



Monday, May 18
4:30-6:00pm

105 Effective Corporate Ethics and Compliance Programs

Julie A. Bell

Vice President, Law & Compliance & Associate General Counsel
Kratos Defense & Security Solutions, Inc.

Jolene Miller

Senior Counsel-Compliance
Recreational Equipment, Inc. (REI)

Faculty Biographies

Julie A. Bell

Julie A. Bell is vice president, law and compliance, and associate general counsel for Kratos Defense & Security Solutions, Inc. in Alexandria, Virginia.

Previously, she was general counsel for Hogan & Hartson in Washington, DC. Ms. Bell's practice focuses on advising public companies regarding compliance with the stock exchange listing standards, SEC disclosure requirements, particularly the executive compensation disclosure requirements, the SEC's proxy rules, including the recently adopted e-proxy rules, and shareholder proposals. Prior to joining Hogan & Hartson, Ms. Bell was a member of the staff of the SEC where she served as counsel to Commissioner Cynthia A. Glassman. Ms. Bell advised the commissioner on all matters relating to the division of corporation finance, the public company accounting oversight board, and various SEC enforcement matters. Prior to this, Ms. Bell served as a special counsel in the office of rulemaking in the division of corporation finance, where she co-authored the SEC's March 2004 release amending Form 8-K. Ms. Bell also reviewed and commented on numerous public company filings.

Ms. Bell also serves as vice chair of programming for ACC's Compliance and Ethics Committee

Ms. Bell received a B.A., summa cum laude, from The Ohio State University, where she was also a member of Phi Beta Kappa. Ms. Bell is a graduate of Vanderbilt University Law School.

Jolene Miller

Jolene Miller is senior counsel-compliance at Recreational Equipment, Inc. (REI,) in Seattle, WA, a national retail cooperative providing quality outdoor gear and apparel. Ms. Miller supports all divisions by providing legal review and advice in all aspects of the company's business. Her primary responsibilities include providing legal support to the human resources, marketing and merchandising departments, and the gear and apparel division of the company, which develops, designs and sources REI-branded gear and apparel.

Prior to REI, Ms. Miller worked for RadioShack Corporation, where she served as in-house counsel and senior director of ethics and compliance. As a corporate attorney at RadioShack, Ms. Miller's primary areas of responsibility included advertising and marketing, product safety and compliance, supply chain management, and privacy matters. In her ethics and compliance role, Ms. Miller was responsible for developing, implementing, and monitoring an enterprise-wide ethics and compliance program.

2009 New to In-house Institute & Paralegal Program

Ms. Miller is on the board of directors for Camp Fire USA's central Puget Sound council. Prior to relocating to Seattle, she served on the advisory board for the gamma psi chapter of Kappa Alpha Theta and was a committee member for the development of the Society of Corporate Compliance and Ethic's CCEP exam.

She received her bachelor's in political science from Washington State University and law degree from the Texas Wesleyan University School of Law.



WHY DO COMPANIES HAVE FORMAL ETHICS AND COMPLIANCE PROGRAMS?

- *To Reflect Corporate Culture and Commitment to Business Ethics*
- *To Prevent, Deter and Detect Crime and Fraud*
- *To Meet Regulatory Requirements (e.g., Health Care, Insurance, Consumer Products, Environmental, Government Contracting, Public Utilities, Sarbanes-Oxley for public companies)*
- *To Provide Valuable Defenses*

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REFERENCE POINTS FOR COMPLIANCE PROGRAM ELEMENTS:

- *Federal Sentencing Guidelines*
- *DOJ Memos*
- *Consent Agreements*
- *Industry-Specific Regulations (e.g., ITAR, Consumer Products, Banking)*

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ONE SIZE DOES NOT FIT ALL

- BUT -

THE SINGLE MOST IMPORTANT ELEMENT NEEDED IN AN EFFECTIVE ETHICS AND COMPLIANCE PROGRAM IS "TONE FROM THE TOP"

- AND -

THE MOST DIFFICULT ELEMENT IS ENSURING CONSISTENT ACCOUNTABILITY

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THE U.S. FEDERAL SENTENCING GUIDELINES FOR SENTENCING ORGANIZATIONS

- *These seven effectiveness factors have become the "prescription" for corporate compliance programs:*
 - Establish standards and procedures to prevent and detect criminal conduct.
 - Governing authority knowledge and oversight; high-level individual responsible.
 - Due diligence regarding "Substantial Authority" personnel.
 - Communication and Training.
 - Hotline, evaluation and monitoring.
 - Consistency, incentives and discipline.
 - Response and modification.

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BENCHMARKING YOUR ETHICS AND COMPLIANCE PROGRAM

- Benchmarking studies
- Ethisphere
- Defense Industry Initiative
- Ethics and Compliance Officers' Association
- Society of Corporate Compliance and Ethics
- TRACE International
- Transparency International Corruption Perceptions Index
- ACC listservs – Compliance and Ethics, Small Law Department
- ACC Virtual Library and Docket Articles
- Your company's external and SOX auditors

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TOOLS

- Top Ten Ethics and Compliance Program Takeaways
- U.S. Federal Sentencing Guidelines for Organizations (§8.B2.1)
- Sample Annual Program Audit Checklist
- Sample Benchmarking Report for Board of Directors (or Audit Committee)
- ACC InfoPAKs and Sample Policies (Under Legal Resources at acc.com)

Second Quarter 2006 Ethics & Compliance Program Audit

Item	Auditor's Findings – Dated _____, 2006
<p>U.S. FEDERAL SENTENCING GUIDELINES' MINIMUM ELEMENTS OF AN EFFECTIVE ETHICS AND COMPLIANCE PROGRAM (§8B2.1(b) and (c))</p>	
<p>(b) Factors --</p>	
<p>(1) The organization shall establish standards and procedures to prevent and detect criminal conduct.</p>	
<p>(2)</p> <p>(A) The organization's governing authority shall be knowledgeable about the content and operation of the compliance and ethics program and shall exercise reasonable oversight with respect to the implementation and effectiveness of the compliance and ethics program.</p> <p>(B) High-level personnel of the organization shall ensure that the organization has an effective compliance and ethics program, as described in this guideline. Specific individual(s) within high-level personnel shall be assigned overall responsibility for the compliance and ethics program.</p> <p>(C) Specific individual(s) within the organization shall be delegated day-to-day operational responsibility for the compliance and ethics program. Individual(s) with operational responsibility shall report periodically to high-level personnel and, as appropriate, to the governing authority, or an appropriate subgroup of the governing authority, on the effectiveness of the compliance and ethics program. To carry out such operational responsibility, such individual(s) shall be given adequate resources, appropriate authority, and direct access to the governing authority or an appropriate subgroup of the governing authority.</p>	
<p>(3) The organization shall use reasonable efforts not to include within the substantial authority personnel of the organization any individual whom the organization knew, or should have known through the exercise of due diligence, has engaged in illegal activities or other conduct inconsistent with an effective compliance and ethics program.</p>	

Second Quarter 2006 Ethics & Compliance Program Audit, cont'd

<p>(4)</p> <p>(A) The organization shall take reasonable steps to communicate periodically and in a practical manner its standards and procedures, and other aspects of the compliance and ethics program, to the individuals referred to in subdivision (B) by conducting effective training programs and otherwise disseminating information appropriate to such individuals' respective roles and responsibilities.</p> <p>(B) The individuals referred to in subdivision (A) are the members of the governing authority, high-level personnel, substantial authority personnel, the organization's employees, and, as appropriate, the organization's agents.</p>	
<p>(5) The organization shall take reasonable steps –</p> <p>(A) to ensure that the organization's compliance and ethics program is followed, including monitoring and auditing to detect criminal conduct;</p> <p>(B) to evaluate periodically the effectiveness of the organization's compliance and ethics program; and</p> <p>(C) to have and publicize a system, which may include mechanisms that allow for anonymity or confidentiality, whereby the organization's employees and agents may report or seek guidance regarding potential or actual criminal conduct without fear of retaliation.</p>	
<p>(6) The organization's compliance and ethics program shall be promoted and enforced consistently throughout the organization through (A) appropriate incentives to perform in accordance with the compliance and ethics program; and (B) appropriate disciplinary measures for engaging in criminal conduct and for failing to take reasonable steps to prevent or detect criminal conduct.</p>	
<p>(7) After criminal conduct has been detected, the organization shall take reasonable steps to respond appropriately to the criminal conduct and to prevent further similar criminal conduct, including making any necessary modifications to the organization's compliance and ethics program.</p>	
<p>(c) in implementing subsection (b), the organization shall periodically assess the risk of criminal conduct and shall take appropriate steps to design, implement, or modify each requirement set forth in</p>	

Second Quarter 2006 Ethics & Compliance Program Audit, cont'd

subsection (b) to reduce the risk of criminal conduct identified through this process. (Risk Assessment)	
OFFICE OF ETHICS & COMPLIANCE ANNUAL PLAN AND OTHER KEY ELEMENTS:	
Monitor and resolve Hotline calls	
Develop Audit Committee e-mail box notification procedure	
Roll out Code of Conduct and receive employee acknowledgements: <ul style="list-style-type: none"> • New hires • Existing employees 	
Work with business units to identify high risk groups and develop annual training curriculum for each group	
Quarterly FCPA/Related Party Certifications	
Quarterly Insider Trading Review and Memo	
Background checks for substantial authority personnel to include credit checks for financial/cash handling positions	
Develop Ethics & Compliance Intranet Portal	
Assign training for high-risk groups and monitor (ongoing)	
Form Ethics Advisory Committee and hold quarterly meeting for review and Q&A	
Specific sub-programs: <ul style="list-style-type: none"> • Insider Trading Compliance • EU Data Protection • FCPA and Export Control • Conflicts of Interest/Related Party Transactions • Hiring of Relatives • Substance Abuse • Records Retention • CA Sexual Harassment Training 	

ATTORNEY-CLIENT PRIVILEGED AND/OR ATTORNEY WORK PRODUCT

Second Quarter 2006 Ethics & Compliance Program Effectiveness Report

Highlights of WFI Ethics & Compliance Program vs. 2006 Benchmarking Survey

Question	WFI	Majority or Plurality Figure from Survey*
Does the organization have a Chief Ethics Officer?		32% Yes
Is the Board of Directors trained in compliance consistent with the Fed'l Sentencing Guidelines training criteria?		58% No Of those that do train, 38% train for 1-2 hours annually
Number of Full Time Equivalent staff dedicated to compliance and ethics		70% report more than 1 FTE
If company has a dedicated ethics and compliance function overseen by a single individual, to whom does that individual report?		37% report to GC 31% report to CEO
Average annual spend on the ethics and compliance function		47% of organizations with 1,000-4,999 employees spend less than \$150,000
Formal training on company's Code of Conduct		Yes for 77% of publicly traded companies
How often does the person with daily operational responsibility for the ethics and compliance program communicate with the BOD?		39% Quarterly 28% Ad Hoc 16% Annually
Do you have an anonymous reporting system where employees can report misconduct or raise concerns about illegal behavior or code violations?		91% yes
Is Hotline both telephonic and e-mail?		65% both
Is such system handled internally or outsourced to a 3 rd party?		44% outsourced 31% internal 25% a blend of both
How many hotline cases are handled annually?		63% less than 50

* Source: 2006 Compliance Program and Risk Assessment Benchmarking Survey Conducted by Corpedia, Inc. and The Conference Board. 225 participants (including WFI); 28% (a plurality) represented organizations with 1,000 – 4,999 employees; 72% were subject to SOX; 71% have operations outside the U.S.; 67% are publicly traded.