

AGENDA
 1. Introduction
 2. Problem Statement
 3. Major Problems
 4. Implementation
 5. Conclusion
 TheCaseSolutions.com

Introduction

Sean Wright founded Fit Food, Inc (FFI) in 1972

Developed a new line of cookies called "Smart Cookies"

2000 Smart Cookie distributed nationally / Also launched FFI IPO, listing company stock on NASDAQ

2001: Savorly Snacks Division introduced

2003: Acquired energy drink company, forming the Sport and Energy Drinks Division

2009: Company was consistently profitable, but heavily leveraged

"Tasty but Healthier!"

TheCaseSolutions.com

Paramount Distributing Inc.: The Popcorn Predicament

TheCaseSolutions.com

Problem Statement

- Inadequate/loose control systems
- Divisional Managers manipulating data to achieve individual bonus goals
- Pressuring divisional managers to focus on the short-term performance by providing misaligned incentives
- Lack of internal audit system

TheCaseSolutions.com

Major Problems

- Lack of Internal Audit Function and Fraud
- 20% of Accounting Divisions
- 35% Shipping
- 40% Capitalization of Expenses
- 50% Bureaucracy
- 60% Goal Congruence
- 70% Lack of Goal Congruence with the CEO
- 80% Integrity
- 90% Lack of Documentation

TheCaseSolutions.com

- 60% GOAL CONGRUENCE**
The incentive system...
TheCaseSolutions.com
- 50% BUREAUCRACY**
The organization...
TheCaseSolutions.com
- 40% CAPITALIZATION OF EXPENSES**
The organization...
TheCaseSolutions.com
- 35% SHIPPING**
The organization...
TheCaseSolutions.com
- 20% OF ACCOUNTING DIVISIONS**
The organization...
TheCaseSolutions.com
- 10% OF INTERNAL AUDIT FUNCTION**
The organization...
TheCaseSolutions.com

IMPLEMENTATION

- Steps to be taken
- Proper management of resources being consumed
- Checks on internal audit function to prevent and detect
- Develop a code of conduct and related it
- Clear message must be given regarding culture top-down to having better integrity
- Check and control on other aspects such as customer interaction
- Regular controls such as segregation of duties with rules for internal processes

Conclusion

- Lack of proper people controls and over emphasis on results control
- Top management had too much control
- Lack to find and investigation of accounts
- Lack of accountability and controls in place
- Main improvements should be focused on people controls
- Company culture should be revised
- Less focus on results control

ACC 803: Fit Food, INC



*Paramount Distributing In
The Popcorn Predicament*

TheCaseSolutions.com

AGENDA

- BACKGROUND
- PROBLEM STATEMENT
- ISSUES
- ALTERNATIVES/RECOMMENDATIONS
- IMPLEMENTATION
- CONCLUSION

TheCaseSolutions.com

Introduction

Sean Wright founded Fit Food, Inc (FFI) in 1972



Developed a new line of cookies called "Smart Cookies"

2000: Smart Cookie distributed nationally! Also launched FFI IPO, listing company stock on NASDAQ

2001: Savory Snacks Division introduced

2003: Acquired energy drink company, forming the Sport and Energy Drinks Division

2009: Company was consistently profitable, but heavily leveraged



"Tasty but Healthier!"

TheCaseSolutions.com

Problem Statement

- Inadequate/loose control systems
- Divisional Managers manipulating data to achieve individual bonus goals
- Pressuring divisional managers to focus on the short-term performance by providing misaligned incentives
- Lack of internal audit system



"A 34% cut in our corporate ethics should return us to profitability."

Major Problems

- 1) Lack of Internal Audit Function and Fraud
- 2) Use of Accounting Reserves
- 3) Shipping
- 4) Capitalization of Expenses
- 5) Bureaucracy
- 6) Means-End Inversion
- 7) Lack of Goal Congruence with the CEO
- 8) Integrity
- 9) Lack of Documentation

TheCaseSolutions.com

1) *LACK OF INTERNAL AUDIT FUNCTION*

- No monitoring and evaluation of risk
- No checks to make sure internal control processes are working
- Sean Wright (CEO) should create an internal audit function

TheCaseSolutions.com

2) USE OF ACCOUNTING RESERVES

- President of Drink Division used reserves to manipulate profits in order to meet targets
- Income smoothing distorts management decision making

Recommendation

- FFI can combat this by setting up more attainable targets to reduce the need for gamesmanship

TheCaseSolutions.com

3) SHIPPING

2008

- 1st quarter sales fell below desired levels: inducing customers to take early delivery
- 2nd quarter orders became slow
- 3 managers shipped unordered product to customers



- Negative effects results controls in the Annual Operating Plans (AOP)
- Behavioral displacement: behaviors were not consistent with organization's objectives (increasing sales without generous discounts and customer complaints and false shipments)
- An over-emphasis on measured results (delivering 97% of AOP sales and profits)

TheCaseSolutions.com