



## Shopping for Sarbanes-Oxley Compliance

By George McMann

The U.S. Securities and Exchange Commission plans to rigorously enforce the Sarbanes-Oxley Act, as eight HealthSouth Corp. executives, who face criminal penalties for running afoul of the new law, can attest. That signal from the SEC confirms the importance of ensuring that all financial data management, reporting, and control processes within listed, public companies adhere to the new law.

Most compliance efforts require outside help. But a blizzard of new "compliance" services and tools has crammed the inboxes of corporate executives and clouded the selection process. Enter "Sarbanes-Oxley Compliance" into your favorite search engine, and watch an avalanche of solution providers spill over your screen. A recent Googling of the phrase returned 343 links. Yet, 10 months ago, the same Internet search would have come up empty.

That response reflects the law's complexity and stiff penalties. One of the first authoritative analyses of the law, "Corporate Governance and Accounting Under the Sarbanes-Oxley Act of 2002: A Guide for Accountants, Executives, Lawyers and Securities Analysts" (Warren, Gorham & Lamont of RIA, 2002) by CPA David Hardesty, weighs in at more than 700 pages. And executives face up to \$5 million in fines and 20-year prison sentences for certain violations. Their attention so far has focused on Sections 202 (external auditor independence), 302 (the quarterly and annual certification of financial statements and internal controls) and 404 (management's report on internal controls that external auditors must attest to).

Between July 30, 2002, when the law was signed and late February, the majority of public-company executives held off on investing in outside compliance help. That is quickly changing. Based on a recent survey of 20 U.S. public companies, Morgan Stanley now estimates that organizations will spend \$600 million through December to comply with Sarbanes-Oxley. Consulting firms with significant finance and accounting expertise and second-tier accounting firms are well-positioned to make inroads against the Big Four accounting firms due to the law's auditor-independence requirements. Two of those firms, Resources Connection and Grant Thornton, have reported notable spikes in their compliance engagements since early March.

As with any new law, Sarbanes-Oxley ought to inspire CEOs and CFOs to consult with legal experts. But law firms can offer only so much accounting, business process and business technology expertise. That's where the decision grows more challenging. The following suggestions can help CEOs, CFOs and other corporate finance executives make more informed decisions around compliance solutions:

### Consider a Fresh Approach

Most large, complex, global companies will rely on a Big 4 accounting firm – their own external auditor (within the limits of the new law's auditor independence guidelines) or a different large firm -- for Sarbanes-Oxley assistance. Those are the only firms that possess the breadth of expertise necessary to address large, complex compliance needs. For middle market and smaller large-cap companies, however, the universe of external compliance assistance is wide open. In that space, it makes sense to consider hiring an external firm that brings a new perspective to documenting, testing and assessing internal controls, financial data management and financial reporting. This is a time when old rules are being redefined, and audit committees may be more inclined to look favorably on the hiring of an external solution provider that it has not read about in the pages of the *Wall Street Journal*.

### Beware of Technological Silver Bullets

Software vendors with contract management solutions, document and content management offerings, best-of-breed financial application and enterprise systems promote varying degrees of Sarbanes-Oxley compliance capabilities. After so many companies gorged on IT investments in the late 1990s through early 2000, CFOs and CEOs remain understandably skeptical. They have a genuine need to leverage existing applications and systems without piling on additional technology. At the other end of the spectrum, sufficient compliance, in most cases, probably requires more than electronic filing cabinets. Technology assistance is



needed because accounting processes simply have not kept pace with the explosive growth of new systems. Those issues should be addressed in an affordable, user-friendly manner.

#### **Demand Deep Accounting Expertise**

Does your company have multiple chart of accounts? Is your accounting department regularly racking up overtime? Are pockets of redundant accounting data scattered about the organization? Not all service firms, even those who earn a bulk of their revenue from auditing, can answer those questions, each of which is a sign of potential data aggregation problems. Most large accounting firms focus on the treatment of financial information. As such, their compliance methodologies may give short shrift to potential risks in how raw accounting data moves from feeder systems (Excel sheets, banks or front-office applications, for example) to finance and accounting systems.

#### **Ask Questions about “Beyond Compliance” Claims**

Many software vendors and consulting firms say their products or services leverage compliance to achieve additional benefits such as efficiency improvements or the adoption of best practices. That’s an inviting pitch, but only if the solution addresses the breadth and depth of Sarbanes-Oxley compliance. Significant cost reductions may result from installing a new contract or document management software package, for example. But the pitfalls of failing to sufficiently address Sarbanes-Oxley compliance needs first probably outweigh those efficiency gains.

Ideally, sound compliance will deliver other wins, but it must first address finance and accounting processes – from data input and aggregation through the treatment of that information. In most cases, that effort requires a combination of legal, technological and, above all, accounting expertise. Keep that in mind as the marketing pitches, and enforcement actions, accumulate.



*George McMann, a former Big 4 auditor, CPA, and MIS Director, is President and CEO of BizNet Software (<http://www.biznetsoftware.com>), a business performance management firm in Irving, Texas.*

*Mr. McMann personally designed BizNet Software’s core technology, the Datafish Platform, and has over 15 years experience in software development, implementation and consulting. Mr. McMann began his career as a CPA with Ernst & Young and has advised on and managed the implementation of software integration and financial auditing projects with Nortel Networks and Clarus Corporation within the financial, health, insurance and telecommunications sectors.*

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