

\* Best strategies for frequent filers

# Sarbanes-Oxley

**As Corporate America enters Year Three under SOX, BusinessWeek Special Advertising Sections asked a group of experts with different specialty areas to brainstorm on the perils and promise of organizing for compliance. Their insights, expressed in a virtual roundtable discussion that's excerpted below, may surprise you.**



**Sarbanes-Oxley has become a top issue for many business executives in the last year.**

**John Hagerty:** Companies have done a lot of work in getting Year One done. One of the things that we heard almost from every company we spoke to is that the "brute force" method was used for Year One. Organizations just did what they had to do under the directive from executives. And what that meant was that there was a large amount of manual effort.



**Did some companies go a bit overboard in their scramble for the finish line?**

**Doug Barton:** Yes, but this is only apparent in hindsight. In retrospect, companies were able to recognize they perhaps spent more time in areas with less impact on the total control environment than they should have. In fact, some companies performed rigorous documentation, testing, and assessment of controls in regions with an immaterial amount of business revenue or expenses for an enterprise.



**Are the costs of compliance higher than some executives expected?**

**Warren Stippich:** In some cases that's absolutely true. As the Year One filers were wrapping up their project a year ago, many thought that the percentage of the dollars and efforts spent for Year Two would be much less than what they spent in Year One. As Year Two has moved into full swing, it became apparent to many of those companies that – due to changes in their business – the effort to re-document those areas impacted by change has caused the number of hours and the efforts to go right back up again.

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**Participants:** John Hagerty, Vice President, AMR Research • Doug Barton, Vice President, Product Marketing, Cognos Performance Management, Cognos • Warren W. Stippich, Jr., CPA, CIA, Partner and Practice Leader, Business Advisory Services, Grant Thornton • Daniel B. Langer, CPA, CIA, CCSA, Solutions Director, Internal Audit and Controls, Jefferson Wells • James Howard, Manager, Compliance Controls & Quality Assurance, DTE Energy • Deborah Hamilton, Senior Director, Applications Marketing, Oracle • Albert G. (Gerry) McGrath, Jr., Partner, Baker & McKenzie

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to some unfortunate situations. Management was concerned about asking questions of their auditors that might be viewed to be evidence of deficiencies or weaknesses in the system. On the other hand, the auditors were concerned that communication would raise questions about their ability to maintain independence, which is essential to this process. The SEC and PCAOB noted this issue in their respective policy statements issued earlier this year and have encouraged communication, which is viewed as beneficial to the company and its shareholders.

**What recommendations can we offer BusinessWeek readers?**

**Hagerty:** When you consider compliance, think about repeatability, sustainability, and cost-effectiveness. Our first recommendation is to increase investment in technologies that automate the testing of your controls. The second area is to help people understand what's going on in the business by investing in portals, dashboards, and scorecards for better visibility. And third, don't reinvent the compliance process. Refine it and then start to automate it.

**How about from a technology perspective – what are companies' next steps?**

**Hamilton:** Companies are certainly investing in new technologies, but they are also optimizing what they have in place. They're looking at their ERP environments and seeing how they can enhance segregation of duties and security, configure the system to automate more controls, and then leverage some of the reporting capabilities they

have in place, such as audit logs and exception reports. For customers that have already purchased a risk-management tool, many of them are turning on more of its functionality so they can automatically test internal controls or manage different types of audit engagements. And then we're seeing companies expand the number of users who have access to the tools – whether those users are from IT, finance, or the lines of business.

**Howard:** Having a strong discipline around change control going forward will be critical as well. If you can create an infrastructure that establishes a baseline for your controls, then you can begin to measure changes to processes and controls. As a result, the overall process for evaluating controls can be reduced, including the amount of testing required. At DTE Energy, we are striving for an evaluation model that utilizes continuous monitoring of controls.

**Hagerty:** That's a great point. Sustainability is all about making sure folks understand what change is, what change will be allowed, and how you monitor change. Also, companies that work well with others do the best. You've got to have everyone at the table to make sure you're cogently and rationally looking at what you need to do. Then start creating a repeatable set of activities. The last piece is looking at this in the long term. Some folks have approached compliance as a tax to the business; therefore, they're going to do whatever they can to avoid costs. Those who are most successful look at it as a long-term cost-reduction opportunity. But it requires them to spend some money in order to gain more money later.

**About AMR Research**

AMR Research provides world-class research and actionable advice for executives tasked with delivering enhanced business-process performance and cost savings with the aid of technology. Five thousand leaders in the Global 1000 put their trust in AMR Research's integrity, depth of industry expertise, and passion for customer service to support their most critical business initiatives, including supply-chain transformation, new-product introduction, customer profitability, compliance and governance, and IT benefit realization. More information is available at [www.amrresearch.com](http://www.amrresearch.com).

**For More Information**

A discussion of the state of corporate governance in the global marketplace, with senior government and industry leaders, is scheduled for Dec. 6, 2005. This corporate governance policy discussion is sponsored by Harvard Law School's Program on International Financial Systems, Standard & Poor's, and BusinessWeek, in New York. For more information, contact [mgreven@law.harvard.edu](mailto:mgreven@law.harvard.edu) or call Melissa Greven at (617) 495-9885. Panelists will include SEC Commissioner Paul Atkins; President of the German Federal Banking Supervisory Office Jochen Sanio; S&P corporate governance global practice leader George Dallas; BusinessWeek senior editor John Byrne; and others.

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Produced by The Custom Publishing Group, [www.custpub.com](http://www.custpub.com) Written by Cheryl Krivda, [cherylkrivda@custpub.com](mailto:cherylkrivda@custpub.com)  
Designed by Segal Savad, [www.segalsavad.com](http://www.segalsavad.com) Photography John Hagerty by Michael Maloney for Black Star;  
Deborah Hamilton by David Toerge for Black Star

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year is out. Identify the areas that need to be examined, the scope, time lines and calendars, and the team. In many cases, we're seeing changes on the team, both internally and externally – whether it's a burnout due to the schedule or travel demands, a technical enhancement that you're looking to make, or an IT skill that you want to bring in.

### Where have companies been willing to invest in compliance tools so far?

**Barton:** First, companies want to turn the project focus of initial Sarbanes-Oxley compliance into a sustainable, efficient program. There are a number of smart technology investments that revolve around better visibility to the control environment, such as reporting on controls by entity, by process, sub-process, and control objectives. Second, we've seen systems renewal in an effort to remediate key control weaknesses around financial consolidation and reporting – fixing manual, labor-intensive processes as well as control weaknesses. The third area is a perception that these compliance investments need to provide a performance-improvement dividend to create a more effective and efficient business.

### What is the relationship between compliance, governance, risk management, and, ultimately, performance management?

**Barton:** Compliance improvement is about speed and integrity; faster cycles of corporate reporting can drive faster cycles of scrutiny, review, planning, and decision making. This is an opportunity for finance and business management teams to reflect upon the speed of their corporate decision-making and risk-management practices, resulting in targeted investments that drive integrity, relevance, and timeliness into their information systems. In a more dynamic decision-making environment, businesses can quickly respond to opportunities and threats, resulting in a new level of corporate agility that helps sustain competitive advantage over the longer term.

### What were the key lessons learned after Year One?

**Langer:** One of the key disclosures ties into the filings that came out after Year One for accelerated filers. Many of the disclosures were focused on tactical accounting and finance-related matters, particularly in areas such as taxes and leases. The governance-related weaknesses that were surfacing through the filings were surprisingly infrequent. A Jefferson Wells survey revealed that between 65% and 75% of the respondents felt that the audit committees and senior management need to have a greater awareness of fraud risk assessment and monitoring fraud responses and activities related to that area. Since Sarbanes, there are more frequent board meetings and governance meetings. The internal audit function is more involved with the audit committee. But there's still a maturation of communication to governance and senior management needed in terms of awareness of fraud and potential ethics violations that surface.

**Stippich:** There also needs to be a project management focus and strong discipline and task masters that hold the deadlines in place. In organizations where this wasn't the case, or where management fought its being brought in (or being given timelines and deadlines and follow-ups and meetings and agendas and action items), those organizations struggled quite a bit. Without that discipline, it put them behind the eight ball. And then on the other side are the detail controls. And there are a lot of lessons learned on the detail. Clearly there are some complex areas where lessons were learned, and people are trying to beef that up.

### What about from a legal perspective?

**McGrath:** The relationship between the outside auditors and management underwent some changes over the last 18 months as a result of responsibilities placed on auditors. There were inhibitions with respect to communication between the auditors and management, which frankly led

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## Computer Associates: Integrated Risk and Compliance Management Portals

Managing risk and ensuring compliance are responsibilities that have outgrown any one individual. The plethora of regulations and requirements governing business today demands that compliance become a priority shared by many – including the CFO, CIO, and CEO, as well as executives in sales, legal, and manufacturing.

Providing decision makers with a detailed, yet digestible view of critical compliance indicators is no small challenge. "These stakeholders need to see key risk indicators, controls and the testing of those controls, risk-management processes, unexpected losses or incidents, and the automation of system events," says Ken Williams, vice president of technology services for Computer Associates Inc., in Islandia, N.Y., "and they need this information without delay."

Compliance portals can gather disparate data in one unified display that provides real-time visibility into the measures important to each decision maker. "By collecting data from automated compliance tools and integrating with existing technologies, portals can act as a 'manager of managers,'" says Williams. "It's a smart, cost-effective way to provide decision makers with an integrated risk and compliance view that supports their new responsibilities."

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**From a service provider's perspective, how are companies moving forward from those first-year efforts?**



**Dan Langer:** We are seeing a segment of clients that went through the Year One experience beginning to get more efficient and focused in their process. They're adopting more of a risk-based approach to prioritizing areas of emphasis and re-scoping their organizations to identify key control areas. Some of them have actually shifted and decided they need to engage process owners to a greater degree.

So they're employing control self-assessment practices where process owners assess their own control environment more effectively, having internal audit monitoring controls rather than coming in and looking at the controls as management would. What we've also seen is our clients are getting smarter about engaging third-party resources like Jefferson Wells, professional service firms with the core skills to help, ensuring the right people are engaged as needed, and keeping that partnership going so that the people who become familiar with their organization stay engaged with them and help them year to year with their efforts.

**How did DTE approach all of its compliance challenges for Year One?**



**Jim Howard:** DTE Energy began the process in 2003. Evaluating our internal controls was a large effort, which required a project-oriented focus. Due to the timing for completing 404, we undertook a "forced march" approach for Year One in many respects. In order to be successful and sustainable for the long term, we realized that the project was going to have to turn into a process at some point. DTE Energy structured the approach by creating committees, teams, and individual contributors that performed the controls. We reviewed, and in some cases, enhanced our policies and procedures. We recognized that key controls needed to be embedded into procedures so that employees had an understanding of the expectations for compliance with internal control over financial reporting. As a result, the revised policies and procedures created a need for cultural change.

With more than 200 DTE companies, there was a sense that not all processes and controls were equally important. We were able to develop a top-down, risk-based approach to identify significant business processes and related controls. Although DTE Energy had to remediate several key controls, when we filed our 10-K for 2004, we were satisfied that the infrastructure was built to ensure sustainable processes going forward.

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**Hagerty:** Originally, a lot of companies thought that Year One would be the brute-force method and Year Two would be the year of automation. We're definitely seeing a lengthening of this process. Year Two is now a year of reassessment. Then Year Three and beyond will be the years of automation. We're seeing people stretch out the process for justifiable reasons to make sure that they're not doing too much and are doing the right things for their company.

**How are compliance tools being rolled out to support this effort?**

**Deborah Hamilton:** We've seen companies take a phased implementation approach. For those that purchased tools to help with SOX compliance, it was typically finance that used the tools to document internal controls in Year One. Now IT is considering technology to automatically monitor and test system controls. In other cases, even if finance purchased and selected the tool, they were so focused on just compliance that they didn't have the resources to implement the tool. It went to IT, and IT ended up rolling out the technology first.



**Langer:** We did a survey this summer on tools and the extent to which clients were employing them. No single vendor was servicing any of our clients to greater than 7% of the total. So there is no dominant player in this market right now. We asked clients what they've gotten out of the tools so far: the single greatest benefit to date was helping to standardize documentation.

**What about the legal aspects of compliance?**

**Gerry McGrath:** The Securities & Exchange Commission (SEC) is encouraging public companies to take a top-down, risk-based approach to what's important. The SEC is trying to focus companies and their auditors on the need to avoid a mechanical approach and encourage each to think about the processes as they go through this year of reassessment. In addition, guidance provided by the SEC and the Public Company Accounting Oversight Board (PCAOB) encourages companies to focus on what's important. Companies don't have to tie down areas that present a low risk. The SEC and PCAOB have encouraged auditors to use professional judgment to determine whether there is reasonable assurance as to the financial statements.



**How can companies create practices that are sustainable, repeatable, and cost-effective for Year Two?**

**Stippich:** Setting aside the technical aspects of the rules for a second, a basic thing that can help is better planning. Subsequent-year planning needs to start before the current