LIGHTHOUSE

Obtaining information. Delivering solutions.

October 2018

Welcome to Lighthouse Services

Thank you for taking the time to consider Lighthouse Services to be your third-party ethics hotline provider. This casebook is designed to give you a comprehensive overview of our many valuable hotline services and to illustrate how they can be an invaluable asset in your quest to foster an ethical culture for your employees and stakeholders. You will also gain a better understanding of why hotline use is widely viewed as a best practice for organizations of all types and sizes. Please feel free to contact us if you have any questions as you review the materials.

We look forward to the opportunity to serve your hotline needs.

Table of Contents

LIGHTHOUSE SERVICES, inc.
1710 Walton Rd., Suite 204, Blue Bell, PA 19422
215-884-6150 | 844-709-6000
lighthouse-services.com


photo credit: (nz)dave via photopin cc

What We Do

Lighthouse is an industry leader providing cost-effective fraud and ethics hotline solutions. We help protect your assets, directors, management, and employees.

We are proud to service more than 4,000 customers with a reporting network covering over 3 million employees. We are an independent third-party provider, and when using our system, your employees will feel confident that their anonymity will be preserved.

The focus of our business is compliance and ethics hotlines, and our comprehensive program includes internal control and fraud reports, human resource reports, and ethics compliance violations. Our hotlines are used by companies worldwide to cost-effectively address loss prevention, ethics and integrity violations, HR-related issues, workplace safety, and other issues your stakeholders and employees would like to anonymously report.

We serve the following industries with our worldwide coverage:

- Public companies
- Private companies
- Local and state governments
- Non-profits
- Schools and school districts
- Healthcare agencies, hospitals and clinics
- Banks and financial institutions

Our industry best practices will help you uncover hidden business risks such as:

- unsafe working conditions
- management practices
- quality of service
- sexual harassment
- discrimination
- alcohol and substance abuse
- wrongful discharge
- internal controls
- vandalism and sabotage
- theft
- conduct violations
- threats

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ANONYMOUS HOTLINE REPORTING SERVICES

Your business deserves the best compliance and ethics standards and practices in the industry.

LIGHTHOUSE
will illuminate where others can't.

Let us listen to your employees!

Call 215-884-6150 / 844-709-6000 today, or visit www.Lighthouse-Services.com

ENSURE BUSINESS INTEGRITY

Lighthouse Services provides confidential reporting services to enable corporate management, staff, employees, vendors and customers to report fraud, abuse, ethics, compliance and HR violations.

Who uses our services?

- Public companies
- Private companies
- Local and State governments
- Non-profits
- Schools and School Districts
- Healthcare Agencies, Hospitals and Clinics
- Banks and Financial Institutions

We provide:

- Submission 24/7/365 via –
  - Toll-free live operator services
  - Client branded website
  - Fax, mail, e-mail and SMS text
- 3 levels of reporter anonymity
- Domestic call center
- Dedicated customer service representative
- Web-based case management system
- Next-day setup
- Promotional & instructional materials

WORLDWIDE ACCESS

- 24/7/365 worldwide availability
- Global toll-free number
- 140+ languages
- Complies with country-specific laws
- Foreign language web submission forms
- General Data Protection Regulation (GDPR) compliant

PROTECT YOUR COMPANY

Protect your corporate assets, board of directors, shareholders, management, and employees.

- We're here when your employees need us 24/7/365.
- Our professionally trained representatives are available in English and Spanish as well as over 140 languages.
- Toll-free phone access eliminates concerns over confidentiality and cost barriers.
- Our service allows reporters to reconnect with our hotline and anonymously continue dialog if they wish.
- Reports are permanently retained and easily retrieved.
- We are an independent third-party provider. Employees feel confident that their anonymity will be maintained and respected.
- Improve your risk management and reinforce your ethical tone from the top.
- Manage reports with a comprehensive web-based Case Management System.
- We provide the entire IT infrastructure for your reporting requirements without the need to host software.

LIGHTHOUSE

Delivering the Best Reporting Solutions for Your Organization

At Lighthouse Services, our mission is to deliver a high-level client experience that enables your organization to attain a world-class standard of ethical performance. By helping you develop best practices in obtaining information through anonymous third-party hotline reporting, you will be able to rapidly respond to ethical dilemmas as they occur.

Call 215-884-6150 / 844-709-6000 today, or visit www.Lighthouse-Services.com

Here are just a few of the ways your organization will benefit by partnering with Lighthouse:

INTEGRITY

Develop an ethical corporate culture that truly reflects your organization's core values.

- Develop a corporate culture based on teamwork and trust.
- Give whistleblowers the opportunity and encouragement to "do the right thing."
- Develop a reputation as a standard setter for ethical behavior within your industry.

PROTECTION

Protect your business as well as your most valuable asset, your employees.

- Protect whistleblowers by providing a mechanism for them to submit anonymous reports.
- Stop minor situations from escalating and prevent them from causing extensive damage through early detection.
- Develop a comprehensive paper trail to protect against potential litigation.

EFFICIENCY

Ensure you obtain all the information you need to conduct the most efficient investigation.

- Develop a permanent record of all case activities.
- Adhere to best practices regarding ethics investigation procedures.
- Ensure that key investigation details are not overlooked.

SUPPORT

Receive ongoing information and support to stay abreast of key ethics issues.

- **Policy templates** – create your own hotline policies with our easy-to-use templates.
- **White papers** – receive an in-depth analysis of best practices in hotline procedures.
- **Newsletters** – get the latest on ethics trends and law changes that directly impact your business.
- **Other Related Services**:
  - **eLearning training** – provide hands-on ethics training to some or all of your employees.
  - **Online suggestion box** – available as an additional feature to your web reporting web page.

EXPERIENCE

Lighthouse's proven track record of success allows you to offer an anonymous reporting hotline to your employees with complete confidence.

- We've been providing third-party hotline services to organizations of all sizes since 2003.
- Our client roster consists of more than 3,000 organizations in all industries.

LIGHTHOUSE
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Lighthouse provides you with all the tools you need to obtain information that leads to the best outcome. Don't get caught short when it comes to your organization's ethics and compliance program.

There are no setup fees, hidden charges or supplemental fees for our services, and our comprehensive program includes the following features:

- Toll-free number
- 24-hour setup
- US-based live operator services
- Multiple reporting channels
- 3 levels of reporter anonymity
- Client-branded web reporting pages
- Exclusive client web reporting URL
- Case Management System with unlimited licenses
- Dedicated customer service representative
- Client-branded ethics hotline training video
- Promotional and instructional material
- Monthly summary reports
- Large library of collateral material

Special Features that Benefit Your Company

FEATURES	BENEFITS
24/7/365	We are waiting for calls 24 hours a day, 7 days a week, 365 days a year. We're here when your employees need us.
Multilingual Services	Our specialized representatives are available in English and Spanish as well as over 140 languages with our interpreter services.
Toll-Free Access	Eliminates concerns over confidentiality and any barriers over cost.
Open Exchange	Our service allows users to reconnect with our hotline and add information to an existing report or obtain a status update of a previously submitted report. We can also act as the intermediary between our customer and the reporter to facilitate dialog.
Retention	All our reports are permanently retained and easily retrieved.
Specialized Operators	Our staff are professionally trained and accustomed to dealing with caller concerns, stress, and frustration.
Independence	We are an independent third-party provider. Employees feel confident that their anonymity will be respected.
Flexibility	Our comprehensive service includes web, fax, mail, e-mail, and toll-free 1-800 live telephonic services.
Technology	Using the latest in CTI technology, we have maintained our position on the leading edge of hotline provisioning services.
Bundled Services	Lighthouse provides everything you need to set up and manage your hotline program for one low annual fee.
Quality and Experience	We are widely recognized as an industry leader. Our award-winning call centers offer the expertise to provide solutions for businesses of all sizes and types.

Why Lighthouse?

1 Commitment to Customer Service

We are exceptionally proud of our award-winning, U.S.-based call center. Our outstanding customer service is the focus of our call center, which includes highlights such as:

- avg. time to answer: 9.3 seconds (for your reference, 1 ring is equal to 6 seconds)
- percent of calls answered in 18 seconds: 90.6% (industry standard >= 80)
- professionally trained operators
- background checks on all our new hires
- employees sign a non-disclosure agreement
- comprehensive training course for our telephone operators
- employees meet education requirements
- use of script on-screen technology

2 State of the Art Technology

We're also equipped to meet your needs from a technological standpoint. We use multiple windows-based servers for the various functions within our call center operations. Our database backbone is MS SQL server. We have multiple PRIs for our phone service and we have two Internet service providers to provide redundancy. We have spares for all critical components and our primary vendor is located only 75 miles from our location. We have on-call management staff available 24/7, so we are able to respond after hours to any kind of crisis.

3 Emphasis on Confidentiality and Security

Our independent third-party system is secure, completely confidential, and offers reporters a superior safeguard of anonymity. We provide Internet reporting via SSL encrypted site and a reporter's IP address is not tracked. All hotline information is kept in a secure environment with access to confidential data username and password protected.

Due to the strict confidentiality that our business requires, we deploy robust security in all areas of nonpublic information access including:

- Authentication
- Content filtering
- Anti-Spam
- Virus scanning
- Encryption

Confidentiality and security is the cornerstone of a successful reporting hotline program. Our servers are behind firewalls and all systems are regularly patched and updated. Our servers are co-located in a SOC2 certified facility and are backed up regularly with encrypted backups stored off-site meeting HIPAA, SOX, and GLBA requirements.

We adhere to the EU-U.S. Privacy Shield Framework developed by the Department of Commerce in coordination with the European Commission. The framework offers guidance for U.S. organizations regarding how to provide adequate protection for personal data from the EU as required by the European Union's Directive on Data Protection.

We Self-Certify Compliance with:

We are compliant with General Data Protection Regulation (GDPR).

Worldwide Hotline Access

- 24/7/365 worldwide availability
- Global toll-free number
- 140+ languages
- Complies with country specific laws
- Foreign language web submission forms
- Adheres to the U.S.-EU Privacy Shield Framework
- General Data Protection Regulation (GDPR) compliant

4 Worldwide Hotline Capabilities

To meet the needs of companies engaged in operations around the globe, Lighthouse Services offers 24/7/365 worldwide hotline access. Features and benefits of our global hotline services include:

Customization

Our hotline program fully integrates and complies with country-specific protocols and laws around the globe. We tailor our hotline program to meet the requirements of every nation in which you conduct business.

Ease of Communication

You won't have to worry about communication or language issues, regardless of a report's country of origin. All our hotline reports are communicated to our clients in English after being translated from over 140 available local languages. Foreign language web submission forms are also included at no additional cost.

Convenience

We've designed our worldwide hotline to be as convenient and user-friendly as possible. Employees will have access to a toll-free number which is available from almost anywhere around the globe, eliminating long-distance phone charges, and further enhanced with foreign language web submission forms.

Privacy Protection

We make protection of employees' personal data our top priority. We adhere to the U.S.-EU Privacy Shield Framework developed by the Department of Commerce in coordination with the European Commission. The framework offers guidance for U.S. organizations regarding how to provide adequate protection for personal data from the EU as required by the European Union's Directive on Data Protection. Our program is also compliant with the General Data Protection Regulation (GDPR), the data protection and privacy directive within the European Union and the European Economic Area.

The Lighthouse Case Management System

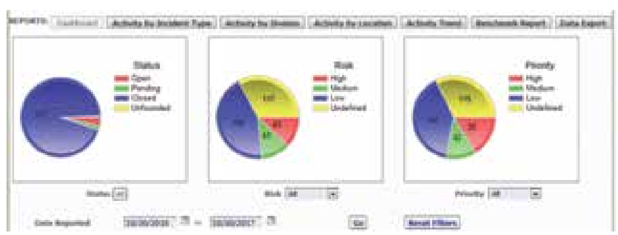
Get everything you need to track hotline reports from beginning to end in one easy-to-use online tool!

For most organizations, keeping track of hotline reports can be a daunting challenge. Overlooked or missing information can lead to inefficient investigations and leave you vulnerable to potential litigation. Lighthouse's state-of-the-art Case Management System (CMS) allows you to keep track of all report activities from the time an incident is reported all the way through to its resolution. Best of all, there's no additional cost to your company.

Key CMS Features and Benefits

CMS provides you and the appropriate ethics and compliance personnel with the ability to:

- **View the report online –** You can access report information online even when away from the office. Because the CMS application resides on the Lighthouse server, there is never a need to download software.
- **Assign the incident to a person for investigation –** You'll be able to assign the report automatically to the appropriate individual quickly, and you'll know the right person to contact if you have questions or concerns about any investigation.
- **Assign risk level, priority & status –** This ensures that the most urgent or sensitive cases are given top priority and that all reports are handled in a timely and expeditious manner.
- **Record your follow-up and outcome –** You'll be able to input all actions taken as well as each report's ultimate resolution, which is critical to creating an audit trail.
- **Dialog with reporter –** Under most circumstances, the case investigator or administrator can carry on an anonymous dialog with the reporter, allowing for the continuous exchange of information throughout the course of an investigation.
- **Create and manage reports –** You'll have the capability to develop a variety of reports that can be issued to key personnel within your organization on a "need to know" basis. Your CMS comes equipped with an advanced analytics dashboard with a view to all key metrics and trends and the ability to drill down to details using a comprehensive and easy to understand set of user controls.



- **Attach multiple files to a report –** You can supplement reports by uploading additional files as needed.
- **Collaborate with ease –** CMS allows users to share either detailed or summary information about a report with appropriate personnel or outside parties. Data from CMS is exportable with push-button simplicity. Our message board feature allows creation and dissemination of client generated messages to system users.
- **Link reports –** You can add a Link ID to associate a report with other previously received reports you identify as having similar issues.

CMS: Designed with the End-User in Mind

CMS is designed with you, the end-user in mind. The numerous user-friendly features save you time, money and hassles while increasing the efficiency of your investigations.

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Using Lighthouse's Case Management System

CMS: Designed with the End-User in Mind

CMS is designed with you, the end-user in mind. Numerous user-friendly features save you time,

Here's how easy CMS is to operate.
To access the system, log on to the CMS website by clicking on this link:
http://www.lighthouse-services-cms.com

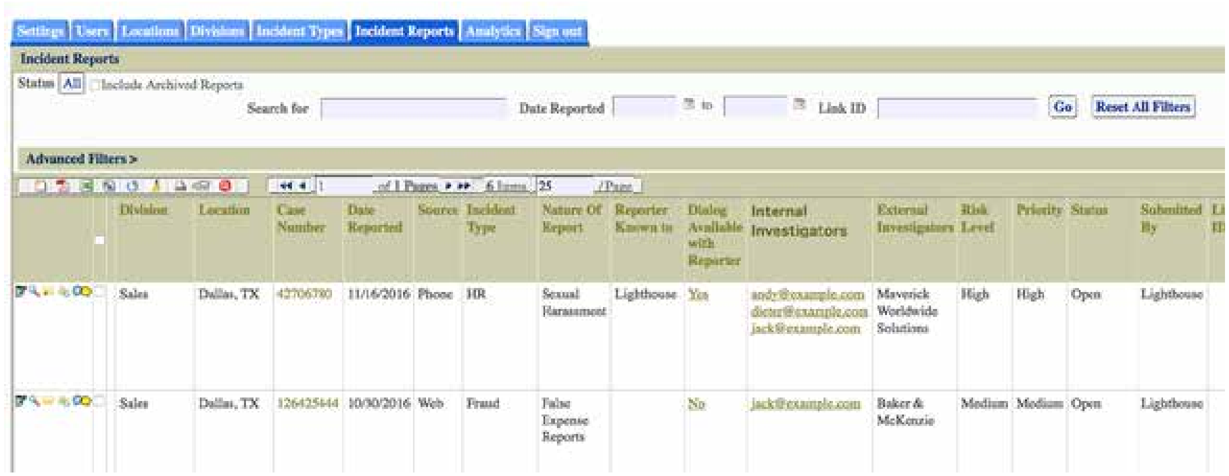
STEP ONE: Log In

CMS will then prompt you to enter your unique user ID (your email address) and password.

STEP TWO: Visit the Nerve Center (The Incident Reports Tab)

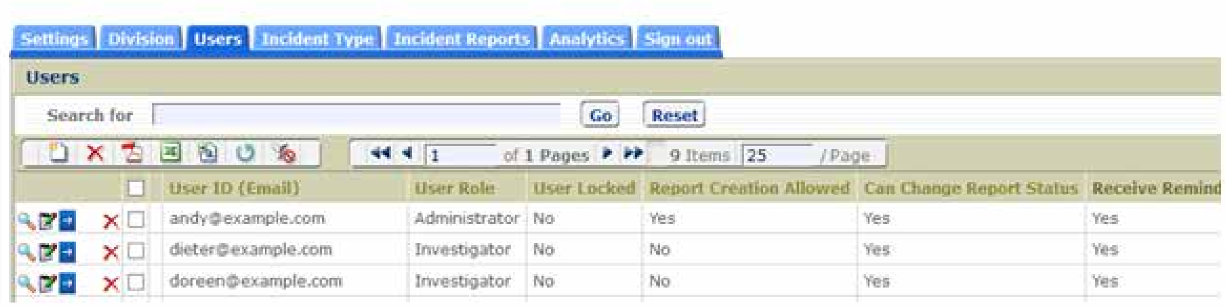
Once you have successfully logged on, CMS will open in the Incident Reports tab, the "nerve center" of the system. From here, you can easily manage all reported cases. Each incident is assigned a unique report number, and the built-in filters allow you to manage cases when using fields such as date, incident type, risk level, priority, status, nature of report, or by using a keyword. By placing your cursor over an object in the application, a pop-up balloon showing a description of the function will appear.

The Incident Reports Tab



Add New Administrators and Investigators/non-Administrators Using the Users Tab

CMS also allows you to designate individuals as Administrators who have access to all case records, and Investigators/non-Administrators who have access only to those records assigned to them by the Administrator. This feature helps you optimize the effectiveness of CMS by providing an additional level of oversight and control.



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Defined User Roles

The system has two levels of users: Administrators, who have access to all records, and Investigators/non-Administrators, who are assigned to individual records by the Administrator. Administrators set up Investigator/non-Administrator profiles are dynamic, user access and permissions can be modified based on the individual user's needs. However, by default, Investigators/non-Administrators have the ability to access only those records assigned to them. Records can be assigned to one or more Administrators or Investigators by clicking on the [assign user] icon in the Incident Reports tab.

Company Administrators have access to the Company Administrators have access to the entire system without impediment.

- They can add or delete users, change user roles and manage user profiles.
- They can add and delete different divisions within your company as necessary.
- They can access all incident reports, assign investigators, track progress, dialog, add files, etc.

Investigators/non-Administrators profiles are dynamic and can be modified based on a user's needs. However, by default Investigators/non-Administrators only have access to the Incident Report tab.

- They can only investigate, track progress, dialog, add files, etc.
- They cannot add investigators to reports
- They cannot modify system settings

Other Important Features

Dialog Capabilities – Under most circumstances both Administrators and Investigators will be capable of engaging in anonymous dialog with a reporter. All Administrators and any Investigators assigned to an incident report will be copied on dialog emails, unless your organization elects to omit unassigned Administrators. However, if there is no assigned Investigator and Administrators have elected to not view dialog emails, reporter emails will be sent to all Administrators by default.

Manage Custom Fields – CMS allows an administrator to define up to three client defined fields for a report. These custom fields will appear on the Add/Edit/Show Incident Report pages and will be included in exports of incident report data. The following types of custom fields are available:

- Numeric - Integer
- Number - Decimal (2 decimal places)
- Numeric - Currency (2 decimal places)
- Date
- Text (maximum 255 characters)
- Dropdown List

Audit Trail – The CMS provides you with fields for your Follow-Up and Outcome notes. These fields are available for entering progress notes and logging investigative activities. Username and time and date of entries are displayed whenever text is added in these fields. After entering and saving data into these fields it cannot be modified or removed. Additionally, the system keeps track of every change to a record via an audit interface.

Incident Type Dropdown – Freeform text entry is available to use for every Incident Type.

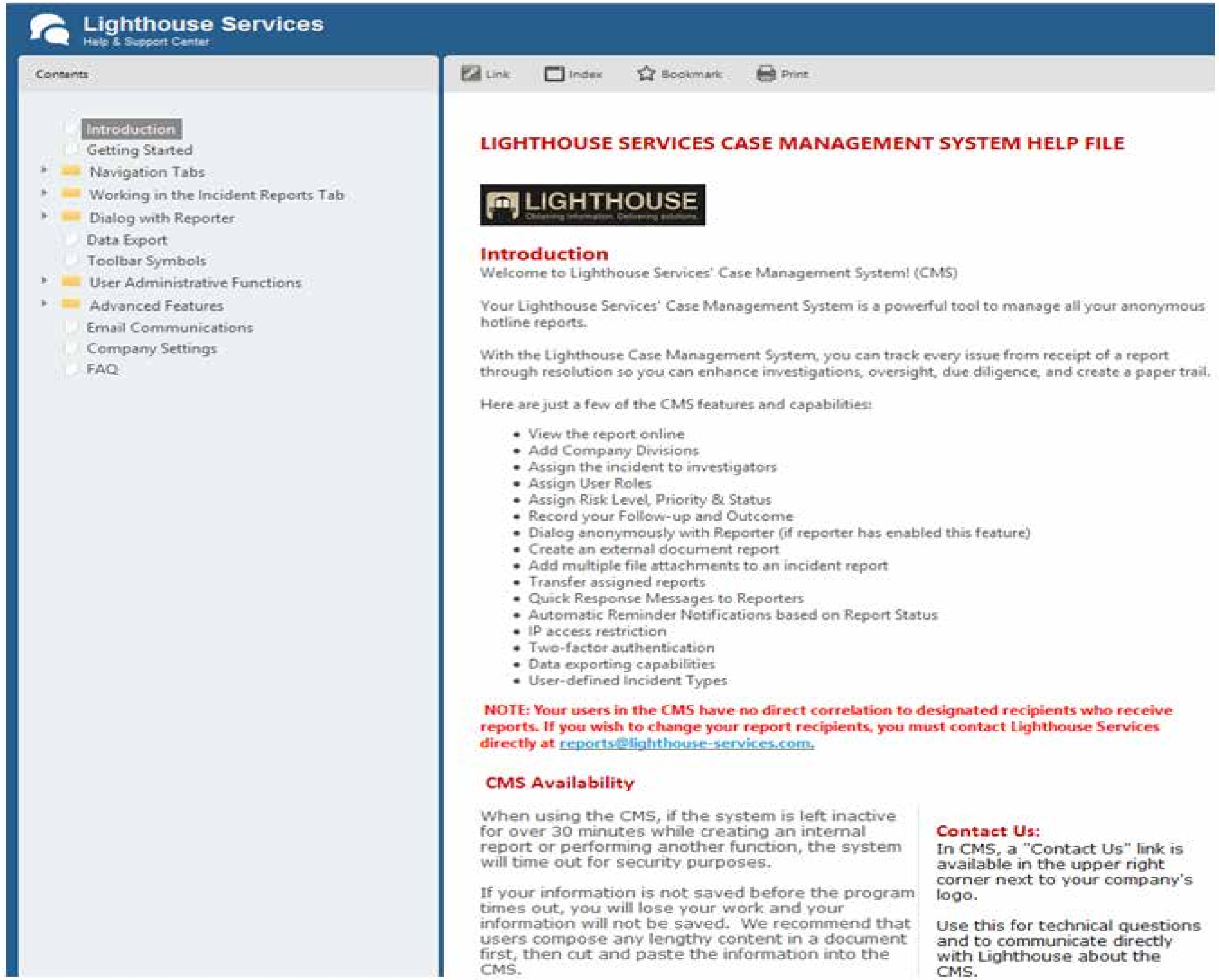
Easily and Quickly Respond to a Reporter – Quick Response Messages are available in the Dialog page. Company users have access to a library of messages that can be quickly sent to/saved for a reporter from the Dialog page. With a few clicks of their mouse, a user can choose which message to send to the reporter.

Create Reports Not Submitted through Lighthouse – CMS gives you the capability to create reports for any incident, even those not reported through the Lighthouse system.

Web API Access – With CMS API enabled clients can initiate remote transactions seamlessly between systems to query the CMS and add incident reports.

Investigator Oversight – Reminder notification emails send configurable email messages to CMS users assigned as investigators on a case. When the feature is enabled, users assigned to a case will receive reminder notification emails when the status of an incident report remains unchanged for a specified period of time.

Convenient Help Tutorials – With CMS, help is never more than a mouse click away. By visiting our help site at http://www.lighthouse-services-cms.com/Help/index.html you will gain access to a variety of menu items that will enhance your user experience.



Customizing Your Lighthouse CMS Site

Your Case Management System will be pre-configured with information that you will provide us in your Service Agreement. The system comes with the following default configurations.

Function	Default Setting	Description
Allow Locations to Be Associated with Divisions	**OFF**	This feature enables an administrator or user with Add/Edit Division permission to associate Locations to one or more Divisions. This will provide filtering of Locations when a Division is chosen on the Add and Edit Incident Report pages.
Suppress Report/ Dialog in Emails	**OFF**	This feature allows an Administrator to suppress all dialog and report content within an email from the CMS. By default, report text and dialog are included in the content of CMS emails. If this feature is enabled, emails generated by the CMS between the Company and the Reporter or Lighthouse will only indicate the case number and the sender (Lighthouse or reporter). No other information will be included in the email. The Company would then need to sign in to the CMS to view any dialog or report content.
New Incident Report Email Notification	**OFF**	This feature enables an Administrator to be notified via email when a new incident report has been added to the CMS.
Dialog Copy Administrators	**ON**	This feature allows Administrators to determine if they will receive a copy of dialog updates between the reporter or Lighthouse and the company. When this setting is enabled, the Administrator and all assigned investigators will receive an email when the reporter or Lighthouse enters dialog. When this setting is not enabled, only the assigned investigators are sent an email. Note: Regardless of this setting, all administrators are sent an email when no one is assigned to the report.
Email Status Change to Administrator	**OFF**	When enabled Administrators are notified of an incident report status change. If no Administrator has been assigned to a report all Administrators are notified.

Function	Default Setting	Description
Allow Deletion of Files Uploaded by Company	**ON**	This features allows an Administrator to permit or prevent users from deleting files uploaded by the company for incident reports. This feature provides users with the capability to delete company-uploaded files for incident reports.
Populate Sender Field on Emails	**ON**	This feature allows an Administrator to receive bounce back messages on failed emails to a user. If this feature is not enabled, the Administrator will not receive any notification that a CMS generated email to a user has failed. This feature may need to be disabled if the company's SPAM rules are stringent and will not allow the Sender field to be an email address from their own domain.
Restrict Access to CMS Via IP Address	**OFF**	This feature allows an Administrator to restrict access to CMS via IP Address. If enabled only company specified IP addresses will be able to access CMS.
Enforce Lockout On Unsuccessful Login Attempts	**OFF**	This feature provides the Administrator with the ability to lock a user's account if the user has 5 consecutive failed login attempts. If this feature is enabled, a user's account will be locked after 5 consecutive failed login attempts. The user's account can only be unlocked by an Administrator or Lighthouse. If this feature is not enabled, a user will be presented with a CAPTCHA challenge-response test after 5 consecutive failed login attempts.
Two Factor PIN Authentication Required	**OFF**	This feature provides the Administrator with the ability to require a PIN during the login process for all users as well as the user's id and password credentials. The randomly generated PIN will be sent to the user's email address.
'Division' Field Name		This feature enables an Administrator to change the name of the 'Division' field in CMS. The text in this field will appear on all pages and exports in place of the default field name 'Division'. This field is limited to 15 characters.

Your Company's Confidentiality and Security Is Our Top Priority

The Lighthouse CMS is a cloud-based system that utilizes many levels of security including hardware and software firewalls, secure http access (HTTPS), optional two-factor authentication and IP access restriction, and client-controlled password policies.

The data centers (production and disaster recovery) are located in secure, 24hr-monitored data centers. Our data center provider, SingleHop LLC, is SOC2 compliant and utilizes many security protocols in their data centers including motion sensors, closed circuit video, anti-tailgating measures, security guards at all points of entry, escorting visitors at all times, walls extending from ceiling to floor, and alarms on all exterior windows and doors. Our servers our under s strict maintenance schedule for OS patch and 3rd party software updates.

Our data centers server is co-located in a SOC 2 certified facility that is equipped with proximity security badge access. Our servers are housed in a secure facility and are equipped with:

- Multiple Internet backbone connections
- Automatic fail-over through alternate secure connection
- All servers are protected with RAID drive arrays
- Secure, internally networked, high-speed data transmission between data centers
- 3 independent A/C feeds and robust UPS resources
- Cisco Systems 10G network
- Cisco Guard DDOS protection
- Geographically redundant DNS
- TippingPoint IPS/IDS protection
- Arbor Peakflow traffic analysis
- Arbor Atlas Global Traffic Analyzer
- Automated IP routing and management
- Server to Internet speeds up to 1 Gigabit
- ESET and McAfee Business-Class Anti-Virus

All of our servers are monitored and protected using Alert Logic Intrusion Detection software to identify and eliminate malicious external traffic to our servers. Lighthouse also conducts penetration and vulnerability testing using Veracode software which allow Lighthouse to shore up any system or network deficiencies to protect our clients' data.

Data at rest within our CMS is encrypted using AES 256-bit encryption and data in transit is encrypted using HTTPS. All production database backups are encrypted and stored at a distant, separate data center. Access to our servers by Lighthouse personnel requires VPN access, two-factor authentication and complex credentials. Client access to their CMS requires complex credentials that are client-configured. Clients may also use extended security features of the CMS by enabling two-factor authentication and IP access restriction. User credentials are stored in the CMS using a 256-bit, one-way encryption algorithm. Users are also notified of multiple login failures, requests for password changes and notification when their pass-words have been changed. Clients may also enable an option to lock out user accounts after multiple login failures. Emails automatically generated from the CMS are encrypted in transit using TLS/SSL.

The following features in the CMS provide our clients with additional security measures:

- Account locking allows Administrator the ability to lock out specific user accounts
- Two-factor authentication requires users provide a randomly generated PIN for each session
- Customizable password requirements including password complexity and expiration rules
- Customizable session timeout rules and email link expiration settings
- Client enabled management of IP addresses with permission to access their CMS
- Enforce lockout on unsuccessful login attempts gives the Administrator the option to lockout a user or require them to respond to a CAPTCHA challenge
- Sign on access log lets users view a history of their previous sessions including IP address.

CMS: The Cost-Free Way to Optimize Your Investigations

With CMS, there's no need to be overwhelmed by or worry about the mishandling of a high volume of hotline reports. Make the most of your Lighthouse Services reporting hotline by using CMS to manage your reporting and investigation process. Don't leave anything to chance.

Why Reporting Hotlines are Considered a Best Practice

Abstract

The impact of fraud in the workplace can be devastating. According to the *2016 Report to the Nations on Occupational Fraud and Abuse*, a worldwide study comprising an analysis of more than 2,400 case of fraud in more than 114 nations around the world conducted by the Association of Certified Fraud Examiners (ACFE), the median fraud loss for United States and international organizations was $150,000. Approximately 23 percent of the losses totaled at least $1 million.

While total global fraud losses are estimated to be in the trillions of dollars each year, fraud isn't the only ethical issue posing a threat to organizations around the world. Ethics violations can and do occur in virtually every area of an organization. According to the first-ever Global Business Ethics Survey (GEBS) generated by the Ethics Resource Center in 2016, 36 percent of workers in multinational companies indicated they witnessed some form of workplace misconduct in the previous 12 months. The survey indicates that lying to customers, vendors and the public and various forms of abusive behavior are the most commonly witnessed forms of misconduct in organizations in virtually every nation.

The 2016 GBES also points to change (merger, acquisition, management restructuring, etc.) as a significant factor regarding the rate of misconduct. In organizations where no major changes occurred, only 17 of percent of survey respondents indicated they witnessed misconduct. By comparison, the rate in organizations that underwent 1-3 or 4-7 substantive changes was 40 percent and 59 percent, respectively.

Common Methods of Fraud Detection

Source: Association of Certified Fraud Examiners Report to the Nations 2016 Global Fraud Study

How are organizations detecting occurrences of misconduct? Using fraud as an example, the 2016 ACFE survey indicates that, by far, the most common way organizations detect fraud is through anonymous tips received via ethics hotlines. According to the survey, 43.5 percent of frauds in U.S. organizations with 100 or more employees were discovered through tips, while only 18.6 percent were uncovered by internal audit and 12.7 percent by management review.

Impact of Hotlines on Median Loss Due to Fraud

Median Loss Based on Whether or Not Organization Had A Hotline

NO HOTLINE $200,000 Loss

HOTLINE $100,000 Loss

Organizations with hotlines in place detect fraud seven months earlier than their counterparts reducing cost per incident of fraud by 50%.

Chart adapted from information provided by Association of Certified Fraud Examiners, Inc.

These figures clearly indicate organizations that fail to make available an internal anonymous reporting hotline are at greater risk of not detecting unethical behavior until it is too late. Additionally, a reporting hotline allows employees to report a host of other inappropriate activities they may witness or personally experience, such as discrimination, harassment, conflicts of interest and time theft, to name but a few.

The 2016 AFCE study points out that for organizations utilizing ethics hotlines, 47.3 percent of ethics violations are discovered through tips, compared to only 28.2 percent for organizations without hotlines. And regardless of whether the organization is the government, a private or public company or non-for-profit entity, tips are still by far the most common method of discovering ethical misconduct.

Interestingly, tips concerning ethics violations do not always come from employees. While the 2016 AFCE study indicates that 51.5 percent of tips are generated by employees, an organization's customers, shareholders, competitors and vendors account for nearly 31.9 percent, while 14.0 percent are categorized as anonymous.

Organizations that do not implement reporting hotlines also incur much higher median losses than those which make use of them. Previous AFCE study results indicate that the median loss for organizations without hotlines was $200,000, compared to only $100,000 for those providing access to hotlines.
Organizations that seek top performance levels in all areas, including ethical behavior, need to follow what are commonly referred to as "best practices" to ensure that they are on the correct path to achieving their objectives. This paper sets the stage as to why an effective reporting hotline is considered to be a best practice for an organization.

To understand why a reporting hotline should be considered a best practice, it is necessary to gain an understanding of the term. Fletcher Challenge Energy Limited, an international entity that transforms natural resources into petroleum products, succinctly identifies best practices as "management practices and work processes that lead to world-class, superior performance."

When this meaning is applied to ethics in the workplace, best practices could then be defined as management practices and work processes that lead to a high level of integrity and moral conduct on the part of an organization and its employees.

The Call for Stronger Ethical Standards

Attention to ethics in the workplace and the demand for ethics and compliance regulations gained momentum as a result of several highly publicized corporate accounting scandals that occurred in the early 2000s, most notably those involving Enron, Tyco and WorldCom.

In the wake of these financial debacles, public outcry demanded that the federal government step in and take strong, swift action to prevent these corporate improprieties from occurring again. This led to the enactment of Sarbanes-Oxley (SOX), federal legislation that set forth a host of new standards for corporate accountability regarding financial practices of publicly held companies, as well as penalties for non-compliance.

Another important piece of ethics-related legislation is the Dodd-Frank Wall Street Reform and Consumer Protection Act. Passed by Congress in 2010 in response to the financial misconduct that played a contributing role in the economic recession of 2007-2009, Dodd-Frank includes a number of components intended to encourage employees to report wrongdoing and protect reporters against retaliation.

Other examples of significant legislation that impacting ethical conduct in the workplace include:

- **Securities Act (1933) and Securities and Exchange Act (1934):** These laws were instituted following the 1929 stock market crash and stipulate various disclosures regarding securities trading.
- **Foreign Corrupt Practices Act (FCPA, 1977):** Includes anti-bribery provisions pertaining to the making of unlawful payments to foreign government officials.
- **Health Insurance Portability and Accountability Act (HIPAA, 1996):** Originally designed to enable workers to maintain their health insurance coverage for a period of time when leaving or losing a job, HIPAA also contains a provision (Title II) that requires healthcare organizations to comply with stringent standards for securing electronic access to private health information (PHI) and other privacy regulations.

Major Ethics-Related Legislation

- Securities Act of 1933
- Securities Exchange Act of 1934
- Foregin Corrupt Practices Act of 1977
- Health Insurance Portability and Accountability Act of 1996
- Sarbanes-Oxley Act of 2002
- Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010

Specific Ethical Concerns

While fraud understandably receives much of the focus in terms of ethical breaches, there are a number of other ethical issues that are of concern to organizations these days. Examples include:

- **Financial irregularities:** Inadequate accounting controls, audit issues, billing errors or violations.
- **Bribery:** In today's global business climate where many organizations engage in business in foreign countries, there is a heightened concern about bribery and other potential FCPA violations.
- **Privacy and security issues:** The use of electronic recordkeeping systems creates concerns about identity theft and other data breaches that violate customer confidentiality and expose their personal information. Healthcare providers in particular face the risk of staff members inadvertently releasing PHI, which jeopardizes HIPAA compliance.
- **Workplace safety:** Employers that do not do everything possible to create a safe workplace environment could place their employees in harm's way and also be found in violation of Occupational Safety and Health Administration (OSHA) laws.
- **Ethics and compliance:** Ethics and compliance issues include code of conduct violations, conflicts of interest and criminal misconduct such as theft, vandalism and sabotage, as well as potential violations of SOX or Dodd-Frank.

- **Human resources issues:** HR professionals must address a litany of ethics-related issues on a daily basis such as:
  - Drug and alcohol abuse
  - Misconduct
  - Insubordination
  - Discrimination
  - Harassment
  - Aggressive behavior
  - Hostile work environments
  - Abuse of authority
  - Retaliation
  - Time theft and attendance policy violations

In an effort to combat unethical practices and detect them in the early stages, many organizations now encourage the reporting of inappropriate behavior as soon as it occurs. An effective and reliable reporting method used by organizations of all types is an anonymous reporting hotline.

Best Practices and Reporting Hotlines

A reporting hotline is a method of communication that allows employees who witness unethical activities to report them in a confidential manner. In addition to financial improprieties, unethical activities can include sexual harassment, discriminatory practices, intimidation and conflict of interest to name just a few.

There are a number of ways in which establishing a confidential ethics hotline constitutes a best practice:

Ways an Ethics Hotline Constitutes Best Practice

Sarbanes-Oxley Compliance	Access to Privacy	Confidentiality and Anonymity	Trained Specialists	Proactive Approach	Ensuring Transparency
Incident Type Screening	Expediency	Case Management	Whistleblower Protection	Saving Face	Cost Savings

Ways an Reporting Hotline Constitutes Best Practice

Compliance

Sarbanes-Oxley requires public companies to appoint independent audit committees to oversee the procedures for receiving and handling confidential whistleblower reports.

Specifically, SOX Section 301 requires the implementation of procedures for:

(A) The receipt, retention, and treatment of reports 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.

A reporting hotline helps companies meet these criteria by providing a mechanism for an employee to report these issues in an anonymous and confidential manner.

Access to Privacy

Employees who witness or experience unethical practices can understandably be reluctant to engage in whistleblowing while at work, regardless of the promise of the confidentiality of the reporting mechanism. The possibility exists that a phone call might be overheard, a sensitive email might be intercepted or the employee is seen entering or exiting the office of a human resources representative or ethics and compliance officer.

A reporting hotline can eliminate these concerns by providing the employee the opportunity to submit a report outside of the workplace. The employee will have access to the reporting hotline 24 hours a day, seven days a week, meaning a report can easily be filed outside of normal working hours. In addition to a toll-free hotline, the employee can submit a report via alternative methods like fax, email, or internet.

Confidentiality and Anonymity

By having access to a reporting hotline staffed by an impartial third-party provider, employees are assured of reporting irregularities in complete confidence without the need to reveal their identity unless they choose to do so. This is particularly important when reporting sensitive issues that may subject the reporter to discrimination or harassment. The ability to remain anonymous can also reduce the likelihood of retaliation against the reporter.

Trained Specialists

Human resources workers may be well-versed in many areas of employer-employee relations. However, they may not possess the specialized knowledge to deal with ethical issues. A third-party entity that deals specifically with ethics in the workplace provides employees with access to individuals who are specially trained in dealing with caller concerns, stress, and frustration.

In addition, these trained specialists are typically required to pass background checks and agree to non-disclosure employment provisions. This provides the employee with the confidence that the person who is receiving the report is also of high moral and ethical character.

Proactive Approach

If unethical practices are not discovered and dealt with in the early stages, they can continue to be perpetrated over the course of several years. This is due in part to the fact that no effective mechanism is in place for employees to report their suspicions in confidence.

One example of how hotlines can provide employers with a proactive approach to controlling unethical behavior is by reviewing their impact on the dollar amount of loss and the duration of misconduct. According to the 2016 AFCE survey, organizations that detected fraud via hotline tips experienced a median loss of $147,000 and a median duration of 17 months. In contrast, when fraud is detected by external audit, the median loss is $470,000 and the median duration is 24 months.

Also, according to Fulcrum Inquiry, employees are often the first to know of wrongdoing before upper management becomes aware of it. If employees have an anonymous means of reporting irregularities, management can find out about them sooner and take corrective action before the situation can escalate.

Ensuring Transparency

A significant feature that contributes to financial fraud is the lack of transparency in accounting practices. The use of a reporting hotline can lead to greater transparency and limit the temptation to engage in the practices of "creative financing" or attempting to hide accounting irregularities. The existence of a hotline can also promote more transparent business practices in general, which can help to reduce occurrences of inappropriate acts such as bribery by overseas workers.

Incident Type Screening

Not all ethical issues are the same, and depending on the nature of the organization, it may have more than one means of handling them. Some organizations may determine that certain issues should be handled by human resources while others may require legal attention. The trained representatives offered by a third-party reporting hotline can serve in an effective screening capacity by ensuring that the report is routed to the proper company representative, as well as to the ethics and compliance officer for final disposition if applicable.

Expediency

Expediency of report handling is another example of how a reporting hotline constitutes best practices. Reporters need to feel that their reports are being handled and addressed in a timely manner as opposed to being stored in a desk drawer. A reputable third-party reporting hotline will process the information and prepare a report expeditiously, typically within minutes of receipt. The completed report is then promptly forwarded to the designated representative within the organization.

Case Management

Larger organizations may receive a high volume of reports, which can complicate the process of tracking and analyzing hotline reports. As part of its service, an effective third-party reporting hotline includes a Case Management System (CMS) that allows the program administrator to track the report from receipt through resolution. Additionally, a CMS allows the administrator to assign incidents for investigation, document investigative actions, engage in anonymous dialog with the reporter, create reports and charts and establish an audit trail for added internal control.

Whistleblower Protection

Per SOX Section 806, whistleblowers are provided with protection against retribution from management or other employees. The act states that a whistleblower who “alleges discharge or other discrimination by any person” is entitled to file a report with the Secretary of Labor.

In addition to the legal protection offered by SOX, whistleblowers who may still be uncomfortable reporting ethical improprieties can find additional protection from the confidentiality afforded by the hotline.

Saving Face

Previous financial scandals have demonstrated that not only can unethical practices lead to an organization’s financial devastation; they also serve to damage its reputation. A data breach caused by employee misconduct or negligence can destroy a company’s good name and standing. Early detection of unethical practices through hotline reporting allows the organization to take corrective measures before information can become public.

Cost Savings

According to the Fulcrum Inquiry website, an ethics hotline is one of the easiest and most cost-effective internal control systems a corporation can implement. By outsourcing the task to a competent third-party ethics hotline provider, an organization reduces the need to hire its own staff. It also can achieve the savings that derives from eliminating unethical practices.

Keys to Effective Hotline Implementation

As top management sets the ethical tone for the entire organization, it plays a crucial role in ensuring effective hotline implementation. Education is essential for a successful implementation; management personnel needs to emphasize its commitment to an open-door policy that encourages the reporting of wrongdoing, while also providing assurances that reporters can remain anonymous and receive protection against retaliation.

Management should make use of mass communication methods such as company-wide meetings, signage or e-mail distributions to introduce the hotline and to stress its importance to every employee and the organization as a whole.

In addition, management should ensure the hotline plays a primary role in an organization’s ethics programs. Information concerning hotline use should be incorporated into ethics training for existing employees as well as the new-hire orientation process. Displaying posters in high-visibility locations throughout the facility and providing employees with wallet cards containing hotline contact information will serve as constant reminders of its availability and help to reinforce the organization’s ongoing commitment to creating an ethical culture.

Future Implications

There are potential future implications for organizations that do not take a proactive approach by implementing safeguards such as a reporting hotline.

The 2016 GEBS identifies several areas of concern regarding ethics and compliance as the business landscape continues to become more global in scope. For one, as more organizations continue to make the transition to a multinational operation, it introduces an element of change that can create a work environment that is more conducive to misconduct. Organizations that engage in mergers, acquisition, or management restructuring, or that implement significant cost-cutting measures to remain competitive are highly susceptible to unethical behavior.

In addition, fear of retaliation remains an obstacle to the reporting of misconduct. While organizations must continue to provide employees with opportunities to raise concerns, they must also make a stronger effort to protect those who come forward. The GEBS points out that 59 percent of those who choose not to report misconduct do so because they fear retaliation from management or coworkers.

Recommended methods for reducing the risk of retaliation — and thereby encouraging reporting via third-party hotlines — include training leaders on how to listen and respond to employees who voice concerns. Employers should also provide protective monitoring of reporters, especially during the first three weeks after making a report, which is when the risk of retaliation is at its highest.

Yet another factor that continues to negatively impact the effectiveness of reporting hotlines is the tendency of managers to engage in unethical behavior, especially at the middle and top levels. Specific managerial behaviors identified by the GEBS include abusive or intimidating behavior towards employees, accepting bribes and kickbacks, actions that constitute a conflict of interest, anti-competitive behavior and hiding compliance violations from inspectors and auditors.

Organizational leadership is responsible for setting the tone at the top — a reporting hotline can only be considered a best practice if managers behave ethically and work to create an organizational culture built on integrity and trust.

Conclusion

A reporting hotline is considered a best practice for any organization that wants to improve the ethics of its culture. A reporting hotline provides company employees with a means to report inappropriate actions anonymously and confidentially, which can greatly reduce the fear of retribution that can result from whistleblowing. The AFCE calls fraud reporting methods such as hotlines a “critical component” to any fraud prevention system.

Reporting hotlines give employees access to an impartial third-party provider whose representatives are trained to handle reports expediently, thoroughly and with sensitivity. Through the use of a Case Management System, employers have the ability to effectively manage hotline reports and enhance internal controls.

Organizations that are currently satisfied with their level of ethical behavior may be experiencing a false sense of security. As the trend continues toward globalization and constant change becomes the norm, it can open the door for unethical practices to commence unless a proactive approach is taken.

In summary, organizations that are truly committed to best practices, or “management practices and work processes that lead to world-class, superior performance,” must not underestimate the importance of ethics in the workplace. Implementing a third-party reporting hotline is one way a company can demonstrate its commitment to ethical behavior.