

The Use of a Non-Fiction Fraud-Related Book as a Method for Teaching Accounting Ethics

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The non-fiction book, "Extraordinary Circumstances: The Journey of a Corporate Whistleblower," by Cynthia Cooper is employed in an upper-level undergraduate auditing class at a Canadian University to teach accounting students about the importance of ethical behavior and to improve students' ethical decision-making skills. Students' assessment consisted of a quiz and a group special assignment. Professors' comments show support for engaging students about accounting ethics by using a real-world fraud story described in a non-fiction book. Overall, accounting students find this method of learning interesting and believe it enhances their understanding of accounting ethics.

INTRODUCTION

Significant criticism has been levied against accounting educators and in their methods of teaching and reinforcing the importance of ethical decision-making and moral reasoning skills in business (Low et al., 2008; Massey and Van Hise, 2009). In fact, prior research shows that accounting students lack ethical reasoning skills when compared to other students in professional programs such as medicine or law (Liu et al., 2012). Further, Thorne (2001) finds accounting students are lacking in their cognitive moral capability. Notwithstanding the evidence supporting the deficiencies in accounting education with respect to developing ethical and moral reasoning skills, evidence shows teaching ethics at the post-secondary school level leads to improved ethical decision-making (Eynon et al., 1997; Park 1998; Glenn 1992; Peppas and Diskin, 2001). Thus, it is imperative that accounting educators find improved methods to reach out to accounting students and improve students' ethical decision-making and moral reasoning skills.

The purpose of this paper is twofold. First, I present a pilot study for a method of teaching ethics to accounting students that was utilized in a fourth year undergraduate auditing course at a Canadian university. The method of teaching ethics involves building a significant portion of an upper-level auditing course's content around the book titled, "Extraordinary Circumstances: The Journey of a Corporate Whistleblower" (EC), authored by Cynthia Cooper. Although the case surrounding the fraud and failure of WorldCom, Inc. (WorldCom) occurred in the U.S., the circumstances surrounding the fraud, the character and behavior of the players involved, and the consequences are universally applicable. Accounting students worldwide can benefit from a greater understanding of this fraud from the story told by the principal player who uncovered it. Since this method was employed for the first time in this course, room exists for customizing and adapting the approach to improve the students' overall learning experience. In fact, accounting educators worldwide should see this approach as a first step in developing a unique method to teach accounting ethics to their students.

Second, I present the findings of a students' survey about their ability to learn the importance of strong ethical behavior and decision-making. Students' assessment is based on reading the book, performance on a quiz about the book's content, and preparation and presentation of a group special assignment topic. Overall, the survey's results show students were satisfied with what they had learned in performing these exercises.

Accounting and business educators will find this research paper beneficial because they can incorporate this method into their existing accounting and business-related courses that devote a significant portion of coursework to ethics-related topics. The research paper is organized as follows:

1. Learning Accounting Ethics;
2. Learning Objectives;
3. Implementation Guidance;
4. Outcome Assessment; and
5. Professors' Comments.

LEARNING ACCOUNTING ETHICS

Prior studies on the effectiveness of accounting ethics education show the quality of the education is lacking. For example, Low et al. (2008) survey third year accounting students about the adequacy of their ethics education and whether or not their ethics education would result in improved ethical behavior after students enter the workforce. The authors' results show 75 percent of students believe their ethics education is at least adequate (Low et al., 2008, p. 245). However, when asked about the degree of influence of their ethics education on an individual's ethical behavior, only 37 percent concluded their ethics education would influence ethical behavior "Absolutely" or "To a great extent," (Low et al., 2008, p. 248). When faced with an ethical dilemma, only 38 percent of respondents concluded that their ethics education would influence their ethical behavior "Absolutely" or "To a great extent," (Low et al., 2008, p. 249). These findings provide evidence of the lack of effectiveness in ethics education as students do not perceive improvement in ethical decision-making resulting from their education.

Before addressing specific techniques to teach accounting ethics, it is important to provide a foundation of the need for accounting ethics education and the goals of such education. Loeb (1988) reviews these critical issues in accounting education. Loeb (1988, p. 316) states the American Accounting Association as far back as 1986 noted accounting education should instill "ethical standards" and "the commitment of a professional" in accounting students. Further the Treadway Commission (1987) recommends that ethics should be a component of all accounting courses. Mai-Dalton (1987) suggests teaching ethics throughout the accounting curriculum "permits students continuously to wrestle with the relevant issues and sharpen their ethical awareness and judgment." The need for teaching ethics in accounting education occurred long before the WorldCom and Enron scandals and the enactment of the Sarbanes-Oxley Act of 2002. Low et al. (2008) state that throughout the years, "the integrity of the accounting profession and the credibility of financial information provided by businesses have been undermined by scandals." The authors sarcastically cite the more notorious accounting "achievements," (Low et al., 2008, p. 226).

Adapting the work of Callahan (1980), Loeb (1988, p. 322) lists seven goals of accounting ethics education. These goals are listed in Table 1. Key results obtained from these goals for the accounting educator are as follows:

- a) Accounting ethics education should not focus on changing individual's moral behavior, but set the stage for change because of the numerous factors influencing an individual's morals that are outside the classroom;
- b) Accounting ethics needs to be taught throughout the accounting curriculum because a single course can not instill the necessary ethical mindset in students; and
- c) Accounting educators should seek out innovative techniques to deliver ethics education to accounting students.

This study addresses the final point (c) as alternative methodologies in teaching ethics are needed to reach students as the traditional approaches (e.g. lecture) are limited in effectiveness. The alternative methodologies employed should address Loeb's seven goals in addition to the individual course's objectives with respect to ethics. Implementation of an alternative methodology should engage students and delve deeper into accounting ethics which can not be done adequately through the traditional lecture format.

During the past decade, alternative methods in teaching ethics have become necessary to improve students' ethics-related education. These methods are associated with developing critical thinking and reasoning skills. Massey and Van Hise (2009) discuss the process of developing an accounting ethics course at Fairfield University. As a component of the process, the authors discuss the "course delivery" of the course's subject matter. Four methods are highlighted: student-led classes, reflective writing assignments, case analysis, and interview assignments. These four methods have an important common attribute – each method requires students to participate and think critically. Each method can be adapted to satisfy some or all of Loeb's goals of accounting ethics education.

Overall, effective accounting ethics education involves developing an approach that satisfies the individual course's objectives and Loeb's goals in a manner that requires students to think critically and to participate in the learning process.

LEARNING OBJECTIVES

The choice of employing EC by Cynthia Cooper as the textbook for the upper-level undergraduate auditing course (i.e., Auditing II) is appropriate for several reasons. First, the course traditionally did not make use of a textbook, but required extensive readings in accounting and auditing practitioners' journals. A review of the reading list showed a duplication of topics already covered in the Auditing I course. Thus, the instructor decided to replace the practitioner-based reading materials with a non-fiction book reading based on a high-profile fraud case. Accounting instructors need to assess how EC will affect the students' workload. If the course already employs a textbook, then will the additional reading of EC be excessive?

Second, the course heavily emphasized the case method of students' learning. Using the case method stimulates critical thinking skills. The number of cases discussed in class was not significantly reduced; rather, the real-life situation of EC complemented the cases employed throughout the course. This factor is important because one method of developing critical thinking skills (i.e., reading EC and completing EC-related assignments) was not used to replace another method (i.e., analyzing cases). Deploying EC in the course must complement the other types of instruction in the course.

The course's objectives were as follows:

1. examine and consider the role of the auditing profession and of the audit in society;
2. develop a reasonable knowledge of selected current issues facing the auditing profession today;
3. provide a greater understanding of the general assurance framework and its underlying theories; and
4. review specific topics that build upon general auditing concepts.

TABLE 1
Loeb's Goals of Accounting Ethics Education

1. Relate accounting education to moral issues.
2. Recognize issues in accounting that have ethical implications.
3. Develop "a sense of moral obligation" or responsibility.
4. Develop the abilities needed to deal with ethical conflicts or dilemmas.
5. Learn to deal with the uncertainties of the accounting profession.
6. "Set the stage for" a change in ethical behavior.
7. Appreciate and understand the history and composition of all aspects of accounting ethics and their relationship to the general field of ethics.

Source: Loeb, S., 1988. Teaching Students Accounting Ethics: Some Crucial Issues. *Issues in Accounting Education* Vol. 3(2): 322, Table 1.

Also, the course's learning outcomes included one specifically related to ethics:

1. discuss the auditing profession, the rules of professional conduct that govern auditors, and the ethical issues facing auditors.

A key consideration in utilizing EC is that its use must support the course's objectives and the specific ethics-based learning outcome. That is, EC must "fit" the intentions of the course and not vice versa. In addition, the use of EC addresses important Loeb's goals. First, the whole story behind EC focuses on the scandal at WorldCom that ended in the company's bankruptcy in 2002. This story possesses significant moral issues and financial accounting misrepresentations that have ethical implications. Students get a sense of the "character" of those individuals involved in the financial statement fraud and the "environment" in which they acted after reading EC. Second, students can relate the participants' behavior to the code of professional conduct for the accounting profession and quickly see that the simple existence of a code of professional conduct is insufficient to prevent such an extensive fraud. That is, accountants must internalize the qualities of "integrity," "due care," and "objectivity" to develop "a sense of moral obligation." Further, students can see that it is important to develop an ability to deal with ethical conflicts because at least one conflict will likely occur during their professional careers. Finally, after experiencing the WorldCom story students gain a greater appreciation of accounting ethics and general business ethics and a sense of the historical significance of WorldCom. An accounting instructor can introduce historical cases of ethical violations in their own country to compare and contrast with the violations from the WorldCom case. Clearly, learning ethics by adopting EC in an upper-level accounting course can reinforce Loeb's goals of accounting ethics education and enhance students' ethics education.

Employing EC in an upper-level undergraduate auditing course has the following advantages:

1. The WorldCom story is told by the most important player in uncovering the fraud; thus, the presentation of facts and knowledge are real-life and first-hand, meaning its impact on students' learning should be significant;
2. the opportunity is available to the instructor to craft critical thinking assignments around the central theme of the book; and

- the many issues involved in uncovering the fraud, the people involved, and how issues are interrelated provide meaningful topics for discussion.

Overall, designing a significant portion of an upper-level auditing course around a book such as EC should improve students' ethical reasoning and decision-making skills.

IMPLEMENTATION GUIDANCE

The EC-related instructor's assignments consisted of the following:

<u>Assignment</u>	<u>Value Percent of Total Grade</u>
Quiz	10%
Special Assignment	<u>30%</u>
Percent of Total Grade	<u>40%</u>

The Quiz (see Appendix 1) consisted of twenty multiple choice and two short answer questions. The purpose of the Quiz was to test students' knowledge of the book's contents. Three deadlines and review sessions were scheduled during the semester to read and discuss the book – Deadline One: chapters one to six; Deadline Two: chapters seven to sixteen; and Deadline Three: chapter seventeen to epilogue (see Appendix 1, EC Review Notes). In addition to highlighting key events, the discussions were designed to foster deeper insights into ethics-related topics. For example, the session for Deadline One included a discussion about Ms. Cooper's upbringing and its significance in influencing her ethical decision-making ability later in life.

The Special Assignment was a group assignment that included a PowerPoint presentation and a short writing assignment. The Special Assignment topics are presented in Exhibit 1. When completing their special assignment topic, groups use the book as a basis for framing their responses. For example, Topic 4 requires students to investigate theories that explain accounting fraud. Students are to relate the effects of external pressures from financial analysts' earnings guidance on the behavior of WorldCom's employees. Further, WorldCom's management had an advantage because they had access to the company's internal financial information whereas the public did not.

The target audience for using EC as a basis for teaching business ethics is an upper-level auditing class or graduate level accounting / auditing class. The course's instructor must ensure that the course's objectives and learning outcomes can accommodate the use of this particular book in the classroom. That is, EC must support the course's objectives and learning outcomes. Further, since the particular usage of EC in this research study was at a Canadian university, the group assignment topics possessed a Canadian focus (e.g., Topic 7, comparing whistleblower protection laws in the U.S. and Canada). The instructor can modify the group assignment topics to fit alternative contexts. Overall, an instructor needs to customize their measures of student outcomes to fit the needs of their particular course.

OUTCOME ASSESSMENT

Following the completion of the course materials and the instructor's grade assessments related to the book EC, students provided feedback via a questionnaire. The results are summarized in Exhibit 2.

EXHIBIT 1

Special Assignment Topics

Topic 1:

Explain the role of professional skepticism in an external audit environment. Then, explain how Cynthia Cooper and her team used professional skepticism to uncover the WorldCom fraud. Cite specific examples from Ms. Cooper's book, "Extraordinary Circumstances: The Journey of a Corporate Whistleblower."

Topic 2:

Describe the Securities and Exchange Commission's (SEC) investigations and litigation that ensued after WorldCom's fraud was uncovered to the public. Provide a timeline of events.

Topic 3:

Compare and contrast the WorldCom fraud with that of Nortel Networks. Provide details of how the "creative accounting" affected the financial statements for the years in question.

Topic 4:

Investigate theories that explain accounting fraud. Specifically, focus on the contracting process; compensation plans and debt contracts; and accounting and the political process. Also, explain what is meant by "information asymmetry."

Topic 5:

Explain how Scott Sullivan devised the accounting entries so that the fraud could be kept "under the radar" of internal and external auditors. Provide specific examples. Suggest audit techniques that may have detected the fraud at an early stage.

Topic 6:

Address the question, "What happens to the whistleblower after the fraud is discovered?" Provide in-depth assessment of at least two cases (i.e., see instructor for the additional two cases).

Topic 7:

Briefly summarize and compare the whistleblower protection laws in Canada (or Ontario, if appropriate) and the U.S. Draw a conclusion about the adequacy of whistleblower protection in both countries.

Topic 8:

One outcome of the Enron and WorldCom scandals in the U.S. was the passage of the Sarbanes Oxley Act (SOX) in 2002 and Bill 198 in Ontario. Briefly compare the provisions of both pieces of legislation (i.e., highlight major similarities and differences; be sure to comment on the provisions for whistleblower protection under each). Also, much has been researched and written about the cost of complying with the SOX in the U.S. Review some of these articles and summarize the results.

EXHIBIT 2
STUDENTS' FEEDBACK
(n = 23)

<u>Question</u>	<u>Mean</u>	<u>Median</u>	<u>Mode</u>
1. Reading the book "Extraordinary Circumstances: The Journey of a Corporate Whistleblower" improved my understanding of the importance of ethical behavior in one's work.	4.1	4.0	4.0
2. The use of book readings, such as the book "Extraordinary Circumstances: The Journey of a Corporate Whistleblower," is an effective method to improve students' learning about a particular subject or topic area (e.g. ethics).	4.0	4.0	4.0
3. The use of book readings, such as the book "Extraordinary Circumstances: The Journey of a Corporate Whistleblower," makes the course more interesting.	4.1	4.0	4.0
4. The three in-class discussions covering chapters 1 to 6, chapters 7 to 16, and chapter 17 to epilogue respectively, assisted in my understanding of the book.	3.4	4.0	4.0
5. The course work (i.e. quiz and special assignment) related to the book "Extraordinary Circumstances: The Journey of a Corporate Whistleblower" extended my knowledge of the relationship between ethics and accounting.	3.5	4.0	4.0
6. My critical thinking skills were enhanced by the course work related to the book "Extraordinary Circumstances: The Journey of a Corporate Whistleblower."	3.3	3.0	3.0 & 4.0
7. The weighting of the course work (i.e., Special Assignment: 30% and Quiz: 10%) related to the book "Extraordinary Circumstances: The Journey of a Corporate Whistleblower" was just right.	3.7	4.0	4.0
8. I would rather have taken an individual assignment rather than the group Special assignment.	2.2	2.0	1.0
9. Overall, I was satisfied with what I had learned from reading the book "Extraordinary Circumstances: The Journey of a Corporate Whistleblower" and the related course work.	4.0	4.0	4.0
Response scale: Strongly Disagree = 1 to Strongly Agree = 5.			

Overall, students were satisfied with their learning experiences related to the book EC. Their responses indicate an understanding of the importance of ethical behavior in the accounting profession. Further, students believe the use of book readings such as EC makes an auditing course more interesting. Students preferred working in groups on the Special Assignment rather than replacing the group work with an individual assignment.

An area where students felt improvement was necessary concerns the quiz. The quiz's content emphasized facts related to the WorldCom fraud. Some students considered this a "memorization" exercise and did not consider it as a means of enhancing critical thinking skills. In the future, the use of tests or quizzes should integrate ethics-related concepts, for example applying the fraud triangle components to the WorldCom case. It is the integration of theory with real-world events that leads to students' developing critical thinking skills.

PROFESSORS' COMMENTS

The paper was presented to accounting academics at the 2016 Canadian Academic Accounting Association annual conference on June 4, 2016 in St. John's, Newfoundland, Canada. Professors' comments are as follows:

Engaging for students. One story to relate to and apply increasing continuity and allows to increase complexity of issue discussion due to their ability to understand background and issues in depth.

I also teach audit and find that teaching of ethics can be a challenge. I thought this approach was refreshing and unique — I think students would be engaged and get more out of the course.

I would use such a book to highlight the importance of ethics as how a decision can affect your life in the short and longer term. I would also use it to highlight the importance of ethics to the survival of accounting as a profession.

It brings a lot of extraordinary ideas in the course and classes. It helps to engage an interaction among students.

I like that it is a real description of the account. I will endeavor to read the book. Thanks!

I have been intrigued by the idea of using literature as a means of teaching auditing ethics since reading the work of a Harvard prof. who used great literature to teach ethics in medicine, law, & MBA programs.

I liked the idea of using a "real case." Students can relate to the context "more easily."

Teaching notes are provided in Appendix 1 and consist of the quiz administered in the course and review notes for the chapters in the book.

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APPENDIX 1 – TEACHING NOTES

Quiz Solution – Extraordinary Circumstances

Name: _____

Multiple Choice Questions

Please use the Scantron to answer the multiple choice questions. (2 points per question, total=40 pts.)

- _____ 1. LDDS's (WorldCom's predecessor company) revenues for the years 1986, 1989, 1991, and 1992 were:
- \$5 million; \$50 million; \$75 million; and \$200 million respectively.
 - \$0.5 million; \$5 million; \$85 million; and \$550 million respectively.
 - \$8.6 million; \$100 million; \$700 million; and \$948 million respectively.**
 - \$17.6 million; \$260 million; \$600 million; and \$1.38 billion respectively.
- _____ 2. The CEO of WorldCom was:
- Scott Sullivan.
 - Bernie Ebbers.**
 - Charles Cannada.
 - Jack Grubman.
 - None of the above.
- _____ 3. After reading the first two chapters of "Extraordinary Circumstances: The Journey of a Corporate Whistleblower," the effect of Cynthia Cooper's upbringing on her career can be described by the following:
- Introverted; Unassuming; and Unassertive.
 - Disorganized; Lazy; and Lacking ambition.
 - Extroverted; Bombastic; and Pompous.
 - Hardworking; Self-confident; and Perseverance.**
- _____ 4. Terri Hudson had an important impact on Cynthia Cooper early on in Cooper's career by:
- Giving Cynthia Cooper her first job after graduating university.
 - Getting Cynthia Cooper interested in Internal Auditing.
 - Getting Cynthia Cooper interested in External Auditing.
 - Serving as a role model and mentor for Cynthia Cooper.
 - (b) and (d).**
- _____ 5. LDDS's (WorldCom's predecessor company) acquisition strategy, simply stated is:
- LDDS will buy only companies that add to earnings per share.**
 - LDDS will buy only companies that have positive cash flow.
 - LDDS will buy only companies that have profits and not losses.
 - LDDS will buy only companies that add to the number of customers.
- _____ 6. When Cynthia Cooper commenced employment with LDDS as a temporary worker, she noticed that LDDS's internal auditors primary duties involved:
- Designing and implementing new internal controls after each acquisition.
 - Assisting with the work required for each acquisition.**
 - Assisting the external auditor with the external audit of financial statements.
 - Searching for efficiencies in the operations of the entire company.

- _____ 7. Initially, when Cynthia Cooper took over as LDDS's (WorldCom's) manager of internal audit she reported to Mike Cipicchio. Cynthia did not believe reporting to Mike was in the best interests of the internal audit group because:
- Mike ran the internal audit group at one of WorldCom's acquired firms and he planned to undermine Cynthia's internal audit team.
 - Mike had plans to use the internal audit team to facilitate the acquisition of more firms.
 - Mike was in charge of managing departments at WorldCom (e.g. Payroll, Accounts Payable) that Cynthia's internal audit team would have to examine, resulting in compromising the internal audit team's independence.**
 - Cynthia did not get along with Mike Cipicchio.
- _____ 8. Cynthia Cooper used the internal audit department at Skytel as a blueprint for organizing the internal audit function at LDDS (WorldCom). Skytel had a "best practices" internal audit department. Thus, LDDS's (WorldCom's) internal audit department, under the management of Cynthia Cooper, would focus heavily on:
- operational audits.**
 - assisting the external auditor with the issuing of the annual financial statements.
 - assisting senior level managers with the acquisition of telecom companies.
 - none of the above.
- _____ 9. Which of the following is true?
- By April 1994, LDDS has completed only five acquisitions.
 - By April 1994, LDDS has completed only ten acquisitions.
 - By April 1994, LDDS has already completed more than thirty acquisitions.**
 - By April 1994, LDDS has already completed more than five hundred acquisitions.
- _____ 10. In May 1994, Cynthia Cooper's internal audit group issues its first reports. In its reports, the internal audit group finds:
- LDDS (WorldCom) is paying too much for the companies it has acquired.
 - LDDS (WorldCom) is too decentralized, full of redundant operations, and weak on internal controls.**
 - LDDS's profits lag that of competing companies.
 - Both (a) and (c).
- _____ 11. As a way of increasing the stature and improving the performance of the internal audit function at LDDS (WorldCom), Cynthia Cooper decides to:
- Benchmark LDDS's internal audit practices against other companies and industry data.
 - Develop an internal audit charter and to have it endorsed by the Audit Committee.
 - Develop annual risk-based audit plans.
 - All of the above.**
- _____ 12. After issuing their first reports, Cynthia Cooper finds senior management less than enthusiastic about accepting the importance of internal controls. In particular:
- Scott Sullivan needs the most convincing about the importance of internal controls.
 - Charles Cannada needs the most convincing about the importance of internal controls.
 - Bernie Ebberts needs the most convincing about the importance of internal controls.**
 - Jon Mabry needs the most convincing about the importance of internal controls.

- _____ 13. During Cynthia Cooper's tenure at WorldCom and through her knowledge of business professionals, she finds:
- a. women have the same opportunity to attain top level management positions as men as long as they play golf well.
 - b. women are underrepresented in top level management positions .**
 - c. men are underrepresented in top level management positions.
 - d. there are only a few more men holding top management positions than women.
- _____ 14. Jack Grubman plays an important role in the growth of LDDS's (WorldCom's) stock price because:
- a. he is a management consultant that provides valuable strategic advice to WorldCom.
 - b. he is the CFO of WorldCom and is a financial whiz.
 - c. he is a respected financial analyst on Wall Street and consistently recommends LDDS (WorldCom) stock as a "strong buy."**
 - d. he is the CEO of WorldCom and is a master at acquiring other companies.
- _____ 15. Cynthia Cooper describes a "researching and banking conflict" that pertains to investment banking and research firms such as Salomon Brothers. This conflict can best be described as:
- a. having business trade with a firm and then recommending the firm's stock as a "buy" to investors.
 - b. having outstanding bank loans to a firm and then recommending the firm's stock as a "buy" to investors.
 - c. both (a) and (b).
 - d. having investment banking business with a firm for say, an upcoming acquisition and then recommending the firm's stock as a "buy" to investors.**
- _____ 16. "The Minnow Swallows the Whale" describes:
- a. AT&T's acquisition of WorldCom.
 - b. WorldCom's acquisition of AT&T.
 - c. MCI's acquisition of WorldCom.
 - d. none of the above.**
- _____ 17. In 1997, the U.S.'s highest paid CFO with a compensation of \$19 million was:
- a. Scott Sullivan.**
 - b. Bernie Ebbers.
 - c. Jack Grubman.
 - d. Ted Turner.
- _____ 18. Cynthia Cooper describes an "us" and "them" mentality throughout her book. This mentality refers to the:
- a. disproportionate career opportunities between men and women in business.
 - b. competition in the telecom industry between smaller companies such as WorldCom and the "big" players such as AT&T.
 - c. clash of cultural differences between existing employees at WorldCom and employees of a newly acquired company.**
 - d. none of the above.
- _____ 19. In this quote, "Countless moments of greatness occur – quietly, in ordinary circumstances – because someone chose to give the best within them," Cynthia Cooper was referring to:
- a. herself.
 - b. the CEO of WorldCom and how his generous donations touched many people.

- c. her mother and father.
d. an elderly person who through a lifetime of savings made a generous donation to a scholarship fund at the University of Southern Mississippi.

- _____ 20. In June 1999, WorldCom stock price reaches an all-time high with a market capitalization of \$115 billion. On a per share basis, WorldCom is trading at:
- \$0.64 per share.
 - \$640 per share.
 - \$6.40 per share.
 - \$64.00 per share.**

Short Answer Questions:

21. Cynthia Cooper struggled to convince WorldCom's top management of the benefits of the internal audit group. Briefly describe two specific instances where the internal audit's work was financially beneficial to WorldCom. (5 points) **Note to instructor: any 2 of the following**
- The internal audit group's investigation of WorldCom's billings to GTE. GTE was a long distance partner of WorldCom and its management believed it was being overbilled by WorldCom. Cynthia Cooper's group investigated and found WorldCom's billing system could not adequately support the billing structure as stipulated in its contract with GTE (ch. 12, pp. 137-139). CEO Bernie Ebbers appreciated the internal audit group's efforts.
 - Through the internal audit group's work to improve operational efficiency and strengthen internal controls, WorldCom recovered in excess of \$10 million (p.145).
 - The internal audit group's first report finds problems with sales commissions, redundant operations, and customer dissatisfaction (pp. 100-101).
 - Under billing customers. There were inadequate controls to ensure that calls are flagged and charged for use on the networks (p. 121). Lost revenues are estimated at \$8 million annually.
 - Identifying the unprofitability of the wireless unit (p. 210).
22. Briefly explain "The Rule of Ten." (5 points)

The "Rule of Ten" represents the explanation given by Scott Sullivan (CFO) to Cynthia Cooper (head of internal audit) for the wireless allowance account. Cynthia found the allowance was understated for the entire firm and Scott used this "Rule of Ten" as an argument for increasing the allowance gradually over the course of the year (p. 214). The "Rule of Ten" has no basis in accounting theory, principles, etc.

EC REVIEW NOTES, CHAPTERS 1 THROUGH 6

Review of Chapters 1 through 6

1. What role do you think that Cynthia Cooper's upbringing play in her ethical behaviour later in life?
 - P.14
My mother tried to guide my brother Sam and me from the time we were little. Sometimes, it seemed as if she was sitting in wait for teachable moments. She especially worked to build our self-confidence, to impart the value of perseverance. Don't be discouraged. Press on. Don't give up. Keep your chin up. Fight the good fight.

"Don't ev-v-ver allow yourself to be intimidated," she would say..."
 - P. 19, grandmother Lillian (Nannie) Ferrell speaking,
"I don't have much to give you, but I have given you a good name. Always protect it."
 - P.23, mother speaking,
"I've always had to work for peanuts," my mother, who went to secretarial school after high school, would tell me. "If you're going to work, you might as well make decent money. I want you to get a college degree in a specialized field where you'll be able to make the same money the men make. There may come a day when you have to support yourself and your children. I want you to always be able to stand on your own two feet."
2. What role do you think religion plays in determining one's ethical behaviour?
 - Discuss
 - Research

EC REVIEW NOTES, CHAPTERS 7 THROUGH 16

Review of Chapters 7 through 16

3. What role do you think that "corporate culture" played on aggressive acquisition strategy? How did top management (e.g. Bernie Ebbers, Scott Sullivan) take negative comments or news about LDDS (WorldCom)?
 - P.114 – 115
In a presentation I recently gave to Charles and Scott, I mentioned all the internal control problems my department has identified – certainly a typical internal audit topic. Since Bernie hadn't attended, I dropped a copy in his inbox.....

When Bernie arrives, he sits at the head of the table. "What are these comments you've put in here about internal controls?!" he says agitated. His face is blood-red. I've never seen him so upset.

"I'm sorry, I'm not trying to make you mad," I respond. "This just talks about internal control weaknesses we've seen based on our audit work." Bernie thinks my wording is harsh. He seems to be taking our issues and recommendations personally.

“What if this ends up on the street?” he says, brandishing the papers in the air...

What is Bernie Ebbers implying here with this last comment?

- Discuss.
4. Who is Jack Grubman? How does he influence WorldCom?
 - Discuss
 5. Cynthia Cooper struggled to convince WorldCom’s top management of the benefits of the internal audit group. Briefly describe two specific instances where the internal audit’s work was financially beneficial to WorldCom.

EC REVIEW NOTES, CHAPTERS 17 THROUGH EPILOGUE

Review of Chapters 17 to Epilogue

- 1) Explain what is meant by the “Rule of Ten.”
- 2) Explain “Prepaid Capacity.”
- 3) Internal audit finds World Com’s wireless allowance is materially understated. Management agrees to increase the allowance to \$300 million. The uncovering of the understatement in the allowance occurred in January 2002. Explain how management may be “playing” internal audit by acquiescing on the allowance.
- 4) Writing off the unamortized or undepreciated line costs as an impairment charge could provide the same income effect as restating over the periods in question. Why is taking the impairment charge not the same as restating? (i.e., in terms of proper accounting treatment)
- 5) Explain how being “lucky” helped uncover the major components of the fraud
- 6) What are the ramifications of the fraud not being uncovered in mid-2002?
- 7) Discuss Cynthia Cooper’s ten points on making the “right” choices.

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