

MIS 2151: Business Processes, ERP Systems and Controls

Exam 2 - Case

SmartTech, Inc.

SmartTech, Inc. is a medium sized public company. They are a \$500MM manufacturer and distributor of components to the US aerospace and defense industry. Many key components sold come from the research and innovation of the original SmartTech, Inc. company founded by Dr. Salvatore Bruno (nicknamed 'The Brain'). Dr. Bruno took his novel aerodynamic university research and via SmartTech, Inc. was able to commercialize many materials and products for the US aerospace and defense industries.

General Harbinger bought into the company several years ago as an investment for his retirement and family. He was able to leverage his many contacts in the military to significantly expand the business of SmartTech, Inc. SmartTech is also a distributor to the military for materials and licensee of technology developed by other small start-up companies.

Company Leadership

- *Bob 'The General' Harbinger, Chief Executive Officer:* Bob Harbinger had a distinguished military career retiring from the US Air Force with rank of General (hence his nickname). Bob bought a small aerospace innovator SmartTech, Inc. and through acquisition and leveraging his military contacts, grew the business to what it is today.
- *Joe ('Joey') Harbinger, Chief Operating Officer:* Joe is responsible for the daily operations of SmartTech, Inc. He's responsible for all functions (e.g. sales, manufacturing, distribution, research, finance, etc.) Joe is the son of Bob ('The General') and despite limited education and experience is leading the operations of SmartTech, Inc.
- *Jill Harbinger, VP of Finance and CFO:* Jill is the daughter of Bob ('The General'). Jill graduated from Local County College with degrees in Hospitality Management and Interior Decorating. Jill is renown for her mansion home, lavish parties and charity work.
- *Dr. Salvatore (The Brain) Bruno, VP of Research and Development:* Dr. Bruno graduated with honors from MIT and received his doctorate at University of California at Berkley. His extensive research on aerodynamics although mainly top secret is world renowned. He continues to guide the R&D program at SmartTech, Inc.
- *YOU, Vice President of Information Technology and Auditing:* YOU earned a Master of Science in IT Auditing and Cyber Security (ITACS) from the Fox School of Business at Temple University. After a short career at Zebra, Inc. you decided to leave a lucrative deal due to severe concerns about the company's financial health and management's disregard for internal controls. YOU are excited to join SmartTech, Inc. and the ability to use your experience putting their poor IT and internal controls capability back on the right track.

Company Insights

Since joining SmartTech 10 weeks ago, you have aggressively been gathering information from inside and outside about the company and how it operates. Below are some of your notes:

- The stock price continues to rise (although not as steadily as in prior years) on the promise of new technology products.
- A large number of small locations (manufacturing, warehousing, research, sales offices, etc.) remain as result of the recent acquisitions.
- The small ex-acquisition locations have significant decision making authority (e.g. customer contracts, prices, suppliers, supplier arrangements, etc.). These locations also are commonly responsible for their own accounting, inventory records, etc. although the official SmartTech, Inc. results are processed in their ERP system.
- Newspaper article with headline: “DOD Inspector General rumored to be investigating ‘insider’ influence in recent SmartTech contract awards”.
- Everywhere you turn there is someone from the Harbinger family (cousins, in-laws, etc.) working for the company or on the payroll and vendor lists.
- Dr. Bruno’s health has deteriorated significantly after the takeover of SmartTech by the Harbinger family.
- Family ties run deep in the company – all key decisions seem to be handed down from the family members on top or must be approved by them.
- Business processes work although not without a lot of hand holding and patchwork since several legacy systems of recent acquisitions remain in addition to the core SAP ERP system implemented by SmartTech prior to the Harbinger family takeover.
- “Where does the Harbinger family afford their lavish lifestyle of country club living, world vacations, expensive cars, etc.?”

Most Recent Audit

You were able to get a copy of the company’s most recent external auditor’s review of the company’s internal audit process. You highlighted the following audit comments:

- Sales analysis and cost account reports have not been run in at least 6 months
- Reconciliation of bank accounts is completed only sporadically. Needs to be done routinely vs. just in time for the annual audit.
- Recommend the Financial policies manual be reviewed and updated. The most recent update was 3 years ago before the most recent transition to the new ERP system
- The minutes of the Board of Director Audit committee meetings are sketchy at best.
- A thorough review of security is recommended. Particular focus on limiting access to sensitive transactions and eliminating segregation of duties gaps.
- Recommend special manual transactions (e.g. employee loans, advance payments, etc.) be handled via defined processes vs. current ability of executive management to accomplish these transactions single handedly.