

Effective Incident Reporting Systems

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Effective Incident Reporting Systems Compliance Week | May 2015

Diane Brown, NAVEX Global & Courtney Wallize, Northrop Grumman



PRESENTED BY

Diane Brown

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NAVEX Global



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Ethics and Business Conduct

Northrop Grumman Corporation

Agenda

- To Invest or Not?
- Reporting Methods
- The Report Is In
- It's All About the Data!
- Key Takeaways
- Questions





EFFECTIVE INCIDENT REPORTING SYSTEMS

TO INVEST OR NOT?

Return on Investment: Hotline Value

- Goodyear acquired two companies; both underwent due diligence checks as part of acquisition process
- The companies were not integrated into the broader Goodyear audit and compliance functions
- Two FCPA issues were later reported:
 - The first came through a call to the hotline reporting an issue in Kenya
 - The second report came months later from an employee reporting similar activity in Angola

Source: Corruption, Crime & Compliance, Reminders from the Goodyear FCPA Settlement, Mike Volkov, March 2015

Return on Investment: Lessons Learned

The Value of Hotlines: The Goodyear investigation began with a hotline call

- While most calls to the hotline are HR-related, there are other very serious issues that are raised via the hotline
- Goodyear had fostered enough of a “speak up” culture that the reporter felt the issue would be addressed if reported

Importance of Due Diligence and Integration for Acquisitions

- When conducting acquisitions, conduct FCPA assessments to avoid “buying” an issue
- Conduct post acquisition audits to reconfirm the absence of issues-include training, communications and audits

Voluntary Disclosure and Cooperation Works

- The SEC has cited Goodyear as a good example of the benefits of voluntary disclosure and cooperation. There is no question that Goodyear earned a disclosure/cooperation discount (if \$16 million can be considered a discount!)

Source: Corruption, Crime & Compliance, Reminders from the Goodyear FCPA Settlement, Mike Volkov, March 2015

Federal Sentencing Guidelines for Organizations

Programs designed to **prevent, detect and correct** violations of the law – eight minimum elements:

1. Written standards of conduct
 2. High level leadership
 3. Training and other education
 4. **Lines of communication and reporting**
 5. Monitoring and auditing
 6. Enforcement through consistent discipline and appropriate incentives
 7. Response to offenses/ corrective action
 8. Risk assessment
- Plus a culture that supports ethics and compliance

DOJ Hallmarks of Effective Compliance Programs

1. Commitment from senior management and a clearly articulated policy against corruption
2. Code of conduct and compliance policies and procedures
3. Oversight, autonomy, and resources
4. Risk assessment
5. Training and continuing advice
6. Incentives and disciplinary measures
7. Third-party due diligence and payments
8. Confidential reporting and internal investigations apparatus
9. **Continuous improvement: periodic testing and review**
10. Mergers and acquisitions: pre-acquisition due diligence and post-acquisition integration.

Federal Acquisition Regulation 52.203-13

Multiple requirements to include:

1. Standards to prevent and detect misconduct; training and communications program
2. Procedures to facilitate timely discovery of improper conduct and ensure corrective action
3. High-level personnel to oversee program
4. Efforts not to include as principals individuals engaged in misconduct
5. Monitoring, auditing and evaluating program effectiveness
6. Periodic risk assessments and remedial action
7. **System for internal reporting of suspected misconduct**
8. Disciplinary action for improper conduct
9. Process to ensure timely disclosure of wrongdoing to the OIG

Comprehensive Incident Management

Collect



COLLECT CONSISTENT DATA
FROM MULTIPLE SOURCES



Open Door



Audit
Results



Hotline



Email



Internal
Feeds



Letters

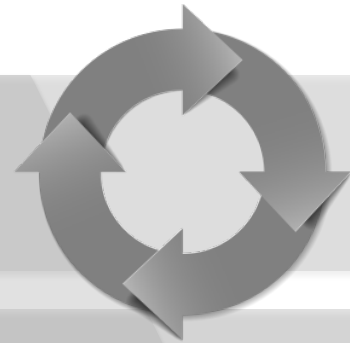
Comprehensive Incident Management

Manage

BETTER
WORKFLOW

ENTERPRISE
VISIBILITY

DYNAMIC
DATA



Collect



COLLECT CONSISTENT DATA
FROM MULTIPLE SOURCES



Open Door



Audit
Results



Hotline



Email



Internal
Feeds



Letters

Comprehensive Incident Management

Learn



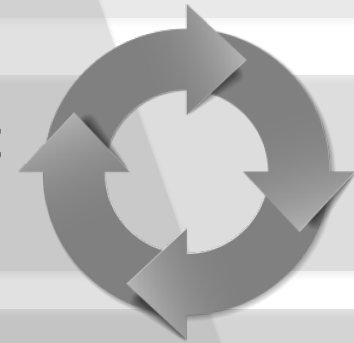
ANALYTICS &
BUSINESS INTELLIGENCE

Manage

BETTER
WORKFLOW

ENTERPRISE
VISIBILITY

DYNAMIC
DATA



Collect



COLLECT CONSISTENT DATA
FROM MULTIPLE SOURCES



Open Door



Audit
Results



Hotline



Email



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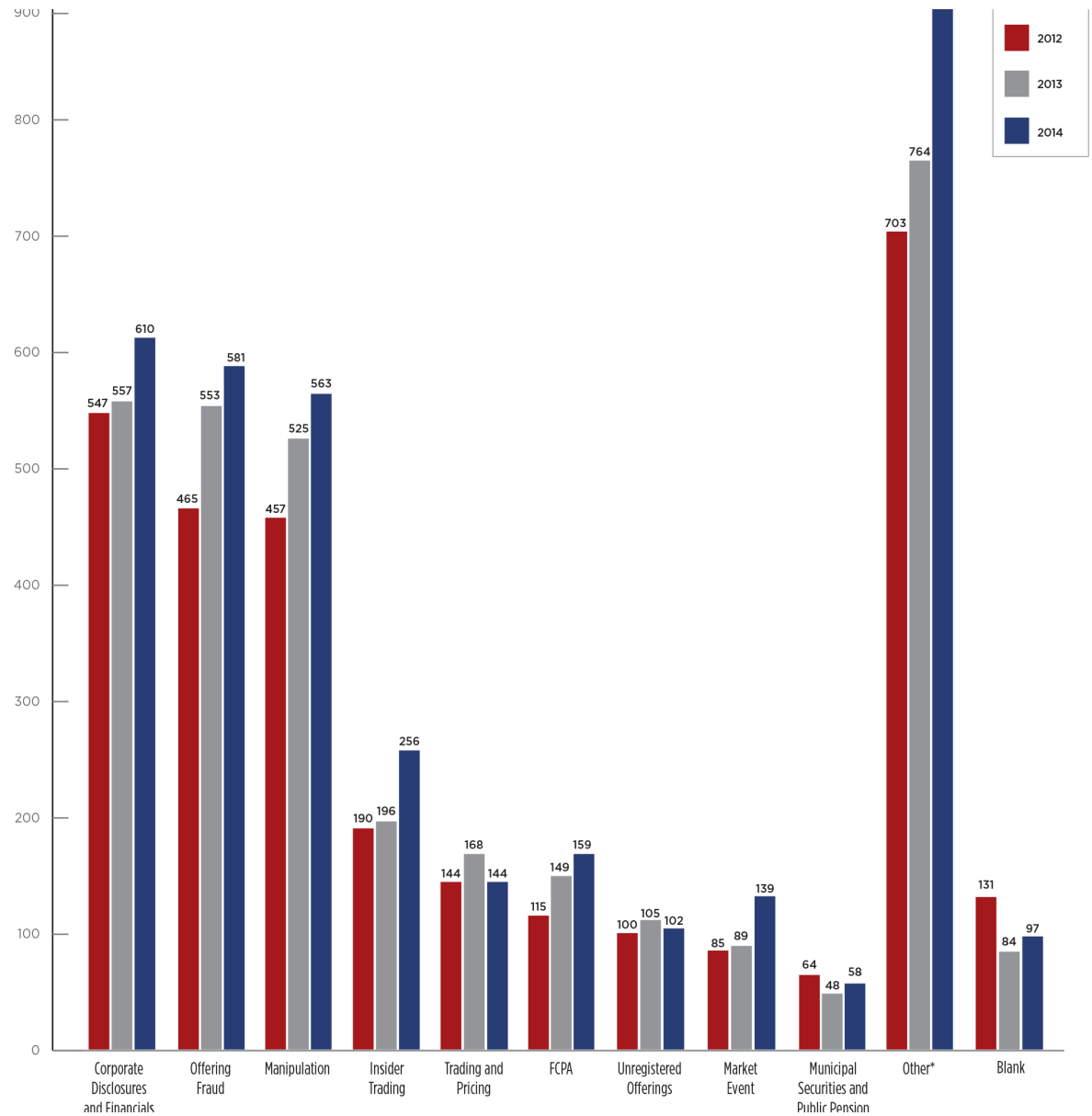


Letters

Whistleblower Tips by Allegation Type



Source: 2014 ANNUAL REPORT TO CONGRESS ON THE Dodd-Frank Whistleblower Program





EFFECTIVE INCIDENT REPORTING SYSTEMS

REPORTING METHODS

Methods

- Hotline
- Web Reporting
- Manager Forms
- Email
- Walk Ins
- Text?



Volume by Reporting Channel

Report Intake Method for 2014 with Comparison to 2013*

HELPLINE

2013:

36%

2014:

32%

WEB SUBMISSION

2013:

20%

2014:

23%

ALL OTHER METHODS

2013:

44%

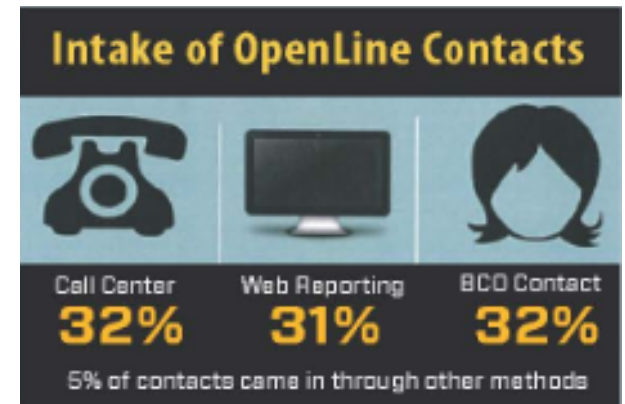
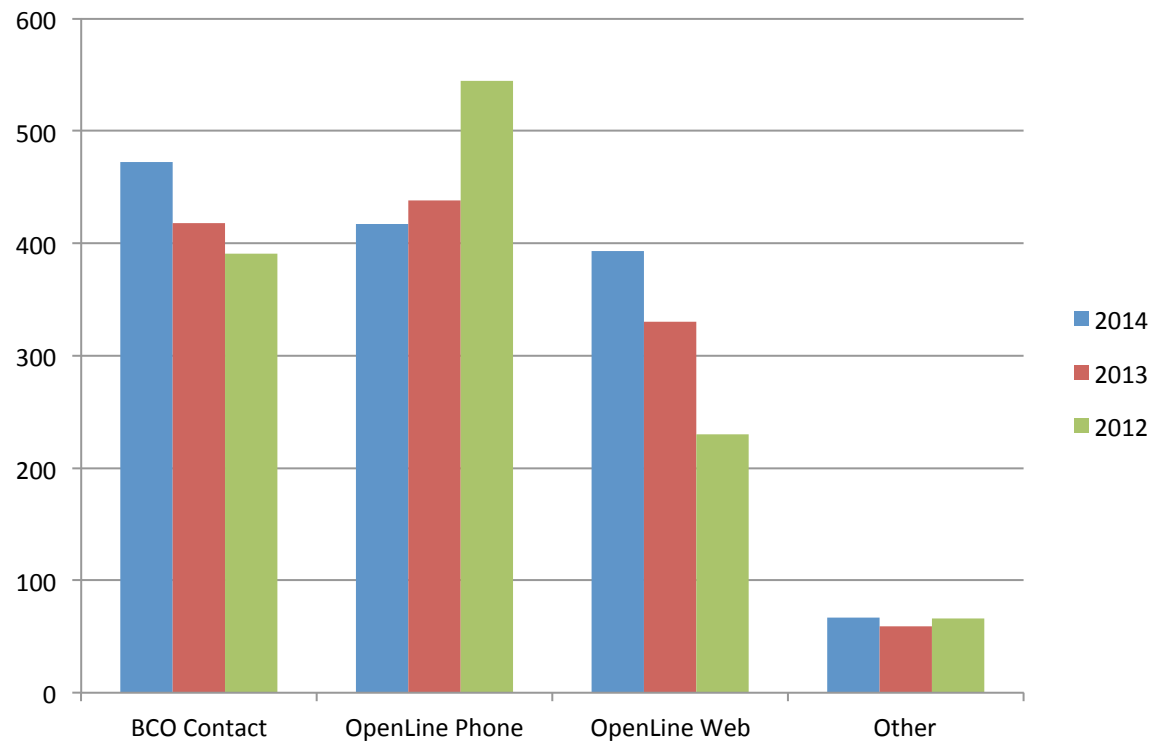
2014:

45%

*Benchmark includes only companies who track all intake methods in the NAVEX Global case management system.

Source: <http://www.navexglobal.com/resources/whitepapers/2015-Ethics-and-Compliance-Hotline-Benchmark-Report>

Northrop Grumman Intake



Web Reporting

crocs™

crocs ethics line

main page **ATTENTION!** This webpage is hosted on EthicsPoint's secure servers and is not part of the Crocs, Inc. website or intranet.

what is the ethics line

file a report

follow-up on a report

At Crocs, we firmly believe in our creed, code and culture that include having strong ethical business values. These values have helped us continue to grow by building trust and confidence with our customers, business partners, and investors.

Ethics and Compliance is a very important business practice, for which we've put in place an enterprise wide Code of Business Conduct. The Code defines the standard we expect of each employee to follow. In support of this, we operate a global hotline for employees to report in confidence any suspected violations of the law or with the Code of Conduct. All reported concerns are investigated fully and confidentially, and are communicated to the Audit Committee of the Board.

A company based on strong business values is essential. Please take this as seriously as the senior leadership team has because with a strong team, Crocs can do anything!

- Gregg Ribatt, CEO

about the ethics line

- » how do I report integrity or ethical concerns?
- » what is the ethics line?
- » what type of issues should be reported?
- » should I be nervous that filing a report might have negative consequences for me?
- » what happens once I file a report?
- » other faqs

resources

- » business code of conduct and ethics
- » 3 c's: - creed, code, culture
- » ask a question

For individuals in certain countries of the European Union

The ethics line only allows you to report concerns related to anti-bribery, auditing or accounting, banking, or financial allegations. If your concern pertains to other types of non-compliance issues, you are encouraged to report them to local management.

EthicsPoint is NOT a 911 or Emergency Service:
Do not use this site to report events presenting an immediate threat to life or property. Reports submitted through this service may not receive an immediate response. If you require emergency assistance, please contact your local authorities.

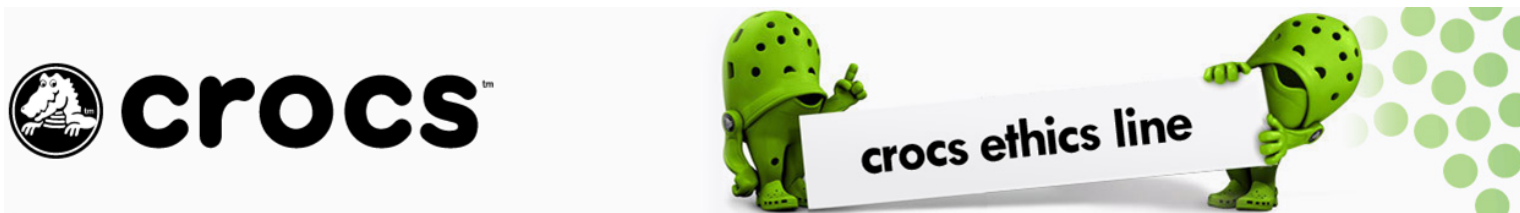
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Web Reporting

- Secure anonymous or confidential reporting
- Localization and global privacy support
- Convenience encourages timely internal reporting
- Mirrored process provides consistency for reports submitted via the web or hotline
- All reports are entered into a central, standardized repository

The screenshot shows the Crocs Ethics Line website. At the top left is the Crocs logo, featuring a crocodile head in a circle and the word "crocs" in a bold, lowercase font. To the right is a green cartoon crocodile character holding a white banner that says "crocs ethics line". Below the header is a green navigation bar with the text "main page" and "ATTENTION! This webpage is hosted on EthicsPoint's secure servers and is not part of the Crocs, Inc. website or intranet." The main content area has three columns of buttons: "what is the ethics line" (with a yellow crocodile icon), "file a report" (with a blue crocodile icon), and "follow-up on a report" (with a green crocodile icon). Below these buttons is a large text block starting with "At Crocs, we firmly believe in our creed, code and culture that include having strong ethical business values..." and ending with a quote from Gregg Ribatt, CEO. To the right of the main content is a sidebar with "about" and "resour" sections, each containing a list of links. At the bottom of the page is a green footer with copyright information and links to "Privacy Policy", "Safe Harbor Information", "Acceptable Use Policy", and "Contact Ethics".

Web Reporting



crocs™

main page **ATTENTION!** This webpage is hosted on EthicsPoint's secure servers and is not part of the Crocs, Inc. website or intranet.

report online

Select the country in which you are located.

- Select -
- Australia
- Bosnia
- Brazil
- Canada
- China
- Finland
- Germany
- Hong Kong
- India
- Italy
- Japan
- Korea
- Mexico
- Netherlands
- New Zealand
- Puerto Rico
- Russia
- Singapore
- South Africa
- Taiwan
- U.A.E.
- UK
- USA

report by phone

Select the country in which you are located.

- Select -

If multiple hotline numbers appear, please attempt to call all hotline numbers listed, as there may be local carrier or regional restrictions that result in only one number working in certain regions.

Do not report a threat to life or property. Reports submitted through this service may not receive an immediate response. Contact your local authorities.

about the ethics line

- » how do I report integrity or ethical concerns?
- » what is the ethics line?
- » what type of issues should be reported?
- » should I be nervous that filing a report might have negative consequences for me?
- » what happens once I file a report?
- » other faqs

resources

- » business code of conduct and ethics
- » 3 c's: - creed, code, culture
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crocs™

crocs ethics line

main page ATTENTION! This webpage is hosted on EthicsPoint's secure servers and is not part of the Crocs, Inc. website or intranet.

select an issue type

Anti-Bribery	Details
Auditing and Accounting	Details
Banking	Details
Financial Issues	Details

about the ethics line

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Web Reporting

NORTHROP GRUMMAN

ATTENTION!

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Follow-up on a Report Resources

Welcome to the Northrop
Grumman Web Reporting Site

THE VALUE OF PERFORMANCE.

NORTHROP GRUMMAN

Web Reporting

This website provides a confidential way to ask ethics-related questions, voice concerns or report a suspected violation of our Standards of Business Conduct.

EthicsPoint, a trusted third-party specializing in corporate ethics web-reporting, controls this website. It is not part of the Northrop Grumman global network.

On this site, employees and non-employees can:

- report violations of our Standards of Business Conduct
- report issues relating to the work environment
- ask for guidance related to policies and procedures

To Make a Report

Select the country in which you are located.

- Select -

EthicsPoint is NOT a 911 or Emergency Service:

Do not use this site to report events presenting an immediate threat to life or property. If you require emergency assistance, please contact your local authorities.

Source: <https://secure.ethicspoint.com/domain/media/en/gui/35623/index.html>

Web Reporting

Welcome to the Northrop Grumman Web Reporting Site

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- report issues relating to the work environment
- ask for guidance related to policies and procedures

EthicsPoint will send the information you provide to the Northrop Grumman ethics office in a confidential manner, and, if you choose, anonymously. The ethics office will respond to questions or assign an appropriate investigator to look into your concerns.

More information about the company's ethics program is available on the [Northrop Grumman website](#).

To Make a Report

Select the country in which you are located.

- Select -
- Select -
United States
Afghanistan
Albania
Australia
Belgium
Canada
China
Egypt
France
Germany
Guam
Iraq
Italy
Japan
Kuwait
Kyrgyzstan
Malaysia
Morocco
Netherlands

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Customized Report Forms

- Proactively track and manage early warnings
- Easy-to-use collection, available to targeted stakeholders
- Feed directly into a central database

The screenshot displays the 'Manager Incident Report' form on the NAVEX Global website. The page header includes a language menu with options for English, العربية, 汉语, Français, Deutsch, 日本語, Русский, and Español. The form title is 'Manager Incident Report' with a subtitle 'Sub-Title and/or Tag Line'. The NAVEX GLOBAL logo is prominently displayed. A navigation bar contains links for 'New Report', 'Policies', and 'Print'. The 'Statement of Purpose' section explains that the form is for reporting violations of the Code of Ethics, Company policy, or the law, and that it will be used to manage relationships with associates/employees. It also notes that submission details are only accessible to authorized users. A note indicates that fields marked with a diamond are required. The form is divided into three main sections: 'Your Information (You, the person completing the form)', 'Reported By (The person who brought this incident to the company's attention)', and 'Location'. The 'Your Information' section includes a checkbox to save contact information, a dropdown for 'Prefix', and input fields for 'First Name', 'M.I.', and 'Last Name'. It also has fields for 'Job Title', 'Employee ID', 'Phone Number (Preferred)', 'Phone Number (Alternative)', and 'Email'. The 'Reported By' section has a 'Reporter' field and a question 'Was this issue/event raised by another individual?' with 'Yes' and 'No' radio buttons. The 'Location' section has a 'Location/Facility' field.

Intake Program Considerations

- Funnel Method
- Allegation Categories
- Required Fields
- Customized Fields
- Implicated Parties
- Anonymous Reporters
- Data Privacy Laws



Internal Case Entry – “Open New Case”

NAVEX GLOBAL[®]

Issue & Event Manager

Home Cases **Open New Case** Assignments Analytics Search Admin

Ethics & Compliance

Discrimination or Harassment

General Location Participants Items Agencies Attachments Summary Restricted Access Review

* Required

Case type Intake method

Received/reported date
(mm/dd/yyyy) Alleged incident date
(mm/dd/yyyy)

Case Details

Reporter anonymous? Yes No

Reporter identity

Prefix	First name	M.I.	Last name	Phone number	Email
<input type="text" value="- Select -"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

Scheduling

Previously Reported

Previously Reported Detail

What is your relationship

*Please identify the person(s) engaged in this behavior:

	Prefix	First Name	M.I.	Last Name	Phone Number	Email	Add to Participants
#1	<input type="text" value="- Select -"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	- <input type="text"/>	<input type="text"/>	<input type="checkbox"/>
#2	<input type="text" value="- Select -"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	- <input type="text"/>	<input type="text"/>	<input type="checkbox"/>
#3	<input type="text" value="- Select -"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>	- <input type="text"/>	<input type="text"/>	<input type="checkbox"/>

Do you suspect or know that a supervisor or management is involved? Yes No Do Not Know / Do Not Wish To Disclose

If yes, then who?

Any persons mentioned here will be restricted by EthicsPoint from access to this reported information.

Is management aware of this problem? Yes No Do Not Know / Do Not Wish To Disclose

What is the general nature of this matter?

Don't Forget the Importance of Awareness

Hanesbrands - "Do the Right Thing"

Video Content Development

DO THE
RIGHT
THING



Click Video to Play



EFFECTIVE INCIDENT REPORTING SYSTEMS

THE REPORT IS IN

What Do You Do When You Receive a Report?

Triage process

- Auto assign
- Decentralized

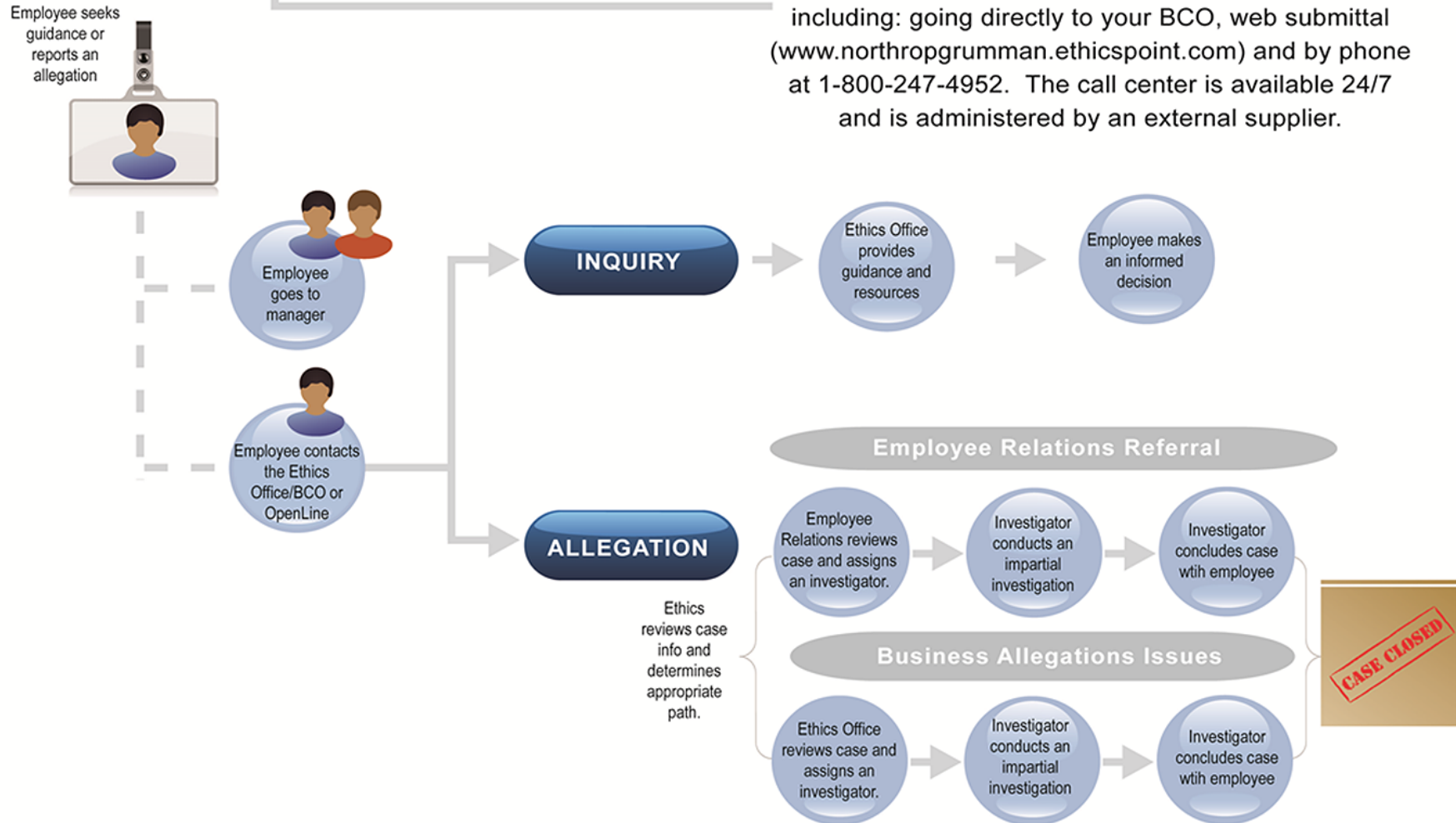
Investigator/case manager assignments

Legal involvement



THE OPENLINE AT WORK

The Northrop Grumman OpenLine process allows you to bring issues forward through a variety of methods including: going directly to your BCO, web submittal (www.northropgrumman.ethicspoint.com) and by phone at 1-800-247-4952. The call center is available 24/7 and is administered by an external supplier.



Process Questions

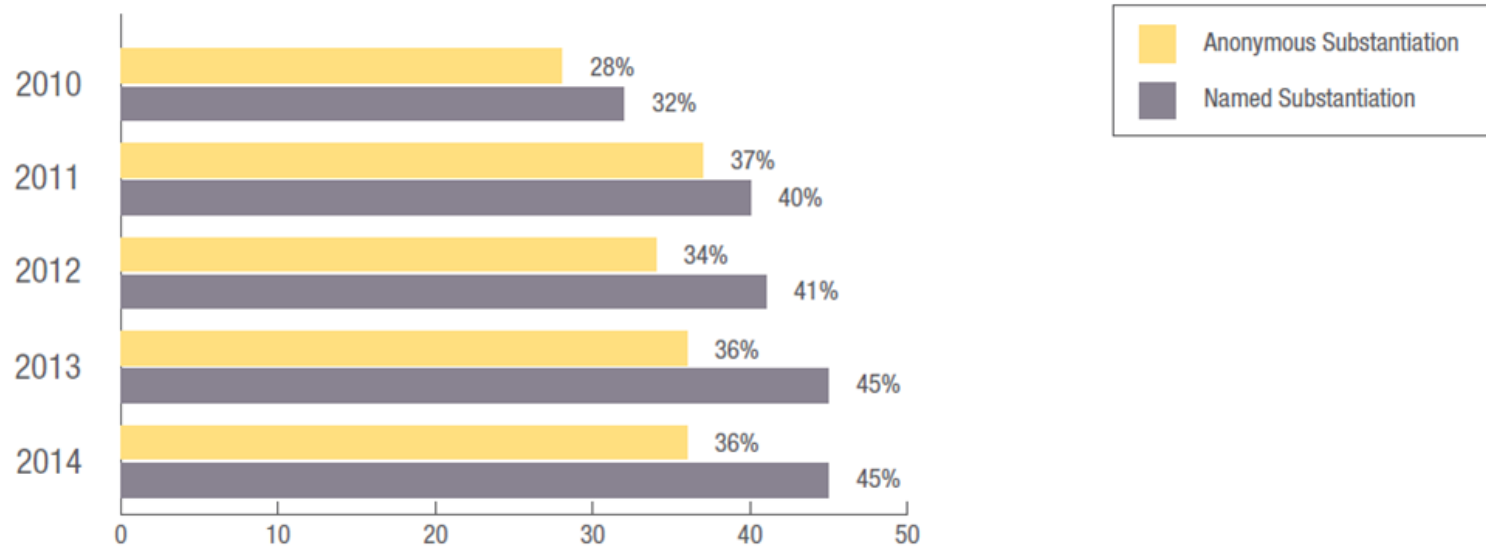
- In your organization, do you have one primary “gatekeeper” or are reports distributed by area of discipline (HR, Loss Prevention, etc.)?
- Do you acknowledge anonymous reports immediately upon receipt? Are your investigators required to contact anonymous reporters within an established timeline?

Investigation Protocols

- Consider timeliness of investigations given SEC bounties
 - Average case closure rate in 2014: 39 days
- Cross functional considerations
- Case owner etc.
- Interviews
- Communication with reporter
 - Will you communicate case outcome to reporter?
- Report writing
- Anonymous reporters

Substantiation: Anonymous vs. Named

Comparison of Substantiation Rates between Anonymous and Named Reporters



Source: <http://www.navexglobal.com/resources/whitepapers/2015-Ethics-and-Compliance-Hotline-Benchmark-Report>

Retaliation Guardrails

1. Demystify the reporting and investigations process
2. Provide recurring training on retaliation for managers and employees
3. Proactively monitor:
 - Assess the likelihood for retaliation in each case
 - Assess your key performance indicators (job satisfaction, etc.)
4. Leverage leadership to build a culture that will not tolerate retaliation



EFFECTIVE INCIDENT REPORTING SYSTEMS

IT'S ALL ABOUT THE DATA!

**Periodic review of your data
is the key to *proactive* risk
identification and resolution.**

Data Mining/Trend Spotting

Periodic review of your incident data should inform:

- Problem locations or repeat offenders
- Need for policy revisions
- Investigator workloads and process improvement opportunities
- Focus of awareness campaigns
- Training
- Organizational/structure changes
- Compliance program changes (addition/deletion of allegation categories, etc.)

Analytics

NAVEX GLOBAL[®]
Issue & Event Manager

Home Cases Open New Case Assignments **Analytics** Search Admin

Overview Premium Analytics Base Statistics My Saved Reports Preformatted Reports Custom Ad Hoc Query Pivot Report

Premium Reports [ADD](#)

MY REPORTS

- Assignment Aging Report
- Participant Review
- PolicyTech Exceptions
- Primary Issue and Location**
- Sterling Jewelers

RECEIVED REPORTS

PRESET REPORTS

Primary Issue and Location

Formula Layout Sort Filter Group Aggregate Chart Crosstab Paging

Bar Chart

Primary Issue	Case Number
Other	55
Theft	2
Substance Abuse	3
Securities Violations	4
Sabotage or Vandalism	5
Misconduct or Inappropriate Behavior	12
Inquiry	1
Gifts and Entertainment	3
Falsification of Contracts, Reports or Records	8
Environmental Laws	4
Discrimination or Harassment	12
Conflict of Interest	20
Concern	2
Computer Security	3
Auditing and Accounting	2
Accounting and Auditing Matters	5

Table Export: [Excel](#) [CSV](#) [PDF](#)

1 2 3 4 5 6 7 8

Primary Issue	Case Number	Assigned Tier	Opened	Last Modified	City	First Assigned
Violation of Policy	203	Ethics & Compliance	4/22/2015	4/22/2015		
Violation of Policy	202	Ethics & Compliance	4/14/2015	4/14/2015		
Accounting and Auditing Matters	201	Ethics & Compliance	4/8/2015	4/14/2015		4/9/2015
Falsification of Contracts, Reports or Records	200	Ethics & Compliance	4/7/2015	4/9/2015	Seattle	4/7/2015
Gifts and Entertainment	199	EMEA	4/2/2015	4/2/2015	Houston	4/2/2015
Violation of Policy	198	Ethics &	4/2/2015	4/2/2015		4/2/2015

Analytics

NAVEX GLOBAL™

Issue & Event Manager

Home Cases Open New Case Assignments **Analytics** Search Admin

Overview Premium Analytics Base Statistics My Saved Reports Preformatted Reports Custom Ad Hoc Query Pivot Report

Premium Reports ADD ?

MY REPORTS

- Assignment Aging Report
- Participant Review
- PolicyTech Exceptions
- Primary Issue and Location
- Sterling Jewelers

RECEIVED REPORTS

PRESET REPORTS

Primary Issue and Location

A Report that identifies the Primary Issues and the location where the incident being reported occurred.

Show cases filtered by:

Edit **Send a Copy** **Add Schedule**

Delete Report

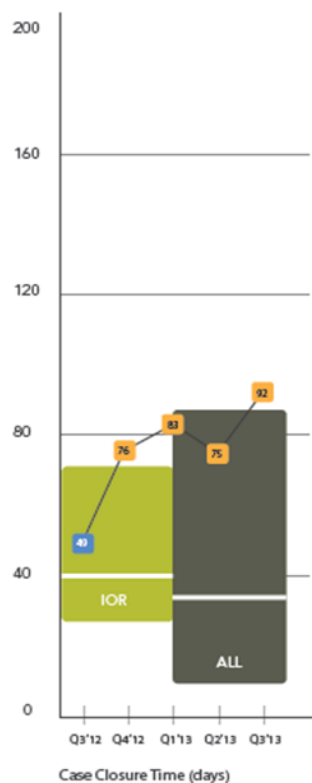
Run

Share reports with colleagues, or schedule reports to run at specified intervals with automated delivery

Peer/Industry Benchmarking

HISTORICAL TRENDS: 5 QUARTERS

CASE CLOSURE TIME



ANALYSIS

Case closure time is an important effectiveness measure for an ethics and compliance program. Cases that take too long to resolve will cause employees to believe that the Company does not take them, or the issues they raise, seriously. Employees are more likely to report genuine issues if they feel their concerns will be addressed in a timely fashion. While many organizations will have investigations that are complex and take longer to review, best practice organizations close the majority of cases within 35 days.

After having climbed for two straight quarters, ACME's case closure rate leveled off in the second quarter of 2013, and climbed again in the third quarter. The last four quarters, the rate has been among the highest 10% of Widget companies.

RECOMMENDATIONS

We recommend that ACME review its investigations processes to determine if any bottlenecks exist. We recommend that the Company set 30 days for average case closure time as its long-term target.

Q3 2013 DATA



Key Takeaways

- Use intake system as central repository for all matters, regardless of reporting vehicle
- Have investigation protocols to ensure timely investigations
- Routinely review intake data to help identify trends/trouble spots
- Routinely promote your program



Questions?



questions?

Thank You!



Diane Brown
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Advisors, NAVEX Global

Courtney Wallize
Corporate Director, Ethics and
Business Conduct, Northrop
Grumman