Building a World-Class Compliance Program

Best Practices and Strategies for Success

MARTIN T. BIEGELMAN
with DANIEL R. BIEGELMAN

John Wiley & Sons, Inc.
More Praise for *Building a World-Class Compliance Program*:

“For those who benefited from reading Martin’s first book, *Executive Roadmap to Fraud Prevention and Internal Control*, you now have the ‘Atlas’ on ethics and compliance. The compliance insights, poignant case studies, and best practices provide a significant value-added read for executives who must set the ‘tone at the top’ and for those who struggle day-to-day to establish and maintain ethical and compliant behavior within their organizations. A must-read for faculty and particularly students, for whom the lessons so expertly presented here will shape the ethical compass of future careers.”

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Associate Professor and former Director of Economic Crime Programs, Utica College

“*Building a World-Class Compliance Program* is essential reading for in-house executives of all stripes. Boards, management, legal counsel, HR, and compliance officers all will find this ‘how to’ guide filled with practical advice and tips. For all people interested in how to avoid their company becoming the next Enron, this book is a must-read. It chronicles real-life examples of corporate malfeasance ripped from the headlines and offers sage measures to enhance corporate compliance programs so as to detect and deter such conduct. Given the expertise of the author—with years of experience in both law enforcement and in-house compliance—this is the preeminent guide to corporate fraud prevention.”

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CFO, Microsoft Corporation (Retired) & Partner at Ignition Partners (Current)
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“Martin slices through the confusion surrounding corporate compliance and offers not only useful guidelines, but a step-by-step approach to establishing an effective program. Building a World-Class Compliance Program is essential for anyone concerned with compliance and ethics within organizations.”
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“Martin and Daniel Biegelman provide business people with an exceptionally important book in Building a World-Class Compliance Program: Best Practices and Strategies for Success. They demonstrate how value is added to companies who get it right in this vital aspect of business. Each chapter contains concrete examples of best practices ensuring compliance, backed by solid supporting examples. We hear from some of the best authorities in this field, drawing from experience as a federal law enforcement agent, and now as experienced executives.”
—Edward M. Stroz Co-President of Stroz Friedberg, LLC and former FBI Special Agent

“Gone are the days when compliance programs were optional or companies could just have faith that none of their employees would go astray. Today’s organizations need compliance programs and strategies in place. Martin and Daniel Biegelman have written the consummate guide.”
—Joel Bartow, CFE, CPP Director of Fraud Prevention & Investigations, Sitel Corporation
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John Wiley & Sons, Inc.
For Joseph T. Wells:

As founder and Chairman of the Association of Certified Fraud Examiners, he has worked tirelessly to promote fraud prevention as a key component of a world-class compliance program.
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Foreword

By Caren Gordon and Ronnie Kann

AN EVOLVING FUNCTION

The corporate compliance and ethics function has grown rapidly in the last few years in response to high profile governance failures and subsequent regulatory reforms. Companies have made unprecedented investments in compliance and ethics, launching new compliance organizations, building risk management systems, and rolling out more comprehensive mandatory training. This phenomenon has struck companies across a diverse set of industries, even those that have traditionally received less regulatory attention.

Now that most companies have established some basic level of compliance and ethics infrastructure, many are also beginning to evaluate whether that infrastructure is sufficient. Or, in some cases, they are simply transitioning into maintenance mode: solidifying their oversight and monitoring capabilities, building permanent structures, and ensuring ongoing awareness of compliance and ethics obligations.

A FALSE SENSE OF SECURITY

Despite these dedicated efforts, many organizations may have lulled themselves into a false sense of security. Recent analysis indicates that current control and training activities hardly seem to impact the outcomes that truly matter: (1) decreasing the likelihood of business misconduct and (2) reducing the fear of retaliation and discomfort raising concerns. In truth, employees are skeptical about their company cultures and their colleagues.

* Caren Gordon is Executive Director of the Legal and Governance Practice at the Corporate Executive Board. Ronnie Kann is Senior Director of the Compliance and Ethics Leadership Council at the Corporate Executive Board. Both are based in Washington, DC.
Simply put, there continues to be more widespread misconduct and less willingness to report or discuss that misconduct than anyone thought when the global wave of corporate scandals began with Enron in 2001. It occurs at all levels of the company, in all regions of the world, and it appears in organizations of all kinds. We live in a society not unlike the mythical town of “Lake Wobegon” where everyone believes that compliance and ethics at their company is “above average.” And, yet, that cannot possibly be true. The result—the culture of integrity, which regulators and Boards of Directors want to see displayed—is at best inconsistent in most corporations.

HIGH STAKES

Unfortunately, this inconsistency in establishing a culture of integrity is problematic and masks significant potential costs from compliance and ethics failures. Indeed, the implied costs from compliance and ethics gaps are staggering in terms of both direct and indirect expenses. Elevated misconduct levels undermine employee engagement and morale and are the source of increasing legal and reputation liability. Moreover, there is a vicious cycle that has emerged between legal and reputation risk. Legal issues give rise to reputation risk, and reputation issues give rise to legal issues.

The bottom line is that companies are more vulnerable—and the stakes are higher—than ever before. It is no longer a matter of paying fines, but rather of protecting the company, its senior executives, and the employee population from significant harm.

SUPPORT FOR THIS ENDEAVOR

While daunting in its scope, the challenge that exists for most organizations is not insurmountable. Many have made substantial progress in taking compliance and ethics to the next level and demonstrating that there are different ways to approach compliance and ethics. It is not necessary for companies to start from scratch or conform to a one-size-fits-all method. Rather, the last few years have given rise to a variety of principles and guidelines, tactics and initiatives that facilitate efforts to safeguard the company.

This book sets forth a host of these solutions, illustrated with rich examples of best practices, sample programs, and individual reports from the front. This ready-to-use set of ideas and tools provide significant support as organizations determine what is right for them and set their course for pursuing an ethical culture.
When I wrote my first book, *Executive Roadmap to Fraud Prevention and Internal Control: Creating a Culture of Compliance*, co-authored with Joel Bartow, there was a common theme running throughout the work. It was that fraud, abuse, and non-compliance with policies and laws would always be concerns for all organizations, large or small, public or private, foreign or domestic. Yet, much could be done in the way of program development, robust fraud prevention, compliance oversight, and executive leadership to dramatically lessen compliance failures. In many ways, this book is a companion to that book in that it continues and expands on many of these themes.

Although the corporate scandals of Enron, WorldCom, Tyco, Adelphia, and others are mostly history now, we said that other frauds and compliance issues would continue to rear their ugly heads. It didn’t take long for our prophecy to come true. Backdating of stock options, bribery and corruption, insider trading, corporate spying, and pretexting scandals have all made global headlines over the last few years. As of the writing of this book, more than 140 corporations are under investigation by the Securities and Exchange Commission and Department of Justice in the United States, as well as subject to internal probes for backdating stock options. Corporate executives have been removed and some have been prosecuted and convicted. As New York Yankee great Yogi Berra has said, “It seems like déjà vu all over again.”

Early in my career, I realized the importance of prevention techniques and strategies to lessen compliance failures. As a federal agent with the United States Postal Inspection Service, I arrested hundreds of fraudsters. But no matter how many I arrested and sent to prison, others quickly surfaced to take their places. Prosecutions didn’t return the financial losses to businesses and consumers. Few cases ever resulted in full restitution to victims. It was even harder to restore lost reputations to organizations crippled by fraud allegations. I grasped the need to do more than just react when a compliance failure was discovered. Even more important was preventing these abuses from occurring in the first place.

Following my career in federal law enforcement, I joined a professional services firm as an investigative consultant in their fraud investigation and litigation services practice. My clients included public and private
companies, both foreign and domestic. I saw firsthand how compliance worked but more often than not, how and why it didn’t. I was shocked at the number of companies of all types and sizes that had either no compliance programs or poorly conceived ones. My clients never thought they would be victims of fraud or involved in committing a fraud. The compliance failures they faced were a wake-up call for them. Few had ever taken Ben Franklin’s often repeated quote to heart: “An ounce of prevention is worth a pound of cure.”

After leaving consulting, I joined Microsoft to create and lead the Financial Integrity Unit, a worldwide fraud detection, investigation, prevention, and recovery program based within Internal Audit. We built a fraud prevention and compliance program from the ground up and staffed it with some of the best people in the field. My interaction with my team and others at Microsoft as well as counterparts at companies worldwide, has given me great insight into best practices and strategies for success that I will share with you. I will also share those practices that landed some companies in hot water.

As I spoke to readers of my first book and continued to work with those in compliance, it became clear that there was a need for communicating these compliance best practices and success stories beyond the small groups within the industry. I have met people focused on building state-of-the-art compliance programs whose experiences and expertise need to be shared. Great companies have developed excellent compliance programs that have protected their employees, shareholders, and reputations over the years. Some companies suffered accounting scandals and rose from the ashes of prosecution, humiliation, and loss of reputation to be even stronger organizations today.

This book applies the United States Department of Justice and United States Sentencing Commission’s Organizational Guidelines definition of an effective compliance program and its interrelated elements. It will provide chief executives, managers, board members, employees, students, and others with what they need to know about creating and maintaining robust compliance programs. I will discuss the concepts of compliance as well as the many compliance requirements for corporations and other businesses. You will find interviews with ethics and compliance officers who provide their insight and knowledge. Also included are case studies and best practices from “best in breed” companies and those emerging from compliance failures. The companies that have had fraud issues and have now instituted strong programs to mitigate future issues are great examples from which to learn.

The insights and strategies of corporate executives and other thought leaders in compliance are included in the book. There are examples from
United States-based organizations as well as from companies elsewhere in the world. Incorporated into the book are Compliance Insights detailing case studies, best practices, sample programs, survey findings, as well as commentary from experts in the field on a particular aspect, topic, or best practice of compliance. Although this book is intended to be a comprehensive overview of compliance, it could not possibly cover every possible aspect of this large and complex field. However, it is my intent to cover the underlying principles of effective compliance.

The major compliance failures of recent years resulted in significant changes to corporate cultures. Suddenly, integrity and accountability are key elements for every organization. These elements have always been there, but now they are moving to the forefront. People everywhere are talking about the importance of integrity. In fact, the word integrity was the Merriam-Webster Online Dictionary Word of the Year in 2005, reinforcing the greater focus on integrity and ethics.

Yet in 2006, Merriam-Webster named “truthiness” as its Word of the Year. If you haven't heard this word before, you are not a viewer of the mock news show The Colbert Report on the Comedy Central cable network. Stephen Colbert, the host of the show, introduced this word to his audience in October 2005. It is defined as “the quality of preferring concepts or facts one wishes to be true, rather than concepts or facts known to be true.”

Truthiness may be the bending and stretching of the truth to suit one’s personal motives but it has no place in compliance. It's the same as the smiling, confident CEO fervently believing in his innocence while standing in the courtroom as the grim-looking jury returns with their verdict after deliberating through mountains of overwhelmingly incriminating evidence. I trust that the move from integrity to truthiness as Word of the Year is not a sign that we have forgotten the past.

It is my hope that after reading this book, you will have a greater understanding of not only how to build and maintain a truly world-class compliance program but also the importance of creating that very special and lasting culture of compliance.

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The more I get immersed in the literary process, the more I have come to realize how much I rely on the generous assistance and wise counsel of others. Writing a book is an arduous task and I could not have completed this one without the help of the many people I acknowledge here.

First and foremost, I thank my son, Daniel Biegelman, who is a contributing author and provided extraordinary assistance. Daniel was involved in every aspect of this book from the initial brainstorming, to research and writing, to editing and proofing. As a recent law school graduate, he took time from his budding legal career to assist me. His countless hours and tireless dedication helped make this book a reality.

A special note of thanks to my executive editor, Timothy Burgard, who first suggested the idea of writing about corporate compliance and as with my previous book, guided me through the writing and publishing process. Tim has continuously supported my literary adventures and has given me the unique opportunity to express my thoughts and experiences in writing. I am again indebted to him.

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contribute their deep knowledge and experiences and I am deeply appreciative for their contributions.

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There are also two special people I want to thank but whose names cannot be revealed. They provided me great insight into the compliance failures at their organizations.

When I wanted someone to read the completed manuscript and give me honest feedback, I immediately turned to my old and wise friend, DeWayn Marzagalli. DeWayn, a former federal agent extraordinaire, provided the constructive and thoughtful comments I needed.

Although this work is solely ours and does not reflect the views or opinion of Microsoft Corporation, I would like to thank my company for allowing me to write this book. A special thank you to Alain Peracca at Microsoft who leads by example with integrity and accountability, and strongly supports a culture of compliance.

And, last but not least, my gratitude to my wife Lynn, who was indispensable as she spent many hours reviewing the manuscript and providing insightful feedback. Her patience as I spent all my free time engrossed in the book is exceptional.
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He has more than 30 years of experience in fraud detection and prevention. Prior to joining Microsoft, he was a Director of Litigation and Investigative Services in the Fraud Investigation Practice at BDO Seidman, LLP, an international accounting and consulting firm. He is also a former federal law enforcement professional, having served as a United States Postal Inspector in a variety of investigative and management assignments. As a federal agent, he was a subject matter expert in fraud detection and prevention. He retired as the Inspector in Charge of the Phoenix, Arizona Field Office of the Postal Inspection Service.

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He is a nationally recognized speaker and instructor on white-collar crime, corruption, security, fraud prevention, and corporate compliance. He has written numerous articles on many fraud related subjects including corporate crime, identity theft, Internet fraud, check fraud, fraud prevention, corporate investigations, and the Sarbanes-Oxley Act. Mr. Biegelman is the co-author of Executive Roadmap to Fraud Prevention and Internal Control:
Creating a Culture of Compliance. He is currently working on a book about the evils of identity theft. He is also a contributing author to Fraud Casebook: Lessons from the Bad Side of Business.

Mr. Biegelman has a Bachelor of Science degree from Cornell University and a Master’s in Public Administration from Golden Gate University.
Imagine this nightmare scenario: A publicly traded company whose domineering leadership rules by fear. Dissenting opinion in any form is met with immediate termination of employment. A culture where written policies and procedures are few and far between and internal controls are shunned. Training is sporadic and lacking. Eventually, this company’s senior-most executives conspire to prematurely and fraudulently recognize revenue to meet or exceed Wall Street’s expectations. They conduct this massive fraud year after year. The board is totally in the dark and accepts management’s explanations and assurances without independent verification. When their accounting practices finally are scrutinized and the government starts an inquiry, these executives attempt a cover-up by fabricating a story, obstructing the investigation, and suborning perjury by instructing other employees to lie to the government and outside counsel. Ultimately, eight of the company’s senior executives including the CEO, CFO, and General Counsel, plead guilty to securities fraud and/or obstruction of justice charges. Shareholders lose over $10 billion due to the massive accounting fraud. Employees are left shocked and demoralized that their leaders have lied and defrauded their company. Investors are also horrified at seeing their investments diminish and that no one in the company did anything to stop it. Add to this explosive mixture the fact that the company had no compliance
WHY ETHICS AND COMPLIANCE WILL ALWAYS MATTER

program. That’s right, no compliance program. Think this couldn’t happen? Think again because it did.

This all occurred at Computer Associates, now called CA, Inc. These blatant transgressions happened because an effective ethics and compliance program was not in place. Compliance involves many different elements; knowing and following all the relevant laws, rules, and policies is but one part of the mix. An effective compliance program would have made a difference at CA. A strong compliance program is absolutely necessary to protect an organization both internally and externally.

Compliance means following the law and more. It’s making sure organizations adhere to all applicable legal requirements. It is a detailed and complex process. For any particular situation one must be aware of all potentially applicable laws and regulations—federal, state, local, as well as internal company-instituted rules. A company is obligated to be aware of and understand these rules and laws. That in itself can be an onerous process as even experienced and sophisticated lawyers sometimes have a difficult time deciphering the cryptic “legalese” that passes for statutory language. This compliance obligation is important as everyone in authority is charged with knowledge of the law. Ignorance of the law is no excuse. A person cannot escape a criminal charge or civil liability by claiming that he or she did not know the law was being broken. This is the role of compliance, to make sure people know the rules beforehand and help to ensure that they continuously follow them.

Knowledge and understanding of the law is the first step. Businesses also have to know to what and where it applies. Furthermore, once one has this information, one must implement it in an effective compliance program. But what does effective mean? A company must carefully craft a program, hire experienced compliance professionals, issue detailed policies and guidance, institute training, and promote all other aspects of the program to ensure the knowledge is spread to all who need it. This process must be continuous. The compliance program is the engine of compliance, putting all of this into effect.

Knowing the law and following it is only one side of compliance. Compliance goes much deeper than that, true compliance anyway. Simply following the law so that one doesn’t get into trouble is not full compliance. State-of-the-art compliance involves a successful blending of compliance—following rules, regulations, and laws—with ethics—developing and sustaining a culture based on values, integrity, and accountability, and always doing the right things. True compliance ensures consistency of actions to eliminate, or at least lessen, opportunities for harm from criminal conduct or other compliance failures. It means going beyond the minimum requirements. More importantly, it involves the ongoing
commitment from senior leaders in the organization to promote ethical conduct and compliance with the law. Leading by example and establishing the tone at the top set the stage for every other element of compliance.

The problem that can occur is when people use compliance as an excuse; those who profess to believe in it but use a compliance program to mask their own negligence or even wrongdoing. It may be said that this is even more dangerous than having no compliance program at all. That is because it gives shareholders, employees, vendors, and the public the false belief that the company cares about following the law when in fact, all it wants is to deceive others into believing so. Let us not forget that Enron had a 65-page code of conduct, but in the end, it was nothing more than empty words.

Enacting a compliance program and instituting training programs but not supporting them through lack of funding, lack of skilled personnel, or by management undercutting them in various ways, is also dangerous and counterproductive. Real compliance means that one believes in what one is doing day in and day out. It is not merely lip service; it’s putting your money where your mouth is. This is the two-tiered approach to compliance—one’s actions and one’s mindset. An organization cannot have effective compliance without both of them. One alone will not work. This is tied into the idea of setting a positive tone at the top. If management believes in compliance and reinforces it by their actions, over and over again, then people below will follow their lead.

ETHICS IS JOB ONE

Executives are constantly confronted with the realities of business compliance. They must ensure compliance with their internal rules and policies. Those from public companies must follow the requirements of the Sarbanes-Oxley Act and other reporting enhancements. All organizations must follow federal, state, and local laws and all must comply with the United States’ Federal Sentencing Guidelines, which mandate the creation of compliance programs. Moreover, a raft of other laws must be complied with, from anti-bribery rules to free trade provisions. Yet, chief among these requirements is the idea of ethics, the concept that lies at the heart of every corporate governance requirement.

Ethics include integrity and proper business conduct; it refers to standards and values by which an individual or organization behaves and interacts with others. The famed Greek philosopher Aristotle in his *Nicomachean Ethics* argued that “moral behavior is acquired by habituation” and that without question, “moral behavior is good.” It is no different today. Ethics and compliance are clearly on the minds of executives, as well as investors, the public, and the government. Ethics has become a hot
button topic, thanks to the many corporate scandals of the past years. This is hardly news to anyone. Despite the increased awareness given to ethics and compliance programs, the problem has not been solved. For instance, the Hewlett-Packard (HP) spying and pretexting scandal involved key executives and illustrates that there is more to successful compliance than just a code of conduct. HP had a comprehensive Standards of Business Conduct (including, slightly ironically now, several pages on how to handle sensitive information), yet it still was engulfed by negative front-page headlines and a shakeup among its leadership. Even great corporations like HP can, at times, face compliance failures. Merely having a program in and of itself is not the solution to protecting a company and keeping it in good graces with shareholders and the government. A truly successful compliance program goes far deeper.

The push toward compliance, especially since the enactment of the Sarbanes-Oxley Act and the reaction to the scandal culture of the Enron era, could almost be described as an “ethics fad.” Sarbanes-Oxley strengthened corporate accountability and governance of public companies through rules covering conflicts of interests, financial disclosures, board oversight, and certification of financial statements. The Act’s passage left companies hurrying to comply. All of a sudden, every company had to have an ethics code; if there wasn’t one there was scrambling to get one, or else be left behind. This rush merged with heightened concerns stemming from the penalties imposed on companies for ethical breaches. From the lighter treatment afforded to companies who came clean and “restated” their earnings, as compared to those formally investigated and charged by the government, companies got the message that it was in their best interest to cooperate and that having a compliance program would be something that would lessen potential penalties should the company commit further misdeeds.

Companies that the government caught red-handed had to pay very stiff financial and reputational penalties, not to mention the personal impact on those executives prosecuted and sent to prison. This sent companies searching for ways to avoid this disastrous outcome. At the same time, ethics enjoyed a renewed focus throughout the corporate world, first as companies struggled to understand the new requirements placed on them by the passage of Sarbanes-Oxley, and then rushed to embrace ethical conduct for chief executives and others. The ethics fever swept every industry and that was a good thing, a very good thing. While this practice makes compliance easier, there is still much to do as compliance lapses and criminal conduct persist. The Securities and Exchange Commission (SEC) has continued its strong enforcement program over the last few years. The results of SEC enforcement activity in Fiscal Years 2005–2006 in Compliance Insight 1.1 illustrate that we still have a long way to go for complete compliance.

574 enforcement actions filed in 2006
$3.3 billion total in disgorgement and penalties ordered against securities law violators in 2006
$28.5 million average settlement in 2005, an increase from $26.4 million in 2004
$7.5 million median settlement in 2005, a 19% increase from $6.3 million in 2004
657 amended filings in 2005 for financial restatements of public companies due to accounting errors, a 58% increase from 2004
300 officers and directors barred in the last three years due to allegations of individual malfeasance
1,228 CEO departures from U.S. companies in 2005, an increase of 102% from 2004
129 CEO changeovers in the Fortune 1000 in 2005, an increase of 32% from 2004

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Ethics and ethical behavior are not things that can merely be created, or attained solely through corporate expenditure. They require a deeper commitment, one that can only be achieved through time, effort, and yes, expenditure. Though it is cliché, quality matters here far more than quantity. In many senses, a little goes a long way. Building a world-class compliance program requires smart decisions in building it, maintaining it, and sustaining it; by doing so, a company will be able to achieve truly effective compliance over the long term.

THE NYPD AND AN ETHICAL CULTURE

A commitment to ethical conduct cannot be accomplished by simply initiating a program and then checking the box that the process is complete.
Building a culture of compliance takes time. Integrity and character bring out the best in people and are critical components in ethics and compliance. Yet, human beings are not perfect creatures and tend to falter from time to time. The importance of ethical conduct needs to be nurtured, reinforced, and repeated over and over again lest people forget and stray from the course. There is no better example of this continuous need for attention to ethical conduct than the various police corruption scandals that have impacted the New York City Police Department (NYPD) over the past 100 years. Even legendary institutions can face the firestorm created when law enforcement officers forget their oaths and turn to crime and corruption. Compliance Insight 1.2 details the major corruption scandals that the New York City Police Department has faced over the years.

The feeling of déjà vu that the NYPD faced was due to not learning from the past. The NYPD of the 21st century has made great strides in understanding that ethical lapses can seriously impact a long-standing reputation. In building their compliance program, the NYPD starts with police recruits as soon as they enter the police academy. Look at what is presented to recruits in their Police Student’s Guide: Introduction to the NYPD:

> Our history is a source of great pride to us, and we have very little tolerance for officers who do not treat our hard won reputation with the respect it deserves. ... When things go right in this Department—when we succeed in reducing crime; when we make spectacular arrests; when we make dramatic rescues—our actions are described in news reports throughout the country and across the world, and our officers are treated like heroes. But, when things go wrong—when officers are caught in scandal, or when they make some tragic mistakes—the same reporters and leaders who are quick to praise us are quick to condemn us. When this happens, the public often does not recognize that the problem may be limited to one or only a few officers. Instead, in the eyes of many people, we all become suspect, and the mistakes and sins of a few are generalized to all of us. This breeds distrust among the public, and makes it tougher for all of us to do the job the way we should. ... Make certain that you carry yourself in a manner that brings only respect to yourself and to your brothers and sisters in this Department.

Warren Buffett, the billionaire investor and CEO of Berkshire Hathaway, Inc., has said “It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you’ll do things differently.” The NYPD understands this and so must all organizations. Yet, we often fail to learn
The New York City Police Department is considered by many to be the premier police department in the world. Yet, even the best sometimes falter. Police corruption can infect even the most professional of law enforcement organizations. Consider these very public police corruption investigations of the New York City Police Department over the last 100 years:

- **Lexow Committee (1894):** Systematic police extortion and payoffs from gambling operations
- **Curran Committee (1913):** Systematic monthly police extortion of gambling and brothel operations
- **Seabury Commission (1932):** Police Department involvement in extortions from speakeasies, bootleggers, and gamblers
- **Helfand Investigation (1955):** Large-scale protection by police of a gambling syndicate
- **Knapp Commission (1972):** Corrupt police officers were either “grass-eaters” or “meat-eaters”
- **Mollen Commission (1994):** Shakedowns and protection by corrupt officers but also trafficking in cocaine and other drugs

Why include an historical overview of police corruption in a book on compliance? To remind us that corruption, criminality, and non-compliance are always present. It often takes a major and very public incident for us to take notice and do something. Approximately every twenty years for the last century, corrupt police activities reached such a peak that investigating bodies were commissioned to conduct public inquiries to determine the corrupt acts and recommend solutions to the scandals. There are important lessons for us here. Rather than wait for the public scandal that does so much reputational damage for us to take remedial action, we must continuously apply state-of-the-art compliance standards to ensure that history does not repeat itself, as was the case with the New York City Police Department.

"The Knapp Commission investigation of police corruption in the New York City Police Department found two categories of corrupt officers. They were either “grass-eaters” or “meat-eaters.” Grass-eaters were the overwhelming
majority who generally took small payoffs from business owners, gamblers, and others to look the other way on infractions. Grass-eaters usually did not solicit these payoffs but did not refuse them either. Meat-eaters were a small percentage of corrupt officers but were constantly on the prowl for large-scale financial scores involving narcotics, gambling operations, and other serious offenses. For more information, refer to the Commission to Investigate Allegations of Police Corruption and the City’s Anti-Corruption Procedures, *The Knapp Commission Report on Police Corruption* (New York: George Braziller, 1973), 65.

from the past. The disclosure of stock option backdating scandals in 2006 at dozens of companies, large and small, in the United States brought back distressing memories of the accounting scandals of just a few short years ago. How could so many smart people forget the lessons of Enron, WorldCom, Adelphia, and others? The sheer number of companies involved is striking. Much of the misconduct took place a number of years ago and was only recently disclosed. Still, the participants were chief executives and other high level employees who should have known better. More importantly, their compliance programs did not work. A further discussion of the backdating of stock options can be found in Chapter 2.

**WHAT IS COMPLIANCE?**

Compliance is a state of being in accordance with established guidelines, specifications, or legislation. The Compliance and Ethics Leadership Council defines compliance as “a company’s or an individual’s observance of relevant laws, regulations, and corporate policies. . . . Companies must have various programs, policies, and controls in place in order to be defined as being ‘compliant’ with certain laws, rules, regulations, or policies.” The United States Department of Justice (DOJ) has strongly reinforced the importance of effective compliance programs. The DOJ defines compliance programs as follows:

> Compliance programs are established by corporate management to prevent and to detect misconduct and to ensure that corporate activities are conducted in accordance with all applicable criminal and civil laws, regulations, and rules. The Department encourages such corporate self-policing, including voluntary disclosures to the government of any problems that a corporation discovers on its own. However, the existence of a compliance program is not sufficient, in and of itself, to justify not charging a corporation for