Sustainable Compliance -
Using Investigations to Drive Remedial Measures

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Overview

- HII Overview
- HII’s Compliance Program
- Prevention, Detection and Remediation of Misconduct
- Sustainable Compliance
- Discussion
Huntington Ingalls Industries Facts

• Annual 2017 revenues of approximately $7.4 billion and current backlog of $21.4 billion

• Employees: approximately 38,000; largest industrial employer in Virginia, largest private employer in Mississippi

  • Newport News Shipbuilding
    – Nuclear-powered aircraft carriers and submarines, overhaul, repair, maintenance and fleet support
    – 550 acres, about 21,000 employees

  • Ingalls Shipbuilding
    – Surface combatants, amphibious assault & transport, Coast Guard Cutters, fleet support
    – 800 acres, about 11,500 employees

• Technical Solutions
  – Information technology, fleet maintenance and modernization, nuclear management and operations, oil and gas engineering and support
  – 35 states and 11 countries, about 5,000 employees
“Establishing and maintaining a culture dedicated to compliance and ethics takes discipline and commitment. It’s a journey, not a destination. It’s a process, not a program. But most importantly, it’s everyone’s responsibility.”

Mike Petters, President and CEO
HII’s Compliance Program

- Focus on **prevention, detection, and remediation of misconduct**, and managing other risks like “present responsibility”
- Risk-based
- Operational and proactive
- Business accountability
- Industry recognition

- “Getting the business to own compliance is very difficult to do in a large company. The way that HII operationalized compliance was key to the effort's success.”

  » ACC Value Champion Judges
Compliance Plans Across the Enterprise

• Core Principles
  – Maintaining “Present Responsibility”
  – Setting the right tone
  – Hiring the right people and business partners (due diligence)
  – Providing effective policies and procedures
  – Providing effective training
  – Promoting the reporting of misconduct
  – Ensuring proper timekeeping
  – Creating incentives and enforcing discipline

• Compliance plans
  – Core principles
  – Core elements (27 to 43)
  – Plans, principles, and core elements all driven by risk assessments tailored to business unit
  – Core elements include metrics
  – Bonus structure compensation metrics
  – Annual assessments
  – Compliance councils
Prevention of Misconduct: The Fraud Triangle

Managing risk of misconduct

Rationalization
The ability of an employee to intellectually justify an intentional act of business misconduct

Opportunity
The ease with which an employee can commit misconduct

Pressure
The motive or incentive for employees to commit misconduct

An effective Compliance program, combined with strong Leadership and sound Ethics work together to reduce risk of compliance failure

Compliance is a controls-based concept that mitigates risk by reducing opportunity; ethics is a values-based concept that mitigates the risks by reducing an employee’s ability to rationalize misconduct.
Detection of Misconduct: Investigations and Audits

- Investigations and audits are the feedstock for remedial measures
- Sources of allegations: Hot Line, HR, Management
- Audits: Internal Audits, Business Audits
- Every investigation/audit is a business opportunity – “self scouting”
- Focus on root cause analysis -- the how and why something happened
- Yates Memo requires vertical as well as horizontal investigative scope
The Importance of Remedial Measures—An Effective, Efficient Compliance Program

- Major elements of an effective compliance program
- Compliance Organization mission is to focus on prevention, detection, and remediation of misconduct
- Today we are focused on remediation, and improving the response to and prevention of misconduct, ethical lapses, or negative audit findings
Remediation of Misconduct: The Importance of Remedial Measures

• Prevent repeat failures in the same place, and similar failures at other places in the company
  – BP Deepwater Horizon Disaster (not shared)
  – Loss (possibly theft) of property (recurring)

• Prevent the overreaction and implementation of unsustainable compliance requirements
  – Overly burdensome procedures
  – Could lead to recurring failures, and ethical drift and compliance “numbness”

• Avoid criminal prosecution: Chapter 8, U.S.S.G. reduces criminal exposure for a company which has an “effective compliance and ethics program” which includes taking “reasonable steps to respond . . . and to prevent . . . criminal conduct.” U.S.S.G. § 8B2.1(b)(7).
Remediation of Misconduct: The Importance of Remedial Measures

• Increases employee engagement by using existing people and systems (including the Compliance Councils) to address blind spots and risks in a thoughtful and sustainable way

• Generates efficiencies—Simple is almost always better and more sustainable—but it is often more difficult for leaders to implement

• Keeps leaders out of the “gotcha” moments

• Regulators view companies as “one brain”
  – Expectation is that a company will stop it from happening again by modifying its compliance program
  – Regulators are more likely to determine that a company’s compliance program is ineffective if the same failures are repeated
Sustainable Compliance and Remedial Measures

- Sustainable Compliance modeled after external monitor function
  - What is a monitor? What does it mean to have a monitor?
  - Solution is often driven by mandates
  - Ownership not at the business unit level
  - Efficiency concerns secondary
  - Added employees and costs
  - Additional procedures
Sustainable Compliance and Remedial Measures

- Remediation with respect to compliance can be simplified to four major steps
  - A protocol tightens, formalizes, and documents the current informal processes
  - Involves compliance earlier in the process
  - Evidences a maturation of the compliance program
  - Value added driver – be a part of the solution across functional areas
Sustainable Compliance—A Compliance Remediation Protocol

Remedial Measures Team (RMT), as appropriate:
- Law Department
- Compliance
- Investigations
- Communications
- Human Resources
- Finance
- Functional Organization
- Internal Audit (in an advisory role)
- Subject Matter Experts, as needed

Compliance Team will promote transparency and communication throughout the process.