



SCIENCE APPLICATIONS  
INTERNATIONAL CORPORATION

REVIEW REPORT

STATEMENT OF RESPONSES TO THE  
DEFENSE INDUSTRY QUESTIONNAIRE ON  
BUSINESS ETHICS AND CONDUCT

SEPTEMBER 30, 1990

*Price Waterhouse*



October 25, 1990

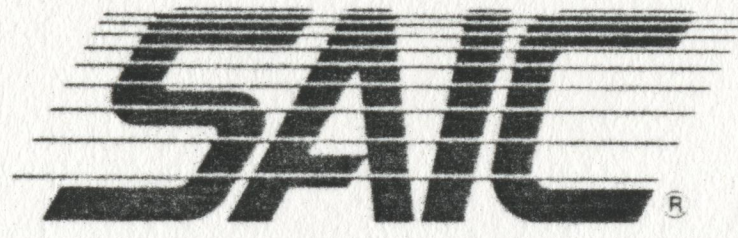
To the Board of Directors of  
Science Applications International Corporation

We have reviewed Science Applications International Corporation's Statement of Responses to the Defense Industry Questionnaire on Business Ethics and Conduct for the period from October 1, 1989 to September 30, 1990, and the Questionnaire and responses attached thereto. Our review was made in accordance with standards established by the American Institute of Certified Public Accountants. Our review was designed to evaluate whether Science Applications International Corporation had policies and procedures in operation during that period that support the affirmative responses to the Questionnaire. Our review was not designed, however, to evaluate whether the aforementioned policies and programs operated effectively to ensure compliance with the Corporation's Code of Business Ethics and Conduct on the part of individual employees or to evaluate the extent to which the Corporation or its employees have complied with federal procurement laws, and we do not express an opinion or any other form of assurance thereon.

A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on the affirmative responses in the Questionnaire accompanying the Statement of Responses to the Defense Industry Questionnaire on Business Ethics and Conduct for the period from October 1, 1989 to September 30, 1990. Accordingly, we do not express such an opinion.

Based on our review, nothing came to our attention that caused us to believe that the affirmative responses in the Questionnaire accompanying the Statement of Responses to the Defense Industry Questionnaire on Business Ethics and Conduct for the period from October 1, 1989 to September 30, 1990 referred to above are not appropriately presented in conformity with the criteria set forth in the Defense Industry Initiatives on Business Ethics and Conduct, including the Questionnaire.

*Price Waterhouse*



Science Applications International Corporation  
An Employee-Owned Company

October 24, 1990

Price Waterhouse  
Suite 1600  
600 B Street  
San Diego, CA 92101

Gentlemen:

Enclosed for your review are SAIC's responses to the twenty-point questionnaire required of us as participants in the Defense Industry Initiatives on Business Ethics and Conduct. We understand that a copy of our responses and your attestation based upon your review of our program will be forwarded, on our behalf, to Deloitte & Touche, Washington, D. C. before October 31, 1990.

Thank you for performing as our independent reviewer as required under the Defense Industry Initiatives.

Very truly yours,

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

A handwritten signature in cursive script that reads "Lorenz A. Kull". The signature is written in dark ink and is positioned above the typed name and title.

Dr. Lorenz A. Kull  
President and Chief Operating Officer

LAK:pp  
Enclosure

DEFENSE CONTRACTOR ASSERTION

Statement of Response to the Defense Industry Questionnaire on Business Ethics and Conduct for the period from October 1, 1989 to September 30, 1990.

The affirmative responses in the accompanying Questionnaire on Business Ethics and Conduct with Responses by SCIENCE APPLICATIONS INTERNATIONAL CORPORATION for the period from October 1, 1989 to September 30, 1990 are based on policies and programs in operation during that period and are appropriately presented in conformity with the criteria set forth in the Defense Industry Initiatives on Business Ethics and Conduct, including the Questionnaire.



SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

DEFENSE INDUSTRY INITIATIVES REVIEW

OCTOBER 1, 1989 THROUGH SEPTEMBER 30, 1990



*An Employee-Owned Company*

Questionnaire on Business Ethics and Conduct

with Responses by

SCIENCE APPLICATIONS INTERNATIONAL CORPORATION

for the period from October 1, 1989 to September 30, 1990

Question 1. Does the company have a written code of business ethics and conduct?

Answer: Yes. SAIC, through its Employee Ethics Committee, has prepared a Standards of Business Ethics and Conduct Booklet ("Booklet") which is distributed to all new employees and, beginning July 1987, was distributed to existing employees at the time of their annual performance review. The Booklet summarizes corporate policies relevant to individual employee conduct and provides guidance for those seeking interpretations of the policies. Additionally, the company's Credo sets forth much of what the implementation program requires under Principle One. The company also maintains and continually updates the Administrative Handbook containing the policies to which the Booklet refers. Policy A-3 "Standards of Business Ethics and Conduct" was revised in October 1989 to incorporate guidelines on conduct regulated by the Procurement Integrity provisions of the Office of Federal Procurement Policy Act Amendments of 1988, to include specific reference to SAIC's ethics Credo and our booklet "Standards of Business Ethics and Conduct," to include reference to SAIC's commitments to the Defense Industry Initiatives, to describe the role of the Employee Ethics Committee, to include the Employee Ethics Committee and the SAIC "Hotline" as channels for employees to communicate information regarding infractions of the standards of business ethics and conduct or concerns about other questionable activities, to promulgate a specific policy on improper use of copyrighted or licensed material, and to define SAIC policies on improper use of competitor's proprietary material in competitive procurements. In addition, the Standards of Business Ethics and Conduct booklet is revised periodically to incorporate new and amended policies. The booklet was revised in 1988 to include the names and telephone numbers of Employee Ethics Committee members, along with the message that SAIC employees could call committee members to discuss matters of ethics or report violations of the SAIC Credo or Standards of Business Ethics and Conduct. The booklet was again revised for publication and distribution in December 1989, and includes the telephone number and address for the SAIC

Hotline, as well as a certification on Procurement Integrity issues which will be signed by all employees during their annual performance review, by new hires at orientation, and annually thereafter for all. A publication entitled "Principles and Practices of SAIC", included as a section in the Employee Handbook which is issued to every employee during orientation, also provides guidance to employees regarding what the company expects of them in terms of personal conduct.

The combination of these documents satisfies the requirement under Principle One to maintain a written code of business ethics and conduct.

Question 2. Is the code distributed to all employees principally involved in defense work?

Answer: Yes. The SAIC Standards of Business Ethics and Conduct Booklet is distributed to all new hires and was given to all existing employees during their annual performance review beginning in July 1987 and annually thereafter. Each employee must sign the certification during his/her annual performance review. The certification is then placed in the employee's personnel file. The SAIC Credo has been distributed to every SAIC employee since its adoption in December 1985. It presently occupies the inside front cover of the Standards of Business Ethics and Conduct Booklet. "The Principles and Practices of SAIC" document has been distributed to all employees as part of the SAIC Employee Handbook.

Question 3. Are new employees provided any orientation to the code?

Answer: Yes. New employees are required to read the code and execute a certification that they have read it and understand it represents company policy. Additionally, a videotape addressing the company's and its employees' obligations under the Defense Industry Initiatives and the company's ethics program has been distributed to all personnel orientation centers for inclusion in the new employee orientation program. In major offices where a regular weekly employee orientation program is conducted, the certification cards are collected and the videotape viewed at the weekly orientation program. In some smaller locations, the videotapes are made available to employees for home viewing. In others, new employees are periodically sent to larger locations for formal orientation.

Question 4. Does the code assign responsibility to operating management and others for compliance with the code?

Answer: Yes. The SAIC Standards of Business Ethics and Conduct Booklet states clearly that the operating management is responsible for assuring compliance with the code. In addition, supervisors are required to obtain, during an employee's annual performance review, a certification form stating that the employee has read the Standards of Business Ethics and Conduct Booklet and understands that it represents company policy.

The SAIC employee and supervisor performance review form was changed in 1989 to call attention to the importance of the SAIC standards of business conduct and to determine any known violations during each employee's annual performance review. In addition, in 1989, and continuing in 1990, under the Self Governance Program, the Internal Audit Department conducted some in-depth employee interviews covering time charging, knowledge of the SAIC ethics program, uncompensated time charging, and use of government property. The interviewee must sign that hours worked and charge numbers reported on his/her timesheet are accurate.

The revised Standards of Business Ethics and Conduct booklet includes a section on Certification of Procurement Integrity. The employee must sign the certification at his/her annual performance review which is then placed in his/her personnel file. In addition, Policy A-3 "Standards of Business Ethics and Conduct" was revised in October 1989 to include a section on ethical standards adopted under the Defense Industry Initiative on Business Ethics and Conduct, and to include designation of the company's General Counsel and the Employee Ethics Committee as responsible offices for rendering advice to management on activities proscribed by this policy. The detailed responsibilities of the Employee Ethics Committee were specified.

Question 5. Does the company conduct employee training programs regarding the code?

Answer: Yes. Since the inception of the ethics program in December of 1984, members of the Employee Ethics Committee have made presentations and provided briefings to numerous SAIC offices regarding the activities of the Employee Ethics Committee and explaining that the company expects professional, ethical conduct from each employee. The ethics videotape is also available to all operating



groups to be shown at appropriate staff meetings and other group gatherings. Training tapes for division and project managers have been completed which include segments on the importance of ethical conduct and the company's obligations under the Defense Industry Initiatives. These training tapes are made available throughout the company. The Ethics videotape has been shown during the company's quarterly meetings week activities in a continuous videotape which also includes instructive materials on labor charging and the SAIC system for controlling classified information. The ethics and labor charging videotapes are also shown at all new hire orientations. The videotape explaining the proper handling of classified information is shown to all new hires applying for a clearance from the U. S. Government. During 1988, the Division Managers Training Program was augmented with videotape vignettes and discussion materials relating to ethical situations encountered by employees of government contractors. Since the inception of the program, a minimum of 726 managers have received the Manager's Training Course. In addition, the Purchasing Agents Training Program has been modified to include videotape vignettes and discussion materials relating to ethical situations encountered by Purchasing Agents. All existing Purchasing Agents and all new-hire Purchasing Agents viewed the tape in 1990 (approximately 90 employees).

In addition to the training programs described above, in 1989, SAIC Project Management Training sessions were held at the April and June Management Meetings. Approximately 140 additional managers were trained. During 1990, Project and Division Manager Training courses were offered at the Quarterly Meetings held in December 1989 and April and July 1990. Approximately 476 managers were trained. Announcements of the meetings were made via the NEWSGRAM, pre-meeting week agendas, and memos to Division and Project Managers from the Training Manager. In January - March 1990, the Employee Ethics Committee conducted a review of the ethics training content of these management training courses to ensure that they accurately reflect SAIC's ethics code. The "SAIC Project Management Quarterly Bulletin," began publication in August 1989. The publication covers Project Management and Management Information Systems (MIS) issues to assist SAIC managers in the timely and effective management of projects. The bulletin is published four times a year. Associated with the bulletin is the document IMPROVING SAIC PROGRAM MANAGEMENT METHODS AND TOOLS (distributed in September 1989). This guide contains descriptions of Corporate Information Resources (CIR) services and MIS applications and tools, and was distributed to Division Managers and Principal Investigators.

SAIC's ethics program is linked closely to the company's quality assurance program. The first section of the SAIC QUALITY SYSTEMS MANUAL was distributed to Sector Managers in April 1990. Section 1 is entitled "Policies and Organization" and outlines the objectives, responsibilities, and structure for the direction and execution of the SAIC Quality System. The additional four sections of the manual are being drafted for future distribution.

SAI Technology has implemented a Total Quality Management (TQM) training program for all its employees. Description and updates on the program are published in the in-house TECHNOLOGY TRANSCRIPT news organ.

Members of the Employee Ethics Committee continue to provide briefings to SAIC offices informing employees of the activities of the Employee Ethics Committee and the SAIC Standards of Business Conduct.

In 1989, the SAIC Legal Department presented a series of informative talks given by our in-house attorneys on various topics of law. The talks were aimed at providing practical and pragmatic guidance to persons working in specific areas, but attendance was open to all employees. The topics were: "Anatomy of a Lawsuit", "Antitrust", "Acquisitions", "Current Issues in Employment Law", and "Recent Developments in Government Contracts". A memo announcing the program was distributed to the Group Administrators, and each talk was announced the previous week in the Campus Point newsletter to all Campus Point employees.

In April 1990, the Legal Department spoke, at the Torrance facility, to Division, Group and Operations Managers, and Personnel Representatives regarding "Employee Discharge, Wrongful Termination, and Negligent Hiring."

In July 1989, the Corporate Personnel Department distributed the PEOPLE MANAGEMENT GUIDE to assist Division and Operation Managers in successfully managing the personnel in their respective divisions. One of the topics discussed is "Leaders Inspire Ethical Behavior". The PEOPLE MANAGEMENT GUIDE is currently being updated to incorporate other topics such as handling terminations. The updated version will be distributed in 1991.

Question 6. Does the code address standards that govern the conduct of employees in their dealings with suppliers, consultants, and customers?

Answer: Yes. The SAIC Standards of Business Ethics and Conduct Booklet contains sections addressing these matters. In addition, the company's standard letters to vendors and suppliers announces SAIC's responsibilities under the Defense Industry Initiatives and solicits the vendors' and suppliers' cooperation in fulfilling those obligations by reporting unethical conduct of SAIC employees to SAIC management. The General Terms and Provisions to SAIC Consultant Agreements include Standards of Business Ethics and Conduct that require the consultant to conform to SAIC's policies for its own employees. Additionally, the company has initiated a policy that advises employees of the responsibilities of government employees who are or were customers of the company and outlines limitations on hiring such individuals.

SAIC's Policy A-3 on Standards of Business Ethics and Conduct was revised in October 1989 to include specific standards regarding relationships with suppliers, consultants, and customers. In March 1990, the Invoice for Consulting Services form was updated to include a certification paragraph that no costs are included for influencing Federal Transactions.

In July 1990, the General Terms and Provisions to the SAIC Consulting Agreement were revised to include sections on "Limitations on the Payment of Funds to Influence Federal Transactions" (Byrd Amendment) and Procurement Integrity.

Question 7. Is there a corporate review board ombudsman, corporate compliance, or ethics office or similar mechanism for employees to report suspected violations to someone other than their direct supervisor, if necessary?

Answer: Yes. The SAIC Standards of Business Ethics and Conduct Booklet stipulates that violations of the provisions of the Booklet should be reported to either the employee's supervisor, the Office of the General Counsel, or the Employee Ethics Committee. The names and telephone numbers of the Employee Ethics Committee members are listed in the Booklet and periodically in the SAIC NEWSGRAM. In addition, Section 5.0 of SAIC Policy/Procedure A-3 provides that the Office of the company's General Counsel and the Employee Ethics Committee shall be responsible for rendering advice regarding activities which may be proscribed or regulated by this policy. Employees or supervisors of employees wishing to determine whether a prospective activity is at variance with this policy statement are encouraged to seek a written opinion from the Office of General Counsel before initiating the activity. Any employee suspecting or having knowledge

of a possible infraction of this policy statement should immediately bring the matter to the attention of the Office of the General Counsel. A Hotline has been initiated in the Office of the Senior Vice President for Administration for the benefit of employees desiring to communicate, confidentially and outside normal business channels, concerns about unethical business practices. Posters announcing the availability of the Hotline for employees are posted in all company locations.

A dedicated Ethics phone line has been set up in the office of the Employee Ethics Committee Chairman's office. To date in 1990, several reports have been made on this phone line by employees wanting to communicate complaints and ethics concerns. In addition, a number of other reports that resulted in Ethics Committee investigations were communicated in private meetings with individual members or by letter or other correspondence to the Employee Ethics Committee or Corporate Officers.

Each employee received in his paycheck envelope on October 7, 1988 and June 16, 1989, a small copy of the SAIC Hotline poster. The Hotline poster was revised to include an address to which reports of violations can be mailed.

In the revised Standards of Business Ethics and Conduct Booklet of December 1989, the phone number and address for Employee Ethics Committee and for the Hotline are listed.

The Employee Ethics Committee Operating Procedure has been revised to reflect the new members of the Committee.

Question 8. Does the mechanism employed protect the confidentiality of employee reports?

Answer: Yes. It has been the long-standing practice of SAIC's Office of General Counsel and the Employee Ethics Committee to protect the source of employee reports from those whose are the subject(s) of the report. The ambit of confidentiality is limited, however, by virtue of the attorney-client relationship (SAIC's management is the client) and such reports must be disclosed to the client. Moreover, as will be discussed infra, our practice has been and will continue to be to report the details of identified misconduct to the U.S. Government.

Employee Ethics Committee records of communications with employees desiring confidentiality are maintained in locked files in the office of the Chairman of the Employee Ethics Committee. The Operating Procedure of this committee

requires that requested confidentiality be observed to the maximum extent possible. Similar procedures are employed by the Office of the Senior Vice President for Administration in handling calls received by the SAIC Hotline. Only two people, the Senior Vice President for Administration and his assistant, take calls on the Hotline. A logbook of these calls is maintained in a locked file by the Senior Vice President for Administration.

Question 9. Is there an appropriate mechanism to follow-up on reports of suspected violations to determine what occurred, who was responsible, and recommended corrective and other actions?

Answer: Yes. The Operating Procedure of the Employee Ethics Committee describes the Employee Ethics Committee's procedure for following up on reports of suspected violations. It is our practice to conduct a complete investigation of any possible infraction which is brought to our attention, utilizing the resources of the Office of General Counsel, our Internal Audit Department, Corporate Personnel, Corporate Security and external legal and accounting support as necessary. In addition, the Employee Ethics Committee has direct access to both Corporate management and line management as required to conduct its investigations. The results of an investigation are normally recorded in an internal audit report which includes the findings, recommended corrective action and the eventual resolution of the case. Reports of the cases investigated by the Employee Ethics Committee, including status and results, are made to the Audit Committee and the Ethics and Corporate Responsibility Committee of the SAIC Board of Directors on a quarterly basis.

Question 10. Is there an appropriate mechanism for letting employees know the results of any follow-up into their reported charges?

Answer: Yes. The Operating Procedure of the Employee Ethics Committee describes the Committee's procedure for informing a reporting employee of the disposition of the reported matter. It is our practice to discuss our investigatory findings with the reporting employee. When appropriate, a written letter is forwarded to the reporting employee providing the results of the investigation. We have found that this practice of follow-up to let the reporting employee know the results of the Employee Ethics Committee action on their reported charges promotes continued vigilance by the reporting employee and any

others who might want to bring a possible infraction to our attention.

Question 11. Is there an on-going program of communication to employees spelling out and reemphasizing their obligations under the code of conduct?

Answer: Yes.

Question 12. What are the specifics of such a program?

A. Written communication?

Answer: Yes. From time to time, articles regarding the Credo, the company's obligations under the Defense Industry Initiatives, and the activities of the Employee Ethics Committee are published in the company's NEWSGRAM. Periodically the SAIC Credo will be revisited and the staff will be asked to reassess its efficacy for current conditions. Changes will be made as necessary. An employee survey conducted in May 1987 included questions regarding the company's compliance with the Credo and the importance of ethical conduct to SAIC employees and management. Any concerns expressed by employees were investigated and actions taken where appropriate. Results of the survey were communicated to employees via the SAIC NEWSGRAM in November 1987, February 1988, March 1988, and May 1988. Another Employee Survey was distributed to all employees in December 1989 addressing the same issues as listed above. A detailed article on the results of the survey will be published in the next edition of the NEWSGRAM. A new bulletin, the "SAIC Project Management Quarterly Bulletin," referenced in Question 5, is distributed quarterly. In July 1989, the Corporate Personnel Department distributed the PEOPLE MANAGEMENT GUIDE to assist Division and Operation Managers in successfully managing the personnel in their respective divisions. The GUIDE covers the following topics: employment, equal employment opportunity and affirmative action, compensation, leadership, termination, substance abuse, Employee Assistance Program, and training.

Corporate Policy A-3 entitled "Standards of Business Ethics and Conduct" was extensively revised in October 1989 to incorporate such subjects as the Defense Industry Initiatives and Procurement Integrity provisions in government procurement. The policy was subsequently distributed company-wide.

During 1990, the Employee Ethics Committee, Risk Committee, and Computer Managers' Round Table all addressed the issue of ethics among computer users. The Computer Managers' Round Table has drafted a computer users ethics policy entitled "Standards of Conduct for the Use and Operation of Computing Equipment and Software at SAIC" which is currently being reviewed by the Employee Ethics Committee and the Ethics and Corporate Responsibility Committee. This issue has been addressed through memos and articles in the NEWSGRAM as well as other in-house news organs. Section 7.4 of SAIC Policy A-3 "Standards of Business Ethics and Conduct", revised in October 1989, includes a section on "Copyrighted or Licensed Materials."

B. One-on-one communication?

Answer: Yes. Ad hoc.

C. Group meetings?

Answer: Yes. Briefings of the activities of the Employee Ethics Committee, during which the Credo and the Defense Industry Initiatives are discussed, are conducted at offices throughout the company by members of the Employee Ethics Committee. As earlier indicated, new employee orientations also include discussions of the Defense Industry Initiatives and the company's ethics program. The issues of ethical conduct and integrity are mentioned by the Chairman of the Board in his annual address to the shareholders and in his introductory letter in the annual report. It is also addressed in segments of the Division and Project Managers Training, as described in the answer to Question 5, as well as in the SAIC QUALITY SYSTEM MANUAL.

D. Visual aids?

Answer: Yes. Visual aids are used in the Employee Ethics Committee briefings to offices, and material with respect to the company's ethics programs and its obligations under the Defense Industry Initiatives are included in the following videotapes:

1. Ethics videotape
2. Labor Charging videotape
3. Videotape related to handling of classified information
4. Division and Project Manager and Purchasing Agent

training tapes

5. The Credo is displayed on many bulletin boards and in individual offices around the company

E. Other?

Answer: Yes. Information regarding the Employee Ethics Committee and its meetings and activities are also reported in the Technical Environment Committee reports and Management Council minutes.

On October 8, 1988, the Employee Ethics Committee had a display at the SAIC Employee Ownership Day activities conducted in San Diego. On display were the SAIC Credo, SAIC Standards of Business Ethics and Conduct booklet, SAIC Hotline Poster, Principles and Practices of SAIC, SAIC's signatory letter to Defense Industry Initiatives, relevant articles from the SAIC NEWSGRAM, and media articles pertaining to the defense industry procurement scandal. The Ethics videotape was shown continuously throughout the day, and the display was manned by members of the Employee Ethics Committee. On October 7, 1989, the Employee Ethics Committee again hosted a booth at the SAIC Employee Ownership Day. Included in the display were the same materials as noted above, plus a sample survey for validation of questions for the December 1989 Ethics Survey. Also provided was a handout containing the reprints from the NEWSGRAM's reports of the Employee Ethics Committee meetings for the year. A similar booth is being prepared for the October 6, 1990 Employee Ownership Day.

In the continuing effort to get more employees involved in our ethics issues, three new members were added to the Committee in December 1989 and two of the original members rotated off. A new Chairman was named at the same time.

In December 1989, a new Ethics Survey was placed in all employees' paycheck envelopes. The results of the Survey have been analyzed by the Employee Ethics Committee and will be published in a future edition of the NEWSGRAM.

SAIC operating groups have been asked to review the SAIC Credo and make recommendations for any changes deemed necessary. Responses are to be submitted to the Employee Ethics Office by October 23, 1989. The Employee Ethics Committee currently is in the process of reviewing Group inputs on the Credo Revisit. The Committee is considering modifications suggested by SAIC managers. The Chairman of the Employee Ethics Committee is formulating a distribution



to all employees to solicit additional recommendations for changes to the Credo.

The SAIC NEWSGRAM publishes excerpts from the Employee Ethics Committee meetings, as well as relevant articles pertaining to the Defense Industry Initiatives. Five such articles were published in the past year.

In his June 1989 and 1990 verbal reports to SAIC shareholders, CEO Dr. J. R. Beyster reported on the ethical issues and standards facing the federal government and the defense industry. His letter to shareholders in the 1989 and 1990 SAIC Annual Report also speaks to ethics at SAIC. In addition, the Purchasing Agents Training Program has been modified to include videotape vignettes and discussion materials relating to ethical situations encountered by Purchasing Agents.

The SAIC COMPUTERGRAM published the article "COMMITTEE DRAFTS POLICY ON COPYING SOFTWARE" in the July/August 1989 issue. The SAIC NEWSGRAM published articles on improper use of copyrighted software in December 1989, April 1990 and September 1990. The articles outline the rights of licensors of computer software and provide clear statements of SAIC policy on the use of such software.

At quarterly management meetings, issues such as the Procurement Integrity rules are discussed. The Chairman of the Ethics and Corporate Responsibility Committee of the SAIC Board of Directors addressed the April 12, 1990 Management Council meeting on the SAIC Ethics Program and the importance of integrity and ethical behavior in the conduct of SAIC's business.

Question 13. Does the Company have a procedure for voluntarily reporting violations of federal procurement laws to appropriate governmental agencies?

Answer: Yes. When our internal investigation results in a finding that reflects a violation of federal procurement law which results in added costs to the Government, it has been our long-standing practice to credit such costs to the Government and report the same to the appropriate government official, which has normally included our resident DCAA audit staff. Three such reports were made during this reporting period.

Question 14. Is implementation of the code's provisions one of the standards by which all levels of supervision are

expected to be measured in their performance?

Answer: Yes. The Standards of Business Ethics and Conduct Booklet states that supervisors will be evaluated on their effectiveness in implementing the Standards of Conduct in their organizations. Employee performance review forms have been modified to increase the emphasis on ethical business conduct during the annual employee performance evaluations. Supervisors are required to specifically assess in writing each employee's adherence to SAIC's Standards of Business Ethics and Conduct and, for managerial and supervisory staff, to assess their effectiveness in implementing these standards within their organizations.

Question 15. Is there a program to monitor on a continuing basis adherence to the code of conduct and compliance with federal procurement laws?

Answer: Yes. The Internal Audit Department conducts regular audits concerning compliance with federal procurement laws, including proper labor charging, handling of government property, relationships with consultants etc. The Internal Audit Department has expanded its program to include methods for testing the company's compliance with its obligations under the Defense Industry Initiatives. In addition, the Employee Ethics Committee and the Office of the General Counsel receive specific assignments with respect to the monitoring of compliance with the code of conduct and federal procurement laws. For example, during the 1989 reporting period, Employee Ethics Committee members investigated any suggestion of impropriety or failures to follow company policy or government regulations reported by any employee in the survey referenced in the answer to question 12(a). In 1990, Employee Ethics Committee members received reports from employees dealing with compliance with procurement law and policy. These cases were thoroughly investigated by the Employee Ethics Committee or by the Office of the General Counsel and appropriate follow-up actions taken.

An employee survey intended to obtain information regarding the company's adherence to its Standards of Ethics and Business Conduct policies was distributed company-wide in December 1989. The results of this survey indicated that SAIC's employees strongly support the SAIC Credo, that they feel that their immediate supervisors and upper-level management operate by high ethical standards, and that SAIC maintains higher standards of ethics than other government contractors. The Employee Ethics Committee has prepared a summary of the results for future publication in the

NEWSGRAM.

The company has revised its Quality Program in order to (1) more formally assign responsibilities and accountability for Quality activities to various levels of management, and (2) communicate to employees their responsibilities on Quality issues, and (3) provide guidance regarding U.S. Government standards and quality requirements. The new Quality documents will be completed during the next fiscal year. The first section of the SAIC QUALITY SYSTEM MANUAL was distributed to Sector Managers in April 1990. The remaining sections are currently being written.

Question 16. Does the company participate in the industry's Best Practices Forum?

Answer: Yes. The company has sent representatives to each Best Practices Forum that has been conducted to present.

In 1989, General Counsel Paul Kouris attended a meeting for industry attorneys associated with companies participating in the Defense Industry Initiatives. C. L. Nichols, Chairman of the Employee Ethics Committee, attended the Primary DII representatives meeting in Washington, D.C. in February, and the Best Practices Forum in Chicago in May 1989.

In 1990, Larry H. Hunt, Employee Ethics Committee Chairman and Charles L. Nichols, SAIC Primary Representative to the DII, attended the Best Practices Forum in Washington, D.C. in June. Mr. Hunt provided a briefing to a general session of the Best Practices Forum on how SAIC keeps its Ethics Program fresh. Mr. Nichols attended a special panel meeting on issues in defense procurement, and Mr. Hunt attended a special panel on how to handle Hotline calls more effectively. The results of the Best Practices Forum were briefed to the Employee Ethics Committee and to the Ethics and Corporate Responsibility Committee of the SAIC Board.

Question 17. Are periodic reports on adherence to the Principles made to the Company's Board of Directors or to its Audit or other appropriate committee?

Answer: Yes. The Employee Ethics Committee makes regular reports of its activities at each meeting of the Audit Committee of the SAIC Board of Directors (normally 4 or 5 times per year). Annually, usually at its November meeting, the Employee Ethics Committee and the General Counsel's Office report to the Audit Committee concerning the

company's adherence to the principles set forth in the Defense Industry Initiatives.

The Ethics and Corporate Responsibility Committee consists of four members of the Board of Directors. The Chairman of the Employee Ethics Committee provides a briefing on the Committee's activities and on the results of Committee investigations at each meeting of the Ethics and Corporate Responsibility Committee. This Committee periodically reviews activities of the Employee Ethics Committee and advises management whether the company's activities are within the framework of articulated company policy and adequate to support the policies.

Question 18. Are the Company's independent public accountants or a similar independent organization required to comment to the Board of Directors or a committee thereof on the efficacy of the Company's internal procedures for implementing the Company's code of conduct?

Answer: Yes. The company's independent accountants, Price Waterhouse, are required to comment to the Audit Committee of the Board of Directors regarding the efficacy of the company's internal procedures for implementing the company's code of conduct and complying with the Defense Industry Initiatives.

Question 19. Does the company have a code of conduct provision or associated policy addressing marketing activities?

Yes, Policy A-3 "Standards of Business Ethics and Conduct", revised in October 1989, contains Section 7.5 which addresses the importance of accurate representations by employees regarding individual education and professional experience, since this information is relied upon by the company in making representations to its customers. Section 7.11 includes the following: (1) proclaims SAIC's belief in fair and open competition, (2) prohibits arrangements with competitors which may impact pricing or marketing policies, and (3) prohibits the offer of gifts to customers which could be interpreted as being intended to influence bonafide business decisions affecting the company, and (4) outlines laws and regulations affecting Government employees in this regard. Section 7.12 prescribes rules regarding acquisition of and payment for the services of consultants.

Section 7.14 of Policy A-3 spells out conduct prohibited under Section 27(a) of the Procurement Integrity provision

of the OFPP Amendments Act of 1988. The revision also addresses accuracy of representations in company marketing literature. In addition, it instructs all SAIC officers, supervisors, proposal managers and other employees, consultants, subcontractors, and vendors involved in the procurement process to be fully aware of relevant law, regulations, and policies affecting their conduct and to comply fully with their provisions.

Question 20. Does the company have a code of conduct provision or associated policy requiring that consultants are governed by, and oriented regarding, the company's code of conduct and relevant associated policies?

Yes. Policy B-18 "Use of Consultant", Policy A-3 "Standards of Business Ethics and Conduct," and SAIC Standards of Business Ethics and Conduct booklet address consultants' activities, and requires them to conform to SAIC's standards of business conduct.