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Internal Control Systems by the Internal Control Unit in Improving Officers Compliance

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Abstract: This study discusses the role of Internal Control Unit (ICU) in improving employee compliance. This study purpose is to determine the relationship between the working environment, an understanding of ethics and oversight of internal control by ICU variables against the employees unethical/corrupt behavior variables. Data in the study was collected by questionnaire and interviews to confirm the results of the questionnaire. Working environment and ICU supervision variables proved in this study has negative impact to the employees unethical/corrupt behavior. Understanding of ethics variable proved in this study has no effect to the employees unethical/corrupt behavior variable. The results of this study support previous research conducted by Sardzoska and Tang (2012) and Zuber (2015) is the work environment affects the behavior of unethical/corruption. From the interviews it was concluded that working environment had negative impact on the unethical behavior/corruption. Atmosphere and working relationship built by the leader and co-workers in a work environment is very important because it will help each employee achieve performance targets and minimize the occurrence of unethical or corrupt behavior

Keywords: Internal control unit, internal controls, ethics understanding, working environment and corruption.

INTRODUCTION

According to Bandura (1989), from the viewpoint of social cognitive theory, working environment plays an important role in learning process. Social cognitive theory emphasizes the relationship between learning experience of personal behavior and what kind of environment influences the learning process. Moreover, Bandura (1989) explains that learning process are going continuously because values, norms, and actions that adopted from widely social situation constantly changing. In other words, the process of establishing individual actions is an ongoing process affected by the social environment around him.

Denhardt (1988) on Hidayat (2015) stated that in public administration, ethics are an appropriate action that must be understood and obeyed by civil servants, public administrators, and government officials. In government bureaucracy, ethics act as a tool to create employees that responsible and discipline on determining matter, procedures, attitudes and behavior of these employees. Therefore, each employee must be able to understand and apply the ethics that exist within the organization/institution, especially in the work environment.

Using the experimental method, Wales Aldones, Snyder, and Christianity (2014) proved that unethical and individualized minor violations have potential to become big and become corrupt if done gradually and there is no control mechanism to prevent such actions.

In order to improve the supervision of internal control syste, DGT established Internal Control Unit (ICU). ICU exist in every vertical office and Technical Implementation Unit (TIU) of DGT. The main task of ICU is to monitor internal controls, monitor the code of ethics and employee discipline, monitor risk management, follow-up supervision results, and recommend business processes. In performing its duties, ICU is based on the Annual Monitoring Plan (AMP) issued by the Directorate of Internal Compliance and Apparatur Resources (KITSDA) with the approval of the Director General of Taxes. ICU is formed throughout the vertical office and TIU in 2013 and implements AMP as a reference work in 2013. After three years, an analysis is needed to find out how much ICU has influenced the internal control system to reduce the risk of fraud in the form of corruption.

Based on the background, to find out how much ICU has influenced in reducing fraud risk in DGT, and to see if there are any difference with previous research by Welsh, Ordonez, Snyder and Christian (2014), it is important to conduct research on such matters. This research is done by using quantitative method using questioner and interview with unit in DGT.

Based on the background of this study, the writer formulates the research question as follows:

1. What is the role of the work environment in improving internal compliance of DGT employees?
2. What is the role of ethical understanding in improving internal compliance of DGT employees?
3. What is the role of ICU in its function to improve internal compliance of DGT employees?

The objective of this study as follows:

1. Analyze the role of work environment in improving internal compliance of DGT employees.
2. Analyzing the role of ethical understanding in improving internal compliance of DGT employees.
3. Analyze the role of ICU in improving internal compliance of DGT employees.

LITERATURE REVIEW

Social Cognitive Theory is a theory that focuses on researching the process of learning by observing others. Social Cognitive Theory is based on some basic assumptions. One is that people can learn by observing others. The second assumption, learning is an internal process that may or may not cause behavioral changes. The third assumption related to reinforcement and punishment. Reinforcement and punishment has an indirect (non-direct) effect on individual learning and behavior. Individuals form expectations about the possible consequences of the behavior undertaken and their relation to future responses based on how

the current reaction is whether it is approved/reinforced or punished. Expectations are also influenced by the observation of the behavior of others whether the behavior is reinforced or punished (Bandura, 1999).

According to Allingham and Sandmo (1972), Rational Crime Theory is used to describe individual understanding when having the opportunity to be unethical. According to this theory, when a person has opportunity to behave unethically, he will first understand the existing ethical limits as well as the profit and loss if he did such unethical actions. These two things are decisive whether he will use the opportunity to behave unethically or not.

According to Gino and Margolis (2011), Regulatory Focus Theory is used to describe a precautionary measure through an authoritative unit or agency concept or through the addition of a rule that focuses on prevention and morals that will make individuals more cautious and reduce potential unethical/corruption.

According to Robbins (2003), environment is the institutions or outside forces that have potential to affect performance of the organization. Environment is formulated into general environments and special environments. General environment is anything outside the organization that has potential to influence the organization, such as a social condition and technological. Whereas special environment is a part of the environment that directly related to achieving the goals of an organization (Kusuma, 2013).

According to Basuki and Susilowati (2005), work environment is anything that is in the environment that can affect either directly or indirectly to person or group of people in carrying out their activities.

According to Nitisemito (2000), work environment is everything that is around the workers that can affect them in carrying out their tasks. According to Parlinda (2005), work environment consists of physical and non-physical environment that inherent with employees so that can not be separated from developing employee performance. A fresh and comfortable environment, an environment that meet the standards of decent work will contribute to the employees' comfort in doing their job. Non-physical work environment includes the attitude of employees, mutual respect at different opinion, and so forth is a mandatory requirement to build the quality of employees that ultimately can foster their performance on an ongoing basis (Martanto, 2005).

Fernanda (2003) explains that the term ethics derives from the Greek word 'ethos' that means character or habit. In daily language, ethics is often referred as etiquette which means how to get along or behave well or known as politeness. Ethics deals with good and bad, right and wrong, lying and honest (Iswoyo, 2005).

According to Iswoyo (2005) ethics describes a code of conduct related to the value of what is right and what is wrong and applies objectively in society. Everyone can show behavior that can be judged good or bad, right or wrong when doing an action in a particular environment. It depends on the values prevailing in the environment in which people live. Frequently there are different assessments of a behavior in different environments.

Furthermore Iswoyo (2005) explains that the term of ethics is developed in many organizations as norms that regulate and measure professional behavior of a person or profession called professional ethics. Ethics is defined as normative values or patterns of behavior of a person/institution/organization as a generally acceptable in interaction with the environment.

According to the Regulation of the Director General of Taxes No. 42 of 2013 on the Implementation of Tasks of UKI on Vertical Agencies and Technical Implementation Units within the Environment The

Directorate General of Taxation, ICU is a work unit in vertical agencies and technical implementing units within the Directorate General of Taxes that perform internal compliance duties such as monitoring internal control, monitoring risk management, monitoring compliance of ethics and employee discipline, monitoring of follow-up of supervisory results, and formulating business process improvement recommendations (Directorate General of Taxation, 2013).

Corruption is one of the major problems in organizations and governments. The definition of corruption that is according to Law Number 20 of 2001 concerning Amendment of Law Number 31 of 1999 about the Eradication of Corruption defines corruption as any person with the intention of benefiting himself or others, or a corporation, misusing authority, opportunities or facilities due to his position that may harm the state's finances or the state's economy (Government of the Republic Indonesia, 2001).

According to Moore (2009), corruption as "moral damage" is reflected in the sense of pressure and rationalization. Pressure in the form of rational and ethical limits on what we should do in the workplace environment. From these pressures, there are various ways to take small offense steps and rationalize those steps then subconsciously someone has been in a more corrupt moral behavior.

Further explained by Moore (2009) that it is easier for individuals to take small steps towards corruption because it does not pay attention to changes in their behavior, thus paving the way for even greater corruption. The first time a person/individual wades into an ambiguous zone of moral behavior and that moral behavior shifts the previous zone of gray into an acceptable zone, it will then become easier to extend the boundaries of moral ambiguity outward into a zone never considered previously.

While Hurberts and lasthuizen (2006) explain that a very serious case of corruption starts from a minor offense mainly occurs in cultures with norms that are not entirely clear and corruption is part of a breach of integrity

RESEARCH METHODOLOGY

The model used in this study adopted the model used in previous research by Welsh, Ordonez, Snyder, and Christian (2014). This study examines whether there is an influence between working environment, an understanding of ethics and ICU on the employees unethical/corrupt behavior

The description of research model can be expressed in the regression equation as follows:

$$TEKRP_i = \beta_0 + \beta_1 LK_i + \beta_2 PE_i + \beta_3 UKI_i + e_i \quad \dots(1)$$

Information:

$$\beta_0 = \text{constant}$$

$$\beta_{1,2,3} = \text{regression coefficient}$$

$$e_i = \text{variabel error}$$

$TEKRP$ = dependent variable, the employees unethical/corrupt behavior

LK = independent variable, Working Environment

ETK = independent variable, an understanding of ethics

UKI = independent variable is Internal Control Unit

This research used quantitative research method with interview. Closed-end questions in the questionnaire are specifically used for quantitative testing or hypothesis testing (evidence of results). While open-end questions are used to provide a qualitative picture through interviews that are able to provide proof of process although not used to answer the hypothesis or problem formulation. Questionnaire and interview methods are used to test and validate (cross-validate) each other and basically increase the validity and reliability of the overall results.

Table 1
Operationalization of Research Variables

<i>Variables</i>	<i>Dimension</i>	<i>Indicator</i>	<i>Scale</i>	
Working Environment (LK)	Working situation	Employees have a positive relationship with other employees	Ordinal	
	Cooperation	Employees have good cooperation with other employees and their superiors	Ordinal	
		Learning	Observes behavior in the environment	Ordinal
			Assess behavior in the environment	Ordinal
		Imitate behavior in the environment	Ordinal	
Understanding of ethics (ETK)	Understanding	Employees are aware of employee code of ethics	Ordinal	
		Employees have read employee code of ethics	Ordinal	
		Employees have performed obligations and comply with the prohibition in accordance with the Code of Conduct	Ordinal	
	Evaluation of Understanding	Employees know the potential and loop hole of violations and the consequences if they violate the code of ethics	Ordinal	
ICU	Implementation of Employee Compliance Monitoring	Implement employee compliance monitoring in the annual monitoring plan	Ordinal	
	Internal Control Monitoring	Implement monitoring Internal controls in the annual monitoring plan	Ordinal	
	Risk Management Monitoring	Implement Risk Management monitoring in the annual monitoring plan	Ordinal	
	Role Evaluation	ICU has made the work environment more conducive	Ordinal	
The employees unethical/corrupt behavior (TEKRP)	Potential unethical behavior/non material corruption	Have encountered or observe the probable problem that is a violation of code of conduct and of non-material corruption	Ordinal	
	Potential unethical behavior/material corruption	Have encountered or observe the probable problem that is a violation of code of conduct and of material corruption	Ordinal	

The instrument used in this research is questionnaire. Sugiyono (2010) stated that the questionnaire is a set of written questions given to the respondents. Questionnaire in this research is used to obtain data in the form of responses or respondents' answers to the statements in the questionnaire. The use of the statement attribute is chosen because the aspect to be assessed from this research is non-cognitive. For

respondent data, this research used attribute question. The questionnaire survey instrument consisted of two parts with a total of 40 statements related to the study and 5 questions related to respondents' demographic data at the end of the questionnaire.

The five-point Likert Scale is used with a scale range from strongly disagree/definitely no. 1 to strongly agree/definitely yes 5. Ajzen and Fishbein (2010) argue that a number of studies given on different occasions provide evidence that the scale of standard attitudes is very reliable in measuring the strength of beliefs and intentions. In particular Ajzen and Fishbein (2010) have cited other studies, such as Czaja and Blair (1996), which report reliability tests greater than 0.95 for the unlikely-likely scale.

Data processed and analyzed in the form of responses and answers from respondents on each questionnaire with related question from related variables that is the working environment, an understanding of ethics, oversight of internal control by ICU and the employees unethical/corrupt behavior variables. For the hypothesis test and regression analysis, data result from questionnaire in this research will be changed from ordinal scale to interval scale. Changes are needed because statistical procedures such as regression, Pearson correlation, t-test and so on, require interval-scale data (Sarwono, 2009). Change of data by ordinal scale into interval scale using method of successive interval (Hays, 1976). The transformation of ordinal data into interval data accomplished with method of successive interval and using Microsoft Excel 2010 software which has been installed with add-on excel stat97.xla program which is freeware and free downloaded thus obtained on the internet

The respondents of this research are Account Representative (AR), Staff, echelon Officer IV in Supervision and Consultancy section, and functional tax inspector at the Directorate General Taxes Regional Office of West Jakarta. the Directorate General Taxes Regional Office of West Jakarta was chosen because based on data from DGT, the Directorate General Taxes Regional Office of West Jakarta is the second winner of the DGT Integrity and Anti Corruption Initiative (PIIAK) Award in 2013 and the third winner in 2014. PIIAK is a DGT award to the vertical units conducting integrity and anti-corruption initiatives throughout years with implementation guidance issued by DGT and supervised by KPK.

AR, echelon IV officials, staffat supervisory and consulting sections, and the functional tax inspector are elected to be in population because have the duty to oversee the taxpayers and its duty are monitored by ICU in 2015 according to Annual Monitoring Report (RPT) ICUDGT 2015 (Directorate General of Taxes, 2015).

In conducting data processing research, this research used statistical testing methods through the application program SPSS (Statistical Package for the Social Sciences) 19 that used in testing data processing requirements, regression calculation, and hypothesis testing and Microsoft Excel 2010 for research data description analysis.

The results of the research are in the table 2 of regression results.

Based on the regression result table the coefficient of regression analysis for environment is $-11,98$ for ethics is $3,3$ and for UKI is $-7,02$. The negative sign is that the effect that happens is opposite so that can be exemplified if the work environment getting better/rising then the the employees unethical/corrupt behavior will go down.

From F test result got F count equal to 18,636 with significance level equal to 0,000. Because the probability of significance is less than 0.05, the regression model can be used to predict the employees

Table 2

Variable	Coefficient	Significance
Constants	3.405	.000**)
Working Environment 10	-11.98	.000**)
Ethics 10	3.3	.697
ICU8	-7.02	.000**)
Adjusted R Square	0.648	
F-stat	18.636	.000**)

Information:

Working Environment 10 = Result of t test of work environment variable (LK)

Ethics 10 = Result of t test of ethics (ETK)

ICU8 = Result of t test of UKI (UKI)

**) Significantat 5%

unethical/corrupt behavior (Y) or it can be stated that the working environment, an understanding of ethics and oversight of internal control by ICU variables simultaneously affect the the employees unethical/corrupt behavior

Hypothesis 1

H₀: There is no negative working environment impact on the employees unethical/corrupt behavior variables.

H₁: There is a negative effect of working environment on the employees unethical/corrupt behavior variables.

For the first operational hypothesis with the working environment variable as the variable x and the employees unethical/corrupt behavior variables as variable y from regression result have $t_{\text{count}} = -11,861$ and significance $\alpha = 0,00$ then test with one side/one tail (negative/left) And the value of t_{table} is = 1.98.

Because the value of t count $>$ rs table or $-11,861 > 1.98$ with the negative direction H_1 is accepted so that there is a negative influence between the working environment of employees with the employees unethical/corrupt behavior variables in other words if the working environment is better then unethical behavior/corruption will decreased.

Hypothesis 2

H₀: There is no negative effect of an understanding of ethics on the employees unethical/corrupt behavior variables.

H₁: There is a negative effect of an understanding of ethics on the employees unethical/corrupt behavior variables

For the second operational hypothesis with the variables an understanding of ethics as the variable x and the employees unethical/corrupt behavior as the y variable from the regression result has $t_{\text{count}} = 3.3$ and significance $\alpha = 0.697$ then the test is done one side/one tail (negative/left) and the t_{table} value is = 1.98.

Because the significance value $> 0,05$ or $0,697 > 0,05$ then H_0 accepted so there is no negative influence of understanding of ethics with the employees unethical/corrupt behavior.

Hypothesis 3

H_0 : There is no negative effect of oversight of internal control by ICU on the employees unethical/corrupt behavior variables.

H_1 : There is a negative effect of oversight of internal control by ICU on the employees unethical/corrupt behavior variables

For the third operational hypothesis with the oversight of internal control by ICU variable as the variable x and the employees unethical/corrupt behavior variables as variable y from the regression result have $t_{count} = -7.02$ and significance $\alpha = 0,00$ then the test is done one side/one tail (negative/left) and the t_{table} value is $= 1.98$.

Because the value of $rs_{count} > rs_{table}$ or $-7.02 > 1.98$ then do not accept H_0 so there is a negative impact of oversight of internal control by ICU with the employees unethical/corrupt behavior. In other words if the supervision by ICU is better then the employees unethical/corrupt behavior will decrease.

ANALYSIS

From the results, the first hypothesis test concluded that the working environment negatively affect the employees unethical/corrupt behavior variables. the results of this study is similar to previous research conducted by Sardzoska and Tang (2012) and Zuber (2015) that is for the working environment variable negatively affect the employees unethical/corrupt behavior.

In research by Sardzoska and Tang (2012). A good working environment is an environment where employees are innovative, respectful, cooperative, with minimal internal conflicts and lack of clarity of participation and minimal fraud. A good working environment will undermine or eliminate intentions for corruption. This research thus has the same research result with research by Sardzoska and Tang (2012) that is work environment negatively influence with the employees unethical/corrupt behavior variable. Negative effects on unethical behavior/corruption can be seen from the research statements or dimensions of working environment variables in this research ie situation of working relationship, cooperation in work environment and learning through work environment

The results of this study for the understanding of ethics variables are different from previous studies conducted by Kemp (2014) and Cuadrado and Arce (2005) which found evidence that understanding of ethics variables have effect on unethical/corrupt behavior.

In a study by Cuadrado and Arce (2005) leaders of business and government organizations must build internal values and ask their employees to do everything in accordance with those values to protect their organizations from corrupt behavior. The ethics or values can be internalized only for all employees in the organization or added with external values to deal with other organizations.

According to research conducted by Kemp (2014) the organization that fully supports its employees in making decisions based on ethics, good culture and integrity can prevent the organization from being

exposed to the risk of moral decline that ultimately leads to corruption. The study concludes that to overcome corruption requires leaders who become role models and always be a reference in behavior, transparent and open and subordinates who uphold the ethics that mutually agreed together.

For the oversight of internal control by ICU variable the results of this study are similar to previous research results conducted by Morehead (2007) and Nathmy, al-Aroud, and Almbaidin (2015). The results of the study stated that the variables internal control unit influence on the employees unethical/corrupt behavior variables.

According to a study by Morehead (2007) to reduce or prevent fraud/corruption is to increase accountability. Accountability can be enhanced through improvements in internal control systems. Internal control elements that need to be improved are include compliance with legislation, risk management and organizational values.

According to Nathmy, al-Aroud, and Almbaidin (2015) lack of an internal control system will increase the loss or corruption. Increased losses and corruption in the organization causes by the ineffectiveness of the internal control system. According to Nathmy, al-Aroud, and Almbaidin (2015) the ineffectiveness of the internal control system can cause by incompetence of human resources in the internal control unit in such organization.

CONCLUSION

This research discusses whether the working environment, an understanding of ethics and oversight of internal control by ICU have an influence to the employees unethical/corrupt behavior variables. Measurement of influence in this research provided by measuring the influence through regression analysis between working environment variable, an understanding of ethics, oversight of internal control by ICU with the employees unethical/corrupt behavior variable.

The model used in this study is a model of influence analysis between working environment variable, an understanding of ethics, oversight of internal control by ICU with the employees unethical/corrupt behavior. Based on the findings of the results of quantitative data processing and interview results in previous section can be concluded as follows:

Based on the test results, the working environment has a significant and negative relationship with the employees unethical/corrupt behavior in other words the better the working environment will further decrease the employees unethical/corrupt behavior. The results of this research support the results of previous research conducted by Sardzoska and Tang (2012) and Zuber (2015) that is the work environment has an effect on unethical behavior/corruption. From the interview result, it can be concluded that the working environment has a negative effect on the employees unethical/corrupt behavior. The atmosphere and working relationships built by leaders and co-workers in a working environment are essential because it will help every employee achieve performance targets and minimize unethical behavior/corruption because employees will always keep an eye on and coworkers are always reminded to avoid such behavior. Unethical behavior/corruption is also caused by opportunities. The opportunity is created from the rules and procedures operating/standard operating procedure that has many loopholes.

Based on the results of quantitative tests an understanding of ethics does not have a significant relationship with the employees unethical/corrupt behavior. The results of this study differ from the results of previous research conducted by Kemp (2014) and Cuadrado and Arce (2005) that is for

understanding ethics has an effect on unethical behavior/ corruption. From the interview result it can be concluded that the influence of ethical understanding does not affect the unethical/corrupt behavior. According to the interview understanding of ethics does not affect the unethical/corrupt behavior but is more because of the principle and characteristic of a person if the person's principles and characteristics are strong then he/she will not do the unethical/corrupt behavior;

Based on the test results there is a negative relationship between the oversight of internal control by ICU with the employees unethical/corrupt behavior. these results can be concluded that the employees unethical/corrupt behavior have a negative relationship with the ICU in other words can be stated that ICU can reduce the employees unethical/corrupt behavior in the DGT. The results of this study support the results of previous studies conducted by Morehead (2007) and Nathmy, al-Aroud, and Almbaidin (2015) That is Internal Control Unit affect the employees unethical/corrupt behavior. From the interviews results obtained confirmation about ICU relationship with the employees unethical/corrupt behavior. The interview concluded that the ICU has functioned to reduce opportunities and violations both codes of ethics and discipline as well as greater violations such as fraud.

IMPLICATIONS OF RESEARCH RESULTS

From the result according to the hypothesis test conclude that working environment variable influence to the employees unethical/corrupt behavior variables. The results can be used by the DGT as input in formulating, implementing, managing and maintaining harmonious relationships among individuals, superiors and subordinates.

For the DGT, ICU function will further help the DGT leaders in conducting oversight over DGT organizations and vertical work units. To maximize the role of ICU in assisting DGT leaders in each vertical work unit, ICU need to improve the performance through the utilization of information system and legal basis of the monitoring/control. Another thing that can be done by DJP leaders is to improve the capacity of human resources in ICU. ICU human resources have to improve because ICU are required to know and understand the job desk and Standar Procedure in its the area of monitoring. With the improvement of human resources, the analysis and result in monitoring submitted by UKI will be more qualified and useful for DJP leaders.

For ICU Employees at DGT this study provides evidence that ICU has a positive correlation for employee behavior in other words it can be said that ICU can reduce opportunities for violation and corruption behavior in DGT. Employees who are in ICU must continue to improve their analytical skills and improve their capacity by following the training and technical guidance from UKI functional superior organization that is Directorate of Internal Compliance and Apparatus Transformation (KITSDA) and Inspectorate General of Ministry of Finance to give maximum result. The training and technical guidance from KITSDA and Inspectorate General will maximizing the role of UKI and decrease opportunity to Committed abuses and corruption in the DGT.

The research results inform us that oversight of internal control by ICU variabel variables affecting unethical behavior/corruption the employees unethical/corrupt behavior variables. These results can be used by the DGT as input to improve ICU functions. For example, DGT can coordinate the use of online media such as telephone, email, internal web portal and whatapps/BBM group and other online media for disseminating internal information about regulations, issues and solutions of ICU duties. Although the

online media is not yet clear the rules of use in DGT but by using online media to inform ICU-related issues such as an update the rules of the sampling amount of data to be taken by the ICU employee for work related sampling can be delivered faster than using the ordinary way such as legal letter. The use of online media to convey information should take into account the degree of sensitivity and risk of information leakage to irresponsible parties.

From the results of research by groups ages inform us that there are differences of unethical behavior/corruption between groups ages in DGT. The results can be used by the DGT as input in the formulation and implementation of strategy and risk mitigation of fraud/corruption by differentiating strategy and direction of socialization/prevention of corruption/integrity strengthening in DGT by group of ages. The Focus of attention in preventing corruption in the DGT should be group ages 4 and 5 (above 36 years).

SUGGESTIONS

Further research can apply the research model used in this thesis to examine the effect of ICU on employee compliance. Research can be deepened by using the Structure Equation Model to group the research statements and question in research instruments. Further research can distinguish the results obtained from respondents who come from KPP Madya and KPP Pratama. Further research can add perspectives and respondents from DGT employees placed in ICU. Furthermore, to reduce the possibility of misinterpretation in understanding the survey question then for further research can reproduce respondents to pretest research questionnaire. To gain different results, further research can use different methods of research for example by using the experimental method to obtain research data.

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