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The Adventures of a Right-Handed Debitor

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THE ADVENTURES OF A RIGHT-HANDED DEBITOR

By

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Abstract

The Accounting Capstone is designed to force accounting students to think through problems in the accounting industry. This will be accomplished by working through a series of case studies dealing with several areas of financial reporting. After selecting the group's focus area, my group and I presented a case study regarding tax recommendations for Goldman Sachs.

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Case Study 1

The first assigned case deals with the emotional impact of viewing the incidents of September 11, 2001 from a first-person perspective. This task is a reminder of the bravery and sacrifice of the United States service men and women, and it also serves to change the viewer's perspective of the tragic event. Watching the first-hand account puts the viewer in the shoes of people that were on the ground on the morning when these tragic attacks occurred; it also forces one to consider what choices had to be made and how much uncertainty there was surrounding the events as they unfolded. This explanation of emotions will explain the emotional responses I felt while watching the documentary.

People are very quick to pack their schedules full of tasks; they seldom take the time to consider the implications of each anniversary of a tragic event. I have read a fair amount of information on 9/11, and have learned about it in history classes. Reading never really made me consider all the facts from the attack. This documentary places the viewer on the ground and forces them to consider the options presented to the victims of the attack. A quarter of the people that died in the towers were practicing accountants, and there were several recent accounting signees not much older than my peers that perished in the various plane crashes that occurred on September 11^{th}. Watching this documentary made me extremely uncomfortable, but it gave me a better understanding of the horrors that occurred. Furthermore, it made me realize that the only way to really grasp a terrific accident is to go deeper than the written word and find footage of how the people in the mayhem saw the events unfold.

Wake up. Get dressed. Eat breakfast. Leave home. Park car. Open door. Sit down. Start work. Eat lunch. Finish work. Go home. Eat dinner. Anticipate break. Fall asleep. People fall into a life cycle like this and rarely think of much outside their daily routine. On anniversaries and commemorations, one might post a graphic on social media, but they seldom take the time to consider the events being remembered or to grieve those that died. Watching the 9/11 documentary made me realize just how guilty I am of neglecting the emotional and physical hardships the terrorist attacks caused. The footage made me consider the thoughts of the people on the ground; the various consequences of the plane crashes and the rubble of the collapsing buildings; how much of the situation was unclear as the events unfolded; and the value in looking at things from a different perspective.

The continuous stream of first-person footage from the streets of New York forced me to consider the emotions of the people near the attacks. After the first plane struck, there was a lot of confusion about what happened. From what people were saying in the film, even the cause of the explosion was unclear. All that was known was that one of the twin towers was on fire. Humans are curious animals, so there is no surprise that people nearby began flocking closer to try and see what happened. Even though I knew what was going to happen next, I still felt the urge to approach the scene and investigate further. It seemed like the people initially never considered the possibility of the collapse of the buildings. They only knew that something terrible was unfolding in New York. The first responders on the ground either headed towards the building or actively tried to clear the area of civilians so that adequate focus could be given to search and rescue teams. In my limited consideration of the events before viewing this movie, I just assumed that the workers in the second tower were immediately evacuated. But, on the contrary, the emergency services recommended that they shelter in place in order to prevent chaos at the base of the towers. The main goal was to set up and deploy rescue workers as quickly as possible. In retrospect, telling the people in the second tower not to evacuate seems like a terrible idea, but the immediate priority was to help rescue the people trapped in the first tower.

At the time of the first crash, many people thought that if it was a plane crash, it must have been by accident. There was no clear understanding of what was going on; that would come much later in the day. Such an event was unprecedented, who would be considering that another plane would be coming to hit the second tower? The focus was to respond to the complex issue at hand: how do you evacuate people from a building 111 stories tall that is on fire without elevators? Something I think important to mention in the discussion of the incidents that occurred on 9/11 is the hindsight bias. It is so easy to be removed and offer up suggestions about how this or that should have been done, but watching the incidents unfold from the perspective of a clueless bystander makes you realize how genuinely chaotic the scene was on the ground.

For many, it was the morning after the Broncos beat the Giants 31-20. The game was played in Denver, so the people in New York watching the game would have been up hours later than normal to support their team. In the broadcast, there was footage of a man discussing this. He said that he was supposed to be working in the towers that morning, but he was late to work because he stayed up late the night before watching the game. For others, it was the morning of a mayoral primary; little did they know that going to vote that morning would save their lives. Not everyone was that fortunate.

One of the things I wondered about the most throughout viewing the picture is what was going through the first responders' and victims' minds. How does one react when they go from sitting at their desk in a high rise building to looking at a plane in your office? In the video, there is clear footage of several people jumping out of the towers. I was completely unaware of this phenomenon prior to watching the documentary. At first, I thought they had been knocked unconscious by the impact of the crash and they fell out of the tower, but as I started to consider the dangers of crawling through metal rubble being melted by jet fuel as the air is filled with drowning smoke, the reality of the situation became clear. For many people there were no clear routes to safety. There was a vast amount of people stuck above the crash, with only the ability to take the stairs to get to safety. This path would be stricken with debris and smoke and a long list of other uncertainties. This really made me appreciate the courage of the firefighters that day. They entered the tower knowing that they were not going to be able to use the elevator shafts, and that every rescue would be made by lugging their equipment and injured people up and down the stairs. While watching them run into the first tower, I could not help but think how tempting it would be to quit instead of facing so many unknowns to save complete strangers. The amount of courage they showed was incomprehensible, and I think the only way to get a clear picture of their bravery is by watching the footage of the events unfold.

As the movie went back and forth between different angles, I began thinking more about the crashes. In the chaos and commotion of the incidents, it can be easy to forget that the planes that hit the World Trade Center were cross-country flights full of people. Several hundred people died in the planes alone. The footage gives an idea of what the 15 minutes between crashes felt like as the viewer is presented with about 15 minutes of footage before witnessing the second impact. After the second crash, there was no doubt about whether the first crash was a random explosion or a terrible aviation accident. This was some kind of attack. In the footage, someone on the ground mentioned hearing about the threat of a crash every 30 minutes. I cannot imagine the feeling in that moment. The unthinkable has unfolded twice in front on your eyes, and you hear the threat of it continuing throughout the day. If these two pinnacles on the New York skyline are not safe, then where is? The people evacuating were being instructed to move north, but how far does one go? I cannot imagine trying to decide what distance seems far enough to regain a sense of security. After the second crash, I doubt the people on the ground thought anywhere was safe. They fled as quickly and as far as their bodies could take them. They realized the value in doing so later.

Around 10:00 am on the 11th, the unthinkable happened for the third time that morning. The first tower collapsed onto itself. After the first tower fell, a cloud of debris spread ominously through the streets. The footage from the ground looked like an apocalyptic movie as the wave of dust and debris dissipated across the city. This cloud of rubble grew about thirty minutes later as the second tower fell. There were many people that got trapped in the rubble and were not recovered for days, if they were ever found. On top of the blunt force of the collapses causing damage, the fumes from the burning planes spreading around the city had gruesome consequences. The long-term effects of inhaling the dirty air released from the buildings collapsing is another consequence of 9/11 that I had never really considered. Many people that were near the towers at the time of the attack later died of asbestos inhalation. Additionally, people that lived in the area around the towers that returned to their homes after the clearing of debris had similar issues due to the air quality not returning to previous levels for quite some time.

After the rubble settled on the day of the attacks, it came clear that several hundred first responders and several thousand civilians died throughout the burning and collapsing of the two towers. An incalculable amount of people was later killed by the long-term effects of the rubble clouds. The attacks across the country left a vast amount of people scarred. Family members were informed that their loved ones were killed either on flights or at work without any kind of warning. They were forced to come to terms with incomprehensible pain and continue through life without the support systems they previously had. The dispatchers and first responders had to listen to their efforts be criticized on the news for months when they were responding in the best way that they knew how; they also had to listen to people come to terms with the fact that they were not going to be able to escape the confines of the wreckage. These are just a few examples of the mental imprints caused by the attacks on 9/11. The total effects will never fully be realized.

The most significant impression I took away from this experience is how important it is to take the time to reconsider things from different perspectives. People now more than ever are likely to post a read an article about something that happened or post a graphic on social media without ever considering what they are commemorating. I am of guilty of this, and watching this compilation of videos from the ground in New York City on 9/11 made me realize the value in consuming information about an event or idea from the eyes of someone that has first-hand experience. In trying to display empathy to people, we become the opposite of empathetic. Seeing a friend post something on their story makes us consider whether we should post it. Situations like this have nothing to do with us really caring about an issue, we just fall into the social pressure to do what others are doing to portray ourselves as caring people.

In summary, watching the first-person footage of the events that occurred on the morning of September 11th, 2001 forced me to contemplate the issues face by people on the ground; the effects of not only the planes crashing into the tower, but also the lasting impact of the debris cloud spreading through the area; the absence of clarity regarding the events of the crashes; and the value in considering tragedies from a bystander’s perspective.

Case Study 2

This case was designed to give us a better understanding of the city we think we want to work in after college by making us consider what living in the chosen city is like. This includes researching the topography, climate, major industries, commuting options, rent, and many other attributes of the city. Additionally, we had to consider the various taxes we would have to pay and what a budget would look like with an entry-level salary. All these things come together to give us a glimpse into the joys and pains of living in the city. With all this information compiled, we can then consider our findings and either be more confident in our original decision or to have a different lens to weigh other cities.

I have only ever lived in Gulfport, Ms. The metro-area population is 76,000 people, and I grew up on an acre lot. I want to move to New York, but I had never really considered what that would look like. The thing that stuck out the most to me was the budget. After considering how expensive utilities, rent, and groceries are, I realized that living in NYC will require a lot of budgeting. Although the day-to-day life we planned is very foreign to me, this case study does not deter me from wanting to move to New York. It really served to do the opposite; with the apartment we chose, we are a mile away from the office, so we can take a subway or walk if the weather is nice. We will live with another person, so we do not have to face the city alone. When there is free time on the weekends during the winters, I would only be a short flight from eastern American and Canadian skiing. If I want to see a concert, I would be able to see any major artist currently on tour. The population of New York City is 110 times the population of my home town, so I will suffer some growing pains in the first few months of living in the Big Apple, like sharing a 1,000 square foot apartment. I will also have to invest in some winter clothes because New York experiences all four seasons. This case study made me realize some of the difficulties that will come with living in NYC, but it also showed me how much there is to offer. After college, I will be ready to take the next step of my life and begin my career. This case study made me realize that New York may be the perfect place for me to do so.

Case Study 3

The purpose of this case study is to evaluate the economic impact that the COVID-19 pandemic has had on the pharmaceutical industry, specifically Pfizer. We researched various topics relating to this impact including the initial impacts of the pandemic on Pfizer's financial statements, home remedies for COVID and Pfizer's response to them, how lobbying has changed since the beginning of the pandemic, and the executive order issued by President Biden on September 9th, 2021. Each of these topics gave us a clear picture of the internal condition of Pfizer and the sustainability of its success. It also lends to a useful discussion on how businesses have benefited and suffered because of the pandemic.

Throughout the case, we used Google, DuckDuckGo, and Bing search engines to find related articles. We noticed Google results were heavy with government sources; the top three to five results were almost always government websites. Bing tended to side with news agencies, as most of the articles were from one of the major news media companies. DuckDuckGo results were heavy in journals and studies. The question that led to the biggest differences in results seemed to be what therapeutics are recommended for COVID-19? Google led to mainly professional medical websites who recommended only to treat symptoms when possible and listen to doctor's instructions. The other search engines, however, resulted in various strange and questionable home remedy recommendations. Overall, similar articles could be found across the search engines, but there was a clear distinction between the majority results of each.

Some of the most important things we learned from this case were how to interpret 10-Ks and how to quickly dissect business articles. Both also contributed to a greater understanding of the need for a holistic research approach to contentious topics, like vaccine distribution. For instance, if we had only looked at the financial statements from Pfizer, we would have had a completely different understanding of the company. Companies are going to report information that is the most beneficial to them, even though there are plenty of other considerations to be considered when looking at something as broad as "how has the COVID-19 pandemic affected Pfizer economically?"

1. How has Pfizer been affected by the pandemic according to their 2020 10-K?

Pfizer says the COVID-19 pandemic caused an "unfavorable impact of approximately $700 million, or two percent" (24). Most of this impact was from low demand for Pfizer goods in China and the large decline of in-person wellness visits to doctors. The pandemic greatly affected the business and operations of Pfizer across the board. Pfizer salespersons still do not have full access to healthcare professionals because of restrictions on in-person meetings (27). Many of the medications Pfizer produces require a doctor visit before a prescription can be made. Due to the inability to contact people face to face, it was much more difficult for patients to obtain the prescriptions for these medications, thus creating a reduction in demand for Pfizer. Additionally, any medications that are physician-administered (like vaccines) were affected by the decline in doctor visits (27). Pfizer also recognizes that there have been risks and difficulties associated with the pandemic for their internal operations. For instance, they speak of challenges in reallocating R&D, supply chain management, and "potential delays and disruptions related to regulatory approvals" (18). Hospital revenues for Pfizer went up in the U.S. three percent from 2019 due to the ongoing treatment of COVID-19 patients on respirators (33). Pfizer later saw a large increase in revenues, approximately $154 million, due to governments rolling out the COVID-19 vaccine in large quantities. The company also has over $8 billion dollars in short-terms assets owned by the US and foreign governments.

2. What do different search engines yield in research on Pfizer's financial condition in the pandemic?

Researching the impacts of COVID-19 on Pfizer across three different search engines (DuckDuckGo, Bing, and Google) produced various results. CNBC reports that Pfizer sold $7.8 billion in Covid-19 vaccines in the second quarter of 2021[2]. Additionally, they raised their sales forecast based on Covid-19 vaccines from $26 billion to $33.5 billion. A different article, by European Pharmaceutical Review, states that Pfizer reported revenues from the second quarter of 2021 as $19 billion[6]. Pharmaceutical Technology compares Pfizer's approach to the vaccine to other companies[1]. Reportedly, 2 doses of the Pfizer vaccine go for a total of $39 dollars while two doses from another company, AstraZeneca, are priced from $4.30 to $10. Pharmaceutical Technology comments on the profit-based approach Pfizer seems to be taking regarding the COVID-19 shot. The profit-based approach has led Pfizer to expect $33.5 billion in coronavirus vaccines[5]. While this is a large figure, it does not come without expense. Revenues grew by 68 percent in the first two quarters of 2021, but expenses rose by 69 percent[4]. The expected EPS is $4.11 per share, an 85 percent increase over 2020, and they ended the second quarter with $11 billion in free cash flow. They have already started working on making a pill to prevent COVID, which could have great upsides as the discussion of yearly COVID vaccines increases. According to Nasdaq, Pfizer won during the pandemic after having the first authorized Covid-19 vaccine and a large stock increase over the past year[3]. However, with vaccination numbers decreasing, Pfizer is experiencing lower returns for new breakthroughs. For instance, after releasing their Phase 3 study showing vaccine efficacy of 95.6 percent, stock price only increased by a tenth of a percent. Pfizer has also been affected by steep costs to sustain their growth over the pandemic, with costs increasing just as fast as revenues in the first half of the pandemic. This has been mitigated by impressive gains in revenues over the past few months. According to Nasdaq, “Pfizer was strong before Covid-19 hit, but now it’s on steroids,” implying that the pandemic, while it has brought issues for the company, has mostly positively impacted the company[3].

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3. Best therapeutics for COVID-19?

Home remedies for COVID-19 have been argued over since the pandemic began. Various organizations and articles have been giving out therapeutic ideas for treating the Coronavirus.

Mayo Clinic mainly recommends being aware of warning signs and following doctor's instructions. Many of the top results give similar recommendations such as drinking plenty of water, getting lots of rest, and staying away from others. Numerous sources recommend home remedies to treat the symptoms of COVID-19, rather than the virus itself. Recommendations for the cough commonly associated with Covid include drinking warm beverages, gargling salt water, eating frozen foods, breathing in steam, and using cough drops. A few articles mention testing out meditation/relaxation techniques in order to deal with shortness of breath and the stress that comes from the idea of the pandemic[1]. Other articles recommend more radical approaches to treating the virus at home. For example, Healthline reported Chinese officials recommending licorice as a remedy for COVID-19. Supposedly, licorice paste can prevent the Herpes virus from replicating and some believe it could do the same for Covid[2]. While these recommendations are becoming more popular, organizations like the WHO are saying hydroxychloroquine is not recommended as a treatment for COVID-19. It also stopped clinical trials considering the efficacy of hydroxychloroquine to combat COVID-19.

An observational study published by medRxiv concluded the combined usage of hydroxychloroquine and zinc could increase survival rates up to 200 percent for patients on ventilators[3]. According to a study performed by C. Prodromos and T. Rumschlag, out of 43 reports studying Hydroxychloroquine treatment, 25 showed positive clinical efficacy, 15 showed no improvement, and 3 showed negative effects[4]. In relation to this topic, a survey from Jackson & Coker reported that over half of American physicians would prescribe hydroxychloroquine to treat Covid-19[5].

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4. What is Pfizer's opinion on alternative treatments to Covid-19?

While there is not much information on Pfizer's viewpoint, it is in their interest to discredit alternative Covid-19 treatments. Any company making a revenue from their medication would recommend against any alternatives, especially home remedies. If people turn to other options to treat the problem, the company would see great decreases in revenue. Avoiding situations like this are becoming more and more important as income due to Covid-19 is rapidly becoming one of Pfizer's biggest cash cows. As larger segments of the population are getting vaccinated, it is becoming clear that there is a significant group that is against the vaccine. This desire could be part of the reason Pfizer has started working on an oral remedy for COVID. We did find some responses from Pfizer and former employees on alternative treatments. Pfizer has researched alternative treatments to their vaccine, including azithromycin (Zithromax) and hydroxychloroquine. According to their trial, efficacy was highest in patients who were administered both drugs. Pfizer also recommended this for malaria treatment in Africa[1]. However, Former Pfizer Vice President Dr. Michael Yeadon said in conversation with Steve Bannon regarding vaccines, "In absolute honesty, I do not think they are even necessary. Why are they not necessary? Well, that is because there are at least four or five safe and effective medicines and their presence has been suppressed and hidden from the public, so they are not necessary”[2].

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5. How has Pfizer lobbied in the pre- and post-Covid period?

Lobbying activity has varied greatly from before the pandemic to after, particularly for pharmaceutical companies. As can be expected, pharmaceutical companies, such as Pfizer, put a great deal of money into influencing the Biden administration. With the support of the president pushing for vaccines to be rolled out, Pfizer is expected to see revenues increase in relation to their COVID-19 vaccine. Additionally, companies with COVID-19 vaccines are lobbying very hard against waiving intellectual property rights for the vaccines. Eliminating intellectual property rights for vaccines would allow any company to produce them. Obviously, companies like Pfizer would greatly dislike this. The pharmaceutical industry was reported to have increased lobbying spending by six-point three (6.3) percent in the first quarter of 2021 compared to that of 2020[1]. Pfizer was said to be the largest spender of any individual drug company regarding lobbying. Pfizer also has a political action committee, which they define as “an employee-run organization with a steering committee made up of Pfizer employees from around the country”[2]. This PAC accepts contributions and disburses them to political candidates who match the values of Pfizer. In recent months, Pfizer has focused on growing their lobbying efforts. Last year's spending was the highest since 2010 at right over $13 million dollars. Most of the new hires have close ties with the Biden administration[3].

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6. 9/9 Executive Order: What is it and why was there a change in policy?

The executive order made on September 9th, 2021 requires federal contractors to implement "COVID-19 safety protocols." This includes mandating COVID-19 vaccines for federal workers with certain exceptions for medical conditions and religious beliefs[1]. It is still somewhat vague what the exact specifications of the "COVID-19 safety protocols" entail and to whom they apply to. Of course, this executive order came with plenty of backlash from various parties. This was partially because the Biden administration had made multiple previous statements reassuring that there would be no mask or vaccine mandate for the U.S. NPR makes the argument that the Biden administration changed its approach to vaccine mandates because of the decline in vaccination rates. After months of trying to persuade those reluctant to get vaccinated, Biden released the executive order requiring government contractors to get vaccinated.

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Case Study 4

I interviewed a friend of my dad's that I have never met. The conversation started slowly, but after the interview, I would say that I am now comfortable enough to approach Mr. Raanes if I see him.

Talking to Mr. Raanes was very eye-opening. After graduating, accountants working for firms have a clear promotion path and job security. This security and lack of risk was not the case for Mr. Raanes. This interview taught me the emotional and physical impacts of owning and operating a business. He explained how he left several different industries because of the emotional strain of interacting with frustrated customers. When he was doing auto repair and towing, he said most of his clients were always in a bad mood. When the estimations were less than the final bill, many customers accused him of taking advantage of them. He also made me realize the value of considering one's personality before picking a job. Mr. Raanes is a people person, so frequent negative interactions with customers started to have negative effects on his personal life. His most important piece of advice was that the best job is one that fits your personality and is something you enjoy. He became very passionate about the jobs he enjoyed doing. He also found that being passionate about work made it that much easier to work long hours and become successful. This interview has also made me a lot more comfortable about not knowing what kind of work interests me. His story was a very unconventional way of achieving access. He never seemed to have an outlined plan. Instead, when he came to a point where he no longer enjoyed work, he sold his portion and started working in another industry. While my personality is better suited for a very structured work environment, I find him inspiring.

Rick Raanes was born in Gulfport and grew up in south Mississippi. In high school, he enjoyed participating in high school fraternities, the National Honors Society, and the student council. In his free time, he enjoyed fishing and boating. After graduating, Mr. Raanes studied accounting at the University of Mississippi for a year. After realizing he did not enjoy accounting, he transferred to the University of Memphis where he studied Business with an emphasis in marketing for several semesters. While he was in college, tanning beds were becoming increasingly popular, but Memphis did not have many tanning salons. He was talking about it with a friend one day, and they decided to look up the price of a tanning bed. After realizing they were relatively affordable, Mr. Raanes and his friend decided to take out a loan and buy ten tanning beds. They rented out a building, put up walls to make rooms for the tanning beds, and built a reception area. Shortly thereafter they had a fully functional tanning salon. Building the rooms made Rick realize how much he enjoyed building things and working with his hands, which would prepare him for his future jobs.

The salon quickly became popular. They began entertaining ideas of opening several locations in the area, but cleaning out the beds in between uses eventually became a burden. The issues that came with maintaining the tanning beds eventually became enough, and Rick decided to sell his stake in the business and move on to something else. On the coast, he grew up maintaining his family pool during the summer and he knew several people that were having problems with their pools, so he decided to start doing pool servicing and repairs. Working with pools allowed him to be outside and work with his hands. Throughout his term fixing and maintaining pools, he got very good at managing the chemical balances of the pools. Working on pools helped him develop the skills to find innovative solutions for a variety of different issues.

After a while, Mr. Raanes transitioned into working the nightclub scene in Memphis. For six years, he ran three different nightclubs that served beer and allowed people to brown-bag liquor. His locations hosted a variety of bands and disc jockeys and even the occasional rave in his tenure. This part of his career fine-tuned his interpersonal skills as he dealt with performers and artists as well as a variety of different customers. He decided the best thing for him to do was find a different industry to work in after feeling pressure from his girlfriend.

Rick had always loved cars, so he decided to open a car lot. As he began to sell more and more cars, he realized his customers were also in need of autobody repair and maintenance. This led him to open a repair shop alongside his dealership. Eventually, he added on a towing service to fill the need in the community. He towed vehicles from bars, police departments, wrecks, and everything in between. Sales, repairs, and towing allowed him to work with his hands and earn a very comfortable living. At the height of it all, he was running around ten tow trucks and the car lot was selling about 30 cars a month. Although Mr. Raanes had found a way to earn money doing something he loved, his work had an unforeseen consequence. Many of the repair and towing customers were always very frustrated in their interactions. People were naturally mad they had just gotten into a wreck or needed to get their car fixed, so they frequently focused their anger towards Mr. Rick. He is a very kindhearted man, so he faced the dilemma of giving in to the customers complaining at the sacrifice of the profit margin. While he loved the industry, he eventually realized that his interactions with customers were negatively affecting his life outside of work, so he decided to sell his portion of the business to his partner. Working on cars concreted his love of fixing things with his hands, and he decided to stick with repairs. Instead of working on cars, he would do house repair and remodeling.

Home repair allowed him to work with his hands and fix things, and unlike working on cars, his customers were always happy and appreciative of the outcome. Right around this time, the terrible events of 9/11 happened. After the attacks, his wife decided she wanted to move to

Houston to be closer to family. While Rick did not know many people in Houston, he knew the bigger city would present many opportunities, so he and his wife moved there around 2002.

Starting in Houston, he offered to help people at church with home repairs and put out a few ads in the paper. He eventually got a steady stream of work, ranging from outdoor decks to kitchen and bathroom remodels. He loved how much enthusiasm he got from his clients and enjoyed doing this for a few years. Remodeling taught him how to look at a house and know the amount of work it needed and how much it would cost. It also taught him a lot about the housing market.

One day after talking to his mom (a realtor in Florida), he decided to get a real estate license and start buying and flipping houses. In 2003, he got his real estate license. His original plan was to use his real estate license to get earlier access to buy houses in the area and use his remodeling skills to repair and flip houses, but he has since expanded into developing lots and building homes. For the last 18 years, he has bought, developed, and sold real estate. His current firm, EXP Realty offers generous stock incentives and has helped him to earn a comfortable living doing something he loves.

Throughout his career, Mr. Raanes said his biggest issue has been trying to enthusiastically take advantage of every opportunity. While it is always good to be versatile, he said that there were several instances throughout his career where he found that the sheer quantity of work prevented him from dedicating all his efforts to each task. In his words, he "dropped the ball on some things," but it only served to help him further develop skills that he would use throughout his career.

His passion for his work quickly bled through when I asked him about his leisure time. His first response was to say how much he loved what he was doing. He said no matter where he ends up, if it is out boating with friends or going to football games or golfing, he frequently finds himself discussing different housing markets. While some people would rather talk about anything other than work on their time off, he said he enjoys his conversations about real estate. This ties into a suggestion he heard early in his career. He told me to "go out and enjoy being who you are." Rick explained that if you find an enjoyable job that fits your personality, working a lot will never feel like much of a burden. On the contrary, working a lot in a field you love will develop a passion for work. After you develop a passion for your work, the money will follow.

While you may think such an accomplished and dynamic person might be most proud of their accomplishments, Mr. Raanes is most proud of being a dad. He loves spending time with his family and finds comfort in the fact that he has built a comfortable life for his daughter. His favorite vacation was when his family traveled to Norway to see the land that his great grandfathers farmed in the 1800s. On this trip, he spent a lot of time getting to know distant relatives he had previously only talked to via social media. His passion for the outdoors shined through as he talked about how much he enjoyed spending time with family in the countryside.

In his eyes, the biggest challenge facing his generation is to figure out a way to minimize the debt they leave to future generations. He described the issues with the growing levels of debt across the country and around the world. Policymakers on both sides of the aisle have struggled to figure out how to run the country without increasing the debt. Instead, they have continued to delay facing the debt problems, which, in turn, leads to the accumulation of more debt. While I have heard this issue discussed, I have never heard anyone say the largest problem the older generation faces is minimizing the debt they leave behind. I think his response attests to how much he cares about others and fears that the older generations' decisions have negative effects on our futures.

When discussing younger generations' problems, he mentioned figuring out how to pay off the rapidly accumulated debt, but his focus was more on interpersonal skills. He described the value of growing up amongst rapid technological development but explained that its effects might be a large part of our issues. He thinks one of the biggest problems facing our generations is the abundant cell phone usage in social interactions. He expounded on this in saying that technology has made us develop an expectation of things happening quickly, so we, in turn, have short attention spans. If we do not face this issue now, it may develop into a society where we have a hard time navigating the waters of extended social interactions.

I have always heard that the best job is something that you enjoy, and that picking a job for the money that comes with it is always a bad idea. This cliché without further explanation has not had much of an impact on me. After hearing the way Mr. Raanes enthusiastically described all that he has done and how much he has enjoyed most of it; through the long work weeks and burdens of debt in starting various businesses. I have started to consider the idea of finding an enjoyable job more sincerely over one that pays well.

GS Case Study 1

This week, our group researched and analyzed Goldman Sachs from a business perspective. To gain more insight into Goldman Sachs, we dissected its annual reports, investigated its financial stability, studied its company culture, and evaluated its plans. We also gathered business press articles, analyzed industry-level data and statistics, and read Goldman Sachs' personal press releases. Using this information, we were tasked with compiling an informative overview of the company, cohesive unit, as well as its culture, structure, operations, potential risks, and prospective potential.

This week's case introduced us to an abundance of new information concerning Goldman Sachs and the international investment banking industry. Despite Marcus Goldman establishing Goldman Sachs in 1869 initially as a commercial paper business, the company went on to revolutionize the investment banking industry. In the early 1900s, "Goldman Sachs broke new ground in making equity and debt securities more attractive to investors," launching their reign in investment banking ("Goldman Sachs Commemorates 150 Year History"). Through this endeavor, Goldman Sachs paved the way for a new lending basis—a company's earning power and goodwill, rather than their physical assets—which, in turn, established the Price-to-Earnings ratio as an industry standard and Goldman Sachs as a financial pioneer. Since then, Goldman Sachs has consistently grown and acted as an innovator for the industry, introducing many new elements to Wall Street for the first time, including block trading, options, swaps, and merger and acquisition departments. While acting as trailblazers in its industry, the company has also expanded its service offerings to include global markets, asset management, and consumer and wealth management in addition to its long-standing investment banking segment. The company is still moving forward with no end in sight.

Today, Goldman Sachs focuses on offering a "broad range of financial services across investment banking, securities, investment management, and consumer banking" (10-K 53). The company has a "large and diversified client base that includes corporations, financial institutions, governments and individuals" (53). Goldman Sachs' reach in the investment banking industry is so broad that they claim to "maintain offices in all major financial centers around the world"

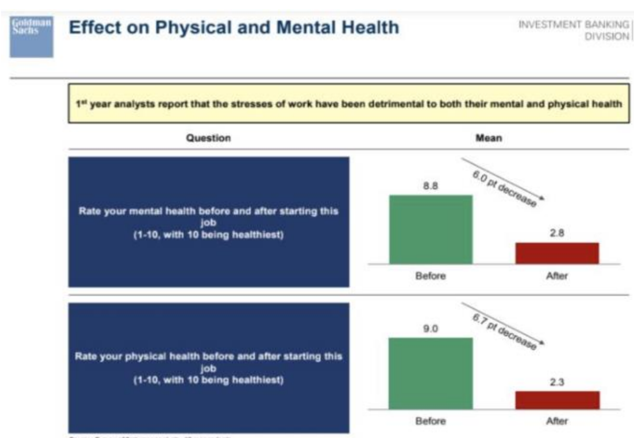
(53). These claims are verified by the fact that Goldman Sachs has locations in 35 countries and operations in even more, and the firm is continuing their vast global expansion.

Goldman Sachs continues to make history through China's recent approval of the company to "take 100% ownership of its Chinese securities joint venture, Goldman Sachs Gao Hua Securities Co. Ltd" (Liwei). Goldman Sachs is just the second foreign investment bank to be granted full ownership in China. As China hosts a large capital market and is currently accelerating its financial market openings, Goldman Sachs stands to endure great success through this acquisition. First and foremost, Goldman Sachs' capabilities give them a major competitive advantage over both the domestic and foreign competition in China because the company "can work with clients in evaluating U.S., Hong Kong, and A-share markets for their funding needs" (Liwei). In addition, Goldman Sachs' joint venture in wealth management with ICBC, a Beijing-based lender, is expected to be a catalyst for the company in this new market. Analysts forecast that by teaming up with ICBC, Goldman Sachs will be gifted with "a vast distribution network and access to millions of wealthy customers," which will create lasting relationships worth billions in revenue (Liwei). As the second foreign investment bank in China, Goldman Sachs further advances its reputation as a pioneer in the American finance industry.

Although the company thrives in many areas, Goldman Sachs also faces considerable threats in market uncertainties and credit risks, changes in regulations, and office culture issues. A large portion of Goldman Sachs' business operations is based on the purchasing, selling, and financing of commodities. This business sector is greatly impacted by market uncertainties and credit risks, as even a small percentage change in a market or currency could result in massive gains or losses. Goldman Sachs' most recent 10K explains that a two-notch downgrade in their credit rating could require "additional collateral or termination of payments" to the extent of $1.39 billion (*Form 10K* 32).

Regarding regulations, Goldman has had to adapt to the new statutes and the growing uncertainty of the future of commerce in Europe and Asia. In Europe, the company is currently adapting to the changes brought on by Brexit. In Asia, the firm is settling into full ownership of its Chinese counterpart. While trying to expand their clientele and revenue-enhancing resources, the company is also acclimating to the Chinese regulations and preparing for the opening of the Chinese financial markets.

In terms of personnel, recent reports have highlighted poor working conditions, including consistent 100-hour workweeks for entry-level employees. As exhibited in a leaked PowerPoint presentation, the affected employees stated that "the grind damaged their physical and mental health," as they barely had time to sleep, eat, or shower (Moynihan). In response to these complaints, David Solomon, the CEO of Goldman Sachs, has reaffirmed the firm's "Saturday rule," which, under most circumstances, prevents employees from working between the hours of 9 P.M. on Friday and 9 A.M. on Sunday. This response, along with the firm's strong desire for employees to return to offices, may lead to a decrease in applicants as the banking industry is increasingly competing with Silicon Valley startups for qualified college graduates (Kelly). Also, to counteract Silicon Valley while still making amends for the poor working conditions, Solomon, much to his dismay, has raised the starting pay for entry-level employees and created more entry-level positions to



assist with the workload. However, this increase in wages has created a large expense for the company, resulting in a loss in market share catapulting their competitor, JPMorgan Chase & Co., to the top market share for the industry.

In 2020, Goldman announced initiatives regarding funding optimization with real potential for improving profitability and shareholder returns. The firm hopes to generate 10-figure expense efficiencies and savings through optimizing deposits and reducing unsecured funding, which will enable the company to reinvest more money to adapt to future market changes. The first year's application of the new system did not meet the estimates, but it did allow the company to significantly reinvest into personnel and other business needs. Based on the recent increase in interest expense savings, the company is working diligently towards a $1 billion savings by year-end 2022.

As a global leader in the financial world, Goldman Sachs provides a plethora of financial services that can be classified into four core business lines: investment banking, global markets, asset management, and consumer and wealth management (*2021 Resolution Plan* 40). Investment banking services are provided to both public and private sector clients and include advisory services, underwriting in equity and debt to help companies fund their business endeavors, and lending services. The global markets sector aids clients in the purchasing and selling of financial products, fundraising, and risk management. Through the global sales force, Goldman Sachs maintains client relationships and conducts investment research. A large portion of this interconnectivity takes place via technology platforms such as *Marquee,* which provides access to data, such as market intelligence and risk analytics to investors. Goldman Sachs' asset management segment provides advisory services to clients to aid in ensuring investments that not only have longevity, but that will also grow over time. Finally, the consumer and wealth management segment assist clients in fulfilling investment goals and provides personal finance services, including financial planning, investment management, and banking advisory services (Goldman Sachs).

The Goldman Sachs Group, Inc.			
Investment Banking	**Global Markets**	**Asset Management**	**Consumer and Wealth Management**
• Goldman Sachs & Co., LLC (New York, USA) • Goldman Sachs International (UK) • Goldman Sachs Japan Co., LTD (Japan) • Goldman Sachs Bank USA (New York, USA) • Goldman Sachs International Bank (UK) • Goldman Sachs Bank Europe SE (Germany) • Goldman Sachs Financial Services L.P. (Delaware, USA) • Goldman Sachs Specialty Lending Holdings, Inc. II (Delaware, USA)	• Goldman Sachs Global Holdings LLC (United Kingdom) • J. Aron and Company LLC (New York, USA) • Archon International Inc. (Delaware, USA) • Goldman Sachs Financial Markets, L.P. (Delaware, USA)	• Goldman Sachs Asset Management, L.P. (Delaware, USA) • Goldman Sachs Asset Management International (UK) • Goldman Sachs Property Management (UK) • Goldman Sachs Property Management USA LLC (Delaware, USA) • Goldman Sachs Specialty Lending Holdings, Inc. (Delaware, USA)	• Goldman Sachs Hedge Fund Strategies LLC (Delaware, USA) • Goldman Sachs Investment Strategies (Delaware, USA)

• Goldman Sachs Specialty Lending Holdings, Inc. (Delaware, USA) • Goldman Sachs Lending Partners LLC (Delaware, USA)			

This week's task has given our group a great deal of insight into the difficulties we will face in this project and the complexity of international corporations as large as Goldman Sachs. Even though it is a publicly-traded company and a great deal of information is available to the general public regarding their business processes, it is difficult to find relevant information about the company. Through the variety of search engines, most results discuss Goldman Sachs' evaluations of different stocks and bonds, instead of their own business operations. This is great for the firm because the difficulty to find information seemingly offers immense privacy and covers the firm's recent scandals.

Regarding the rest of the semester, this investigation has given us a clearer picture of how we would evaluate the company's audit, tax, and advisory plan. One of the largest takeaways was the sheer manpower needed to audit all the subsidiaries' business processes for a given year. The firm operates in almost every developed economy and they are constantly expanding. It has also opened our eyes to the endless possibilities there are for advisory, as they are constantly looking to expand into new markets and improve business processes to reaffirm their position near the front of the financial industry. While a great deal of the tax work would be following U.S. regulations, there are also mounds of different regulations to consider when deciding how to process different liabilities and income sources for the multinational corporation. We have come to realize that evaluating Goldman Sachs from each of the audit, advisory, and tax perspectives is going to be an extremely rewarding challenge that will give us a better understanding of how firms evaluate potential clients and what we can look forward to doing when we start as associates.

GS Case Study 2

This week, our group read through Goldman Sachs' consolidated balance sheet, income statement, and the corresponding notes to determine which three accounts would carry the greatest deal of risk if misstated. Using the basic audit standards of existence, completeness, and valuation, we analyzed each account to assess the level of liability they carry. After considering all the available information, the group decided the Trading Assets, Revenue, and Other Comprehensive Income accounts pose the greatest risk for Goldman Sachs and its shareholders.

Trading Assets

The Trading Assets account is made up of trading cash instruments and derivatives, accounting for a third of the firm's total assets. This account summarizes Goldman Sachs' market-making activities, loans, government obligations, swaps, futures, options, and several other major segments of the business. Since this account has such a large impact on the firm, it could greatly misrepresent the firm's financial position if it were to be materially misstated. A substantial portion of the firm's revenue is generated from these accounts' interest, so a misstatement could also affect revenue. Additionally, it would be difficult to find the source of the error as these accounts are revalued at fair value based on the market price of a recent similar transaction each day, so the balances are constantly changing regardless of whether these assets are involved in transactions.

The main internal control structures that apply to the Trading Assets account are segregation of duties, proper authorization, and reconciliation of accounts. The scale of these accounts is a result of multi-million-dollar transactions, so it is paramount that only authorized employees can initiate transactions. Furthermore, it is necessary to assign the processing, authorizing, and recording of these transactions to different employees to prevent fraud. It is also imperative to reconcile the accounts with the transaction records and market values of the assets at the end of each day to detect fraud.

When it comes to testing transactions, the firm should trace transactions through processing, review of contracts, review for changes to debt covenants and credit ratings, confirmation of balances with outside parties, and reprocessing transactions to confirm the balances of the accounts. The assets and their contra accounts are based on current values, interest rates, and contract provisions, so the auditors must test all these functions to confirm the values posted to the balance sheet. If there are misstatements, it could greatly impact markets' opinions on the firm's current and future positions. The use of data analytics could streamline the process of confirming fair values for the trading assets at the end of the period, comparing current interest rates with the contractual rates, tracking transactions as they process, and testing for unusual transactions. Since derivatives and cash instruments constitute most of the Trading Assets account, data analytics could allow the firm to run a continuous audit on Goldman Sachs.

Revenue

Goldman Sachs earns revenues primarily through providing investment banking and other financial services, such as asset management and securities trading, but they also generate material profits through interest revenues stemming from the company's held investments. With multiple sources of income and hundreds of transactions posted daily, the Revenue account can easily be misstated simply due to the overload of journal entries required to keep up with their performance. However, there are also multiple reasons for the organization to purposefully misstate this account.

As a company that reports earning total net revenues of $44,560,000,000 in 2020, Goldman Sachs falls severely behind their competitor, JPMorgan Chase & Co., who reported $119,543,000,000 in net revenues for 2020 ("Form 10-K 2020" 116, "Annual Report 202" 162). In the investment banking and financial services industry, competition is the main risk factor to the company's profitability, and that is not expected to change. To increase market share, pricing–and therefore, revenue–pressures are at an all-time high and are continuing to increase. To "win the industry," Goldman Sachs is reducing prices "at levels that may not always fully compensate [the company] for the risks [it takes]," but this has only had an adverse reaction on the company, resulting in lower net revenue results (50). To look more profitable, Goldman Sachs' Revenue account incurs great risks for current and prospective shareholders. Because companies can overstate their revenues without obvious recognition, Goldman Sachs has an opportunity to manipulate investors through, for instance, creating false service transactions or recording unearned revenues as earned.

On the other hand, the finance industry is reliant on liquidity in their business operations, as the main cause of financial-service failure is due to insufficient liquidity. As Goldman Sachs Group, Inc. is a holding company in nature, it depends on payments from its subsidiaries to fund all liabilities, acquisitions, expenses, and dividend payments. With increasing laws and regulations concerning parent companies and their subsidiaries, Group, Inc. faces major issues in receiving enough revenue from their subsidiaries to settle their debt obligations and to expand the company. In cases such as this, Goldman Sachs could overcome their struggles by understating its revenue and hiding it offshore to use to cover its financial obligations. Not only will this allow them to easily conceal free-flowing cash, but it also results in a major tax benefit for the company. By understating their revenues, their income will also be understated, allotting a lower sum to tax expense. While these low earnings may deter some potential investors, Goldman Sachs gains the liquidity needed to avoid discontinuing operations and, potentially, Group, Inc.

In order to mitigate a potentially poor audit and extensive substantive testing, Goldman Sachs should enforce a strong internal control structure, focusing on account reconciliation, documentation providing an audit trail, and an ethical “tone at the top.” Through account reconciliation, the firm provides the foundation of the audit trail by matching the source documents to the general journal transactions. Revenue is easy to misstate—whether it be intentional or unintentional—because hundreds of transactions are processed daily at Goldman Sachs. By matching the source documents with the journal entries, using pre-numbered documents, the firm can provide evidence that their transactions are of faithful representation. Additionally, the documentation for each transaction should be properly stored to complete the audit trail necessary to prove their credibility. This can be easily implemented using enterprise resource planning software, such as SAP which can be useful in enforcing other important internal controls, including access controls, IT controls, and segregation of duties. Another vital internal control considers management’s attitude. As revenue is the focus of their bonus evaluations, management can be easily swayed to misstate the account to receive a higher compensation package. If management sets this unethical example for the company, intentional misstatements will become more common in all levels of the organization.

For the auditor to test the transactions at hand, it is critical to conduct an analytical review of the Revenue account, especially in concerns of liquidity ratio analyses. As liquidity is a driving factor for the financial industry, these ratios must be reviewed to ensure that the company has not overstated its liquidity. Additionally, vouching for transactions from final records to their origins and performing cut-off tests is imperative. Vouching for transactions displays evidence for the auditor that nothing has been misstated, while cut-off tests allow auditors to ensure that no unearned revenues have been reported in the current period as earned revenues, and vice versa. As stated earlier, the data analytics tool, enterprise resource planning systems, aids in this process as it stores all documentation and journal entries in one place, improving efficiency in an auditor's investigation. Another great data analytics tool is data visualization, especially in analyzing the liquidity ratios in comparison to the company's previous year data and industry data.

Other Comprehensive Income (OCI)

The Other Comprehensive Income (Loss) Adjustments account, net of tax, includes currency translation, debt valuation adjustment, pension and postretirement liabilities, and available-for-sale securities. This vast account has varied greatly in the most recent three years, with balances totaling $50 million in 2020, ($2,177 million) in 2019, and $2,573 million in 2018. These major differences indicate considerable risk concerning the Other Comprehensive Income (Loss) account. These variations can be essentially attributed to all four accounts included in comprehensive income, though, most notably, debt valuation adjustment, which decreased by 87.4 percent in 2020.

The most applicable internal controls to the OCI account are documentation providing an audit trail, reconciliation of accounts, and IT controls. Having an audit trail would allow auditors to follow all transactions and entries for the accounts, making fraud much easier to find. It is also vital to reconcile the accounts, as the securities and liabilities are constantly changing through transactions and adjustments to interest rates. In terms of IT controls, limiting access to change information in each ledger could prevent fraud.

In terms of testing, it would be beneficial to focus on tracing through processing, reviewing contracts and pending litigation, and confirming balances with outside parties to confirm that each subledger has the correct values. The review of contracts could be used to internally confirm the values of the liabilities and securities contained in the account, and the reevaluation of pending litigation could be used to ensure litigation liabilities are correctly estimated within the company. Confirmation of balances outside of the company would be the second level of balance confirmation, adding to the confidence in the balance sheet values.

Data analytics could streamline the audit process for OCI as many of the accounts could be processed through enterprise resource planning systems to avoid the frequent manual entry of values. It could also be used to check for transaction values outside of the normal range and for accounts that are not regularly involved in the process, making it easier to detect potential fraud and misstatements.

This week's task taught us a great deal about the firm’s business operations. Instead of traditional inventory like that of most companies outside of finance, Goldman’s accounts are more focused on investments. These investments are made up of a complex system of accounts and contracts that hold or hedge a variety of different financial positions. Although it was difficult to interpret the balance sheet and income statements notes as they are full of financial jargon, we were able to ascertain which accounts carry the most risk. We learned the firm's ability to generate revenue is greatly based on the global markets, as interest rates and investments are dependent on market values. We also learned that Goldman Sachs, along with the entire financial industry, operates under great pressure, potentially influencing intentional misstatements in revenues. Overall, this week's assignment gave us an insight into what the beginning of an audit case may look like.

GS Case Study 3

This week, our group reviewed the new and existing tax credits, incentives, and deductions for corporations based in the United States. After reviewing tax incentives, we used Goldman Sachs' consolidated financial statements and notes to the financial statements to determine which tax benefits the corporation should take action to become eligible for to reduce their tax liability. After considering all available information, the group decided that Goldman Sachs should make a capital investment in solar panels to qualify for many of the sustainability tax credits. We also suggest returning most assets and operations to the United States before the large increase in global intangible low-taxed income tax is enacted.

Sustainability Tax Credits

As more information comes to light concerning the depletion of Earth's resources due to human-caused environmental damages, the United States government incentivizes corporations and individuals to transition to more sustainable business practices. One such incentive is the

Solar Investment Tax Credit that was enacted in December 2015. Through this incentive, the IRS "provides a 30 percent tax credit for businesses that install, develop, and/or finance solar energy property" (Murray). Although the credit has now been reduced to 10 percent of the cost of the solar panel project, there is still an opportunity for large savings, especially since Goldman Sachs could install solar panels for their offices *and* finance projects for other businesses and individuals through their financial services. In addition to the 10 percent tax credit, the Solar Investment Tax Credit allows commercial businesses to "take advantage of accelerated depreciation… to reduce the overall cost of a PV installation," which reduces the overall tax liability since there is a larger depreciation expense ("Guide to the Federal Investment Tax Credit"). There is also a bonus depreciation incentive for businesses with solar panel systems placed in service between January 1, 2018, and December 31, 2022, allowing Goldman Sachs to claim a 100 percent bonus depreciation, allowing for a total write-off of the solar panels in the first year of use. If Goldman Sachs were to service the solar panels in later years, this bonus depreciation would decrease by 20 percent yearly, so the urgency of installation and use is immediate and will affect the company's tax and depreciation expenses differently depending on when the transition is implemented.

Additionally, if the corporation made this switch, they would qualify for the Commercial Buildings Energy-Efficiency tax deduction, through which the IRS deducts taxes of $1.80 per square foot for "owners of new or existing buildings who … reduce the energy and power cost of the interior lighting, HVAC, and service hot water systems by 50 percent or more in comparison to a building meeting minimum requirement" ("179D Commercial Buildings Energy-Efficiency Tax Deduction"). Goldman Sachs' installation of solar panels would more than cover this 50 percent reduction in energy and power costs, as this transition in energy efficiency eliminates costs by 89 percent on average. As solar panel technology continues to advance, these costs are expected to drop even more. Not only will the installation and use of solar panels offer a great tax incentive for Goldman Sachs, but it will also reduce their operating expenses, allowing for a greater gross profit. As the corporation reported occupancy costs of $960 million—$384 million of which is allocated to rent—in 2020, utilizing solar energy could reduce this cost to as little as $62.7 million for utilities, resulting in a total occupancy cost of $446.7 million in following years.

Not only would accepting this recommendation aid in tax liabilities for Goldman Sachs, but this transition also enhances shareholder value. By reducing the tax liability, there will be a larger sum of income to be attributed to shareholders, increasing the economic value. Additionally, and most importantly today, the energy switch greatly enhances both the social and environmental aspects of the triple bottom line. By achieving a greater value in all three of the triple bottom line parts, Goldman Sachs offers value for all shareholders and stakeholders. By keeping the stakeholders happy, Goldman Sachs positions itself above its competitors in the industry. Luckily, this could just be the first step for Goldman Sachs, as the Build Back Better Act aims to "extend and enhance certain green energy credits as well as introduce a variety of new incentives" ("2021 Year-End Tax Planning for Businesses"). Although this bill has not yet been passed by the Senate, the Build Back Better Act could offer great savings to the company, along with value enhancements for sustainable and responsible management. During this time of increasing tax rates, Goldman Sachs could use these sustainability improvements to minimize their legal cash tax payments, while also promoting environmental friendliness and maintaining successful stakeholder relationships.

Increase in Global Intangible Low-Taxed Income (GILTI) Tax

In the past, many companies have held assets offshore to avoid US corporate taxes. In recent decades, the IRS has developed tax regulations that require companies to pay minimum tax rates on income earned abroad to encourage U.S. firms to bring assets back to the United States. The most recent attempt to do so in the international tax provisions in the Build Back Better Act. If passed, the BBB Act will include significant changes to the way companies evaluate international taxes. The legislation includes an alternative tax rate of 15% that would apply to GILTI ("Build Back Better"). Allowed deductions for GILTI were originally expected to be reduced from 50 percent to 37.5 percent after 2025, but the BBB Act would reduce this figure to 28.5 percent as early as 2022 ("2021 Year-End Tax Planning for Businesses"). BBB would also require firms to figure low-tax income and foreign tax credits on a country-by-country basis ("Tracking Federal Tax Legislative Proposals"), likely resulting in significant tax increases for the banking industry. The increased tax rates and decreased deductions are a great concern for Goldman as their 2020 10K warned an increase in corporate and GILTI tax rates has the potential to decrease profits in certain areas to the extent of forcing the firm to close certain locations (43, 44 Form 10K). If the BBB Act is passed, the feasibility of avoiding US corporate taxes by keeping assets offshore will significantly decrease.

We propose that Goldman should repatriate a large portion of the low-taxed income in the coming years to avoid the increased tax rates. While the proposed minimum tax rates are not as high as US corporate tax rates, the benefits of holding assets and revenue streams offshore are dwindling. Since the tax increases are focused on intangible assets, the process of relocating these assets is not overly cumbersome. The firm should reassess tax amortization schedules to determine the most effective way to minimize the costs of relocating the intangible assets.

It is difficult to determine the amount of taxes paid for GILTI and the impact of new legislation on these intangible assets as these values are not listed in the firm's 10K or supporting financial statements. It would also require the individual assessment of income earned from intangible assets in each country that has tax rates below 16 percent, net of the allowed deduction. While the information to calculate the impact of the new legislation is not available, it is known that in 2020 Goldman Sachs paid $1.539 billion in non-U.S. taxes (196, Form 10K) and this number could materially increase under the proposed legislation.

Conclusion

During the time of Global Tax Reform, many corporations are preparing for a major increase in their tax expense. As the COVID-19 pandemic dwindles, many tax credits and deductions are phasing out, resulting in an increase in tax expense for both corporations and individuals. Although tax percentages are increasing and incentives are decreasing, corporations still have many options to save money on their tax liabilities. As the world transitions to a more sustainable and eco-conscious management style, sustainability tax credits and incentives offer corporations an easy way to become more environmentally friendly, while also saving on the expenses associated with the large capital expenditures necessary. Also, the firm would benefit from relocating foreign intangible assets to the U.S. to avoid paying the increased tax rates and wading through the increased international tax complexities of GILTI. Through analyzing tax benefits that Goldman Sachs could utilize, we learned that tax performs a vital advisory function for accounting firms' clients. As it is a constant governmental issue, the world of tax is constantly evolving, meaning that businesses must rely on tax accountants to ensure that they are updated on the current tax policies and are consulted on how to attribute the least amount of income on taxes. We also learned that due to the constant changes in tax policies, it is important for tax accountants to remain informed of new tax policies, their enactment dates, and their phase-out dates. Therefore, rather than just performing and recording traditional accounting processes, tax accountants must also focus on the news to remain informed of the policies that could affect their clients' bottom line.

GS Case Study 4

The task for this week is to design an action plan to combat major issues facing the firm and predict the action plan's future financial benefits. We began by considering Goldman Sachs' financial statements from the last five years to determine their return on assets, asset turnover, and profit margins. The firm's financial statements show that their strongest ratio is the profit margin for all five years, so we decided they are strategically a product differentiator. Their recent strategic publications discuss the unique value that Goldman Sachs can offer its customers, so we concluded that their strategic plans are in line with their financial statements. We then chose two major issues the firm faces and designed plans to combat these issues. The plans include strategies and their financial implications. The greatest risks to Goldman Sachs going forward are employee retention and litigation expenses.

According to our research, Goldman Sachs prides itself on its strategy of product differentiation. Although they do not blatantly state this strategy, they emphasize the great advantages that their services hold over competitors in their yearly strategic updates. For example, the firm has an ever-expanding global market; most notably, they are the only U.S.-based financial institution with 100 percent ownership of their operations in China. Also, as Goldman Sachs was founded based on innovation in the financial sector, the company offers unparalleled innovation in the industry, winning two innovation and technology awards in 2021 for their partnership with Fintech Open-Source Foundation to create their personal "open-source data modeling platform" and for their "100 percent cloud-based transaction banking platform" ("Goldman Sachs Wins Two Awards"). Through their global presence and continuing innovation, Goldman Sachs offers more accessible services for their current and future clients compared to their competitors, allowing them to upcharge their services. In addition to its unrivaled accessibility, Goldman Sachs also holds a strong advantage due to its world-renowned reputation.

Although Goldman Sachs does not openly express their strategy, they publicize their strategic goals as "growing and strengthening [its] existing businesses, diversifying [its] products and services, and operating more efficiently" to cover all possible business strategies ("Our Strategic Direction"). As the company claims to work towards being an industry leader in all strategic directions, they remain competitive only in product differentiation now, and the financial statements support that preliminary analysis. From 2017 to 2021, Goldman Sachs's profit margin fluctuated significantly, reaching a high of 35.64 percent in 2021. These high-profit margins indicate the company's ability to differentiate its products and services and therefore, charge a premium for its offerings. On the other hand, during the same five-year period, the company's asset turnover peaked near 4 percent. This low turnover rate demonstrates Goldman Sachs's inefficiency in its operations, proving that the firm has not been following a cost leadership strategy.

Even with a successful differentiation strategy, Goldman Sachs faces many threats. As a company within the Investment Banking and Financial Services industry, Goldman Sachs must address and mitigate threats concerning market uncertainties and credit risks, changes in regulations, and a highly saturated market with large competitors. Although there are ways to mitigate the risks of these threats, for the most part, these dangers are simply standard for the industry. However, Goldman Sachs faces much larger threats to its normal operations due to the unethical behaviors surrounding the company. In recent years, the firm has endured many legal issues concerning fraud, bribery, and insider trading, and they have a much higher employee turnover rate in comparison to its competitors due to the poor treatment of their entry-level employees. Not only do these issues result in large costs, but they also help to damage the brand's once-strong reputation, resulting in a drop in their clientele pool and a decrease in market share.

Over the past few years, Goldman Sachs has publicly identified employee retention as a major threat. Recent reports of poor working conditions for entry-level associates have created issues for a firm already facing "increased competition in hiring and retaining employees" (*Form 10K 2020*). An internal survey revealed that most first-year analysts would leave the firm if working conditions did not change (Bizouati-Kennedy). Although the firm has increased benefits and encouraged Saturdays off in recent months as an attempt to combat employee criticism, we believe that allowing some remote work may be an even stronger solution. Two weeks after David Solomon released a statement requesting employees to return to work, about half of the New York City office personnel showed up to work. We suggest that Goldman Sachs offer employees more hybrid opportunities going forward in hopes of boosting employee morale. Offering employees, a more flexible work format can not only improve quality of life but also increase productivity, as 77 percent of employees who work from home at least once a month are more productive ("Surprising Working from Home Statistics"). These improved working conditions could greatly improve employee retention and productivity going forward.

Because banking and finance is a highly skilled profession, firms invest a lot of money training employees. If a more hybrid-friendly employment strategy is implemented and promotes employee retention, they could benefit from material savings in reduced training costs and higher profit margins in the future. This coupled with Goldman Sachs's continued innovation could help the firm overcome recent public scrutiny and strengthen its position as one of the top firms in the banking industry. Although this approach does not have a calculable return, it does increase the value in the firm's greatest asset: its people. If the firm can improve employee quality of life, they will not only benefit from increased employee retention but also increased revenues and efficiency as employees are more productive and passionate about their work.

In addition to high employee turnover rates, Goldman Sachs also has damaged their reputation through its explicit non-compliance with laws and regulations. These violations of trust have cost the company some current and potential future clients, limiting their revenue; not to mention, the legal fees and settlements have cost the company billions of dollars. For example, immediately before the 2007 financial crisis, Goldman Sachs mishandled mortgage-backed securities, ultimately resulting in the company's vital role in pushing the economy into the recession. In 2010, Goldman Sachs paid $550 million in settlement of the U.S. Securities and Exchange Commission charges, then in 2016, the company admitted to their involvement in securities fraud and paid an additional $5.1 billion in settlements. Today, the company faces paying an additional $13 billion through their shareholders' class action suit against them, which they believe is reasonably probable they will have to pay. Additionally, the Goldman Sachs Group and its Malaysian subsidiary recently "admitted to conspiring to violate the Foreign Corrupt Practice Act" after planning to pay over $1 billion worth of bribes to Malaysian officials ("Goldman Sachs Charged"). Because of this, two Goldman Sachs employees faced criminal charges, and the company paid $2.9 billion in penalties and fines in 2020 in addition to their personal legal fees.

After losing billions due to illegal actions throughout the company, we suggest that Goldman Sachs invest in a greater internal control system. Although implementing proper internal controls is an expensive venture, it will save Goldman Sachs billions in legal fees and settlements over time. In a study conducted by the Chief Financial Officers' Council and the President's Council on Integrity and Efficiency in 2005, analysts found that Fortune 1000 companies spent an average of $7.8 million to implement first-year controls and $4.2 million in yearly upkeep ("Estimating the Costs and Benefits"). Although this sum would amount to approximately $11.3 million in implementation and $6.1 million in upkeep today due to inflation, it is still undoubtedly lower than the billions that Goldman Sachs has paid over the past decade. By making this change, the company could save nearly $21.5 billion in legal liabilities and expenses, if the past decade acts as a prediction for noncompliance in future years. This would allow for an additional $21.5 billion in cash that could be allotted to capital improvements and expenditures that increase revenue for the company, increasing the firm's return on assets, asset turnover, and profit margin further, as the company plans to do. These material savings, in conjunction with the increased revenues and market share that could result from restoring their reputation, could earn Goldman Sachs the industry leader position.

All in all, this project taught us how to connect financial ratios with strategic plans and gave us a better understanding of advisory. While advisory plans are designed to have financial implications, they are not necessarily based on accounting principles. Our proposed solutions focus on personnel and behavioral issues than financial ones, but both address problems the firm has deemed to be materially significant. Advisory seems to present accounting professionals with opportunities to be more creative than the traditional service lines, but this also leads to a need for more delicate presentations. Audit and tax being more quantitative disciplines produce predictable numbers, but advisory's qualitative basis requires more sensitive explanations as advisory solutions could be interpreted as criticizing a client's business practices.

GS Case Study 5

This week, we were tasked to determine the greatest risks for Goldman Sachs concerning today's operations, macroeconomic environment, and cybersecurity. Through extensive research online and examination of Goldman Sachs's 10K and additional documents, we determined that the firm faces many risks in all these areas. For example, Goldman Sachs faces great threats to operations due to employee retention, increasing competition, third-party involvement, and both internal and external fraud, as is the case with almost every firm in the investment banking and financial services industry. Additionally, as the world begins to adjust after the COVID-19 pandemic and the financial crisis, Goldman Sachs financial services are impacted by major economic fluctuations and market uncertainties concerning interest rates, inflation, and foreign exchange rates. Also, due to the pandemic's launch of the remote working lifestyle and hence, the greater use of E-business, all companies are exposed to detrimental cybersecurity risks. As a frontrunner in technological advancements in the financial services industry, Goldman Sachs conducts even more business online, opening the firm up to greater cybersecurity risks.

Cybersecurity Risks

Cyber-attacks are a large risk for Goldman Sachs, especially since the rollout of Marcus, their new online banking platform, and the expansion of business practices to online or cloud-based operations. They are "regularly the target of attempted cyberattacks, including denial-of-service attacks, and must continuously monitor and develop our systems to protect the integrity and functionality of our technology infrastructure and to access the security of our data" (*Form*

10K). Since the firm's transactions mostly take place online, it is increasingly important to maintain strict security controls. For example, the firm actively trains personnel in detecting phishing attacks and limits access to minimize the risk associated with these attacks (Chung). Also, the banking industry has started to use cryptocurrencies to process transactions, and Goldman Sachs is at the forefront of this push. They were the first bank to offer options trading via crypto and they have recently invested a great deal into adapting to the changing markets (Yang). While blockchain is praised for its security, recent incidents involving theft from blockchain-based technologies have called its security into question, a prime example being hackers stealing $590 million from a gaming company (Abdoullaev). Hacks like these remind the markets of the vulnerabilities of the new technology and help companies adapt their technology over time to make them safer from attack.

The increased usage of blockchain technologies is necessary to keep the firm at the forefront of its industry, and its adaptation within the firm could be very beneficial to the firm and its clients, as it offers faster transactions and can be more dynamically applied to business transactions than traditional payment methods. There are many risks involved with the new technology, so we suggest that Goldman Sachs limits large transactions to private blockchains. This allows the firm to reap the benefits associated with using blockchain technologies while also mitigating some of the risks that come with processing transactions using miners on public blockchains.

Macroeconomic Risks

In the investment banking and financial services industry, all companies face great risks due to fluctuations in the economy arising from unsteady markets. As a bold competitor in the industry, Goldman Sachs must face these concerns as they manage and invest large sums ($2.14

trillion, as of 2020) of their client's assets (Norrestad). While the company faces constant interest rate changes, excessive exchange rate volatility, and falling terms of trade, the most impactful risk that Goldman Sachs must counteract today is inflation. Through the firm's market evaluations, Goldman Sachs has found that the United States "economy is at greater risk of falling into a recession over the next year" because of the continued Russian invasion of Ukraine which has resulted in all-time-high gas and commodity prices (Zilber). As the nation faces this 35 percent chance of recession, inflation poses major problems in terms of both short-term and long-term risks. In the short term, Goldman Sachs struggles to recover what they have earned in terms of receivables since there is less disposable money to pay bad debts after facing the rising commodity and oil prices induced by inflation. In the long term, this inflation will continue to have adverse effects on emerging markets. These risks have already proven the downturn they can cause, as Goldman Sachs has decreased its 2022 first-quarter forecast for U.S. economic growth from one percent to 0.5 percent, its second-quarter forecast from 2.5 percent to 1.5 percent, and its fourth-quarter forecast from 2.4 percent to 1.75 percent (Zilber, Sheen). As economic growth struggles in the coming year, the economy will place impositions on Goldman Sachs's revenue generation. As inflation will only continue through higher interest, trade, and exchange rates for the company and their clients, potential and current clients realize that now is not the time to invest, resulting in poor performance for the company.

As Goldman Sachs and all other financial institutions navigate these uncertain times, they rely on "healthy job gains in 2022" to keep growth high (Zilber). As the service sector further reopens in the pandemic aftermath, more job opportunities are available and will stimulate the economy in a positive direction once the positions are filled. Additionally, throughout the pandemic, many citizens benefited from federal aid and were able to save excess money. As the pandemic comes to an end, Goldman Sachs predicts that people will spend these savings, which will also help to stimulate the economy.

Although Goldman Sachs offers optimistic predictions that will counteract the inflation and its high-risk effects, the firm should have a solid plan concerning how they can mitigate the risks to their operations. As there are many uncertainties concerning the macroeconomic environment, it is quite difficult for Goldman Sachs to mitigate these potential risks, especially since many of the fluctuations are not solely attributed to the firm's operations. In terms of how they can help themselves, we suggest that Goldman Sachs should increase their own employee retention rate. In order to do so, they must recreate the company culture to be a more flexible, understanding environment that considers its employees' well-being, both physically and mentally. By having high employee retention and improving their reputation concerning employee treatment, the firm can fill their open positions more easily and help to stimulate the economy away from recession. Additionally, the firm should continue to embrace technology and use it as a cost-saving aid. By eliminating costs using technology, Goldman Sachs can increase their profit margin and use the excess funds to institute a larger allowance for doubtful accounts and to cover the costs associated with increased interest, trade, and exchange rates.

Operational Risks

In addition to the primary risk of cybersecurity breaches, Goldman Sachs faces additional operational obstacles from third-party risks and both internal and external fraud. The firm states that "third-party risk, including vendor risk, is the risk of an adverse impact due to reliance on third parties performing services or activities on our behalf" (*Form 10K*). Often, behaviors that directly impact third parties can have an adverse effect on the primary entity, disrupting operations and slowing business. Reliance on a third party can also pose a reputational risk to the primary company. If negative information comes to light of a third-party vendor, for instance, any businesses with a link to that third party can suffer a hit to their reputation as a result. Additionally, third parties are often a popular vector for cyber attackers. Attackers can pervade third party links, such as supply chain systems, and use them as a platform to further infiltrate high-value targets, such as Goldman Sachs (Kotler).

Internal fraud occurs when "when a director, an employee, a former employee, or a third party engaged by the bank commits fraud, colludes to commit fraud, or otherwise enables or contributes to fraud" ("Operational Risk"). Many times, Goldman Sachs has been accused and convicted of this illegal behavior. Through their role in the 2008 financial crisis and their bribery in Malaysia, the firm has spent billions of dollars in legal expenses, all due to a limited few employees' action. In order to limit this risk, Goldman Sachs must invest in training, updated codes of ethics, and cultural programs in order to emphasize the importance of an ethical work environment. On the other hand, external risk "is committed by a person or entity that is not a bank employee, a former employee, or a third party engaged by the bank" ("Operational Risk"). External fraud can be a product of either online theft or in-person theft. In order to mitigate against this type of fraud, the company must invest in top-notch IT controls. Also, Goldman Sachs must ensure proper security personnel within their banks and have multiple access controls concerning cash drawers, safes, and vaults. Cameras and security systems are also vital in preventing in-person theft.

Conclusion

In summary, this case reminded us that many of Goldman Sachs's risks are beyond their control, but that does not mean that the firm should not mitigate these risks. Throughout daily operations, the firm must counteract macroeconomics risks, which can be caused by politics, consumer patterns, pandemics, and so much more. However, in order to be proactive, the firm must engage in opportunities that will stimulate the economy, as a stable, successful economy can reduce the fluctuations in the market beyond Goldman Sachs's control. Additionally, it is crucial to limit cybersecurity risks caused by outside hackers. Through taking precautions and ensuring that transactions only occur through private blockchains, the firm is more protected against potential theft of both information and cash. With operational risks, there are a slew of internal controls that can lessen the multiple impactful risks involved. As external fraud and third-party issues can be completely unpredictable, it is important for the firm to implement beneficial internal controls to be always prepared in order to prevent any potential illegal misdoing.

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