



July 31, 2003

CERTIFIED MAIL--RETURN RECEIPT REQUESTED
(ALSO FACSIMILE TRANSMISSION)

Michael D. Capellas
Chairman and CEO
WorldCom, Inc.
22001 Loudoun County Parkway
Ashburn, VA 20147

Re: Notice of Proposed Debarment of WorldCom, Inc., dba MCI

Dear Mr. Capellas:

You are hereby notified that the General Services Administration (GSA) has initiated proceedings to debar WorldCom, Inc., dba MCI from participation in Federal procurement and nonprocurement programs. This exclusion also includes MCI WorldCom Communications, Inc. This action is initiated pursuant to Federal Acquisition Regulation (FAR) Subpart 9.4, General Services Administration Acquisition Manual (GSAM) Subpart 509.4, and the Federal Property Management Regulations (FPMR) Subpart 101-45.6. Copies of the referenced FAR, GSAM, and FPMR Subparts are enclosed for your information.

The proposed debarment is based on information provided by GSA's Office of Inspector General (OIG) and information furnished by WorldCom. Information in the record includes: the OIG Recommendation for Suspension (with attachments), dated June 2, 2003; the OIG Supplemental Report dated July 8, 2003; an OIG memorandum dated July 25, 2003, recommending debarment; the Second Interim Report of Dick Thornburgh (Thornburgh Report), dated June 9, 2003; Report of Investigation by the Special Investigative Committee of the Board of Directors of WorldCom, Inc. (McLucas Report), dated March 31, 2003; an MCI Memorandum (with attachments) to me, dated June 26, 2003; Supplemental Statements of MCI dated July 14, 2003; slides prepared by WorldCom's ethics office; and material related to the company's ethics training program. Among the documents furnished by WorldCom is a 54-page report by WorldCom's outside auditors, KPMG, LLP, dated June 3, 2003 (KPMG Letter).

The background of this case is well known: In June of 2002, WorldCom revealed that it committed the most massive fraud in U.S. history when it overstated its earnings to the Securities and Exchange Commission (SEC) and investors. Both the McLucas Report and the Thornburgh Report released in June 2003 describe the results of investigations into the company's corporate governance failings and identify individuals responsible for orchestrating and implementing the fraud. GSA has already suspended former WorldCom CEO Bernard Ebbers and other former WorldCom officials because of their involvement in the accounting fraud.

Although WorldCom has begun to address the numerous material weaknesses noted by its outside auditors and others and has cooperated with the SEC and other investigations, there remain significant unrepaired weaknesses that are a cause of serious concern. These significant weaknesses can be grouped in two broad areas: Accounting Controls, and Integrity and Business Ethics.

Accounting Controls

It is clear that the accounting and corporate controls that should have prevented the accounting fraud failed. The McLucas and Thornburgh Reports describe the reasons for this failure, and the KPMG Letter details existing deficiencies in accounting controls. Specific causes for concern include the following:

- The KPMG Letter cites ten "material weaknesses" in the design or operation of WorldCom's internal controls. A material weakness is a weakness found to be pervasive throughout an entire organization. Each individual weakness is considered to be a significant control deficiency. The acceptable standard is for a company to have no material weaknesses, or if one is found, for it to be promptly corrected.
- The outside auditors noted that the company needs to implement procedures and controls to review, monitor, and maintain general ledger accounts because the auditors found the fewest controls in place at this level. Implementing adequate controls on the general ledger is significant because that is where all of the company's financial transactions are summarized for all of its accounts.
- It is not established that all internal control deficiencies (material or non-material) have been identified. The outside auditors' review is ongoing.

Material submitted by WorldCom attempts to address these concerns. WorldCom cites the following factors as indicative of its responsibility:

- Since WorldCom disclosed its massive accounting fraud, it has undergone several corporate changes, including replacement of its CEO, resignation of the full Board of Directors, and recruitment of three new members who the company asserts are not, in any way, associated with the old Board or

the company itself. Senior officials and scores of accounting employees have quit or been removed.

- WorldCom has fully cooperated with Judge Rakoff of the United States District Court for the Southern District of New York in SEC v. WorldCom (02 Civ. 4963 (JSR)), and has complied with requests of the court-appointed monitor, Richard Breeden.
- WorldCom has entered into a settlement agreement with the SEC that requires a full audit in compliance with the Sarbanes-Oxley Act of 2002 by June 30, 2004, one year earlier than is required by the statute.
- The company initiated a fully funded, unrestricted internal investigation of the matters underlying the securities fraud and implemented a zero tolerance policy, under which anyone implicated in corporate misconduct is immediately removed.
- Many of the internal control deficiencies have been identified by outside experts and consultants. The outside auditors identified 94 controlled areas within the company's internal control structure that may allow errors or fraud to go undetected in the normal course of business. Ten material weaknesses were identified. The company is aware of each of these deficiencies and is attempting to address them. Management's response proposes action plans and gives target dates for completion.
- WorldCom has been cooperative with GSA and investigative agencies.

Although WorldCom has proposed solutions to problems identified by its outside auditors and the company notes progress in addressing them, the fact remains that the material weaknesses have not been fully corrected. In addition, the record does not indicate that the proposed solutions will adequately resolve these identified problem areas. Furthermore, according to the outside auditors, even with remedial action in the identified areas, the company may have undiscovered material weaknesses. On balance, the record indicates that WorldCom is not presently responsible in this area of concern.

Integrity and Business Ethics

The record indicates that the fraud at WorldCom was pervasive and the company had a poor record of integrity and business ethics. During the period when the fraud occurred, and indeed for years, there was no separate Ethics Office or dedicated Chief Ethics Officer to ensure that the company and its employees conducted business ethically. There was no active ethics training program. Senior management disparaged ethics programs and training as a waste of time.

WorldCom has begun to address this issue but there remain areas of serious concern, including:

- WorldCom's intranet site on ethics reveals only limited resources have been devoted to implementing the ethics program. The ethics office staff consists of the Chief Ethics Officer, two other attorneys and one administrative assistant to service a 55,000-employee work force.
- Although WorldCom asserted that its ethics program is a top priority, the company appointed as its Chief Ethics Officer an attorney lacking significant experience in the area of his new responsibility.
- At present, only the top 86 employees of the company have received ethics training and there is no definite schedule for training mid-level managers or the remaining employees.
- There is no apparent requirement that the Chief Ethics Officer or the ethics staff report directly to the CEO or to the Board of Directors during this critical time of rebuilding. Rather, the Chief Ethics Officer currently reports to an official who in turn reports to the CEO. The Chief Ethics Officer's position in the management structure is inconsistent with WorldCom's claim that ethics is a high priority and this inconsistency is likely to be apparent to WorldCom's employees. This inconsistency could have a negative impact on the effectiveness of the ethics program.

WorldCom's submission indicates that it has begun to address the lack of an ethics program and standards of business conduct. WorldCom pointed to the following as indications that it is presently responsible:

- WorldCom created a new ethics office and appointed a Chief Ethics Officer to lead its program.
- WorldCom has engaged consultants from two well known business schools to develop WorldCom's ethics training and educational programs. WorldCom's top 86 executives have recently attended the first two-day training seminar in ethics and have pledged their commitment to the company's new ethics code.
- WorldCom has created a hotline and e-mail address where employees can anonymously raise questions and report violations, and the system is being used. The company is investigating complaints, taking disciplinary action, and providing follow-up responses.
- The new CEO, Michael D. Capellas, stresses his personal commitment to ethics and champions a "zero tolerance" approach to wrongdoing.

The steps WorldCom has taken are positive but are inadequate to protect the Government's interest. The ethics program is a work in progress rather than an established fact and the position of the Chief Ethics Officer and his lack of direct access to the CEO and the Board of Directors is inconsistent with the priority WorldCom claims to attach to its ethics program. Consequently, this remains an area of serious concern.

As agency suspension and debarment official I am authorized to debar a contractor for any cause of so serious or compelling a nature that it affects the company's present responsibility. FAR 9.406-2(c). Responsibility includes such factors as having a satisfactory record of integrity and business ethics, and having the necessary organization, accounting and operational controls. FAR 9.104-1. After reviewing the entire record, I conclude that cause for debarment of WorldCom exists pursuant to FAR 9.406-2(c) and that such action is necessary to protect the Government's interest.

I am aware of recent allegations that WorldCom has engaged in a scheme to avoid paying access charges to local telephone companies by improperly rerouting calls or stripping off their electronic coding. I am also aware of reports that these allegations are being investigated by other Government agencies. If these allegations are substantiated, I am prepared to take whatever additional administrative measures may be necessary to protect the Government's interest.

The proposed debarment is effective the date of this notice and has the following consequences:

1. The company names, WorldCom, Inc. dba MCI; and MCI; and MCI WorldCom Communications, Inc., (WorldCom) will be published in the List of Parties Excluded from Federal Procurement and Non-Procurement Programs, a GSA publication containing the names of contractors debarred, suspended, proposed for debarment, or declared ineligible by any agency of the Federal Government. Proposed debarment is effective throughout the executive branch of the Federal Government.
2. Offers will not be solicited from, contracts will not be awarded to, existing contracts will not be renewed or otherwise extended for, and subcontracts requiring Government approval will not be approved for WorldCom by any agency in the executive branch of the Federal Government, unless the head of the agency taking the contracting action or a designee states in writing the compelling reason for continued business dealings between WorldCom and the agency.
3. WorldCom may not conduct business with the Federal Government as an agent or representative of other contractors or of participants in Federal assistance programs.

4. No Government contractor may award to WorldCom a subcontract equal to or in excess of \$25,000 unless there is a compelling reason to do so and the contractor first notifies the contracting officer and further complies with the provisions of FAR 9.405-2(b).

5. WorldCom's affiliation with or relationship to any organization doing business with the Government will be carefully examined to determine the impact of those ties on the responsibility of that organization to be a Government contractor or subcontractor.

6. No agency in the executive branch shall enter into, renew, or extend primary or lower-tier covered transactions in which WorldCom is either a participant or principal, unless the head of the agency grants an exception in writing.

Within thirty (30) calendar days after receipt of this notice, a representative acting on behalf of WorldCom may submit, either in person or in writing, or both, information and argument in opposition to the proposed debarment. If you designate a representative to respond on WorldCom's behalf, please notify Mr. Donald J. Suda, in writing, of the identity of the representative. Any response to this Notice should include specific information material to the proposed debarment. If it is found that the information or argument submitted raises a genuine dispute over material facts, factfinding may be conducted to determine the disputed facts. Facts proved by conviction or civil judgment, however, are not subject to factfinding in this proceeding.

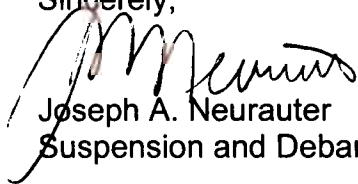
If WorldCom's representative desires to present information and argument to me in person, an oral presentation will be scheduled to occur within 20 calendar days after receipt of the request, unless a longer period of time is requested.

The determination whether or not to debar WorldCom is discretionary and will be made on the basis of the administrative record, including any information added to the record during the period of proposed debarment either by WorldCom or by the Federal Government.

If debarment is imposed, the limitations described in paragraphs 1 through 6, above, will continue to apply and WorldCom's name will continue to be published in the List of Parties Excluded from Federal Procurement and Nonprocurement Programs. WorldCom's status, however, will be changed to reflect the debarment.

Any communication regarding this matter should be directed to Mr. Suda at (202) 501-4770. Any written submission should be forwarded in duplicate to Mr. Suda at General Services Administration, Office of Acquisition Policy (MV), Room 4040, 1800 F St., NW, Washington, DC 20405. You may also respond by e-mail at donald.suda@gsa.gov.

Sincerely,



Joseph A. Neurauter
Suspension and Debarment Official

Enclosures