Extraordinary circumstance review

Business, Company

Introduction and Aim of the Review This review of WorldCom is based on the Extraordinary Circumstances by Cynthia Cooper. The purpose of review report is to conclude whether WorldCom satisfied the Code of Ethics and the Attribute and Performance Standards set forth by the IIA. Background WorldCom was one of the largest telecom companies in the world during 1996 to 2002. The company helped to grow a small regional company that bought and re-sold long distance in the South into an international behemoth that operated in over 65 countries.

However, in 2002, the senior management and employees perpetrated a massive fraud, and in June, WorldCom announced that it had " misstated" its financial statements over the last five quarters by $3. 8 billion. After coming out this scandal, WorldCom went bankrupt, and it has been the largest bankruptcy ever. Analysis Based on the book Cynthia Cooper wrote, WorldCom didn't comply with the Code of Ethics and the Attribute and Performance Standards. Fraud The internet bubble that burst in March, 2000 is followed with much larger and more devastating collapse: Telecom.

WorldCom's financial statements were far worse than expectation that would result in stock price fall, downgrading company and most importantly—losing capital to acquire companies. Then CEO and CFO were planning to change the financial statements with mid-level accountants. They thought if the financial statements were better in next quarter, they could cover the change. But things didn't go according to plan. They had to change the number until the whistle blew. Lack of risks assessment During the WorldCom expansion, CEO, Bernie led the company through 70 acquisitions in less than 20 years.

Bernie was too audacious to expand the company without consideration. For example, when board didn’t want to invest any more capital or incur more debt on telecom, Bernie mortgaged everything he had to buy TMC outright. The strategy helps LDDS expand, but also planted bomb in the company which exploded in the future. Gambling rather than risk control When World Com was acquiring other companies, some were not willing to receive a combination of cash and stock. They would sell the stock as soon as they get.

In order not to let the stock price fall, the executives in WorldCom bought the stock instead at a discount price. Luckily, as the result, the stock price went up dramatically. Low internal Audit department position Internal audit department was a dispensable unit in the company and didn’t get high attention during that time. Unlike external counterparts, internal auditors are usually employees of the companies they audit. Some companies choose to have only a small, token group, others none at all, and others outsource the function altogether, sometimes to the same public accounting firm performing the external audit.

Cynthia Cooper was announced to be the director of internal auditing by CEO, Bernie. They probably had some deals under table during CEO fraud. Individual manipulation and lacking of proficiency LDDS was too big to have so many employees reporting to CEO, Bernie directly. Meanwhile, Bernie doesn’t have technical telecom or financial training and he was only interested in what he liked and understood. His goal was to make WorldCom to be the NO. 1 stock on Wall Street rather than capture market share or be global which implied the tragedy of WorldCom.

He continuously acquired the other companies to make WorldCom bigger and bigger without deep consideration, even paid the price to lose his confidants. Lack of programs improvement WorldCom was praised as a " fast-growth" company—a rate of growth usually achievable only by external acquisition, not organic internal evolution. If WorldCom ever stops acquiring, growth will most likely slow, which will negatively impact analysts' ratings and WorldCom's stock price. The main business in WorldCom is not real telecom business; instead, it's a acquiring and resell business.

Thus, there were no improvement or clear organic structures in the company. What's more, WorldCom didn't have its own wireless network and it only sells wireless service, which would result in loss revenue later. Lack of after acquiring testing WorldCom acquired 65 companies successfully until thefailureof acquiring Sprint. Internal auditing department only employed 10 people to monitor the huge company. Not mention to monitor and test the acquired companies. Lack of auditing CEO During the golden period of WorldCom, Bernie obtained loan from plenty banks which related to the stock price of the company.

As long as WorldCom stock stayed higher above a level, banks wouldn't issue a margin call, requiring Bernie to come up with the cash to pay down enough of the loan to bring the collateral to remain at a certain percent of the loan. As a result, when the stock market fluctuated in 2002, WorldCom stock price went down below the certain level, and the board had to help Bernie to pay the loan, or the stock price will keep falling as the banks lose confidence in WorldCom and sell stocks one after another.

But at the beginning, there was no one to control Bernie not to borrowmoneyand take that risk to pay marginal call. Conclusion WorldCom was proved to be a big success and a tragedy in the history. Its strategy of expansion through acquiring constantly helped it grow-up to be a top 100 company in the stock market. However, it’s precisely because this “ crazy” acquiring method let the WorldCom ignore the foundation of operating activities. Investors neglect the cash flow statements rather than totally relied on the equity return.

As the internal department, it didn’t play a good role in assurance and consulting activities for the acquiring process. Since the department wasn’t gain enough attention from the board and was usually influenced by the executives, like CEO—Bernie, it was hardly to let them perform well under the Bernie’s control. In this case, Bernie was seen as “ Gods” in WorldCom and there was no one came up with objections, even some will oppose the acquiring, but at last Bernie still could do what he wants.

Even Cynthia found there was a fraud from the new CEO and CFO after Bernie left WorldCom. It still couldn’t prevent the tragedy Bernie planted before. At the same time, this case also gives a lesson that power should be divided rather than central control, and the person who holds the power should have the enough capability and professional knowledge.