

BEST PRACTICES IN ETHICS HOTLINES

A framework for creating an effective anonymous reporting program

Abstract

A renewed interest in corporate governance, spurred by the Sarbanes-Oxley Act, has inspired many organizations to implement an anonymous employee hotline. The Sarbanes-Oxley Act requires publicly traded corporations to provide a mechanism for reporting financial irregularities that enables employees who report information to remain anonymous.

Since the early 1980s, hotlines have proven to be a valuable tool for fraud detection. This paper discusses techniques for developing an effective ethics hotline program by examining three critical stages: planning prior to launch, communicating to stakeholders about the hotline and reacting to hotline tips.

The most effective hotlines offer 24-hour, 365-day access to a skilled interviewer. For the best results, and to simplify communication, organizations should provide a single mechanism for reporting all workplace issues. Reports should be disseminated quickly to designated parties. The hotline should also be promoted with educational materials directed to everyone in the organization, including employees and vendors. This helps maximize usage and create an ethical environment.

Using a centralized reporting mechanism, information should be disseminated to the most appropriate party, which likely includes Human Resources, the Audit Committee of the Board of Directors, Legal and Loss Prevention, among others. Dual dissemination of complaints related to fraud acts as a system of checks and balances by ensuring that no single person is in possession of this highly sensitive information. This protects the integrity of the reporting mechanism.

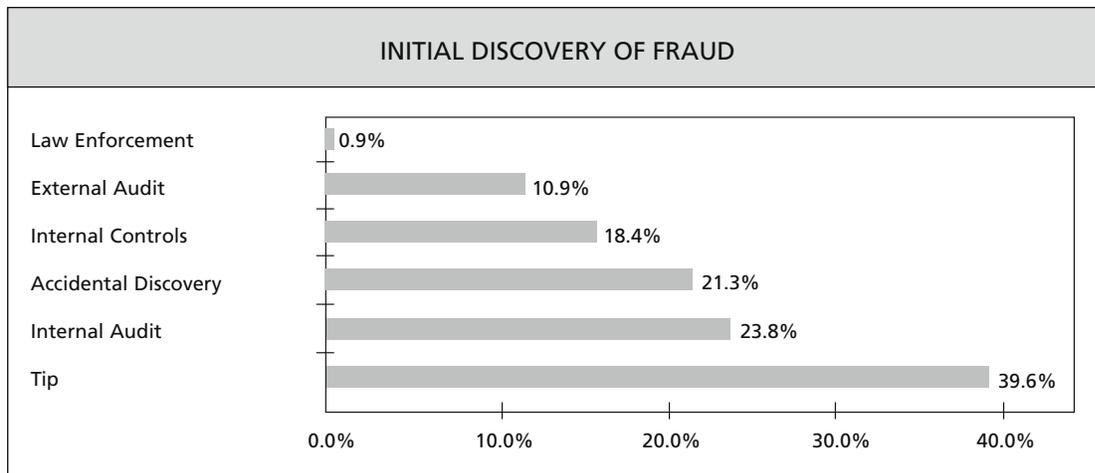
The hotline program's case management system should provide a centralized database for documenting the steps taken by the company to investigate allegations reported via the hotline. A system of assigning a random number for anonymous callers to use to call back after the initial report provides a means for an ongoing dialogue with anonymous callers that can be useful during the investigation.

Introduction

The Sarbanes-Oxley Act has introduced a new era of accountability for corporate management, giving organizations an extensive list of activities that must be adopted in order to maintain a listing as a publicly traded corporation. One of the many requirements of the Act is providing a process for the anonymous reporting of accounting or audit irregularities.

This legal requirement will prove extremely helpful to auditors, who will reap the benefits of a reporting tool that has demonstrated its usefulness in detecting fraud. In its *2004 Report to the Nation*, The Association of Certified Fraud Examiners (ACFE) found tips are the number one method for reporting fraud. In fact, the ACFE found that organizations with a hotline typically cut their fraud losses in half. Organizations without a hotline lost an average of \$135,000 while those with a hotline lost \$56,000. By requiring organizations to gather tips, Congress has taken a strong step toward protecting investors.

The Sarbanes-Oxley Act states that the Audit Committee of the Board of Directors is responsible for "establishing procedures for the receipt, retention and treatment of complaints...regarding accounting, internal accounting controls or auditing matters." It goes on to specifically state that the reporting mechanism must enable employees to remain anonymous when making such a complaint. This is a logical and important step toward protecting a whistleblower from retaliation.



Source: Association of Certified Fraud Examiners *2004 Report to the Nation*

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SARBANES-OXLEY, SECTION 301 STATES:

Complaints.

Each Audit Committee shall establish procedures for:

- A. The receipt, retention, and treatment of complaints received by the issuer regarding accounting, internal accounting controls, or auditing matters; and
- B. The confidential anonymous submission by employees of the issuer of concerns regarding questionable accounting or auditing matters.

Other key organizations have found the ACFE’s statistics compelling. The American Institute of Certified Public Accountants (AICPA), the organization that sets ethical standards for CPAs, published a tool for evaluating an anonymous hotline in January 2005. The AICPA recommended that all organizations establish a whistleblower hotline, ideally by using an external provider in order to enhance the perception of confidentiality. The AICPA also encourages using a trained interviewer via the telephone rather than a voice mailbox. The AICPA’s full advice regarding improving the hotline effectiveness can be found at www.aicpa.org/audcommctr/spotlight/jan_05_whistleblower.

As public corporations and other organizations across the nation review and revise their governance procedures, there are certain hotline best practices that are helpful in developing a hotline program to uncover fraud and other unethical and/or illegal activities. Best practices can best be illustrated by breaking down the anonymous reporting process into three steps:

- Planning the hotline program
- Communicating about the hotline
- Reacting to hotline tips

The First Step: Planning a Successful Hotline Program

GETTING STARTED

At first blush, implementing a hotline may seem to be a simple endeavor, but planning an effective reporting process can be quite complex. It must adequately protect the confidentiality of anonymous callers while providing quality information. A modern hotline program requires planning regarding how information is received, how information is distributed, and how records of complaints and investigations are maintained.

Depending on the size and complexity of the organization, it's often best to appoint an executive project leader who champions the implementation process. In order to create a program that meets the needs of the entire organization, this person must involve representatives of several departments. The hotline implementation for a large, complex organization frequently includes Legal, Finance/Audit, Human Resources, Risk Management/Loss Prevention, Operations, the members of the Board of Directors, Information Technology (IT), and Communications. A group representing all operational areas typically meets several times to discuss the plan and anticipate any enhancements that would make the program more valuable. For example, if the organization is large enough to anticipate a steady stream of calls, Human Resources or Loss Prevention may have an existing case management system. Hotline data can easily be fed into an existing system via an EDI datafeed. While this is a simple matter for the IT department, having this conversation early on ensures a smooth launch.

GIVE EMPLOYEES, SUPPLIERS AND OTHER STAKEHOLDERS OPTIONS FOR COMING FORWARD

The most effective way to learn about issues like fraud is to provide employees, suppliers and other stakeholders with a variety of methods for reporting their concerns about illegal or unethical behavior.

Interactive communication, like a face-to-face conversation or a hotline interview, generates more detailed information than one-way communication, like an anonymous note. While some individuals may feel comfortable coming forward through an open door policy, others may not. The hesitation some employees feel about revealing their identity may be due to fears about potential retaliation for reporting a peer or manager. In these situations, the hotline interview is the best option for the organization because an interview conducted by an experienced interviewer results in the most actionable information possible.

The ultimate goal is to give employees, suppliers and other stakeholders every possible means for coming forward so they report information to top management or to the Board of Directors, rather than turning to the media. The hotline will likely uncover more sensitive situations from employees than are reported face to face, but it is far better to learn about these situations from a hotline than from a surprising telephone call to the CEO, or worse, from a headline. When a concern is reported internally, the organization can investigate and take corrective action, potentially avoiding the additional threat of devastating negative publicity.

Ernst & Young recently conducted a survey of employees to find out their reporting preferences. Of those surveyed, 80% said they would be willing to report a co-worker's illegal or unethical activity, and 39% would be more likely to make a report if they could remain anonymous.

The employees who were willing to report fraud stated the following preferences:

- 57% chose a hotline as their preferred method for reporting fraud.
- 20% said they would prefer to write an anonymous letter.
- 16% said they would use an anonymous website.

Employees tend to prefer an anonymous telephone hotline because they have more confidence that they can remain anonymous. They often fear that electronic communication can be traced back to them. This fear can cause them to either not report their concern or worse, report it to a source outside of the company.

It is interesting to note that not all hotline callers are anonymous. Approximately 50% of hotline callers give their names, and roughly one-third of hotline callers report they have previously informed management of the situation. These callers use the hotline as an additional mechanism for reporting issues they feel have not been handled adequately through face-to-face reporting.

INTERNAL VS. EXTERNAL

Some organizations provide an internally answered hotline as an option for employees who are uncomfortable discussing issues face to face. Calls to the hotline are frequently routed to an employee somewhere in the organization, generally in Human Resources, Legal or the Ethics office. This solution may seem attractive, but there are some serious drawbacks. If employees realize they are calling an internal number, they may be afraid their identity will be traced and may decide not to call. There are also operational issues, like the potential for inconsistent handling of sensitive calls and callers encountering voicemail. An anonymous caller is generally fearful and cautious about leaving a recorded message. If they do leave a message, it is likely to be brief, potentially lacking important details that enable the organization to investigate the allegation. An internal hotline also leaves the organization vulnerable to charges of covering up issues involving management. An external process provides greater safeguards of anonymity and avoids even the appearance of impropriety.

While there are costs associated with an external hotline, the financial investment is small in comparison to the potentially disastrous results of malfeasance that goes undiscovered. With the expertise, trained personnel, resources and technology already established to operate a hotline and conduct quality assurance, a professional hotline provider can usually provide these services for much less than it costs to implement them internally.

Making the decision early on about whether the hotline will be administered internally or externally is important, because it may influence aspects of the program. For example, the distribution process may require greater planning for an internal hotline.

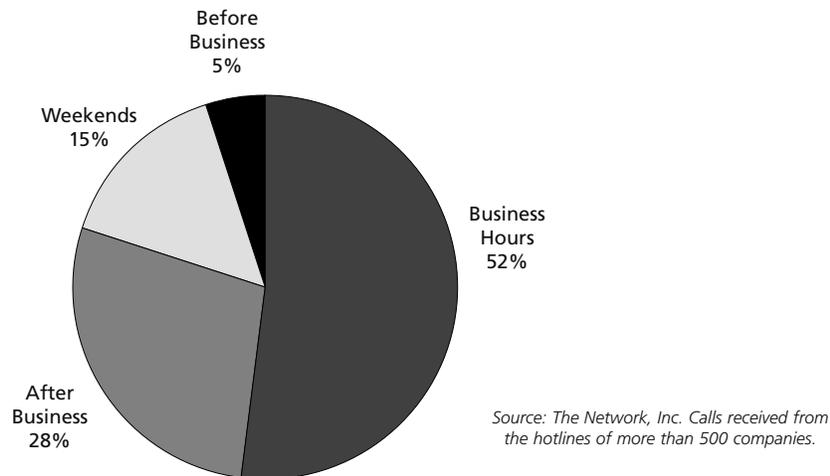
RECEIVING TIPS: TELEPHONE INTERVIEW, MESSAGE SERVICE OR WEB FORM?

The most effective method for any communication is a two-way conversation in which every unclear or incomplete statement can be clarified. The Federal Bureau of Investigation (FBI) recognizes a hierarchy for communications during an investigation. Face-to-face communication is best, followed by a telephone interview, followed by written communication. The FBI emphasizes live interaction over written communication because of the ability to detect and question nuances like the inflections of the voice or the presence of other voices in the background coaching the caller. A skilled interviewer will also be able to notice red flags indicating a potentially bogus report, such as an inability to answer logical questions or an avoidance of certain questions.

This is best illustrated through the example of email. Most people have received an email message that was unclear, resulting in a desire to ask the author a clarifying question. This is an inherent risk of written communication over live communication. In the case of an email, the recipient can either reply to the email or can often call the sender to pursue the clarifying information. Unfortunately, when communication is received from an anonymous source the recipient cannot simply reply with a new question. Changes in technology have not altered the fact that a skilled interviewer will ask questions and clarify information to a degree that is not feasible without true intelligence.

This is exactly what happens when a hotline call is answered by a skilled interviewer. The most effective hotlines are staffed 24 hours a day, 365 days a year. Around-the-clock coverage is vital, since nearly 50% of hotline calls happen outside of regular business hours, and each call deserves the full attention of an experienced interviewer. Typically, employees don't call from work and won't leave a message, so it's important to have someone standing by 24/7 who knows the right questions to ask.

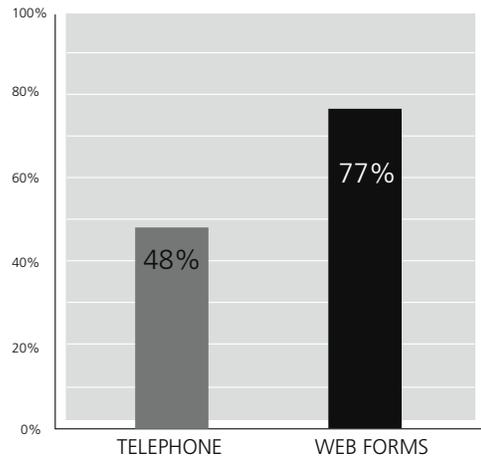
HOTLINE CALLS BY TIME FRAME
48% of Calls Were Received Outside of Business Hours



The need for human interaction is especially critical when dealing with an anonymous caller, because there may never be another chance to document his/her complaint. An anonymous caller is typically in an emotionally charged state and may feel threatened. If he or she even leaves a message, it tends to be incomplete and disorganized, omitting details that would help the organization investigate the allegation. Gathering information via a suggestion-box style approach (email, voice mailbox, web form, etc.) does not make the most of a unique opportunity to learn from a concerned caller. A professionally trained interviewer asks questions that help the organization gain enough information to successfully investigate. Legally, this is a very important point because receiving a tip constitutes notice of an issue. The organization will be exposed to greater liability if it is found to be aware of an issue without taking action to investigate and correct it.

It is interesting to note that there are behavioral differences between users of the telephone hotline and users of web forms. While the Ernst & Young research (see page 4) found that few employees (16%) are comfortable with web reporting, some people do utilize this tool. Unfortunately, the majority (77%) of those who use the web to provide information choose to remain anonymous. This is a substantially higher percentage than those who call a telephone hotline. While it is difficult to say with certainty the exact reasons for this behavioral gap, it is possible that interaction with the interviewer can alleviate concerns. Also, if the caller is reporting a situation without any substantiating evidence, the interviewers can point out the need for contact information in order to conduct an investigation.

ANONYMITY: TELEPHONE INTERVIEWS VS. WEB FORMS



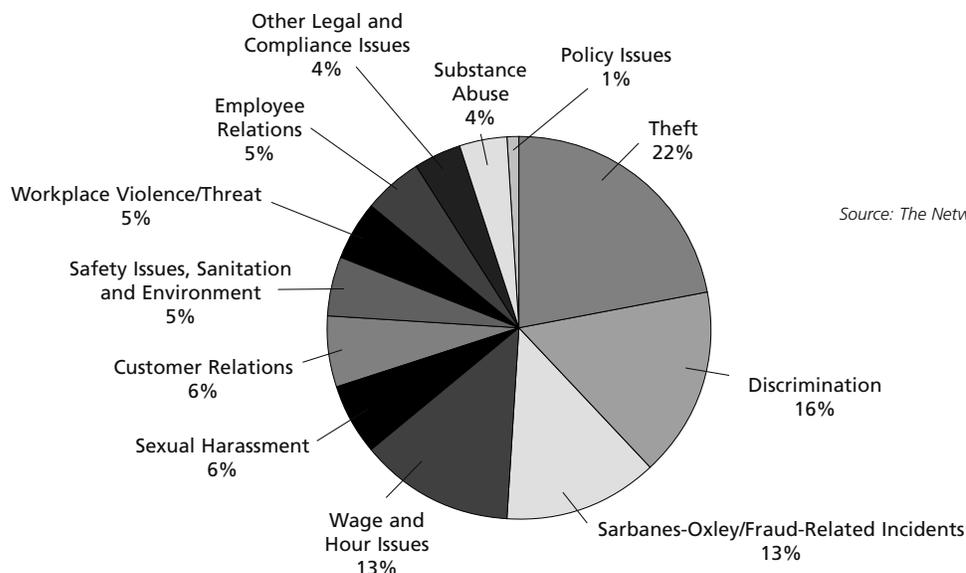
Source: The Network, Inc. Reports received over 12 month period.

It is important to understand that the agency will continue to receive anonymous information through a variety of channels, including voice messages, letters and faxes. Information received through any channel should be funneled to the same people who receive hotline reports. Ideally, this information should be maintained in the same case management system with hotline reports to provide insight into all issues reported, regardless of the source.

SHOULD ONE CENTRALIZED HOTLINE ACCEPT COMPLAINTS ABOUT MULTIPLE ISSUES?

Employees, suppliers and other stakeholders are likely to use a hotline number to report any issue that makes them uncomfortable. Ideally one hotline should handle all complaints. For example, complaints regarding discrimination and sexual harassment are high-liability issues that need to be addressed. Turning away these calls because the hotline is “for Sarbanes-Oxley Complaints Only” may alienate the employee, who has made the difficult decision to take action. It is better to learn about any high-liability issue as early as possible, so that damage control can begin and potential legal action can be averted. Simply having a general ethics hotline in place gives the organization an opportunity to limit their liability regarding offenses such as harassment or discrimination.

HOTLINE CALLS BY INCIDENT TYPE



Source: The Network, Inc. call records.

Another issue that arises in many large organizations is having multiple hotlines to report a variety of issues. For example, there may be one phone number for reporting harassment, another for reporting theft and a third for safety issues. This is typically difficult to communicate, and people may not understand which number to call for the issue that concerns them. If the organization already has multiple hotlines, now is a good time to consolidate. Offering one hotline for a host of complaints makes communication simple for callers. At the same time it reduces the burden of communicating about the hotline. Until the consolidated hotline number is firmly established, numbers can be automatically forwarded to the new universal number. The hotline provider can implement a distribution process that ensures the appropriate people continue to get complaints regarding their areas of responsibility, as discussed in the “Dissemination of Information” section below.

WHO WITHIN THE COMPANY SHOULD “OWN” THE HOTLINE?

In any organization there are several departments that should be interested in the ethics hotline, including Legal, Human Resources, Internal Audit, Security, Risk Management and Loss Prevention. Consider the interests of each department when planning the reporting process.

If the organization is publicly traded, the Legal Department is interested in assuring the organization is in compliance with Section 301 of the Sarbanes-Oxley Act, which requires the organization to provide a mechanism for reporting financial irregularities while offering employees anonymity. The General Counsel should also be aware of complaints that may result in legal action, such as those regarding discrimination, wrongful termination, or violations of regulatory standards.

Human Resources focuses on the lion's share of issues reported via the hotline. Many of the calls report unfair treatment, discrimination, harassment, substance abuse or concerns about corporate policies.

For this reason, some organizations choose to make Human Resources responsible for managing the hotline program and any hotline vendor relationship. If the organization has a corporate Ethics or Compliance Officer, this person is an ideal candidate for “owner” of the hotline program.

Both HR and Legal need to be involved in organizing the hotline and formulating complaint report distribution rules in order to meet regulatory requirements and ensure that the right people receive information in a timely manner. Other departments, such as Loss Prevention/Risk Management, Audit and Security are typically involved in developing the report distribution rules. This ensures that the appropriate departments learn about the issues concerning them.

Another department that needs to be involved early on in the planning of a hotline is Information Technology. There may be a need to set up mailboxes or plan for datafeeds if there is substantial call volume. Discussing these issues up front makes the entire process run more smoothly in the long run.

DISSEMINATION OF INFORMATION

One of the most important aspects of planning the hotline is deciding where to send information that is received. A system of rules must be developed to determine what happens to information upon completion of the call.

As discussed previously, Human Resources typically receives the bulk of the complaints reported. One of the most important aspects of dissemination is planning for checks and balances. Dual dissemination can be a helpful practice for ensuring that complaints are not overlooked. A system of dual dissemination involves having an Ethics or Compliance officer receive copies of all reports as a secondary layer of dissemination, beyond the report sent to the person responsible for investigation. For example, reports of harassment would be sent to Human Resources as the primary recipient of the information, with a copy to the Ethics Officer as the secondary recipient.

Dual dissemination acts as a protective device in case a report is sent to the accused party. If a report is received by only one person, and that person has a motive for preventing an investigation, the system is vulnerable.

Complaints that have potential legal implications, like allegations of discrimination, should be sent to Legal and HR to ensure that both departments are involved in the investigation. Depending on the organization's structure, there may be other interested groups. For example, some organizations have a Risk Management or Safety department that should receive reports of unsafe working conditions. Similarly, Loss Prevention should receive reports regarding internal theft, Internal Audit should get reports of vendor fraud, and Security should get reports of potential workplace violence.

Sample Report Distribution Structure

ISSUE	POTENTIAL RECIPIENTS
Employee Mistreatment	Human Resources, Ethics Officer
External Fraud	Internal Audit, Loss Prevention, Risk Management, Ethics Officer
Accounting Irregularities	Audit Committee, External Auditors, Internal Audit, Ethics Officer
Workplace Violence	Security, Operations, Legal, Human Resources
Employee Theft	Loss Prevention, Human Resources

Note: The distribution structure will vary based on the organization's structure.

ESCALATION CRITERIA

Another extremely important aspect of the planning process is determining procedures to be followed when a time-sensitive issue is reported. The hotline implementation group, which should include representatives from each operational department, must agree upon a list of topics that are sufficiently critical to require immediate notification 24 hours a day.

Although many hotline reports do not require immediate notice 24/7, there are certain high-risk situations that may be reported. These incidents or allegations should be considered prior to hotline implementation, so the management team has a shared understanding of how such a situation will be handled.

Reports generally resulting in immediate notification include:

- Threat of violence or physical harm to employees or customers
- Threat of business interruption
- Notice that a high-risk incident is expected to happen within the next 24 hours

Depending on the nature of the organization's business, impending incidents requiring immediate notice will vary. Many companies choose to escalate:

- Fraud
- Falsification of company records
- Release of proprietary information
- Theft
- Media inquiries

When a report is received that is designated for escalation, the hotline provider should call company representatives immediately based on a pre-determined list of home and cell phone numbers of key personnel. In the case of a report received at 11 p.m. on a Friday night, immediate notification enables the organization to take preventative action rather than discover the report on Monday morning, which may be too late to address the issue.

INTERNATIONAL OPERATIONS

Many of the organizations subject to Sarbanes-Oxley have international subsidiaries. This situation introduces issues regarding translation of both interviews and communications materials as well as the method for accessing the hotline. A professional provider is able to facilitate translation during the interview into nearly any language. It is imperative that callers are able to provide information in their native language, so they are as comfortable as possible during a potentially stressful conversation.

International callers must be able to place a toll-free call to reach the hotline. Dialing options vary by carrier around the globe. Collect calling is convenient when available, but many telephone providers around the world no longer offer collect calling to the United States. Depending on your areas of operations, a method for dialing in to the hotline needs to be devised and communicated to employees.

The overall communications plan for the hotline program must include a layer of communication to the managers of international locations to discuss any issues they may perceive with the program. There may be cultural nuances that should be addressed in communications to employees within some locations. Discussing these issues during the early planning stages ensures the program's complete support throughout the organization. Although cultures at international operations may vary, the organization's culture should not. The organization should provide equal access to the hotline for all employees, regardless of where they work.

DATA SECURITY

Another important aspect of the planning stage is ensuring that information from hotline calls is kept in a secure environment. Ask the hotline provider or the IT manager about the processes and safeguards that are in place to protect confidential information. For example, is the data vulnerable to hackers? Are employees of the organization's IT department able to easily access confidential information? Have interviewers been trained about confidentiality? Interviewers should have passed an extensive background check and signed a strict confidentiality agreement as part of the hiring process. Another data protection technique that should be considered is encryption of report information to ensure the security of email transmissions.

Step Two: Communication – the key to hotline effectiveness

Once the hotline processes are defined and operational details are in place, the communications plan begins. Hotline communications should be part of a broader program of defining the organization's ethics policy and promoting ethical behavior in the workplace. Communications that promote ethics and encourage use of the hotline not only help detect issues, but should also help prevent them by creating a culture of ethical behavior.

As with any communication that seeks to modify behavior, there are strategies that help ensure the program's success. Strategies to keep in mind while developing the communications plan include:

Top Down – Is the purpose of the program communicated and supported from the very top of the organization? Visible support from top executives is especially critical in any program seeking to modify employee behavior. If a program is seen as unimportant to top management, employees may disregard the communication.

Shared Understanding – Are the roles of each participant identified and understood? If everyone does not have the same understanding of his/her role within the program, the process will break down.

Documentation – Is there a way to measure and document the program? For example, is there a way to document that each employee has received information? Documentation can help evaluate the causes of a program's success or weakness, and helps guide future decisions.

Recognition – Is there a way to recognize positive performance? For example, if an employee reports theft, is there a way to reward him or her financially? If a hotline call inspires a change in policy, publicly applauding the person who drew attention to the situation demonstrates the usefulness of the program. This, in turn, inspires more participation.

Forward Strategies – Is there a plan for evaluating and periodically redirecting the program? Thinking ahead about the future direction of the program ensures its success.

KEY MESSAGES

As mentioned previously, communication about the hotline should ideally help create and maintain an ethical workplace. A communications team that includes top management should be involved in developing an ongoing ethics communication campaign. An ethics communication campaign is essentially an advertising campaign that seeks to inspire a certain behavior within an audience.

As with any advertising campaign, the first step is deciding which behaviors are desired and the key messages that will help motivate these behaviors. Messages should include:

- Behaviors that are expected (i.e., conducting business in a legal and ethical manner)
- Behaviors that the agency does not condone (i.e., illegal and/or unethical behavior)
- What to do if you are aware of unacceptable activities. This aspect of communication must include information about all of the available avenues for reporting unacceptable behavior. This ensures people are aware of their options
- How to access the anonymous hotline
- What happens when you call the hotline

This communication should educate employees and motivate them to report their concerns. The message should be delivered through vehicles such as posters in break rooms, articles in employee newsletters and corporate intranet sites. There is an added “soft benefit” to communication: It reinforces the employee’s perception that the organization wants to know about illegal and unethical activities, and it helps an employee decide to make the call.

Employees may also need special communication from the organization explaining the nature of issues related to Sarbanes-Oxley. These materials should define terms like “accounting irregularities” and “insider trading”, which may not be clear to all employees. Topics should include insider trading, improper loans to executives, accounting irregularities, conflicts of interest and whistleblower retaliation. Finally, these materials should emphasize that the Sarbanes-Oxley Act makes it illegal for the organization to retaliate against an employee who reports accounting or audit irregularities. It isn’t just managerial employees who report fraud. Support personnel like administrative assistants or building maintenance staff may be aware of unethical behavior, so it’s important to communicate clearly to everyone about unacceptable behaviors.

Although ethics can be a sensitive topic, an experienced hotline provider can assist the organization in developing effective messages and vehicles for launching the hotline. They can also develop an appropriate plan based on the unique needs of the organization.

LAUNCHING THE PROGRAM

Like any new initiative, a hotline requires the proper launch in order to be truly successful. The initial communication to employees should include an announcement from top management about the program’s goals and the reason for implementing it. This helps set the program’s tone by indicating that top management truly supports it. Employees should be told the organization is providing them with every opportunity to report problems, and the information they report will be sent to top management and/or to the Board of Directors. Information about the program should be posted on the organization’s intranet site and in break rooms. It should also be introduced in face-to-face meetings wherever practical.

Every employee in the organization should receive a letter or flyer announcing the program. Ideally, this packet should include a card that he or she can keep in a wallet or purse as a reminder of the phone number. Remember, nearly half of hotline calls happen outside of normal business hours (See Page 5 “Hotline Calls By Time Frame”), so it is critical to help employees keep the number handy.

New employees must receive this information as part of their orientation. Managers throughout the organization should receive an implementation guide that informs them about the program, helps them encourage employees to use the hotline, and prepares them to handle questions employees might have.

A CALL COULD COME FROM ANYWHERE

Hotlines are a well-established tool for detecting fraud, and the best return on investment from a hotline comes from focused communication beyond just your employee base. If the organization is being swindled by a supplier, there are employees working for the supplier who know about it and who may be bothered by the illegal activity. Listing the hotline number on checks issued to suppliers is an inexpensive action that has helped uncover fraud for many organizations in the past.

Public corporations should also inform investors about the hotline as part of their communication about the organization’s approach to Sarbanes-Oxley compliance. This action tells shareholders the

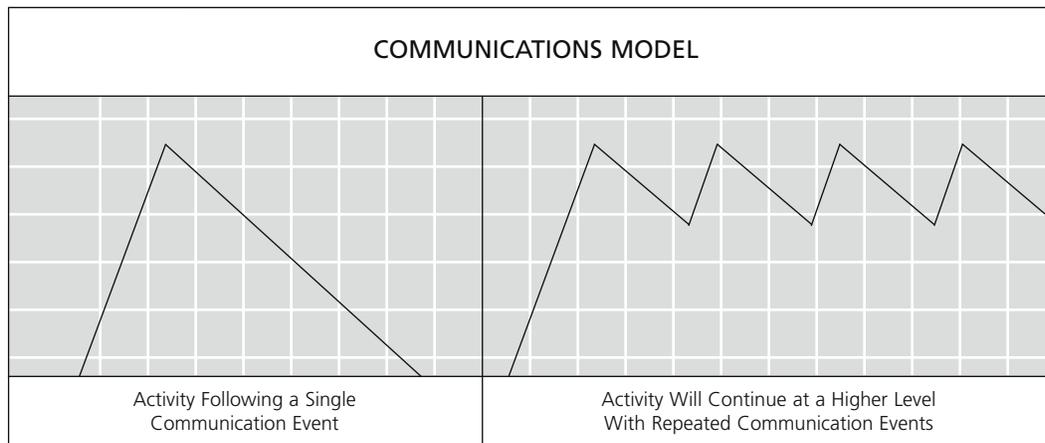
organization has complied with this aspect of Sarbanes-Oxley and validates the corporate commitment to uncovering fraud. Publishing the hotline number to investors offers them a convenient way to communicate their concerns to the organization.

INTERNATIONAL OPERATIONS

If the organization operates outside of the U.S., a decision must be made about how to communicate to employees for whom English is not a native language. Depending on the corporate structure, it may be feasible to print bilingual materials, or it may be necessary to have several translations of primary communications tools. Another issue is hotline access. Some countries may require dialing an international operator or some other step that is not required for callers in the U.S. The specific dialing procedures must be outlined accurately for employees of each country, in their native language.

KEEP THE HOTLINE “TOP-OF-MIND”

A hotline produces stronger results if communication to employees about their options for reporting issues is strong. There is a well-defined pattern of hotline activity that follows the rules of advertising: When a tool is publicized, people use it for a while, and then they forget about it.



Periodically reminding employees, suppliers and other stakeholders about the avenues for reporting unethical behavior (open door policies, ethics officers/ombudsmen and the anonymous hotline) increases usage and helps the organization uncover a variety of issues that can threaten profitability or reputation. Just as it is important to provide options for reporting concerns, it is equally important to make sure employees are aware of those options. Program maintenance communication is the most often overlooked component of a hotline program. The best way to ensure it is not overlooked is by planning communication at the time of program launch and each year thereafter.

Step Three: After the Call

REPORT DISSEMINATION

As outlined above, any professional hotline provider can set up dissemination rules that determine which individuals or groups receive each type of complaint. The hotline implementation team should periodically review the dissemination structure to ensure any changes within the organization are reflected in the report dissemination rules.

ONGOING COMMUNICATION WITH ANONYMOUS CALLERS

When dealing with an anonymous caller, the goal should be to get complete and accurate information during the interview. This is based on the assumption that there may never be an opportunity to add additional information. An anonymous hotline should therefore enable the caller to call back to offer additional information while maintaining anonymity. This is generally done by giving the caller a process to follow for calling back to answer more questions from the organization. The caller is given a unique code correlating to his/her report and is asked to call back after a pre-determined interval. This gives investigators a chance to review the information and formulate questions to ask the caller if he or she calls back as agreed. While the call-back process can enhance an investigation, roughly two-thirds of anonymous callers never call back, so the quality of every interview is of critical importance.

THE ROLE OF THE BOARD OF DIRECTORS AUDIT COMMITTEE

To ensure that allegations related to Sarbanes-Oxley reach the board, hotline incident reports regarding financial irregularities should be automatically routed to one or multiple Audit Committee members. The company should set up a report dissemination routine with the hotline administrator. This enables the Audit Committee to receive any reports of financial irregularities in a timely manner. Many companies elect to simultaneously send such reports to a member of the Audit Committee and to an internal employee, such as an Internal Auditor, Legal Counsel or an Ethics Officer, who works with the Audit Committee to manage the investigation.

INVESTIGATION OF ALLEGATIONS

Having received an allegation, the next step is to determine how the allegation should be investigated. Personnel who receive reports generally have procedures in place to investigate incidents pertaining to them. These processes should be periodically reviewed with legal counsel to ensure they are appropriate and effective.

Allegations of financial irregularities present a somewhat more complicated situation, as Sarbanes-Oxley requires the Audit Committee of the Board of Directors to develop a mechanism for the 'receipt, retention and treatment' of complaints. Some organizations are developing relationships with external parties, such as forensic accountants or independent Certified Fraud Examiners. This gives them an independent resource to manage an investigation, should an allegation arise. Given new independence requirements for external auditors, many accounting firms have formed alliances that enable them to recommend a second firm for special projects such as these.

When investigating an incident based on a confidential hotline tip, it is important for the company not to reveal that it is reacting to a tip. Disclosing this information is a breach of confidentiality and may put the whistleblower at risk.

TRACKING THE "TREATMENT" OF COMPLAINTS

This requirement of Sarbanes-Oxley is best met with a database. A system like this enables the organization to document every complaint and then add information regarding the actions they have taken to investigate each allegation. Having a database enables the organization to document every complaint and then add information regarding the actions they have taken to investigate each allegation. The database should record the final disposition of the investigation and the nature of any discipline or other corrective action taken as a result of the complaint. Should the organization be sued, this documentation can be very helpful in a court of law. This is another area in which a qualified third-party hotline provider can assist the organization by providing an established system for documenting investigative activities.

MANAGEMENT REPORTS

Data regarding hotline calls should be summarized to assist management in discovering trends within the organization. For example, if reporting reveals one type of issue is always the top concern, it points to a need for training or communication to address the situation.

Organizations should look for “hot spots” within the organization. Is there a division that seems to have more issues than others? If so, there are probably opportunities for employee training or increased management training to improve the situation. Conversely, there may be an issue with a location that is exceptionally quiet. Perhaps the hotline communication has not reached this group.

Conclusion

For many years, organizations have been using hotlines to detect theft and fraud with great success. But until recently, some organizations still considered them a luxury, rather than a necessity. Since the passage of the Federal Sentencing Guidelines over ten years ago and the more recent corporate scandals, hotline usage has dramatically expanded. A variety of business sectors have found hotlines to be critical tools in their efforts to uncover and manage a variety of unethical or illegal activities. And given the current trend toward outsourcing non-critical functions and the advice of the AICPA, it is logical that hotlines should be externally operated by a neutral, experienced organization.

With the introduction of the Sarbanes-Oxley Act, lawmakers have further validated the need for this reporting mechanism. Establishing an anonymous hotline gives corporations access to a powerful tool for detecting fraud and other harmful activities. It also assures investors and customers that the organization has made a long-term commitment to maintaining the highest standards of business conduct.

The Association of Certified Fraud Examiners' *2004 Report to the Nation* suggests hotlines should be open to participants beyond the employee population in order to maximize results. By making hotlines available to vendors, contractors, and the general public, both the quantity and quality of reports would increase. Having these hotlines would also help to deter unethical or illegal activity and demonstrate the agency's commitment to ethics.

Creating a successful hotline program involves thoughtful planning of the reporting process, the communications strategy and the back-end issues of investigation and data management.

About the Authors

The Network pioneered the employee hotline industry more than 20 years ago. Today nearly 2,000 companies, including 45% of the Fortune 500 rely on The Network for centralized reporting of sensitive workplace incidents. The Network also offers comprehensive communications services to support employee communication initiatives. For more information about The Network, call 800-357-5137 or visit www.tnwinc.com.

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