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Navigating the Modern Accounting Landscape: ESG, Audit Risks, and Tax Planning

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NAVIGATING THE MODERN ACCOUNTING LANDSCAPE: ESG, AUDIT RISKS, AND TAX PLANNING

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

Navigating the Modern Accounting Landscape: ESG, Audit Risks, and Tax Planning

This thesis contains a collection of case studies completed while completing the ACCY 420 course in the 2022-2023 academic year. These cases cover a wide variety of topics, including but not limited to Environmental Social Governance (ESG), audit risks, and tax planning. Other studies included examining current events, such as the collapse of the Silicon Valley Bank and the derailment of a Norfolk Southern freight train. These studies consisted of individual and group work, in order for substantial evidence to be obtained. Case 1 through Case 5 focuses on the analysis of Cadence Bank and their respective financials. A group of five of us, all members of the Sally McDonnell Barksdale Honors College, completed an extensive study of the bank, examining their financial health and initiatives. We also identified areas of risk in audit and cybersecurity for the company, offering potential solutions. All of these studies regarding Cadence Bank accumulated into case presentations to over 50 business professionals from an array of firms. The remainder of the cases were independent from each other, allowing us to observe a wide range of subjects. The cases all together allowed me to apply accounting concepts to what was happening in the world. Through it all, I was able to gain experience examining financial performance and issues that directly impact companies.

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Case One: Operational Risk Assignment

By: Bruce Buehler, Miles McCuller, Stone Tosh, Josie Butler, and Rachel James

14 September 2022

This week's "Operational Risk Assignment" consisted of researching the aspects of structure, operational risk, and the biggest threats to success for our company, Cadence Bank. As a group, we all used different search engines to collect data to ensure our data was found from several different perspectives. Our most significant finding was that Cadence Bank recently underwent a merger with BancorpSouth in the fall of 2021. Cadence Bank merged into BancorpSouth, with BancorpSouth being the surviving company. At the completion of the merger, BancorpSouth was renamed "Cadence Bank" and is now publicly traded under the name "CADE" on the New York Stock Exchange (Seid). The year following a merger is critical to determining how the company will operate for years to come as there are several issues to overcome. Both new and old locations must adjust to a new ownership structure and make personal connections with clients that have been banking with what previously BancorpSouth for years. Through researching to understand the organizational structure of Cadence Bank, we were able to identify the new locations of Cadence Bank, as well as examine the services they have been providing to customers since 2009. Cadence Bank is located primarily in Texas as well as the bordering southern states. The location of Cadence Bank is extremely important due to the fact that it determines the clients they are able to reach and how local issues, such as the oil industry in Texas, affect Cadence Bank specifically. As the economic environment changes with financial, social, and environmental issues spreading around the globe, we investigated how these potential risks could creep up on Cadence Bank in the near future. Social issues are forming all over the world, and are beginning to pop up in the United States. Cadence Bank is certainly threatened by these social issues, due to the fact that they are working with customers that have ever-changing opinions, as well as new customers resulting from the merger. Economic changes that are constantly influencing banks include inflation, volatile interest rates, and the effect energy prices have on banks' ability to help their customers. Currently, the United States is suffering from sky high inflation, which affects everyone in the country. This also affects Cadence Bank because they are lending to both companies and individuals suffering from the economic state of America. Cadence Bank will be working in the coming years to grow from the merger and to adapt to all of the social, economic, and internal issues impacting the banking industry.

Section 1: Organizational Structure

Cadence Bank has a somewhat wide organizational structure, with Chairman and Chief Executive Officer James D. Rollins III at the top. The company has seven subsidiaries that provide a variety of services. These subsidiaries are all banking-related and located throughout the Southeast. They have helped Cadence grow its name and expand into many different sectors.

Linscomb & Williams Inc. was one of the first subsidiaries acquired by Cadence in 2012. Headquartered in Houston, Texas, Linscomb & Williams is a financial advisory firm that provides financial planning through managing customers' investment portfolios. They also offer investment management and retirement plan consulting.

BXS Insurance, formally known as BancorpSouth Insurance Services, is another subsidiary and is located in Tupelo, Mississippi. They offer many kinds of insurance from commercial to personal lines. As of March 1, BXS is combining with another Cadence subsidiary, Altera Payroll and Insurance.

Altera Payroll and Insurance provides employee health insurance and other services such as payroll and human resources. Based in Macon, Georgia, Altera now merged with BXS Insurance.

A Starkville, Mississippi-based subsidiary, Cadence Investment Services, Inc, focuses on the financial sector. They provide financial planning, investment, and insurance products and services.

The remaining three subsidiaries Cadence Holdings, Inc, Cadence Community Capital, LLC, and Cadence Investor, LLC resides in Tupelo, MS in Cadence's headquarters. They each provide unique services that complement Cadence Bank.

Section 2: Potential Risks

Inflation Summary:

There are a magnitude of risks that Cadence Bank has to face on a daily basis. The first one of these risks is inflation. In the United States, inflation is high and still rising. This affects every customer and potential customer due to the fact that everyone is spending more money at the grocery store and at the gas pump. This also affects large corporations that are borrowing from Cadence Bank. Therefore, inflation benefits the borrowers from our bank in a sense that they are paying the bank back with a dollar that is worth less than it was at the time of borrowing (Big Sky Associates). However, today's inflation rise coincides with a higher demand for credit.

Banks can profit on the rising interest rates with a higher demand for credit and the rising interest rates. The customers that banks are lending to are being forced to pay higher interest rates than in the past, which means Cadence Bank is receiving more money in interest revenue.

Interest Rates Summary:

Interest rates and bank profitability are directly correlated as banks benefit from the higher the interest rates. This also ties back to inflation and how the rising inflation is related to rise in interest rates. Customers take out loans from banks and with a higher average interest rate on loans, the banks make more profit than if they were distributing loans with lower interest rates (US Risk). The higher interest rates allow the banks to be paid back a higher rate of return on the money that they are lending out. Furthermore, banks do not have to raise the deposit interest rate, which is when individuals decide to store money in the form of saving or checking accounts with Cadence Bank. Thus, Cadence Bank is able to profit off of the difference between the rising interest rates on loans given out, and the stagnant rate of deposit. However, Cadence Bank can run into a problem if the interest rate rises too high. When the interest rate is too high, the demand for new loans from borrowers can decrease and hurt the bank's profitability. Many customers are not willing to pay outrageous interest rates and will wait until they see a decrease in interest rates to borrow money. The challenge that Cadence has to overcome is finding the happy medium that entices customers to take loans at high interest rates, but does not scare borrowers away from interest rates that are too costly.

Energy Prices Summary:

There have been considerations in the United Kingdom about passing a “Freeze Bill” that will stall the rise in energy and gas prices (MSN). If true, this bill could potentially be adopted by the United States as well. In the short-term, this will prevent the rise of inflation as it relates to energy and gas. This will benefit Cadence Bank due to their customers in the gas industry in Texas. However, if the energy and gas issues are not solved by the time the bill has expired, the long-term effects will be more inflation and uncertainty surrounding gas prices. In general, the rise of energy and gas prices are prolonging inflation in the United States since most individuals use both gas and electricity. The energy and gas industry is also being threatened by the industrialization of electric powered vehicles. This could be a positive for Cadence Bank, as electric vehicle companies will have to be financed through borrowing (Slav). Renewable energy is trending upwards in the United States and Cadence Bank has a great opportunity to find customers that are willing to borrow for start-up reasons.

Supply Chain Summary:

The supply chain crisis is hurting businesses all over the world, and the banking industry is no exception. Companies are having trouble with their product arriving in the timely manner that has become so valued due to companies like Amazon. These delays in the supply chain cause businesses to struggle filling orders, as they don’t know when their next shipment is coming in. As a result, supply chain bottlenecks are tighter than ever and are impacting banks, as the companies have reconsidered how they are going to finance their operations. When companies fail to make their orders, they are not receiving the cash to pay back their outstanding loans from the bank. Many companies are shying away from taking out large loans due to the uncertainty of when they will be able to make payments back to the bank. This problem could increase Cadence Bank's outstanding loan balances and decrease their collections, which would include interest revenue and general account fees.

Political Climate Summary:

With elections right around the corner in the United States, some individuals might be hesitant to take loans with potential changes in taxes and interest rates on the horizon. Political uncertainty has taken over the United States, which is most certainly factored into the decisions of customers. All politicians running for elected positions have financial plans and priorities on how to address the economic state of America. As stated earlier, many politicians are taking a proactive stance on climate change and supporting the transitions from fossil fuels to renewable energy. This will certainly affect Cadence Bank because there are going to new industries forming as well as old industries that are slowing down. The Federal Reserve is also in a state of uncertainty. They have been working tirelessly to address the current inflation and sky high interest rates. One of the new proposals of the Federal Reserve has been to pass the "Inflation Reduction Act," which will set a 15 percent minimum tax rate on corporations that earn more than 1 billion dollars in revenue. This increased tax rate on large corporations will help lower the national tax debt on less profitable companies and individuals. This benefits Cadence Bank, because their borrowers will be dealing with a lowered tax rate and may see an opportunity to grow through debt.

Global Unrest Summary:

The ongoing conflict with Ukraine and Russia has had a significant impact on the prices of oil and gas across the world. The United States has seen record gas prices and the population has had to spend more than in recent years. With the cost of living increasing, Americans have less leftover cash to open accounts at the bank, as they are struggling to just get by. As a result some banks are making the decision to stop doing business with Russia or businesses run in Russia. This may not apply directly to Cadence Bank, but could affect the clients Cadence Bank is lending to that have operations out of Russia.

BlockChain Summary:

The BlockChain is a relatively new concept that is a digital database where money can be stored. Common examples of the BlockChain include Etherum and Bitcoin. These new investment tools pose a massive threat to banks, as more risky investors are going to seek out higher rates of returns through investments such as Bitcoin. Since the concept is so new some investors are scared of the riskiness of these investments; however, the growth of BlockChain in the future could become the main competitor for banks across America.

<u>**Section 3: Threat to Success**</u>

The most severe threat to the success of Cadence Bank would be adjusting to the merger. Although the merging of BancorpSouth and Cadence Bank allows for a greater scale of operations, more capital, and a wider client base, there are major social, economic, and internal business dangers that can prove to be a threat to the success of the merged bank.

Social Dangers of the Merger:

Customers are the most important part of any business, as the success of the company depends on the customers' interactions and satisfaction with the business and its employees. Banks are extremely reliant on good relationships with their clients, since this bondage allows for better loan terms and interest rates during a transaction. With smaller banks, customers can react emotionally to a merger with another large-scale bank, like BancorpSouth. Customer perception of the company is important, so maintaining good communication with customers is vital. Considering how the customer is impacted throughout every stage of the merger is important to maintain a positive relationship, especially if services and technology platforms change. If the customer is not considered with the highest degree of concern during a merger, Cadence Bank could lose trust in their customer base, along with a loss of accounts, which leads to a loss in revenue.

Management's Defense - Social:

The bank can help prevent losing customers from the merger by making the transition for the customer seamless. It is also a good idea for the bank to try and connect with their customers more personally. Many of the current customers picked a local bank because of the customer service and personal connection they receive. So, continuing to put the customer's first and maintaining all the services from the prior bank will help maintain customers.

Internal Dangers of the Merger:

When it comes to internal execution risk within the merger, executives may not put enough effort into merging the two bank platforms together. Cadence and Bancorp South both had their own structure of day to day operations. With the merger, the two banks have to get on the same system and wavelength of how to conduct their business. Some executives and employees might have problems with adjusting to the changes that the merger brings, and any inconsistencies that are avoided can lead to faulty execution of services, along with employee dissatisfaction or confusion, leading to an inefficient work environment. Also, when two companies combine, it is likely that they have different cultures, both in the workplace and within their client base. This culture clash results in employees with different beliefs, expectations, and ways of doing things. If Cadence Bank does not align the goals of the merging companies, varying management practices, ethics, and cultural values may clash significantly.

Management's Defense - Internal:

To make sure the merger goes well internally, everyone needs to be on the same page. Communication is the best way to make sure this happens. Make sure everyone is aware of the new goals and the changes to the structure. Let the employees know how day-to-day operations are going to change and help them make the transition as seamlessly as possible. By addressing all of the new guidelines and business protocol within the workplace, not only will Cadence's employees feel more secure and equipped, but the result of proper execution within the company will lead to a better external outcome and greater success with client transactions.

Economic Dangers of the Merger:

Combining two companies means taking on more clients in the form of giving out more loans. The combination of taking on more business with the cost of living in America going up presents an opportunity to take on new business. Yet, quickly taking on large amounts of new clients can cause short-term liquidity problems. Most companies will also be suffering from the inflation and current economic conditions, making their ability to pay back loans less likely. With the majority of operations in Texas and the bordering states, the uncertainty of the oil industry could affect the bank's clients as well.

Management’s Defense - Economic:

The bank can defend against economic threats by taking care of the merged customers first. The merger means that Cadence took on new customers that already had outstanding loans, so they should be dealt with first. Secondly, the bank should be careful about taking on too much new business, and take on very reliable clients. The opportunity to grow really fast can seem very appealing, but taking on too much at once can be dangerous.

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Case Two: ESG and Cybersecurity Risk Assessment Case

By: Bruce Buehler, Miles McCuller, Stone Tosh, Josie Butler, and Rachel James

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This week's case consisted of assessing the risk associated with cybersecurity and ESG, which stands for environmental, social, and corporate governance. ESG has become a prevalent framework for businesses, as it allows for organizations to strategize how to implement responsibility within the company's framework. ESG's growth has also placed more emphasis on the focus of long-term value, strategic thinking, and anticipating future opportunities and risks. ESG ratings serve as a tool for investors to identify the potential risks that a company may have, including the ability to identify the level of ethical and sustainable impact a company has on the world (Investopedia). ESG ratings and how investors respond to them has had a great effect on stock prices, a company's market presence, operational output, and overall reputation (Simply Sustainably). Cybersecurity is used by organizations in order to protect their networks and systems from any sort of digital attack. Cyber attacks have become much more frequent due to the increase in technology, and lately companies have sectioned a large portion of their budget to fighting cyber attacks. Globally, cybersecurity has become an extremely important topic, since identity theft, intellectual property, governmental information systems, and so much more have been at risk of being accessed illegally. Cadence Bank has an intense focus on both ESG and cybersecurity risk, due to the need for protecting crucial data and their customers' private financial information, along with understanding their impact on the environment in association with their lending and investment portfolios. Cadence Bank has strived to reveal their approach to dealing with cyber security risk, as well as constantly improving their ESG practices within the company, towards their customers, and the environment. In completing this case, we learned a lot about how a business can be impacted not only by financial risks, but also through maintaining sustainability and how the world not only judges their ESG practices but also the protection of their cyber assets and information. We also gained the skills of researching how

Cadence Bank approaches these risks through their marketing strategies, in order to prove to their customers that they are striving to protect their customers and the environment. Through assessing the ways in which Cadence Bank deals with such risk, we now have a better understanding of how the bank protects itself and its customers, which is vital to assess the overall framework of Cadence.

I. Environmental, Social and Governance (ESG)

Increasing interest in the disclosure of ESG brings about plenty of opportunities for the public accounting profession. Many firms have begun to take advantage of the opportunity to make money in this new sector by starting to offer ESG assurance services. The reporting of ESG is still relatively new and not required at this time. Therefore, accountants take the lead in helping companies disclose their ESG information or making their current disclosures more thorough. Accountants also have the opportunity to help their clients understand how ESG impacts their financial risks. These services would meet the public interest but also come with risks. The main risk is being liable for reporting accurate information. This could be tough as reporting ESG is new to the accounting industry. There are also no set regulations at this time, making it hard to know how to measure it. In the long run, the opportunities ESG reporting provides the accounting industry will outweigh the risks.

The main challenge in reporting ESG is that there are no standards or structure for how to report it to date. There are over 600 different reporting standards that companies are using today. Companies often combine these frameworks, which makes their scores hard to compare to other companies. The International Sustainability Standards Board is currently working on setting globally aligned standards that will make results more consistent and comparable. There are also some risks companies are faced with when reporting their ESG numbers. There is pressure on them to have a good ESG score so that the company has a good reputation. A good reputation and good score will make investors more likely to invest in the company. To meet these goals managers might be inclined to report bad information, especially if they receive compensation for a good score.

The World Economic Forum is a good source that provides articles written by various authors that sometimes have different views. All in all, the forum has taken the lead in favor of ESG but knows it needs to evolve to be successful. There are too many different standards that are being used today for it to be useful to investors. All of the standards need to align if ESG reporting is going to continue to make an impact, especially when it comes to comparability amongst companies. The World Economic Forum has taken front-line leadership when it comes to regulating ESG. American companies such as Blackrock and Vanguard have also worked to educate the public on what ESG is and how it impacts everyone. Vanguard has published articles on how to use ESG investing and how to identify the risk of ESG portfolios. They have also created several ETF portfolios that give investors options when it comes to ESG. Overall, the World Economic Forum's role in regulating ESG reporting is promising thus far, with other large corporations beginning to follow in their footsteps (World Economic Forum).

Cadence Bank has taken significant initiative in improving both their ESG score and disclosures. Their ESG framework is "built around our mission to provide relationship-focused financial services in a manner that: exceeds the expectations of our customers, supports the betterment of our communities, instills pride and passion in our teammates, and delivers value to our shareholders" (Cadence Bank). A major focus of Cadence has been their community engagement. In 2021, they contributed $5.7 million to charitable organizations across their footprint. Another focus has been their paper use and recycling. "Recycling efforts resulted in

1.75 million pounds, or 874 tons, of paper shredded and recycled" (Cadence Bank). Cadence can continue to improve their ESG by improving their lending portfolios and being more supportive of sustainable projects. There is a risk when it comes to who the bank is lending money to and the purpose of the loan. Cadence will need to be thorough in their credit evaluation process, as there are now more factors than ever when it comes to receiving a loan.

Although current regulations do not have much of an impact on Cadence, future regulations are bound to. Future regulations are likely to include how ESG should be reported, which will likely differ from how Cadence does it currently. Their latest reports seem to express all the positive initiatives that they take to improve their ESG. We do not learn about the negatives nor do we know a consistent and comparable score. As regulations start to form, we will get a better understanding of Cadence's ESG. Future regulations will have a critical impact on all financial institutions including Cadence Bank. Cadence Bank itself will be operating through lending, but also real estate. Cadence's environmental footprint in real estate will need to be healthy to maintain investors and multiple streams of revenue. As far as lending is concerned, future ESG regulations will shape how creditors are viewed. Eventually, individuals will get their own ESG scores, which could be factored in the credit process. Cadence will also have to evaluate the ESG performance of the companies they lend to, which could lead to the loss of some current customers and opportunities for new ones. For example, the oil and gas industry is a large component of Cadence's lending strategy. The oil and gas industry will struggle with ESG reputation and Cadence will have some evaluating to do. On the other hand, a shift to renewable resources and electric energy is aligned with the rise of ESG. This could be a major opportunity for Cadence Bank to take on new business.

II. The Impact of Cybersecurity

As our world becomes more technologically based, businesses are having to adjust to the online lifestyle inorder to keep up with the times. As businesses and industries adjust to the online times, criminals are also adjusting on how they are able to obtain data and steal information. Banks are one of the biggest targets for cyber criminals as they are the institutions that hold and are responsible for our finances. The New York Federal Reserve reports that financial institutions experience cyber attacks 300 times more than other industries (Duncan)**.** When banks and their systems are compromised, large amounts of money are at risk, along with the personal information and data of all their customers. The entire economy can be disrupted if a large bank organization is breached by cyber criminals. As a result of the large volume of attacks, banks are having to allocate more money to invest in their cyber security division. The American Bankers Association expresses that “eight out of 10 bank board members and executives that it surveyed said their bank had increased its tech budget in 2022 to invest in cyber security” (Newsbytes Technology). With the increase in funds towards cyber security, banks are more likely to be prepared for any future attacks that can disrupt the economy. Banks are required to report any of these attacks that affect the stability of the United States financial system. To counter these scams Cadence bank offers instruction and guidance on their website on what to look out for and what to expect from potential attacks. Cadence bank in particular has made an emphasis on phishing scams that customers may encounter. A phishing scam is an online scam that tricks the customers by acting as a reputable source into providing personal information. When criminals access this information, they are potentially able to access a customer’s account.

Cybercrime can take on many different forms, so there are a multitude of different types of people who would participate in these activities. There are over 1 million potential cyber attacks that are attempted per day (Norwich university online)**.** These attacks are divided amongst people and organizations that all have different intentions. Identity thieves try to gain access to their victims personal information such as their social security number and bank account. By impersonating their victims, these criminals can make financial transactions with their information. Identity theft has been a successful form of cyber crime as “approximately $112 billion has been stolen by identity thieves over the past six years” (Norwich university online). Internet stalkers are another form of cyber criminals as they are people who monitor online activities of victims in order to terrorize and aquire their personal information. These stalkers can use their gathered information for bribery, slander, causing emotional distress, and blackmail. Phishing scammers are people who try to obtain sensitive information by creating websites that are copycats of corporate, government, and small-business websites. Unsuspecting internet users can unknowingly fall in the trap of providing personal information to the scamming websites that will use their information for identity fraud or to sell on the dark web. Cyber Terrorists are another type of criminal who have politically inspired attacks in order to corrupt government or corporate networks and systems. These attacks can be extremely harmful for countries, individuals, organizations, and businesses. This criminal act is not to seek financial gain like the other crimes, but rather to cause chaos and disrupt the flow of that organization.

Potential risks for Cadence Bank with respect to business interruption, security of financial assets, and data privacy all tie back to the fact that banking is primarily digital. Digitized banking exposes customers more to fraud and getting their money taken, which comes back onto the bank. Data privacy such as account numbers, card information, and even personal information is less safe than ever. Moving forward, the biggest risk for Cadence Bank is not just protecting its customers against fraud. Cadence Bank needs to stay ahead of the curve and continue to invest in their cybersecurity when it comes to online banking. Fraud against customers affects both the customer and Cadence negatively in several different ways. Firstly, Cadence's reputation is hurt due to the fact that the fraud happened to a customer that entrusted Cadence with their money. Secondly, business operations will slow for a few days as the technical team works to establish a fix for the incident.

When a bank is breached it costs an average of 4.2 million dollars in lost assets and cost to get back all of the information. As a result, financial institutions plan to increase their IT budget on security by 20 percent to 30 percent this year. Bank of America’s CEO stated that they spend over $1 billion yearly on cybersecurity already. This expense is necessary as banks are so heavily targeted. Cadence bank takes action against these crimes in ways besides spending more money on their cyber security efforts. Cadence has clients of large businesses down to individual people that they are liable for keeping their data safe. Since 2017, Cadence has instructed their employees and customers about sophisticated scams and how to report them on their own website. On Cadence's official website they offer outlets and guidelines for businesses to be informed on how to protect themselves against potential cyber threats. They highlight the questions that each business needs to ask about their internal affairs on how to keep their client's businesses safe. By exposing their clients ways to better their own cybersecurity they are able to better protect the assets that are trusted to them. Cadence also works with an organization called Phishlabs to fight against cybertheft. Phishlabs is an organization that detects attacks and shuts down phishing sites that can be used to trick customers into giving up their personal information. Phishlabs also reports the criminals involved in the attempted scam to try and knock them off the streets.

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Signatures

The Honor Code:
"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case."
Signed Miles McCullen

The Honor Code:
"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case."
Signed Rachel Adams

The Honor Code:
"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case."
Signed [illegible]

The Honor Code:
"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case."
Signed [illegible]

The Honor Code:
"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case."
Signed Bruce Budler

Case Three: Audit and Risk Planning Case

By: Bruce Buehler, Miles McCuller, Stone Tosh, Josie Butler, and Rachel James

12 October 2022

This week's case consisted of assessing some of the riskiest accounts on Cadence Bank's financial statements. These risky accounts are accounts that both investors and creditors would be keying on, meaning the misstatement of these accounts would cause major issues. In some instances, these risky accounts make up over half of the overall assets or liabilities. These large balances of loans and deposits are critical in assessing the bank's financial health, both short and long-term. The misstatement of the accounts we selected would lead to issues with current ratios, revenues, income, and other liquidity ratios that creditors would analyze before doing business with Cadence. Through research and analysis of Cadence's financial statements, we were able to learn more about the bank's internal control system to ensure the accuracy of the accounts on the 10-K. Internal controls are especially important in banks, due to the fact that individuals are passing material amounts of money through one another into the banking system. Obviously, online banking has become the new normal as almost every bank, including Cadence, is offering digital banking. Online banking is only as safe and accurate as the software that Cadence has implemented to handle these online transactions. Cadence Bank's new technology puts them ahead of the competition when it comes to online banking. This new technology has become a central part of Cadence's operations and thus needs internal controls applied to it as well, so that risk can be avoided as much as possible. Cadence strives to protect its customers through accessibility internal controls to the online banking system, ensuring customers' money is safe, and that the company can successfully continue to provide safe, honest, and reliable service to their customers. Through our research, it became clear that audit and risk planning for a business is one of the most important aspects of ensuring operations run smoothly and efficiently.

After reviewing and discussing Cadence Bank's 10k we decided that one of the riskiest accounts is Net Loans and Leases (Cadence Bank Investor Relations). This account includes all the money the bank is lending to its customers. It significantly impacts the company's revenues and should be less than the Total Deposits account. If incorrectly reported, the company's liquidity will be falsely represented. Liquidity is vital in determining a bank's health and longevity. Correctly reporting a company's Net Leases and Loans is key to knowing how a company is doing.

One internal control that can help mitigate the risk associated with this account is proper authorization. Proper Authorization ensures that all transactions are valid and follow the guidelines put in place by the company. It ensures that the correct employee has the power to complete the task (OCC). This practice is important for accounting for net loans and leases because the loan needs to be legitimate and properly distributed. The amount loaned and the interest rate applied should adhere to the company's typical practices. If too much money is loaned to the wrong person or an unreasonable interest rate is applied, the account will not be as accurate.

Another internal control that can help with the risks related to Net Loans and Leases is independent checks. Independent checks are when an employee who did not work on the task reviews another employee's work. This process helps ensure that the information is reliable and correct. Using independent checks for loans helps make sure that the loan terms are reviewed by other people, maintaining a system of checks and balances. It ensures that the correct amount and interest rates are applied and recorded. Independent checks help prevent errors with almost all accounts of a company.

To ensure that the Net Loans and Leases account is not miscalculated, the auditor can perform some substantive tests. The main objective of the tests is to ensure that the number and value of the loans distributed are correct. To check this, an auditor can review the loan paperwork and invoices to verify the details. Also, the auditor could reach out to some of the bigger borrowers and verify how much they owe. It is also important to make sure the dates on the invoices are correct and still valid.

Automated Robotic Processes can provide much value to the banking industry. As it relates to Loans, it can help speed up the loan process significantly. If loans are able to be acquired quicker, then the bank can serve more customers in a shorter time period. This adjustment can contribute to increased revenues and income. In terms of auditing, Automated Robotic Processes would take away human reporting errors, while saving auditors time. The Robots would contain all the necessary loan data and information that has to be reported. This data would have a much better chance of being correct than if a human auditor did all the work manually.

When it comes to Cadence Bank’s liabilities, demand deposits make up over 75 percent of the overall liabilities for Cadence. These demand deposits consist of both interest and non-interest bearing deposits that customers are storing in the form of accounts at Cadence Bank. Deposits are key to the bank's central operations, as they take money in the form of deposits and then lend that money, profiting off of the marginal difference in rates they are charging the customer and the borrower. Thus, demand deposits would be a line item that investors and creditors are certainly interested in as it gives them insight into Cadence's largest current obligations. For these reasons, it is critical that demand deposits are stated correctly on the balance sheet.

The most common internal control for deposits is segregation of duties. Different people are responsible for each step of the deposit process when it comes to a customer depositing money at Cadence. Firstly, a bank teller will directly communicate with the customer and receive the money to be deposited in an account. Another individual working behind the desk will take the check and authorize the transaction into the account. Lastly, there will be another individual who is responsible for the record keeping of these deposits. Today, technology has revolutionized this deposit process. Technology takes the transaction and authorizes it through the bank's database into the account of the customer. Most banks are offering online or mobile deposits of checks, where technology is running the accounting information and updating the account once it has confirmed proper authorization. These two internal controls of segregation of duties and proper authorization by technology are critical to the accuracy of the deposit balance.

Substantive tests are another check auditors can do to make sure that deposits are correctly stated on the balance sheet. Today's technology has allowed banks to enter the checks into their computer system as opposed to the traditional method of keeping paper checks on hand. Auditors can run tests by pulling samples of bank statements and reconciling them with the bank's book balance of deposits. Auditors could also run a substantive test simply by viewing the internal control system when it comes to deposits to ensure that Cadence is correctly handling checks.

Automated Robotic Processes have become a feature that most banks have shifted towards. Technology can handle deposits much quicker and more accurately than the traditional manual method of entering checks into the system. The computer software systems used by Cadence are very new as a result of the merger with BancorpSouth. These systems allow customers to mobile deposit, which leads to more accurate, safer entries into the accounts.

Simple automated robotic processes like mobile depositing allow for more accurate information and reconciliation when it comes to auditing the bank. Cadence's auditor could use Cadence's mobile deposit computer software history to reconcile the overall deposit balance with the bank's book balance. Overall, technology has changed banking as customers can deposit into their account and view their account in a matter of seconds. Now, it is up to Cadence to stay ahead of its competitors and provide top-notch technology to its customers that is safe and accurate.

Lastly, a third account of Cadence Bank that is extremely important to assess for risk is the Interest Revenue - Loans and Leases Account. This account, which appears on the income statement, shows the revenue earned on interest and fees that banks earn on the loans and leases they give out to customers. Interest revenue is a top source of revenue for banks, so it is imperative to have clear and accurate data presented. Since America has entered a recession period, Cadence should be watching this account especially carefully and they must be able to compare it to the past values that account for the merger with BancorpSouth. Cadence must also implement strong internal controls to ensure security and verifiability from current customers to potential investors.

In order to avoid the risk of misstating the Interest Revenue - Loans and Leases account, a critical control used by Cadence would be the adequate documents and records control, which assures that a company's financial statements are accurate. By having documents of transactions available for management to review, appropriate authorization can be achieved. This control allows Cadence to have evidence that the recorded interest revenue and functions used to report these numbers in their financial reports are correct and properly calculated. Having adequate documents is extremely important, thus these records must be well-designed, so that they are understandable, neatly formatted, and efficient for tracking and identifying the revenue made from loans and leases. Overall, if Cadence places an importance on keeping organized, accurate records of their transactions, there is a lower chance of facing risk and misstatement on their income statement, especially with the Interest Revenue - Loans and Leases account.

Another critical control that can be enforced to avoid risk with the Interest Revenue account would be the use of proper authorization. By enforcing this control, the report of invalid transactions can be prevented. Since authorization includes recording, approving, and reconciling, the submission and reporting process can be assessed, and approval before and after the stages of reporting can be reviewed for accurateness (Authorization | Financial Reporting). Proper authorization allows for a proactive approach to effectively checking Cadence's interest revenue, since this control aims towards preventing invalid transactions from occurring in the first place. If Cadence creates policies that reveal which employees are able to review, submit, and initiate certain transactions, employees will have a proper accountability and expectation to authorize different transactions. Especially when it comes to the Interest Revenue account, having proper approval by specific individuals of authority of Cadence's earnings from giving out loans and leases means that the correct guidelines were followed, and the transactions have been reviewed and checked before they can be processed or paid.

When it comes to the Interest Revenue - Loans and Leases account, auditors can implement substantive tests to gather accounting information to ensure numbers are not being misstated. Through a test of details, an auditor can check Cadence's "balances, disclosures, and underlying transactions associated with a client's financial statements" (Accounting Tools). The test of details is an auditor's primary response to assessing misstatement, so using this substantive analytical procedure is well-suited for the interest income account. Since this account associated with loans and leases tends to be less fluctuating compared to other accounts, auditors can test for misstatement by comparing monthly balances, along with calculating the correct value of interest income by assessing the deposit amount, Cadence's interest rates, and their coverage period. The auditor will confirm Cadence's interest income assertion by reviewing documents that support their transactions, along with checking for completeness and accuracy. The test of details is vital for both the auditor and Cadence Bank, to ensure that not only interest revenue, but all of the other accounts on the financial statement are accurate.

One form of data analytics that can be used to streamline the process of interest revenues in loans and leases is data visualization. Data visualization allows data to be expressed in a graphical or picture representation instead of being expressed in numerical form (Manogyaramasharma). It can be used by Cadence Bank to separate all the loans and leases into different visuals that are based on the timeliness of their interest rates and the loans. Banks make a great portion of their earnings off interest revenues from their loans and leases, so it is important to understand and see their data from every angle. These graphs help to depict this information in a manner that allows people who are not familiar with the information to more accurately understand it. By expressing their numerical data into graphs, it becomes easier to identify patterns and trends within the data. Data visualization enables Cadence to identify risks that they may be taking and opportunities of improvement based on their visuals.

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Signatures

The Honor Code:
"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case."
Signed Rachel A [illegible]

The Honor Code:
"On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this case."
Signed John [illegible]

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Signed [illegible]

Case Four: Tax Planning Case

3 November 2022

By: Bruce Buehler, Miles McCuller, Stone Tosh, Josie Butler, and Rachel James

Summary Page

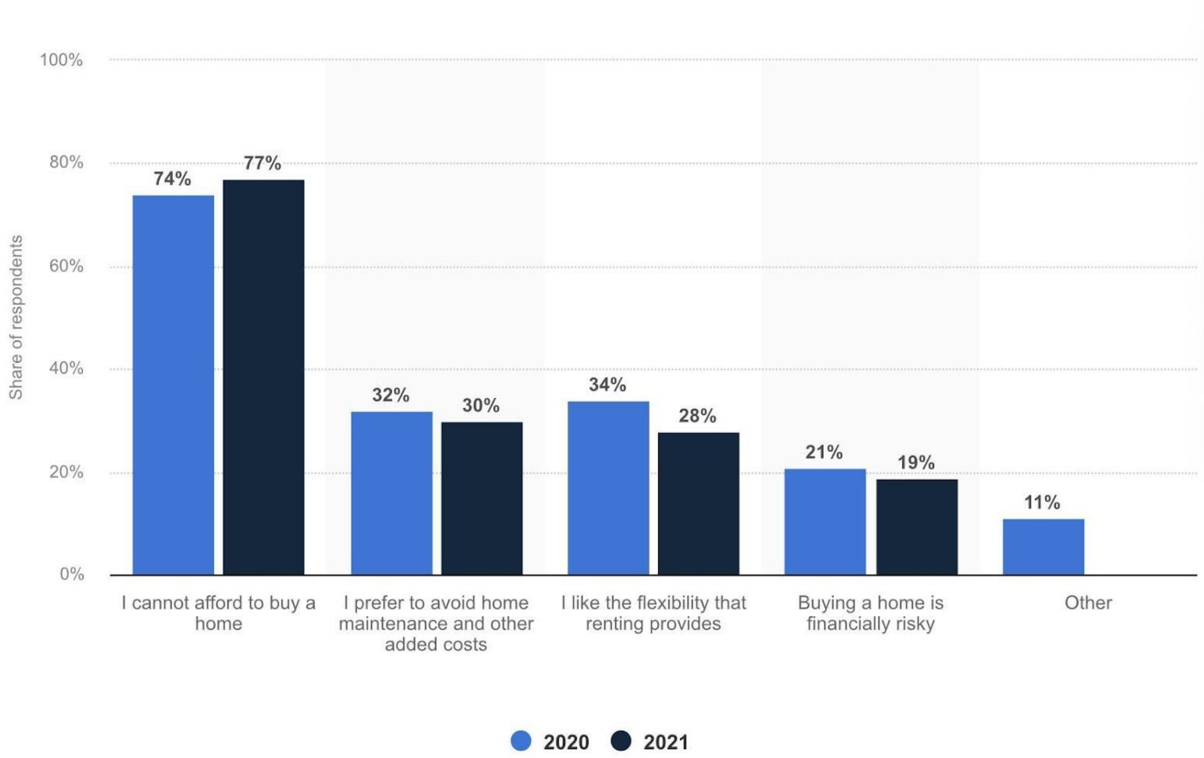
During this week's tax planning assignment, we learned the importance of tax planning and how it can be effectively used to minimize one’s tax liability. Tax planning is crucial for all companies, especially companies like Cadence that bring in millions of dollars in revenues and have over 10 billion dollars in assets. Cadence has to evaluate both state and federal tax regulations, rates, and credit opportunities to reduce their taxable income. When it comes to tax credits with banks, there are several opportunities we mention that are very achievable for Cadence Bank. Two strategies that would provide great opportunities to earn tax credits have to do with low-income housing and energy use. Cadence could invest and loan more money to low-income housing projects and earn a 4 percent or 9 percent tax credit. They could also become more energy efficient, which would strengthen their ESG position and make them eligible for certain tax credits. Both of these strategies come with tax deductions while also helping the community and environment. The current environment of the United States tax regulations also plays a critical role in tax planning. With midterm elections happening in the next week, Cadence must plan ahead and begin to evaluate how potential changes in tax policies will affect their tax planning. Furthermore, most entities, including Cadence, are still dealing with the aftermath of COVID-19 in the form of issuing PPP, or Paycheck Protection Program, loans that are designed to protect employees. As a bank, tax planning for these types of relief loans in addition to seeking out tax reduction opportunities can be stressful. Thus, tax planning is critical to having an organized, strategic plan on how to manage taxable income with all of the various factors mentioned previously.

A tax credit, also known as a tax incentive, is a provision that lowers a taxpayer's final bill, at a dollar-for-dollar basis. In the banking industry, financial institutions choose to invest in such tax credits because of many benefits, including receiving CRA consideration, earning competitive rates of return on investments, being able to diversify investments in other credit services and products, and being able to have a platform to leverage more tax credit investments in the future. Banks invest in tax credits due to their experience in housing development and commercial real estate finance, along with banks being responsible for "meeting the credit needs of their communities" (Labor Compliance Group). Thus, banks often become investors in partnerships concerning low-income housing, and any other social or environmental issues in the surrounding community that allow for tax incentives.

With the current tax status in the United States, if corporate tax rates were to increase, banks could be incentivized "to utilize more tax avoidance strategies to mitigate the impact on net profits" (Fitch Ratings). Higher tax rates mean the internal rate of return for such strategies are much more attractive to financial institutions. Banks have already been investing in activities associated with ESG, like increasing the use of tax credits for affordable housing and energy credits, for a while now. Not only do these investments allow for institutions like Cadence to increase their focus on ESG performance, but they also allow for an effective way to reduce their tax rates (Wipfli). With midterm elections coming up on November 8th, there are multiple ways in which tax strategies will be much needed by Cadence Bank, since the dominant control of the House and Senate can result in different tax legislation put into place. Even citizens' finances can be impacted directly, as tax deductions and tax incentives could be a big priority for the lawmakers voted into power next week. Voter turnout is expected to reach record highs in 2022, so all eyes are on the election results to see how our economy could be impacted in these next few years. The Inflation Reduction Act, which was signed into law in August, is a "climate, energy, healthcare, and tax law" that helps provide around 270 billion dollars in clean energy tax incentives to support incentives such as "electric vehicle tax credits to tax credits for energy efficient home improvements" (Kiplinger). If the Democrats keep control of the House and Senate, this act will be able to be strongly enforced. If the Republicans gain control of Congress, certain congressmen hope to block these billions of dollars in funds given for the Inflation Reduction Act for the IRS, as they claim it could result in "an army of 87,000 IRS agents coming to audit middle income Americans" (Kiplinger). All in all, the midterm elections can have a serious impact on laws associated with tax credits, thus affecting the strategies in which banks like Cadence will need to create to successfully invest in more tax incentives.

Cadence bank has the opportunity to invest in renewable energy that can greatly reduce their taxes that they have to pay. One renewable energy source that they can implement is changing their energy source to solar panels. By implementing solar panels as their source of energy, Cadence becomes eligible for a 30 percent tax credit for the cost of the solar panels. By using solar panels, they are able to save more money on electricity in the long run, as well as attracting more customers that see Cadence as going green. With the emergence of more and more electric vehicles on the road, Cadence is given the opportunity to capitalize on another tax write off. Electric vehicles need a place to charge and by including electric vehicle charging stations, Cadence is able to keep up with the times and offer their customers another reason to come by Cadence. With the Alternative Fuel Vehicle Refueling Property Tax Credit, Cadence is able to receive up to $30,000 per location that they install the charging stations. Currently, 387 branches could save over 11 million dollars total by simply installing these stations.

Another strategy Cadence Bank can implement to reduce its taxable income is investing in low-income housing projects. Cadence has already made an effort to grow their portfolio as stated in their 10k. “Ongoing efforts to grow the bank portfolio through the company’s Right@Home product for low-to-moderate income borrowers have contributed to the department’s production” (Cadence Bank). The low-income housing tax credit, known as LIHTC, was created in 1986 and is used to finance the construction and rehabilitation of low-income affordable rental housing. It was created to help low-income communities as nearly 50 percent of people pay rent that accumulates to over 30 percent of their income (Novogradac). This rent rate is unbearable for many people leading to foreclosures and increases in homelessness and other negative things for the community. Investing in low-income housing is not attractive to investors as it generates less profit than other projects, so the LIHTC was needed to promote it. The LIHTC gives investors a dollar-for-dollar reduction in their federal tax liability in exchange for providing financing for the affordable rental housing. The LIHTC is administered at the state level and is easily accessible for Cadence. The tax credit is attainable through the acquisition, rehabilitation, or construction of rental housing to support low-income households (PD&R). As a bank, Cadence can participate and receive tax credits in two different ways. They could invest in low-income housing like any other company could do, or they could increase their lending to low-income borrowers. The latter is unique to the banking industry and provides a way to become more involved in the movement. There are also two different types of tax credits that Cadence would be eligible for if they participated. There is a 4 percent tax credit that they would receive if they invested or lended to rehabilitation projects. If Cadence invested or lended to projects that involve new construction, they would be eligible for a 9 percent tax credit. The tax credit would be applied on a constant basis for the 10 years following the investment. The graph below illustrates a survey taken, that shows the need for low-income housing within the United States.



As mentioned above, Cadence has begun to invest and finance low-income housing and intends to expand its efforts. In the past year, Cadence has increased their residential mortgage lending by 67.8 percent. In 2021, residential mortgages were responsible for over 7 billion of Cadence's net loans and leases. Hypothetically, if they make 25 percent of their residential mortgages for low-income housing projects, their total tax liability for loans and leases specifically will drop by 1 to 2.25 percent. Changes like this can lead to millions of dollars less in taxes owed. Overall, by implementing both a long-term strategy by using solar panels, and a short-term strategy by investing in low-income housing, Cadence could benefit greatly from using these tax credits to their advantage so that the company enhances their reputation and increases their earning potential.

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Signed Bruce Butler

Case Five: Cadence Bank Final Case Presentation

By: Bruce Buehler, Miles McCuller, Stone Tosh, Josie Butler, and Rachel James

7 November 2022

CADENCE Bank

Cadence Bank

November 7, 2022

Trey Buehler, Josie Butler, Rachel James, Miles McCuller, Stone Tosh

Our Team:

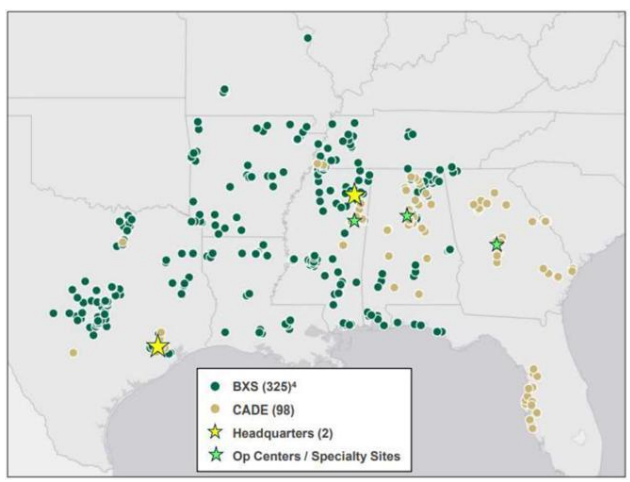
Stone Tosh: Oxford, MS
Josie Butler: Olive Branch, MS
Rachel James: Collierville, TN
Miles McCuller: Olive Branch, MS
Trey Buehler: Tallahassee, FL

Overview

- Cadence Bank is the product of a recent merger between BancorpSouth and Cadence Bancorporation.
- Merger was completed in October of 2021, and full integration is was completed on October 7, 2022.
- Traded as a public company on the New York Stock Exchange under ticker symbol: CADE
- Has $48 billion in assets

Overview

- Duel headquarters in Tupelo, Mississippi and Houston, Texas.
- Over 400 locations across Alabama, Arkansas, Florida, Georgia, Louisiana, Mississippi, Missouri, Tennessee and Texas.
- 6,500 employees
- Vision: Helping people, companies, and communities prosper



Operational Risks

Cadence Bank

- Industry-Wide
- Within the Company

Adjusting to the Merger

Social	• Problem: Increasing size of Cadence takes away personal touch • Solution: maintain personal connections
Internal	• Problem: Integrating two platforms together • Solution: Keeping employees on the same page
Economic	• Problem: More clients and more capital • Solution: Focus on existing clients now, expand later

ESG and Cybersecurity Risk Assessment

Cadence's approach to dealing with such risk is vital to the overall framework of the organization.

- Environmental, Social, and Governance
  - Cadence strives to assess their impact on the environment associated with their lending and investment portfolios.
  - Investors value ESG ratings.
- Cybersecurity
  - Great need for protecting crucial data and customers' private information.
  - Identity theft, intellectual property, and governmental information systems are at risk.

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Industry-Wide

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Within the Company

Adjusting to the Merger:

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Cadence Bank ESG Approach

- Community Engagement
  - $7.5 million to charitable organizations
- Recycling Efforts
  - 1.75 million pounds of paper shredded and recycled

- Lending Portfolios
  - Risk associated with who Cadence lends to → It is vital to be more supportive of sustainable projects.
  - Environmental footprint in real estate must be healthy to maintain investors and multiple streams of revenue.

- It's important to evaluate the ESG performance of the companies Cadence lends to.
- Oil and Gas industry will struggle with ESG reputation.
  - Major opportunity to shift towards renewable resources and electric energy
- The uncertainty of ESG regulation means Cadence will have to constantly be ready to implement positive ESG improvements.

Cadence Bank Cybersecurity Protection

- Banks are one of the biggest targets for cyber criminals.
  - Cyber attacks 300 times more than other industries
  - Not only are the assets of Cadence at risk, but the personal information of their customers are too.
  - Increased tech budgets to invest in cybersecurity protection is vital.
  - Over 1 million potential cyber attacks are attempted per day.
  - Average of 4.2 million dollars lost in assets and cost for a bank to retrieve lost information.

Types of Cyber Crime:

- Identity theft
- Phishing scammers
- Cyber terrorists

- Potential Risk:
  - Banking is primarily digital
    - Customers are more exposed to fraud and getting their money taken.
  - Cadence must inform their employees and customers on the guidelines to combat potential threats.

Cadence's Riskiest Accounts

Loans and Leases	Interest Revenue	Allowance for Credit Losses
• Most material account on the B/S • Extensive amounts of paperwork and contracts • Directly correlated to ACL • Confirmatory procedures	• Extensive amounts of loans and leases with different rates • Does revenue match rates and contracts • Substantive analytics	• Estimate by management • Underwent reporting update recently • Account most likely to be materially misstated

Auditing Loans and Leases

- Are the internal controls in place sufficient
  1. Adequate documents and records
  2. Substantive testing with 3rd parties involved

- Are all of the revenues and expenses associated with loans and leases reported properly
- Are proper documentation of the contracts associated with interest rates readily available
- Make up over 65% of Cadence's total assets

Auditing Interest Revenue

- Thorough substantive analytics and testing
    1. develop opinions of what the accounts should be stated at based off of related accounts (notes receivable and loans)
    2. How does the amount reported compare to the predicted amount
    3. Analyze the differences and contact 3rd parties to ensure interest is being reported at correct rates and times

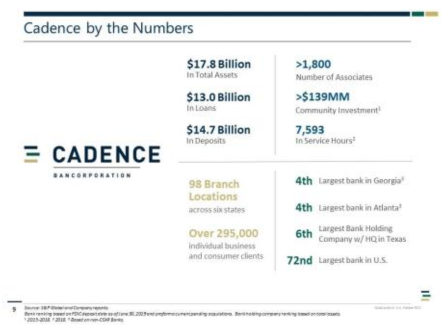
- Most material revenue account
- Key component of central operations
- Directly correlated to other risky accounts

(In thousands, except share and per share data)		2020
INTEREST INCOME		
Interest and fees on loans	$	648,138
Interest and dividends on securities:		
Taxable		51,983
Tax-exempt		6,582
Other interest income		4,463
Total interest income		711,166
INTEREST EXPENSE		
Interest on time deposits		36,647
Interest on other deposits		38,768
Interest on borrowed funds		16,785
Total interest expense		92,200
Net interest income		618,966
Provision for credit losses		278,048
Net interest income after provision for credit losses		340,918
NONINTEREST INCOME		
Hedge revenue		169,248
Investment advisory revenue		26,364
Trust services revenue		18,349
Credit related fees		19,352
Service charges on deposit accounts		23,143
Mortgage banking income		9,727
Bankcard fees		7,194
Payroll processing revenue		5,074
SBA income		9,169
Other service fees		6,641
Securities gains (losses), net		6,712
Other income		6,382
Total noninterest income		307,355

Auditing Allowance for Credit Losses

- Confirmatory procedures with management
    1. An allowance account estimated by management needs to be audited carefully
    2. Examine alignment with new accounting reporting regulations on “ACL”
    3. Is the account materially misstated due to poor estimation strategy?

- Key component of central operations
- Directly correlated to revenue accounts



Tax Strategy Proposal

Low-Income Housing Tax Credit	Energy Investment Tax Credit
• Under the LIHTC program, Cadence can receive a 4% or 9% tax credit if they invest or lend to low-income housing projects • Meant to encourage investing in low-income housing as usually these projects are not attractive • Not only is it a good way to receive tax deductions, but is also good for the community	• A 30% tax credit can be obtained on cost of installation if Cadence installs solar panels • Using solar energy saves a lot of money in the long run and is good for the environment • Also, would help Cadence's ESG score, helping attract more customers and investors

Current Strategy

Low-Income Housing

- Cadence currently has a program called Right@Home that focuses on lending to low to moderate income borrowers
  - The program is relatively new and can be significantly expanded
  - Could also focus on investing in low-income housing, instead of just lending

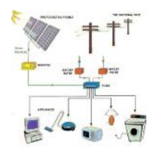
Energy

- Cadence has yet to use solar energy at any of their locations
  - Although costly in the short run, there are many future benefits and savings in the long run

Economic Impact

- Over the past year, Cadence's residential mortgages outstanding have increased by 67.8%, giving them more opportunities to increase their lending to low-income housing projects
    - The more they lend to these projects, the more tax credits they will receive and the more taxes will be cut
- Solar panels cost an average of $2.87 per watt, prior to deductions
    - Per watt installed, Cadence would receive a $.86 tax credit, which is equivalent to the 30%
    - Solar panels have an estimated payback period of 6 to 10 years, with a lifespan of 25 years

(In thousands)	2021	2020
Commercial and industrial		
Non-real estate	$ 7,847,473	$ 2,918,192
Owner occupied	3,567,746	2,599,121
Total commercial and industrial	11,415,219	5,517,313
Commercial real estate		
Construction, acquisition and development	2,924,343	1,728,682
Income producing	4,924,369	3,211,434
Total commercial real estate	7,848,712	4,940,116
Consumer		
Residential mortgages	7,311,306	4,356,338
Other consumer	307,751	208,712
Total consumer	7,619,057	4,565,050
Total loans and leases, net of unearned[1]	$ 26,882,988	$ 15,022,479



$18,000 - Res. Solar Power Equipment
$4,000 - Cost of Installation
$22,000 - Total BEFORE Incentive
- $6,600 - 30% Federal Tax Credit
$15,400 - TOTAL SYSTEM COST

Note that this does not include savings from any other incentives such as state tax credits, or manufacturer and contractor rebates and discounts.

Case Six: Famous Economists Case

By: Bruce Buehler

1 March 2023

During this case, we learned about two influential conservative African-American economists. We watched two documentaries that provided a biography about each and explained some of their views. I took notes on each documentary to use when completing this reflection paper. There was also an article we read about U.S. Supreme Court Judge Clarence Thomas that referenced Thomas Sowell and Walter Williams as well. The article talks about how these influential men's careers have been discarded by the media. The videos and article provided a unique perspective on many topics that impact our world today.

In this case, I learned about a few influential black conservative men I did not know about before. If it were not for this case, I likely would never know about them. I learned about some of the views of the right side and how they are not always shared with everyone. Multiple views changed my personal opinion about topics. These views were backed up by evidence and facts, which led me to alter my opinions. After learning about these men, I have taken a great interest in their legacy and work. I have learned that I need to keep a more open mind and be more willing to change my opinions about issues in our world. It is more important to look at the facts and evidence rather than listen to people's opinions. We are usually spoon-fed to only one side of the spectrum and must expose ourselves to the other side. I have taken a lot away from this case and enjoyed hearing from Sowell and Williams about their views on issues in our world today.

After watching the videos in class, it was easy to see how influential Thomas Sowell and Walter Williams are. Unfortunately, many of us have not been introduced to them before, but I am glad we finally got exposed. You would never hear about either of them from the media, even though their ideas are arguably some of the best. Both had to deal with struggles as African Americans but made the most of it and became some of the brightest economists of their time.

Thomas Sowell was born on June 30th, 1930, in Gastonia, NC but moved to Harlem at a young age. After his father died, his mother struggled to take care of him and ultimately gave him to other family members to take care of him. These family members were three uneducated women providing a unique childhood for Thomas. He said he does not think he would have been as successful if it was not for being raised by these three women. At a young age, he was introduced to the New York Public Library by a mentor, and his interest in reading took off. Growing up in a poor part of Harlem, there were few options of good schools to attend. Although zoned for a bad junior high school, he was able to transfer to a much better one, which was invaluable in his development. This experience also led to his strong support of school choice. Before he attended college, Thomas joined the Marine Corps Combat Camera Corp, where he would document events and take pictures. Photography was one of Thomas' passions that he pursued throughout his life. Following his service, Sowell attended Howard University and then graduated from Harvard University. He then completed graduate school at Columbia University and earned a doctorate at the University of Chicago. After his first job at the US Department of Labor, Sowell returned to education and taught at numerous universities. He has also published many books over the years, sharing his opinions about race, education, and a variety of economic issues. Although he keeps a low profile, his work has left a lasting impression on those that have had the privilege of coming across it.

One of those that Thomas left a lasting impression is Walter Williams. Williams is another famous economist that looked up to Sowell and shared many ideas. He was a conservative African-American that had many controversial opinions. Walter was not afraid to tell it how it is and frequently shared how he supported Malcolm X rather than Martin Luther King Jr. Williams grew up in Philadelphia, PA, before attending college in California. He met

Thomas Sowell while completing graduate school at UCLA. Both had similar views about race and the economy and bonded over this. Walter was more outspoken and mischievous as appose to the self-contained Sowell. After completing school, he entered the education field as a professor. He began his work at Temple University, where he continued to speak out. Some things were happening at Temple about black students receiving special treatment, which angered Williams. He would ultimately leave Temple years later because of some of his disagreements with the University. He then began teaching at George Mason University, where he would finish out his career. Walter Williams passed away in 2020 and continued to teach until the day he passed away.

I was initially thrown off by both economists being conservative African-Americans based on their views. There is a stereotype in our country that all African-Americans are liberal, which is far from the truth. Much of this is thanks to the media pushing this stereotype. Based on the views of these economists, I knew they were conservative but would have never guessed they were African-American. It was also pretty eye-opening that I have not heard about either of these economists, even though their views are well-grounded. It shows that many times we are not exposed to the whole spectrum. Some of their ideas are unlike any I have heard before but are some of the most valid. If everyone was exposed to their views, many would have different perspectives about many issues in our country today. I know how I think about some things has changed after learning about these two.

After learning about their childhoods, I was also surprised by their views. Both grew up in poor families that benefited from the government's help. Their families were likely receiving welfare, food stamps, or unemployment benefits at times. After living off these services, you would think that they would both support them. That is not the case, as both are heavily against the government helping those in need. They believe that people should take responsibility for their struggles and act to fix them. Living off the government shows a lack of responsibility and discipline. There are plenty of open job opportunities out there, and hard work will solve many problems. Many people blame the struggles in the African-American communities on the past and history. Sowell denies this and claims that African-American struggles have nothing to do with the legacy of slavery or discrimination. Williams agrees with Sowell and says our country has been subsidizing slovenly behavior. To prove this point, Sowell mentions how slavery has nothing to do with race. Many different races have experienced slavery, not just African-Americans. He claims all other races have rebounded fine and have not sought reparations. The best part about their arguments is they use evidence to draw their conclusions. Their views are not just an opinion but are backed by data and proven. Their stances are so well-backed that people cannot argue with them. This is likely why the media neglects to share their point of view.

Another part of their lives that I was surprised about was the education both received. Both came from families that did not have much, but both were able to attend very prestigious universities. I am unsure how they made this happen, but it proves that you do not need great money to receive an outstanding education. There are opportunities out there for everyone if you work hard enough. It goes back to their view that you have to take responsibility and have discipline. Someone’s upcoming is not a good enough excuse for them to fail to succeed in their life. Especially today, there are many ways kids can make it out of tough situations if they excel in school or the community.

One of the views I was particularly surprised by was the idea that raising the minimum wage causes more people to lose jobs. I have never thought of it that way, but it makes sense. If you raise the minimum wage, businesses cannot afford to have as many workers as they would with a lower minimum wage. Many people think raising the minimum wage is a positive, but these economists have proved that wrong. It also makes sense because more liberal states like California have much higher minimum wages than conservative states like Mississippi. It leads to Sowell's point that every policy comes with a trade-off. No matter what the government enacts, there will be winners and losers. For example, welfare helps those who struggle financially, but it hurts wealthy people because they must pay more taxes. Every policy has a similar result, which is why it is impossible to make everyone happy in politics.

One thing that I was surprised about with Walter Williams was his outspoken support of Malcolm X and not Martin Luther King Jr. We are all taught that MLK is the most influential African-American of all time and that he stood for all the right things. There is even a national holiday named after him. Although he played an invaluable role in the civil rights movement, Williams was not a supporter of his stance.

The last main idea that surprised me, that both Sowell and Williams share is their support of a Limited Government. They each believed the government should play as little a role as possible. This means not providing help to those in need and not taking more from those that have more. This view aligns with the idea that all policies have a trade-off. If the government enacts a few policies, there are no winners or losers. People will have to take responsibility and figure things out for themselves. The support of a limited government comes with a free economy as well. A free economy means that the government stays out of economic decisions and lets the buyers and sellers control the market. Sowell and Williams believed that everything else would work itself out once the government backed off. The policies and regulations that it puts in place come with too many negatives that make the policies pointless. It is an interesting perspective, and it is hard to imagine how our country would function with little government involvement.

Ultimately many of Thomas Sowell and Walter William's ideas and views surprised me. Initially, I was surprised by the fact that both were conservative African-Americans. Then I was surprised by their views on welfare based on their childhood experiences. Neither grew up with much but valued hard work and responsibility. Their support of a free government is also unexpected as it is very different from what our government looks like today. It is a shame that more people have not been exposed to their careers and views, as I think they would put a lot of sense into some people.

Larry Elder is another conservative African-American who hosts a radio show and has written many books. He is disgusted by the fact that influential conservative African-Americans continue to be unrecognized by the media. In this article, he mentions how the black community continues to ignore the success and ideas of conservative African-Americans (Elder).

Elder starts the article by telling about how Clarence Thomas, a member of the U.S. Supreme Court, was left out of the National Museum of African American History and Culture. Like Sowell and Williams, Thomas is a conservative African American that has seemingly been swept under the rug by the media. The black community is obviously majority democratic and continues to fail to recognize black republicans. They think that Thomas and his views "damage" the African-American community. This is questionable, considering most would be unable to identify anything they disagree with Clarence Thomas about. It is like the black community is brainwashed into thinking that if someone is a black conservative, they are against the black community. It is like the whole African-American population is predestined to be a Democrat. If more African-Americans learned about the views of the right side, I guarantee you they would be shocked about how much they agree. Elder then explains the argument against Clarence Thomas and how he took advantage of college admissions. In actuality, Thomas grew up in poverty and worked hard to earn his way to college. He benefited from the help universities provide to those who excel but need help. Everyone else is welcome to benefit from this help, but most neglect to earn this reward. Thomas took advantage of the opportunity, and look where he went with it. Elder is tired of hearing excuses from the African-American community as evidence proves their educational shortcomings.

Another main point that Elder touches on is how Ebony magazine has avoided putting influential conservative African-Americans in its “Power 100” rankings. Clarence Thomas deserves this honor as he is the second African-American to serve on the Supreme Court. Not only has Thomas been left off this list, but so have Thomas Sowell and Walter Williams. I guarantee that nobody could find 100 African-Americans more influential and inspirational than these three. I have mentioned previously how Sowell and Williams grew up in poverty yet made it out of the projects through hard work in school. Clarence Thomas did the same, yet none of them received the credit they deserve.

This disparage begs the question, why are these influential conservative African-Americans neglected by the rest of the black community? It seems as if it just comes down to their political party and views on racism. African-Americans think that just because they are conservative, they do not work in the interest of the black community. They believe these conservatives do not want what is best for blacks, which is far from the truth. Conservatives have different ideas of how to solve issues in the black community that are arguably more effective. African-Americans stereotype conservatives and include Thomas, Sowell, and Williams even though they are black. If democratic African-Americans took the time to listen to the right side, many would be shocked by how much they agree with them. There is plenty of evidence that suggests that the African-American community benefited much more under a conservative president than a liberal one.

The lack of representation conservative African-Americans get in the media just makes the whole issue worse. If the media does not talk about it then the average citizen will not be exposed to conservative ideas. Thomas, Sowell, and Williams escaped the brainwashing by educating themselves through reading rather than listening to people. People feed off of each other rather than making individual decisions for themselves. If African-Americans just take a step back and learn about both sides, everyone will benefit. The problems will remain if they continue to be oblivious to the policies and the effects that democrats impose.

This exercise has changed my viewpoints slightly and has opened my eyes to the lack of representation of conservative African Americans. I came into this assignment knowing nothing about Thomas Sowell, Walter Williams, or Clarence Thomas. It makes sense why I was clueless about them, considering the media refuses to talk about them. After watching the videos and reading about them, I have become inspired. These men are a few of the smartest people I have listened to, and it is a shame more people do not listen to them. There are many views that I agree with the economists on and some new views that I have established. I have learned about how some of the policies that have been enacted to help those in need make the problem worse. There is a trade-off to every policy, which makes you question the need for policies at all. My opinion about welfare and other government programs that try to help has changed completely. If you had asked me in the past, I would have been all for these programs, but now I am skeptical. Also, the minimum wage is a big worry to me, considering how high it has gotten in some places. Before, I had not thought of the negative implications that came with raising the minimum wage, but now I am aware. I am still skeptical about a limited government and a free economy. It is probably due to how far we are from that at this point in our country.

In conclusion, I have come away from this activity much more enlightened but also a little worried. Hearing about these economists' lives and how good their ideas are is encouraging. Realizing and learning that their views have been neglected by the media and the African-American community is worrying. I believe that if we as a country used some of their ideas, we would be in a much better place as a whole. The lack of representation is a disgrace to them, the black community, and all American citizens. Many people are missing out on the other half of the spectrum and must educate themselves. Hopefully, with the ever-changing world and the issues that have arisen recently, people will take action to ensure they are picking the correct side.

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The Honor Code:
“On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this Case.”
Signed Bruce Butler

Case Seven: Disaster Contingency

By: Bruce Buehler, Ravyn Garrett, Kolby Husted, and Emma Yates

1 March 2023

Introduction and Summary

On February 3rd of 2023, a Northern Southern freight train derailed in East Palestine, Ohio. There were several hazardous materials and chemicals contained in the 38 cars that the train was pulling, many of which were released into the environment upon derailment of the train. After the incident, Norfolk Southern conducted a controlled burn in order to avoid explosions that may cause potentially more intense consequences for the citizens of East Palestine.

In this case, our group was meant to research the incident and examine ways to account for the incident while dealing with the aftermath. This included examining compensation efforts and amounts, observing cost cuts implemented before the incident, examining the company's Environmental, Social, and Governance (ESG) Report for 2022, examining technology put into place to prevent disasters such as these, and more.

Throughout researching and writing the case, our group learned about the best practices as auditors when it comes to accounting for unexpected events and disasters such as the chemical release that occurred due to the train derailment. We learned how to examine financial information and ESG reports in order to discover useful information, and also were able to put our skills towards how we ourselves would solve the issue if we were the auditors of Norfolk Southern. It was beneficial to have prior knowledge of ESG standards, accounting for extraordinary events, and disaster prevention while analyzing the unfortunate incident that occurred last month.

ESG Report Findings

An ESG report gives information and data about a company's environmental, social and governance initiatives. We can look at an ESG report to find reasoning in explanations of decisions, incidents, and countless other events. With Norfolk Southern's derailments and chemical issues that triggered much toxic waste and hardship on the community occurred (East Palestine, OH), it is important to look at the ESG report to see if anything was in place or attempting to prevent such problems.

The 2022, pre-derailment, ESG report from Norfolk Southern focuses on two huge topics: advancing sustainability and safety. Norfolk Southern takes a long-term view in their company and its future, hoping to be around for generations to come. In the report, their president and CEO, Alan H. Shaw, even goes as far as saying that the company's "success means operating safely and sustainably". Investments to make the railroads safer, more efficient, low-cost, build infrastructure, were all stated as well. An "Engaged Oversight" section states that additional steps were taken to assign "key areas of responsibility to specific committees" including climate, safety, sustainability, human capital management, and cybersecurity (Shaw). But did a company who promotes so much sustainability and safety, have such a terrible derailment accident? From the ESG, as stated above, they delegated responsibilities from the Board of Directors to countless committees that only focus on that goal and that goal only. Now that sounds good, but the delegation of power opens new possibilities for fraudulent activities, hiding of information, and more that could have been related to the derailment issues. Another big focus of Norfolk Southern's ESG, was an attempt to cut emissions as much as possible, something they spend pages on. One thing we know about Norfolk Southern pre-2022, is that a big goal of theirs was to cut capital investment cost and go lean; something that does not go hand in hand with cutting carbon emissions.

Through investigation of Norfolk Southern's 2022 pre-derailment era, it is found that the ESG report was not useful in improving the operations of the company. The ESG report pushed big ideas of safety, sustainability, and cutting emissions, but had no real facts of these claims. It's seen that the Board of Directors basically delegated much of their problems and worries to lower levels, and allowed committees with each their own personal agendas, to run the company's programs.

Sensor Technology and ESG

The following article gives an overview of the latest technological advancements in the railway industry. There has been a recent push for the requirement of ECP, electronically controlled pneumatic brakes. These brakes use digital communication to cut the reaction time using air power. It is a potential upgrade to the braking system, but it would be a costly enhancement considering every train car must have it for it to work. Another proposal has also gained traction in the push to advance railway technology. The technology would use sensors to detect potential issues with the train cars. Sensors could be used on the train tracks and/or on the wheels of the train. It is a much more cost-efficient way to prevent issues and should become more popular in the future. Many people think the sensors would have prevented the Norfolk Southern derailment, while ECP would not have (Black).

This sensor technology is mentioned briefly in Norfolk Southern's ESG report. Page 14 talks about the technological advancements the company has recently made and plans on making. The sensor technology is not named, but the report does mention "Digital Developments" have been made. Norfolk Southern has "deployed fully automated, machine vision-equipped inspection corridors to detect signs and symptoms of pending failures before they occur." The sensor technology they are referring to is located on the train car itself. According to the article, Norfolk Southern has voluntarily adopted nearly 1,000 sensors.

There is an uphill battle to require and implement railway technologies such as ECP or sensors. Many politicians have pushed back against the potential ECP requirement and are skeptical that it would have prevented the recent derailment. ECP would be a massive investment considering it must be installed on all trains at the same time. Some think installing sensors would be a much more efficient and reasonable way to prevent something like this from happening again. It will be interesting to watch the debate between the two, but the bottom line is something has to be done.

Compensating for Damages

The article "Locals Near Ohio Train Derailment Diagnosed with Bronchitis, Other Health Conditions After Chemical Exposure" in *People Magazine* details claims against Norfolk Southern that blame the company for their sicknesses. Several citizens of East Palestine, Ohio are being diagnosed with chemical bronchitis only days after the incident. However, the article claims that it is difficult to be sure if the train derailment is the source of the chemical sicknesses. "...Experts say it's difficult to determine whether the symptoms of local residents and workers are directly linked to the derailment," the article states (paragraph 10). It goes on to say, "'It's certainly reasonable to say if you have a rash… that it could be related. There really isn't a way to tell for sure, unfortunately," (paragraph 11).

An article titled "Animals Are Dying All Over Ohio. Farmers Are Blaming This Train Crash" by *Outdoors* addresses the deaths of rabbits, foxes, and other wildlife that are believed to be a result of the crash. Similarly to the citizens who are coming down with bronchitis after the crash, it is too difficult to be able to determine if these deaths are connected. “Officials haven’t confirmed that the farm animal deaths are related to the train crash. However, they have publicly announced that at least 43,000 aquatic animals have died as a result of the chemical spill,” states the author, (Buhay).

Although there is sufficient reason to believe that the train derailment is the reason that these people are becoming sick, it would not be reasonable to expect direct compensation without concrete evidence. The train derailment was a recent event, so the details are still in development. As of now, Norfolk Southern should not be held legally responsible for compensating those who are getting sick or the people whose animals are passing away weeks after the incident. However, it has been confirmed that a significant number of aquatic wildlife have died directly resulting from the chemical release. This means that it is reasonable to expect compensation from Norfolk Southern in some way for what can definitely be connected to the spill, especially since Norfolk Southern is responsible for the derailment.

Since there is a lack of information about the incident so soon after the derailment, it can be useful and beneficial to look back on similar incidents and observe how they were handled when it comes to how to determine the amounts of compensation that should be paid. A recent and similar incident is the British Petroleum (BP) Deepwater Horizon explosion and oil spill in the Gulf of Mexico in April of 2010. Settlements were not reached until 2016, but once an agreement was reached, British Petroleum was responsible for paying the largest environmental damage settlement in the history of the United States at a total of 20.8 billion dollars (National Oceanic and Atmospheric Administration).

When the settlement was reached, the claims against the business became covered. Similarly, with the lawsuits already piling up against Norfolk Southern, a similar settlement could solve the legal disputes. An article detailing the allocation of the settlement money says, "When Congress passed the RESTORE Act in 2012, it dedicated 80 percent of all administrative and civil penalties from the responsible parties to ecological and economic recovery efforts in the Gulf," (paragraph 1). This money was split between research and restoration efforts, organizations and institutions, governmental funds, and more in order to make up for the damage that was caused due to the spill.

It can be safely assumed that following a similar course of action would be beneficial in the case of the trail derailment, considering that both disasters caused disastrous environmental consequences and have/had several lawsuits against them citing the incidents.

Should Shareholders Continue to Receive their Payments?

Since the Norfolk Southern derailment on February 3, 2023, they have spent more than six billion dollars. Between businesses, residents, schools, and community assistance funds, it appears Norfolk Southern is attempting to mend their relationships with the public. However, once more research is done, it becomes known that they are spending even more money on payments to shareholders. CNN reports that in March of 2022, Norfolk Southern devised a plan to spend 7.5 billion dollars "to repurchase its own shares in order to benefit its shareholders" (Isidore). Although they have not spoken out to state that this plan is still in place, they have not spoken up to say that it has been redacted either.

Norfolk Southern revealed they have over 1.2 billion dollars of insurance coverage to assist with the damage caused from the derailment. This could mean a portion of the funds going out to the communities are not directly from Norfolk Southern's account, but they are actually coming through insurance money. It is also noted that in 2022 total shareholder payments were 4.6 billion dollars (Isidore). This number is important because they are not spending that same amount on safety or on their employees. For instance, train companies are laying off employees and giving hourly employees less than seven sick days a year. This raises questions about if an increase in staffing would have helped to prevent the derailment. Additionally, the FRA proposed a plan to place a new, modernized braking system on trains carrying hazardous materials (Isidore). The project would be costly, but spread across twenty years and the entire industry, the benefits would outweigh the costs. Railroad associations note that improvements like these are small costs in comparison to the amount these companies are paying shareholders; however, improvements like these increase safety across the entire train industry.

The idea of repurchasing shares for shareholder benefit has been an extremely common theme lately. “Share repurchases are designed to help increase the value of the stock by reducing the number of shares outstanding, and each share becomes more valuable because it represents a greater percentage of the company’s overall ownership” (Isidore). This is a useful tactic because even if the overall profit falls, earnings per share can still rise. When companies repurchase their own shares, especially at such a high volume, it increases wealth for their shareholders. CNN writes that across America in 2022, “share repurchases reached almost one trillion dollars for the first time” (Isidore). This is an absurd amount of money that corporations are investing back into their shareholders whenever they could be focusing on an increase in safety or increased wages for their employees.

For the previous question we were unsure what amount of compensation Norfolk Southern should be responsible for. Since the derailment was so recent, it is hard to know the exact amount and area of damage caused. However, we do think Norfolk Southern should be held extremely accountable for the derailment because small steps towards increased safety beforehand could have made a large difference. It is important they stop focusing so much on their shareholders and shift focus toward safety and employees. Safety is imperative because in an event like a derailment, it affects a greater amount of people than just Norfolk Southern internally. For this circumstance, shareholders should not be rewarded their full compensation because of the tremendous negative impact that the derailment has had on East Palestine. Additionally, it is unknown how far the negative effects of this derailment will travel.

East Palestine's Derailment: a Political Problem?

The derailment of the Norfolk Southern has brought much controversy, not just over the incident and its aftermath, but also politically. The East Palestine region is a red leaning county that voted for Trump three-to-one, which led to multiple media commentators to say that was to blame for derailments. Other media outlets searched for a conclusion as well, leading to the fact that the Biden administration was slow to react to the disaster, because of its red-leaning voting trends. While American citizens of East Palestine fight horrible emissions in their area, fading wild life, lower valued homes and assets, and countless other problems, hundreds of billions of dollars are being sent to Ukraine under the Biden administration. These hundreds of billions come straight from American taxpayer's dollars. Instead of funding its own citizens and ensuring the East Palestine communities and those around the area are safe now and for time to come, we are funding an extremely expensive war at what reward? The citizens of East Palestine and the surrounding area, have the right to be angry and mad at the government. A government that will take any action and spend any dollar to engage in foreign affairs, but cannot come to the aid of citizens that have worked and built their lives and families in America. When a disaster of this level happens, political party and standing should be a nonexistent factor in aid; that aid should be given and sent no questions asked. Ask yourself, if you had a loved one in East Palestine, who's whole world was flipped completely from a disaster they had nothing to do with? Would you be content with aid to be late and disingenuous to your loved one, while they are facing extreme risk to their health and lives? A political belief should never be a deciding factor in whether someone is helped or not, especially in circumstances where the people have no real way of helping themselves. The technology and ability needed to run environment scanning, other testing, and the proper cleansing and elimination of said problems, are at large, something no one has access to. It takes real professionals and experts to diagnose and fix environmental problems especially with chemicals. Exclusion of aid due to political preferences is a circumstance that needs to be evaluated deeply and completely rethought in America. Not only should the East Palestine community be angry with the government for its late actions, American citizens as a whole should find it as an injustice.

Audit Procedures

Financial reporting after an event such as this is quite difficult because it is different than a natural disaster or a disaster preparedness audit. The financial reporting risks that may be associated with the derailment would greatly be reliant on ensuring that the amounts listed on the financial statements are correct. Because of the inability to forecast an event such a derailment, amounts on the budget would be extremely skewed from the current numbers. The cash audit would be extremely important to ensure that all amounts are appropriately and correctly accounted for.

Audit procedures would be fairly similar to previous years. In their 2022 audit, Norfolk Southern is said to have poor communication concerning multiple safety features. According to WKBN27, “The audit states that the required equipment inspections were performed, but in some cases, either the defective conditions that were identified by the inspections were not reported to the mechanical department for repair, or the equipment was not removed from service until repairs could be made" (Simeon). The audit summary states there were shortcomings in their mechanical department that could have led to a derailment. As a multi-billion-dollar train company, this would seem to raise a red flag for an area of improvement. Internal audit procedures that monitor safety would need a large amount of attention. These internal auditors focused on safety would be responsible for ensuring that these mechanical errors would not be lost in communication. In addition, train cars carrying hazardous materials are supposed to be noted by a card listing every material on board. However, Norfolk Southern was said to not have been double checking that this was being done. When the derailment occurred, these cards had not been put on all of the train cars that contained hazardous material. Therefore, it took almost a week to identify all of the chemicals that first responders were exposed to. It would be immensely important for auditors to ensure there is someone in place to check to confirm the identifiers are in place. Just by changing these two small internal positions to ensure communication about mechanical issues and proper identification, this derailment could have been avoidable.

Financial statements would also be extremely affected by this derailment. The most affected portion would be assets that have been destroyed. When an asset is destroyed, it will be recorded as an expense, and these expensed assets would have an effect on the balance sheet. Another on the balance sheet would be environmental liabilities. Because the derailment leaked an immense amount of hazardous chemicals, the negative toll on the environment will be great. The implications of this derailment will be large because of the chemicals that the area was exposed to. It will be important to confirm that all assets such as machinery, inventory, and equipment are correctly accounted for. Although the derailment could have been avoided if

Norfolk Southern had followed their audit suggestions from 2022, it will not be even more difficult to audit their whole company in 2023.

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Case Eight: Bank Failures Case

By: Bruce Buehler

5 April 2023

In this case, our class read a few articles about the recent Silicon Valley Bank failure and watched some videos about it. We gained great insight into a current event in our country that has implications that impact all of us. This study was unique the failure has not been talked about in other classes, even though it is important in the accounting profession. It is crucial to learn from it and ensure that you do your job as an auditor in the future.

In the articles and videos, I learned how a bank crashes, specifically how SVB failed a few weeks ago. Before this, I had not done much reading about what happened and had just heard that it was not good for our country's economic health. I learned that banks fail if they do not do what they say they are going to do. For example, Silicon Valley Bank had a bunch of held-to-maturity securities that they decided not to hold until maturity. They sold these securities early to try and get through tough times caused by high-interest rates. The sale gave them money now but caused them to lose a lot on their investments. They knew they were in trouble and picked the wrong way to go about it. Because the securities were not held to maturity, they were incorrectly reported on the financial statements. SVB, therefore, looked like they were doing better than they were (Morrow).

After learning about what happened and how SVB failed, we learned about the auditor’s place in this crisis. Silicon Valley Bank was audited by KPMG, who clearly did not do their job correctly. One of the articles expressed concern for the audits that KPMG provided and how it could come back to hurt them in the future. This article gave me more insight into an auditor's role, which is my future career. It taught me how important the job is and how important it is to ensure going concern. All that happened made me question accounting standards and led me to worry about the health of our country's economy.

Recently, one of the main headlines in the news has been the Silicon Valley Bank collapse, meaning they ran out of money. They were not able pay all of their customers the money that they deposited in the past. This was due to SVB investing in bonds, classifying them as held-to-maturity but selling them prematurely. They did this to combat high-interest rates and hoped to get through these tough times. SVB's three top officers would keep millions for themselves and leave their customers in need (Sibler). Although technically legal by accounting standards, SVB was wrong, and rules must change, or this will keep happening to other banks.

Since the FDIC only insures up to $250,000, most of SVB's customers are owed lots of money. The bank has no money to pay them, meaning the government has to help if the customers are going to get their money back. The government paying hundreds of billions of dollars to bail out SVB leaves many implications for our economy. The failure also leads many people to become skeptical and lose confidence in the current state of our banking system. Due to the failure there is less availability of funds for other banks. This has already led to some banks being more cautious when it comes to lending and investing. They feel much safer about their future if they keep as much cash as possible for now.

Unfortunately, the government has to get involved with this bank failure. If they do not, many businesses that use SVB will not have to funds to keep going. For example, some well-known companies that use SVB are Roku, Etsy, and Roblox. They all had millions of dollars in Silicon Valley Bank that are gone now. To make sure they can stay in business, the government is going to have to pay back at least most of the money that it had in the bank. Although the government is going to take care of this, it cannot afford to do it for multiple banks if they were to fail. This has to be a one-time bailout and other banks should know they will not get help like this in the future if it happens to them. Taxpayers are not paying for the bailout this time, as the money is coming from the Deposit Insurance Fund. Rules and regulations need to be changed to prevent anything like this from happening in the future so taxpayers do not have to be responsible.

KPMG is the firm that audited SVB and gave it a "clean bill of health" just a couple of weeks before the collapse (Weil). This makes you question the job that the auditors were doing. They have the responsibility of detecting and communicating if a company is struggling. They have the duty of letting investors know if there is something suspicious happening with the company. The failure makes you wonder if KPMG was not doing its job correctly or if the accounting regulations did not hold up to the test. A potential change to accounting rules that would have prevented the failure would be changing the way held-to-maturity securities are reported. Under current regulations, these securities are reported at amortized cost because they are not supposed to be sold before maturity. Silicon Valley Bank sold its held-to-maturity securities before maturity which made its financial statements incorrect. If the securities were reported at fair market value, there would have been a better estimate of SVB's assets. Ultimately, SVB is the one to blame for not holding the securities to maturity, but the thought of changing the rules to require the security to be reported at fair market value may need to be considered.

The failure of Silicon Valley Bank has changed the way I view my future career. It proves that the auditor has an incredibly important role in determining the health of the company. In my career as an auditor, I will plan on paying close attention to the health of my clients. The bank failure could have potentially been prevented if their auditor simply paid more attention. Now KPMG is under scrutiny and could be sued because the job was not done properly. It shows how important it is to speak up when you see something wrong rather than letting it go. What has happened to SVB puts more pressure on auditors to do a better job, especially those that audit banks and other financial institutions.

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Case Nine: Financial Crisis History

By: Bruce Buehler

12 April 2023

For this case, we both watched a film called Inside Job and read an article in Rolling Stone. These provided us with a background of the financial bank crisis that occurred in our country and impacted the entire world in 2008. Coming into this case, I did not know much about the bank crisis and had no idea how it happened. Leading up to 2008, the top investment banks were involved in a scheme that took people's money for their benefit. They found a way to take advantage of mortgages and encourage small banks to give them to anyone. The investment banks packaged these mortgages, which would likely not get paid, into an AAA-rated bond that they sold. They talked their customers into buying these bonds even though they knew they were not worth their AAA rating. Once the bonds failed, the investment bankers would become rich at the expense of the common folk. To make all this happen, insurance firms and rating agencies participated as well. It was a whole scheme that made the rich richer and led to the crash of 2008.

I learned all of this information from the film and article, leaving me with a much better grasp of the crisis. I learned how this crisis happened because a group of people got greedy and selfish. Some people will do whatever it takes to become rich and do not care how they get the money. These investment bankers did that and negatively impacted the entire world. Millions of people were left without jobs, houses, and money, while the bankers became part of the top .01%. It has taught me a lot about the banking industry and some of the people in it. I did not know before how toxic and immoral they are. Nowadays, it is probably a different environment, but I am still a little shaken by the actions of these people years ago. Hopefully, new regulations and laws will prevent something like this from happening again, so we do not have to pay again.

After watching Inside Job and reading the article, my trust in our government and financial institutions has taken a hit. I did not have much insight into the financial crisis of 2008 before, so I had no harsh feelings toward investment bankers. My opinion has now changed, but maybe bankers today have better morals than those that caused the industry to collapse. It is astonishing how much financial institutions and government go hand in hand. It goes back to when President Bush appointed Henry Paulson as the Secretary of Treasury for the United States. Paulson was arguably the main culprit of the scheme that led to the crisis, yet Bush gave him this huge responsibility. Paulson was going to help his friends in the investment banking industry by ignoring what was happening. He was not going to impose any regulations that would stop what was happening on Wall Street. It proves that the rich have a lot of influence over the government and its decisions. Another alarming statistic is how my lobbyists are employed by these institutions. Thousands of them are hired by Wall Street to get in the ears of congressmen. Also, these institutions spend billions of dollars on candidates' campaigns in hopes that their candidates will help them in the future (Ferguson). These statistics make me question the motives of elected officials and the amount of say we have in government these days. It seems that many of the decisions being made in Washington D.C. are just favors for that elected official's friends. We need to be more aware of the people we are voting into office and question the decisions in D.C.

An integral part of the schemes that investment banks participated in was the fact that it was technically legal and risk-free. Although what they did was morally wrong, they were not held responsible under the law. Bankers claimed they were giving their "opinion" to their customers and that when the bonds failed, they were not responsible. Also, their scheme was risk-free because the banks knew they would get bailed out by the government if they were to fail. Our country needs the banking industry to function, so these investment banks used that to their advantage (Taibbi). It relates exactly to recent events in the banking industry in our country today. With the Silicon Valley Bank collapsing weeks ago, the government had to decide what to do about it. Since only $250,000 of deposits are insured, many businesses that used SVB were in trouble. The government decided to help and paid off all of the money SVB owed to its customers. They decided not to bail out SVB as they did for the investment banks in 2008. Since we are in so much debt and the economy is in a bad spot, we cannot afford to bail out any banks if they collapse today. Hopefully, banks will learn from SVB and the 2008 crisis and not dig themselves into a hole.

The banking crisis has a direct influence on our role in society, especially as accountants. Although it happened over fifteen years ago, it still plays a role today. There are now different rules and regulations that were enacted to prevent something like this from happening again. I was too young to understand the crisis in 2008, but I am sure it had a significant impact on my family and friends. Our generation needs to learn about what happened so it does not happen again. If it were to happen again, our country would arguably suffer much more this time. As a future accountant, my role is especially important in monitoring failures and risks. Auditors could not have prevented the crisis, but there are plenty of ways they can help with these sorts of issues. It is important to look for numbers that do not look right and have to integrity to speak up. A crisis like the one we studied goes to show the importance of an auditor and their role in helping companies take accountability.

In conclusion, after reviewing these materials, I have a much better idea of the banking crisis of 2008 and our banking industry. The film has led me to be more skeptical of investment banks and our government as a whole. The crisis is especially relevant to the present day because of the state of our economy and the recent collapse of Silicon Valley Bank. We need to continue to push for more regulations in the industry to ensure bankers stop taking advantage of the system. Both of these failures were not caused by illegal activity, but the banks found loopholes to make more money for themselves. Auditors need to continue to take their jobs seriously, and new regulations should be enacted so our world does not have to experience a financial crisis again.

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