



Executive's Guide to Sarbanes Oxley

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EXECUTIVE GUIDE SERIES

Occupational fraud and abuse in 2002 will slice 6% (or \$600 billion) off corporate revenues. - *A study by the Association of Certified Fraud Examiners (CFE)*

Over 80% of fraud involves asset misappropriation -- with cash, or its equivalents -- being targeted 90% of the time. The average fraud scheme lasts about 18 months before it's detected and over half cost their victims at least \$100,000; nearly one in six cause losses of \$1 million or more. Those larger losses are often the work of mid- to upper-level management. - *CFE*

Executive's Guide to Sarbanes Oxley

The Sarbanes-Oxley law has made corporate governance a mandatory element of financial reporting, operational control and the daily running of a publicly traded company. Furthermore, institutional investors are creating significant pressure for privately held companies to comply with Sarbanes-Oxley as well.

After the corporate fraud and scandals of the last several years, shareholders and the government are demanding accountability from all companies and organizations. The Sarbanes-Oxley law states that CEOs must certify the financial reports of the organization. Public organizations that do not comply will face the wrath of their shareholders and creditors as well as SEC (Security and Exchange Commission) investigations and severe penalties.

The following four sections of the Sarbanes-Oxley require specific internal changes for any organization that has to comply with this law:

Section 302 - Expanded Representation by Certifying Offices

Section 302 requires CEO and CFO sign off on the company's quarterly financial reports. The key officers must assert that the company's financial report is accurate, that all material changes have been reported in a timely manner, and that the company has the appropriate internal controls to protect against any fraud or inaccuracy in its reporting.

Section 404 - Effectiveness of Internal Controls

Section 404 relates to the effectiveness of internal controls to intercept and detect any irregular, fraudulent, questionable or unauthorized corporate activity. This section mandates the company to file an annual internal control report (ICR) as well as quarterly reviews and reports of any material changes in internal controls.

The annual ICR must communicate:

- Management's responsibility to establish and maintain internal controls over financial reporting
- The criteria used to evaluate the effectiveness of internal controls
- Management's conclusion to the effectiveness of the established internal controls
- Auditor (a chartered public accountant) must attest to and report on management's evaluation

According to SEC's threshold on internal controls, management is not permitted to conclude that its internal controls are effective if there are one or more material weaknesses. If the company's management asserts that internal controls are effective then this is also an assertion that there are no material weaknesses in such controls.

SEC places the ultimate responsibility of financial reporting with the company's certifying officers. Consistent with the description of accounting control laws, certifying officers are responsible for ensuring that all corporate transactions are properly authorized and recorded; they are also responsible for the safeguarding of all company assets against unauthorized and improper use. The company must also comply with rules and regulations directly related to financial statements. However, Sarbanes-Oxley does not encompass effectiveness and efficiency of a company's operations or compliance with other regulations.

Relationship between internal and disclosure controls and procedures: Disclosure controls are addressed in Section 302. Internal Controls for financial reporting is the focus of Section 404. There is significant overlap between these two types of controls and procedures. Companies need to ensure Section 404 compliance and provide assurances to certifying officers having to sign for Section 302 certification that there are no internal control deficiencies. Any internal control that is a subset of disclosure control must also be evaluated on a quarterly basis and any material changes in those controls must be reported on a quarterly basis.

Section 409 – Rapid Reporting

Section 409 requires disclosure of material changes on a "rapid and current basis" (rapid reporting). Rapid reporting implies that the company's internal control systems can report on projects and operations in real time. The company must be able to assess its current situation instantly and accurately.

Section 906 – Corporate Responsibility for Financial Reports

This section links representations made in conjunction with sections 302, 404 and 409 by certified signing officers to provisions of the criminal act. Section 906 outlines specific penalties including imprisonment and multi million dollar fines against certifying officers for financial reports that do not comply with Sarbanes-Oxley.

Timeline for Compliance

Section 302 and 906 are effective now. Section 404 and 409 must be complied with as of the annual internal controls report by management for fiscal years ending on or after September 15, 2003, stating management's conclusions regarding the effectiveness of the company's internal controls. The company's independent auditors must also attest to management's conclusions.

Furthermore, management's discussion and analysis (MD&A) must include disclosure of material off-balance sheet arrangements in periodic reports for fiscal years ending on or after June 15, 2003.

Tenrox Software: Real Time Business Information

How can your corporate officers certify the company's financials if internal controls are paper and/or spreadsheet based or, worse, the organization operates multiple disconnected enterprise software where administrative staff is asked to manually re-key or manually import/export data between such systems?

Simply, corporate officers cannot and should not depend on such error prone and manual operational systems that can easily result in significant career damage. In worst-case scenarios, this type of weak corporate infrastructure may lead to criminal activities, mistakes, errors in judgment and/or unreported fraudulent or unauthorized activity.

To be able to rapidly report on the company's financials and any material changes, your operational systems must provide real business information. This information must be collected in full compliance with all applicable regulations, your governance rules and the Sarbanes-Oxley law. Tenrox software is an integrated solution for operational control, compliance and governance that builds on your existing investments in enterprise software. Tenrox solutions substantially facilitate compliance by providing executives with an audited and real time view of their business.

Business process management is the key to establishing confidence in your organization. A process-managed enterprise:

- Has simultaneous and instant macro and micro views of its operations
- Can more rapidly correct mistakes
- Incorporates predefined, centralized, institutionalized and self-managed processes and procedures that automatically enforce compliance and governance
- Supports secure role based and audited information systems
- Has substantially lower operating costs and administrative overhead

Process automation enables executives to securely collaborate in real time with all stakeholders including operational, project and financial managers, and to preemptively manage any potential situations.

The following Tenrox software features ensure that all work and spending is in compliance with Sarbanes-Oxley:

- Visually designed and managed approval and routing of all work processes
- All user entries are validated at point of entry; any exceptions are highlighted to facilitate quick detection of any potential issues
- Detailed reporting on all payable, billable, funded and capitalized projects
- Visibility and transparency of all transactions, projects, budgets, costs, charges, expenses and revenue
- Configurable pay and billing rules that validate timesheets, expense reports and invoices (charge backs), and requests at point of entry
- Policy control and communication
- Automated approval and exception management of employee work, spending and travel
- Organization and work based document management facility
- Full audit trail of all system activity
- Role based security and data access

Sarbanes-Oxley Law	How Tenrox Software Facilitates Compliance
<i>Section 302 - Expanded Representation by Certifying Offices</i>	Audited, process-managed and effective internal controls allow the certifying officers to confidently sign the company's financial reports.
<i>Section 404 - Effectiveness of Internal Controls</i>	Centralized, tracked, audited, and institutionalized business processes such as time and expense management, invoicing and chargeback, spending request approval, project initiation and scope change, and work process tracking that are automatically validated for compliance at point of entry leads to verifiable data and effective internal controls that can be depended upon.
<i>Section 409 - Rapid Reporting</i>	Centralized and detailed work process information is used to report on and analyze the company's business in real time. Therefore, the company is able to very quickly report on its financial situation and any material changes on a quarterly or as-needed basis.
<i>Section 906 - Corporate Responsibility for Financial Reports</i>	By leveraging existing software investments while substantially facilitating compliance with sections 404 and 409, Tenrox software helps certifying officers report the company's financials on a timely basis, detect questionable transactions and activities, and avoid trouble with the law.

Clearly, compliance is but one reason to automate business processes. Automation also leads to more predictable revenue, increased visibility and transparency, projects that are delivered on time, lower operational costs and far less administrative overhead.

Tenrox offers unique software designed to address the business challenges of streamlined operational control, effective internal controls, rapid reporting and compliance with all regulations including the Sarbanes-Oxley Act. Please call us to discuss how we can help you meet the new Sarbanes-Oxley requirements and enable compliance by leveraging your existing enterprise software investments.

Tenrox Contact Information: For more information, please call us directly at 1.877.4TENROX or visit: <http://www.tenrox.com>.

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