

# Internal Helplines v. Third Party Systems

Critical Factors for Consideration When Implementing a Helpline Reporting System

*A whitepaper by EthicsPoint prepared for LRN*

# Internal Helplines v. Third-party Systems

## Abstract

**This whitepaper describes the major factors for consideration when determining whether to develop and manage an ethics and compliance helpline or “hotline” reporting system versus selecting and implementing an outsourced solution.**

## Creating an Effective Reporting Solution

Implementing a confidential and anonymous reporting system is a critical endeavor for organizations of all types and sizes that are committed to enacting stronger and more effective governance practices. Helpline reporting systems have been mandated in key pieces of legislation (such as Sarbanes-Oxley and the Federal Sentencing Guidelines) and are described by the Association of Certified Fraud Examiners (ACFE) as the most effective method of detecting fraud in the workplace. A successful helpline reporting system can yield important benefits, including:

- Reduced losses from fraud
- Improved insight into organizational behavior
- Enhanced satisfaction among employees and other stakeholders
- Reduced financial, legal and reputation risk

In fact, the ACFE finds that organizations without an anonymous helpline suffer median losses over two times greater than organizations with an anonymous reporting mechanism in place.

Each organization must analyze their inherent risk factors and operational requirements based on their size, scope and geographic reach. After making

the decision to implement a reporting system, companies must decide whether to develop an internal helpline or integrate a third-party system with their current ethics and compliance programs. Several factors are critical to this decision and can have a dramatic effect on the overall cost, stakeholder use, effectiveness for mitigating risk and regulatory compliance requirements that the reporting system must meet. These factors include:

- Accessibility and universal availability of the helpline
- Provisions of the system to protect reporter anonymity
- Employee trust of the system
- Anonymous feedback capability
- Compliance with state, federal and international data privacy requirements
- Mitigation of liability
- Support mechanisms to review and resolve reported issues
- Ability to review and assess the efficacy of the reporting system
- Data security during reporting and follow-up
- Secure retention of all information
- Ongoing report distribution and other operational costs
- Implementation costs

Developing an internal system requires much more than installing a toll-free telephone and answering machine. To effectively meet the best practice guidelines for installing and utilizing an internally sponsored helpline, managers and directors must consider first how the organization will manage 24/7 intake of reported information. Also critical are how

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reported information will be distributed to authorized individuals and how follow-up questions may be posed to an anonymous reporter. In order to receive protections under the Federal Sentencing Guidelines, the organization must also document the steps taken in review and resolution, and securely retain this information.

At first blush, this is why most organizations outsource their helpline solution to a third party. In utilizing a third party solution, companies can embrace industry-wide best practices by leveraging the experience, technology, and processes developed by organizations focused specifically on anonymous reporting solutions for the receipt, resolution and mitigation of illegal and unethical issues. By outsourcing this process an organization can cost-effectively maximize the time and resources committed to the ethics and compliance area of their corporate governance strategy.

## Accessibility, Implementation and Ongoing Maintenance

To effectively capture actionable reports, reporting solutions should be available to those wishing to report any time and from virtually anywhere in the world. Ideally, reporters should be able to use either the telephone or a secure Internet portal. For publicly-traded companies, the Sarbanes-Oxley Act requires that reporting mechanisms must be universally available to all persons wishing to report. The ACFE recommends that all organizations expand their access, citing that “the effectiveness of these reporting mechanisms is significantly higher when they are made available to customers, vendors, and other third parties, not just employees.” Maximizing accessibility—measured both by who has access and how often the system is available—will in turn boost the effectiveness of the system.

Most companies find it impossible to cost-effectively achieve a high level of accessibility without the use of a third party provider.

Development of a web intake method is not as simple as creating a web form or activating an email address. Creating a secure web portal system that allows reporters to anonymously report over the web can quickly exceed the time constraints of an organization’s internal resources and de-focus them from other mission-critical tasks. In addition, it is very difficult to inspire reporter confidence in any system developed by and operated within the organization. Outsourcing the process to a proven expert can eliminate trial and error, or worse, the chance of exposing a reporter’s identity due to a flawed process. Potentially, such a mistake could expose the organization to whistleblowing or civil legal actions.

Creating and maintaining a state of the art call center dedicated solely to ethics issues can be costly and inefficient. Because of the costs involved with running a call center 24/7/365, even large companies find it difficult to justify making the system available at all times. Compromising the process with limited hours or an understaffed call center can inhibit the reporting process. Outsourcing provides the organization with a quality call center available at all times for a fraction of the cost of an internal solution.

## Anonymity and Employee Trust of the System

The perception of anonymity and trust in the system is imperative when soliciting reports. According to former SEC Chairman Harvey Pitt, “It is important for employees to know and believe that the reporting process is truly anonymous.” Reporters are more likely to trust a third party system to protect their anonymity than one developed internally.

**“Many companies believe that an internal system created by a company’s IT professionals is sufficient. I don’t believe it is. Don’t forget Enron had an internal hotline.”**

– Lynn Brewer / *Author of House of Cards: Confessions of an Enron Executive and Chairman of the International Society of Ethics Examiners*

Too often, internal telephone helpline solutions put reporters in the compromised position of either recording their voice on an automated system or speaking to a coworker assigned to take reports. Third-party systems offer a “neutral voice” and a trained operator who can collaboratively interview the caller without adding stress to the process. Furthermore, most internal systems do not provide a procedure that adequately protects the reporter’s anonymity should they wish to follow up. Leading third-party solutions are designed to support the reporter’s anonymity via phone or internet by taking steps to ensure that even the gender of the reporter is unidentified and the origin of a phone or web report is untraceable.

Posting follow-up questions by the organization for clarification is a critical step toward resolution and mitigation of frivolous reporting. The system should allow report recipients to immediately post questions, and reporters must be able to respond through a secure method.

## Liability Risk

One of the most compelling reasons for implementing a third party solution rather than running an internal process is the mitigation of risk. An effective helpline reporting system will have an unimpeachable supporting audit trail

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of activity. While an internal helpline may assist in receiving and solving issues, most internal solutions rely on recollection and hand-entered activity data which may not withstand the scrutiny of the legal system should subsequent problems occur. A critical factor in choosing a third-party provider is their ability to provide an audit trail of activity.

**“...any attempt to create a system internally exposes the company unnecessarily to liability for failing to meet the anonymous and confidentiality requirement [of Sarbanes-Oxley section 301].”**

– Harvey Pitt / Former Chairman  
U.S. Securities and Exchange Commission

Further, in the event that an internal conflict becomes a legal issue whether it has been reported or not, demonstrable availability of an anonymous system is an important factor in the reduction of liability. Employment and labor law attorneys Dudley Rochelle and David Goldman find that “the more emphasis the employer places on encouraging complaints to be brought to its attention, the better the employer’s chances of showing that the employee’s failure to complain was unreasonable.” Businesses are expected not just to provide this service but to ensure that their employees are cognizant of and confident in its ability to protect their anonymity.

## Support of Activities to Resolve Issues

Ensuring that the report is delivered promptly to the personnel responsible for the issue is vital to report resolution. It is also imperative that steps are taken

to ensure that a report recipient who is implicated in a report be immediately removed from the report distribution list, along with their peers and subordinates. A distribution matrix and distribution program that effectively accomplishes these goals can be costly and time consuming to internally develop, but is generally available from a third party provider.

Tools used for managing reports must be robust and accessible for any situation. An appropriately developed reporting system will provide access to statistics, reports and trend alerts that allow organizations to follow the broader picture. In doing so, these analytics offer opportunities for organizations to identify breakdowns of internal controls, isolate geographic or managerial issues, or identify larger systemic concerns.

The resolution of each report is not, ultimately, enough to satisfy best business practice demands. For an organization to embrace the goal of best business they must have the tools to learn from their mistakes and successfully prevent and deter future violations.

## Data Security and Report Retention

A common reason many companies choose an internal solution over a third-party provider is their fear that sensitive information resting in the hands of an outsider would be compromised. In fact, most internal systems put companies at higher risk by keeping reports on servers located on-site in facilities that are not fully secure, leaving their information vulnerable to both internal and external attacks. Furthermore, the anonymity of a reporter can never be guaranteed if the information and dialogue is maintained on an internal server.

Maintaining system security at the level required by the sensitivity of the information contained in ethics and compliance reports is not economically feasible for most organizations. Outsourcing the process to a third party with a commitment to the highest level of security is the only way to adequately protect the anonymity of the reporter and the integrity of the reported information.

## The Best Choice for Best Business Practices

An organization and its Board of Directors that are committed to achieving results and supporting stakeholders must demand a comprehensive, robust helpline reporting system that seamlessly integrates and supports the organization’s overall ethics and compliance strategy. For smaller organizations the build or buy equation alone favors outsourcing. It is also difficult to imagine, given the diversity and complexity of the factors outlined above, that even the largest organizations will be prepared to internally develop and maintain a best practice reporting solution.

For more information about LRN Helpline, please contact LRN at (800) 529-6366, e-mail us at [info@lrn.com](mailto:info@lrn.com) or visit us at [www.lrn.com](http://www.lrn.com).

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