

During your review of the design of the controls related to grant officers reporting to program managers, you noted the following control to achieve the Office's objective:

- Control: **When grant officers complete all items on the academic competition application review checklist, they initially approve and forward the applications to program managers for final approval.**

You determined that this control was effectively designed to achieve the Office's objective. Your team determined that the next step was to test implementation of this control.

To test implementation of the control, you reviewed a cultural application that had been in a "Pending Program Manager Approval" status for over a month. Upon further investigation, you noted that the application had been initially approved by a grant officer but was never assigned to a program manager for review. When you asked the grant officer responsible for the application about this, he stated that he did not assign the application to a program manager for review because the program manager who normally reviews cultural applications was on extended leave and the grant officer was unsure which program manager would be the appropriate reviewer.

You concluded that this is a deficiency related to management's implementation of a control.

1. What principle(s) in the Green Book under Information and Communication might apply to this deficiency?
2. What paragraph(s) in the principle(s) in the Green Book might apply?
3. Complete the four elements of a finding (condition, criteria, cause, effect) for this deficiency.

**Monitoring:**

Your audit team visited the Office to obtain an understanding of internal control, especially as it related to the academic competition grant program. You noted the following:

- The Office has documented procedures for approving academic competitions to comply with the Act to support students in America from middle school through undergraduate school to improve academic performance in key areas of cultural, scientific, and economic studies. Under Office policy, each academic competition application must be either approved or denied within a 90-day timeframe.

Office management determined that to achieve its goal of supporting students in America to improve academic performance in the key areas of cultural, scientific, and economic studies, each division (program manager, grant officer, and subject matter expert) should design controls related to its responsibilities within the program that help to achieve the program objectives.

You reviewed the Office's policy documents relating to the academic competition review process and noted the following:

- Policy Excerpt: "Office management will periodically review each division (program manager, grant officer, and subject matter expert) to determine whether it is performing academic competition application review in accordance with the guidelines established by the Act and

Office policy. Management will periodically review reports about each division's operations."

During your review of the design of the controls related to academic competition application review, you noted the following control to achieve the Office's objective:

- **Control: On a quarterly basis, Office management reviews division reports detailing (a) the number and type of academic competition applications granted awards; (b) the number and type of academic competition applications denied awards; (c) the number and type of academic competition applications in a pending status; (d) the days elapsed from initial processing to approval or denial, or days in pending status; and (e) all employees authorized to complete academic competition application checklists. Office management reviews and corrects any issues identified on the reports.**

You determined that this control was effectively designed to achieve the Office's objective. Your team determined that the next step was to test implementation of this control. To test implementation of the control, you observed a member of Office management reviewing a division report.

The division report showed that a grant officer had recommended an academic competition relating to physical education. However, a program manager had not approved or denied the application, and 95 days had elapsed since the Office began processing the application. When you inquired with Office management as to why this was not remediated, you determined that Office management does not regularly review the reports generated, sometimes taking up to 6 months after quarter-end to review the reports.

You determined that this control was not effectively implemented to achieve the Office's objective and that this is a deficiency related to management's implementation of a control.

1. What principle(s) in the Green Book under Monitoring might apply to this deficiency?
2. What paragraph(s) in the principle(s) in the Green Book might apply?
3. Complete the four elements of a finding (condition, criteria, cause, effect) for this deficiency.