

Bringing Business Processes into Compliance with Section 404, Sarbanes-Oxley

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CORPORATION

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INTRODUCTION

Section 404 of the Sarbanes-Oxley Act (SOX) of 2002 requires that your annual report contains an “internal control report.” This report must state the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting. And it must contain an assessment of the effectiveness of your internal control structure and procedures.

SOX is designed to provide positive assurances to the investment community. After the corporate accounting scandals in recent history, investors are looking for some guarantees that a company’s financial processes are under control.

Undoubtedly, SOX is having a significant impact on your company’s accounting system and practices. But even though you’re running a modern ERP application, your key processes may not be SOX ready. You may have ERP in place to handle your transactions, but you may not have a way to track and audit the actions for payables. And you may not have the comprehensive tools necessary to achieve process control for receivables.

Since SOX did not contain specific items related to control, it is generally accepted that the framework set forth by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission is the standard by which companies will judge compliance with internal process controls. This framework has multiple components:

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

Controls must encompass not only an individual unit of work, but also how the process step integrates with other steps in the process.

WHAT THIS MEANS FOR YOUR COMPANY

Remember that Section 404 of SOX requires companies to document their controls, then verify that they are not subject to error or manipulation. This means you need to have an automated process within your ERP system to limit manual handling of data.

According to the October-December 2003 issue of SAP Insider, **“The trick to instituting SOX-compliant controls is to automate the processes within your systems wherever possible. Any manual handling of the data leaves that data open to change, whether deliberate or accidental. The more manual handoffs of data, the more likely it is you will raise a red flag with an auditor.”**

With the SOX deadline approaching in June 2004, you must act quickly to bring your company’s systems into compliance. You have a very small window in which you must review your systems to determine what weaknesses exist and figure out how to close the gaps.

In addition to time, cost is a major factor. As companies struggle to find ways to ensure compliance, they often face excessive costs with little benefit other than token efforts at meeting the requirements. Seventy percent of the executives surveyed by CFO Magazine said that they do not think the benefits of SOX compliance will outweigh the costs.

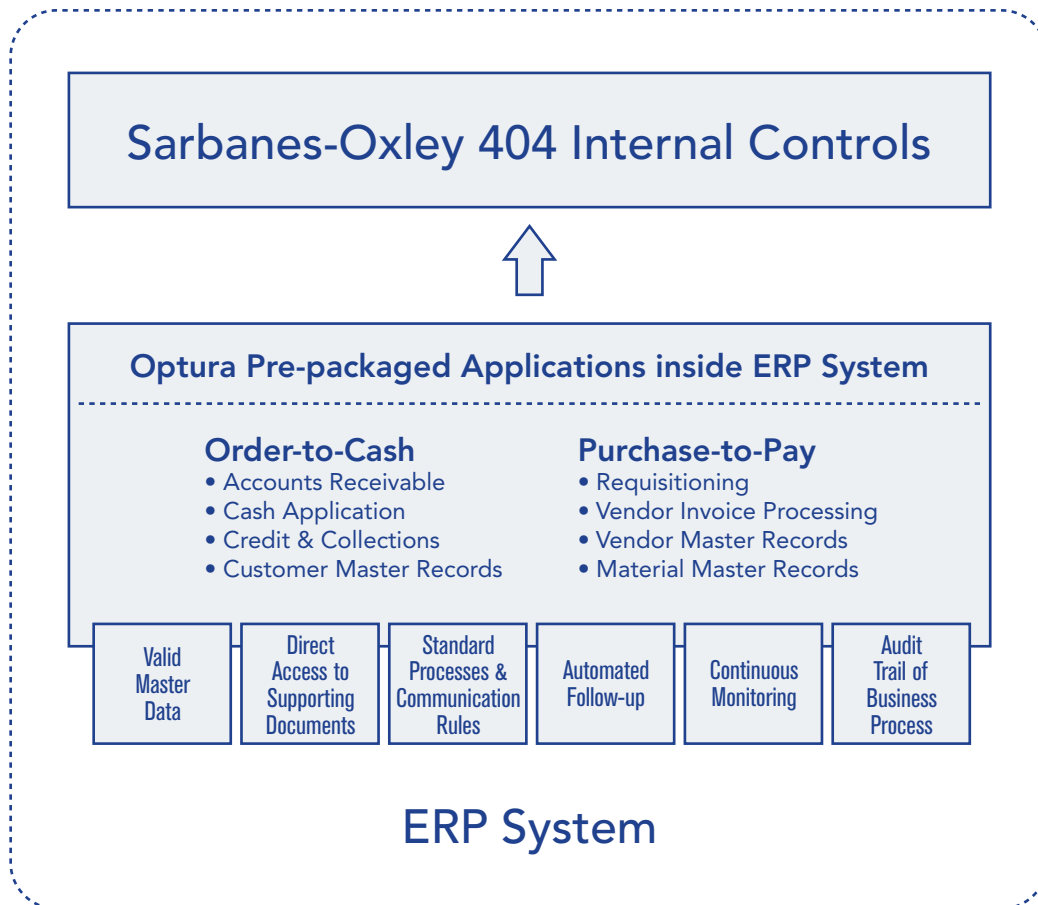
As you work to bring your company into compliance, you may be looking at many different alternatives. You need a solution that you can implement quickly and that’s also economical.

OPTURA SOLUTIONS

Optura comprehensive control systems, coupled with best-practice workflows, provide companies with the tools to achieve process control. In order to be in control, a process must follow standard, pre-defined steps and have visibility during the process and after its completion. Optura's pre-packaged process control solutions will assist the CEO/CFO with corporate compliance prior to signing the required certification.

Optura solutions not only help bring business processes and transactions into compliance with Section 404, they also increase internal efficiencies. The benefits derived from automation quickly provide a return on investment (ROI) in increased staff efficiency, reduced administrative costs, and accelerated cash flow.

Two common process flows where controls are often inadequate are Purchase-to-Pay and Order-to-Cash. These processes will impact financial reporting if done inconsistently or inaccurately. However, through Optura Process Optimization, you can regain process control and subsequent visibility.



Optura provides the building blocks required for Sarbanes-Oxley 404 Internal Control Compliance

PURCHASE-TO-PAY CONTROLS

Two areas in particular need special attention in regard to internal process controls—Vendor Invoice Processing and Material Data Master. The following sections describe the problems associated with each activity, the Optura solutions that address those problems, and the benefits you can realize through implementation.

Vendor Invoice Processing

Many conditions can interrupt the automatic processing of vendor invoices. Maybe the price or quantity of a line item on the invoice doesn't match the PO. Maybe the invoice was submitted without a PO. Or perhaps you need to update a vendor's record before the A/P team can proceed. Whatever the reason, these problems take the invoice out of your automated system and require manual time and labor to correct. And manual processes can create confusion and increase the likelihood of errors.

When a problem takes an invoice out of your automated system, A/P doesn't have full visibility to total liabilities. This means your company's liabilities can be stated incorrectly, even recorded in the wrong accounting cycle. In addition, stalled invoices cost you money in late payment penalties, lost discounts, and increased labor.

Optura solutions can eliminate inefficiencies and streamline processes to reduce cycle time, reduce costs, and increase control. Our products work with your existing ERP or financial system to save you time and money. You can automate the workflow of stalled invoices and route invoice images to the appropriate process participant.

You can also provide your vendors with direct access to details about their invoices through the Optura Vendor Self Service Portal. The Vendor Self Service Portal saves money by minimizing the resources needed to support vendor requests. This frees personnel from researching vendor issues and gives them more time to fulfill other responsibilities.

Optura invoice processing solutions provide a full and complete audit trail for visibility in the process—both as it proceeds and after the final resolution is achieved—giving you the control you need for providing better internal process controls.

You can eliminate your backlog of unresolved invoices, reduce your cost per invoice, and compress process cycle times. You can provide better service to your vendors, giving yourself more clout in negotiating future contracts with your suppliers. And you can get the process control you need for SOX compliance.

If any of these statements describes your A/P, you need better vendor invoice process controls:

- Your payables group handles paper invoices
- You have more than 15% non-PO invoices
- Non-PO invoices get mailed to the requisitioner first, before coming in to A/P
- You pay from a fax copy of an invoice
- You can't electronically track each internal action on an invoice
- New vendors get created in the A/P department
- You manually check for approval limits on non-PO invoices
- You rely on people to follow-up and ensure timely payments
- You don't audit electronic invoices for duplicates
- You don't have a duplicate invoice/payment verification system in place

Material Data Master

Material master records are the heartbeat of an ERP system. If material masters aren't set up accurately and quickly, your company will have a tough time building and shipping products on time and on budget. These records hold information that is important to the success of your company. If those records are slow or inaccurate, you sacrifice efficiency and lose your competitive edge.

A flawed or incomplete material master record initiates inconsistent business processes across the organization. It often means an incorrect inventory valuation which can cause delays in the manufacturing process.

Without the right material management tools in place, you may have duplicate master data or an incomplete data setup. Without the right material management tools, you don't have the internal process controls required by SOX.

Optura's Material Data Master is a pre-packaged solution that works with your existing system to streamline and enhance the processes you use to create new material masters. With Material Data Master, you can control the process of setting up new products more effectively, gather and organize input from different departments more quickly, and manage your workflow more efficiently.

Material Data Master provides for complete data collection from the requester. Workflow solutions handle routing of subsequent data edits by knowledge providers, then routing of approval of edited data. Finally, it provides for coordinated review and approval before creation of a master record.

With Material Data Master, you have a full and complete audit trail to provide visibility in the process as it proceeds and after the final creation of the master record. And it provides automatic duplicate material checking. Headcount is reduced through elimination of task redundancy.

To help with SOX compliance, Material Data Master gives you centralized control over product setup, while working inside your existing system to streamline and enhance your most important A/R operations, incorporate best practices into your A/R system, and unify all of your A/R functions.

ORDER-TO-CASH CONTROLS

The two areas under this topic requiring special attention are Accounts Receivable and Customer Master Controls. The following sections describe the issues you might face, the Optura solutions that can help, and the benefits you'll realize through implementation.

Accounts Receivable

A/R departments face many business pressures in addition to SOX. A/R managers are pressured to improve staff efficiency and either reduce headcount or do more with the same headcount. The A/R staff must reduce Days Sales Outstanding (DSO), reduce the monthly cash collections shortfalls, and reduce the amount of A/R "adjustments" and bad debt write-offs. In addition, A/R management has difficulty monitoring internal operations.

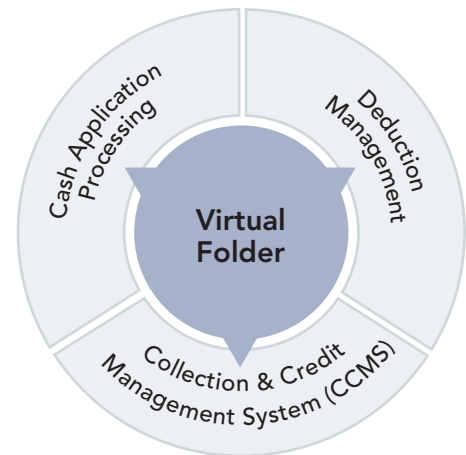
Lack of visibility into the operations and lack of metrics not only hurt SOX compliance, but also make it difficult to improve the very process that has the problems. Companies with A/R problems run the risk of losing deductions, relating receivables to the wrong accounting cycle, and harming cash flow.

The cause of many of these problems is the manual processing that still occurs in A/R departments. A/R clerks spend too much time looking for information, chasing paper, manually tracking orders via Excel spreadsheets, and manually following up with others in the company.

Optura solutions help with A/R workflow and control issues in four key areas: Cash Application, Collections & Credit, Deduction Management, and Paperless Processing through Virtual Folder. Each of these functional areas can benefit from Optura Business Process Optimization (BPO).

Virtual Folder

Virtual Folder provides paperless access to all documents relating to an A/R transaction. It manages the many-to-many links between external documents and legacy data, including incoming documents from multiple sources such as scan, fax, email or desktop files. It also links outgoing documents—such as outgoing invoices, charge-backs, and debit memos—automatically. During retrieval, Virtual Folder presents a list of external documents relevant to a particular FI document or residual item. It can be used either by itself or integrated with other Optura solutions.



The suite of A/R solutions provided by Optura

Collections & Credit

Collection & Credit Management System (CCMS) is a daily workload planner for collections representatives. It consolidates account information, prioritizes collection activity, performs tasks on behalf of the user, and provides management with reports and controls—all in a paperless environment. Most ERP systems do not have a user-friendly way to perform the daily tasks of a collections representative. In order to find out what is due and who to call, employees must drill into screens and, in most cases, print out reports. The collections representative has no place to manage follow-up call dates and send out information quickly and easily from their workstation. If a customer wants a copy of the invoice faxed to them, the employee has to print one out and manually fax it—wasting precious calling time. CCMS changes this cumbersome, inefficient daily routine into an automated, time-saving process that keeps them on the phone rather than spending most of their day researching and compiling information. The result is a dramatic increase in the efficiency of their collection activity.

The credit portion of CCMS allows quick access to the relevant information needed to manage the risk of extending credit to customers. The credit representative can pull up P&L statements, D&B reports, annual reports, or any other documentation required to assess the risk and assign scoring parameters.

Cash Application

Cash Application Processing streamlines the handling of Lockbox Transactions and Debit Memos. Optura's lockbox workflow links applied checks into the Virtual Folder for future reference. It also manages unprocessed, partially applied, or on-account checks to facilitate the cash application and residual item creation. Optura's Debit Memo workflow brings incoming debit memos into the system, facilitating proactive responses such as denial or credit.

Deduction Management

Deduction Management Workflow drives the resolution of deductions in a timely manner. The process is triggered when specific reason codes are set at the FI invoice line item. All of the steps necessary to resolve the deduction are pre-defined and driven by the legacy financial system. In each step of the workflow, the Optura Virtual Folder provides a paperless view of all documents necessary to resolve the deduction. Examples of common deduction reasons that are configurable with workflow include: marketing rebates/promotional pricing, shortage claims, trade spending, outstanding credit balance, damaged shipments, back-orders, cancelled orders, etc.

With Optura Solutions, you have an immediate view of receivables, automatic follow-up, and immediate access to supporting documents and comments. Optura can enhance your existing financial solution by automating processes and carefully controlling the flow of work. Not only will this help bring your system into compliance with Section 404 of SOX, you get a paperless workflow that controls the dispute resolution process, streamlines communication between departments, and ensures accurate and timely resolution.

Customer Master Controls

The setup or editing of a customer record can be complex, with partner functions such as Sold-To, Ship-To, and Bill-To making up customer account group hierarchies. If this information is not set up correctly, it impacts your company's ability to sell, bill, and ship products to your customers.

Without a consistent business process for setup and changes to customer master records, you are likely to see inaccurate data in the system. This can lead to incorrect billing and accounting, duplicate accounts, and incorrect applications of credit.

Optura's Customer Order Master is a pre-packaged solution that provides best-practice processes to facilitate the setup of new customers. It uses automated workflows to get input from the right departments for setting-up or editing customer quickly and accurately.

Customer Order Master gives you control over customer setup or changes while still allowing for decentralized input from data experts in diverse locations. It streamlines processes and shortens cycle-time by simplifying customer master setup. With Customer Master, editing customer information is easy and intuitive.

Section 404's process control guidelines require complete, consistent data stores without duplicate entries or incorrect information. Optura's Customer Order Master solution ensures accuracy while providing a full and complete audit trail that supplies visibility in the process as it proceeds.

CONCLUSION

Optura solutions provide continuous process improvement through real-time process metrics. It has been said that Sarbanes-Oxley is a process rather than an event. Optura products contribute to this concept by providing reporting that facilitates continual process improvement. Bottlenecks and inconsistent processes are immediately identified. Using Optura solutions to bring this level of process control to your company makes it easier for your CEO and CFO to bring corporate processes into compliance before they sign the “internal control report.”

The tools that Optura offers not only assist with compliance of Section 404 of the Sarbanes-Oxley Act, but they also generate a positive ROI for your company in increased staff efficiency, reduced administrative costs, and accelerated cash flow. These tools maximize your capabilities by automating manual functions. Optura products helps drive the business processes by controlling the flow of work. And it helps instill process controls, streamline communication, and provide better management controls. For more information on Optura solutions, call **480-488-3040** or visit our Web site at www.Optura.net.