

Risk Assessment Memorandum

Team: Group 1
To: Chief Operating Officer, Sonoma 225 Corporation
From: Naim Ayat
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Introduction

The purpose of this evaluation is to assess Sonoma 225 Corporation's shortcomings – primarily those internal to its current policies and regulations – that may jeopardize the legal integrity of the firm. It is imperative that the company proceeds cautiously in its decisions involving the potential risks outlined in this report.

Based on the findings of Group 1, cost-minimizing recommendations will be made to Sonoma 225 Corporation's executives. The dilemmas of the firm will be evaluated under Group 1's preconceived criteria. That is, optimal solutions will be derived with the following priorities considered:

- The best interests of Sonoma 225 Corporation employees
- Consistency with U.S. Labor Laws
- The minimization of conflicts of interest
- The maintenance and betterment of Sonoma 225's public image
- The maximization of profit
- Low risk aversion

The scope of this evaluation is defined to encompass that of a traditional risk assessment memorandum. Hence, the following will be examined:

1. The potential risks facing Sonoma 225 Corporation
2. An identification of the problems' root causes; along with their legal implications
3. Suggestions to mitigate the effects of current deficiencies and prevent future failures

Review of Facts

- I. Sonoma 225 Corporation privately manufactures security software that encrypts data in cloud storage. Its primary customer is the United States Government, while the remaining forty percent of its consumer base consists of Fortune 500 companies.
- II. The firm is currently the defendant in a lawsuit instigated by employees of its San Jose branch. They claim that Sonoma 225 Corporation violates California Labor Law by not allowing its employees two fifteen-minute breaks per day. The estimated cost to settle the case is \$1.5 million. The estimated legal expenses are \$100,000. The estimated litigation expenses are \$300,000. The firm does not require employees to record their times. It also has anecdotal evidence from over 2,000 people (20% of its San Jose employees) that each

worker takes at least thirty minutes off per day. Corporate officers are not worried by the cost of settling the case, but rather the potential of being labeled “a poor employer.” A lost lawsuit, of course, would reflect even more poorly on the firm. Sonoma 225 Corporation’s lawyers are not completely certain of victory; but they are still confident in their case. Because the case is unfolding in California, it will take upwards of three years to litigate.

- III. As a result of the aforementioned lawsuit (II), the International Brotherhood of Teamsters (IBT) are attempting to organize Sonoma 225 Corporation’s employees. There are concerns as to what impact settling the case will have in regards to the IBT.
- IV. The Occupational Health and Safety Administration (OSHA) has proposed regulations mandating new ergonomic requirements for corporate IT offices. This will require Sonoma 225 Corporation to spend approximately \$2-3 million in remodeling costs. A majority of Republicans in congress oppose OSHA’s proposal. However, President Obama vows to veto any attempt to block the regulations.
- V. The Department of Defense, the company’s main customer, maintains that it will end its patronship with the firm if Sonoma 225 Corporation launches any campaign against the proposed OSHA regulations (IV).
- VI. A Securities and Exchange Commission (SEC) investigation revealed that last year’s annual SEC statement contained inaccuracies and seemed to circumvent the full disclosure of existing risks to company value. As per the Sarbanes-Oxley Act of 2002 (SOX), the CEO and CFO of Sonoma 225 Corporation are subject to civil and criminal penalties against both the firm and themselves. According to the two chief officers in question, they were unaware of the falsities in the SEC statement and relied fully on their operations team. Upon conducting their own investigation, the CEO and CFO confirmed the existence of errors which they attempted to correct by issuing a new statement. The CEO also fired the entire operations team and physically assaulted its leader.
- VII. Sonoma 225 Corporation is considering outsourcing programming work to India. However, the release of its security software to foreign government or foreign workers is understandably prohibited. Still, the operations manager has provided sample code to programmers in Mumbai for an appraisal of labor costs.
- VIII. The firm is currently the defendant in a lawsuit instigated by the owner of property neighboring Sonoma 225 Corporation’s production facilities. The plaintiff claims that the company is poisoning the groundwater that accumulates in his water wells. He claims the

firm has strict liability. Sonoma 225 Corporation argues that it has taken all steps reasonably necessary to prevent any accidental release of chemicals into groundwater.

Analysis of Facts and Recommendations

- I. There is risk that the encryption algorithm employed by Sonoma 225 Corporation can be compromised by any person with access to the software and a modicum of programming knowledge. Thus, it is inherently insecure to provide the U.S. Government and private corporations (Fortune 500 companies) with the same product. Thus, in order to prevent the compromise of government data, it is recommended that Sonoma 225 Corporation use different encryption algorithms for its two types of customers. This is not completely necessary, however, as the U.S. Government strangely seems to have no issue with the software's current level of security.
- II. In regards to the lawsuit instigated by San Jose employees, it is recommended that Sonoma 225 Corporation start requiring workers to record their break times. Moreover, the firm should hold a press conference to announce its new timesheet policy. It should also be publicly affirmed that the company has never violated California Labor Law, but will pay \$1.5 million to settle the case in order to mitigate the displeasure of its employees and prevent time-wasting litigation. This is the optimal course of action to avoid the management's fear of Sonoma 225 Corporation being labeled "a poor employer."
- III. By freely allowing its employees to have IBT representation, Sonoma 225 Corporation runs the risk of the union demanding unnecessary and costly benefits for employees. It is recommended that the firm avoids this by engaging in private negotiations with the members of the IBT who spearhead this movement. The firm's top negotiators must be sent to reach a compromise that is mutually beneficial for company profitability and worker satisfaction alike. By holding such a meeting privately, Sonoma 225 Corporation's public image will not be tarnished.
- IV. Sonoma 225 Corporation must fight the proposed OSHA regulations as they are potentially costly and not within the scope of the agency's statutory mandate. More specifically, OSHA is authorized by section 6 of the Occupational Safety and Health Act to "[govern] the issuance of occupational safety and health standards dealing with toxic materials or harmful physical agents" and address threats of "serious" employee health concerns. While the proposal of "ergonomic requirements" in itself is arbitrary and capricious; ergonomics is neither related to toxic materials nor any other serious health

concerns. In addition, mandating interior design specifications is not within the scope of the regulation of commerce. Therefore, it is recommended that Sonoma 225 Corporation become a petitioner against the OSHA regulations and appeal them to the D.C. Circuit. They clearly violate federal law. Any other action will prove to be fruitless; no amount of lobbying can prevent the president from issuing a veto. Also, it is extremely unlikely that the veto can be defeated; two-thirds of congress is not Republican and thus will not vote to override it.

- V. It is recommended that Sonoma 225 still appeal the OSHA regulations despite the Department of Defense's threats of discontinuing its patronship. Since the regulations are clearly outside the scope of OSHA's power, it is extremely likely that the court will rule against them. Because the Department of Defense will not want to expose itself as a group that supports unconstitutional legislation, it will continue doing business with Sonoma 225 Corporation.
- VI. The root causes of the inaccurate SEC statement are incompetent executives at Sonoma 225 Corporation. There is, unfortunately, very little chance of winning an appeal of the Sarbanes-Oxley charges. It is also unclear whether the CEO faces jail time for assault. Regardless, it is recommended that the Sonoma 225 Corporation board terminate the CEO's contract immediately and offer to rehire the operations board. Upon hiring a new CEO and operations board members, each person who contributes to SEC statements must be rigorously trained to prevent further violations of the Sarbanes-Oxley Act.
- VII. Group 1 was only able to gather that Sonoma 225 Corporation released "sample code" to workers in Mumbai. Thus, the extent of this issue's severity cannot be determined. Regardless, it is absolutely crucial that all contact with foreign workers be halted at once in order to avoid significant criminal penalties. Moreover, the worst-case scenario will be assumed in the following recommendation – the "sample code" exposes integral details of Sonoma 225 Corporation's encryption algorithm. To prevent the compromise of the data, Sonoma 225 Corporation must recode its entire security software to diverge from what was released to foreign programmers. The new software must be released to current customers as soon as possible and advertised as an "upgrade" so as to not deter patrons and taint public image.
- VIII. The landowner who is suing Sonoma 225 Corporation on strict liability charges assumed risk by living next to the firm's production plant. Thus, it is recommended that the company take the case to California court and argue that the landowner is partially at fault under the defense of comparative negligence. This is preferable to admitting strict liability and will likely minimize overall court costs.

Conclusion

Sonoma 225 Corporation has a total of eight issues it should address in the coming year. First, it should stratify its consumers into two groups – government and non-government – and provide unique software for each to minimize the risk of government data compromise. Second, the firm should require workers to record their break times, hold a press conference to announce its new timesheet policy, and pay \$1.5 million to settle the San Jose branch lawsuit. Third, Sonoma 225 corporation should hold negotiations with the IBT and reach an agreement that is mutually beneficial for company profitability and worker satisfaction alike. Fourth, the company must appeal the new OSHA regulations, citing their violation of statutory mandate and incongruity with commerce regulation. Fifth, Sonoma 225 Corporation should pay no mind to the irrational threats of the Department of Defense and pursue the appeal of the OSHA regulations. Sixth, the firm's CEO must be fired and all contributors to annual SEC reports retrained. Seventh, the "sample code" sent to Mumbai workers must be replaced and made incompatible with current software in order to ensure the security of the corporation's customers. Finally, the landowner's strict liability lawsuit must be fought in California court under the defense of comparative negligence.

If all recommendations outlined in this report are upheld, Group 1 predicts a profitable and overall successful year for Sonoma 225 Corporation.