

Atlanta home loan – case study

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Thank you for providing the background information of your company. Based on the information provided, there appears to be deficiencies in the control systems implemented within the operation. These control deficiencies were one of the main causes that allowed unintended individuals to gain unlawful control over Atlanta Home Loan. In order to prevent this from happening again, it is important to identify the main issues that caused the company to fall, generate alternatives to apply in the future, and evaluate these alternatives to see which controls would be most valuable to your future business.

Control System Analysis

Before attending the EMBA, your main system of control was action and result controls. Action controls were demonstrated in several control areas: direct monitoring of the credit inquiry of each loan application; close monitoring of the loan application/lead ratios and their trends to identify any irregularities; receiving funds directly from the proceeds at closing; receiving brokers' checks overnight at AHL's office or direct wiring of money to AHL's general account. Result controls were demonstrated through AHL's compensations to the loan officers based on who originated the deal.

Since the school started, in addition to the existing controls, you have set up remote monitoring system to keep track of employees' daily activities as well as forwarded all corporate mails to California. These are also forms of action control. Provided that Wilbur generates revenues to the company, you compensate him through commissions. This is a result control.

Generally, there are four types of common controls a firm can utilize when setting up their internal control systems: results, action, and personnel/cultural controls. As per the above analysis, it appears that AHL primarily used only action and result controls and lacked the use of the personnel and cultural controls. Action controls heavily rely on your personal effort in monitoring the behaviors of your employees; it does not promote goal congruence within the firm. Result controls provide autonomy or motivation for employees to strive better as a team, but the linkage between results and actions may not always be perfect.

In the case of AHL, action and result controls are susceptible to fraudulent acts as they are evaluated based on the observation or outcome the company; they are more of reactive than proactive control systems. For example, there is a lack of monitoring of loan applications once they are past the loan officer level. In addition, there was a lack of segregation of duties within the departments of your firm.

Wilbur had the use and privileges of AHL, as well, he was able to conduct human resources function at the same time have the authority to pay any office expenses. Further, signed blank checks were made available to the company management during your absence. These are control deficiencies that are visible for staff and are easy targets for misappropriations.

Besides several weaknesses in controls, AHL does not have a sound company strategy. It is important to develop a corporate-level strategy by establishing a functional organizational structure as well as strengthen your business unit strategy by setting up a mission statement or a vision for your employees to realize.

Preventing the Same Mistake from Happening

We have identified the current controls implemented at AHL, some of the controls need improvements in order to prevent the same problems from happening. AHL should to consider strengthening your action controls by implementing the electronic links to the processors' files so you can see the entire loan application process remotely instead of only checking the status at the loan officers' level. In addition, Segregation of duties should be enforced by having separate individual personnel handling loan applications, loan submissions, paying office expenses, human resources, approving payments, and signing checks, etc.

This would require the coordination of personnel controls which helps an organization find the right people, giving them a good working environment and the necessary resources to do their work. AHL should have a trained recruiting manager or an experienced staff to conduct the hiring and firing process. In addition, AHL should continue to establish a more effective motivational compensation plan (through its result controls) that not only rewards the outperforming staff, but also encourages synergy and goal congruence for the organization.

This will be complemented through the implementation of cultural controls. AHL can set company code of conducts and statements of values, create an ethical tone at the top and promote employees in thinking more socially responsible. A company's culture can unite its employees or attract new employees as they share a similar set of values. The alternative controls in place could help prevent your past mistakes and assist in hiring and rewarding trustworthy employees.

Recommendations

Action, personnel, and cultural controls are three key controls that should be in place to reduce the probability of the case events reoccurring. If you can tighten the current action controls via the help of technology or an independent monitoring system, then the loan application to leads ratio could be significantly increased as it reduces the likelihood of any loan officers privately absorbing the loan applications without reporting them to the firm.

A solid action control cannot be solely performed by your (one person), so implementation of personnel controls is essential which will allow you to recruit talented and trustworthy employees that prevent theft or fraud from reoccurring. Setting a clear mission statement and company corporate governance policy will provide an overall cultural support to the company that will complement the application of action and personnel controls. I hope the above memo can be a useful guidance for you in the future.