KPMG

KPMG FORENSIC

Integrity Survey 2005–2006

ADVISORY

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KPMG Forensic Leadership Message

I am pleased to share with you the results of our Integrity Survey 2005–2006, which takes a behind-the-scenes look at corporate fraud and misconduct in the post-Sarbanes-Oxley era.

Since our Integrity Survey 2000, we've witnessed corporate scandals and the subsequent passage of new regulations. This 2005–2006 survey reveals the perceptions of more than 4,000 employees nationally of what has changed in five years—and what has not.

Our key findings:

- Nearly three out of four employees nationally—74 percent—reported that they had observed misconduct in the prior 12-month period, with half of employees reporting that what they had observed could cause "a significant loss of public trust if discovered." These results are virtually unchanged from employee observations in 2000.
- Although the level of observed misconduct has remained constant, employees reported that the conditions that facilitate management's ability to prevent, detect, and respond to fraud and misconduct have improved since 2000. For example, pressure to engage in misconduct is down, and confidence in reporting concerns to management is up.
- Employees who work in companies with comprehensive ethics and compliance programs reported more favorable results across the board than those employees who work in companies without such programs. For instance, employees who work in companies with programs reported fewer observations of misconduct and higher levels of confidence in management's commitment to integrity.

This survey examines risks of fraud and misconduct that include, and are broader than, the financial reporting aspects addressed by Sarbanes-Oxley legislation. We hope this helps to provide a wider perspective as you consider your organization's exposure to fraud and misconduct risks and the effectiveness of programs and controls you rely on to mitigate them. By sharing the results of this survey, all of us at KPMG hope to help reaffirm and raise awareness of the importance of the principles of leadership, integrity, and ethics in business.

Richard H. Girgenti
Americas Partner in Charge
KPMG Forensic

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Executive Summary

The KPMG Integrity Survey 2005–2006 results are based on responses from 4,056 U.S. employees, spanning all levels of job responsibility, 16 job functions, 11 industry sectors, and 4 thresholds of organizational size.

Nearly three out of four employees reported that they had observed misconduct in the prior 12-month period, with half of employees reporting that what they had observed was serious misconduct that could cause "a significant loss of public trust if discovered."

Between 2000 and 2005, employees reported:

- Consistent levels of overall misconduct, with 74 percent reporting in 2005 that they had observed misconduct, compared with 76 percent in 2000
- Consistent levels of serious misconduct, with 50 percent in 2005 characterizing the misconduct they had observed as serious, compared with 49 percent in 2000

Although the level of observed misconduct has remained constant, employees reported that the conditions that facilitate management's ability to prevent, detect, and respond to fraud and misconduct within companies are improving.

Between 2000 and 2005, employees reported the following positive changes in conditions and attitudes:

- Pressure to engage in misconduct to meet business objectives has decreased.
- The adequacy of resources available to meet targets without cutting corners has improved.
- Apathy and indifference toward codes of conduct have declined.
- Comfort levels in using a hotline to report misconduct have risen.
- Confidence that appropriate action would be taken in response to alleged improprieties has increased.
- Confidence that whistleblowers would be protected from retaliation has increased.
- Perceptions of chief executive officers and other senior executives as positive role models have improved.
- The perception that top management is approachable if employees have questions about ethics or need to deliver bad news has increased.
- The perception that business leaders would respond appropriately if they became aware of misconduct has increased.

Employees who work in companies with comprehensive ethics and compliance programs reported more favorable results across the board than did those who work in companies without such programs. For instance, employees who work in companies with such programs reported fewer observations of misconduct and higher levels of confidence in management's commitment to integrity.

At companies with ethics and compliance programs:

- Employees reported fewer observations of misconduct.
- A significantly higher percentage of employees reported that their colleagues felt motivated and empowered to "do the right thing."
- A significantly higher percentage of employees reported that their colleagues felt comfortable raising and addressing ethics concerns.
- A significantly higher percentage of employees believed their CEOs and other senior executives valued ethics and integrity over short-term business goals.

Overall Results

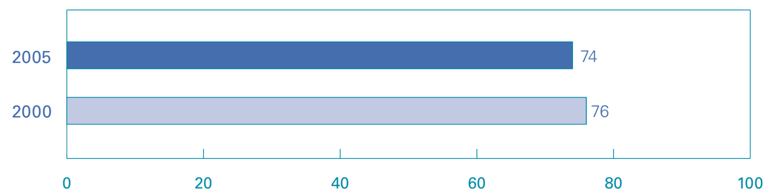
PREVALENCE AND NATURE OF MISCONDUCT

Prevalence of Misconduct

Figures citing the prevalence of misconduct are based on the total percentage of respondents who indicated that they observed at least one of the types of misconduct shown on page 3 at least rarely in the prior 12-month period.

To begin, KPMG LLP wanted to understand the prevalence of corporate fraud and misconduct observed by employees. We asked employees whether they had "personally seen" or had "firsthand knowledge of" misconduct within their organizations over the prior 12-month period. Roughly three quarters of employees—74 percent—reported that they had observed misconduct in the prior 12-month period. This marks no statistically significant change from 2000, when 76 percent of employees surveyed indicated that they had observed misconduct over the prior 12-month period.

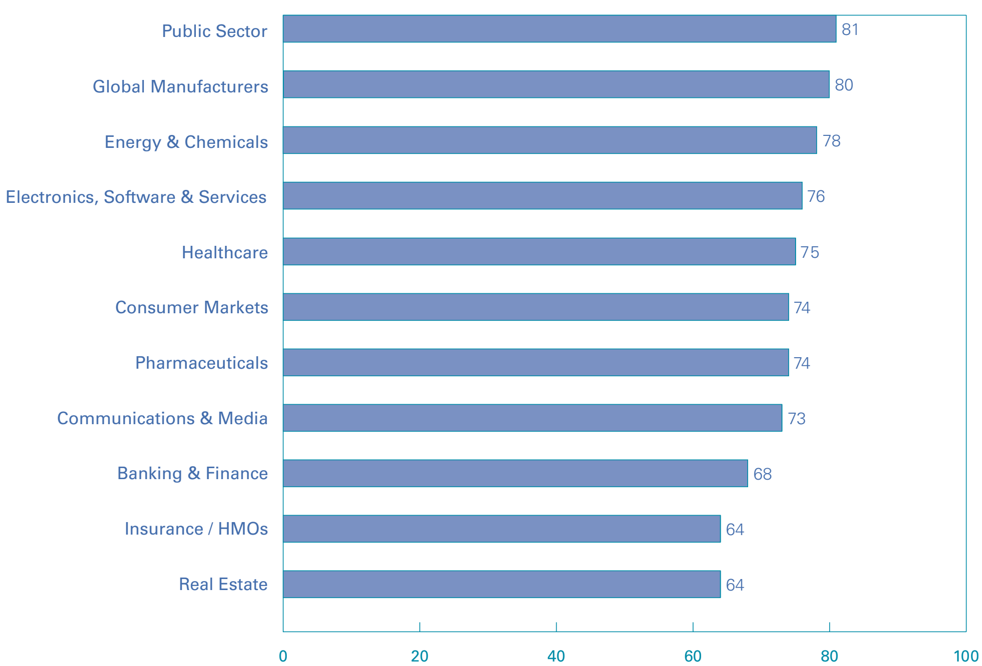
Prevalence of Misconduct During the Prior 12 Months



Prevalence of Misconduct by Industry

When we examine the prevalence of misconduct by industry, we find generally high levels across all sectors that fluctuate within a range of 17 percent. Employees in highly regulated financial industries, such as banking, finance, and insurance, reported relatively lower rates of misconduct within their organizations compared with others. Employees working in the public sector—which has not been subject to many of the new regulatory mandates placed on its private sector counterparts—reported relatively higher rates of misconduct compared with others.

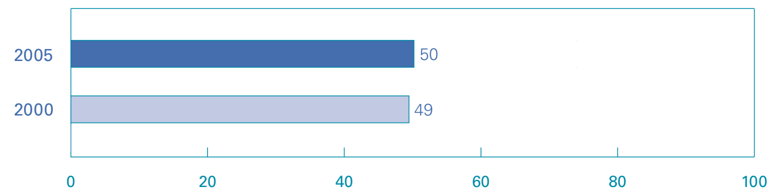
Prevalence of Misconduct by Industry During the Prior 12 Months



Seriousness of Misconduct

To gauge the seriousness of observed misconduct, we asked employees if what they observed could cause "a significant loss of public trust if discovered." A full 50 percent of employees answered in the affirmative, on a par with the 49 percent who answered affirmatively in 2000.

Prevalence of Misconduct That Could Cause a "Significant Loss of Public Trust if Discovered"



Nature of Misconduct

We also wanted to understand the specific types of misconduct being observed. We asked employees to identify specific types of misconduct of which they had "firsthand knowledge" or had "personally seen." When public attention is drawn to allegations of corporate wrongdoing, we recognized that only one problem tends to be in the spotlight at a given time. However, experience tells us that companies do not experience integrity risks one at a time or in neatly segmented boxes. Indeed, the nature of misconduct risk at any given time can be as diverse and fluid as the business itself.

Therefore, we took a broader view by allowing respondents to select from among 41 germane categories of misconduct that can undermine an organization's reputation for integrity, as shown in the table below. These categories include, and go beyond, issues of financial reporting fraud that were the center of Sarbanes-Oxley legislation.

CATEGORIES OF FRAUD AND MISCONDUCT ASSESSED IN SURVEY

Compromising customer or marketplace trust by:
- Engaging in false or deceptive sales practices
- Submitting false or misleading invoices to customers
- Engaging in anti-competitive practices (e.g., market rigging)
- Improperly gathering competitors' confidential information
- Fabricating product quality or safety test results
- Breaching customer or consumer privacy
- Entering into customer contract relationships without proper terms, contracts, or approvals
- Violating contract terms with customers

Compromising shareholder or organizational trust by:
- Falsifying or manipulating financial reporting information
- Stealing or misappropriating assets
- Falsifying time and expense reports
- Breaching computer, network, or database controls
- Mishandling confidential or proprietary information
- Violating document retention rules
- Providing inappropriate information to analysts or investors
- Trading securities based on "inside" information
- Engaging in activities that pose a conflict of interest
- Wasting, mismanaging, or abusing the organization's resources

Compromising employee trust by:
- Discriminating against employees
- Engaging in sexual harassment or creating a hostile work environment
- Violating workplace health and safety rules
- Violating employee wage, overtime, or benefit rules
- Breaching employee privacy
- Abusing substances (drugs, alcohol) at work

Compromising supplier trust by:
- Violating or circumventing supplier selection rules
- Accepting inappropriate gifts or kickbacks from suppliers
- Paying suppliers without accurate invoices or records
- Entering into supplier contracts that lack proper terms, conditions, or approvals
- Violating the intellectual property rights or confidential information of suppliers
- Violating contract or payment terms with suppliers
- Doing business with disreputable suppliers

Compromising public or community trust by:
- Violating environmental standards
- Exposing the public to safety risk
- Making false or misleading claims to the media
- Providing regulators with false or misleading information
- Making improper political contributions to domestic officials
- Making improper payments or bribes to foreign officials
- Doing business with third parties that may be involved in money laundering
- Doing business with third parties prohibited under international trade restrictions and embargoes
- Violating international labor or human rights

General:
- Violating company values and principles

The types of misconduct shown below are ones that are particularly relevant to particular job functions. The specific types of misconduct observed have a natural tendency to vary according to job function. In the tables that follow, we present selected types of misconduct observed by certain job functions (i.e., the percentage of employees within specific job functions that reported observing a specific category of misconduct).

SELECT OBSERVATIONS BY EMPLOYEES IN SALES AND MARKETING FUNCTIONS	
Engaging in false or deceptive sales practices	33%
Improperly gathering competitors' confidential information	20%
Violating contract terms with customers	19%
Engaging in anti-competitive practices (e.g., market rigging)	16%
Submitting false or misleading invoices to customers	14%

SELECT OBSERVATIONS BY EMPLOYEES IN ACCOUNTING AND FINANCE FUNCTIONS	
Entering into customer contract relationships without proper terms, contracts, or approvals	27%
Breaching computer, network, or database controls	24%
Stealing or misappropriating assets	18%
Falsifying or manipulating financial reporting information	16%

The selected types of misconduct listed do not represent all, or necessarily the most frequent, categories of misconduct reported by each job function. Rather, we have selected to report, by job function, categories of misconduct that are germane to those job functions (i.e., the types of misconduct that employees in those job functions are most likely to witness).

SELECT OBSERVATIONS BY EMPLOYEES IN PURCHASING AND PROCUREMENT FUNCTIONS	
Entering into supplier contracts that lack proper terms, conditions, or approvals	33%
Violating contract or payment terms with suppliers	32%
Engaging in anti-competitive practices (e.g., market rigging)	29%
Violating or circumventing supplier selection rules	26%
Accepting inappropriate gifts or kickbacks from suppliers	22%

SELECT OBSERVATIONS BY EMPLOYEES IN RESEARCH, DEVELOPMENT, AND ENGINEERING FUNCTIONS	
Mishandling confidential or proprietary information	25%
Engaging in activities that pose a conflict of interest	21%
Improperly gathering competitors' confidential information	15%
Accepting inappropriate gifts or kickbacks from suppliers	14%

SELECT OBSERVATIONS BY EMPLOYEES IN OPERATIONS AND SERVICE FUNCTIONS	
Wasting, mismanaging, or abusing the organization's resources	46%
Violating employee wage, overtime, or benefit rules	36%
Breaching employee privacy	33%
Mishandling confidential or proprietary information	24%
Falsifying time and expense reports	24%

SELECT OBSERVATIONS BY EMPLOYEES IN MANUFACTURING AND PRODUCTION FUNCTIONS	
Violating workplace health and safety rules	55%
Discriminating against employees	53%
Engaging in sexual harassment or creating a hostile work environment	45%
Abusing substances (drugs, alcohol) at work	31%
Fabricating product quality or safety test results	26%

SELECT OBSERVATIONS BY EMPLOYEES IN QUALITY, SAFETY, AND ENVIRONMENTAL FUNCTIONS	
Violating environmental standards	29%
Exposing the public to safety risk	23%
Fabricating product quality or safety test results	17%
Violating international labor or human rights	12%
Doing business with third parties prohibited under international trade restrictions/embargoes	10%

SELECT OBSERVATIONS BY EMPLOYEES IN TECHNOLOGY FUNCTIONS	
Breaching computer, network, or database controls	30%
Mishandling confidential or proprietary information	28%
Breaching employee privacy	25%
Breaching customer or consumer privacy	21%
Falsifying or manipulating financial reporting information	13%

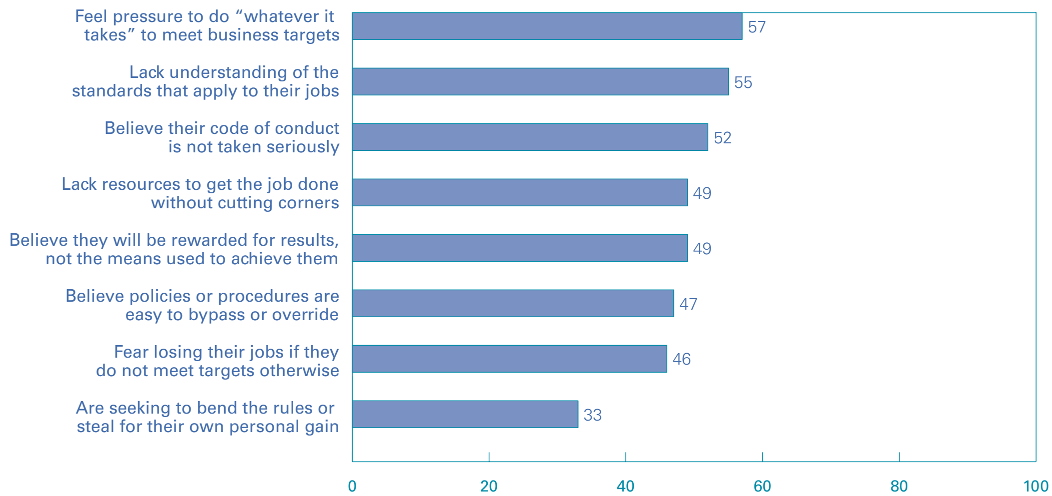
SELECT OBSERVATIONS BY EMPLOYEES IN GOVERNMENT AND REGULATORY AFFAIRS FUNCTIONS	
Making false or misleading claims to the public or media	41%
Providing inappropriate information to analysts or investors	28%
Providing regulators with false or misleading information	25%
Making improper political contributions to domestic officials	18%
Making improper payments or bribes to foreign officials	11%
Doing business with third parties that may be involved in money laundering	10%

SELECT OBSERVATIONS BY EMPLOYEES IN GENERAL MANAGEMENT AND ADMINISTRATION FUNCTIONS	
Wasting, mismanaging, or abusing the organization's resources	47%
Engaging in activities that pose a conflict of interest	23%
Mishandling confidential or proprietary information	21%
Stealing or misappropriating assets	19%
Falsifying or manipulating financial reporting information	9%

PREVENTING MISCONDUCT

Efforts to prevent misconduct should take into account the conditions that give rise to it in the first place. Therefore, in addition to wanting to understand the prevalence and nature of misconduct in the workplace, we also wanted to understand its root causes. We asked employees what factors might cause employees and managers to engage in misconduct. The most commonly cited were pressure to meet targets, lack of familiarity with relevant standards, and cynicism toward espoused codes of conduct. Similarly high numbers of respondents cited inadequate resources, systems that rewarded results over means, and fear of job loss if targets are not met. A somewhat lower number of respondents cited individual personal gain as a motivating factor for misconduct.

Root Causes of Misconduct



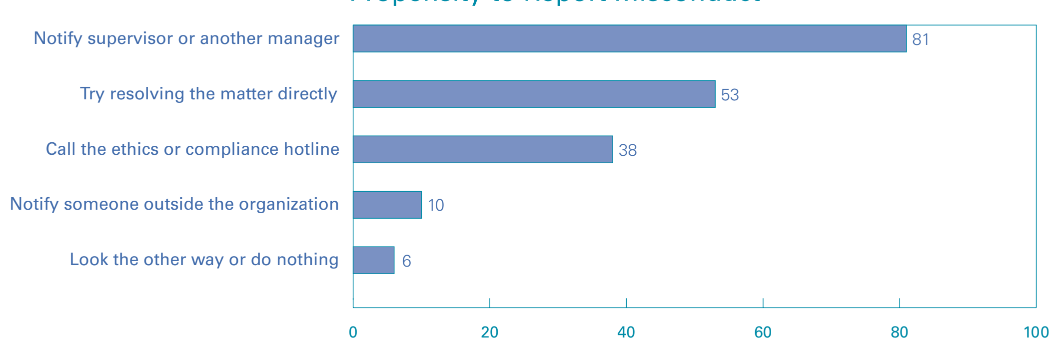
DETECTING MISCONDUCT

The ability to detect misconduct can be undermined if employees do not feel comfortable reporting concerns to management. Therefore, we wanted to understand employees' comfort level with various upward channels of communication.

Propensity to Report Misconduct

We asked employees what they would do if they observed a violation of their organization's standards of conduct. More than three quarters indicated they would notify their supervisor or another manager, roughly half would try to resolve the matter directly, and just over one third would call the ethics or compliance hotline. Of the remaining options, more respondents reported that they would be more inclined to notify someone outside the organization than do nothing.

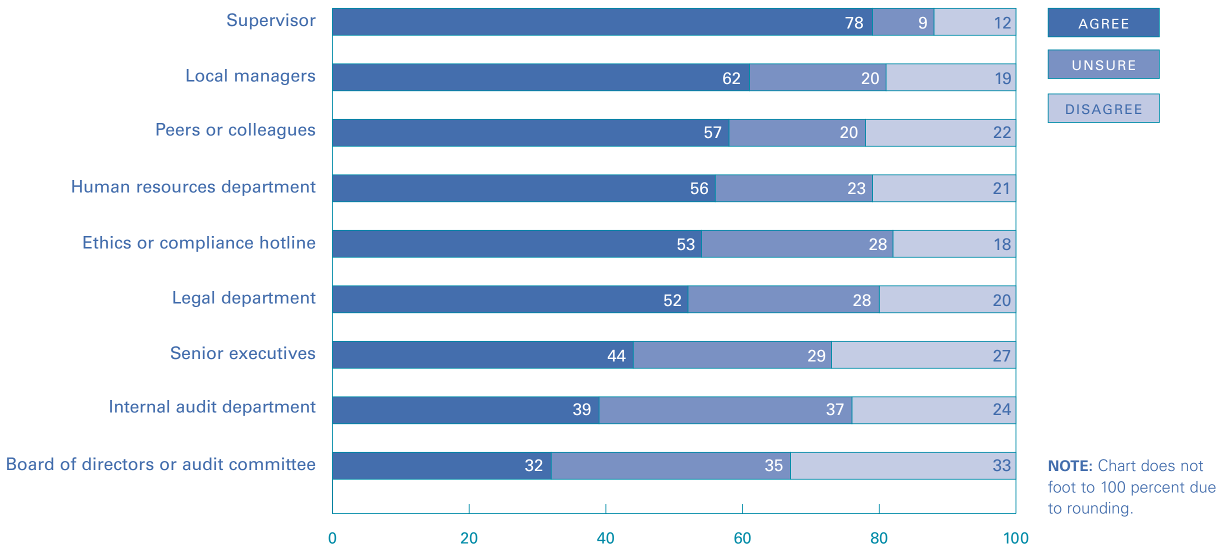
Propensity to Report Misconduct



Channels for Reporting Misconduct

We asked employees to whom they would “feel comfortable” reporting misconduct if they suspected or became aware of it. Supervisors and local managers received the most favorable response, suggesting the need for organizations to ensure that front-line managers are equipped to respond appropriately to allegations. It is worth noting that those functions that are primarily charged with taking action in response to alleged misconduct (legal, internal audit, and board or audit committee functions) were cited among the less likely channels employees would feel comfortable using to report allegations.

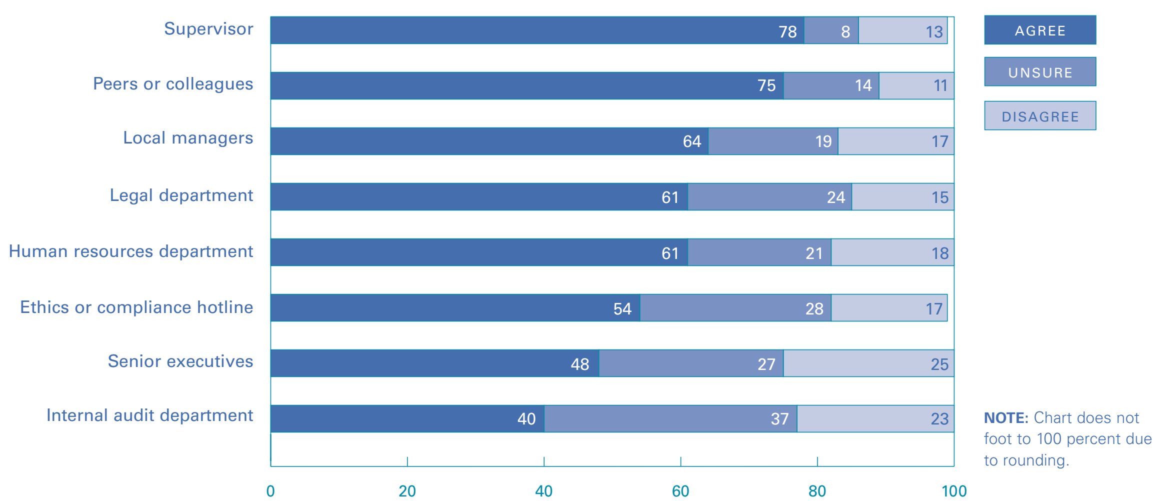
Channels Employees “Feel Comfortable” Using to Report Misconduct



Channels for Seeking Advice and Counsel

Similarly, we asked employees from whom they would “feel comfortable” seeking advice if they had a question about “doing the right thing.” Confidence levels in particular channels were generally on a par with those for reporting misconduct, with notable rises for employee peers and the legal function as desirable channels for seeking advice.

Channels Employees “Feel Comfortable” Using for Advice and Counsel

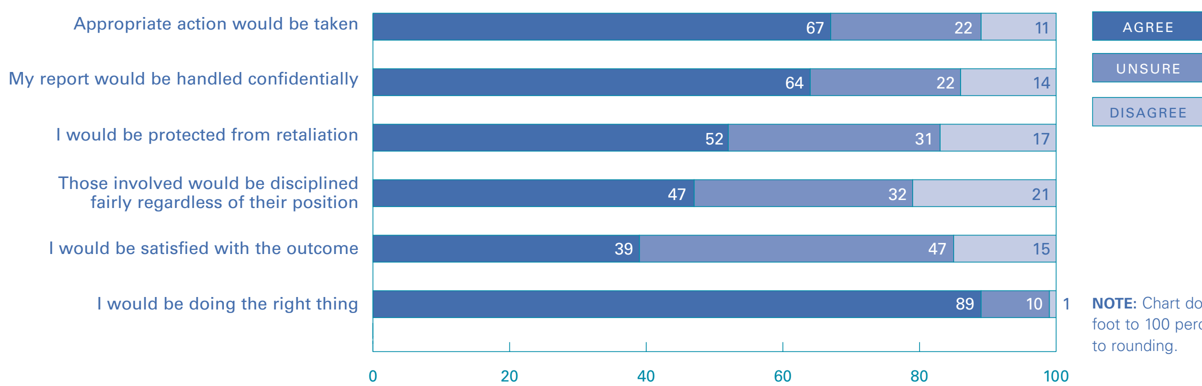


RESPONDING TO MISCONDUCT

Because the willingness of employees to come forward with concerns is often linked to their perception of the outcome, we wanted to gauge employee confidence in how their organizations would respond to alleged misconduct.

We asked employees what they believed would happen if they reported a violation of their organizations' standards to management. Roughly one third of employees suggested a lack of confidence that appropriate action would be taken (based on "unsure" and "disagree" responses) or that their concerns would be treated confidentially. Roughly half of the employees suggested a lack of confidence that they would be protected from retaliation or that discipline would be administered evenly and fairly. Nearly two thirds of employees suggested a lack of confidence that they would be satisfied with the outcome. Despite these obstacles, nearly 90 percent of employees still felt that they would be doing the right thing.

Perceived Outcomes of Reporting Misconduct



NOTE: Chart does not foot to 100 percent due to rounding.

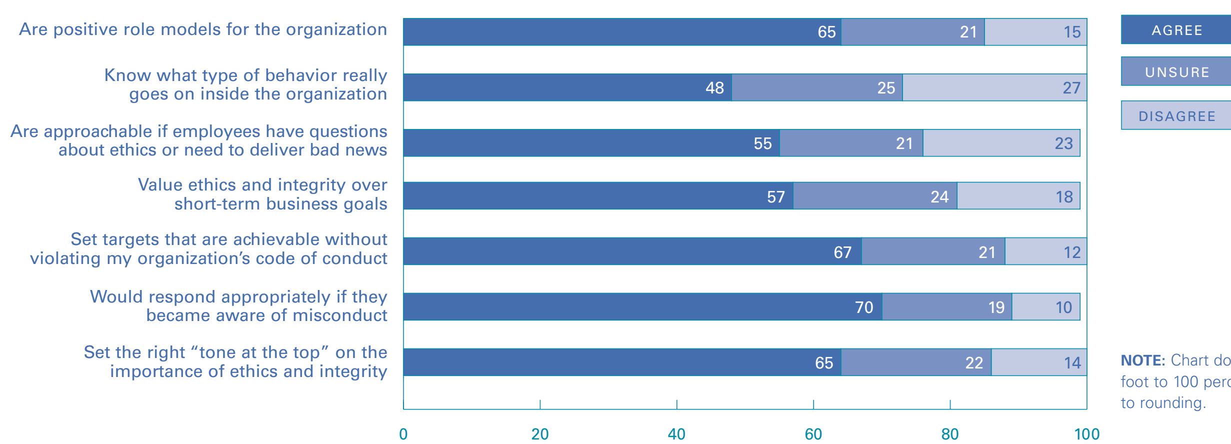
PERCEIVED TONE AND CULTURE

Tone at the Top

The "tone at the top" is often cited as a determining factor in creating a high-integrity organization. Therefore, we wanted to understand what employees thought about the characteristics of their leaders and their perceptions of the tone at the top within their own organizations.

We asked employees whether their chief executive officer (CEO) and other senior executives exhibited characteristics attributable to personal integrity and ethical leadership. Nearly two thirds of employees believed that their leaders served as positive role models for their organizations. However, roughly half suggested a lack of confidence (based on "unsure" and "disagree" responses) that their CEOs knew about behaviors further down in the organization. While nearly half suggested a lack of confidence that their leaders would be approachable if employees had ethics concerns, 70 percent agreed that their CEOs would respond appropriately to matters brought to their attention. Overall, nearly two thirds of employees agreed their leaders set the right tone at the top, leaving one third unsure or in disagreement.

Perceptions of the CEO and Other Senior Executives

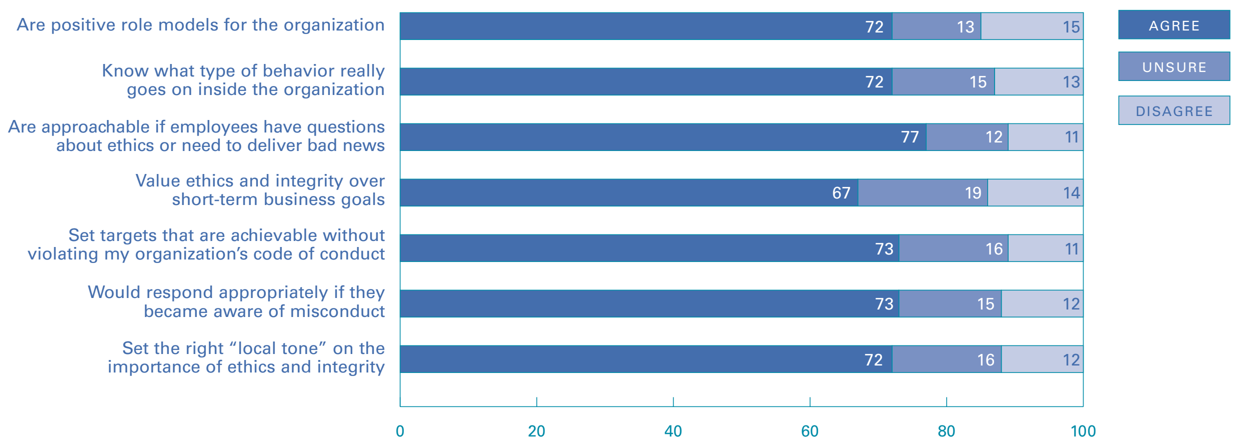


NOTE: Chart does not foot to 100 percent due to rounding.

Local Tone

Recognizing that the tone at the top in larger organizations may be too far removed to reach "the trenches," we also wanted to gauge employee perceptions about the tone set by their local managers and supervisors. Here, local managers and supervisors scored more favorable results across each indicator than did the top leaders.

Perceptions of Local Managers and Supervisors

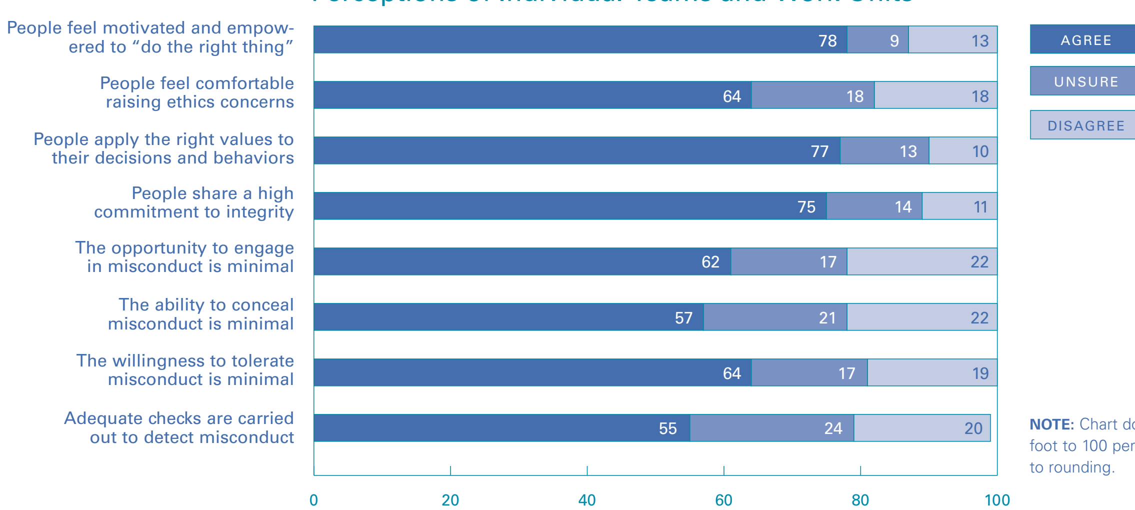


Team Culture and Environment

We reasoned that after the CEO's annual speech was over, or after the local manager adjourned the monthly meeting, employees were likely to take their day-to-day cues from the business culture and team environment that immediately surrounded them.

Therefore, we asked employees nationally about characteristics of their individual departments and work units. Results were generally favorable across indicators—especially employees feeling "motivated and empowered to do the right thing," applying "the right values to decisions and behaviors," and sharing "a high commitment to integrity." However, employee confidence levels dropped in relation to the ability to prevent and detect misconduct.

Perceptions of Individual Teams and Work Units



NOTE: Chart does not foot to 100 percent due to rounding.

Comparison of 2000 and 2005 Data

Prevalence of Misconduct

The prevalence and seriousness of misconduct have remained consistent between 2000 and 2005.

PERCENTAGE OF EMPLOYEES NATIONALLY	2000	2005
Observed misconduct in the prior 12-month period	76%	74%
Believed observations could cause "a significant loss of public trust if discovered"	49%	50%

Root Causes of Misconduct

We found decreases in such categories as pressure to engage in misconduct, cynicism toward codes of conduct, and inadequate resources to meet objectives without cutting corners. On the other hand, we found an increase in employee confusion regarding standards of acceptable business practice and perceived desire to bend the rules or steal for personal gain.

The precise wording of this series of questions was modified between 2000 and 2005. The data shown for 2000 corresponds to a similar, but different, phrasing of questions than the ones posed in 2005 (shown in this table). Therefore, the comparison of data on this question between 2000 and 2005 may be viewed as thematic, but not statistically valid.

PERCENTAGE OF EMPLOYEES NATIONALLY	2000	2005
Feel pressure to do "whatever it takes" to meet business objectives	65%	57%
Lack understanding of the standards that apply to their jobs	50%	55%
Believe their code of conduct is not taken seriously	73%	52%
Lack resources to get the job done without cutting corners	70%	49%
Believe they will be rewarded for results, not the means used to achieve them	56%	49%
Believe policies or procedures are easy to bypass or override	No Data	47%
Fear losing their jobs if they do not meet targets otherwise	No Data	46%
Are seeking to bend the rules or steal for their own personal gain	22%	33%

Propensity to Report Misconduct

We also found gains between 2000 and 2005 in the propensity of employees to report misconduct, as evidenced in the table below.

The response scale for this question was modified between 2000 and 2005. The data shown for 2000 corresponds to a frequency scale (e.g., often, sometimes, never), whereas the data shown for 2005 corresponds to an agreement scale (e.g., agree or disagree). Therefore, the comparison of data on this question between 2000 and 2005 may be viewed as thematic, but not statistically valid.

PERCENTAGE OF EMPLOYEES NATIONALLY	2000	2005
Notify supervisor or another manager	63%	81%
Try resolving the matter directly	40%	53%
Call the ethics or compliance hotline	21%	38%
Notify someone outside the organization	4%	10%
Look the other way or do nothing	5%	6%

Channels for Reporting Misconduct

Employee comfort levels in reporting misconduct through a hotline rose between 2000 and 2005.

PERCENTAGE OF EMPLOYEES NATIONALLY	2000	2005
Supervisor	77%	78%
Local managers	No Data	62%
Peers or colleagues	No Data	57%
Human resources department	56%	56%
Ethics or compliance hotline	40%	53%
Senior executives	43%	44%
Legal department	40%	52%
Internal audit department	No Data	39%
Board of directors or audit committee	No Data	32%

Perceived Outcomes of Reporting Misconduct to Management

In all criteria where we have comparative data, employees expressed greater confidence in the outcomes of reporting misconduct to management than they had in 2000.

PERCENTAGE OF EMPLOYEES NATIONALLY	2000	2005
Appropriate action would be taken	61%	67%
My report would be handled confidentially	59%	64%
I would be protected from retaliation	47%	52%
Those involved would be disciplined fairly regardless of their position	39%	47%
I would be satisfied with the outcome	No Data	39%
I would be doing the right thing	85%	89%

Perceptions of the CEO and Other Senior Executives

Overall, employees had more positive perceptions of CEOs and other senior executives.

PERCENTAGE OF EMPLOYEES NATIONALLY	2000	2005
Are positive role models for the organization	60%	65%
Know what type of behavior really goes on inside the organization	43%	48%
Are approachable if employees have questions about ethics or need to deliver bad news	45%	55%
Value ethics and integrity over short-term business goals	No Data	57%
Set targets that are achievable without violating my organization's standards of conduct*	58%	67%
Would respond appropriately if they became aware of misconduct	64%	70%
Set the right "tone at the top" on the importance of ethics and integrity	No Data	65%

* The precise wording of this question was modified between 2000 and 2005. The data shown for 2000 corresponds to a similar, but different, question than the one posed in 2005 (shown in table). Therefore, the comparison of data on this question between 2000 and 2005 may be viewed as thematic, but not statistically valid.

Impact of Ethics and Compliance Programs

PROGRAM ELEMENTS

Ethics and compliance programs have become increasingly commonplace within organizations. These are also referred to as "antifraud programs" in auditing standards and literature, and were largely reinforced by Sarbanes-Oxley Act legislation. We wanted to gauge whether specific program elements were recognizable to employees, and to understand whether the presence of such program elements had any impact on the indicators measured in the survey.

We asked employees whether their organizations had the specific ethics and compliance program elements shown in the table below.

PRESENCE OF PROGRAM ELEMENTS

	FORMALLY	INFORMALLY	UNSURE	NOT AT ALL
Has a code of conduct that articulates the values and standards of the organization	77%	10%	10%	3%
Has a senior-level ethics or compliance officer	51%	7%	32%	10%
Performs background investigations on prospective employees	60%	10%	23%	7%
Provides communication and training to employees on its code of conduct	69%	17%	8%	5%
Has a confidential and anonymous hotline that employees can use to report misconduct or seek advice	48%	6%	24%	22%
Audits and monitors employee compliance with its code of conduct	44%	23%	24%	10%
Has policies to hold employees and managers accountable for code of conduct violations	65%	12%	17%	7%
Provides incentives for employees to uphold the code of conduct	23%	13%	28%	37%
Has policies to investigate and take corrective action if misconduct is alleged	65%	11%	18%	6%

NOTE: Chart does not foot to 100 percent due to rounding.

CORRELATION

Employees who indicated that their organizations had only "informal" program elements were not included in our correlation analysis, which means the results presented in this section reflect a subset of the total population reflected in the previous section of this report.

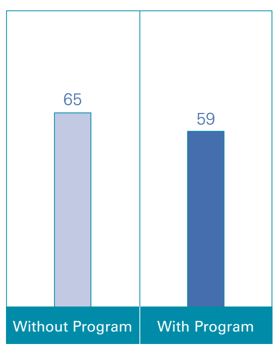
Next, we wanted to correlate the presence of ethics and compliance program elements to the behaviors and perceptions measured elsewhere in the survey. To do so, we divided respondents into two groups—the first group representing employees who classified themselves as working in organizations with a comprehensive ethics and compliance program, the second group representing employees who did not classify themselves this way. For shorthand, we refer to these groups as "with program" and "without program" in the analysis that follows.

The "with program" group described above represents employees who indicated that their organizations had "formally" implemented all program elements included in the table on the previous page (n = 444). The "without program" group represents those employees who answered "unsure" or "not at all" when asked whether their organizations had implemented all program elements shown in the table (n = 173).

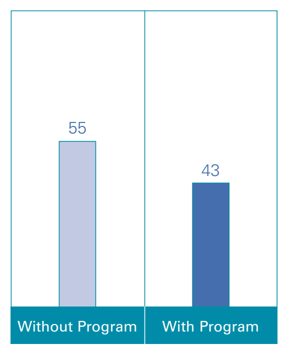
PREVALENCE OF MISCONDUCT

Ethics and compliance programs have a favorable impact on reducing the prevalence of misconduct in organizations.

Observed Misconduct (All) in the Prior 12 Months



Observed Violations of Organizational Values and Principles in the Prior 12 Months

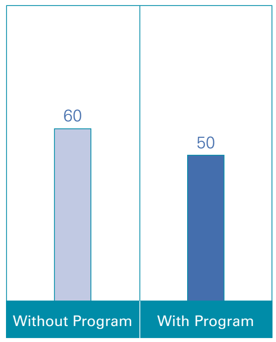


PREVENTING MISCONDUCT

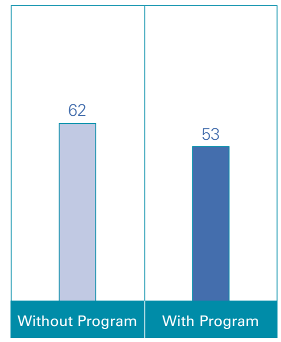
Root Causes of Misconduct

Ethics and compliance programs have a favorable impact on mitigating the conditions that give rise to misconduct.

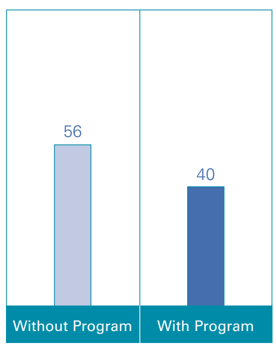
Feel Pressure to Do
Whatever It Takes to Meet Targets



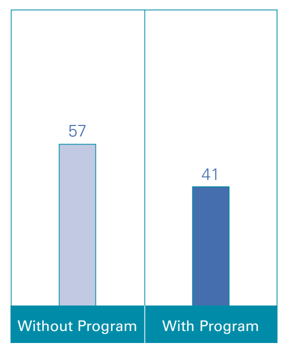
Lack Understanding of
Standards That Apply to Their Jobs



Believe Policies and Procedures
Are Easy to Bypass or Override



Believe Rewards Are Based on Results,
Not the Means Used to Achieve Them

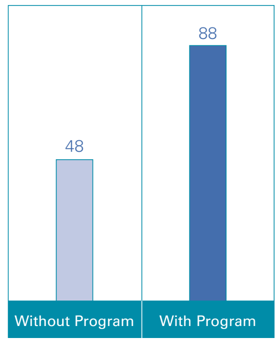


DETECTING MISCONDUCT

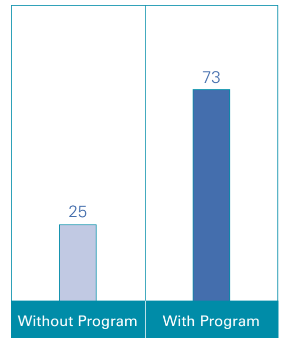
Channels for Reporting Misconduct

Ethics and compliance programs have a favorable impact on employee willingness to report misconduct.

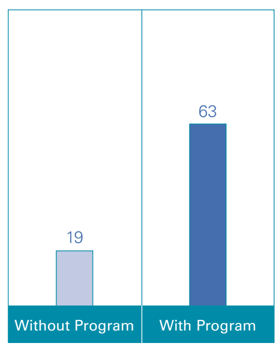
Would Feel Comfortable Reporting Misconduct to Supervisor



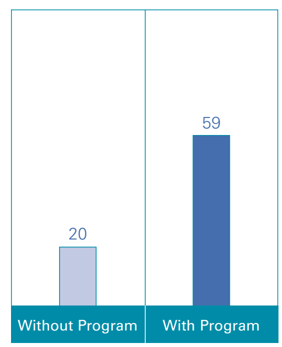
Would Feel Comfortable Reporting Misconduct to Legal Department



Would Feel Comfortable Reporting Misconduct to Internal Audit



Would Feel Comfortable Reporting Misconduct to Board of Directors



RESPONDING TO MISCONDUCT

Perceived Outcomes of Reporting Misconduct

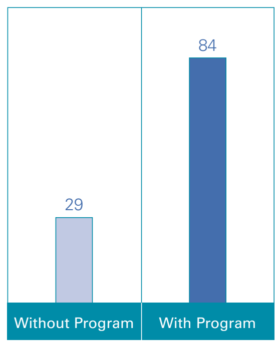
Ethics and compliance programs have a favorable impact on employee perceptions of the outcomes of reporting misconduct.

PERCEIVED TONE AND CULTURE

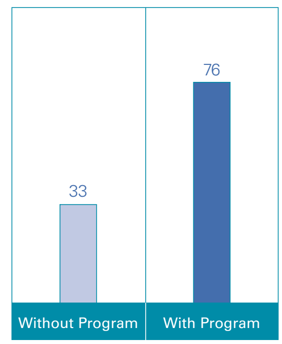
Tone at the Top

Ethics and compliance programs have a favorable impact on employee perceptions of the tone at the top.

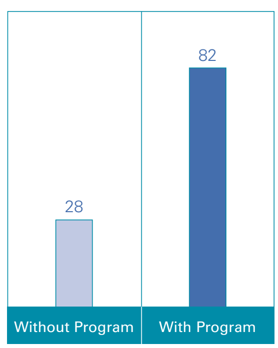
Believe CEO and Other Senior Execs Set the Right "Tone at the Top" on Ethics and Integrity



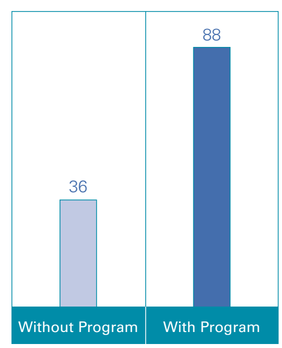
Believe CEO and Other Senior Execs Are Approachable if Employees Have Ethics Concerns



Believe CEO and Other Senior Execs Value Ethics and Integrity Over Short-Term Business Goals



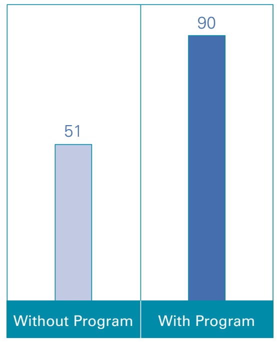
Believe CEO and Other Senior Execs Would Respond Appropriately if They Became Aware of Misconduct



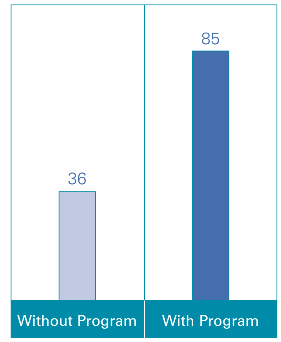
Team Culture and Environment

Ethics and compliance programs have a favorable impact on team culture and environment.

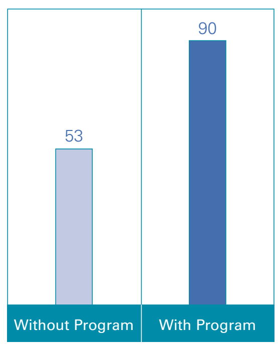
People Feel Motivated and Empowered to "Do the Right Thing"



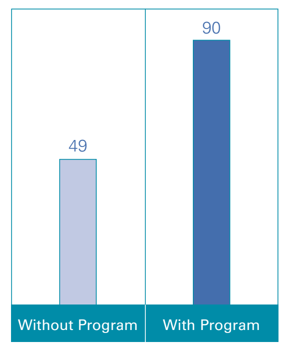
People Feel Comfortable Raising and Addressing Ethics Concerns



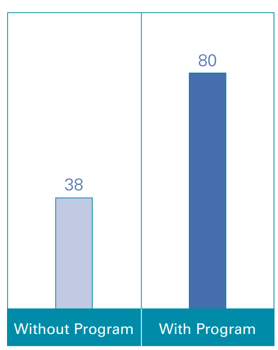
People Apply the Right Values to Their Decisions and Behaviors



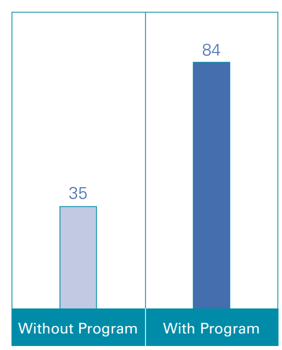
People Share a High Commitment to Integrity



The Opportunity to Engage in Misconduct Is Minimal



The Willingness to Tolerate Misconduct Is Minimal



Meeting the Regulatory Challenge

The government has responded to widespread cases of corporate fraud and misconduct through an array of reforms aimed at encouraging companies to be more self-governing. The importance of establishing an effective ethics and compliance program can increasingly be seen as a common denominator across legislative and judicial policies—and a cornerstone of corporate fraud risk management.

SARBANES-OXLEY ACT OF 2002 (SECTION 404)

Section 404 of the Sarbanes-Oxley Act requires companies and their auditors to evaluate the effectiveness of their internal control over financial reporting based on a suitable control framework. Most companies in the United States are applying the integrated internal control framework developed by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission for this purpose. Generally speaking, COSO addresses ethics and compliance program elements in company-level components that have a pervasive influence on organizational behavior, such as the control environment.

Examples of company-level control considerations include:

- Establishment of the tone at the top by the board and management
- Existence of codes of conduct and other policies regarding acceptable business practices
- Extent to which employees are made aware of management's expectations
- Pressure to meet unrealistic or short-term performance targets
- Management's attitude toward overriding established controls
- Extent to which adherence to the code of conduct is a criterion in performance appraisals
- Extent to which management monitors whether internal control systems are working
- Establishment of channels for people to report suspected improprieties
- Appropriateness of remedial action taken in response to violations of the code of conduct

CORPORATE GOVERNANCE LISTING STANDARDS

In response to provisions of the Sarbanes-Oxley Act, both the New York Stock Exchange (NYSE) and the National Association of Securities Dealers Automated Quotation (NASDAQ) system adopted new corporate governance rules for listed companies. While the specific rules for each exchange differ, each exchange includes standards that require listed companies to adopt and disclose codes of conduct for directors, officers, and employees and disclose any code of conduct waivers for directors or executive officers. In addition, the rules of each exchange require listed companies to adopt mechanisms to enforce their codes of conduct.

U.S. SENTENCING GUIDELINES CRITERIA

The federal sentencing guidelines for organizational defendants establish minimum compliance and ethics program requirements for organizations seeking to mitigate penalties for corporate misconduct. Amended on November 1, 2004, these guidelines now make more explicit the expectation that organizations promote a culture of ethical conduct, tailor each program element based on compliance risk, and periodically evaluate program effectiveness.

Specifically, the amended guidelines call on organizations to:

- Promote a culture that encourages ethical conduct and a commitment to compliance with the law
- Establish standards and procedures to prevent and detect criminal conduct
- Ensure the board of directors and senior executives are knowledgeable and exercise reasonable oversight of the compliance and ethics program
- Assign a high-level individual within the organization to ensure the organization has an effective compliance and ethics program, and delegate day-to-day operational responsibility to individuals with adequate resources, authority, and direct access to the board
- Use reasonable efforts and exercise due diligence to exclude individuals from positions of substantial authority who have engaged in illegal activities or other conduct inconsistent with an effective compliance and ethics program
- Conduct effective training programs for directors, officers, employees, and other agents and provide such individuals with periodic information appropriate to their respective roles and responsibilities relative to the compliance and ethics program
- Ensure that the compliance and ethics program is followed, including monitoring and auditing to detect criminal conduct
- Publicize a system, which may include mechanisms for anonymity and confidentiality, whereby the organization's employees and agents may report or seek guidance regarding potential or actual misconduct without fear of retaliation
- Evaluate periodically the effectiveness of the compliance and ethics program
- Promote and enforce consistently the compliance and ethics program through incentives and disciplinary measures
- Take reasonable steps to respond appropriately to misconduct, including making necessary modifications to the compliance and ethics program.

DEPARTMENT OF JUSTICE PROSECUTION POLICY

The Department of Justice also has amended guidance related to the federal prosecution of business organizations in cases involving corporate wrongdoing. While the guidance states that a compliance program does not absolve a corporation from criminal liability, it does provide factors that prosecutors should consider in determining whether to charge an organization or only its employees and agents with a crime.

These factors include evaluating whether:

- The compliance program is merely a "paper program" or has been designed and implemented in an effective manner
- Corporate management is enforcing the program or tacitly encouraging or pressuring employees to engage in misconduct to achieve business objectives
- The corporation has provided for a staff sufficient to audit and evaluate the results of the corporation's compliance efforts
- The corporation's employees are informed about the compliance program and are convinced of the corporation's commitment to it.

DIRECTOR AND OFFICER LIABILITY

An influential Delaware court broke ground in 1996 with its *In re Caremark Int'l Inc. Derivative Litigation* decision. The *Caremark* case was a derivative shareholder action brought against the board of directors of Caremark International alleging directors breached their fiduciary duties by failing to monitor effectively the conduct of company employees who violated various state and federal laws—which led to the company pleading guilty to criminal charges and paying substantial criminal and civil fines.

The court held that boards of directors that exercise reasonable oversight of a compliance program may be eligible for protection from personal liability in shareholder civil suits resulting from employee misconduct. The *Caremark* case pointed out that the compliance program should provide "timely, accurate information sufficient to allow management and the board, each within its scope, to reach informed judgments concerning both the corporation's compliance with laws and its business performance." It also made clear that a director's fiduciary duty goes beyond ensuring that a compliance program exists, but that "[t]he director's obligation [also] includes a duty to attempt in good faith to assure that [the compliance program] is adequate…"

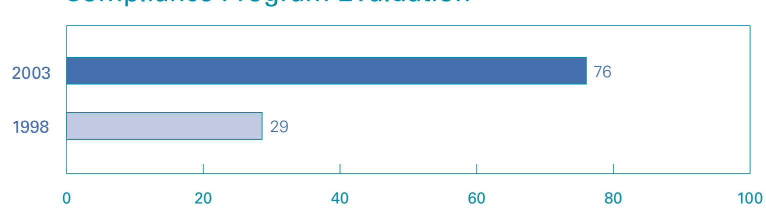
THE CORPORATE RESPONSE

In 2003, KPMG commissioned a Fraud Survey of executives from 459 public companies and government organizations. At the time, respondents reported a rise in the level of fraud experienced by their organizations along with the adoption of new antifraud initiatives in the wake of Sarbanes-Oxley legislation as highlighted below.

ANTIFRAUD INITIATIVES UNDERTAKEN (2003 DATA)	
Reviewed or strengthened internal controls	75%
Instituted periodic compliance audits	44%
Created an employee hotline	42%
Appointed compliance personnel	41%
Established a code of conduct for all employees	40%
Conducted background checks for hires with budgetary responsibility	38%
Instituted fraud awareness training	28%
Tied employee evaluation to ethics or compliance objectives	24%
Other policies	19%

The evaluation of ethics and compliance programs was also on the rise substantially in 2003 compared with 1998.

Compliance Program Evaluation



Background and Methodology

As in 2000, KPMG LLP set out to understand the prevalence and nature of corporate fraud and misconduct in the United States, along with the effectiveness of management efforts to prevent, detect, and respond appropriately to wrongdoing. To do so, we conducted a national blind survey of prescreened working adults who fell into demographic categories spanning all levels of job responsibility, 16 job functions, 11 industry sectors, and 4 thresholds of organizational size.

The overall methodology and tools for the survey were developed by KPMG professionals with substantial subject matter knowledge and experience relevant to conducting a study of this nature. KPMG retained Walker Information, an independent survey research firm, to validate the manner in which questions were posed in the questionnaire, develop statistically valid sample sizes across demographic categories established by KPMG, tabulate survey responses, and test the statistical validity of the survey's findings. Walker Information, in turn, retained National Family Opinion (NFO), one of the world's largest panel database firms, to administer the survey to prescreened members of its panel who met certain demographic criteria based on industry sector and organizational size. Individual respondents to the survey received nominal payment or consideration from NFO for their participation. Neither Walker Information nor KPMG were identified to the participants as being associated with the survey. Similarly, the names of the participants were not provided to Walker Information or KPMG. The parties, methodologies, and processes described were the same for studies conducted in 2000 and 2005.

OVERALL SAMPLE	
Questionnaires received (total sample size)	4,056
Questionnaires sent	6,797
Response rate	60%
Confidence level	95%
Precision level (margin of error)	+/– 2%

Between November 2004 and March 2005, National Family Opinion mailed a total of 6,797 questionnaires, which included approximately 155 close-ended questions, to prequalified participants. A total of 4,056 valid questionnaires were returned for a response rate of 60 percent.

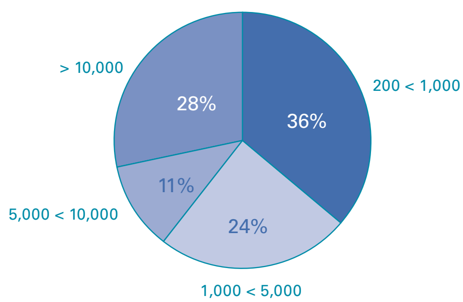
RESPONDENT DEMOGRAPHICS

RESPONDENTS' INDUSTRY CLASSIFICATION			
Banking and Finance	10%	Healthcare	14%
Communications and Media	8%	Pharmaceutical	8%
Electronics, Software, and Services	5%	Insurance / HMO	9%
Energy and Chemicals	5%	Public Sector	13%
Consumer Markets	10%	Real Estate	2%
Global Manufacturing	12%	Industry Not Indicated	5%

NOTE: Chart does not foot to 100 percent due to rounding.

Respondents' Organizational Size

Total Number of Employees



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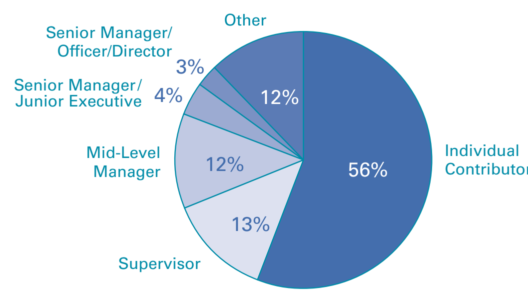
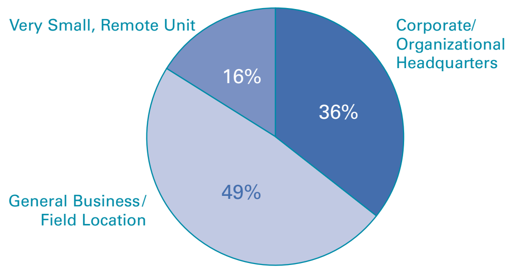
Respondents' Level of Responsibility



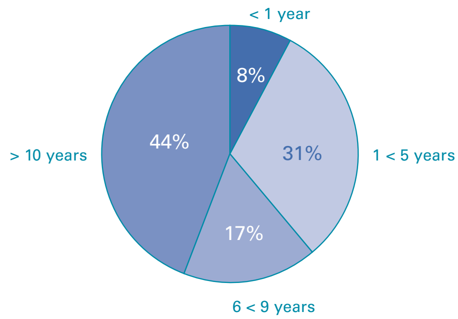
RESPONDENTS' JOB FUNCTION			
Sales / Marketing	12%	Clerical / Support	10%
Operations / Service	14%	General Management / Administration	8%
Manufacturing / Production	8%	Finance / Accounting	5%
Research / Development / Engineering	7%	Legal / Compliance	1%
Purchasing / Procurement	1%	Internal Audit / Risk Management	1%
Technology	7%	Public / Media Relations	1%
Training / Education	4%	Government / Regulatory Affairs	4%
Quality / Safety / Environmental	2%	Other	15%

Respondents' Work Location

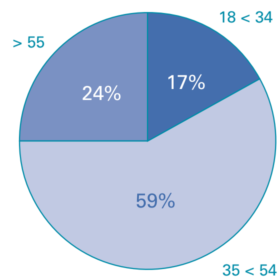


NOTE: Chart does not foot to 100 percent due to rounding.

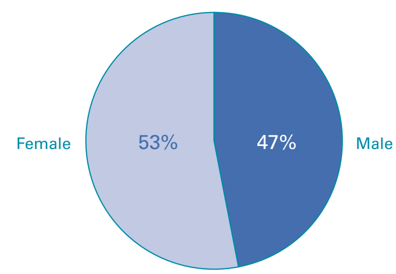
Respondents' Job Tenure



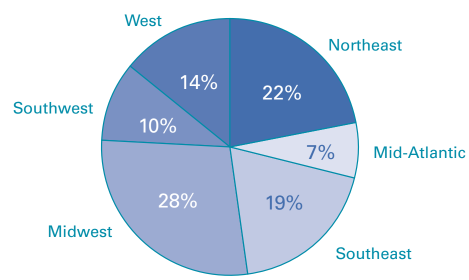
Respondents' Age



Respondents' Gender



Respondents' Geography (U.S.)



FREQUENTLY ASKED QUESTIONS

How can I determine if employees from a particular company were among the participants in the survey?

This was a blind survey. KPMG was not identified to the participants as being associated with the survey, and neither the names of participants nor the names of their employers were provided to KPMG.

How were participants for the survey selected?

A panel database firm was retained to identify participants who (1) were U.S. working adults, (2) worked for organizations that employed at least 200 people, and (3) worked for organizations in one of 11 broad industry sectors identified by KPMG.

Would it be correct to say that the results of this survey are reflective of the overall U.S. population?

No, this survey was not designed to mirror the demographics of the U.S. workforce. For example, employees in our sample population work for organizations that employ at least 200 individuals (33 percent of respondents reported that they work for organizations with more than 5,000 employees). On average, most employees in the United States work for organizations that employ fewer people.

Does KPMG make its questionnaire and other detailed data publicly available?

Not typically. All questions and data associated with this survey are proprietary to KPMG. While it is our practice to share high-level results of our survey publicly, additional questions and benchmark data are typically shared only with KPMG clients who have specifically contracted for their use. We do occasionally share information with certain institutions for authorized academic research purposes.

For more information, please call the Forensic Hotline at 1-877-679-KPMG (5764) or visit our Web site at www.us.kpmg.com under Audit & Risk Advisory Services.

About KPMG Forensic

KPMG Forensic℠ is a global practice comprising multidisciplinary professionals from KPMG member firms who can assist clients in their efforts to achieve the highest levels of business integrity through the prevention, detection, and investigation of fraud and misconduct. This practice not only helps clients discover the facts underlying concerns about fraud and misconduct but also assists clients in assessing their vulnerabilities to such activities, and in developing controls and programs to address these risks.

KPMG Forensic uses computer forensic and data analysis techniques to help clients detect fraudulent activity and other forms of misconduct. In addition, KPMG LLP, the U.S. member firm, operates the Cypress Technology Center (CTEC), which offers sophisticated technology tools and skilled professionals to help clients reduce litigation costs and risks in the areas of evidence and discovery management and the acquisition, management, and analysis of large data sets.

Professionals in the KPMG Forensic practice draw on extensive experience in forensic accounting, law and regulatory enforcement, fraud and misconduct risk assessment, antifraud risk controls, program design and implementation, asset tracing, computer forensics, and forensic data analysis.

With professionals from the Americas, Asia Pacific, and Europe to the Middle East and Africa, KPMG Forensic is well positioned to provide a high level of consistent service to global clients. It can readily assemble multinational teams comprising members who have shared methodologies, demonstrated technical skills, and deep industry knowledge.

Service offerings are subject to legal and regulatory restrictions. Some services may not be available to KPMG's financial statement audit or other attest service clients.

ACKNOWLEDGEMENTS

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