WorldCom Accounting Scandal

KARSEN WASLEFSKY
Overview

Key Topics:

• Who was WorldCom?
• Why they committed fraud
• How they were committing fraud
• How WorldCom got caught
• Consequences faced and the Aftermath
Who Was WorldCom?

• Was an American telecommunications company founded in 1983
• Headquartered in Ashburn, VA
• Founded by Bernard Ebbers, Murray Waldron, William Rector and other investors
• At its height, the company’s market capitalization was $175 billion
• Sold network assets to Verizon after coming out of bankruptcy
Why WorldCom Committed Fraud

- Many companies cut down their spending on telecom services and equipment
- WorldCom’s profits and rates were decreasing
- Were very aggressive in acquiring other competitors
- Pressure to show its board and shareholders that the company was profitable
How WorldCom Committed Fraud

- Billions of dollars of capital weren’t being reported properly
- Inflated net income and cash flow
- Recorded expenses as investments to hide losses
- Reported a profit of $1.4 billion instead of a loss in early 2002
Cynthia Cooper, who was VP of WorldCom’s internal audit department, and Gene Morse, an auditor in the company, were the ones who caught WorldCom. They were questioning the company’s financial records because a lot of things didn’t add up. They found the company’s attempt to inflate their profits and hide losses by moving capital. WorldCom’s audit committee and KPMG, an external auditor, were notified about their findings. WorldCom filed for bankruptcy on July 21, 2002.
Consequences And Aftermath

- Bernard Ebbers was sentenced to 25 years of prison in 2005. He was convicted on nine counts of securities fraud.
- Scott Sullivan, the former CFO, was given a five-year jail sentence.
- WorldCom came back from bankruptcy in 2004 and rebranded themselves as MCI. Its assets were purchased by Verizon in 2006.
- This fraud led to the Sarbanes-Oxley Act being created in 2002. It mandates that companies have certain practices when financial record keeping and strengthened the penalties for accounting fraud.
Thank You For Watching!

If you have any questions, please feel free to reach out!
Works Cited

www.investopedia.com/terms/w/worldcom.asp#:~:text=WorldCom%20used%20a%20series%20of,was%20hardly%20a%20sophisticated%20fraud.