

# Ethics and Governance in Government: Evaluating and Assessing Compliance and Maturity



# Speaker Profiles



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### Partner, Risk Advisory Services

More than 25 years of experience in public accounting, focused on issues of governance, strategic planning, risk management, internal control, fraud prevention and technology



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### Senior Manager, Risk Advisory Services

Ten years of experience performing risk assessments and internal audits, particularly within the government and in nonprofit health care

# Topics

- Understanding Compliance Requirements for Ethics and Governance
- Evaluating Compliance and Assess Governance using a Maturity Model



# WHAT IS ETHICS



*Ethics is the body of moral principles or values governing or distinctive of a particular culture or group. Ethics requires **intentional action** and planning by management to **develop, communicate, execute, enforce** ethical expectations.*

# Ethics Criteria

- Local Government Code Chapters 171 and 176
  - Counties
  - Municipalities
  - School Districts
  - Junior Colleges
  - Water Districts
- Texas Government Code Chapter 161
  - County Ethics Commissions
- Texas Government Code Chapter 572
  - Ethics standards for State agencies



# Ethics Policies

- Ethics define how we should behave
  - *The ethical posture of an organization is not equal to the personal ethics of its employees*
  - *To be effective, an organization's ethics must be regularly reinforced to be embedded in corporate culture*
- Ethics establish the foundations for an organization's governance structures

**Many organizations have a Code of Conduct or Ethics Policy. BUT....  
Are they sufficiently designed to act as a benchmark and establish expectations for which employees may be held accountable?**

# Ethics Policies

## A thorough Ethics Policy should include

- » Confidentiality
- » Conflicts of Interest
- » Gifts and Entertainment
- » Policy Compliance and Violations
- » Bribery
- » Political Contributions and Activities
- » Proper Use of Assets
- » Non-Discrimination and Fair Employment
- » Expectations of Managers
- » Competition
- » Records Retention

- ▶ Policies should be clear and precise so that the intent and expectations are not misunderstood.
- ▶ Employees should be trained on the meaning of the policies, rather than left to independently read and interpret them individually.

# Ethics Policies

What if people do not do the right thing?  
Policies will eventually be violated.



- There should be a culture of compliance
- Accountability and enforcement actions should inform employees and clarify expectations
- Employees hold each other accountable for doing the right thing and feel safe reporting violations and concerns



# WHAT IS GOVERNANCE



*Governance is a combination of processes and structures implemented by Board or Executive Management to **inform**, **direct**, **manage**, and **monitor** activities of the organization towards the achieving their **strategic goals**.*

# Perspectives

**Governance is focused on providing direction and oversight to the organizations and their programs.**

- Guides the achievement of business' goals and objectives
- Structured governance provides:
  - **Foresight**: Strategy driven, processes and control optimization, operational auditing, industry expertise, data modeling
  - **Insight**: Business insight, leverage KPIs, benchmarks, control and process effectiveness
  - **Hindsight**: Monitor control and compliance, risk driven

**Ethics provide the overall tone and focus of Governance.**

# Governance Criteria

- Texas Government Code
- Texas Administrative Code
- Municipal Charters
- Organization Policies and Procedures
- COSO 2013
  - Internal Control Framework for the Governance Structure
- NACD
  - Industry best practices





# Elements of Governance



- Ethics Policy
  - Code of conduct
  - Conflicts of interest
  - Gifts and vendor relationships
- Ethics Communication Strategy
  - Tone at the top
  - Reinforcement in the middle
  - Regular and consistent



- Training
  - Content and meaning of policies
  - Includes examples of acceptable and unacceptable behavior
  - Employees and vendors
- Acknowledgements
  - Annual confirmation of understanding of policies and procedures
  - Across all levels of employees



- Reporting
  - Ethics hotline
  - Reward reporting issues
  - Timely follow-up
- Monitoring and Enforcement
  - Employee satisfaction surveys
  - 360° evaluations
  - Route reports to appropriate parties
  - Respond quickly to inappropriate actions





# Board Roles & Oversight

- Board Charter
  - Defined existence, purpose, and authority
- Bylaws
  - Board composition and qualifications
  - Officers
  - Committees
  - Changes to bylaws
- Board Policies
  - Accurate based on current operations
  - Communicated internally and externally

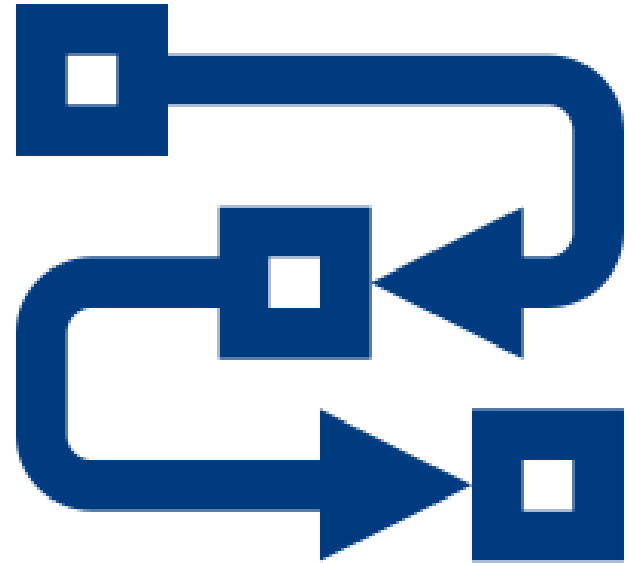


# Board Roles & Oversight

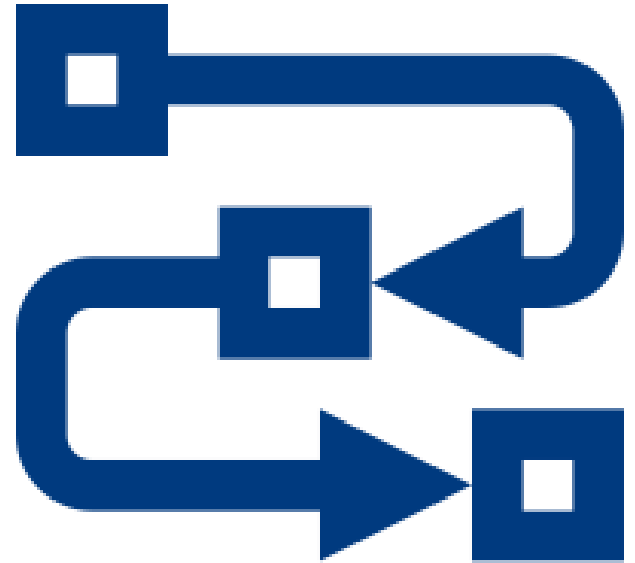
- Board Structure
  - Positions
  - Responsibilities
  - Terms
- Subcommittees
  - Documented charters
  - Clearly defined
    - Composition
    - Purpose
    - Responsibilities
  - Defined mission statement



- Mission Statement and Values
  - Purpose of organization
  - Defines strategy and broad-view plan of execution
  - Establish core values
- Strategic Plan and Direction
  - Vision to accomplish mission
  - Clear trajectory for organization
  - Annual budget and tracking
  - Short and long-term plans

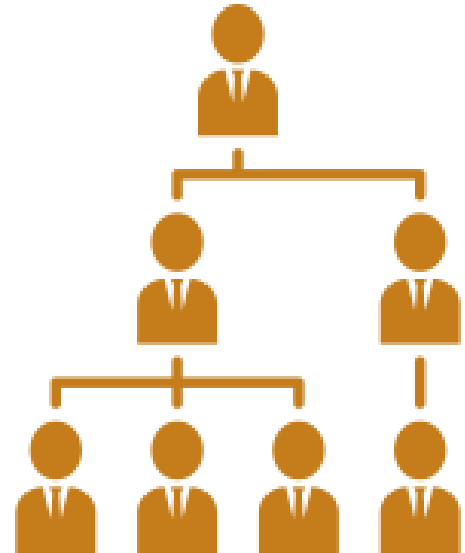


- Policies and Procedures
  - Support strategic plan
  - Accurate based on current operations
- Goals
  - Benchmarks for accomplishment of strategic plan
  - Measurable
- Performance Metrics
  - KPIs that monitor progress
  - Regularly available and reported



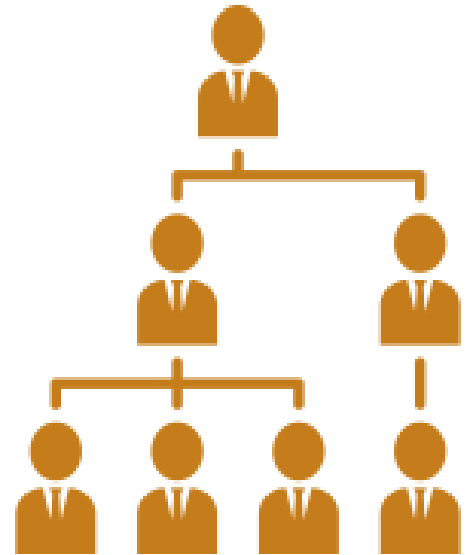
# Structure & Accountability

- Human Resources Policies and Procedures
  - Include compliance requirements
  - Align with statement of values and ethics
- Job Descriptions
  - Defines position within organization's structure
  - Include skills and competencies
- Performance Evaluations
  - Performance measures relate to job descriptions
  - Conducted at least annually
  - Timely employee feedback



# Structure & Accountability

- Compensation and Incentives
  - Clear compensation levels
  - Incentives align with strategic goals
- Training Plans
  - Continuous development across all levels
  - Monitor completion of approved plans
- Succession Plan
  - Defined succession plans or strategy for key personnel



- Board Communications
  - Regular, consistent frequencies
  - At least quarterly
  - Simple, clear presentation
- Board Reporting
  - Key financial and operational information
  - Updates on strategic initiatives



- Internal Reporting
  - Financial and operational information
  - Meaningful information
- Employee Communications/ Meetings
  - Dissemination of strategic initiatives
  - Organizational changes
  - Feedback from bottom up





# Communication & Reporting

- Real-time/Dashboard Reporting
  - Timely feedback of KPIs
  - Consider KRIs
  - Monitoring of goals and objectives
- Public Information
  - Accomplishments and achievements of organization for constituents
  - Timely communication of impactful information



- Risk Identification
  - Key risks and risk events
  - Event scenario planning
- Risk Assessment
  - Determine probability and impact of risks and events
  - Evaluate high-risk areas
  - Create emerging risk watch list



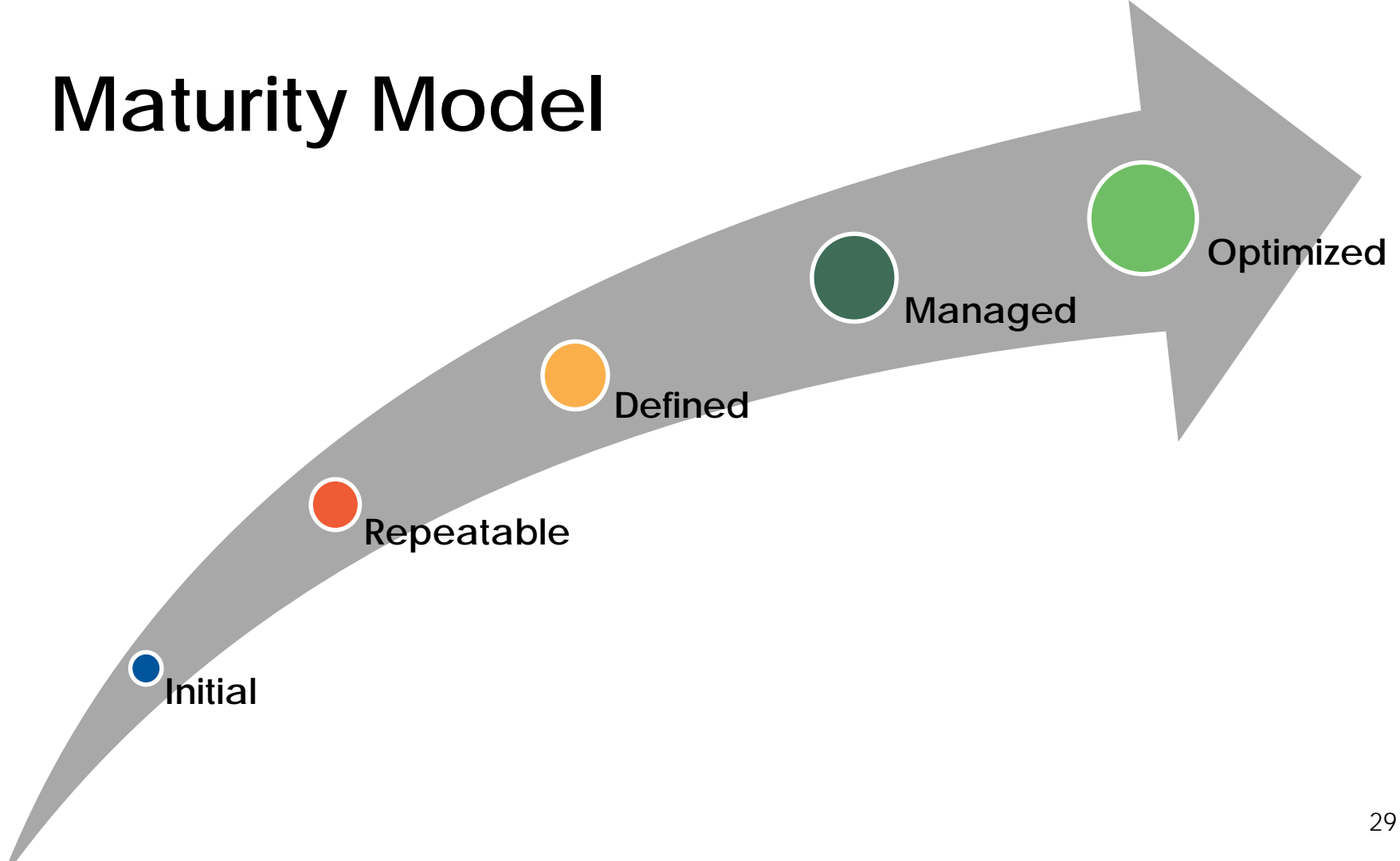
- Risk Management
  - Design plan to mitigate significant exposures
  - Determine where risk may be transferred or shared with other parties
- Monitoring and Compliance
  - Design monitoring plan
  - Identify if additional resources or expertise is required





# Evaluating Organizational Maturity

# Maturity Model



# Determining Maturity Target

Governance Maturity Model					
Attribute	Initial	Repeatable	Defined	Managed	Optimizing
<b>Ethics</b> Is there an ethics policy in place? How are ethical standards communicated throughout the entity? Are ethics requirements enforced and followed by employees? How is compliance monitored?	No defined ethics policy. Misconduct may be addressed without a defined and consistent criteria.	Ethical values are informally communicated by the management. No formal ethics policy is in place. Misconduct is addressed on an ad-hoc basis without a defined and consistent criteria.	Formal ethics program is in place for the entire organizations. Cases of employee misconduct are reported and addressed according to a defined criteria included in the formal ethics policy.	Ethics program is reviewed, revised and communicated throughout the entity on a defined schedule. Employees are required to acknowledge the program and any revisions. Ethics program violations are consistently addressed in accordance with the policy requirements. Ethics considerations are incorporated into processes.	Ethics program is updated on an annual basis. Violations are formally tracked and monitored. Information gathered through tracking and monitoring of violations is continuously analyzed and incorporated into the program updates. Ethical considerations are incorporated into programs throughout the organization. Recurring training and proactive monitoring is in place.
<b>Board Roles and Oversight</b> Are Board roles explicitly defined through committees and charters? How consistently and effectively does the Board provide oversight to the organization?	Board does not have defined committees, a charter or bylaws and objectives have not been defined for the organization	Board has defined committees and communicated objectives and requirements for the organization	Board and its committees have established charters that been developed to align with the organization's mission and objectives	Board and its committees are functioning at the defined state building the foundation for a strong risk governance culture	Board and committees are committed to continuously improving capabilities at managed stage
<b>Strategy, Policies and Procedures</b> Are the strategy, goals, objectives, policies, and procedures for supporting organization's mission clearly defined? What are the key performance measures to monitor achievement of the mission? Is the strategy communicated, documented, and aligned?	General understanding of strategic plan and vision. Policies and procedures are dependent on seasoned staff to carry out operations. No defined performance metrics for measuring achievement of mission and objectives	Informal policies and procedures exist and support strategic direction and key performance measures	Strategic plan has been developed, and key performance measures are defined. Policies and procedures are refined and documented	Strategic plan and goals are agreed upon and meaningful performance measures are in place. Policies and procedures are reviewed, revised, and communicated throughout the entity on a defined schedule. Performance metrics that align with the entity's mission are monitored	Strategic plan and goals are understood and redefined annually. Policies are continuously evaluated on an enterprise wide basis to achieve the desired risk/reward balance. Performance measures are regularly monitored and reported to management to monitor achievement of goals and objectives
<b>Structure and Accountability</b> How effective is the structure of the organization (Board and divisions) for managing programs, hiring, training and staff development, evaluating performance, and succession planning? Are roles and responsibilities defined with adequate staffing?	Limited accountability due to absence of clearly designated people charged with managing programs, evaluating performance, and overseeing specific risks	Responsibilities and authorities are defined for specific individuals and roles in addition to identifying staff development needs	Roles and responsibilities are clearly defined, robust management reports are utilized, key performance indicators are integrated into decision making processes, and career ladders are established	Formal lines-of-defense framework is implemented, risk measures are linked to performance goals, early warning systems are in place, capital allocation techniques are effectively deployed, and staffing levels are systematically determined	Organizational structure and delegation of authority is effective and improvement initiatives are established and are integrated with development and risk management plans
<b>Communication and Reporting</b> What are types of communication used by the organization for board reporting, internal reporting, staff meetings, dashboards and public information?	Informal communication and reporting guidelines exist	Basic reporting structure in place; including board reporting, retaining meeting minutes and agendas, and consistent updates to staff	Objectives and performance metrics are integrated into enterprise wide systems, providing dashboard reporting and performance management	Formal guidelines in place for consistent and timely communication to the board, internally to staff, and the public	Entity wide reporting needs are adequately serviced and the Board periodically evaluates performance management and communication effectiveness
<b>Assessment and Risk Management</b> What processes are in place to monitor the organization's progress for meeting stated objectives, performance metrics, risk management, and compliance?	Monitoring goals, objectives, and compliance is informal. Risk management is fragmented and ad hoc. Individual risks are managed in silos and the organization behaves reactively to events. There is no monitoring of performance metrics	Basic risk management policy structures and processes are in place, including performing an annual risk assessment; performance goals are informally established; performance metrics are informally monitored	Evidence of risk-sensitive and risk-aware decision making; control deficiencies drive improvement initiatives; risk measures are linked to performance goals	Improved quantification, time tested models, and data analytics assist decision makers with forecasting and scenario planning analysis to identify emerging risks and anticipate potential disruptive change. Performance metrics are regularly monitored	All elements of the risk management structure fully align with business environment changes; compliance and performance goals are continuously monitored and used to analyze risk trends associated with goals and objectives

# Determining Maturity Target

## Governance Maturity

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<b>Board Roles and Oversight</b> Are Board roles explicitly defined through committees and charters? How consistently and effectively does the Board provide oversight to the organization?	Board does not have defined committees, a charter or bylaws and objectives have not been defined for the organization	Board has defined committees and communicated objectives and requirements for the organization	Board and its committees have defined roles, charters that define their responsibilities and the organization's mission.
<b>Strategy, Policies and Procedures</b> Are the strategy, goals, objectives, policies, and procedures for supporting organization's mission clearly defined? What are the key performance measures to monitor achievement of the mission? Is the strategy communicated, documented, and aligned?	General understanding of strategic plan and vision. Policies and procedures are dependent on seasoned staff to carry out operations. No defined performance metrics for measuring achievement of mission and objectives	Informal policies and procedures exist and support strategic direction and key performance measures	Strategic plan has been developed, key performance measures are defined, and procedures are in place to monitor achievement.

# Organizational Governance

## Ethics



- **Optimized:** Ethics compliance monitoring is integrated into processes, Continuous ethics monitoring

- **Managed:** Regular monitoring and reporting ethics compliance, Formal ethics training and communications

- **Defined:** Formally documented ethics policy, clearly defined reporting

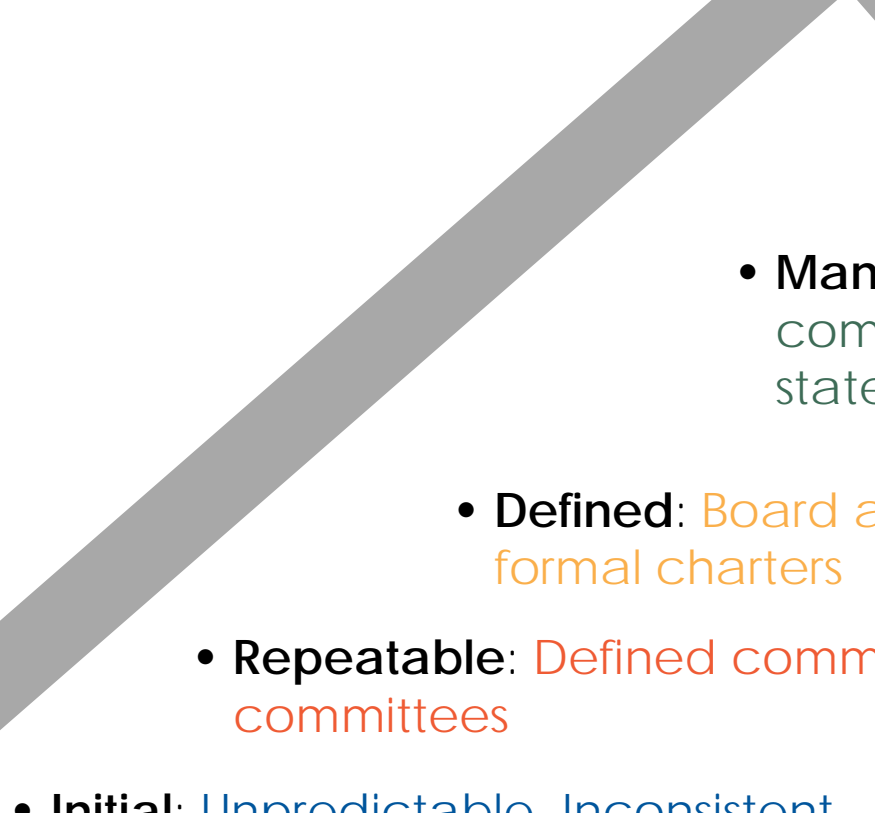
- **Repeatable:** Informal ethics policy and guidance exists

- **Initial:** Ethics policy does not exist



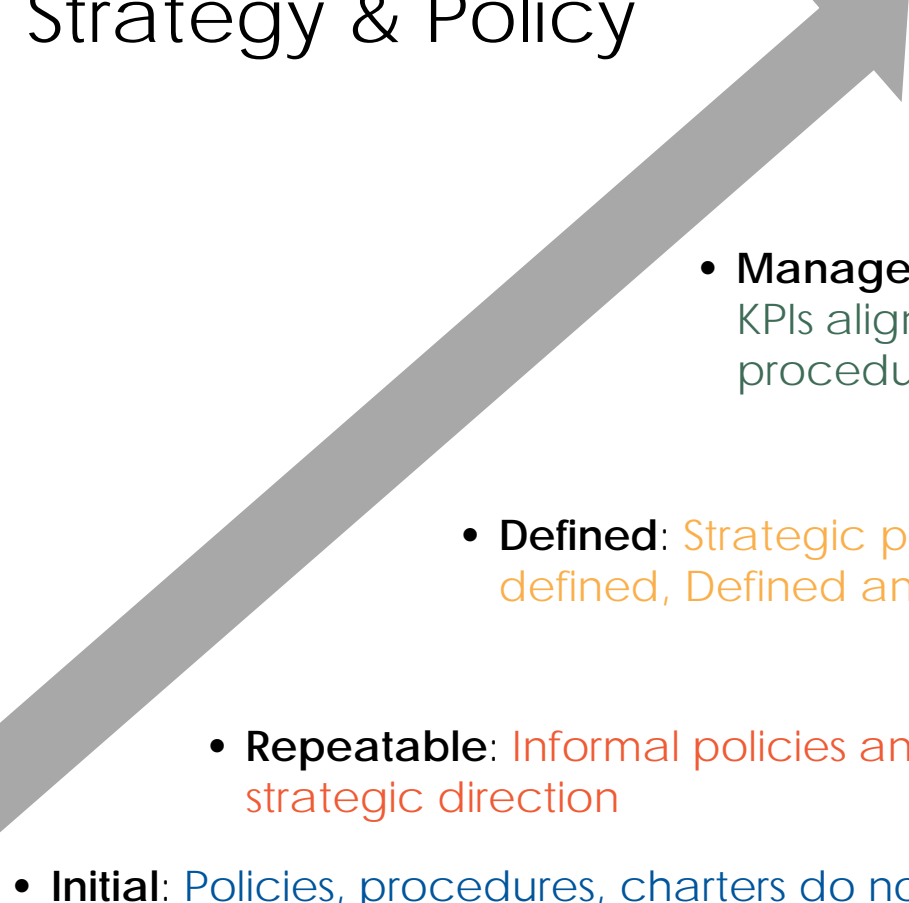
# Organizational Governance

## Board Roles

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- **Optimized:** Board and committees are continuously improving capabilities
  - **Managed:** Boards and committees function at Defined state
  - **Defined:** Board and committees have formal charters
  - **Repeatable:** Defined committees or board sub-committees
  - **Initial:** Unpredictable, Inconsistent

# Organizational Governance

## Strategy & Policy

- 
- **Optimized:** Strategic plan and goals are redefined annually, KPIs are regularly monitored and reported
  - **Managed:** Defined strategic plan and goals, KPIs align with strategic plan, Policies and procedures updated and maintained regularly
  - **Defined:** Strategic plan and key performance metrics are defined, Defined and documented policies and procedures
  - **Repeatable:** Informal policies and procedures exist to support strategic direction
  - **Initial:** Policies, procedures, charters do not exist, Ad-hoc,

# Organizational Governance

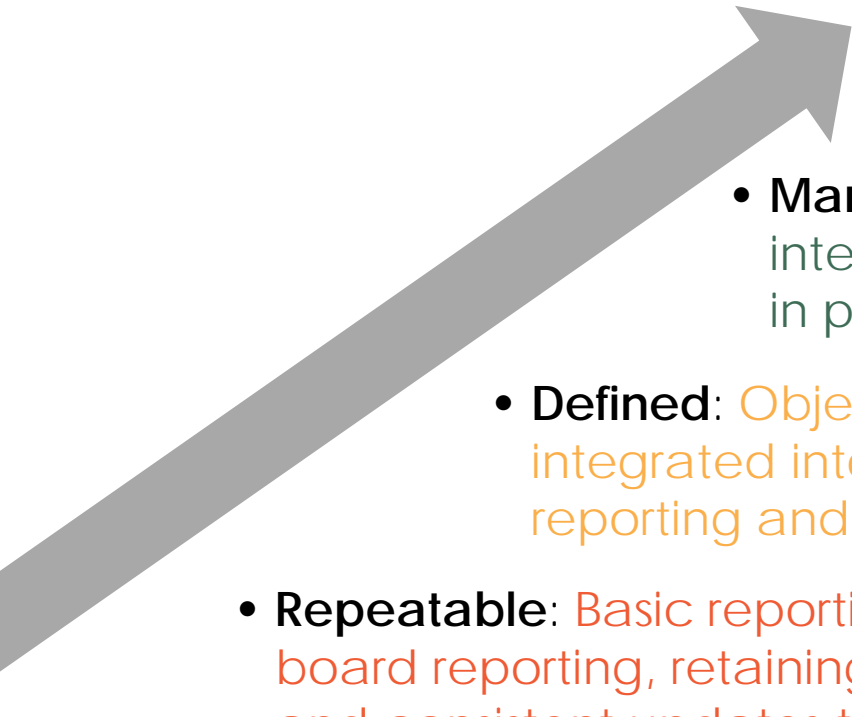
## Structure & Accountability



- **Optimized:** Organizational structure improvements are integrated with development and risk management plans
- **Managed:** Risk measures are linked to performance goals, KPIs are actively monitored and early warning systems are in place
- **Defined:** Clear reporting lines and job responsibilities are communicated, Career ladders are established, Performance metrics are monitored and integrated
- **Repeatable:** Responsibility and authority for leadership positions exist, Staff development needs are identified, Informal performance metrics and goals established
- **Initial:** Performance metrics not defined, Inconsistent accountability structure

# Organizational Governance

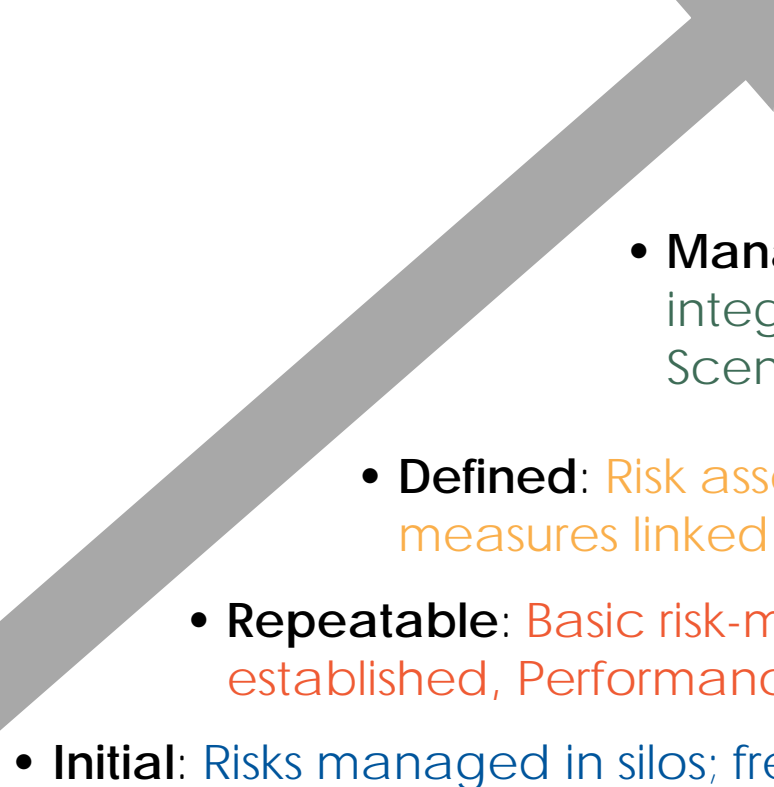
## Communication & Reporting

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- **Optimized:** Entity-wide reporting needs are adequately serviced
  - **Managed:** Formal guidelines for board, internal and external communication are in place
  - **Defined:** Objectives and performance metrics integrated into enterprise-wide systems, Dashboard reporting and performance management
  - **Repeatable:** Basic reporting structure in place; including board reporting, retaining meeting minutes and agendas, and consistent updates to staff
  - **Initial:** Informal communication internally and externally

# Organizational Governance

## Assessment & Risk Management



- 
- **Optimized:** Risk trends associated with KPIs are continuously monitored and analyzed
  - **Managed:** KPIs and data analytics are integrated into performance models, Scenario planning in place to manage risks
  - **Defined:** Risk assessments regularly performed, Risk measures linked to performance goals
  - **Repeatable:** Basic risk-management policy structures established, Performance metrics are informally monitored
  - **Initial:** Risks managed in silos; frequently not monitored

# Determining Maturity Targets

To evaluate the governance of an organization against a maturity model, the target stage of maturity for each element must be established

- Management consensus and support should be gained prior to performing maturity evaluation procedures
- Target Maturity Stage should consider:
  - Age of the organization/program
  - External stakeholder expectations
  - Volume of stakeholders affected
- Tailor evaluation procedures to determine actual stage of maturity of the organization

# How to Determine Maturity

Ask these questions of your organization



- Where are we currently?
- Where do we want to go?
- How do we get there?
- What resources can we use?
- What are our limitations?

# Developing a Mature Organization





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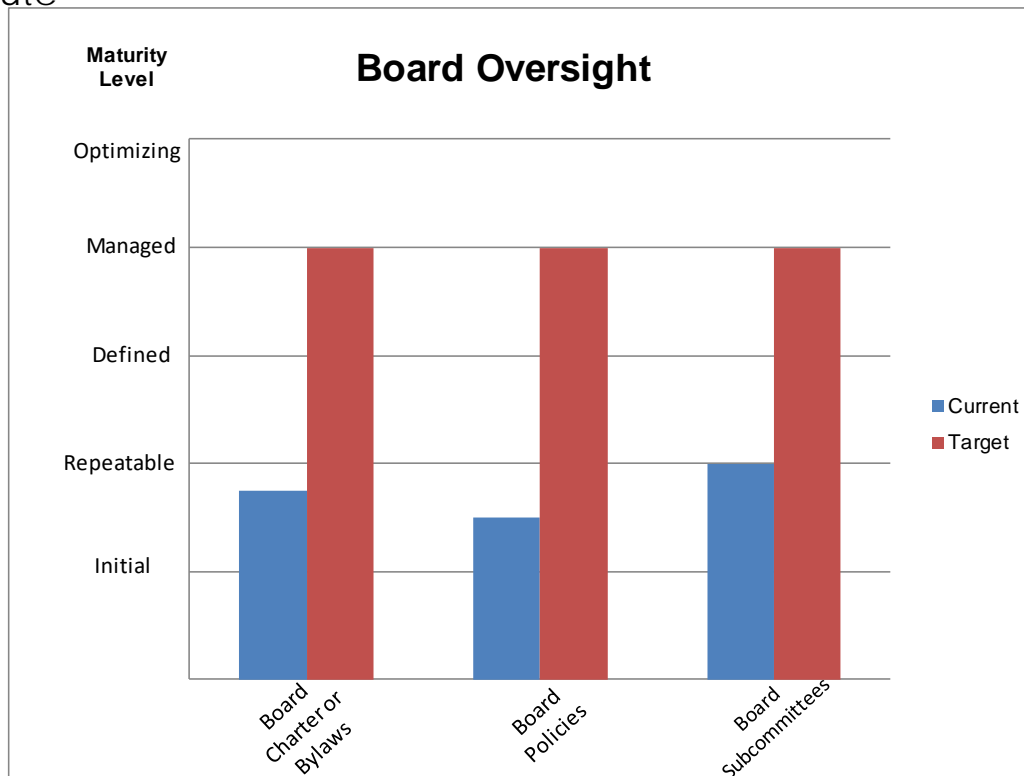
# A Different Approach

Governance is dynamic and is different for various organizations and/or programs.

- Maturity Model Evaluation
  - Assess the effective demonstration of each characteristic within each element of governance
  - Assess governance maturity across the continuum of the elements
  - Consider each characteristic and element independently before summarizing for the whole attribute

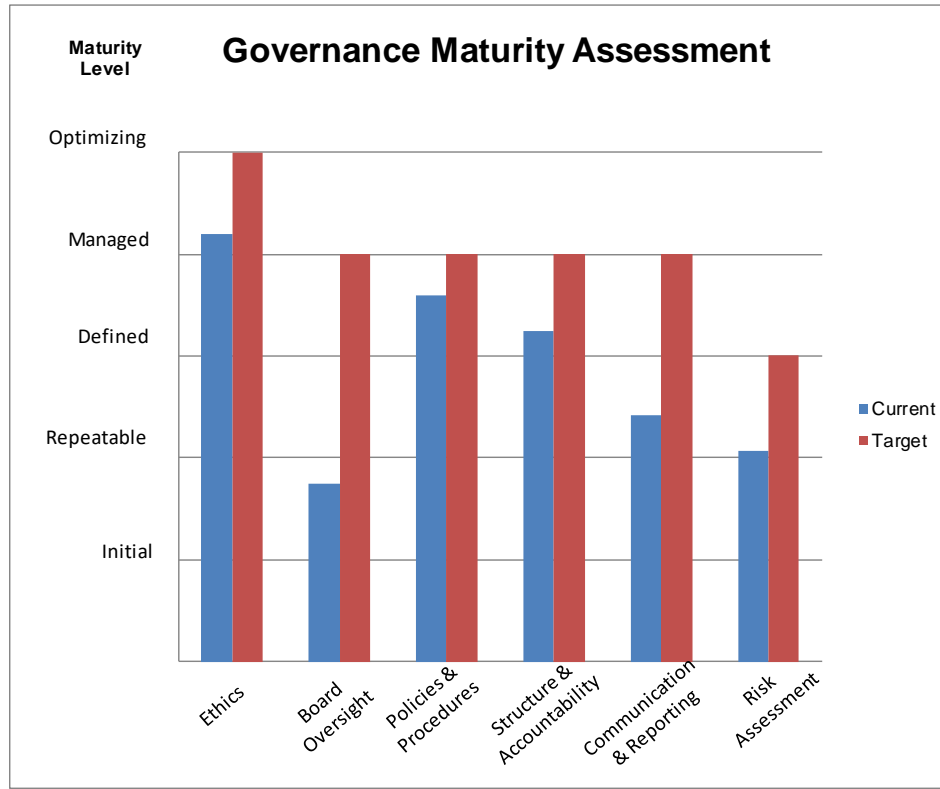
# Assessing Maturity

Recognize the incremental achievements of demonstrating the individual characteristics of each governance attribute



# Assessing Maturity

Consolidate the results of each attribute to represent a representation of the maturity levels for each Governance attribute as a whole



Compare the depiction of the current condition to the target maturities of each attribute as a visual representation of the growth needed to reach the target

# Final Thoughts

1. Does your organization have the people, processes and technology to reinforce ethics and governance initiatives?
2. Is the maturity model evaluation appropriate for your organization?
3. Does your organization have the ability to effectively demonstrate the performance of key activities?
4. Who in your organization can perform an honest evaluation of the current demonstration of governance attributes?



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