



KPMG FORENSIC

Integrity Survey 2008–2009

KPMG LLP

Contents

Overall Results	1
Prevalence and Nature of Misconduct	
Understanding Acceptable Conduct	
Preventing Misconduct	
Detecting Misconduct	
Responding to Misconduct	
Perceived Tone and Culture	
Comparison of Data Over Time	11
Impact of Ethics and Compliance Programs	14
Program Elements	
Correlation	
Prevalence of Misconduct	
Detecting Misconduct	
Responding to Misconduct	
Tone and Culture	
Taking Stock	21
Covering the Basics	
Advancing the Conversation	
Meeting the Regulatory Challenge	23
Sarbanes-Oxley Act of 2002 (Section 404)	
Corporate Governance Listing Standards	
U.S. Sentencing Guidelines Criteria	
Department of Justice Prosecution Policy	
Director and Officer Liability	
Background and Methodology	26
Respondent Demographics	
Frequently Asked Questions	
About KPMG Forensic	30
Acknowledgements	30
Major KPMG Contributors	
Special Thanks	



Forensic Leadership Message

Our 2008–2009 Integrity Survey is being released at a time when public trust and confidence in the capital markets have once again been shaken. In this turbulent environment, the relevance of our survey is greater than ever as companies, regulators, and investors seek better understanding of factors that may have contributed to the current economic challenges. To this end, we invite you to join us as we take an inside look at corporate fraud and misconduct, drawn from the firsthand experiences and perceptions of more than 5,000 employees nationally.

This survey report is our third in a periodic series that we began in 2000 as American business entered the new millennium. Today, we highlight what has changed over the years—and what has not. Among our key findings:

- The prevalence of misconduct remains high. Nearly three out of four employees (74 percent) report that they have personally observed or have firsthand knowledge of wrongdoing within their organizations during the previous 12 months. This figure is largely unchanged from our findings in the years 2005 and 2000.
- The nature of observed misconduct remains serious. Nearly half of the employees (46 percent) reported that what they observed could cause “a significant loss of public trust if discovered.” This figure not only remains on par with previous years at the national level, it peaks at 60 percent for employees working in the banking and finance industry.
- Pressures, incentives, inadequate resources, and job uncertainty continue to be major drivers of fraud and misconduct. Respondents reported that managers and employees feel pressure to do whatever it takes to meet business targets (59 percent); they believe they will be rewarded for results, not the means used to achieve them (52 percent); they lack resources to get their jobs done without cutting corners (50 percent); and they fear losing their jobs if they do not meet targets (49 percent).
- While whistleblower mechanisms are gaining traction, there remains a risk that boards and senior management may not hear from employees about fraud and misconduct risks until it is too late. More than half (57 percent) of the respondents reported that they would feel comfortable using a hotline to report misconduct, which is up from 40 percent when we began surveying. However, only half (53 percent) believed they would be protected from retaliation, and even fewer (39 percent) believed that they would be satisfied with the outcome if they reported misconduct to management.
- Ethics and compliance programs continue to have a favorable impact on employee perceptions and behaviors across the board. For example, the percentage of respondents who reported working in an environment in which people feel motivated and empowered to do the right thing doubles (from 43 percent to 90 percent) among employees who work in companies with comprehensive ethics and compliance programs versus those who do not.

We hope you find these insights useful as you consider your organization's vulnerabilities to fraud and misconduct and the effectiveness of programs you rely on to mitigate these risks.

The need for effective fraud risk management efforts could not be greater, especially as we move through a volatile market in which management's risks and opportunities may be amplified. For example, our data suggest that managers and employees facing heightened pressure to meet revenue and cost targets may resort to improper means of doing so—especially if they perceive their jobs to be in jeopardy if they do not meet targets otherwise. At the same time, public- and private-sector organizations may find opportunities to leverage their antifraud efforts to control costs and reduce losses associated with fraud, waste, and abuse—particularly in circumstances involving significant government funding in private enterprise.

For more information about how the KPMG ForensicSM practice can help, please call 877-679-5764. We also invite you to visit us.kpmg.com for more information and to learn about the promise of professionalism to our people, our clients, and the capital markets we serve.

Richard H. Girgenti
National Practice Leader
KPMG Forensic

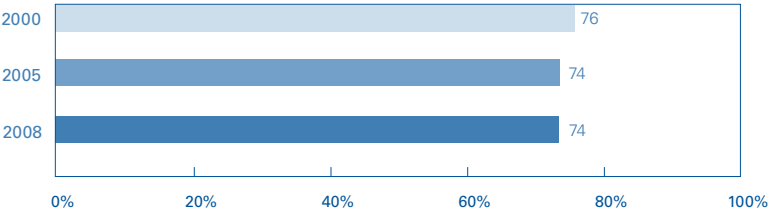
Overall Results

PREVALENCE AND NATURE OF MISCONDUCT

Prevalence of Misconduct

As in prior years, we wanted to understand the overall prevalence of corporate fraud and misconduct. To gauge this, we asked employees whether they had “personally seen” or had “firsthand knowledge” of specific categories of misconduct within their organizations over the prior 12-month period. In 2008, roughly three quarters of respondents (74 percent) reported that they had. This figure remains largely unchanged from previous years.

Prevalence of Misconduct During the Prior 12 Months

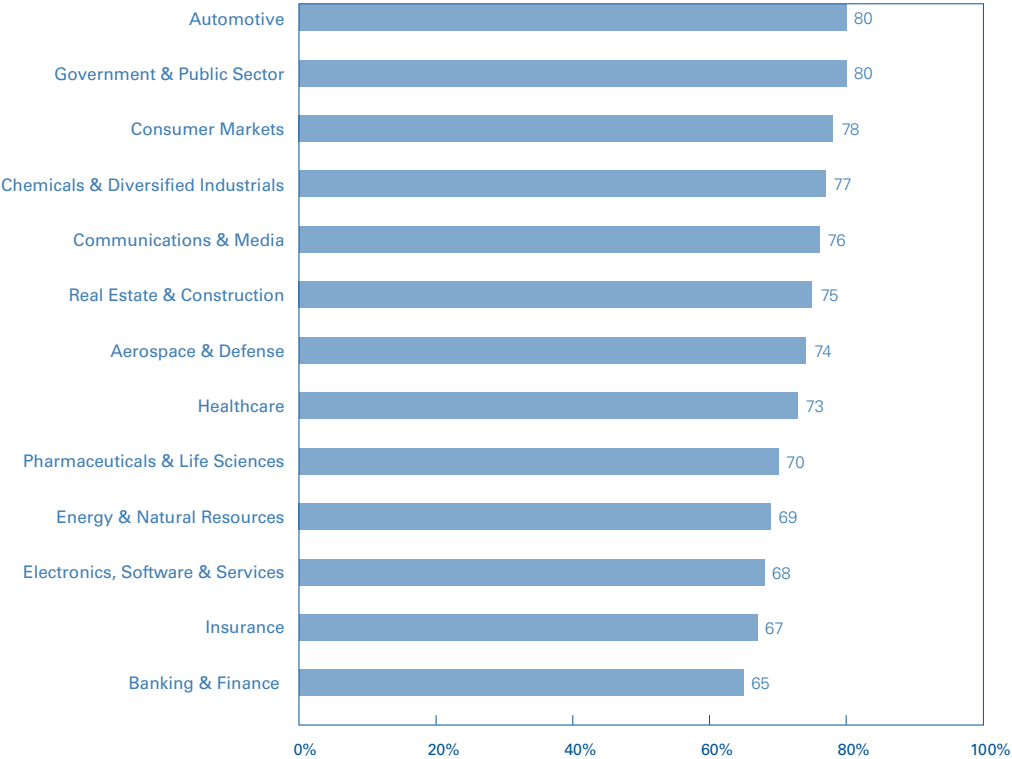


Source: KPMG LLP (U.S.), 2008

Prevalence of Misconduct by Industry

When we examine the prevalence of misconduct across industries, we generally find that misconduct remains high across all industries, fluctuating within a 15 percent range. Employees who work in the public sector and the automotive industries reported the highest rates of misconduct overall. Employees in highly regulated industries, such as banking and finance, reported lower rates of misconduct relative to other industries.

Prevalence of Misconduct During the Prior 12 Months, by Industry

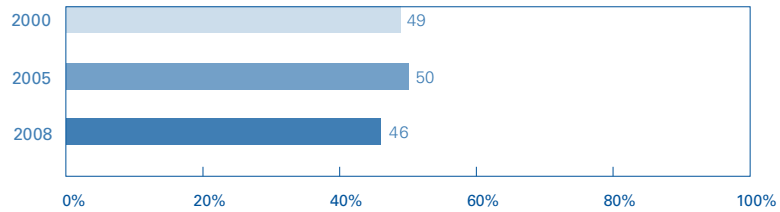


Source: KPMG LLP (U.S.), 2008

Seriousness of Misconduct

To help gauge the seriousness of misconduct being observed, we asked employees if what they observed could cause a “significant loss of public trust” if discovered. As in prior years, roughly half of respondents (46 percent) answered in the affirmative.

Prevalence of Misconduct that Could Cause a “Significant Loss of Public Trust if Discovered”

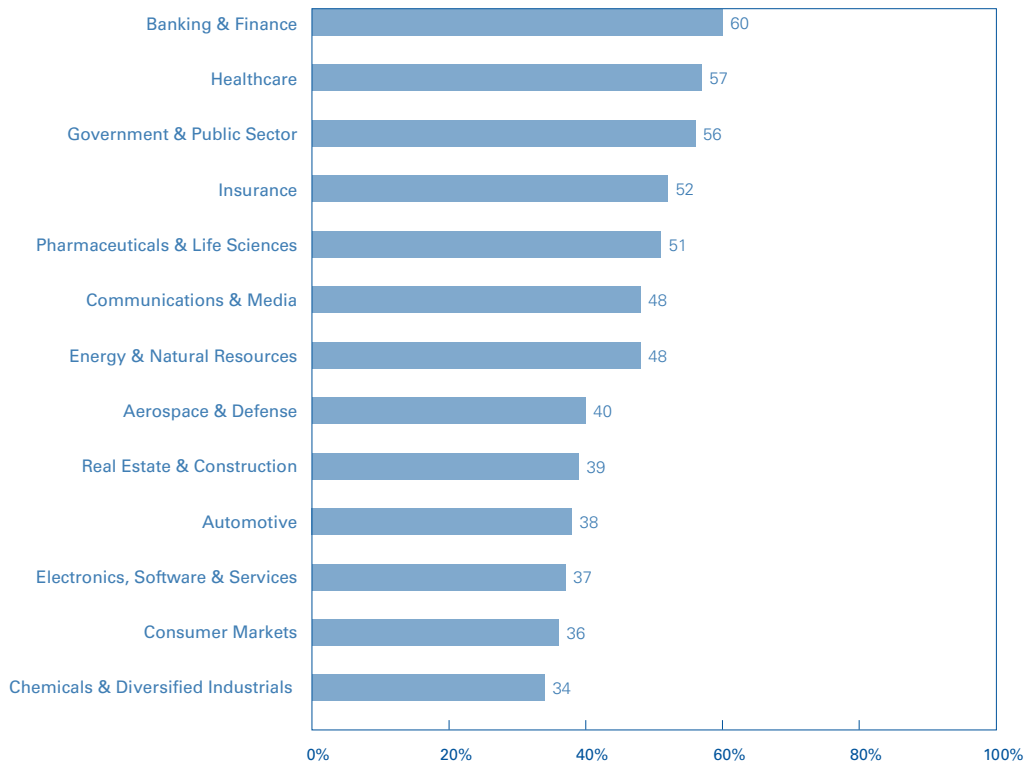


Source: KPMG LLP (U.S.), 2008

Seriousness of Misconduct by Industry

We also found that the prevalence of serious misconduct varies more widely across industries. Employees working in the banking and finance industry reported the highest instances of misconduct that could cause a significant loss of public trust. This contrasts with employees in other sectors such as diversified industrials and chemicals, where the prevalence of serious misconduct was 26 percent lower.

Prevalence of Misconduct that Could Cause a “Significant Loss of Public Trust if Discovered,” by Industry



Source: KPMG LLP (U.S.), 2008

Types of Misconduct

Next, we examined the types of misconduct witnessed by employees overall and across different job functions. As shown in the table below, we invited respondents to identify either broadly or specifically the types of misconduct that they had observed in the prior year. In the tables that follow, we cross-tabulate the percentage of employees in specific job functions who reported observing specific types of misconduct.

CATEGORIES OF FRAUD AND MISCONDUCT ASSESSED IN THE SURVEY	
<p>Compromising customer or marketplace trust by:</p> <ul style="list-style-type: none"> Engaging in false or deceptive sales practices Submitting false or misleading invoices to customers Engaging in anti-competitive practices (e.g., market rigging) Improperly gathering competitors' confidential information Fabricating product quality or safety test results Breaching customer or consumer privacy Entering into customer contract relationships without proper terms, contracts, or approvals Violating contract terms with customers <p>Compromising shareholder or organizational trust by:</p> <ul style="list-style-type: none"> Falsifying or manipulating financial reporting information Stealing or misappropriating assets Falsifying time and expense reports Breaching computer, network, or database controls Mishandling confidential or proprietary information Violating document retention rules Providing inappropriate information to analysts or investors Trading securities based on "inside" information Engaging in activities that pose a conflict of interest Wasting, mismanaging, or abusing the organization's resources <p>Compromising employee trust by:</p> <ul style="list-style-type: none"> Discriminating against employees Engaging in sexual harassment or creating a hostile work environment Violating workplace health and safety rules 	<ul style="list-style-type: none"> Violating employee wage, overtime, or benefit rules Breaching employee privacy Abusing substances (drugs, alcohol) at work <p>Compromising supplier trust by:</p> <ul style="list-style-type: none"> Violating or circumventing supplier selection rules Accepting inappropriate gifts or kickbacks from suppliers Paying suppliers without accurate invoices or records Entering into supplier contracts that lack proper terms, conditions, or approvals Violating the intellectual property rights or confidential information of suppliers Violating contract or payment terms with suppliers Doing business with disreputable suppliers <p>Compromising public or community trust by:</p> <ul style="list-style-type: none"> Violating environmental standards Exposing the public to safety risk Making false or misleading claims to the media Providing regulators with false or misleading information Making improper political contributions to domestic officials Making improper payments or bribes to foreign officials Doing business with third parties that may be involved in money laundering Doing business with third parties prohibited under international trade restrictions and embargoes Violating international labor or human rights standards <p>General:</p> <ul style="list-style-type: none"> Violating company values and principles Engaging in fraudulent or illegal acts

Source: KPMG LLP (U.S.), 2008

SELECT OBSERVATIONS BY EMPLOYEES IN SALES AND MARKETING FUNCTIONS	
Engaging in false or deceptive sales practices	27%
Improperly gathering competitors' confidential information	20
Violating contract terms with customers	14
Engaging in anti-competitive practices (e.g., market rigging)	12
Submitting false or misleading invoices to customers	9

Source: KPMG LLP (U.S.), 2008

SELECT OBSERVATIONS BY EMPLOYEES IN ACCOUNTING AND FINANCE FUNCTIONS	
Breaching computer, network, or database controls	22%
Entering into customer relationships without proper contracts, terms, or approvals	18
Stealing or misappropriating assets	17
Falsifying or manipulating financial reporting information	13

Source: KPMG LLP (U.S.), 2008

SELECT OBSERVATIONS BY EMPLOYEES IN PURCHASING AND PROCUREMENT FUNCTIONS	
Entering into supplier contracts that lack proper terms, conditions, or approvals	26%
Violating or circumventing supplier selection rules	24
Accepting inappropriate gifts or kickbacks from suppliers	23
Violating contract or payment terms with suppliers	20
Engaging in anti-competitive practices (e.g., market rigging)	12

Source: KPMG LLP (U.S.), 2008

SELECT OBSERVATIONS BY EMPLOYEES IN RESEARCH, DEVELOPMENT, AND ENGINEERING FUNCTIONS	
Mishandling confidential or proprietary information	24%
Engaging in activities that pose a conflict of interest	22
Accepting inappropriate gifts or kickbacks from suppliers	13
Improperly gathering competitors' confidential information	11

Source: KPMG LLP (U.S.), 2008

SELECT OBSERVATIONS BY EMPLOYEES IN OPERATIONS AND SERVICE FUNCTIONS	
Wasting, mismanaging, or abusing the organization's resources	44%
Violating employee wage, overtime, or benefit rules	28
Breaching employee privacy	28
Mishandling confidential or proprietary information	22
Falsifying time and expense reports	21

Source: KPMG LLP (U.S.), 2008

SELECT OBSERVATIONS BY EMPLOYEES IN MANUFACTURING AND PRODUCTION FUNCTIONS	
Violating workplace health and safety rules	47%
Discriminating against employees	47
Engaging in sexual harassment or creating a hostile work environment	38
Abusing substances (drugs, alcohol) at work	26
Fabricating product quality or safety test results	23

Source: KPMG LLP (U.S.), 2008

SELECT OBSERVATIONS BY EMPLOYEES IN QUALITY, SAFETY, AND ENVIRONMENTAL FUNCTIONS	
Violating environmental standards	27%
Fabricating product quality or safety test results	25
Exposing the public to safety risk	17
Violating international labor or human rights standards	7
Doing business with third parties prohibited under international trade restrictions/embargoes	3

Source: KPMG LLP (U.S.), 2008

SELECT OBSERVATIONS BY EMPLOYEES IN TECHNOLOGY FUNCTIONS	
Breaching employee privacy	25%
Breaching computer, network, or database controls	23
Mishandling confidential or proprietary information	22
Breaching customer or consumer privacy	16
Falsifying or manipulating financial reporting information	9

Source: KPMG LLP (U.S.), 2008

SELECT OBSERVATIONS BY EMPLOYEES IN GOVERNMENT AND REGULATORY AFFAIRS FUNCTIONS	
Making false or misleading claims to the public or media	19%
Providing inappropriate information to analysts or investors	13
Providing regulators with false or misleading information	12
Making improper political contributions to domestic officials	7
Doing business with third parties that may be involved in money laundering	4
Making improper payments or bribes to foreign officials	3

Source: KPMG LLP (U.S.), 2008

SELECT OBSERVATIONS BY EMPLOYEES IN GENERAL MANAGEMENT AND ADMINISTRATION FUNCTIONS	
Wasting, mismanaging, or abusing the organization's resources	46%
Mishandling confidential or proprietary information	26
Engaging in activities that pose a conflict of interest	23
Stealing or misappropriating assets	21
Falsifying or manipulating financial reporting information	12

Source: KPMG LLP (U.S.), 2008

UNDERSTANDING ACCEPTABLE CONDUCT

We asked employees nationally whether they understood the values, standards, and policies that define acceptable business practices for their positions. We found high levels of familiarity with such standards as well as favorable views on the communication and training employees receive related to those standards.

EMPLOYEE FAMILIARITY WITH STANDARDS OF CONDUCT	
Specific policies, laws, or regulations unique to my job function	84%
My organization’s code of conduct	83
My organization’s overall values and principles	82

Source: KPMG LLP (U.S.), 2008

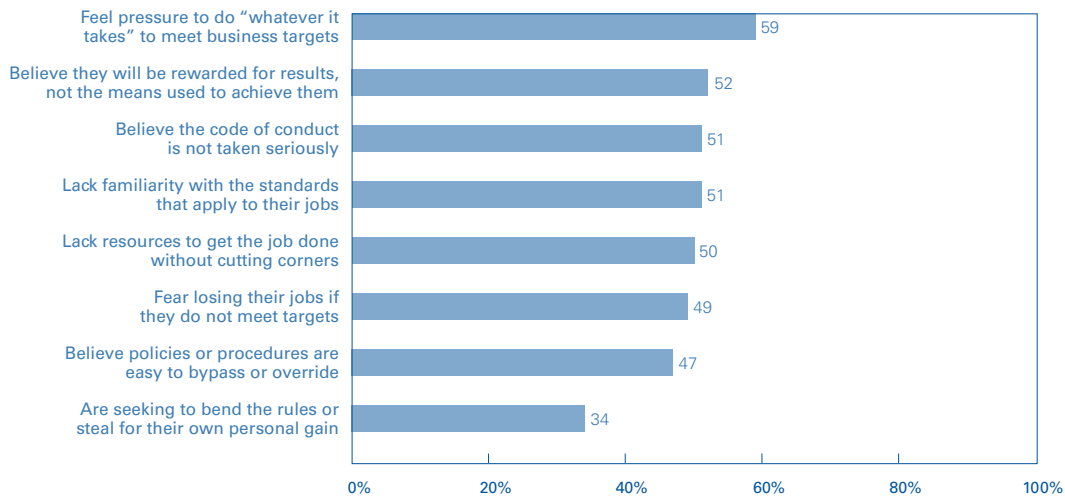
EMPLOYEE VIEWS ON THE COMMUNICATION AND TRAINING THEY RECEIVE	
Clear and easy for me to understand	94%
Effective in guiding my decisions and behaviors at work	91
Provided to me when I need it	90

Source: KPMG LLP (U.S.), 2008

PREVENTING MISCONDUCT

Preventing misconduct begins by better understanding its root causes. Therefore, we asked employees what factors might cause employees and managers to engage in misconduct. Excessive pressures, incentives, uncertainty over the rules, inadequate resources, and job anxiety were among the major drivers cited.

Root Causes of Misconduct



Source: KPMG LLP (U.S.), 2008

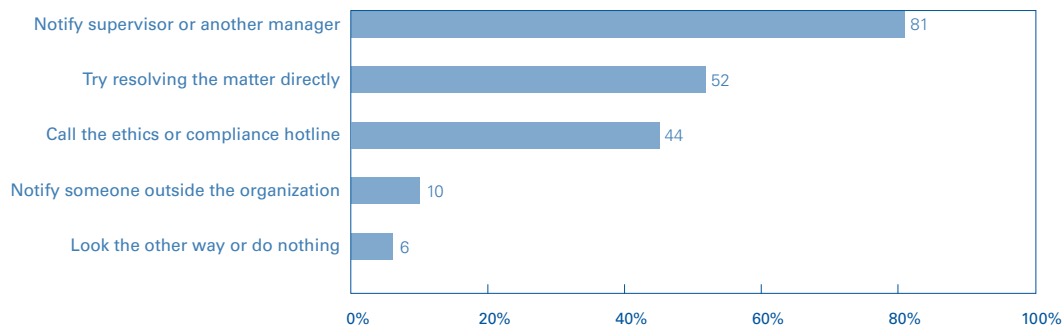
DETECTING MISCONDUCT

Many of the most sophisticated fraud schemes are eventually discovered and brought to light by whistleblowers. Therefore, we wanted to gauge the inclinations of employees upon witnessing misconduct as well as their comfort in raising concerns through various channels established by management for upward communication.

Propensity to Report Misconduct

We asked employees what they would be inclined to do if they observed a violation of their organization’s standards of conduct. More than three quarters of respondents indicated that they would notify their supervisor or another manager, underscoring the importance of ensuring first-line managers are equipped to respond appropriately if ethics concerns are raised by subordinates. Roughly half of employees indicated that they would try to resolve the matter directly, with somewhat fewer (44 percent) indicating that they would call the ethics or compliance hotline.

Propensity to Report Misconduct

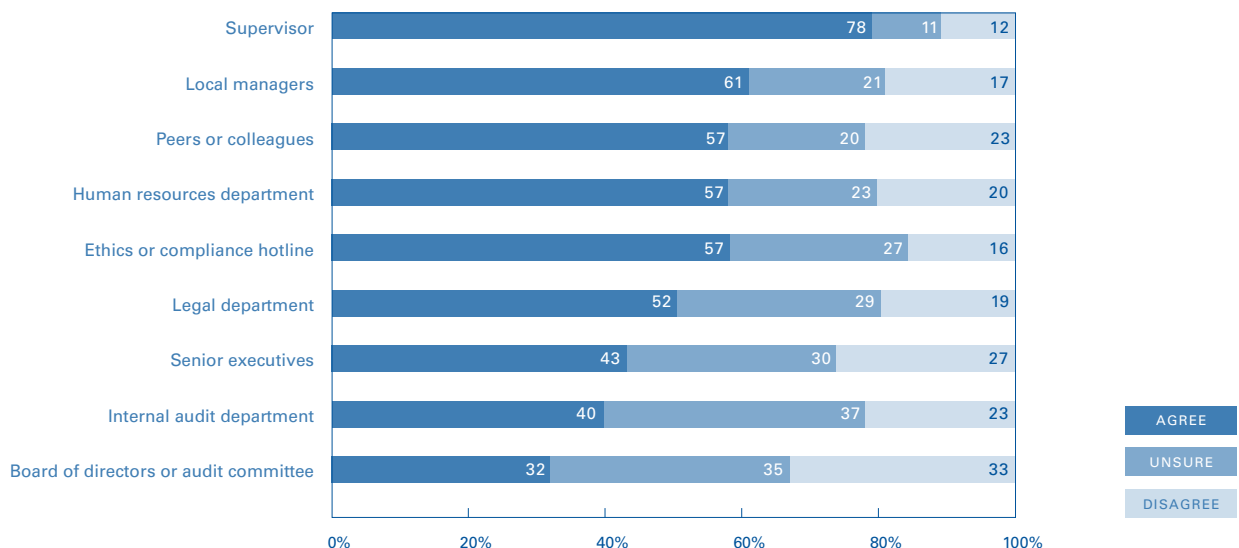


Source: KPMG LLP (U.S.), 2008

Channels for Reporting Misconduct

We also asked employees to whom they would “feel comfortable” reporting misconduct if they suspected or became aware of it. As we have found in prior years, the functions that are primarily charged with taking action in response to alleged misconduct (i.e., legal, internal audit, and board or audit committee functions) were cited among the least likely channels employees would feel comfortable using to report allegations.

Channels Employees “Feel Comfortable” Using to Report Misconduct



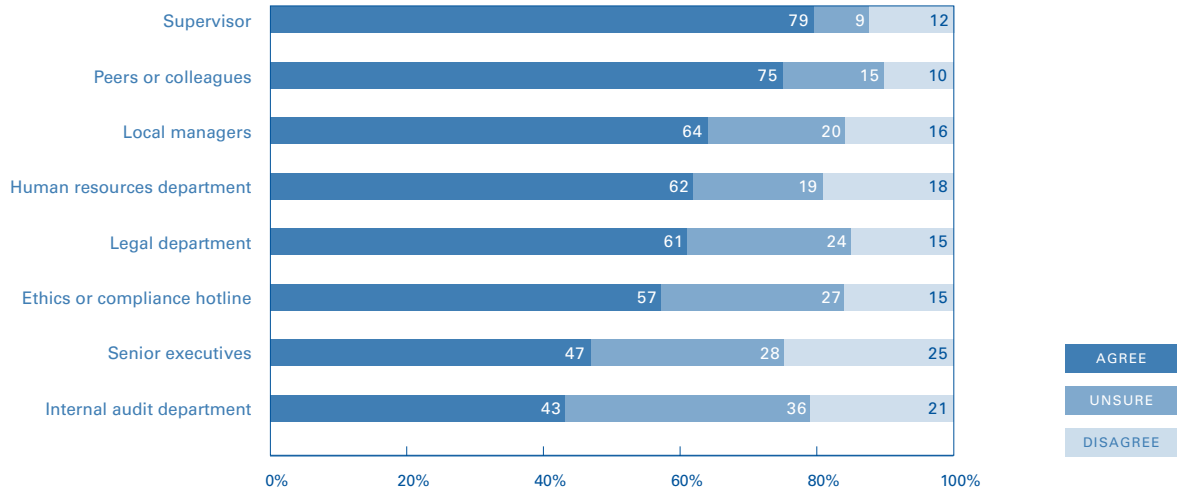
May not add to 100% due to rounding.

Source: KPMG LLP (U.S.), 2008

Channels for Seeking Advice and Counsel

Likewise, we asked employees where they would turn for advice and counsel if they had a question about “doing the right thing.” Employee confidence in most channels was comparable with those for reporting misconduct, with notable rises for peers and colleagues as trusted sources for advice.

Channels Employees “Feel Comfortable” Using for Advice and Counsel



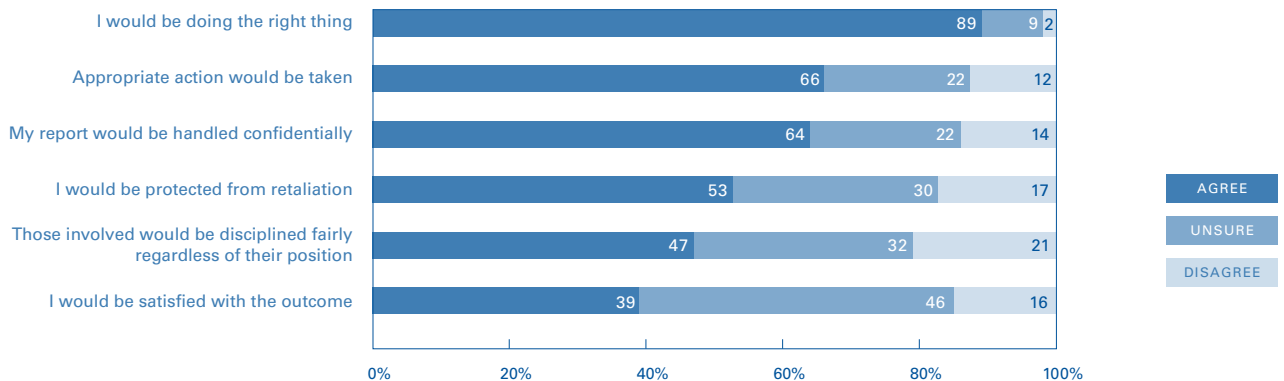
May not add to 100% due to rounding.

Source: KPMG LLP (U.S.), 2008

RESPONDING TO MISCONDUCT

An employee’s decision whether to report misconduct is often linked to how the organization will respond. Therefore, we asked employees what they believe would happen if they reported wrongdoing to management. Roughly one third of employees suggested a lack of confidence that appropriate action would be taken (based on “unsure” and “disagree” responses) or that their reports would be kept in confidence. Roughly half suggested a lack of confidence that they would be protected from retaliation or that discipline would be administered evenly and consistently. More than half suggested a lack of confidence that they would be satisfied with the outcome. Despite these obstacles, almost 9 out of 10 employees felt that they would be doing the right thing by coming forward.

Perceived Outcomes of Reporting Misconduct



May not add to 100% due to rounding.

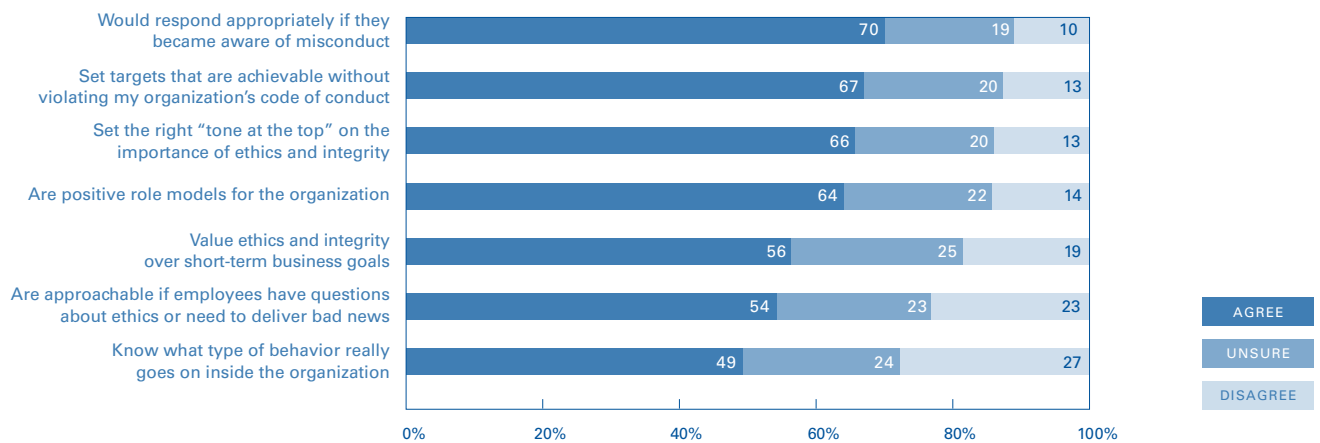
Source: KPMG LLP (U.S.), 2008

PERCEIVED TONE AND CULTURE

Tone at the Top

The “tone at the top” is often cited as a determining factor in creating a high-integrity organization. Therefore, we asked employees whether their chief executive officer and other senior executives exhibit characteristics attributable to personal integrity and ethical leadership. Nearly two thirds of employees agreed that their leaders serve as positive role models for the organization and set the right tone. However, roughly half suggested a lack of confidence (based on “unsure” and “disagree” responses) that their CEOs are familiar with the actual practices further down in the organization. While nearly half suggested a lack of confidence that top management would be approachable if employees had ethics concerns, 70 percent agreed that their CEOs would respond appropriately to matters brought to their attention.

Perceptions about the CEO and Other Senior Executives



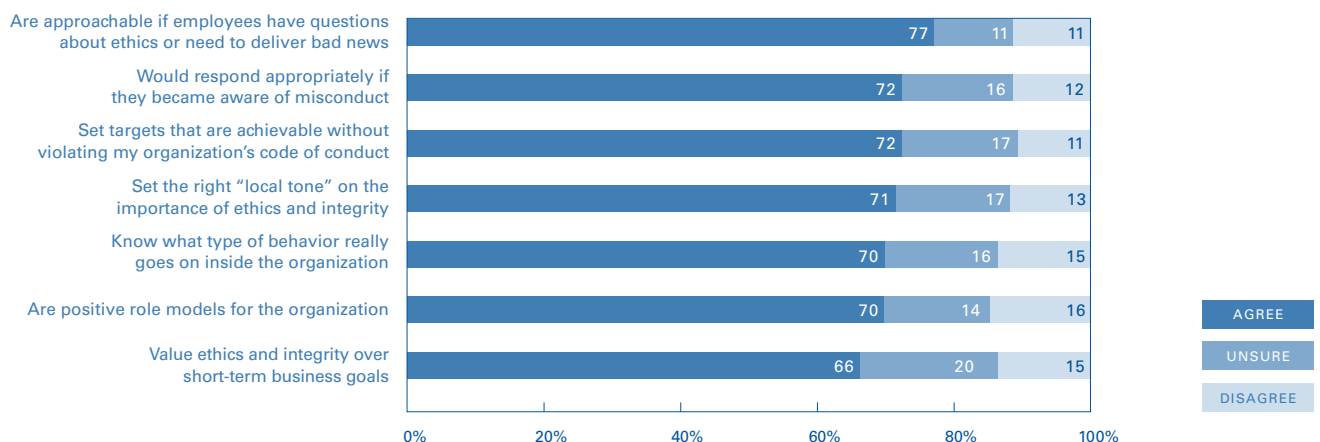
May not add to 100% due to rounding.

Source: KPMG LLP (U.S.), 2008

Local Tone

Because the “tone at the top” may sometimes seem too far removed to employees in “the trenches,” we also wanted to gauge employee perceptions about the tone set by their local managers and supervisors. On the whole, local managers and supervisors scored more favorably than senior executives, suggesting that greater familiarity corresponds to higher levels of trust and confidence in management.

Perceptions of Local Managers and Supervisors



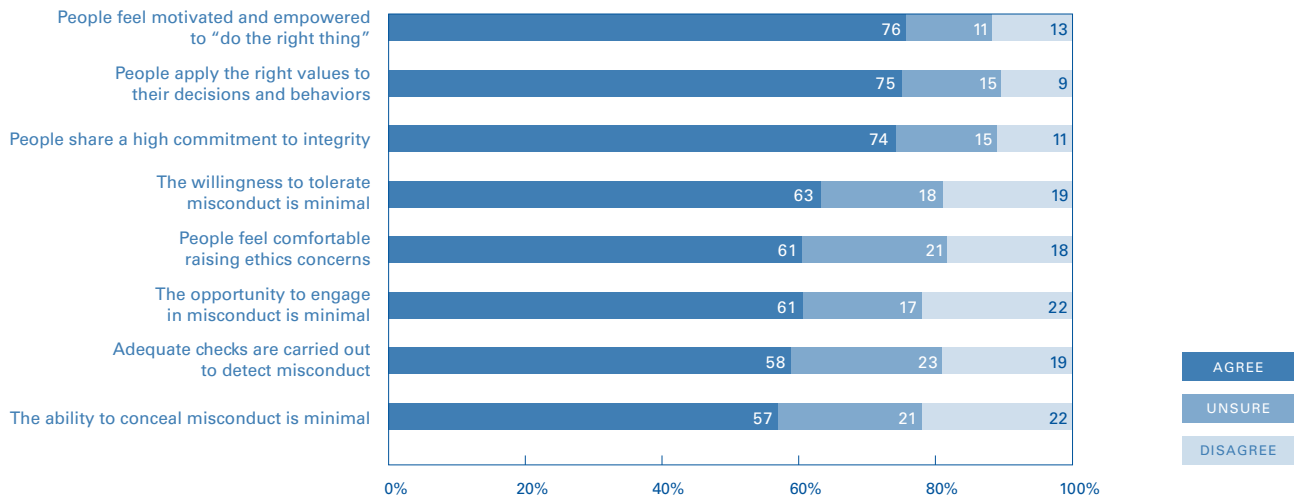
May not add to 100% due to rounding.

Source: KPMG LLP (U.S.), 2008

Team Culture and Environment

While management plays a key role in setting the overall tone for an organization, employees are likely to take their day-to-day cues from their immediate teams and work units. Therefore, we asked employees how they would characterize the cultures within their individual teams or departments. Results were generally favorable across many indicators, with most employees believing that, in their teams, people feel “motivated and empowered to do the right thing.”

Perceptions of Individual Teams and Work Units



May not add to 100% due to rounding.

Source: KPMG LLP (U.S.), 2008

Comparison of Data Over Time

Prevalence of Misconduct

The prevalence of misconduct and the seriousness of misconduct have remained consistent over the past eight years.

Observed Misconduct (percentage of employees nationally)

	2000	2005	2008
Observed misconduct in the prior 12-month period	76%	74%	74%
Believe observations could cause “a significant loss of public trust if discovered”	49	50	46

Source: KPMG LLP (U.S.), 2008

Root Causes of Misconduct

The percentage of employees who believe that the organization’s code of conduct is not taken seriously appears to have declined over the years, as has the percentage of employees citing the need to cut corners due to inadequate resources.

Prevalence of Root Causes of Misconduct (percentage of employees nationally)

	2000	2005	2008
Feel pressure to do “whatever it takes” to meet business objectives	65%	57%	59%
Believe they will be rewarded for results, not the means used to achieve them	56	49	52
Lack understanding of the standards that apply to their jobs	50	55	51
Believe their code of conduct is not taken seriously	73	52	51
Lack resources to get the job done without cutting corners	70	49	50
Fear losing their jobs if they do not meet targets	No data	46	49
Believe policies or procedures are easy to bypass or override	No data	47	47
Are seeking to bend the rules or steal for their own personal gain	22	33	34

Source: KPMG LLP (U.S.), 2008

The precise wording of this series of questions was modified between 2000 and 2005. The data shown for 2000 corresponds to a similar, but different, phrasing of questions than the ones posed in subsequent years (shown in this table). Therefore, the comparison with data from 2000 may be viewed as directional or thematic, but not statistically valid.

Propensity to Report Misconduct

The propensity of employees to report misconduct has seen an increase over the years, especially through the use of a hotline.

Preference for Reporting Misconduct (percentage of employees nationally)

	2000	2005	2008
Notify supervisor or another manager	63%	81%	81%
Try resolving the matter directly	40	53	52
Call the ethics or compliance hotline	21	38	44
Notify someone outside the organization	4	10	10
Look the other way or do nothing	5	6	6

Source: KPMG LLP (U.S.), 2008

The response scale for this question was modified in 2005. The data shown for 2000 corresponds to a frequency scale (e.g., often, sometimes, never), whereas the data shown in subsequent years corresponds to an agreement scale (e.g., agree or disagree). Therefore, the comparison from 2000 data may be viewed as thematic or directional, but not statistically valid.

Channels for Reporting Misconduct

Similarly, while comfort levels in most channels of communication have remained steady, comfort levels in hotlines have increased over time.

Comfort with Reporting Channels (percentage of employees nationally)

	2000	2005	2008
Supervisor	77%	78%	78%
Local managers	No Data	62	61
Peers or colleagues	No Data	57	57
Human resources department	56	56	57
Ethics or compliance hotline	40	53	57
Legal department	40	52	52
Senior executives	43	44	43
Internal audit department	No Data	39	40
Board of directors or audit committee	No Data	32	32

Source: KPMG LLP (U.S.), 2008

Perceived Outcomes of Reporting Misconduct to Management

While employees expressed greater confidence in the outcomes of reporting misconduct after 2000, these figures are largely unchanged between 2005 and 2008.

Perception of Outcomes When Reporting to Management (percentage of employees nationally)

	2000	2005	2008
I would be doing the right thing	85%	89%	89%
Appropriate action would be taken	61	67	66
My report would be handled confidentially	59	64	64
I would be protected from retaliation	47	52	53
Those involved would be disciplined fairly regardless of their position	39	47	47
I would be satisfied with the outcome	No Data	39	39

Source: KPMG LLP (U.S.), 2008

Perceptions of the CEO and Other Senior Executives

Employee perceptions of CEOs and other senior executives in 2008 essentially remain in line with 2005 results, which had shown some improvement since 2000.

Perceptions of CEO and Other Senior Executives (percentage of employees nationally)

	2000	2005	2008
Would respond appropriately if they became aware of misconduct	64%	70%	70%
Set targets that are achievable without violating my organization's standards of conduct*	58	67	67
Set the right "tone at the top" on the importance of ethics and integrity	No Data	65	66
Are positive role models for the organization	60	65	64
Value ethics and integrity over short-term business goals	No Data	57	56
Are approachable if employees have questions about ethics or need to deliver bad news	45	55	54
Know what type of behavior really goes on inside the organization	43	48	49

*The precise wording of this question was modified between 2000 and 2005. The data shown for 2000 corresponds to a similar, but different, question than the one posed in subsequent years (shown in this table). Therefore, the comparison with data from 2000 may be viewed as directional or thematic, but not statistically valid.

Source: KPMG LLP (U.S.), 2008

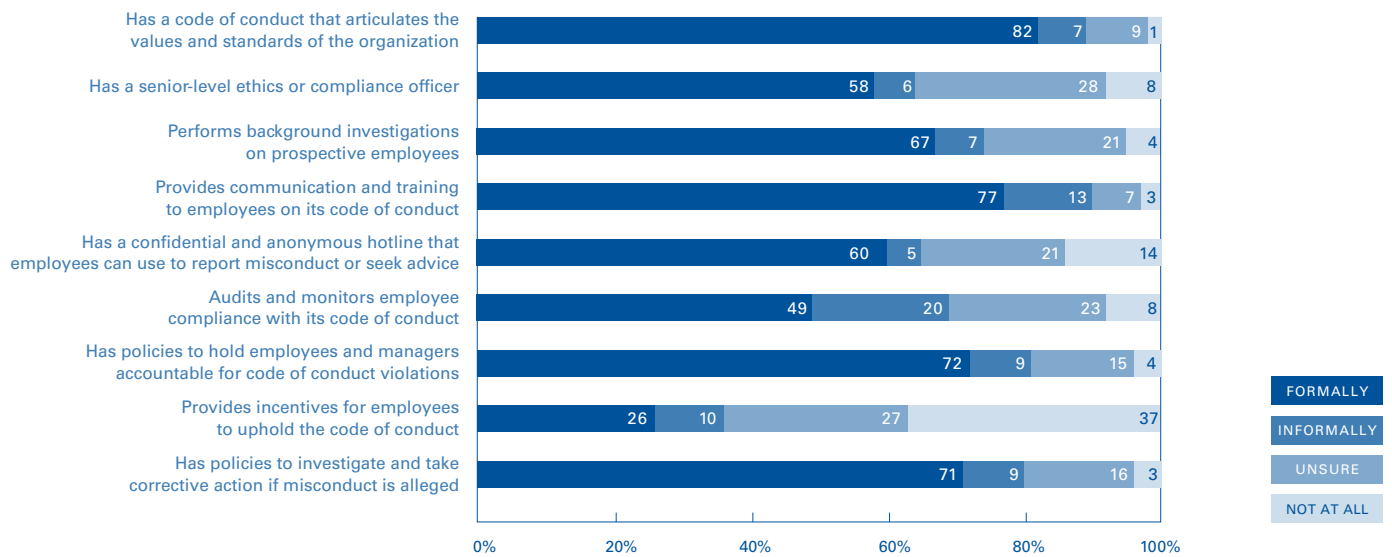
Impact of Ethics and Compliance Programs

PROGRAM ELEMENTS

Ethics and compliance programs have become increasingly common within organizations. Also referred to as “antifraud programs” in auditing standards and literature, they have been largely reinforced by Sarbanes-Oxley legislation and other government enforcement policies, as outlined later in this report. We therefore sought to gauge whether specific program elements were recognizable to employees and to understand whether the presence of such program elements had an impact on the indicators measured in the survey.

We asked employees whether their organizations had specific ethics and compliance program elements shown in the table below. We note that our 2008 results show increases in the formal existence of all program elements as compared with 2005.

Presence of Program Elements



May not add to 100% due to rounding.

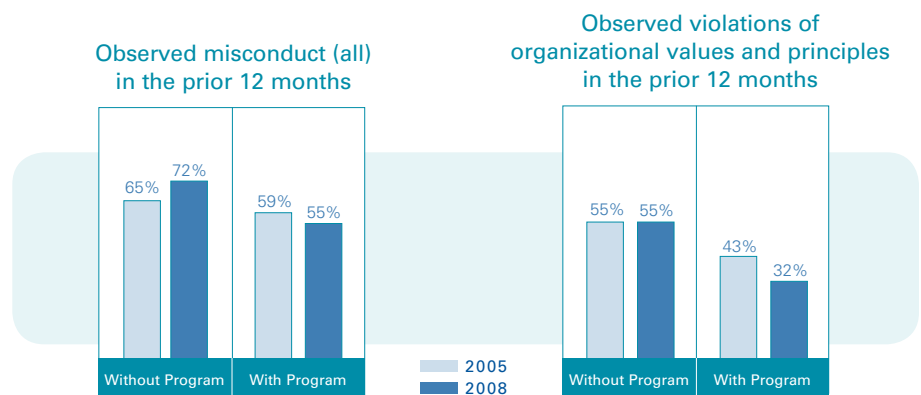
Source: KPMG LLP (U.S.), 2008

CORRELATION

Next, we wanted to correlate the presence of ethics and compliance program elements to the behaviors and perceptions measured elsewhere in the survey. To do so, we split respondents into two groups—the first group representing employees who classified themselves as working in organizations with a comprehensive ethics and compliance program, the second group representing employees who did *not* classify themselves in this way. We refer to these groups as “with program” and “without program” in the analysis that follows.*

PREVALENCE OF MISCONDUCT

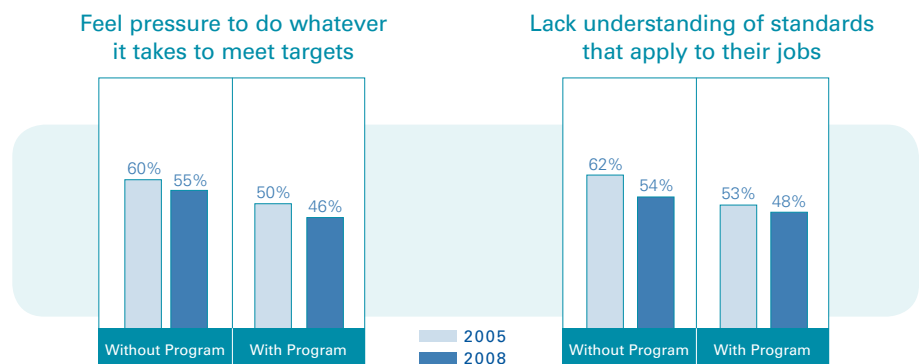
Ethics and compliance programs have a favorable impact on the prevalence of misconduct in organizations. The prevalence of observed misconduct rose for employees working in organizations without programs and contracted slightly for those working in organizations with them.



Source: KPMG LLP (U.S.), 2008

Root Causes of Misconduct

Ethics and compliance programs have a favorable impact on factors that give rise to misconduct. The prevalence of these factors decreased for both categories between 2005 and 2008.

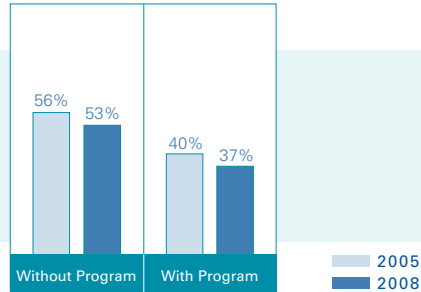


Source: KPMG LLP (U.S.), 2008

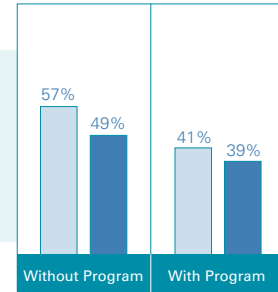
*The “with program” group represents employees who indicated that their organizations had “formally” implemented all program elements included in the survey (n = 775). The “without program” group represents those employees who did *not* classify themselves as working in organizations with a comprehensive ethics and compliance program. These represent employees who indicated they were “unsure” or who answered “not at all” when asked whether their organizations had implemented all program elements included in the survey (n = 178). Employees who indicated that their organizations had only “informal” program elements were not included in our correlation analysis, which means the results presented in this section reflect a subset of the total population reflected in the previous section of the report.

Root Causes of Misconduct *continued*

Believe policies and procedures are easy to bypass or override



Believe rewards are based on results, not the means used to achieve them



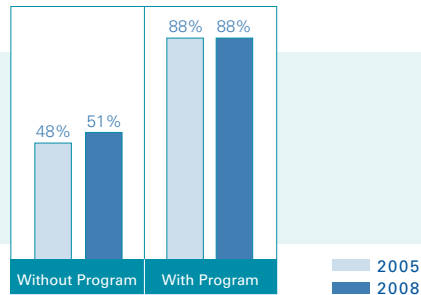
Source: KPMG LLP (U.S.), 2008

DETECTING MISCONDUCT

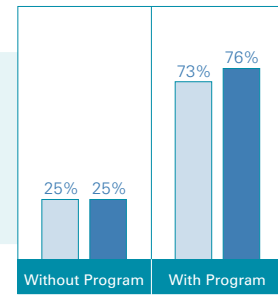
Channels for Reporting Misconduct

Ethics and compliance programs have a favorable impact on employee willingness to report misconduct. These impacts remained largely unchanged between 2005 and 2008.

Would feel comfortable reporting misconduct to supervisor

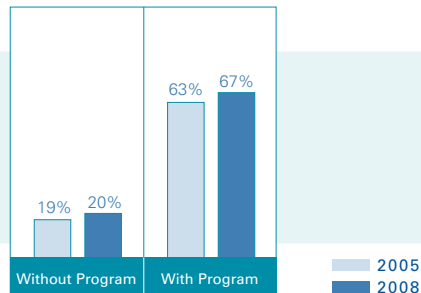


Would feel comfortable reporting misconduct to legal department

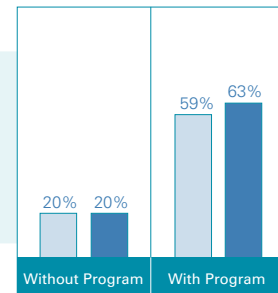


Source: KPMG LLP (U.S.), 2008

Would feel comfortable reporting misconduct to internal audit



Would feel comfortable reporting misconduct to board of directors

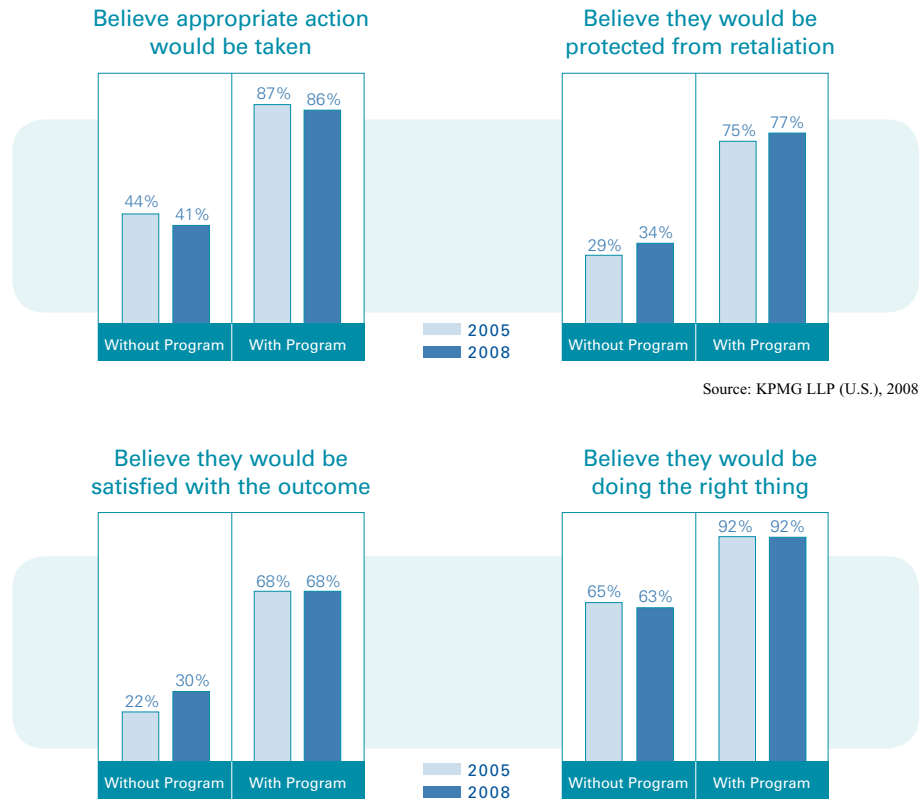


Source: KPMG LLP (U.S.), 2008

RESPONDING TO MISCONDUCT

Perceived Outcomes of Reporting Misconduct

Ethics and compliance programs have a favorable impact on employee perceptions of the outcomes of reporting misconduct. The perceived risk of retaliation among employees working in companies without programs increased in 2008, as did perceived satisfaction in outcome of reporting misconduct.



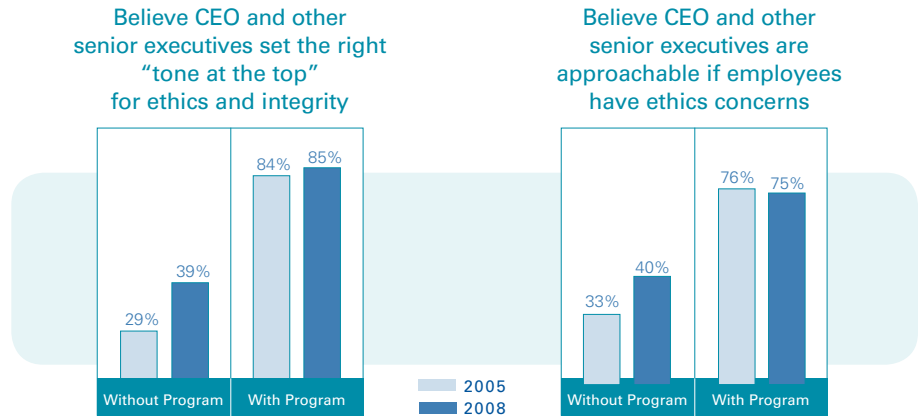
Source: KPMG LLP (U.S.), 2008

Source: KPMG LLP (U.S.), 2008

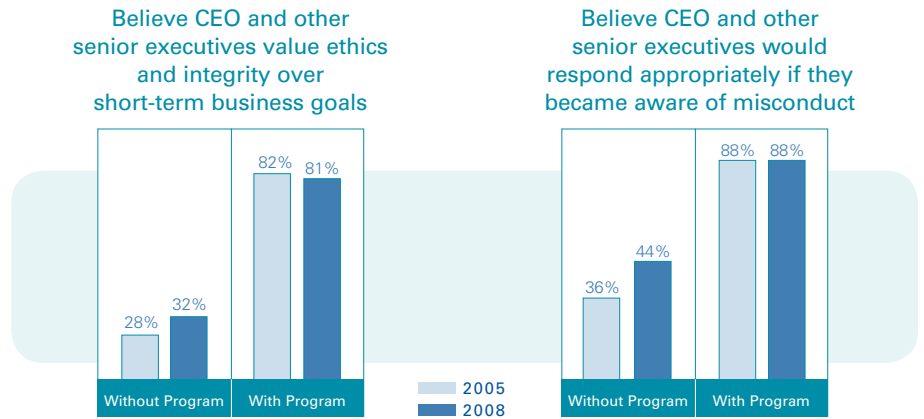
TONE AND CULTURE

Tone at the Top

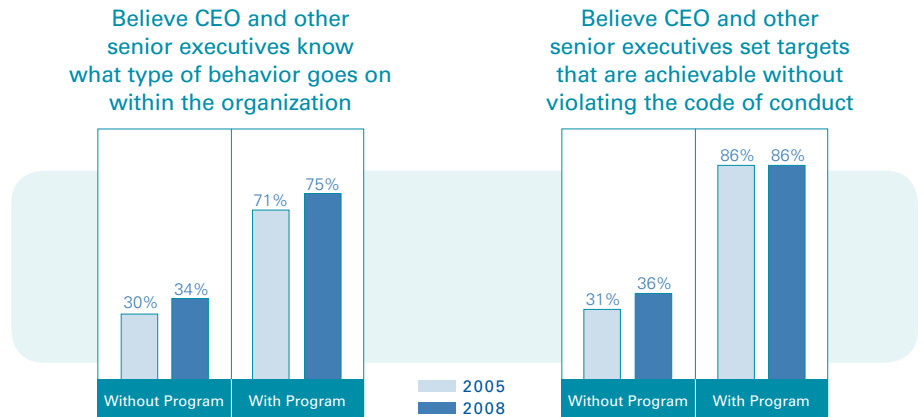
Ethics and compliance programs have a favorable effect on employee perceptions of the tone at the top. Favorability levels generally remained steady for employees working in organizations with programs and increased for employees working in organizations without them.



Source: KPMG LLP (U.S.), 2008



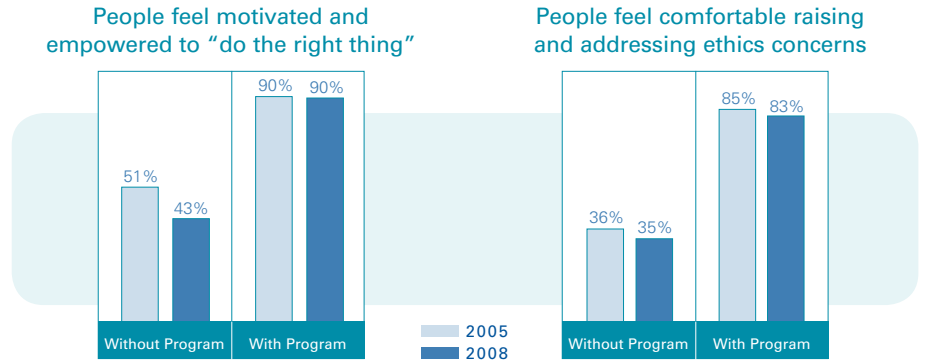
Source: KPMG LLP (U.S.), 2008



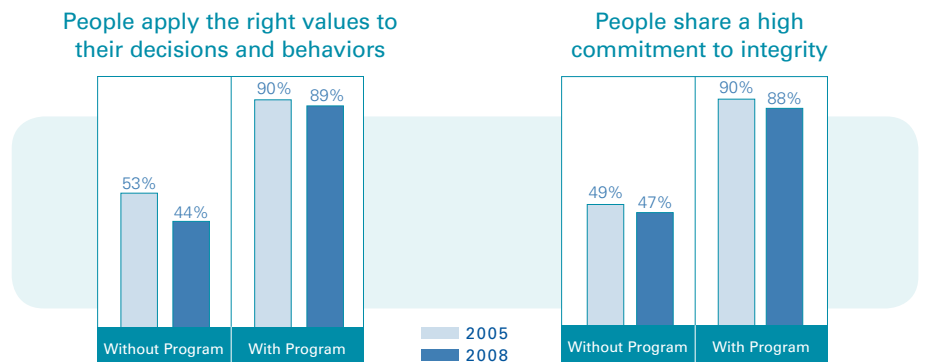
Source: KPMG LLP (U.S.), 2008

Team Culture and Environment

Ethics and compliance programs have a favorable impact on team culture and environment. Favorability levels generally remained steady for employees working in organizations with programs, but were more mixed across several indicators for employees working in organizations without them.



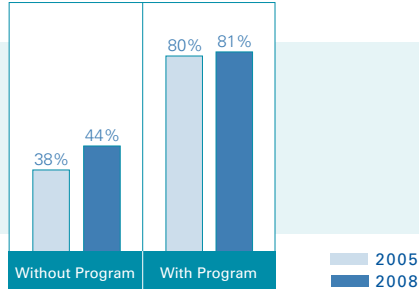
Source: KPMG LLP (U.S.), 2008



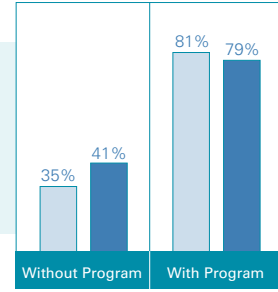
Source: KPMG LLP (U.S.), 2008

Team Culture and Environment *continued*

The opportunity to engage in misconduct is minimal

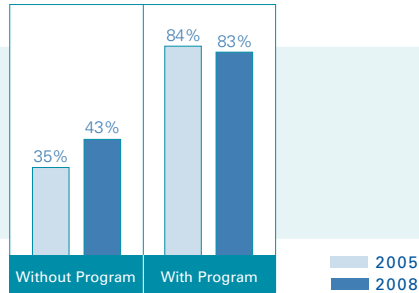


The ability to conceal misconduct is minimal

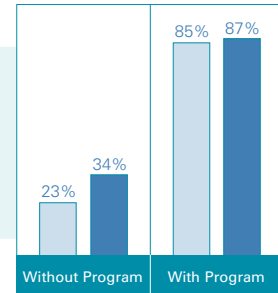


Source: KPMG LLP (U.S.), 2008

Willingness to tolerate misconduct is minimal



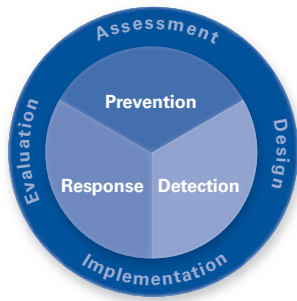
Adequate checks are carried out to detect misconduct



Source: KPMG LLP (U.S.), 2008

Taking Stock

Building a high-integrity organization is a critical and ambitious undertaking; and while it takes teamwork and dialogue, it can be difficult to decide just where to begin the discussion. For this reason, this section offers some sample questions that boards and managers may wish to consider when taking stock of their own challenges and approaches to managing the risk of fraud and misconduct.



COVERING THE BASICS

At the highest level, teams may wish to begin a conversation by asking:

- What controls do we have in place to prevent fraud and misconduct from occurring in the first place?
- What controls do we have in place to detect wrongdoing when it does occur?
- What controls do we have in place to respond appropriately to allegations or concerns when they arise?

Once key controls have been identified, teams may wish to consider:

- Have our controls been tailored based on an assessment of the types of fraud and misconduct risks that are likely to arise in the business today?
- Have our controls been designed in a manner consistent with minimum legal and regulatory criteria as well as industry practices that companies have generally found to be effective?
- Have our controls been implemented by functions with requisite levels of objectivity, competence, authority, and resources?
- Have our controls been recently evaluated to ensure that they are operating effectively?

ADVANCING THE CONVERSATION

Boards and managers looking to move the discussion beyond the basics may wish to validate how they are addressing emerging challenges that their organizations may face, such as:

Prevention Considerations

- Does our ethics and compliance program target the underlying pressures, rationalizations, and opportunities faced by managers and employees to engage in misconduct?
- How can we use case studies to educate our people on the risks that can come up in the business and the values that should inform their actions when dilemmas arise?
- Do our communication and training programs maintain relevance when delivered overseas, or are they too U.S.-centric?
- Are we performing the right level of due diligence on employees and third parties operating on our behalf internationally?
- Do we have the insights we need on the behavioral style of employees being promoted or transferred into positions of discretionary authority?
- Do our performance evaluations bring about a balanced examination of business results and the means used to achieve them?
- Is our program poised to anticipate and react to new ethics and compliance risks, or is it backward-looking and “fighting the last war”?

Detection Considerations

- Are concerns that get raised through non-hotline channels getting to the right place?
- Do we leverage feedback from alternative sources, such as customer complaints or employee exit interviews?
- Are fraud analytics embedded in our computer-based auditing and monitoring systems to detect suspicious events or transactions?
- Have our data analytic routines been expanded to address international risk areas, such as bribery and corruption?

Response Considerations

- Have we equipped front-line supervisors with the knowledge and tools to address allegations and concerns in an appropriate manner?
- Is there a uniform understanding across the business of what allegations require investigation, by whom, when, and in what manner?
- What factors should guide whether we hold managers accountable for wrongdoing by subordinates?
- Who should be involved in a decision to voluntarily disclose potential compliance violations to the government?

Board and Management Oversight Considerations

- Do the audit and compensation committees discuss how to address fraud and misconduct risks that may arise from executive compensation plans?
- Do management actions (e.g., annual goal setting, strategic planning, budgeting, resource allocation, and incentive compensation) align with the goals of our ethics and compliance program, or do they send mixed messages?
- Do stewards of the ethics and compliance program have the requisite levels of authority, stature, objectivity, and competence to do the job effectively?
- Have we positioned fraud risk management as a discipline that is embedded throughout the business or as a disconnected department?

Evaluation Considerations

- What metrics and key performance indicators should we use to monitor the effectiveness of our program? Are employee perceptions and attitudes toward our program among the indicators we formally track?
- What information do we share with line managers and employees to foster understanding and confidence in our program?
- How do we demonstrate good governance and corporate social responsibility to external stakeholders?
- Do we define success for ethics and compliance programs purely from a risk-avoidance perspective, or have we identified ways the program can accrue benefits to the brand and our bottom line?

Meeting the Regulatory Challenge

The government has responded to widespread cases of corporate fraud and misconduct through an array of reforms aimed at encouraging companies to be more self-governing. Establishment of an effective ethics and compliance program can be seen as a common denominator across legislative and judicial policies and the cornerstone of a sound fraud risk management strategy.

SARBANES-OXLEY ACT OF 2002 (SECTION 404)

Section 404 of the Sarbanes-Oxley Act requires companies and their auditors to evaluate the effectiveness of their internal controls over financial reporting based on a suitable control framework. Most companies in the United States are applying the integrated internal control framework developed by the Committee of Sponsoring Organizations (COSO). Generally speaking, the COSO framework addresses ethics and compliance program elements in entity-wide components that have a pervasive influence on organizational behavior, such as the control environment.

Examples include:

- Establishment of the tone at the top by the board and management
- Existence of codes of conduct and other policies regarding acceptable business practices
- Extent to which employees are made aware of management's expectations
- Pressure to meet unrealistic or short-term performance targets
- Management's attitude toward overriding established controls
- Extent to which adherence to the code of conduct is a criterion in performance appraisals
- Extent to which management monitors whether internal control systems are working
- Establishment of channels for people to report suspected improprieties
- Appropriateness of remedial action taken in response to violations of the code of conduct

CORPORATE GOVERNANCE LISTING STANDARDS

In response to provisions of the Sarbanes-Oxley Act, both the NYSE and NASDAQ adopted new corporate governance rules for listed companies. While the specific rules for each exchange differ, each includes standards that require listed companies to adopt and disclose codes of conduct for directors, officers, and employees and disclose any code of conduct waivers for directors or executive officers. In addition, the rules of each exchange require listed companies to adopt mechanisms to enforce the codes of conduct.

U.S. SENTENCING GUIDELINES CRITERIA

The federal sentencing guidelines for organizational defendants establish minimum compliance and ethics program requirements for organizations seeking to mitigate penalties for corporate crimes. Amended on November 1, 2004, these guidelines now make it explicit that organizations are expected to promote a culture of ethical conduct, tailor each program element based on compliance risk, and periodically evaluate program effectiveness.

Specifically, the amended guidelines call on organizations to:

- Promote a culture that encourages ethical conduct and a commitment to compliance with the law
- Establish standards and procedures to prevent and detect criminal conduct
- Ensure the board of directors and senior executives are knowledgeable and exercise reasonable oversight over the compliance and ethics program
- Assign a high-level individual within the organization to ensure the organization has an effective compliance and ethics program and delegate day-to-day operational responsibility to individuals with adequate resources and authority and direct access to the board
- Ensure high-level individuals and those with substantial discretionary authority are knowledgeable about the program, exercise due diligence in performing their duties, and promote a culture that encourages ethical conduct and a commitment to compliance with the law
- Use reasonable efforts and exercise due diligence to exclude from positions of substantial authority individuals who have engaged in illegal activities or other conduct inconsistent with an effective compliance and ethics program
- Conduct effective training programs for directors, officers, employees, and other agents and provide such individuals with periodic information appropriate to their respective roles and responsibilities relative to the compliance and ethics program
- Ensure that the compliance and ethics program is followed, including monitoring and auditing to detect criminal conduct
- Publicize a system, which may include mechanisms for anonymity and confidentiality, under which the organization’s employees and agents may report or seek guidance regarding potential or actual misconduct without fear of retaliation
- Evaluate periodically the effectiveness of the compliance and ethics program
- Promote and enforce the compliance and ethics program consistently through incentives and disciplinary measures
- Take reasonable steps to respond appropriately to misconduct, including making necessary modifications to the compliance and ethics program.

DEPARTMENT OF JUSTICE PROSECUTION POLICY

In August 2008, the Department of Justice amended its guidelines related to the federal prosecution of business organizations in cases involving corporate wrongdoing. While the guidance states that a compliance program does not absolve a corporation from criminal liability, it does provide factors that prosecutors should consider in determining whether to charge an organization or only its employees and agents with a crime.

These factors include evaluating whether:

- The compliance program is merely a “paper program” or has been designed and implemented in an effective manner
- Corporate management is enforcing the program or tacitly encouraging or pressuring employees to engage in misconduct to achieve business objectives
- The corporation has provided for a staff sufficient to audit and evaluate the results of the corporation’s compliance efforts
- The corporation’s employees are informed about the compliance program and are convinced of the corporation’s commitment to it.

DIRECTOR AND OFFICER LIABILITY

An influential Delaware court broke ground in 1996 with its *In re Caremark Int'l Inc. Derivative Lit.* decision. The *Caremark* case was a derivative shareholder action brought against the board of directors of Caremark International alleging directors breached their fiduciary duties by failing to monitor effectively the conduct of company employees who violated various state and federal laws—which led to the company's plea of guilty to criminal charges and payment of substantial criminal and civil fines.

The court held that boards of directors that exercise reasonable oversight of a compliance program may be eligible for protection from personal liability in shareholder civil suits resulting from employee misconduct. The *Caremark* case pointed out that the compliance program should provide “timely, accurate information sufficient to allow management and the board, each within its scope, to reach informed judgments concerning both the corporation's compliance with laws and its business performance.” It also made clear that a director's fiduciary duty goes beyond ensuring that a compliance program exists, but also that “[t]he director's obligation [also] includes a duty to attempt in good faith to assure that [the compliance program] is adequate....”

Ten years later, the Delaware Supreme Court affirmed the *Caremark* standard for director duty in *Stone v. Ritter*, C.A. No. 1570-N, 2006 WL 3169168 (Del. November 6, 2006), opining that “*Caremark* articulates the necessary conditions for assessing director oversight liability” and that the standard is whether there is a “sustained or systematic failure of the board to exercise oversight—such as an utter failure to attempt to assure a reasonable [compliance program] exists....”

Background and Methodology

As in prior years, we set out to understand the prevalence and nature of corporate fraud and misconduct in the United States, along with the effectiveness of management efforts to prevent, detect, and respond appropriately to wrongdoing. To do so, we conducted a blind, national survey of prescreened working adults who fell into demographic categories spanning all levels of job responsibility, 16 job functions, 13 industry sectors, and 4 thresholds of organizational size.

The overall methodology and tools for the survey were developed by KPMG professionals with substantial subject matter knowledge and experience relevant to conducting a study of this nature. KPMG retained Walker Information, an independent survey research firm, to validate the manner in which questions were posed in the questionnaire, develop statistically valid sample sizes across demographic categories established by KPMG, tabulate survey responses, and test the statistical validity of the survey's findings.

Walker Information, in turn, retained National Family Opinion (NFO), one of the world's largest panel database firms, to administer the survey to prescreened members of its panel who met certain demographic criteria based on industry sector and organizational size. Individual respondents to the survey received nominal payment or consideration from NFO for their participation. Neither Walker Information nor KPMG were identified to the participants as being associated with the survey. Similarly, the names of the participants were not provided to Walker Information or KPMG. The parties, methodologies, and processes described were substantially the same for the studies in 2000, 2005, and 2008.

Overall Sample Data

Total respondents	5,065
Confidence level	95%
Precision level (margin of error)	1.4%

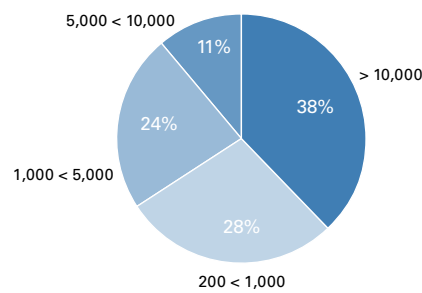
Source: KPMG LLP (U.S.), 2008

RESPONDENT DEMOGRAPHICS

Consumer Markets	16%	Pharmaceuticals & Life Sciences	7%
Government & Public Sector	14%	Insurance	6%
Healthcare	9%	Communications & Media	6%
Automotive	8%	Energy & Natural Resources	6%
Aerospace & Defense	7%	Chemicals & Diversified Industrials	5%
Banking & Finance	7%	Real Estate & Construction	2%
Electronics, Software & Services	7%		

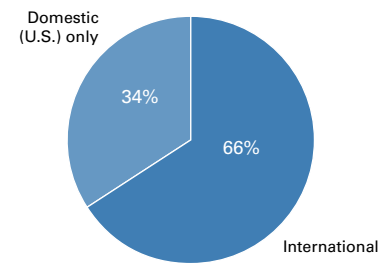
Source: KPMG LLP (U.S.), 2008

Respondents' Organizational Size (Total Number of Employees)



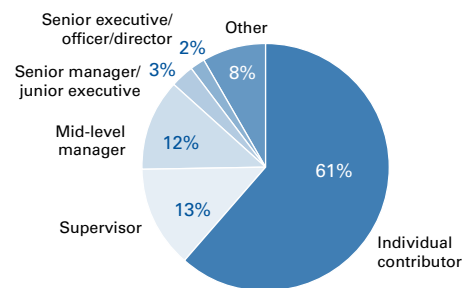
Does not add to 100% due to rounding.
Source: KPMG LLP (U.S.), 2008

Respondents' Organization's Geographic Presence



Source: KPMG LLP (U.S.), 2008

Respondents' Level of Responsibility



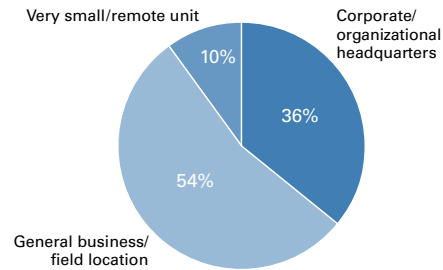
Does not add to 100% due to rounding.
Source: KPMG LLP (U.S.), 2008

Respondents' Job Function

Sales / marketing	9%	Clerical / support	7%
Operations / service	13%	General management / administration	7%
Manufacturing / production	14%	Finance / accounting	5%
Research / development / engineering	9%	Legal / compliance	1%
Purchasing / procurement	2%	Internal audit / risk management	1%
Technology	10%	Public / media relations	1%
Training / education	3%	Government / regulatory affairs	3%
Quality / safety / environmental	4%	Other	11%

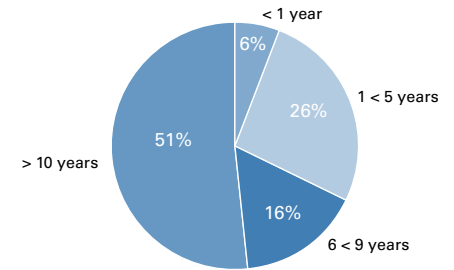
Source: KPMG LLP (U.S.), 2008

Respondents' Work Location



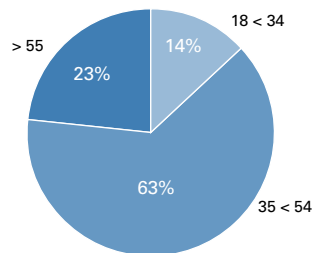
Source: KPMG LLP (U.S.), 2008

Respondents' Job Tenure



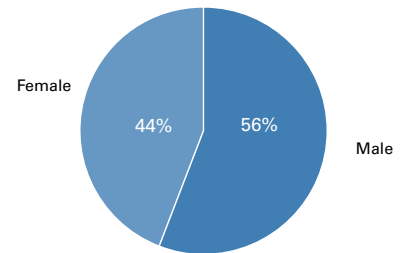
Does not add to 100% due to rounding.
Source: KPMG LLP (U.S.), 2008

Respondents' Age



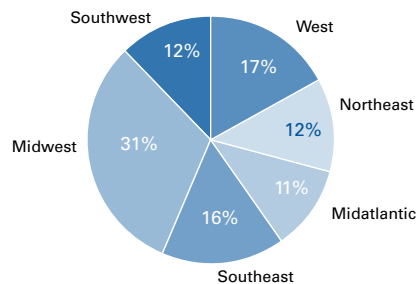
Source: KPMG LLP (U.S.), 2008

Respondents' Gender



Source: KPMG LLP (U.S.), 2008

Respondents' Geography (U.S.)



Does not add to 100% due to rounding.
Source: KPMG LLP (U.S.), 2008

FREQUENTLY ASKED QUESTIONS

How can I determine if employees from a particular company were among the participants in the survey?

This was a blind survey. KPMG was not identified to the participants as being associated with the survey, and neither the names of participants nor the names of their employers were provided to KPMG.

How were participants for the survey selected?

A panel database firm was retained to identify participants who (1) are U.S. working adults, (2) work for organizations that employed at least 200 people, and (3) work for organizations in one of 13 broad industry sectors identified by KPMG.

Would it be correct to say that the results of this survey are reflective of the overall U.S. population?

No. Employees in our sample population work for organizations with at least 200 employees (49 percent of respondents reported that they work for organizations with at least 5,000 employees). On average, most employees in the United States work for organizations that employ fewer people.

Does KPMG make its questionnaire and other detailed data publicly available?

Not typically. All questions and data associated with this survey are proprietary to KPMG. While it is our practice to share high-level results of our national benchmarking study publicly, our primary objective in this research is to help clients apply the survey within their own organizations. Therefore, additional tools related to this survey are typically shared only with clients who have specifically contracted for their use. We do occasionally share information with certain institutions for authorized academic research purposes.

ABOUT KPMG FORENSIC

KPMG Forensic is a global practice comprising multidisciplinary professionals from KPMG member firms who can assist clients in their efforts to achieve the highest levels of business integrity through the prevention, detection, and investigation of fraud and misconduct. This practice not only helps clients discover the facts underlying concerns about fraud and misconduct but also assists clients in assessing their vulnerabilities to such activities and in developing controls and programs to address these risks.

KPMG Forensic uses computer forensic and data analysis techniques to help clients detect potentially fraudulent activity and other forms of misconduct. In addition, KPMG LLP, the U.S. member firm, operates the Cypress Technology Center (CTEC), which offers sophisticated technology tools and skilled professionals to help clients reduce litigation costs and risks in the areas of evidence and discovery management and the acquisition, management, and analysis of large data sets.

Professionals in the KPMG Forensic practice draw on experience in forensic accounting, law enforcement, fraud and misconduct risk assessment, antifraud risk controls, program design and implementation, asset tracing, computer forensics, and forensic data analysis.

Through KPMG's network of member firms, with professionals from the Americas, Asia Pacific, and Europe to the Middle East and Africa, KPMG Forensic practices are well positioned to provide consistent service to global clients. KPMG can readily assemble multinational teams comprising members who have shared methodologies, demonstrated technical skills, and deep industry knowledge.

ACKNOWLEDGEMENTS

Major KPMG Contributors

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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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