

INSTRUCTIONS:

1. **ONLY answer the questions for the “receive customer (cash) orders process.”**
2. ***Please do NOT answers “all” the business processes discussed in the case; Its too much work.***
3. **ONLY fill in the missing information. DO NOT start from scratch!!**

i. **BACKGROUND:**

- 1 Pizza Inc., a pizza take-out and delivery chain, **is experiencing decreasing revenues** and is steadily losing market share despite favorable market testing of its products/ recipes.
- 2 The company’s strategy has traditionally been defined as gaining increased market share through customer satisfaction.
- 3 Management has asked Internal Audit to help them understand the reasons for declining sales at the Uptown location and how the decline might be related to internal operations.
- 4 Your prior internal audit experience and direct observation of work performed at the troubled location identified the following information:
 - a. In 20XX, Pizza Inc.’s corporate office screened this site location prior to construction to ensure that neighborhood demographics supported the ideal business environment.
 - j. This resulted in locating the chain near a suburb where typical residents were in the mid- to upper-middle class income range and who owned homes with three to four bedrooms.
 - ii. **Despite the favorable location, the site you are reviewing continues to have gross and operating margins lower than their local competitors.**
 - b. On-the-job training is the primary method used by managers to communicate company policy and procedures.
 - i. However, documented policies and detailed procedures do exist for each key process and are available by request from the shift manager.
 - ii. Employees are typically male (comprising 65 percent of total staff), 17 to 23 years old, with little or no prior work experience at the time of hire.
 - iii. Unscheduled absenteeism is high and part-time shift assignments are rotated frequently to reward those individuals who regularly work as scheduled.
 - iv. The internal audit team noted in last year’s review that management has documented an average annual turnover rate of 18 percent.
 - c. The shift manager is responsible for ensuring that all pizza orders are completed within the advertised time deadlines, a long-held competitive advantage.
 - i. Drivers are required to record on a delivery ticket the time of their arrival at the delivery location.
 - ii. This time is compared with the time recorded on the order ticket to calculate total elapsed minutes.

- iii. Review of the last six month's delivery tickets indicates that the company benchmark delivery cycle time of 25 minutes from "placing the order to when we're on the doorbell" has slipped to an average of 43.8 minutes.
 - iv. For months there have been persistent rumors about bets placed on one driver's notorious reputation for beating the delivery deadline every time.
- d. Delivery promptness is also dependent on the volume of completed pizzas at any given time and the neighborhood traffic pattern.
 - i. Drivers are initially screened at hire for outstanding traffic violations or other infractions (such as driving while intoxicated).
 - ii. The original site manager posted a large map on the wall so drivers can identify their routes.
 - iii. Mileage is reimbursed as part of the compensation for using their own vehicles so each driver turns in a mileage log at the end of the shift to indicate both starting and ending mileage.
 - iv. The manager randomly checks the recorded starting or ending mileage against the cars' odometers.
- e. Pizza Inc.'s company policy requires that each location restrict itself to a 5 mile service area; however, if an order comes in, the work is never refused.
 - i. Phone orders occur in predictable patterns, but walk-in orders are more random and less frequent.
 - ii. Scheduling staff requirements to match the anticipated workload is done one week in advance.
 - iii. The average workload during peak hours is 29 orders taken per hour.
 - iv. Orders are manually written on pre-numbered pads.
 - v. When mistakes are made, the original order ticket is tossed out and a new order form is created to avoid confusion.
 - vi. Information captured includes: date, time of call (or walk in), name, address, phone number, type of crust, and toppings requested.
 - vii. Hand calculators are available to assist with pricing quotes that are told to the customer and recorded on the delivery ticket, which is rang up in the cash register when the customer takes delivery of the pizza.
 - viii. Shift managers check every order to ensure that information is complete prior to processing the order.
- f. Employees who make the pizza are instructed in the proper quantity of ingredients for various standard topping combinations.
 - i. Frequently, special request orders are received that add items to the standard recipe.
 - ii. Measuring cups are available, but your internal audit team noted on prior visits that when activity reaches peak load, employees generally "know" how much of key ingredients to use.
 - iii. The manager monitors the supply cabinets and refrigerators at the end of the shift to ensure adequate inventory is on hand.

- iv. Several months ago, the evening shift manager determined that inventory deliveries should be increased to four per week, up from the usual three.
 - v. Oven temperatures are monitored closely to ensure that pizzas are properly cooked.
 - vi. Employees who bake the pizza rely on a centrally located wall clock to time the various combinations.
 - vii. There are cooking guidelines posted for each standard topping combination with instructions on what to do if the pizza is over cooked. Generally these are available to employees for snacking.
 - viii. All employees are responsible for ensuring the baked pizzas are cut, boxed, hand-labeled for delivery, and assigned to the next available driver. (Drivers work in a first-in, first-out method.)
- g. Your internal audit team determined, after reviewing information received from various external sources and reading Pizza Inc.'s internal communications on strategy, mission, and vision, that linking the business risks to business processes will assist Pizza Inc.'s CEO, chief financial officer, and chief operating officer with identifying the critical business processes and key success factors for each process.
5. As leader of the internal audit team, you have agreed to:
- a. Identify and list AT LEAST five (5) key business processes used by Pizza Inc. at their individual site locations.
 - b. Define the overall business process objective.
 - c. Prioritize them in terms of significance to Pizza Inc.'s operations (**1=most significant**, 5 = least significant.)

No	Process	Business Objective	Significance
1.	SALES: Receive customer (cash) orders.	To maximize customer (cash) orders and collections (i.e. payments received.)	1
2.	OPERATIONS: Make pizza.	To make all pizza orders within the 30 minute advertised deadline, and in accordance with Pizza Inc.'s quality standards.	2
3.	DISTRIBUTION: Deliver pizza.	To deliver pizza's within 25 minutes from "placing the order to when we're on the doorbell."	3

4.	CASH RECEIPTS: Process customer collections.	To process customer collections, including deposits, by no later than 10 a.m. the following day.	4
5.	PAYROLL: Pay employees.	To pay employees for time worked and mileage cost incurred weekly by the following Friday.	5

- d. For the process you believe is **most significant – i.e. “receive customer (cash) orders**, explain your reasoning.

Answer: Customer orders and collection of payment for those orders provide the cash flow required to operate the business.

- e. For the process you determine **most significant – i.e. “receive customer (cash) orders:”**
- Determine at least five (5) business risks, which should include at least 2 (two) key links.
 - Determine which are key versus secondary links.
 - Complete the risk by process matrix immediately below (Exhibit 5.11.)

No.	Business Risk	Key and Secondary Links	
		Key (K)	Secondary (S)
1.	What Could Go Wrong? Original orders from customers who pay <u>by cash</u> can be destroyed or discarded and not rewritten. Ingredients are told to the cooks verbally. Risk: If this happens: (a) there is no independent record of cash received; cash can be stolen and not be detected AND (b) ingredients may be wrong.		S
2.	What Could Go Wrong? Original orders from customers who pay <u>by cash</u> can be written up on pre-numbered order tickets with un-legible carbon copies. The legible, original white copy is given to: (a) the cooks to prepare the order (b) then handed over to the drivers for delivery and (c) then given to the customer as a receipt. Risk: Since the yellow carbon copy is not legible, if this happens, there is no		S

	independent record of cash received; cash can be stolen and not be detected.		
3.	What Could Go Wrong? Original orders reflect the correct ingredients. But, the wrong price—which is too low—can be written on the delivery ticket. The delivery ticket is used for collection purposes at delivery and recording the sale in the cash register. Risk: Since there is no independent check of ingredients ordered against the price quotes/ charges, sales can be lower than the cost-of-goods sold/ ingredients, and a loss is recognized. This can go undetected.		S
4.	What Could Go Wrong? The storage cabinet is not secure and access is not restricted to only authorized employees whose job responsibilities require them to enter the office and/or cabinet. Risk: Since all employees have unlimited access to the ingredients and supplies, theft can occur and go undetected.		S
5.	What Could Go Wrong? The office manager does not perform a 3-way reconciliation within 24 hours of the: (a) daily pre-numbered sales order tickets used, including those voided (b) drivers' tickets and (c) cash register sales/ receipts. Nor does (s)he reconcile the sales to inventory usage. Risks: If this happens, (a) Pizzas can be made and delivered for which the payment is not accounted for and/or stolen AND (b) Ingredients and supplies can be ordered and not used to make pizzas but stolen.	K	
6.	What Could Go Wrong? Variances in the daily 3-way reconciliation, and sales to inventory usage reconciliation, are not investigated as to their source cause and resolved within 48 hours. Risks: If this happens, errors will continue to occur until detected and their source cause corrected.	K	

- f. For the process you ranked the **most significant – i.e. receive customer (cash) orders**, list the business risks, describe the potential adverse effect, and assess the impact and likelihood of these risks.

No.	Key Business Risk	Potential Adverse Effect	Impact (H, M, L)	Probability (H, M, L)	Significance (H, M, L)
1.	Original orders (i.e. the white copy) from walk-in customers who pay <u>by cash</u> are tossed out and not rewritten. Ingredients are told to the cooks verbally.	If this happens: (a) there is no independent record of cash received; cash can be stolen and not be detected AND (b) ingredients may be wrong.	H	L	M
2.	Original orders from phone-in customers who pay <u>by cash</u> are written up on pre-numbered order tickets with un-legible carbon copies, so the original white copy is given to the cooks to prepare the order, and then handed over to the drivers for delivery.	Since the yellow carbon copy is not legible, if this happens, there is no independent record of cash received; cash can be stolen and not be detected.	H	L	M
3.	Original orders reflect the correct ingredients. But, the wrong price—which is too low—can be written on the delivery ticket. The delivery ticket is used for collection purposes at delivery and recording the sale in the cash register.	Since there is no independent check of ingredients ordered against the price quotes/ charges, sales can be lower than the cost-of-goods sold/ ingredients, and a loss is recognized. This can go undetected.	M	L	L

4.	The office and storage cabinet is not secure and access is not restricted to only authorized employees whose job responsibilities require them to enter the office and/or cabinet.	If this happens, since all employees have unlimited access to the ingredients and supplies, theft can occur and go undetected.	M	L	L
5.	The office manager does not perform a 3-way reconciliation within 24 hours of the: (a) daily pre-numbered sales order tickets used, including those voided (b) drivers' tickets and (c) cash register sales/receipts. Nor does (s)he reconcile the sales to inventory usage.	If this happens, (a) Pizzas can be made and delivered for which the payment is not accounted for and/or stolen AND (b) Ingredients and supplies can be ordered and not used to make pizzas but stolen.	H	M	H
6.	Variances in the daily 3-way reconciliation, and sales to inventory usage reconciliation, are not investigated as to their source cause and resolved.	If this happens, errors or theft will continue to occur until detected and their source cause corrected.	H	H	H

- g. For the process you ranked the **most significant** – i.e. **receive customer (cash) orders** – and the key business risks identified in step e above:
- Identify actions management may currently take (controls) to mitigate the identified risks, if any (Exhibit 5-14.)
 - Determine techniques for assessing (i.e. control testing procedures) the effectiveness of the existing management controls. (Exhibit 5-14.)
 - Based on your observations and opinions of the potential effectiveness of the current management risk response activities (i.e. controls) to address risks in the critical process you selected, create recommendations to mitigate the existing risks and improve performance/ results.

No.	Management's Risk Response (i.e. control)	Technique for Assessing Effectiveness (i.e. control testing procedure)	Internal Audit Recommendations
1.	<p>[NOTE 1: This refers to #f.1 above.] [NOTE 2: An answer may be found below in #8.]</p> <p>Using a daily chronological log, employees will: (a) sign for 100% of the pre-numbered order tickets issued to them at the beginning of a shift, and (b) turn in 100% of the original copy pre-numbered order tickets issued to them - whether used, voided or unused - at the end of their shift. (c) Unaccounted for pre-numbered tickets will result in discipline up to and including termination.</p>	<p>Daily, the office manager will reconcile the log to the pre-numbered order tickets issued by employee—whether used, voided or unused. Any unaccounted for pre-numbered tickets should be traced back to the responsible employee and addressed.</p>	<p>Internal Audit recommends that Corporate monitors this control daily to make sure it is being done correctly, and timely.</p>
2.	<p>[NOTE 1: This refers to #f.2 above.] Ask all employees who write up pizza orders to (a) retain 100% of the <u>original</u> white copy pre-numbered sales order tickets including all voided sales orders and tablets assigned to them and (b) give the yellow <u>carbon</u> copy pre-numbered sales order tickets to the cashier for attachment to the office sales register receipts.</p>	<p>Daily, the cashier will verify that they have received the appropriate number of yellow carbon copy tickets with the amount of orders. The office manager will ensure the amount of orders match the number of receipts. Any discrepancy will be traced back to the responsible employee or cashier.</p>	<p>It is recommended that office managers monitor and verify the number of sales tickets with actual sales and voided sales. This will ensure accuracy and minimize sale losses.</p>
3.	<p>[NOTE 1: This refers to #f.3 above. All The pre-numbered order tickets must have a carbon copy that creates legible copies to collect for reconciliation. The office manager must know how to perform 3-way reconciliations of sales transactions, and inventory</p>	<p>Corporate will need to ensure proper training and experience of office managers and will need to regularly check their performance. Verification of sales transactions, reconciliations of sales transactions, inventory usage, and any resolutions</p>	<p>It is recommended that Corporate monitor this activity regularly and ensure it is being done correctly and timely.</p>

	usage—and research/ resolve any differences within 48 hours. [NOTE 2: An answer may be found below in #8.]	of differences in these accounts will also be required.	
4.	[NOTE 1: This refers to #f.4 above.] The office and storage cabinet must be secure and access restricted to only authorized employees whose job responsibilities require them to enter the office and/or cabinet [NOTE 2: An answer may be found below in #8.]	Proper authorization identification along with a log recording of usage and access. Possibly utilizing security cameras as well. The records are to be reviewed by office managers.	It is recommended that office managers monitor and regulate usage, ensuring proper authorization is given and logs are created.
5.	[NOTE 1: This refers to #f.5 above.] To ensure the collection of all sales made (i.e. pizza's for which payment was received), the office manager must retain and perform a 3-way reconciliation of the: (a) daily pre-numbered sales order tickets used, including those voided (b) drivers' tickets and (c) cash register sales/ receipts. 2-way reconciliation of the: (a) daily sales and (b) daily inventory usage. Daily discrepancies greater than \$25 must be investigated and resolved. [NOTE 2: An answer may be found below in #8.]	Corporate will need to ensure verification of reconciliations and may need to intervene if large discrepancies occur.	It is recommended that Corporate monitor this activity regularly and ensure it is being done correctly and timely.
6.	[NOTE: #f.6 from above goes here.] The results of the daily 3-way and 2-way reconciliations will be tracked by chronological date. After one month, we will reassess the processes involved to see if this objective really works. [NOTE 2: An answer may be found below in #8.]	The officer manager will reconcile the logs daily and issue reports to corporate to ensure the objectives are being met.	It is recommended that Corporate monitor this activity regularly and ensure it is being done correctly and timely.

--	--	--	--

6. For the process you ranked the **most significant i.e. receive customer (cash) orders**, **create a process map** of the “current state” process activities.
- Map the “current state” process only.
 - Map the flow of ONLY cash sales for BOTH the original order (white copy) and carbon copy (yellow copy).
 - Include a description column on the far left-hand column.
 - In the description column, identify the ICOFR phases – initiation, approval, recording, processing, and reporting – plus a brief description of the action being executed.
 - Initiation – customer places the order.
 - Approval – shift manager checks every order.
 - Processing--cooks make pizza, and pizza is delivered to customer.
 - Recording – customer sales quotes from the delivery ticket are entered into the cash register.
 - Reporting – low gross and operating margins reported.
 - Use functional areas as swim lanes.
 - Cashiers
 - Cooks
 - Drivers
 - Managers
 - Map the management responses (i.e. controls) you recommended above should occur.

Internal Audit & Controls

Chapter 5, Case 1 – Pizza Inc.

Initiation:

- Customer places the order.

Approval:

- Shift manager checks every order.

Processing:

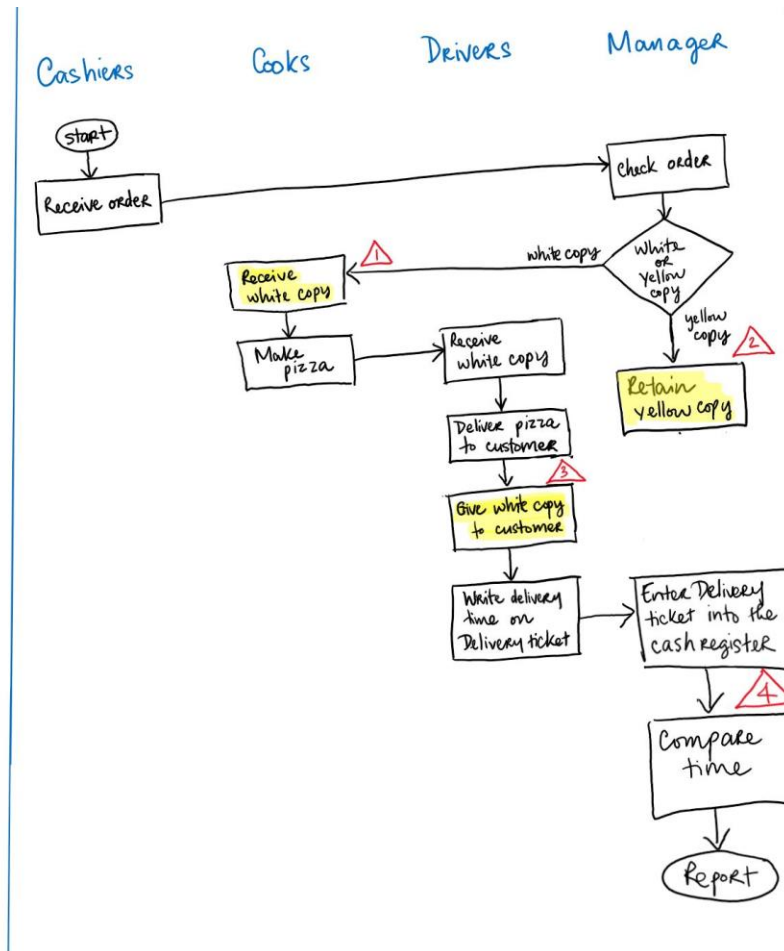
- The white copy is sent to the cooks. However, the white copy should be retained by the manager for reconciliation (control #1). The cooks make pizza, and pizza is delivered to customer.
- The yellow copy is retained by the manager. However, this copy is illegible for reconciliation (control #2).
- The driver delivers the pizza to the customer and gives them the white copy. However, the customer should receive the yellow copy instead and the white copy should be retained by the manager (control #3).
- The manager must receive the information of customer sales quotes and delivery time in the Delivery ticket from the drivers (segregation of duty). Manager should enter the information into the cash register (control #4).

Recording:

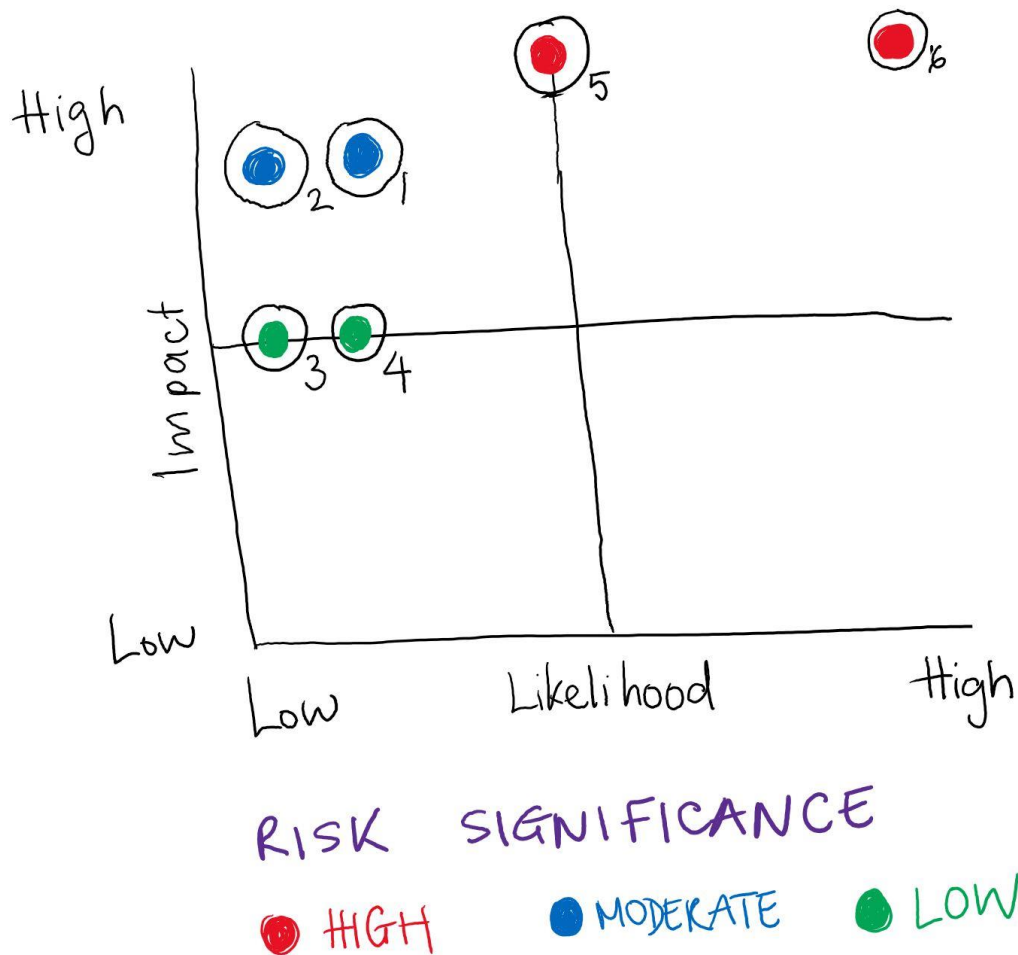
- Customer sales quotes from the delivery ticket are entered into the cash register.

Reporting:

- Low gross and operating margins reported.



- For the process you ranked the **most significant – i.e. receive customer (cash) orders**, complete a **risk map** using the identified key business risks according to their inherent impact and likelihood of occurrence. (Complete a risk map - Exhibit 5-15. Consider using the Excel template provided to you as part of the ERA "How To" Presentation to calculate "significance" or impact times likelihood.)



8. For the process you determine **most significant – i.e. receive customer (cash) orders**, review the overall business objective written below as a S.M.A.R.T. (Specific, Measureable, Achievable, Results Oriented, and Time Bases) objective.
- a. Note that **ITEM 8 HAS BEEN FULLY COMPLETED FOR YOU ALREADY**. In fact, if you read it closely, you will see that the answer below largely answers the questions above. It is simply another way of looking at the case.

Business Objective: To maximize sales and collections (i.e. payments received.)	
o.	S.M.A.R.T. Objective

Internal Audit & Controls
Chapter 5, Case 1 – Pizza Inc.

	<u>Specific:</u> Ask all employees who write up pizza orders to (a) retain 100% of the <u>original</u> white copy pre-numbered sales order tickets including all voided sales orders and tablets assigned to them and (b) give the yellow <u>carbon</u> copy pre-numbered sales order tickets to the cashier for attachment to the office sales register receipts.
	<u>Measureable:</u> Using a daily chronological log, employees will: (a) sign for 100% of the pre-numbered order tickets issued to them at the beginning of a shift, and (b) turn in 100% of the <u>original</u> copy pre-numbered order tickets issued to them - whether used, voided or unused - at the end of their shift. (c) <i>Unaccounted for pre-numbered tickets may result in discipline up to and including termination.</i>
	<u>Achievable:</u> (a) All The pre-numbered order tickets must have a carbon copy that creates legible copies to collect for reconciliation (b) the office and storage cabinet must be secure and access restricted to only authorized employees whose job responsibilities require them to enter the office and/or cabinet (c) and the office manager must know how to perform 3-way reconciliations of sales transactions, and inventory usage—and research/ resolve any differences within 48 hours.
	<u>Results oriented (desired results):</u> To ensure the collection of all sales made (i.e. pizza's for which payment was received), the office manager must retain and perform a 3-way reconciliation of the: (a) daily pre-numbered sales order tickets used, including those voided (b) drivers' tickets and (c) cash register sales/ receipts. 2-way reconciliation of the: (a) daily sales and (b) daily inventory usage. Daily discrepancies greater than \$25 must be investigated and resolved.
	<u>Time basis:</u> The results of the daily 3-way and 2-way reconciliations will be tracked by chronological date. After one month, we will reassess the processes involved to see if this objective really works. v