



Baker Tilly

Some Thoughts
on Conducting
Due Diligence of
Your
Compliance
Program

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Services



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Expertise

Jonathan has more than 30 years of experience working closely with his clients, their board, senior management and law firms on global and cross-border fraud and misconduct investigations, including, bribery, corruption and compliance matters. He specializes in internal and regulatory investigations; governance matters; risk assessment, design and implementation of ethics and compliance programs; global fraud risk management programs; and compliance coordination and monitoring services for the private, public, not-for-profit sectors.

He assists his clients to mitigate potential issues by conducting root-cause analysis, developing remedial procedures and designing or enhancing governance and compliance systems along with internal controls, policies and procedures and customized training. Jonathan has led high-profile financial, accounting, compliance and regulatory investigations around the world relating to allegations of accounting irregularities, improper financial disclosures, fraud, non-compliance, bribery, corruption, kickbacks, cyber incidents and whistleblower matters.

Jonathan has provided expert testimony on accounting, financial and internal control issues in commercial litigation matters and has appeared before the United States Securities and Exchange Commission (SEC), Financial Industry Regulation Authority (FINRA), and the United States Department of Justice (DOJ) to present his findings. He has also led global compliance and ethics initiatives, fraud risk or vulnerability assessments, internal audits, and third-party risk management initiatives.

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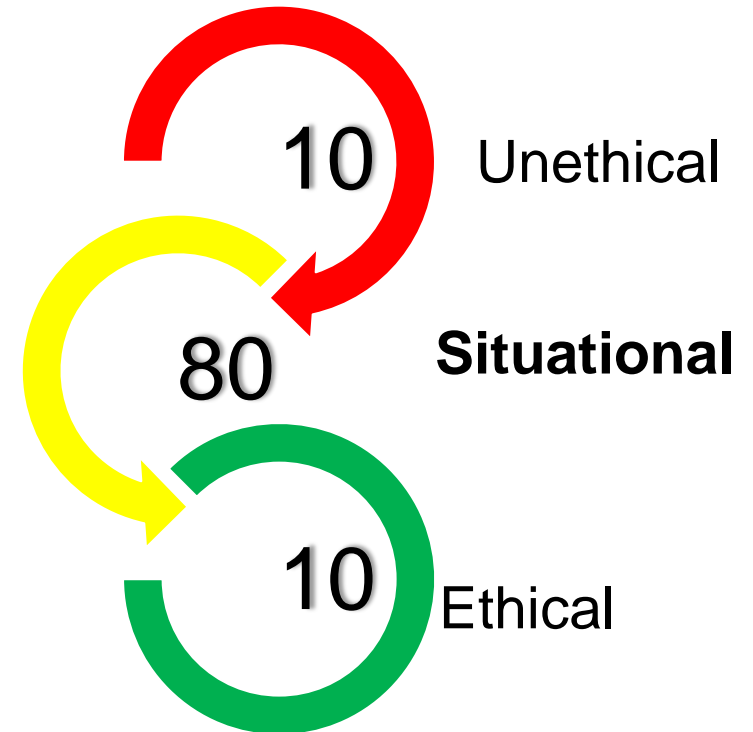


Big 3 Questions

- ✓ Is the Corporation's Compliance Program Well Designed?
- ✓ Is the Corporation's Compliance Program Being Implemented Effectively?
- ✓ Does the Corporation's Compliance Program Work in Practice?

Theory

- An individual's integrity does not generalize across situations and is not internalized as a personal value.
- An individual's behavior is influenced more by the situation:
 - Opportunity to be dishonest
 - Probable gain from cheating
 - Likelihood of getting caught
 - Severity of the punishment
 - Perceived need for more money
- Usually, most individuals-
 - Believe in honesty
 - Can be tempted by convenient opportunities and intense situational pressures



Essential Elements & Key Global Guidance

USSG's 7 Elements of an Effective Compliance Program	DOJ/SEC FCPA Resource Guide Hallmarks of Effective Compliance	OECD's Good Practice Guidance on Internal Controls, Ethics, and Compliance	UK's 6 Principles for "Adequate Procedures"
1. Standards and procedures to prevent and detect criminal conduct	1. Commitment from Senior Management and Clearly Articulated Policy	1. Risk assessment as basis for effective internal controls & compliance program	1. Proportionate procedures
2. Leaders understand/oversee the compliance program to verify effectiveness and adequacy of support; specific individuals vested with implementation authority/responsibility	2. Code of Conduct and Compliance Policies and Procedures	2. Policy that clearly and visibly states bribery is prohibited	2. Top level commitment
3. Deny leadership positions to people who have engaged in misconduct	3. Oversight, Autonomy and Resources	3. Training – periodic, documented	3. Risk assessment
4. Communicate standards and procedures of compliance program, and conduct effective training	4. Risk Assessment	4. Responsibility – individuals at all levels should be responsible for monitoring	4. Due diligence
5. Monitor and audit; maintain reporting mechanism	5. Training and Continuing Advice	5. Support from senior management – strong, explicit & visible	5. Communication
6. Provide incentives; discipline misconduct	6. Incentives and Disciplinary Measures	6. Oversight by senior corporate officers with sufficient resources, authority, and access to Board	6. Monitoring and review
7. Respond quickly to allegations and modify program	7. Third-Party Due Diligence and Payments	7. Specific risk areas – promulgation and implementation programs to address key issues	
NOTE: A general provision requires periodic assessment of risk of criminal conduct and appropriate steps to design, implement, or modify each element to reduce risk	8. Continuous Improvement: Periodic Testing & Review	8. Business partners due diligence	
	9. Mergers & Acquisitions: Pre-Acquisition Due Diligence and Post-Acquisition Integration	9. Accounting – effective internal controls for accurate books and records	
		10. Guidance – provision of advice to ensure compliance	
		11. Reporting violations confidentially with no retaliation	
		12. Discipline for violations of policy	
		13. Re-assessment – regular review & necessary revisions	

Color Key

- Leadership
- Risk Assessment
- Standards & Controls
- Training & Communication
- Monitoring, Auditing & Response



Key Elements of a Best-in-Class Compliance Program

Best in Class Programs include harmony between internal audit, compliance, and legal, with a partnership with their independent trusted advisors that specialize in compliance and investigations.

Among some programs that are considered to be an indicator that a compliance program is among the best in its class are the following:

Use of Sophisticated Third-Party Management tools to reduce risk and improve performance. Given that corporate liability so frequently arises from actions of third parties, regulators increasingly look to innovative ways that compliance programs are using to understand, monitor and mitigate third party risk. Basing the program on the unique risks presented by various third parties, an effective program can use various tools and controls to enhance compliance and also more closely integrate third parties into the commercial strategy.

Adopting a Continuous Improvement Process that evaluates performance of key compliance controls at regular intervals so as to measure program effectiveness and areas of potential improvement.

Implementation of Key Performance Indicators to measure the effectiveness of compliance controls, and also to ensure that the compliance function is operating as expected by Board and Corporate leadership. Such indicators frequently can take the form of “dashboards” that provide a regular snapshot on key program elements.

Adoption of Data Analytics to proactively use data to identify activities presenting unique risks, and identify potential misconduct by reviewing both employee-specific data and comparative data across business segments, peers, and job titles.

Designing a Field Force Monitoring Program to make sure that compliance messaging and controls are making their way into the field and being incorporated into “every day” commercial practices – operationalizing.

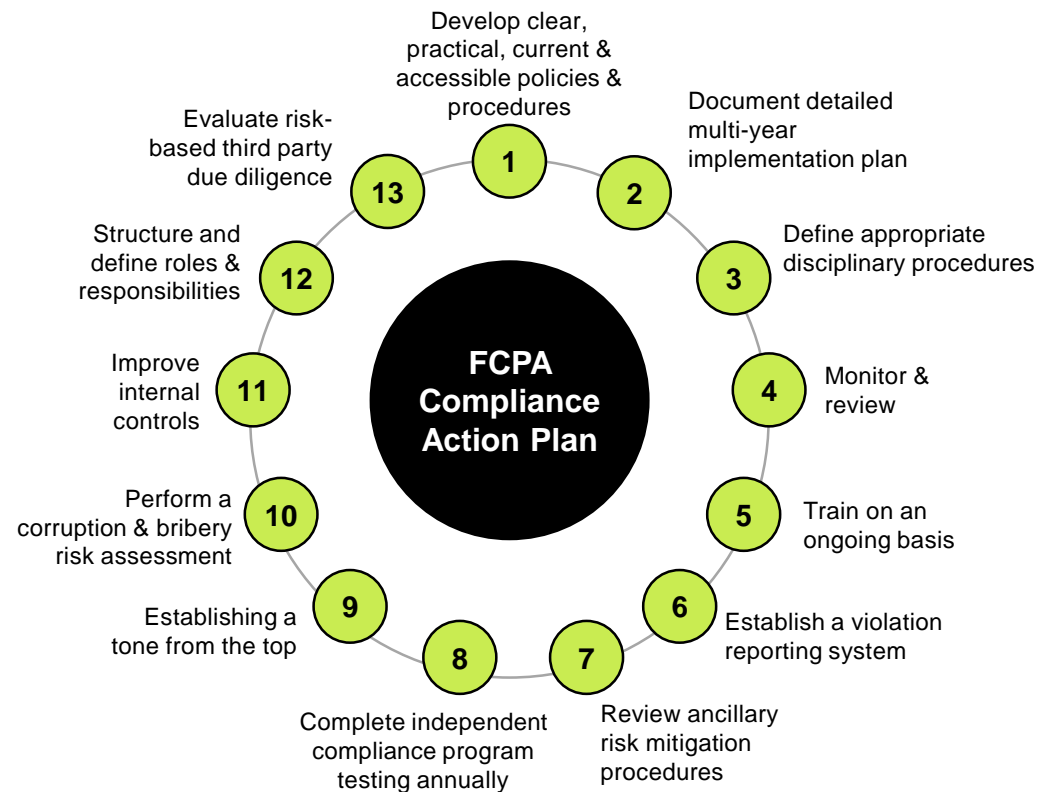
Compliance Best Practices

Best in Class Programs include harmony between internal audit, compliance and legal, with a partnership with their independent trusted advisors that specialize in compliance and investigations.

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- **Use of sophisticated third-party management tools** to reduce risk and improve performance. Given that corporate liability so frequently arises from actions of third parties, regulators increasingly look to innovative ways that compliance programs are using to understand, monitor and mitigate third party risk. Basing the program on the unique risks presented by various third parties, an effective program can use various tools and controls to enhance compliance and also more closely integrate third parties into the commercial strategy.
- **Adopting a continuous improvement process** that evaluates performance of key compliance controls at regular intervals so as to measure program effectiveness and areas of potential improvement.
- **Implementation of key performance indicators** to measure the effectiveness of compliance controls, and also to ensure that the compliance function is operating as expected by Board and Corporate leadership. Such indicators frequently can take the form of “dashboards” that provide a regular snapshot on key program elements.

- **Adoption of data analytics** to proactively use data to identify activities presenting unique risks, and identify potential misconduct by reviewing both employee-specific data and comparative data across business segments, peers, and job titles.
- **Designing a field force monitoring program** to make sure that compliance messaging and controls are making their way into the field and being incorporated into “every day” commercial practices – operationalizing.



Fraud Risk Assessment

Risk Management Process – What methodology has the company used to identify, analyze, and address the particular risks it faced?

The Fraud Pentagon

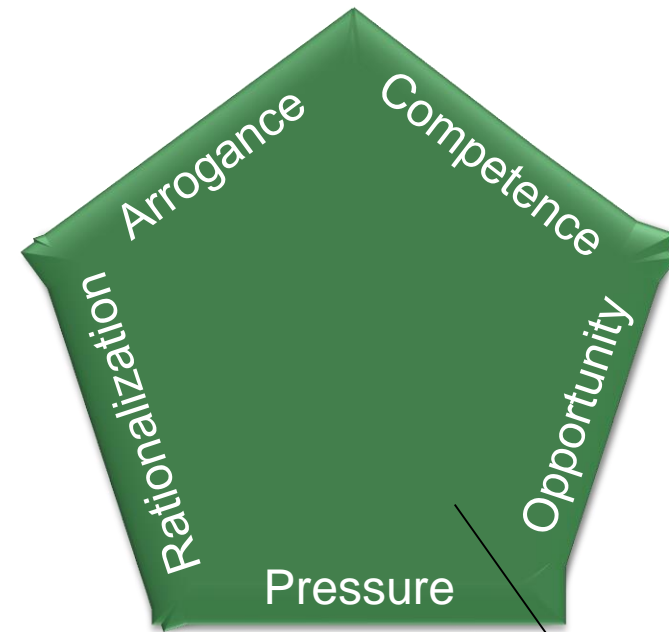
Arrogance: or lack of conscience is an attitude of superiority and entitlement or greed on the part of a person who believes that internal controls simply do not personally apply.

Competence: is an individual's ability to override internal controls, develop a sophisticated concealment strategy, and to control the social situation to his or her advantage by selling it to others, coercing them, or bullying them into doing something improper.

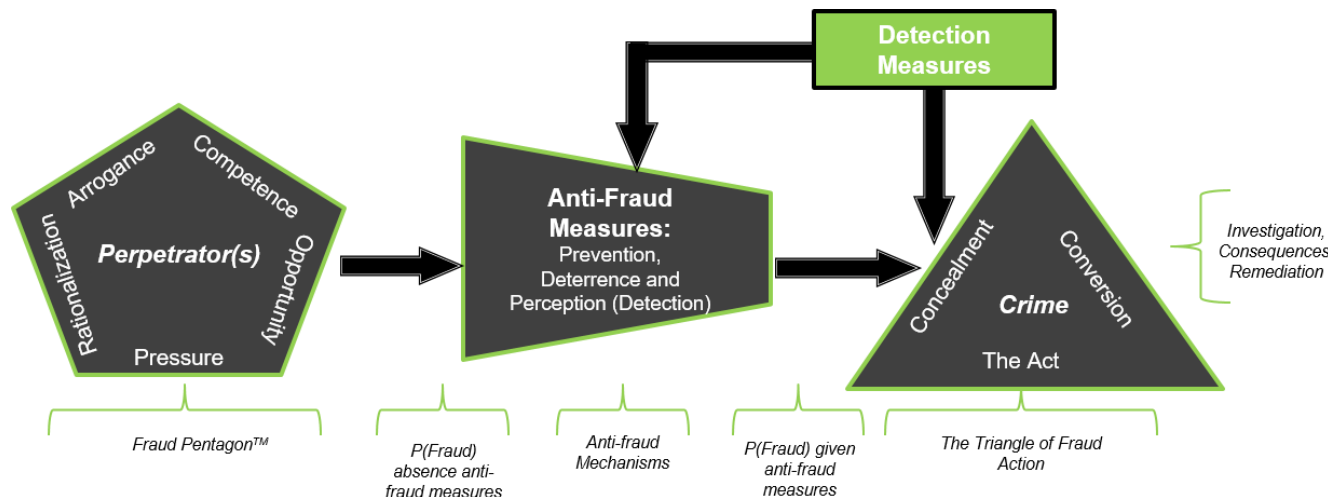
Opportunity: weak controls provide the opportunity for a person to commit fraud.

Pressure: There is a motive to commit and conceal a fraud

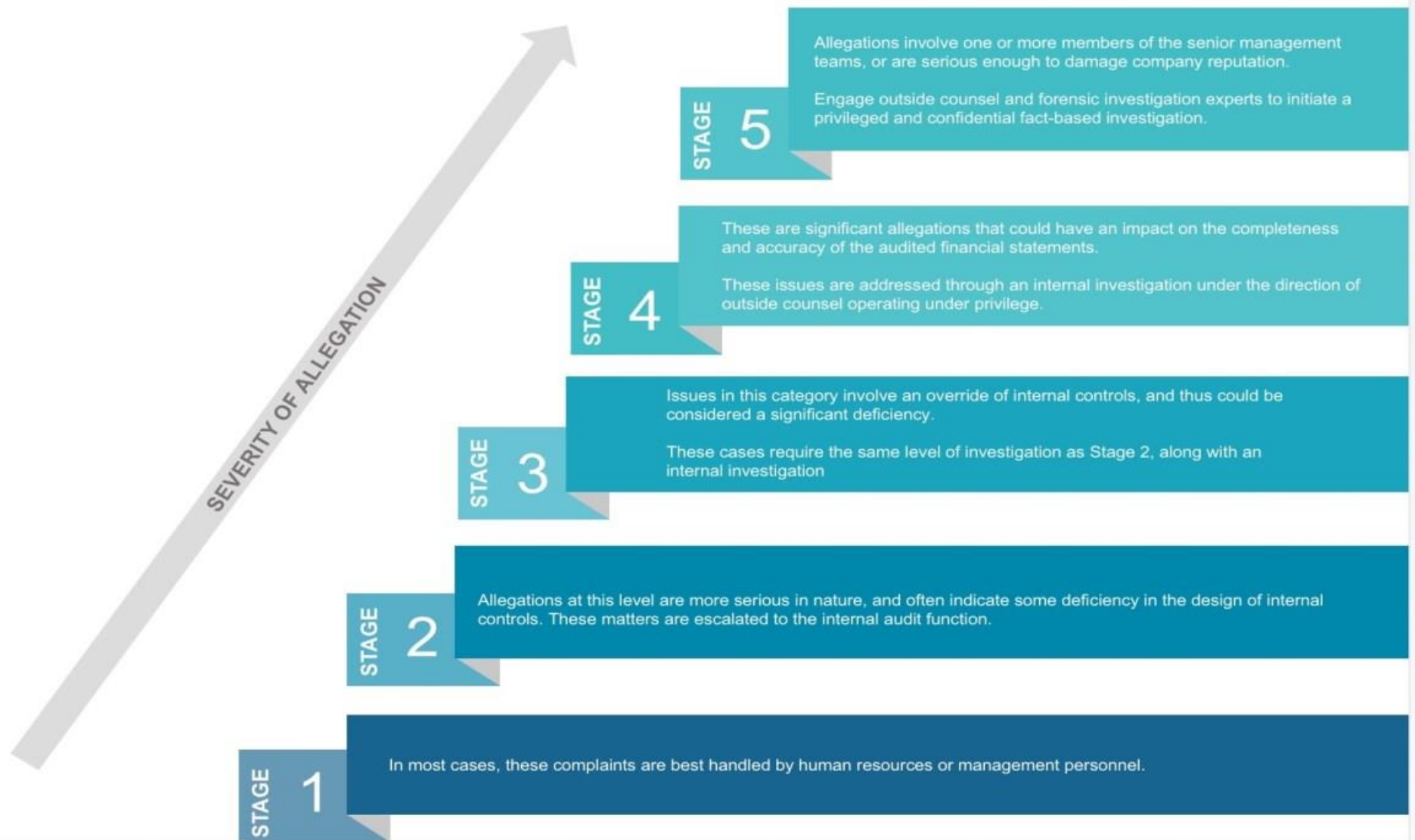
Rationalization: Not an ex post facto means of justifying a theft or fraud that has already occurred. Sociopaths do not rationalize!



The Fraud Pentagon, created by Jonathan T. Marks, is an enhancement to the 3 elements of fraud to include the *human elements*.

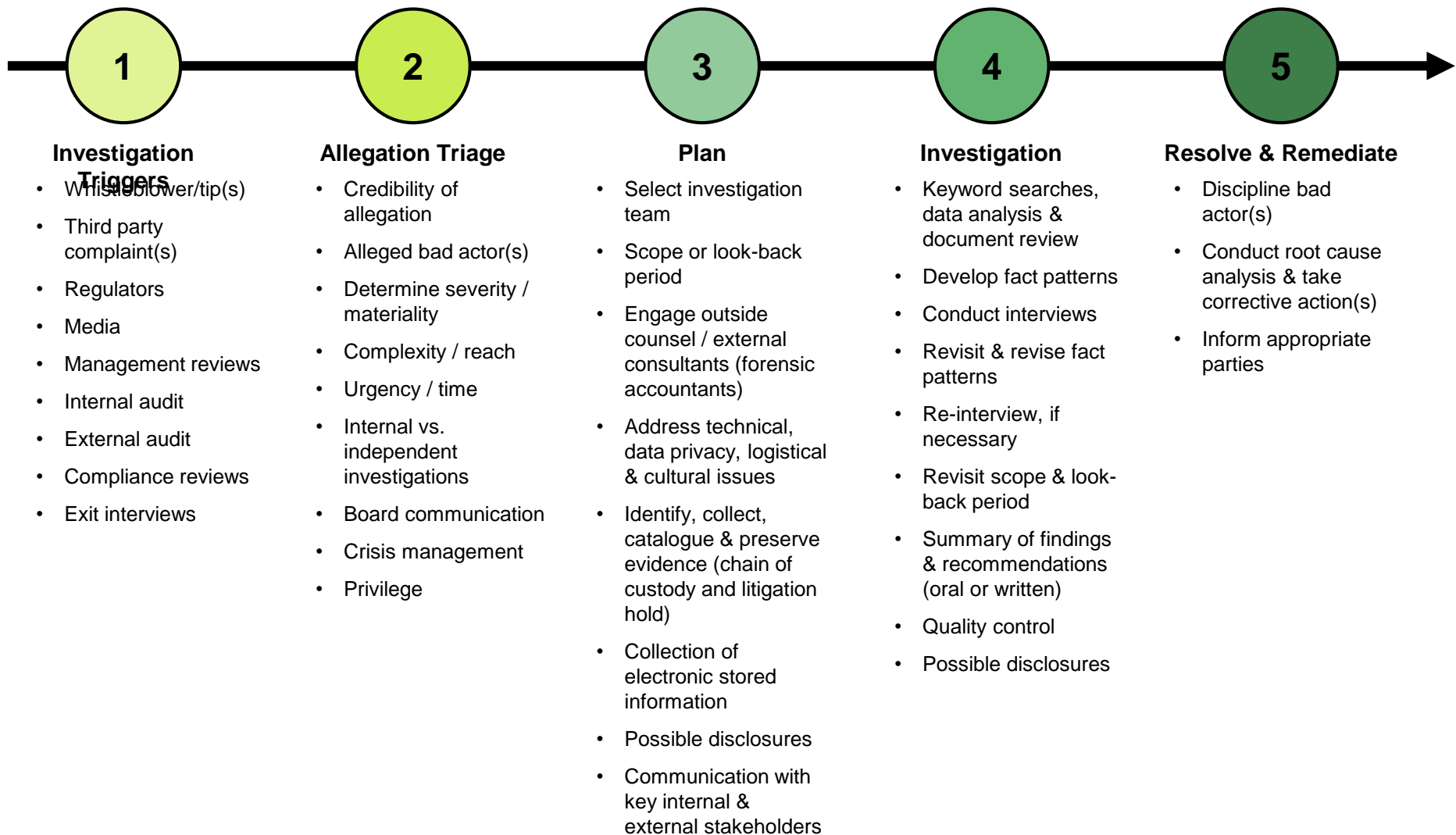


Triaging an Allegation of Wrongdoing™

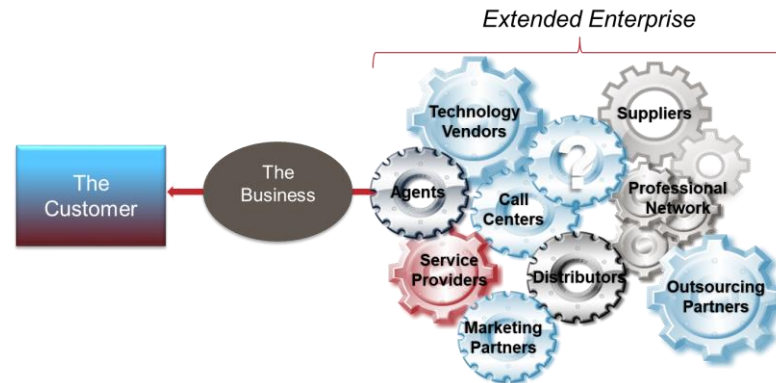


Investigation Overview

The Typical Path of Investigations



3rd Party Risk Management Programs



Note:

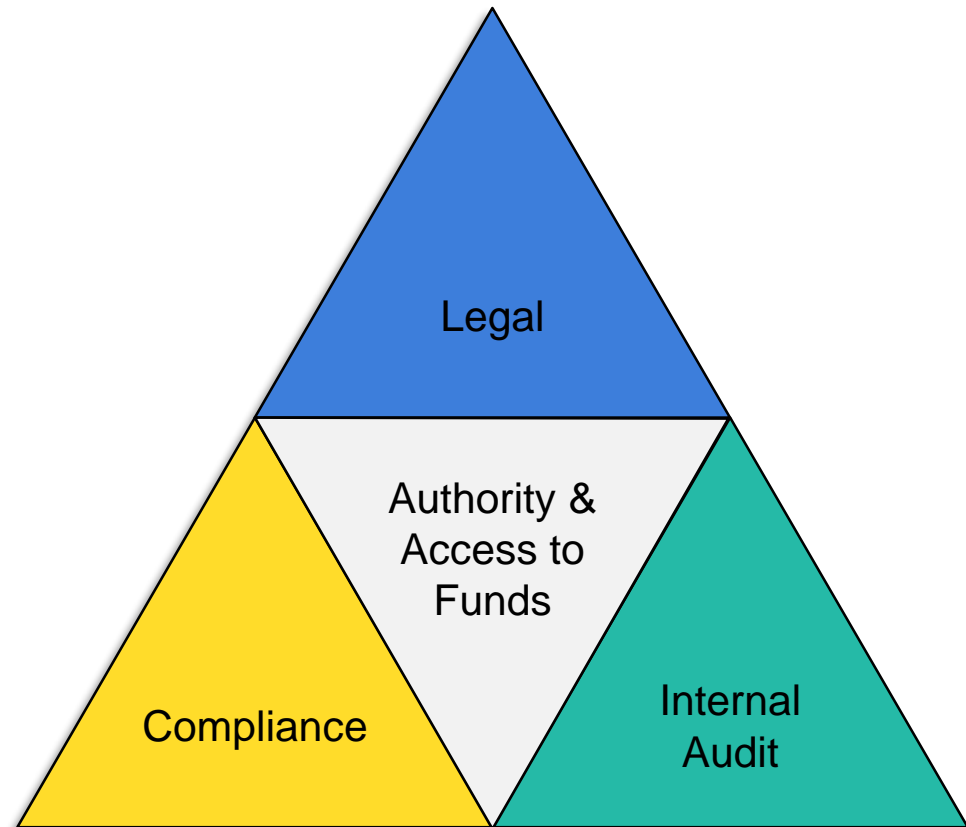
- 1. Not all steps are required for all third parties
- 2. High-risk third parties need more steps and higher level of review

Internal Controls

An “internal control” is an action or a process of interlocking activities designed to support the policies and procedures detailing the specific preventive, detective, corrective, directive and corroborative actions required to achieve the desired process outcomes or the objective(s).

This, along with on-going/continuous monitoring and training reasonably assures:

- The achievement of the process objectives linked to the organization's objectives;
- Operational effectiveness and efficiency;
- Reliable (complete and accurate) books and records (financial reporting);
- Compliance with laws, regulations and policies;
- The reduction of risk: fraud, waste, and abuse; which,
- Aids in the decline of process and policy variations leading to more predictive outcomes.



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Internal Control

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Systematic

Enemies of Controls

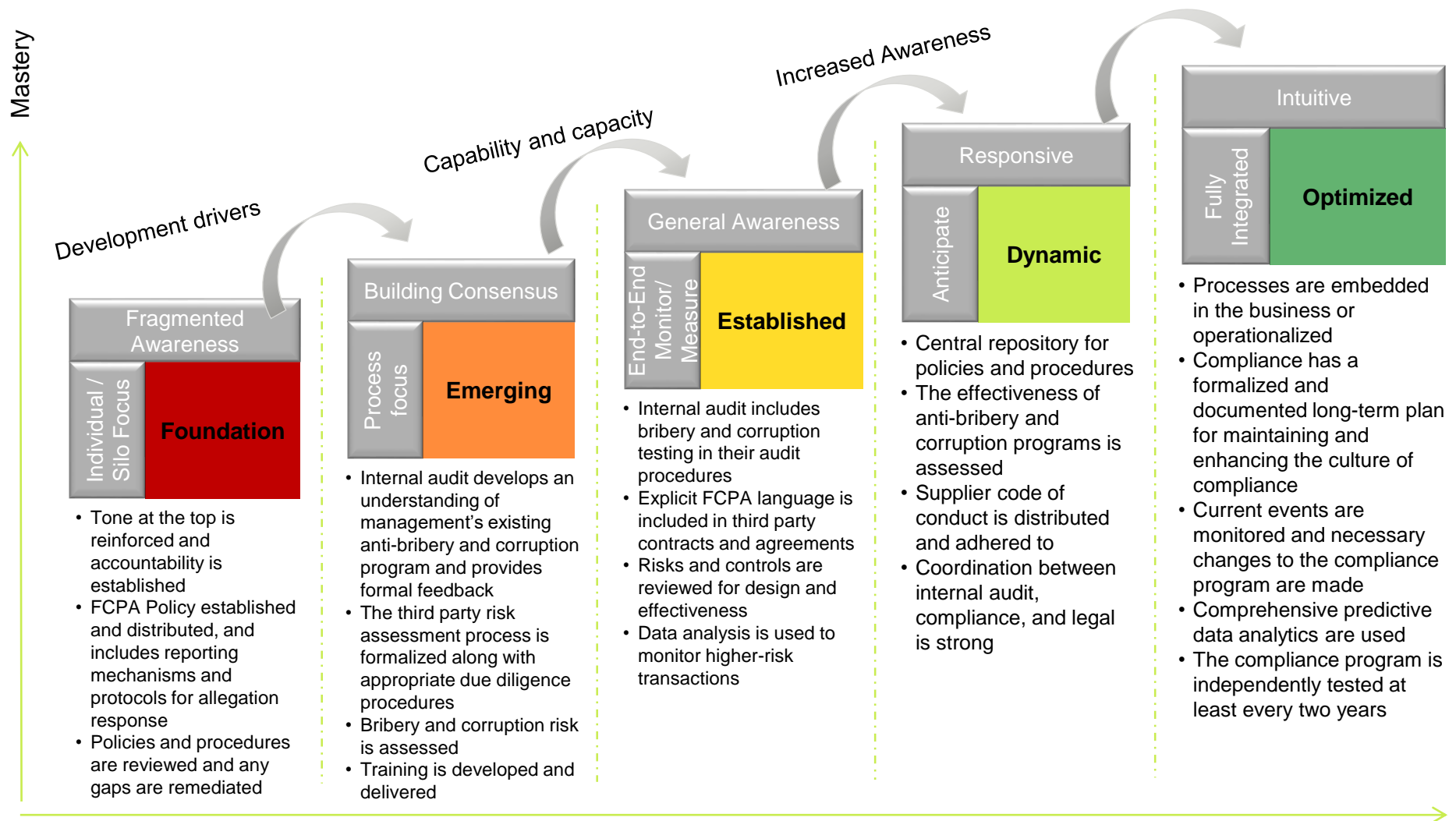


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Components	Principles	No. of Points of Focus															
<table border="1"> <tr> <td><i>Control Environment</i></td> <td></td> <td></td> </tr> <tr> <td><i>Risk Assessment</i></td> <td></td> <td></td> </tr> <tr> <td><i>Control Activities</i></td> <td></td> <td></td> </tr> <tr> <td><i>Information & Communication</i></td> <td></td> <td></td> </tr> <tr> <td><i>Monitoring Activities</i></td> <td></td> <td></td> </tr> </table>	<i>Control Environment</i>			<i>Risk Assessment</i>			<i>Control Activities</i>			<i>Information & Communication</i>			<i>Monitoring Activities</i>			1. Commitment to integrity and ethical values 2. Independent board of directors oversight 3. Structures, reporting lines, authorities, responsibilities 4. Attract, develop and retain competent people 5. People held accountable for internal control	4 4 3 4 5
	<i>Control Environment</i>																
	<i>Risk Assessment</i>																
	<i>Control Activities</i>																
	<i>Information & Communication</i>																
	<i>Monitoring Activities</i>																
		6. Clear objectives specified 7. Risks identified to achievement of objectives 8. Potential for fraud considered 9. Significant changes identified and assessed	5 5 4 3														
		10. Control activities selected and developed 11. General IT controls selected and developed 12. Controls deployed through policies and procedures	6 4 6														
		13. Quality information obtained, generated and used 14. Internal control information internally communicated 15. Internal control information externally communicated	5 4 5														
		16. Ongoing and/or separate evaluations conducted 17. Internal control deficiencies evaluated and communicated	7 3														

Sample Compliance Journey™

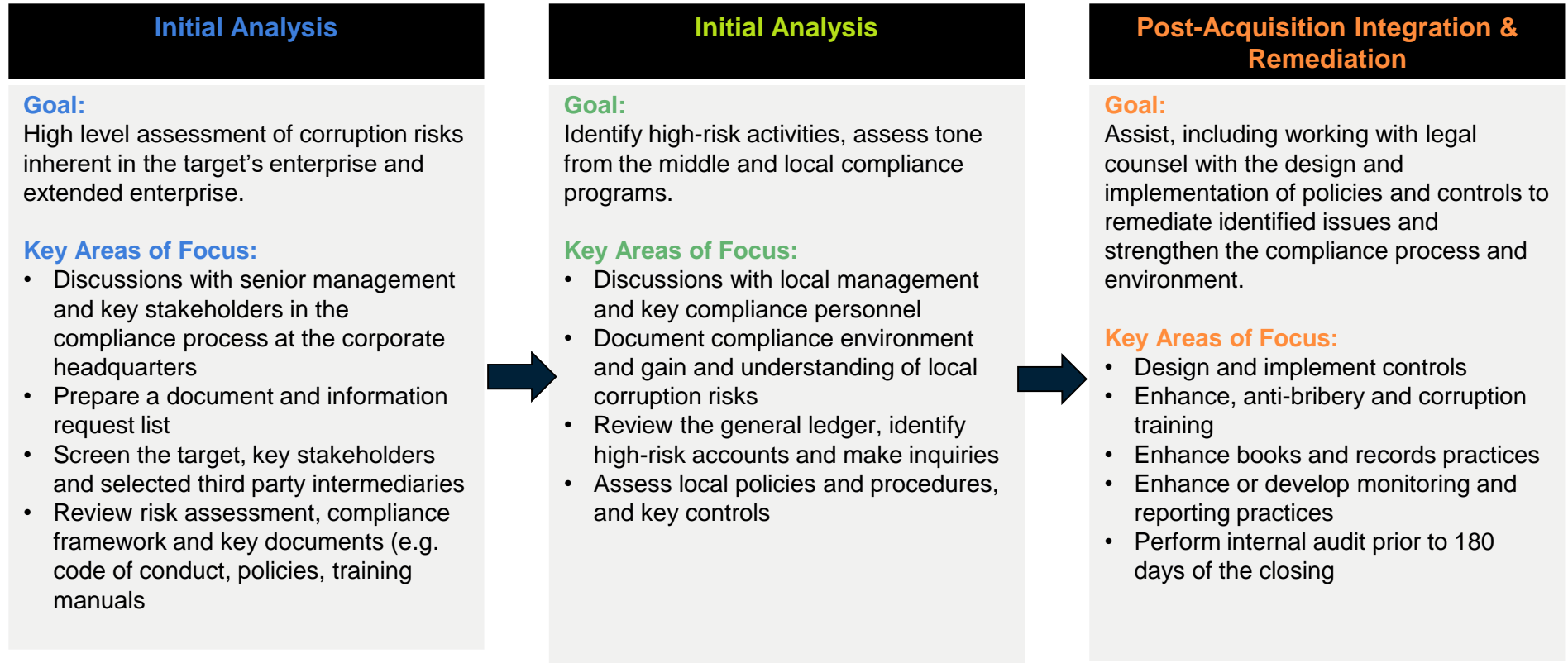


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Applying Analytics for Testing & Monitoring

Target Phase	Analytic Approaches	Analytic Techniques	Expected Benefits
Risk Assessment	<ol style="list-style-type: none"> Analyze location risk Analyze vendor risk Analyze employee risk Flight Pattern Analysis 	<ol style="list-style-type: none"> Baseline location activities and perform variance and outlier analysis; risk clustering Expense analytics Text & sentiment analytics – email Key word to classification Concept analysis Event sequence analysis based on flight data 	<ol style="list-style-type: none"> Automated identification of outlier transactions Automated classification of email correspondence for high risk. Classify all emails vs a sampling Establish risk baseline for ongoing monitoring and alerting Profile agents for future “looks like” agents to better target future risk assessments Assessment location choices based on transaction, text and flight pattern analysis to before focus
Investigations	<ol style="list-style-type: none"> Agent Analysis Sentiment Analysis JE and Transaction Analysis Global Analysis JE Analytics – Amount Email and Messaging – Context Event Series Analysis 	<ol style="list-style-type: none"> Variance analysis on transactions Cluster agents into high, med, low and unknown risk segments Probability risk scores for <ol style="list-style-type: none"> Agents Locations Vendors 	<ol style="list-style-type: none"> Analyze all data vs a sample
Other / Ongoing	<ol style="list-style-type: none"> Risk Dashboards RPA Analytics for automated tips QBR’s for imbedded analytics processes 	<ol style="list-style-type: none"> RPA “Bot” for real time analysis of data and automated hotline form completion Baseline reporting Email alerts 	<ol style="list-style-type: none"> Continuous monitoring and communication As the method of fraud change, baseline adjusts accordingly across the organization

M&A Due Diligence

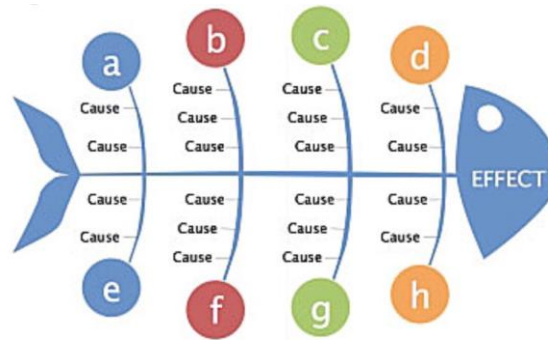


Root Cause

Root cause analysis is a tool to help identify not only what and how an event occurred, but also why it happened. When we are able to determine why an event or failure occurred, we can then recommend workable corrective measures that deter future events of the type observed.

When conducting a root cause analysis, many use the 5 Why's technique. By repeatedly asking the question *Why*, you can peel away the layers of symptoms which can help lead to the root cause of a problem. The 5 Why's is a stand-alone technique, but is often used in connection with the fishbone (Cause and Effect or Ishikawa) diagram. The fishbone diagram helps explore potential or real causes that result in a single defect or failure. Once all inputs are established on the fishbone, you can use the 5 Why's technique to drill down to the root causes.

The following items will be required for a company to receive full credit for timely and appropriate remediation for purposes of USAM 9-47-120(1) (beyond the credit available under the U.S.S.G.):



Demonstration of thorough analysis of causes of underlying conduct (i.e., a root cause analysis) and, where appropriate, remediation to address the root causes

—
Thank you!



A photograph of the Aurora Borealis (Northern Lights) in shades of green and blue, viewed from a wooden walkway with railings. The scene is set at night, with a starry sky and dark silhouettes of mountains in the background. The walkway leads towards the horizon, and the aurora is most prominent in the upper right portion of the frame.

Global Forensic, Compliance & Integrity Services

Key Service Offerings

Programs & Controls

- Governance reviews
- Building global anti-fraud and risk management programs
- Continuous auditing and customized dashboards
- Internal control review, design, or enhancement
- Policies and procedures
- Red flag reviews
- Fraud and FCPA risk assessments
- Third party risk management
- Distributor and vendor audits
- Supply chain analysis and review
- Due diligence of acquisition targets, merger candidates, possible joint ventures, or new business partners
- Forensic audits post acquisition
- Development or enhancement of compliance programs
- Monitoring and internal review testing of policies and procedures as part of the compliance program or pursuant to government settlement agreements
- Internal audit
- Crisis management
- Customized training

Response & Analysis

- Forensic accounting investigations
- Root cause analysis
- Analysis of books and records and other financial data
- Determination of the accounting methods used in financial reporting
- Electronic data discovery
- Data analytics
- Robotic automation
- Witness interviews and interview support
- Background and asset searches
- Preservation, organization and production of relevant documents
- Assistance in responding to subpoenas and requests for information
- Preparation of formal reports
- Specialized reports
- Reputational analysis
- Deposition and trial testimony



Global Forensic & Litigation Services Group

The reputational risk associated with fraud can be more impactful than the actual financial loss. Baker Tilly's highly-credentialed investigation professionals help clients uncover issues and strengthen controls.

Preventing and detecting fraud

Our experience conducting fraud investigations allows us to advise our clients on measures they can take to prevent fraud from occurring and detect issues before they expand. Our clients look to us to design anti-fraud programs and controls, perform anti-bribery and anti-corruption compliance assessments, and perform proactive fraud examinations to identify possible red flags or indicators of fraudulent activity.

Correcting deficiencies, addressing gaps in controls, and remediation of specific issues is important at the end of every investigation to prevent the same or similar frauds from recurring. We address these important client needs at the end of our investigations and can assist with implementing remedial actions.

Trusted advisors

Organizations want advisors they can trust to assist them through their most sensitive business issues. Clients count on us because we combine our deep financial acumen with a collaborative approach to addressing their most urgent needs. We are present at the table with our clients alongside government regulators in high stakes "bet-the-company" matters to provide objective, fact-based findings on very sensitive investigation matters. We have built a strong reputation of supporting our clients from the identification of their issues through resolution.

GFLS BY THE NUMBERS

200+

Fraud & forensic professionals

3,000

Forensic engagements

400

Times testified

50+

Certified Fraud Examiners

Fraud & Forensics

Baker Tilly's Fraud & Forensic Investigations team is comprised of world-class, private sector forensic accountants, as well as former government and law enforcement professionals with significant experience in forensic accounting investigations. Our team members also have experience in governance, risk, and compliance assessments, to include internal control reviews for public sector entities.

Our consultants' complementary perspectives allow us to provide the full suite of investigatory services, from witness interviews to data mining and forensic accounting analysis. We also offer tremendous breadth through our:



Geographic
Reach



Industry
Experience



Service
Offerings

Fraud puts assets, reputations and even freedom in jeopardy.

For clients with so much at stake, Baker Tilly brings the breadth of perspective necessary to investigate fully, assist counsel with litigating and remediate any type of financial misconduct.

Service capabilities include:

- Anti-corruption and anti-fraud consulting
- Comprehensive investigative services
- Corporate accounting fraud investigations
- Digital forensics
- Document review and analysis
- Damage calculations
- Data mining and analytics
- Electronic discovery
- Expert witness services and other litigation support
- Foreign Corrupt Practices Act (FCPA) consulting and investigations
- Forensic accounting
- Monitorships
- Preventative client audits and assessments
- Remediation recommendations

Enterprise Security Risk Management Services

Baker Tilly offers enterprise and operational security services based on specific threats to your organization.

Today's environment requires the navigation of multiple security risks that continuously challenge the achievement of business goals and objectives, threaten personnel and create risk of loss to assets, knowledge and reputation.

The increase of threat actors, geopolitical risks, cyber risk and employee misconduct present huge challenges for any organization. No organization has unlimited resources to manage security risks and therefore often relies upon subject matter experts to provide consultation and advise to help them effectively identify, prioritize and mitigate these risks.

Baker Tilly's professionals are equipped to provide security related services using an enterprise approach designed to identify, evaluate, and mitigate the likelihood and/or impact of security risks to the organization with priority given to protective activities that help enable the organization to advance its overall mission.

We use an enterprise security risk management approach aligned with our client's risk profile, risk appetite and vulnerability assessment that enable us to prioritize and mitigate your greatest risks which, if left unmanaged, can impeded your strategic goals and objectives, cause harm to your personnel or result in loss of assets and reputation.

We are committed to maintaining an understanding our client's overall strategy, including its mission and vision, core values, operating environment and stakeholders. Understanding this context will enable our security experts to effectively support and align with the organization's strategic goals.

We provide the following services in a cost effective manner and use a common sense approach to avoid limiting the effectiveness and efficiency of your business operations.



Enterprise Security

We provide clients with peace of mind knowing that we are focused on mitigating risks that if left unchecked, can negatively impact your organization's ability to achieve strategic objectives.



Crisis Management

We help organizations prepare, manage and recover from any crisis. Our approach aims to navigate the immediate crisis, restore the continuity of operations and recover from any loss or harm to the organization.



Workplace Violence

We provide clients with a well-designed workplace violence program to reduce overall risk to employees and better equip companies for managing these events.



Physical Security Programs & Controls

Baker Tilly's operational and protective security solutions are tailored to the threat environment and the business context of your operations and designed to help you achieve strategic objectives.



About our Firm

Baker Tilly at a Glance

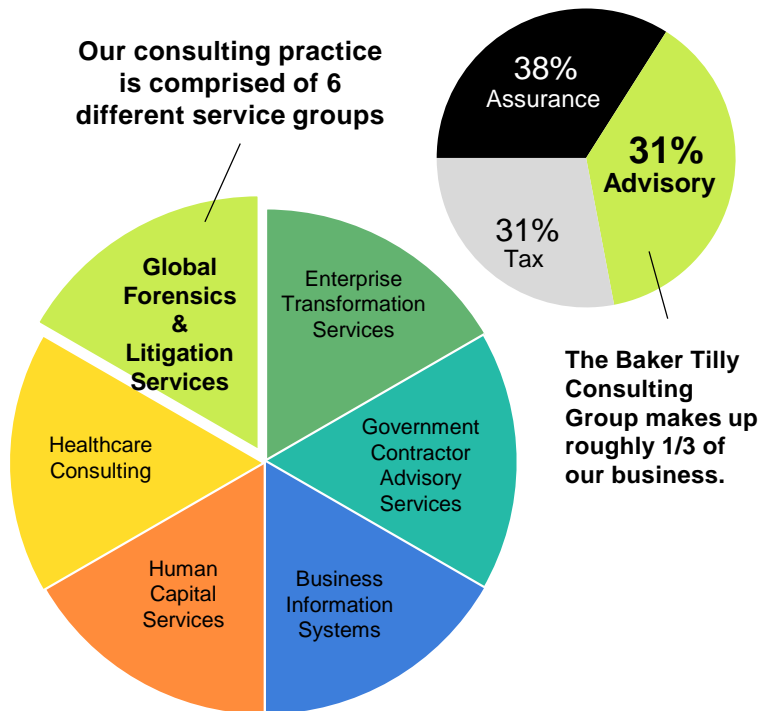


About our Firm

Baker Tilly Virchow Krause, LLP is a full-service accounting and advisory firm. Our global staff of accountants and consultants provide our clients with specialized knowledge and advice across a variety of industries. Our team collaborates with management, internal audit functions, boards and audit committees to address areas of strategic importance. Blending deep industry insight with sound business advice, we deliver practical, customized solutions.

The Consulting Practice

Our Consulting Group focuses on our clients' most important issues and opportunities. We look for agile organization solutions, which incorporate strategy, process improvement, human capital, enterprise technology, risk/compliance and strategic program management. Many of our senior level team members bring a combination of large firm consulting and industry based experience that we are able to bring together in a smaller team delivery model that works side-by-side with your team.



Baker Tilly International

\$3.6B

In annual revenue

145

Territories with member firms

8th

Largest accounting & consulting network worldwide

6.5%

Year-on-year growth

35,000

Employees

746

Offices worldwide

Baker Tilly International

We are an independent member of Baker Tilly International, the world's 8th largest accounting and consulting network in the world by fee income. Member firms across the globe serve their clients' local, national and international needs.

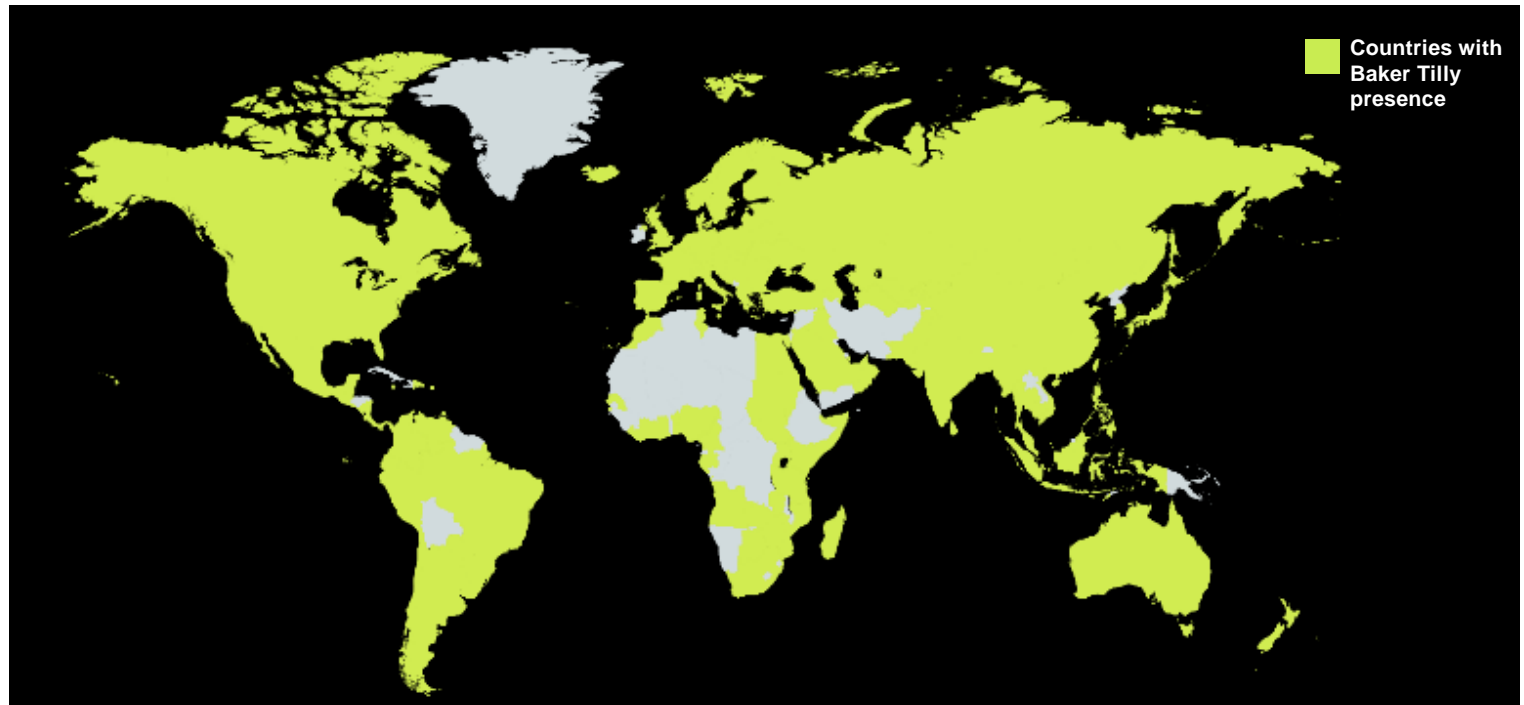
Our global services span industries and technical specialties, bringing you international advisory, compliance, attest, tax, corporate finance, risk, expatriate, wealth preservation and go-to-market services.

Now, for tomorrow

We create meaningful experiences with our clients to solve their most pressing problems and seize new opportunities.

Our relationships with clients are genuine. We understand their world today and provide insights that shape their tomorrow.

Network members collaborate seamlessly to serve our clients across the globe.



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