

MANAGING FCPA AUDITS ON A GLOBAL SCALE

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DISCUSSION TOPICS

- Types and Purpose of FCPA Audits
- Planning and Interviewing
- FCPA Audit Program
- Transactional Data Analysis
- Closing and Reporting

TYPES OF FCPA AUDITS

- M&A Due Diligence Reviews
- M&A Post Acquisition Reviews
- Internal FCPA audits of business units
- Audits of Third Party Agents and Business Partners

PURPOSE OF FCPA AUDITS

IDENTIFY POINTS OF GOVERNMENT INTERACTION

Direct

- Customs and Duties
- Corporate Taxes and Penalties
- Social Security/ National Insurance
- Visas and Work Permits
- Public Official Gifts and Entertainment
- Training of Government Owned Entities
- Business Licenses and Permits
- Police Escort / Security

Indirect

- Customs Agents and Freight Forwarders
- Visa Processors
- Commercial Sales Agents
- Distributors
- Consultants and "Channel Partners"

AUDIT PLANNING

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- Start 4 to 6 weeks in advance
- Perform audit with legal counsel's lead
- Establish key business contacts, discuss audit rights and processes
- Prepare initial document request list for financial information queries
- Review findings from previous audits and resolutions
- Review details of opened and closed internal investigations and Code of Conduct questionnaires
- Research related DOJ and SEC enforcements

DATA REQUEST

Ask for as much electronic information as possible well in advance.

It's much easier to get database records for internal audits than audits of 3rd parties.

Ask for records up front in database or excel format (Not PDF).

Trial Balance

Chart of Accounts

Journal Entry Line Items

Financial and Compliance Policies

Audited Financial Statements

Bank Recs and Statements

List of Agents or Intermediaries

Revenue by Country and Customer

FCPA AUDIT INTERVIEWS

Select Interviewers

- Compliance Counsel – culturally sensitive, patient, good working relationship with auditors

Select Interviewees

- Focus on those who interact with government entities/officials or third parties
 - Business Leadership
 - Sales/Marketing/Business Development
 - Operations
 - Logistics
 - Corporate Functions: HR, Finance, HSE, Real Estate, Legal

FCPA AUDIT INTERVIEWS

Interviewing Topics and Techniques

- Conduct as an audit interview, not as investigative
- General policies and procedures
- Books and records pertaining to FCPA risks
- Test knowledge of FCPA and UK Bribery act including facilitating payments and their understanding of your company's prohibitions
- Regulatory challenges
- Government interactions
- Other compliance areas: trade, anti-boycott, anti-money laundering, anti-trust
- Conduct FCPA training during opening meeting
- Payment of taxes, fees, and fines

FCPA AUDIT PROGRAM

Review GL Accounts

- Commission payments to agents and representatives
- Facilitating payments
- Travel, meals and entertainment
- Training
- Gifts, charitable contributions, political donations
- Sales and promotion expenses
- Customs payments, freight forwarders, and other processing agents
- Immigration expenses
- Permits, licenses, taxes and other regulatory expenses
- Security payments, extortion payments
- Community contributions and Social responsibility payments
- Consultants (legal, tax advisors)
- Fines and Penalties (tax, customs, visa)

FCPA AUDIT PROGRAM

Bank Accounts and Cash Disbursement Controls

- Review controls around bank accounts and cash disbursements
- Identify and review authorized signers, approval levels, and bank reconciliations
- Ensure all bank accounts are included in the General Ledger
- Identify and review certain bank and cash disbursement transactions
- Identify offshore bank accounts

Cash Funds

- Review controls around petty cash funds
- Ascertain processes in place regarding disbursement and reconciliation of cash funds
- Identify and review payments to government officials, agents, or any unusual or suspicious activities
- Identify and review certain bank transactions and test for any improper payments

FCPA AUDIT PROGRAM

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Travel & Entertainment and Gifts

- Explore payments made through employee-reimbursed expenses
- Scrutinize for any suspicious expenses submitted, expenses lacking adequate documentation, incorrect posting
- Identify and review accounts associated with gifts, meals, entertainment, travel, or promotion

Payroll

- Risks include the use of ghost employees, hiring of relatives of government employees, and the use of bonus payments
- Request a payroll listing and review for any such persons

FCPA AUDIT PROGRAM

Donations and Contributions

- Identify and review and charitable donations and political contributions (e.g., Zakat)

Training

- Determine whether your company provides industry specific training to government entities, and review GL accounts and expenses for related items

Payments under local law

- Obtain list of payments to the government required by local laws
- Identify and review payments to government authorities or employees, customs authorities or agents, income taxes authorities or license requirements

Payments made to the 3rd Party

- Review commission and expense payments for compliance with company policy
- Trace payments to 3rd Party's bank account

TRANSACTIONAL DATA ANALYSIS

Use a Risked-Based Audit Approach

1. Download GL line items including payments, expense reports, etc.
2. Create data files for tests that indicate risky transactions
3. Link them together by a common field such as journal entry number or SAP Document number
4. Identify journal entries or payments that have multiple risk factors



TRANSACTIONAL DATA ANALYSIS

Run Individual Tests Focused on FCPA Risk

- Manual Payments (SAP Payment Blocks and Methods)
- Duplicate Invoices and Payments
- Round Dollar Payments/Invoices
- Compliance Sensitive Words
- Compliance Sensitive Accounts
- Credit Cash – Debit Expense
- Sequential Invoices
- Prohibited Vendors (OFAC, etc)
- Authorization Limits
- Offshore Bank Accounts

TRANSACTIONAL DATA ANALYSIS

Begin With The End In Mind

The screenshot displays the IDEA software interface. On the left, the File Explorer shows a 'Desktop Project' with several folders. A red box with the number '1' highlights the 'Summarization' folder. A red arrow points from this folder to a table in the main window. The table has columns 'JOURNAL_ID', 'NO_OF_RECS', and 'AMT_USD_SUM'. A red box with the number '2' highlights the row for '900-4863-9700033844-8098'. Below this, an 'Extraction Preview' window is open, showing a table with columns 'JOURNAL_ID', 'ITM', and 'TEST'. A red box with the number '3' highlights the row for '900-4863-9700033844-8098' with 'ITM' value '2' and 'TEST' value 'E-Payments Compliance Sensitive Words'. A red arrow points from the 'Summarization' folder to this row.

JOURNAL_ID	NO_OF_RECS	AMT_USD_SUM
900-4863-9700037787-8098	7	-40,893.31
900-4863-9700037383-8098	7	1,569.95
900-4863-3700008886-8098	7	1,457
900-4863-9700037803-8098	6	-10,845
900-4863-9700034837-8098	6	-12,691.96
900-4863-9700033844-8098	6	-7,294,942.36
900-4863-3700003447-8098	6	-2,430.23
900-4390-3700000084-8098	6	0.00

JOURNAL_ID	ITM	TEST
900-4863-9700033844-8098	1	A-Split Invoices
900-4863-9700033844-8098	1	C-Duplicate Disbursement
900-4863-9700033844-8098	2	E-Payments Compliance Sensitive Words
900-4863-9700033844-8098	2	E-Payments Compliance Sensitive Words
900-4863-9700033844-8098	1	E-Payments Compliance Sensitive Words
900-4863-9700033844-8098	2	F-Payments Booked to Compliance Sensitive Accts

This is what the final project looks like.

DEMO DATA ONLY

ANALYZE CHART OF ACCOUNTS

Compliance Sensitive
GL Accounts

Add a field using the
Multistate Field Type

In the Equation area (Parameter)

✓: 1

X: 0

?: 3

Blank: -1

Field Name	Type	Len	Dec	Parameter	Description
1 GL_ACCOUNT	Character	52			
2 TOTAL	Numeric	8	2		
3 CATEGORY	Character	11			
4 FCPA	Multistate	1	-1		

GL_ACCOUNT	TOTAL	CATEGORY	FCPA
41500-Sales Incentive (contra)	27,114.92	Revenue	<input type="checkbox"/>
43100-Intercompany Revenue	-154,876,372.04	Overhead	<input type="checkbox"/>
43300-Commissions	223,518.85	Revenue	<input checked="" type="checkbox"/>
48999-Sales Discounts	2,911,651.21	Revenue	<input checked="" type="checkbox"/>
49500-Equipment Sales	-123,832,298.76	Revenue	<input type="checkbox"/>
49700-Service & Repair (3rd Party)	-4,545,112.22	Revenue	<input type="checkbox"/>
50001-Third Party COGS	274,645.24	Direct	<input type="checkbox"/>
50010-Cost of Sales - Overhead Allocation	8,805,751.33	Overhead	<input type="checkbox"/>

DEMO DATA ONLY

COMPLIANCE SENSITIVE WORD SEARCH

Agent
Charit
Commission
Consult
Contribut
Custom
Discount
Donat
Entertain
Export
Facilitat
Fee
Fine
Gift
Gov
Homage
Import
Incentive
Intermediary

- Modify list for country specific terms
- Incorporate related terms that arise during interviews.
(Pie, Bonus, Tea)

<http://www.forbes.com/2010/05/28/bribery-slang-jargon-leadership-managing-language.html>



Looping Search

The Looping Search App allows you to search in 1, 2, or 3 fields using words or wildcard fragments contained in a second file. Grow your list of key words in Excel, import them into IDEA to capture the most current version, then use them over and over, year to year, file to file. Add words to the Excel list instead of maintaining an extremely long formula.

http://www.audimation.com/idea_audimatedapps.html

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COMPLIANCE SENSITIVE WORD SEARCH



Looping Search

1	VENDOR_GROUPING	JOURNAL_ID	ITM	DOC_TY	DOC_DESC	PK_DESC	DOC_DETAIL_TEXT
2	Employee	900-4390-9700000888-8098	1	KR	VENDOR INVOICE	Invoice	TRAVEL ADVANCE
3	Employee	900-4390-9700000888-8098	1	KR	VENDOR INVOICE	Invoice	TRAVEL ADVANCE
4	Employee	900-4390-9700000466-8098	1	KR	VENDOR INVOICE	Invoice	TRAVEL ADVANCE
5	Employee	900-4390-9700000476-8098	1	KR	VENDOR INVOICE	Invoice	TRAVEL ADVANCE
6	Vendor	900-4863-9700034380-8098	1	KR	VENDOR INVOICE	Invoice	15 DPR PERMIT FEES 2012
7	Vendor	900-4863-9700036400-8098	1	KR	VENDOR INVOICE	Invoice	PAYMENT FOR RIGSITE CUTTING PERMIT
8	Vendor	900-4863-9700038873-8098	1	KR	VENDOR INVOICE	Invoice	20 PAYMENT FOR PERMIT 2012
9	Employee	900-4390-9700000888-8098	1	KR	VENDOR INVOICE	Invoice	TRAVEL ADVANCE
10	Employee	900-4390-9700000466-8098	1	KR	VENDOR INVOICE	Invoice	TRAVEL ADVANCE
11	Employee	900-4390-9700000476-8098	1	KR	VENDOR INVOICE	Invoice	TRAVEL ADVANCE
12	Employee	900-4863-3700008833-8098	2	KE	EXPENSE REPORTS	Debit entry	13898181:TO ATTEND ADVANCED SOLDERING COURSE
13	Employee	900-4390-9700000888-8098	1	KR	VENDOR INVOICE	Invoice	TRAVEL ADVANCE
14	Employee	900-4390-9700000888-8098	1	KR	VENDOR INVOICE	Invoice	TRAVEL ADVANCE
15	Employee	900-4390-9700000466-8098	1	KR	VENDOR INVOICE	Invoice	TRAVEL ADVANCE
16	Employee	900-4390-9700000476-8098	1	KR	VENDOR INVOICE	Invoice	TRAVEL ADVANCE
17	Vendor	900-4863-9700037803-8098	1	KR	VENDOR INVOICE	Invoice	10 CUSTOMS DUTY
18	Vendor	900-4863-9700037803-8098	1	KR	VENDOR INVOICE	Invoice	10 CUSTOMS DUTY
19	Vendor	900-4863-9700033869-8098	2	KR	VENDOR INVOICE	Debit entry	10 CUSTOMS DUTY
20	Vendor	900-4863-9700033836-8098	2	KR	VENDOR INVOICE	Debit entry	IMPORT LICENSE
21	Vendor	900-4863-9700033760-8098	2	KR	VENDOR INVOICE	Debit entry	IMPORT LICENSE
22	Vendor	900-4863-9700033844-8098	2	KR	VENDOR INVOICE	Debit entry	10 CUSTOMS DUTY

DEMO DATA ONLY



COMPLIANCE SENSITIVE WORD SEARCH

Agent
Charit
Commission
Consult
Contribut
Custom
Discount
Donat
Entertain
Export
Facilitat
Fee
Fine
Gift
Gov
Homage
Import
Incentive
Intermediary



Word List Maker

Allows you to create a unique list of the words found in a selected field. All the words will be converted to uppercase and special characters will be removed. The final word list will be ordered based on the frequency of word usage with the most frequently used words appearing at the top. This app utilizes the IDEAScript feature to run tests by simply answering several prompts, and simplifies the process of creating a unique list of words found in the field so you can focus on the results rather than the process.

http://www.audimation.com/idea_audimatedapps.html

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COMPLIANCE SENSITIVE WORDS



Word List Maker

The screenshot shows the CaseWare IDEA software interface. The ribbon includes File, Home, Data, Analysis, View, Macros, and SmartAnalyzer. The Library pane on the left shows the Current Project Library with folders for Custom Functions, Equations, Exports, Import Definitions, Macros, Other, Results, and Source Files. The main window displays a table titled 'Word List Maker Result -12-...' with two columns: WORD_LIST and RD_COUNT_IN_F. The table lists 21 words and their corresponding counts.

	WORD_LIST	RD_COUNT_IN_F
1	NIGERIA	275
2	LIMITED	218
3	INTERNATIONAL	214
4	DHL	212
5	CUSTOM	188
6	DUTY	184
7	VISA	140
8	REPORT	101
9	CONCUR	101
10	AND	96
11	DUT	87
12	NAGEL	83
13	KUEHNE	83
14	ANGOLA	82
15	IMPORT	70
16	FEE	40
17	CUSTOMS	35
18	PROCESS	34
19	LICENSE	34
20	FOR	33
21	PROCESSING	30

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MANUAL ENTRIES AND PAYMENTS

SAP

Tables: BSAK, BSEG

Tcodes:

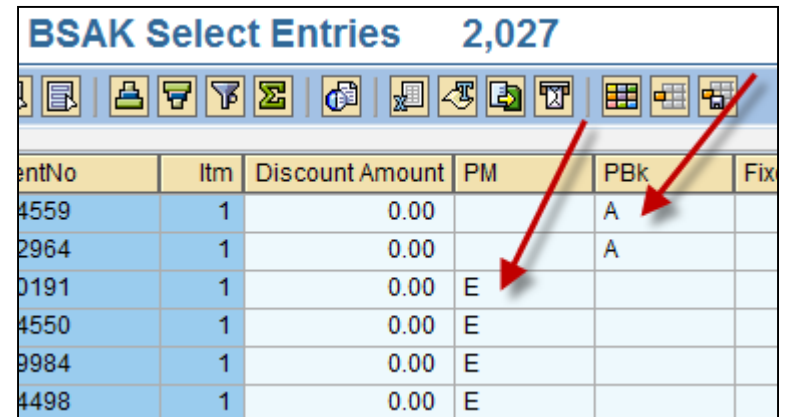
FBL1N Vendor Lines

FBL3N GL Lines

FBL5N Customer Lines

Work with Accounting to determine how manual entries and payments are used and how to recognize them.

- Doc Type
- Posting Key
- Payment Method
- Payment Block



The screenshot shows a SAP table titled "BSAK Select Entries 2,027". The table has columns for Document Number (DocNo), Item (Itm), Discount Amount, Payment Method (PM), Payment Block (PBk), and Fix. Two red arrows point to the PM and PBk columns in the first row.

DocNo	Itm	Discount Amount	PM	PBk	Fix
4559	1	0.00		A	
2964	1	0.00		A	
0191	1	0.00	E		
4550	1	0.00	E		
9984	1	0.00	E		
4498	1	0.00	E		

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VENDOR BANK ACCOUNTS

SAP Tables

LFA1 – Vendor Master

LFB1 – Vendor master
Company Codes

LFBK – Vendor Master Bank
Accounts

Questions:

Is it allowable under your
policy?

Are there reasonable
exceptions that should be
excluded from the testing?

Join files to determine:

1. Vendors with no bank account
2. Where Vendor Country is not equal to Bank Country

Data Browser: Table LFA1			
	Cl.	Vendor	CTRY
	100	0000143022	AU
	100	0000143063	AU
	100	0000150871	AU
	100	0000152815	AU
	100	0000154974	AU
	100	0000164638	AU
	100	0000165498	AU
	100	0000165587	AU
	100	0000173489	AU
	100	0000173986	AU
	100	0000175001	AU
	100	0000176264	AU
	100	0000176849	AU
	100	0000177948	AU

Data Browser: Table LFBK			
	Cl.	Vendor	CTRY
	100	0000143022	AU
	100	0000143063	AU
	100	0000150871	AU
	100	0000152815	CH
	100	0000154974	AU
	100	0000164638	AU
	100	0000165498	AU
	100	0000165587	AU
	100	0000173489	PG
	100	0000173986	AU
	100	0000175001	AU
	100	0000176264	AU
	100	0000176849	AU
	100	0000177948	AU



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CLOSING AND REPORTING

- Constant communication between legal counsel and internal auditors
- Communicate findings to management as they occur
- Hold an onsite closing meeting with the auditee
- Issue a consolidated final FCPA audit report that is appropriate to the type of audit being conducted (i.e. internal audits versus 3rd party audits)
- Include internal control breakdowns and management action plans.

RELATED WEB SITES

- <http://fcpamap.com>
- <http://www.fcpa.shearman.com>
- <http://www.business-anti-corruption.com/country-profiles>
- <http://www.celc.executiveboard.com>
- <http://www.oceg.org>
- <http://www.anticorruptionblog.com>
- <http://www.fcpablog.com>
- <http://fcpaalert.com>
- <http://transparency.org>

CONTACTS



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