Case A.3

WorldCom

Synopsis

On June 25, 2002, WorldCom announced that it would be restating its financial statements for 2001 and the first quarter of 2002. On July 21, 2002, WorldCom announced that it had filed for bankruptcy. It was later revealed that WorldCom had engaged in improper accounting that took two major forms: overstatement of revenue by at least $958 million and understatement of line costs, its largest category of expenses, by over $7 billion. Several executives pled guilty to charges of fraud and were sentenced to prison terms, including CFO Scott Sullivan (five years) and Controller David Myers (one year and one day). Convicted of fraud in 2005, CEO Bernie Ebbers was the first to receive his prison sentence: 25 years.

Growth through Acquisitions

WorldCom evolved from a long distance telephone provider named Long Distance Discount Services (LDDS), which had annual revenues of approximately $1.5 billion by the end of 1993. LDDS connected calls between the local telephone company of a caller and the local telephone company of the call's recipient by reselling long distance capacity it purchased from major long distance carriers (such as AT&T, MCI, and Sprint) on a wholesale basis.[1] LDDS was renamed WorldCom in 1995.

A change in industry regulation was the primary catalyst for WorldCom's growth. The Telecommunications Act of 1996 allowed long distance telephone service providers to enter the market for local telephone services and other telecommunications services, such as the Internet. Like many players in the industry, WorldCom turned to acquisitions to expand into these markets.

WorldCom's revenues grew rapidly as it embarked on these acquisitions. Between the first quarter of 1994 and the third quarter 1999, WorldCom's year-over-year revenue growth was over 50 percent in 16 of 23 quarters; the

[1] Board of Directors' Special Investigative Committee Report, June 9, 2003, pp. 44–45.

growth rate was less than 20 percent in only three quarters. WorldCom's stock price experienced rapid growth as well, from $8.17 at the beginning of January 1994 to $47.91 at the end of September 1999 (adjusted for stock splits). Its stock performance exceeded those of its largest industry competitors, AT&T and Sprint.[2]

MFS and Subsidiary UUNET

In late 1996 WorldCom acquired MFS, which provided local telephone services, for $12.4 billion. In that transaction WorldCom also gained an important part of the Internet backbone through MFS's recently acquired subsidiary, UUNET.[3]

Brooks Fiber Properties, CompuServe Corporation, and ANS Communications

In 1998 WorldCom purchased Brooks Fiber Properties for approximately $2.0 billion and CompuServe Corporation and ANS Communications (a three-way transaction valued at approximately $1.4 billion that included a five-year service commitment to America Online). Each of these companies expanded WorldCom's presence in the Internet arena.

MCI

In September 1998 WorldCom acquired MCI, using approximately 1.13 billion of its common shares and $7.0 billion cash as consideration, for a total price approaching $40 billion. MCI's annual revenues of $19.7 billion in 1997 far exceeded WorldCom's 1997 annual revenues of $7.4 billion. As a result of this merger, WorldCom became the second largest telecommunications provider in the United States.

SkyTel Communications and Sprint

In October 1999 WorldCom purchased SkyTel Communications, adding wireless communications to its service offerings, for $1.8 billion. A few days after its SkyTel acquisition, WorldCom announced that it would merge with Sprint in a deal valued at $115 billion. In the proposed deal, WorldCom would gain Sprint's PCS wireless business, in addition to its long distance and local calling operations.[4]

Challenges

By 2000 WorldCom started to face some difficult challenges. It faced fierce competition in its industry. In addition, its proposed merger with Sprint failed to receive approval from the Antitrust Division of the U.S. Department of Justice. The companies officially terminated their discussions on July 13, 2000.[5]

[2] Ibid., p. 48.

[3] Ibid., p. 46.

[4] Ibid., pp. 47–48.

[5] Ibid., pp. 48–49.

Although WorldCom's revenue continued to grow, the rate of growth slowed. On November 1, 2000, it announced the formation of two tracking stocks: one—called WorldCom Group—to capture the growth of its data business, and the other—called MCI—to capture the cash generation of its voice business, which experienced low growth. WorldCom also announced reduced expectations for revenue growth of the consolidated company, from its previous guidance of 12 percent to between 7 percent and 9 percent in the fourth quarter of 2000 and all of 2001. By the close of market on the day of its announcement, WorldCom's stock price had fallen by 20.3 percent, from $23.75 on October 31, 2000, to $18.94.[6]

Industry conditions worsened in 2001. Both the local telephone services and Internet segments experienced downturns in demand. The impact of the downturn in the Internet segment was particularly severe because of the industry's increased investment in network capacity (supply). Many competitors found themselves mired in long-term contracts that they had entered into to obtain the capacity to meet anticipated customer demand. As the ratio of their expenses to revenues was increasing, industry revenues and stock prices plummeted. For example, the stock prices of WorldCom, AT&T, and Sprint lost at least 75 percent of their share price values between January 2000 and June 25, 2002.[7]

Independent Auditor's Risk Assessment

The Special Investigative Committee of the board of directors did find evidence that Andersen understood the elevated risk associated with the WorldCom audit. Specifically, although Andersen's System for Managing Acceptance and Retention (SMART) Tool—which assessed the risks of business failure, fraud, and accounting and financial errors—rated WorldCom a "high risk" client, Andersen manually overrode this result and increased WorldCom to a "maximum risk" client. The committee reported that Andersen's workpapers revealed that the reasoning behind this elevation of risk was "the volatility in the telecommunications industry, the company's future merger and acquisition plans, and the company's reliance on a high stock price to fund those acquisitions."[8] Surprisingly, Andersen did not disclose that WorldCom was considered a "maximum risk" client to the audit committee.[9]

Because of the "maximum risk" classification, Andersen's internal policies required the engagement team to consult with Andersen's practice director, advisory partner, audit division head, and professional standards group (where appropriate) regarding all significant audit issues. In addition, the lead engagement partner was required to hold an annual expanded risk discussion with the

[6] Ibid., p. 50.

[7] Ibid., pp. 51–55.

[8] Ibid., pp. 232–233.

[9] Board of Directors' Special Investigative Committee Report, June 9, 2003, p. 27.

concurring partner, the practice director, and the audit division head to consider the areas that caused greater audit risk.

The outcome of this discussion after the 1999 and 2000 year-end audits was that Andersen did not find evidence of aggressive accounting or fraud at WorldCom.[10] However, during the expanded risk discussion held in December 2001, concerns were voiced over WorldCom's use of numerous top-side journal entries. Such entries were typically recorded at the corporate level, detached from the economic activity occurring at each of the business units or divisions within WorldCom. In fact, a handwritten note in Andersen's workpapers read, "Manual Journal Entries How deep are we going? Surprise w[ith] look [at] journal entries." Yet there was no indication of further testing of these entries.[11]

Line Cost Expenses

WorldCom generally maintained its own lines for local service in heavily populated urban areas. However, it relied on non-WorldCom networks to complete most residential and commercial calls outside these urban areas and paid the owners of the networks to use their services. For example, a call from a WorldCom customer in Boston to Rome might start on a local (Boston) phone company's line, flow to WorldCom's own network, and then get passed to an Italian phone company to be completed. In this example WorldCom would have to pay both the local Boston phone company and the Italian provider for the use of their services.[12] The costs associated with carrying a voice call or data transmission from its starting point to its ending point were called *line cost expenses.*

Line cost expenses were WorldCom's largest single expense. They accounted for approximately half of the company's total expenses from 1999 to 2001. WorldCom regularly discussed its line cost expenses in public disclosures, emphasizing, in particular, its "line cost E/R ratio"—the ratio of line cost expense to revenue.[13]

GAAP for Line Costs

Under Generally Accepted Accounting Principles (GAAP), WorldCom was required to estimate its line costs each month and to expense the estimated cost immediately, even though many of these costs would be paid later. To reflect an estimate of amounts that had not yet been paid, WorldCom would set up a liability account, known as an *accrual,* on its balance sheet. As the bills arrived from its outside parties, sometimes many months later, WorldCom would pay them and reduce the previously established accruals accordingly.[14]

Because accruals are estimates, a company was required under GAAP to reevaluate them periodically to see if they were stated at appropriate levels. If

[10] Board of Directors' Special Investigative Committee Report, June 9, 2003, pp. 232–233.

[11] Board of Directors' Special Investigative Committee Report, June 9, 2003, p. 236.

[12] Board of Directors' Special Investigative Committee Report, June 9, 2003, p. 58.

[13] Ibid., pp. 58–59.

[14] Ibid., pp. 62–63.

charges from service providers were lower than estimated, an accrual was "released." The amount of the release was set off against the reported line cost expenses in the period when the release occurred. For example, if an accrual of $500 million was established in the first quarter and $25 million of that amount was deemed excess or unnecessary in the second quarter, then $25 million should be released in that second quarter, thus reducing reported line cost expenses by $25 million.[15]

WorldCom's Line Cost Releases

Beginning in the second quarter of 1999, management allegedly started ordering several releases of line cost accruals, often without any underlying analysis to support the releases. When requests met resistance, management allegedly made the adjustments themselves. For example, in the second quarter of 2000 David Myers, a CPA who served as senior vice president and controller of WorldCom, requested that UUNET (a largely autonomous WorldCom subsidiary at the time) release $50 million in line cost accruals. UUNET's acting Chief Financial Officer David Schneeman asked that Myers explain the reasoning for the requested release, but Myers insisted that Schneeman book the entry without an explanation. When Schneeman refused, Myers wrote him in an e-mail, "I guess the only way I am going to get this booked is to fly to DC and book it myself. Book it right now, I can't wait another minute." After Schneeman refused again, Betty Vinson in general accounting allegedly completed Myers's request by making a top-side corporate-level adjusting journal entry releasing $50 million in UUNET accruals.[16]

In 2000 senior members of WorldCom's corporate finance organization reportedly directed a number of similar releases from accruals established for other reasons to offset domestic line cost expenses. For example, in the second quarter of 2000 Senior Vice President and Controller David Myers asked Charles Wasserott, director of domestic telco accounting, to release $255 million in domestic line cost accruals to reduce domestic line cost expenses. Wasserott refused to release such a large amount. It later emerged that the entire $255 million used to reduce line cost expenses came instead from a release of a mass markets accrual related to WorldCom's selling general, and administrative expenses.[17]

The largest of the releases of accruals from other areas to reduce line cost expenses occurred after the close of the third quarter of 2000. During this time a number of entries were made to release various accruals that reduced domestic line cost expenses by $828 million.[18]

In addition to releasing line cost accruals without proper support for doing so and releasing accruals that had been established for other purposes, it was

[15] Ibid., pp. 63–64.

[16] Ibid., p. 83.

[17] Ibid., pp. 87–88.

[18] Ibid., pp. 88–89.

also alleged that WorldCom management had not released certain line costs in the periods in which they were identified. Rather, certain line cost accruals were kept as "rainy-day" funds that could be released when managers wanted to improve reported results.[19]

Andersen's Relationship with WorldCom

Andersen served as WorldCom's auditor from at least as far back as 1990 through April 2002. In a presentation to the audit committee on May 20, 1999, Andersen stated that it viewed its relationship with WorldCom as a "long-term partnership" in which Andersen would help WorldCom improve its business operations and growth in the future. In its Year 2000 audit proposal, Andersen told the audit committee that it considered itself "a committed member of [WorldCom's] team" and that WorldCom was "a flagship client and a 'crown jewel'" of its firm.[20]

In terms of the total amount of fees charged to clients, WorldCom was one of Andersen's top 20 engagements in 2000 and was the largest client of its Jackson, Mississippi, office. From 1999 through 2001 WorldCom paid Andersen $7.8 million in fees to audit the financial statements of WorldCom, Inc.; $6.6 million for other audits required by law in other countries; and about $50 million for consulting, litigation support, and tax services.[21]

Andersen's Restricted Access to Information

WorldCom allegedly severely restricted Andersen's access to information; several of Andersen's requests for detailed information and opportunities to speak with certain employees were denied. In fact, Andersen was denied access to WorldCom's computerized general ledger and had to rely on printed ledgers. According to the person in charge of security for WorldCom's computerized consolidation and financial reporting system, WorldCom's treasurer in 1998 allegedly instructed him not to give Andersen access to this reporting system.[22]

In addition, WorldCom's senior management allegedly berated employees who disclosed unauthorized information to Andersen. For example, in October 2000 Steven Brabbs, the director of international finance and control for EMEA (Europe, Middle East, and Africa), told Andersen's U.K. office that line cost expenses for EMEA were understated by $33.6 million because senior management had reduced their line cost accruals and that EMEA did not have any support for this entry. WorldCom's Senior Vice President and Controller David Myers reprimanded Brabbs and directed him never to do it again. In early 2002, after learning about another conversation between Brabbs and Andersen about a planned

[19] Ibid., p. 10.

[20] Board of Directors' Special Investigative Committee Report, June 9, 2003, p. 225.

[21] Board of Directors' Special Investigative Committee Report, June 9, 2003, p. 225.

[22] Board of Directors' Special Investigative Committee Report, June 9, 2003, pp. 246–248.

restructuring charge, Myers specifically instructed U.K. employees that "NO communication with auditors is allowed without speaking with Stephanie Scott [Vice President of Financial Reporting] and myself. This goes for anything that might imply a change in accounting, charges or anything else that you would think is important." When Myers found out that the accountant had continued to speak with Andersen U.K. about the issue, he wrote the following to the accountant:[23]

> Do not have anymore meetings with Andersen for any reason. I spoke to Andersen this morning and hear that you are still talking about asset impairments and facilities. I do not want to hear an excuse just stop. Mark Wilson has already told you this once. Don't make me ask you again.

Although Andersen was aware that it was receiving less than full cooperation, it did not notify WorldCom's audit committee of this matter.[24]

Audit Approach

The Special Investigative Committee of the board of the directors found that Andersen conducted only a limited amount of detailed substantive testing. Andersen's audit approach relied heavily on analytical procedures without taking into full account the possibility that management might be manipulating the results to eliminate significant financial statement variations. Further, Andersen gave WorldCom's senior management team a list of the auditing procedures that it anticipated performing in the areas of revenues, line costs, accounts receivable, capital expenditures, and data integrity. In addition, Andersen's testing of capital expenditures, line costs, and revenues did not change materially from 1999 through 2001.[25]

The Special Committee was surprised by Andersen's failure to detect significant deficiencies in WorldCom's procedures related to the proper documentary support of top-side accounting entries. For example, the committee found hundreds of large, round-dollar journal entries that were made by WorldCom's general accounting group staff without any support other than Post-it® Notes or written instructions directing the entry to be made. The documentary support was also found in a disorganized manner.[26]

Measurement and Monitoring of Revenue within WorldCom

Revenue growth was said to have been particularly emphasized within WorldCom. Sales groups' performances were regularly measured against the revenue plan. At meetings held every two to three months, each sales channel manager

[23] Board of Directors' Special Investigative Committee Report, June 9, 2003, pp. 250–251.

[24] Board of Directors' Special Investigative Committee Report, June 9, 2003, pp. 25–26.

[25] Board of Directors' Special Investigative Committee Report, June 9, 2003, p. 228.

[26] Board of Directors' Special Investigative Committee Report, June 9, 2003, 26, p. 241.

was required to present and defend his or her sales channel's performance against the budgeted performance. Compensation and bonus packages for several members of senior management were also tied to double-digit revenue growth. In 2000 and 2001, for instance, three executives were eligible to receive executive bonuses only if the company achieved double-digit revenue growth over the first six months of each year.[27]

Monthly Revenue Report ("MonRev") and the Corporate Unallocated Schedule

The principal tool by which revenue performance was measured and monitored at WorldCom was the monthly revenue report ("MonRev"), which was prepared and distributed by the revenue reporting and accounting group (hereafter referred to as the revenue accounting group). The MonRev included dozens of spreadsheets detailing revenue data from all the company's channels and segments. The full MonRev contained the corporate unallocated schedule, an attachment detailing adjustments made at the corporate level and generally not derived from the operating activities of WorldCom's sales channels. WorldCom's Chief Financial Officer and Treasurer Scott Sullivan had ultimate responsibility for the items booked on the corporate unallocated schedule.[28]

In addition to CEO Ebbers and CFO Sullivan, only a handful of employees outside the revenue accounting group regularly received the full MonRev. Most managers at WorldCom received only those portions of the MonRev that were deemed relevant to their position; for example, most sales channel managers received only the MonRev components that reflected their own sales channel revenue information. It was alleged that Sullivan routinely reviewed the distribution list for the full MonRev to make sure he approved of everyone on the list.[29]

The total amounts reported in the corporate unallocated schedule usually spiked during quarter-ending months, with the largest spikes occurring in those quarters when operational revenue lagged furthest behind quarterly revenue targets—the second and third quarters of 2000 and second, third, and fourth quarters of 2001. Without the revenue booked in corporate unallocated, WorldCom would have failed to achieve the double-digit growth it reported in 6 out of 12 quarters between 1999 and 2001.[30]

In 1999 and 2000 the revenue accounting group attempted to track the impact of corporate unallocated and other accounting adjustments by generating two MonRevs—one that represented the company's operational revenues before any adjustments and a second representing the revenues as supplemented by any extraordinary accounting entries, such as those recorded in the

[27] Ibid., pp. 133–134.
[28] Ibid., pp. 135–139.
[29] Ibid., pp. 135–139.
[30] Ibid., pp. 135–139.

corporate unallocated revenue account. The extraordinary revenue items schedule captured the items that comprised the difference between the two documents. The group decided to stop preparing both reports—a decision they later said was principally based on the time required to produce the second version of the MonRev, given the limited resources in his group.[31]

Process of Closing and Consolidating Revenues

WorldCom maintained a fairly automated process for closing and consolidating operational revenue numbers. By the 10th day after the end of the month, the revenue accounting group prepared a draft preliminary MonRev that was followed by a final MonRev, which took into account any adjustments that needed to be made. In non–quarter-ending months, the final MonRev was usually similar, if not identical, to the preliminary MonRev.[32]

In quarter-ending months, however, revenue accounting entries, often large, were made during the quarterly close to hit revenue growth targets. Investigators later found notes made by senior executives in 1999 and 2000 that calculated the difference between "act[ual]" or "MonRev" results and "target" or "need[ed]" numbers and identified the entries that were necessary to make up that difference. It was alleged that CFO Scott Sullivan directed this process, which was implemented by Ron Lomenzo, the senior vice president of financial operations, and Lisa Taranto, an employee who reported to Lomenzo.[33]

Throughout much of 2001 WorldCom's revenue accounting group tracked the gulf between projected and targeted revenue—an exercise labeled "close the gap"—and kept a running tally of accounting "opportunities" that could be exploited to help make up that difference.[34]

Many questionable revenue entries were later found within the corporate unallocated revenue account. On June 19, 2001, as the quarter of 2001 was coming to a close, CFO Sullivan left a voicemail message for CEO Ebbers that indicated his concern over the company's growing use of nonrecurring items to increase revenues reported:

> Hey Bernie, it's Scott. This MonRev just keeps getting worse and worse. The copy, um the latest copy that you and I have already has accounting fluff in it . . . all one time stuff or junk that's already in the numbers. With the numbers being, you know, off as far as they are, I didn't think that this stuff was already in there. . . . We are going to dig ourselves into a huge hole because year to date it's disguising what is going on the recurring, uh, service side of the business. . . .[35]

A few weeks later, Ebbers sent a memorandum to WorldCom's COO Ron Beaumont that directed him to "see where we stand on those one time events that

[31] Ibid., pp. 140–141.

[32] Ibid., pp. 140–141.

[33] Ibid., p. 14.

[34] Ibid., p. 141.

[35] Ibid., p. 15.

had to happen in order for us to have a chance to make our numbers." Yet Ebbers did not give any indication of the impact of nonrecurring items on revenues in his public comments to the market in that quarter or in other quarters. For that matter, the company did not address the impact of nonrecurring items on revenues in its earnings release or public filing either for that quarter or prior quarters.[36]

By the first quarter of 2002 management realized it was virtually impossible to deliver double-digit revenue growth. During a February 7, 2002, analyst call, CEO Ebbers announced guidance of "mid single-digits" revenue growth. Soon thereafter, both Ebbers and CFO Sullivan expressed confidence in achieving 5 percent revenue growth. Two weeks later, Ebbers was provided with an internal review of January 2002 revenue numbers, which showed that even those projections were ambitious; that is, January MonRev results showed a 6.9 percent year-over-year *decline* in revenue. In the first quarter of 2002 the WorldCom group ultimately reported revenues of $5.1 billion, a decline of approximately 2 percent from the first quarter of 2001. This publicly reported decline in revenue occurred despite the fact that approximately $132 million was booked in the WorldCom group corporate unallocated revenue account in the first quarter of 2002.[37]

Internal Audit Department Deficiencies

The audit committee of the board of directors at WorldCom had responsibility for ensuring that the company's systems of internal controls were effective. The internal audit department periodically gathered information related to aspects of the company's operational and financial controls, reporting its findings and recommendations directly to the audit committee. Dick Thornburgh, WorldCom's bankruptcy court examiner, wrote in his Second Interim Report, released on June 9, 2003, that "the members of the Audit Committee and the Internal Audit Department personnel appear to have taken their jobs seriously and worked to fulfill their responsibilities within certain limits."[38]

However, the bankruptcy court examiner also wrote that he found a number of deficiencies in both the internal audit department and the audit committee. Among the issues the bankruptcy court examiner noted in the internal audit department were as follows: its relationship with management, lack of budgetary resources, lack of substantive interaction with the external auditors, and its restricted access to relevant information.[39] The bankruptcy court examiner found that WorldCom's internal audit department focused its audits primarily on the areas that were expected to yield cost savings or result in additional revenues.[40] In planning its audits, the department did not seem to conduct any quantifiable risk assessment of the weaknesses or strengths of the company's internal control system. In addition,

[36] Ibid., p. 15.

[37] Ibid., p. 155.

[38] Second Interim Report of Dick Thornburgh, Bankruptcy Court Examiner, June 9, 2003, p. 12.

[39] Ibid., pp. 174–176.

[40] Ibid., pp. 186–187.

the examiner found that the department's lack of consultation with WorldCom's external auditor, Arthur Andersen, resulted in even further audit coverage gaps.[41]

Internal Audit Department's Relationship with Management

The SEC's investigation revealed that management's influence over the activities of the internal audit department appeared to supersede those of the audit committee. It appeared that management was able to direct the internal audit department to work on audits not previously approved by the audit committee and away from other audits that were originally scheduled. At most, the audit committee was advised of such changes after the fact.[42]

Although the audit committee annually approved the audit plans of the internal audit department, it had little input into the development of the scope of each audit or the disposition of any findings and/or recommendations. The audit committee also did not play any role in determining the day-to-day activities of the internal audit department. That responsibility appeared to belong to the CFO, who provided direction over the development of the scope of the department's audits and audit plans, the conduct of its audits, and the issuance of its conclusions and recommendations. The CFO also oversaw all personnel actions for the department, such as promotions and increases in salaries, bonuses, and stock options granted.[43]

The internal audit department distributed preliminary drafts of its internal audit reports to CFO Scott Sullivan and at times to CEO Bernie Ebbers. The internal audit also distributed preliminary drafts of its reports to the management that was affected by a particular report. All people on the distribution list provided their input on the conclusions and recommendations made in the reports. In contrast, the audit committee did not receive any preliminary drafts of the internal audit reports.[44]

At times, CFO Sullivan or CEO Ebbers would assign special projects to the internal audit department. Some of these projects were not audit-related, and the audit committee did not appear to have been consulted about such assignments.[45]

Impact of Lack of Budgetary Resources

According to the 2002 Global Auditing Information Network (GAIN) peer study conducted by the Institute of Internal Auditors, WorldCom's internal audit department (at a staff of 27 by 2002) was half the size of the internal audit departments of peer telecommunications companies. The head of the internal audit department, Cynthia Cooper (a vice president), presented the results of the GAIN study to the

[41] Ibid., pp. 194–195.

[42] Ibid., pp. 194–195.

[43] Ibid., pp. 190–191.

[44] Ibid., pp. 195–197.

[45] Ibid., pp. 190–191.

audit committee in May 2002. She advised the audit committee that her department was understaffed as well as underpaid. The minutes reflect that she advised the committee that the average cost of each of their internal auditors was $87,000 annually, well below the peer group average of $161,000.[46]

The budgetary resources allocated to the department seemed particularly inadequate given the international breadth and scope of the company's operations and the challenges posed by the company's various mergers and acquisitions over a relatively short time. For example, budget constraints restricted travel by internal audit staffers outside of Mississippi, where most of the internal audit staff was located. Such a restriction made managing and conducting audits of company units located outside Mississippi, and particularly international audits, far more difficult.[47]

Lack of Substantive Interaction with External Auditors

Arthur Andersen's annual statement to the audit committee noted no material internal control weaknesses found as part of its annual audit of the company's financial statements. Yet in the same year the internal audit department had identified a number of seemingly important internal control weaknesses as part of its operational audits that impacted financial systems and the reporting of revenue. It appears that there was no communication between the internal and the external auditors to ensure awareness about all of the internal control weaknesses that were discovered. In fact, after 1997 internal audit had few substantive interactions with the company's external auditors other than at the quarterly audit committee meetings, where both groups made presentations.[48]

Restricted Access to Information

The internal audit department lacked consistent support throughout the company. In many instances management allegedly refused to answer or dodged certain questions asked by internal audit personnel. In several cases internal audit personnel would have to repeatedly request information, and their requests were not always answered in a timely manner.[49]

In addition, the internal audit department had limited access to the company's computerized accounting systems. Although the internal audit charter provided that internal audit had "full, free, and unrestricted access to all company functions, records, property, and personnel," few internal audit staff personnel had full systems access to the company's reporting system and the company's general ledgers.[50]

[46] Ibid., pp. 192–193.
[47] Ibid., pp. 192–193.
[48] Ibid., pp. 193–194.
[49] Ibid., pp. 195–197.
[50] Ibid., pp. 195–197.