

# **AND THE WINNER IS: INTERNAL CONTROL & HUMAN RESOURCE ISSUES AT THE 2017 OSCARS**

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## **ABSTRACT**

This instructional case, suitable for use in both management and accounting courses, focuses on the error in announcing the winner of the Best Picture award at the 2017 Oscars. After laying out the selection process in some detail, the case explores the error as an internal control lapse (accounting), issues with the use of social media (management) and suggested discipline for employees who committed the error (management). Case questions ask students to: (a) develop an internal control plan using the COSO Internal Control Integrated Framework, (b) analyze and critique existing social media policies in real organizations and (c) comment on the appropriateness (or lack thereof) of disciplinary procedures taken against the employees.

## **INTRODUCTION**

Each year around the end of February or beginning of March, the Academy of Motion Picture Arts and Sciences holds its annual celebration of films released in the previous year—an event popularly known as “the Oscars.” People comment, make predictions and hold parties surrounding the gala; it typically receives extensive media coverage as well.

The event culminates with the announcement of the “Best Picture.” In 2017, nine films were nominated for the honor. But, when Faye Dunaway and Warren Beatty announced the winner, they identified the wrong film! The pair announced that La La Land had won the Best Picture award, but the actual winner was Moonlight. The mistake was quickly corrected by Martha Ruiz and Brian Cullinan, partners from PriceWaterhouseCoopers (the CPA firm that oversees the voting, aka PwC), but the snafu created a media buzz for weeks afterward. This case explores the mistake as an internal control and human resources issue.

## **THE PROCESS**

Hitt and Messer [9] discussed the voting process for the Oscars:

1. **Voting started early:** After the nominations are announced, ballots are sent out to members of the Academy, each of whom decided ahead of time whether to vote electronically or with a paper ballot.
2. **The voting process is an organized one:** Though electronic voting was introduced five years ago, many members still choose to use paper ballots.
3. **There's protection from counterfeit ballots:** PwC makes sure that each ballot returned to them is legitimate by matching the code on it to the corresponding voting member.

4. **Counting the votes takes days:** For days before 2016's show, Cullinan and Ruiz holed up with their team counting ballots -- and that process continued for the rest of the week.
5. **Counting the best picture race is complicated:** The process of counting votes for best picture isn't as simple as one might think. According to Cullinan, each voter is asked to rank the nominated films, with one being their top choice. After determining which film garnered the least number of votes, PwC employees take that title out of contention and look to see which movie each of those voters selected as their second favorite. That redistribution process continues until there are only two films remaining. The one with the biggest pile wins.
6. **Each winner's name is printed out to ensure security:** Marc Friedland, creative director of Marc Friedland Couture Communications, has been handcrafting the Oscar envelopes and winners' cards for six years, though he did not do them for the 2017 telecast. He said in 2016 that the process took 110 hours, as he created three sets of winners' cards -- one for each nominee -- and 72 envelopes. When he was finished, he gave the winners cards and the envelopes to Ruiz and Cullinan, who were responsible for putting the correct winners' cards into the envelopes and sealing them. Then, they loaded them into briefcases and destroyed the cards bearing the names of those who did not win. Winners also receive a copy of the envelope and the card bearing his/her name.
7. **Security precautions are taken until the end:** Ruiz and Cullinan each take a briefcase filled with winners' envelopes to the ceremony, but to ensure maximum security, each travels on a different route and is protected by police.

But, despite that process and its safeguards, the mistake was made live on television. After profuse and repeated apologies from producers, hosts and announcers, a study and analysis of the incident revealed that Cullinan had “tweeted a photo of [Emma] Stone minutes before the mix-up despite reportedly being asked not to do so. His tweets from Oscar night, which have all since been deleted, included an image of the briefcase with the envelopes and one of supporting actress winner Viola Davis.” [11]

Although PwC will continue in their role with the Oscars, Ruiz and Cullinan will not be its representatives in the future. [19] In addition, the Academy banned cellphones for PwC accountants during future Oscar telecasts [17].

## INTERNAL CONTROL OVERVIEW

The Committee of Sponsoring Organizations of the Treadway Commission, aka COSO, defined internal control as “a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.” [6]

To develop a sound set of internal controls, many organizations take a risk-based approach; that is, they identify potential risks and consider controls to ameliorate them. Brown [3] suggested a four-part taxonomy for identifying and discussing risks: financial, operational, strategic and hazard.

Finally, COSO [6] suggested a five-part framework for developing and implementing a comprehensive internal control plan: control environment, risk assessment, control activities, information and communication, monitoring. Although its context is unusual, the Best Picture mistake at the Oscars is fundamentally an internal control problem.

## PWC AND THE OSCARS

PwC states in its On Campus newsletter [15] and its Faculty newsletter [16] that it has counted the ballots for the Oscars every year for the last 83 years, and it is a point of pride for the organization. The two accountants' profiles were on the website, and the awards were livestreamed. In addition, PwC encouraged readers of the On Campus newsletter to follow the "Oscars Ballot Briefcase" by looking it up on Snapchat, Twitter or Instagram. The mistake likely resulted in some damage to their reputation, but the damage is not expected to be long-term [2].

## OVERVIEW OF SOCIAL MEDIA IN THE WORKPLACE

The use of social media is pervasive: Facebook claims 1.1 billion users [5]; Twitter 328 million users [13], and LinkedIn 500 million users [7]. Many employees use social media while at work [14], with over half of them agreeing that it distracts them from the work they need to do.

Social media in the workplace can be a management tool, used to encourage communication and create collaborative work environments; or an employee-driven practice where employees expose organizational issues or share stories [4]. Employers in the past have been able to regulate what employees say and do in order to protect their brand [1]. However, the National Labor Relations Board (NLRB) aggressively enforces employees' right to use social media to discuss their working conditions, and even try to change them. Employees' unflattering posts about their working conditions have resulted in terminations and lawsuits [1].

An additional challenge for employers is that they can be liable for employees' social media use even if employees use their personal accounts [12]. Therefore, it is important for organizations to manage the various issues that social media use brings to their business.

## PROGRESSIVE DISCIPLINE

Progressive discipline is a performance management process where an employee receives increasingly severe penalties for repeated violations of organizational policy [18]. Typically, the first step is a verbal warning, followed by a written warning, then a suspension, and if necessary, termination. Behavior that is illegal, or that causes harm to others is not subject to progressive discipline, and may be grounds for immediate termination of the employee. Many organizations use progressive discipline because it is a way for managers to make fair and legally defensible decisions [8].

Progressive discipline begins at the first violation of the organization's policy or practice. In this case, the lead accountant, who was told not to use social media while onstage, tweeted shortly before handing the envelope to the presenters. In order to effectively deal with the situation, it appeared that PwC followed several steps of the recommended course of action for progressive discipline [8]:

- 1) Gather information to determine what actually happened
- 2) Assess the severity to determine the importance of the problem

- 3) Decide how to respond based on
  - a. The impact of the behavior on customers and other employees
  - b. How often the behavior occurred
  - c. The employee's work history
  - d. Legality of the behavior
- 4) Prepare for the conversation with the employee
- 5) Meet with the employee
- 6) Put the decisions in writing
- 7) Follow up

Clearly, PwC decided that this mistake was of significant magnitude that both accountants will no longer participate in the Oscar broadcast, and to apologize profusely for the incident.

## CASE QUESTIONS

In a format specified by your instructor:

1. Consider the Best Picture mistake as described in the case.
  - a. The case lists four broad purposes of internal control. Which of them was / were violated? Explain your answer.
  - b. Use Brown's taxonomy to classify the risk of announcing the wrong film. Explain your answer.
2. Use the COSO Internal Control Framework and the outline shown in Exhibit 1 to develop an internal control plan for the Oscars. (Exhibit 1 is available via [this link](#).)
3. Search for examples of 5-10 company social media policies. What are common elements in the policies? Do you think the policies are fair to the employee AND protect the employer? Why or why not? How important is it to be able to access social media while at work?
4. Focusing on the first three steps of using progressive discipline, was the decision to relieve the PwC accountants of their duties at the Oscars an appropriate one for a first time offense? Why or why not?

An instructors' teaching note is available at [this link](#).

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