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## Summary of the internal investigation into the City of Chicago Contract and Redflex actions in response

Redflex Holdings Limited (“Redflex Holdings”) announces a summary of the findings of a four-month long independent internal investigation into its subsidiary’s Chicago contract and associated matters, conducted under the direction of the Audit Committee of the Board of Directors of Redflex Holdings, by the law firm Sidley Austin LLP. The company also announced several key personnel decisions and significant operational changes. The Sidley Austin investigation report is subject to legal professional privilege and reference to the investigation or its findings is not intended to waive privilege contained in that report and all associated legal advice in any way.

### Background:

On October 17, 2012, Redflex Holdings directed the law firm Sidley Austin to investigate and advise on whistleblower allegations of improper activity in connection with the red-light-camera contract between its subsidiary Redflex Traffic Systems, Inc. (“Redflex” or “the company”) and the City of Chicago. Specifically, the allegations claimed that: 1) Redflex’s payments made to a Redflex consultant in Chicago (“the Consultant”) had been passed to the City employee who ran the red- light-camera program (“the City Program Manager”); and 2) The company had paid for vacations for the City Program Manager. Redflex Holdings directed Sidley Austin to investigate and advise on these allegations, as well as whether an earlier investigation into these issues had been properly conducted.

The allegations concerning improper activity had been made two years earlier in an August 2010 letter from a whistleblower. In September 2010, following its investigation into these allegations, an outside law firm advised that the allegations were without merit, except for one \$910 hotel stay by the City Program Manager in Arizona for which Redflex paid. Redflex did not inform the City of Chicago’s Board of Ethics about the allegations or findings at that time.

In early October 2012, a *Chicago Tribune* reporter asked the company questions about the whistleblower’s letter. Because of those inquiries, Redflex disclosed to the Chicago Board of Ethics the results of its 2010 investigation on October 9, 2012. In statements to the Ethics Board and the *Tribune*, Redflex described its 2010 investigation as “thorough” and “exhaustive”, and stated that the allegations were without merit except for the \$910 hotel stay, which it characterized as a billing error.

On October 14, 2012, the *Chicago Tribune* published an article casting doubt on the prior investigation’s conclusion. Redflex Holdings directed Sidley Austin to conduct a new, independent and unrestricted investigation into the allegations. The investigation by Sidley Austin relating to the City of Chicago contract is substantially complete.

In summary, the investigation concluded that the whistleblower allegations did, in fact, have merit, in that: 1) The arrangement between the City Program Manager, the Consultant, and Redflex will likely be considered bribery by the authorities; and 2) Redflex did provide vacation-related expenses and other items of value to the City Program Manager in violation of the City of Chicago’s Governmental Ethics Ordinance. In addition, the investigation concluded that: 3) The 2010 internal investigation was clearly inadequate; 4) The 2012 disclosures to the Chicago Board of Ethics and the *Chicago Tribune* by certain

persons involved with the 2010 investigation were improper; and 5) Certain Redflex officials violated company policies and code of conduct.

**The investigation by Sidley Austin:**

During the four-month investigation, Redflex provided Sidley Austin with complete access to its people and records and instructed that the inquiry run in any direction the evidence suggested. During its investigation, Sidley Austin collected four terabytes (1024 gigabytes) of data, including emails from all 27 current and former employees from January 2002 until November 2012, totaling more than 250,000 documents, and after filtering, systematically reviewed 37,000 documents. Fifty-eight interviews were conducted with 31 individuals, including current and former employees, executives, current and former Redflex Holdings Board members, and third parties. The Consultant, City Program Manager and the former executive who wrote the whistleblower letter refused to be interviewed despite several attempts to interview them.

**Summary of the investigative findings regarding the City of Chicago contract**

**1. The allegation relating to the Consultant/City Program Manager arrangement**

The Consultant was paid \$2.03 million from 2003 through 2012. Most of this amount (\$1.57 million) was paid during a four-year period from 2007 to 2011.

The investigation concluded that the arrangement between the City Program Manager, the Consultant, and Redflex will likely be considered bribery by the authorities. The arrangement was likely intended to be one in which some of the payments to the Consultant would be paid to the City Program Manager, an arrangement apparently proposed by the City Program Manager.

At the least, the two former Redflex officials most involved in the Consultant/City Program Manager arrangement (the former CEO and former EVP) had knowledge that would have made any reasonable person highly suspicious that this was a bribery scheme, and they acted improperly in allowing this arrangement to occur.

Since Redflex does not have subpoena power, it does not have access to financial records that might show whether Redflex’s payments to the Consultant were in fact provided to the City Program Manager. But under the applicable law, the authorities may still consider this arrangement to be bribery even if the payments were not, in fact, made.

**2. The allegation relating to vacations for the City Program Manager**

The investigation concluded that Redflex officials paid for vacation-related expenses for the City Program Manager for at least 17 different trips from 2003 through 2010.

The expenses for 16 of those trips (including hotels, flights, rental cars, golf games, and meals) were paid for by the former EVP or the Consultant, who were reimbursed by Redflex. In addition, the former EVP or the Consultant purchased a computer, Chicago-area golf games and meals for the City Program Manager and was reimbursed by Redflex. These improper expenses totalled approximately \$20,000.

The former EVP’s and Consultant’s expense forms typically did not reveal that the vacation-related expenses were for the City Program Manager, and the former EVP’s expense forms typically did not reveal

that they related to Chicago. Required back-up documentation that would have provided the details of the expenses was often missing or incomplete.

The former CEO knew about and approved some of these trips and expenses. The former CEO also approved all of the former EVP's and Consultant's reimbursement requests, though the failure to provide appropriate details and documentation clearly violated company policies.

These expense payments violated the City of Chicago's Governmental Ethics Ordinance.

### **3. The 2010 investigation**

The 2010 investigation was conducted by a law firm with the assistance of the former CFO, and was overseen primarily by the former General Counsel and secondarily by the Audit Committee. The investigation consisted of interviews of three Redflex officials, no email review, and very limited document review.

The former CFO limited his review of the expenses paid to the City Program Manager to the former EVP's expense reports for 2009-10. The former CFO did not analyze data from prior years or of other individuals. There was no attempt to interview the Consultant. Some of those interviewed by the law firm did not provide complete and truthful information.

The law firm's 2010 report stated that all relevant employees had been interviewed and the relevant expense reports had been reviewed thoroughly. The report concluded that the allegations were unfounded except for a March 2010 \$910 hotel expense for the City Program Manager, paid for by the former EVP and reimbursed by Redflex. The report did not discuss whether this or other expenses violated the City of Chicago Ethics Ordinance.

The investigation was conducted in a manner that was clearly inadequate to determine whether the allegations were true, and there was inadequate oversight.

### **4. The 2012 disclosures**

Some of the October 2012 disclosures to the Chicago Board of Ethics and the *Chicago Tribune* were inaccurate and misleading. Those involved in both the 2010 investigation and the 2012 disclosures, including the former General Counsel and former CFO, knew or should have known this.

Among other things, it was improper for them to describe the 2010 investigation and the associated expense review as "thorough", "complete", or "exhaustive". In addition, in Redflex's submission to the Board of Ethics, it was improper for them to include, and refer positively to, a letter from the City Program Manager which falsely claimed that the \$910 hotel stay was a billing error.

### **5. Other conduct**

The investigation also uncovered numerous violations of company policy and company code of conduct by the former EVP relating to fraud and embezzlement involving personal expenses, which is the subject of a separate lawsuit the company has filed.

## Enhanced compliance management and remediation steps

In addition to the organizational and leadership actions that have been taken, Redflex is implementing significant improvements in Governance and Compliance to ensure that it conducts business in a way that meets the highest ethical standards. Key elements of the program include:

### 1. New Board Member Appointments:

- a. Michael McConnell as Interim Non-Executive Chairman of the Board of Redflex Holdings.
- b. Albert Moyer as Independent Director and Chairman of the Audit and Risk Management Committee.

### 2. New Position:

The appointment of Kim Tomena in a new position as Director of Compliance. She will report directly to the Audit Committee of Redflex Holdings, which is made up of independent directors.

### 3. New Training:

An enhanced program to train all employees on compliance policies on a regular basis.

- a. Anti-Bribery, Anti-Corruption and Compliance Training for all employees and Board of Directors via the Redflex internal HR training delivery system.
- b. Expanded Anti-Bribery/Anti-Corruption training for high risk job classifications.
- c. Anti-Bribery, Anti-Corruption and Compliance Training to be extended to include all contracted commercial intermediaries.
- d. All trainees will be required to complete compliance certificates, with customer facing employees doing so on an annual basis.

### 4. New Assessment and Reporting Processes:

Specific policies and procedures will be established to monitor compliance with the Redflex Code of Conduct and/or municipal gift and hospitality policy violations, including appropriate reporting obligation to customers.

### 5. Hotline and Compliance Email:

A whistleblower program, including a 24-hour hotline and dedicated email address that will enable employees and others, including Redflex customers, to report suspicions of illegal or unethical behaviour on an anonymous basis and an assurance that those reports will be reviewed, investigated and resolved. Reports will flow directly to the Audit Committee Chairman and Director of Compliance simultaneously.

### 6. New Compliance Association Membership and Software Solutions:

Membership in TRACE International, an association that provides compliance solutions and software to enable the company to track observance of Redflex policies and provide reports to customers.

### 7. New Contract Provisions and Processes:

The company will include contract clauses to stress compliance with its policies and change its processes to help ensure compliance.

- a. Sales Consulting agreements will be evaluated and include strong Anti-Bribery and Anti-Corruption provisions.

- b. The Master Subcontractor Agreement and Professional Services agreement will be updated to include strong Anti-Bribery and Anti-Corruption compliance provisions.
- c. All Sales Consulting agreements and administration will be under the supervision of the General Counsel's office.
- d. The company will clearly delineate the different roles of its sales consultants and lobbyists.

**8. Enhanced Expense Report Processes:**

The company's expense reimbursement system will be fortified and regularly monitored.

- a. Expense reimbursement processes, controls, and training will be enhanced and Compliance will conduct a quarterly risk-based audit sampling of expenditure requests/reimbursements.
- b. Expense reimbursement form will be updated to require additional detail and a signature legend that requires the employee and approver to attest that the expenses are compliant with policy.

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