

# What's Up with Outsourcing?

## Efficiencies, Compliance Obligations and Complex Relationships

Consulting Roundtable  
June 28, 6:30 – 8:30

Come hear three globally recognized leaders in Outsourcing and Compliance speak on ensuring compliance with the financial and legal obligations of a post Sarbanes-Oxley, and increasingly data-protection and privacy focused world.

Gleacher Center, room 100  
450 North Cityfront Plaza Drive  
Chicago Illinois 60601

### Who

Gregory Hedges (GSB '89) - Managing Director at Protiviti Inc  
John McCormick – Accenture Senior Executive Internal Control and Compliance  
Michael Mensik – Partner at Baker & McKenzie LLP

### Program

6:30-7:00 Networking  
7:00-8:30 Presentation and Q&A  
8:30 on Cash Bar networking at Midway Club

**Register** Via e-mail to [rpatter3@chicagogsb.edu](mailto:rpatter3@chicagogsb.edu)

**Questions** Rachel Patterson '03

### Event Details

You and your client are trying to balance cost-efficiencies, quality focus, business trends, due diligence and still keep growing. How do you juggle the business needs, regulations and relationships? What are others doing? In a world where companies are focusing more on their core competencies and spinning off non-core services, sourcing and off-shoring create business opportunities, extended enterprises and... challenges in due diligence and compliance.

Consultants, lawyers and business people wrestle everyday with decisions on how to balance cost, relationships and regulations for the long term. Outsourcing and offshoring present an interesting array of opportunities but also present traps in a regulated world.

Our panel will discuss some of the issues that come up in Outsourcing relationships, tips on how to avoid and manage the regulatory traps, some basic common outsourcing sense and a few “war stories”.

### Presenters

Mike Mensik is a Partner at Baker & McKenzie LLP and the head of the firm's global Outsourcing practice.

John McCormick leads the Senior Executive Internal Control and Compliance Department of Accenture.  
Gregory Hedges (GSB '89 ) is a Managing Director at Protiviti, Inc.

## Presentation Overview

This presentation was for the Consulting Roundtable of the University of Chicago's Graduate School of Business. The Consulting Roundtable is one of several alumni organized monthly seminar series. For more information, or to sign up for any of the roundtables, please see <http://www.chicagogsb.edu/alumni/roundtable/>

This presentation took place on June 28 at the Gleacher Center and focused on three key areas. First, the discussion defined the new/current business model, "the extended enterprise", an organization which is electronically integrated, global and dependent on third parties. Then we moved on to potential regulatory traps for the extended enterprise – what to be aware of and avoid. Third, some interesting phrases or clauses clients have requested in their contracts with outsourcing providers.

Given that organizations are increasingly focusing on their core competencies and spinning out non-core activities to outside providers, "supply" contracts have moved from supplying mechanical parts to supplying sophisticated (and often regulated) services. Outsourcing presents an interesting array of strategy, relationship management and compliance issues. Following discussion on the extended enterprise and the multiple players involved in a business, the presentation moved into some of the regulatory "traps" that govern business today – the Foreign Corrupt Practices Act, Data Protection concerns, Sarbanes-Oxley, etc. and touched on how these affect outsourcing relationships. The third part of the discussion centered on interesting phrases customers have requested in their contracts with outsourcing providers (the service suppliers), the impracticalities or redundancies of certain requests - no one provides internal audits to outsiders; or, you want a report asserting the specific transactions for your company are SOx compliant when our auditors assert that all our activity entity-wide is, etc.

Below are the slides of the presentation, complete with contact information for the 3 presenters, Michael Mensik, Greg Hedges and John McCormick.

Thank you,

Consulting Roundtable  
Ashish Kothari, Rachel Patterson, Laraine Spector



# Outsourcing & Compliance Strategies for the “Flat World”

June 28, 2007

University of Chicago, GSB –Consulting Roundtable

Gregory Hedges -- Protiviti  
John B. McCormick – Accenture  
Michael S. Mensik – Baker & McKenzie



University of Chicago - GSB Consulting Roundtable

## Setting the Stage – True or False?

... Suppliers today are *increasingly comfortable* about making *future regulatory compliance a standard element of their contracts*, meaning the supplier will ensure the client stays in line with regulatory standards as they evolve.

Bravard & Morgan, *Smarter Outsourcing* (2006), p. 119

## Context: The Extended Enterprise

- Globally distributed
  - Offshoring
  - Global sourcing
- Electronically integrated
- Third-party reliant
  - ITO
  - BPO
  - KPO
- Cost constrained



## Context: Regulatory Hotspots

- Foreign Corrupt Practices
- Export Controls
- Tax Compliance
- Employment Compliance
- Sarbanes Oxley Act
- Data Protection/Privacy
- Telemarketing Regulations
- Sectoral Regulations
- Sentencing Guidelines
- Industry Standards (e.g., PCI)
- Corporate Social Responsibility



## Undertow: Information Security

- Ubiquitous imperative
- Internet driven
- Deeper than data protection/privacy
- Extends beyond current state to BC/DR
- No clear or uniform legal standard of adequacy
- Evolving best practices



## Enough Said?

- *“Customer and Service Provider will each comply with all applicable law ....”*

Break-Fix



Call Center



## One Shoe Doesn't Fit All

- Reach common understanding
  - Non-delegable duties
  - Evolving standards
  - Conflicting views
- Map responsibilities
  - Knowing
  - Doing
  - Monitoring
  - Fixing
- Allocate risks



## Key Attributes of Way Forward?

- Clarity
- Suitability
- Transparency
- Standardization
- Flexibility
- Fairness



## Deep Dive – Contract “Gems”

Number 10 – Client:

*“Provider will, at its expense, provide an attestation from its independent auditors stating that Provider maintains an effective system of internal controls as required by Sarbanes Oxley Act, which Client and its auditors shall be permitted to rely upon ....”*



## Number 9 – Client:

*“During the Term, at its sole cost, Provider will conduct reviews and audits of all books, records, [etc.] ... maintained by Provider, all personnel, facilities, systems, [etc.] used to perform the Services, and all related internal controls, in a manner consistent with the customary audit practices of companies listed on the London Stock Exchange and the reasonable requirements of Client and its auditors ....”*

## Number 8 – Client:

*“Provider will create and maintain an internal audit department and supply the reports to Client...”*



## Number 7 – Client:

*“Provider will supply a GAAP SAS 70 Type II at no cost to the Client ....”*



## Number 6 – Client:

*“We represent that Client and the XYZ application was included in the common control SAS 70 Type II report ....”*



## Number 5 – Client:

*“Provider will allow Client access to SAS70 auditor working papers supporting the SAS 70 ....”*



## Number 4 – Accounting Firm:

*“Organization represents that it is not aware of any reason why accounting firm would not be considered to be independent ....”*



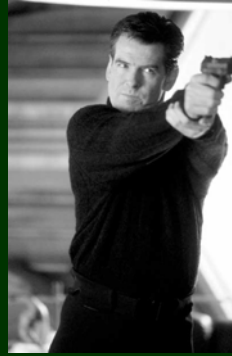
## Number 3 – Accounting Firm:

*“The Report is conducted for the Provider’s benefit and is not intended for external use ... However, Provider may discuss the outcome of our review with Client ....”*



## Number 2 – Accounting Firm:

*“In order to provide the client specific report to the Client, Organization must first require the Client to sign the following NDA ....”*



## Number 1 – Accounting Firm:

*“Entity level controls now need to be tested as part of the SAS70 report ....”*

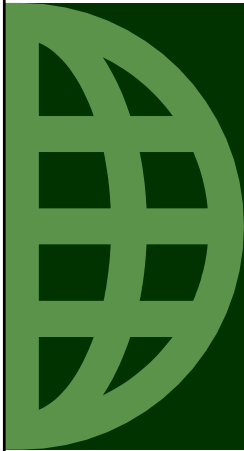


## Questions?

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