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How Companies Handle Anonymous Complaints: An in Depth Look at the Guidelines and Regulations for Audit Committees and Businesses

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Abstract

The Sarbanes Oxley act of 2002 states that all publicly traded companies in the United States must have their audit committees establish a system of receiving, retaining, and treating complaints that are submitted by employees, both anonymous and non-anonymous (2002). However, there are no clear guidelines or rules identified for how these complaints must be handled. Because of this, there have been multiple instances of companies that fail to act upon complaints made by employees, leading to fraud going uninvestigated. This paper examines the best practices and possible guidelines that could be established in order to remedy the failure to act upon complaints. I examined past company employee complaint system structures through document analysis, and I also conducted a semi-structured interview of a group of audit committee members and public auditors, in order to better understand complaint systems. The results of my research will show a clear set of guidelines that public businesses should follow in order to have a more effective employee complaint system. These results also have significance for future research on the complaint systems in the public business spaces by providing some “best practices” to test in the future.
Background Research:

In 2018, Wells Fargo, once believed to be the number one investment bank institution in the United States, was fined over $2 billion dollars for what was determined to be their creation of fraudulent bank accounts (Tayan 2019). The fraud was identified due to Wells Fargo’s employee cross-selling strategy. Their cross-selling strategy required that employees must try to open multiple accounts with customers as it was thought that customers with more products (accounts) are more profitable (Tayan 2019). To promote this practice, it was determined that Wells Fargo’s management set unreasonably high sales targets for its employees. These targets lead to a number of employees opening customer accounts without the customer’s permission or approval. In some cases, accounts were created for fake customers. Unlike most fraud, however, Wells Fargo had numerous employees sending in anonymous complaints to both management and the board of directors, but the company responded by taking no actions. It was seen that these whistleblowing attempts landed on deaf ears as Wells Fargo’s management and board failed to act upon the wave of employee complaints.

According to the Sarbanes-Oxley Act (SOX) 2002, “Each audit committee shall establish procedures for receipt, retention, and treatment of complaints received by the issuers … anonymous submission by employees of the issuer of concerns regarding questionable accounting.” However, Wells Fargo failed to act (SOX 2002). Upon investigation of the complaints conducted by a third-party law firm hired by Wells Fargo, the board of directors placed responsibility on Carrie Tolstedt (the community banking director for Wells Fargo) (Tayan 2019). The board stated that, “Tolstedt never voluntarily escalated practice issues, and when called upon specifically to do so, she and the community bank provided reports that were generalized, incomplete, and viewed by many as misleading” (Tayan 2019). This brings up the
question, why did the board not press any further? Also, why were all of the complaints internally investigated by talking solely to Tolstedt? Why were there no specific actions set by the SEC that were required by the board of directors? The issues with Wells Fargo exposed a potential hole in regular audit committee practices; are there enough regulations regarding anonymous complaints and how should they be handled by businesses?

In a study completed by Hunton, and Rose (2010), 83 experienced audit committee members took part in an experiment where they evaluated the credibility of and determined the resources to be allocated towards whistle-blowing allegations of fraud. Each member was given the same complaint with two differing variables. One, being if the complaint was anonymous or if they knew the channel through which the complaint was sent. Two, whether the complaint had a high to low chance of damaging the reputation of the audit committee and its members. After the data was collected, there were two clear conclusions drawn. First, it was found that from the 83 members that took part, the audit committee members were more likely to spend additional money towards complaints that were not anonymous. Second, the audit committee members were more willing to spend extra funds on looking into the fraud when it had a high chance of damaging the reputation of the audit committee. The experiment showed that, due to the lack of regulation and specific instruction given by the SOX Act of 2002 when it comes to anonymous complaint handling, many biases can come into play in determining if a business should look into complaints received.

When considering the effectiveness of whistle-blowing complaint systems, one must consider the psychology behind whistle-blowing. One of the main factors that weighs in on a person’s mind that considers whistle-blowing is the possible repercussion of blowing the whistle on wrongdoing at work. In a study done looking to link workplace bullying and whistle-blowing
together, there was documentation (through empirical research) of a clear link between workplace bullying and reporting wrongdoing in a workplace (Bjorkelo 2013). It was also experienced that workplace harassment had devastating effects on the health of the employees getting harassed. These health effects included depression and symptoms to post traumatic stress disorder (PTSD) (Biorkelo 2013).

These potential repercussions bring in the thought of the employees’ trust in the whistleblowing process that their business currently has in place. It has been seen time and time again where the whistleblower, trying to bring the unethical behavior to light, is fired from their position and the business does what they can to squash the reputation of their ex-employee for reporting such behaviors. It can almost be said that it is built into our society that reporting unethical behavior is bad (Sieber 1998). Most individuals can remember a childhood experience when they reported wrongdoing to an authority figure who simply gave a weary look and took no action, or worse, took action which led to being called a tattletale and being harassed by peers (Sieber 1998). This finding may be extended by considering individuals’ propensity to think, how is this any different than the workplace? What is there to ensure that a whistleblowing complaint will be taken seriously? What is preventing a manager or a company from simply brushing off the complaint and harassing the employee that brought up this behavior?

Legislation has been put in place to protect the whistleblower, such as prohibiting the firing of the whistleblower, however, usually, the entire legal team of the accused organization is used to fight the allegations of the whistleblower and it seems that the whistleblower ends up being on trial rather than the person(s) or organization alleged to have done wrong (Sieber 1998). Without clear trust in the company that an employee works for, or trust that the employee’s complaints
will be taken seriously (without repercussions) it makes it hard for people to have the motivation to report wrongdoing.

In 2010, the United States implemented the Dodd-Frank Wall Street Reform and Consumer Protection Act to try to provide protections and incentives for whistleblowers, after seeing the aftermath of the 2008 credit crisis. The Dodd-Frank Act defines whistleblowing as, “any individual, [or group of individuals], who provides information relating to a violation of [the Dodd-Frank Act] to the Commission, in a manner established by rule or regulation by the Commission,” (2010). This act allowed for a clear definition and understanding of the term whistleblower. The act continues on by saying that if any action taken by the Commission is subject to a payment made by the company under investigation, then a proportion of that payment should be given as an award to one or more of the whistleblowers who voluntarily provided original information (all at the discretion of the commission). This amount should not be less than 10% of what was collected by the Commission, but not more than 30% of the total collected (Dodd-Frank 2010). This section was added to the act to increase incentives to whistleblow, outside of just being morally right to whistleblow. The law also states that any whistleblower may remain anonymous if they choose and still be able to receive the reward (Dodd-Frank 2010).

The Dodd-Frank Act also addresses protections given to whistleblowers. The first protection that is provided is the prohibition against retaliation of the business against the whistleblower. The law states, “No employer may discharge, demote, suspend, threaten, harass, directly or indirectly, or in any other manner discriminate against, a whistleblower in the terms and conditions of employment because of any lawful act done by the whistleblower,” (Dodd-Frank 2010). The law continues by stating that individuals that believe they have been
discharged or discriminated against due to being a whistleblower, may bring their case to the appropriate federal district court (Dodd-Frank 2010). This allows individuals to have their own defense against retaliations that their employers may take. The final protection that is provided by the Dodd-Frank act is the availability of confidentiality. The law states that the Commission shall not disclose any information that could compromise the whistleblower’s identity (Dodd-Frank 2010). This reinforces the importance of confidentiality, to try and protect the whistleblowers from being harassed/discriminated against by their employers, if they were to share information with the Commission.

This study will examine the current laws and regulations put into place regarding anonymous complaint handling as well as examine the question of whether there should be more regulation and instruction on the handling of whistleblowing.

**Project Objectives:**

The primary objective of this study is to identify the current regulations when it comes to how audit committees should handle whistleblowing complaints. The need and type of additional regulations will also be evaluated and discussed, with the focus on what would assist internal auditors in the processing of complaints prior to submission to an audit committee or auditors. Overall, I will examine the following research question:

**RQ:** What are the characteristics of effective whistleblowing mechanisms?

**Methods:**

To analyze employee complaint systems, I use two different qualitative approaches. First, I completed a document analysis of companies in the past that have had a failure in their employee complaint system allowing fraud to go unpunished in the business. Second, I
conducted semi-structured interviews of both current audit committee members as well as current public accountants to try to get a better understanding of how companies currently handle whistleblowing.

The document analysis was a deep dive into documents filed through the Securities and Exchange Commission’s Electronic Data Gathering, Analysis, and Retrieval system (EDGAR), as well as literature review of professional articles regarding the situations. Through EDGAR, I analyzed SEC documentation of companies that had a similar situation as Wells Fargo had back in 2017; having an employee complaint system that failed to be recognized by their audit committee and board of directors (Tayan 2019). I used professional articles to analyze companies that had complaints that were not financially motivated (meaning the SEC was not involved). I analyzed 3 different companies and identified what the SEC determined to be the reason for the faulty complaint system.

The second part of my research consisted of interviews of 5 audit committee members and public accountants. I used a semi-structured interview method for gathering rich, qualitative data to analyze. I have selected this method for two main reasons. First, a semi-structured interview allows for a free flow of conversation which is well suited for exploring perceptions and opinions of interviewees, especially for complex or sometimes sensitive topics. This also allows for the respondents to clarify their answers to any of the questions that may be asked (Barriball and While 1994). Second, there is a vast amount of different experiences between my interviewees and holding a semi-structured interview style will allow the respondents to answer as they wish, as well as, have an influence on how the interview flows (Barriball and While 1994). It is understandable that not every respondent will use the same jargon and vocabulary when they respond to the interview questions, which makes it even more pertinent that the
The interview process is semi-structured to allow clarifications on words/phrases (Treece and Treece 1977). Supporting the reliability of the interview results is crucial, so I used the same base questions for these interviews (see exhibit A), however, if there was a need for clarification or an alteration of wording, that took place during the interview at the discretion of the interviewer. The semi-structured interview protocol is the research instrument that I developed in consultation with my faculty advisor.

I started each interview with the statement below followed by the questions presented in Exhibit A:

“Thank you for taking the time to speak with me. A little about me and my research; I am a senior majoring in accounting at Northern Illinois University and I am conducting a research project for my honors capstone. In my research, I am looking at whistleblowing complaint systems in public businesses, as well as how audit committees communicate with whistleblowers. I wish to gain a better understanding of best practices when it comes to implementing these complaint systems and if there are any ways to improve current whistleblowing systems.”

There were 9 questions asked. These questions focused on understanding the interviewee’s experiences and expertise as well as, trying to get a good explanation of what the employee complaint systems looks like in the businesses that they are a part of/have as a client. I also asked if the interviewee had any tips or recommendations for other companies’ complaint systems and how to make these systems more efficient and reliable. All of these questions did not use common professional accounting jargon just to avoid possible language/vocabulary barriers within the interview.

Results:

Document Analysis:

WorldCom:
One of the first companies that comes to mind when referring the handling of whistleblowing complaints is WorldCom. In 2002, WorldCom, one of the largest telecommunication companies in the U.S., was hit with a scandal that all came to light thanks to one whistleblower (Cynthia Cooper) and her group of internal auditors. WorldCom used fraudulent accounting methods to disguise the decreasing earnings and overall net losses from the company to maintain the company’s stock price over several years (Jeter 2003). What WorldCom actually did was to take expenses throughout the year and capitalize them as assets. Specifically, they would take the expenses and apply them to a “property” account. This account was then depreciated over several years, allowing WorldCom to defer many of their expenses while only recording a proportion of their actual expenses for that year in their books (Jeter 2003). Because of this, WorldCom showed on their financial statements that they had large net profits, when in fact they were experiencing net losses year after year. This allowed WorldCom to maintain a very stable stock price and even for the company to disburse dividends to their stockholders (Zekany, Braun, and Warder 2004). Another fraud that WorldCom committed was inflating revenues with made up accounting entries from “corporate unallocated revenue accounts.” This allowed WorldCom to grow their net profit that was already inflated to begin with (Jeter 2003).

During 2002, Cynthia Cooper and her team discovered suspicious balance sheet entries while doing a routine capital expenditure audit. This triggered Cooper and her team to begin their own investigation into the matter. The team worked extra hours, often in secret, to discover what was ultimately to be $3.8 billion worth of fraudulent entries (Jeter 2003). In June of 2002, Cooper took her evidence and presented it to WorldCom’s audit committee and board of directors. Both acted swiftly, forcing the lead controller to resign and firing the CFO (Jeter
This shows the quick and forceful action that can be taken by audit committees to combat fraud through whistleblowing complaints. WorldCom’s audit committee showed how an effective whistleblowing system can catch and ultimately stop fraud if the proper steps are taken from the audit committee. This example also shows the trust that Cynthia Cooper and her audit team had in the whistleblowing complaint system implemented at WorldCom. Cooper knew that her complaint would be taken seriously and there would be swift action to resolve any problems that had been created.

Unfortunately, that is not where the story ends. During the investigation of WorldCom, Cooper was harassed and ridiculed by the executives of WorldCom, the press, the lawyers, and congressional investigators. The WorldCom executives and lawyers did all that they could to tarnish and diminish Cynthia Cooper, her professionalism as an internal auditor, and her character as a whole. Because of her efforts to do what she believed was right and ethical, Cooper’s reputation and career was tarnished (Jeter 2003). Because of the way Cynthia Cooper was treated by her former employers, a lot of skepticism behind the protections that were given to whistleblowers started to grow. However, in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was passed to combat some of the ill treatment that was given to whistleblowers.

**JP Morgan Chase:**

Another example of a whistleblower inside of a public company is Alayne Fleischmann at JP Morgan Chase. Just before the 2008 credit crisis, many commercial banks were providing mortgages to individuals that were clearly overstating their incomes. One of those banks was JP Morgan Chase. This meant that many of the borrowers would likely be unable to repay their loans (Myers 2015). During that time, there was one securities lawyer, Alayne Fleischmann, for
JP Morgan Chase, who came across multiple instances of these mortgages. Ms. Fleischmann decided to try and do what was right by contacting those in charge, expressing her concerns that certain loans were suspect. When she wrote the emails to diligence managers, there was no response and she was ignored. Meanwhile, Ms. Fleischmann observed the diligence managers, who were in charge of reviewing the mortgages, being verbally abused into clearing the loans that they did not feel comfortable clearing (Myers 2015). It was obvious that there was a broken whistleblowing complaint system in place at JP Morgan Chase. After multiple emails had been sent, Ms. Fleischmann was prohibited from sending e-mails to the new manager for diligence. This made it transparent to her that the company did not want a written record of her warnings about the mortgages (Myers 2015). Ms. Fleischmann knew that if she wanted action, she needed to write a memo explaining the situation and using the names of the managers she had reached out to previously, to make sure that no one could claim that they did not know what was going on, and she did just that. In 2008, Ms. Fleischmann wrote a memo to the senior managing director in the bank. She named most of the people she sent warnings to in her previous emails (Myers 2015). Shortly after sending the memo, Ms. Fleischmann was fired; however, JP Morgan Chase was required to take action, now that it was clear that multiple people had known about the dangerous mortgages (Myers 2015). Following being terminated, Ms. Fleischmann signed a confidentiality agreement to not disclose what she knew about the malpractice that went on in JP Morgan Chase. In the end, the bank was forced to pay $13 billion to the government to stop a lawsuit against them.

When examining this past situation, there are a couple of red flags that could be seen in JP Morgan Chase’s whistleblowing complaint system. First, the system was more of a prop then an actual working system. JP Morgan Chase used the complaint system as a way to show the
government that they were meeting the governmental regulations. It was also used to create an image to their investors that JP Morgan Chase wanted to provide a place for their employees to state any problems they had regarding the company. In reality, the complaint system was no more than a data collection of employees that would be willing to report unethical behavior, with no action being taken against the complaints at hand. It wasn’t until Ms. Fleischmann made it clear that she had been keeping a paper trail of the complainants who she had contacted, that the senior managers of the firm finally stepped in, which again, let to Ms. Fleischmann being terminated.

The second major issue with the whistleblowing system was the fact that the people in charge of the system wanted no paper trails to be left, so no one could be held accountable. The diligence managers made it clear to Ms. Fleischmann that they did not want her emailing them if she had a complaint, since they knew the emails would be recorded. If Ms. Fleischmann did not keep a list of who she had warned and contacted about the mortgages, there is no telling if anyone in JP Morgan Chase would have been held accountable for their negligence.

Uber:

The final example of whistleblowing inside of a company that I analyzed is Susan Fowler during her time at Uber, a platform where those who drive and deliver can connect with those seeking transportation (Uber 2021). Ms. Fowler was a former engineer for the company. She started in November of 2015, where she stated that a few weeks after her start at the company, she encountered her first issues with sexual harassment, from her new manager (Trinci 2020). The manager told Ms. Fowler that he was in an open relationship and was looking for a new partner, which led to him sending her some very inappropriate text messages (Trinci 2020). Fowler stated, “it was so clearly out of line that I immediately took screenshots of these chat
messages and reported him to HR” (Fowler 2017). Fowler stated that since Uber was a rather large company, she trusted that the company would take appropriate actions against that manager (Fowler 2017). According to Ms. Fowler, the HR department and upper management said that even though the manager’s behavior was clearly a form of sexual harassment, the company would not be comfortable giving him more discipline than a warning because it was his first offense. They explained to Fowler that the manager’s high performance at work was particularly important to the company and he probably just made a mistake this time (Trinci 2020). Upper management then gave Ms. Fowler a choice; she could either go and find another team and then never interact with this manager again, or she could stay on the team, but would have to understand that the manager would most likely give her a poor performance review when review time came around (Fowler 2017). Even after contacting individuals higher up in the management chain, Ms. Fowler was left with the same two choices. She decided to leave the team in hopes to never have to deal with HR again (Fowler 2017). As Ms. Fowler continued to work at Uber, she met more coworkers in the engineering department that had similar accounts of sexual harassment and misconduct, some of which were from the same manager that harassed her (Fowler 2017). It was said that some of the manager’s actions were reported to the highest part of the company’s chain of command, and still there was no action taken. Shortly after this incident, the manager “left” the company (Fowler 2017).

Following the incident with the manager, Fowler faced many other sexist actions taken by Uber and its managers. After each situation, Ms. Fowler submitted a complaint to HR hoping for action to be taken (Fowler). After about two years of Fowler submitting various sexist actions taken by fellow coworkers, the manager of Fowler’s team had a meeting with her saying that she was on thin ice for reporting his managers to HR. He continued by stating that if she
were to report anything again, he would fire her. Ms. Fowler knew that this threat was illegal
that submitted a complaint about the meeting to both HR and the CTO (Chief Technology
Officer). According to Ms. Fowler, both HR and the CTO agreed that these threats were illegal
but neither of them took any action because they said that the manager was a “high performer”
(Fowler 2017). Less than a week after this meeting, Fowler left Uber.

After reviewing the case of Susan Fowler and Uber, there are some very clear problems
with Uber’s handling of the situation and their complaint system. First, the clear lack of action
that both Uber’s upper management and HR teams had toward sexual harassment and sexist
complaints. Throughout the entirety of Ms. Fowler’s time at Uber, it took multiple people
complaining about the same individual before upper management allowed the manager to leave
the company, making sure to state that he left not due to complaints from employees (Trinci
2020). This brings up the second problem of a bad tone at the top of the company. Even after
getting the executives involved in the situations, and the executives agreed that there was
something wrong, they decided not to discipline their employees because they believed that the
employees causing trouble were “high performers.” When examining the company as a whole, it
could be said that Uber had a good structure (independent HR, and easily being able to reach the
executives with complaints) for handling complaints, however, because of the bad tone at the
top, the complaints were never addressed. Overall, the case between Susan Fowler and Uber
shows that even with an appropriate anonymous complaint system in place, there can still be
issues with the system when the executives refuse to act upon the complaints coming through the
whistleblowing system.

Overall Results From Document Analysis:
After analyzing three different companies that faced situations of whistleblowing in the past, there are two main improvements that can be made to the current whistleblowing complaint systems. First, there needs to be statements made by public businesses, whether in their employee handbooks or stated in their codes of conduct, saying that there will not be any retaliation against employees who submit complaints (whistleblowing). Currently, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 states that employers may not retaliate against whistleblowers in regards to their employment (Dodd-Frank 2010). However, I posit that this step is not enough. In the cases of Cynthia Cooper at WorldCom and Alayne Fleischmann at JP Morgan Chase, both whistleblowers were retaliated against by their employers. In Cynthia Cooper’s situation, she had her reputation tarnished due to the lawyers for WorldCom slandering Ms. Cooper’s name and career standing. In Alayne Fleischmann’s situation, Ms. Fleischmann was fired shortly after blowing the whistle on a situation at JP Morgan Chase. JP Morgan Chase did not explicitly say that Ms. Fleischmann was terminated for whistleblowing but the timing of her termination can help us infer that reaching out to the complaint system was the cause of her losing her job. I submit that having a clear statement made by all public businesses saying that they will not retaliate against any employee that submits a complaint about their business will not only make anonymous complaint systems more effective, but also increase the trust of all public business employees in their employers.

The next recommendation that may to be taken by public businesses is the requirement that upper management present “tone at the top” training on a regular basis to ensure that the employees in a business understand what their upper management expects of them as well as how whistleblowing complaints should be handled. When looking at what happened to Susan Fowler at Uber, it can be said that Uber had a well-structured whistleblowing complaint system
(complaints were handled by the independent HR department, and then passed up to upper management if the case could not be handled by HR). However, due to the tone at the top, the HR department perceived that the performance of employees outweighed any inappropriate behavior they exhibited while working. Susan Fowler had a manager that not only sexually discriminated against her, but some of her fellow employees as well (Trinci 2020). The HR department determined that disciplinary actions should not be taken against this manager because he was considered a “high performer” in their eyes. When Ms. Fowler decided to bring the same complaints to members of upper management (C-suite executives) the response was the same. Because of this, it was clear to both the employees and those with the powers to take disciplinary action that the performance of an employee was more important than disciplining them for inappropriate actions. In my analysis, I find that it is necessary for upper management of public businesses to be trained on a regular basis to reinforce the importance of appropriate behavior and positive tone at the top.

Interviews:

The second part of my research consisted of semi-structured interviews with external auditors and audit committee members. I interviewed five individuals, with the same questions (see exhibit A). With these questions, I hoped to gain a better understanding of how whistleblowing complaint systems worked in businesses today and if there were any similarity in the experts interviewed responses that would help make complaint systems more effective.

The first question asked about the current whistleblowing complaint systems in place in the businesses, either where the individuals are on the audit committee, or the complaint system of one of the clients that the individual is auditing. When looking at the responses, there were two main complaint system structures that stood out. First, having all of the handling of the
complaints in-house. In one response given, any complaints were filed and brought to the Chief Control Officer (CCO) of the business. It was then up to the CCO’s discretion to determine whether the complaint had any merit. The CCO was tasked with doing preliminary work and decided if the complaint should be brought to the president of the firm. If yes, the president would receive that complaint and do their own research into the complaint. If the president also believed that the complaint was serious and needed action taken, they would send the complaint off to the chairman/chairwoman of the board of directors (BOD). The chairman/chairwoman of the BOD then was tasked with deciding if the situation needed immediate action from the audit committee (AC) and BOD or if the complaint could wait until the next quarterly meeting that was scheduled. This thorough explanation of the whistleblowing system gave great insight into how some of the in-house systems are conducted. It showed that there are several levels and individuals that the complaint must go through before it ever reaches the BOD or AC. It also showed a base structure of who the complaints need to go through in order to reach the BOD and AC.

The second example of a complaint system currently in place consisted of both in-house and third-party involvement to make up the whistleblowing system. This example of a system is typically seen in larger businesses (100 employees or more). These businesses’ systems typically have a whistleblower hotline that is monitored by a third party not affiliated with the main company. The third party is tasked with examining the whistleblowing complaints and passing them on to the general counsel in the main business if necessary. This general counsel is tasked with receiving whistleblowing complaints and determining if there is any merit behind them. If so, the general counsel works with the accused business units to get to the bottom of the issue. If the issue is handled, then any significant matters would be summarized to those charged
with governance in the company (BOD or AC). If the general counsel is unable to successfully handle the complaint, it is then passed on to those charged with governance in the company to deal with the complaint.

The second question I focused on was about what criteria it takes before an audit committee or the board of directors gets involved with anonymous complaints. All of the interviewees had similar responses to the given question. The responses centered around the category of the complaint being the main determinate on whether the BOD or AC would get involved. One example to explain this was a hypothetical situation about sexual assault or sexual harassment in the workspace. The interviewee talked about how business situations (such as misappropriation of assets) typically have a large number of individuals the complaints must go through before reaching the BOD or AC. However, if there was a complaint about sexual assault or sexual harassment, the BOD or AC would step-in at the earliest parts of the complaint. The interviewee emphasized the seriousness that those types of complaints were given. They also talked about how misappropriation of assets and fraudulent financial reporting are very serious offences and should be reported and handled accordingly. However, they felt that unless the fraud was deemed material, there was usually no reason for the BOD or AC to get involved. This showed me clear insight about what it takes for a complaint to reach those charged with governance in a business.

The next question that I asked of the interviewees was if they believed it was more effective to have an anonymous or a non-anonymous whistleblowing system in place. In the end, there was a mix of responses. Two of the interviewees said that an anonymous system was more effective, two said a non-anonymous system was better, and one said if the right controls, protections and confidentiality were in place, it wouldn’t really matter if the system was
anonymous or not. Although there were split responses to the question, there were strong arguments that were made for each side of the question. When it came to the anonymous systems being more effective, it was argued that employees would feel safer and more willing to submit complaints if the system was anonymous. One interviewee gave the example of having an ombudsperson in place to handle any communication that was needed with the whistleblower. Having an ombudsperson in place, not only provided anonymity, but also allowed those in governance to have communications with the whistleblower if needed.

When looking at the arguments for having a non-anonymous system, there was one clear argument from one of the interviewees, “[it is] more helpful to have a name attached to the whistleblower.” Both of the interviewees that supported having non-anonymous systems talked about how being able to have an understanding of who was submitting the complaint would make the system all the more effective. They also talked about how it would make understanding the merits of the complaint easier, because they would know who to interview and investigate if necessary. However, one interviewee argued that in the end, it would not matter if the whistleblower was named or not named if the company found that the complaint was valid.

The final argument about the effectiveness of having anonymity in a complaint system was that if the company did a good job with protections and confidentiality, then it would not matter if the system required anonymous or non-anonymous complaints. The interviewee talked about if it is clear that confidentiality matters to the company, then it is okay to have the whistleblower’s name, but if there are issues that are just being brought up to managers, then anonymous systems could be better. They then continued by saying if there is follow up that is needed for a complaint, then non-anonymous systems would be needed. Overall, they said that there could be arguments for both sides, but they felt that it was more important for a business to
have good controls and protections for whistleblowers, than to focus on knowing who made the complaint or not.

The next question that I focused on was looking at who should be responsible for creating and implementing complaint systems for businesses, specifically looking at the audit committee’s (AC) involvement. The interviewees were again split on their answers for the AC’s involvement in whistleblowing systems for businesses. Two of the interviewees argued that the right AC involvement should be to provide oversight over the creation and implementation of complaint systems. One interviewee said that they think the Audit Committee should be tasked with implementing and creating the whistleblowing complaints system in public businesses. The remaining two interviewees said that they had no strong reaction for or against the involvement of the AC on compliant systems in businesses.

When looking at the interviewee’s response as to why ACs should have the responsibility to create and implement whistleblowing systems, one said that, “…smaller public businesses or even newer public businesses may need the assistance of Audit Committee members, since the executives of the company may not have the experience needed to create an effective whistleblowing system.” They talked about how the importance of experience can make or break the effectiveness of a complaint system for a specific company.

There were two main arguments for why the AC should only be tasked with overseeing the implementation of the whistleblowing system. The first was that ACs do not always know all of the day to day operations of the business in which they work. With that being said, they argued that it would be inefficient to have someone create the complaint system when they do not know the specifics of the company. However, they felt that the ACs experience should be very useful for the overseeing of the whistleblowing system. Although they may not know what
the exact make-up of how the complaint system should be for each business, with their experience, the AC members should be able to give advice about what has made systems work in the past, or what specifics should be used for the industry in which they are working.

The final question that I analyzed was if the interviewees had any improvements that they think could make whistleblowing complaints systems more effective. There were two key responses to this question that can lead to practices in the future that would make for more effective whistleblowing complaint systems. The first was a response given by all five of the interviewees and that was to have a more firm, concise and ethical tone at the top of the organization. In other words, having those charged with governance (whether that be the BOD, executives, or manager role personnel) make it clear that following ethical behavior is very important to them and to the company in which they work. The interviewees recommended perhaps requiring “tone at the top” training for the executives of public businesses. Although this may not work for every company and their executives, this will provide all of the public business executives training about understanding that what they say and how they act can affect the effectiveness of their anonymous complaint systems, as well as, change how the workers in their company handle ethical situations.

The second recommendation made by two of the interviewees was to have an available ombudsperson for any ethical situation that may occur. Having an ombudsperson can help answer the question of whether whistleblowing systems in a business should have anonymity. It does this by providing a third-party advocate for any whistleblowers in the business. This allows the whistleblower to remain anonymous to those charged with governance in the company, while still providing a line of communication, through the ombudsperson, where those charged with
governance can question the whistleblower and get any follow-up information that may be needed.

These two recommendations made by the interviewees are the two clearest conclusions that I was able to draw from my interviews. When it comes to having a more ethical tone at the top, all of the interviewees made it clear that the tone at the top was one of the most important factors for creating an ethical business and having an effective whistleblowing complaint system. Therefore, I present evidence for the position that there should be some kind of mandatory training for executives of public businesses that teach the importance and best practices for their tone at the top. For the second recommendation of requiring an ombudsperson, it may be a little hard financially for smaller public businesses to take on an ombudsperson, but I recommend all large public businesses (companies with over 100 employees) should be required to have an ombudsperson to advocate for whistleblowers. Having an ombudsperson creates an answer for the problem of having anonymity in a complaint system, while still being able to provide follow-up information on a complaint if needed.

Discussion:

Before going over the final implications for public businesses to address this question of effectiveness of whistleblowing complaint systems, there are two major discussion points to examine. First, I discuss the limitations of my project. There were some key limitations. One of the limitations is the number of individuals that I was able to interview. In total, I interviewed five individuals, three external auditors and two audit committee members. Future researchers may consider interviewing more individuals (15-20). Further, it would be best if my interviewees consisted of more audit committee members. However, it was difficult to find individuals who work on audit committees.
Second, I would like to talk about the future steps that I believe should be taken in order to further this research. As I mentioned in my limitations statement, having more individuals to interview would allow this research to grow substantially (specifically interviewing more audit committee members). Also, adding questions into the interviews that focus on how audit committee members feel about my specific recommendations for businesses would be enlightening. Specifically, do they feel the changes recommended would make a difference? The final future testing that I would like to see done is actually implementing my recommendations in a public business and seeing if those suggestions make improvements to the effectiveness of the whistleblowing complaint system.

**Implications:**

After completing both a document analysis and interviews, there were three main implications that I recommend to public businesses to make their whistleblowing systems more effective. The first recommendation is the requirement of those charged with governance in a public business to take “tone at the top” training/courses to ensure that the best practices are being used. I feel that making the requirement for monthly trainings would be a sufficient way to reinforce the importance of having a positive and ethical “tone at the top.” Having an ethical “tone at the top” could make huge positive changes to the effectiveness of whistleblowing complaints systems. One example of this was explored in the Uber case. In the Uber example, the whistleblower provided clear evidence to those charged with governance that an employee was sexually harassing her and other employees. In the end, the executives made it clear that to the rest of the company that the performance of employees was more important than disciplining bad behavior. Because of this, there was an ineffective complaint system and nothing was done with the complaints that the whistleblower brought forward. In addition to the analysis around
the Uber case, every interviewee said, in one form or another, that having a positive and ethical tone at the top is one of the most important ways to having an effective employee complaint system.

The second recommendation for a more effective whistleblowing complaint system came from one of the interviews. The interviewee talked about how having an ombudsperson would be an effective way of addressing the question of whether an employee complaint system should be anonymous. I agree that requiring an ombudsperson for public businesses would be a great way to increase the effectiveness of complaint systems and boots trust in those same complaint systems. This would be done by providing the employees with an advocate (the ombudsperson) that would be there to hear their complaints and act on the whistleblower’s behalf. This would allow those charged with governance to ask questions needed while allowing the employee to stay anonymous if desired. Understandably, it could be expensive to have a full-time ombudsperson working for every public business, so I believe it should be required for every public business that has 100 or more employees.

The final recommendation was thought of after completing the document analysis, and then was reinforced when one of the interviewees made the same recommendation. The recommendation was to have a clear-cut handbook or policy that states how whistleblowers and their complaints are to be handled. When brought up during the interview, the interviewee talked about how smaller public business may not have clearly defined procedures or policies on how whistleblowers should be handled and this can lead to ineffectiveness of complaint systems. When doing the document analysis, a similar recommendation was thought of; however, it focused more on having a clear statement that whistleblowers would not be retaliated against.
Doing this can help bring trust to the complaint system in place, thus increasing the effectiveness.

**Outcomes:**

This study strives to find possible “best practices” for audit committees to use when it comes to the handling of whistle-blowing complaints. The results will help determine what possible regulations the government can put into place for anonymous complaint systems. These regulations will assist in making a standard format complaint system for all public businesses to use and hopefully make anonymous complaint systems more effective as a whole.

**Statement of Significance and Impact:**

This research provided suggestions for regulations that could be put into place to help make public companies’ required employee complaint systems more effective. This research stressed the importance of having an effective anonymous complaint system by evaluating past practices and mistakes made by businesses.

**Coursework in Support of Research:**

My coursework in ACCY 360 Assurance Services focused on internal controls and on controls such as anonymous reporting mechanisms that are required by the Sarbanes-Oxley Act of 2002. My coursework in ACCY 331 and 332 Financial Reporting I and II focused on the proper way to account for transactions that are reflected on the financial statements. The intersection of ACCY 360 and ACCY 331 and 332 is fraudulent financial reporting and misappropriation of assets, both of which are categories of fraud and each may result in a misstatement on the financial statements. Whistle-blowing is intended to deter fraud and mitigate the likelihood of fraud in an organization.
Table A – Code Mapping: Three Iterations of Analysis (to be read from the bottom up)

Code Mapping For Whistleblowing Complaint Systems
(Research Questions)

RQ#1: Should whistleblowing complaint systems be anonymous?
RQ#2: What are some ways to make employee complaint systems more effective?
RQ#3: Should the Audit Committee be responsible for creating and implementing whistleblowing systems in public business?

(Third Iteration: Application to Data Set)
Creating More effective whistleblowing systems:
Addressing public business regulations

(Second Iteration: Pattern Variable)
1A. Anonymity of complaint systems: For some yes, for some no, and a compromise for one
2A. Thoughts on Audit Committee involvement in the creation of complaint systems
1B. Clear defined policies and procedures
2B. Threshold before complaints reach audit committee level

(First Iteration: Initial Codes/Surface Content Analysis)
1A. More helpful to have named attached to whistleblower
1A. If company does a good job about protections, it does not matter
1A. Protecting anonymity is most important
1A. Better to be anonymous
2A. Smaller/newer public business may need the audit committee expertise
2A. Audit Committees should oversee, not create, systems
2A. No strong reaction against or for audit committee involvement
2A. Audit Committees does not know the day to day operations
2A. Audit Committees do not have the time
1B. Formal policies create trust
1B. A positive tone at the top can makes all the difference
1B. Training programs with all employees regarding whistleblowing and ethical behavior
1B. Existence of code of conduct
2B. If president of company cannot solve issue, complaint is brought to audit committee
2B. Summary reports are given to the Audit Committee
2B. Business issues are addressed by the Audit Committee
2B. Sexual assault or sexual harassment cases are addressed right away
2B. Reason for complaint matters more than quantity of complaints
Exhibit A – Interview Questions

1. My understanding is that you are an Audit Committee member/External Auditor, how long have you been in that position? What was your path to that position?
2. Currently, what is the whistle blowing procedure of the businesses you are on the Audit Committee of/your current clients you audit?
3. What incentives/protentions does your business offer to people that do whistle blow?
4. Can you provide an example of how an audit committee has responded to an anonymous complaint and what was the threshold that it took before the audit committee got involved (After the first complaint, after ten complaints)? Can you give me a criteria of how your audit committee evaluates anonymous complaints and how to handle a situation?
5. Do you believe that it is more effective to have an anonymous or a non-anonymous complaint system in place?
6. Do you believe that employees have trust in the current whistleblowing complaint system in place? Why or why not?
7. What are some ways that can increase the trust with employees to use the whistleblowing complaint systems in place?
8. According to SOX 2002, it is the responsibility of the Audit Committee to create and implement an anonymous complaint system for public businesses. Do you believe that this task should be assigned to the Audit Committee? Why? If no, who should be tasked with this?
9. Do you have concerns about unreported fraud and are there improvements that you think could be made to whistleblowing complaint systems to make them more effective?
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