

Case #1

**MARKING GUIDE
CANADIAN CLEAN-UP CREWS
ASSESSMENT OPPORTUNITIES**

To: Catherine Babinec
From: CPA
Subject: Recommended Improvements

Assessment Opportunity #1

The candidate describes the cause-and-effect linkages between perspectives and explains to Catherine how the strategy map relates to Canadian Clean-Up Crews.

The candidate is demonstrating competence in Strategy and Governance.

CPA Map Competencies:

2.3.1 – Evaluates the entity’s strategic objectives and related performance measures (Core Level B; moves to Level A in the Performance Management Elective)

The bubbles in Canadian Clean-Up Crews’ (CCC’s) strategy map represent strategic outcomes, and there is a cause-and-effect nature to the map that would feed into a balanced scorecard. The strategy map should also relate back to the key success factors and the shift in CCC’s focus away from individual clients to insurance company clients.

I can also explain the cause-and-effect nature using different examples, such as the following:

- If employee engagement is improved, this will lead to happier customers, which will lead to more customers, which will lead to increased profitability.
- If employee training is improved, this will lead to improved cost containment, which will improve profitability.
- If employee training is improved, this will lead to improved response time, which will lead to happier customers. Happier customers will lead to more customers, which will lead to increased profitability.
- If employee training is improved, this will lead to improved cycle time, which will lead to happier customers. Happier customers will lead to more customers, which will lead to increased profitability.

The strategy map aligns well with CCC’s current strategy of meeting the insurance companies’ needs. The key success factors include cycle time, response time, cost containment, and customer satisfaction. Having these elements reflected in the strategy map does a good job of refocusing CCC on this revised strategy.

Assessment Opportunity #2

The candidate critiques the draft balanced scorecard.

The candidate is demonstrating competence in Strategy and Governance.

CPA Map Competencies:

2.4.1 – Analyzes the key operational issues and alignment with strategy (Core Level B; moves to Level A in the Performance Management Elective)

Because you do not understand the balanced scorecard, I will discuss each perspective and include an explanation.

Financial

This is heavily weighted, with the most measures, and while financial success is paramount to CCC, other non-financial measures will also contribute to CCC's success and should not be overlooked. The idea of the balanced scorecard is that measures for the four perspectives should be relatively equal.

The current measures are good, but they could be improved by measuring them against something, like a target or year-to-year growth.

Internal Process

Internal Process relates to operational issues and efficiencies. Therefore, employee training and employee engagement would be more appropriately categorized under Organizational Learning and Growth.

Since response time and cycle time have been identified as key measures, they should be integrated into this part of the balanced scorecard.

Organizational Learning and Growth

As noted above, cycle time is better categorized under Internal Process. The Organizational Learning perspective of the balanced scorecard is focused on growing and improving the abilities of the company and its employees. Since you are in a dynamic industry, it is important that your staff be up to date on the latest repair methods, tools, and regulations. Therefore, it makes sense to include some elements of training in this perspective of the scorecard.

Customer

This is an important part of the scorecard for CCC if its goal is to remain on the Preferred Supplier List. Therefore, there could be several customer measures in this perspective, and it would be reasonable to have this part of the scorecard the most heavily weighted, rather than the Financial perspective. Customers drive profitability, as is shown on the strategy map.

Assessment Opportunity #3

The candidate appropriately revises the balanced scorecard and recommends appropriate measures that link to case facts.

The candidate is demonstrating competence in Management Accounting.

CPA Map Competencies:

3.6.1 – Evaluates performance using accepted frameworks (Core Level B; moves to Level A in the Performance Management Elective)

Here is a possible revised balanced scorecard:

Area	What To Do	Tracking
Financial	Profitability	Net profit to target (%)
	Profitability	Revenue growth (%)
	Cost performance	Difference between actual and estimated costs
Customer	More customers	Increase in customers (#)
	Happy customers	Satisfaction score from customer satisfaction survey (#)
Internal Process	Improved response time	Time from first phone call to arrival on site (# of minutes)
	Improved cycle time	Time from first phone call to completion of work (# of days)
	Improved cost containment	Difference from Big Insurance Group (BIG) benchmarks (\$)
Organizational Learning & Growth	Improved employee training	Hours of training (#)
	Improved employee engagement	Satisfaction score from employee engagement survey (#)

This scorecard is relatively balanced in each of the four areas, and the measuring and tracking that are suggested are specific (for example, “Satisfaction score from customer satisfaction survey (#),” rather than simply “Customer survey”).

Assessment Opportunity #4

The candidate calculates the revised overhead allocation using equipment hours.

The candidate is demonstrating competence in Management Accounting.

CPA Map Competencies:

3.3.2 – Evaluates and applies cost management techniques appropriate for specific costing decisions (Core Level B; moves to Level A in the Performance Management Elective)

Since equipment is used to a greater extent than labour, equipment hours is a better allocation measure of overhead than direct labour hours. Therefore, the overhead can be reallocated as follows:

	Fire Restoration		Flood Restoration		Other	
	Comm.	Res.	Comm.	Res.	Comm.	Res.
Revised overhead costs if overhead allocated based on equipment hours	\$ 28,000	\$ 5,600	\$ 48,000	\$ 9,600	\$ 6,000	\$1,200
Revised average cost/job with revised overhead allocation	\$208,000	\$41,600	\$221,500	\$44,300	\$41,500	\$8,300

Comparing the new cost per job with the BIG benchmarks results in the following:

	Fire Restoration		Flood Restoration		Other	
	Comm.	Res.	Comm.	Res.	Comm.	Res.
Current average cost/job with DLH allocation	\$225,000	\$45,000	\$206,500	\$41,300	\$39,500	\$7,900
Revised average cost/job with revised allocation	\$208,000	\$41,600	\$221,500	\$44,300	\$41,500	\$8,300
Benchmark	\$220,000	\$44,000	\$210,000	\$42,000	\$42,500	\$8,500
Revised difference	+\$12,000	+\$2,400	-\$11,500	-\$2,300	+\$1,000	+\$200

Based on the above, it can be seen that CCC needs to address its flood restoration processes to improve costs.

Assessment Opportunity #5

The candidate calculates the revised job profit (i.e., profit %) and ranking.

The candidate is demonstrating competence in Management Accounting.

CPA Map Competencies:

3.5.1 – Performs sensitivity analysis (Core Level A)

	Fire Restoration		Flood Restoration		Other	
	Comm.	Res.	Comm.	Res.	Comm.	Res.
Revenue/job	\$224,640	\$44,096	\$237,005	\$46,515	\$45,650	\$9,047
Revised average cost/job with revised allocation	\$208,000	\$41,600	\$221,500	\$44,300	\$41,500	\$8,300
Profit/job	\$ 16,640	\$ 2,496	\$ 15,505	\$ 2,215	\$ 4,150	\$ 747
Profit %	7.4%	5.7%	6.5%	4.8%	9.1%	8.3%
Rank order	3	5	4	6	1	2

You are under the impression that flood jobs are where CCC makes its money, but in fact the small jobs, while infrequent, are most profitable, followed by commercial fire jobs, commercial flood jobs, residential fire jobs, and, lastly, residential flood jobs. You should consider this when CCC has the choice between jobs because this will help you to improve overall profitability.

Assessment Opportunity #6

The candidate discusses several internal control issues.

The candidate is demonstrating competence in Assurance.

CPA Map Competencies:

4.1.1 – Assesses the entity’s risk assessment processes (Core Level A)

There are multiple internal control issues at CCC that should be discussed and rectified.

Personal client information is being entered into a shared spreadsheet that may not have sufficient security. This may compromise the personal information, and since the company is responsible for maintaining the confidentiality of customer information, this puts CCC at risk. Having the spreadsheet accessible to all employees may be convenient, but it exposes CCC to the risk of this information being compromised. If the customer information is compromised, CCC may risk potential legal action by the customers and losing its standing on the Preferred Supplier List.

Currently employees submit hours and can edit them as they see fit. This is a serious control issue because there is no accountability regarding the hours entered or edited. Hours could be falsified by employees without any method of checking or validating. Supervisors are currently responsible for only the portion of the job they worked on, so there is no supervision of the employees during some, and possibly many, portions of their work. Again, this allows for employees to inflate the hours they took to complete a job so they can get paid more. Or, if the employees are paid a salary, they could reduce the actual hours it took to complete a job to make them look better.

Clients have received the same invoice twice, which leads to questions about the accounting system and processes. Are sales in the accounting system falsely inflated? Is the accounts receivable balance correct or incorrectly too high? The reliability of the financial statements is in doubt, and this should be fixed as soon as possible.

You have paid some invoices without conducting due diligence to confirm the existence of the matching supplies and the amount owing. Again, this raises doubt as to the accuracy of the financial statements. Is the inventory of supplies accurate? Are the profits on each job correct? The accounting processes need to be fixed as soon as possible.

Assessment Opportunity #7

The candidate recommends appropriate changes to address the internal control issues.

The candidate is demonstrating competence in Management Accounting.

CPA Map Competencies:

**3.1.3 – Recommends improvements to reporting systems to meet information needs
(Core Level B; moves to Level A in the Performance Management Elective)**

To address the issue with confidential customer information, the shared spreadsheet needs to be password protected, with each employee having his or her own access code. The system should create an audit trail of any changes that happen, and a supervisor could be engaged to review the accuracy of the information entered by each employee.

This supervisor review should include reviewing the hours input by the employees. Once the hours are approved by the supervisor, employees should no longer be able to edit the hours. This would validate the information in the system before CCC pays for the hours recorded.

To provide some segregation of duties, receipts and other job information should be approved by the supervisor and then reconciled by the accountant against financial records to ensure complete and accurate job information, improving the reliability of the information.

To prevent the same invoice from being paid twice, the process should be revised to include stamping the invoice once it is paid and recording the cheque number. The accounting system should be checked to make sure no invoice is in the system twice. By doing so, you will ensure that sales and accounts receivable information is more reliable.

You should never pay invoices until the invoice and amount are verified. While this can be onerous, it is necessary. There should be a typical purchase order process in place that requires different signatures, provides evidence of the purchase, and validates the invoices.