



Welcome to our first issue of 2004. In this issue, we have several insightful articles on:

1. [Key Indicators of Enterprise System Implementation Success – What does it take to achieve a successful implementation?](#)
2. [Sarbanes Oxley \(SOX\) Update – What have we learned about \(SOX\) over the past few months?](#)

We hope this information is of value to you and others in your organization. Don't hesitate to pass it on. We also appreciate you keeping TSI in mind for any of your forthcoming strategic, business and technology initiatives. We consistently demonstrate to our clients that we make a significant difference on your projects with our results orientation, expertise and outside perspective. There is a good chance that we have done a project similar to the one you are embarking upon – please call 312-492-6400 x202 to talk about your specific needs and how we might help you.

Any feedback for us? Please send us an e-mail at [tsiinfosource@transforming.com](mailto:tsiinfosource@transforming.com).

- The Editors

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**Key Indicators of Enterprise System Implementation Success**

- Authored By Dan Feely ([dfeely@transforming.com](mailto:dfeely@transforming.com))

By now you have probably read dozens of articles on why CRM or ERP projects succeed or fail. We read many of these too. We've also led or been involved with approximately 25 CRM or ERP projects. Recently we have been engaged to either proactively or reactively correct the path that these projects are taking. At the risk of being too blunt, many people involved with these projects, continue to miss the foundational elements required to succeed in projects like these. As we often say, "it's usually not about the software".

Provided below are some of the items we analyze when trying to predict the success (or lack of) of an Enterprise Systems Implementation Project:

- ▶ **Scope** - Project scope oriented toward driving bottom line value – project looks at how work is done and should be done and then configures the "to be" processes and system to create a new standard of customer satisfaction, efficiency and effectiveness throughout the organization

...See Key Indicators- page 2

... **Key Indicators - continued from page 1**

- ▶ **Approach** – the team follows a well crafted game plan that utilizes resources effectively while hitting key milestones consistently and in short intervals; Project is linked to enabling the organization to achieve specific strategic goals
- ▶ **Project Team** – is committed on a full-time basis; has a significant stake (at least 25% of total compensation) in the form of a bonus to successfully complete the project. Is led by the business side, but has significant IT contribution; Uses outside consultants to fill holes in expertise. Uses a PMO organization to leverage knowledge on a ongoing basis
- ▶ **Project Manager** – has successfully completed similar projects; demands respect from throughout the organization in addition to his/her own team; is capable of leading enterprise-wide projects and negotiating the perils associated with significant organizational change
- ▶ **Executive Sponsorship** – Executives state what they are seeking from the project and do not deviate from their objectives. Provides input and commits required resources throughout the project
- ▶ **Realistic Timeframe** – project is neither too long or too short to complete the job in a quality manner
- ▶ **Culture** - the culture of organization needs to be geared to rapid, but rational decision making; the organization has a history of completed projects like these on time and on budget.

Please note that the organizations that often succeed with projects like these treat these projects with a mindset that failure is not an option. In other organizations, while failure is not desired, it is tolerated and missing a “go live” date or not driving business value out of the project is accepted. **Do it right; do it once.**

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## TSI in the News and Around Town

Recently, TSI has been seen or heard in/at:

- ▶ Illinois CPA Society’s *Insight Magazine* – TSI was used as a source in their article titled “CRM Road Rules” - <http://www.insight-mag.com/insight>
- ▶ PMA - Plumbers Manufacturer’s Association – TSI was invited to speak at their annual technology forum on the pros and cons of adopting a uniform standard communication protocol - <http://www.pmihome.org/pr-datarelease.htm>



## Sarbanes-Oxley Update

Since our last newsletter several months ago, public and private corporations, governing bodies and other organizations have significantly more expertise regarding SOX. Specifically, expertise has been gained regarding:

- ▶ What does it really cost to be compliant in the two main, initial SOX sections 404 and 302
- ▶ What benefits have resulted from the work performed to date
- ▶ When will one realize benefits from these efforts?

Here are a few statistics that you may find interesting<sup>1</sup>:

1. 48% of companies will spend at least \$500,000 on SOX compliance
2. Just under 50% of companies are NOT tracking the costs involved with SOX compliance
3. An overwhelming minority see this as an opportunity to put in best practices within their organization – nearly 40% of CFOs see the increased burden of controls and reporting to have little to no effect on their current processes
4. Only 30% of CFOs feel the benefit will outweigh the costs
5. The most common benefits listed, as a result of the SOX project include more efficiency in reporting processes and more accurate numbers.

**So What?** Clearly moving to improved processes, policies and controls in 404 and 302 are uncharted territory for many. As a result, many are forging ahead at full speed with blinders on. Instead organizations need to take a “Look Good/Be Good” mentality to 404 and 302. Nice packaging of reports and binders of policies and procedures will mean very little if you are required to restate financials and pay penalties especially if these are the result of some major process, systems or organizational disconnects that were not addressed during your SOX project. **Do it right; do it once.**

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## Sarbanes-Oxley Basics (in case you missed the last newsletter)

SOX requires that the chief executive officer (CEO) and chief financial officer (CFO) of each public company certify that in each annual or quarterly report the report fully complies with the SEC's reporting requirements, and that the information contained in such report fairly represents the financial condition and results of operations of the public company. The teeth of this requirement come in the form of the associated penalties for non-compliance. The certifying CEO and CFO will face a penalty for any false certification of any financial information in an amount of \$1,000,000 and/or up to 10 years imprisonment if it was a "knowing" violation, and an amount of \$5,000,000 and/or up to 20 years imprisonment if it was a "willful" violation.

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<sup>1</sup> CFO Magazine, *Sticker Shock* - September, 2003

There are other penalties some of which are just coming out and may not be official yet, but there is an interesting penalty when a public company finds an error and is required to restate its financial performance. In this case, there is detail being discussed that a CFO must surrender a performance bonus that was earned during the period that is restated.

## The “Guts” of SOX

SOX contains 11 Sections (called Titles). Each of these defines the standards, responsibilities and penalties associated with non-compliance. The Sections/Titles are:

- ▶ Title 1 – Public Company Accounting Oversight Board
- ▶ Title 2 – Auditor Independence
- ▶ Title 3 – Corporate Responsibility
- ▶ Title 4 – Enhanced Financial Disclosure
- ▶ Title 5 – Analyst Conflict of Interest
- ▶ Title 6 – Commission Resources and Authority
- ▶ Title 7 – Studies and Reports
- ▶ Title 8 – Corporate and Criminal Fraud Accountability
- ▶ Title 9 – White Collar Crime Penalty Enhancements
- ▶ Title 10 – Corporate Tax Returns
- ▶ Title 11 – Corporate Fraud and Accountability

While the scope of SOX can be a bit overwhelming, the most problematic areas are somewhat finite. According to Debra Hopkins, Director NIU CPA Review major areas of concern are “revenue recognition, any estimated or subjective areas (warranties, guarantees, inventory obsolesce, bad debt, and market value computations, to name a few) are the financial areas to pay particular attention to. Now it is time to reanalyze how these are calculated and base these on sound fundamental principles.”

If you are a CFO/CEO or auditor of a public company, you probably know these titles intimately or you will learn these soon. Many of the requirements within these titles define the financial controls, documentation and governing policies that should be in place. Other requirements define boundaries (in terms of services) that an auditor can play and how long a CPA firm can be an auditor. At the end of the day, how strictly you comply with these requirements is a function of several factors including:

- ▶ How much change you can implement before the compliance deadline
- ▶ How much funding you have to implement the controls
- ▶ What resources are available
- ▶ What amount of risk are you willing to assume.

As of mid-May, 2003, public companies with a September year-end were among the most frantic since the amount of time they had to comply with SOX was the shortest. As a result, many companies were doing everything they can to meet the financial reporting and control issues

without having the capacity to look “upstream” and consider other environmental and systemic conditions that cause their controls to be ineffective. Fortunately for them, as of May 27, 2003, the SEC delayed this deadline for an additional nine months. With this small amount of breathing room, many forward-thinking organizations are now using SOX as a lever to address some of the root causes of the poor control factors that may be present within their organization.

When you think about many organizations, both public and private, they have some or all of these characteristics:

- ▶ Acquired one or several organizations in the past 5 years
- ▶ Overseas subsidiaries or business units overseas
- ▶ Multiple systems that may or may not seamlessly and accurately provide consolidated financial statements
- ▶ Non-standard closing periods across the enterprise
- ▶ Different interpretations and local practices of some accounting and financial policies (e.g., revenue recognition, estimation of financial metrics)
- ▶ Decentralized accounting/financial functions
- ▶ Non-conforming employees that may be slow to adhere to financial and other policies and practices (e.g., time and expense reporting timeframes) which affect financial accuracy and compliance (note: SOX requires relevant e-mails are part of an audit’s work papers).

Of the many important sections of SOX is Section 404. Section 404 requires management to file an internal control report with its annual report. The internal control report must articulate management’s responsibilities to establish and maintain adequate internal controls over financial reporting, and management’s conclusion on the effectiveness of these internal controls at year-end. As you can imagine, if some of the “upstream” factors mentioned above are not addressed and, when necessary standardized (and “proceduralized”), the amount of effort to perform “downstream” checking, apply controls and input adjusting journal entries becomes enormous.

**"We believe that to effectively cope with Sarbanes-Oxley, firms should enable the following:**

▶ **Business Performance Management (BPM) metrics, reporting, and planning:**

These provide visibility into key strategic metrics and align organizational performance management. This includes operational statements linked to dynamic business plans that can highlight anomalies and provide workflow to ensure awareness and action.

▶ **Financial reporting and consolidation from BPM solutions:** These are tools to consolidate multiple ERP solutions and provide capability for eliminating entries for inter-unit activity as well as provide capability for booking minority interests (e.g. joint ventures).

▶ **Continuous exploratory reporting on accounting details with BI tools:**

These are tools that extend beyond BPM to report from ERP and data warehouses/data marts for transaction-level accounting details."

*John Van Decker*

*Meta Group*

*Sarbanes-Oxley:*

*The Impact on Financial Reporting*

*March 2003*

## Impact on the Non-Financial/Private Sector folks

If you don't work in a Finance Department or if you are in the private sector and have tuned SOX out thinking that it really doesn't apply to you, you may want to think again. Debra Hopkins warns, "The audit standard setting process is in transition. The PCAOB (Public Company Accounting Oversight Board is a private, non-profit corporation) as designated by the Sarbanes Oxley Act, plans to promulgate auditing standards for public entities. How will this affect private companies? Will the current auditing standards be split into two groups? Will the Auditing Standards Board continue to issue auditing standards for private entities while the SEC, PCAOB sets the standards for public entities? If after the dust settles, only one auditing standard setter remains, it will be the PCAOB. As a result, private companies will need to implement many of these same standards that public companies are now implementing."

Many organizations are also implementing tighter sign-offs internally to share the responsibility that SOX is placing on the CEO and CFO's. This is NOT to say that other individuals are accountable in the way a CEO or CFO is, but some organizations are requiring all department heads, CIO's (if IT is structured as an independent organization or subsidiary), and heads of subsidiaries or business units to sign off on their own financials prior to the CEO and CFO signing off on the entire corporation. So unless you have absolutely no outside funding or line of credit, there is a strong

probability that your organization will be required to implement at least some of these same financial reporting and control changes.

To other non-financial professionals, you are probably getting the notion that this will impact you too. As it was mentioned above, any estimation that is performed may be required to change (or at least get

documented to capture the underlying assumptions). However, should your organization use SOX as an opportunity to change, it will be in the examination/improvement of the following that will be the most time-consuming:

- ▶ Business Processes – documentation, improvement and potential standardization of processes. Now documentation of processes and systems using the required COSO framework (COSO is the Committee of Sponsoring Organizations of the Treadway Commission, a private-sector group that works to improve the quality of financial reporting through business ethics, effective internal controls and corporate governance) is not a trivial project. Like ISO's requirement to document work processes and prove that the documentation supports the work that is truly done, SOX documentation will also require the same level of documentation/compliance. Invariably, once a process is documented, you will discover that there is inefficiency and ideas about how to improve it. Determining the best way to improve the process to make it work better, faster and cheaper is now the challenge.
- ▶ Underlying Policies – Financial policies, especially in subjective or estimated areas will need reexamining. In addition, when analyzing the processes, one will be forced to reexamine a number of other policies including:
  - When should specific operational and financial work be performed?
  - Why is work performed by a certain group/person?
  - What rules should govern why work is performed in a certain way?
  - What compensation plans, bonuses and penalties should be in place to entice everyone in the organization to work towards SOX-Operational and Financial Reporting Excellence?
- ▶ Technology – Some think that SOX can be remedied by slapping on a financial reporting tool like Hyperion or Crystal Reports. Good financial reporting tools will help, but if the tools are reporting off of "dirty data", disconnected systems or systems that are not used in a disciplined manner, the reporting tools will be of little value. SOX will cause all organizations who have information spread out over multiple systems or have a random factor of information integrity, to address this in a more permanent way – like tightly integrating systems, replacing numerous systems with one or fewer systems and implementing better checks and balances along with tighter security and practicing better information integrity techniques.

## Arghh – Not those letters again - ROI

It is becoming more evident that those organizations that are seeking to do more than just barely comply are using SOX as a lever to drive efficient and standardized processes. During the acquisition/consolidation and technology change period that occurred over the past 5 years or so, it is very common for organizations even in the \$100-200M range to have international subsidiaries operating on different financial systems with different financial closing periods. Now, many of those organizations are seeking to get something in return for this six or seven figure “investment” in SOX-triggered control and financial reporting change. Since these new standards make it mandatory for companies to improve record and document management, accelerate financial reporting through automation, and strengthen governance policies, many organizations are looking at some of the following options:

- a. Acquire tool and/or templates from one of the Big 4 and attempt to do it yourself
- b. Have one of the Big 4 to do it
- c. Get a mid-sized company along with other resources to help.

Each of these options has its own set of pros and cons. However, whichever way you turn, one common practice is to create a team comprised of internal and external resources that is a blend of SOX, legal, audit, financial reporting, governance, process and technology expertise. Due to the aggressive timeframes and demands from a subject matter expertise perspective, it is all but impossible to find all of the necessary expertise within one company and consulting firm.

## The Bottom Line according to TSI

Sound internal controls cannot exist where business practices and policies are poor, or where oversight of operations is not at its best level. Therefore, if you improve your business processes and performance monitoring so that you can detect earlier any problems in financial performance, you are less likely to be surprised at period end. Better processes lead to better controls and fewer surprises. That is the value proposition of using SOX as a catalyst to improve processes, integration of system and integrity of information.

You can look at SOX in one of two ways – a regulatory cost forced on you or an opportunistic investment. If the former is your nature, you will have a tendency to spend the bare minimum to meet SOX requirements and hope to escape without a negative and costly IRS audit. You will not receive a return from your investment in SOX if you choose this path. If you are viewing SOX as an opportunity to fix broken or maybe less than perfect financial and other processes, better integrate technologies and even standardize disparate policies and practices, while the investment will be higher in terms of time required to complete this, your chances for a positive ROI is significantly higher also. Just keep in mind – SOX is not the type of legislation that you should treat in a “business as usual” manner.

TSI has effectively positioned itself to work with SOX and legal experts and proactively address “upstream” operational, technology and organizational problems that cause significant downstream

financial reporting and control problems. TSI has the expertise to understand financial and operational control issues and address the root cause of these issues. TSI consultants are operational and technology change experts and will help ensure that the improvement initiatives are completed in a quality manner, quickly and in a way that transfers knowledge from our consultants to the internal client personnel working alongside with us. If you are interested in speaking about how we can help, please call TSI at 312.492-6400 ext. 202 or e-mail [marketing@transforming.com](mailto:marketing@transforming.com).

## Press Release

May 28, 2003

### SEC Delays for Many the Implementation of Sarbanes-Oxley Section 404

Final rulings on Sarbanes-Oxley Sections 404, 302, and 906 discussed during May 27 Web cast.

The U.S. Securities and Exchange Commission (SEC) has delayed for many companies the effective dates of Section 404 of the Sarbanes-Oxley Act of 2002, which requires management of covered firms to report on internal controls over financial reporting.

In his opening comments during an SEC Web cast on May 27, N. Sean Harrison, special counsel of the SEC's Division of Corporate Finance, stated that companies, other than foreign private issuers, meeting the definition of an "accelerated filer" in Exchange Act Rule 12b-2 will be required to comply with Section 404 for fiscal years ending on or after June 15, 2004. Accelerated filers are, in general, U.S. companies that have equity market capitalization of more than \$75 million and that have filed an annual report with the SEC.

All other issuers, Harrison said on the Web cast — including small business issuers and foreign private issuers — will be required to comply with Section 404 for their fiscal years ending on or after April 15, 2005.

In the draft SEC proposal, the Section 404 compliance dates were Sept. 30, 2003, and Dec 31, 2003, depending upon the filer's fiscal year.

The purpose of the SEC's Web cast on May 27 was to make a final determination on proposed rules outlined in Sections 404, 302, and 906 of the Sarbanes-Oxley Act. Those interested in reviewing the proceedings can access the archived presentation by visiting the SEC Web site, [www.sec.gov](http://www.sec.gov), and then clicking "News & Public Statements" and "Web casts." A related press release can be found at [www.sec.gov/news/press/2003-66.htm](http://www.sec.gov/news/press/2003-66.htm)

Specifically, Section 404 would require a public company — other than a registered investment company — to include in its annual report a certification from management that the company has established internal controls for its financial reporting process. Each covered public company also would be required under Section 404 to publish a similar financial reporting controls certification from the registered public accounting firm that audited its financial statements. Sections 302 and

906 require that the annual or quarterly report certification be signed by the CEO or principal officer of the company certifying that the information given in the company's financial statements is accurate to the best of his or her knowledge.



## Web Sites to Check Out

- TSI Newsletter Archives – [www.transforming.com/archives.html](http://www.transforming.com/archives.html) - check this page out for copies of past articles and other information.
- CFO Magazine – [www.cfo.com](http://www.cfo.com) – many good profitability and SOX articles here
- Sarbanes-Oxley Act – having trouble sleeping? Want to read all 130 or so pages of SOX – go here - [http://financialservices.house.gov/media/pdf/H3763CR\\_HSE.PDF](http://financialservices.house.gov/media/pdf/H3763CR_HSE.PDF)

## About TSI

TSI - Transforming Solutions Inc. - [www.transforming.com](http://www.transforming.com) helps organizations dramatically improve the performance of their organization by collaboratively and cost-effectively analyzing and improving how people, processes and technology work together.

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