Ethics: Navigating the Rough Waters of Ethics & Compliance Risks

- Chart the Course: Map Your Ethics & Compliance Risk Coordinates Jointly With Your ERM Team.

- Stay the Course: Use Your Risk Map as a Lighthouse to Actively Manage Your Ethics & Compliance Risks.

- Maintain the Course: Keep a Scorecard to Check the Accuracy of Your Ethics & Compliance Risk Findings and Make Mid-Course Corrections.
About me...Helen Goodwin

1962 - US Department of Energy Bonneville Power Administration - 2014

Energy Conservation
- Residential Conservation
- Budgeting
- Public Policy

Generation Acquisition
- Consistency with NW Power Act
- Generating Plant Acquisition
- Pre-Construction Costs

Power & Transmission Rates
- Rates Process Manager
- Public Involvement
- First Open Access Transmission Tariff
- Joint 5-Year Power & Transmission Rate Case

Strategic Planning
- Agency Balanced Scorecard
- Customer, Constituent & Tribal Government Satisfaction Surveys

Power Policy
- Public process leading to customer contracts for wholesale power products & services

Ethics
- Initial Agency Employee & Contractor Codes of Conduct
- Agency 3rd party ethics hotline
- Ethics Risk Assessments, Employee Surveys, Communications

COMMON THEME...Public Policy, Power Marketing, Regulation....

About me...Jana Utter

1985 - ENERGY - 2015

Texas Eastern Panhandle Eastern
- Accounting
- Tax
- Natural Gas Trader

Great Plains Energy KCPL
- Initiated retail natural gas trading desk
- Managed KCPL’s regional accounts
- Initiated Enterprise Risk Management

MISO
- Initiated Enterprise Risk Management
- Launched Corporate Compliance Program
- Oversaw Process Improvement, SSAE 16, and Records Management

Fiserv, Inc.
- Oversaw Corporate Insurance

Centene Corp
- Lead Enterprise Risk Management
- Initiating NAIC ORSA Reporting

COMMON THEME...Regulation, Regulation, Regulation....
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CHART THE COURSE

The value of partnering with ERM
KEY POINTS

Join efforts with ERM to map compliance related risk coordinates... while the focus of ERM and Compliance may differ, alignment is important.

Apply Lines of Accountability

Consider Organizational Structure

Leverage Communication Channels

The Three Lines of Accountability
The Second Line of Accountability

Supporting frameworks and processes for risk and compliance management, monitoring, and improvement

- Compliance
- IT Compliance
- Enterprise Risk Management
- Quality/Business Process Management
- Business Continuity
- Physical Security
- IT Security
- Financial Controls/SOX
- Operational Controls/SSAE 16
- Records Management

Advantages of 2nd Line Partnering

- Identify common themes and connected processes
- Supports Executive Management and the Board
  - Presenting the 2nd Line reports within the same forum allows the governance and oversight functions to gain a holistic view of risks
  - Enterprise Risk Report includes high-level view of compliance risk assessments and reporting
  - Builds upon and reiterates risk-related information received by the 1st Line
  - Executive Management and the Board are able to hear and see how risks ebb and flow within the company
- Supports External Reviews
  - Consistency in the governance and reporting structure and the framework for 2nd Line reporting streamlines reviews for both the company and the reviewers
2nd Line of Accountability Organizational Structure Example

The Third Line of Accountability

Independent and comprehensive assurance for governance, risk, and controls
Challenges & Pitfalls
ERM and Compliance aren’t the same

Challenges

- ERM and Compliance are complementary but each have a different focus
- ERM = focuses on all areas of risks, including Compliance and Ethics
- Compliance = focused on Compliance and Ethics risks with other risk areas addressed as needed

Pitfalls

- Inconsistent reporting to Executive Mgmt. and the Board
- Both functions typical produce corporate-level periodic risk reports
- Lack of collaboration between ERM and Compliance may cause confusion

Overcoming Challenges & Pitfalls
Charting the Course Together

Partner

- Remember that both ERM and Corporate Compliance are part of the 2nd LoA
- Common purpose to help the company achieve its strategic objectives while effectively managing risks
- Don’t forget about joining forces with the other 2nd LoAs too!

Coordinate

- Share risk frameworks, risk assessments, mitigation plans, and risk reports
- To the extent possible, framework methodologies should be similar or complementary (i.e. scaling, dashboards)
- Risk reports with the same audience should be co-reviewed
Keep your Shipmates Informed

- **Communication channels with the 1st Line of Accountability**
  - **Market** – Steer clear of 2nd Line confusion and burden
    - “I thought I just did a risk assessment?!”
  - **Demonstrate coordinated and integrated processes for corporate-wide risk and control information**
  - **Raise Awareness** – Don’t operate in a vacuum
    - “How does ERM and Corporate Compliance benefit me?”
  - **Leverage 2nd LoA risk info to be helpful to the front line**
  - **Train** – Avoid feelings of uncertainty and lack of understanding
    - “How can I be sure I’m compliant?/I didn’t know I needed to do that!”
    - “Is this issue a risk?”
  - **Equip the ship! Share knowledge and highlight best practices**

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Keep the Communication Channels Open

Even if your 2nd Lines of Accountability are not organizationally structured under a Chief Risk Officer, you can still establish open channels for sharing risk information.
Mature ERM processes create a risk aware culture which cascades to supporting a culture of compliance.

- The ERM Process
  - Risk Identification
    - Uncover compliance issues
  - Risk Assessment
    - Evaluate severity
  - Risk Mitigation
    - Holistic remediation plans

**STAY ON COURSE**

Leveraging Risk Assessments
A Deeper Dive into Risk Assessments
Not all risk assessments are created equal but the results may reveal hidden themes.

* Focus of various risk assessments differ
* Identifying root cause helps to remediate risks and close gaps
* Surveys may address cultural and organizational gaps

2nd Lines $\rightarrow$ 3rd Line
Streamlining Risk Assessments for the 1st Lines

Timely sharing of information about independent risk assessments helps the Operations Business Areas to holistically approach mitigation/remediation/action plans.
Management Reporting for Risks

- ERM, Compliance, and Internal Audit reports capture the various types of risks of concern to Executive Management and the Board
  - ERM – captures all types of risks (strategic, operational, compliance, financial and sub-categories of each such as market performance, business process effectiveness, IT, quality, financial performance, and others)
  - Corporate Compliance – captures non-compliance issues and risks related to both internal and external requirements; typically identifies weak links in ethics, compliance training gaps, compliance culture (Hotline activity)
  - Internal Audit – captures control-based risks, operational process gaps, financial integrity and quality

Committee Structures Help Communication

- ‘A seat at the table’ will support consistency in:
  - Knowledge and understanding of issues
  - Communication
  - Reporting

Each member of Executive Management should have awareness of the issues under their purview contained in these reports but may not have had the opportunity to gain a holistic view
- Sharing the ERM, Compliance, and IA reports in the same meeting facilitates broader understanding of inter-related issues
Staying on Course
Periodic Assessments

* ERM and Compliance processes include periodic rechecks...
  * Progress of mitigation and remediation plans
  * Reassessment of issues and risk
  * Monitoring effectiveness of mitigation and remediation
* Internal Audit processes include periodic monitoring...
  * Tracking of Management Action Plans
  * Closure of noted gaps
  * Risk assessment for Annual Audit Plan development

Keeping the Deck in Check!

Using Surveys to Gauge the Winds
Identifying needed tweaks in the efforts of the ERM and Compliance/Ethics teams may avoid rough waters ahead

Corporate Employee Engagement Surveys – may gauge awareness levels and culture relating to risk and compliance
Cultural Diagnostic (Corporate Executive Board) – measurement tool for assessing the ethics culture of the company; tool provides for customized questions which can be used to also assess the risk culture
Committee Self-Assessments – results of Management Oversight and Board Committee(s) may provide helpful feedback

Results may provide Corporate Compliance/Ethics and ERM with opportunities to further collaborate to address gaps or streamline efforts
Watching for Obstacles

Compliance

Business Risks

Keep in mind that being compliant may not mean that business operations can rest easy... controls needed to demonstrate compliance are not enough to guard against risks.

Step 1: Chart The Course
Map your ethics & compliance risk coordinates with your ERM Team.

1. **Avoid Reputational Risk**. Begin With the End in Mind….Engage Your ERM Group Early, Often & Consistently.

2. **Be Proactive**. Don’t Wait Until You Have a Crisis Such as an Unflattering Newspaper Article or a Government Investigation. It’s Too Late.

3. **Insist on a Seat at the Table**. Regularly Communicate the Value of ERM to Your Executive Management.

4. **Avoid Rumor**. Ensure That Your Risk Assessment, Treatment Plan and Progress Reporting are Data Driven.
**Step 1: Chart The Course**
Map your ethics & compliance risk coordinates with your ERM Team.

- Use the Federal Sentencing Guidelines as your beacon to build and maintain an effective ethics and compliance program.

- Leadership, Oversight & Chain of Command
- Process & Procedures/Written Standards
- Communication & Training
  - Monitoring & Auditing
  - Reporting & Investigation
  - Enforcement & Discipline
  - Response & Prevention
  - Evaluation
  - Risk Assessment

[Diagram of the process flow]

- Enterprise Risk Management → Program Office
- Risk Assessment
- Monitoring/Auditing
- Risk Registry
- Program Evaluation
- General Surveys
  - Specific Surveys
  - Program Reviews
- Risk Treatment Plan
- Compare to Industry Best Practices
Step 1: Chart The Course
Map your ethics & compliance risk coordinates with your ERM Team.

- Active use of risk management is the key to early preventions & detection of possible risk events and a mitigation strategy.

- Develop annual risk-based program goals/objectives to:
  - Meet internal & external requirements.
  - Identify gaps in regulatory requirements.
  - Prioritize significant ethical or compliance risks.
  - Anticipate future risks and risk trends.
  - Identify events that can derail program objectives.
  - Identify events that can harm reputation.
  - Analyze the likelihood and consequences of each risk.

Step 1: Chart The Course
Map your ethics & compliance risk coordinates with your ERM Team.

- **Be honest.** Assess your vulnerabilities and risks and the consequences thereof. Don’t guess. Ask questions.

- **Avoid group think.** Involve others outside of your sphere of influence. Include those with a different perspective.

- **Rely on facts.** Relying on hearsay or rumor may result in a false positive wasting time, energy and resources mitigating a risk that does not exist.

- **Don’t panic.** If your program ends up a top tier enterprise risk, it may result in more resources to execute specific long-needed program elements.
**Step 1: Chart The Course**  
Map your ethics & compliance risk coordinates with your ERM Team.

<table>
<thead>
<tr>
<th>Likelihood</th>
<th>Negligible</th>
<th>Marginal</th>
<th>Critical</th>
<th>Catastrophic</th>
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<tr>
<td>Certain</td>
<td>High</td>
<td>High</td>
<td>Extreme</td>
<td>Extreme</td>
</tr>
<tr>
<td>Likely</td>
<td>Moderate</td>
<td>High</td>
<td>High</td>
<td>Extreme</td>
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<tr>
<td>Possible</td>
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<td>Extreme</td>
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<tr>
<td>Rare</td>
<td>Low</td>
<td>Low</td>
<td>Moderate</td>
<td>High</td>
</tr>
</tbody>
</table>

**Ethics and Compliance Surveys**
- Field a baseline, random sample survey to determine employee awareness of the policies, rules and available resources.
- Use program specific surveys to look at specific risks & weak spots.
- Compare and contrast your survey results to other like organizations and surveys.
- Follow up surveys allow you to track progress towards meeting your goals.
- Let employees know what you are doing to correct weak spots.

**Step 2: Stay The Course**  
Use your risk map as a lighthouse to actively manage your risks.
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Use your risk map as a lighthouse to actively manage your risks.

Ethics and Compliance Helplines

- Employees often feel over surveyed.
- Analytics from a helpline add to survey data and, in combination, provide valuable risk-related program data.
- Key is ensuring that all helpline & other calls & web submissions are taken seriously and investigated.
- Adverse actions must be taken if the allegation is found to be correct.
- Publicizing the results can help deter behavior that can result in an ethics or compliance failure and/or crisis.
- Set up, marketed and promoted well, helpline data can help you discover little known trends and close gaps.

Monitor and Audit Your Programs

- Regularly and consistently monitor and audit progress towards meeting your ERM goals.
- Data collection and tracking provide opportunities for trend analysis.
- Engage internal audit or an outside source to perform a regular and random review of records.
- The risk registry and risk map are good places to look in depth at an identified weak spot or an area you determined as a certain risk/high or extreme consequences.
- Use the survey results, monitoring and auditing of your programs to make mid course corrections.
Step 2: Stay The Course
Use your risk map as a lighthouse to actively manage your risks.

Raise the Bar

- Your risk assessment, program monitoring and compliance and ethics surveys are learning tools.
- Use these tools as opportunities to create awareness and move your program forward.
- Commit to reporting your results.
- Raise the bar you created each year.
- The elements of an effective compliance and ethics program are key to moving forward.

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* Stay the Course: Keep a scorecard to check the accuracy of your ethics & compliance risk findings and make mid-course corrections.
MAINTAIN THE DECK LOG

Maturing the Crew

Reflecting upon your journey and maintaining a strong knowledge base of information and experiences will help you and the organization grow.

Keep It Going!

* Risk Registers
* Residual Risk Monitoring
* Building Deeper Awareness
* Advancing Training
Don’t Lose Sight --- Let past experiences guide the future

* Risk Registers log past and present concerns for current and future reference.

Keep past experiences in check

<table>
<thead>
<tr>
<th>Risk</th>
<th>Impact</th>
<th>Likelihood</th>
<th>Inherent Risk</th>
<th>Level of Control</th>
<th>Risk Score [Residual Risk Level]</th>
<th>Previous Risk Score</th>
<th>Review Requested</th>
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<td>9</td>
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<td>57</td>
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<tr>
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<tr>
<td>Risk #3</td>
<td>9</td>
<td>7</td>
<td>63</td>
<td>75%</td>
<td>16</td>
<td>55</td>
<td>No</td>
</tr>
</tbody>
</table>

Risk Score Calculation = Inherent Risk – [Inherent Risk x Level of Control]

- Periodic risk assessments of both mitigated and active risks helps to keep risks under tow
- Reassessing mitigated risks helps to ensure corrective actions and remediation plans targeted the correct root cause
- If the residual risk score increases, a review is needed
- If the residual risk score is higher than desired, further mitigation should be considered
Foster the Culture

Awareness

* Sharing experiences raises awareness
  * What did you do to mitigate risks?
  * Did you identify the real issues?
  * What did you learn?
  * What would you do differently?

Training

* Weave training into the program
  * As ERM and Compliance processes mature, new elements are added to the framework
  * New elements can also be externally driven
  * Use new elements as an opportunity to refresh and advance knowledge

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Step 3: Maintain the Course
Keep a scorecard to check the accuracy of your risk findings & make mid-course corrections.

Program Reviews:

* Evaluate the effectiveness of your program.
* Determine whether implementation of your ERM risk-driven program is consistent with the original plan.

* Scope should include key program design elements, roles & responsibilities & interviews.
* Show due diligence in preventing and detecting violations.
* Demonstrate how the organizational culture encourages ethical conduct and a commitment to compliance with the law. Employee reporting is critical.
* Engaging and having executive management support is key to your success.
Step 3: Maintain the Course

Keep a scorecard to check the accuracy of your risk findings & make mid-course corrections.

- **Risk Assessments.** A one-time-only risk assessment is not enough. Partner with ERM often to update your risk assessment & make mid-course corrections.

- **Don’t rely on hearsay or rumor.** Don’t overreact but take helpline and other reporting seriously. Investigate.

- **Encourage employee reporting.** Rely on a strong non retaliation policies and practices.

- **Market Your Program.** Create and implement a strong marketing, communication and training program.

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**Employee Engagement**

- **Encourage your employees to ask questions and dedicate staff to answer, document, & evaluate those questions.**

- **Employees questions and helpline data can help focus your training efforts.**

- **Training is an integral part of the corporate culture. Mix it up.**

- **An informed workforce will make it less likely that you will face an ethics or compliance failure or crisis.**
Step 3: Maintain the Course
Keep a scorecard to check the accuracy of your risk findings & make mid-course corrections.

**Employee Communication**
- Communicate with your employees regularly and often.
- Use the web effectively to send a consistent message and as a self help learning tool.
- Require employee attendance at mandatory ethics & compliance training events.
- Provide non monetary incentives such as an annual award for an ethics and compliance hero.
- Promote your helpline and other sources as avenues to report potential risk events.
- Ask for feedback through surveys and other reporting tools.

**Crisis Management**
- **Don’t overreact.** Focus your efforts on fact, not rumor. Don’t speculate on the possible consequences.
- **Stay the course.** New program elements in a time of crisis do more harm that good.
- **Avoid suspicion.** Share what you can with your employees.
- **Weather the storm.** If a crisis does occur, a strong foundation will help you navigate the rough waters.
- **Be truthful.** Target your response to what you know.
Navigating the Rough Waters of Ethics & Compliance Risks: Partnering with ERM

• Reduces risk of all kinds – financial & reputational.
• Fosters a culture of compliance where a commitment to integrity & ethical behavior is demonstrated.
• Reduces risk consistent with customer and investor expectations.
• Provides transparency.
• Minimizes audit exposure & possible findings & fines.
• Reduces the risk of sanctions and sentences.
• Improves operational efficiency and effectiveness.

Navigating the Rough Waters of Ethics & Compliance Risks: Continuous Improvement

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• Maintain the Course: Keep a Scorecard to Check the Accuracy of Your Ethics & Compliance Risk Findings & Make Mid-Course Corrections.
Questions

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Opportunity to Share

How do ERM and Compliance & Ethics align and interact at your organizations?

How do your organizations address ‘Lines of Accountability’?
Opportunity to Share

Why do companies with Compliance and ERM programs in place fail?

How have your organizations utilized risk assessments and surveys?

Opportunity to Share

How do your organizations maintain a robust knowledge base of risk and compliance issues?

How have your organizations matured ERM and Compliance & Ethics?