



## THE NEW SEAT AT THE BOARDROOM TABLE

Whether Reserved for an Inspector General, an IPSIG or Any Other Independent Oversight Authority, This Seat - and Filling It - Can Deter Fraud, Enhance Assurance and Improve Profitability

A HILLARD HEINTZE EXECUTIVE BRIEFING PAPER



**Think back ten years. Remember? Very few boards of public or quasi-public entities – beyond those required by federal mandate – were inclined to embrace the concept of independent oversight. And exceptionally few private sector enterprises had yet found it advantageous to do so.**

**That's understandable – especially in a free-market system.**

**It's not just that rules unmet can lead quickly to penalties. Or that independent scrutiny can lock up management's time responding to media questions – at the expense of attention to the organization's broader mission. Such a perspective is defensible – or, at least was, a short decade ago.**



Today, it's a different world. The rules have evolved. The floor has tilted – or maybe it's actually flatter. The expectations – across multiple stakeholder groups – are higher than ever. And in this era of increased public scrutiny, the mission of the board – especially for public or quasi-public entities but also increasingly for Fortune 2000 and other commercial enterprises – isn't well served by resisting independent oversight.

Quite the reverse. For these entities and a rapidly growing list of others, both public and private, responsibility may rest instead on explaining why a well-designed, transparent and fully independent Inspector General (IG), Independent Private Sector Inspector General (IPSIG) or other oversight capability isn't firmly in position supporting the organization's success.<sup>1</sup>

### **Red Flags: Seven Signs of Trouble**

Here's what happens when such a strong independent oversight mechanism is not in place:

- **Procurement issues.** Without the proper controls, personnel overseeing contract awards may steer them to preferred parties with whom they have a connection.
- **Compensation disparities.** For similar work, some are paid more simply because they are in favor with those in charge.
- **Mismanagement of human capital.** This includes non-merit based hiring and promotions and inconsistent application of discipline and transfer policies. The result? Chronic low morale and high turnover.
- **Personal purchasing at organizational expense.** Think corporate expense accounts and credit cards.
- **A fear-based workplace.** When controls don't exist – especially those regarding power – mismanagement and corruption flourish.
- **Expensive external corrections.** Correcting problems internally and proactively is much less expensive than legal remediation.
- **No reporting mechanism.** Suppose an employee or supplier discovers evidence of crime or other malfeasance occurring within the organization, yet has nowhere they feel 'safe' to report it. Where should they go?

<sup>1</sup>Source: "Launching the New Metra Office of Inspector General (OIG)", a report authored by Hillard Heintze for Metra in August, 2010 and subsequently released to the public by Metra on its website.

## The Key Building Blocks Crucial to Establishing Any Independent Oversight Mechanism

Establishing an Office of Inspector General (OIG) or other oversight function is not a simple task. Each of the key elements below must be addressed with care.

- **Mission and Authority:** While defining a common purpose is essential, authority confers legitimacy and permanency.
- **Leadership:** Few decisions are more important than who will lead the function.
- **Structural Model:** Three common models include an in-house program, outsourcing and various hybrid solutions.
- **Independence and Objectivity:** This is arguably the single most important cornerstone of an oversight function and its platform for ethics and integrity.
- **Guiding Principles and Values:** These define the ethos of the function and guide its operations on a day-to-day basis.
- **Staffing and Human Resources:** Building out the team and its advisors will require individuals ranging from criminal investigators and auditors to accountants and fraud examiners.
- **Operations and Core Processes:** Principle areas of focus include audits, investigations, inspections and evaluations.
- **Reporting and Communication:** The OIG or comparable function stands at the intersection of crucial information flows to multiple audiences including (1) the organization's leadership; (2) federal, state and local entities and (3) the general public.
- **Resources and External Support:** From OIG industry associations to experienced third party service providers, external resources can be invaluable.
- **Funding and Budget:** How funds are allocated and approved – and by whom – is critical. Right-sizing the budget includes factors such as the organization's size, industry or sector, scope of the authority's mandate, past history, operating model and regulatory environment.

### A Sampling of Key Benchmarks

#### ■ Intake and Investigation of Complaints

- Total Number of Complaints Received
- Total Number of Cases Opened
  - Number of Cases Investigated
  - Number of Cases Closed

#### ■ Auditing Measurements

- Total Number of Audits Opened
- Total Number of Audits Closed

#### ■ Advisory and Review

- Total Number of FOIA Requests
  - Number of FOIA Declinations Reviewed
- Total Number of Legislation Reviewed
- Total Number of Regulations Reviewed



## Practical Tips for Execution: Our Recommendations

**Tip #1 – If you sit on a board or hold executive responsibilities, reach out and put “the independent oversight option” squarely on the table.** Maybe your team can address the “red flags” internally. It’s certainly easier – and less stressful – to address priorities in administration, operations and finance without outside scrutiny. But if you’re not adequately meeting the mission or protecting the brand or growing shareholder value, establish an Office of Inspector General or comparable mechanism – before a higher authority or external forces compel you to do so.

**Tip #2 – Choose the model that best fits your organization’s mission, budget and long-term needs.** The framework you select will have far-reaching implications across quite a few dimensions – from independence and objectivity (both real and perceived) to program effectiveness and efficiency.

**Tip #3 – Pay attention to the “big picture” and to the “fine print”.** These are enormously important decisions. Undertake this effort with great care – especially with respect to defining factors such as jurisdictional scope, operational powers, confidentiality and whistleblower protections. Also crucial will be ensuring the authority’s independence in areas such as funding, reporting and agenda-setting as well as the appointment of the IG or authority, the ability to replace or dismiss the individual and voting thresholds for related board actions.



### For More Information

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