Working through Silos
Moving from a decentralized/distributed approach to compliance to an integrated/federated model that is efficient and effective
October 2015

The Society of Corporate Compliance & Ethics
14th Annual Compliance & Ethics Institute Conference

Presenters

Barbara Kipp
Partner, PwC
Barbara.h.kipp@us.pwc.com
(617) 530-4602

Robin Sangston
VP, Chief Compliance Officer
Cox Communications
robin.sangston@cox.com
(404) 843-5751
PwC's Performance GRC (PGRC)

Performance GRC helps organizations break down operating silos, share important data, coordinate risk assessment, support productivity and drive their business strategies.

<table>
<thead>
<tr>
<th>PGRC is a National Risk Assurance Practice</th>
<th>PGRC is a Point of View</th>
</tr>
</thead>
<tbody>
<tr>
<td>• We offer our clients an end-to-end collection of solutions that focus on governance, risk management and compliance activities.</td>
<td>• Performance GRC is about enhancing GRC activities to maximize relevance to stakeholders by focusing on both value protection and value enablement. This is done only when GRC activities do the following:</td>
</tr>
<tr>
<td>• The word &quot;Performance&quot; refers to our focus on assisting our clients in enhancing their GRC activities and aligning these activities to a company’s respective performance agenda.</td>
<td>• Coordinate, communicate and collaborate</td>
</tr>
<tr>
<td></td>
<td>• Align focus to the business performance drivers</td>
</tr>
<tr>
<td></td>
<td>• Broaden their line of sight on the entire business so perspective and insight grow</td>
</tr>
</tbody>
</table>

PGRC assists clients with maximizing the relevance of GRC activities

- Board/audit Committee
- Chief risk officer/Chief compliance officer
- Chief internal audit executive
Performance GRC – Monitoring your entire business to advance your performance objectives

Risks come in all shapes and sizes: corruption, instability, natural disasters, increasing government oversight, business transformation, new technology, and product innovation.

The integrated suite of PGRC services helps companies monitor business activity and drive performance
About the State of Compliance 2015 Survey

- Fifth annual survey
- Over 1,000 participants
- Senior executives with responsibility for compliance
  - US and non-US-based companies
  - Representing over 20 industries
  - Companies with revenues ranging from <$500M to >$25B
- Survey aimed at:
  - Exploring how organizations have developed their compliance functions
  - Better understanding how compliance functions manage the increasing demands of numerous stakeholders
  - Determining how compliance organizations are positioning themselves for the future
Industry breakdown (by responses)
How would you best define your specific sector?

<table>
<thead>
<tr>
<th>Industry</th>
<th>2015 Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking and Capital Markets</td>
<td>16% (18)</td>
</tr>
<tr>
<td>Asset Management</td>
<td>1% (20)</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>8% (12)</td>
</tr>
<tr>
<td>Pharmaceuticals and Life Sciences</td>
<td>5% (2)</td>
</tr>
<tr>
<td>Technology</td>
<td>17% (17)</td>
</tr>
<tr>
<td>Insurance</td>
<td>1% (8)</td>
</tr>
<tr>
<td>Healthcare Providers</td>
<td>6% (2)</td>
</tr>
<tr>
<td>Professional Services</td>
<td>9% (5)</td>
</tr>
<tr>
<td>Retail and Consumer</td>
<td>5% (54)</td>
</tr>
<tr>
<td>Energy</td>
<td>3% (3)</td>
</tr>
<tr>
<td>Aerospace and Defense</td>
<td>3% (9)</td>
</tr>
<tr>
<td>Education</td>
<td>2% (2)</td>
</tr>
<tr>
<td>Entertainment and Media</td>
<td>2% (4)</td>
</tr>
<tr>
<td>Chemicals</td>
<td>2% (16)</td>
</tr>
<tr>
<td>Power and Utilities</td>
<td>2% (39)</td>
</tr>
<tr>
<td>Healthcare Paper</td>
<td>2% (1)</td>
</tr>
<tr>
<td>Transportation and Logistics</td>
<td>2% (2)</td>
</tr>
<tr>
<td>Engineering and Construction</td>
<td>2% (1)</td>
</tr>
<tr>
<td>Metals, Mining and Construction</td>
<td>1% (1)</td>
</tr>
<tr>
<td>Government and Public Sector</td>
<td>1% (1)</td>
</tr>
<tr>
<td>Automotive</td>
<td>1% (1)</td>
</tr>
<tr>
<td>Communication</td>
<td>1% (1)</td>
</tr>
<tr>
<td>Hospitality and Leisure</td>
<td>1% (1)</td>
</tr>
</tbody>
</table>

October 2015

Company size and revenue (by responses)

Please indicate the total number of employees within your organization globally

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Over 50,000 employees</td>
<td>21%</td>
</tr>
<tr>
<td>25,001 to 50,000 employees</td>
<td>13%</td>
</tr>
<tr>
<td>10,001 to 25,000 employees</td>
<td>17%</td>
</tr>
<tr>
<td>5,001-10,000 employees</td>
<td>13%</td>
</tr>
<tr>
<td>1,001 to 5,000 employees</td>
<td>20%</td>
</tr>
<tr>
<td>Up to 1,000 employees</td>
<td>14%</td>
</tr>
</tbody>
</table>

What will be the approximate 2015 revenues of your entire global enterprise?

<table>
<thead>
<tr>
<th>Revenue Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>$20 billion or more</td>
<td>19%</td>
</tr>
<tr>
<td>Between $5 billion and less than $20 billion</td>
<td>27%</td>
</tr>
<tr>
<td>Between $1 billion and less than $5 billion</td>
<td>27%</td>
</tr>
<tr>
<td>Less than $1 billion</td>
<td>21%</td>
</tr>
</tbody>
</table>

October 2015
Moving beyond the baseline – Themes

Moving beyond the baseline

• Baseline compliance remains job one for compliance officers, and a continuing challenge.
• The regulatory environment continues to get more complex with demands expanding across all sectors and multiplying across different jurisdictions.
• However, our data suggests compliance functions have experienced only incremental change.
• CEOs see the impact of regulatory compliance on achievement of business objectives as a big concern.
• Now is the time for CCOs to raise their profile and leverage the compliance function to gain a competitive edge.
5 themes from PwC’s State of Compliance 2015 Survey

1. The compliance function should actively participate in the setting of corporate strategy.

2. Owners of compliance obligations should be aware of what "compliance" entails across the organization as well as understanding the scope of their own responsibilities.

3. The compliance function should collaborate with business owners of compliance obligations.

4. Compliance leaders should evaluate and potentially re-imagine the identity of their function.

5. Compliance officers should explore ways to increase operational efficiency and effectiveness.

Key findings
**Theme 1 – The compliance function should actively participate in the setting of corporate strategy**

- 78% of CEOs are concerned about over-regulation
- 54% of CEOs are very confident in their prospects for revenue growth in the next 3 years
- 50% of CEOs expect to increase headcount
- 38% of CCOs saw an increase in staffing, while 36% saw no change and 8% saw a decrease

**Turning to the CCO for help in guiding corporate strategy**

How is the Chief Compliance Officer/Corporate Compliance function engaged in the development and implementation of your organization’s business strategy?

- As part of the annual business strategy development meetings: 35%
- Assists in the implementation of business strategy once decisions are made: 18%
- Addresses issues that arise after business strategy is implemented: 15%
- Is not involved in developing or implementing business strategy: 17%
How does your Board of Directors/Audit Committee engage with the Chief Compliance Officer?

- **38%** Board/Audit Committee requests broader content/asks questions about specific topics/actively challenges information provided.
- **6%** Board/Audit Committee brings issues and ideas from other experiences.
- **17%** Board/Audit Committee receives updates on at least an annual basis, but does not ask a lot of questions.
- **6%** Board/Audit Committee only engages when there is an event or crisis.
- **10%** Board/Audit Committee dives deeply into specific compliance risks.
- **7%** Board/Audit Committee is receptive to and embraces compliance-related training for the Board.

---

**Theme 2** — Owners of compliance obligations should be aware of what “compliance” entails across the organization as well as understanding the scope of their own responsibilities.
**CCOs should know how their organizations manages all compliance obligations and issues throughout the company**

Does the Corporate Compliance function have direct, primary "ownership" or accountability for each of the following at your organization?

<table>
<thead>
<tr>
<th>Direct ownership</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Code of Conduct</td>
<td>86%</td>
</tr>
<tr>
<td>Ethics Program and Controls</td>
<td>84%</td>
</tr>
<tr>
<td>FCPA/Anti-bribery and Anti-corruption</td>
<td>78%</td>
</tr>
<tr>
<td>Investigations</td>
<td>71%</td>
</tr>
<tr>
<td>Hotlines</td>
<td>68%</td>
</tr>
<tr>
<td>Compliance Audit</td>
<td>66%</td>
</tr>
<tr>
<td>Policy Process Management</td>
<td>63%</td>
</tr>
<tr>
<td>Privacy and Data Protection</td>
<td>60%</td>
</tr>
<tr>
<td>Third Party/Vendor Compliance</td>
<td>52%</td>
</tr>
<tr>
<td>Records Retention</td>
<td>49%</td>
</tr>
<tr>
<td>Enterprise Risk Management</td>
<td>43%</td>
</tr>
<tr>
<td>Export compliance</td>
<td>32%</td>
</tr>
<tr>
<td>Internal Audit</td>
<td>31%</td>
</tr>
<tr>
<td>Import/Customs Compliance</td>
<td>22%</td>
</tr>
</tbody>
</table>

**Dashboard #1 – Assessment of Program Elements**

Illustrative example of a Compliance-based Risk Dashboard
## Dashboard #2 – “Initial” end game view

<table>
<thead>
<tr>
<th>RUI</th>
<th>Overall Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Law & Regulations**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Policy & Procedures**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Communication**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Education & Training**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Reporting**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Cr. Monitoring & Auditing**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Investigation, Response & Prevention**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Performance Management**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Assurance & Assuranceability**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **O** = Further information required to accurately assess activity
- = Information received suggests potential gaps versus standard
✓ = Information received suggests compliance with standard

October 2015

## Dashboard #3 – Combined Assurance Map

- **Compliance & Standards**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Management**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Process**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Function**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Policy**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Risk & Compliance**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Investigation, Response & Prevention**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Performance Management**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

- **Assurance & Assuranceability**: 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 
  - [ ] 

PwC

October 2015
**Theme 3 – The compliance function should collaborate with business owners of compliance obligations**

Business strategy

Business management

Business performance

PwC

**Ethics & compliance maturity scale overview**

- The Ethics & Compliance Maturity scale is designed to identify the Ethics & Compliance Program Elements and the range of effectiveness and desired state for each element.
- Each element is rated on a four-point maturity scale based on benchmarking, internal assessment, and ultimately where the company wants to be for each element. This approach ensures sustainable program governance.

1. Underserved
   - There is no recognition of element.
   - Element has not been defined.
   - There is no management ownership.
   - No use of technology. Business element is not acknowledged.

2. Transactional
   - There is some recognition of element.
   - Element is defined and consistently applied across the different business units.
   - Some compliance and ethics management practices are in place, but there is no cohesive plan.
   - There is no consistent management support for compliance and ethics efforts.

3. Standardized
   - Element is defined and consistently applied across different business units and risk areas.
   - Some compliance and ethics management practices are in place, and there is a cohesive plan.
   - There is consistent management support for compliance and ethics efforts.

4. Optimized
   - Element processes, governance, and controls are standardized and coordinated across business units and risk areas.
   - Information and plans, coordination of activities, integration throughout employee lifecycle, and feedback to business planning and performance lifecycle.
   - Embedded continuous improvement.
   - Strong sense of integrity from the top, middle, and down is evident.
   - Centralized function with design and strategy at business unit level.
   - Ongoing, meaningful dialogue with management and board.
   - Common technology platforms and integrations with other business systems.

PwC

October 2015
Gap – current state vs. desired state

<table>
<thead>
<tr>
<th>ICT compliance program framework element</th>
<th>Undefined</th>
<th>Incomplete</th>
<th>Standard</th>
<th>Optimized</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tone at the Top</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Risk Assessment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Lines of Communication</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Oversight and Responsibility</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Policies and Procedures</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Monitoring</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Auditing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Training</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Response and Prevention</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Enforcement and Discipline</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

KEY: ● = Current State  ● = Desired Future State

PwC October 2015

Top of mind risks

Select your top 3 areas in terms of future perceived level of compliance-related risk to your business over the next 5 years (i.e. to 2020)?

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data security</td>
<td>47%</td>
</tr>
<tr>
<td>Privacy and confidentiality</td>
<td>24%</td>
</tr>
<tr>
<td>Industry-specific regulations</td>
<td>17%</td>
</tr>
<tr>
<td>Bribery/compliance</td>
<td>22%</td>
</tr>
<tr>
<td>Supplier/supplier-free compliance</td>
<td>12%</td>
</tr>
<tr>
<td>Conflicts of interest</td>
<td>12%</td>
</tr>
<tr>
<td>Fraud</td>
<td>14%</td>
</tr>
<tr>
<td>Consumer protection</td>
<td>12%</td>
</tr>
<tr>
<td>Regulatory quality</td>
<td>12%</td>
</tr>
<tr>
<td>Money laundering</td>
<td>12%</td>
</tr>
<tr>
<td>Business continuity</td>
<td>8%</td>
</tr>
<tr>
<td>Intellectual property</td>
<td>8%</td>
</tr>
<tr>
<td>Employment and labor compliance</td>
<td>8%</td>
</tr>
<tr>
<td>Import/export controls/compliance</td>
<td>7%</td>
</tr>
<tr>
<td>Government contracting</td>
<td>6%</td>
</tr>
<tr>
<td>Safety/environmental</td>
<td>6%</td>
</tr>
<tr>
<td>Records management</td>
<td>0%</td>
</tr>
<tr>
<td>Fair competition/trust</td>
<td>5%</td>
</tr>
<tr>
<td>Corporate social responsibility</td>
<td>4%</td>
</tr>
<tr>
<td>Social media</td>
<td>4%</td>
</tr>
<tr>
<td>Insider trading</td>
<td>3%</td>
</tr>
<tr>
<td>Ethical sourcing</td>
<td>2%</td>
</tr>
<tr>
<td>Physical security</td>
<td>1%</td>
</tr>
</tbody>
</table>

PwC October 2015

20
**Theme 4 – Compliance leaders should evaluate and potentially re-imagine the identity of their function**

Does your organization have a named Chief Compliance Officer/Chief Ethics and Compliance Officer?

- Yes
- No
- Don't know

To whom does your Chief Compliance Officer of Chief Ethics and Compliance Officer report?

- General Counsel/Legal: 31%
- Chief Executive Officer: 26%
- Board of directors/Audit Committee: 21%
- Chief Risk Officer: 8%
- Chief Audit Executive: 2%
- Chief Financial Officer: 2%

Who functions as your organization's compliance officer?

[Diagram showing functions]

October 2016

**Reimagine the function – Compliance and legal skills continue to be dominant on compliance teams**

Which of the following skillsets and experiences are represented in your organization's Corporate Compliance function?

- Compliance or ethics background: 80%
- Legal background: 80%
- Audit background: 51%
- Regulatory compliance experience: 64%
- Industry expertise: 55%
- Business operations background: 55%
- Finance background: 43%
- HR background: 28%
- Data analysis experience: 33%
- Technology acumen: 33%

October 2015
Who’s managing the organization’s critical risks?

Does your company have an in-house Compliance Committee to support compliance efforts?

63% Yes

Which of the following departments or functions serve on the Compliance Committee?

- Compliance: 85%
- Legal: 82%
- Internal Audit: 59%
- Finance: 55%
- Human Resources: 54%
- Risk Management: 50%
- Operations: 45%
- Information Technology: 40%
- Business Units: 37%
- Sales and Marketing: 22%
- Supply Chain: 13%
- Procurement: 13%
- Research & Development: 12%
- Investor Relations: 9%
- Other: 10%

October 2015

Size of the corporate compliance function

How many full time equivalents are working in the Corporate Compliance Function?

- More than 100: 11%
- 26-100: 12%
- 11-25: 13%
- 6-10: 14%
- 3-5: 18%
- Less than 3: 23%

How many full time equivalents are working in compliance roles but based outside of the Corporate Compliance Function?

- More than 100: 11%
- 26-100: 10%
- 11-25: 11%
- 6-13: 11%
- 3-5: 10%
- Less than 3: 20%

October 2015
### What is the total approximate annual budget for compliance and related activities at the corporate compliance function level?

<table>
<thead>
<tr>
<th>Budget Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>$5m or more</td>
<td>19%</td>
</tr>
<tr>
<td>$1m to less than $5m</td>
<td>26%</td>
</tr>
<tr>
<td>$500,000 to less than $1m</td>
<td>17%</td>
</tr>
<tr>
<td>$100,000 to less than $500,000</td>
<td>21%</td>
</tr>
<tr>
<td>Less than $100,000</td>
<td>6%</td>
</tr>
<tr>
<td>No budget established</td>
<td>11%</td>
</tr>
</tbody>
</table>

PwC

October 2015

### Theme 5 – Compliance officers should explore ways to increase operational efficiency and effectiveness

Does your Chief Compliance Officer/Corporate Compliance function actively measure compliance costs to your organization?

- Yes: 24%
- No: 35%
- Don’t know: 41%

What elements does your Corporate Compliance function consider to help define aggregate compliance cost when determining budgets or articulating program value?

<table>
<thead>
<tr>
<th>Element</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct operating costs</td>
<td>74%</td>
</tr>
<tr>
<td>Compliance-related initiatives</td>
<td>69%</td>
</tr>
<tr>
<td>Systems and tools</td>
<td>57%</td>
</tr>
<tr>
<td>Third party (e.g., contingent workers, contractors, consulting fees)</td>
<td>55%</td>
</tr>
<tr>
<td>Indirect operating costs</td>
<td>51%</td>
</tr>
<tr>
<td>Direct cost of non-compliance</td>
<td>36%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>12%</td>
</tr>
</tbody>
</table>

PwC

October 2015
Technology has the potential to add significant value to compliance management yet only 21% of respondents have a GRC tool

Why doesn't your Corporate Compliance function use a dedicated GRC technology tool?

Compliance teams need data that measures how well the business manages compliance risk

How, if at all, does your organization use data analytics in its corporate compliance and ethics program?

- For internal reporting: 51%
- For trending and comparisons: 39%
- To monitor for inappropriate or suspicious activity: 97%
- To track regulatory compliance (e.g., meeting compliance deadlines): 36%
- For visualization and dashboarding: 28%
- For transaction monitoring: 20%
- For external reporting: 20%
- We receive automated data outputs: 20%
- We do not use data analytics in our corporate compliance and ethics program: 17%
- We access data from portable devices (e.g., smartphone, tablet): 8%
- Don't know: 14%
Compliance outsourcing is becoming a real and viable option

Do you fully outsource any of the following?*

- Hotline intake: 44%
- Compliance testing: 15%
- Compliance auditing: 13%
- Compliance monitoring: 10%
- Investigations: 10%

*Respondents who stated yes

PwC

Next steps

PwC

October 2015
Top 5 ways that compliance professionals can become C-suite stars

1. Actively express an interest in participating in strategy decisions, and proactively articulate to the CEO the strategic value that compliance can deliver.

2. Review the strategic plan and develop ideas for addressing new or unusual compliance risks, or leveraging them to gain competitive advantage.

3. Forge close relationships with key business leaders throughout the company and offer insights to help the business identify and mitigate risks related to compliance issues.

4. Define (or redefine) the scope of compliance across the organization and build partnerships with compliance owners within the business to ensure that all issues are being managed effectively.

5. Implement efficiency initiatives to improve the effectiveness of the compliance function and reduce compliance-related costs.

Questions
Get the full report...

Visit and bookmark: www.pwc.com/us/stateofcompliance for the full report, a full chart pack and infographics. Also look for the following industry reports:

- Banking and Capital Markets
- Asset Management
- Manufacturing
- Technology
- Retail
- Healthcare Providers
- Pharma and Life Sciences
- Payor and Life and Casualty
- Energy and Utilities

Thank you!

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in the publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in the publication, and, to the extent permitted by law, PricewaterhouseCoopers does not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2015 PwC. All rights reserved. PwC refers to the US member firm or one of its subsidiaries or affiliates, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.
Corporate Compliance and Ethics Assessment

PROJECT BACKGROUND
The purpose of this project was to assess risk associated with the Cox Businesses' Corporate Compliance and Ethics Programs ("Programs") based on the US Sentencing Commission Guidelines ("Guidelines"). According to the Guidelines the primary purpose of a corporate compliance and ethics program is to make a sincere effort to prevent, detect, and correct any fraud, abuse, or waste by creating a culture that promotes understanding of and adherence to applicable federal, state, and local laws and regulations.

PROJECT OBJECTIVES
- Assess the current state for each respective Division's Program using the Guidelines as a benchmark
- Provide recommendations for improving the Programs based on the assessed risks

PROJECT SCOPE
- Cox Enterprises
- Cox Communications
- Manheim
- Cox Media Group
- AutoTrader Group

<table>
<thead>
<tr>
<th>JUNE 2013</th>
<th>JULY-OCTOBER 2013</th>
<th>NOVEMBER 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEFINE</td>
<td>MEASURE/ANALYZE</td>
<td>IMPROVE/CONTROL</td>
</tr>
</tbody>
</table>

- KEY DELIVERABLES
  - Project Charter
  - Maturity Assessment for each Division's Program
  - Deliverable Report, including Next Step Considerations
Current State Analysis & Vision

Changing Landscape

- International
- TYCO-CORP
- Collaboration
- Culture
- Standardization
- Risk Management
- Decentralization
- Employees
- Sarbanes-Oxley
- Pressure
- Fines
- Acquisitions
- Reputation
- Contractors
- Transformation
- Innovation
- FSG
- Growth
- WorldCom
- Enron
- Efficiency
- Transparency
- Social Media
- Complexity
- Penalties
**US Sentencing Guidelines Summary**

- Establish standards, procedures, and controls to prevent and detect unethical conduct
- Have written policies that address the US sentencing guidelines
- Take appropriate investigative actions in response to suspected compliance and ethics violations and to prevent further violations
- Take appropriate steps to preserve the confidentiality of investigations
- Engage employees to act in accordance with program
- Discipline employees for engaging or failing to take reasonable steps to detect criminal conduct
- Make it an ongoing process to detect criminal conduct
- Periodically evaluate the effectiveness of the program
- Involve multiple layers of management
- Designate a person or committee to manage day to day and to have a single point of contact
- Avoid hiring individuals with a history of engaging in illegal activities or behavior inconsistent with an effective compliance and ethics program
- Use proper safeguards to ensure you are dealing with reputable and ethical vendors and third parties
- Conduct training and education programs periodically and practically throughout all levels of the organization
- Make compliance and ethics a part of the culture

---

**Current Ethics & Compliance Environment**

- Overall solid ethical tone at the top, across the family of businesses
- Historically a collaborative approach between divisions
- Unique risk profiles across different industries
- Opportunity to increase awareness, communication, and knowledge sharing across Cox Divisions

---

45

46
Timeline

2013
Perform a current state assessment across divisions

2014
Form a steering committee, develop future state and roadmap, obtain executive approval

2015
Tactical development of a unified code of ethics, hotline, and training

Design and Build
Next Steps

- Create Cross-Divisional Ethics and Compliance Committee (including representation from Cox Enterprises Legal and Audit Services)
- Determine the desired maturity level for each Division based on the following: level of industry regulations, type of customers base, risk profile
- Consider various governance options based on desired maturity level: Federated approach across Cox Family of Businesses, separate Compliance Program per Division, or a hybrid approach
- Develop future state roadmap to attain desired maturity level and governance model

Compliance and Ethics Overall Maturity

The Audit Services group completed a maturity assessment of each of the divisions within the Cox Family of Businesses, and plotted each company on the scale below, noting current state as well as a desired future state.

<table>
<thead>
<tr>
<th>Company</th>
<th>Basic</th>
<th>Evolving</th>
<th>Established</th>
<th>Advanced</th>
<th>Leading</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cox Enterprises (CEI)</td>
<td></td>
<td></td>
<td>Illustrative</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cox Communications (CCI)</td>
<td></td>
<td></td>
<td></td>
<td>Illustrative</td>
<td></td>
</tr>
<tr>
<td>Manheim (MAN)</td>
<td></td>
<td></td>
<td>Illustrative</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cox Media Group (CMG)</td>
<td></td>
<td></td>
<td>Illustrative</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AutoTrader Group (ATG)</td>
<td></td>
<td></td>
<td>Illustrative</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Compliance Function
Building an effective program in a distributed organization: scope of compliance

Compliance function scope of responsibility:

- Primary accountability
- Partial responsibility
- Limited responsibility

Items out of Scope:
- SEC Reporting
- Tax
- IP/Confidentiality
- IT Security

Note: This is a representation of the way responsibility is allocated to a small sample of companies. It is not necessarily a recommendation of how that responsibility should be allocated.

Compliance & Ethics Working Model

2017 Target 3-Year implementation

Federated Approach

Final Recommendation: Build out an Enterprise-wide Compliance and Ethics Program

Aligned with Cox values, strategy and culture

Leverage Existing Resources
Stay True: A Compliance & Ethics Program for Cox's Culture

Enterprise Compliance
- Common Cox Family of Businesses Code of Conduct and Helpline
- Cross Divisional Compliance Council, Enterprise Metrics and Effectiveness Reporting
- Enterprise Level Compliance Officer and Shared Infrastructure (tools, policies and processes as appropriate)

Division Specific Compliance Programs
- Division Specific Code of Conduct Supplement with Division Leadership Ethics Message
- Customized Division Governance and Compliance Officer Role
- Division Specific Risk Assessment, Monitoring and Oversight

Tailor to COX culture
- Consistent, Coordinated & Customized
- Keep it Simple
- Leverage COX Resources (Compass, etc.)
- Add Value, Not a "Checkbox" Activity
- Risk Based/Build Over Time & Adjust
- Division Own Compliance
- Partner with HR & Others

Leveraging Existing Capabilities

Divisional Compliance Programs

Divisional programs such as, the CCI Compliance Program and the work done at COX Automotive Group provide a strong foundation for an enterprise wide program and helps contain development and implementation costs of the effort by:
- Leveraging People Robin Employee and Team
- Leveraging Process Risk Assessment & Helpline process
- Leveraging Technology Code of Conduct & Training/Awareness

Enterprise-wide Programs

Enterprise wide programs, including Compass and the Employee Portal, also support an enterprise Compliance and Ethics Program by offering a consistent delivery method:
- Recruiting & Onboarding Requirements
- Awareness & Training Opportunities
- Business Unit Processes & Compliance
Program Support & Approvals

Executive Support & Oversight
- Approval of the Compliance and Ethics Program
- Division Presidents / CFOs / HR Leadership Support
- Executive Sponsorship/Tone at the Top
- Annual Report to the Audit Committee on Compliance & Ethics Program Effectiveness

Stakeholders & Collaboration
- Human Resources: Embedding Ethics & Compliance throughout employee lifecycle
- Legal: Legal Reviews
- Compliance: Program Management
- Audit Services: Oversight & Strategy
- Supply Chain: Vendor Selection
- Communications: Communication & Presentation Materials
- Division Leadership: Approvals & Allocation of Resources

Resources
- Project Manager $70K
- CFO, Compliance $60K
- Ethics Training $100K
- Helpline $50K
- 2016 Resource Needs
  - To be defined by June 2015 for inclusion in the budget process
  - Division will incur some expense related to program in 2016 and beyond

3-Year Ethics & Compliance Program Plan

Three year plan of key objectives and activities to deploy a consistent Compliance and Ethics Program which meets the value propositions:
- Protects the Company
- Supports our Strategy
- Aligns with our Values

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop Division Codes</td>
<td>Implement Code &amp; Helpline when awareness &amp; training resources are ready</td>
<td>Ongoing maintenance of Codes as well as streamlining of Helpline</td>
<td></td>
</tr>
<tr>
<td>Develop Division Helpline</td>
<td>Tie launch to Employee Portal (if possible)</td>
<td>Develop recurring awareness plan</td>
<td></td>
</tr>
<tr>
<td>Plan Helpline</td>
<td>Tie rollout of training to larger training module</td>
<td>Develop recurring training program</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Awareness</th>
<th>2015 - Design</th>
<th>2016 - Launch</th>
<th>2017 - Report and Sustain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop Employee Messages</td>
<td>Tie launch to Employee Portal (if possible)</td>
<td>Develop recurring awareness plan</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Training</th>
<th>2015 - Design</th>
<th>2016 - Launch</th>
<th>2017 - Report and Sustain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop Initial Training</td>
<td>Tie rollout of training to larger training module</td>
<td>Develop recurring training program</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reporting and Governance</th>
<th>2015 - Design</th>
<th>2016 - Launch</th>
<th>2017 - Report and Sustain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Define responsibilities for Cross Division Compliance Council and Enterprise Compliance Officers</td>
<td>Cross Division Compliance Officer roles operational, Report on metrics</td>
<td>1st annual report to Audit Committee on 2016 results</td>
<td></td>
</tr>
<tr>
<td>Define Metrics</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop Compliance Risk Assessment Methodology</td>
<td>Enhanced Risk Assessment &amp; Policies</td>
<td>Enhanced Controls &amp; Due Diligence</td>
<td></td>
</tr>
</tbody>
</table>
### Project Plan Example: Hotline

<table>
<thead>
<tr>
<th>Enterprise Workstream</th>
<th>Tasks</th>
<th>Assigned Party</th>
<th>Start Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotline RFP/Vendor</td>
<td>Identify initial requirements for hotline program</td>
<td>Compliance Lead</td>
<td>Jan-15</td>
</tr>
<tr>
<td>Reporting</td>
<td>Determine hotline rollout by division and consolidated</td>
<td>Working Group</td>
<td>Jan-15</td>
</tr>
<tr>
<td>Hotline RFP/Vendor</td>
<td>Kickoff and demo of CO's existing hotline program</td>
<td>Compliance Lead/Counsel</td>
<td>Feb-15</td>
</tr>
<tr>
<td>Hotline RFP/Vendor</td>
<td>Review and approve project plan</td>
<td>Working Group</td>
<td>Feb-15</td>
</tr>
<tr>
<td>Standards &amp; Procedures</td>
<td>Initial identification of policies to be used for hotline for each division</td>
<td>Working Group</td>
<td>Mar-15</td>
</tr>
<tr>
<td>Hotline RFP/Vendor</td>
<td>Review and finalize requirements for hotline</td>
<td>Working Group</td>
<td>Apr-15</td>
</tr>
<tr>
<td>Hotline RFP/Vendor</td>
<td>Draft RFP for hotline vendor</td>
<td>CEI Supply Chain</td>
<td>Apr-15</td>
</tr>
<tr>
<td>Hotline RFP/Vendor</td>
<td>Review and finalize RFP</td>
<td>Working Group</td>
<td>Apr-15</td>
</tr>
<tr>
<td>Standards &amp; Procedures</td>
<td>Draft policies to fill policy gaps</td>
<td>Working Group</td>
<td>Apr-15</td>
</tr>
<tr>
<td>Training/Communications</td>
<td>Incorporate materials into onboarding training</td>
<td>Training Subcommittee</td>
<td>Apr-15</td>
</tr>
<tr>
<td>Hotline RFP/Vendor</td>
<td>Send out RFP and collect responses</td>
<td>CEI Supply Chain</td>
<td>May-15</td>
</tr>
</tbody>
</table>

---

### Project Status Update Example: Hotline

**Objective:**
- Hotline RFP
- Investigation Process, Reporting, Standards & Procedures
- Training & Communications

**Workstream Owner:**
- Compliance
- Corporate Security
- Counsel
- HR

**Accomplishments:**
- Participated in dance of finalists' systems
- Down-selected to two vendors: A and B
- Visited Vendor A and Vendor B call centers
- Reviewed Vendor C

**Issues/Items/Key Decisions/Risks:**
- Final Vendor Selection
- Are we going forward with Policy Management in conjunction with Hotline Case Management?
- Appoint Database Administrators and Case Managers at each division

**Assigned To:**
- Compliance Committee
- Division Reps

**Needed By:**
- August 20XX
- September 20XX

**Expected Budget:**

<table>
<thead>
<tr>
<th>Details</th>
<th>Vendor A</th>
<th>Vendor B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>rollout</td>
<td>rollout</td>
</tr>
<tr>
<td>Implementation</td>
<td>$ XXXXX</td>
<td>$ XXXXX</td>
</tr>
<tr>
<td>Services</td>
<td>$ XXXXX</td>
<td>$ XXXXX</td>
</tr>
<tr>
<td>Total</td>
<td>$ XXXXX</td>
<td>$ XXXXX</td>
</tr>
</tbody>
</table>
**Project Status Update Example: Timeline**

<table>
<thead>
<tr>
<th>WORKSTREAMS</th>
<th>ITEM</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
</tr>
</thead>
<tbody>
<tr>
<td>Code &amp; Hotline</td>
<td>Code Hotline Workstream #1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Code Hotline Workstream #2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Code Hotline Workstream #3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Code Hotline Workstream #4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Code Hotline Workstream #5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Training &amp; Awareness</td>
<td>Training Workstream #1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Training Workstream #2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Governance Workstream #1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Governance Workstream #2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Governance Workstream #3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Governance Workstream #4</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Governance Workstream #5</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Governance Workstream #6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Audit Workstream #1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Audit Workstream #2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Audit Workstream #3</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Change Management Workstream #1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**2015 Successes**

- Develop Responsibilities for Cross Divisional Compliance Council, Enterprise and Divisional Compliance Officers
- Develop common Code of Conduct, Employee Messages and Initial Training Material
- Develop Compliance Risk Assessment Methodology
- Define Performance Metrics
- Identify shared Helpline Vendor and Rollup Reporting Process