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A Collection of Accounting Case Studies

Julie Mabrey

A COLLECTION OF ACCOUNTING CASE STUDIES

by

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A thesis submitted to the faculty of The University of Mississippi in partial fulfillment of the requirements of the Sally McDonnell Barksdale Honors College.

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ABSTRACT

JULIE MABREY: A Collection of Accounting Case Studies

(Under the direction of Dr. Victoria Dickinson)

This thesis comprises six accounting case studies investigating accounting practices and other broader financial narratives. Dr. Dickinson assigned and advised the case studies throughout the course of Honors Accountancy 420. During the fall semester, Dr. Dickinson placed us in groups to research assigned companies and how they apply accounting principles. My group was given Commercial Metals Company (CMC), and we investigated their operations, ESG and cybersecurity, audit risks, and tax efficiency. At the end of the semester, we presented our findings to accounting professionals from across the country. The professionals provided insight into our research and helped critique our work. This work allowed us to become extremely well-versed in Commercial Metals Company and let us see what an actual application of our education might look like. Throughout the spring semester, we were assigned several individual case studies. These studies focused more on current events that were affecting the financial landscape. We looked into the Silicon Valley Bank crisis and how the collapse affected much more than just the related companies. This led us to research the history of financial crises. These two case studies helped us gain a more thorough knowledge of why excellence is expected, not just encouraged, in the accounting profession. Overall, this research has helped me gain a more whole understanding of accounting and the application of its principles.

TABLE OF CONTENTS

Commercial Metals Company

Operational Risk Assessment

September 14th, 2022

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Summary of Case

With this case study, we were tasked with learning and understanding the operative risks that pose threats to the future profits of Commercial Metals Company. Through our research, we have found that there are many global strains on CMC and many other industries and companies because of the geopolitical stance that the world is currently in. Economic factors, such as political wars and supply chain delays, are some of the main contributors to the risks that are affecting the manufacturing industry. Energy prices have also been increasing recently and are being carefully observed. Because of the delays in supply chain and growth in prices, inflation and interest rates are also growing. Commercial Metals Company is having to reevaluate their current tactics and strategies to better fit the goals and financial profitability of the company during times of economic distress.

What We Learned

Throughout this casework, our group has slowly come to realize just how connected we all are on a global scale. Companies that are primarily located in the US are having supply chain issues all the way over in eastern Europe. Global unrest is something that we are all aware of in the daily news, but we did not fully understand why two countries fighting would affect the global economy. We also were able to use these global issues to find out how exactly they affect a company and how it changes their financial statements. These issues have also spread into other economic factors that are causing even more distress within the company. Not only were we able to pinpoint issues within the world and trace them through a company, but we helped give input on ways that this company could put itself in a better position for the future.

Introduction

Commercial Metal Company is a manufacturing company that produces various types of metals, and the company faces risks and threats to its prosperity and future. The company has a traditional organizational structure led by a corporate office helmed by Chief Executive Officer, Barbara Smith. Geopolitical upheaval and the lingering effects of the Covid-19 pandemic pose critical challenges. Russia's invasion of Ukraine and potential political upheaval in China coupled with the supply chain crisis and economic slowdown threaten the company's success. Due to risks associated with geopolitical conflicts, supply chain challenges, and inflationary pressure, Commercial Metals Company faces an uncertain future, and management must assess risk wisely to ensure profitability.

Organizational Structure

Management:

Commercial Metals Company has a typical, hierarchical structure led by Chief Executive Officer, Barbara Smith. Paul Lawrence, Senior Vice President and Chief Financial Officer, along with Jody Absher, Chief Legal Officer and Secretary, and Jenifer Durbin, Vice President and Chief Human Resources Officers, round out the corporate executives. Tracy L. Porter and Ty Garrison support the company in their roles as Executive Vice President and Senior Vice President of Operations ("Commercial Metals Company", 2022, "Board of Directors").

Locations and Subsidiaries:

Commercial Metals Company is headquartered in Irving, Texas, which has a friendly business climate with low taxes and regulations with lots of other large companies such as Fluor and Kimberly-Clark Corporation ("McKesson Move Bolsters Irving-Las Colinas' Prowess as

‘Headquarters of Headquarters.’”, 2022). The company has operations in the United States, Europe, and Asia (“Commercial Metals Company”, 2022, “What We Do”). Commercial Metals Company has expanded its operations from its first location in Dallas, Texas, in 1915, to currently having a global reach. Since CMC’s establishment, it has grown to be a Fortune 500 company and has acquired over 40 fully owned subsidiaries internationally. Each of these subsidiaries specializes in certain aspects of CMC’s services, which include the recycling, reinforcement, and manufacturing of various metal products. Though the company has formed a very prominent presence across the United States, it has broadened its reach by subsidizing locations in other countries such as Poland and China.

Potential Risks

Political Climate:

CMC’s CEO was concerned about the future of the business underneath a Democratic government once President Biden was elected. Smith believed that the company’s earnings could fall by $200 million a year. However, CMC’s stock prices have doubled, and their sales have done much better than they were expecting, despite these original apprehensions. The increase in sales and stock prices may have to do with the new bill that the Biden administration has signed. The bill plans to build back up the nation's infrastructure, including major highways, bridges, and buildings. This new project is very promising to CMC because they are a leader in supplies that are needed for these new developments, specifically rebar. According to Wealth Insider Alert, “CMC’s total revenue is projected to reach more than $6 billion - a 10 percent increase from 2020,” (“Wealth Insider Alert, 2021, Paragraph 4). This increase is also excluding the projected federal spending from these new expansions. While CMC may not have expected their business to grow as much underneath a Democratic government, their numbers and sales have shown otherwise.

Global Unrest:

Despite CMC's success within the United States, outside global factors are having major effects on the company's operations. Russia's invasion of Ukraine poses a severe threat to Commercial Metals Company primarily because of the company's Polish subsidiaries that play a crucial role in European operations and production containing all of the fabrication and recycling shops on the continent ("Commercial Metals Company", 2022, "Locations"). Therefore, Russia's potential to continue marching toward Poland from Ukraine could cause manufacturing facilities to be destroyed, which would greatly impact the company's output and profitability. Ukraine and Russia are also both large suppliers for the metal industry. This is causing lots of companies, including CMC, to look elsewhere for resources needed for production and operations ("How the Metal Supply Chain Is Adjusting to Current Events.", 2022, Paragraphs 7-9). This is resulting in a huge disruption in the supply chain, and an increase in trading and transportation prices.

Another major global issue is that almost every industry is facing is the Covid-19 pandemic. The pandemic has caused many shifts in safety protocols across the world. China has very strict Covid policies that can cause ports and facilities to completely shut down, having a major impact on the global supply chain. If a port shuts down, it halts every other aspect of the manufacturing process. Even if the port is not shut down, they require mandatory testing and other strict policies (social distancing, masks, etc.) that are slowing the supply chain process down ("How the Metal Supply Chain Is Adjusting to Current Events.", 2022, Paragraphs 7-9).

CMC has had to implement new processes to help expedite its manufacturing process in this new world, post-pandemic.

Supply Chain:

As with most industries, the metal and steel manufacturing industry is not immune to the worldwide supply chain issues that have become more prevalent in recent years and further enhanced by the presence of Covid. Currently, metal manufacturers are having a hard time maintaining supply to meet demand and this has caused the industry to raise the prices of their products. Russia and Ukraine are two countries that are imperative for raw materials and the political stalemate between them has increasingly made it difficult to perpetuate a successful supply chain. Europe has placed sanctions on importing steel from Russia and Belarus, which sum up to about 46 percent of the long steel imports into the European Union. These situations have made it uncertain to predict when their supply chain will return to normalcy. Across the entire industry, supply chain issues tend to stagger inventories until they eventually do not have any product on hand to sell ("How the Metal Supply Chain Is Adjusting to Current Events.", 2022, Paragraphs 10-13).

Energy Prices:

With energy prices on the rise, Commercial Metals Company must closely monitor its spending costs on production. CMC Poland, in particular, is facing high increases in electricity costs that are close to five times higher than they were in 2020 "Poland: Wholesale Electricity Prices 2022.", 2022). CMC is one of the largest electricity consumers in Poland, so the significant increase in utility expenses could result in reduced income levels, potentially causing a strain on the company’s operations and its presence in Europe. However, CMC signed an agreement with Statkraft, Europe’s largest generator of renewable energy, that fixes 20 percent of their power consumption costs. The arrangement started in 2021 and has helped protect CMC from facing the full burden of inflation. The long-term agreement will continue to be a considerable asset in the middle of the uncertainty that is created by the nearby war in Ukraine (“Commercial Metals Company Poland Signs a 10-Year Corporate PPA with Statkraft.”, 2020). Barbara Smith commented on the arrangement with Statkraft, saying, “We are confident in Poland in not only our energy supply as we indicated earlier, but also that our energy cost relative to the competition is going to be at an advantageous value.” Furthermore, at the beginning of this year, CMC announced they were constructing another “state of the art” Micro Mill, a process that they recently pioneered. It is said to be one of the most energy-efficient and eco-friendly steelmaking operations to date (“Commercial Metals Announces Plan to Build State-of-the-Art Micro Mill.”, 2022, Paragraph 9). CMC’s efforts will shield them from a portion of the increases in energy prices while also promoting sustainability through the use of Statkraft’s renewable energy sources and their advanced Micro Mill technology.

Inflation:

Rising input costs are derivative of supply chains within the industry (“Manufacturing and Inflation Explained”, 2022, Paragraph 6). Without a steady stream of raw materials to help craft its final product, CMC is unable to maintain inventory levels and in turn, decrease its revenue. A lower income restricts the amount of raw materials that CMC can purchase from its suppliers. If the prices that their suppliers charge are increasing due to inflation, then not only will Commercial Metals Company not be able to receive raw materials, but eventually, they won’t be able to pay for them either. Raw materials and supply chains are not the only components affected by inflation; the cost of labor is rising as well. Increases in labor costs may increase the price CMC charges and it may reduce net income if employees are taking more expenses out of the income statement.

Interest Rates:

Interest rates are also on a steady incline meaning that interest expenses through debt will decrease net income. Naturally, this dissuades companies from taking out loans so that they do not have to worry about interest expenses encompassing a larger portion of the income statement. However, for a public company such as CMC, it is not as large of an issue since they have a Debt-to-Equity ratio of 0.94 (SEC.gov, CMC 10-K, 2021, pg. 44). Since they finance their company primarily through institutional investors through equity anyway, they can rely more heavily on issuing more shares, if need be, rather than engaging in liabilities that are simply not worth the trouble of a high-interest rate (“How Changing Interest Rates Affect Variable-Rate Loans to U.S. Firms.”, 2022, Paragraph 1).

Severe Threats

The most severe threat to Commercial Metals Company’s success is global unrest around the world. The tension between Russia and Ukraine has already affected the Fabrication and Recycling Shops of CMC in Poland, and further aggressions would destroy CMC’s production capabilities and hinder profits. Hedge Funds are beginning to leave the commodity industry in response to these actions, and if Russia continues to go through eastern Europe, there would be numerous supply chain consequences and products might not be able to flow to the global market. The supply chain issues have been a large issue with CMC, but most of it is caused by these tensions near its outposts in Eastern and Central Europe. This has made it increasingly difficult to obtain raw materials from these large deposits of metal. Even though local companies in America have risen to the challenge to help supply these materials, they simply have not been able to keep up with the rising demand for metals ("How the Metal Supply Chain Is Adjusting to Current Events.", 2022, Paragraphs 14-15). We believe that if the root of this threat were to cease to exist if Russia were to stop advancing westward, the supply chain issue would not resolve, but it would become alleviated to a large extent. Another looming issue that CMC is dealing with amongst its investors is the thought that there could potentially be another recession in the near future. A recession would typically lead to reduced manufacturing and consumer spending, which would negatively impact CMC's profitability. Nonetheless, most of these issues can be traced back to the Russian invasion of Ukraine, negatively impacting the global economy; that is why we have decided that global unrest is the most pressing threat that Commercial Metals Company is dealing with at the moment. CMC can help combat these forces by figuring out where their operations will have the most success geographically. This would involve understanding where the most stable location resonates on both an economic level and a political level. In order to adjust to the supply chain matter, it would benefit CMC to attempt to avoid Ukraine and Russia. This would also involve onshore manufacturing in widespread attempts to spur American companies to become a large part of the raw materials sector for metal manufacturing.

Conclusion

Commercial Metals Company can navigate the future using a data-driven approach and minimize its risk profile by monitoring global events and adjusting operations accordingly. With prudent decision-making, the company can emerge from tumultuous economic and political times and emerge more profitable and efficient. Commercial Metals Company should strive to maintain financial flexibility in order to adapt quickly to any unforeseen losses or opportunities. Risk management is key to ensuring a brighter and stronger future for Commercial Metals Company.

The Honors Code:

"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this assignment."

Signed:

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Commercial Metals Company

ESG and Cybersecurity Risk Assessment

September 28th, 2022

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Summary of Case

To prepare for this week's case, we watched videos about ESG that provided us with a general understanding on the topic. We researched what ESG means for the public accounting profession including what opportunities and risks exist related to its rise. ESG reporting has many challenges since it is a new idea and can be difficult to measure. There are various opinions on it, and we learned about differing positions on the topic that could affect our company. Commercial Metals Company has been enthusiastic about their ESG efforts, and we discovered how these actions will impact the future of the company. After exploring ESG, we also investigated how cybersecurity threats have affected CMC's operations and the manufacturing industry as a whole.

What We Learned

Throughout this case, our group has learned that ESG is an integral part of all industries because of the World Economic Forum's new regulations. Because of these changes, businesses are having to adapt their current business models and create new strategies to maintain a high ESG score. ESG scores have become a vital part of a business's profitability and reputation. We have also learned that cybersecurity is a major threat among many industries, especially since technology is becoming so prominent world-wide. The manufacturing industry specifically can be a target of hacking because of the lack of data protection. This could result in a breach of internal operations, causing a plethora of problems that the company will have to combat. When researching these aspects of the business world, we were able to learn more about the challenges that businesses may face and provide potential solutions.

Introduction

CMC, along with every other business in the world, is having to adapt to the new concept of ESG. Environmental, Social and Governance scores will drastically change how companies carry out their normal operations as well as how investors choose where to allocate their financial resources. ESG would specifically benefit CMC because of its energy efficient processes, relatively diverse corporate office, and governmental operations. However, the metal manufacturing industry would broadly suffer because of its negative environmental impact. Also, as innovation and technology advances, CMC must be attentive to its cybersecurity to maintain its strong position within the industry and avoid attacks that may come from cybersecurity failures such as phishing, internal breaches, and equipment sabotage.

Opportunity and Additional Risks for Public Accounting:

The expansion and adoption of Environmental, Social and Governance (ESG) amongst public companies presents opportunities and additional risks. Especially for accounting firms focused on auditing the world's largest companies like the Big 4, ESG assurance is another avenue to increase revenue. Since ESG standards are expansive, qualitative, and quantitative, ESG must be audited like financial statements and tested like controls, which will require substantial work and thus, require many billable hours. However, because ESG is subjective, there are potential independence issues with Accounting firms only focusing on metrics that reflect their clients in a positive light in order to generate higher fees for their discretion and selective auditing. Also, neutrality would be a key issue for public accounting firms to handle in order to make sure they are viewing the company's ESG score as a whole and representing it faithfully to shareholders.

Challenges and Risks:

Measuring ESG is challenging because, due to a lack of government regulations or an oversight body, it is full of subjective standards and metrics that can change in importance. For example, despite environmental impact being one ESG's central goals, carbon emissions or other subject behavior can be canceled out by having a racially diverse board ("Green Colored Glasses," June 27, 2022, Paragraph 39). Also, the novelty of ESG is another obstacle to faithful representation. The most prominent measurer of ESG is MSCI led by Chairman and CEO, Henry Fernandez ("ESG Scores Are Not What They Seem," 3:00-3:34, December 20, 2021). Fernandez, originally from Latin America, sought to create an ESG rating system in order to avoid "socialist government regulations" and instead establish a private solution ("ESG Scores Are Not What They Seem," 7:35-9:24, December 20, 2021).

With CMC, there are economic and political risks connected to ESG's growing influence. Because CMC performs many large government contracts and projects, potential fraud or law breaking poses an even bigger threat to the company because it could hurt its ESG score as well as its public image. Also, global, national, or local carbon taxes are connected with ESG, and these would have a negative impact on CMC because the company's supply chain requires lots of energy and thus produces substantial carbon emissions. Also, the upcoming 2022 midterm elections could have either a positive or negative impact on CMC. Specifically, if Republicans that oppose ESG win, the metal manufacturing industry would be better off, while if Democrats that support ESG and its expansion, the industry would be worse off, but among manufacturers, CMC would fare well ("Green Colored Glasses," June 27, 2022, Paragraph 52).

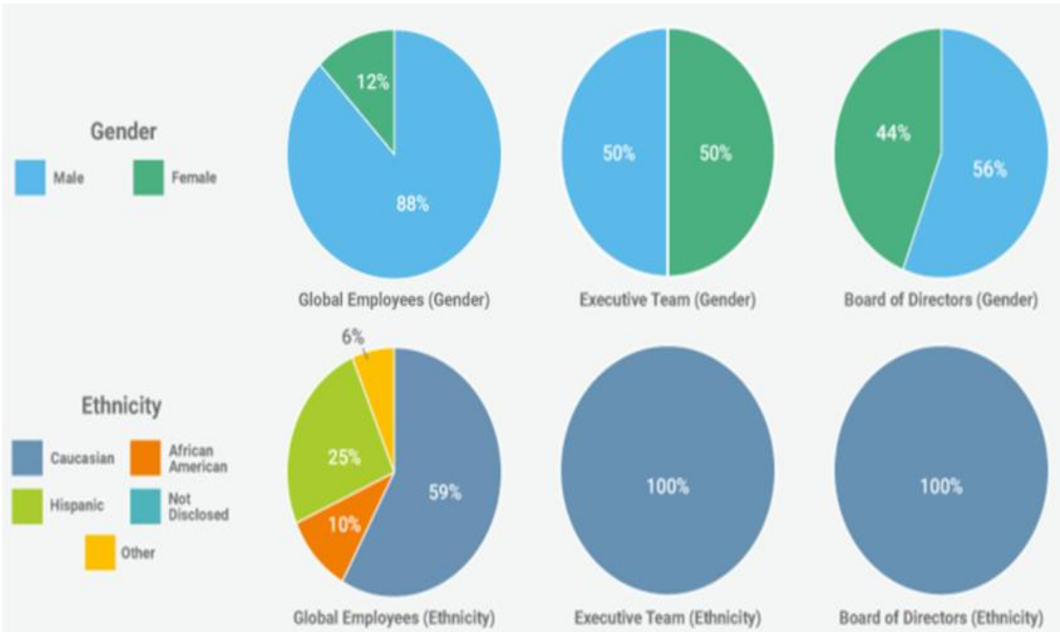
World Economic Forum and ESG:

The World Economic Forum wants companies to further adopt ESG into their business strategies. They believe that companies should go beyond numbers to highlight their success. Profits and sales, coupled with a devotion to promoting ESG would render an even more successful company that also puts a sustainable world as a primary goal ("ESG and Strategic Intelligence," MIT, 2022, Page 1). They encourage investors to view ESG priority as a trait in a company that is moving in the right direction and helping make the world a better place. Incentivizing world sustainability through commercial activity is positive and is beginning to become more standardized and regulated (Prow, August 22, 2022, Paragraphs 4-8). We support the ideas that the entire globe needs to contribute in making the Earth more sustainable and ethical in its strategies. We also agree that it could be a great tool for investors to reflect their own values in the companies they choose to support. However, currently, we think that forcing ESG among companies may not be the best use of resources. Right now, there are so many more prevalent and immediate problems that need to be addressed. Global unrest, inflation, and supply chain issues should be put as more of a priority for companies that are trying to succeed. Before we can focus on ESG, we think these other issues should be combatted first. There are also some concerns with the concentration of power and conflicts of interest that the World Economic Forum presents in being such a large proponent for ESG. Investment Management Companies such as Blackrock and Vanguard are beginning to adopt ESG and are using it to create frameworks that provide better returns to its customers on a long term basis ("ESG Integration - Institutional," 2022, Paragraphs 5-7). They are beginning to tailor to the investor's desires on ESG risks and returns depending on the customer's needs ("Our Approach to ESG Investing: Engage, Allocate, and Avoid," June 17, 2021, Paragraphs 1-8). CMC wants its score to be high enough to be included in various indices, especially those related to climate and sustainability. They will be incentivized to create new ways to make their company more energy efficient and diverse. Even though they have an above average ESG score, especially for a metal manufacturer, they will push themselves to achieve a higher ESG score since most of their company is financed by institutional investors (CMC Institutional Holdings, 2022, Ownership Summary).

Actions With Respect to ESG:

CMC is proud that sustainability is essential to its corporate identity. Since they began as a single metal recycling facility, CMC has a long history of working to help the environment ("Naturally Sustainable," 2022, Paragraph 1). They not only use innovative electric arc furnaces that consume fewer natural resources and generate less emissions, but they also have recently launched a line of rebar products called RebarZero that have net-zero greenhouse gas emissions. RebarZero is supposed to provide a carbon-free profile throughout all stages of the supply chain process for CMC's products (Zacks Equity Research, August 31, 2022, Paragraph 1). While traditional methods of metal manufacturing are known to have carbon intensive processes, CMC's mills produce 63 percent less carbon dioxide and use 82 percent less energy than the industry average ("Naturally Sustainable," 2022, Paragraph 1). CMC has recently pioneered the creation of a micro mill, which is a highly innovative project that is "among the most environmentally friendly steelmaking operations in the world" ("Commercial Metals Announces Plan to Build State-of-the-Art Micro Mill," January 10, 2022, Paragraph 2). Two micro mills are already in operation, but CMC has plans to further this efficient technology by currently constructing the third micro mill in Arizona and by making plans for a fourth. Furthermore, CMC uses a lot of energy in order to power their production plants. Because the cost of high consumption of energy can be a risk the company must face, they are actively working to make their processes more energy-efficient and to find sources of renewable energy to promote sustainability. CMC Steel Arizona was one of the original customers of a solar electricity generation plant called Saint Solar. Between the renewable solar energy source and construction of a micro mill, the Arizona location is "one of the most efficient and green steel producing facilities in the world" ("CMC Announces CMC Steel Arizona to Begin Receiving Renewable Solar Energy," December 16, 2020, Paragraphs 1-2). CMC is confident in the way they were "founded on the principles of sustainability" ("Naturally Sustainable," 2022, Paragraph 1) and continue to work towards furthering their contribution in helping the environment.

When it comes to a social aspect, CMC claims that diversity is one of their strengths, but it could be argued that the numbers do not necessarily reflect this claim, especially when it comes to ethnicity. All members of both the executive team and the board of directors are Caucasian, as well as the majority of all CMC employees worldwide. This is an area that the company could work on to further improve their ESG. CMC has tried to add some diversity to their profile by boasting that half of their executive team and 44 percent of the board of directors is female, including CEO Barbara Smith, but most of their global employees are male. The company has taken steps to improve their diversity and promote inclusion, and this element is one to consider as further efforts will hopefully advance CMC's workplace culture ("Our Focus: Social," Diversity & Inclusion, 2022, Paragraphs 1-4). Nevertheless, CMC is adamant about making sure their employees' health is a priority. A lot of the jobs in factories require a great deal of physical labor and may be dangerous to the employees. Because of how demanding these positions are on an employee's physical wellbeing, CMC places special attention on safety measures ("Our Focus: Social," Health & Safety, 2022, Paragraphs 1-4). CMC also values transparency and integrity in their relationships with their employees as well as with stakeholders.



ESG

Regulations Effect on CMC:

With the World Economic Forum and the SEC wanting to put more emphasis on ESG regulations, CMC will have to adjust to continue their profitability while maintaining a high ESG score. CMC currently has an ESG score of 79, which is on par with industry average ("CMC ESG Ranking," September 2022, page 1). However, with stricter rules and regulations, CMC's ESG score has an increased risk of falling. Since ESG scoring includes the other business partners and suppliers that CMC uses, CMC may potentially have to change their suppliers to ones with a higher sustainability and ESG rating. This could also potentially increase their costs because higher sustainability results in a higher production cost. While costs might be increasing, investors are now paying much more attention to ESG ratings, which places even more pressure on CMC to maintain their ESG score. Companies would be willing to pay a higher production or manufacturing cost if it results in more investments. ESG regulations will change CMC’s reporting and business structure because of its direct impact on the company and its financial plan. CMC has always been concerned with their sustainability, but this will require them to maintain and stay hyper-aware of their environmental effects, both with their own company and their suppliers. Because of this, CMC currently has an advantage against other manufacturing and metal recycling companies, but competitors are now going to be developing strategies to increase their ESG scores. CMC’s largest effects from the updated ESG regulations are to continue to improve and maintain its ESG score while also ensuring that the company's profitability remains.

Cybersecurity Failures and its Culprits:

The manufacturing industry has been one of the most targeted industries for cybersecurity attacks within the past couple of years. Ranging from phishing, to internal breaches, to equipment sabotage, this industry often has trouble securing its private information (Miller, July 1st, 2022, Paragraphs 4-21). Attacks most often come from China, the United States, Turkey, and Russia (Miller, Paragraphs 7-12 and 19-21, July 1, 2022; The Top 7 Hacking Countries, Page 4-7, 2022). Metal manufacturing companies do not spend a lot of resources on protecting their data profusely because they do not believe that they have valuable information on hand, besides techniques and technology that gives them an advantage (The Importance of Data Security in Manufacturing, May 16th, 2020, Paragraph 1). CMC takes pride within its intellectual property and has several steps in place to protect the information they hold dear. They carefully manage their data and use "document retention, password complexity/multi-factor authentication and security vulnerability management" and many other precautionary measures (Sustainability Report, 2021, Page 21). The manufacturing industry is most likely to be hacked by competitors seeking an advantage. If competitors are able to steal CMC's industry secrets such as about the process to create Rebar Zero or micro mill, they could use the proprietary technology without incurring research and development costs. Therefore, cybersecurity, specifically dealing with Intellectual Property, must be prioritized (Miller, Paragraphs 19-21, July 1, 2022).

Potential Risks and Protective Actions:

The manufacturing industry is one of the most hacked industries due to their lack of cybersecurity. Many manufacturing companies do not believe that they hold a lot of consumer data, so they slack in security and data privacy ("The Importance of Data Security in Manufacturing, May 16, 2020, Paragraph 1). While they may not hold a lot of outside data, their internal security is at risk. One of CMC’s largest risks relating to security is a fall in competitive advantage. If hackers are able to break into databases or future plans that are giving a company an advantage, other competitors may be able to take that information and capitalize on it. This would hurt the original company's profitability because the other company wouldn’t have to spend as many resources researching and testing the equipment. If CMC’s micro mill technology were to be accessed by several companies, their competitive advantage would drastically decrease. In order to combat the high risk of data security breaches, CMC is actively taking initiatives to track security metrics and work with third party experts to evaluate the security of critical business data. The company holds an Advanced Security Rating of 810, which is a leader among others in the industry, according to the BitSight security ratings solution. CMC also holds Security Awareness training for employees and assesses security reports on a monthly basis to ensure that their data remains safe and up to date (Sustainability Report, 2021, Page 21). Educating all levels of employees of the dangers of cybersecurity breaches and the importance of password rules and confidentiality will help to further protect CMC from cybercrime.

Conclusion:

CMC faces challenges from a growing emphasis on Environmental, Social and Governance (ESG) and cybersecurity risk connected to Intellectual Property theft. Due to its carbon emissions from energy intensive processes, the manufacturing industry tends to struggle with the Environmental component of ESG, but CMC’s innovation with Rebar Zero, micro mills, and recycling business positions the company well compared to its competitors. CMC ranks at the top of the manufacturing industry from a cybersecurity standpoint, which is crucial to maintaining its competitive advantage. Executives at CMC have made wise, forward-looking decisions that will allow the company to prosper and remain an industry leader in the metal manufacturing industry.

The Honors Code:

"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this assignment."

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Audit Risk and Planning

October 17th, 2022

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Summary:

To prepare for this week's case, our group discussed the audit process and its relationship to Commercial Metals Company (CMC). We focused on testing the riskiest accounts, which were inventory, equipment, and revenue and receivables. Also, we examined the internal controls connected to them. CMC must ensure that inventory and equipment are impaired properly and allowance for doubtful accounts is not materially overstated or understated. While thinking through the audit, we used a data analytics mindset to streamline the testing processes. We were tasked with researching and analyzing risky accounts within our company to help us better understand the auditing process.

What We Learned:

When researching for this case study, we learned that the auditing process can unveil many issues within companies. For CMC specifically, the inventory, equipment, and revenue accounts are some of the riskiest. These accounts are extremely risky because of the amount of money and assets involved. There are automatically going to be inherent risks that contribute to the severity of the business threats. CMC must implement several different internal controls to help reduce the risk factors associated with these accounts. Throughout this case, we have learned how crucial it is to help reduce risk and fraud because it will help with business operations. There are also technological ways that will help reduce fraud also. These advances will help streamline risk reduction within the company. This case has taught us how important the auditing process is when testing companies for fraud and misinformation.

Introduction:

CMC is a global metal manufacturing company, which is publicly listed on the New York Stock Exchange (NYSE) and, therefore, must be audited. Audits provide the highest level of assurance for investors that the financial statements are faithfully representative of the company's performance, and nothing is materially misstated or omitted. To perform an audit, accountants test the validity of account balances and the effectiveness of controls. With CMC, inventory, equipment, and revenue and receivables accounts are the riskiest accounts and must be examined. Data analytics programs like Tableau allow auditors to work more efficiently. Because of CMC's size and scope, the audit will be labor intensive so using data analytics and focusing on the riskiest accounts and controls will be critical to ensure that it goes as quickly as possible.

Inventory:

Why is there risk?

Within the inventory account, there are both inherent and control risks. Since inventory is such a large account for CMC (34.18 percent of its current assets in 2021), it automatically is a risky account (SEC.gov, CMC 10-K, 2021, Page 42). There is a large risk of misstatement and miscalculation because of the sheer amount of inventory being used annually. This account is generally the most material account on the balance sheet and is, therefore, most at risk for complications. Some of the risks may include theft, complication of value, changes in accounting policies, and manipulation of totals. While the inventory is inherently risky, there are also control issues that elevate the risks associated with this account. One major issue that the inventory account faces is that CMC's internal controls are unable to "prevent or detect a material misstatement that occurs" ("Risk of Material Misstatement for Inventory," 2022, paragraph 10). Nonetheless, external auditors will unveil this misinformation while CMC focuses on implementing internal controls that will help reduce the risk that comes with the inventory account.

Critical Internal Controls:

In order to combat these risks, CMC must implement a series of internal controls. These controls will help minimize the frequency and severity of the risks that affect both the inventory account and the rest of the company. One of the controls that CMC uses to reduce risk is segregation of duties. Segregation of duties "ensures that no employee has the ability to both perpetrate and conceal errors or fraud in the normal course of their duties" ("Operational Internal Controls," 2022, paragraph 1). This control will ensure that no single person has an overbearing amount of power over both the financial reporting and control of assets. This is critical for the inventory account because of the materiality and relative ease of manipulation that comes with it. When companies use segregation of duties, it reduces the risks drastically. Another one of the internal controls that CMC uses is physical control. Physical control is "when equipment, inventories, securities, cash, and other assets are secured physically… Access is restricted to those with authority to handle them" ("What are Internal Controls?," 2022, paragraph 4). With the use of this internal control, CMC will be able to ensure that its inventory is well-protected. Therefore, if there is a mistake with reports, they will be able to trace the inventory counts back to a much smaller segment of the company. This will help alleviate the complexity and severity of the complication. CMC must implement internal controls to lighten the risks that affect every account. This will in turn help the company run much smoother because they will not have to solve as many complications that would slow business operations.

Tests of Transactions to Audit and Data Analytics:

When auditing an inventory account, it is critical to prove that the balances are correct and there is no manipulation of information. Auditors must use tests of transactions to check if the financial statements and records are accurate. “Substantive testing is an audit procedure that examines the financial statements and supporting documentation to see if they contain errors” (“Substantive Testing Definition,” 2022, paragraph 1). Some of these tests may include verifying inventory valuation, physically counting inventory, and matching assets to records. All three of these tests will show any mistakes in the statements and will assess the validity throughout the company. These tests could be conducted by both internal and external auditors. Internal auditors will observe the accounts and financial statements throughout the year to help streamline the external audit process. If the internal auditors successfully manage the accounts, there will be a more efficient process at the end of the period. This will in turn reduce the risk associated with business operations. Auditors can use Tableau to perform linear regressions to look for outlying data points related to inventory impairment. Using data visualization would be much quicker than checking many samples of physical inventory manually for damage.

Equipment:

Why is there risk?

Equipment represents over 69 percent of CMC’s property, plant, and equipment on the balance sheet (SEC.gov, CMC 10-K, 2021, Page 42). This makes it necessary for scrutiny in properly evaluating its worth as it depreciates. As a high-tech metal manufacturing company, CMC is entitled to have so much equipment, but they must explicitly express the correct value of the equipment to accurately measure their total assets. It can become risky because CMC needs to be able to prove the existence of the assets they hold, ensure completeness, and have unerring estimations on its true value. Though assets should be stated at historical cost on the balance sheet, the main issue with the valuation of equipment resonates within its proper depreciation. A lower depreciation expense on the income statement yields a higher net income. Naturally, this can incentivize companies to understate their depreciation to make their assets look more efficient and make themselves more appealing to investors (Merritt, Jan. 11, 2019, Paragraphs 4-5). Tests must also be conducted on equipment on a regular basis to determine if there are any impairments that measure if the equipment's carrying value is lower than its fair value. There is always a risk that the equipment is grossly overstated on that balance sheet without careful consideration of impairments and depreciation (IAS 36 Impairment of Assets, 2022, Paragraphs 1-3).

Critical Internal Controls:

To mitigate the risk of misstating equipment, companies need to have monitored internal controls that are regulated strictly. Proper management of the physical control of assets is effective in ensuring that the equipment is protected to ensure that it is being used correctly. For instance, requiring licensed individuals for heavy machinery reduce the chances of equipment being used in a faulty manner and rescind its worth. Nonetheless, valuable assets to a company need to be safeguarded since any tampering would cause a lot of problems in the normal flow of manufacturing and cost a lot of money to replace (Garcia, 2022, Paragraph 3). It is also essential that physical control helps locate your equipment in order “to provide assurance that the property register represents what is physically present” (O’Reilly, 2022, Paragraph 1). Another internal control to be utilized for equipment is that there are adequate documents and records on file. CMC needs to make sure that the transactions in acquiring the equipment and the methods used to depreciate the equipment each period are readily available and informative. A review of these documents needs to be strictly enforced and the documents must be updated each time the equipment is inspected or depreciated (Naylor, 2022, Page 3). These documents must also be presented in a timely manner when they are called into question. As a large manufacturing company, CMC should be transparent in the true value of their equipment over time to avoid any disputes within their financial statements or in the amount that CMC claims they are worth.

Tests of Transactions to Audit and Data Analytics:

There are many ways that auditors can verify how equipment is presented in the financial statements, and one of the most simple assessments is observation. Although basic, it can be a great method to ensure that equipment is there and in working condition. The auditor can also observe employees’ documents and records, as well as the processes that they use to ensure that they are accurate and protected (Gallagher, August 9th, 2022, Paragraphs 8-10).

The observation of title deeds and factory routines are very common and convincing because they are “produced by the auditor instead of the company under audit” (Freedman, 2022, Paragraph 5). Alongside observation, auditors can evaluate equipment by comparing values to both the market average and the industry average in order to ensure honesty (Audit Procedures, August 3rd, 2022, Paragraph 8). Auditors can use Tableau’s data management tools to sort equipment by age and by the number of equipment impairments. After organizing the data, they could select a smaller, more specific sample size from only the oldest and most impaired equipment instead of taking more, general samples without using data analytics.

Revenues and Receivables:

Why is there risk?

The revenue amount on the income statement is a significant number to managers and investors to determine the performance of the company, especially when compared to previous years to find a trend or to other competitors within the industry. Because it is essential when assessing the sales side of a company's financials, it could be detrimental to have this account materially misstated. When assessing the risks of incorrectly reporting revenues, one must also evaluate receivables since the two accounts are closely associated with a large company, such as CMC, selling their products or services on credit. If receivables are materially misstated, the company risks having the wrong amount of assets on the balance sheet, and this could transfer to having an inaccurate revenue number. Because of how closely related the two accounts are, the misstatement of either would result in misleading information on the company's financial statements.

For transactions involving both revenues and receivables, it is important to record the correct numbers in the transactions and ensure that all transactions reported actually exist. Auditors must also check that all transactions that occurred are included in the ledger and the final calculations of the financial statements. Looking at receivables, these assets must be stated at net realizable value, meaning that it is recorded at the amount that the company estimates will be collected. In order to do this, allowance for doubtful accounts must be taken into consideration, but the valuation of this account is at risk for errors because it is estimated.

Inaccurately reporting this contra-asset account would lead to a company determining the wrong net receivables amount and misstating assets on the balance sheet. On the revenues side, there is the issue of incorrectly estimating Sales Returns and Allowances, which would result in a misleading number for net sales on the income statement.

Critical Internal Controls:

The risks of misstating receivables could include that the receivable may not exist and may instead be wrongly dated or fraudulent invoices that are made to increase revenues during the period. To prevent this from occurring, companies may put into effect an internal control of adequate documents and records that requires sufficient documentation to prove the existence of the transaction before accounts receivable can be recorded ("Risk of Material Misstatement for Accounts Receivable," 2022, Paragraphs 8-11). Similarly, inaccurate revenue recognition could result from not recording the transaction at the proper time, such as recording them before the obligation has been fully met or in the wrong period, or from recording a transaction that never existed. Companies should not recognize purchase orders as final sales because the revenue has not yet been earned in this situation, and companies should ensure that all transactions occurring during the period are included and reflected in the revenue balance. Internal control of independent checks could help to prevent and minimize the error by separating the people who make the sale from the people who record the sale. Also, regularly reviewing the actual revenue to the expected amount of forecasted revenues can help to detect misstatements ("Risk of Material Misstatement for Revenues," 2022, Paragraphs 13-17). Internal controls are important to keep errors from occurring and to detect errors that need to be corrected.

Tests of Transactions to Audit and Data Analytics:

Auditors must assess the risk of material misstatement for revenue when in the planning stage of the audit. Substantive tests include analyzing trends from previous periods and the relationship between revenue and another account such as cost of goods sold or other expenses. However, these are not always sufficient, so tests of details are used alongside these substantive tests ("Audit Revenue," 2022, Paragraphs 16-24). The tests of details ensure that the transactions exist and are correct by selecting a sample of revenue and receivables transactions, tracing the corresponding sales invoice, and checking the accuracy against the journal entries ("Substantive Audit Procedures for Accounts Receivable," 2017, Paragraph 2). Auditors can use robotic processes to filter out ordinary sales returns and create programs that highlight unusual sales returns such as those on large orders or those occurring an exceptionally long or short time from purchase. Also, auditors can use Tableau's data management software to compare how the allowance for doubtful accounts compares to the actual uncollectible amounts to see if the allowance is reasonable.

Conclusion:

Due to the scale and breadth of CMC's operations, an audit of the company must focus on its riskiest accounts. Its inventory and equipment accounts should be examined for errors related to impairments. Also, its revenue and receivables accounts must be tested to ensure that allowance for doubtful accounts is not overstated or understated because CMC is fulfilling such large contracts. Data analytics software like Tableau should be used to sort data and create linear regressions to make the audit process go more quickly. Auditors should focus on verifying the riskiest accounts while using data analytics to provide the highest level of assurance on the financial statements of CMC.

The Honors Code:

"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this assignment."

Signed:

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Commercial Metals Company

Tax Planning

November 3rd, 2022

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Summary of Case

In this case, we were given the opportunity to perform tax planning for our company. Our group researched corporate tax credits, such as research and development, new market, and last-in-first-out (LIFO) tax credits and looked at how they applied to the metals manufacturing industry. We compared different tax rates and considered the rates that are used in our company's location. After learning information about tax credits and tax rates, we used this knowledge about the current tax status to create a tax strategy recommendation that we believe would be beneficial to our company in minimizing its tax liability. This strategy would provide Commercial Metals Company with additional savings by reducing the amount of their tax payment obligations in future periods.

What We Learned

Through researching this case, we learned more about the tax strategies that corporations can take advantage of in order to reduce their payments. We also learned that taking into account the relevant locations a company operates within is an integral component of researching potential tax benefits. There are numerous tax credits that Commercial Metals Company (CMC) can potentially benefit from. Two of the most notable are New Market Tax Credits (NMTCs) and Research and Development Tax Credits (R&D). We also found that an external use of LIFO inventory method would help reduce CMC's taxable net income. We were able to put a recommended tax strategy together for our corporation using all of the information gained throughout our research. This case has taught us how to minimize a company's tax payments by optimizing its usage of tax credits and benefits.

Introduction

CMC operates in the metal manufacturing industry, and thus, has a significant amount of its assets in the Property, Plant, and Equipment (PPE) category. CMC has many buildings and pieces of machinery across the world, which provide opportunities to reduce their tax burden through the use of depreciation. By using accelerated forms of depreciation such as the bonus and double declining methods, CMC can lower its operating income, while not reducing its cash flow. Also, CMC can use Cost Segregation on their buildings to separate the parts of their facility into the components with the shortest useful lives and thus, can be depreciated most rapidly. CMC can take advantage of Research and Development Tax Credits and use the LIFO Cost Flow Assumption to further reduce their tax liability in a legal manner. Therefore, by using a combination of tax strategies, CMC can operate at its highest level of long-term profitability and reduce its short-term tax obligations.

Tax Credits and Incentives for Metal Manufacturing

R&D:

Research and development (R&D) tax credits are available to companies that are "developing new or improved business components" ("5 Common Misconceptions about the R&D Tax Credit—and Whether You Qualify," paragraph 6, March 12, 2021). This tax credit is especially beneficial for manufacturing companies because of the ever-changing strategies and technologies used within the industry. With R&D tax credits, you must qualify through a four-part test, established by the IRS. The first qualification is the development of a new or improved business component. In order to get a tax credit, you must prove that your research is benefitting business or product operations. The second qualification is the technicality of the activity. The research process must rely on hard facts and sciences, not just mindless thoughts. The third qualification is the elimination of technical uncertainty. You must show that you have attempted to remove the uncertainty surrounding the development. The final qualification is the process of experimentation. There must be proof that you worked through different alternatives to find the best solution. In order to qualify for the R&D tax credit, you must meet all four of the qualifications.

New Market Tax Credits (NMTC):

New Market Tax Credits (NMTC) are given to corporations that invest and develop in low-income communities. This is an incentive to help “break [the] cycle of disinvestment by attracting the private investment necessary to reinvigorate struggling local economies.” (“New Market Tax Credit Program,” paragraph 1, October 28, 2022) The credit will be claimed over seven years for a total of 39 percent of the original investment. This is a great opportunity for companies wanting to expand and develop in new markets.

LIFO:

As manufacturers continue to increase inventory in periods with rising costs, they look for ways to use this to their advantage. In reporting inventory and cost of goods sold as last-in first out, or LIFO, they can increase their cost of goods sold and hence decrease their net income. Although first in first out, or FIFO, may keep better track of the flow of inventory, LIFO has its external benefits so many companies utilize FIFO internally and present their system as LIFO on their financial statements to decrease taxes (Clark Nuber, November 15th, 2021, Paragraphs 8 and 9).

Tax Rate Differences

CMC is headquartered in Irving, Texas, not far from where it was founded as a single scrap yard in Dallas. Being headquartered in Texas has provided many benefits to the company because Texas is one of the few states in the United States that does not have a corporate income tax. When compared to companies that are headquartered in states such as Illinois or California, which have corporate tax rates of 9.5 percent and 8.84 percent, respectively, companies in Texas will have significantly lower taxes ("State Corporate Income Tax Rates and Brackets for 2022," 2022, Paragraph 4). However, Texas does have a franchise tax for which CMC is still responsible. This tax is one percent of CMC's taxable margin, which can be calculated in several different ways. It can be calculated by reducing total revenue in accordance with the applicable cost of goods sold, reducing total revenue in accordance with the applicable compensation expense, or 70 percent of total revenues ("What Is the Texas Franchise Tax," October 15, 2018, Paragraph 5). Other states, including Illinois and California, also levy a franchise tax, but each state determines this tax based on different standards ("Franchise Tax," November 1, 2022, Paragraph 5). Though the franchise tax can end up being a significant expense, CMC remains in a better position when looking from a tax perspective than they would be if they were headquartered in another location with greater tax requirements. Because they are able to have lower taxes compared to companies in other areas, CMC can keep more of their profits.

Tax Strategy Recommendations

To lower its tax burden, CMC should focus on lowering its net income by increasing its expenses. However, so that the core business and profitability of the company, these expenses should stem from transactions that provide future value. Also, these new expenses should only be incurred to help CMC on its mission to produce the highest quality metals with the lowest cost and energy usage. Therefore, CMC should focus on divesting from its less efficient machinery. Because of the newfound emphasis on carbon emissions at every stage of the supply chain due to Environment, Social, and Governance (ESG) investing, CMC's oldest and most energy-intensive equipment will likely be worth less than its book value. So, CMC could offload this unsustainable equipment incurring a loss, which would lower its net income. Also, selling the less efficient and more costly equipment would lower CMC's future operating costs over time, helping the company's bottom line, while causing little tax effects each year. With the proceeds from the sales of old equipment, CMC could invest in new, energy-efficient equipment, which would have lower operating costs over the term. Also, investing in environmentally friendly machinery would allow CMC to boost its ESG score by reducing its emissions throughout the supply chain. Moreover, there would be substantial tax benefits to investing in new, expensive equipment. Because the equipment would be valuable and would not be depreciated, it would have a high book value. With a high book value, CMC would be able to incur significant depreciation expenses on the new equipment. Specifically, CMC could use Bonus Depreciation in eligible states such as Tennessee in the United States and use Double-Declining Depreciation in ineligible states and countries around the world ("Depreciation Deductions (State Tax)", Paragraph 1, "Tennessee Statute ¶10-670, Additions--Depreciation", 2022). Overall, divesting from outdated and energy-intensive equipment to invest in new, environmentally friendly machinery would allow CMC to improve its ESG score and lower its costs, while also lowering its tax burden. CMC should also use Cost Segregation on its large manufacturing facilities. With cost segregation, CMC breaks down the parts of its buildings with long lives of thirty-nine years to small pieces with shorter useful lives like the HVAC or electrical systems. By doing this, CMC can depreciate more per year and reduce its net income, but this will not decrease cash flow. Once this system has been implemented on existing structures, it can be continually used on all subsequent purchases. These tax strategies result in a lower tax burden for CMC.

Numerical Analysis

If CMC were to invest in a new development, they could take advantage of potential NMTCs. If CMC were to implement this strategy, these calculations show what their potential tax reduction could be.

PPE = 1,910,871,000 pre-NMTC credits

NMTC Calculation: 39 percent / 7 years = 5.7 percent

PPE = 1,910,871,000 * 5 percent of new investment * 5.7 percent NMTC = $5,446,000 tax reduction

Using the LIFO method of bookkeeping for external records can help reduce a company's taxable net income. This is an estimate of what CMC's tax reduction could look like if they were to utilize this strategy.

COGS: Current 7,057,085,000

LIFO COGS: 7,057,085,000 * 5 percent increase = $352,854,250 tax reduction

If CMC were to implement double declining depreciation as well as bonus depreciation in applicable state and use cost segregation, the company will substantially increase its depreciation expense and have significant tax savings.

PPE with normal depreciation: 1,910,871,000

PPE with increased depreciation:

1,910,871,000 * 10 percent increase in depreciation expense = <u>$191,087,100 tax reduction</u>

Conclusion

CMC has the opportunity to decrease its taxes through many different avenues. Research and development tax credits are available when you are improving new business components. These credits can only be attained if they meet the qualifications of a four-part test set by the IRS, which they qualify to do so and have been utilizing more and more each year. They have not utilized new market tax credits in the recent past and can plan to utilize them more often, as they invest in low-income communities to combat the poverty cycle and stimulate the economy. Another way they can decrease taxes is if they utilize a LIFO inventory method to increase the cost of goods sold and therefore decrease net income. They are already headquartered in Texas with no corporate income tax even though they still must pay a rather minor franchise tax. They can use an accelerated form of depreciation and cost segregation to increase their depreciation expenses and thus reduce their taxable income. These estimated strategies can potentially accumulate to millions of dollars in reduced taxes as shown in the numerical calculations section above.

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Silicon Valley Bank - Banking Crisis

April 5th, 2023

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Summary:

For this week's case, we looked more deeply into the Silicon Valley Bank (SVB) collapse and how it affected the economy and the future of accounting. I focused a lot on the government's response to this event, and how they could look internally to fix their own financial risks. All accounting firms should put more checks in place to help protect their own business and better all of their clients. Many banks, besides SVB, are currently at a huge risk of collapse. If there were more internal regulations in place, the risk for collapse would be greatly reduced, increasing the financial stability throughout the nation.

What I Learned:

I learned a lot throughout researching for this case. I think it has been interesting to see a current event that is directly affecting my future career path. The potential regulations that are being discussed would have a major impact on my education and career. Even if there are no rules put into place, I would still be much more aware of the impact of any potential mistakes in my work. I think that this crisis is a wake-up call for the entire accounting industry because the auditors should have been able to catch some of the red flags that were in the financial statements for Silicon Valley Bank. The conversations that we had in class were very helpful in creating my own thoughts and opinions on this topic because we were able to hear about different viewpoints on the collapse. Overall, I think that this case was very beneficial because of how current and relevant it is to our future.

Introduction:

Throughout the past few weeks, the Silicon Valley Bank (SVB) collapse has been the center of attention in many different news outlets. This event has caused almost every aspect of the economy and government to be impacted, uncovering many internal issues in the banking and auditing industries. People should take the information that has come from this collapse and look more deeply into their finances and investments.

Response to the Collapse:

Economic Effect

This bank collapse has already created a huge ripple in the economy and will continue to do so. Since the United States is already experiencing a season of inflation, this collapse had an even greater impact on the economy. According to CNN Business, the SVB collapse was the 2nd largest bank collapse in history. SVB was a large bank for a lot of start-up technology companies, but many other business' finances ran through their system. The collapse completely shut down many different industries and personal finances. This had a major impact in the financial stability of many people, companies, and governances.

Monetary Response

Since there was so much money involved in this banking failure, there will have to be a monetary response of some sort to reimburse the investors and companies using SVB. The main reason that SVB failed was because they held $90 billion of its $120 billion bond portfolio in held-to-maturity. This is a major risk factor for banks because they can use the historical interest rate of the bond, rather than change the rates with the daily changes. This is extremely profitable for banks, but if the investor wants to pull their money before the maturity date, many banks will not be able to pay the difference in interest. We discussed how insurance might not be able to cover all the financial loss because it may not cover all of their investments. While this is unfair to the investors and companies that used SVB, there is always a risk involved when buying bonds.

Government Response

The government should take this event as a wake-up call for many different federal regulations. There are currently around 190 banks that could collapse within the next few weeks from the rising interest rates and situations like SVB's. In order to help stop these events from arising in the banking industry, the government could place limits on the changes in rate increases and accept a short period of recession to stop the inflation, instead of continuing to increase the rates and delaying the recession. However, since the world is so politically polarized, the current party does not want to make their economy look "bad" so that they have a better chance at staying in office for the next term. They are more focused on their outward appearance to look good in the mainstream media, rather than fix the nationwide financial issues.

Career Risk:

I think that this event will have an impact on my career, but it won't be as large as people might think. There will be more pressure and a higher standard to uphold regarding audit practices. Even if I don't end up auditing banks, there will still be the same standards for every other industry. KPMG, the accounting firm that audited SVB, has taken a large hit from this bank collapse, and any other accounting firm does not want to get hit with a similar public mistake. I think that many firms will not implement new rules, but they will check their current rules more thoroughly when working through audits.

While there might not be a ton of changes from the company side of my career, I think that I will hold myself to a higher standard. Since learning about the SVB collapse, I have seen how important it is to flag company's risk areas. If the auditors had been able to warn SVB about their high risk in not holding debt securities to maturity, the bank collapse could have been stopped completely or at least minimized the damage. I want to make sure that all the work that I do is of the highest quality. Being able to watch how this event has directly affected my future career field has made me aware of how my actions can greatly impact the financial stability of many people.

Accounting Rule Changes:

Many people may suggest that the accounting industry implement rule changes regarding audit practices to help reduce the risk for another financial crisis like this. Others may argue that the auditors and companies should be more observant and proactive on their own accord without more regulations. I feel like there should be a happy medium between the two extremes. The government should put more regulations in place, at least regarding held-to-maturity debt securities. In William L. Silber's article in the Wall Street Journal, he states, "the government should take the opportunity to change accounting rules so that banks don't take on such careless risk for personal profit." (Silber, paragraph 6) If the government were to implement these regulations, the economic stability of many companies and banks would greatly improve.

Conclusion:

Overall, the Silicon Valley Bank collapse has unveiled a lot of issues within the banking and auditing career fields that could be fixed with a few government regulations. If there were more regulations and rules in place, there would be a much lower chance for financial failure, and inflationary risks would diminish greatly. This historical economic event could be an eye-opening event for many people and their financial safety.

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Signed:

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History of Financial Crises

April 12th, 2023

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Summary:

Throughout this case, I researched more about the history of financial crises and how the government and large banks influenced the path of the economy. There have been several large banks that have been able to manipulate the regulations and rules regarding investments because they have direct relations to the government officials. There has been a constant cycle of corruption because these powerhouses in the financial industry continuously get reinstated to their positions because the leaders pick the positions. There is fraud throughout the industry with no end in sight because the leaders don't want to face the reality of the what the rest of the population has lived with for years due to the banking industries decisions.

What I Learned:

This case has been extremely helpful in opening my eyes to the undermining that takes place in my future career field. Since the current climate of the economy seems to be falling back into a risky financial state, it was interesting to look at the parallels between the current state and the previous financial statuses from periods of financial instability. I think that I have become much more aware of the risks involved with any type of banking because of the materials covered throughout the past few weeks. Looking at current and past financial collapses has shown me how important it is to look deeply into the types of banks you use. You want to be sure that your wealth is protected and will be readily available to you whenever you want it. I think that there needs to be a reset within the financial industry to help stop the corruption from continuing.

Introduction:

Looking into the past of the banking industry throughout financial crises, there is a repetitive cycle of fraud and corruption from government and finance leaders. The top 1% of people have been able to continuously profit off the general public with little to no consequences. There have been financial leaders that have been able to manipulate the entire economy and government to benefit only themselves. The current political state seems to be slipping back into a risky state that could lead to another financial collapse. There has to be a reset within both the financial and governmental climate to help combat the corruption within both of these industries.

Trust in Government and Institutions:

When watching this movie and reading the article, I definitely had a change in opinion regarding government influence within the financial industry. I think that there is too much conflict-of-interest throughout the financial industry. Almost every large, powerful bank in the United States has sway in government regulations. There are corrupt financial leaders that keep moving around power positions in the government and create rules that only benefit the top 1%. These officials keep being reinstated in these leadership positions because they are telling the public that nobody else would understand the work that they are doing. These leaders are trying to keep the general public in the dark about all these decisions that are directly impacting their everyday life.

This manipulation can be clearly seen through Goldman Sachs investment banking. Goldman Sachs is the largest investment bank and has been able to dictate the entire financial industry. They have had a large part in the past five financial bubbles in the United States. They have found a way to profit greatly in a very unstable market. According to Matt Taibbi, the author of “The Great American Bubble Machine,” “Goldman positions itself in the middle of a speculative bubble, selling investments they know are crap.” (Taibbi, paragraph 5) They are able to profit off of this method because they convince the public that these investments are going to make them rich. They sell them at what seems to be a great rate, but Goldman Sachs knows that these investments are worth barely anything. When the investments inevitably fail, all of the investors lose tons of money and then have to take out loans to make up for the loss. Goldman Sachs get to profit off both the investment and the inevitable loan.

Personal and Professional Role:

Since learning more about financial crises, I have had time to reflect on my own personal and professional role in the financial industry. In my own life, I have learned to become more aware of all financial decisions that I am making. Whether it be investments or even just the bank that I use for my checking account, I need to take a much deeper look into the bank’s history, especially during previous periods of financial instability. Honestly, I had not thought much about the bank that I use for my savings and checking accounts. I trusted them to keep my money safe without putting any research into the bank, other than locations that were convenient to me. Now I know to look further into the banks credentials to ensure that they will be safe with my finances.

When looking into my role as a professional, I have realized how important it is to be completely transparent with my clients. I have not had much experience in the accounting field, but there always seems to be a very negative connotation about finances. I think that learning more about how large investment banks have manipulated information to better themselves and hurt their clients has shown me how crucial it is to make sure that people are understanding the decisions that they are making, especially in regards to the their finances.

Parallels to the Current Political Landscape:

Looking at today's political conditions, there are parallels between now and previous financial bubbles. The current financial industry has the same sway in the government that has contributed to the past few financial crises. There are too many connections throughout the financial and government industries that has led to the top 1% of society earning tons of money from the downfall of the rest of the public. Since the 2008 recession, the government has tried to implement rules to help stop future financial collapses. However, the same people are still in power that were profiting throughout the bubble. There have been no major moves to punish or check the banks that committed fraud throughout the early 2000's leading up to the great recession. If there were consequences now put into place, there would be no future correction because the banks would pay the fine just to fix the monetary issue, but not actually fix the fraud. There needs to be a reset in the political landscape to help get rid of the bias and sway within the financial industry.

Conclusion:

Throughout almost every financial period of instability, there is an influence from a major bank. While the rest of the population is in a financial crisis, these bankers have found themselves thriving off of the detriment of others. There needs to be a system of checks set in place to ensure that banks and financial leaders cannot capitalize off of the financial loss of the vast majority of the public.

The Honors Code:

"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this assignment."

Signed: Julie Mabrey

Julie Mabrey ____

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