

Remarks of Melvin Dick
United States House of Representatives
Committee on Financial Services
July 8, 2002

Chairman Oxley, Congressman LaFalce, Members of the Committee:

I am Mel Dick. I am a graduate of the University of South Dakota. Upon graduation in 1975, I joined Arthur Andersen as a staff auditor. I was a partner at Andersen until I left Andersen on June 1 of this year. I have spent the majority of my career working with diverse telecommunications companies.

Beginning with WorldCom's fiscal year ended December 31, 2001, I became the engagement partner responsible for Andersen's audit of WorldCom. In addition to the year end audit, Andersen's work included quarterly reviews beginning with the quarter ending March 31, 2001, and including the quarters ending June 30, 2001 and September 30, 2001.

Andersen's audit report for WorldCom's 2001 financial statements was delivered on March 7, 2002, and WorldCom filed its 10-K report with the SEC on March 13, 2002. Andersen's review of WorldCom's first quarter 2002 was completed on May 15, 2002. On May 16, 2002, Andersen concluded its relationship with WorldCom and was replaced by KPMG.

On June 1, 2002, I resigned from Andersen. I am presently serving as Executive Vice President and Chief Financial Officer for an apparel company.

One week ago, on July 1, while I was on a business trip, I was contacted by counsel for the Committee and invited to attend today's hearing. Through my attorney I offered my full cooperation in the Committee's work and I agreed to attend this hearing voluntarily.

The Chairman's letter of invitation, faxed to my attorney on the night of July 3, states: "This hearing will focus on the recent announcement that WorldCom overstated profits and understated liabilities in the amount of \$3.9 billion."

The Chairman's letter refers to the disclosure by WorldCom on June 25 that approximately \$3.1 billion in expenses were improperly booked as capital expenditures in 2001 and an additional \$797 million of expenses were improperly booked as capital expenditures in first quarter of 2002. The newspaper reports that I have read allege that senior financial management at WorldCom improperly transferred line costs expenses to capital accounts in the company's accounting records.

Let me state clearly and without any qualification that, prior to June 21, 2002, when Andersen was first contacted about this matter, neither I, nor to my knowledge, any member of the Andersen team had any inkling that these transfers had been made.

In fact, in connection with our quarterly reviews for March 31, June 30 and September 30, 2001, our year end audit at December 31 2001 and our quarterly review for March 30, 2002, the Andersen audit team specifically asked WorldCom senior financial management whether there were any significant top side entries. On each occasion, management represented to Andersen that there were no such entries.

The fundamental premise of financial reporting is that the financial statements of a company—in this case WorldCom—are the responsibility of the company's management, not its outside auditors. WorldCom management is responsible for managing its business, supervising its operational and accounting personnel, and preparing accurate financial statements. It is the responsibility of management to keep track of capital projects and expenditures under its supervision. The role of an outside auditor is to review the financial statements to determine if they are prepared in accordance with Generally Accepted Accounting Principles and to conduct its audit in accordance with Generally Accepted Auditing Standards,

which require that auditors plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Our audit and our reviews of WorldCom were performed by experienced audit professionals. Our audit plan was the product of a deliberative and diligent evaluation of a global telecommunications company with over \$100 billion in assets.

As with any audit, we planned our audit of WorldCom in general reliance on the honesty and integrity of management of the company. One of the key elements of evidence all auditors rely upon are management's representations. As all auditors do, we also tested and, based on our tests, concluded that we could rely on the company's management processes and internal controls, including the internal audit function. We relied on the results of our testing and the effectiveness of these systems in planning and performing our audit. At the same time, we approached our work with a degree of professional skepticism, alert for potential misapplication of accounting principles.

Additionally, we performed numerous analytical procedures of the various financial statement line items, including line costs, revenues, and plant and service in order to determine if there were any significant variations that required additional work. We also utilized sophisticated auditing software to study WorldCom's financial statement line items, which did not trigger any indication that there was a need for additional work.

In performing our work, we relied on the integrity and professionalism of WorldCom's senior management, including Scott Sullivan, WorldCom CFO and David Myers, WorldCom Controller, and their staff.

If the reports are true that Mr. Sullivan and others at WorldCom improperly transferred line cost expenses to capital accounts so as to misstate the company's actual

performance, I am deeply troubled by this conduct. In addition, if reports are true that WorldCom's internal auditors discovered these entries, I would be very interested to know how and when they discovered these entries.

I do not know the specifics of what Mr. Sullivan did or directed others at WorldCom to do, and I have not had the opportunity to review the entries that are at issue here. I understand that Mr. Sullivan has acknowledged that he never told Andersen about the accounting he is said to have employed.

At this point, however, while I can explain our general approach to the WorldCom audit and explain generally the work that we did, I do not have enough information to comment on the entries that WorldCom senior financial management are said to have made, or how they were hidden from the Andersen auditors.

Mr. Chairman, I will answers any questions you or the members of the Committee may have for me at this time.