

**Scott Mitchell, Chairman
OCEG**



**Jack Holleran, Principal
Ernst & Young LLP**

OCEG WEBINAR SERIES: HOW DO WE MEASURE THE PERFORMANCE OF GRC



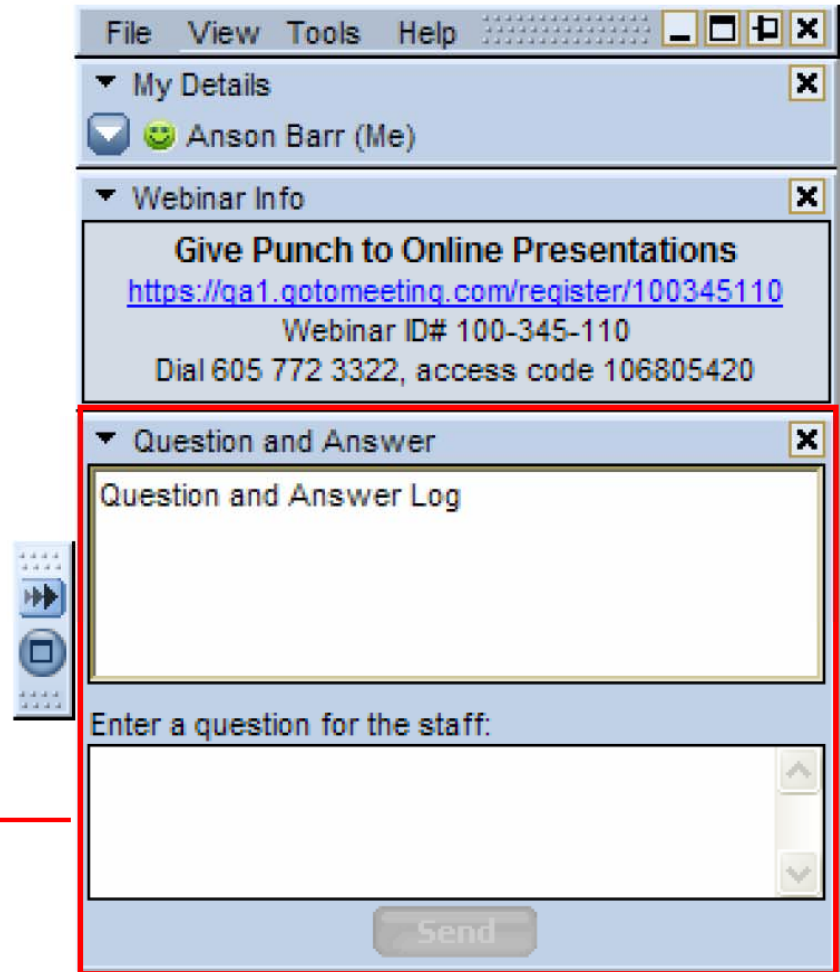
Please use the

Question and Answer Panel

to ask questions during the presentation. We will answer them throughout the presentation.

Submit Question

Type your question and click Send to submit it to the organizer



How do we align our GRC initiatives?
 OCEG illustrates the importance of aligning GRC initiatives with business strategy and risk management. The OCEG Governance and Risk Group (GRC) provides a framework for aligning GRC initiatives with business strategy.

How do we make a business case for Integrated GRC?
 This document illustrates how to make a business case for Integrated GRC. It addresses how to address projects across all technologies and all business units.

How Does a Federated GRC Approach Apply to Policy Management?
 As organizations grow organically and through acquisition, it becomes increasingly difficult to balance control with decentralized flexibility. One proven approach is to use a "federated" model.

How Do We Measure the Performance of GRC?
 High performing GRC capability delivers business benefits and is achieved through effective, efficient, and responsive processes.

KEY ASPECTS OF COMPLIANCE PERFORMANCE

WHO IS INTERESTED IN WHICH ASPECTS (stereotypically)?
 Sophisticated stakeholders are interested in all aspects of performance. However, stereotypically, each stakeholder group tends to be more focused on specific aspects. The Board must be the arbiter and balance all these sometimes competing priorities.

GOVERNMENT & ENFORCEMENT
 Typically, the government is concerned with whether a program is legally effective — whether it is reasonably designed and operating effectively. The government is most interested in whether an organization meets the effectiveness bar — it is less concerned about the costs involved to get there.

COMPLIANCE, CONTROL & INTERNAL AUDIT
 Sometimes, compliance, control and internal audit professionals focus exclusively on effectiveness without considering the burden and footprint on the business.

BUSINESS OPERATORS
 Operators of core business processes such as sales, marketing, and logistics are typically focused on how to reduce the footprint of compliance and control activities — sometimes at the expense of effectiveness.

BOARD
 The Board of Directors is in the best position to balance the sometimes competing aspects of performance. Effectiveness is crucial. However, there are many approaches that can be used to meet the effectiveness bar — and each implies varying resource requirements and impact on the ability of the business.

RESPONSIVE TO CHANGE
 The system should be able to absorb changes in the external environment by:

- Clear roles and responsibilities, and interdependencies, are defined
- Cycle time to integrate new or update existing programs
- Cycle time for fully address new risks and requirements

RESPONSIVE TO EVENTS
 The system should detect non-compliance and address events in a timely manner so that action can be taken.

- Cycle time from actual non-compliance to detection
- Cycle time from detection to action

EFFECTIVE DESIGN
 Are reasonable and sound solutions in place to address risks?

- Risk coverage
- Requirement coverage
- Depth of coverage

EFFECTIVE OPERATION
 Does the system operate as designed?

- Number of substantiated issues
- Percent or number of control failures
- Method of detection of failures

UNIVERSAL PROGRAM OUTCOMES
 Achieve Business Objectives
 Enhance Organizational Culture
 Increase Stakeholder Confidence
 Measure & Protect the Organization

How It works:
 At the corporate level, the board and senior management set policies and sometimes procedures. These policies and procedures are then implemented by the business units.

WAYS TO IMPLEMENT POLICY MANAGEMENT IN THE EXTENDED ENTERPRISE
 Organizations may consider extending their policies and procedures to their supply chain and other business partners.

EFFICIENT USE OF FINANCIAL CAPITAL
 The system should efficiently use financial capital and seek to reduce operational costs over time.

- Total cost of risk, compliance, and control activities
- Average cost to resolve issues by category

EFFICIENT USE OF HUMAN CAPITAL
 The system should efficiently use human capital, seek to reduce the amount of time required to perform managerial activities.

- Number of senior executives allocated to the program
- Number of senior executives per program staff
- Number of hours per month required for business line executives to perform program activities

CHALLENGE 1 COMPARED TO WHAT?
 What generally accepted and external professional have the skills to evaluate and judge the effectiveness of a program?

CHALLENGE 2 WHO DECIDES?
 What types of internal and external professionals have the skills to evaluate and judge the effectiveness of a program?

CHALLENGE 3 HOW OFTEN?
 How often can we afford to put a stake in the ground to test if we need to go back at some, we can prevent evidence of effectiveness?

OCEG "Burgundy Book"
 One way to overcome the challenges associated with measuring and documenting the effectiveness of your capability is to use the freely available OCEG Common Assessment Procedures and Criteria—more commonly known as the OCEG "Burgundy Book."

CAN ONE ASPECT BE CHANGED WITHOUT AFFECTING THE OTHERS?
 Aspects are interdependent. Sometimes, improving one aspect of the capability negatively impacts the other dimensions. It is possible, however, to improve all dimensions with technology and innovation.

Zero-Sum Thinking
 "To reduce costs, we need to reduce the effectiveness of the system."

Innovative Thinking
 "We can actually reduce costs and increase the effectiveness and agility of the system."

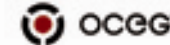
LICENSED TO CCJAMESF ON TUESDAY, MAY 26, 2009. SINGLE USER LICENSE GRANTED.

GRC Illustrated Series

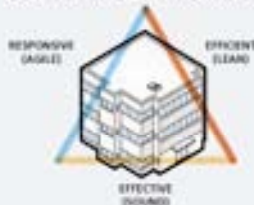
How Do We Measure the Performance of GRC?

A high-performing GRC capability delivers business benefits and is achieved through effective, efficient, and responsive processes.

DEVELOPED BY



KEY ASPECTS OF COMPLIANCE PERFORMANCE



WHO IS INTERESTED IN WHICH ASPECTS (stereotypically)?

Sophisticated stakeholders are interested in all aspects of performance. However, stereotypically, each stakeholder group tends to be more focused on specific aspects. The Board must be the arbiter and balancer of these sometimes competing priorities.

EFFECTIVENESS
GOVERNMENT & ENFORCEMENT
 Typically, the government is concerned with whether a program is legally effective — whether it is reasonably designed and operating effectively. The government is most interested in whether an organization meets this effectiveness bar: It is less concerned about the costs involved to get there.

EFFECTIVENESS
COMPLIANCE, CONTROL & INTERNAL AUDIT
 Sometimes, compliance, control and internal audit professionals focus exclusively on effectiveness without considering the burden and footprint on the business.

EFFICIENCY & RESPONSIVENESS
BUSINESS OPERATORS
 Operators of core business processes such as sales, marketing, and logistics are typically focused on how to reduce the footprint of compliance and control activities — sometimes at the expense of effectiveness.

EFFICIENCY & RESPONSIVENESS
BOARD
 The Board of Directors is in the best position to balance the sometimes competing aspects of performance. Effectiveness is crucial. However there are many approaches that can be used to meet the effectiveness bar — and each implies varying resource requirements and impact on the agility of the business.

RESPONSIVE TO CHANGE

The system should be able to absorb changes in the external environment (e.g., new laws and regulations) and internal environment (e.g., mergers and acquisitions).

- Cycle time to integrate new acquisitions into programs
- Cycle time to fully address new risks and requirements

RESPONSIVE TO EVENTS

The system should detect non-compliance and adverse events in a timely manner so that action can be taken.

- Cycle time from actual non-compliance to detection
- Cycle time from detection to action

EFFECTIVE (sound)

EFFECTIVE DESIGN
 Are reasonable and sound structures in place to address risks?
 - Risk coverage
 - Requirement coverage
 - Depth of coverage

EFFECTIVE OPERATION
 Does the system operate as designed?
 - Number of substantiated issues
 - Percent or number of control failures
 - Method of detection of failures

UNIVERSAL PROGRAM OUTCOMES

- Achieve Business Objectives
- Enhance Organizational Culture
- Increase Stakeholder Confidence
- Prevent & Protect the Organization
- Prevent, Detect & Reduce Adversity
- Motivate & Inspire Desired Conduct
- Improve Responsiveness & Efficiency
- Optimize Economic & Social Value

effective, responsive, and efficient processes will deliver measurable program outcomes for the organization

RESPONSIVE (agile)

EFFICIENT (lean)

EFFICIENT USE OF FINANCIAL CAPITAL

The system should efficiently use financial capital and seek to reduce operational costs over time.

- Total cost of risk, compliance, and control activities
- Average cost to train each employee
- Average cost to resolve issues (by category)

EFFICIENT USE OF HUMAN CAPITAL

The system should efficiently use human capital, most importantly senior executive time, and look for ways to reduce the amount of time required to perform management activities.

- Number of senior executives allocated to the program
- Number of senior executives per program staff
- Number of hours per month required for business-line executives to perform program activities

OCEG "Burgundy Book"

One way to overcome the challenges associated with evaluating and documenting the effectiveness of your capability is to use the freely available OCEG Common Assessment Procedures and Criteria—more commonly known as the OCEG "Burgundy Book."



CAN ONE ASPECT BE CHANGED WITHOUT AFFECTING THE OTHERS?

Aspects are interdependent. Sometimes, improving one aspect of the capability negatively impacts the other dimensions. It is possible, however, to improve all dimensions with technology and innovation.

Zero-Sum Thinking

"To reduce costs, we need to reduce the effectiveness of the system."

Innovative Thinking

"We can actually reduce costs and increase the effectiveness and agility of the system."

©2009 OCEG™. EXPLANATIONS™ by EY/ANY™

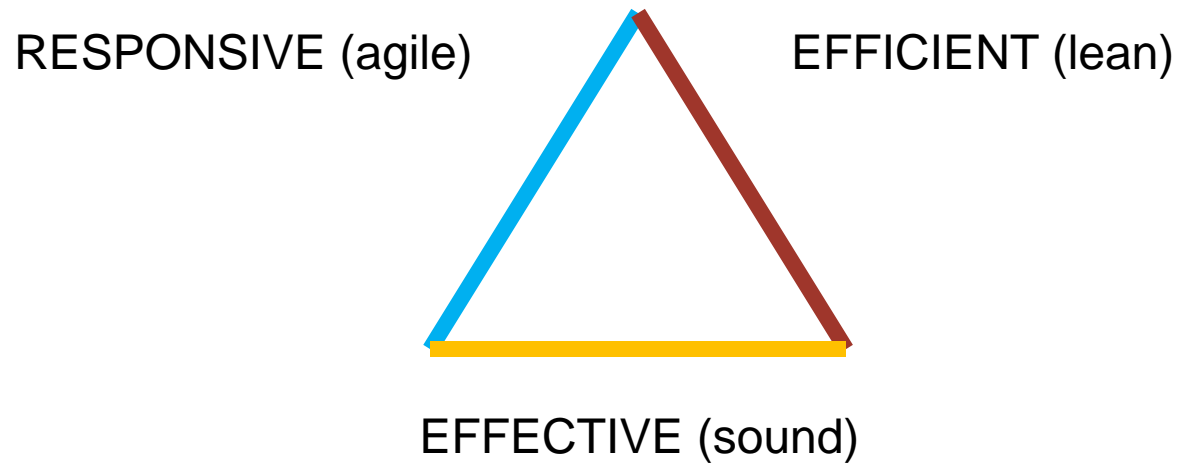
Contact Scott L. Mitchell (smitchell@ocgg.org) for comments, reprints or licensing requests

Measuring program performance: OCEG point of view

Universal program outcomes

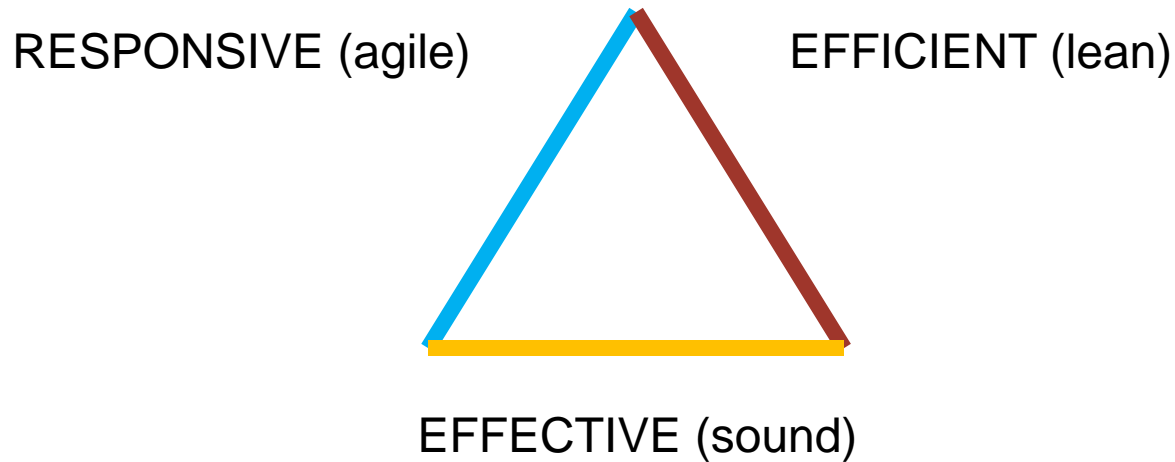
- Achieve business objectives
- Enhance organizational culture
- Increase shareholder confidence
- Prepare and protect the organization
- Prevent, detect and reduce adversity
- Motivate and inspire desired conduct
- Improve responsiveness and efficiency
- Optimize economic and social value

Measuring program performance: OCEG point of view



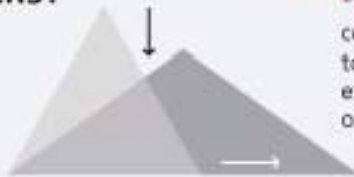
BALANCE these (sometimes) **COMPETING**
OBJECTIVES

Measuring program performance: OCEG point of view



CAN ONE ASPECT BE CHANGED WITHOUT AFFECTING THE OTHERS?

Aspects are interdependent. Sometimes, improving one aspect of the capability negatively impacts the other dimensions. It is possible, however, to improve all dimensions with technology and innovation.



✗ Zero-Sum Thinking
"To reduce costs, we need to reduce the effectiveness of the system."



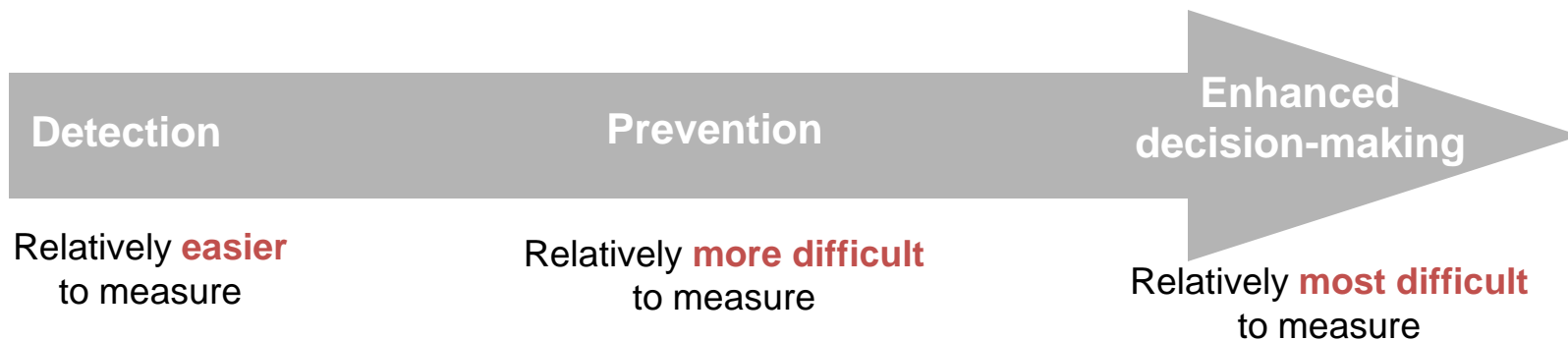
✓ Innovative Thinking
"We can actually reduce costs and increase the effectiveness and agility of the system."

XPLANATIONSSM by XPLANESM ©2009 OCEGSM

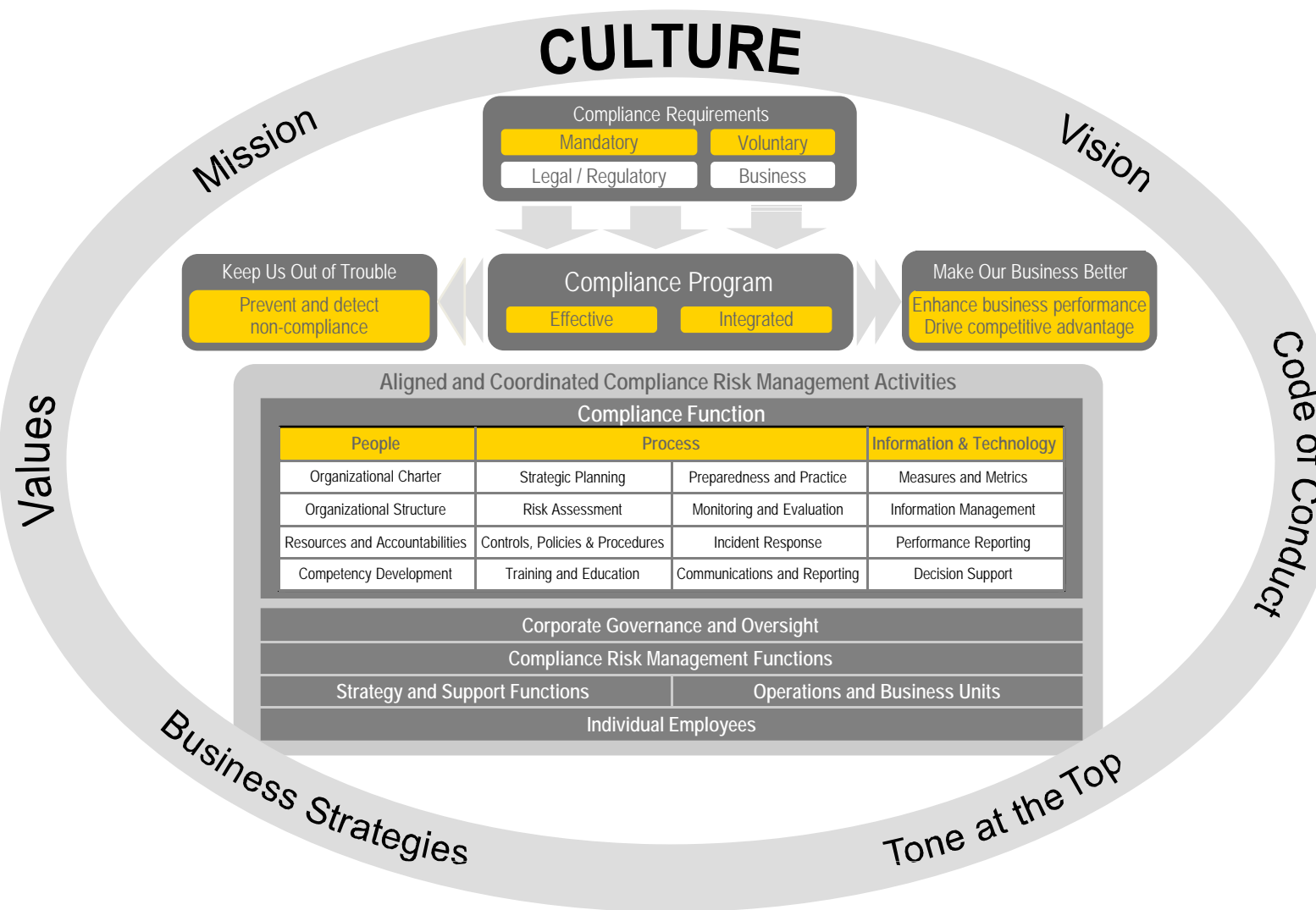
Measuring compliance program performance: E&Y point of view

Premise: a compliance and ethics program serves three principal objectives:

1. To prevent non-compliance
2. To detect non-compliance
3. To enhance decision-making, to ultimately help meet business objectives



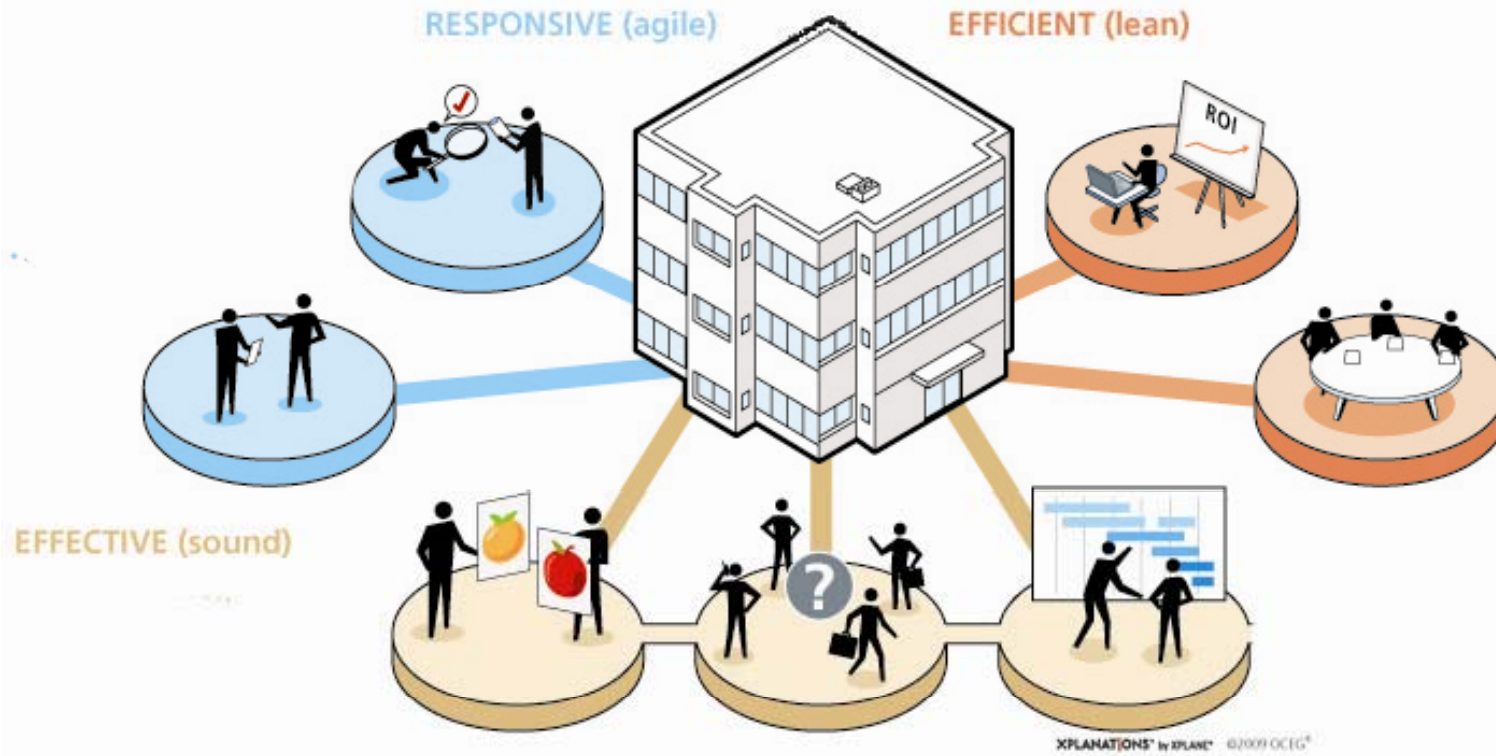
Ernst & Young Compliance Framework



OCEG WEBINAR SERIES:
HOW DO WE MEASURE THE PERFORMANCE OF GRC?

LICENSED TO CCJAMESF ON TUESDAY, MAY 26, 2009. SINGLE USER LICENSE GRANTED.

Key aspects of compliance performance



OCEG WEBINAR SERIES:
HOW DO WE MEASURE THE PERFORMANCE OF GRC?

Effective design and operation

EFFECTIVE (sound)

EFFECTIVE DESIGN

Are reasonable and sound structures in place to address risks?

- Risk coverage
- Requirement coverage
- Depth of coverage

EFFECTIVE OPERATION

Does the system operate as designed?

- Number of substantiated issues
- Percent or number of control failures
- Method of detection of failures

XPLANATIONS™ by XPLANE® ©2009 OCEG®



CHALLENGE 1 COMPARED TO WHAT?

What generally accepted and vetted standard can be used to judge a program? Not just "in principle" but at a practical and operational level?

CHALLENGE 2 WHO DECIDES?

What types of internal and external professionals have the skills to evaluate and judge the effectiveness of a program?

CHALLENGE 3 HOW OFTEN?

How often can we (should we) put a stake in the ground so that if we need to go back in time, we can present evidence of effectiveness?

Measuring effectiveness – approaches

Qualitative measures

- Provide some indication of awareness of ethics and compliance program
- Tend to be subjective in nature
- Useful in identifying trends

Quantitative measures

- Provide objective insights into program effectiveness
- Tend to be hard data
- Useful for benchmarking your company to other organizations or within industry

Measuring effectiveness – qualitative

- Qualitative measures test employee awareness of an organization's compliance infrastructure
- **Example:** a brief ethics and compliance survey, repeated over time (i.e., annually) tests and tracks employee awareness of the following:
 - That the company has a chief ethics and compliance officer
 - That the company has a code of conduct
 - That the company has a helpline/hotline
 - Where to go with compliance-related questions
 - Where to go to report allegations of non-compliance
- If your organization (i.e., HR) already conducts annual survey, consider including ethics and compliance questions

Measuring effectiveness – qualitative

- Consider developing other tools to test internal (or external) stakeholder impressions of ethics and compliance program effectiveness
 - Interviews with key stakeholders, e.g., IA, CFO, CEO, HR, members of the Board/Audit Committee, business unit management, individual employees
 - Focus groups
 - Exit interviews
- **Observation**: Data from surveys, interviews, focus groups, and exit interviews requires in-depth analysis to identify conclusions and recommend actions to address the issues identified

Measuring effectiveness – quantitative

- Number of criminal charges, nature, and disposition
- Number of civil litigation matters, nature, and disposition
- Number of regulatory or administrative actions, inspections and proceedings, nature, and disposition
- Legal exposure trend analysis (including judgments and settlements)
- Allegations of non-compliance (hotline and other sources)
 - Number of allegations, by seriousness
 - Nature of serious allegations
 - Percent and nature of substantiated
 - Links between this data and the compliance risk assessment (and training, strategic planning, and compliance auditing and monitoring)
 - Remedial actions and progress in achieving them
- Operational losses resulting from non-compliance

Measuring effectiveness – quantitative

- Findings from internal audits, and progress completing related action items
- Number, nature and results of compliance auditing and monitoring
- Customer complaints
- Number of compliance-related communications (e.g., tone at the top)
- Conflict of interest disclosures – nature, number and resolution
- Formal linkage between compliance risk assessment and:
 - compliance training curriculum
 - strategic planning and objective-setting process, and
 - compliance audit and monitoring plans

Measuring effectiveness – quantitative

- Employee-related data:
 - Number and percentage of employees trained, by substantive compliance area
 - Effectiveness of compliance training, as measured by tests
 - How quickly new employees are trained on code of conduct and other core compliance infrastructure
 - Nature and number of disciplinary actions
 - Employee retention
- Compliance department's progress in achieving goals and objectives
- Compliance program effectiveness rating

The role of auditing and monitoring

- Scope of reviews
 - Compliance risks and processes, initiatives
 - Locations, business units, process owners
 - Note changes in risk profiles over time (link back to risk assessment)
- Evaluate each control
 - As designed, does it prevent or detect target risk?
 - Alone, or with other controls?
- If the design is adequate, test to see if controls operate as designed
 - Field work: policy application within business units
 - Continuous testing:
 - Review of helpline calls and investigations procedures
 - Customer complaints

The role of auditing and monitoring

- Transaction reviews for red flags
- Surveys:
 - Employee awareness, attitudes
 - Investigations: post-resolution survey of employees who filed reports; checking for possible retaliation
- Focus groups: knowledge and gaps

The role of auditing and monitoring

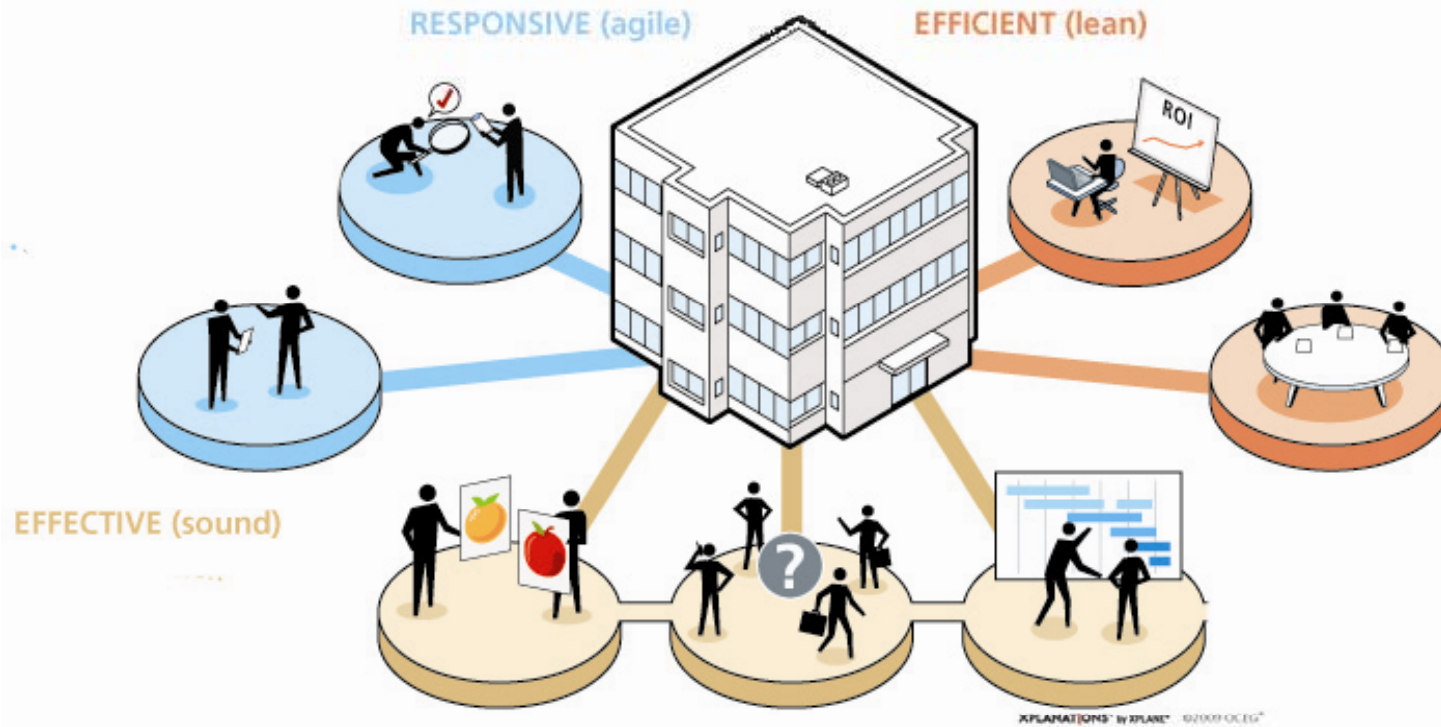
Monitoring

- Key part of your compliance risk management process
- Loops back to risk assessment
- Continuous process

Auditing

- Independent inquiry
- From outside of the compliance office
- For Audit Committee independent directors

Key aspects of compliance performance



Efficient use of financial and human capital

EFFICIENT (lean)



EFFICIENT USE OF FINANCIAL CAPITAL

The system should efficiently use financial capital and seek to reduce operational costs over time.

- Total cost of risk, compliance, and control activities
- Average cost to train each employee
- Average cost to resolve issues (by category)

EFFICIENT USE OF HUMAN CAPITAL

The system should efficiently use human capital, most importantly senior executive time, and look for ways to reduce the amount of time required to perform management activities.

- Number of senior executives allocated to the program
- Number of senior executives per program staff
- Number of hours per month required for business-line executives to perform program activities



XPLANATIONS[®] by XPLANET[®] ©2009 OCEG[®]

Responsiveness to change and events

RESPONSIVE TO CHANGE

The system should be able to absorb changes in the external environment (e.g., new laws and regulations) and internal environment (e.g., mergers and acquisitions).

- Cycle time to integrate new acquisitions into program
- Cycle time to fully address new risks and requirements

RESPONSIVE TO EVENTS

The system should detect non-compliance and adverse events in a timely manner so that action can be taken.

- Cycle time from actual non-compliance to detection
- Cycle time from detection to action

RESPONSIVE (agile)



XPLANATIONS™ by XPLANE® ©2009 OCEG®

Effective design and operation

EFFECTIVE (sound)

EFFECTIVE DESIGN

Are reasonable and sound structures in place to address risks?

- Risk coverage
- Requirement coverage
- Depth of coverage

EFFECTIVE OPERATION

Does the system operate as designed?

- Number of substantiated issues
- Percent or number of control failures
- Method of detection of failures

XPLANATIONS™ by XPLANE® ©2009 OCEG®



CHALLENGE 1 COMPARED TO WHAT?

What generally accepted and vetted standard can be used to judge a program? Not just "in principle" but at a practical and operational level?

CHALLENGE 2 WHO DECIDES?

What types of internal and external professionals have the skills to evaluate and judge the effectiveness of a program?


CHALLENGE 3 HOW OFTEN?

How often can we (should we) put a stake in the ground so that if we need to go back in time, we can present evidence of effectiveness?

Key stakeholders


WHO IS INTERESTED IN WHICH ASPECTS (stereotypically)?

Sophisticated stakeholders are interested in all aspects of performance. However, stereotypically, each stakeholder group tends to be more focused on specific aspects. The Board must be the arbiter and balancer of these sometimes competing priorities.

 EFFECTIVENESS

GOVERNMENT & ENFORCEMENT

Typically, the government is concerned with whether a program is legally effective — whether it is reasonably designed and operating effectively. The government is most interested in whether an organization meets this effectiveness bar. It is less concerned about the costs involved to get there.

 EFFECTIVENESS

COMPLIANCE, CONTROL & INTERNAL AUDIT

Sometimes, compliance, control and internal audit professionals focus exclusively on effectiveness without considering the burden and footprint on the business.

 EFFICIENCY & RESPONSIVENESS

BUSINESS OPERATORS

Operators of core business processes such as sales, marketing, and logistics are typically focused on how to reduce the footprint of compliance and control activities — sometimes at the expense of effectiveness.

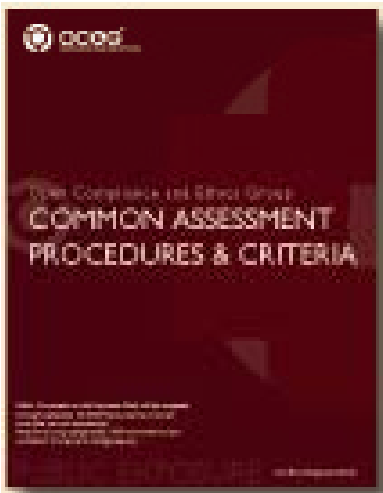
 EFFECTIVENESS, EFFICIENCY & RESPONSIVENESS

BOARD

The Board of Directors is in the best position to balance the sometimes competing aspects of performance. Effectiveness is crucial. However there are many approaches that can be used to meet the effectiveness bar — and each implies varying resource requirements and impact on the agility of the business.

XPLANATIONSSM by XPLANESM ©2009 OCEGSM

Balancing program improvements



New OCEG “Burgundy Book” provides procedures for evaluating and documenting the effectiveness of your compliance capability.

Thank You!

For more information from Ernst & Young contact:

Jack Holleran

Principal, Ernst & Young LLP

Jack.Holleran@ey.com

+1-202-327-5793

For information about OCEG membership, please contact:

Scott L. Mitchell

Chairman, OCEG

smitchell@oceg.org

+1-602-234-9278