

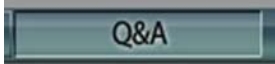
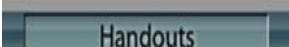
# **Anti-Fraud Collaboration WEBCAST**

## **How Corporate Culture Can Breed Fraud If Left Unchecked**

**December 12, 2013**

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# Administrative Notes

- We welcome your questions on today's program
- Submit your questions at any time by clicking on the "Q & A" tab on the lower right-hand side of your screen 
- Download the slides by clicking on the "Handouts" tab 

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- Ensure that your computer speakers are turned on and that the volume is appropriately set
- Check to ensure that audio streaming is enabled on your computer

## **If the presentation slides stop advancing:**

- Close out of the presentation and re-launch the webcast

## **If you are still having technical difficulty:**

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- Call the AICPA Service Center at 888-777-7077

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 **2**  
**Skill Specific**

# **NACD Credit and Fellowship Information**

**If you have any questions regarding NACD credit or the Fellowship Programs please contact:**

Lori Whitehand, Fellowship Program Manager

(202) 572-2084

[Fellowships@NACDOnline.org](mailto:Fellowships@NACDOnline.org)

**To learn more about NACD Fellowship, visit  
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# Today's Program

## Goals of the Program

- Communicate the importance of corporate culture and how it impacts governance, risk, and compliance
- Provide management, boards, internal auditors, and audit committees with:
  - Actionable recommendations to help combat the obstacles and barriers of sound corporate culture
  - Perspectives from panelists on ways to establish and monitor a strong response program that has ramifications for violating corporate ethics policies, and leading practices for continual reinforcement of the importance of ethical behavior in a large organization

# Panelists

**Kathleen Edmond**  
Chief Ethics Officer  
Best Buy

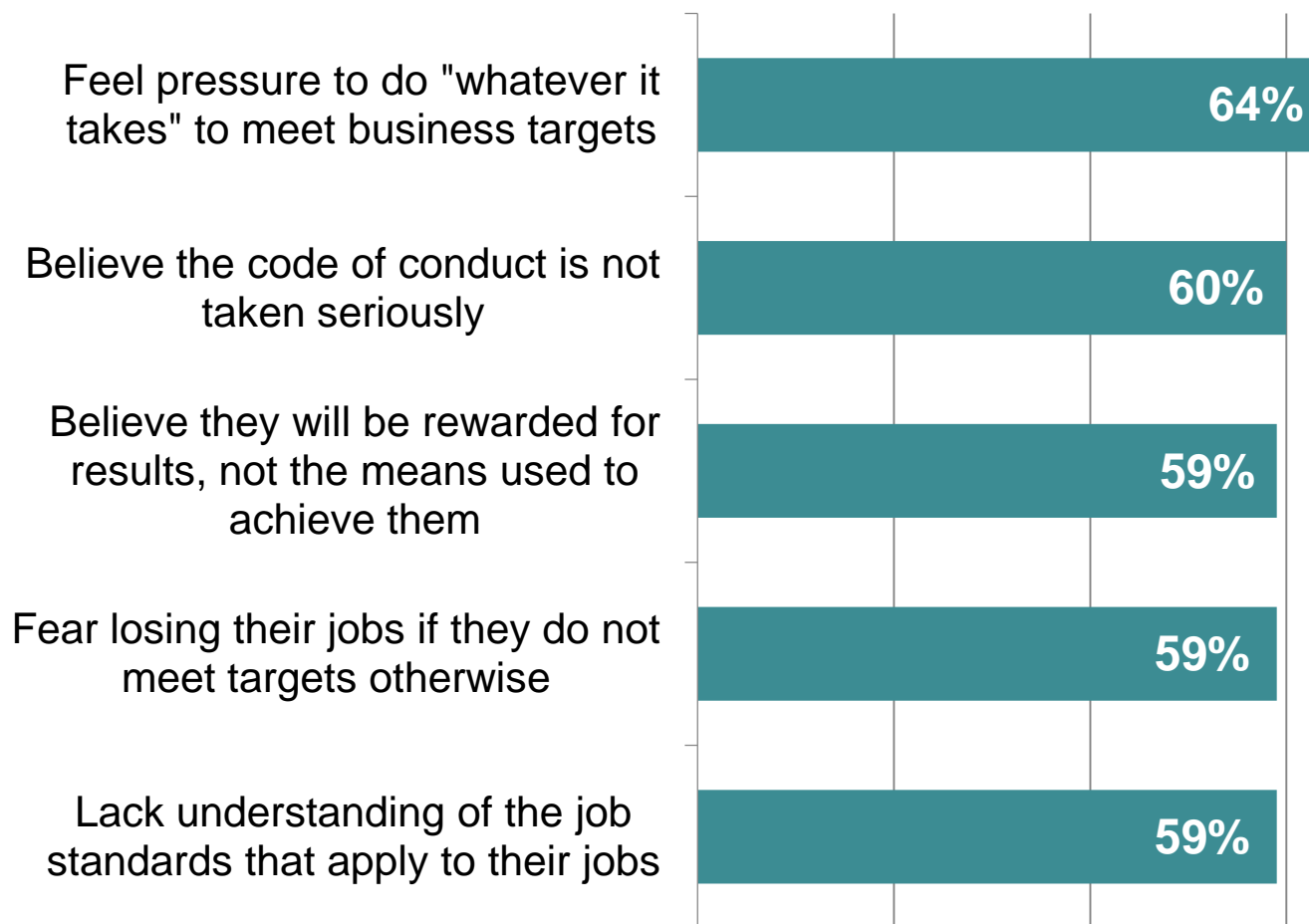
**Suzanne M. Hopgood**  
President and CEO  
The Hopgood Group, LLC

**Michael R. Young**  
Partner  
Willkie Farr & Gallagher, LLP

**Moderator**  
**Cindy Fornelli**  
Executive Director  
Center for Audit Quality



# Root Causes of Misconduct



# Importance of an Ethical Culture

- Actions speak louder than words
- Culture speaks louder than anything
- Culture will drive results
- Culture sets the parameters and the rules for behavior and for how customers and employees will be treated
- When strategy and culture conflict, culture wins

# Public Company – Reporting Fraud and Corruption

## PointBlank Solutions (military contractor)

- CEO indicted on 132 counts resulting in 17 year prison sentence
- Financial reporting fraudulent
- Employees told not to report bonuses on their tax returns
- CEO spent \$10M in company funds for daughter's bat mitzvah

# Collusive Fraud with an Outside Vendor

## ***Chip Factory Inc. :***

- Single bad actor inside BBY, colluded with supplier to perpetrate fraud (overcharging for parts) costing BBY over \$30M
- Accepted collegial behavior was not to challenge decisions or performance
- Key leadership had been promoted based on loyalty, not competence
- “Fast” and “new” trumped “deliberate” and “documented”

# Why and How Fraud Happens

- Aggressive target plus pressure
- Accelerated shipments
- Reduced reserves
- Culture: “Failure is not an option.”
- Costs: Restatement of financial statements; SEC investigation; Litigation; Reputation

# Investigation of a Fraud

**First step:** Preliminary investigation

**Depth of investigation:** As deep as necessary

**Key participants:** Will vary based on circumstances

**Investigation oversight:** When to notify the Audit Committee

**Public disclosure:** Regulators, investors, employees, other stakeholders

# Rebuilding an Ethical Culture After a Breach

## Steps for management to take:

- Own the problem
- Terminate wrongdoers
- Hold management to a higher level of behavior
- Focus on senior staff and Board
- Admonition: “This will not happen again.”

# Rebuilding an Ethical Culture After a Breach

## Steps for the board to consider:

- Do what is right
- Seek out sustained interaction with key personnel
- Challenge, support, listen for what isn't being said, or what doesn't make sense



# Creating and Sustaining an Ethical Culture

## Assess what you have

- Is communication honest, transparent, timely?
- Is it safe to bring bad news?
- Are leaders held to a higher standard than line level?
- Are promotions based on loyalty rather than performance?
- What are the consequences for violations?

# Creating and Sustaining an Ethical Culture

- Establish an enforceable code of conduct
- Enforce and take action
- Issue regular communications
- Reward employees who demonstrate the culture
- Set up an anonymous reporting hotline

# Creating and Sustaining an Ethical Culture

## Best practices to mitigate risk:

- Proactive management and board
- Setting expectations
- Communication

# Creating and Sustaining an Ethical Culture

## Proactive management and board

- Tone at the top
- Maintaining objectivity
- Managerial transparency
- Listening

# Creating and Sustaining an Ethical Culture

## Setting expectations

- Provide guidelines on expected behavior
- Broken window theory
- Address small problems consistently
- Transparency into consequences for violations
- Reward good behavior

# Creating and Sustaining an Ethical Culture

## Communication

- Encourage atmosphere where people can ask questions if something doesn't look right
- Communicate where your corporate audience interacts
- Sustained and candid interactions
- Anonymous whistleblower hotlines
- Teach / model / practice holding difficult conversations

# Key Takeaways

- Listen for threats to objectivity
- Boards and senior management establish a culture through behavior and actions
- An ethical culture is extraordinarily powerful, and at the same time, fragile if not nourished

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