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## What Do Companies Do to Comply With the Sarbanes-Oxley Act of 2002?

Nathan Pedigo

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**NORTHERN ILLINOIS UNIVERSITY**

**What Do Companies Do to Comply With the Sarbanes-Oxley Act of 2002?**

**A Thesis Submitted to the**

**University Honors Program**

**In Partial Fulfillment of the**

**Requirements of the Baccalaureate Degree**

**With University Honors**

**Department of**

**Accountancy**

**By**

**Nathan Pedigo**

**DeKalb, Illinois**

**May 2008**

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Department of (print or type):

Accountancy

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## Abstract

Since the era of corporate fraud when companies like Enron and WorldCom were caught in a mess of fraud, there have been various measures taken to prevent future failures. One of the most significant of these measures was the creation of the Sarbanes-Oxley Act of 2002 (Act). The Act, among other things, held management accountable for the financial condition of the company, laid the groundwork for a tighter internal control, and gave related parties the protection to report any fraud or wrongdoing. This study focuses on the whistleblowing provision of the Sarbanes-Oxley Act and looks at the processes that companies have taken to comply with the Act.

In total, seven publicly traded companies offered their perspective on whistleblowing in their environment. There were similarities in the way that these companies complied with the Act, although each company seemed to have its own unique attitude towards the Act and the whistleblowing provision. The series of questions that were asked include general Sarbanes-Oxley Act questions, then further asking about their whistleblowing provisions in particular.

Since the era of corporate fraud when companies like Enron and WorldCom were caught in a mess of fraud, there have been various measures taken to prevent future failures. One of the most significant of these measures was the creation of the Sarbanes-Oxley Act of 2002 (Act). The Act, among other things, held management accountable for the financial condition of the company, laid the groundwork for a tighter internal control, and gave related parties the protection to report any fraud or wrongdoing. This study focuses on the whistleblowing provision of the Sarbanes-Oxley Act and looks at the processes that companies have taken to comply with the Act.

In total, seven publicly traded companies offered their perspective on whistleblowing in their environment. A summary of these seven companies is listed below.

Company	Revenue	Employees	2/22 Close Price	52 Week High	52 Week Low	Volume (2/22/08)
A	4.87B	14,300	\$112.30	\$118.00	\$64.90	1,026,428
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G	3.2B	13,000	\$40.52	\$44.64	\$35.30	734,000

There were similarities in the way that these companies complied with the Act, although each company seemed to have its own unique attitude towards the Act and the whistleblowing provision. The questions that were asked included

general Sarbanes-Oxley Act questions, then specific questions regarding their whistleblowing provisions.

First, there were two basic approaches to complying with the Act and with the whistleblowing provision. Two companies felt that complying was the responsibility of everyone in the company. Therefore, managers or other cross-functional leads worked with the employees in their respective department to formulate the best way to comply. Other companies have a team, usually made of four to five people, to work on the compliance. These teams that work on the Act's regulations are mostly concerned with Section 404, which is concerned with management reporting. One company had three parties involved in working to comply with the Act, which included Internal Audit, the Vice President of Ethics and Compliance, and the General Council. The companies that delegate the responsibility of internal controls essentially add the job to the other duties of the one in charge of the task. For example, an employee may be an Engineer by trade, working in the Operations side of the business. However, in addition to the employee's normal tasks, as this employee is most familiar with the operations and the controls of that department, he or she will be the one that creates the controls to prevent fraud, a task that has historically been completed by the compliance department. The others that have a team to work on the regulations are permanent positions that work solely on compliance. Every company that was interviewed had team members trained in the accounting field. Four of the companies that were interviewed had employees with information technology or

law backgrounds, although the interviewees were unsure of the exact number in each area.

<b>Company</b>	<b>Project Team</b>	<b>Number of Team Members</b>
A	No	n/a
B	No	n/a
C	Yes	5
D	Yes	5
E	Yes	4
F	Yes	5
G	Yes	3 Organizations

There was also a leader in charge of compliance in each company interviewed, regardless of whether it was a team or unified effort. More than one company was led by the Director of Internal Control/Internal Audit. One Director makes sure controls are updated and the reporting of controls is accurate, as well as oversees the compliance of other major sections of the Act. Another company is headed by an attorney with clerks beneath the attorney to help as needed. The company that delegated the responsibilities of internal control to cross-functional leads has an administrative assistant that looks over and modifies the procedures.

These teams of each company spend different amounts of time towards whistleblowing. Two of the companies had five full time employees each to work on the whistleblowing provision, which also included the monitoring of the provision. In one company that approaches Sarbanes-Oxley as a group effort, the Information Technology department spends more time in the compliance of the whistleblowing provision.

The next question that was asked turned to the options that were considered to comply with the Sarbanes Oxley Act, and what influenced the decisions to establish the procedure. Two of the interviews were done with interviewees that had recently joined their company, so they could not answer this question. However, the majority had already had a whistleblowing hotline in place before the Act was established. It was said in several interviews that it is a good business practice to have a hotline in place regardless of what the law says. One company's hotline currently goes to the Legal Council, but the company is considering going to an external source. Criteria that are being considered for this change include 24/7 coverage, language that is convenient for workers, and proper customer service. Most firms' processes were simply formalized with the creation of Sarbanes Oxley.

It was also mentioned that many companies were scrambling when the Act was passed, so companies did not consider many options when establishing their procedure. However, even with many companies not considering many options, there have been few changes to the original system. In my interviewing, none of the companies had plans to implement major changes in the future. There were two times in my interviewing that the concept of an evolution was mentioned. Instead of making radical changes in the whistleblowing provision, changes are made little by little, as the need arises.

Another topic discussed dealt with encouraging whistleblowing and what incentives companies are offering for whistleblowers. Most all of the companies

had similar ways to encourage their employees to report wrongdoing. A summary is detailed below.

<b>Company</b>	<b>Monetary Awards</b>	<b>Amount</b>	<b>How to Encourage Whistleblowing</b>
A	No	-	Employees Actively told to call
B	Yes	n/a	Posters
C	No	-	Kiosks, Internal magazine ads, Code of Conduct
D	Yes	Up to \$100k	Posters, Compliance Training
E	No	-	Company Intranet, Posters, Code of Conduct
F	No	-	Website, Posters
G	No	-	Posters, Tent Cards, Code of Conduct

A common thread to encourage whistleblowing was to publish the hotline number or email in a visible location.

Next, while employees are encouraged to report fraud, it is important for companies to have a system and a hotline that is adequate in responding to their concerns. Of the seven companies that I talked with, most had a third party to monitor the hotline. The summary of the seven companies' hotlines and responses is shown below.

Company	Internally/Externally Handled*	Who Receives the Reports	Timeline for Acting on Reports	How Many Reports Result in Disciplinary Action/How many reports are True?	Was there a way to anonymously report before SOX?
A	External	Human Resources	Immediate	? - Many/?	Yes
B	External	Loss Prevention	Most quickly	??	Yes
C	Internal (Legal Council)	Legal Council	1 week - 1 year	100%	Yes
D	External	Compliance	Most quickly	Close to 100% not true/about 75% of calls are from disgruntled employees	Yes
E	External	Compliance	A couple of days	Less than half result in disciplinary action	n/a
F	External	Legal Department	Depends	95% no action/5% are true	n/a
G	External	Ethics Office/Director of Internal Control	About 48 hours, but could last months	100% of accounting matters result in disciplinary action	Yes

In most of the interviews, it was mentioned that having a third party monitor the hotline helps keep the identity of the whistleblower confidential. According to one of my interviewees, there are about four or five major third parties that provide the hotline services. Once the call or email has been sent to the respective reporting body, the report is returned to the company, which acts in a way that has been prescribed.

The Sarbanes-Oxley Act also provides the whistleblower with protection from retaliation. Across the seven companies, there were certain things that were common. In several companies, the Code of Conduct prohibits retaliation against the whistleblower. It was mentioned that this is where the significance of the third party comes in to help keep the reporting anonymous. The summary report that is received does not have names of any whistleblower, which protects anonymity.

In several of the interviews it was mentioned that the passage of the Sarbanes-Oxley Act did not change many company procedures or policies.

Besides the representatives of two companies who had not been with their company before the Sarbanes-Oxley Act was passed, all of the companies had a way to anonymously report fraud. It was mentioned that in the 80's, the way to report was to talk to a manager, but there soon became a need beyond a face-to-face meeting. The effect of the passage of the SOX Act on the hotline and the Code of Conduct is shown below.

Company	Did the Code of Conduct change with SOX?	How?	Other
A	No	Formalized CoC	New employees get copy of CoC, must sign off; Made aware of hotline. Management meetings reiterate need for ethics.
B	No	Working to be more user-friendly	New employees get copy of CoC, must sign off; Have online ethics training course
C	No	Operations/Controls Formalized	n/a
D	No	n/a	"The ADM Way" implemented after SOX
E	Yes	Lengthened, made more specific	Moving to have an online quiz for training
F	n/a	n/a	Interviewee became a part of his company after SOX
G	n/a	n/a	Employees receive CoC; Training for all worldwide on the whistleblowing hotline

The next question discussed the future of the Sarbanes-Oxley Act in each company. None of the companies were planning to make any drastic changes in the future. It was mentioned two times that change concerning the Sarbanes-Oxley Act is not drastic, but rather a gradual evolution. Some possible changes include automating the process more. The change is about making the process more efficient, not necessarily making compliance cheaper.

Company	Future Plans
A	There is a continuing evolution with SOX. Compliance may not become cheaper, but can be more efficient.
B	This company is well in three areas: 1) Ethical behavior of senior managers is excellent. 2) Use of Compliance & Ethics Committee. 3) CEO launched ethics training.
C	Compliance with SOX is an ongoing process. It is important to have an ethical board that sends an ethical tone. Systems may become more automated
D	No changes in the foreseeable future.
E	No changes to the whistleblowing provision, but may be able to minimize costs in other SOX areas.
F	AS5 is the only area in which changes will be made.
G	No changes to the whistleblowing provision, but there may be changes in SOX 404. Good companies would have whistleblowing provisions in place regardless of the law.

In general, the companies that I interviewed were satisfied with the results of Sarbanes-Oxley. It was mentioned that when employees see the results of the Act there is more awareness of what it is and why it is needed. Two of the companies have done surveys regarding the internal image of the whistleblowing provision. One company surveyed associates and found there was a positive image of trust. Another company tests the system by making test calls to be sure the hotline is working efficiently. The internal audit department also does an

independent survey with 75 people to comment on the integrity of management. There are 24 questions to be answered, and those answering the questions are assured that the director of internal audit will only see the responses. These responses are compiled and shared with the CEO and Audit Committee. This same company also has locations in other parts of the world, and the interviewee said that one country feels good about senior management of the company, but does not feel good about the local management.

In all, every company seemed to be pleased with their whistleblowing provisions to comply with the Sarbanes Oxley Act. There were similarities and differences, but all accomplished the same goal.

## Appendix

**Company Contact Information**

<b>Company</b>	<b>Name</b>	<b>Contact</b>	<b>Position</b>	<b>Phone</b>	<b>E-Mail</b>
A	SPX	Tom Prusinski	Controller	815-883-3751	tom.prusinski@fluidpower.spx.com
B	Office Max	Mark Pearson	VP, Internal Audit Services	630-438-7501	markpearson@officemax.com
C	Pepsi Americas	Sue Hauswirth		847-598-2989	
D	ADM	Larry Doran	Division Controller	217-451-7455	doran@admworl.com
E	Lawson Products	Matt Garling	Director, Internal Audit	847-827-8979 ext.2355	mgarling@lawsonproducts.com
F	Whirlpool	W Korey Thomas	Intenal Audit Manager	616-212-5091	wilyam_k_thomas@whirlpool.com
G	Hospira	Chris Sardi	Vice President, Internal Audit	224-212-2809	chris.sardi@hospira.com

### Company Profile

Company	Name	Revenue	Employees	2/22 Close Price	52 Week High	52 Week Low	Volume (2/22/08)
A	SPX	4.87B	14300	\$ 112.30	\$ 118.00	\$ 64.90	1,026,428
B	Office Max	9.14B	36000	\$ 23.73	\$ 54.58	\$ 17.12	1,734,500
C	Pepsi Americas	4.48B	NaN	\$ 26.50	\$ 35.99	\$ 20.95	283,800
D	ADM	52.92B	27300	\$ 44.58	\$ 47.33	\$ 31.28	6,132,525
E	Lawson Products	518.21M	1540	\$ 26.07	\$ 43.77	\$ 24.16	5,351
F	Whirlpool	19.41B	73000	\$ 88.72	\$ 118.00	\$ 67.19	1,218,647
G	Hospira	3.2B	13000	\$ 40.52	\$ 44.64	\$ 35.30	734,000



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## INFORMED CONSENT

### **"What do Companies Do to Comply with the Sarbanes-Oxley Act of 2002?"**

I agree to participate in the research project titled "What do Companies Do to Comply with the Sarbanes-Oxley Act of 2002?" being conducted by Nathan Pedigo, an undergraduate student at Northern Illinois University. I have been informed that the purpose of the study is to obtain an understanding of the process that companies went through to comply with the whistleblowing provision of the Sarbanes-Oxley Act.

I freely and voluntarily consent to allow the responses I give in this research project listed above to be used for research purposes.

I understand that the research procedure will be as follows: I will answer questions provided by the investigator via a telephone interview at an agreed-upon time.

I understand that there are no known risks involved in my participation and that all information gathered during this experiment will be kept confidential. My name and my company's name will remain anonymous in the written paper unless I give my express permission.

I am aware that my participation is voluntary and may be withdrawn at any time without penalty or prejudice, and that if I have any additional questions concerning this study, I may contact Nathan Pedigo at 815-621-1726, or Dr. Chih-Chen Lee at 815-753-6205. I understand that if I wish further information regarding my rights as a research subject, I may contact the Office of Research Compliance at Northern Illinois University at (815) 753-8524.

I understand that my consent to participate in this project does not constitute a waiver of any legal rights or redress I might have as a result of my participation, and I acknowledge that I have received a copy of this consent form.

---

Signature of Participant

Date



d. Who is the team leader?

i. What position did this person hold before joining the team?

ii. What tasks are required of the team leader?

iii. Is there a new job title for the team leader?

e. How much time is devoted to the SOX provision of whistleblowing?

3. What options did your company consider when establishing your procedure?

a. What made you decide to establish the current procedure?

4. How has your company tracked the changes that have been made in whistleblowing in relation to SOX?

5. Is the company doing anything to encourage whistleblowing?
  - a. Has your company ever considered an incentive program, either monetary or non-monetary?
  - b. Is there a handbook, is there a hotline phone number visible, or is there training to encourage whistleblowing?
  
6. How is the whistleblowing hotline handled: internally or externally?
  - a. Who is handling the whistleblowing hotline externally or internally?
  - b. How was this decision made? What criteria did you use to decide in choosing the outsourced firm?



a. Is there a particular way how you track this?

b. If not, is there how would the company increase satisfaction?

10. Was there a way to anonymously report fraud in the company before SOX required it? How was this system changed with SOX?

11. Did the code of conduct change as a result of SOX?

a. How was the code of conduct changed when SOX regulations came in place? Was there any training?

12. In the future, what changes do you see will be put in place to have a cost effective way to comply with SOX?

13. Other

- a. Size of corporation, sales,
- b. Position of interviewee
- c. Anonymous?

Since the era of corporate fraud when companies like Enron and WorldCom were caught in a mess of fraud, there have been various measures taken to prevent future failures. One of the most significant of these measures was the creation of the Sarbanes-Oxley Act of 2002 (Act). The Act, among other things, held management accountable for the financial condition of the company, laid the groundwork for a tighter internal control, and gave related parties the protection to report any fraud or wrongdoing. This study focuses on the whistleblowing provision of the Sarbanes-Oxley Act and looks at the processes that companies have taken to comply with the Act.

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There were similarities in the way that these companies complied with the Act, although each company seemed to have its own unique attitude towards the Act and the whistleblowing provision. The series of questions that were asked

include general Sarbanes-Oxley Act questions, then further asking about their whistleblowing provisions in particular.

First, there were two basic approaches to complying with the Act and with the whistleblowing provision. ~~When complying with the Act, there were two basic~~

~~approaches.~~ Two companies felt that complying was the responsibility of everyone, therefore delegating responsibilities to managers or other cross-

*This doesn't make sense. Is the responsibility everyone's or managers etc.*

functional leads within each department. Other companies have a team, usually made of four to five people, to work on the compliance. These teams that work

on the Act's regulations are mostly concerned with section 404, which is concerned with management reporting. One company had three parties involved

in working to comply with the Act, which included Internal Audit, the Vice President of Ethics and Compliance, and the General Council. The companies

that delegate the responsibility of internal controls essentially add the job to the other duties of the one in charge of the task, *who would that be?*

*This needs more explanation*

The others that have a team to work on the regulations are permanent positions that work solely on compliance. *How many?*

It was common for these team members to be trained in the accounting field. Some had information technology or law backgrounds. *How many?*

Company	Project Team	Number of Team Members
A	No	n/a
B	No	n/a
C	Yes	5
D	Yes	5
E	Yes	4
F	Yes	5
G	Yes	3 Organizations

*Is this true of all companies?*

*in each company interviewed*

There was also a leader in charge of compliance, regardless of whether it was a team or a unified effort. More than one company was led by the Director of Internal Control/Internal Audit. One Director makes sure controls are updated and the reporting of controls is accurate, as well as overseeing the compliance of other major sections of the Act. Another company is headed by an attorney with clerks beneath the attorney to help as needed. The company that delegated the responsibilities of internal control to cross-functional leads has an administrative assistant that looks over and modifies the procedures.

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considered for this change include 24/7 coverage, language that is convenient for workers, and proper customer service. Most firms' processes were simply formalized with the creation of Sarbanes Oxley.

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D	Yes	Up to \$100k	Posters, Compliance Training
E	No	-	Company Intranet, Posters, Code of Conduct
F	No	-	Website, Posters
G	No	-	Posters, Tent Cards, Code of Conduct

A common thread to encourage whistleblowing was to publish the hotline number or email in a visible location.

Next, while employees are encouraged to report fraud, it is important for companies to have a system and a hotline that is adequate in responding to their concerns. Of the seven companies that I talked with, most had a third party to monitor the hotline. The summary of the seven companies' hotlines and responses are shown below.

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F	External	Legal Department	Depends	95% no action/5% are true	n/a
G	External	Ethics Office/Director of Internal Control	About 48 hours, but could last months	100% of accounting matters result in disciplinary action	Yes

In most of the interviews, it was mentioned that having a third party monitor the ~~hotline~~ <sup>hotline</sup> helps keeps the identity of the whistleblower confidential. *hotline you use the term hotline above.*

According to one of my interviewees, there are about four or five major third parties that provide the hotline services. Once the call or email has been sent to the respective reporting body, the report is returned to the company, which acts in a way that has been prescribed.

The Sarbanes-Oxley Act also provides the whistleblower with protection from retaliation. Across the seven companies, there were certain things that were common. In several companies, the Code of Conduct prohibits retaliation against the whistleblower. It was mentioned that this is where the significance of the third party comes in to help keep the reporting anonymous. The summary report that is received does not have names of any whistleblower, which protects anonymity.

In several of the interviews it was mentioned that the passage of the Sarbanes-Oxley Act did not change many company procedures or policies. Besides the representatives of two companies who had not been with their company before the Sarbanes-Oxley Act was passed, all of the companies had a way to anonymously report fraud. It was mentioned that in the 80's, the way to report was to talk to a manager, but there soon became a need beyond a face-to-face meeting. The effect of the passage of the SOX Act on the hotline and the Code of Conduct is shown below.

Company	Did the Code of Conduct change with SOX?	How?	Other
A	No	Formalized CoC	New employees get copy of CoC, must sign off; Made aware of hotline. Management meetings reiterate need for ethics.
B	No	Working to be more user-friendly	New employees get copy of CoC, must sign off; Have online ethics training course
C	No	Operations/Controls Formalized	n/a
D	No	n/a	"The ADM Way" implemented after SOX
E	Yes	Lengthened, made more specific	Moving to have an online quiz for training
F	n/a	n/a	Interviewee became a part of his company after SOX
G	n/a	n/a	Employees receive CoC; Training for all worldwide on the whistleblowing hotline

The next question discussed the future of the Sarbanes-Oxley Act in each company. None of the companies were planning to make any drastic changes in the future. It was mentioned two times that change concerning the Sarbanes-Oxley Act is not drastic, but rather a gradual evolution. Some possible changes include automating the process more. The change is about making the process more efficient, not necessarily making compliance cheaper.

Company	Future Plans
A	There is a continuing evolution with SOX. Compliance may not become cheaper, but can be more efficient.
B	This company is well in three areas: 1) <del>Top</del> at the top is excellent. 2) Use of Compliance & Ethics Committee. 3) CEO launched ethics training.
C	Compliance with SOX is an ongoing process. It is important to have an ethical board that sends an ethical tone. Systems may become more automated
D	No changes in the foreseeable future.
E	No changes to the whistleblowing provision, but may be able to minimize costs in other SOX areas.
F	AS5 is the only area where changes will be made.
G	No changes to the whistleblowing provision, but there may be changes in SOX 404. Good companies would have whistleblowing provisions in place regardless of the law.

*What does this mean?  
Ethical behavior*

In general, the companies that I interviewed were satisfied with the results of Sarbanes-Oxley. It was mentioned that when employees see the results of the Act there is more awareness of what it is and why it is needed. Two of the companies have done surveys regarding the internal image of the whistleblowing provision. One company surveyed associates and found there was a positive image of trust. Another company tests the system by making test calls to be sure the hotline is working efficiently. The internal audit department also does an

independent survey with 75 people to comment on the integrity of management. Here are 24 questions to be answered, and those answering the questions are assured that the director of internal audit will only see the responses. These responses are compiled and shared with the CEO and Audit Committee. This same company also has locations in other parts of the world, and the interviewee said that one country feels good about senior management of the company, but does not feel good about the local management.

In all, every company seemed to be pleased with their whistleblowing provisions to comply with the Sarbanes Oxley Act. There were similarities and differences, but all accomplish the same goal.