

## Excerpts from Chapter 5

### Advantageous Project Management Techniques

#### Key Topics in this Chapter:

- Areas to keep you focused for the second year and beyond
- Using a sound management approach to increase productivity
- Project management tips
- Staffing strategies
- Sustainable organizational charts for Section 404 teams
- Communicating effectively through emails, meetings and advisories
- Identifying and addressing changes for Section 302 purposes

In year one of Section 404 compliance, the message for Section 404 teams was “just get it done.” In the second year and beyond, the message has changed to “get it done better”. Creating efficiencies in the planning, documentation, testing, remediation and evaluation areas will come from strong management skills. Advice from auditors and industry leaders is to move SOX compliance to a process instead of a project mentality. This is true – SOX compliance needs to become a permanent part of process owners’ day to day responsibilities and something that is expected as part of their job. It is not a one time project. Most companies will have to manage SOX compliance as a year-round program that is headed by a compliance officer, SOX manager or an existing finance employee and monitored by internal audit or management and the audit committee.

Process owners will have ideas on how to make documenting and testing their controls more efficient. Who better to suggest methods to streamline documentation and testing or even improve the performance of actual controls?

#### Practice Tip

Create an employee reward program for suggestions on improving controls or efficiencies for documenting or testing controls. Process owners are often the best source of knowledge for enhancing their own controls.

Although process owners can provide feedback and improvement for controls in their area, the program team, internal audit or compliance manager will generally be the one(s) to create efficiencies for the project as a whole. A person who can “see the big picture” is needed to advance the planning, scoping, monitoring, evaluating and testing processes. In this chapter, you will find concepts and actual plans for upgrading your Section 404 project (process) from just getting it done to getting it done better.

### 11 Areas of Focus for the Second Year and Beyond

If you are an accelerated filer, the first year fire drill is over and quality, consistency and efficiency is the focus. Because there may have been multiple people from different sources working on the project, consistency may be an issue. “Band aids” may have been

applied in the initial rush that can now be replaced by a more permanent solution. Below is a list of items that your SOX team can focus on for the future.

1. Is the documentation consistent? Are the formats, writing style, fonts and quality the same for all processes?
2. Are the controls in place the best controls to mitigate the risk of financial statement misstatement? Are the controls being performed in the most efficient manner? Can some of them be automated?
3. Do you have the optimal number of key controls? Are there duplicates or complimentary controls that can be made non-key?
4. Are there too many processes in scope?
5. Are remediation plans sustainable? Did the remediation really mitigate the risk or was it just a quick fix?
6. Do you have the best possible testing process? Does the testing schedule fit in to the company's operating plan?
7. Do employees need more or updated training?
8. Are you satisfied with the company's Section 404 software? Does it have the capabilities and reporting functions that you need? If you are using spreadsheets, are they the best way to document controls, testing, and remediation?
9. Has your SOX team kept up-to-date on all the new guidance related to the Sarbanes-Oxley act?
10. Are there ways to improve the ROI on your SOX investment? Can the documentation and testing be used for other purposes such training, QA, ISO or other compliance?
11. How will changes in the business be addressed for Section 302 and 404 compliance?

Each one of these issues can be a source of waste in time, energy and money for your company. Solving these problems could save thousands of dollars and give your company the best return on investment for its Section 404 program.

## **11 More Project Management Tips**

The advice below includes quick ideas to help manage any project successfully.

### **Avoid Analysis Paralysis**

Gathering and analyzing information before making decisions is a good practice. But there comes a time for action when a decision has to be made and an action plan developed. Over analyzing issues and putting off decisions will cause you to lose momentum. There is more time to analyze in the planning and documentation phases, but as the project nears its completion, decisions have to be made more quickly. While snap decisions are not optimal, analysis paralysis will have you missing deadlines and scrambling at year-end.

### **Keep it Simple**

There often is no need for complex controls and solutions. Simplify when possible.

### **Delegate**

Any task that is repetitive can most likely be delegated. For example, it is not necessary for top level managers to hold meetings. Hosting meetings is a repetitive task that could be delegated to a middle manager. The planning, scheduling and preparing agendas for meetings can take several hours. Depending on the size of your department, the second, third or fourth person in command could be responsible for holding meetings. This person would still be “high” enough to know the issues that require discussion and could consult with you on the agenda to ensure all relevant topics are addressed. In addition, it might be a type of reward for an up-and-coming manager to display his or her leadership skills in front of an entire department.

### **Match the Tasks to the Position**

Consider adding lower and mid-level accounting staff to take over the more mundane tasks that your higher level managers perform. For every task that a high-level manager performs ask yourself, “is this something a person making X dollars per hour should be doing?” Can another person making less per hour perform this task? If your managers are getting bogged down with administrative work, a department administrative assistant making \$10-\$20 dollars per hour may be more economical than hiring another manager.

### **Only Prepare Documents Required for the Engagement**

Review your Section 404 documentation for redundancy and necessity. Because of the lack of guidance in years past, many companies prepared unnecessary supplemental information. For example, preparing flowcharts and narratives to document processes are a common area of duplicate efforts. Most auditors will accept flowcharts OR narratives as long as they are detailed and complete. Be sure to stay focused on the explicit requirements and not prepare documents only because they were prepared in the past.

### **Put Blackout Periods into Effect for Q4 Material Changes**

Changes to computer systems or financial processes can be difficult to deal with from a SOX perspective if made in the 4<sup>th</sup> quarter. Narrative/flowcharts and control matrices will have to be updated and controls successfully tested all within a three month period. Hopefully there is no remediation involved, or you could be stuck with a possible significant deficiency or material weakness late in the year. For these reasons, implementing new financial IT systems or making material changes to control processes should be strictly monitored during the last three months of the year. Require approval

from a designated SOX team member for new systems or processes to be implemented near year-end.

### **Too Many Hands in the Pot**

The more people that have to agree on a decision, the more difficult it is to come to a conclusion. It is important to make sure the “right” people, both politically and operationally, are involved in crucial decisions. However, when too many people are involved in the decision making process, it can be a show stopper. This problem is frequently seen in small companies that are growing because senior management is used to being involved in all types of decisions. As the company grows, those same senior managers are reluctant to give up their involvement in decision-making. Try to keep decision-making reserved for those directly affected. Decisions will be too drawn out if management outside the accountable area is routinely consulted. If other departments must be consulted before a decision is made, put a deadline on their input or invite them to the decision-making meeting. Once the decision is made, be sure to communicate it to all relevant employees.

### **Integrating Section 404 Compliance with Human Resource Policies**

To be successful, Sarbanes-Oxley compliance should be embedded in employees’ day-to-day responsibilities. Consider including SOX responsibilities in employee job descriptions or tying a portion of employee bonuses to SOX duties. Have a Sarbanes-Oxley memo for new employees included as part of the human resource package they receive on their first day. The memo could give a short background on the Act and explain the company’s philosophy on compliance. By integrating SOX requirements with human resource policies, compliance can become an expected part of all employees’ jobs.

### **Use Some Executive Muscle**

Getting people to do things they do not want to do can be difficult. If you are managing a Section 404 program, it is something that you have to do frequently. Changing processes often means changing ingrained habits. Trying to motivate people to change their habits can be frustrating, especially if you are a consultant. Why should people listen to you? Most employees will not be confrontational, but may fail to make a new control a priority causing delays and setbacks. Many times, you must find something to motivate people to change. Enlisting the help of an executive, such as the CFO or CEO usually does the trick. In many cases, you will not have to recruit the help of an executive. A process owner’s manager may be able to motivate her/his employee to change a habit when you cannot.

Changing policies and controls can be political, but do not overuse your executive ally or they may become resistant. Try to implement new policies and controls with your own resources, saving executive muscle for the critical situations.

### **Train Process Owners on How to Speak to Auditors**

Be sure to educate process owners on what to expect and how to communicate with your external auditor. You may find that people who do not deal with your auditors regularly

are often nervous about talking to them. They should be instructed to be truthful, to the point and to not deviate from the topic being discussed. They need to know that speaking to the auditors is not a time to vent, have other agendas or speak of areas for which they do not have knowledge.

### **Repairing the Relationship with Your External Auditor**

Year one brought controversy and confrontation often tearing apart solid business relationships between companies and their external auditor. Now that the drama is over, it is time to repair the damaged relationship; but putting months of disagreements behind you may be awkward. Do not underestimate the face-to-face factor. It is easier to build a rapport with people when they can see you and shake your hand. Email, voicemail and telephone calls can be easily misconstrued and do not build as strong a relationship.

Finally, if you know you will continue to have disagreements with your auditors, but want to maintain a solid relationship, consider splitting the tough negotiations and other auditor interactions tasks among different members of the team. One member of the team can disagree and negotiate the controversial issues while another maintains a strong rapport. This way, you can still take a hard stance on issues while not ostracizing your auditors.