



# Sustainable Compliance -

## Using Investigations to Drive Remedial Measures

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- 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

## Who We Are – *Compliance and Ethics First*



“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



Ethics is doing the right thing at all times.

- 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





*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.

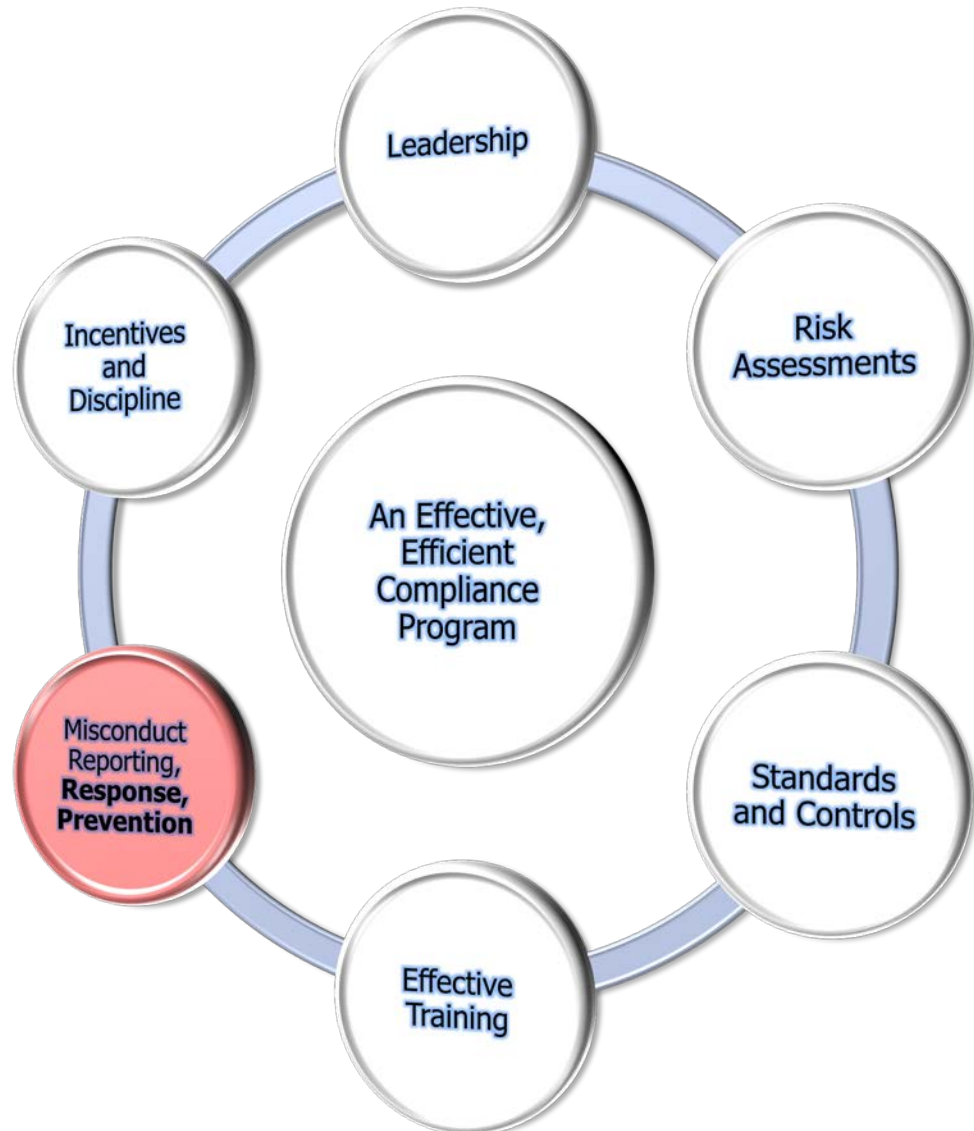


- Investigations and audits are the feedstock for remedial measures
- Sources of allegations: Hot Line, HR, Management
- Audits: Internal Audits, Business Audits
- Every investigation/audit is a business opportunity – “self scouting”
- Focus on root cause analysis -- the how and why something happened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



# The Importance of Remedial Measures—An Effective, Efficient Compliance Program

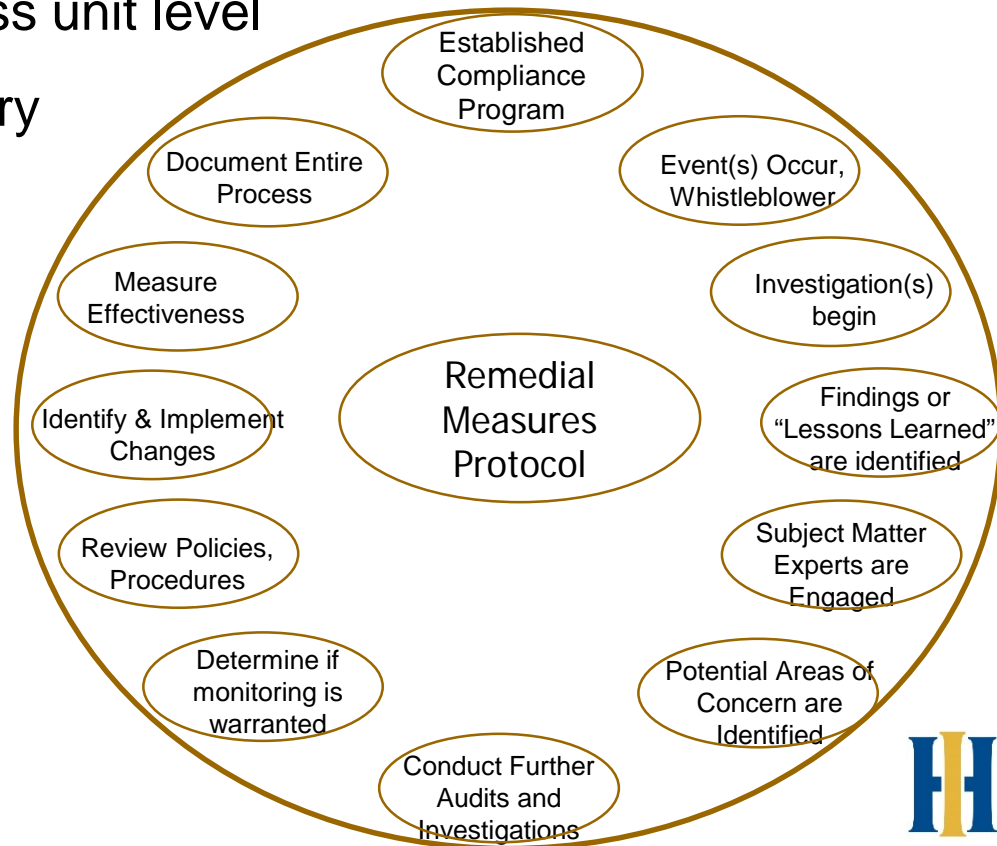
- Major elements of an effective compliance program
- Compliance Organization mission is to focus on prevention, detection, and remediation of misconduct
- Today we are focused on remediation, and improving the response to and prevention of misconduct, ethical lapses, or negative audit findings



- 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).

- 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 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



- 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

