

Technology and the Sarbanes-Oxley Act of 2002

What kind of software should companies look for to comply with the new act? **Interviewed by Dale W. Hlaves**

Although the smallest, nonaccelerated filers have been granted a deadline extension for complying with the requirements of Section 404 of the Sarbanes-Oxley Act (SOX), it remains clear that the Securities and Exchange Commission is intent on making top executives fulfill the spirit of the law.

Companies must be held accountable for maintaining an effective system of internal controls over financial reporting and making an annual assertion as to the system's overall effectiveness as part of its annual report to the SEC. As such, many accelerated filers are now in the process of completing year two of compliance with Section 404 of the Sarbanes-Oxley Act.

"Many of these accelerated filers thought year two would actually be much more efficient than the fire drill they experienced in completing the first year of compliance," says John Gutierrez, a Vice President of Avalion Consulting LLC in Dallas and the company's Compliance Practice leader.

Smart Business spoke with Gutierrez about complying with Sarbanes-Oxley.

Why aren't we seeing more companies making SOX compliance more efficient and cost-effective?

Internal staffing for year one compliance was mostly project-based and typically leveraged a high number of costly external resources. During the first half of 2005, most firms took a much-deserved break before starting to think about year two.

Often, the extended project team members were re-focused on their 'real jobs' and dedicated compliance staffing was very lean. Once they started re-examining their results from year one, they realized they had to spend much more time cleaning up disparate documentation and correcting problems throughout their organizations.

They operated in project mode in year one and were not able to develop an effective compliance management process with the right supporting tools.

I believe the companies that were most successful in year two were able to develop a plan that strategically enabled them to transition from a project-based to a process-based



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approach to achieving compliance.

How does a company transition from a project-based to a process-based approach?

The key to success lies in management's ability to maintain the momentum it has already built while simultaneously transitioning focus such that compliance becomes part of the firm's corporate DNA in the future. Executives should adopt best practices, such as developing a compliance charter that establishes a corporate governance structure with supporting policies and procedures for how key process owners and stakeholders will routinely document, maintain and test the company's system of internal controls as part of their ongoing job descriptions.

In tandem, it needs to implement a software solution as the technical foundation to enable ongoing compliance and achieve significant value for the organization. This combination should substantially increase the cost-effectiveness of the compliance process and drive down the annual Total Cost of Compliance (TCC).

What would you consider the most key factors a company should consider when evaluating which software solution to implement?

Companies must find a solution that truly

enables a seamless compliance process and delivers real cost savings. It should also provide executives with the right information to make key decisions and deliver compelling business value.

It should be easy and inexpensive to implement. Implementations should be quick, measured in weeks not months. The software must have robust functionality designed to accelerate the data conversion process of a company's existing compliance data, which is typically stored in numerous spreadsheets and various templates.

It should also support the digitization, storage and retrieval of historical 404 documentation for audit record retention requirements and drive a significant ROI within the first year of compliance.

Once a company has chosen a compliance solution, what kind of advice would you give it on how to proceed?

Companies should develop specific solution implementation criteria and deadlines for their software vendor, and hold them accountable for delivery. If implemented properly, companies should be able to immediately leverage the solution to optimize its use across the entire organization. Many executives don't even realize how many controls they have until they see their data represented properly in the right (executive dashboard) reporting environment.

Finally, since even the best-planned transition takes time, companies usually will want to initially keep the controls maintenance function within a small group of employees such as the internal audit group. However, to realize maximum value, the executive team should push controls data maintenance accountability down to key process owners and stakeholders as soon as possible. Companies should facilitate more effective communication throughout the year by extending solution access to their external auditors, which should lead to lower SOX-related audit costs.

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