Fraud Investigation & Dispute Services

In brief

Ernst & Young panel preread –

Corporate Compliance: investigations, diligence and analytics

Friday, October 12, 2012 | 10:15 a.m.–12:15 p.m. | W Hotel, Atlanta, GA

National Association of Former United States Attorneys (NAFUSA) annual conference
Thursday, Friday and Saturday, October 11–13, 2012 | W Hotel, Atlanta, GA

ERNST & YOUNG

Quality In Everything We Do

Fraud Investigation &
Dispute Services

A significant amount of enforcement activity continues to relate to acquired entities.

Page 8

Effective third-party management does not end with the performance of due diligence.

page 5

Anti-corruption continues to be a top priority for boards of directors, audit committees and senior management at many multinational companies.

Page 12

An effective compliance and ethics program (CEP) may be a corporation's best defense when an employee is suspected of illegal activity.

Page 16

Third-party due diligence

In the aftermath of the global financial crisis, governments around the world have intensified their focus on corporate risk, including the risk around third parties. In turn, global corporations and their audit committees are taking a closer look at how best to conduct effective, risk-based third-party due diligence.

US regulators have made clear, through Foreign Corrupt Practices Act (FCPA) settlements and the US Federal Sentencing Guidelines, that third-party due diligence and monitoring are important aspects of an FCPA compliance program. UK regulators, in their guidance around the UK Bribery Act, have stressed the importance of an effective third-party due diligence process. As Mark Mendelsohn, then Deputy Chief of the DOJ Fraud Section, said in November 2009, "Third-party due diligence must be robust, thorough, impeccably documented and preserved."

This collective guidance, in addition to further guidance issued in 2010 by the Organization for Economic Co-operation and Development, had led many organizations to realize that their existing programs are insufficient to the task — especially considering that more than 90% of reported FCPA cases involved third-party intermediaries.

When looking to implement a risk-based approach, companies must consider a number of key questions, including:

- Have all third parties been identified, and are there processes in place to ensure that they continue to be identified on an ongoing basis?
- What criteria should be used in risk assessment?
- How can companies ensure that the process is independent and consistent?
- Does the company have the resources to implement the process?
- Is the process sustainable once established?

Given the sheer number of third parties many companies deal with globally and the volume of information that must be considered in preparing a robust risk assessment, technology can play a key role. The use of technology to analyze large quantities of data can improve cost-effectiveness and increase the likelihood of identifying red flag issues.

A credible, risk-based assessment of a company's third parties is the critical first step toward a robust due diligence program. Levels of investigation can then be based on known or perceived risks. Generally, it is helpful to break the process down into three levels:

- **Level 1:** open source background checks, including internet and media search inquiries. This is a process that can be streamlined, centralized and perhaps even outsourced.
- **Level 2:** enhanced due diligence, including additional public database searches with a specific focus on records such as court filings. This type of search often requires a local country presence.
- **Level 3:** a deep dive that could include on-site inspections; interviews of associates; reviews of corporate, civil and criminal documents; and validating financial records.

It is important to note that effective third-party management does not end with the performance of due diligence. Third parties also should be monitored on an ongoing basis, including regular compliance assessments and audits.

Global companies should evaluate their current third-party due diligence programs in the context of a risk-based framework that incorporates consistency, management oversight, objectivity and reasonableness. In today's environment of increased regulation and scrutiny, such a robust program is a business imperative.

Questions to consider:

- **Is the scope of your due diligence appropriate to identify any potential red flags?**
- **Is your compliance team trained and equipped with the right tools to effectively conduct a due diligence on its own?**
- **Are you up-to-date with new developments in the due diligence field in emerging countries?**
- **Is your global footprint and network large enough to conduct due diligence in remote locations?**
- **Are you informed by your third parties when significant events, such as change in ownership or hiring of a former government official take place in their organization?**

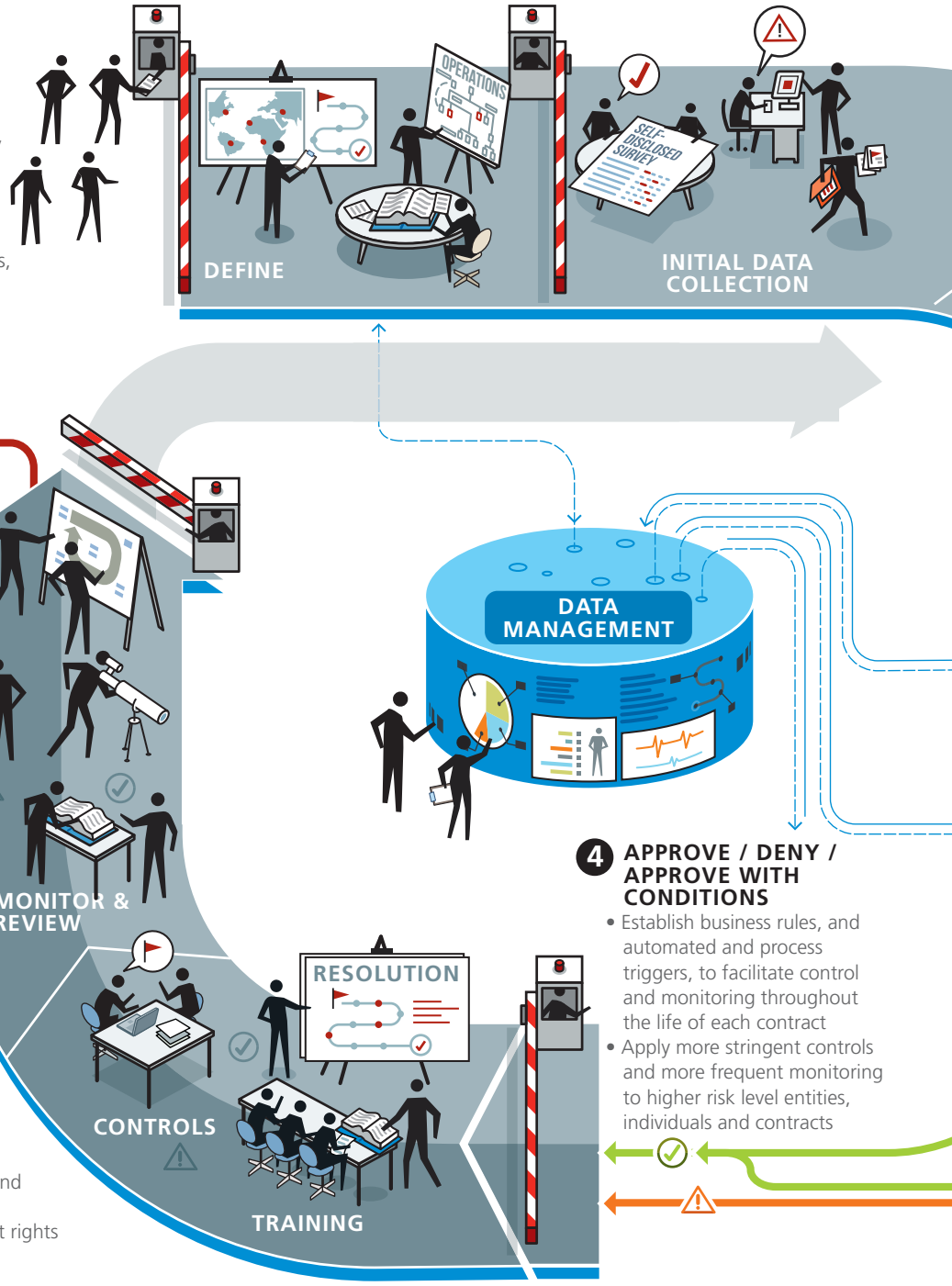
OCEG Anti-Corruption Illustrated Series

Third Party Anti-Corruption Due Diligence

Global organizations may have thousands of third party relationships that present corruption risks. An effective worldwide anti-corruption program must include comprehensive and consistent due diligence in the selection of agents, suppliers and other partners; and methods for monitoring and evaluating compliance once they are on-boarded. This demands a proportionate approach to ensure the right level of process is applied to each.

START: DEFINE 1

- Scope of the third party due diligence process considering countries of concern, and aspects of operations and business relationships that present significant corruption risks
- Objectives and design of the process: define goals, key roles and responsibilities, information management requirements, policies and procedures
- Key forms and templates for (1) new third party requests, (2) third party questionnaires, (3) due diligence level analysis, (4) background checks, and (5) third party certifications
- Procedures to address "red flags" and require re-review of any party



6 MONITOR / REVIEW

- Establish monitoring and re-approval requirements for each risk level
- Conduct regular, on-going review of third parties through automated or manual screening leveraging trusted data sources
- Act on red flags and changes in risk rankings
- Require re-approval periodically on schedule appropriate for each risk level

5 TRAIN / CONTROL

- Establish anti-corruption training and controls for each risk level
- Administer training for different third-party audiences, taking cultural issues into consideration and addressing role-specific needs
- Assess and certify third party awareness and competence in anti-corruption
- Define required contract clauses and audit rights

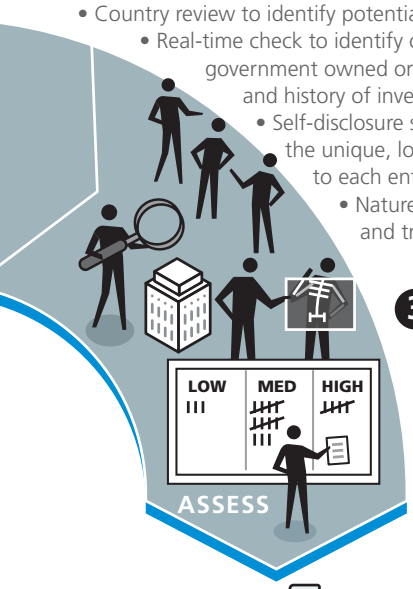
4 APPROVE / DENY / APPROVE WITH CONDITIONS

- Establish business rules, and automated and process triggers, to facilitate control and monitoring throughout the life of each contract
- Apply more stringent controls and more frequent monitoring to higher risk level entities, individuals and contracts

Contact Carole S. Switzer cswitzer@oceg.org for comments, reprints or licensing requests

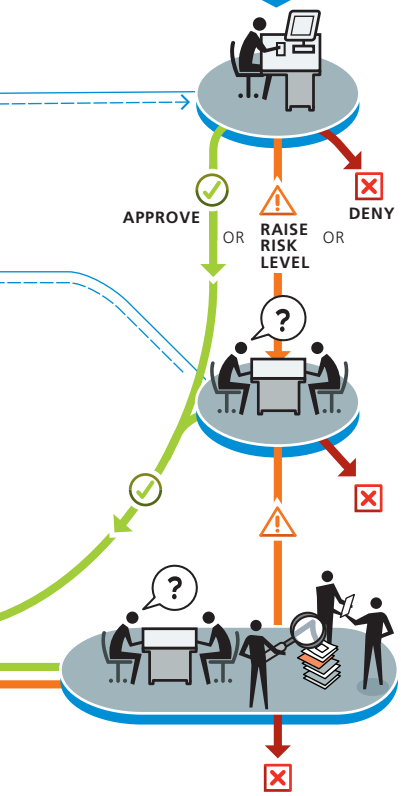
2 COLLECT INITIAL DATA

- Country review to identify potential high risk
- Real-time check to identify connections of entity and individuals to foreign government owned or controlled entity, high risk business relationships, and history of investigation for criminal or civil violations
- Self-disclosure survey for third party candidates tailored to the unique, local risk analysis and the specific facts relating to each entity or person
- Nature, scope and value of intended relationship and transactions



3 ASSESS

- Define high, moderate and low risk categories for third parties based upon factors researched in initial data review
- Rank each third party based on initial data
- Perform additional due diligence based on level



LOW RISK - Level 1 Due Diligence
Trusted Data Source Search and Risk Screening

- Published convictions, penalties and sanctions
- Politically Exposed Persons (PEPs), heightened risk individuals and organizations, and public watch lists
- Multiple media outlets including local, industry and general business

MODERATE RISK
Enhanced Evaluation- Level 2 Due Diligence

- Level 1 activities plus…
- Additional trusted databases
- In-country public records such as court filings
- Detailed background reports from trusted provider
- Research into corporate relationships and human networks
- Third party interviews, questionnaires and supporting documents

HIGH RISK - Level 3 Due Diligence
Deep Dive Assessment

- Level 1 and 2 activities plus…
- Audit and review of third party controls and financial records
- Detailed interviews of references, political associates, business associates
- Investigative background reports leveraging local data sources

WHO IS A THIRD PARTY?

SUPPLY AND SALES CHAIN

- Suppliers/Custom Manufacturers
- Agents/Representatives
- Resellers/Distributors
- Customers

REGULATORY FACILITATORS

- Vehicle licensing agents
- Visa processors
- Customs brokers
- Freight forwarders

PROFESSIONAL SERVICES

- Lobbyists
- Lawyers
- Accountants
- Consultants
- Travel agencies
- Real estate agents

PROGRAM PRINCIPLES

IS YOUR PROGRAM REASONABLE?

Don't interfere with operations or be a burden on the business.

IS YOUR PROGRAM CONSISTENT?

Establish standardized processes that apply to all areas of the business everywhere in the world. Incorporate standardized forms and templates to drive consistency.

IS YOUR PROGRAM RESPONSIVE?

Support transparent and sound decision-making with strong management oversight and robust reporting.

IS YOUR PROGRAM INDEPENDENT?

Minimize potential conflicts of interest and ensure decisions are objective.

Acquisition due diligence

A significant amount of enforcement activity continues to relate to acquired entities. In 2011 alone, there were three FCPA settlements that related to prior violations by recently acquired subsidiaries. Through these and other settlements, the DOJ has reinforced the importance of due diligence both before and after the acquisition.

It is essential that such due diligence begin early. The acquirer should establish multiple pathways for receiving tips, and should actively monitor high-risk activities and relationships based on key factors such as high-risk countries; high-risk third parties; ties to government officials and key customers; direct sales to governments and state-owned enterprises; and a history of corruption. Once identified, corruption threats should be prioritized and investigated.

The earlier that issues are identified, the sooner an acquirer can understand the corruption risks of a deal, discuss any issues with the relevant regulators or walk away, should that prove necessary. This can avoid significant expenditure on a transaction that ultimately falls through because of compliance concerns identified late in the process; it can also prevent an acquirer experiencing reduced profits because certain revenue streams were dependent on corrupt payments or from subsequent regulatory fines and sanctions.

In the early stages, acquisition due diligence will involve performing background checks on target companies, key individuals, third parties and agents. It will also involve interviews with key executives, a high-level risk assessment and a review of the target's anti-corruption policies and procedures. If potential red flags are raised, the investigation should move to a second phase, involving transaction testing, electronic document review, site visits and additional interviews. Whichever approach is adopted, it is essential that the appropriate local resources and knowledge are brought to bear; otherwise, key evidence can be missed.

Once the investigation is complete, the due diligence program should move to a third phase: implementation and ongoing monitoring of a robust anti-corruption compliance program.

It is essential that the acquirer moves quickly after the purchase to flush out any historic or ongoing corruption issues or control gaps in the acquired business. It may prove impossible to make all of the changes required at once; therefore, key risk areas should be identified for initial remediation. The board and senior management play significant roles in supporting the necessary changes in the acquired organization. The desired end result is a culture of compliance, one in which corruption cannot flourish and is quickly rooted out.

As one chief compliance officer noted in our 2012 Ernst & Young Global Fraud Survey, "Conducting pre-acquisition due diligence, with special focus on the client and business portfolios of the acquisition targets, is key."

Questions to consider:

- **Are you aware of the requirements of the FCPA, the UK Bribery Act and other country-specific anti-corruption laws?**
- **Do you currently do business with foreign government customers or state-owned enterprises, including SWFs? Do you intend to pursue this business going forward?**
- **Are your anti-corruption policies, procedures, monitoring programs, training and financial controls executed on a consistent and effective basis across the enterprise?**
- **Do your employees have a clear understanding of the broad definition of a government official? Do your employees understand what is considered appropriate versus excessive spending on gifts, meals and entertainment-related business procurement and retention?**

OCEG Anti-Corruption Illustrated Series

M&A Corruption Due Diligence

Merger and acquisition activity is on the rise in high corruption risk countries. Too many companies focus on financial due diligence in transactions and have undertaken insufficient pre-acquisition corruption due diligence procedures, even while regulatory demand has increased. This illustration outlines key steps that should be taken.

Remove target from consideration

Proceed as planned

Change transaction type or terms OR require pre-closing fixes or disclosures

POST-CLOSING ACTIVITIES

5 ANALYZE

- Determine risks for ongoing business
- Prioritize ongoing compliance needs
- Evaluate anti-corruption training
- Evaluate accounting process, policies and procedures

6 FIX IDENTIFIED SHORTCOMINGS

- Tone at Top
- Code of Conduct
- Third-Party Oversight and Training
- Policies and Procedures
- Third-Party Due Diligence
- Local Needs
- Training

NEXT STEPS

Transactions

Determine & Inspect

PRE-TRANSACTION ACTIVITIES

Strategic Decisions Redux

Decide next steps: continue or negotiate liability and enforcement outcomes pre-closing?

- Successor liability
- Unsustainable Business Model
- Cost of Remediation

Transaction Testing

- Sales and business expenditures
- Payments to agents/consultants/ other third-party intermediaries
- Payments to third-party representatives
- Related-party transactions
- Travel and entertainment expenditures
- Charitable donations and sponsorships
- Gifts and political contributions
- Petty cash

Dig Even Deeper

- Interview executive team, personnel
- Background check the target, owners, key personnel and third parties
- Obtain further documentation
- Analyze and discuss identified issues with management
- Interview key local personnel and third parties

Determine

- Policies and procedures for recording and approving entertainment/hospitality expenses; approving gifts; and monitoring and requiring supporting documentation for cash advances to employees

START

RISK

ADVANCE RISK ASSESSMENT

1 MAKE STRATEGIC DECISIONS

- Do we avoid some markets altogether?
- Do we build instead of buy?
- Do we limit total number of buys to limit risk?

2 IDENTIFY TOP LEVEL CORRUPTION THREATS

- Operation in high-risk countries or industries
- High risk agents, suppliers or customers
- Target, employee or agent ties to government officials, royal family or key customers
- Movement of goods
- Direct sales to governments or state run companies
- History of payments for travel or entertainment of government officials
- History of corruption by company or key individuals
- Background check the target, its owners, key personnel and third parties

Contact Carole S. Switzer cswitzer@oceg.org for comments, reprints or licensing requests

7 INTEGRATE

- Establish corporate culture
- Implement entity-wide policies
- Provide uniform training
- Establish uniform accounting
- Consider uniform technology

8 COMMUNICATE

- Manage change with employees and stakeholders
- Inform management, board and regulators (as required or deemed appropriate) of issues identified

4 LOOK DEEPER

Establish Team ← **Assess** ← **& Inspect**

Establish Team

- Level of knowledge of anti-corruption laws
- Anti-corruption training and understanding
- Nature of government dealings
- Policies, procedures and documentation of payments
- Selection and oversight of agents

Assess

- Locate hard copy documentation including accounting records and contracts
- Utilize accounting systems

Send through more due diligence

Remove target from consideration

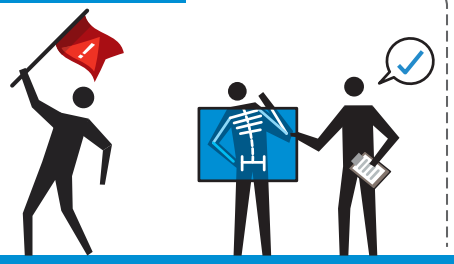
3 MAKE TACTICAL DECISIONS

Analyze findings for each target location

Select different transaction structure

TOP TEN RED FLAGS

1. History of corruption in country or industry
2. No anti-bribery certification
3. Ties to government officials or royal family
4. Use of shell companies
5. Excessive use of cash and/or payments made in cash
6. Invoicing discrepancies
7. Excessive gifts, travel, entertainment and contributions
8. Payments or promises to pay governmental officials
9. Inadequate third party selection or control
10. QUESTIONABLE AGENTS



HOT AGENT ISSUES

- No apparent business purpose for agent
- Claims to be related to government officials
- Asks for improper invoices or payments
- Seeks excessive commissions or discounts
- Objects to being audited
- Refuses to disclose owners, partners or principals
- Lacks accounting transparency

ENHANCED DUE DILIGENCE FOR RED FLAG ISSUES

Fraud data analytics

Forensic data analytics

With the United States Department of Justice's (DOJ), increased focus on Foreign Corrupt Practices Act (FCPA), US companies doing business globally are under increased pressure to improve their anti-bribery and anti-corruption compliance programs to prevent and detect potentially improper payments that put the company at risk. Anti-corruption continues to be a top priority for boards of directors, audit committees and senior management at many multinational companies. The UK Bribery Act and increased enforcement efforts in OECD countries have added to the pressure.

Implementing a program that sufficiently addresses potential compliance risks and control deficiencies can be challenging. Potential challenges can include:

- Expectations of management
- Limited internal audit/ compliance resources
- Global, disparate accounting systems
- Language and cultural differences
- Collection and analysis of large data sets
- Unclear expectations as to which department is charged with monitoring and analysis responsibility
- Closed or misused communication channels between management, compliance, internal audit, IT, general counsel and other key stakeholders

Further increasing the challenge, according to the Association of Certified Fraud Examiners 2012 Report to the Nation, over 50% of fraud and corruption is detected by tip or by accident. Only 14% of fraud is detected by internal audit, who is most frequently charged with monitoring and analysis. Most internal audit tests focus on traditional rules-based queries and analytics that were designed for process and controls-related testing to meet objectives such as Sarbanes-Oxley requirements. Such rules-based tests include the typical matching, filtering, sorting and joining that are associated with database queries.

In detecting bribery and corruption these traditional analytical methods are prone to high volumes of false positives, and often leave organizations drowning in thousands of transactions for review.

Forensic data analytics can help to focus a company's limited resources on identifying, and then assessing, the areas of greatest risk. To cut through the noise of false positives, advanced tools and techniques are required including text mining, statistics and predictive modeling. These tools allow an organization to dive into fraudulent T&E with anomalous reimbursement justifications, identify funds transfers statistically likely to be recurring "grease" payments and apply knowledge of previous improper payments to predict which current disbursements are high risk. Forensic analytics is further enhanced when the results are presented using advanced visualization techniques to enable rapid and effective review. With tuning and tailoring, forensic data analytics can focus effort on the most relevant results in a timely manner.

A successful forensic data analytics program model is:

- **Diagnostic:** high-risk areas are identified that warrant a deep-dive analysis of transactions and source documentation
- **Visual:** interactive and simple to navigate with minimal training
- **Integrative:** statistical and text-mining techniques are integrated to spot patterns and anomalies and to continuously improve the system's analytical ability
- **Collaborative:** the process includes secure sharing with compliance and investigative team members, as well as key stakeholders
- **Effective:** quicker, more accurate fact-finding during ongoing monitoring and analysis saves time and money

Forensic data analytics is a resource-effective way to detect and prevent bribery and corruption.

Questions to consider:

- **Does your audit or compliance function utilize analytics to help identify risks for allocation of resources during annual planning?**
- **How does your organization deliver results and encourage collaboration between the analysts performing analytics and resources responsible for interpreting results and resolving the issues identified?**
- **How does your organization limit false positives in analytics results, and what other measurements are used to gauge the effectiveness of your analytics program?**
- **How does your organization promote the continuous evolution and improvement of its analytics program?**

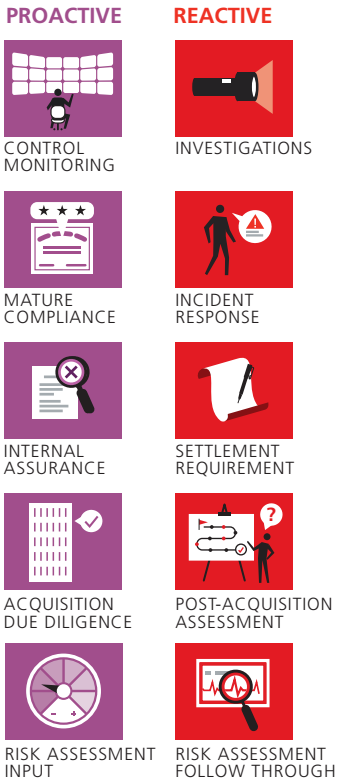
OCEG Anti-Corruption Illustrated Series

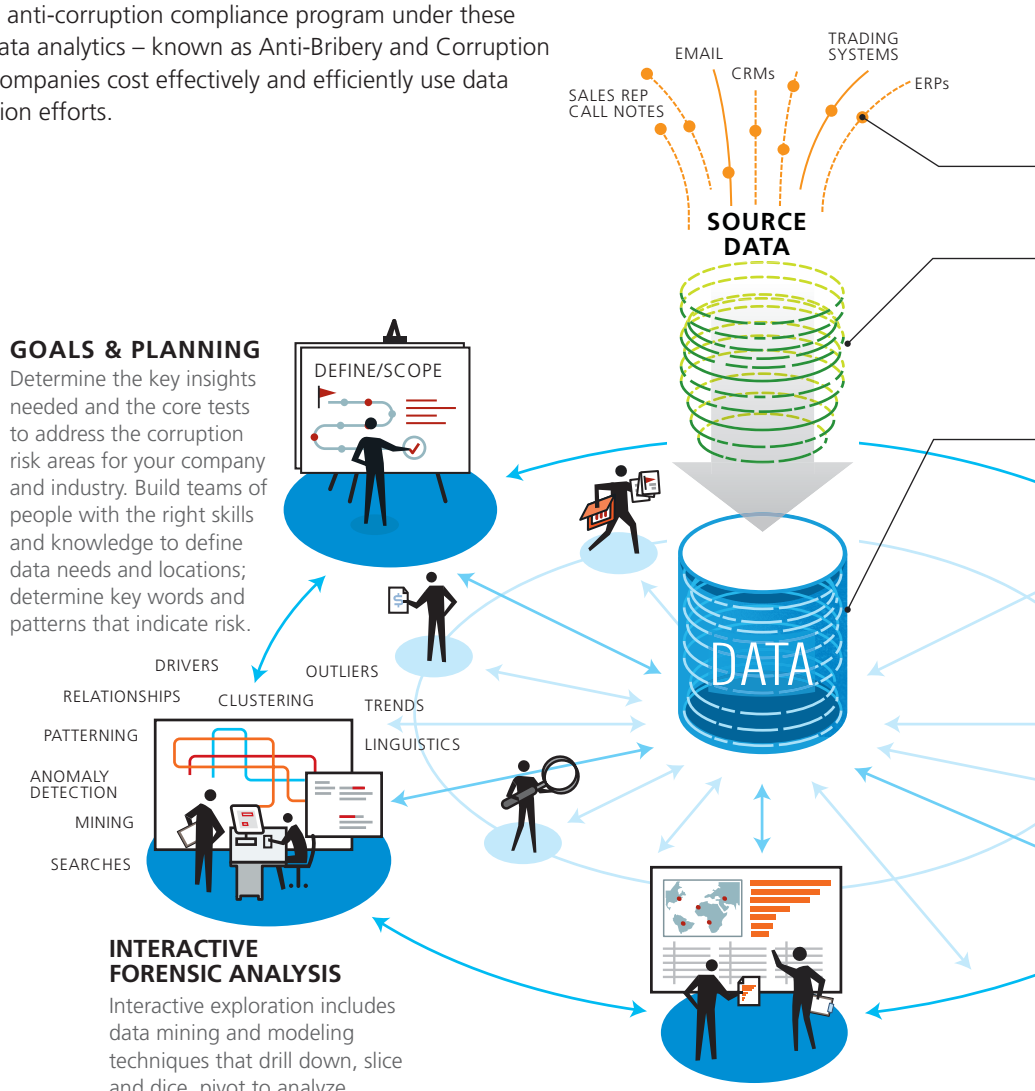
Data Analytics for Anti-Corruption

Companies face significant economic hurdles as margins shrink and profit expectations grow. Implementing and monitoring a strong anti-corruption compliance program under these conditions can be daunting. Forensic data analytics – known as Anti-Bribery and Corruption analytics, or ABC analytics – can help companies cost effectively and efficiently use data discovery to enhance their anti-corruption efforts.

WHY DATA ANALYTICS

You can use data analytics proactively and reactively to dig deep and find both opportunities for and instances of corruption.





GOALS & PLANNING

Determine the key insights needed and the core tests to address the corruption risk areas for your company and industry. Build teams of people with the right skills and knowledge to define data needs and locations; determine key words and patterns that indicate risk.

INTERACTIVE FORENSIC ANALYSIS

Interactive exploration includes data mining and modeling techniques that drill down, slice and dice, pivot to analyze words/numbers and risk rank transactions, employees, and third parties.

DATA VISUALIZATION

Present data in role based dashboards, geographic maps, and custom search reports to clearly communicate insights, anomalies and changes in a timely, repeatable way.

KEY ADVANTAGES OF A SUCCESSFUL MODEL

ABC analytics offer a powerful tool for anti-corruption compliance monitoring by focusing on high-risk areas where traditional rules-based anti-fraud tests have limited detection capacity. Well-designed ABC analytics have these distinctive features which reduce false positives and increase overall detection.

DIAGNOSTIC

Identifies high-risk areas that warrant a deep dive analysis of transactions and source documentation

VISUAL

Intuitive, highly visual and simple to navigate with minimal training

Contact Carole S. Switzer cswitzer@oceg.org for comments, reprints or licensing requests

IDENTIFY THE DATA

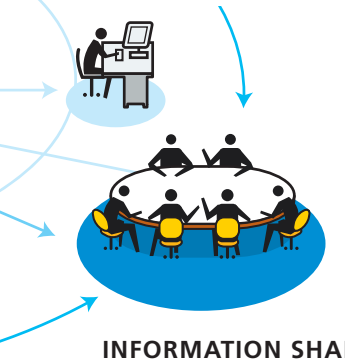
No single data source holds all the answers to your questions. Organizations collect data in numerous places, some more structured than others. Find and collect data from a wide range of sources.

PREPARE FOR ANALYSIS

Extract data kept in different forms in different systems then normalize and cleanse it so that meaningful analysis can take place.

EXPLORE THE DATA

VIEW, ANALYZE, ACT document lessons learned during all phases of analysis and take action to address identified issues and feed information back into the models to improver future iterations. ABC analytic systems should continually evolve to become faster, better, and cheaper over time.



INFORMATION SHARING

Analyze and communicate findings to the investigative/compliance field-team for use in determining field testing. Inform management as appropriate. Consider final results to continuously improve the anti-corruption program.

POTENTIAL CHALLENGES

EXPECTATIONS

The success of the project will ultimately be measured by different expectations of various stakeholders. Define these expectations and how they affect the approach you will take before the project begins.

LIMITED RESOURCES

With companies trimming resources in support functions, it is often difficult to get involvement from the people you need. Success requires commitment of compliance, audit, legal, IT and other resources before the project begins.

AVAILABILITY

Access to data can be limited by factors such as data owner resistance, lack of awareness of relevance, and unknown locations. Work with communication team members to encourage sharing of information and access.

DISPARATE DATA SYSTEMS

With organizations getting larger through global expansion and acquisition, it is rare to find globally integrated data management and accounting systems. The data preparation process must be flexible enough to tie together varied systems into one platform for analysis.

GLOBAL OPERATIONS

A "one size fits all" approach to data analytics is rarely successful. Consider cultural differences that drive legal requirements and individual behavior in countries of operation. Include people with relevant language skills and cultural knowledge on teams to analyze data and communicate results.

LARGE COMPLEX DATA SETS

The size of the data to be collected and analyzed must be carefully considered. Both the depth and breadth of the information to be collected are important factors to be balanced. Determine what is really essential and limit scope to avoid getting lost in the data.

FALSE POSITIVES

Data analysis will always create some false positives that must be reviewed. Integrate a risk scoring methodology that objectively prioritizes the highest risk transactions and reduces the overall risk of false positives.

INTEGRATIVE

Integrates statistical and text-mining techniques to spot patterns and anomalies, and continuously improve the analytical ability of the system

COLLABORATIVE

Allows secure global sharing with compliance and investigative team members as well as key business stakeholders

COST EFFECTIVE

Saves time and money with quicker, more accurate fact finding in ongoing compliance monitoring and during investigations

Corporate compliance/ internal audit convergence

An effective compliance and ethics program (CEP) may be a corporation's best defense when an employee is suspected of illegal activity. Some attorneys note that the DOJ has given meaningful credit and positive publicity to businesses whose programs helped uncover wrongdoing. A global offshore drilling contractor and a tobacco company were able to negotiate more favorable dispositions in their cases because of their internal compliance efforts. There are few points, however, if the company does nothing to deter the behavior.

In April, the DOJ and the Securities and Exchange Commission (SEC) opted not to press charges against a large financial services organization, after a company executive pleaded guilty to violating the FCPA, according to DOJ and SEC news releases. The agencies cited the company's robust compliance program as their reason for declining to prosecute, and legal experts hailed the result as a "victory for compliance efforts," according to a recent article in *Compliance Week*.

In recent years, there has been a spike in the number of FCPA cases brought against individual executives. DOJ officials have sought significant prison terms for violators, but the judicial response has been mixed. In one instance, however, a judge imposed a 15-year prison term for a defendant in a telecommunications case. The sentence is an FCPA record.

Getting companies to self-police was the U.S. Sentencing Commission's goal when it promulgated the Federal Sentencing Guidelines for Organizations in November 1991,

and a report by the Ethics Resource Center indicates that companies have widely embraced such programs. But the report noted that challenges remain. More than 20 federal agencies enforce laws that govern corporate conduct, but their approaches to CEPs vary, and businesses are left to decipher the differences, the report said.

At the same time, corporations need to embrace the intent of the standards and implement CEPs that are rooted in a commitment to integrity, as well as strong internal controls, the report recommends. A check-the-box approach won't work, as prosecutors are only impressed by "living, breathing, practical programs," the report says.

In the financial sector, regulators concerned with the aftermath of the credit crunch have changed their approach from supervision to enforcement with zero tolerance, according to a recent column in *American Banker*. From 2000 to 2008, bank regulators made 30 referrals to the DOJ for prosecution; in 2010, they made 46 referrals. Examiners are employing a broad expansion in the application of rules on unfair deceptive acts or practices. That has made it tough for bankers to determine what constitutes improper conduct, an attorney noted in the column.

Questions to consider:

- **How does your company measure the effectiveness of its CEP?**
- **Does your company communicate in some fashion through corporate social responsibility reporting?**
- **Does your company set forth specific levels of discipline for various violations of the code of conduct?**
- **How do you adjust your compliance programs to reflect the evolving views of regulators?**

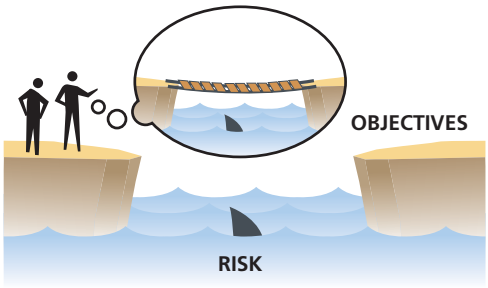
How Can We Use a "Lean" Approach for Compliance

Forward-thinking executives strive to focus the right resources, on the right areas at exactly the right time to yield the most effective and efficient outcome. While this go internal control or compliance program, the good news is that the same problem has been addressed in other disciplines. For example, a powerful framework called "lea by manufacturers for decades to improve product quality while decreasing costs. Applying analogous "lean principles" to your program can deliver improved performance

1. ASSESS RISKS

Understand and assess risks relative to company objectives.

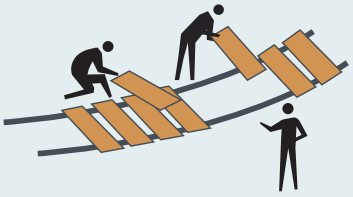
- What are our priority objectives?
- Which areas are key to our strategy?
- What could get in our way?
- What requirements must be addressed?
- Are there opportunities where better risk management can give us competitive advantages?
- Are there issues on the horizon?



2. ANALYZE COVERAGE

Analyze the current approach to understand how risks are "covered" by the front-line functions and all of the supporting and other functions.

- Are there any gaps?
- Is there any unnecessary overlap?
- Is the board involved in high risk areas?
- Are we balancing prevention and detection?
- Is this the appropriate "posture" given the risk?



3. ANALYZE COSTS OF CURRE

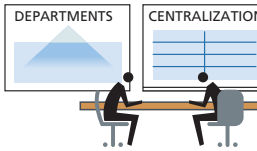
Analyze the costs associated with the cu
Are they congruent with the level of risk

1. CORE DEPARTMENTS
Identify departments and functions t responsible for compliance and cont internal control, compliance, ethics, quantify department costs.

2. FULLY LOADED COSTS OF ACT
Estimate the cost of centralized and For example, training 10,000 employ million if fully loaded, average hourl

3. OTHER "UNSEEN" COSTS
Survey individuals in key roles to unc they are spending on compliance an example: approvals, authorizations,

TOTAL COST OF RISK, COMPI



HOW DO YOU ANALYZE COVERAGE?

P = Prevent Activity D = Detect Activity R = Respond Activity M = Monitor Activity A = Assurance Activity

Risk	Front-Line Functions					Support Functions			Compliance & Control			Assurance & Oversight		
	Product Development	Manufacturing	Sales & Marketing	Logistics	Service & Support	HR	Finance	IT	Risk	Compliance & Ethics	Senior Management	Internal Aud	Audit Committe	Full Board
Wage & Hour	P	P	P	P	P	D, M				M				
Fraud			P				P, D, M		M	M	M	A, M	M	
Bribery										P, D		A	M	

Look for areas where there are **GAPS**, especially in "front-line" accountability for prevent and detect activities.

Look for areas where there may be inappropriate consolidation of duties.

Look for areas where there is unnecessary **OVERLAP** and inefficiencies.

Look for high-risk areas where there is no board **ASSURANCE** or **OVERSIGHT**.

ce and Control?

al may present challenges for your
n production" has been successfully used
e at decreased cost.

ENT APPROACH

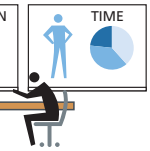
urrent approach.
k?

that are primarily
rol (internal audit,
risk management) and

TIVITIES
decentralized activities.
ees for one day is $2.4
y labor is $30 per hour.

derstand how much time
d control activities. For
reconciliations.

LIANCE & CONTROL



4. IMPLEMENT IMPROVEMENTS

Close gaps and remove unnecessary overlap of compliance and control activities. Streamline all remaining activities to reduce unnecessary complexity and long cycle times that burden the business units.

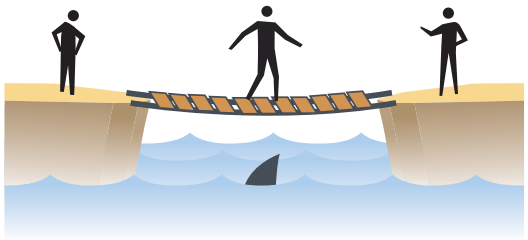
- Can we consolidate policies & procedures?
- Can we consolidate information requests?
- Can we embed more activities into existing mainstream business processes?
- Can we reduce the burden and our footprint on business units?

5. REALIZE "LEAN" RESULTS

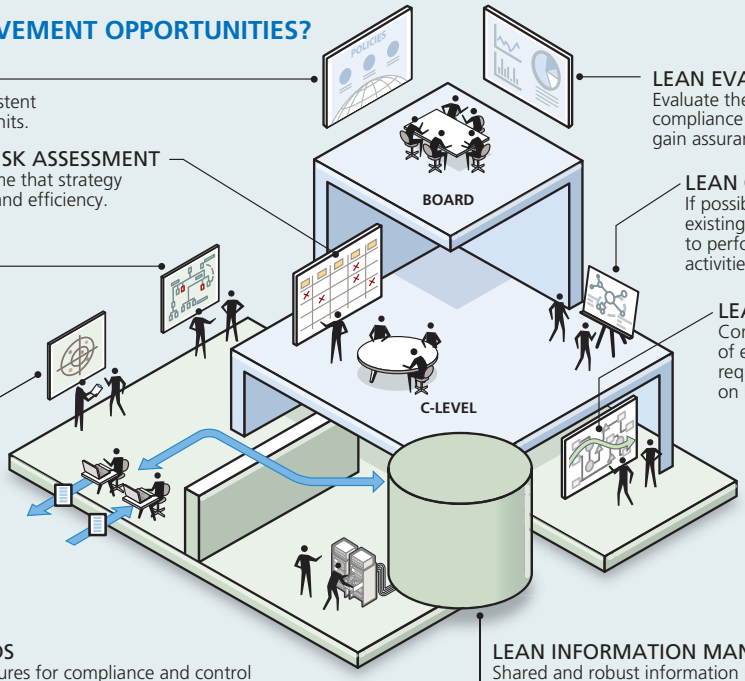
EFFECTIVENESS
Most importantly, a LeanGRC™ approach improves overall effectiveness of the GRC "backbone."

EFFICIENCY
Costs are reduced by consolidating processes, removing unnecessary overlap and complexity.

RESPONSIVENESS
Cycle times are improved and the overall footprint on the business is optimized to avoid unnecessary burden.



WHERE ARE THE IMPROVEMENT OPPORTUNITIES?



LEAN POLICY SETTING
Policies at the board level set a consistent tone for all functions and business units.

LEAN STRATEGY SETTING & RISK ASSESSMENT
Risks can be assessed at the same time that strategy is set to improve both effectiveness and efficiency.

LEAN COMPLIANCE AND CONTROL STRUCTURES
Compliance and control structures can be designed at the same time as business processes are designed and improved.

LEAN DETECTION
Detection of non- compliance and control violations can be embedded in business processes and centralized detection activities (such as a hotline or helpline) can be shared for multiple risk areas.

LEAN STANDARDS & METHODS
Using standard methods and procedures for compliance and control activities reduces cost and improves consistency. Improvements in standard methods can be quickly replicated across the enterprise. Evaluation of standard methods costs less and is more effective.

LEAN EVALUATION
Evaluate the performance of the risk, compliance and control "backbone" to gain assurance across multiple risk areas.

LEAN ORGANIZATION
If possible and appropriate, use existing organizational structures to perform compliance and control activities rather than creating new ones.

LEAN COMMUNICATION
Consolidate the communication of expectations and any information requests to reduce the footprint on business operations.

LEAN EDUCATION
Embed compliance training in existing skills training for the workforce and, to the extent possible, conduct training at the point of need to avoid unnecessary training.

LEAN INFORMATION MANAGEMENT
Shared and robust information management technologies reduce the burden on business units and provide centralized coordination and control of critical records and documents.

Contact Scott L. Mitchell (smitchell@oceg.org) for comments, reprints or licensing requests

Ernst & Young
Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 152,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit www.ey.com.

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

About Ernst & Young's Fraud Investigation & Dispute Services

Dealing with complex issues of fraud, regulatory compliance and business disputes can detract from efforts to achieve your company's potential. Better management of fraud risk and compliance exposure is a critical business priority — no matter the industry sector. Our more than 1,000 fraud investigation and dispute professionals around the world bring the analytical and technical skills needed to quickly and effectively conduct financial investigations, quantify economic damages and gather and analyze electronic evidence. Working closely with you and your legal advisors, we assemble the right multidisciplinary and culturally aligned team, and bring an objective approach and fresh perspective to these sensitive and contentious situations — wherever you are in the world. And because we understand that, to achieve your potential, you need a tailored service as much as consistent methodologies, we work to give you the benefit of our broad sector experience, our deep subject matter knowledge and the latest insights from our work worldwide. It's how Ernst & Young makes a difference.

SCORE no. WW0270
ED: None.
1201-1319903