



Department of Education

Internal Audit

Ethics Review

Issue Date: February 2018

Report Number: FY2018-02

Department of Education
Ethics Review

Executive Summary

| | | |
|-----------------------------------|---|--|
| AUDIT OF: Ethics Review | DATE: Fieldwork performed November – December 2017 | AUDIT RATING: Acceptable [] Marginal [X] Unacceptable [] |
|-----------------------------------|---|--|

INTRODUCTION:

In connection with the Department of Education’s (DOE) Updated Risk Assessment and Internal Audit Plan approved on May 2, 2017, Internal Audit (IA) performed an “*Ethics Review*.” The purpose of this project was to review and evaluate the design and operating effectiveness of the DOE’s ethics-related programs, code of conduct activities, and related processes to ensure effective governance and accountability throughout the DOE and to provide recommendations for improvement to enhance effectiveness and efficiency.

BACKGROUND:

A strong ethical culture is the foundation of good governance which is created through a robust ethics program that sets expectations for acceptable behaviors in conducting business within the organization and with external parties. Examples include effective board oversight, strong tone-at-the-top, senior management involvement, organization wide commitment, a customized code of conduct, timely follow-up and investigation of reported [alleged] incidents, consistent disciplinary action for offenders, ethics training, communications, ongoing monitoring systems, and an anonymous incident reporting system.¹

As stated in the *Board of Education (BOE) Policy 201-1 Ethics and Code of Conduct*, “All employees, contractors, and volunteers of the public school system shall conduct themselves in an ethical manner and comply with federal and state laws, rules, regulations, policies, procedures, and guidance to promote public trust and confidence in public education. All personnel shall strictly adhere to the Hawaii State Code of Ethics and the Code of Ethics for public employees of the State as prescribed in Chapter 84 of the Hawaii Revised Statutes. Additionally, the Department, State Public Charter School Commission, and Hawaii State Public Library System will develop, promulgate and implement a Code of Conduct that will inform and govern its organizations, employees, contractors and volunteers.”

Pursuant to the BOE’s Policy 201-1, the DOE has two main components of the DOE’s ethics program that include the Code of Conduct and the Fraud and Ethics Hotline.

The Code of Conduct (the Code) was rolled out to the field on September 8, 2016 by the Superintendent and applies to all employees, contractors and volunteers. It establishes and explains the DOE’s expectation that we serve as positive role models for students and that we engage in conduct and behavior contributing to an appropriate learning environment and a professional workplace. The Code supplements existing statutes and policies, including the “Hawaii State Code of Ethics” and Code of Ethics for public employees as prescribed in *Chapter 84 of the Hawaii Revised Statutes*. The Office of Human Resources (OHR) was given the responsibility to develop the Code along with input from the Office of Fiscal Services (OFS), IA, and the Attorney General’s Office. The Code was originally distributed to employees separately in School Year 2016-2017 but was then included in the “Opening of the School Year Packet” for the School Year 2017-2018 and distributed by the Labor Relations Section under OHR.

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The Fraud and Ethics Hotline (the Hotline) was rolled out on May 1, 2013 to provide staff and members of the public with an opportunity to anonymously report suspected fraud, waste, or inappropriate employee behavior. Posters were also distributed to the field to be displayed where it is visible to all employees and a link to the Hotline was posted to the DOE website. The Hotline is accessible by phone or internet and complaints are received by an independent third party. The complaints are then provided to IA who facilitates the complaint to the respective office (i.e. Assistant Superintendent, Complex Area Superintendent, OHR, Civil Rights, or Special Education) based on the nature of the alleged violation. After preliminary review, each case is then handled as either an Investigation or a Management Issue. Upon completion, the case manager must respond to standard closure questions in order to close the case in the system. On a quarterly basis, IA reports Hotline statistics to the Audit Committee, such as the types of cases received and any outstanding cases still open. The Hotline is just one of several other reporting mechanisms that staff and members of the public can use to report suspected fraud, waste, or inappropriate employee behavior.

Ethics policies that employees must follow are documented in Article XIV, Hawaii State Constitution; Chapter 84, Hawaii Revised Statutes; BOE Policies and the Code.

¹The Institute of Internal Auditors' Practice Guide "Evaluating Ethics-Related Programs and Activities" published June 2012.

SCOPE and OBJECTIVES:

The scope of our review focused on evaluating the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities. The scope of our review specifically focused on an overall assessment of the following subcategories that IA deemed as high and medium risk in our project-level risk assessment:

- Code of Conduct
- Fraud and Ethics Hotline
- Compliance

The scope of any detailed testing will cover the fiscal year 2017 (July 1, 2016 – June 30, 2017) and current fiscal year 2018 (July 1, 2017) up to October 2017.

The objectives of our review included the following:

1. To review and evaluate the design and operating effectiveness of the DOE's ethics-related programs and related processes to ensure effective governance and accountability throughout the DOE.
2. To review and evaluate the design, implementation, and operating effectiveness of the DOE's Code of Conduct.
3. To provide recommendations for improvement to enhance effectiveness and efficiency.

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OBSERVATIONS:

Based upon our review, we found the DOE's controls related to ethics-related processes are functioning at a "marginal" level. A marginal rating indicates that there may be a potential for loss to the auditable area and ultimately to the DOE. Some improvements are necessary to bring the area to an acceptable status, but if weaknesses continue without attention, it could lead to further deterioration of the rating to an unacceptable status.

Please refer to the Risk Ratings section of this report (page 5) for a complete definition of the ratings used by IA and the Observations and Recommendations section for a detailed description of our findings.

Leading practices suggest the use of a maturity model to evaluate your ethical climate. We used the "Compliance and Ethics Program Maturity Model" (IIA Maturity Model) as provided in the "Institute of Internal Auditor's Evaluating Ethics-Related Programs and Activities Practice Guide" that outlines a variety of attributes that comprise the ethical climate of an organization and classifies controls associated with each attribute according to five possible levels of maturity. These levels are 1) Immature, 2) Repeatable, 3) Defined, 4) Mature, and 5) World Class. (See Appendix)

Considering that the DOE's Code of Conduct and Fraud and Ethics Hotline are fairly new, we rated the DOE's maturity level at "Repeatable." The maturity level desired is up to the governing board to determine, as it may not be reasonable for an organization to be at a "World Class" level for each attribute. The following are some of the characteristics that a "Mature" compliance and ethics program may include:



- Code of Conduct reviewed internally and externally (i.e. Legal) on an annual basis and updated as necessary.
- All employees sign off annually that they have read and are in compliance with the Code.
- All employees complete annual questionnaires about the Code.



- Compliance and ethics are topics at organization-wide meetings.
- Programs developed with input from employee groups.
- Disciplinary actions involve, OHR and Legal personnel to ensure appropriateness and consistency.
- Job descriptions and interviews formally cover ethical conduct.
- Employees feel empowered to raise questions about compliance matters.



- Annual training with individual modules.
- Employees are aware of programs and how to find information on it.
- Employees know who to contact if they have questions on programs.
- Compliance with program and ethical expectations are covered in contracts with vendors.

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Structure & Accountability

- Hotline cases are followed up timely and consistently by Leadership.
- Audit committee receives quarterly updates on compliance matters.
- Internal Audit has a plan for auditing all compliance risks.
- Formal investigation protocol documented.
- Formal risk assessment completed.

Process Automation & Integration

- Compliance controls and procedures are documented and are an integral part of business processes.
- Compliance controls address key compliance risks.
- Multiple avenues through which employees can report noncompliance. (i.e. Hotline)
- Consistent test plan to ensure controls operate effectively.

Goals & Metrics

- Specific goals are integrated into annual goals for each risk area.
- Metrics established for each risk area.

We discussed our preliminary findings and recommendations with Management and they were receptive to our findings and agreed to consider our recommendations for implementation.

Each observation presented in this report is followed by specific recommendations that will help to ensure that control gaps are addressed and, if enforced and monitored, will mitigate the control weaknesses. In summary, our observations are as follows:

1. Weaknesses in the Code of Conduct Program
2. Need for Improvements in the Ethical Climate

PLANNED FOLLOW UP BY MANAGEMENT AND INTERNAL AUDIT:

IA will follow up with Management on their progress of completion for their action plans and report accordingly through the audit committee quarterly updates.

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Rating Scale Definitions

| OVERALL RATING SCALE | |
|-----------------------------|---|
| <i>Acceptable</i> | No significant deficiencies exist and improvement continues to be appropriate; controls are considered adequate and findings are not significant to the overall unit/department. |
| <i>Marginal</i> | Potential for loss to the auditable unit/department and ultimately to the DOE. Indicates a number of observations, more serious in nature related to the control environment. Some improvement is needed to bring the unit to an acceptable status, but if weaknesses continue without attention, it could lead to further deterioration of the rating to an unacceptable status. |
| <i>Unacceptable</i> | Significant deficiencies exist which could lead to material financial loss to the auditable unit/department and potentially to the DOE. Corrective action should be a high priority of Management and may require significant amounts of time and resources to implement. |

| OBSERVATION RATING SCALE | |
|---------------------------------|---|
| <i>High (1)</i> | <p>1 - The impact of the finding is <i>material</i>¹ and the likelihood of loss is probable in one of the following ways:</p> <ul style="list-style-type: none"> • A material misstatement of the DOE’s financial statements could occur; • The DOE’s business objectives, processes, financial results or image could be materially impaired; • The DOE may fail to comply with applicable laws, regulations or contractual agreements, which could result in fines, sanctions and/or liabilities that are material to the DOE’s financial performance, operations or image. <p><i>Immediate action is recommended to mitigate the DOE’s exposure</i></p> |
| <i>Moderate (2)</i> | <p>2 - The impact of the finding is <i>significant</i>¹ and the likelihood of loss is possible in one of the following ways:</p> <ul style="list-style-type: none"> ➤ A significant misstatement of the DOE’s financial statements could occur; ➤ The DOE’s business objectives, processes, financial performance or image could be notably impaired; ➤ The DOE may fail to comply with applicable laws, regulations or contractual agreements, which could result in fines, sanctions and/or liabilities that are significant to the DOE’s financial performance, operations or image. <p><i>Corrective action by Management should be prioritized and completed in a timely manner to mitigate any risk exposure.</i></p> |
| <i>Low (3)</i> | <p>3 – The impact of the finding is moderate and the probability of an event resulting in loss is possible.</p> <p><i>Action is recommended to limit further deterioration of controls.</i></p> |

¹ The application of these terms are consistent with the guidelines provided by the Institute of Internal Auditors

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Observations

The detailed observations noted herein were based on work performed by IA through the last date of fieldwork and are generally focused on internal controls and enhancing the effectiveness of processes for future organizational benefit.

| Obs. No. | Description | Page # |
|-----------------|--|---------------|
| 1 | Weaknesses in the Code of Conduct Program | 7 |
| 2 | Need for Improvements in the Ethical Climate | 10 |

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Observations

| | |
|--|-------------------------|
| Observation Number: 1 | |
| Observation: Weaknesses in the Code of Conduct Program | Rating: Moderate |
| <p>As stated in the background, the Code of Conduct (the Code) was rolled out to the field on September 8, 2016 and applies to all employees, contractors, and volunteers. IA reviewed the design, implementation, and effectiveness of the Code. Based on our review, the Code has a comprehensive coverage of significant areas, such as integrity in the workplace, conflicts of interest, and compliance with rules and regulations. Furthermore, IA noted that the Board of Education, Superintendent, and Attorney General’s involvement, set a strong “ethical tone,” supporting its credibility and reinforces the Code’s importance to employees.</p> <p>IA conducted a department-wide survey to assist in assessing the ethical climate at the DOE and to determine the awareness of DOE’s ethics programs. The survey was provided to all DOE employees (~21,300) and 4,173 surveys were completed. (See Appendix) Overall, the results of the survey were quite positive and showed that 92% of employees are aware and have read the Code and that 95% have read the policies and procedures in the “Opening of the School Year Packet.”</p> <p>In addition, IA selected 65 schools and offices to test if confirmation signatures were obtained from all of their employees (including casual employees) and compared it to the number of employees on the schools/offices roster (including casual employees). In discussion with OHR, although they facilitate the distribution of the “Opening of the School Year Packets,” it is the responsibility of schools and offices to ensure that they distribute it to all of their employees. IA noted that all schools and offices tested had documentation indicating employee confirmation signatures; however, 65% tested had significantly less signatures than the number of employees on their roster and that one office didn’t even receive their “Opening of the School Year Packets” from their main branch office till IA inquired.</p> <p>IA also noted the following weaknesses in regards to the Code of Conduct program:</p> <ul style="list-style-type: none"> ➤ No formal training program implemented. Although survey results indicated that some schools/offices have taken it upon themselves to train employees on the Code (64%), through our discussion with OHR, the DOE does not have a formal training program to ensure that all employees are aware and understand the Code. ➤ Lack of monitoring over distribution. As stated above, although OHR is in charge of the overall distribution of the “Opening of the School Year Packets,” they do not ensure that all schools/offices have distributed it to all employees (including casuals) and volunteers. They rely on the schools and offices to ensure that they distribute it to all of their employees. In addition, IA found that according to the Procurement and Contracts Branch, it is not communicated to schools/offices that they have to distribute the Code to contractors; however, similar language in the Code is included in the contract language with the vendor. ➤ No plans to review Code annually for any necessary updates. Through discussion with OHR, they have no current plans to review and update the Code. Leading practices suggest that the Code is reviewed annually for any necessary updates due to lessons learned throughout the year. | |
| Impact | |
| <p>Weaknesses in the Code of Conduct program may possibly lead to:</p> <ul style="list-style-type: none"> ➤ Ineffectiveness of the Code of Conduct. ➤ No accountability to employees for their conduct. | |

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Observations

Recommendation and Management Plan

Recommendations to address weaknesses in the Code of Conduct program include:

- **Recommendation:** Mandatory training to DOE employees, suggestions include video and questionnaire to follow or require Administrators to go over Code of Conduct during “Opening of the School Year Packet” distribution. In addition, each office/school should compile a list of the employees that took the training and send it to OHR.

Management Plan: When distributing the “Opening of School Year Packets” to schools/offices, OHR will remind administrators/supervisors to go over the Code of Conduct.

Anticipated Completion Date: May 11, 2018

Management Plan: OHR will create a training video which will review the Code of Conduct and highlight the important areas for which employees should be aware. OHR will solicit feedback from relevant subject matter experts to modify and improve this training video with an emphasis on ethics and non-retaliation. This will be subject to any collective bargaining requirements.

Anticipated Completion Date: June 30, 2018 (following consultation with unions as necessary)

- **Recommendation:** Consider including language on the signature confirmation form that states, employee’s signature certifies that they have reviewed the policies and procedures in the “Opening of the School Year Packet.” In addition, include instructions that the Code of Conduct should be distributed to all employees, volunteers, and contractors.

Management Plan: OHR will modify the “Employee Distribution Confirmation” form which accompanies the “Opening of School Year Packet,” to include a statement that the employee has received **and reviewed** the “Opening of the School Year Packet,” which includes the Code of Conduct.

Anticipated Completion Date: May 11, 2018

Management Plan: OHR will initiate discussions with appropriate subject matter experts and offices, regarding distribution of the Code of Conduct to volunteers and contractors.

Anticipated Completion Date: June 1, 2018

- **Recommendation:** Management should review the Code of Conduct on an annual basis to determine if any updates/changes need to be made and also monitor that employees, volunteers, and contractors have received and reviewed the Code of Conduct.

Management Plan: OHR will review the Code of Conduct and seek appropriate subject matter experts input on an annual basis, for any potential updates/changes. Any revisions to the Code of Conduct are subject to consultation with unions pursuant to Hawaii Revised Statutes Chapter 89.

Anticipated Completion Date: December 31, on an annual basis

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Management Plan: OHR will monitor and follow-up on receipt of the “Distribution Confirmation” sheet submitted by administrators/supervisors, indicating distribution of the “Opening of School Year Packet” which includes the Code of Conduct. OHR will initiate discussions with appropriate subject matter experts and offices, regarding receipt and review of the Code of Conduct for volunteers and contractors.

Anticipated Completion Date: September 30, 2018

Contact Person: Cynthia Covell, Assistant Superintendent
Office of Human Resources

Responsible Office

OHR

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Observations

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|---|-------------------------|
| Observation Number: 2 | |
| Observation: Need for Improvements in the Ethical Climate | Rating: Moderate |
| <p>It is important to measure the ethical climate in an organization to determine the correlation on what employees think it is and what senior management wants it to be. Ethical climate is important because it can improve employee morale, enrich organizational commitment, and foster an involved and retained workforce.</p> <p>IA conducted two surveys, one department-wide survey to assess the ethical climate at the DOE and to determine the awareness of DOE's ethics programs and one to a selected group of new employees to assess the awareness of DOE's policies and procedures for new employees. (See Appendix)</p> <p>The first survey was provided to all DOE employees (~21,300) and 4,173 surveys were completed. Overall, the results were positive, with employees being familiar with the Hawaii State "Code of Ethics" (81%), DOE policies and procedures (74%), and DOE "Code of Conduct" (92%). Employees also seem to agree that the DOE clearly communicates its expectations of ethical behavior (71%), employees follow policies and procedures (96%), and that Management follows the "Code of Conduct" and encourages them to do the same (72%).</p> <p>The second survey was provided to 84 new employees and only 37 surveys were completed. Once more, the results were positive, with new employees having received a "New Employee Packet" (84%), viewed the "New Employee Orientation" video (81%), and reviewed the DOE's "Code of Conduct" (97%).</p> <p>Although the results were overall positive, the first survey results also identified potential areas for improvement:</p> <ul style="list-style-type: none"> ➤ Some employees fear retaliation for reporting a violation. Approximately, only 46% of survey respondents agreed that employees who report suspected violations would be protected from retaliation. Employees are the best indicators of unethical behavior, but they must have a clear way of reporting misconduct without a fear of retaliation. ➤ Lack of confidence that a complaint will get addressed appropriately. Approximately, only 52% of survey respondents agreed that they have confidence that if they report a violation of law or policy that it will get addressed appropriately. ➤ Lack of awareness on how to report violations of law or policy. Approximately, only 58% of the employees were familiar with how to report violations of law or policy. ➤ Apprehensions to raise issues or concerns to Management. Approximately, only 64% of survey respondents agreed that they felt that Management encourages openness and for employees to raise issues or concerns. | |
| Impact | |
| <p>The need for improvements in the ethical climate may possibly lead to:</p> <ul style="list-style-type: none"> ➤ Lack of confidence and morale of employees in the department. ➤ Less violations being reported. | |

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Observations

| Recommendation and Management Plan |
|--|
| <p>Recommendations to improve the ethical climate include:</p> <ul style="list-style-type: none">➤ Recommendation: Engage with appropriate offices to create or update communication materials to emphasize the Hotline and the Non-Retaliation policy and DOE’s commitment to protecting employees who report a violation or participate in an investigation. <p>Management Plan: OHR will initiate discussions with appropriate subject matter experts and offices, regarding reminders of the Non-Retaliation policy and to publicize the Fraud and Ethics Hotline.</p> <p>Anticipated Completion Date: June 1, 2018</p> <p>Management Plan: OHR will create a training video which will review the Code of Conduct and highlight the important areas for which employees should be aware. OHR will solicit feedback from relevant subject matter experts to modify and improve this training video with an emphasis on ethics and non-retaliation. This will be subject to any collective bargaining requirements.</p> <p>Anticipated Completion Date: June 30, 2018 (following consultation with unions as necessary)</p> <p><u>Contact Person:</u> Cynthia Covell, Assistant Superintendent Office of Human Resources</p> |
| Responsible Office |
| OHR |

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Acknowledgements

We also wish to express our appreciation for the cooperation and assistance afforded to the review team by Management and staff during the course of this review.

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Appendix

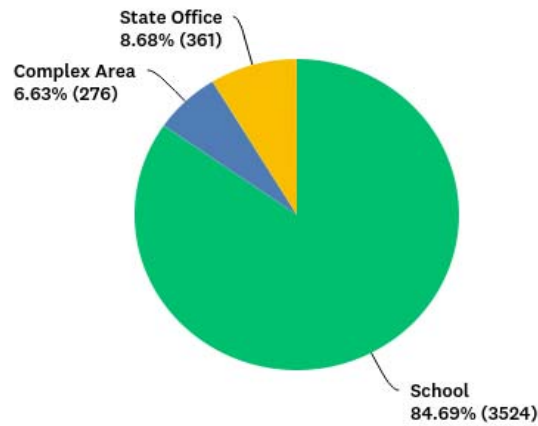
Workplace Ethics Survey Results

Respondents: 4,173 out of ~21,300 employees (20% response rate)

1) At which location do you currently work?

Answered: 4,161 Skipped: 12

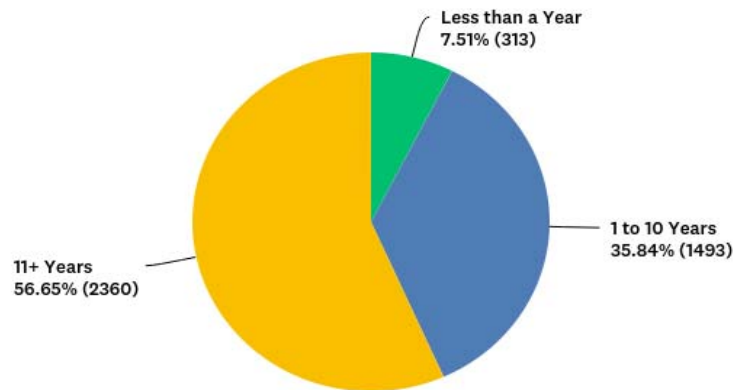
Q1 At which location do you currently work?



2) How long have you worked at the Department of Education (DOE)?

Answered: 4,166 Skipped: 7

Q2 How long have you worked at the Department of Education (DOE)?



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3) Policy and Procedure Questions

Answered: 4,169 Skipped: 4

| Question | Yes | No | Unsure | Total |
|---|-----------------|---------------|-----------------|-------|
| I am familiar with the Hawaii State “Code of Ethics” | 81.44% 3,160 | 5.52% 214 | 13.04% 506 | 3,880 |
| I have read and understand board policies and DOE procedures, and know what resources are available to me if I need clarification | 74.02% 3,043 | 8.25% 339 | 17.73% 729 | 4,111 |
| I have read the “Opening of the School Year Packet” | 95.18% 3,949 | 3.16% 131 | 1.66% 69 | 4,149 |
| I have read the DOE’s “Code of Conduct” | 92.16% 3,810 | 3.02% 125 | 4.81% 199 | 4,134 |
| I have received training on the DOE’s “Code of Conduct” | 63.80% 2,633 | 17.86% 737 | 18.34% 757 | 4,127 |
| I am aware of any changes/updates to the DOE’s “Code of Conduct” | 48.49% 2,008 | 19.71% 816 | 31.80% 1,317 | 4,141 |
| I am familiar with how to report violations of law or policy, including the DOE’s confidential reporting hotline | 58.11% 2,410 | 20.21% 838 | 21.68% 899 | 4,147 |

4) Employee Survey Questions

Answered: 4,159 Skipped: 14

| Question | Strongly Agree | Agree | Somewhat | Disagree | Strongly Disagree | Total |
|---|-----------------|-----------------|-----------------|---------------|-------------------|-------|
| DOE clearly communicates its expectations of ethical behavior by its employees | 26.95% 1,118 | 44.26% 1,836 | 21.67% 899 | 5.11% 212 | 2.00% 83 | 4,148 |
| I always follow the DOE’s policies and procedures | 54.02% 2,238 | 41.61% 1,724 | 4.03% 167 | 0.22% 9 | 0.12% 5 | 4,143 |
| Management follows the “Code of Conduct” and encourages us to do the same | 32.93% 1,362 | 39.53% 1,635 | 17.14% 709 | 6.75% 279 | 3.65% 151 | 4,136 |
| Management encourages openness and for us to raise issues or concerns | 30.18% 1,249 | 34.40% 1,424 | 19.28% 798 | 9.74% 403 | 6.40% 265 | 4,139 |
| I am confident that if I report a violation of law or policy to the DOE hotline, that it will get addressed appropriately | 21.27% 879 | 30.78% 1,272 | 31.00% 1,281 | 10.16% 420 | 6.78% 280 | 4,132 |
| I believe I would be protected from retaliation if I report a suspected violation | 18.55% 768 | 27.61% 1,143 | 29.49% 1,221 | 13.57% 562 | 10.77% 446 | 4,140 |

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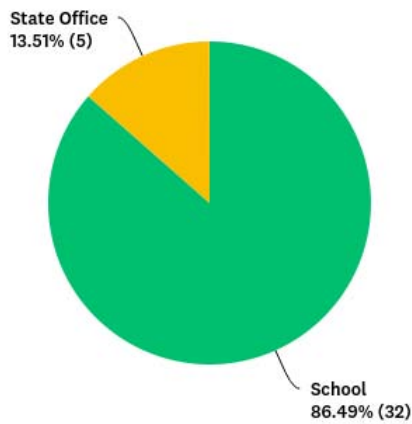
New Employee Survey Results

Respondents: 37 out of 84 employees survey emailed to (44% response rate)

1) At which location do you currently work?

Answered: 37 Skipped: 0

Q1 At which location do you work?



2) New Employee Survey

Answered: 37 Skipped: 0

| Question | Yes | No | Don't Know | Total |
|--|--------------|-------------|-------------|-------|
| I have received a "New Employee Packet" from my employer | 83.78% 31 | 10.81% 4 | 5.41% 2 | 37 |
| I have viewed the "New Employee Orientation" video | 81.08% 30 | 8.11% 3 | 10.81% 4 | 37 |
| I have reviewed the Board of Education policies | 86.49% 32 | 5.41% 2 | 8.11% 3 | 37 |
| I have reviewed the "Opening of the School Year Packet" | 91.89% 34 | 8.11% 3 | 0.00% 0 | 37 |
| I have reviewed the DOE's "Code of Conduct" | 97.30% 36 | 2.70% 1 | 0.00% 0 | 37 |

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Appendix

| Attribute | Immature | Repeatable | Defined | Mature | World Class |
|---|--|---|--|--|---|
| Code of Ethics (How effectively does the Code outline management's expectations regarding ethical conduct?) | No formal documented code No other means of communicating management's expectations regarding ethics | Code of Ethics developed but may not be current Experienced employees understand management's expectations of ethical conduct | Code of Ethics exist and is reviewed every 2-3 years All employees sign off annually that they comply with the Code of Ethics New employees sign a document that they have read and understand the Code | Outside counsel reviews the Code to ensure it remains current Code is reviewed annually and updated as necessary All employees must complete annual questionnaires about the Code | Specific compliance policies are in place to support key components of the Code Periodic focus groups/surveys are conducted to assess their understanding of the Code and perceptions on level of compliance throughout the organization |
| Culture and Consistency (How does the organization perceive management's commitment to compliance?) | Organization seems indifferent to compliance Program developed with no outside input Perceptions of disciplinary inconsistencies Promotions without formal consideration of ethical conduct Noncompliance events learned from complaints versus monitoring or audits | Perceptions that compliance is important Program developed to address legal ramifications of noncompliance Discipline is left to the discretion of managers, and as such is not consistent Ethical conduct not a part of job descriptions Few efforts to report events before they become noncompliant | Perceptions that management takes compliance seriously Program developed with input from Legal, HR and Internal Audit HR is consulted to make sure disciplinary actions are appropriate and compliant with regulations Job descriptions include expectations for ethical conduct Employees raise questions before they become a problem | Compliance and ethics are topics at organization meetings Program developed with input from various employee groups Disciplinary action involve HR, Legal and Compliance personnel to ensure appropriateness and consistency Job descriptions and interviews formally cover ethical conduct Employees feel empowered to raise questions about compliance matters | Periodic surveys/focus groups used to assess compliance culture Periodic input solicited from employees to improve program Disciplinary actions reviewed by an independent group (i.e. Internal Audit) to support consistency People recognized for demonstrating ethical conduct Employees make recommendations for improving compliance program |

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| Attribute | Immature | Repeatable | Defined | Mature | World Class |
|--|---|---|--|---|--|
| <p>Awareness (How aware are employees [EEs] and outside stakeholders of the compliance program and its requirements?)</p> | <p>EEs are generally aware program exists, but not sure how to get information about it</p> <p>EEs aren't familiar with specific requirements</p> <p>EEs don't know compliance manager or who risk area officers are</p> <p>Stakeholders know nothing about program</p> | <p>EEs aware of program, went through training, but don't know all requirements</p> <p>EEs know compliance officer/manager, but not risk area officers</p> <p>Stakeholders assume program exists, but don't know anything about it</p> | <p>Widespread EE awareness</p> <p>EEs went through training</p> <p>EEs know compliance officer/manager and some risk area officers</p> <p>Stakeholders aware of program and how to find information on it</p> | <p>Annual training with individual modules</p> <p>EEs know all risk area officers and understand their responsibilities</p> <p>Compliance with program and ethical expectations are covered in contracts with vendors</p> | <p>Communications occur on a regular basis to remind employees on program expectations</p> <p>Program is part of external sustainability reporting conducted annually</p> |
| <p>Structure and Accountability (How effective is the structure for managing the program and enforcing accountability?)</p> | <p>No formal compliance structure</p> <p>Independent oversight nonexistent</p> <p>Accountability is not defined</p> <p>Investigations are ad hoc</p> <p>Compliance risks are not understood</p> | <p>Compliance officer designated, but responsibilities are not developed</p> <p>Oversight and monitoring are inconsistent and reactionary</p> <p>Accountability is understood but not documented</p> <p>Investigations conducted by appropriate personnel</p> <p>Compliance risks are understood but not documented</p> | <p>Compliance structure established and accountability assigned to risk area officers</p> <p>Oversight defined from a senior management and board perspective</p> <p>Monitoring is established</p> <p>Focal point for determining who should conduct investigations</p> <p>Compliance risks and scenarios are documented</p> | <p>Reporting by risk area officers to compliance manager is timely and consistent</p> <p>Audit Committee receives quarterly updates on compliance matters</p> <p>Internal Audit has a plan for auditing all compliance risks</p> <p>Formal investigation protocol documented</p> <p>Formal compliance risk assessment completed</p> | <p>Monitoring plan implemented and involves compliance manager, risk area officers and Internal Audit</p> <p>Sensitive investigations conducted in accordance with protocol by trained investigators</p> <p>Compliance risk scenarios identified, assessed and mapped to compliance controls and updated at least annually</p> |

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Appendix

| Attribute | Immature | Repeatable | Defined | Mature | World Class |
|---|--|---|---|---|---|
| Process Automation and Integration (How effectively are compliance controls and processes standardized, integrated, and automated?) | No formal compliance controls or procedures No formal protocol for EEs or outsiders to report suspected noncompliance events Information/data related to compliance is not available | Some compliance controls or procedures, but not consistent or documented Limited testing of controls and procedures EEs generally understand that they can contact Legal or HR if they suspect noncompliance Information/data related to compliance difficult to compile | Compliance controls & procedures are documented Compliance controls and procedures tested periodically External hotline is in place Some compliance controls are integrated with business processes Some standard reports are prepared related to compliance events | Compliance controls & procedures are integral part of business processes Compliance controls address key compliance risks Multiple avenues through which employees can report noncompliance Consistent test plan to ensure controls operate effectively Technology is used to aid in investigation of compliance events | Established a governance, risk and compliance (GRC) program Event management software used GRC software used Integrated technology routines are run on a regularly scheduled bases to detect potential compliance events |
| Goals and Metrics (How is success of the compliance program measured?) | No formal goals or metrics | Goals and metrics not formalized, but EEs generally understand what a successful program is | Broad compliance goals established and communicated Broad metrics exist to measure nature and frequency of compliance events | Specific compliance goals are integrated into annual goals for each risk area Metrics established for each risk area | All EEs have individual compliance goals Metrics are integrated into the overall performance measurement process |

Status of DOE on Maturity Model