AUDITING CULTURE & ETHICS

PRESENTED BY BRIDGET TOELLE, SENIOR DIRECTOR
AT THE UNITED STATES OLYMPIC COMMITTEE
APRIL 4, 2017
OVERVIEW

1. Why is this important?
2. Purpose and Objectives
3. Research/Resources
4. Audit Steps/Testing
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3 WHY?

New Caesars CEO blamed for Hertz accounting failures

Mark Frissora, the 3-week-old CEO of Caesars Entertainment Corp., was accused by Hertz Global Holdings of having a "management style and temperament that created a pressurized operating environment" during his tenure as the top executive of the automobile and equipment rental car company.

Hertz said the lack of oversight by Frissora led to "material misstatements" in the company's 2011, 2012 and 2013 financial reports totaling $207 million.

Hertz made the comments through an explanatory note in the company's year-end financial filing with the Securities and Exchange Commission late Thursday. The rental car company said an internal investigation concluded there were "four categories of material weakness in our internal control over financial reporting."

The company concluded that Frissora's management style "resulted in an environment" that led to "inappropriate accounting decisions and the failure to disclose information to an effective review." Hertz said the CEO set "challenging targets" and "achieving those targets was a key performance expectation."
Wells Fargo’s Fake Accounts

That path wound up leading the company into a quagmire. **Executives sought to drive growth by putting undue pressure on its employees to hit sales quotas, and many employees responded by fraudulently opening customer accounts.** In most cases these accounts were closed before customers noticed, but in other cases consumers were hit with associated fees or took hits to their credit ratings. The bank was forced to return $2.6 million in ill-gotten fees and pay $186 million in fines to the government. **But the biggest hit Wells Fargo will take is to its reputation, as the media and government officials spent much of the year slamming the bank for its fraud.** (The scandal also cost CEO John Stumpf his job.)
May 27, 2015: U.S. Atty. Gen. Loretta Lynch announces a lengthy investigation into FIFA that has uncovered decades of bribery totaling more than $150 million. Federal racketeering charges are unveiled against 14 people, including nine current and former FIFA executives; seven are arrested near the organization’s headquarters in Zurich, Switzerland. Officials are charged with buying and selling votes to deliver the 2010 World Cup to South Africa and soliciting kickbacks from sports marketers.

Swiss authorities seize documents from FIFA offices as part of a separate criminal investigation into the 2018 and 2022 World Cup bids. FIFA President Sepp Blatter, who is not named in either legal case, says: "Such misconduct has no place in football and we will ensure that those who engage in it are put out of the game."
Russian Doctor Explains How He Helped Beat Doping Tests at the Sochi Olympics

By REBECCA R. RUIZ, K.K. REBECCA LAI, YULIYA PARSHINA-KOTTAS and JEREMY WHITE  MAY 13, 2016

The director of Russia’s antidoping laboratory during the 2014 Winter Olympics revealed to The New York Times how Russian agents used an elaborate scheme to swap out tainted urine samples from Russian athletes.
PURPOSE


“The internal audit activity must evaluate the design, implementation, and effectiveness of the organization’s ethics-related objectives, programs, and activities.”
OBJECTIVES

• Compliance with the Federal Sentencing Guidelines

• Evaluate the ethics hotline

• Assess the current ethical culture

• Determine if risks are effectively mitigated
RESEARCH/RESOURCES

- IPPF
- Federal Sentencing Guidelines
- Ethics & Compliance Initiative
- Moral Person and Moral Manager
- Navex Global – The Ethics and Compliance Experts
- Society of Corporate Compliance and Ethics (corporatecompliance.org)
- Center for Ethical Business and Cultures (cebcglobal.org)
- ACFE Report to the Nation
FEDERAL SENTENCING GUIDELINES

- Sentencing policies and practices for the federal criminal justice system
- Used to evaluate compliance and ethics programs
- Sarbanes – Oxley Act
FEDERAL SENTENCING GUIDELINES (CONT.)

1. Standards and procedures to prevent and detect criminal conduct;
2. Managerial responsibility and Board oversight;
3. No authority to people with a history problems;
4. Communication and training;
5. Monitor and audit the program;
6. Incentives and discipline;
7. Respond to violations; and
8. Periodically assess and modify the program accordingly.
AUDIT STEPS

1. Conduct research regarding ethics guidelines and best practices
2. Interview personnel with ethics related responsibilities.
3. Review and test adherence to the organization’s ethics guidelines
4. Conduct employee ethics survey
TESTING

Items to Test:

- Code of Conduct
- Conflict of Interest
- Ethics Hotline
CODE OF CONDUCT

REVIEW TO ENSURE:

• Documented
• Clear, simple, concise and comprehensive
• Consequences
• Orientation and training
• System to assist with decision making
• Complies with “best practices”

COMMON EXCEPTIONS:

• Informal or doesn’t exist
• Not updated
• No consequences identified or inconsistently enforced
• Little or no training
• Personnel are not aware of their responsibilities
CONFLICT OF INTEREST

REVIEW TO ENSURE:

• Completed annually
• Reviewed and action was taken
• Forms and policy are reviewed and updated
• Acknowledgment vs. Disclosure

COMMON EXCEPTIONS:

• Not completed annually
• Not reviewed
• No action is taken
• Conflicts not disclosed
ETHICS HOTLINE

• Are there various methods to report unethical behavior?
• Is the hotline staffed 24/7? Is it global?
• Who receives the reports?
• Is the purpose and process communicated?
• How are employees made aware of the hotline?
• Can external sources use the hotline?
• What is the process for investigating each call?
ETHICS HOTLINE (CONT.)

Common Bad Practices:

• Operated in-house and calls are not anonymous
• Not operated by a person - callers have to leave a message
• Only one person receives reports from the hotline
• Employees are not aware of the hotline
• Employees do not understand how the process works
• Calls are not properly handled or investigated
• Organizations believe that zero calls to the hotline means everything is okay!!!
EMPLOYEE SURVEY

- Distribution
- Length
- Types of questions
- Format
- Anonymity
- Define terms or allow for personal interpretation
- Use your organization's ethics guidelines
EMPLOYEE SURVEY

Sample Questions:
- Are employees treated with respect?
- Is there annual training on standards, policies and procedures and laws and regulations?
- Do you believe action will be taken if wrongdoing is discovered?
- Can you report unethical behavior without fear of retaliation?
- Have you reported unethical behavior? If so, how?
- List examples of unethical behavior and have employees circle behaviors they have observed in the prior 12 months.
EMPLOYEE SURVEY SUGGESTIONS

- Conduct a “test” survey
- Send out reminders
- Leave room for additional comments
- Do not combine questions. Such as, “Are you aware of and follow the code of conduct?”
- Use the survey as a learning tool!
- Coordinate surveys to ensure no timing conflicts
- Determine if results will be shared and state that up-front
- A normal response rate for internal surveys is 30–40%
PRESENTING THE RESULTS

• Issue a report
• Organization-wide meeting
• Individual division meetings
• Develop goals if the organization needs to improve
• Share the results timely
THE AUDIT REPORT

- Negative reactions
- Negotiate
- Only state the facts
- Access to the results and/or report
FOLLOW UP

- Review responses
- Ensure responses are implemented
- Determine when to conduct the next audit and survey
LESSONS LEARNED

- Keep results confidential
- Train the managers
- Fear of retaliation
- Opportunity to vent
- Teach employees and talk about issues
- “Scrub” comments if you are going to share
- Communication, communication, communication!!!
“There is no such thing as a minor lapse of integrity”
~Tom Peters