



Internal Audit Correspondence

Audit:	Capex
Date:	June 17, 2002 7:00 PM
Participants:	Ferrell Malone, Cynthia Cooper and Glyn Smith
Method of Communication:	Meeting in the Audit Library

Cynthia Cooper and Glyn Smith met with Ferrell Malone to update him on the conversations with Betty Vinson, Buddy Yates, David Myers and Max Bobbitt that had occurred earlier in the day.

Cynthia and Glyn related the following events and conversations to Ferrell:

- First we went to Betty Vinson's office and requested support for the entries. Betty stated that she posted the prepaid capacity entries but did not know what prepaid capacity was and did not have support for the entries. She indicated that David and Buddy provided the amounts for the entries and that we should go to them for support.
- Next we went to Buddy Yates to request support for the entries. Buddy stated that he was not familiar with the entries and that we should talk to David Myers. Buddy indicated that he had not heard of prepaid capacity.
- Next we went to David Myers' office and requested support for the entries. David stated that he did not have support for the entries and that the amounts were booked based on what they thought the margins should be. David said that there were no accounting pronouncements to support these entries. David acknowledged that the line costs should probably not have been capitalized and stated that it was difficult to stop once started.

Cynthia told Ferrell that Max had been apprised of the discussion with David Myers, and that Max had requested that we update Ferrell. Ferrell stated that he would call Max Bobbitt and discuss the issue.