Sarbanes-Oxley Compliance Tools: Help or Hype?

by Eric Krell

Editor's Note: We've been aware of the Sarbanes-Oxley Act for quite some time. Here's the first of a series of articles on its impact on our readers. We hope to follow this excellent introduction with JDE-specific articles.

Kirk Krappé, president and CEO of Nextance inc. in Redwood City, Calif., says the noise from software vendors pitching Sarbanes-Oxley solutions has grown deafening. He receives two or three e-mails a day from vendors and consultants offering to solve his compliance problems, even though his small, private company isn't subject to the provisions of the new law -- and it's a competitor in the Sarbanes-Oxley compliance assistance market itself.

Most CEOs and CFOs need a document management system just to sort through the hundreds of compliance pitches they're fielding. But few leaders would deny that compliance assistance products and services fill a real need.

Earlier this spring, the SEC underlined the deadly seriousness of compliance issues when it fired off a volley of criminal charges against senior executives of HealthSouth Corp., the $4.3 billion-a-year Birmingham, Ala.-based health care services provider. News of that investigation broke just as management teams at many public companies, particularly those with Sept. 30 fiscal year-ends, began plotting their compliance strategies, investing in external Sarbanes-Oxley assistance and focusing on their assertions of internal controls as laid out in Section 404 of the new legislation.

"What Congress did when it passed the act was to eliminate the Ken Lay defense," says Trent Gazzaway, national director of corporate governance advisory services for accounting and consulting firm Grant Thornton LLP in Charlotte, N.C. "CEOs can no longer say, 'That wasn't my responsibility -- it was the fault of internal audit, the external auditor or the accounting department.' "Ultimately, the buck stops with CFOs -- and their subordinates. So far, the HealthSouth criminal charges have targeted (in addition to the company's former CEO) two former CFOs, a former assistant controller, three finance vice presidents, and an assistant vice president of finance and accounting.

There's no question that compliance assistance providers found an eager market for their products early this year. Stephanie Woodruff, Minneapolis-based global managing director of internal audit services provider Resources Audit Solutions, reports that public-company investment in her firm's compliance assistance software surged in early March. Other finance and accounting consulting firms and accounting firms report similar sales leaps. Gazzaway conducted presentations of CAT Scan, Grant Thornton's control analysis tool, for 40 public companies in a five-week stretch beginning in February.

The flood of compliance assistance software products shows no sign of abating. While there's no question that they are timely and needed, the sheer volume of offerings is overwhelming to many finance executives. And grasping the pros and cons of all available solutions remains a challenge.

What's Out There?

Woodruff segments the compliance process into three stages: documentation, assessment and testing, and audit support and attestation. She says some software tools skip the documentation in favor of a basic assessment checklist -- check enough boxes, the thinking behind these products goes, and you've adequately tested the effectiveness of internal controls. That's a

mistake, she argues, noting that for Resources Audit Solutions, the first stage of compliance management is "all about documentation [of the] client's policies and procedures." And she insists that those policies and procedures must be steeped in first-rate accounting and internal audit best practices know-how for a compliance tool to be effective.

Gazzaway echoes Woodruff's caveat. "Tools are just a way to efficiently execute the methodology," he notes. "Some of the tools I've seen out there are just electronic filing cabinets."

But enterprise contract management, compliance management and document management software vendors insist that it's a mistake to underestimate the sophistication of their applications. Although those vendors may have limited consultative expertise in internal controls and accounting processes, some have helped large public companies comply with the Health Insurance Portability and Accountability Act of 1996 (HIPAA); the FDA's Regulation 21 CFR Part 11, which governs data security and electronic signatures in FDA-regulated industries; OSHA regulations; various antidiscrimination laws; e-commerce regulations; and other SEC rules. "Sarbanes-Oxley requires corporate controls be put in place, and that's the focus of contract management software," says Mike Kaul, president and CEO of diCarta Inc. in San Carlos, Calif.

Invest in a contract management solution to ensure compliance with the new law, vendors say, and you can realize additional benefits by staunching value leakage from shoddy contract management practices. Krappé points to a February 2003 Nextance survey of executives at 100 Global 2000 corporations; more than 80 percent of respondents reported that locating their contracts was an area of concern, and 71 percent identified contractual risk as a major area of concern. DiCarta's enterprise contract management application boosts contract compliance, contracting controls and visibility, says Kaul.

Ken Thrasher, CEO of enterprise compliance management software provider Complí in Portland, Ore., believes that risk management practices are incomplete if they don't include "employee practices compliance monitoring." Gazzaway echoes that point when he notes that "subsidiary certifications" have so far received short shrift in the overall compliance discussion. "While most listed public companies now require lower-level finance and accounting managers to certify information and controls, the only reason people sign is that they're going to lose their job if they don't," he says. "An effective tool provides documentation at that low level. It gives them support as to why they're signing a certification within their specific area of responsibility."

Business performance management (BPM) software and ERP vendors say their products provide that support to managers involved in forecasting, budgeting, planning, analysis and financial reporting. Gottfried Sehringer, vice president of marketing for revenue management software provider Softrax Corp. in Canton, Mass., says his company's solutions help eliminate inconsistent documentation, processes and treatments. That's a convincing pitch when it comes a few weeks after the SEC's March release of its "screening" of annual reports from Fortune 500 companies. (The SEC review warned of a lack of clarity in revenue recognition practices, particularly in the high-tech, energy, pharmaceutical and retail industries.)

All Things Considered

Is any single tool powerful enough to meet all -- or most -- of a company's compliance needs?

The answer depends on several factors, the most important of which are the present state of the organization's internal controls and its documentation of those processes. The following steps can help narrow the field of tools vying for compliance-management dollars:

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