



DEFENSE INDUSTRY INITIATIVE ON BUSINESS ETHICS AND CONDUCT (DII)

Federal Acquisition Advisory Panel DII Observations and Recommendations

Public Meeting

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Presented by:

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DII Observations and Recommendations

- **PROPOSITION:** Whether Federal acquisition laws and regulations need modification to ensure that contractors perform their vital role with integrity?
- It is the DII experience that contractors will not act with integrity simply because there is a rule mandating ethical conduct; rather, they will act with integrity if integrity is the company's culture.



DII Observations and Recommendations

- **The President’s Blue Ribbon Commission on Defense Management (“Packard Commission”, June 1986), which inspired the establishment of the DII, in its final report observed:**
 - **“Congress must resist its inveterate tendency to legislate management practices”**
 - **“DoD must displace systems and structures that measure quality by regulatory compliance”**
 - **“Defense contractors and DoD must each assume responsibility for improved self-governance to assure the integrity of the contracting process. Excellence in defense management will not be achieved through legions of government auditors, inspectors, and investigators. It depends on the honest partnership of thousands of responsible contractors and DoD, each equally committed to proper control of its own operations.”**



DII Observations and Recommendations

- **The 65 plus signatories to the DII principles govern themselves according to those principles of self governance by embracing and practicing ethical business conduct.**

DII Principles

- 1. Have and adhere to written Codes of Conduct;**
- 2. Train employees in those Codes;**
- 3. Encourage internal reporting of violations of the Code, within an atmosphere free of fear of retribution;**



DII Observations and Recommendations

DII Principles (cont'd)

- 4.** Practice self-governance through the implementation of systems to monitor compliance with federal procurement laws and the adoption of procedures for voluntary disclosure of violations to the appropriate authorities;
- 5.** Share with other firms their best practices in implementing the principles, and participate annually in “Best Practices Forums”; and
- 6.** Be accountable to the public.



DII Observations and Recommendations

- **The DII signatories are so strongly committed to these principles that, when an ethical failure does occur within the organization, appropriate and responsible disciplinary and corrective action is promptly taken.**
- **Regulations which prescribe ethical conduct will not tend to improve the ethical environment in which Government and Contractors work together.**



DII Observations and Recommendations

- **Regulations tend to reduce ethical conduct to merely following rules.**
- **Regulations tend not to encourage good conduct, but to tee up penalties for bad conduct.**
- **The Government already has a broad range of sanctions and penalties to deal with unethical conduct, running from denial of a contract award to debarment to referral for criminal prosecution.**
- **The DII Model of values-based self-governance should be the preferred model.**



DII Observations and Recommendations

- **The DFARS already mirrors the DII principles by stating the expectations [not mandating] for contractor standards of conduct in DFARS 203.70.**
- **These expectations are:**
 - 1) A written code of Business ethics and conduct and ethics training.**
 - 2) Periodic review of internal controls for compliance with standards of conduct and the special requirements of Government contracting.**



DII Observations and Recommendations

- **A method for employees to report suspected misconduct, and encouragement to make such reports.**
- **Internal and/or external audits, as appropriate.**
- **Disciplinary action for improper conduct.**
- **Voluntary disclosure to appropriate Government officials of suspected violations of law.**
- **Cooperation with Government investigation or corrective actions.**



DII Observations and Recommendations

- **One constructive recommendation this committee could make, without adding to prescriptive regulations, is to elevate to the FAR the statement of expectation of contractor standards of conduct now expressed in the DFARS.**