

## It's All Been Good

### Award Presentations, Student Events, Conferences

The NASBA Center for the Public Trust (CPT) has cosponsored one excellent event after the other. Participants ranged from members of academia, students and award honorees to professionals representing all facets of the business community.

#### Being a Difference Award Presentations

The Oklahoma Business Ethics Consortium received a CPT *Being a Difference Award* on May 20, 2009, in Oklahoma City, OK, for providing a forum of support to the Oklahoma business community. Founded by Shannon Warren, and operated almost exclusively by volunteers, the organization is a model of what can be done by individuals who share a passion for ethics and fostering positive characteristics of integrity. During the presentation CPT Board Member Larry Bridgesmith provided a keynote address on "Ethics and Resolving Interpersonal Conflict."

Michael S. Josephson, founder of the Josephson Institute and CHARACTER COUNTS! CEO, was bestowed with a CPT *Being A Difference Award* for his extensive outreach and influence in character education and ethics on February 18, 2009, in Los Angeles, CA. Mr. Josephson works as a full-time volunteer for the Institute. Along with founding the Institute, he created the national youth programs CHARACTER COUNTS! and Pursuing Victory With Honor (PVWH).

#### Let's Talk Ethics: The Student Recruiters Perspective

On March 26, 2009, the CPT participated in Baruch College's Ethics Week with a program entitled "Let's Talk Ethics: The Student Recruiter's Perspective." Senior recruiters from national accounting firms and a talent director from a national internship program provided the audience

with insight into ethical traps to avoid during the recruiting process. Topics also included resume writing tips, how to deal with multiple offers and what not to do or say during the interview process.

#### Ensuring Integrity: Third Annual Auditing Conference

The CPT once again collaborated with the Baruch College Robert Zicklin Center for Corporate Integrity to cosponsor this weighty conference. The event was a forum for interaction with representatives from organizations such as the Securities and Exchange Commission (SEC), the Auditing Standards Board, the Advisory Committee on the Auditing Profession and the Public Companies Accounting Oversight Board.

#### Developing and Sustaining an Ethical Business Culture

Cynthia Cooper, best-selling author of *The Journey of a Corporate Whistleblower - Extraordinary Circumstances*, was the keynote speaker at the "Developing and Sustaining an Ethical Business Culture" conference cosponsored by the CPT, the UT at Austin McCombs School of Business and the Society of Corporate Compliance and Ethics (SCCE). Ms. Cooper mesmerized the audience with her account of how her team identified corporate fraud at WorldCom.

Participants at this October 2008 event were coached on how an organization can yield long-term success by building and sustaining an ethical business culture. Mike Granof, Ernst & Young Centennial Professor in Accounting, presented, "International Financial Reporting Standards (IFRS) - Will Principles Trump Values?" Four interactive breakout sessions focused on Building Trust, Ensuring Accountability, Leading with Integrity and Creating Public Confidence.

## Good News

### Teen Organizes Equipment Drive for Children in Africa

A New York City 13-year old, Alexander Straus, initiated a program to send soccer equipment to Malawi. The executive director of the Afya Foundation, where Straus was volunteering, mentioned that there had been some interest in getting athletic equipment to the country in southeast Africa. Straus realized that he and so many of his friends quickly outgrow their soccer equipment and some very useable cleats, shin guards and balls were littering his friends' closets. He organized his friends and parents to donate, gather and clean the equipment, which is now being used to provide a new outlet for children with very little recreational opportunities.

## Upcoming Events

**Business Ethics: Developing Skills for Managing Conflict**, National CPE Expo, San Antonio, TX, September 22 and 23

**Being a Difference Award Presentation** to Michael Weinschel, Carol Weinschel and Susan Spivak, Easton, CT, October 2

**Ensuring Integrity: Fourth Annual Auditing Conference**, co-sponsored with the Baruch College Robert Zicklin Center for Corporate Integrity, New York, NY, December 2

### INSIDE

It's All Been Good .....	1
Good News .....	1
Upcoming Events .....	1
Keeping the Company Clean .....	2
Radio Days .....	2
Vice President's Voice.....	3
Being A Difference Award.....	6

Editor-in-Chief: Lisa Axisa  
Assistant Editor: Jennifer Bouchard  
Production Editor: Anthony Cox

# Keeping the Company Clean

## Internal Auditors Help Prevent Inappropriate Activities From Being Swept Away

CORPORATE ETHICS IS A SLIPPERY BEAST, confounding, as it does, internal auditors' efforts to label it, track it, and participate in managing it. Conceptual issues such as tone at the top, standards of ethical corporate behavior, and assurances that employees act appropriately may now be enshrined in U.S. federal law, courtesy of the U.S. Sarbanes-Oxley Act of 2002, but that doesn't make them any easier for internal auditors to get their arms around. Indeed, in a recent survey conducted by The IIA's Global Audit Information Network, almost 15 percent of internal auditors said they don't perform ethics audits because they're "too hard." Another 39 percent said that ethics audits aren't part of their mandate or that they're simply not the internal auditor's job.

Other internal auditors say they review ethics every time they conduct an audit. "Some believe that in the course of undertaking regular audits, you are also 'auditing ethics,'" says John Boyd, manager, prevention, with the Crime and Misconduct Commission (CMC), a Brisbane-based arm of the government of Queensland, Australia. "But technically you are getting one indicator of an organization's ethical standards-but only one, and in an ad hoc way." Brenda Cowell, senior integrity coordinator at Nexen Inc., in Calgary, Alberta, agrees. "There's an ethics component to every audit," she says, "but there are also 'ethics audits,' where you review your company's entire ethics program." Those programs, Cowell notes, may share little but nomenclature. An ethics program can be as simple as employees' signing off on the company's code of conduct or as complex as a comprehensive

**"There's an ethics component to every audit, but there are also 'ethics audits,' where you review your company's entire ethics program."**

program that could include policy reviews, signoffs, training, communications, committee involvement, and investigations.

Internal auditors setting out to perform an ethics audit face both their own concerns about the often-uncharted territory of such tasks as well as the concerns of their colleagues and supervisors. Those concerns, experts say, can be allayed once such an audit is fully developed. Seemingly diaphanous notions can, in fact, be quantified and examined, and issues of appropriate versus inappropriate behavior can be addressed successfully. To accomplish that, though, internal auditors need to make sure they have adequate expertise in-house and approach ethics audits with a clear understanding of what they're trying to accomplish.

### LEARN FROM EXPERIENCE

The bottom line is ethics audits should pose no insurmountable challenges to internal auditors, says Greg Hollyman, chief internal auditor at South Africa Post Office Ltd. "An audit is an audit," points out Hollyman, a member of The IIA's Ethics Committee and chairman of IIA-South Africa. "An ethics audit uses the exact same processes, interviews, and documents as a standard business audit." The IIA offers a variety of information tools that internal auditors can use to familiarize themselves with the issues at stake and the kinds of approaches they might take in an ethics audit. One thing is clear: Ethics is a part of an internal auditor's job.

[Continued on Page 3](#)

## Radio Days

### David Costello Speaks Up



President and CEO of the CPT, David Costello, was a featured guest on Magnet Investing, hosted by Jordan Kimmel during the April 2, 2009, radio program broadcast.

Mr. Kimmel believes that trust and transparency are vital to the strength of our financial markets during some Internet research, he came across the CPT Web site. He was intrigued by the important work being done by NASBA and the CPT and invited Mr.

Costello to speak to his audience. During the program, Mr. Costello noted that one of NASBA's mandates is to call public

attention to important regulatory changes that affect all state boards. Mr. Costello also commented that an impetus for creating the CPT was to call attention to the best practices being utilized and sincere ethical behavior of the majority of the public and not let all of the media's focus be on scandals and bad news. The program can be listened to in its entirety at [www.modavox.com/voiceamerica](http://www.modavox.com/voiceamerica) at Jordan Kimmel's host page.

Since the radio program, CPT executive staff David Costello, Lisa Axisa and Alfonzo Alexander, have met with Jordan Kimmel at his Randolph, New Jersey office to discuss a program Mr. Kimmel is creating to emphasize the importance of trust in the business world. There may be an opportunity for the CPT to collaborate with Mr. Kimmel's efforts. We will be sure to continue to report on the progress of this exciting collaboration.



## Vice President's Voice

### CPT Grows Stronger with Your Support

The CPT is growing into a vital organization with a national presence and our donors continue to support our efforts. Although this is a difficult time in our Nation's history and there is so much bad news bombarding me, I know how lucky I am to have a job where I can spend my day focusing on good news—and there is so much of it that we've lengthened our "Good News" column. Our staff has done an outstanding job of putting together conferences and the evaluations have reflected that. The *Being a Difference Award* ceremonies have continued to be some of our finest moments. In a world where each day the headlines highlight politicians' corrupt behavior, where greed is a step on the corporate ladder, and doing the right thing seems to be an anomaly; it is truly an inspiration to know that people like Michael Josephson and the volunteers who built the Oklahoma Business Ethics Consortium walk among us.

A great way to keep up on ethics news is through the social network, Twitter. I've been following The Ethics Guy™, Dr. Bruce Weinstein, who writes the *BusinessWeek Online* ethics column. He was kind enough to let us reprint his "Ethics Quiz" at our Regional Meetings where we initiated and inspired some interesting discussions on ethical dilemmas.

I was at the funeral service for a dear friend's father where the Rabbi shared this story. An old man asked his son to bring him a bundle of sticks. He then asked his son to break the sticks in half. The son tried and tried, but could not snap the bundle. The rather infirm man took the bundle, pulled out one twig and snapped it easily. This tale made me realize how much stronger the CPT is because of your support, and as we continue to grow and work together, we will become unbreakable.

**"A great way to keep up on ethics news is through the social network, Twitter."**

*Lisa Axisa*

## Keeping the Company Clean

*Continued from Page 2*

"The internal audit activity should evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities," according to Standard 2130.AI, from The IIA's International Standards for the Professional Practice of Internal Auditing (Standards). Internal auditors can learn much from those already performing ethics audits and use that information to ensure the success of such projects.

### **PRIME THE PUMP WITH FORMAL TRAINING**

According to Cowell, a common problem is a company will have a code of conduct, but won't have much with respect to communicating it and making sure people understand it. She recommends using training programs, brochures, posters, and a coordinated "marketing" strategy to get the word out.

"Otherwise, you may go to the trouble of developing a code of conduct," she notes, "and then when you ask the staff, they don't know how to apply it or even that it exists."

Many companies favor online ethics training, says Robert Kuling, director, audit services, at Precision Drilling Corp. in Calgary, but his company prefers face-to-face encounters. Kuling, a former colleague of Cowell's, says Precision is in the process of rolling out an ethics training and awareness program designed to make its workforce—including white collar executives and blue collar drill operators—a part of the ethics audit process before it even starts. Audit services will deliver the program the first time, Kuling says, but management will take over from there. "We provided the 'start-up capital,'" he quips. "Sustaining the program won't be as

intense." Management will receive in-person training, while the rest of the workforce will receive the information in brochure and DVD format.

### **CONSIDER GOING OUTSIDE**

Kuling says that, shortly after assuming his current position, he "rode the Sarbanes-Oxley agenda" into the field of ethics audits. And for his first foray, he recounts, he hired an outside firm to conduct the actual audit. "The internal audit staff got in there with them, taking a look at the key documents and meeting with the appropriate individuals," he says. "It was a worthwhile exercise for our new auditors, and it's especially effective if you feel uncomfortable with ethics audits at first in a new organization." The audit services staff assisted with document collection, participated in meetings, conducted limited testing, and provided guidance to the outside firm in applying its methodology, he adds.

According to Hal Garyn, director of internal audit at PEMCO Mutual Insurance Co. in Seattle, another reason a tone at the top review is often a perfect project for a company to outsource or co-source is that it can be the best way to bring in objective best practice recommendations. "If you head up the internal audit function for a number of years, you can become biased," he says. And, he adds, the news that the behavior of some of the firm's top executives is not consistent with the messages they think they're sending may sting less if it's delivered by an unaffiliated outsider. "It's harder for someone who's been with the company for a long time to deliver that message," Garyn states.

*Continued on Page 4*

# Keeping the Company Clean

Continued from Page 3

## UNDERSTAND YOUR ROLE

Practice Advisory 2130-1: Role of the Internal Audit Activity and Internal Auditor in the Ethical Culture of an Organization stresses that internal auditors, like everyone else in a company, have a role to play in corporate ethics—a role that can vary by the existence of, lack of, or degree of development of the organization's ethical culture. In fact, the internal auditor's role can be shaped as well by the existence, or lack, of an individual designated the chief ethics officer, who works with executives and managers to train them in ethics and who serves, in general, as a champion for "doing the right thing," the IIA document notes. At some organizations, internal auditors serve on internal ethics councils.

In practice, the IIA document continues, a firm's internal audit activity should, at a minimum, periodically assess the state of the ethical climate of the organization and "the effectiveness of its strategies, tactics, communications, and other processes in achieving the desired level of legal and ethical compliance." Specifically, The Institute calls on practitioners to evaluate several features of a company's ethical culture:

- ♦ A "clear and understandable" formal code of conduct and related statements, policies—including procedures covering fraud and corruption—and other "expressions of aspiration."
- ♦ The communications and demonstrations of expected ethical attitudes and behavior by the leaders of the organization.
- ♦ Explicit strategies the firm uses to enhance its ethical culture.
- ♦ Multiple means of confidentially reporting misconduct.
- ♦ Regular declarations by employees, suppliers, and customers that they understand the requirements for ethical behavior in conducting the organization's business.
- ♦ Clear delegation of responsibilities to ensure that ethical consequences are evaluated, that confidential counseling is provided, that allegations of misconduct are investigated, and that case findings are properly reported.
- ♦ Easy access to "learning opportunities to enable all employees to be ethics advocates."
- ♦ Personnel practices that encourage employees to be ethical.
- ♦ Regular use of surveys to determine the organization's ethical climate.
- ♦ Regular reviews of processes that might undermine the organization's ethical culture.
- ♦ Regular reference and background checks as part of the hiring process.

It's important to note, The IIA says, that in some circumstances, the role of chief ethics officer may conflict with the critical independence attribute of the internal audit activity. But in most cases, internal auditors themselves, and the internal audit activity in general, need to take an active role in supporting a company's

ethical culture. "[Internal auditors] possess a high level of trust and integrity within the organization and the skills to be effective advocates of ethical conduct," Practice Advisory 2130-1 states. "They have the competence and capacity to appeal to the enterprise's leaders, managers, and other employees to comply with the legal, ethical, and societal responsibilities of the organization."

## KNOW WHAT YOU MIGHT FIND

Many internal auditors postpone ethics audits indefinitely for fear of what sorts of ethical lapses they might uncover—and then have to address. They shouldn't, the experts state. The age-old characterization of an insider as someone who "knows where the bodies are buried" is simply for effect. In the real world, internal auditors conducting ethics audits will almost always turn up misdeeds—not corpses—and those misdeeds will probably be, as Kuling calls them, "garden variety, such as management override of existing controls, potential conflicts of interest, and unclear management authority. Indeed, Cowell adds, "rarely do you come across unique situations."

According to Marianne Jennings, professor of legal and ethical studies at the WP Carey School of Business at Arizona State University, Tempe, additional ethics lapses an internal auditor may uncover include slippage from company norms and the code of ethics in travel and entertainment, work hours and expenses, and marketing and sales issues. Auditors should also watch out for issues involving the company's relationships with its vendors, employees' use of company resources, and complaints about the firm's failure to follow through on questions raised by employees. "There may also be a lot of personal issues," Jennings adds, "such as affairs between employees and human resources complaints about merit raises, incentive plans, and promotions."

At the systemic level, she continues, auditors should be on the lookout for evidence that the company's ethics checks and balances are not effective, that employee concerns about day-to-day practices are not being raised or are being ignored, that perceptions of rewards for those who cross ethical lines abound, and that there may be questionable accounting practices involving senior level employees. According to Boyd, a member of the IIA Ethics Committee, poorly managed conflict of interest situations also are common—tolerance of token compliance with the organization's policies and procedures, inappropriate receipt of undeclared gifts and benefits, and a looseness in the "probity of procurement"—allowing partiality in decisions while maintaining an appearance of procedural compliance.

## OBTAIN MANAGEMENT SUPPORT

"If you don't have management support, you won't get very far," Cowell warns. "Keep executives involved in the process by making them more comfortable with it." Indeed, she adds, internal auditors should point out that at least one element of an ethics audit, an assessment of the organization's tone at the top, is required by Sarbanes-Oxley. "That's the compliance piece," she notes. Key to gaining their full support, she adds, is

Continued on Page 5

**“If you don’t have management support, you won’t get very far. Keep executives involved in the process by making them more comfortable with it.”**

# Keeping the Company Clean

Continued from Page 4

"customizing" each executive's involvement to his or her comfort level. "Internal auditors won't get buy-in from some executives unless they listen to them and include their comments in the ethics program," she stresses. When executives are most concerned, she adds, is when they don't understand ethics programs. "If there's nothing written down as far as program processes, they fear what might be done with anonymous complaints received via a hotline-and what complaints might be logged in the first place," she says. "Everybody thinks, 'What if there's a complaint about me?' They want to know everything will be handled in a professional manner." It helps if internal auditors keep executives involved in planning ethics programs and present a clear plan for how they will conduct investigations.

## MAKE ETHICS A COMPANYWIDE RESPONSIBILITY

One employer Cowell worked for maintains what she calls a "cutting-edge" ethics program that involves an ethics committee of key people throughout the organization. When ethical dilemmas come up, that group-which includes internal auditing, legal counsel, operations, information technology, finance, and other departments with related authority-makes decisions if there's no clear-cut answer. "We didn't put it all on any one person's shoulders," she reports. "Also, we set up an internal Web site hooked up to the e-mail system and a database with ethics articles, guidelines for decision-makers, and tips. We encouraged people to get involved with ethics, even posing quarterly ethical dilemmas and asking people to give their input. We offered prizes for people who participated." In all cases, she emphasizes, internal auditing has an important oversight responsibility in such committees and related programs. "In our case, we had our audit director participating on the ethics committee's program development," she reports. "Also, we make suggestions for improving the ethics auditing system as a result of our investigations."

## USE QUANTITATIVE AND QUALITATIVE DATA

Boyd stresses the value of both quantitative and qualitative data-and emphasizes that hard ethics numbers do exist if you know where to look for them. Because any official misconduct in public sector agencies in Queensland has to be reported to the CMC for investigation, his organization has the benefit of a database with complaints for each agency dating back to its creation in 1990. The database offers his team quantified data for comparative purposes-such as an agency tracking its increases or decreases over time or comparing its data to those of similar public-sector agencies. That said, he also stresses the need for a lighter touch in ethics audits. "Behavioral science skills are most relevant there," he says, "although that skill grouping may not be present in many internal audit shops."

Indeed, he says, a session at a 2006 meeting of the Association of Certified Fraud Examiners stressed that understanding human behavior has become an integral part of the audit process. "Auditors can no longer rely on financial indicators of fraud," the session materials noted, "but must also be able to recognize nonfinancial indicators of fraud-such as the ability to detect deception." Boyd adds: "For corruption to occur, put simply, we

need 'motive' and 'opportunity.' Internal auditors are most experienced and comfortable with addressing 'opportunity'-testing the internal controls and making recommendations about them. To my observation, they are less experienced with, and less skilled at, dealing with 'motive,' reflected in the organization's and individual's values and ethics."

## KNOW WHEN THE SANDS ARE SHIFTING UNDER YOUR FEET

What constitutes a stellar ethics audit is not, unfortunately, consistent-not from company to company and not at the same company from year to year. For example, Boyd points out, a company that has endured an ethics scandal may view ethics audits completely differently moving forward. Similarly, significant changes in the makeup of the board can alter what's expected of an ethics audit-and, indeed, what constitutes "ethics" at the organization. And, Hollyman notes, changes in the ethics of the community at large can affect the way an organization audits its own.

## COMMITTING TO ETHICAL BEHAVIOR

Internal auditors need to explain to executives who are wary of an ethics audit that it really is a "reputation audit." People will ask why you want or need to conduct an ethics audit, Hollyman says. But as soon as you start pointing out that what you're really doing is auditing the reputation of the organization, the possible consequences of not doing it become clear. Indeed, although ethics audits are something of an emerging area of expertise, there does seem to be a growing commitment to them, Boyd says, but he concedes that a full corporate embrace of ethical operations and behavior is a long way off. "It will take time to build up a well-accepted common body of knowledge about ethics audits," he says, "as well as an accepted methodology and a much wider skill base to perform them. Maybe when audit committees start demanding them or asking more often when one last was conducted, they will become a standard part of an organization's internal audit program."

"It would be nice to get to the point where ethics audits are seen as a valuable tool in terms of moving the company forward," Jennings stresses. "A company that is relying on questionable supplier relationships or accounting is not a company that can survive without scandal and the resulting losses in reputation and market capitalization and impact on the cost of capital. Ethics audits are done because when employees, officers, and boards of directors engage in unethical conduct, the damage is phenomenal."

To comment on this article, e-mail the author at [russell.jackson@theiia.org](mailto:russell.jackson@theiia.org).

BY RUSSELL JACKSON

*This article was reprinted with permission from the April 2006 issue of Internal Auditor, published by The Institute of Internal Auditors, Inc., [www.theiia.org](http://www.theiia.org).*

# Good News

Continued from Page 1

## **Board Member Inducted to Hall of Fame**

CPT Board Member Leonard Sanchez was inducted into the University of New Mexico Anderson School of Business Hall of Fame. Alumni are named because "...they make such a difference."

## **\$1 Billion to Make the World a Better Place**

Google.org, a humanitarian organization whose goal is to make the world a better place, has been supported by a \$1 Billion donation from Google's two young founders. The organization will lay the foundation for new social projects.

## **Enhancing High School Accounting in Kentucky**

To improve high school accounting education, the Kentucky State Board, State Society and Department of Education worked together to replace the State's 1930's-era curriculum. Collins Scarberry wrote new textbooks and the curriculum for the program. The Kentucky State Board and Society secured \$125,000 of surplus state board funds for training teachers on the new curriculum.

## **Brothers Ride Across America**

Brothers Justin and Jason Merolla trekked close to 5,000 miles on their bicycles to raise money for cancer, the disease that killed their mother at 42. They rode across the US over 64 days and raised \$80,000. Their trip taught them self-reliance and how big-hearted some Americans can be--from Missouri to Boston they were fed breakfast, given places to sleep and received pledges from a penny to a dollar for every mile they rode.

## BEING A DIFFERENCE *Award*

Nominations are currently being accepted for the 2009-10 NASBA CPT *Being a Difference Awards*. The awards honor individuals and organizations for their unique contributions to ethical leadership.

Past recipients range from Fortune 500 executives, Olympic athletes and Big Four audit firms, to individuals who have worked courageously but quietly in support of the public trust.

Visit [www.centerforpublictrust.org](http://www.centerforpublictrust.org) to or contact Jenn Bouchard at [jbouchard@nasba.org](mailto:jbouchard@nasba.org) to make your nomination.

\*All nominations are due by the close of business on Monday, August 31.