

Sox Review Notes

ML Taylor, C.P.M. 2005; *Summary of BuyTrain articles* www.mltweb.com/tools/buytrain/

- 1. What is SOX? Why does it impact Purchasing?** <http://www.mltweb.com/tools/buytrain/sox.htm>
SOX -related audits are not an exact science. SOX mostly redefined responsibilities and accountabilities. Company processes then have to be reviewed to demonstrate they provide sufficient coverage. Determining what to review and deciding what is sufficient has been a major growth industry for auditors. Tulane University Law School is even offering auditors a certification program in Corporate Governance.
- 2. What is it costing companies to demonstrate SOX compliance?**
Curious about the potential cost of auditing and certifying compliance? I was lead to this article on the Internet; [A.R.C. Morgan Report - what companies are spending on Section 404 compliance according to costs submitted in SEC filings](http://www.arcmorgan.com/Section_404_Costs.htm). Average reported sox-related cost for companies with less than \$2Bil in sales = \$3 mil.
http://www.arcmorgan.com/Section_404_Costs.htm
- 3. What are some of the drivers for SOX-related initiatives?**
The Public Company Accounting Oversight Board publishes standards such as this; [An Audit of Internal Control Over Financial Reporting Performed in Conjunction with An Audit of Financial Statements](http://www.pcaobus.org/Standards/Standards_and_Related_Rules/Auditing_Standard_No.2.aspx). Look at the Rules of the Board definition section 7.(3);
http://www.pcaobus.org/Standards/Standards_and_Related_Rules/Auditing_Standard_No.2.aspx
- 4. What kinds of controls do we need to survive a SOX audit?**
White collar Crime in the field of purchasing has always been a major concern. Find examples on this web site. Use the menu to find ways to Identify and Detect Fraud and some interesting case studies.
<http://www.aicpa.org/antifraud/homepage.htm> Here is one purchasing related case study:
www.aicpa.org/antifraud/business_industry_govt/assessing_organization_vulnerability/identify_assess_risk/70.htm
- 5. Will SOX affect government agencies and government contractors?**
The short answer is YES! So says Davis Walker, Comptroller General, in numerous presentations and interviews. In December 2004 OMB released the draft change to OMB Circular 123 which became effective in FY2006. News release: <http://www.whitehouse.gov/omb/pubpress/2005/2005-01.pdf> Here is a link to the revised circular:
http://www.whitehouse.gov/omb/circulars/a123/a123_rev.pdf

The changes affect 24 Federal Agencies. They implement additional requirements and audit controls for financial accountability (similar to the way SOX does for corporations). The agency heads must certify that they have adequate internal controls, identify weaknesses and explain what they are doing to mitigate any financial irregularities. Of course there will be additional audits and reviews.

4. Actions Required. Agencies and individual Federal managers must take systematic and proactive measures to (i) develop and implement appropriate, cost-effective internal control for results-oriented management; (ii) assess the adequacy of internal control in Federal programs and operations; (iii) separately assess and document internal control over financial reporting consistent with the process defined in Appendix A (iv) identify needed improvements; (v) take corresponding corrective action; and (vi) report annually on internal control through management assurance statements.

Opinion: Not being a financial analyst.... I don't believe SOX and/or the new OMB circular impose a plethora of specific new accounting practices. I think identification of system control points and weaknesses remains a function of each accounting system and the controls are going to be unique to that system. What SOX and the new circular

do, is place management on notice that they need to be paying attention, doing reviews and in control of their financial accounting. It requires documented evidence of the assessments and audits which demonstrate adequate controls. I do not believe that either defines many (if any) specific new controls. Of course SOX and OMB 123 also put management on notice that failure to exercise control, could lead to penalties.....

6. **How can purchasing people prepare?**

In some cases, we have had to help the auditors understand exactly what professional purchasing brings to the table. For many years, professional organizations like ISM and NCMA have touted the virtues of a professional purchasing staff and supplied educational and certification programs. Good supplier selection, efficient inventory management, and ethical contracting are all just part of our job – and necessary to survive a SOX audit.

ISM is sponsoring SOX seminars and workshops. Visit the ISM web site and perform a keyword search for SOX.
<http://www.ism.ws/SiteSearch/search.cfm?Keyword=SOX>

Improve company procedural documentation by doing a keyword search for procedures. For examples of purchasing procedures go to Google and search the keywords "purchasing procedures".

Visit the Audit Net web site and read through some of the SOX information auditors are sharing with each other
<http://www.auditnet.org/sarbox.htm>. They now have a SOX on-line discussion group. They also have a number of purchasing related audit work papers which members have posted on the web site.
<http://www.auditnet.org/asapind.htm>

7. **Additional info & links:**

- ❑ DOE Office of Management, Budget & Evaluation , Office of Program Liaison and Financial Analysis
<http://www.mbe.doe.gov/progliaison/>
- ❑ DOE OMB “SOX” survey of Field offices and contractors March 2005
<http://www.mbe.doe.gov/progliaison/DOEmocSarbanesOxleysurvey.pdf>
- ❑ DOE OMB Circular A-123 & SOX references (**lots of background links**)
<http://www.mbe.doe.gov/progliaison/doeA123.htm>
- ❑ KPMG presentation on A-123
<http://www.auditforum.org/speaker%20presentations/wiaf/wiaf%2006%2005/Ashby%20A123%20Overview%20WGA%20v2.pdf>