

ch04

Student: _____

1. COSO's Enterprise Risk Management—Integrated Framework comprises all the following sections except:
 - A. Brown's risk taxonomy
 - B. Objective setting
 - C. Event identification
 - D. Monitoring
2. In the COSO enterprise risk management framework, an organization's overall tone relates most closely to:
 - A. Internal environment
 - B. Objective setting
 - C. Event identification
 - D. Monitoring
3. The COSO enterprise risk management framework comprises eight sections, one of which is objective setting. COSO identified five types of objectives most organizations should consider in developing an ERM plan. "Ensuring that the corporation fulfills the requirements of the Sarbanes-Oxley Act" is an example of a ___ objective.
 - A. Strategic
 - B. Reporting
 - C. Compliance
 - D. Risk management
4. The COSO enterprise risk management framework comprises eight sections, one of which is objective setting. COSO identified five types of objectives most organizations should consider in developing an ERM plan. "Completing SEC filings within thirty days of the fiscal year end" is an example of a ___ objective.
 - A. Strategic
 - B. Reporting
 - C. Risk management
 - D. Control activity
5. In a conversation about risk management, Miguel and Rafaela were trying to decide whether to recommend their company invest some cash in short-term securities to increase the cash available for operations. Which element of the COSO framework is most related to their recommendation?
 - A. Internal environment
 - B. Monitoring
 - C. Risk assessment
 - D. Risk response
6. In a conversation about risk management, Miguel and Rafaela produced a ranked list of their company's risk exposures. The ranked list is most closely related to which element of the COSO framework?
 - A. Information and communication
 - B. Risk assessment
 - C. Risk response
 - D. Monitoring

7. COSO has published integrated frameworks for both internal control and for enterprise risk management. Which of the following statements about the frameworks is most true?
 - A. The internal control framework is more useful than the enterprise risk management framework.
 - B. The enterprise risk management framework is more useful than the internal control framework.
 - C. Management attitudes are an element of both frameworks.
 - D. Both frameworks are required by the SEC.

8. COSO has published integrated frameworks for both internal control and for enterprise risk management. Which of the following statements about the frameworks is most true?
 - A. Once the enterprise risk management framework was published, the internal control framework became obsolete.
 - B. If a manager feels an element of one of the frameworks is unimportant, it can be omitted.
 - C. "Risk assessment" refers to similar processes in both frameworks.
 - D. A "risk response" in the ERM framework could be considered a "control activity" in the internal control framework.

9. Which of the following best pairs an element of the COSO enterprise risk management framework with an example of that element?
 - A. Objective setting, determining which elements of the COSO framework to use
 - B. Event identification, identifying needed internal controls
 - C. Risk assessment, annual management retreats focused on the ERM plan
 - D. Risk response, diversifying risk by expanding internationally

10. Which of the following best pairs an element of the COSO enterprise risk management framework with an example of that element?
 - A. Control activities, developing a budget for the ERM plan
 - B. Information and communication, annual management retreats focused on the ERM plan
 - C. Monitoring, annual management retreats focused on the ERM plan
 - D. Internal environment, posting SEC filings on the company web site

11. A method of efficiently aligning an organization with the wants and needs of clients is a definition of:
 - A. Business process management
 - B. Enterprise risk management
 - C. Internal control
 - D. Expectancy theory

12. Which of the following steps occurs first in the generalized model of business process management discussed in the text?
 - A. Analyze collected data.
 - B. Collect process-related data.
 - C. Optimize the process.
 - D. Select the process and define its boundaries.

13. Laurie and Milton were developing a business process management plan for their organization. Which of the following actions should they take first, based on the generalized model of BPM discussed in the text?
 - A. Ask co-workers how the purchasing process can be optimized.
 - B. Choose an activity to study.
 - C. Determine what data their organization has available.
 - D. Get a budget from management for developing the BPM plan.

14. Laurie and Milton were developing a business process management plan for their organization. After deciding to focus on the process of purchasing fixed assets, they should:
 - A. Determine how the fixed asset purchasing process currently works.
 - B. Estimate the remaining useful life for each fixed asset in the company.
 - C. Look up the definition of "fixed assets" on the FASB web site.
 - D. Make the improvements they believe are necessary.

15. Laurie and Milton are concerned about the risks created by inefficiency in the company's current fixed asset purchasing process. They could address their concern by developing: (i) an enterprise risk management plan, (ii) a business process management plan.
- A. I only
 - B. II only
 - C. Both I and II
 - D. Neither I nor II
16. One of the steps in the generalized model of business process management discussed in the text focuses on collecting process-related data. If Laurie and Milton are concerned about the risks created by inefficiency in the company's current fixed asset purchasing process, they could collect data related to: (i) the average length of time between an order for a fixed asset and its delivery, (ii) the costs incurred in the fixed asset purchasing process.
- A. I only
 - B. II only
 - C. Both I and II
 - D. Neither I nor II
17. Gelton was leading a team of three co-workers focused on improving their company's process for hiring new employees. They had read the company procedures manual describing the current process, then interviewed newly-hired workers about their experiences. They used the principles of activity-based costing to determine the average cost of hiring a new employee, then created a line graph tracing the average cost over the last twelve months. Which of the following statements is most true?
- A. Creating a line graph helps fulfill the fourth step of the generalized BPM model discussed in the text.
 - B. Determining the average cost of hiring a new employee helps fulfill the second step of the generalized BPM model discussed in the text.
 - C. The narrative includes exactly one way of fulfilling the third step of the generalized BPM model discussed in the text.
 - D. The business process is poorly defined.
18. Gelton was leading a team of three co-workers focused on improving their company's process for hiring new employees. They had read the company procedures manual describing the current process, then interviewed newly-hired workers about their experiences. They used the principles of activity-based costing to determine the average cost of hiring a new employee, then created a line graph tracing the average cost over the last twelve months. "Reading the company procedures manual" and "interviewing newly-hired workers" are examples of:
- A. Two different steps in the generalized BPM model discussed in the text.
 - B. The second step in the generalized BPM model discussed in the text.
 - C. The sixth step in the generalized BPM model discussed in the text.
 - D. Things that must happen in every BPM project.
19. Gelton was leading a team of three co-workers focused on improving their company's process for hiring new employees. They had read the company procedures manual describing the current process, then interviewed newly-hired workers about their experiences. They used the principles of activity-based costing to determine the average cost of hiring a new employee, then created a line graph tracing the average cost over the last twelve months. Using the generalized model of BPM discussed in the text, Gelton and his team still need to complete steps:
- A. Five through seven.
 - B. Four through seven.
 - C. Three through five.
 - D. Two through four.

20. Gelton was leading a team of three co-workers focused on improving their company's process for hiring new employees. They had read the company procedures manual describing the current process, then interviewed newly-hired workers about their experiences. They used the principles of activity-based costing to determine the average cost of hiring a new employee, then created a line graph tracing the average cost over the last twelve months. What should Gelton and his team do next?
- A. Read more books about business process management.
 - B. Implement a newer, more efficient hiring process.
 - C. Prepare a presentation to the board of directors.
 - D. Brainstorm ways the process could be improved.
21. The basic principles of business process management discussed in the text include:
- A. Enlist top management support.
 - B. Make sure consultants' tasks are well defined.
 - C. Both A and B.
 - D. Neither A nor B.
22. The basic principles of business process management discussed in the text include all of the following except:
- A. Always use information technology in BPM projects.
 - B. Hire people who can see the "big picture."
 - C. Communicate early; communicate often.
 - D. Understand how business processes support organizational strategy.
23. Which of the following best paraphrases one of the basic principles of business process management discussed in the text?
- A. Determine how business processes interact with the way an organization competes in its markets.
 - B. Gain cooperation from middle management if possible.
 - C. Look for reasons to keep processes the same if at all possible.
 - D. Ensure the company has the right information technology tools for the job.
24. Within the context of business process management, the quote "If you don't know where you're going, any road will take you there" is most related to which of the following?
- A. Developing a timeline and outcomes for a BPM project.
 - B. Preparing a presentation on the nature and importance of BPM for top management.
 - C. Using a well-established methodology for choosing information technology tools in a BPM project.
 - D. None of the above.
25. One of the basic principles of business process management discussed in the text states: "When using consultants, make sure the task is well defined, with specific deliverables defined by the company." Which of the following actions applies that principle?
- A. Requiring a consultant to prepare and submit a budget before starting work on the BPM project.
 - B. Dividing the project into phases with firm deadlines.
 - C. Both A and B
 - D. Neither A nor B
26. One of the basic principles of business process management discussed in the text states: "Ensure that top management can describe current business processes before trying to modify the processes." Which of the following would be the most appropriate way to fulfill that principle?
- A. Ask employees if they believe top management can describe current business processes.
 - B. Ask top management to quote from the company procedures manual.
 - C. Give top management a ten question multiple choice quiz.
 - D. Lead a group discussion with top managers.

27.

Consider the following statements as you respond to the next question:

- i. Ask managers to think of one hundred uses for a brick, other than for building things.
- ii. Assess the educational background and organizational experience of employees.
- iii. Conduct a one-day seminar on how business processes can create value in the marketplace.
- iv. Encourage managers to suggest ideas, even if they are impractical.
- v. Hold weekly meetings to update interested parties on the BPM project; ensure at least one member of top management attends each meeting.
- vi. Ignore opinions and insights from people not directly involved with a business process.

The text discussed seven basic principles of business process management. Which statements in the list above are related to the same basic principle?

- A. I and IV
- B. II and VI
- C. III and V
- D. I, IV and VI

28.

Consider the following statements as you respond to the next question:

- i. Ask managers to think of one hundred uses for a brick, other than for building things.
- ii. Assess the educational background and organizational experience of employees.
- iii. Conduct a one-day seminar on how business processes can create value in the marketplace.
- iv. Encourage managers to suggest ideas, even if they are impractical.
- v. Hold weekly meetings to update interested parties on the BPM project; ensure at least one member of top management attends each meeting.
- vi. Ignore opinions and insights from people not directly involved with a business process.

The text discussed seven basic principles of business process management. Which one is not illustrated by any of the six statements?

- A. Understand how business processes interact with organizational strategy.
- B. Be open to alternatives.
- C. Make sure tasks for external consultants are well defined.
- D. Communicate early, communicate often.

29.

Consider the following statements as you respond to the next question:

- i. Ask managers to think of one hundred uses for a brick, other than for building things.
- ii. Assess the educational background and organizational experience of employees.
- iii. Conduct a one-day seminar on how business processes can create value in the marketplace.
- iv. Encourage managers to suggest ideas, even if they are impractical.
- v. Hold weekly meetings to update interested parties on the BPM project; ensure at least one member of top management attends each meeting.
- vi. Ignore opinions and insights from people not directly involved with a business process.

The text discussed seven basic principles of business process management. Which statement both illustrates one of the principles and relates to the internal environment component of the COSO enterprise risk management framework?

- A. I
- B. III
- C. V
- D. VI

30.

Consider the following statements as you respond to the next question:

- i. Ask managers to think of one hundred uses for a brick, other than for building things.
- ii. Assess the educational background and organizational experience of employees.
- iii. Conduct a one-day seminar on how business processes can create value in the marketplace.
- iv. Encourage managers to suggest ideas, even if they are impractical.
- v. Hold weekly meetings to update interested parties on the BPM project; ensure at least one member of top management attends each meeting.
- vi. Ignore opinions and insights from people not directly involved with a business process.

The text discussed seven basic principles of business process management. Which of the following both illustrates one of the principles and relates to the event identification component of the COSO enterprise risk management framework?

- A. I
- B. IV
- C. Both I and IV
- D. Neither I nor IV

31. According to expectancy theory, motivation is determined by three factors. Which of the following is not one of the three factors?
- A. Energy
 - B. Expectancy
 - C. Valence
 - D. Instrumentality
32. Which of the following formulas explains motivation using expectancy theory?
- A. Energy X Valence X Instrumentality
 - B. Expectancy + Valence + Instrumentality
 - C. Expectancy X Valence + Instrumentality
 - D. Expectancy X Valence X Instrumentality
33. Because of the relationship between the variables in expectancy theory:
- A. All three must have positive values for someone to be motivated.
 - B. All three must have negative values for someone to be motivated.
 - C. No more than two of the variables can be positive for someone to be motivated.
 - D. Up to two variables can be zero with no effect on motivation.

34. Erin has maintained a very high GPA throughout her accounting education, but wonders if that GPA will ensure that she gets a good job. In terms of expectancy theory, Erin is most concerned about:
- Expectancy
 - Instrumentality
 - Valence
 - Utility
35. Brett and Erin are accountants working for XMP Corporation; Brett is very interested in working his way up to being XMP's chief financial officer. He believes if he completes all his assigned tasks well before their established deadlines and controls costs in his area, he will be promoted. Which elements of expectancy theory are illustrated in that example?
- Expectancy and instrumentality
 - Instrumentality and valence
 - Expectancy and valence
 - Expectancy, instrumentality and valence
36. Brett and Erin are accountants working for XMP Corporation; Brett is very interested in working his way up to being XMP's chief financial officer. He is confident that he can complete all his assigned tasks well before their established deadlines and control costs in his area. Which elements of expectancy theory are illustrated in that example?
- Expectancy and instrumentality
 - Instrumentality and valence
 - Expectancy and valence
 - Expectancy, instrumentality and valence
37. Brett and Erin are accountants working for XMP Corporation; Brett is very interested in working his way up to being XMP's chief financial officer. He believes if he completes all his assigned tasks well before their established deadlines and controls costs in his area, he will be promoted. He is confident he can achieve those two goals. Which of the following best pairs an element of expectancy theory with a phrase that illustrates it?
- Expectancy: completes all his assigned tasks well before their established deadlines
 - Instrumentality: very interested in working his way up to being XMP's chief financial officer.
 - Valence: very interested in working his way up to being XMP's chief financial officer.
 - Instrumentality: completes all his assigned tasks well before their established deadlines
38. Brett and Erin are accountants working for XMP Corporation; Brett is very interested in working his way up to being XMP's chief financial officer. He believes if he completes all his assigned tasks well before their established deadlines and controls costs in his area, he will be promoted. He is confident he can achieve those two goals. Which of the following best pairs an element of expectancy theory with a phrase that illustrates it?
- Expectancy: confident he can achieve those two goals
 - Instrumentality: very interested in working his way up to being XMP's chief financial officer.
 - Valence: confident he can achieve those two goals
 - Instrumentality: completes all his assigned tasks well before their established deadlines

39.

Consider the following statements as you respond to the next question:

- i. Based on my research and reading, I'm sure I want to pursue a career in fraud examination.
- ii. Good grades and leadership skills generally lead to a good job.
- iii. I am sure I'll pass the CPA exam on my first attempt.
- iv. I can definitely complete my accounting degree within four years.
- v. I've spoken to several friends and family members who work for large corporations.

Which pair of statements relates to the same variable in expectancy theory?

- A. I and II
- B. II and III
- C. III and IV
- D. I and V

40.

Consider the following statements as you respond to the next question:

- i. Based on my research and reading, I'm sure I want to pursue a career in fraud examination.
- ii. Good grades and leadership skills generally lead to a good job.
- iii. I am sure I'll pass the CPA exam on my first attempt.
- iv. I can definitely complete my accounting degree within four years.
- v. I've spoken to several friends and family members who work for large corporations.

Which group of statements combines all three variables in expectancy theory?

- A. III, II, I
 - B. III, IV, V
 - C. II, III, IV
 - D. None of the above
41. Leigh is a corporate accounting manager with six employees reporting to her. Most of the employees do good work, but one of them consistently lacks motivation. Which of the following tools should Leigh use to address the problem?
- A. COSO's enterprise risk management framework
 - B. Generalized model of business process management
 - C. Basic principles of business process management
 - D. Expectancy theory
42. Charlie is a partner in a CPA firm. He wants to make some changes to the company's hiring practices, but is concerned current employees will lack the motivation to do so. Which of the following tools should Charlie use to address those problems?
- A. COSO's enterprise risk management framework and expectancy theory
 - B. Expectancy theory and generalized model of business process management
 - C. COSO's enterprise risk management framework and generalized model of business process management
 - D. Expectancy theory and the steps in the accounting cycle
43. Charlie is a partner in a CPA firm. He wants to make some changes to the company's hiring practices, but is concerned current employees will lack the motivation to do so. He should use ___ to address needed changes to hiring practices and ___ to address his concern about current employees.
- A. COSO's enterprise risk management framework and expectancy theory
 - B. Expectancy theory and generalized model of business process management
 - C. Expectancy theory and the steps in the accounting cycle
 - D. Generalized model of business process management and expectancy theory

44. Charlie is a partner in a CPA firm. He wants to make some changes to the company's hiring practices, but is concerned current employees will lack the motivation to do so. Provided he uses an appropriate tool, which problem will be easier to address?
- A. Making changes to hiring practices
 - B. Motivating employees
 - C. The two problems will be equally easy to address.
 - D. More information is needed to determine which problem will be easier to address.
45. The chapter discussed three major ideas from management and their relationship to accounting information systems: COSO's enterprise risk management framework, business process management and expectancy theory. Which of the following statements is most true?
- A. The three ideas are unrelated to one another.
 - B. The generalized model of business process management could be used to develop a system for managing risk.
 - C. The generalized model of business process management should be used to analyze employee motivation.
 - D. All organizations should include the risk of non-motivated employees in their COSO risk management plan.
46. Jay is trying to convince the company president that risk management is important. Which of the following statements is most true?
- A. Since the company president is involved, expectancy theory is inappropriate for trying to create a good internal environment.
 - B. Jay should follow the basic principles of business process management to increase the president's instrumentality.
 - C. Jay can use expectancy theory to help create a good internal environment.
 - D. None of the above statements is true.

47.

Nestor and Maureen are partners in a small consulting firm located in the Republic of Bufflufia; the firm has six employees. For the last five years, the firm has focused on tax planning and tax return preparation. But, Nestor and Maureen are now interested in expanding the firm's scope of services. They are considering risk management consulting, fraud examination and business valuation as potential areas to expand the firm. They are sure at least three of their six employees would put effort into at least one of those three areas, but expanding the firm's services would require additional training for everyone.

Based on the short case above, which of the following statements is most true?

- A. An enterprise risk management plan will be required only if they decide to expand into risk management consulting.
- B. Nestor and Maureen need to increase their own valence.
- C. Both A and B are true.
- D. Neither A nor B is true.

48.

Nestor and Maureen are partners in a small consulting firm located in the Republic of Bufflufia; the firm has six employees. For the last five years, the firm has focused on tax planning and tax return preparation. But, Nestor and Maureen are now interested in expanding the firm's scope of services. They are considering risk management consulting, fraud examination and business valuation as potential areas to expand the firm. They are sure at least three of their six employees would put effort into at least one of those three areas, but expanding the firm's services would require additional training for everyone.

Business valuation is the process of estimating the economic value of an owner's interest in a business, often for the purpose of buying / selling that ownership interest. Based on the short case above, which of the following statements is most true?

- A. Expanding the business into business valuation may require creating or updating the firm's risk management plan.
- B Expectancy theory can be useful both in deciding whether to expand the business and in working with future business valuation clients.
- C. Both A and B are true.
- D. Neither A nor B is true.

49.

Nestor and Maureen are partners in a small consulting firm located in the Republic of Bufflufia; the firm has six employees. For the last five years, the firm has focused on tax planning and tax return preparation. But, Nestor and Maureen are now interested in expanding the firm's scope of services. They are considering risk management consulting, fraud examination and business valuation as potential areas to expand the firm. They are sure at least three of their six employees would put effort into at least one of those three areas, but expanding the firm's services would require additional training for everyone.

Part of fraud examination is analyzing an accounting information system and other sources to determine if fraud has occurred. If Nestor and Maureen expand their practice into fraud examination, which of the following statements is most true?

- A. The COSO enterprise risk management framework may be useful to their new clients.
- B. Expectancy theory may be a useful tool in conducting a fraud examination.
- C. Both A and B are true.
- D. Neither A nor B is true.

50.

Nestor and Maureen are partners in a small consulting firm located in the Republic of Bufflufia; the firm has six employees. For the last five years, the firm has focused on tax planning and tax return preparation. But, Nestor and Maureen are now interested in expanding the firm's scope of services. They are considering risk management consulting, fraud examination and business valuation as potential areas to expand the firm. They are sure at least three of their six employees would put effort into at least one of those three areas, but expanding the firm's services would require additional training for everyone.

Based on the short case above, which of the following statements is most true?

- A. After the expansion, Nestor and Maureen may be able to use expectancy theory to sell new services to their old clients.
- B. Regardless of the area into which the firm expands, the basic principles of business process management may be useful to new clients.
- C. Both A and B are true.
- D. Neither A nor B is true.

51. The steps in the generalized model of business process management discussed in the text are listed below. In the space provided, number them in the correct order.

- _____ Select the process and define its boundaries.
- _____ Observe, document and map the process steps and flow.
- _____ Collect process-related data.
- _____ Identify and prioritize potential process improvements.
- _____ Implement and monitor process improvements.
- _____ Analyze the collected data.
- _____ Optimize the process.

The chapter illustrated the use of the COSO enterprise risk management framework with Dreambox Creations, Inc. For each statement below, identify the element of the COSO framework that most clearly applies. You must use each element of the framework exactly one time.

1. Dreambox assigned one of its three corporate officers the responsibility for annually reviewing the plan.
2. Dreambox chose “reducing” and “sharing” as discussed in the COSO framework.
3. Dreambox developed a plan to hire additional marketing professionals whose main job would be to pursue new clients.
4. Dreambox had set a strategic goal of acquiring at least three new clients every year.
5. Dreambox planned several meetings with its staff to explain the importance of ERM, the development of the ERM plan and its implications for the firm.
6. Dreambox’s management had committed to developing an ERM plan.
7. If Dreambox lacked the staff with the skills and desire to pursue new clients, they might not be able to achieve their strategic goal.
8. The potential impact of that risk was great. At an inherent level, it was also high.

53.

Indicate with "yes" or "no" whether each of the following statements upholds the basic principles of business process management discussed in the text. You do not need to identify the BPM principle involved.

1. Brian told employees that all their concerns would be addressed at the end of the BPM project.
2. Donna considered whether a BPM project required any information technology tools the company did not already have.
3. Jared, an entry-level employee, suggested changes to his company's process for taking inventory as part of a focus group with top management.
4. Julia argued strongly that a proposed BPM project be managed by the firm's own employees, with input as needed from an external consultant.
5. Lucius objected to his company's new approach to training because they had never used it before.
6. Melinda decided to change her company's purchasing process because their current process seemed too cumbersome.
7. Thao planned and presented a suggested timeline to her firm's external BPM consultants.

54.

Which element of expectancy theory is illustrated by each of the following statements?

1. After changing his major from finance to accounting, Andy planned a schedule that would allow him to finish his degree in four years.
2. Anh's suggestions for business process improvements often result in changes at her company.
3. Erin wasn't entirely sure that she wanted the extra responsibilities associated with a promotion.
4. Gloria's boss promised her a reward if she completed a training course on business process management.
5. Shortly after his hiring, Zachary knew he eventually wanted to be named "employee of the month."

Casa Ruiz is a Mexican restaurant in southern California. Its inventory purchasing process involved several steps. On a weekly basis, the head chef estimated the total supplies needed in the kitchen; the head waiter estimated the total supplies needed for the dining room. The head waiter summarized all the information and prepared a list of needed supplies for Mr. Ruiz, the owner. Mr. Ruiz kept an alphabetized list of potential suppliers; each week, he would contact one supplier from the list to place the restaurant's order. The order was placed over the phone; the salesperson quoted the total price for the order to Mr. Ruiz. When the goods arrived, Mr. Ruiz would check the total order price against the supplier's catalog. If the prices matched, Mr. Ruiz received the inventory and paid the delivery person in cash. If the prices did not match, Mr. Ruiz sent the entire order back and called the next supplier on the list.

You have been hired to develop a better inventory purchasing process for Casa Ruiz following the generalized model of business process management discussed in the text. Fill in each blank below with one action you would take to achieve that goal; the first two steps have been completed as an example. Do not list the steps in the model; rather, explain what you would do for each step.

- 1) This project will analyze the inventory purchasing project, beginning with initial needs identification and ending with paying for delivered inventory.
- 2) You have interviewed Casa Ruiz employees and observed the process from start to finish, yielding the description above.
- 3) _____
- 4) _____
- 5) _____
- 6) _____
- 7) _____

56. Casa Ruiz is a Mexican restaurant in southern California. In anticipation of expanding its operations considerably, Mr. Ruiz (the owner) has contacted you to develop an enterprise risk management plan using the COSO model. Fill in the blanks below to develop an ERM plan for Casa Ruiz; the first two elements are supplied as examples. 1) Internal environment: Mr. Ruiz conducted a series of employee meetings to explain the importance of enterprise risk management and the COSO model. 2) Objective setting: Mr. Ruiz wants to open a second location within six months. 3) Event identification: _____ . 4) Risk assessment: _____ . 5) Risk response: _____ . 6) Control activity: _____ . 7) Information and communication: _____ . 8) Monitoring: _____ .

Annie and Ray were having a conversation about business process management; several statements from that conversation are listed below:

- a. A weekly e-mail to all employees will help everyone stay informed about our progress.
- b. I know a great consultant who can help us out; that way, we won't have to bother company employees too much.
- c. I think we should create a suggestion box where employees can give us their ideas and express their concerns about the project.
- d. I'd suggest putting together a cross-functional team to help with the project, but we have to make sure we avoid people who will only protect their own department.
- e. Let's make some minor modifications to our existing process; that should be enough to satisfy almost everyone.
- f. Our company has always been able to compete based on the quality of our product; any new process we design should enable us to keep doing that.
- g. The very first thing we need to do is get rid of all paper forms; they only create waste and inefficiency.
- h. The vice president of operations gave me a clear description of what the process should look like, but I'm not sure he understands how things really work around here.
- i. We should consider the impact this new process will have throughout the organization.
- j. We should look for a consultant with a lot of experience; the consultant should be able to provide us with all the detail we need about matters like how long the project will take and what milestones we should set along the way.

Analyze the statements; indicate which ones support the basic principles of business process management discussed in the text. For each statement, indicate the relevant BPM principle (whether supported or not).

58.

Expectancy theory suggests that three variables contribute to motivation. Consider the questions listed below. For each one, identify the variable that most clearly applies.

- a. Can I be assured of a pay raise once I pass the CPA exam?
- b. Do I really want this promotion?
- c. How badly do I want the approval of my peers and supervisor?
- d. How good will I feel if I achieve this goal?
- e. If I attend a one-week seminar on fraud examination, will I be able to pass the certification exam?
- f. If I get promoted to accounting manager, will I have more flexibility with my working hours?
- g. If I read enough books, will I be able to make our inventory purchasing process more efficient?
- h. If I study at least three hours per night, will I be able to learn this new accounting software?
- i. What is my motivation for learning this new accounting software?
- j. Will my chances of getting a better job increase if I get another college degree?

59.

- _____ We need to make the process of paying dividends more efficient.
- _____ There are five ways to improve this process; here's a ranked list of them.
- _____ The cost of issuing one check is roughly \$3.00.
- _____ Here's a diagram I drew that illustrates how the process works now.
- _____ Let's focus first on the first item in the ranked list; if it doesn't work, we can try something else.
- _____ We should collect ongoing data about transaction processing costs to see if we've achieved our goal.
- _____ According to published benchmarking studies, most companies spend between \$2.00 and \$5.00 to process a transaction of this type.

Joe talked to two friends who had recently worked on different business process management projects; one project was successful, but the other was not. Several actions taken in each project are listed below. Based on the generalized model of BPM discussed in the text, determine which actions were associated with the successful project; then, put them in the correct order.

- a. According to published benchmarking studies, most companies spend between \$2.00 and \$5.00 to process a transaction of this type.
- b. Here's a diagram I drew that illustrates how the process works now.
- c. I found this generic description of the process in an accounting textbook.
- d. I'm glad that project is done—now we don't have to think about it again.
- e. Just pick something off the list and let's try it.
- f. Let's figure out a better way to purchase assets.
- g. Let's focus first on the first item in the ranked list; if that doesn't work, we can try something else.
- h. Look at this list of one hundred ways to improve the process that was published in a practitioner journal two years ago.
- i. The cost of issuing one check is roughly \$3.00.
- j. There are five ways to improve this process; here's a ranked list of them.
- k. We need to make the process of paying dividends more efficient.
- l. We should collect ongoing data about transaction processing costs to see if we've achieved our goal.

60.

Nancy talked to two friends who had recently worked on developing enterprise risk management plans; one project was successful, but the other was not. Determine which statements in the list below were associated with the successful project; then, identify the element of the COSO enterprise risk management framework that most clearly applies.

- a. Backup power supplies and adequate insurance are good ideas.
- b. I'd say the risk is moderate to high at an inherent level, but we can probably reduce it if we implement some new procedures.
- c. I'm glad the president let us bring in a speaker about ERM before the project got started.
- d. If we have a power outage, our cooling systems could fail, leading to damaged inventory.
- e. Let's put together a memo that explains the work we've done to everyone in the company.
- f. Our costs are out of control, so let's cut them by 10%.
- g. Our goal is to lose no more than 1% of our inventory due to spoilage.
- h. Should we simply accept the risk? Or should we try another way of reacting to it?
- i. The operations manager and inventory control clerks can let us know how the process is working.
- j. We need to make the company more profitable.
- k. Why would anyone outside inventory control need to know what we've done?

61. List and discuss three basic principles of business process management.

62. Pearl had been asked by her boss to develop a new way to process expense reimbursements in her company. In your own words, list and discuss the steps Pearl should take to accomplish her task.

63.

Nestor and Maureen are partners in a small consulting firm located in the Republic of Bufflufia; the firm has six employees. For the last five years, the firm has focused on tax planning and tax return preparation. But, Nestor and Maureen are now interested in expanding the firm's scope of services. They are considering risk management consulting, fraud examination and business valuation as potential areas to expand the firm. They are sure at least three of their six employees would put effort into at least one of those three areas, but expanding the firm's services would require additional training for everyone.

Use the COSO enterprise risk management framework to develop a risk management plan for the expansion. Then, use the elements of expectancy theory to suggest ways Nestor and Maureen can motivate their employees to put effort into the expansion.

64. Explain how Brown's risk taxonomy, discussed in the chapter on internal control, relates to COSO's enterprise risk management framework. You do not need to list the elements of Brown's taxonomy.

65.

Tim graduated from college three years ago, and recently has been promoted to a management position at a local charitable organization. The organization's internal controls are weak, and Tim wants to improve them; but, his employees lack motivation for doing so. Tim has sent an e-mail to Jackie, his professional mentor, asking for ideas about improving the employees' motivation.

Compose an e-mail to Tim explaining how he could use expectancy theory to motivate his employees to improve the organization's internal controls. Make sure the e-mail has sufficient detail for Tim to implement the ideas you suggest.

ch04 Key

1. A
2. A
3. C
4. B
5. D
6. B
7. C
8. C
9. D
10. C
11. A
12. D
13. B
14. A
15. C
16. C
17. A
18. B
19. A
20. D
21. C
22. A
23. A
24. A
25. C
26. D
27. A
28. C
29. C
30. A
31. A
32. D
33. A
34. B
35. B
36. C

- 37. C
- 38. A
- 39. C
- 40. A
- 41. D
- 42. B
- 43. D
- 44. D
- 45. B
- 46. C
- 47. D
- 48. C
- 49. C
- 50. C

51. Select the process and define its boundaries. - Observe, document and map the process steps and flow. - Collect process-related data. - Analyze the collected data. - Identify and prioritize potential process improvements. - Optimize the process. - Implement and monitor process improvements.

- 8. risk assessment
- 7. event identification
- 6. internal environment
- 5. information and communication
- 4. objective setting
- 3. control activities
- 2. risk response
- 52. 1. monitoring

- 7. yes
- 6. no
- 5. no
- 4. yes
- 3. yes
- 2. yes
- 53. 1. no

- 5. valence
- 4. instrumentality
- 3. valence
- 2. expectancy
- 54. 1. expectancy

55. 3. Determine, by supplier, how often there are discrepancies between the quoted price and the catalog price.4. Rank the suppliers based on the data collected in (3).5. Use written documentation for orders, rather than a phone call. Develop a preferred

8. Mr. Ruiz should conduct an evaluation after the expansion to determine how the plan should be modified in the future.
7. Mr. Ruiz should meet with his current employees to explain the process of managing risk; he should also communicate the plan to the lender.
6. Mr. Ruiz should negotiate a line of credit to address the risk of insufficient funds.
5. The company needs to avoid the risk.
4. The risk is high on an inherent level; it could be lowered to moderate as a residual risk.
56. 3. The company may lack sufficient funds for the expansion.

- j. No. When using external consultants, the client should define the tasks and deliverables.
- i. Yes. Involve people who see the big picture.
- h. No. Ensure that top management can describe current business processes.
- g. No. Managing business processes is fundamentally about people, not technology or documents.
- f. Yes. Understand how business processes interact with strategy.
- e. No. Be open to alternatives.
- d. Yes. Involve people who can see the big picture.
- c. Yes. Be open to alternatives; communicate early, communicate often.
- b. No. Don't rely on external consultants to the exclusion of internal employees.
57. a. Yes. Communicate early, communicate often.

- j. instrumentality
- i. valence
- h. expectancy
- g. expectancy
- f. instrumentality
- e. expectancy
- d. valence
- c. valence
- b. valence
58. a. instrumentality

59. We need to make the process of paying dividends more efficient. - Here's a diagram I drew that illustrates how the process works now. - The cost of issuing one check is roughly \$3.00. - According to published benchmarking studies, most companies spend between \$2.00 and \$5.00 to process a transaction of this type. - There are five ways to improve this process; here's a ranked list of them. - Let's focus first on the first item in the ranked list; if it doesn't work, we can try something else. - We should collect ongoing data about transaction processing costs to see if we've achieved our goal.

Monitoring: i
Information and communication: e
Control activities: a
Risk response: h
Risk assessment: b
Event identification: d
Objective setting: g
60. Internal environment: c

61.

The basic principles of BPM identified in the text are:

1. Understand how business processes interact with / support organizational strategy.
2. Move away from the "we've always done it this way" mentality. Be open to alternatives.
3. Enlist top management support. Ensure top management can describe current business processes before trying to reengineer / maintain / modify the processes.
4. Managing business processes is fundamentally about people, not technology / documents. It's important to hire people who can think beyond their little piece of the world and see the big picture.
5. Don't rely on external consultants to the exclusion of internal employees.
6. When using external consultants, make sure the task is well defined, with specific deliverables identified by the company.
7. Communicate early; communicate often. Deal with objections as soon as they arise.

62.

Following the generalized model of BPM discussed in the text, Pearl should:

1. Determine the scope of the process she will analyze.
2. Create documentation, such as a flowchart, that describes the process as it exists.
3. Determine the cost and time associated with the current process.
4. Look for trends in the data; compare it to benchmarks within and outside the company.
5. Brainstorm and rank ways to improve the process.
6. Describe the new process based on those ideas.
7. Implement the new process described in the previous step.

63.

Risk management plan

Internal environment: Nestor and Maureen need to demonstrate their strong support for developing an ERM plan, perhaps by talking to key employees who can provide support.

Objective setting: Add one additional service within the next 12 months.

Event identification: Current staff may not have the expertise for the additional service.

Risk assessment: Inherently high, could be reduced to moderate or low on a residual basis.

Risk response: Reduce the risk.

Control activities: Identify key employees; provide training for the new business area.

Information and communication: Post the ERM plan in conspicuous places around the office.

Monitoring: Develop a specific timeline for reviewing and (potentially) modifying the plan.

Expectancy theory

Expectancy (will effort lead to accomplishment): Develop a specific timeline for key employees to acquire new skills; modify their current job responsibilities to promote their success.

Instrumentality (will accomplishment lead to reward): Set up a formal written agreement that specifies the rewards to be granted if the goal is achieved.

Valence (is the reward valued): Talk with employees about the benefits they will gain from the expansion.

64. Brown's risk taxonomy is a four-part model for identifying and describing risk; the COSO ERM framework is an eight-part framework for managing risks. Brown's taxonomy could be used in the "event identification" phase of the COSO ERM framework as a vehicle for identifying things that might interfere with a company's ability to achieve its goals.

65.

To: Tim
From: Jackie
Subject: Employee motivation

Tim, thank you for contacting me about your situation. Although there are many ways to frame a discussion about employee motivation, Vroom's expectancy theory is a straightforward, yet elegant model for doing so. Vroom's theory explains that motivation is the product of three factors: expectancy (will effort lead to accomplishment), instrumentality (will accomplishment lead to reward) and valence (does the person value the reward). All three must be positive for an employee to be motivated.

To influence expectancy, consider talking with employees about goals they have already achieved, particularly professional goals. By demonstrating to them that, in the past, effort has led to accomplishment, they may come to believe that the same will hold true in the future. In addition, develop a specific timeline that will help them see the goal of improving internal control as achievable.

For instrumentality, try helping them understand the benefits of improved internal control: assets will be more safe, financial statements will be more reliable, operations will be more efficient. Those results could lead to tangible rewards such as pay raises; improved internal control may also help the company control its costs by cutting down on theft and inefficiency.

Valence may be a bit more tricky. You have to figure out what rewards your employees value. Although many are motivated by financial incentives, some employees may be more interested in other rewards. You could brainstorm potential rewards with the employees involved to determine what they really value.

I hope these suggestions are helpful to you. Please call on me if I can be of additional assistance.

ch04 Summary

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