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an interview by Art Weiss

Meet David C. Humphreys and Robert Bradley

AW: David, please tell us a bit about TAMKO and yourself.

DCH: At the age of 69, my grandfather E.L. Craig started TAMKO in 1944 with a single roofing line, housed in a former street-car barn in Joplin, Missouri. Eight years later, he suffered a stroke and my grandmother took over the leadership of the company. Later, my mother managed the company until she left to raise her family, so that my father became president in 1960. He led the company's growth for the next 33 years, until his death in 1993. I succeeded him the next year. My

mother continues today to serve as Chairman of the Board.

Over the course of TAMKO's 68 years, we have continued to grow both in the number of manufacturing facilities and in our product lines. In addition to asphalt roofing products, such as shingles and rolls, we also produce waterproofing, window and door wraps, composite decking and railing systems, and cements and coatings. In addition, we are very vertically integrated as we manufacture a number of our raw materials, such as recycled felt paper, polyester and fiberglass mats, and

fiberglass fibers, and we process our own asphalt and ground limestone.

My professional background is as both a trial defense and corporate tax lawyer. Complex regulatory and statutory construction was part of that career. Understanding that there need to be clearly defined black-and-white boundaries, but recognizing that there are shades of gray, is important in being successful in attaining compliance. Our “between the hash marks” compliance metaphor reflects the need for clearly defined boundaries in order for employees without legal training to succeed at real world compliance, as we want to stay in the center of the field where the lights are bright and the rules are most clear, and away from the sidelines where the visibility is not as good and the opportunity for bias on the part of regulatory referees is more likely to find us out of bounds.

Taking on the top job at TAMKO was a very real change in responsibility and necessitated an adjustment in my risk tolerance. As a lawyer, I had been programmed to avoid all risk possible. In the world of business, risk is part of the daily challenge and I had to learn to accept some risk of failure. And as “the client” instead of the lawyer, I had to learn to live with some risk. Compliance is one aspect of risk that must be managed.

AW: TAMKO believes in a free market economy, continuous improvement, Six Sigma, and follows the Deming principles. How do these principles mesh with compliance?

DCH: If you look at compliance from the total quality management perspective—we’ll call it a Deming or Six Sigma perspective (because Six Sigma is an extrapolation of

Deming with enhanced tools and people with high-level skill sets)—you will understand that all processes are subject to variation from at least five different sources, including people, and that it is critical as to what that variation is, how wide it is, and where it comes from. Then you have to learn how to figure out how to minimize the variation.

So in the context of compliance, we also focus on people and our processes. For example, in the environmental compliance, variation can come from machines from normal wear and tear, from breakdown, from defects in the machines themselves, or in the manner in

which they are operated, installed, or maintained. As such, environmental control equipment can fail or even just quit working as the result of a power outage. We try to avoid those failures by understanding our process that affect environmental equipment and try to add backstops to our processes

to avoid failures. When those failures happen, environmental noncompliance can be avoided despite equipment failure. If the environmental controls fail, production automatically shuts down, which maintains compliance. As we have come to map out and understand our processes better, we can now see the possibility of implementing failsafe controls.

It’s the same thing in terms of personal compliance: Understanding the existence of variation in human behavior led us to rethink how we manage issues, like avoidance of sexual harassment. We now see training as providing bright-line boundaries as to what behavior is not acceptable. Knowing that people are variable, we accept that training alone is not sufficient, because there are too many opportunities for miscommunications

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between the trainer and the trainee; trainees don't understand all of what they are hearing and they certainly don't retain all they hear. And, whatever they did learn will erode over time. More training helps, but it never gets you to 100% understanding. That tells you a couple of things: One is that training has to be very simple in providing very bright lines for people, so they don't have to make judgment calls, so they know what's good and what's bad. I think the other is to provide all sorts of mitigation mechanisms, so that bad behavior, if it happens, is reported quickly and handled quickly. You have to expect and trust people to do what they should do, but when they fail, you need to act quickly to mitigate the failure.

AW: What does it mean to place people into a state of self-control and how does that benefit compliance?

DCH: The state of self-control means knowing what you're doing and what you're supposed to do. The training really does that; it puts people in a state of self-control. But again, I think there would need to be very bright lines given. You can't expect to train people to all be experts. We don't want our employees playing outside the hash marks, near nebulous boundaries that may turn out to be shifting around. So, to me, self-control comes through training continuous improvement by example of the failures.

AW: How would you describe TAMKO's culture to someone outside the company?

DCH: I would say our culture is one where people feel that they're given the responsibility to do their jobs, the freedom to do their jobs, and they're held accountable for that. But, I think in large part, if I had to say, it's a cultural trust where we trust people to do their jobs and they trust us to take care of them in return. And it's also one where we expect people to take the initiative to come to work, get their jobs done well, and perform as well as they're expected to, or better. It's not

a culture where people who need prodding or people who feel entitled do well. It's very much a culture where the expectations are high for performance.

AW: TAMKO is privately held, and doesn't do business in foreign countries. TAMKO is not subject to many of the government regulations and laws that others are, and yet you decided to have a compliance officer. What drove that decision?

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DCH: It had nothing to do with being a potential target or not. I think it had everything to do with having an additional resource to focus on compliance, as contrasted with the Legal department, which has a whole other range of responsibilities. So, focusing on compliance is a broad spectrum in itself, but I think it's a better way to attack. I think it's a better way to make compliance an important aspect of how we do business, separate in its own right, separate from the Legal department. And even though we're relatively small and we're privately held (so we don't have SEC reporting obligations or FCPA issues to deal with since we don't operate in foreign countries), still the risks of non-compliance in a variety of areas we do operate in are significant, not in terms of how many laws or regulations we may be subject to, but just because the severity of the penalties for non-compliance have an even larger proportional effect on a smaller firm. If we do an outstanding job in environmental compliance and employment law-related compliance, and I think we do, then the risks that we do face are minimized.

AW: TAMKO has a saying, “100% compliance, 100% of the time.” That’s more than just a goal or a slogan, isn’t it?

DCH: That’s the minimum, so yeah. I mean, if we’re going to have compliance, we need to be compliant. You can’t be partially compliant.

AW: Can you explain the concept of operating “between the hash marks?”

DCH: As I mentioned before, the concept of operating between the hash marks is a football metaphor based on the fact that if you play between the hash marks, that’s where the lights are the brightest. Not only the referees, but everyone in the stands can see where you are, and you know where you are as a team. The closer you get to the sidelines outside the hash marks, the closer you come to the boundaries. And in football, if you step on the line, you’re out of bounds. In the world of compliance, if you step on the line, you may have severe penalties.

The other thing is that, in the business world, you can be running down the field on a breakaway for great success (a touchdown in football), but then find that, retroactively, the boundaries have been moved. Where you thought you’d been doing a great job, you’ve been out of bounds the past 60 yards. And so, operating in a world where the boundaries can move against you, it’s much safer to stay in the middle of the field.

In addition, in the world of business and regulatory compliance, you’re operating in a world where the referees have a vested interest, in effect, a bias toward seeing you step out of bounds. It’s probably best to play where the lights are brightest and where everyone else can see where you are, so that if the referee calls you out of bounds, it will ultimately be overturned as a bad call, because everyone can see that you were right in the middle of the field.

AW: Can you explain TAMKO’s Rule of Basic Honesty?

DCH: The Rule of Basic Honesty is what it says. We expect people to be honest in the

normal context of what honesty means, which is: You tell the truth, you don’t lie; you come forward when you see something that’s wrong. I would say it can be summed up as: You do the right thing. Bob, can you add to that?

RB: It means, along with complying with both the letter and spirit of the law, it forms the backbone of all our policies. It means more than simply telling the truth. It includes doing your job the way it should be done, not taking short cuts that may save time but do not produce the right result. It means that every TAMKO employee has the right to rely on every other employee to do their jobs. It means our customers and vendors can rely on us.

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AW: Bob, even though TAMKO has independent Compliance and Legal functions, we work together almost daily.

RB: That’s true. Many of TAMKO’s policies were in place before we had a Chief Compliance and Ethics Officer. Since you came on board, many of TAMKO’s policies have gone through revisions to clarify the message and remove the “legalese.” The Legal department has primary responsibility for investigating potential policy violations, but we work with Compliance to apply our policies to the facts and recommend responses.

AW: David, you mentioned coming forward in your discussion of the Rule of Basic Honesty. The Federal Sentencing Guidelines require an anonymous system for reporting

violations of law. Do you remember what you told me when we first talked about creating what most people call a “hotline”?

DCH: I recall that I was not excited about it, because I saw people using it as a place to complain anonymously about whatever is bugging them that day, rather than for any valuable purpose.

AW: Your direction was to design a system where employees could report violations of TAMKO policy or culture, through the ability to anonymously offer feedback to senior management through questions, comments, concerns, or requests for guidance, in addition to having the required mechanism to report suspected violations of law. The vendor we chose used the name Silent Whistle.

DCH: Yeah, I really did not like the term. It sounded like a whistleblowing system, and I really didn't see that that was the right way to approach any of these issues, if you want compliance. You'll have people complaining, but they won't give you ideas or suggestions, so the fact that we changed it into the TAMKO Employee Feedback System turned it away from an “us against them” concept, a whistleblower concept, and into a way to give both negative and positive feedback, which I think is important.

AW: In the three years that we've had our formal feedback system, we've received over 300 entries; 87% are from employees asking a question, seeking guidance, offering a suggestion, or giving an opinion. Our vendor's data shows that, among all of its clients, 75% of all entries are reports of violations. We have the exact opposite side of the universe for that. What does that tell you about TAMKO employees and their willingness to offer feedback?

DCH: We're special. Seriously!

RB: You know, I think it's important to note in those statistics the portion of TAMKO employees who aren't reporting a violation

of law. We have not received a single report of an employee violating any law or regulation. Instead, they are reporting violations of TAMKO's own policies, which keep our conduct between the hash marks, and keep us from getting to a violation of law.

DCH: I think what it tells us is that we have, for the most part, a group of people who believe in doing the right thing, who accept our Rule of Basic Honesty, and that there are very limited instances of behavior that may be non-compliant. And as a result of that, I think that's why we don't have a lot of reports of non-compliance or any illegal activity.

AW: On another note that speaks to TAMKO's culture and philosophy, TAMKO recently came to the aid of employees and the community, because you felt it was the right thing to do. Can you talk about the April and May tornados and what drove TAMKO's decision to go above and beyond?

DCH: When the Tuscaloosa (Alabama) tornado hit, I think we had five people who had homes affected, and a lot of people who had cars that were damaged or destroyed. And so that caused me to think about what can we do to help these people, because I'm sure they're sitting there—although they may have insurance—they're in a period of time in their lives where they don't have the insurance proceeds, they don't have a place to live, and they probably don't have a lot of money in the bank. I wouldn't be surprised if many live from paycheck to paycheck, so it seemed like they probably needed some assistance.

And then when the tornado hit Joplin, it brought that thinking home even more, because we had, I think, another 20–25 people who lost homes and some who lost cars. It was really a function of just trying to help people who were in a situation that had to be very difficult. They lost a place to live, probably had no place to live, and lost not only their house,

but everything in it. I don't know what I'd do if I lost everything and found myself doing without. I guess our impulse was to try to help folks get through the period of time while their insurance was being sorted out, and to help them (to some extent) cover the loss on their deductible for their house and for their car, because those are large out-of-pockets for the average person, which are usually very difficult to absorb. So we thought we'd at least try to help on that front, in terms of helping our employees. So I think, at the end of the day, we helped our employees and if they had immediate family who lost houses, we tried to help them as well.

In terms of contributions to the community, TAMKO as a company has given to the Red Cross, and I have personally to the Salvation Army and some other groups. We did that to some extent in Tuscaloosa, but on a much larger scale here in Joplin, because it's our hometown and because we felt that immediately after the storm, it was important to immediately make some contributions and set an example for others in the area to do the same. I think when TAMKO gave a million dollars to the Red Cross, I think it set a very high bar locally, which was met by at least one other local company and a couple of national companies that had a presence. I think that it at least led the way for a significant amount of contributions.

AW: What's the most important thing that you look for when you hire somebody to join TAMKO?

DCH: I didn't know what that was until a few years ago, when I was getting ready to hire a chief financial officer and I brought in a search firm to help. We spent a day and a half talking about the position and, at the end of the day, the representative said, "I know what you're looking for." I said, "Really? What's that?" And he said, "You're looking for someone you can trust." That probably sums up

what I look for in people I hire myself or for the company. I look for someone I can trust, which basically means I'm looking for someone who is honest, who is humble, and whom I can depend on.

AW: We also hear about the concept of "getting the right person on the bus." What does that mean?

DCH: It means hiring people you can trust, number one. You can hire talented people that you can't trust, and then you have a bunch of people with a lot of talent, but you end up not knowing whether you can get anything done. Hiring attitude over talent is extremely important. You get the right people, the right attitudes, presumably with the right skills, and you get them to the right place where they can make a difference.

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AW: What advice would you have for other CEOs as they attempt to build a compliant and ethical culture in their organizations?"

DCH: Understand that any compliance failure puts the organization at significant risk (financial, operational, and reputation) such that 100% compliance, 100% of the time requires an appreciation of that risk and leadership from the top to establish a compliant and ethical culture.

AW: Thank you, gentlemen. *

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