Writing assignment

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# Case Summary

WorldCom started its business as a small telecommunication company offering long distance telephone services. In 1999, the Dotcom bubble burst happened to result in the decline in telecom stock values. With an effort to increase the revenue, the company started to reduce the reserves and moved the amount kept as reserve into the revenue line of its accounting records. In 2000 the company started to categorize the operating expenses as long-term capital investments. In this way, they fabricated the losses into profits. It also articulated the assets of the company as more valuable. The issue was first highlighted by the internal auditor of the company itself, Cynthia Cooper and then an investigation was launched by the Securities and Exchange Commission. The fraud resulted in the loss of 18 billion to the shareholders and 18000 employees lost their jobs. Moreover, the leadership ends up being behind bars, the company lost its credibility, customers switched to competitors and also lost its ability to have a contract with the government at any time in the future.

# How/why was the fraud able to be committed?

The case pinpoints certain reasons that contributed to the fraud. One of the underlying causes was the company’s culture. Despite the fact that some of the people were not willing to become part of the fraud, higher management, specifically Scott, the chief financial officer, took the responsibility of matter and asked employees to work the way they were already doing. Employees were having a lack of courage to communicate the fraudulent activities openly as they knew that it could have cost them the loss of jobs. The controls in their financial system were extremely deficient and the Board of Directors and the Audit was not fully aware of the company’s culture. In addition, the independent auditors did incomplete audits. Leadership was having high expectations of profit from the company which the company was not able to produce. Moreover, leadership persuaded people to commit fraudulent activities intentionally, mainly the CEO and CFO.

# Who uncovered the fraud and how?

The fraud was uncovered in the year 2002. After the accounting regulations were reported in the in-MCI’s books and tips were sent to the internal audit team, the Securities and Exchange Commission requested that the company must deliver more information. The SEC was doubtful of the profitability of the company while the other telecom companies were losing money. An internal audit resulted in reporting of billions the company has announced as actual expenditures and millions as undocumented computer expenditures. In addition, the audit committee was not able to provide the documents reporting capital expenditures when requested. Another $2 billion was reported in questionable entries. The internal auditors were also not following the accounting standards. The leadership was guilty of their activities and admitted that they inflated the profits for about five quarters. After the internal fraud began the company was filed for bankruptcy.

# What suggestions could you offer on how the company, investors or auditors could have prevented or noticed the fraud?

There are many ways companies can prevent fraudulent activities and protect themselves from such scandals. The company needed a competitive strategy to establish a sustainable profitable position. The management wanted the company to grow, but it lacked the strategy of growth and just fabricated information once faced failure. The company was also missing the code of ethics that is essential to reinforce ethical activities and conduct in the company. The company’s culture did not value ethical practices. The company lacked internal control required to prevent any illegal actions and activities. In addition, accounting policies need to be revised. The external auditors must be made aware of the actual financial conditions of the company so that they could provide a better solution.