WorldCom's Betty Vinson
A Tale of Two Professionals

The IMA® Committee on Ethics and Raef Lawson, CMA, CFA, CFP, CPA, Ph.D., IMA VP of Research and Professor-in-Residence, are proud to announce that Melanie O. Anderson has won the Best Case Award in the seventh annual Carl Menconi Case Writing Competition for her case, "WorldCom's Betty Vinson and Cynthia Cooper: A Tale of Two Professionals." The competition is named in memory of Carl Menconi, who held leadership positions in IMA for many years and served as chair of the IMA Committee on Ethics. The objective of the competition is to develop and distribute business ethics cases with specific application to management accounting and finance issues and that use the *IMA Statement of Ethical Professional Practice* as a reference or guidance tool. The winning case and teaching notes are available for use in a classroom or business setting. IMA academic members can access and download the teaching notes from the Academic Teaching Notes library in *LinkUp IMA*. Others who want to use the case and notes should contact Tara Barker at tbarker@imanet.org.

By Melanie O. Anderson

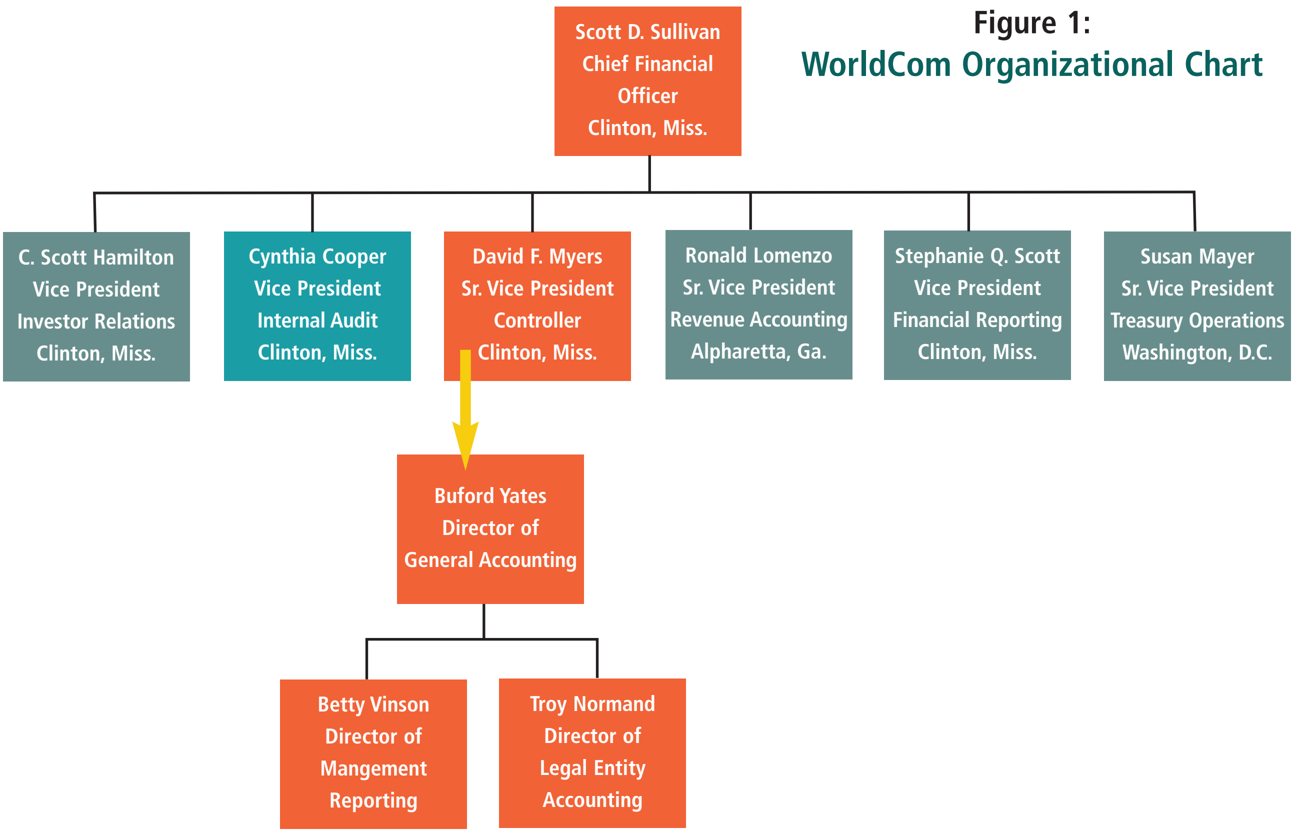
WorldCom, a Mississippi-based telecommunications company, was founded in 1983 in Clinton, Miss., as Long Distance Discount Services, Inc. (LDDS). Formed to take advantage of the business opportunity to provide long distance phone services following the deregulation of the telephone industry, LDDS grew rapidly through the merger and acquisition of smaller companies and the rapid growth of the industry. In 1995, the company took the name WorldCom, and, by 2000, WorldCom was the 25th largest company in the world. Bernie Ebbers, the company's founder and CEO, was a respected mover and shaker on Wall Street, and its CFO, Scott Sullivan, was voted as one of the country's best CFOs in 1998 by *CFO Magazine*.

This all abruptly ended in June 2002 when it was disclosed that WorldCom had perpetrated one of the largest accounting frauds in U.S. history. The fraud was initially reported to be $3.8 billion, but further investigation revealed an overstatement of net income by $11 billion. WorldCom was forced to declare bankruptcy.

Most of us have heard the story of the fraud, but we may not be aware of the people who were involved and

and Cynthia Cooper:

Figure 1:
WorldCom Organizational Chart



their struggles with this dilemma. Betty Vinson and Cynthia Cooper may or may not be names that you recognize, but they both made decisions that impacted the WorldCom story.

To read more about WorldCom and the fraud, see Luisa Beltran's July 22, 2002, article, "WorldCom files largest bankruptcy ever," from CNN Money (money.cnn.com).

Betty Vinson

Betty Vinson was the director of management reporting at WorldCom. She had worked there for five years when the fraud was uncovered and received two promotions during that time. Vinson's salary increased from $50,000 when she started to $80,000 in 2002. Vinson reported to Buford Yates, director of general accounting, who reported to David Myers, senior vice president and controller, who then reported to CFO Scott Sullivan. (See Figure 1 for an organizational chart.)

A hard worker who often stayed late or brought work home, Vinson considered herself lucky to land the job at WorldCom, as it was located in her hometown of Clinton, Miss. Vinson graduated from Mississippi College in 1978 and married her college sweetheart, Tom Vinson, a printing-equipment salesman who earned $40,000 a year. The couple had one daughter and lived a typical suburban lifestyle. Prior to working at WorldCom, Vinson worked as an accountant for various banking enterprises in Louisiana and Kansas City from 1978 to 1996. She also earned the Certified Public Accountant (CPA) credential during that time.

Problems began to emerge in the telecommunications industry in the late 1990s. The industry had overexpanded, and every company was beginning to feel the effects, including WorldCom. By 2000, WorldCom's expenses were increasing faster than revenues. In September 2000, WorldCom had to find $828 million to meet earnings targets expected by Wall Street. Vinson and her accounting colleagues found $50 million, but it wasn't nearly enough. Senior management instructed her and her accounting coworkers to reduce reserve accounts for line costs to cover this shortfall. Reserves had been set aside based on estimates of potential losses, but they needed to have sufficient reason to reduce the reserve. Meeting earnings targets wasn't a valid reason. Sullivan pressed Myers and Vinson's boss, Yates, to make this adjustment. Yates told his accounting team that he had reservations, too, but that Sullivan promised this was a one-time adjustment. They all agreed to go along with the accounting adjustment.

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Vinson felt uncomfortable with this and considered resigning. The corporate accounting department's discomfort with the entries prompted Sullivan to call the accountants into his office. He used an analogy that WorldCom was an aircraft carrier, and they needed to land the planes that were in the air. He urged them to wait until the planes had landed, and then they could leave the company if they still wanted to. Sullivan assured them that nothing they would do was illegal and that it wouldn't be repeated. After talking to her husband, Vinson decided against resigning because of her family's dependence on her salary and health insurance.

In April 2001, the gap in meeting earnings targets was $771 million. The reserve pools weren't large enough to cover this gap. Sullivan's new strategy was to shift line costs, recorded as expenses, to capital expenditure accounts. Yates objected. Sullivan insisted it was the only way to cover this gap.

Vinson and her coworker both felt cornered; this was clearly fraudulent accounting. The only choices now were to resign or make the entries. The three-person accounting team identified the capital accounts to use, and Vinson made the entries to transfer the $771 million. She backdated entries to February in the computer system and then indicated to colleagues at WorldCom that she was going to look for another job.

These entries continued quarterly through April 2002. The Securities & Exchange Commission (SEC) was informed of the problem in June 2002 as a result of the efforts of the WorldCom internal audit team. The SEC would ultimately charge CFO Scott Sullivan, Controller David Myers, and accountants Buford Yates, Troy Normand, and Betty Vinson. According to the SEC complaint:

"At the direction of WorldCom senior management, Vinson and other WorldCom employees caused WorldCom to overstate materially its earnings in contravention of generally accepted accounting principles (GAAP) for at least seven successive fiscal quarters, from as early as October 2000 through April 2002. Vinson knew, or was reckless in not knowing, that these entries were made without supporting documentation, were not in conformity with GAAP, were not disclosed to the investing public, and were designed to allow WorldCom to appear to meet Wall Street analysts' quarterly earnings estimates."

To read more about Betty Vinson's story, see Susan Pulliam's "How Following Orders Can Harm Your Career" in the October 3, 2003, issue of CFO Magazine.

Cynthia Cooper

Cynthia Cooper was also originally from Clinton, Miss. She earned a degree in accounting from Mississippi State University and a master of science in accounting from the University of Alabama. Cooper worked for PriceWaterhouseCoopers and then Deloitte & Touche in Atlanta, Ga., earning her CPA license in the process. Eventually, she also earned Certified Information Systems Auditor (CISA) and Certified Fraud Examiner (CFE) certifications.

Following a contentious divorce, Cooper moved back to Clinton in 1991 with her daughter in order to be closer to her parents. She was eventually remarried, this time to a high school boyfriend, and had a second child. Her husband became a stay-at-home dad, taking care of their children, and Cooper was the family's sole breadwinner, earning $90,000 a year.

She found work at WorldCom—then still called LDDS—and then briefly worked for Skytel. She returned to WorldCom in 1994 when it bought Skytel, and she started the internal audit department. Cooper earned the

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respect of profit-focused CEO Bernie Ebbers, who wondered why the company needed an internal audit department. Cooper showed him how performing operational audits would increase efficiency, effectiveness, and reduce waste, therefore saving WorldCom money. She was promoted to vice president of internal audit in 2000.

A division executive told Cooper in March 2002 that corporate accounting had moved $400 million from the reserve account to falsify WorldCom's income statement. She began to look into it. When she asked WorldCom's external auditors at the time, Arthur Andersen, she was told that it wasn't a problem. Sullivan, who was also Cooper's boss, was furious with her and told her to stop looking into the statements and that her department wasn't to be concerned with financial audits.

Cooper was concerned at Sullivan's explosive reaction. As she later told *TIME*, "When someone is hostile, my instinct is to find out why." So Cooper and her internal audit team began to quietly investigate corporate accounting entries. They found the first of the fraudulent entries in May 2002. The internal audit team continued to gather information, finding entries back to 2000.

At that time, Cooper went to Betty Vinson, who had prepared and processed the entries in corporate accounting, for an explanation. Vinson said there wasn't an explanation and referred Cooper to her boss, Yates, who then referred her to Myers. Myers couldn't provide an explanation either. In turn, he advised Sullivan that internal audit knew of the questionable accounting entries.

On June 11, 2002, Sullivan called Cooper into his office. He demanded to know what she and her team were doing, and she explained what she had found. He asked her to delay the audit, but she declined.

The next day, Cooper informed the head of the audit committee of the findings. A meeting was scheduled for June 20 for the board of directors to review the entries and for Sullivan to provide an explanation. Instead, he asked the board for more time to explain his strategy. The board gave him the weekend. Sullivan presented the board with a white paper he had developed to explain his justification for capitalizing the expenses and how this was acceptable under GAAP. The board listened but rejected his explanation. Sullivan and Myers were advised to resign or be fired. Sullivan refused to resign and was fired. Myers resigned.

To read more about Cynthia Cooper's story, see Amanda Ripley's article, "The Night Detective: Cynthia Cooper," in the December 30, 2002, issue of TIME.

Discussion Questions

1. Which is more important and why: (a) loyalty to your organization or (b) loyalty to your profession and professional standards?

2. Professional certifications such as the CMA® (Certified Management Accountant), CPA, and CIA (Certified Internal Auditor) require candidates to meet certain professional criteria and standards. What are the professional certification requirements for the CMA, and how do they apply to this case?

3. Does the *IMA Statement of Ethical Professional Practice* describe any other recourse available to Betty Vinson after she objected to the proposed journal entries?

4. What is a whistleblower? Could Betty Vinson have been a whistleblower? Why or why not? What would the consequences have been for her?

5. Why was Cynthia Cooper successful in the role of whistleblower? Was she loyal to her professional role, organization, or both? **SF**

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