Financial Accounting Case Studies

Porter May
FINANCIAL ACCOUNTING CASE STUDIES

by

Porter Bolton May

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Approved by

Advisor: Dr. Victoria Dickinson

Reader: Dean W. Mark Wilder
ABSTRACT

Financial Accounting Case Studies

In this thesis, a series of case studies are presented, which were undertaken as part of the ACCY 420 course during the 2022-2023 academic year. The cases encompass a diverse range of subjects, including but not limited to Environmental Social Governance (ESG), audit risks, and tax planning strategies. Additionally, contemporary events such as the downfall of Silicon Valley Bank and the financial market crisis of 2008 were scrutinized. The studies involved both individual and collaborative efforts to gather substantial evidence. The first five cases concentrate on the analysis of Flowers Foods and its financial standing. A team of five students, all affiliated with the Sally McDonnell Barksdale Honors College, conducted a comprehensive examination of the bank, assessing its financial well-being and initiatives. Furthermore, potential audit and cybersecurity risks were identified, and possible solutions were proposed. The culmination of these Flowers Foods studies was a series of presentations delivered to more than 50 business professionals from various firms. The remaining cases were distinct from one another, enabling the exploration of a broad spectrum of topics. Collectively, the cases provided an opportunity to apply accounting principles to real-world situations. Throughout the process, valuable experience was gained in evaluating financial performance and addressing issues that directly affect companies.
# TABLE OF CONTENTS

ABSTRACT | 3
---|---
CASE ONE: OPERATIONAL RISK ASSESSMENT | 5
CASE TWO: ESG AND CYBERSECURITY RISK ASSESSMENT | 16
CASE THREE: AUDIT RISK AND PLANNING ASSESSMENT | 36
CASE FOUR: TAX PLANNING CASE | 55
CASE FIVE: FLOWERS FOODS FINAL CASE PRESENTATION | 66
CASE SIX: FAMOUS ECONOMISTS CASE | 75
CASE SEVEN: BANK FAILURES CASE | 87
CASE EIGHT: FINANCIAL CRISIS HISTORY | 93
Case One: Operational Risk Assessment
Flowers Foods

September 14, 2022

Katelin Anderson (kaander3@go.olemiss.edu)
Alexander Bailey (abailey3@go.olemiss.edu)
Amelia Hunter (athunter@go.olemiss.edu)
Porter May (pbmay1@go.olemiss.edu)
Alex Stradinger (jastradi@go.olemiss.edu)
Case Summary

This past week, we were tasked with an operational risk assessment that allowed us to gain a better understanding of our company, Flower’s Foods. First, our group gained a stronger understanding of the company by researching the organization structure and learning about the roles of the various company subsidiaries. Next, we researched potential risk factors, including inflation, interest rates, energy prices, supply chain issues, political climate, and global unrest, that could potentially affect the financial results of Flower’s Foods. Finally, we were tasked with analyzing the company’s greatest threats to success and providing a solution for how to address such threats as capable managers.

What We Learned

A major point our group learned this week was how to take a singular piece of information, such as a statistic about the increase in inflation rates, and further analyze the number rather than merely reporting it. As we accumulated data regarding each subsection in the case study, our group quickly understood which areas of this project affect Flowers Foods more than others. We engaged in group discussion to discuss our research findings of the company’s risks and their impacts; each group member’s insight on an issue helped the other members develop their knowledge on the company.

The group also realized the importance of being able to analyze official financial statements. A company as big as Flowers Foods, with its large number of subsidiaries carrying a variety of products, has a lot of information to report to shareholders. This project allowed us to practice our analysis skills by finding pertinent information in the financial statements that help us determine the company’s current position and factors that may impact them.
Finally, we immediately learned the importance of researching from multiple different sources. Without the use of both University Database sources and multiple web browsers, a single source can steer research findings towards a singular narrative that skews or leaves out important information. Using a variety of sources allowed us to find the information that is most useful and relevant to users.

**Introduction**

Flowers Foods is one of the largest baking companies in the United States that is headquartered in Thomasville, Georgia. With forty-six bakeries in eighteen states, Flowers Foods employs nearly 9000 people. This company keeps consumers and brand quality as their main focus by providing a plethora of bakery products that are delicious, satisfying, and trusted. This company has best-selling brands like Nature’s Own, Dave’s Killer Bread, Wonder, Canyon Bakehouse, and Tastykake. They ended 2021 with $4.3 billion in sales and a three-year annual growth rate of 3.10 percent.

**Organizational Structure**

Flowers Foods has an organizational structure featuring a large number of subsidiaries united under one name and run by 8,900 employees. The company has a traditional leadership structure featuring a board of trustees and President, CEO, CFO, and CAO. As of 2020, Flowers Foods united their fresh packaged bread and specialty snack foods under one function, led by Chief Brand Officer Mark Courtney. The subsidiary organizations, as presented by the SEC, include multiple Limited Liability Companies that extend across the United States under the “Flowers” brand. The headquarters for Flowers Foods is based in Thomasville, GA, which drives a higher number of subsidiary locations to be scattered throughout the home state. Subsidiary brands that fall under Flowers Foods includes Nature's Own, Dave's Killer Bread, Canyon
Bakehouse, Tastykake, Mrs. Freshley’s, Wonder, Alpine Valley Bakery, Sunbeam, Merita, Captain John Derst's, Evangeline Maid, European Bakers, Mi Casa, Butternut, Bunny Bread, Bluebird, and Home Pride.
**Potential Risks**

**Inflation:**

Flowers Foods has effectively secured higher prices without seeing a significant shift in demand. Much of this is due to their product mix that includes premium bands such as Dave's Killer Bread, Nature’s Own Perfectly Crafted, and Canyon. Overall, bread demand has decreased the least compared to other products. This is because Bread products are a staple in the American household, so if Flowers Food is able to maintain a competitive advantage against their competitors, they can continue to thrive during these times. They are still profitable during inflation because consumers are willing to spend extra dollars for higher quality bread. The bread products that are experiencing the biggest loss are those that are less differentiated. Because of global unrest and the pandemic, the global exportation market for ingredients has been drastically impacted. However, Flowers Foods appears to not be taking such a toll as the steady price increase has allowed them to remain competitive, while still maintaining a high percentage of customers, unlike small businesses, who are seeing significant damage from the 6 percent price increase in food.

**Interest Rates:**

Higher interest rates are an occurring problem that hurts a company’s profits. The Federal Reserve increased interest rates from 0 to 0.25 to 1 percentage point to fight inflation. While this increase may not directly affect companies, it can affect sales because consumers are the most impacted. Consumers don’t have as much disposable income and must cut back on spending. This means people will eventually start spending less, and the demand for goods and services will also drop. Dropping demands could affect Flowers Foods since this company focuses on maintaining a high-quality brand. For example, Nature’s Own 100 percent Whole Wheat Bread
costs $3.34 compared to the Great Value brand, priced at $1.48. Because of the increase in inflationary costs, Flowers Foods companies have had to implement higher prices to maintain high sales and net income. This process has been successful because Flowers Foods' sales have increased each quarter despite higher interest rates and inflation. In Flowers Foods' first quarter summary from May 2022, they stated their sales have increased by 10.3 percent and net income increased by 19.4 percent.

**Energy Prices:**

Energy Prices are in direct correlation with how much it costs a factory to create products. If the energy prices increase too quickly, the company may suffer a loss in profit because of the extra cost of the power. If a sudden increase in energy prices remains constant or continues to rise, a company may have to increase the selling price of their products to help cover the extra expenses that are incurred. This could have a direct impact on Flowers Food as their transportation and factory costs are steadily rising. In order to keep up with the spike in prices for oil, coal, and natural gas, Flowers Foods has maintained a steady increase in product prices over the last decade, but this has yet to have a major impact on their profits. If they are not able to keep up with increasing energy prices, or their customers turn to different brands due to their prices, this could be a threat to their success, potentially lowering income and increasing expenses on the income statement.

**Supply Chain:**

Global unrest in Ukraine and Russia has caused huge supply chain problems. The two countries are also providers of a combined one-third of the world's wheat. With the increase in border lockdowns, the exportation from Ukraine of any goods has practically ceased; shipment via railroad has caused product movement to fall to 10 percent of its previous capacity.
Companies like Flowers Food rely on the supply chain to receive their raw materials needed to produce their product. Ingredients that they need for their baked goods are being stalled in the delivery process to the bakeries, which greatly decreases their productivity. A big reason for this delay in deliveries are materials that must be shipped overseas into harbors. It is now taking at least two weeks to process a ship that used to take between three and five days. Flowers Food also relies on the supply chain to distribute their finished goods to merchandisers. If deliveries are delayed this decreases the amount of their products available to consumers and can decrease their revenue and net income. The delays in the supply chain also put Flowers Food at risk for excess loss because their products are perishable. If the ingredients perish before they are used, or if baked goods are not able to sell before their expiration date, the waste will directly affect the balance sheet and income statement.

**Political Climate:**

The current political climate for packaged foods, which includes Flowers Foods’ designation of a “packaged baked goods company," is beginning to see more government regulation due to the desire of many consumers to see less gluten, carbs, and preservatives in their diets. With this being such an important part of marketing for companies like Flowers Foods, leadership must be aware of increasing FDA regulations on companies' claims that their food products are exactly as nutritious as they claim. This threat may cause Flower Foods to incur more expenses to make products or advertisements FDA compliant or at least further consider this in research and development. These extra costs would directly affect both income and the balance sheet. This political climate also shows a clear threat towards less healthy packaged food items. A decline in demand for these unhealthier products could also result in a loss for Flowers Foods.
Global Unrest:

The impacts of global unrest and supply chain disruptions have been coinciding in the wheat exportation industry. Russia and Ukraine’s war has affected not only their product distribution but also the food prices. The United Nations’ Food and Agriculture Organization (FAO) has recorded the recent changes in the Food Price Index (FPI) with the beginning of the conflicts, and the index was shown to jump 12.6 percent from February to March. With growing global food prices and international conflict expanding across multiple continents, the availability of common items, such as baked goods, is becoming slimmer by the day. Global unrest can also influence the spending habits of Flowers Food’s customers. If the unrest causes the cost of living to increase, customers may not be as willing to pay for their products, which are more expensive than generic store or value brands. There also may be a cut in sales of their desert centered products because customers will be more focused on buying more nutritious foods instead of snacks. This possible decrease in sales will have a negative effect on their net income.

Potential Threat

The biggest threat to Flowers Food is the recurring supply chain issues for baked goods ingredients; specifically, the lack of wheat available from global unrest and food supply shortage has impacted the ingredient availability and inflation. While wheat is highly widespread among the world, the main exporters of wheat are from external sources like Russia, India, and China. This can become a threat because of global unrest, like the war between Russia and Ukraine. To combat this threat, Flowers Foods should vertically integrate by supplying and milling their own wheat in a 3-year pilot program. Starting small will allow Flowers Foods to test this integration with no risk of large losses. A wheat farm and a production mill will be acquired strategically
near our nationally dispersed Flowers Foods factories to keep the shipment costs low and allow the company to have a domestic supply of wheat to be quickly transported to baked goods production plants. With lower transportation costs, local availability for the ingredients, and a focus on domestically based wheat, Flowers Foods will be able to combat the rising costs of transportation, lessen the international importation of baked goods ingredients, and streamline the overall production process. Especially in a time when international unrest has proven the fragility of the global supply chain, implementation of in-house production will improve profit margins and provide production stability.
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https://insurancenewsnet.com/oarticle/how-do-higher-interest-rates-affect-businesses (interest rates)

On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this Operation Risk Assessment. Signed Alex Stradinger.

On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this Operation Risk Assessment. Signed Porter May

On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this Operational Risk Assessment. Signed Katelin Anderson

On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this Operational Risk Assessment. Signed Amelia Hunter

On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this Operational Risk Assessment. Signed Alex Bailey
Case Two: ESG and Cybersecurity Risk Assessment

Flowers Foods

September 28, 2022

Katelin Anderson (kaander3@go.olemiss.edu)
Alexander Bailey (abailey3@go.olemiss.edu)
Amelia Hunter (athunter@go.olemiss.edu)
Porter May (pbmay1@go.olemiss.edu)
Alex Stradinger (jstradi@go.olemiss.edu)
Case Summary

This past week, our group assessed the ESG and cybersecurity risk within the United States and our company, Flowers Foods. First, we researched what ESG is and its opportunities, challenges, and threats. Next, we learned the actions leaders are taking regarding ESG and how the ESG regulations may affect Flowers Foods’ financial reporting, ability to raise capital, and societal position. Finally, we analyzed the cybersecurity risks within our company and the necessary actions to protect itself against cybercrime.

What We Learned

This week we had the opportunity to learn more about the current climate that the ESG has created in the business world, specifically within Flowers Foods. While researching, we encountered many different viewpoints and opinions from professionals regarding ESG. While we agreed that discovering all the controversy surrounding ESG is crucial to our overall understanding of the concept, we knew that it was necessary to remain unbiased in our research as analysts.

We also were able to learn about the issues surrounding cybersecurity within the food industry and Flowers Foods. When we first considered the risks associated with cybersecurity, we believed that the food industry would have minimal problems with this compared to other industries. However, after researching cybersecurity, we quickly learned that we were wrong. This research has taught us that there are complex layers within cybersecurity and businesses that are not common public knowledge, always leaving room to increase our understanding.

Additionally, this week has helped us continue learning how to work as a team as we have been engaged in group discussions about our research findings. We have quickly
discovered that having each group member’s insight on topics is crucial for an in-depth understanding of our assessment.

**Introduction**

Flowers Foods is one of the largest baking companies in the United States that includes best-selling brands like Nature’s Own, Dave’s Killer Bread, Wonder, Canyon Bakehouse, and Tastykake. Headquartered in Thomasville, Georgia, there are 46 bakeries in 18 states employing nearly 9000 people. This company keeps consumers and brand quality as their primary focus by providing a variety of bakery products (About Flowers Foods 2022 Section 1,2). With the rising importance of ESG and cybersecurity within a company, Flowers Foods commits to sustainability, doing what is suitable for its stakeholders and the environment, and ensuring company security (Responsibility 2022 Section 1).

**ESG**

**Opportunities and Risks:**

ESG opens opportunities for public accountants to work on the audit of different companies’ ESG reports and scores, as well as the entirety of their environmental and social markets. Sustainability accounting is another form of work that CPAs can perform for corporations on their ESG as it “is the practice of measuring, analyzing, and reporting a company’s social and environmental impacts” (Keddie, 2022, para. 11). ESG has become a significant factor in shareholders’ decision-making, as well as it determines the appearance of the corporation, which will then affect the revenues. However, some liabilities and risks are associated with ESG and work in public accounting firms, such as an overbearing weight of
work and a focus on auditing a company’s ESG reports. Regarding a company as a whole, “failure to adequately identify, address and report material ESG issues could raise the possibility of direct financial impacts as well as negative reputational consequences” (Corporation, 2021, para. 10). If the public accounting firms do not have all information provided by the company to review, then the public accountants can receive flack for not including all appropriate information. This would be a failure to follow the full-disclosure principle, which would create a penalty for the firms and establish more liability. Climate and diversity-related issues have grown to an extreme amount regarding ESG violations, which must be accounted for by the public firms that review these problems.

**Challenges:**

Companies commonly use a point system where they quantify various ESG metrics, add up these points, and compare this score with the scores of other companies (Admin, *ESG: The report* 2022 para. 11). The World Economic Forum has defined environmental, social, and governance as the core metrics of ESG. A challenge in successfully measuring ESG is defining the metrics and materiality. It can be challenging to measure ESG performance due to inconsistency in reporting frameworks and the quality of ESG reports (Bossi, 2021 para. 4,5). Companies use various data regarding these metrics from reports, including internal and external sources, to measure their ESG scores. For example, companies collect data on energy use, greenhouse gas emissions, water consumption, carbon footprint, and many others to measure the environmental metric. However, according to an article written by PWC professionals, sets of ESG measurement and reporting frameworks are starting to converge to increase reporting reliability (Gilberg & O'Halloran, 2022 para. 2-3). By determining which issues are most relevant and vital to stakeholders, they can focus their strategy and data collection. Then, it can
change certain aspects of the company that will impact the measurement of ESG and potentially improve the overall ESG rating.

**Political and Economic Risks:**

The current political and economic environment highly impacts ESG ratings. In an interview between Rohitesh Dhawan and Kay Swinburne, they identified the disruption caused by the recent Covid-19 pandemic as a political and economic risk for the United States. Because of this, many companies’ agendas have been affected; companies have experienced a halt in their climate action goals and a global economic slowdown. Companies are now trying to rebuild their economies sustainably and must focus on ESG investing (*The politics of ESG* 2022 para. 2-8). For Flowers Foods specifically, political factors play a significant role in the company's performance because of its operations in multiple countries. Political instability in other countries, tax rates, and exportation issues threaten Flowers Foods. Economic factors such as interest rates, inflation rates, labor costs, and other factors also affect the company (*Flowers Foods, Inc. Pestel Analysis & Environment Analysis* 2022 para. 5-10). Because of the instabilities created by economic and political factors, the company's ESG ratings are negatively impacted.

**Leadership:**

The World Economic Forum greatly supports the ESG concept and wants to propel the usage of ESG into core business strategies. We do not support their leadership in ESG due to the uncertainty and lack of regulation surrounding ESG (Flo Sec filings - Flowers Foods, Inc. - annual report 2022). The challenges and costs currently of measuring ESG outweigh the benefits of ESG regarding Flower’s Foods. The leading investors of Flower’s Foods include T. RowePrice, Vanguard, and BlackRock (Flo Sec filings - Flowers Foods, Inc. 2022). T.
RowePrice has a neutral view, while Vanguard and BlackRock have previously voted against ESG policies (Breen, 2021, para. 2-5). Due to those firms being our primary investors, Flower’s Foods does not have a favorable view on ESG reporting in the future but is currently making strides to improve its sustainability efforts.

![Company's Actions:](https://fintel.io/so/us/flo)

**Company’s Actions:**

In response to ESG, Flowers Food has prioritized providing a safe and fair working environment for all employees. Their goal is to provide a place for employees with different backgrounds and experiences to work together to achieve their shared goals for the company and work towards their professional goals. They do this by prioritizing diversity, equity, and inclusion. They strongly enforce their policies against harassment and discrimination of any type in reference to color, race, religion, sex, age, national origin, disabilities, genetics, sexual orientation, gender identity or expression, or anything else that is protected by local, federal, or state laws. To ensure that their workplace continues to keep DEI a priority, they began working on a comprehensive DEI program in 2020 and continue to implement changes towards improvement (Flowers Food, *Social Responsibility*, 2022, Section 1-3).

In addition to ensuring that their employees work in a healthy social environment, they prioritize their team’s physical safety. Flowers Food enforces procedures, policies, and extensive training programs to ensure that all employees meet the safety guidelines. They focus on all
aspects of their team member’s working environment, which is why they “regularly conduct anonymous surveys about our compensation and benefits, career growth opportunities, and other topics” to continue finding opportunities to make improvements (Flowers Food, Social Responsibility, 2022, Section 2).

With the addition of ESG, Flowers Food has increased its focus on consumer safety, prioritizing its customer’s dietary needs. When producing their products, they ensure that all their baked goods are safe for their customers and comply with all regulatory requirements and standards. They also ensure that their bakeries remain “clean and efficient” and are regularly inspected by local, state, and industry agencies (Flowers Food, Social Responsibility, 2022, Section 5).

Flowers Food also strives to create a broad product line that offers consumers choices that cater to their dietary needs and preferences. They have expanded their products to have a variety of baked foods that offer one or more of the characteristics shown in the list below (Flowers Food, Social Responsibility, 2022, Section 6).

- No artificial preservatives, colors, or flavors
- No high fructose corn syrup
- Sugar free or lower in calories
- Non-GMO Project Verified
- USDA Organic
- Certified gluten free
- 100% whole grain
Flowers Foods also recognizes the importance of sustainability and how it benefits society and the environment. This recognition is why they apply processes to increase sustainability in all business areas. They are continuing to explore ways to reduce packaging, waste of water, energy, and other resources. The nature of food production creates a lot of waste, but they are finding ways to be more sustainable and have made a lot of progress (Flowers Food, *Social Responsibility*, 2022, Section 7).

According to the statement from Flowers Foods CEO in the 2019-2020 sustainability report, much of their progress has resulted from the investment in energy-efficient upgrades, reduction of waste sent to landfills, and the expansion of their commitment to responsible sourcing practices (Flowers Food, *2019/2020 Sustainability Report*, pg. 4). The chart below shows some of the progress made and their goals for 2025.

<table>
<thead>
<tr>
<th>PROGRESS</th>
<th>2025 GOALS*</th>
</tr>
</thead>
</table>
| ![Cloud](image) -17% | **Reduce greenhouse gas emissions**  
20% per metric ton of product |
| ![Water](image) -6% | **Reduce water use**  
20% per metric ton of product |
| ![Trash](image) 91% | **Achieve zero waste to landfill**  
(98% or greater diversion) company-wide |
| ![Flowers](image) NEW | a. Convert **100% of packaging** to recyclable/reusable or compostable material  
b. **Introduce 20% of recycled materials** into packaging |
| ![Oil](image) 100% | **Source 100% RSPO-certified palm oil** for all cake products and achieve **RSPO Supply Chain Certification** for all cake bakeries |

*Compared to 2015 Baseline
The graphic below shows progress that has been made towards lowering their emissions of carbon dioxide and other greenhouse gases (Flowers Food, 2019/2020 Sustainability Report, pg. 6).

### Manufacturing Emissions Intensity
(mt CO2e/mt product)

<table>
<thead>
<tr>
<th>Year</th>
<th>Emissions Intensity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>0.267</td>
</tr>
<tr>
<td>2017</td>
<td>0.253</td>
</tr>
<tr>
<td>2018</td>
<td>0.249</td>
</tr>
<tr>
<td>2019</td>
<td>0.237</td>
</tr>
<tr>
<td>2025 Goal*</td>
<td>0.229</td>
</tr>
</tbody>
</table>

*Compared to 2015 baseline

### 2025 Goal
Reduce manufacturing (GHG) emissions 20% per metric ton of product

In 2019, 86% of goal achieved.

The graphic below shows the positive effects of the application of water stewardship principles to all aspects of the business (Flowers Food, 2019/2020 Sustainability Report, pg. 12).

### Manufacturing Water Use
(m³/mt product)

<table>
<thead>
<tr>
<th>Year</th>
<th>Water Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>1.36</td>
</tr>
<tr>
<td>2017</td>
<td>1.23</td>
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<tr>
<td>2018</td>
<td>1.29</td>
</tr>
<tr>
<td>2019</td>
<td>1.28</td>
</tr>
<tr>
<td>2025 Goal*</td>
<td>1.09</td>
</tr>
</tbody>
</table>

*Compared to 2015 baseline

### 2025 Goal
Reduce water use 20% per metric ton of product
Flowers Foods have been working hard at doing its part for sustainability and being more conscious about how its business affects the environment. Therefore, 15 Flowers Foods bakeries have received the EPA’s ENERGY STAR certification as of 2020 and are working towards growing that number (Flowers Foods, 2019/2020 Sustainability Report). While they still have many more steps to take to be completely sustainable, they are looking forward to meeting their goals by 2025.

Some risks associated with ESG are that standards constantly change as society evolves and new technologies and regulations are released. They must stay updated with qualifications and continuously improve to meet ESG standards because if they fall behind, their customers
will be less likely to remain loyal to their brand. Another risk to consider is the difficulty of maintaining a healthy work environment across the entire company. There are dozens of bakeries across the country, and it can be challenging to monitor the behavior of thousands of employees. If all management sectors are not held to the same standards, employees can experience an unsafe and toxic work environment.

**Regulations:**

Currently, there is a lack of regulation surrounding ESG and the guidelines for calculating an ESG score. One regulation that has been set in place is the Sustainable Finance Disclosure Regulation (SFDR), which was made to “increase clarity and transparency about the sustainability risks of their products and services” (Bien, 2022, para. 6). Adherence to this regulation and the many others requires complete transparency and understanding of the information for shareholders’ and public viewers. Regarding the relation of ESG reporting to Flower’s Foods stakeholders, 78 percent of investors regard financial accounting reports as their main concern when choosing which companies to invest in. On the contrary, 38 percent of investors report ESG as a main factor regarding investment decisions (Saad, 2022, para. 5). As regulations surrounding ESG are predicted to increase and become more standardized, a main prediction is that ESG reporting will play a bigger role in the relationship between Flower’s Foods and their stakeholders (ESG reporting Global Insights 2022 - Workiva, 2022, Page 2).
Cybersecurity

Industry Threats:

Cybersecurity threats are becoming more prevalent among food firms in the US. The FBI sent an industry notification in September of 2021 stating, "Ransomware attacks targeting the Food and Agriculture sector disrupt operations, cause financial loss, and negatively impact the food supply chain. Ransomware may impact businesses across the sector, from small farms to large producers, processors and manufacturers, and markets and restaurants" (FBI PIN 20210901-01, 2021, p. 1). Hackers target operations and can shut down factories or keep employees from accessing important information crucial to operations. Once the hackers have control over the system or factory, they demand a ransom from the company. One example of this case specific to the baking industry occurred in 2021 to an undisclosed bakery company. The firm was hacked and prevented employees from accessing any online systems (Forrester, 2022, para. 8). The company was unable to recover millions after ransom payouts.

Cybersecurity Breachers:

Most criminals attack companies with the intention of gaining money from ransom payouts. Reports from last year show that “In 2021, JBS, the world’s biggest meat processor, paid an $11m ransom after a cyber-attack shut down operations, including abattoirs in the US, Australia, and Canada” (Makortoff, 2021, para. 1). The hackers were suspected to be Russian and demanded bitcoin in payment to make it untraceable. Especially with a firm like Flowers Foods, it is operations, not private information, that most hackers target. Although data is essential to all firms in the internet age, hackers' intentions to attack production-based firms are primarily motivated by financial gain.
**Risks:**

If Flowers Foods were to experience a complete system lockdown, it would lose the ability to produce products for a short period of time. As a large corporation, it is most likely that the possible bad press would do more damage than a few days of factory and system lockdowns. James Trainor, former FBI Cyber Division assistant director, said, “Just take a look at some of the major data breaches over the last three to five years. Not only do companies suffer significant financial losses to remediate those events such as regulatory fines and liability expenses, but companies also suffer reputational brand harm that could impact their stock value and their ongoing ability to keep and attract customers” (Trainor, 2019, para. 2). Companies that experience data leaks or security breaches are seen as less reliable by the public, specifically stakeholders. Aon also mentioned that some companies reported market value dropping 25 percent prior to an attack (Trainor, 2019, para. 3). If a lockdown lasted longer than usual due to a severe breach, it could affect stakeholders who rely on or heavily use Flowers Foods products.

**Company Actions:**

The company is implementing an ERP system to provide enhanced internal and external IT security (Flowers Foods Annual Report, 2021, p. 16). However, the threat of Ransomware attacks is becoming a more significant threat. As mentioned above, Ransomware keeps any employees or leadership from accessing operating systems and can be small or large in attack scope. Many attacks are carried out on companies without updated cybersecurity infrastructure. Industry week states, "Old appliances and technologies may contribute to the insecurity of your manufacturing network” (Nachreiner, 2019 para. 11). With the new ERP being developed, Flowers Foods should ensure cybersecurity is an important priority. It should also inform employees of possible phishing attacks that could trick an individual into compromising an entire
system. With a fully established ERP system and updated basic technology for administrators
and labor, Flowers Foods should be able to keep its systems from being compromised.
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ESG Challenges:


ESG Political and Economic Risks:


ESG Leadership:

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ESG Company’s Actions:


ESG Regulations:


**Cybersecurity Industry Threats:**


**Cybersecurity Breachers:**


**Cybersecurity Risks:**

**Cybersecurity Company Actions:**


On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this ESG and Cybersecurity Risk Assessment.
Case Three: Audit Risk and Planning Assessment

October 12, 2022

Katelin Anderson (kaander3@go.olemiss.edu)
Alexander Bailey (abailey3@go.olemiss.edu)
Amelia Hunter (athunter@go.olemiss.edu)
Porter May (pbmay1@go.olemiss.edu)
Alex Stradinger (jastradi@go.olemiss.edu)
Case Summary

This past week, our group assessed audit risks and planning within our company, Flowers Foods. We did this by determining the company’s three riskiest accounts: machinery and equipment, inventory, and accounts receivable. Next, we discussed the risks associated with misstating each account, some internal controls the company can implement, and tests auditors can run to decrease the risk of misstatement. Finally, we give recommendations on how to use data analytics to streamline the auditing process most effectively.

What We Learned

This past week, we were given the opportunity to take a closer look at the financial statements of Flowers Foods. After reviewing the company’s balance sheet, we picked 6 accounts to research and analyze the risk associated with each account. During our research, we learned a lot about how each account affects the financial statements and the qualities of accounts that make them risky. Once we gathered the information we needed for our 6 chosen accounts, as a group, we narrowed down our selection to three accounts we considered to be the riskiest for Flowers Foods. To aid us with our decision, we also analyzed Flowers Foods’s income statement to see how the behavior of the accounts can affect net income. This process helped us to learn how to think like auditors and become more comfortable reading financial statements. During our research, we also learned about the necessary planning for ensuring that an account is reported correctly, and how each account requires specific procedures.

As with every case study, this assignment has allowed us to practice our analysis skills and showed us the importance of group collaboration with our research findings. We have continued to learn how to work as a group as we have been engaged in discussions about our
research. Having each group member’s insight about this case has helped us individually better understand audit risks and planning.

**Introduction**

Flowers Foods is one of the largest baking companies in the United States that includes best-selling brands like Nature’s Own, Dave’s Killer Bread, Wonder, Canyon Bakehouse, and Tastykake. Headquartered in Thomasville, Georgia, there are 46 bakeries in 18 states employing nearly 9000 people. This company keeps consumers and brand quality as its primary focus by providing a variety of bakery products (*About Flowers Foods 2022 Section 1,2*). With the company’s large size, Paige Highsmith, VP of Internal Audit for Flowers Foods, has utilized AuditBoard as its audit management platform (*How flowers foods, inc.. Empowers Remote Audit Team & Stakeholder collaboration 2020 Para. 5*). The company’s audit committee charter is dedicated to maintaining honorable financial statements and ensuring the company’s internal controls are effective.
Comparative Balance Sheet for Flowers Foods for the years ended 2021 and 2022

### Consolidated Statements of Income of Flowers Foods for fiscal years 2019-2021

Machinery and Equipment

Risk Associated with Misstatement:

The machinery and equipment for Flowers Foods have a gross value of $1,256,821,000 stated in their 2022 balance sheet. With an account this large, there is a lot of room for error when calculating its balance. It is essential that this account is accurate because these asset accounts are significant indicators of the actual value of Flowers Foods. The most relevant risk for these accounts is the overstatement of the residual value. The overstatement of these assets can be intentional, or mistakes can be made during the recording process. Common mistakes that overstate this account are expenses being capitalized to the equipment and machinery account, purchases that should be recorded as a newly obtained property are expensed, depreciation is improperly recorded, or the moveable equipment is stolen (Hall, 2021 Section 5). This account usually has one of the largest balances on the balance sheet, so it is important that it is recorded correctly and honestly. In addition, these accounts affect the computation of net income as well as the overall value of the company’s current assets on the balance sheet. It is crucial that Flowers Foods has an accurate valuation of this account because of the large amount of equipment and machinery it owns in its dozens of bakeries across the country. The production of the baked goods relies on how efficient Flowers Foods’ machinery and equipment allow them to be. If this asset account is overstated, it will falsely raise the company’s net worth because the value of its possessions is inflated.
Internal Controls:

Segregation of Duties:

If Flowers Foods did not practice the segregation of duties, many property control deficiencies could occur. The company needs to make sure that it has separate qualified people to perform tasks such as authorizing equipment and machinery purchases, entering the accounts into the general ledger and depreciation schedule, and reconciling the depreciation (Hall, 2021 Section 6). If they made sure that this system was in place, they would be able to maintain a system of checks and balances that would deter people from committing fraud, and they could catch mistakes before they are reported in the company’s official financial statements. They would only have people completing tasks that they are specifically trained to do, which would reduce mistakes and streamline the recording process.

Adequate Documents/Records and Independent Checks:

The consistent upkeep of adequate documentation and invoices for machinery and equipment is crucial for accurate reporting. Flowers Foods’ machinery and equipment accounts are depreciated on a straight-line basis. When using the straight-line depreciation method, the misstatement or inaccurate reporting of the residual value of equipment can lower depreciation expense and increase net income. Without adequate documentation to maintain the accuracy of the residual values of equipment, Flowers Foods could be misstating its depreciation expenses and possibly committing fraud (Braganza, 2021). In addition, adequate invoices and documentation are crucial internal controls involving the gain or loss on the disposal or sale of equipment. Without adequate invoices, Flowers Foods could overstate or understate these accounts on the income statement, thus increasing or decreasing net income, and it would also affect their current equipment accounts on the balance sheet.
Tests of Transactions:

To verify the accuracy of the account, auditors perform substantive tests. For example, auditors can compare the additions of machinery and equipment to the related invoices. To accompany this, they can travel to Flowers Foods to participate in the physical count of inventory. They would also measure the appropriateness of the economic lives assigned to new properties. They would then review the chosen depreciation method considering the property’s life. To decide if the account balance is an accurate representation of the value of their assets, auditors would request needed valuations if necessary (Hall, 2021 Section 7).

Data Analytics Recommendation:

Robotic Process Automation (RPA) can be used to streamline the substantive tests for audit procedures for the Machinery and Equipment account. Although the last decade has experienced an advancement in the audit sector by implementing office software such as “Microsoft Excel and Word, working paper software such as CaseWare Working Paper, and audit tools such as Audit Command Language (ACL) and CaseWare IDEA, a massive amount of manual, repetitive, simple, and rule-based tasks are still taking up much of auditors’ time” (Michael Cohen, 2019 Para.1). These tasks are very time-consuming and prone to error, so they should use RPA because it interacts with the other application software at the user interface level. This automates the tasks across multiple software applications (Michael Cohen, 2019 Para.2). Since RDA replaces these activities that the auditors usually must perform, the audit process will be more efficient and effective, allowing more time and energy to investigate the anomalies discovered using the software.
Flowers Foods can also program RPA to calculate whether the prices and quantity are consistent across invoices, sale orders, and any shipping documents for newly acquired property. Alerts can be generated for any transactions that contain discrepancies between price and quantities (Andrea M. Rozario, 2018 Para. 5). Doing this will help prevent any misstatements when recording these assets’ inventory. RPA can also be applied when Flowers Foods calculates the straight-line depreciation for each machine and piece of equipment it owns. If this is entirely automated, it will decrease the risk of depreciation being purposely understated and avoid any human error made when applying it.

When verifying the documentation during the auditing process, Flowers Foods can also use RDA to streamline the evidence collection process by combining the different sources of information into one audit work paper that translates the data into something that is understandable by the user (Michael Cohen, 2019 Para.5). Using RDA to help create these work papers will reduce the time auditors traditionally spent gathering and organizing the data. They would now be able to spend more time analyzing the details.

**Inventory**

**Risk Associated with Misstatement:**

At the beginning of 2022, inventory made up $134,980,000 of Flowers Foods assets. Being a production company with a large inventory, that means there are many risks associated with misstating the inventory account. Regarding misstating inventory, there is a combination of inherent and control risks. First, there are inherent risks which are the account’s susceptibility to misstating. According to Investopedia, inherent risk is “the risk posed by an error or omission in a financial statement due to a factor other than a failure of internal control” (Tuovila, 2022 Para.
1). Levels of inherent risk tend to be high for inventory because of the complex nature of the transactions. Some inherent risks associated with inventory include the inventory being misappropriated by company employees or damaged, stolen, or lost products not being recorded. Also, inventory may be understated to increase net profits and understate the cost of goods sold. Inventory may also be misstated because of the complications of valuations; companies may change policies from LIFO to FIFO, which can cause differences in the cost of goods sold and net income (Bory, 2020 Para. 4-8). There can be errors in counting inventory, shipments, deliveries, and consignment inventories that would affect a company’s end inventory balance (Murphy, 2022 Sec. 10). It is essential that Flowers Foods remains proactive against the inherent risks of misstating the inventory account by maintaining proper internal controls.

Another risk associated with misstating the inventory account is control risks. According to AccountingGuide, “control risk is the risk that financial statements contain material misstatement, but the internal control cannot prevent or detect that misstatement” (Bory, 2020 Para. 9). Control risks go hand in hand with inherent risks, as auditors use both to determine the risk of misstatement. The company’s goal is for inherent risk to be high and control risk to be low, which means the company can rely on its internal controls to prevent misstatement. However, auditors must still test their control risk to verify that their internal controls are functioning correctly (Bory, 2020 Para. 12-14).

Overall, inventory plays an essential role in a business, and misstating inventory can substantially affect the company. It can make companies appear more or less profitable by altering the cost of goods sold. Also, misstating the inventory account impacts investments by potentially making the company look financially better than it is (Contributor, 2020 Sec. 7-9).
Internal Controls:

Segregation of Duties:

As copious amounts of goods are flowing in and out of the multiple inventory stockpiles under Flowers Foods’ watch, the segregation of duties is pivotal in maintaining an accurate total. With the inventory constantly fluctuating, there needs to be a segregation of duties and positions to help avoid any misstating or fabricating of quantities. Specifically, there should be a focus on the perishables and how quickly they can be distributed from the inventory to the groceries to capitalize on the freshness of those products. Dividing up the labor and ensuring that specific individuals run through the inventory daily will practically guarantee that a miscalculation will not happen.

Independent checks:

Like the segregation of duties, a system of independent checks is necessary to monitor and maintain a consistent and correct count. Higher officials within Flowers Foods, such as a factory manager or floor leader, should help oversee the inventory and constantly keep track of changes in their stock. Repeated review of inventory by those who did not make the initial count is important in avoiding a misstatement of the inventory. The independent checks and segregation of duties coincide as both focus on a “checks and balances” system that will provide the most accurate number possible. As the auditing process looks to review what has been performed within the industry, following multiple independent checks will defend against fraudulent information.
Tests of Transactions:

To reduce the risk of misstating the inventory account, companies can put in place various internal control procedures such as regularly counting, properly tagging, and physically safeguarding the inventory. Companies can also make sure that internal controls are in check to reduce the risk of misstatement. The Public Company Accounting Oversight Board says in AS 2510 section 09 that when physically counting inventory, it is necessary for the auditor to be present at the time of the count to ensure the reliability of the measures. For Flowers Foods, much of its inventory is held in public warehouses. One test an auditor can run to make sure the inventory in these warehouses is correct is testing the procedures for evaluating the warehouseman’s performance. Also, the PCAOB said an auditor could “obtain an independent accountant’s report on the warehouseman’s control procedures relevant to the custody of goods and pledging of receipts” (As 2510: Auditing inventories 2002 Sec. 14b). By running these tests, auditors can better prove that the inventory accounts are not being misstated.

Data Analytics Recommendation:

To streamline the audit process for the inventory account, auditors can utilize data analysis software such as asset management software. Software like this allows companies to “capture all the fixed assets information electronically such as barcode number, description, location, fixed asset classes, departments and cost centers, serial numbers, etc” (Asset Infinity, 2020 Sec. 2). It is easy to capture inventory data because it is automatic and can be entered manually. Having inventory data in an electronic software can help ensure that the inventory accounts are not misstated because it helps provide an accurate inventory count. Also, this software generates a detailed report on the inventory activity of a company and proves more effective than using a paper-based method for counting inventory (Asset Infinity, 2020 Sec. 2).
**Accounts Receivable**

**Risk Associated with Misstatement:**

The accounts and notes receivable for Flowers Foods combine to be around $300,000,000 (Flowers Foods Annual Review, p. 64, 2021). Misstating this current asset could significantly affect their portrayal to the public. Too large of a balance, and it might appear that Flowers Foods is not able to collect its receivables at a consistent rate. If it is too low, investors would assume their collection rate is faster than it is. If retail, branded or non-branded, falls into financial trouble, they would need to increase the allowance for doubtful accounts. Inaccuracy in this number would further confuse that allowance and cause additional harm to the company’s image, especially once the company's misstatement became transparent.

**Internal Controls:**

*Independent Checks:*

Independent checks are crucial in seeing to the accuracy of Accounts Receivable. Flowers Foods reviews its aged trial balance weekly and assumes any receivables older than seven weeks are delinquent (SEC Flowers Foods 10k, p. F10, 2021). This task is performed by sales management, which may or may not have worked on the sale of goods and promise of receivables. Making sure the employees checking on the aged trial balance have never worked on the sales being reviewed is essential for consistent and unbiased analysis.
Segregation of Duties:

Segregation of duties is paramount in making sure a sale’s receivables are unbiased. If a few managers are one of the only employee groups to review possible bad debt expenses, it may allow performance pressure or greed to keep these managers from reporting problems that could prevent or hurt the collection of outstanding receivables. Receivables not outstanding should be reviewed by multiple levels of management, with low-level employees recording the sales and passing them along to higher-up employees who can perform short or extensive checks on the accounts depending on their materiality. Assigning these duties randomly to different relevant management could help segregate duties correctly.

Tests of Transactions:

Auditors can compare the grand total of the accounts receivable aging report to the Accounts Receivable balance in the general ledger. This test can help to identify journal entries that should be omitted. Auditors can also check the invoice dates alongside the company’s shipping log to ensure receivables are recorded in the correct period. Cash receipts can be traced through Flowers Foods’ bank account to show the payment of receivables when auditors cannot accurately test accounts receivables. Trend analysis can also be used to identify any unusual movements in sales and related accounts receivable. It is also vital for auditors to examine the method used by Flowers Foods to establish an allowance for doubtful accounts. This method needs to be consistent and appropriate for the current state of the company’s receivables (Bragg, 2022, p. 1)
Data Analytics Recommendations:

Flowers Foods is one of the largest baking companies in the world. Its current implementation of an ERP system is a testament to how large the company is. There is a vast amount of important information with hundreds of millions of dollars in receivables. Data analytics can streamline the segregation of duties process by tracking the users that interact with certain accounts, eliminating most opportunities for management to be dishonest. It can also quickly and accurately compare sales and invoice payments without the need for error-prone human evaluation. As mentioned above, trend analysis can be extremely useful in identifying errors, and data analytics can more efficiently pinpoint trends where auditors might have trouble due to the amount of data a company like Flowers Foods has available (Data analytics and the Auditor, para. 9, 2021).
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Asset Infinity. (2020, August 4). *What are the audit procedures to verify the fixed assets?* Asset Infinity. Retrieved October 17, 2022, from https://www.assetinfinity.com/blog/asset-audit-procedures


*How flowers foods, inc. Empowers Remote Audit Team & Stakeholder collaboration.*


On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this ESG and Cybersecurity Risk Assessment.
Case Four: Tax Planning Assessment

Flowers Foods

November 3, 2022

Katelin Anderson (kaander3@go.olemiss.edu)
Alexander Bailey (abailey3@go.olemiss.edu)
Amelia Hunter (athunter@go.olemiss.edu)
Porter May (pbmay1@go.olemiss.edu)
Alex Stradinger (jastradi@go.olemiss.edu)
Case Summary.

In this case study, our group researched corporate tax credits specific to the baking industry to formulate tax strategies for Flowers Foods that would minimize its cash tax payments. We gained knowledge about the current tax status of our company and then researched various tax strategies that involve an expansion, divestiture, or restructuring of current operations within the company. Our group chose the Research and Development tax credits, Work Opportunity tax credits, and upgrades in energy efficiency as three strategies that would best reduce Flowers Foods’ tax payments. With each of these strategies, we discuss what it is and how it would affect the company. Finally, we numerically show the expected tax savings from upgrading to energy-efficient buildings.

What We Learned

This week, we had the opportunity to learn about tax planning. Before this case study, we had yet to look closely at tax planning and how various tax credits are applied to specific industries. After talking to tax professionals during our workshop for this case, we gained some helpful insight on the most effective tax strategies for a company of the size of Flowers Foods in the food manufacturing industry.

We also learned how to project their possible future tax savings from the strategies that we chose to implement. After looking at the monetary values of each strategy, it became clear what would be worth implementing into Flowers Foods. While making these decisions, we were able to practice thinking like a tax professional would when trying to help a client.

As with every case study, this assignment has allowed us to practice our analysis skills and showed us the importance of group collaboration. We continue to learn how to work as a
cohesive group when we discuss our research. Having each group member’s insight about this case has helped us better understand tax planning.

**Introduction**

As with every big corporation, Flowers Foods already implements some of the tax strategies we mention in this assessment. However, if they keep expanding these plans, they will continue to receive tax credits to lower the total amount of what they directly owe in taxes. For this assessment, we have identified some areas that, if expanded, would greatly benefit Flowers Foods.

It is also essential for them to reevaluate their tax strategies because they can be the center of the increased focus on environmental, social, and governance (ESG) concerns within the business environment. Tax can act as a catalyst for expanding trust and supporting strategic business outcomes, helping Flowers Foods to “identify strategic opportunities for growth and expansion” (PricewaterhouseCoopers, 2022 Executive Summary, Par. 1).

Additionally, Flowers Foods must stay informed on current US tax policies because they remain uncertain under the current administration. If congress agrees to pass their current proposals, significant individual and corporate tax increases could negatively impact them. Flowers Foods also needs to consider the upcoming midterm elections and how they can affect future tax policies (PricewaterhouseCoopers, 2022 Executive Summary, Par. 2-7).

**Corporate Tax Credits**

Corporate tax credits “are economic development subsidies that reduce a company’s taxes by allowing it to deduct all or part of certain expenses from its income tax bill on a dollar-
for-dollar basis” (Corporate income tax credits, 2022, Par. 1). With the Covid-19 pandemic, Flowers Foods is working to combat the difficulties with a labor shortage and employee retention. In August 2022, President Ryals McMullian brought about a “mentorship program” where “new hires are paired with a ‘compatible mentor’ who meets with the new employee regularly and checks on their progress” (Sosland, 2022, Par. 4). Corporate tax credits are allocated for company development and job creation, which would be established through this mentorship program to maintain a substantial retention of employees.

Within Georgia’s state government tax credit, there is an issuance of “credit ranging from $1,250 to $4,000 per year for five years for every new job created” (Tax credits, 2022, Par. 2). Because every state varies in its crediting and Flowers Foods is based in Georgia, we applied this state’s crediting system to a job establishment program to create tax credit incentives. Through the IRS, under the CARES Act, the Employee Retention Credit establishes that “the refundable tax credit is 50 percent of up to $10,000 in wages paid by an eligible employer whose business has been financially impacted by COVID-19” (Employee retention, 2022, Par. 1). Across all 46 bakeries in the United States, Flowers Foods will continue to initiate its mentorship program to increase employee numbers and improve crediting for its payroll savings.

**Research and Development Tax Credits**

The Research and Development (R&D) tax credit is an opportunity for Flowers Foods to receive tax incentives by investing in improving their products and developing new products. The federal government’s goal in implementing this tax credit was to promote
economic innovation within the country and to keep business processes efficient by providing tax incentives for companies. To qualify for these tax advantages, the company must meet four characteristics: being technological in nature, having a qualified purpose, having a process of experimentation, and having an elimination of uncertainty. For example, Flowers Foods making its bread products healthier by finding new and alternative ingredients would be an activity that would qualify the company for the credit. If the company does this through experimenting with new technology and improving upon trial and error, Flowers Foods can exhibit these characteristics that show that the company can survive, allowing them to take advantage of the credit for many years (Feingold, 2018 Para. 1-6).

As consumers become more health conscious, it is imperative for the baking industry company to keep up with health trends and find ways to meet customer needs. Specifically for Flowers Foods, there are always ways to improve its processes and products. The company could develop new packaging and designs, create gluten-free products, add nutritional value, improve commercial oven technology, and many more innovations (Feingold, 2018 Para. 4-5).

The Research and Development (R&D) credit is a dollar-for-dollar benefit against taxes, which provides many opportunities for Flowers Foods to minimize its cash tax payments (Feingold, 2018 Para. 3). According to an article by ADP, “six percent to eight percent of a company’s annual qualifying R&D expenses can be applied, dollar for dollar, against its federal income tax liability” (APD, 2022 Para. 9). This tax credit benefits Flowers Foods because it can receive tax benefits while decreasing the expenses of researching and developing its new products and processes. Continuing with the R&D tax credit benefits, investing in new equipment, such as new oven technology, increases company efficiency, revenues, and labor savings. For example, investing in roll-in rack ovens in the bakeries speeds up the baking process.
and requires minimum labor because the employee can wheel a whole rack of goods right into the oven (Goulding et al., *The R&D tax credit aspects of commercial baking* Sec. 7). Taking advantage of the Research and Development credit benefits companies by maximizing earnings and increasing success over competitors (Feingold, 2018 Sec. 4).

**Work Opportunity Tax Credit**

The work opportunity tax credit (WOTC) is an opportunity for Flowers Foods to receive a tax credit for employing individuals who have had consistent barriers keeping them from finding a job. Firms can earn up to $9,600 in federal tax credits per employee as long as employees record a certain amount of hours and have not worked for the company before (Mississippi Department of Employment Security, 2022, pg 1). Once Flowers Foods has certified new hires as targeted group members, they can claim WOTC as a general business credit against their payroll and income taxes (Work opportunity tax credit 2021, Par. 1-2).

Flowers Foods is already a second-chance employer that hires from a candidate pool of people with criminal backgrounds. They also have a foundation, “Dave’s Killer Bread Foundation,” established in 2015 that inspires businesses to become Second Chance Employers as well (Social Responsibility 2022 section 4). Flowers Foods can expand this program and widen the candidate pool to other groups of people that experience employment barriers. This is an efficient way to continue to minimize their legal tax payments.

As of right now, WOTC is a temporary solution for Flowers Foods since it is only authorized until Dec 31, 2025 (Employment and training administration - dol 2022 WOTC Fact Sheet, Par. 1). However, it is likely that once that date passes, the WOTC program will be
reinstated. This is predictable because the concept of WOTC directly aligns with the social portion of the ESG initiative, which is one of a modern corporation's focuses.

**Upgrades in Energy Efficiency**

Flowers Foods has 46 bakery locations, which makes up a large portion of the company's $700 billion in plant, property, and equipment book value. As the government continues to offer incentives to companies that can be more energy efficient, Flowers Foods can take advantage of this opportunity to lower taxes.

Energy star, a government-backed information provider, states that “a tax deduction of up to $1.80 per square foot is available to owners or designers of commercial buildings or systems that demonstrate a 50 percent reduction in energy usage accomplished solely through improvements to the heating, cooling, ventilation, hot water, and interior lighting systems. Partial deductions of up to $.60 per square foot can be taken for qualifying measures” (Tax deductions for commercial buildings, Energy star, Para. 1). Flower Foods could find a legitimate strategy in reevaluating all of their building equipment and switching to ENERGY STAR certified commercial building equipment when it is applicable or possible. Total possible savings are shown in the chart below.

<table>
<thead>
<tr>
<th>Total Square Footage</th>
<th>Tax Reduction Per SQ. FT.</th>
<th>Total Tax Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>7119000</td>
<td>$ 1.80</td>
<td>$12,814,200.00</td>
</tr>
</tbody>
</table>

The total tax reduction is calculated by taking the estimated square footage of every plant and multiplying it by the estimated reduction per square foot.
In addition to the tax savings created by energy reduction, additional costs of energy and water consumption are also saved as shown in the charts below.

<table>
<thead>
<tr>
<th>Energy Used (KWh)</th>
<th>1,244,889,414.54</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy Saved After Conversion (KWh)</td>
<td>273,875,671.20</td>
</tr>
<tr>
<td>Costs Saved After Conversion</td>
<td>$ 6,846,891.78</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Water Used (M)</th>
<th>Total Water Saved After Conversion (M)</th>
<th>Costs Saved After Conversion</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,995,548</td>
<td>1277150.72</td>
<td>$ 37,037.37</td>
</tr>
</tbody>
</table>

These costs saved are calculated by estimated savings of the Lynchburg plant which showed an initial reduction of energy by 22 percent and water by 64 percent multiplied by the current energy usage of the plants.
WORKS CITED


*WOTC faqs*. MDES. (n.d.). Retrieved November 2, 2022, from https://mdes.ms.gov/wotc-faqs/#:~:text=The%20WOTC%20Program%20provides%20businesses,one%20of%20the%20targeted%20groups
On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this Case Study.
Case Five: Flowers Foods Final Case Presentation

November 7, 2022

Katelin Anderson (kaander3@go.olemiss.edu)
Alexander Bailey (abailey3@go.olemiss.edu)
Amelia Hunter (athunter@go.olemiss.edu)
Porter May (pbmay1@go.olemiss.edu)
Alex Stradinger (jastradi@go.olemiss.edu)
INTRODUCTION TO FLOWERS FOODS

- #2 U.S Producer of Packaged Bakery Foods
- $4.3 Billion 2021 sales
- 46 Bakeries in 18 States
- 8,900+ Employees
- 85% U.S Population Reach

ADVISORY

What strategies, new or improved, can benefit our client?
ENVIRONMENTAL, SOCIAL, AND CORPORATE GOVERNANCE (ESG)

- ESG risk = a company’s exposure to industry-specific material ESG risks and how well a company is handling them

- It is important for them to make changes now to lower their ESG risk in relation to other companies
FLOWERS FOODS' CURRENT ACTIONS IN RESPONSE TO ESG

ENVIRONMENTAL
- Increased sustainability in all work areas with specific goals for 2025
- Elimination of excess packaging
- Reduction of water waste, energy, and other natural resources

SOCIAL
- Broadened product line to meet customers' specific dietary needs
- Comprehensive DEI program started in 2020
- Extensive training programs to ensure that all employees are in a healthy and safe working environment

GOVERNANCE
- "Code of Conduct" for board of directors, officers, and employees
- "Flowers Foods Supplier Code of Conduct" for supply partners

FLOWERS' FOODS 2025 SUSTAINABILITY GOALS

<table>
<thead>
<tr>
<th>PROGRESS</th>
<th>2025 GOALS</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="progress_icon.png" alt="Progress Icon" /></td>
<td><img src="goal_icon.png" alt="Goal Icon" /></td>
</tr>
<tr>
<td><img src="progress_icon.png" alt="Progress Icon" /></td>
<td>Reduce greenhouse gas emissions 20% per metric ton of product</td>
</tr>
<tr>
<td><img src="progress_icon.png" alt="Progress Icon" /></td>
<td>Reduce water use 20% per metric ton of product</td>
</tr>
<tr>
<td><img src="progress_icon.png" alt="Progress Icon" /></td>
<td>Achieve zero waste to landfill (98% or greater diversion) company-wide</td>
</tr>
<tr>
<td><img src="progress_icon.png" alt="Progress Icon" /></td>
<td>a. Convert 100% of packaging to recyclable/reusable or compostable material</td>
</tr>
<tr>
<td><img src="progress_icon.png" alt="Progress Icon" /></td>
<td>b. Introduce 20% of recycled materials into packaging</td>
</tr>
<tr>
<td><img src="progress_icon.png" alt="Progress Icon" /></td>
<td>Source 100% RSPO-certified palm oil for all cake products and achieve RSPO Supply Chain Certification for all cake bakeries</td>
</tr>
</tbody>
</table>

2015 is the baseline for measuring the progress made towards 2025 goals.

*Compared to 2015 Baseline
ESG ADVISORY

Flowers Foods has the opportunity to improve their ESG rating if they have more ESG-related expertise to help them efficiently identify data needed to disclose to the SEC.

Strategies to Improve ESG

- Implement an ESG program that identifies and manages risks in real time
- Identify trends in capturing and reporting ESG and climate focused data
- Expand on programs that have already been implemented
- Track the progress of their 2025 sustainability goals and quantify the results

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of deals</th>
<th>Total Funding</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>13</td>
<td>$523m</td>
</tr>
<tr>
<td>2018</td>
<td>15</td>
<td>$454m</td>
</tr>
<tr>
<td>2019</td>
<td>13</td>
<td>$673m</td>
</tr>
<tr>
<td>2020</td>
<td>16</td>
<td>$1bn</td>
</tr>
<tr>
<td>2021</td>
<td>21</td>
<td>$2.3bn</td>
</tr>
</tbody>
</table>

*GAFAM = Google/Alphabet, Amazon, Facebook/Meta, Apple, Microsoft
Source: CB Insights

CYBERSECURITY ISSUES

- Growing Industry Threats
- How do these attacks take place?
- How should Flowers Foods proceed?
AUDIT RISK & PLANNING

ACCOUNTS RECEIVABLES

What makes this account risky for our client?

As auditors, what must we prioritize when examining our clients’ receivables?

How can our client make the receivables process more efficient?
INVENTORY

- Flowers Foods constantly maintains a high inventory
- Inherent risks with perishable inventory
- Misstating inventory can play detrimental role

To combat the problems:
- Segregation of duties
- Independent checks

TAX PLANNING

How can we legally reduce Flowers Foods Taxes?
TAX STRATEGIES

- Research and Development Tax Credits
- Work Opportunity Tax Credits
- Upgrades in Energy Efficiency

RESEARCH AND DEVELOPMENT TAX CREDITS

Receive tax incentives by improving and developing new products
Dollar for dollar benefit
Maximizes earnings and increases success over competitors
WORK OPPORTUNITY TAX CREDITS

What is WOTC?

Flowers Foods’ existing efforts

Opportunities for expansion

UPGRADES IN ENERGY EFFICIENCY

Annual Costs Saved

$12,814,200.00

$6,846,891.78

$37,037.37

Tax Reduction

Energy Savings

Water Savings
Case Six: Famous Economists Case

March 1, 2023

Porter May (pbmay1@go.olemiss.edu)
Biographical Information

Dr. Thomas Sowell and Dr. Walter Williams are praised for many reasons: defying racial barriers, publishing numerous award-winning novels, and becoming prominent philosophers and educators. As both men came from humble beginnings, they utilized all resources to assist them in pursuing knowledge. They embody the practice of putting hard work at the forefront of every task to achieve goals, proving successful for the two men over their colorful careers. Dr. Sowell and Dr. Williams have many similarities in their livelihoods and upbringings but differ in their dispositions. While Thomas was raised by women in Harlem and hoped to pursue a higher education, Walter grew up in the Philadelphia projects. He received most of his artistic exposure from visits to nearby museums with his mother and siblings. These two men's findings, speechings, and writings over their lives have established them as highly-respected individuals within their fields, allowing their work to continue for future generations.

Thomas Sowell was born in Gastonia, North Carolina, in a community where homes scarcely had essential utilities. He moved to Harlem with his great-aunt and cousins for more growth opportunities. A family friend, Eddie, began to mentor Thomas at the local public library, and his affinity for learning soon blossomed. Sowell attended the University of Chicago for a Ph.D. in economics and immersed himself in an education based on facts, which later helped him become secure in defending his opinions. This practice of self-assuredness followed Dr. Thomas Sowell throughout every job and relationship, especially in his work at the Department of Labor. He studied minimum wage and assessed that the government was apathetic to struggles but merely monitored the people. His perspective on life and how he perceived knowledge was changed, which brought him to teach at Cornell, where he avidly discussed the issue of mismatched black students to universities because of affirmative action. Dr. Sowell expressed
passionately in his debates and speeches that society is regressing and our society is reintroducing slave-era characteristics. Aside from his philosophy work, Thomas was an avid photographer, and he would embark on extravagant trips to capture photos with colleagues worldwide. Through all of his publications, Thomas Sowell has always remained uniquely himself, which has earned the respect of many. His ground-breaking philosophies continue to pave the way for future generations of all races to create an equal society.

Walter Williams is another man who does not care much for the public's critiques while receiving admiration for much of his economic work. Unfortunately, his genius was often overlooked in his younger years as he acted frivolously and childishly. After serving his time in South Korea, Williams rejoined his fiancéé, Conchetta, and then enrolled in the University of California- Los Angeles. Dr. Williams started to preach similarly to Dr. Sowell, and he proclaimed that race hustlers had resurrected racism. Walter and Thomas's ideals aligned often, and he assumed a job at the Hoover Institute at Stanford just as Dr. Sowell did. Williams' work in economics led to his search for the truth in philosophy and racial tensions, which procured many articles and books discussing the generational changes that caused racial resurrection. Drs. Sowell and Williams found a profession in their economic studies but soon applied their profession to their defense for free speech and upholding the Constitution. The liberty of free thought propels thinkers like Thomas and Walter to find the truth behind every situation, which is responsible for the most effective change in the United States.

Reflection and Analysis of Biographies and Views

Throughout history, many individuals have stood out in their eras as catalysts of cultural, social, political, and economic change. The embodiment of a true "Renaissance Man" carries into multiple fields of change. For example, economists Thomas Sowell and Walter Williams have
brought continuous and significant findings to areas both in and out of their professions. As philosophers, they pondered the fluctuations in our economy and how those changes affected people's lives across the country. For several decades, they shed light on sensitive topics, such as racial discrimination amidst societal chaos, and continue providing relevant information in today's conversations. In Sowell's and Williams' lives, they arose to a vital position in their fields from a meager beginning, which plays a decisive role in their grounded approach to life.

After watching the biographies of the two profound men, I was happily surprised to learn of their philosophy on the foundation and importance of seeking the truth. Far too often in our society, people instantly believe any information thrown their way, regardless of the source. This creates an influx of hastily made decisions or opinions that may be based upon rumors or stereotypes. I respect Dr. Sowell and Dr. Williams immensely, not only for their contributions to philosophy and economics but also for their honest personalities that stand for their beliefs. They prove in their success that education is the key to economic freedom and knowledge and that education never stops; every day presents new opportunities to learn.

What I found particularly interesting about Dr. Sowell and Dr. Williams is how they completely abandoned their beliefs and adopted the area opposite to their original background. Thomas Sowell was originally a Marxist and stood confidently by the governmental structure and economic framework Karl Marx believed in, which continued until he began his professional career. Walter Williams was a passionate supporter of the Civil Rights movement under Malcolm X. At the same time, he held firmly to a defense of the United States Constitution and its free speech laws. They are self-governed men who do not let external pressures cause drastic decisions or fatal impacts in their lives; every choice is carefully measured and predetermined. As Thomas and Walter studied how the government and economy affected every community
differently, their perspectives were altered, and they progressed towards a more educated approach to everyday occurrences. Their diligence is an embodiment of many great leaders, which is what I hope to attain someday in my life.

As independent thinkers, Dr. Thomas Sowell and Dr. Walter Williams refrained from succumbing to mainstream mindsets. In their childhoods, welfare was becoming more common for families in their communities, resulting in a steady increase in unemployment and a lack of drive from individuals receiving regular checks. As the two men went through college and began understanding the effects of welfare in the country, they denied the ideology of falling into a path of dependence upon a feeble government. Thomas Sowell, in particular, stated that "the assumption that spending more of taxpayer's money will make things better has survived all kinds of evidence that it has made things worse" (Njolomole). I relate to Thomas Sowell's belief that continuing on a proven ineffective path has restricted progress and caused a regression. A mindset of insubordination is placed on the welfare ideology, which drove Sowell and Williams to push out of normality into a movement of their own. They denounced the government's financial and social restriction systems and strove to ingest all knowledge possible. Because Sowell and Williams were heavily educated on all topics they debated, every argument was seamlessly squashed as they countered the expected wave of thinking and stood steadfastly in their position. This thinking practice changes permanent systems and structures in our daily lives, which gives me hope for what the future brings if more philosophers rise due to these men.

From the countless interviews and articles we saw in the video biographies, I am amazed by their public speaking and communication skills. To be a leader, one must earn the attention and respect of the viewer, which both Sowell and Williams expertly succeed in. Their poise, eloquence, and intellectual word choice amidst the derogatory comments displayed how
emotionally strong the two men were in their careers. With their respect for others and always brutal honesty, Dr. Sowell and Williams would earn the respect of those in their field or who viewed their work. As their lives were full of tumultuous events, such as serving in the military, their ability to relate to people from various backgrounds helped them immensely in speaking to crowds and their writing styles.

From the pain, ridicule, and determination forced on these men, I find it empowering that their dreams came to fruition. The most prominent individuals rise from poverty and achieve their goals through hard work and patience, exhibited throughout Sowell’s and Williams’ lives. I was unaware of their contributions to economics and philosophy previously. After learning their stories, I want to read more about their work and how they brought attention to social problems. Thomas Sowell and Walter Williams centered their philosophical discussions on avoiding blame for past transgressions, such as slavery, and pushed toward a future of amiability between races. They explained to the world how past historical events do not determine present-day conflict, and we can use those experiences to better ourselves for the future.

**Reflection on "The Shameful Blackout of Thomas, Sowell, and Williams"**

Author Larry Elder is an American right-wing political talk show host and commentator who often speaks on black conservatism. In his article, Larry levies numerous points against the black left-wing community as they denounce the accomplishments of Justice Clarence Thomas. The problem arose from the National Museum of African American History and Culture failing to feature Justice Thomas as a significant figure as he became the second black individual to sit on the Supreme Court. Though he is a monumental individual of change, society views change to fit specific agendas and lenses. His conservative beliefs are said to "damage the black
community" as they do not align with the aggressive left-wing blacks (Elder). The ridicule from such parties consists of attacking him for attending prestigious universities because of an affirmative action plan while his high scores and accolades are ignored. Elder writes passionately of Justice Thomas's continued disgrace as he is absent from the black magazine Ebony's "Power 100", which lists the black individuals who "lead, inspire and demonstrate ... the very best in Black America" (Elder). Along with being left off the list are Thomas Sowell and Walter Williams, who embody the same ideals and principles that Clarence Thomas does. Larry Elder believes injustice is being done to all Americans because the three men and other figures are stifled or concealed from history.

Individuals who stand alone in a crowd are often segregated in their decisions, and the aggressors attempt to silence their voices. Dr. Thomas Sowell, Dr. Walter Williams, and Justice Clarence Thomas are three prime examples of men of differing beliefs from the expected normal, which is blatant bigotry and offensive to their work. Regardless of race or ethnicity, an individual's opinion should not be stifled under the guarantee of freedom of speech. Role models like Sowell, Williams, and Thomas are disparaged for their accomplishments because they do not follow the stereotype created that the black community is uneducated. The media fights to suppress images that do not coincide with theirs. In particular, white liberals want to maintain this racist control over black individuals to continue progressing their agenda in governmental affairs, such as elections. Sowell, Williams, and Thomas have utilized their platforms to spread fact-based evidence and philosophies. However, because of their race, they are consistently shrouded from the public eye as their opinions do not coincide with their expectations. The plague of systematic racism that has dominated our country's society has only increased in severity with radical perspectives presented by Sowell and Williams. Because their findings
damaged the power of the liberal party and left-wing extremists, blacks who aspire to continue this deviation away from the leftist beliefs are scrutinized and disrespected as Justice Thomas has been.

Actions that supposedly serve as reparations, such as affirmative action, are only assisting the frequent racial profiling in the United States. Sowell and Williams targeted the government's inability to sustain impoverished individuals by pointing out many gaps in efforts to improve racial divisions; however, the wage programs and housing projects have only proven to establish weaknesses. The Democratic party has preyed upon minority communities for centuries, but their grasp on suppressing conservative black voices is loosening. Ignoring black innovation and accomplishments is not only racial prejudice but is also a discredit to helping our country grow. Leftists heavily employ oppression and victimization to increase government control and the welfare ideology that encaptures impoverished minorities. Justice Thomas is a strong image of black empowerment and prosperity, which should be recognized and honored throughout history. Wise teachings from Sowell and Williams have highlighted minimum wage implications and education barriers, but the same conversations continue in today's society. Undermining the hard work and brilliance of these two men has handicapped our progression in culture and education, which resulted in the ridiculous disrespect towards Justice Clarence Thomas. Daring to differentiate from the liberal media and embracing conservative ideals often results in the alienation of black men and women, a twenty-first-century revival of segregation and racial intensities.
**Exercise Reflection**

After learning extensively about Dr. Thomas Sowell and Dr. Walter Williams, I am astounded by the work they accomplished while receiving little-to-no recognition. With these two men's significant contributions to economics and philosophy over their careers, Sowell and Williams have established themselves as catalysts for the changes in black education and poverty. Through these videos, I learned a thinking style that I had never considered: regardless of race, the truth should always be sought first. These men spoke fearlessly about their concerns about the white guilt that runs rampant in political, academic, and social realms, such as the poor matching system for black students in universities. Williams' mockery of these reparations is shown through his certificate of amnesty on his website, which adequately explains sarcastically that the efforts by white politicians to cover the past racial matters are unnecessary. Honesty is shared between both men and Justice Thomas as they uncover the truthful information in each debacle they encounter while rarely sparing feelings.

The tone used by Larry Elder in his article is quite extreme towards his political affiliation, but the injustices done to Clarence Thomas should be further publicized. Discrediting a person for their opinions should never be tolerated, especially when he or she is making significant progress in a white-dominated field. Our country is built upon interminable innovations that all races and backgrounds should accept. All people should receive equal opportunities in their endeavors. The biographical videos showed me the struggles these men endured to make their ideas known, which empowers me to do the same. Making your opinion known amongst opposing views is a complex challenge many of us face in today's society and political climate.
I hope others will seek to study Dr. Sowell's and Dr. Williams' journeys and how they never allowed anything or anyone to impede their goals. Their advocacy for growth in the black community and no longer accepting subordination pushes new generations to do the same. Unfortunately, our scope of political preferences has established strong divisions that have restricted free thought. However, with open ears and hearts, we can eliminate discrimination within these areas and focus on expanding our philosophies.
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Honor Code

On my honor, I pledge that I have neither given, received, nor witnessed any unauthorized help on this Famous Economists Case.

Signed,
Case Seven: Bank Failures Case

April 5th, 2023

Porter May (pbmay1@go.olemiss.edu)
Introduction

The Silicon Valley Bank crisis has been a topic of interest over the last month as the bank collapsed with seemingly acceptable reports for continued operations. However, the gaps in their accounting structure prove that far more danger needed to be promptly acted upon. This bank primarily “catered to a world of venture capitalists known as much for their astounding wealth as their hearty appetite for risk,” which reflects the sudden movement of assets and investments within the bank (Morrow, Para. 8). The nature of investments and bond issuances was extraordinarily volatile and enticing within the Silicon Valley Bank as their dealings with cryptocurrencies brought in a large new market of investors. However, the inner workings of the hundred-billion-dollar bank focused on the high liquidity and movement of the current global market, which amounted to having little security on the cash and equivalents. Potential obscurity in actual values of bonds, such as the treasury bonds not entirely held to their maturities, also brought the downfall of the faulty foundation that the Silicon Valley Bank had developed.

What I Learned

This week’s findings taught me the constant restructuring and projection of internal accounting information within businesses to provide for a successful appearance and high income to high-ranking individuals. In large corporations and banks like Silicon Valley Bank, officers will classify investments into three categories: held-to-maturity, available-for-sale, and trading securities. Each time frame for how long it will remain in inventory before being sold is based on the investment risk, which tends to change with rising and falling interest rates. I was astonished to learn about the audit mishap under KPMG’s watch just a few days before the collapse. With every factor pointing towards imminent doom for the Silicon Valley Bank, I am
curious how the signs were unclear to seek a more stable monetary control of their bank for their customers.

**SVB Failure Affecting Economic and Governmental Policies**

The March 2023 Silicon Valley Bank failure stands out from previous historical economic crises as the problematic sections of their accounts, though quite noticeable, were ignored. As Washington Mutual possessed “obscure products” that “turned out to be worthless,” they were stunned by the findings that caused a catastrophic downfall overnight (Morrow, Para. 4). Over time, preparation has been done for another such event; however, the exact cause for this most recent downfall has not been assigned. There “were clear signs of basic corporate mismanagement” within the bank that can be credited to the failures as they “did little to hedge against its exposure to [interest] rate hikes” (Morrow, Para. 5); (Silber, Para. 5). SVB’s investment in long-dated maturity investments is a consistent plan to bring high revenue into the corporation but leaves a fair amount of weaknesses and risks to creditors who have no defense to potentially losing their money.

With the drastically increased interest rates from the significant government spending occurring since the Covid-19 pandemic, this economic plummet was an upcoming event as large amounts of budgeting and spending have been directed towards crypto, foreign affairs, and pandemic relief plans. As the “federal spending [has] jumped from $4.45 trillion in 2019 to $6.21 trillion in 2023,” the government has made apparent decisions that the global economy is flourishing with increased spending and allocation (Edwards, Para. 1). Specifically, spending has increased for programs that have not been focused on in previous years, such interest, which plays a significant role in the high rate of selling bonds and investments before the value has diminished. Because of the fluctuations in withdrawals and spending within the country, SVB
bought “long-term, low-yielding bonds with short-term funding from depositors that was repayable upon demand,” which soon got stuck at their low interest rates and were forced to fold when having to return money to depositors quickly (Weil & Eaglesham, Para. 21). Fiscal policies will arise in the coming months to combat any future collapses and damages to United States citizens’ money in the bank. However, I do not believe there should be extensive governmental control over the economy, even with the recent negligence displayed. If a strict hand is placed on a seemingly free-lanced and liquid economy, the ebbs and flows will cease. Regulators and officials will uncover the root of the issue and most likely push for more public reporting within the banking systems, especially for crypto-based exchanges.

**Future Career Impacts and Changes in Accounting Rules**

The single collapse of Silicon Valley Bank will not have too huge of an impact on our future careers, but it has set a tone of concern for future students looking into the audit profession. As KPMG conducted the audit on SVB just a few weeks before the crisis, their team found no issues with the bank’s reporting, and their operations continued smoothly. However, the infrastructure within SVB and clientele also pointed towards their inability to continue business as they were operating without a Chief Risk Officer. Theoretically, if one were present, he or she “would have been able to spot the outsize risk posed by the dwindling value of the bank’s long-dated bonds” (Morrow, Para. 27). This carelessness and lack of structure show to me that accounting must adhere to a consistent set of rules and principles in order for the operations to continue. Without them, there will be gaps in jobs needing to be completed, such as an absent CRO within SVB.

I am astonished by the weak control and poor review by both KPMG and SVB. KPMG finds itself in a horrible position; they could have either brought about the issues within the
SVB’s held-to-maturity securities or kept secret on the problem, which they did. The fair value gap on the held-to-maturity securities was about “$15.1 billion below their balance-sheet value,” which amounts to almost the entire value of the company’s equity investments (Weil and Eaglesham, Para. 25). KPMG’s actions were done in order to prevent hysteria by depositors who would rush to withdraw their money. As Silicon Valley Bank held to its position that it would hold its securities to maturity, KPMG was going to allow it under a consistent accounting assumption. To prepare better for a similar situation, accounting firms should focus on a deeper checks-and-balances system amongst auditing teams, as well as performing more regular checks that consider the inflated income from ignoring certain gains and losses, just as SVB did. Banks and other corporations’ investments should center on acting defensively against potential inflation spikes, which may become more familiar with changes in international business and currency.
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Case Eight: Financial Crisis History Case

April 12, 2023

Porter May (pbmay1@go.olemiss.edu)
Introduction and This Week’s Findings

This week, our class viewed Charles Fergusons’ *Inside Job* and Matt Taibbi’s article regarding Goldman Sachs and their ties to financial crashes. Through these two sources, I was able to broaden my understanding of our nation’s financial history and the weak points that resulted in significant crises, such as the 2008 housing crash. My knowledge on investments and the dangers of deregulation was very minimal before I watched *Inside Job*, but I was shocked to learn of the massive involvement in fraudulent activity across Goldman Sachs and other groups on Wall Street. After reading Taibbi’s “The Great American Bubble Machine”, I found many comparisons to the housing bubble formation and Goldman Sachs strike on a weak economy to that of Covid-19’s influence on spending and resource availability. With global price increases because of the massive shut-down, the global economy may be faced with similar inflammatory figures that came before the great collapse in 2008.

The movie and article have led me to believe that the 2008 crash could have been planned for better, but most likely not avoided, through a stronger sense of morals by the regulators and risk managers. Though multi-billion-dollar decisions are pulsating through these corporations daily, each decision should be made carefully for the longevity of the company and benefit of its customers. Instead, loopholes were taken to create an image of prosperity but underlying details showed that bankruptcy was coming.

In our current society, individuals are easily influenced by Internet news and publications that either create a strong emotional response or contain too much jargon for the reader to care about. This week’s case showed me the importance of remaining educated and updated on financial matters and how every major event or legislation can affect the balance of the economy.
As I was able to learn about the steps leading up to each major historical crash through the past century, I can see the similar reflections in our economy.

**Institutions and Government**

After watching *Inside Job* and learning of the many violations and frauds committed by global investment banks, my trust in institutions and government-led organizations has significantly decreased. I understand utilizing a free market to one’s advantage, but moving millions of dollars to cover loans that cannot be repaid only causes long-term damage. Our capitalistic country strives to constantly circulate money throughout our economy; however, periods of downturn fail to defend the general public while letting the wealthy Wall Street men increase revenues. Presidencies such as Ronald Reagan advocated for more economic activity which resulted in more bankers to move into the political realm as he appointed the CEO of Merrill Lynch Donald Reagan to serve as Secretary of Treasury. Their belief in a free market led to more trading, investments, and issued loans through the American people, which helped increase spending and elevate the United States’ global economic image.

I understand the government bringing in previous workers for Goldman Sachs will bring more insight for future economic turns and monitoring the market, but I feel as though these men have brought their sneaky practices. In order to open the market for the brokers, deregulation was pushed for in the 1980s as Iceland, who has a very stable and strong economy, had implemented. Deregulation sounds appealing to many who wish to have little control and move money freely, but there comes a price; without regulation, there is no safety net or line of defense for a potential crash. I support a liquid economic environment with constant fluctuations and changes, but without control, any external factor could take a serious toll on our country. The individuals with power over financial institutions through the government have funneled money
from the American people into their hands for their own benefits or investment opportunities. Amidst the crashes of 1929 and 2008, Goldman Sachs has always managed to stay afloat as they have managed to be the “chief underwriter to the country’s wealthiest and most powerful corporations” while having a “reputation for relatively solid ethics and a patient approach to investment that shunned the fast buck” (Taibbi, Para. 13-14). The complacency with the performance and transparency of investment giants has caused the American people to be put in a subordinated economic role in which we will continuously lose money to government-sanctioned activity.

**Beliefs on Role**

I feel as though my role as a truthful and lawful accountant will be put fully to the test when I work in public accounting. *Inside Job* and Matt Taibbi talked frequently about the trade-offs that occur within financial investments as every gain should come with a loss. However, the current system seems to favor the giants over the common man, which completely defies the usage of a free economic market. Risk managers from several companies leading up to the 2008 financial plummet mostly withheld from advising their organizations to reduce spending or warned of upcoming issues because “[raising] an issue that undermined the bank's multi-billion-dollar profits would have been to ‘sign his own death warrant’” (Inman & Kingsley, Para. 9). Deregulation of investments and derivatives only opened more room for lies, secretive trading and potentially fabricated stock values, as discussed by Tiabbi in his article.

On a personal level, I am deeply fascinated by the way Wall Street giants have continued to profit from market crashes over the last several decades. As organized greed triumphs over disorganized democracy, the wealthy will continue to climb to the top.
Political Landscape Comparison

The political landscape from the 1980s to our present time has changed drastically in terms of economic activity and regulation. Under Ronald Reagan and Bill Clinton, there was a great belief in deregulation by all; brokers, regulators, investors, and all who worked with or through financial corporations pushed for less regulation and more decision-making under their jurisdiction. In turn, the stock market became riskier, but more money was at stake to profit, which turned to more of the common man investing. To open for freer movement, the Gramm-Leach-Bliley Act was overturned, which allowed for further deregulation and selling of derivatives. Without the safety precautions holding our economy in place, the future was doomed for imminent doom.

Today, our leadership is far less demanding than before and is bullied by international investors rather than just ones within the United States. As the crash approached in 2008, the real estate bubble was only growing with double mortgage and house prices along with the popularity of subprime loans being sold. There is a dire need for regulation on our economy to protect us from another damaging crisis such as that we’ve already seen. History repeats itself frequently, and if the proper precautions are not taken, the American people will continue to lose money to the top wealthy percent of figureheads.
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