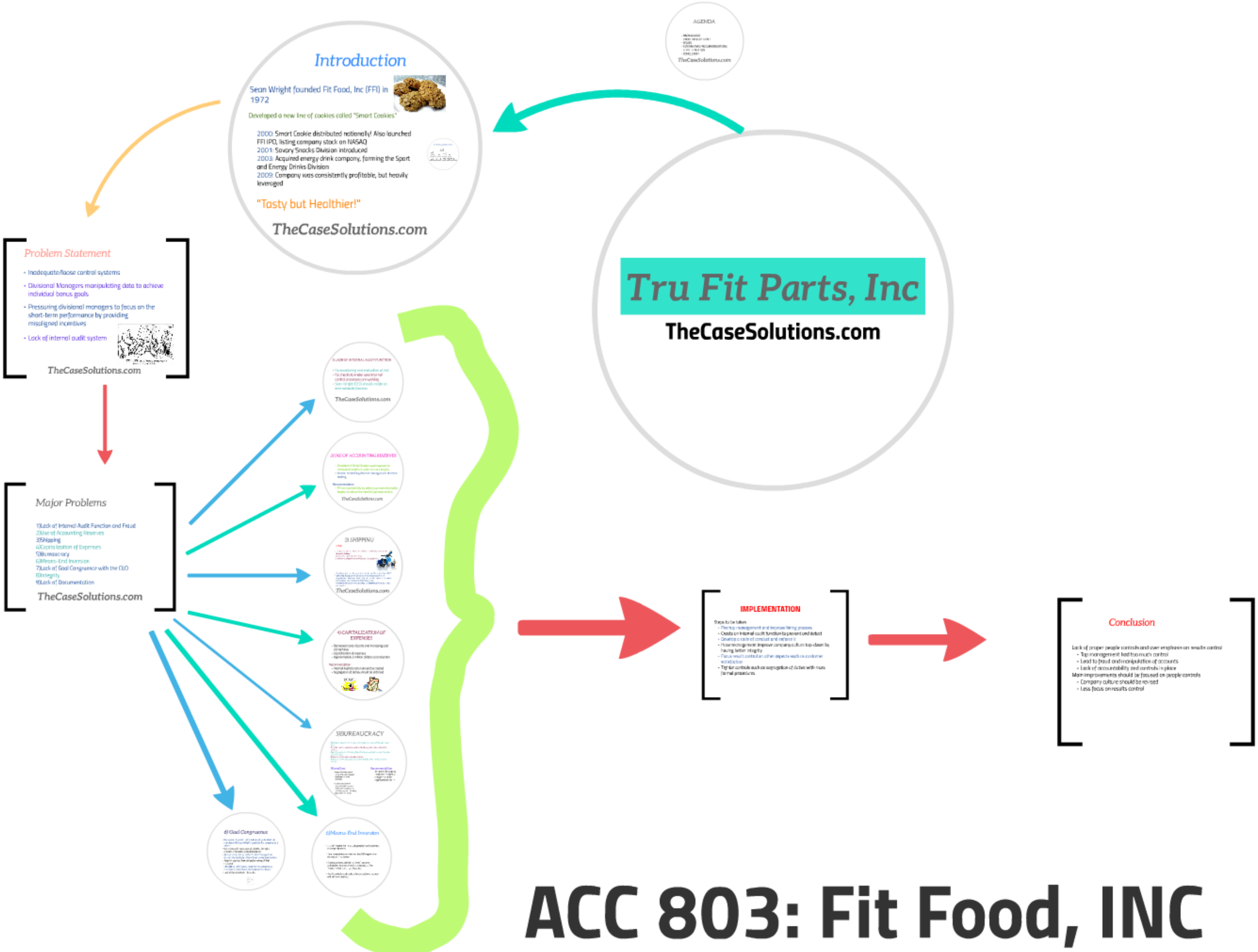
Introduction
Sean Wright founded Fit Food, Inc (FFI) in 1972
Developed a new line of cookies called "Smart Cookies"
2000: Smart Cookie distributed nationally! Also launched FFI IPO, listing company stock on NASAQ
2001: Savory Snacks Division introduced
2003: Acquired energy drink company, forming the Sport and Energy Drinks Division
2009: Company was consistently profitable, but heavily leveraged
"Tasty but Healthier!"
TheCaseSolutions.com
Tru Fit Parts, Inc
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
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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
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TheCaseSolutions.com
3) SHIPPING
TheCaseSolutions.com
4) CAPITALIZATION OF EXPENSES
5)BUREAUCRACY
6)Means-End Inversion
IMPLEMENTATION
Steps to be taken
- Create an internal audit function to prevent and detect
- Develop a code of conduct and enforce it
- Tighter controls such as segregation of duties with more formal procedures
Conclusion
Lack of proper people controls and over emphasis on results control
- Top management had too much control
- Lead to fraud and manipulation 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

Tru Fit Parts, Inc

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AGENDA

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

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

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Major Problems

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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

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

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 i n 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)