The Keys to Sarbanes-Oxley Compliance: A Special "Round-Table" with Four Compliance Experts

By Jon Reed, SAPtips

Editor's Note: *JDEtips invited Jon Reed, Managing Editor of our sister publication, SAPtips, to interview Klee Associates' Sarbox Director David Ashley, Quaker Chemical Q1W Core Team Member and JDE SOX specialist Nadine Alexander, SAP Technical Compliance Manager Ken Asher, and SAP-HR Compliance Manager Greg Robinette. This round-table discussion spans the technology and logistics of accomplishing SOX compliance. We think you will both learn from and enjoy the thoughts put forth here.*

Jon's Introduction: There may be no single business issue surrounded by as much hype and confusion as Sarbanes-Oxley compliance, so it was a privilege to interview our core Sarbanes-Oxley team and ask them about the challenges posed by Sarbox compliance. In this freewheeling interview, David, Greg, Nadine, and Ken give us their honest take on how Sarbox and other regulatory requirements are affecting ERP users.

Most importantly, they explain why compliance is not just an accounting problem—it's an ERP problem. These people have the distinction of completing some of the earliest ERP Sarbox projects, and throughout the interview, they inject specific project examples into the discussion. One of the most compelling things I took from this discussion was that Sarbox compliance efforts are not just about damage control and avoiding jail time. As you'll read, implemented and monitored properly, Sarbox initiatives bring a great deal of business value to an ERP project.

There's no way around it: sooner or later, most companies are going to be impacted by regulatory requirements like Sarbanes-Oxley. Some are going to learn the hard way that compliance must be tied into the ERP systems. By sharing their perspectives and "lessons learned," Greg, Ken, Nadine, and David have also made a great case for the value of ERP-savvy Sarbox experts who can link systems, controls, and business processes.

An Overview of Sarbanes-Oxley

Jon Reed: This "Sarbox round-table" is a chance for our Sarbox team to share lessons learned from some of the first SOX compliance projects. To get us started, give us a brief overview of your background and how you see the future of Sarbanes-Oxley compliance in an ERP environment.

David Ashley: As the Director of Sarbanes-Oxley for ERPtips, I'm excited about the chance to take what I've learned on my own compliance projects and share it with the JDEtips community. The need for Sarbox support is not a one-time thing, but an ongoing need that companies have to address as part of a continuing process. This isn't something like Y2K that you can deal with as a one-time fix, wash your hands, and wonder where all your money went. With Sarbanes-Oxley, there is a quarterly review required, and there are thousands of companies that are going to have to comply with these guidelines.

About a third of them had to do it last year, and this year, in addition to a larger group of companies in the states, there are companies listed on the stock exchange that are foreign-owned and that now must comply. There's going to be a wave of mid-size and smaller companies that will also have to comply, and these are firms that often turn to JDEtips already. It's a natural fit between us and the next wave of companies that are facing compliance.

Greg Robinette: We've been through the entire audit and mitigation process, working with one of the Big Four, and I've been able to see first-hand how Sarbanes-Oxley impacts companies from an HR perspective.

From the HR/payroll perspective, one of the main things is that HR as a business function is disengaged from defining controls and defining business processes. Where HR overlaps into financial reporting, in such areas as compensation, benefits, and benefits liabilities (in addition to the direct payroll connection), a company needs to improve its processes. And I mean from the beginning of the processes all the way through to the Sarbox Section 404 controls, which reflect the improvement in the processes.

That's a big issue for HR departments, because this is not their typical mindset. Their mindset tends to be oriented more towards people than numbers, and the audits they've gone through in the past have been less direct in terms of what they need to complete. Also, I think HR is in for more compliance issues going forward with the addition of HIPPA and privacy regulations. A lot of people are looking towards the Sarbanes-Oxley controls and COSO controls to set the tone for how any technology-related compliance projects are going to go.

Nadine Alexander: As a former controller and financial systems manager, my area of expertise was a fit with implementing JD Edwards and Sarbanes-Oxley compliance. Long before Sarbanes-Oxley came into being, I worked as a consultant in 2001, designing business process and system controls for an Xe client on a global implementation project that was based in the Netherlands. After review of process flows (integrated with the Xe functionality), I documented both system and process controls for Order-To-Cash, Procure-To-Pay, Plan-To-Produce and Financial Reporting processes that, over time, became the basis for the client's 404 compliance work. I primarily support the financial groups, but since all ERP transactions end up directly impacting the financial statements, all processes required controls that would ensure that these transactions would be correct. ERP systems' inherent integration definitely spread the responsibility for correct financial statements across all the process teams in an organization, as non-financial people were now directly affecting the General Ledger..

Transaction level detail results in what SOX is about. Some people don't think of their transactional data as being directly part of the balance sheet/income statement – everything used to go through the "filter" of the Accounting Dept before it became part of the financial statements. Correct date for the General Ledger, correct cost, correct cost center, etc., is secondary to the functional manager. Functional managers don't usually have strong accounting backgrounds. Functional managers need to be asked, "What are you checking; what do you monitor to ensure users are not distorting data; what are you reviewing before approving?" That lack of understanding can be a huge challenge when addressing Sarbanes-Oxley compliance. Get a functional manager to understand the impact of the things they do day to day - the fact that all the transactions they are responsible for result in a journal entry in the company's ERP system, thus ending up in the financial statements that the company will present to the public. They can cause a deficiency in financial statements without being aware of it. The value of an apparently minor error can be significant in terms of Sarbanes-Oxley testing/auditing, as the value of the error must be extrapolated when you are performing a SOX audit since you are only testing a relatively small sample of transactions. If a control fails the testing, either functional or technical, it can mushroom when you have to calculate the "value" of the tested control's failure. A $20,000 error that causes a "failure" of the control you are testing could end up being worth hundreds of thousands when you are quantifying your SOX testing results to the external auditors.

Ken Asher: My area of expertise in Sarbanes-Oxley is in the technical area, enforcing the controls at the IT level. On my recent Sarbanes projects, I find that users are learning that there's a gap that Greg alluded to, where you have functional teams that are focused on their own

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