Compliance as a change agent

Society of Corporate Compliance and Ethics
Higher Education Compliance Conference
June 2019

Jeff Chasen, University of Kansas
John Powers, PwC

Objectives

- Develop a deeper understanding of how compliance functions drive change within their organizations.
- Learn how to combat resistance to change within your organization.
- Discuss current change management trends and tools that will highlight compliance functions and professionals as positive change agents.
Introduction – Bios

- **John** is a Director in PwC's Internal Audit, Compliance, and Risk Management Solutions practice, overseeing the delivery of full scale internal audit outsource arrangements, technical co-source arrangements, and project specific services in the higher education and nonprofit sector. John also serves as the firm's national higher education knowledge manager, connecting teams across the country to share leading practices, developing risk trends, and benchmarking data.

John has a B.B.S. from the University of Wisconsin-Madison in Risk Management and Insurance, and Accounting Information Systems. He is a Certified Public Accountant in the states of Illinois and Wisconsin.

- **Jeff** serves as Associate Vice Provost for Integrity & Compliance at the University of Kansas. He established KU's first-ever campus-wide compliance program, including a comprehensive data and reporting function, with special emphasis on achievement of ethical and operational integrity through application of the behavioral sciences. Additionally, he serves a number of professional associations as a presenter, peer reviewer, and committee leader.

Jeff received his B.A. and J.D. degrees from The George Washington University, where he also served as an adjunct instructor.

Background

Compliance and Change
Protecting the organization in an ever-changing environment

The role of compliance functions in helping balance risk is growing in importance and complexity as their organizations address new regulatory concerns and navigate new opportunities generated by technology and business innovation.

As the pace of change continues to accelerate and organizations become more digital, compliance and ethics organizations have to become strategic partners in driving transformation.

This is part due to the compliance function’s role as an “influencer” over organizational culture, where the team is able to draw change through relationships with other business stakeholders and through clear messaging.

Driving Change in your Organization
Focus on the basics

Leadership and tone at the top
From the top down help set the tone of the institution’s compliance program, living and sharing its values, and serving as a trusted advisor to institutional leadership, including the President and Provost.

Communication
Translating the rules into practical guidance, particularly during periods of change, and effectively communicating this guidance to employees and a University’s distributed units.

Work across a decentralized environment
Working cross functionally to embed the Compliance function vision, strategy, and principles into the organization’s culture and day to day operations.

Effective Learning and Development
Developing and embedding effective compliance training strategies with operational staff.

Know the Institution
Have a deep understanding of the institution and its strategic objectives, in order to provide practical, achievable guidance, foster meaningful relationships, and build and sustain trust.
Driving Change in your Organization
Moving towards the 4th Industrial Revolution and a digitally fit compliance program

1. Anticipate forthcoming regulatory changes and make plans for how to adapt to them

2. Identify regulatory compliance risk early during digital initiatives and proactively and quickly respond to possible issues

3. Educate on the costs and repercussions of noncompliance

4. Create competitive advantage for their Institutions

Digitally Fit Compliance Program

Having in place the skills and competencies for strategically advising stakeholders on digital initiatives’ regulatory compliance risks and

Adapting compliance processes, tools, and services to help Institutions anticipate and respond to regulatory change at the pace required to maintain compliance

Driving Change in your Organization
6 Habits of a Digitally Fit Compliance Program

The 2019 PwC State of Compliance study identified six habits of dynamic, digitally enabled compliance functions:

01. Go “all in” on the Institution’s digital initiatives

02. Upskill staff to move at the speed of the Institution

03. Find the right fit for emerging technologies

04. Enable the Institution to act on risk in real time

05. Actively engage decision makers through digital initiatives

06. Collaborate and align to provide a consolidated view of risk
Driving Change in your Organization
6 Habits of a Digitally Fit Compliance Program

1. Go all-in on the Institution’s digital plan
   • Compliance executives should be involved early in digital initiatives, at the idea stage, to provide perspective on the ethical and regulatory considerations that may affect digital initiatives. Emphasize the cost of non-compliance to ensure the function’s voice is heard.
   • Be part of your Institution’s strategic plan and engage with leadership to establish digital governance standards; compliance needs a seat at the table at both the digital governance level and when it comes to program oversight.
   • The compliance function should target clear outcomes and specific performance metrics for its own digital strategy.

2. Upskill and inject new talent
   • Identify strategic training opportunities to upskill current compliance staff, potentially along with other related risk business functions
   • When hiring, look outside traditional areas (i.e., risk management, legal) and consider hiring team members from non-traditional backgrounds (e.g., data analytics, cybersecurity)
   • Compliance executives should also consider connecting with partners and external providers that have new capabilities (e.g., data mining) that offer value to compliance functions.
Driving Change in your Organization
6 Habits of a Digitally Fit Compliance Program

3 Find the right fit for emerging technologies

• One area ripe for RPA is contracts. At one organization, the compliance function used a combination of process automation and artificial intelligence to automatically identify potentially problematic or risky language in contracts. This allowed reviewers to spend less time on more tedious review steps and more time on meaningful analysis of trends.

• Dynamic compliance functions are also investing in compliance-specific technology as a foundation for the support of legal and regulatory requirement monitoring.

4 Enable the Institution to act on risks in real time

• Identify potential business, risk, and compliance processes that may benefit from intelligent automation or machine learning, e.g., continuous monitoring.

• Develop new services for the organization or its stakeholders/ e.g., on demand data visualization tools to empower local functions

• Regular risk refresh to inform audit plan, compliance, and ERM activities.
Actively engage decision makers

- Don’t be caught off guard by digital initiatives that are far down their implementation path.
- As institutions undergo digital transformations, compliance functions must take an active role, leaning into conversations about digital initiatives and emphasizing the cost of non-compliance.
- Examples
  - Secure Data Enclaves
  - New ERP Implementations /Sponsored Research Modules

Collaborate and align to provide a consolidated view of risks

- Implement and leverage Governance, risk, and compliance tools
- Consolidated reporting to the Audit Committee
- Risk Assessment Harmonization
Combating resistance to change

Federal sentencing guidelines for organizations (“FSGO”) – 7 criteria
FSGO Criteria 1 – Standards and procedures

""

Prioritizing “rightdoing” over wrongdoing

FSGO Criteria 2 – High–level oversight

""

Fostering slow-track thoughtfulness in a fast-paced environment
FSGO Criteria 3 – Delegation

“Aligning individual inclinations with institutional interests"

FSGO Criteria 4 – Communication

“Developing just-in-time resources and not just one-time training"
FSGO Criteria 5 – Monitoring

"Facilitating action along with analysis"

FSGO Criteria 6 – Enforcement

"Making accountability and not just taking it"
FSGO Criteria 7 – Response and prevention

"Creating a “whole” that’s greater than, not less than, the sum of the parts"

Current change management trends and tools
Leadership at a private research university wanted to modernize the manner in which university departments make decisions, specifically through the use of data and analytics.
Illustrative example – Data analytics in sponsored research compliance

Expenditure Transactions

Award Requirements

• Applications of business rules, logic

• Design of visual solution

Budget Data

Role Data

Principal Investigator
Quick view of a PIs current sponsored award portfolio to gain insights into performance or risk factors. E.g.;
• Burn analysis

Deans and Department Chairs
Allows Deans or Department Chairs real time visibility into their areas of responsibility to allow for business and performance discussions.
• Expended vs unexpended balances
• Award activity by PI

Central Research Administration / Internal Audit / Compliance
Provides a tool to increase the efficiency of regular grant testing and larger compliance analysis for the second and third line of defense
• Expenditures outside of period of availability

Coordinating risk management efforts

As organizations go through periods of dramatic change judicious management of resources becomes more critical. By combining efforts of ERM, Compliance, and Internal Audit, it is possible to provide coordinated risk coverage, reduce potentially duplicative work and maximize stakeholder benefit.

1. Create a unified understanding of the current state and a common baseline

2. Provide coordinated risk coverage across the organization

3. Increase stakeholder satisfaction and reduce interview fatigue.
Coordinating risk management efforts

Based on the results of the interviews, Internal Audit, Compliance, and ERM collaborated to determine the inherent component risks (i.e., activities/events that could prevent a business unit from fulfilling its initial objectives) faced by the organization.

These component risks were then grouped into larger key risk themes (e.g., finance, IT). As the risk assessment was a collaborative effort, the same set of risk themes were used by Internal Audit, Compliance, and ERM.

Based on the risk themes identified, and the underlying component risks, Internal Audit developed a three-year audit plan. Specific projects were mapped to the corresponding risk theme. Additionally, Internal Audit considered if areas have not been audited as part of recent audit plans.

Similar plans were developed by Compliance and ERM. Plans were shared across the three functions to minimize duplicative efforts and maximize risk theme coverage. The proposed plans are then presented to the relevant governing bodies (e.g., audit committee).

### Coordinating risk management efforts

<table>
<thead>
<tr>
<th>Risk Theme</th>
<th>Second Line of Defense</th>
<th>Third Line of Defense</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Compliance</td>
<td>ERM</td>
</tr>
<tr>
<td>Human Resources</td>
<td>• Conflict of Interest Review</td>
<td>No Planned Activities</td>
</tr>
<tr>
<td></td>
<td>• ERISA Compliance Review</td>
<td></td>
</tr>
<tr>
<td>Cybersecurity and Privacy</td>
<td>No Planned Activities</td>
<td>• Data Breach Notification Assessment</td>
</tr>
<tr>
<td>Budgeting, Finance, and Procurement</td>
<td>No Planned Activities</td>
<td>No Planned Activities</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Change management strategy

One key, often under leveraged, strategy to drive and embrace change is organizational culture. However, thought leadership from the PwC Katzenbach Center highlights the importance of culture in driving change.

Successful change is often contingent on being able to leverage positive cultural attributes while minimizing the effect of negative attributes.

Leading change with culture

PwC's Strategy& Katzenbach Center identifies several key strategies to use when using culture to drive change:

1. Culture Diagnostic: Organizations must be aware their culture prior to using it to drive change. This includes being cognizant of strengths and weakness, in order to use strengths

2. Critical Few: Setting a small number of change goals is a crucial way to show staff the needed changes while preventing them from being overwhelmed by the scale of change.

3. Employee pride: Companies must find ways to connect workers to something larger that they can believe in.

4. Informal Peer Networks: Culture must be reinforced at every level, and having a peer point out the benefits of a change is often more effective and meaningful than the change coming from the top.
Thank you