Compliance Program and Risk Assessment Benchmarking Survey 2005

Conducted Jointly by the Association of Corporate Counsel and Corpedia, Inc.
Executive Summary

The Association of Corporate Counsel (ACC) and Corpedia, Inc. conducted the online Compliance Program and Risk Assessment Benchmarking Survey, which was distributed during July and August 2005.

The survey was “opt-in” and 412 inside corporate counsels participated in the survey. The representation was broken down with 15 percent coming from foreign-based corporations and 85 percent from U.S.-based corporations in all major industries. Nearly 60 percent of the companies represented by survey participants are publicly-traded on a major U.S. stock exchange.

The survey covered the following major topics:

- Compliance/ethics department structure and spend
- Enterprise training and communications
- Executive attitude and board of director reporting
- Risk assessments
- Organizational health surveys, hotlines and investigations

Some of the key findings of the survey include:

- 61 percent of all organizations surveyed currently have an internal function specifically dedicated to compliance and ethics programs.
- 32 percent of all organizations have a dedicated Chief Ethics Officer as well as Chief Compliance Officer and approximately one-third of the time these duties and titles are handled by separate individuals within the organizations.
- For organizations between 1,000 and 9,999 employees, more than one of every four companies (26 percent) are spending more than $1 million annually on their compliance and ethics program.
- Nearly two-thirds of all organizations (63 percent) have formal and mandatory training programs for employees in Code of Conduct or Ethics, with a full 64 percent of companies with such formal Code of Conduct or Ethics training programs training more than 90 percent of their employee base on a regular basis.
- For the average organization, the level of awareness among the workforce about ethics and compliance issues is “Limited” for nearly half of all organizations (42 percent). Only 6 percent of all organizations would classify their workforce as have a “Comprehensive” understanding of the issues, while nearly half (47 percent) would say that their workforce had a “Good/Decent” understanding of compliance and ethics issues.
- One of the most significant challenges facing organizations attempting to develop and improve their compliance and ethics program is the difficult of attracting, hiring and retaining qualified individuals with domain expertise in the area of compliance and ethics programs. Nearly two-thirds (62 percent) of all organizations cited such staffing issues while less than 40 percent cited lack of adequate financial resources.
• Three out of every four (75 percent) companies are aligning with material portions of the Sarbanes-Oxley Act even if the Act does not apply to their organization (non-publicly traded private or non-profit institutions).

• More than two-thirds (69 percent) of all publicly traded organizations are conducting periodic risk assessments consistent with Federal Sentencing Guidelines for Organizations’ definition of an “effective compliance and ethics program”.

• The majority (79 percent) of companies that conduct risk assessments prioritize risk from BOTH a probability of occurrence as well as severity of impact. This statistic does not vary significantly regardless of the size and location of the organization or whether it is publicly-traded or private.

• One-third (33 percent) of all respondents felt that attorney-client privilege within the context of a government investigation no longer existed in a meaningful form while only 8 percent felt that attorney-client privilege rights remained strong. The balance of respondents either felt attorney-client privilege still existed, but in a significantly limited form (41 percent) while 18 percent feel that it still remained to be seen.

About ACC

The Association of Corporate Counsel is the in-house bar associationSM, serving the professional needs of attorneys who practice in the legal departments of corporations and other private sector organizations worldwide. The association promotes the common interests of its members, contributes to their continuing education, seeks to improve understanding of the role of in-house attorneys, and encourages advancements in standards of corporate legal practice. Since its founding in 1982, the association has grown to more than 18,000 members in more than 58 countries who represent 7,500 corporations, with 46 Chapters and 13 Committees serving the membership. Its members represent 49 of the Fortune 50 companies and 98 of the Fortune 100 companies. Internationally, its members represent 42 of the Global 50 and 74 of the Global 100 companies.

The Association of Corporate Counsel promotes the common professional and business interests of attorneys who are employed to practice law by corporations, associations, and other private-sector organizations by developing and disseminating information, providing educational initiatives, facilitating networking opportunities, supporting collegiality, and engaging in advocacy on behalf of the in-house bar. For more information, go to www.acca.com.

About Corpedia, Inc.

Corpedia, Inc. is a private ethics and legal compliance advisory, risk assessment, and workforce eLearning company that specializes in the creation and implementation of comprehensive and highly-integrated compliance and ethics programs and solutions that exceed the requirements of Federal Sentencing Guidelines and Sarbanes-Oxley. Corpedia programs and services are provided in exclusive partnership with the Practising Law Institute (PLI), the premier provider of continuing legal education.

Through combining the extensive content expertise of PLI with Corpedia’s technological and risk assessment capabilities, Corpedia is able to provide programs and services that are designed to exceed expectations set forth under Federal and State laws, as well as the definition of an “effective
“compliance and ethics program” per the revised Federal Sentencing Guidelines for Organizations (revised November 2004).

Ethics is a very important part of Corpedia’s culture and lives throughout our operations well beyond simply being listed in our mission statement. Our workforce’s cultural tone is set by an advisory board of high-profile active business leaders and permeates throughout our organization. Furthermore, Corpedia plays an active financial sponsorship and thought leadership role in promoting worthwhile groundbreaking nonprofit efforts of others in the field of ethics and risk. Recent examples include the Leaders on Ethics program for high school students (www.leadersonethics.org) and the Open Compliance and Ethics Group (www.oceg.org), among other initiatives.

Corpedia prides itself in providing highly measurable and tailored solutions to companies which can help them resolve complex compliance problems, allowing them to focus more clearly on the business at hand. If Corpedia can help your organization, or for additional information, please visit the Corpedia website at www.corpedia.com or www.pli-corpedia.com or call toll-free (877) 629-8724.

Table of Contents

2005 Compliance Program and Risk Assessment Benchmarking Survey ........................................1
Executive Summary.........................................................................................................................1

   About ACC .................................................................................................................................2
   About Corpedia, Inc. ..................................................................................................................2
   Table of Contents ....................................................................................................................4

1. About the Survey ..................................................................................................................6
2. Compliance/Ethics Department Structure and Spend.................................................................8
   2.1 Compliance/Ethics Department Structure and Spend – Summary Findings.. 8
   2.2 Organizations with a Dedicated Compliance and Ethics Function...................... 10
   2.3 Compliance Program Leadership............................................................... 12
   2.4 Number of Full-Time Equivalents (FTEs) Dedicated to Compliance and Ethics Function .................................................................................................................. 13
   2.5 Average Annual Spend on the Compliance and Ethics Function ....................... 15
3. Enterprise Training and Communications................................................................................17
   3.1 Enterprise Training and Communications – Summary Findings...................... 17
   3.2 Level of Workforce Awareness/Understanding of Ethics and Compliance Issues 19
   3.3 Formal Code of Conduct Training ................................................................. 21
   3.4 Percentage of Workforce Trained in Code of Conduct ....................................... 23
   3.5 Formal and Mandatory Training Topics Beyond Code of Conduct............. 25
4. Executive Attitude and Board of Director Reporting..............................................................27
   4.1 Executive Attitude and Board of Director Reporting – Summary Findings 27
   4.2 Top Challenges Encountered in Planning/Implementing Program................. 29
   4.3 Executive Team Attitude towards Compliance/Ethics Programs and Attorney-Client Privilege Protections ................................................................. 30
   4.4 Alignment with Sarbanes-Oxley by Organizations Not Subject to the Act .. 32
   4.5 Form and Frequency of Communications with the Board of Directors ...... 33
5. Risk Assessments..................................................................................................................35
   5.1 Risk Assessments and Coordination with Internal Audit– Summary Findings ........................................................................................................ 35
<table>
<thead>
<tr>
<th>Section</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.2</td>
<td>Existence of Periodic Risk Assessments</td>
<td>38</td>
</tr>
<tr>
<td>5.3</td>
<td>Form of Risks Examined</td>
<td>40</td>
</tr>
<tr>
<td>5.4</td>
<td>Risk Assessment Methodology</td>
<td>41</td>
</tr>
<tr>
<td>5.5</td>
<td>Prioritization and Quantification of Risks</td>
<td>42</td>
</tr>
<tr>
<td>5.6</td>
<td>Who Leads Risk Assessment?</td>
<td>43</td>
</tr>
<tr>
<td>5.7</td>
<td>Form and Distribution of Final Risk Assessment Report</td>
<td>44</td>
</tr>
<tr>
<td>5.8</td>
<td>Results From and Use of Risk Assessment Outcomes</td>
<td>45</td>
</tr>
<tr>
<td>5.9</td>
<td>Top Fifteen Risk Areas Weighted by Probability of Occurrence</td>
<td>46</td>
</tr>
<tr>
<td>5.10</td>
<td>Highest “Probability” Risks for Selected Industries</td>
<td>47</td>
</tr>
<tr>
<td>5.11</td>
<td>Top Fifteen Risk Areas Weighted by Severity of Impact on Enterprise in Event of Occurrence</td>
<td>49</td>
</tr>
<tr>
<td>5.12</td>
<td>Highest “Severity of Impact in Event of Occurrence” Risks for Selected Industries</td>
<td>50</td>
</tr>
<tr>
<td>5.13</td>
<td>Level of Coordination with Internal Audit</td>
<td>52</td>
</tr>
<tr>
<td>6.</td>
<td>Organizational Health Surveys, Hotlines and Investigations</td>
<td>53</td>
</tr>
<tr>
<td>6.1</td>
<td>Hotlines and Investigations – Summary Findings</td>
<td>53</td>
</tr>
<tr>
<td>6.2</td>
<td>Existence of Hotlines</td>
<td>55</td>
</tr>
<tr>
<td>6.3</td>
<td>Form of Hotlines</td>
<td>56</td>
</tr>
<tr>
<td>6.4</td>
<td>Who Handles Investigations and How Are They Tracked?</td>
<td>58</td>
</tr>
<tr>
<td>6.5</td>
<td>Organizational Health Surveys</td>
<td>60</td>
</tr>
</tbody>
</table>
1. About the Survey

The ACC-Corpedia Compliance Program and Risk Assessment Benchmarking Survey was conducted online and distributed during July and August 2005. The survey was “opt-in” and 412 corporate counsels participated in the survey. A breakdown of participants by industry is as follows:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aerospace &amp; Defense</td>
<td>3%</td>
</tr>
<tr>
<td>Healthcare Services &amp; Social Assistance</td>
<td>2%</td>
</tr>
<tr>
<td>Beverages: Alcoholic</td>
<td>2%</td>
</tr>
<tr>
<td>Industrial Manufacturing</td>
<td>8%</td>
</tr>
<tr>
<td>Chemicals</td>
<td>2%</td>
</tr>
<tr>
<td>Insurance</td>
<td>9%</td>
</tr>
<tr>
<td>Computer Hardware, Software &amp; Services</td>
<td>11%</td>
</tr>
<tr>
<td>Leisure</td>
<td>2%</td>
</tr>
<tr>
<td>Construction</td>
<td>1%</td>
</tr>
<tr>
<td>Media</td>
<td>2%</td>
</tr>
<tr>
<td>Consumer Products Manufacturing</td>
<td>2%</td>
</tr>
<tr>
<td>Non-Profit</td>
<td>4%</td>
</tr>
<tr>
<td>Consumer Services</td>
<td>3%</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>5%</td>
</tr>
<tr>
<td>Education</td>
<td>1%</td>
</tr>
<tr>
<td>Professional, Sci. &amp; Technical Services</td>
<td>3%</td>
</tr>
<tr>
<td>Electronics</td>
<td>2%</td>
</tr>
<tr>
<td>Real Estate &amp; Rental &amp; Leasing</td>
<td>1%</td>
</tr>
<tr>
<td>Energy, Oil &amp; Gas – Explore &amp; Refinement</td>
<td>3%</td>
</tr>
<tr>
<td>Retail</td>
<td>4%</td>
</tr>
<tr>
<td>Env. Services &amp; Natural Resources</td>
<td>2%</td>
</tr>
<tr>
<td>Telecom Equipment &amp; Service</td>
<td>4%</td>
</tr>
<tr>
<td>Financial Services</td>
<td>9%</td>
</tr>
<tr>
<td>Transportation &amp; Logistics Service</td>
<td>2%</td>
</tr>
<tr>
<td>Food Product Manufacturing</td>
<td>5%</td>
</tr>
<tr>
<td>Utilities</td>
<td>4%</td>
</tr>
<tr>
<td>Healthcare Products: Devices &amp; Equipment</td>
<td>2%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>2%</td>
</tr>
</tbody>
</table>

The percentage of participants representing organizations by size was as follows:

- Nearly 70% represented organizations with operations outside of the United States.
<table>
<thead>
<tr>
<th>Employee Size</th>
<th>Percentage</th>
<th>Yes</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 50</td>
<td>4.1%</td>
<td>Yes 69.6%</td>
<td></td>
</tr>
<tr>
<td>50-249</td>
<td>8.2%</td>
<td>No 30.4%</td>
<td></td>
</tr>
<tr>
<td>250-999</td>
<td>17.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,000-9,999</td>
<td>36.0%</td>
<td>Nearly two-thirds represented organizations subject to the Sarbanes-Oxley Act</td>
<td></td>
</tr>
<tr>
<td>10,000-24,999</td>
<td>15.0%</td>
<td>Yes 64.0%</td>
<td></td>
</tr>
<tr>
<td>25,000-49,999</td>
<td>9.4%</td>
<td>No 36.0%</td>
<td></td>
</tr>
<tr>
<td>over 50,000</td>
<td>9.9%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

More than 58% of the participants represented companies which were publicly traded on a U.S. stock exchange (NYSE, NASDAQ, AMEX).

<table>
<thead>
<tr>
<th>Represented Country</th>
<th>Percentage</th>
<th>Yes 58.3%</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>85.3%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outside of the United States</td>
<td>14.7%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A little more than 85%, however, represented organizations which are headquartered in the United States.
2. Compliance/Ethics Department Structure and Spend

2.1 Compliance/Ethics Department Structure and Spend – Summary Findings

Function

- Nearly two-third of all companies (61%) have a dedicated compliance and ethics function. The existence of a compliance and ethics function is fairly consistent regardless of company size for organizations less than 25,000 employees. However, a greater proportion (approximately 80%) all of organizations with more than 25,000 employees have a dedicated compliance and ethics function.

- Global companies headquartered overseas are 20% less likely to have a dedicated compliance and ethics function compared to a U.S.-headquartered corporation.

- Approximately one out of every three organizations has a Chief Ethics Officer (32%).

Staffing

- Overall, the majority of organizational compliance and ethics programs have less than 5 full-time equivalents (FTEs) dedicated to carrying out the compliance and ethics function. A full 60% of compliance and ethics programs at organizations between 10,000-24,999 employees have less than 5 FTEs.

- 46% of all organizations that have between 25,000 and 49,999 employees have a minimum of 10 FTEs dedicated to the compliance and ethics function; with this percentage rising to a little more than half (51%) for companies in excess of 50,000 employees. However, nearly one in four (22%) of companies with more than 50,000 employees have less than 5 FTEs dedicated to the compliance and ethics function.

Structure

- The General Counsel of organizations has daily operational responsibility for the compliance and ethics function 40% of the time.

- 61% of all organizations have a Chief Compliance Officer, with this person being the General Counsel a little less than half of the time (48%). While this “dual-role” is more prevalent in smaller sized organizations, it is not uncommon in larger organizations either.

- A little more than one-third (36%) of all companies that have both Chief Ethics and Chief Compliance Officers separate the function into different roles and to different individuals. However, 64% of all organizations which have both titled functions, the same individual holds both titles and roles.

- For those companies that have a dedicated compliance and ethics function overseen by a single individual (e.g. Chief Compliance or Ethics Officer), more than half (53%) of these individuals report directly to the CEO.
The person with daily operational responsibility for Compliance and Ethics activities, function or program is broken down as follows:

<table>
<thead>
<tr>
<th>Position</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Counsel</td>
<td>40%</td>
</tr>
<tr>
<td>Chief Compliance Officer</td>
<td>20%</td>
</tr>
<tr>
<td>Assistant General Counsel</td>
<td>8%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
</tr>
<tr>
<td>Ethics Officer</td>
<td>6%</td>
</tr>
<tr>
<td>Compliance Director</td>
<td>6%</td>
</tr>
<tr>
<td>CFO</td>
<td>4%</td>
</tr>
<tr>
<td>CEO</td>
<td>2%</td>
</tr>
<tr>
<td>COO</td>
<td>2%</td>
</tr>
<tr>
<td>Chief Internal Auditor</td>
<td>2%</td>
</tr>
<tr>
<td>Compliance Manager</td>
<td>2%</td>
</tr>
<tr>
<td>Chairman</td>
<td>1%</td>
</tr>
<tr>
<td>Board Member</td>
<td>0%</td>
</tr>
</tbody>
</table>

### Spend

- While it is not surprising that larger organizations spend more money annually on the compliance ethics function that smaller organizations, interestingly the statistical disparity of the average annual spend within peer-sized organizations is very large regardless of organization size. Average spend on compliance and ethics programs is more a function of industry as opposed to size of an organization.
- For organizations between 250 and 999 employees, the majority (52%) spend between $50,000 and $250,000.
- Nearly one-third (32%) of organizations between 25,000 and 49,999 employees spend $1,000,000 and $5,000,000 annually on their compliance and ethics program.
2.2 Organizations with a Dedicated Compliance and Ethics Function

All Survey Participants

Does your organization have a dedicated Compliance and Ethics function?

- Yes: 51%
- No: 49%

Organizations 250-999 Employees

- Yes: 60%
- No: 40%

Organizations 1,000-9,999 Employees

- Yes: 59%
- No: 41%

Organizations 10,000-24,999 Employees

- Yes: 60%
- No: 40%
Compliance Program and Risk Assessment Benchmarking Survey
Association of Corporate Counsel October 2005

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2.3 Compliance Program Leadership

All Survey Participants

Does your organization have a Chief Compliance Officer?

- Yes: 61%
- No: 39%

All Survey Participants

Does your organization have a Chief Ethics Officer?

- Yes: 32%
- No: 68%

All Survey Participants

To whom does the person with daily operational responsibility for the compliance program report?

- CEO: 53%
- General Counsel: 26%
- CFO: 7%
- Other: 10%
- Assistant General Counsel: 1%
- Chief Internal Auditor: 1%
- General Counsel: 36%
- CSO: 1%
- CIO: 1%

All Survey Participants

Does the same person serve as both Chief Compliance Officer and General Counsel?

- Yes: 48%
- No: 52%

Publicly-Traded Companies Only

Does the same person serve as both Chief Compliance Officer and Chief Ethics Officer?

- Yes: 44%
- No: 56%
2.4 Number of Full-Time Equivalents (FTEs) Dedicated to Compliance and Ethics Function

All Survey Participants

What is the full-time employee equivalent in your organization dedicated to compliance and ethics activities or a formal compliance and ethics function?

Organizations 1,000-9,999 Employees

What is the full-time employee equivalent in your organization dedicated to compliance and ethics activities or a formal compliance and ethics function?

Organizations 250-999 Employees

What is the full-time employee equivalent in your organization dedicated to compliance and ethics activities or a formal compliance and ethics function?

Organizations 10,000-24,999 Employees

What is the full-time employee equivalent in your organization dedicated to compliance and ethics activities or a formal compliance and ethics function?
Organizations 25,000-49,999 Employees

What is the full-time employee equivalent in your organization dedicated to compliance and ethics activities or a formal compliance and ethics function?

- less than 5 employees: 34%
- 5-10 employees: 11%
- 11-20 employees: 11%
- 21-30 employees: 11%
- 31-50 employees: 11%
- over 50 employees: 22%

Organizations 50,000+ Employees

What is the full-time employee equivalent in your organization dedicated to compliance and ethics activities or a formal compliance and ethics function?

- less than 5 employees: 22%
- 5-10 employees: 29%
- 11-20 employees: 11%
- 21-30 employees: 15%
- 31-50 employees: 4%
- over 50 employees: 19%
2.5 Average Annual Spend on the Compliance and Ethics Function

All Survey Participants

What is the approximate annual spend on your organization's legal compliance and ethics activities (including personnel)?

- less than $50,000: 18%
- $50,000 - $149,999: 18%
- $150,000 - $249,999: 14%
- $250,000 - $499,999: 15%
- $500,000 - $999,999: 13%
- $1,000,000 - $4,999,999: 16%
- More than $5,000,000: 3%

Organizations 1,000-9,999 Employees

What is the approximate annual spend on your organization's legal compliance and ethics activities (including personnel)?

- less than $50,000: 18%
- $50,000 - $149,999: 32%
- $150,000 - $249,999: 20%
- $250,000 - $499,999: 13%
- $500,000 - $999,999: 15%
- $1,000,000 - $4,999,999: 5%
- More than $5,000,000: 2%

Organizations 250-999 Employees

What is the approximate annual spend on your organization's legal compliance and ethics activities (including personnel)?

- less than $50,000: 15%
- $50,000 - $149,999: 15%
- $150,000 - $249,999: 32%
- $250,000 - $499,999: 18%
- $500,000 - $999,999: 10%
- $1,000,000 - $4,999,999: 6%

Organizations 10,000-24,999 Employees

What is the approximate annual spend on your organization's legal compliance and ethics activities (including personnel)?

- less than $50,000: 15%
- $50,000 - $149,999: 15%
- $150,000 - $249,999: 13%
- $250,000 - $499,999: 23%
- $500,000 - $999,999: 12%
- $1,000,000 - $4,999,999: 13%
Organizations 25,000-49,999 Employees

- $500,000 - $999,999: 22%
- $1,000,000 - $4,999,999: 32%
- $5,000,000 - $9,999,999: 9%
- More than $10,000,000: 16%
- $50,000 - $149,999: 6%
- $150,000 - $249,999: 3%
- $250,000 - $499,999: 6%
- Less than $50,000: 6%

Organizations 50,000+ Employees

- $250,000 - $499,999: 12%
- $500,000 - $999,999: 17%
- $50,000 - $149,999: 6%
- Less than $50,000: 3%
- $150,000 - $249,999: 6%
- $1,000,000 - $4,999,999: 25%
- $500,000 - $999,999: 17%
- More than $10,000,000: 15%
3. Enterprise Training and Communications

3.1 Enterprise Training and Communications – Summary Findings

Workforce Awareness Level

- For the average organization, the level of awareness among the workforce about ethics and compliance issues is “Limited” for nearly half of all organizations (42%). Only 6% of all organizations would classify their workforce as having a “Comprehensive” understanding of the issues, while nearly half (47%) would say that their workforce had a “Good/Decent” understanding of compliance and ethics issues.

- There is a clear correlation between the size of an organization and the level of workforce awareness of compliance and ethics issues. For example, of smaller organizations (less than 1,000 employees in size), only 2% would deem their workforce as having a “Comprehensive” understanding of the issues, with 44% of those organizations surveyed as having a “Good” understanding of the issues. However, among larger organizations (more than 25,000 employees) the level of “Comprehensive” and “Good” workforce wide understanding of the issues jumps to 11% and 59% respectively.

- The higher level of “Comprehensive” and “Good/Decent” awareness levels among employees at larger organizations may be attributable in part to the fact that the larger the organization, the more likely it was to have a formal Code of Conduct training program in place for employees. For example, while 37% of employers with less than 1,000 employees have a formal Code of Conduct training program in place, this figure drops to 19% for employers that have 25,000 or more employees.

Code of Conduct Training

- Whether or not an organization has a formal Code of Conduct training program in place remains largely the same regardless of whether the respondent represented a private or public company.

- 64% of organizations that are headquartered outside of the U.S. have formal Code of Conduct training programs in place.

- Of organizations that have formal Code of Conduct training programs in place, the majority of such organizations (64%) train virtually their entire workforce (more than 90%).

- Of organizations that have formal Code of Conduct training programs in place, the percentage of the workforce that is trained is relatively consistent regardless of the size of the organization, with only organizations greater than 50,000 employees training a materially less proportion of the workforce.

Other (Non-code) Formal and Mandatory

- The top three common formal and mandatory training topics, beyond the Code of Conduct, for all organizations are employment law related: Sexual Harassment (63%); Workplace Harassment (56%); and EEO/Discrimination (54%).
• While 70% of survey respondents have operations outside of the U.S., less than one in four (22%) had a formal and mandatory training program in Foreign Corrupt Practices Act (FCPA).

• Despite the fact that only 2% of all survey respondents’ primary business was Healthcare and related services, nearly one in four (22%) have formal and mandatory HIPAA training programs.

• While 64% of all survey respondents are subject to the Sarbanes-Oxley Act, less than one in five have formal and mandatory training programs in either “Financial Integrity” or “Sarbanes-Oxley”

• Due to the high perceived risk (see Section 6, Risk Assessment), 43% of all organizations have formal and mandatory training programs in the “Confidential Information Protection/Information Security” for employees.
3.2 Level of Workforce Awareness/Understanding of Ethics and Compliance Issues

All Survey Participants

What statement best describes the level of awareness and understanding of ethics and compliance issues in your organization?

- Limited: 42%
- Good: 47%
- Comprehensive: 6%
- Not sure: 5%

Organizations 250-999 Employees

What statement best describes the level of awareness and understanding of ethics and compliance issues in your organization?

- Limited: 47%
- Good: 51%
- Comprehensive: 2%
- Not sure: 3%

Organizations 1,000-9,999 Employees

What statement best describes the level of awareness and understanding of ethics and compliance issues in your organization?

- Limited: 43%
- Good: 51%
- Not sure: 3%
- Comprehensive: 3%
Organizations 10,000-24,999 Employees

What statement best describes the level of awareness and understanding of ethics and compliance issues in your organization?

- Limited: 45%
- Good: 45%
- Not sure: 4%
- Comprehensive: 6%

Organizations 25,000-50,999 Employees

What statement best describes the level of awareness and understanding of ethics and compliance issues in your organization?

- Limited: 24%
- Good: 59%
- Not sure: 6%
- Comprehensive: 11%
3.3 Formal Code of Conduct Training

Organizations 250-999 Employees

Does your organization have a formal Code of Conduct training for employees?

Yes 63%
No 37%

Organizations 1,000-9,999 Employees

Does your organization have a formal Code of Conduct training for employees?

Yes 70%
No 30%

Organizations 10,000-24,999 Employees

Does your organization have a formal Code of Conduct training for employees?

Yes 73%
No 27%

Publicly-Traded Organizations (U.S.)

Does your organization have a formal Code of Conduct training for employees?

Yes 75%
No 25%
Organizations 25,000+ Employees

Does your organization have a formal Code of Conduct training for employees?

- Yes: 81%
- No: 19%

Organizations Headquartered Outside U.S.

Does your organization have a formal Code of Conduct training for employees?

- Yes: 64%
- No: 36%
3.4 Percentage of Workforce Trained in Code of Conduct

All Survey Participants

Organizations 1,000-9,999 Employees

Organizations 250-999 Employees

Organizations 10,000-24,999 Employees

Approximately what percentage of all employees receive the Code of Conduct Training?

- <10%: 6%
- 10 to 25%: 7%
- 26 to 50%: 7%
- 51 to 75%: 9%
- 76 to 90%: 7%
- 91 to 100%: 64%

Approximately what percentage of all employees receive the Code of Conduct Training?

- <10%: 5%
- 10 to 25%: 6%
- 26 to 50%: 9%
- 51 to 75%: 10%
- 76 to 90%: 6%
- 91 to 100%: 71%

Approximately what percentage of all employees receive the Code of Conduct Training?

- <10%: 5%
- 10 to 25%: 5%
- 26 to 50%: 13%
- 51 to 75%: 16%
- 76 to 90%: 5%
- 91 to 100%: 56%

Approximately what percentage of all employees receive the Code of Conduct Training?

- <10%: 6%
- 10 to 25%: 8%
- 26 to 50%: 3%
- 51 to 75%: 6%
- 76 to 90%: 8%
- 91 to 100%: 71%

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Organizations 25,000-49,999 Employees

Approximately what percentage of all employees receive the Code of Conduct Training?

- 76 to 90: 7%
- 91 to 100: 74%
- 51 - 75: 7%
- <10: 4%
- 26 to 50: 4%
- 51 - 75: 7%
- 74 to 90: 7%
- 91 to 100: 74%

Organizations 50,000+ Employees

Approximately what percentage of all employees receive the Code of Conduct Training?

- 76 to 90: 8%
- 91 to 100: 59%
- 51 - 75: 4%
- <10: 8%
- 26 to 50: 8%
- 51 - 75: 4%
- 74 to 90: 8%
- 91 to 100: 59%
### 3.5 Formal and Mandatory Training Topics Beyond Code of Conduct

<table>
<thead>
<tr>
<th>Topic</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sexual Harassment</td>
<td>63%</td>
</tr>
<tr>
<td>Workplace Harassment</td>
<td>56%</td>
</tr>
<tr>
<td>EEO/ Discrimination</td>
<td>54%</td>
</tr>
<tr>
<td>Ethics</td>
<td>46%</td>
</tr>
<tr>
<td>Conflicts of Interest</td>
<td>46%</td>
</tr>
<tr>
<td>Confidential Information Protection/Information Security</td>
<td>43%</td>
</tr>
<tr>
<td>Antitrust</td>
<td>35%</td>
</tr>
<tr>
<td>Employment Law for Managers</td>
<td>31%</td>
</tr>
<tr>
<td>Insider Trading/Securities Law</td>
<td>31%</td>
</tr>
<tr>
<td>Document Retention/Careful Communications</td>
<td>28%</td>
</tr>
<tr>
<td>OSHA/Workplace Safety</td>
<td>26%</td>
</tr>
<tr>
<td>Customer Privacy</td>
<td>25%</td>
</tr>
<tr>
<td>Foreign Corrupt Practices Act (FCPA)</td>
<td>22%</td>
</tr>
<tr>
<td>HIPAA</td>
<td>22%</td>
</tr>
<tr>
<td>Industry-Specific Regulations</td>
<td>22%</td>
</tr>
<tr>
<td>Workplace Violence</td>
<td>21%</td>
</tr>
<tr>
<td>Financial Integrity</td>
<td>19%</td>
</tr>
<tr>
<td>Environmental Protection</td>
<td>18%</td>
</tr>
<tr>
<td>Sarbanes-Oxley</td>
<td>18%</td>
</tr>
<tr>
<td>Contracts &amp; Contract Management</td>
<td>18%</td>
</tr>
<tr>
<td>Employee Privacy</td>
<td>15%</td>
</tr>
<tr>
<td>Export Controls</td>
<td>13%</td>
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<tr>
<td>Compliance Program and Risk Assessment Benchmarking Survey</td>
<td></td>
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<tr>
<td>----------------------------------------------------------</td>
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</tr>
<tr>
<td>Association of Corporate Counsel October 2005</td>
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</table>

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<table>
<thead>
<tr>
<th>Ethical Sales</th>
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<tbody>
<tr>
<td>Government Contracting</td>
<td>11%</td>
</tr>
<tr>
<td>FLSA/Wage &amp; Labor</td>
<td>10%</td>
</tr>
<tr>
<td>Money Laundering</td>
<td>9%</td>
</tr>
<tr>
<td>OFAC</td>
<td>8%</td>
</tr>
<tr>
<td>Marketing/Advertising Law</td>
<td>7%</td>
</tr>
<tr>
<td>Product Liability</td>
<td>4%</td>
</tr>
</tbody>
</table>
4. Executive Attitude and Board of Director Reporting

4.1 Executive Attitude and Board of Director Reporting – Summary Findings

Executive Attitude and Emphasis

- Less than 1 in 14 (7%) of all survey respondents felt that the compliance and ethics program was an “Unnecessary Burden”.

- While only 10% of publicly-traded organizations agreed felt that investment in compliance and ethics programs would contribute to shareholder value, 44% felt that a compliance and ethics program was a part of either a commitment to continuous improvement or an integral part of the company’s management and strategy.

- Not surprisingly, the General Counsel’s Office/Legal Department is the primary driving party (62% of the time) behind an emphasis on compliance and ethics in organizations.

- The Chairman, CEO or Board of Directors is the second most common primary driver of an emphasis on compliance and ethics programs (27% for all survey participants and 28% for publicly-traded companies).

- There is no material difference in the primary driver of emphasis on compliance and ethics in organizations between public or private organizations.

- Three out of every four (75%) organizations that were NOT subject to the Sarbanes-Oxley Act align with material portions of the Act regardless.

Common Compliance Program Challenges Encountered

- Not surprisingly the two most common challenges encountered by those responsible for the compliance and ethics function are: “Complexity of Regulatory and Legal Environment” (74%) and the “Complexity of the Compliance Process” (62%).

- Underscoring the difficulty of hiring and retaining qualified individuals for the compliance and ethics function is the third greatest challenge for nearly two-thirds of all organizations (62%). This appears to be a sourcing and retention problem of domain expertise as slightly less than 40% of respondents felt that they had a “Lack of Adequate Financial Resources”.

- Nearly one in four respondents (24%) cited “Inadequate Senior Executive Support” as a significant challenge for their compliance and ethics program efforts.

Attorney-Client Privilege

- The in-house corporate counsel feels that attorney-client privilege protections have been severely damaged in recent years. One-third (33%) of survey respondents feel that attorney-client privilege no longer exists for the most part in the context of a government investigation. Close to half (41%) feel that while some protections of attorney-client privilege, such protections are extremely limited. Nearly one in five (18%) feel that the
jury is still out and it remains to be seen. Only 8% feel that attorney-client privilege in the context of a government investigation remains live and well.

- Opinions on the damage of attorney-client privilege remain largely the same regardless of whether the respondent represented a private or public company.

**Reporting to Board of Directors**

- The person who has daily operational responsibility for compliance and ethics has a very high exposure level to the Board of Directors. This is particularly the case at publicly-traded companies, with such person primarily communicating with the Board of Directors in person (74%), and communicating with the Board of Directors at least quarterly (42%) or even monthly (10%).

- Only 3% of the persons at publicly-traded companies who have daily operational responsibility for compliance and ethics do not communicate directly with the Board of Directors.
4.2 Top Challenges Encountered in Planning/Implementing Program

What are the top challenges you have dealt with or are likely to deal with when planning or implementing your company's Compliance and Ethics function?

- Inadequate peer support
- Inadequate senior executive support
- Inadequate technology
- Lack of adequate financial resources
- Organizational resistance to change
- Perception that compliance is not a strategic function
- Staffing issues
- Complexity of compliance process
- Complexity of regulatory and legal environment
4.3 Executive Team Attitude towards Compliance/Ethics Programs and Attorney-Client Privilege Protections

All Survey Participants

What statement best describes the senior management's attitude to compliance and ethics program?

- Unnecessary burden: 14%
- Necessary burden: 25%
- Investment that will contribute to the shareholder's value: 10%
- Commitment to continuous improvement: 15%
- Integral part of company's management and strategy: 24%
- Not sure: 14%

All Survey Participants

In the context of a violation of federal or state law where government authorities investigate, do you believe that attorney-client privilege protections continue to exist in a meaningful way?

- Yes: 15%
- No: 33%
- Barely: 41%
- It remains to be seen: 18%

All Survey Participants

Which person/group has been the primary driver behind any emphasis on compliance and ethics activities that your organization may have?

- General Counsel/Legal Dept: 62%
- Chairman or CEO: 20%
- Chief Financial Officer/Finance Dept.: 6%
- An engaged or concerned Board of Directors: 7%
- Human Resources: 3%
Publicly-Traded Companies (U.S.)

Which person/group has been the primary driver behind any emphasis on compliance and ethics activities that your organization may have?

- Chairman or CEO: 21%
- Human Resources: 2%
- An engaged or concerned Board of Directors: 7%
- Chief Financial Officer/Finance Dept.: 9%
- General Counsel/Legal Dept.: 61%

Publicly-Traded Companies (U.S.)

In the context of a violation of federal or state law where government authorities investigate, do you believe that attorney-client privilege protections continue to exist in a meaningful way?

- Yes: 6%
- Barely: 40%
- No: 36%
- It remains to be seen: 18%
4.4 Alignment with Sarbanes-Oxley by Organizations Not Subject to the Act

All Survey Participants

Although the Sarbanes-Oxley Act does not apply to your organization, has your organization decided to align with materials portions of it?

- Yes: 75%
- No: 25%
4.5 Form and Frequency of Communications with the Board of Directors

All Survey Participants

How often does the person with daily operational responsibility for the compliance and ethics program communicate with the Board of Directors?

- Quarterly: 42%
- Ad Hoc: 31%
- Annually: 8%
- Monthly: 10%
- Never: 8%

In what fashion does the person with daily operational responsibility for the compliance and ethics program communicate with the Board of Directors?

- In person meetings: 69%
- Written reports/Email: 18%
- Other: 6%
- Never communicates: 7%

Publicly-Traded Companies (U.S.)

In what fashion does the person with daily operational responsibility for the compliance and ethics program communicate with the Board of Directors?

- In person meetings: 74%
- Written reports/Email: 16%
- Other: 7%
- Never communicates: 3%

Organizations Not Subject to Sarbanes-Oxley

How often does the person with daily operational responsibility for the compliance and ethics program communicate with the Board of Directors?

- Quarterly: 27%
- Ad Hoc: 41%
- Annually: 11%
- Never: 12%
- Monthly: 9%
Organizations Not Subject to Sarbanes-Oxley

In what fashion does the person with daily operational responsibility for the compliance and ethics program communicate with the Board of Directors?

- In person meetings 65%
- Written reports/Email 18%
- Other 5%
- Never communicates 11%

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5. Risk Assessments

5.1 Risk Assessments and Coordination with Internal Audit—Summary Findings

Prevalence of Risk Assessments

- A majority (58%) of all organizations conduct periodic risk assessments, regardless of organizational size or headquarter-location. However, publicly-traded organizations are more likely to conduct a periodic risk assessment (69%) than private organizations.

- While even smaller organizations are likely to conduct a periodic risk assessment (56%), the larger the organization is, the more likely that it will conduct such an assessment (e.g. nearly four out of every five organizations, or 79%, that have more than 25,000 employees conduct periodic risk assessments).

Risk Assessment Methodologies

- In conducting their periodic risk assessments, the majority (86%) of organizations not only examine the risk of criminal and non-criminal misconduct (consistent with the Federal Sentencing Guidelines for Organizations’ criteria for an “effective compliance and ethics program”), but also examine and include ethical and reputation (77%) risks in their analysis.

- The majority (79%) of companies that conduct risk assessments prioritize risk from BOTH a probability of occurrence as well as severity of impact. This statistic does not vary significantly regardless of the size and location of the organization or whether it is publicly-traded or private.

- A little less than half (44%) of all organizations take their risk assessment analysis to the level of quantifying risk. Publicly-traded companies in the U.S. are more likely to quantify risk (50%) versus foreign or private organizations.

- The top three most common non-risk specific areas examined in risk assessments were: Internal Policies and Processes (97%); Employee Awareness and Understanding of Compliance and Ethics Issues (84%); and Measurement of Organizational Culture and ‘Tone from the Top” (71%).

- Surprisingly, while having “proper incentives and disciplines” consistent with promoting ethical conduct (and preventing criminal misconduct) are part of Federal Sentencing Guidelines, less than half of organizations’ risk assessments take “Employee Intent and/or Incentives” (38%) or “Disciplinary Systems as a Prevention Tool” (41%) into account.

- The two most popular methodologies used in conducting risk assessment are: “Interviews of Leadership and Employees” (78%); and “Internal Document Review (e.g. litigation, audit and hotline reports)” (76%).

- Less than one in four organizations use workforce surveys (24%) or focus groups (18%) as part of the risk assessment process.
Primary Parties to Risk Assessment

- Nearly half (45%) of all organizations conduct their risk assessments entirely in-house, while the remainder (55%) use an outside advisor in the process.

- When using an outside provider to aid in risk assessment, 47% of all organizations use advisors that are neither from law firms nor audit firms. The use of such non-audit and non-legal advisors does not vary significantly regardless as to whether the organization is private or publicly-traded.

- For organizations that do conduct employee interviews as part of the risk assessment process, the three most common groups to be interviewed are: Executive Team (81%); HQ Functional Department Management (73%); and Operational Field Management (66%). However, there is a significant drop-off before involving additional lower-level employees in the risk assessment process, with only 37% of organizations interviewing any line employees.

- The Board of Directors is generally left out of the risk assessment interview process in most organizations. Only 17% of organizations conducting interviews as part of the risk assessment include the Board of Directors in the interview pool.

- Not surprisingly the top audience for the final risk assessment report is the CEO and Executive Management Team (79%). However, only 21% of all organizations provide the results of their risk assessment to their outside auditors.

Risk Assessment Outcomes

- 71% of all risk assessments result in a written report, with publicly-traded (U.S.) firms somewhat more likely (79%) to produce a final written report.

- Over 80% of all organizations that conduct risk assessments found that the outcome of the risk assessment is used to develop or modify “Internal Processes and Controls” (89%), “Employee Training and Other Forms of Communication” (81%), and “Organizational Policies” (81%).

- Nearly two-thirds of the time (62%), risk assessment is used to modify (or develop if one does not exist which is rarely the case) the organization’s Code of Conduct.

- Less than one-third of the time does a risk assessment affect an organization’s “Compliance Budget” (24%), “Reporting Relationships” (28%), “Hiring and Staffing Process” (29%) or “Responsibility Assignment” (29%).

Risk Areas by Probability and Severity of Impact

- The highest three areas of risk for the average organization when ranked by probability of occurrence of misconduct are: “Protection of Company’s Confidential Information” (breach); “Conflicts of Interest”, and “Contract Problems and Side Letters”.

- The three highest areas of risk for the average organization when ranked by the negative impact severity that misconduct would have on the enterprise are: “General Financial Statement and Earnings Manipulation”, “Insider Trading or Securities Laws”, and “Protection of Company’s Confidential Information”.

Compliance Program and Risk Assessment Benchmarking Survey
Association of Corporate Counsel October 2005

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• Considering the “probability” and “impact severity” ratings, there appears to be a gap between where risks lie in the estimation of corporate counsel versus what organizations have in place as formal and mandatory training programs.

  o While the top areas of formal and mandatory training are employment law related (see Section 4. Enterprise Training and Communications), “EEO/Employment Discrimination” and “Workplace Harassment” are ranked fifth and sixth in terms of the probability of occurrence within the average organization (although one might argue that that could be due to the existence of such training programs to begin with). Furthermore, EEO/Employment Discrimination is ranked 14th in terms of the severity of impact that misconduct within this risk area would have on the organization, while Workplace Harassment does not make the top fifteen areas of risk on a similar measure.

  o On the other hand, there are a number of areas of risk that rank high in terms of both probability and severity of impact were misconduct to occur, yet formal and mandatory training programs within these risk areas were relatively uncommon. This is interesting considering that developing or modifying “Employee Training and Other Forms of Communications” was the second most common outcome (81%) of a risk assessment. This suggests that persons responsible for compliance and ethics programs are not able to implement as much training within their organizations as they see necessary, due to operational, technical or fiscal impediments.

  Coordination with Internal Audit

• There is a wide disparity as to whether risk assessments processes are coordinated with the internal audit function or not. While on one hand approximately one-third of respondents said that their risk assessment process was very coordinated with internal audit, 29% of respondents reported that there was very little or no coordination with the internal audit function. However, a significantly higher percentage of publicly-traded companies (82%) reported that some form of coordination on risk assessment with internal audit existed, either in a formal or ad hoc basis, compared to private organizations.

• In terms of the whether the outcome of risk assessment will be beneficial in helping internal audit conduct Sarbanes-Oxley 404 audit work in the next annual audit cycle, respondents were split in opinion. 52% of respondents felt that the risk assessment would help within future 404 work, while 44% felt it would not, with the balance not sure.
5.2 Existence of Periodic Risk Assessments

All Survey Participants

Does your organization conduct periodic Risk Assessments?

Yes 58%
No 42%

Organizations 250-999 Employees

Does your organization conduct periodic Risk Assessments?

Yes 69%
No 31%

Publicly-Traded Companies (U.S.)

Does your organization conduct periodic Risk Assessments?

Yes 69%
No 31%

Organizations 1,000-9,999 Employees

Does your organization conduct periodic Risk Assessments?

Yes 67%
No 33%
Organizations 10,000-24,999 Employees

Does your organization conduct periodic Risk Assessments?

- Yes: 70%
- No: 30%

Organizations 25,000+ Employees

Does your organization conduct periodic Risk Assessments?

- Yes: 79%
- No: 21%
5.3 Form of Risks Examined

(Consisting of organizations that conduct periodic risk assessments)

All Survey Participants

Does the risk assessment examine ethical and/or reputational risks?

- Yes: 77%
- No: 23%

All Survey Participants

Does the risk assessment examine the risks of law violations (criminal and non-criminal conduct)?

- Yes: 86%
- No: 14%

All Survey Participants

Does the risk assessment take into account one or more of the following?

- Internal policies & processes
- Employee awareness & understanding
- Organizational Culture & “Tone from the Top”
- Anonymous reporting system
- Unique industry trends and incidences
- Effective hiring systems and background checks
- SEC/DOJ regulatory enforcement trends
- Vendor compliance
- Disciplinary systems as a prevention tool
- Agent compliance
- Employee capabilities for jobs with substantial authority
- Employee Intent and/or incentives
- Employee Intent and/or incentives
- Agent compliance
- Employee capabilities for jobs with substantial authority
- Employee Intent and/or incentives
- Disciplinary systems as a prevention tool
- Vendor compliance
- SEC/DOJ regulatory enforcement trends
- Unique industry trends and incidences
- Anonymous reporting system
- Organizational Culture & “Tone from the Top”
- Employee awareness & understanding
- Internal policies & processes

Compliance Program and Risk Assessment Benchmarking Survey

Association of Corporate Counsel October 2005

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5.4 Risk Assessment Methodology

(Consisting of organizations that conduct periodic risk assessments)

All Survey Participants

Which of the following methodologies were used in conducting your risk assessment?

- Interviews of leadership and employees: 80%
- Internal document review (e.g., litigation, audit reports, hotline reports): 70%
- External document review (e.g., industry newsletters, third-party litigation): 30%
- Workforce surveys: 20%
- Focus groups: 10%

All Survey Participants

If you conducted interviews, surveys or focus groups in your risk assessment, which parties were represented in the interviews or focus groups?

- Executive team: 90%
- HQ functional department management: 80%
- Operational field management: 70%
- Line employees: 60%
- Board of Directors: 50%
- Outside Counsel: 40%
- Vendors and/or partners: 30%
- Independent agents: 20%
5.5 Prioritization and Quantification of Risks
(Consisting of organizations that conduct periodic risk assessments)

All Survey Participants

Is the risk prioritized from BOTH the likelihood and the impact of violation standpoints?

- Yes: 79%
- No: 21%

Publicly-Traded Companies (U.S.)

Is the risk prioritized from BOTH the likelihood and the impact of violation standpoints?

- Yes: 81%
- No: 19%

All Survey Participants

Does your organization's risk assessment prioritize risk in a quantitative way?

- Yes: 44%
- No: 56%

Publicly-Traded Companies (U.S.)

Does your organization's risk assessment prioritize risk in a quantitative way?

- Yes: 50%
- No: 50%
5.6 Who Leads Risk Assessment?

All Survey Participants

Who conducted the risk assessment?

- Entirely by in-house personnel: 45%
- Combined effort by in-house personnel and outside advisors: 18%
- Primarily by outside advisors: 6%
- Almost entirely by outside advisors: 3%

What sort of outside advisors helped in your risk assessment?

- Outside lawyers or law firm: 14%
- Audit firm: 39%
- External compliance experts neither from audit or legal firm: 47%

Publicly-Traded Companies (U.S.)

What sort of outside advisors helped in your risk assessment?

- Outside lawyers or law firm: 11%
- Audit firm: 41%
- External compliance experts neither from audit or legal firm: 48%
5.7 Form and Distribution of Final Risk Assessment Report

All Survey Participants

Did your risk assessment result in a written report?

- Yes: 71%
- No: 29%

Publicly-Traded Companies (U.S.)

Did your risk assessment result in a written report?

- Yes: 79%
- No: 21%

To who was the written report substantially provided?

- CEO: 80%
- General Counsel: 70%
- CFO: 50%
- Outside auditors: 20%
5.8 Results From and Use of Risk Assessment Outcomes

Is the data derived from the risk assessment used to develop or modify any of the following?

- Compliance budget
- Reporting relationships
- Hiring and staffing process
- Responsibility assignment
- Code of Conduct
- Organizational Policies
- Employee training and other forms of communication
- Internal processes and controls
5.9 Top Fifteen Risk Areas Weighted by Probability of Occurrence

(Scale of 1-10 with 10 being the most likely and 1 being the least likely)

Please look at the following risk areas and rank them by the probability that a violation would occur for an average company in your industry.
### 5.10 Highest "Probability" Risks for Selected Industries

*(Scale of 1-10 with 10 being the most likely and 1 being the least likely)*

<table>
<thead>
<tr>
<th>Industry</th>
<th>Risk Area</th>
<th>Average Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Aerospace &amp; Defense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Government Contracting/FAR Violations</td>
<td>6.2</td>
</tr>
<tr>
<td></td>
<td>Protection of Company's Confidential Information</td>
<td>5.8</td>
</tr>
<tr>
<td></td>
<td>Export Controls</td>
<td>5.7</td>
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<tr>
<td><strong>Banking</strong></td>
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<td></td>
<td>Money Laundering</td>
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<tr>
<td></td>
<td>Bank Secrecy Act</td>
<td>6.7</td>
</tr>
<tr>
<td></td>
<td>Customer Privacy &amp; Data Protection</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>Consumer Products Manufacturing</strong></td>
<td></td>
<td></td>
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<td></td>
<td>Antitrust Violations</td>
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<tr>
<td></td>
<td>Product Liability</td>
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<tr>
<td></td>
<td>Food Safety, Sanitation &amp; Hygiene</td>
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</tr>
<tr>
<td><strong>Industrial Manufacturing</strong></td>
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<td></td>
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<tr>
<td></td>
<td>Workplace Safety, Security &amp; Health</td>
<td>5.8</td>
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<tr>
<td></td>
<td>Product Liability</td>
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<td>Customer Privacy &amp; Data Protection</td>
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<tr>
<td>Protection of Company's Confidential Information</td>
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</tr>
</tbody>
</table>
5.11 Top Fifteen Risk Areas Weighted by Severity of Impact on Enterprise in Event of Occurrence

(Scale of 1-10 with 10 being most severe impact and 1 being least severe impact)

Please look at the following risk areas and rank them by the severity of impact in the event employees engaged in criminal misconduct.

<table>
<thead>
<tr>
<th>Risk Area</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Financial Statements &amp; Earnings Manipulation</td>
<td></td>
</tr>
<tr>
<td>Insider Trading &amp; Securities Law</td>
<td></td>
</tr>
<tr>
<td>Revenue Recognition Problems</td>
<td></td>
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<tr>
<td>Protection of Company's Confidential Information</td>
<td></td>
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<tr>
<td>Conflicts of Interest</td>
<td></td>
</tr>
<tr>
<td>Foreign Comport Practices: FCPA &amp; OECD Convention</td>
<td></td>
</tr>
<tr>
<td>Customer Privacy &amp; Data Protection</td>
<td></td>
</tr>
<tr>
<td>Antitrust Violations</td>
<td></td>
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<tr>
<td>Accurate Tax Accounting</td>
<td></td>
</tr>
<tr>
<td>Asset or Liability Recognition Problems</td>
<td></td>
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<tr>
<td>Contract Problems &amp; Side Letters</td>
<td></td>
</tr>
<tr>
<td>Foreign Corrupt Practices: FCPA &amp; OECD Convention</td>
<td></td>
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<tr>
<td>Product Liability</td>
<td></td>
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<tr>
<td>EEO/Employment Discrimination</td>
<td></td>
</tr>
<tr>
<td>Environment Laws &amp; Regulations</td>
<td></td>
</tr>
<tr>
<td>Media &amp; External Communications</td>
<td></td>
</tr>
</tbody>
</table>
### 5.12 Highest “Severity of Impact in Event of Occurrence” Risks for Selected Industries

*(Scale of 1-10 with 10 being most severe impact and 1 being least severe impact)*

<table>
<thead>
<tr>
<th>Industry</th>
<th>Risk Area</th>
<th>Average Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Aerospace &amp; Defense</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Government Contracting/FAR Violations</td>
<td>8.4</td>
</tr>
<tr>
<td></td>
<td>Foreign Corrupt Practices: FCPA &amp; OECD Convention</td>
<td>8.2</td>
</tr>
<tr>
<td></td>
<td>Export Controls</td>
<td>7.8</td>
</tr>
<tr>
<td><strong>Banking</strong></td>
<td></td>
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<tr>
<td></td>
<td>Bank Secrecy Act</td>
<td>8.2</td>
</tr>
<tr>
<td></td>
<td>Fair Lending</td>
<td>8.0</td>
</tr>
<tr>
<td></td>
<td>Money Laundering</td>
<td>7.6</td>
</tr>
<tr>
<td><strong>Consumer Products Manufacturing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>General Financial Statements &amp; Earnings Manipulation</td>
<td>7.7</td>
</tr>
<tr>
<td></td>
<td>Antitrust Violations</td>
<td>7.5</td>
</tr>
<tr>
<td></td>
<td>Food Safety, Sanitation &amp; Hygiene</td>
<td>7.0</td>
</tr>
<tr>
<td><strong>Industrial Manufacturing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>General Financial Statements &amp; Earnings Manipulation</td>
<td>8.2</td>
</tr>
<tr>
<td></td>
<td>Antitrust Violations</td>
<td>7.4</td>
</tr>
<tr>
<td></td>
<td>Insider Trading &amp; Securities Law</td>
<td>7.0</td>
</tr>
<tr>
<td><strong>Retail</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance Area</td>
<td>Risk Assessment Level</td>
<td></td>
</tr>
<tr>
<td>-----------------------------------------------------</td>
<td>-----------------------</td>
<td></td>
</tr>
<tr>
<td>General Financial Statements &amp; Earnings Manipulation</td>
<td>6.2</td>
<td></td>
</tr>
<tr>
<td>FLSA/Wages &amp; Hours</td>
<td>6.2</td>
<td></td>
</tr>
<tr>
<td>Bioterrorism &amp; Product Tampering</td>
<td>6.1</td>
<td></td>
</tr>
</tbody>
</table>
5.13 Level of Coordination with Internal Audit

All Survey Participants

How coordinated are your compliance activities with the Internal Audit function?

- Very coordinated: 33%
- Very little coordination: 15%
- Ad Hoc coordinated: 38%
- Entirely independent from each other: 14%

Publicly-Traded Companies (U.S.)

As the SEC recently allowed for companies to reasonably "prioritize", by greater area of risk, the controls to be examined under Sarbanes-Oxley 404, do you believe that your risk assessment will be helpful to the internal audit function in the future?

- Yes: 52%
- No: 44%
- Remains to be seen: 4%
6. Organizational Health Surveys, Hotlines and Investigations

6.1 Hotlines and Investigations – Summary Findings

Anonymous Reporting Systems
- The vast majority (87%) of organizations maintain an anonymous reporting system whereby employees can report observed misconduct.

- Interestingly, while anonymous reporting systems are required for organizations subject to the Sarbanes-Oxley Act, a majority (69%) of organizations that are not subject to the Act still have such reporting systems in place. This may be due to the requirement of such a system in order to take advantage of the affirmative defense available under Federal Sentencing Guidelines for Organizations’ criteria of what constitutes an “effective compliance and ethics program”.

- Where such anonymous reporting systems are in place, a slight majority (57%) of organizations make available both telephonic and email-based systems to employees. However, 39% of organizations do not provide an email-based option to employees. These statistics are consistent regardless as to whether an organization operates globally or simply in the U.S. domestic market.

- In terms of how organizations man such anonymous reporting systems, 38% of all organizations man their systems internally, 44% outsource their systems to a third, independent party, and 18% have a blend of both insider-and outsider- operated systems. These statistics are relatively consistent regardless of the size of the organization’s employee base.

Organizational Health Surveys
- The majority (74%) of organizations do not conduct regular organizational health surveys. However, of organizations that do regularly conduct such surveys, the top areas of measurement (generally present in two-thirds of all such survey) focus on: the credibility of the organization’s executive leadership (tone from the top); an employee’s personal pride in working for the organization; and the credibility of the employee’s direct supervisor from the point of view of the employee.

- Somewhat surprising is that only a minority of organizational health surveys attempt to measure: “Credibility of Anonymous Reporting Systems” (30%); or “Pressure Experienced to Commit Misconduct” (27%).

Handling and Tracking Investigations
- The vast majority (98%) of all organizations are the primary party for handling reports of misconduct, disclosures and related issues.

- There is little uniformity as to how internal investigative cases are tracked by organizations, with 38% of all companies using a “Paper-Based System”, 26% using “Microsoft Excel or Outlook” and 23% using a “Third-Party Case Management Software”. The balance
(13%) of the organizations using an “In-House Developed Software.” However, there is a clear correlation between size of the organization and the method for tracking cases. The larger the organization, the more likely they are to either develop internal software for case management, or to purchase a third-party case management software.
6.2 Existence of Hotlines

**All Survey Participants**

Do you have an anonymous reporting system where employees can report misconduct or raise concerns about illegal behavior or code violations?

- Yes: 87%
- No: 13%

**Organizations Not Subject to Sarbanes-Oxley**

Do you have an anonymous reporting system where employees can report misconduct or raise concerns about illegal behavior or code violations?

- Yes: 69%
- No: 31%
6.3 Form of Hotlines

(Survey participants that have hotlines)

All Survey Participants

<table>
<thead>
<tr>
<th>Is your reporting system telephonic or email based?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone</td>
</tr>
<tr>
<td>Email</td>
</tr>
<tr>
<td>Both</td>
</tr>
</tbody>
</table>

Organizations 1,000-9,999 Employees

<table>
<thead>
<tr>
<th>Is such system handled internally or outsourced to a 3rd party?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Handled internally</td>
</tr>
<tr>
<td>Outsourced to a 3rd party</td>
</tr>
<tr>
<td>A blend of both</td>
</tr>
</tbody>
</table>

All Survey Participants

<table>
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<tr>
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<tr>
<td>A blend of both</td>
</tr>
</tbody>
</table>

Organizations with Operations Outside U.S.

<table>
<thead>
<tr>
<th>Is your reporting system telephonic or email based?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone</td>
</tr>
<tr>
<td>Email</td>
</tr>
<tr>
<td>Both</td>
</tr>
</tbody>
</table>
Organizations 10,000-24,999 Employees

Is such system handled internally or outsourced to a 3rd party?

- Handled internally: 22%
- Outsourced to a 3rd party: 42%
- A blend of both: 34%

Organizations 25,000+ Employees

Is such system handled internally or outsourced to a 3rd party?

- Handled internally: 36%
- Outsourced to a 3rd party: 41%
- A blend of both: 23%
6.4 Who Handles Investigations and How Are They Tracked?

All Survey Participants

How are employee reports of misconduct, code disclosures and associated reports handled?

- 98% Primarily handled by internal investigators/lawyers
- 2% Primarily handled by external investigators/lawyers

How are such reports and cases tracked?

- 26% Excel or Microsoft Outlook
- 23% Third-party case management software
- 13% In-house developed software
- 38% Paper-based system

Organizations 250-999 Employees

How are such reports and cases tracked?

- 25% Excel or Microsoft Outlook
- 11% Third-party case management software
- 7% In-house developed software
- 22% Paper-based system

Organizations 1,000-9,999 Employees

How are such reports and cases tracked?

- 22% Excel or Microsoft Outlook
- 30% Third-party case management software
- 7% In-house developed software
- 41% Paper-based system

Compliance Program and Risk Assessment Benchmarking Survey
Association of Corporate Counsel October 2005

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Organizations 10,000-24,999 Employees

How are such reports and cases tracked?

- Excel or Microsoft Outlook: 33%
- Third-party case management software: 33%
- Paper-based system: 17%
- In-house developed software: 17%

Organizations 25,000+ Employees

How are such reports and cases tracked?

- Excel or Microsoft Outlook: 25%
- Third-party case management software: 25%
- Paper-based system: 16%
- In-house developed software: 34%
6.5 Organizational Health Surveys

All Survey Participants

Does your organization regularly conduct an organizational health or ethics survey of employees?

- Yes: 26%
- No: 74%

Publicly-Traded Companies (U.S.)

Does your organization regularly conduct an organizational health or ethics survey of employees?

- Yes: 30%
- No: 70%

Organizations that regularly conduct an organizational health or ethics survey address the following topics: