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Sarbanes-Oxley: A compliance case study

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Introduction

Sarbanes-Oxley is a piece of legislation passed into law on July 30, 2002 (*The Sarbanes-Oxley Act of 2002 With Analysis*, 2002, p. iii). The act was developed to, " . . . to enhance public company governance, responsibility, and disclosure (p. 1)." The official name of the act is Public Company Accounting Reform and Investor Protection Act. The name Sarbanes-Oxley comes from the act's co-sponsors: Senator Paul Sarbanes, D-Maryland and Senator Michael Oxley, R-Ohio. (Callaghan, 2004) The legislation adds requirements for publicly held corporations, not private companies, in the United States regarding internal controls and financial reporting. Sarbanes-Oxley, nicknamed SOX, alters the accounting profession for all areas of accounting. It primarily affects the public accounting firms because there are stricter rules about their independence and new audit programs are required. The accountants who prepare the financial statements within the publicly held corporations are held to higher standards for financial reporting. The CEOs and CFOs of the publicly held corporations are required to certify financial statements and internal controls which, in turn, creates more liability for them, including possible criminal penalties. Additionally, the audit committees of publicly held corporations have experienced new roles within their respective corporations. (*How the Sarbanes-Oxley Act of 2002 Impacts the Accounting Profession*, 2003) These aspects and others of SOX will more be explained more in depth with focus on sections 302 and 404 of the act, followed by a case study of compliance with SOX.

History of Sarbanes-Oxley

Companies implement internal controls to help insure accurate financial statements. Ideally, a corporation or any organization implements the most cost-effective internal controls.

If the cost of implementing and maintaining a specific control outweighs the benefits received, then that particular control will not be implemented. Other, more cost effective, mitigating controls will be implemented. Mitigating controls are those that may not be ideal but still help prevent errors and fraud from occurring. A series of events in recent years caused an increase in internal controls and the focus on those controls. Many have heard of Enron, WorldCom, and Tyco; most do not understand why these large, seemingly prosperous corporations suddenly suffered severe financial setbacks.

Enron

Enron was perhaps the most published and widely known. The Enron Corporation began with the merger of two oil companies in the 1980s. Deregulation of energy industry allowed Enron to grow remarkably. Management was able to hide financial problems through very complex transactions. Other complex accounting was used to take advantage of one-time tax savings to increase after-tax revenues. According to an article in the *Washington Post*, thirty percent of the profit reporting in 2000 by Enron was from these intricate tax-reduction transactions (Witt and Behr, 2002).

After record profits, Enron suddenly reported $618 million third-quarter loss in October of 2001. Profits since 1997 had been overstated by nearly $600 billion (Committee on Governmental Affairs United States Senate, 2002, p. 43). Enron filed for bankruptcy on December 5, 2001. Filings showed a shocking $13.1 billion in debt for the parent company and $18.1 billion for affiliates. It is also estimated that another $20 billion in debt existed off the balance sheet. (Zellner, et al, 2001)

The downfall of Enron had long-reaching affects. The public accounting firm Arthur-Andersen was the external auditor of Enron. Formerly one of the Big Five public accounting firms, now Arthur-Andersen no longer exists except in history. Employees of the former Enron were out of jobs and their retirement packages. Investors have also lost a great deal of money. According to Senator Cleland from Georgia, people in his state alone have lost $127 million. The effects of Enron are tremendous and the Sarbanes-Oxley Act of 2002 has been implemented in hopes of preventing another Enron (Committee on Governmental Affairs United States Senate, 2002, pp. 16-17).

WorldCom

WorldCom, a former telecommunications powerhouse, also was a victim of "creative" accounting practices initiated by its management. According to Kenneth Maney's article in *USA Today* (2002), in 2000, $3.9 billion in costs were hidden when revenues were not as high as expected. The costs that should have been expensed were capitalized instead. By capitalizing those expenses, the realization was delayed, resulting in higher net income. An internal auditor discovered that network maintenance and lease costs, normally expensed, were classified as capital expenses (*U.S. Telecommunications Company WorldCom Says It Hid $3.8 Billion in Expenses*, 2002).

Furthermore, WorldCom incorrectly billed many customers. In their acquisitions of other telecommunication organizations, attempts were made to consolidate billing procedures. During the crossover, customer accounts were largely overstated due to over billing caused by computer problems. WorldCom's accounts receivable continued to grow. However, the related uncollectible accounts were not recognized. Finally, WorldCom was forced to take a $685 million charge for uncollectible accounts. Some WorldCom employees later reported to officials that the write-down was delayed to avoid decreasing earnings. (Eichenwald, 2002) In the end, WorldCom disclosed that over the past five quarters earnings had been overstated. This resulted in a $3.8 billion write-down to correct the accounting errors. This is thought to be the largest write-down in U.S. Corporate history. (*U.S. Telecommunications Company WorldCom Says It Hid $3.8 Billion in Expenses*, 2002)

Tyco

Tyco (not the toy company, but the conglomerate that produced a variety of products in electronics, fire and safety, healthcare, plastics and adhesives, and other industrial products) was charged with misrepresenting financial statements. The major issue at Tyco was loans to officers. Former Chief Executive Officer, Dennis Kozlowski, moved into a new, 15,000-square-foot, Mediterranean-style, waterfront mansion at Tyco's expense. Kozlowski also had loans from Tyco that supported his plush lifestyle that were forgiven through a "special bonus" program. None of these deals that had resulted in $13 million in loans to Kozlowski were disclosed to shareholders. (Maremont and Cohen, 2002) Other directors and officers had committed securities fraud of over $20 million (*Tyco Ex-Director Pleads Guilty to Fraud*, 2002).

The Act

The Sarbanes-Oxley Act of 2002 has different sections to try to prevent financial catastrophes like Enron, WorldCom, and Tyco and to protect employees, shareholders, and the other stakeholders. SOX implements new requirements for corporate accountability. There are two provisions that require CEOs and CFOs to certify certain SEC filings. Section 302 covers annual and quarterly reports. The officers must certify that they have reviewed the report, and to the best of their knowledge the report does not contain any material misstatements. Additionally, they must certify that internal controls have been established and those controls are effective. Specifically, this requires the officers to understand and evaluate internal controls of an organization, therefore taking more responsibility for the controls. The officers must also be aware of and report any significant changes in internal controls. (*The Sarbanes-Oxley Act of 2002 With Analysis*, 2002, p. 57)

Disclosure Requirements

The Sarbanes-Oxley Act requires a number of financial disclosures in the periodic reports required by the SEC. Any material adjustments the external auditors propose must be disclosed (Hardesty, 2002, p.401). This will make it visible to the users of the financial statements that the auditors may not agree with the numbers purported by management. New SEC rules also require the company to report, "all off-balance sheet transactions, arrangements, obligations, and other relationships of the company with other entities or persons that may have a material affect on the company's finances (Hardesty, 2002, p. 401)." Furthermore, company officers', directors', and principal shareholders' transactions involving company stock must be disclosed (Hardesty, 2002, p. 406). Those people are privy to certain information regarding the performance of the company and can take advantage of this "insider information." To help prevent this action, the act establishes a blackout period during which company employees are prohibited, with few exceptions, from selling the company's stock (Hamilton and Trautmann, 2002, p. 60).

Section 406 of Sarbanes-Oxley requires companies to disclose whether or not there is a code of ethics for senior officers. Changes or waivers to the code must also be reported (Hardesty, 2002, p. 410). The ethical standards set in the code are intended to promote honest and ethical conduct; full, fair, accurate, timely, and understandable disclosure in reports; and compliance with rules and regulation (Hamilton and Trautmann, 2002, p. 66). Classes and other sources on the subject of ethics and the application of ethical standards are available through professional groups such as the Institute of Management Accountants (Morris, 2003). Even if a code of ethics exists for a company, unless management carries out the code and makes an example for the rest of the company, the ethics code is simply ink on paper.

Audit Committee

The audit committee is an important part of a publicly held corporation. As a part of the board of directors, the audit committee has influence on the conscientiousness of the entity. The audit committee is composed of members of the board of directors who do not hold positions with the company. Companies whose stock is traded on the major stock exchanges are required to have audit committees. The audit committee works closely with the external auditors to determine the scope of the audit engagement and other factors related to the audit. (Messier, 2003, p. 220)

Members of the audit committee now must satisfy certain independence requirements established by the SEC and Sarbanes-Oxley. Each audit committee member must be a member of the board of directors. Additionally, management and employees are forbidden from serving on the audit committee (Hardesty, 2002, p. 303). Audit committee members may not receive consulting fees or other compensation from the corporation other than fees for board and committee service. The audit committee is also directly responsible for the appointment, supervision, and compensation of the external auditor so that management cannot place pressure on the auditors by threatening to cancel the engagement and find a replacement auditor. Furthermore, the audit committee is required to establish procedures for handling issues related to accounting matters. (*The Sarbanes-Oxley Act of 2002 With Analysis*, 2002, p. 4) Finally, a "financial expert" is required to be on the audit committee. Congress believed the committee is only effective to the extent of the knowledge and experience of its members. Section 407 of

SOX requires a company to disclose whether or not there is at least one financial expert on the committee (Hamilton and Trautmann, 2002, p. 67).

Public Company Accounting Oversight Board

The Sarbanes-Oxley Act of 2002 also establishes the Public Company Accounting Oversight Board (PCOAB). PCOAB is meant to provide oversight of public accounting firms. The board, under the supervision of the SEC, is responsible for establishing, adopting, and modifying auditing, quality control, ethics, and independence standards for public company audits, inspecting accounting firms, investigating potential violations of applicable rules relating to audits, and imposing sanctions if those rules are violated. The board will have five members, appointed by the SEC, who understand the financial disclosures required of public companies. Two of the members must have an accounting background, whereas the other three will have a general background. Independence of the board members is extremely important. Public accounting firms must be registered with the PCOAB and it will be unlawful for a firm to audit a publicly held corporation if the firm is not registered. The board will also have investigative and disciplinary authority over public accounting firms. (Hamilton and Trautmann, 2002, pp. 160-168)

Auditor Independence

Auditor independence has had a great deal of focus since Arthur-Andersen's demise due to Enron's collapse. Arthur-Andersen's independence was highly scrutinized during and after the ordeal. External auditors provide investors with a sense of trust that financial statements are presented fairly. If the auditors are not independent, the users of financial statements cannot place as much trust in the fairness of the financial statements. SOX includes various provisions regarding the independence of external auditors. Firms registered with the PCOAB are prohibited from performing certain services for an audit client: bookkeeping or other services related to the accounting records or financial statements of the client, financial information systems design and implementation, appraisal or valuation services, actuarial services, internal audit outsourcing services, management functions or human resources, investment advisor or investment banking services, and legal or other expert services unrelated to the audit. The public accounting firm may provide tax services to an audit client only if the service is pre-approved by the client's audit committee and the approval is disclosed in reports. (*The Sarbanes-Oxley Act of 2002 With Analysis*, 2002, p. 7) Additionally, the supervising audit partner is encouraged to rotate every five years. This allows the company and shareholders to benefit from "a new accountant with fresh and skeptical eyes [to evaluate] the company periodically (Hamilton and Trautmann, 2002, p.52)." All of these rules are intended to improve the auditor's independence, as well as the appearance of independence.

Management

Sarbanes-Oxley requires management to take more responsibility for financial statements. Officers must personally attest that financials and disclosures are fair representations of the company's operations and financial condition.

> More specifically, the Act requires the principal executive officer and the principal financial officer to certify in each annual or quarterly report specific items: the signing officer has reviewed the report; based on the officer's knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact . . .; based on such officer's knowledge, the financial statements, and other financial information included in the report, fairly present in all material respects the financial condition and results of the operations . . .; the signing officers are responsible for establishing and maintaining internal controls and have designed such internal controls to ensure that material information relating to the company and its consolidated subsidiaries is made know to such officers . . .; the signing officers have disclosed to the company's auditors and the audit committee all significant deficiencies in the design or operation of internal controls which could adversely affect the company's ability to record, process, summarize, and report financial data and have identified for the auditors any material weaknesses in internal controls . . .; the signing officers have indicated in the report

> whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their evaluation . . . (Hamilton and Trautmann, 2002, pp. 57-58).

Section 302

Section 302 of the Sarbanes-Oxley Act of 2002 requires management to take responsibility for financial information reported. "CEOs and CFOs are required to certify 'based on the officer's knowledge' that financial statements contain no material misstatements, and that the statements fairly present the company's financial position and results of operations (Hardesty, 2002, p. 304)." This portion of the act was effective as of August 29, 2002. The act requires management to review the financial reports and sign them certifying that all material information has been disclosed. Section 302 is intended to make financial reports more reliable and improve the effectiveness and efficiency of operations (Hardesty, 2002, p. 306).

Officers who certify the financial reports are responsible for establishing and maintaining internal controls. These internal controls must be designed to offer reasonable assurance that material information will be reported. Additionally, the officers must evaluate internal controls and report on the effectiveness. Then, any significant changes or deficiencies in internal controls and related corrective actions must be reported. (Hamilton and Trautmann, 2002, p. 121)

Section 404

Section 404 of the Sarbanes-Oxley Act of 2002 involves management assessment of internal controls and will be effective in November, 2004 (U.S. Securities and Exchange Commission, 2004). Section 404 states,

> The Commission shall prescribe rules requiring each annual report required by section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)) to contain an internal control report, which shall—state the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and contain an assessment, as of the end of the most recent fiscal year

> of the issuer, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting. [Section 404 also requires that] with respect to the internal control assessment required by subsection (a), each registered public accounting firm that prepares or issues the audit report for the issuer shall attest to, and report on, the assessment made by the management of the issuer. An attestation made under this subsection shall be made in accordance with standards for attestation engagements issued or adopted by the Board. Any such attestation shall not be the subject of a separate engagement (*The Sarbanes-Oxley Act of 2002 With Analysis*, 2002, p. 69).

Annual reports required by the SEC now must include an internal control report from management. The internal control report is management's certification that internal controls are in place in the company and the internal controls are effective. The external auditors must also certify that the existing internal controls are effective. (Hamilton and Trautmann, 2002, p. 133)

In order to meet the requirements set by section 404, companies are taking a variety of approaches. The internal control environment must be documented and then tested by the company. Depending on the company, internal controls may or may not have been documented to the extent required by SOX 404. Most companies seem to be using compliance approaches that follow the COSO framework or something similar. COSO, Committee of Sponsoring Organizations of the Treadway Commission, set forth a control environment framework that has become the most accepted by publicly held companies (Cronin, 2004).

A company's internal audit function can be critical in this process. Christina Patilis (2004) of Price-Waterhouse-Coopers public accounting firm has outlined a four-step approach for the internal auditor's role. The first step is to disseminate internal controls knowledge. Next, the internal auditors must maintain objectivity. Internal auditors can provide guidance at the business-level but still must maintain objectivity. Third, the internal audit function should make expectations clear and secure the appropriate support from management and the audit committee. Finally, the internal audit group must include personnel who have the needed skill sets and resources to meet the new accounting standards and disclosure requirements set by SOX. (*Solutions: Captaris enhanced SOX accelerator*, 2004).

Compliance

The implementation of the requirements imposed by the Sarbanes-Oxley Act of 2002 poses many challenges to publicly held corporations, public accounting firms, and others. The Act does not outline how to meet the requirements. Each individual company must consider its situation and how to meet the requirements of Sarbanes-Oxley in a cost-effective manner. Results of a recent CFO magazine survey indicate 48% of companies will spend at least $500,000 on SOX compliance. Non-monetary costs are also a fear of some corporations. For example, the CFO of Constellation Energy Group is concerned the, "fear of personal liability [may be] so great that managers [may be] afraid to take risks on innovation." Another non-monetary cost is simply time—time of officers, time of internal auditors, and time of others. (Nyberg, 2003) A survey completed by FEI (Financial Executives International) indicated the average cost of compliance would be almost two million dollars, 12,000 hours of internal work, 3,000 hours of external work, and auditor fees of $590,000 (*Size matters: larger companies will spend more for Sarbanes-Oxley compliance requirements*, 2004).

SOX does have some beneficiaries. Some small accounting firms and consulting companies are cashing in on Sarbanes-Oxley because the smaller firms can offer lower prices than the larger firms. Also, when independence is a concern, companies can call on the smaller firms to help with certain aspects of meeting SOX compliance. This way the external auditors do not compromise independence and the companies still receive the information and assistance they need. (*Small firms getting big slice of Sarbanes-Oxley pie*, 2004)

The means of achieving compliance to the Sarbanes-Oxley Act of 2002 varies from company to company and even from business unit to business unit within companies. According to *The Sarbanes-Oxley Act of 2002 with Analysis* (2002, p. 13), a system of "sub-certifications" that utilizes various employees with primary knowledge is the method most companies are using to meet compliance requirements. Under that system, employees with the knowledge of internal controls and financial reporting, report certification to CEOs and CFOs. These employees certify to the officers that to their knowledge, their contribution to the reports is accurate and complete. If designed and administered effectively and efficiently, this means of compliance is believed to be good. However, certain points must be kept in mind. For example, the certification process must not become a "checkbox" exercise that can be mindlessly completed. Furthermore, those who complete the reports on financials or internal controls must keep officers information. Yet, officers must also not simply sign reports but are responsible for making inquiries about the reports they are certifying. Both officers and subordinate employees must take care to keep the other informed of material information and changes. (pp. 13-16, 2002)

In an SEC Certification Release, it was recommended that, " . . . if it has not already been done so, [the] issuer (the company who issues financial statements to the public and shareholders) create a committee with responsibility for considering the materiality of information and determining disclosure obligations on a timely basis (*The Sarbanes-Oxley Act of 2002 With Analysis,* p. 16)." This committee has been coined a "disclosure committee." This disclosure committee is intended to report to the CEO and CFO. The committee should not include the CEO or CFO but should include general counsel, the head of internal audit, a senior controller or financial officer (not the CFO), and perhaps a few other senior officers. "The basic objective of the committee should be to have a searching, thorough, on-going discussion of the disclosures in the draft report and to raise and resolve questions about whether additional or different information should be disclosed (*The Sarbanes-Oxley Act of 2002 With Analysis*, 2002 p. 17)." Before certifying the disclosures, the CEO and CFO should ask questions and understand the disclosures. This disclosure committee and the sub-certification procedure are possible solutions to SOX certification for CEOs and CFOs.

The following is a case study that explores how one unit within a larger company is approaching SOX compliance. The study looks specifically at Section 404 dealing with the documenting and evaluation of internal controls.

Case Study on SOX compliance

In order to gather data, numerous people were contacted. From Unit X, the General Accounting Supervisor, Accounting Managers 1 and 2, and the new Internal Controls Accountant completed email surveys. A phone interview was conducted with the original Internal Controls Accountant. The General Accounting Supervisor oversees Accounting Managers 1 and 2. Accounting Manager 1 is the direct supervisor of the Internal Controls Accountant position. Accounting Manager 2 worked with the Internal Controls Accountant, also. The original Internal Controls Accountant was the first person to fill the position. The new Internal Controls Accountant took over after the original and is the current Internal Controls Accountant at Unit X.

Two representatives from the audit staff completed email surveys while one internal auditor was interviewed via phone. The different internal auditors had direct experience with the Internal Controls Accountant at Unit X or were knowledgeable about SOX at Company X. One former internal auditor (was on staff overseas when SOX was passed) also completed an email survey. Eight representatives of other units at Company X completed email surveys. The survey questions for the various contacts can be found in the appendix.

Company X Overview

Company X is a publicly held corporation and is subject to the requirements set forth by the Sarbanes-Oxley Act of 2002. According to Internal Auditor 1, the internal control function plays an important role in meeting compliance at Company X. However, management at the individual units within Company X is ultimately responsible for the control systems at the individual units. Internal Auditor 2 explained that in order to standardize this company-wide, an Internal Control Questionnaire (ICQ) is used. Internal Auditor 1 noted that the ICQ follows the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework for internal controls. The COSO framework covers five areas: control environment (sets the tone of an organization), risk assessment (analysis of relevant risks), control activities (policies and procedures that help ensure management directives are carried out), monitoring (assesses the quality of the system's performance over time), and information & communication (capturing and reporting relevant information) (COSO, 2004). The COSO framework is the most recognized by the Securities and Exchange Commission. The ICQ identifies several key areas of a control environment and identifies objectives that must be met to assist the internal auditors in monitoring. The ICQ is completed at the unit level. Internal Auditor 1 went on to explain that the ICQ is tested at the unit level so that management can sign the quarterly certification required by SOX but the internal auditors also test the units' completed ICQs. The external auditors can rely on some of the testing completed by the internal audit function but none of the testing done by unit personnel.

Internal Auditor 1 explained that training sessions and conferences were held for unit personnel to provide necessary information and useful tips relating to the ICQ and SOX. The internal audit function did not tell the units *how* to complete the ICQ because that is ultimately the responsibility of the unit management. Unit 1 of Company X was the focus of this case study. Unit 1 management implemented a position entitled Internal Controls Accountant in order to deal with increased internal control related issues, including completion of the ICQ, SOX compliance, and other internal control topics.

Internal Controls Accountant at Unit 1

The General Accounting Supervisor explained that Unit 1 implemented the Internal Controls Accountant position to strengthen internal controls and to address increased focus on internal controls, including but not limited to the completion of the ICQ and compliance with the Sarbanes-Oxley Act of 2002. The General Accounting Supervisor and the Controller created the position early in calendar year 2003 because internal controls were very important to management and the company. Division personnel, such as the controller and other accounting and finance management and supervisors were involved in the actual development and implementation of the Internal Controls Accountant position (General Accounting Supervisor and Accounting Manager 1). Accounting Manager 1 explained that no one in Company X outside Unit 1 and no external consultants were consulted during the development or implementation of the position since it was division-specific. The General Accounting Supervisor also indicated that the internal audit function was not consulted since it was partly a resource issue (management and unit personnel time) and the internal auditors would not be aware of that concern at Unit 1. Implementation of the Internal Controls Accountant did require approval from division's top management and the division president.

The General Accounting Supervisor and Accounting Manager 1 provided insight as to why the Internal Controls Accountant position was created. The main reason was that internal controls were taking up more time of management and others. The General Accounting Supervisor explained that there was increased focus on internal controls (due to several factors including SOX, SEC requirements, corporate requirements and increased audits) resulting in increased workload. Management and other personnel did not have the time or resources to dedicate adequate attention to internal controls and the more frequent completion of the ICQ (formerly annually, now ICQ is completed quarterly according to management and internal audit function). Management felt if one full-time resource was dedicated to internal controls, the topic could be more adequately addressed. The General Accounting Supervisor noted that another person could not be added to the accounting department roster so workloads were rearranged in order to free up one position to be dedicated to internal controls.

Management purposely designed the Internal Controls Accountant position to be separate from the internal audit function. This separation allows more focus on Unit 1's control environment. Accounting Manager 1 described the position as independent from the other Unit 1 accounting personnel allowing for unbiased review. Increased focus, while maintaining some independence, provides opportunities to gain more knowledge about different processes and procedures at the three locations that make up Unit 1. Also, more time can be dedicated to analyzing and testing procedures and processes so a more accurate evaluation can be made and if necessary a more effective solution can be developed. Furthermore, the Internal Controls Accountant can review and test areas more often, and in more depth, than auditors' high-level review. The Internal Controls Accountant also allows for continuous review of different procedures and controls rather than the auditor's periodic review. The Internal Controls

Accountant does have close contacts with the internal auditors as resources but remains independent of the internal audit function.

Goals

During the development and implementation of the Internal Controls Accountant position, the General Accounting Supervisor and the Controller defined goals. The General Accounting Supervisor indicated initially a very important goal was simply the development of sustainable processes to ensure strong internal controls. The more specific goals set by management were to review internal controls, review segregation of duties, to watch for repeat audit comments and to take steps to prevent repeat audit comments, to complete internal control questionnaire for the division, develop a central procedures file, and to act as a liaison between the unit and the auditors. Moreover, an important point made be several interviewees was that the position allowed a full-time resource to be dedicated to internal controls. The goals provided guidance for the position but were also largely for performance evaluation purposes (the company as a whole requires each position have goals in order to help employees improve themselves and to help management evaluate an individual's performance).

Reviewing internal controls was a key responsibility for the Internal Controls Accountant. An in-depth review of internal controls is very time-consuming and management did not have time to do this quarterly. The original Internal Controls Accountant explained that generally, auditors do a very high-level review (just enough to verify controls are in place). If auditors have a concern they will give the unit a "comment." The Internal Controls Accountant can devote more attention to reviewing the auditor's comments. Unit 1's Internal Control Accountant can dedicate additional time to understanding processes and determining if existing controls are effective, especially in areas that have received comments from the auditors. If there are not primary controls in effect, then the Internal Controls Accountant can verify that mitigating controls are in place by testing and then evaluate whether more should be done in order to address the auditor's concerns. A greater knowledge of the processes and the existing controls would allow a more accurate evaluation and, as needed, the consistent implementation of more appropriate controls. Additionally, the Internal Controls Accountant confirms appropriate separation of duties. With more time to focus on segregation of duties, testing can be more in depth and the Internal Controls Accountant can research critical combinations in Unit 1 personnel's backup duties in addition to Unit 1 personnel's primary responsibilities.

As previously indicated, a common audit tool is the internal control questionnaire (ICQ), especially at Company X. Company or unit personnel answer series of questions in order to document and verify internal controls and procedures in the different areas identified in the ICQ. Unit personnel and/or the internal auditors can test the ICQ to verify internal controls are in place and can then evaluate the effectiveness of the internal controls. Hence, completion and testing of the ICQ is one means of meeting the internal controls documentation and evaluation requirements of SOX 404. The completed ICQ is a tool used by company X to verify that the units are meeting compliance standards. The information in the ICQ documents internal controls and can be tested by internal and/or external auditors. It is important for the external auditors to test and evaluate internal controls since SOX requires the external auditor to certify the internal control environment. At Unit 1, the Internal Controls Accountant completes the ICQ in detail, conducts testing in order to evaluate the internal control environment, and reports to management with the results. According to the new Internal Controls Accountant, this goal is taking higher priority. The ICQ and other SOX related compliance is taking up approximately twenty percent of the current Internal Controls Accountant's time.

The controller wanted a central procedures file to provide a resource for accounting personnel according to the original Internal Controls Accountant. The database contains information regarding each accounting position's primary responsibilities and back-up duties, as well as the procedures to complete the various activities. This can aid internal controls because it can be used to determine who is responsible for what tasks or information, in addition to the process to complete the activity. The database can also help identify critical combinations (duties or back-up responsibilities that do not properly segregate accounting and treasury functions). Additionally, Accounting Manager 1 indicated that in an employee's time of extended absence or during a position change, another employee can reference the procedures database to assist in completing the work or the database could be used as a training tool. The new Internal Control Accountant indicated that the database is on hold because other goals are currently taking priority.

Communication between the unit and auditors (both internal and external) is critical. At Unit 1, the Internal Controls Accountant is a central hub for communication. This is a significant change at Unit 1. As described by several interviewees, previously, the auditors contacted management or other personnel with questions. However, now, all communication between the auditors and the Unit is filtered through the Internal Controls Accountant. If the auditors are looking for certain information, the Internal Controls Accountant can more efficiently direct the auditors to the correct personnel or information rather than the auditors calling around searching. The General Accounting Supervisor admitted the Internal Controls Accountant could provide a quicker response to an auditor's query than a supervisor or management could due to time constraints. Also, the Internal Controls Accountant can aid in communication between the auditors and other unit personnel to improve effectiveness and efficiency. Accounting Manager

1 suggested unit personnel might feel more comfortable bringing a concern to the internal controls accountant rather than the auditors. If the concern is expressed then it can be analyzed and, if need be, corrective steps can be taken.

A key element as indicated by the General Accounting Supervisor, Accounting Manager 1, and both the original and the new Internal Controls Accountants was that the Internal Controls Accountant position is a resource dedicated to internal controls and the internal control structure at Unit 1. The Internal Controls Accountant can take more time to review information and guidelines passed down from corporate. At other units within Company X, the accounting management receives the information and passes it along to the applicable people. There may or may not be one person who possess all the knowledge. In Unit 1, the Internal Controls Accountant can develop a knowledge base that applies to all areas of accounting and compliance requirements. A full-time resource with complete corporate compliance information can act as a consultant for new or revised processes and procedures at Unit 1. According to the original Internal Controls Accountant, this consultation would allow processes and procedures to be implemented correctly the first time.

Implementation

As previously indicated, the Internal Controls Accountant position was developed and filled early in calendar year 2003. At that time, the Internal Controls Accountant position was not strictly defined. Management did provide goals but understood that the structure of the position depended upon what issues arose. The guidelines for filling the position were set by the General Accounting Supervisor and the Manager of Accounting Services. A very important requirement pointed out by Accounting Manager 1 was experience on audit staff, whether internal audit experience within Company X or audit experience with an external organization.

The General Accounting Supervisor and Accounting Manager 1 stated that the person would also have to be very organized and detailed oriented with good computer skills. Additionally, the person should possess strong communication and analytical skills.

Despite vague direction, a wide variety of resources were available as per the original Internal Controls Accountant. The corporate offices send out periodic bulletins as resources to management and employees. The Internal Controls Accountant could utilize such bulletins to ensure that processes and procedures are in compliance with corporate policies. Additionally, a corporate accounting manual was available. Finally, if the corporate bulletins, accounting manual or other resources did not provide a sufficient answer, management or the internal audit function may be consulted. The new Internal Controls Accountant noted that management has been very supportive and has offered resources if needed.

The original Internal Controls Accountant described the initial implementation of the position as highly trial-and-error because the position was being created almost concurrently with implementation. The goals and some projects were identified during development but how to meet those goals was not as clearly defined. However, the intent was for the Internal Controls Accountant to address issues related to the goals identified, in addition to any other issues that may arise. Other issues would include concerns of management or co-workers.

Challenges

The implementation of the Internal Controls Accountant position posed many challenges. Accounting Manager 1 pointed out that with little initial structure the major challenge was how to prioritize and determine where to begin. "Internal Controls" can cover many areas. Management had to determine which areas needed to most attention. Another main challenge identified by the original Internal Controls Accountant was helping people become more aware of the position and the position's purpose. Management and the Internal Controls Accountant tried to notify individuals and help them understand the importance of the position. Furthermore, individuals contacted by the Internal Controls Accountant regarding issues needed to take the topic seriously. It took time for people to realize the Internal Controls Accountant position was there to provide a resource and to assist other accounting and even non-accounting personnel.

The original Internal Controls Accountant pointed out that creating the boundaries of the position was another major challenge of the position. There is a fine-line between responsibilities of individuals and responsibilities of the Internal Controls Accountant. The original Internal Controls Accountant explained it would not be efficient if the Internal Controls Accountant to aid *every* employee for *every* new process. Employees need to take responsibility for internal controls, also. Formerly, individuals simply created the new process, perhaps with management consultation. However, now at Unit 1, employees must consider whether the process requires review by the Internal Controls Accountant. Accounting Manager 2 brought up the point that almost any issue or topic can relate back to internal controls so employees and the Internal Controls Accountant must evaluate topics carefully. In the end, the original Internal Controls Accountant concluded that the real challenge is to find the balance between issues the Internal Controls Accountant should be responsible for and the issues for which the individuals are responsible. Internal controls are part of everyone's job not just management's or the internal controls accountant's.

The new Internal Control Accountant described some of the challenges during the transition from the first Internal Controls Accountant. The biggest challenge was the timing of the transition. The transition took place close to year-end and in the midst of external auditor requests. Training was limited due to time constraints. Shortly after the transition took place, the internal auditors were one site and the new Internal Controls had some difficulty in answering questions from the internal auditors.

Evaluation

Unit level

The Internal Controls Accountant position now has been implemented for over a year. In addition to the prescribed management goals, the position has also dealt with many other topics that arose through the course of time. The original Internal Controls Accountant listed projects dealing with information systems and controls, time card procedures, and account reconciliation processes as a few examples. Additionally, the Internal Controls Accountant dealt with approval processes and approval hierarchy. A variety of audit topics were addressed such as property audits, product support and product engineering audits, and cost reduction audits. A final example of a project that arose was the writing and the application of procedures for physical inventory.

Since implementation, the Internal Controls Accountant position has gone through a personnel transition. The original Internal Controls Accountant was a relatively new employee to Company X and was in a developmental rotation program. (The rotation program is for newer employees in the finance area. The program moves individuals to a different position approximately every twelve to eighteen months in order to gain a broader understanding of the corporation. After several positions, the individual "graduates" out of the development program.) As the individual's time for a new rotation approached, the future path of the Internal Controls Accountant had to be evaluated. The Internal Controls Accountant position held a lot of responsibility and was more challenging than other positions in the developmental rotation program. Additionally, most employees in the development program serve on the internal audit staff during the last rotation. Therefore, once done with audit staff would no longer be in the rotation program. Consequently, management decided to fill the position with a person who was not in the rotation program. According to the General Accounting Supervisor and Accounting Manager 1, the position was always intended to be permanent and the change in personnel did not affect that or the guidelines to fill the position. The new Internal Controls Accountant simply picked up where the former left off. The original Internal Controls Accountant explained that the position is in constant redesign since it all depends upon what issues arise. However, the general goals of the position remained the same: focus on internal controls at Unit 1.

Along with the transition and a fiscal year end, which meant performance reviews, the Internal Controls Accountant position was evaluated by management at Unit 1. From the perspective of the original Internal Controls Accountant position, the new position was effective. Overall, management has indicated that the position has been very effective. Accounting Manager 2 expressed very strong favor for the position because the Internal Controls Accountant can focus on internal control issues and management can pay more attention to other areas. The General Accounting Supervisor stated that implementing the Internal Controls Accountant position has been a good decision with positive results.

Since the Internal Controls Accountant position gained more direction as time passed, the position took on more shape and became more efficient and effective according to the original Internal Controls Accountant. Management expressed that the internal audit function was impressed by the initiative taken by the division. Unit 1's internal control questionnaire was made an example to other units because of its detail and quality. Additionally, the internal auditors have one contact person rather than multiple contacts allowing communications to be consistent and timely. Accounting Manager 1 pointed out that the auditors have indicated the internal controls accountant has helped expedite audit work. The General Accounting Supervisor also noted positive feedback from the internal auditors and that the controller is pleased with the Internal Controls Accountant position.

A resource dedicated to resolving issues related to internal controls provides benefits to the division on many levels. Important items brought up by multiple interviewees were the increased attention paid to the need for good internal controls and more consistent application of controls. Management also indicated that the position provides an "expert" within Unit 1 since more time can be spent on internal controls and related topics. Accounting Manager 1 noted that the Internal Controls Accountant position also raised co-workers' awareness of the importance of internal controls. Additionally, management can focus on other areas that need attention.

On the other hand, to fairly evaluate the position, possible downfalls of the Internal Controls Accountant must also be considered. The biggest concern of the original Internal Controls Accountant was that internal controls are very important and seem to be a never-ending issue since internal controls can cover such a broad area. The original Internal Controls Accountant mentioned that the job never seemed to be done. Another challenge of the position was that it is impossible to obtain the detailed knowledge of each individual process, procedure, or position. The original Internal Controls Accountant noted that lack of knowledge could pose difficulties when evaluating or brainstorming solutions to issues. Also, given the vast amount of information to review and keep up to date, the position needs more structure and guidance. For example, maintaining the database containing procedures for each position is a constant project as transitions occur and new procedures are developed. Yet certain items, such as quarterly review and testing of the ICQ, must be completed at specific times in order facilitate management's ability to meet regulations.

As the position moves into the future, management and the Internal Controls Accountant have identified areas of improvement. Adding more structure to the position will continue to be a focus in order to make it easier to stay on top of issues that come up unexpectedly. Additionally, with time, certain issues can be researched in more detail and evaluated to a greater extent. It is considered a permanent position; therefore it will continue to aid management and the company with internal controls related issues, including Sarbanes-Oxley compliance through completion and testing of the ICQ.

The new Internal Controls Accountant also had some input as far as evaluating the position. From the new Internal Control Accountant's perspective, the position is very effective. The benefits of the position pointed out were that there is a resource that has the "big" picture of the accounting function in Unit 1 and that the position reflects Unit 1's and Company X's value of controls and ethics. The new Internal Controls Accountant also noted a possible downfall is some resistance from peers. Another downfall pointed out is being "in the middle." The Internal Controls Accountant may not be viewed as "one of them" (accounting department of Unit 1) or as an internal auditor.

Internal Audit Function

The internal audit function was also impacted by the implementation of the Internal Controls Accountant at Unit 1. The most significant change pointed out by both the internal audit function and Unit 1 management is that the position provides one point of contact. This has positive and negative aspects. One benefit is simply that there is a single point of contact. If the audit function has a concern or question, the Internal Controls Accountant can be contacted and guide the auditor in the correct direction rather than searching for the correct personnel to contact. On the other hand, the internal audit function pointed out that this single contact could become bogged down with all the information that could and/or should be delegated to another contact at Unit 1. Good or bad, the Internal Controls Accountant position also limited the participation of other unit personnel in the audit.

Additionally, the Internal Controls Accountant position brought much more visibility to internal controls at Unit 1, which is good according to the internal audit function. Not only does the Internal Controls Accountant position provide a contact for the internal auditors, but it also acts as a resource at Unit 1 for internal control related concerns. However, the internal audit function's concern was that this position holds a considerable amount of "power" within the division and has less independence since the Internal Controls Accountant is an employee of Unit 1. Management empowers the Internal Controls Accountant to make judgment regarding internal control issues. However, the Internal Controls Accountant is still guided by accounting standards, company standards, and management's internal control environment agenda.

Company X

From a company perspective, the internal audit function indicated that the Internal Controls Accountant position is effective. Devotion to internal controls allowed more time to be spent documenting procedures and completing the key company compliance tool, the ICQ. The internal audit function has used Unit 1's ICQ as an example for other units. Internal Auditor 1 indicated that the Internal Controls Accountant position was establishing best practices for the Company X for the documentation and evaluation of internal controls. The internal audit function and various Company X unit representatives did point out that other units within Company X vary to some extent in size and structure. For Unit 1, the Internal Controls Accountant is effective but it may not be as effective if implemented at other Company X units.

Conclusion

The Internal Controls Accountant of Unit 1 at Company X is one way of approaching the increased focus on internal controls and the requirements of the Sarbanes-Oxley Act of 2002. The Internal Controls Accountant position was developed in part to meet compliance requirements set forth by SOX Section 404. The approach to compliance appears to be effective for Unit 1. Other units of Company X are approaching SOX slightly differently compared to Unit 1. Other units are dividing up internal controls responsibilities among accounting personnel or utilizing one position to focus on internal controls in addition to other responsibilities. Internal controls at most other units tend to be the responsibility of the General Accounting Supervisor according to the internal audit function and personnel in various units within Company X. A major factor in the variation among approaches across the units of Company X seems to be the number of locations within a division and the size and structure of the accounting department.

Other companies are taking approaches similar to Company X's Unit 1's Internal Controls Accountant. Company A has developed a SOX 404 Coordinator. The SOX 404 Coordinator explained that the position is the point of contact for Company A regarding compliance with SOX Section 404. The individual is in charge of making necessary SOX-related decisions, training others, selecting software, and communicating with management and auditors to facilitate compliance. The SOX 404 Coordinator is a member of a committee that deals with compliance with the entire Sarbanes-Oxley Act. The committee includes other accounting/finance personnel and legal personnel, and reports to management. Currently, the SOX 404 Coordinator is responsible for overseeing the initial compliance. Once those requirements are met, the position will adapt to monitor on-going compliance. As for the company as a whole (and similar to Company X), various business units are still ultimately responsible for their own compliance with Sarbanes-Oxley. Controllers and accounting managers were always responsible for internal controls; however, the new standards require more focus and testing. Job responsibilities were not added but more work was needed to fulfill those job responsibilities. CPA 1 and CPA 2 have observed more positions similar to the Internal Control Accountant in Company X and the SOX 404 Coordinator in Company A being developed and implemented at other companies in order to meet SOX requirements.

Other interviewees, including representatives from public accounting firms, explained that some companies, and even individual business units, are hiring external consultants to aid in the compliance process. The external consultants are not from the same company as the external auditors. The external consultants are hired to assist with the documenting and testing at the business units so management can certify internal controls. Another common compliance solution pointed out is the use of committees. These committees include accounting, legal, and executive representatives. According to CPA 1, the committees discuss operations and business developments and ensure that reporting and disclosures are appropriate.

Final Comments

Though companies and even business units within those companies are taking different paths to SOX compliance, ultimately, those paths will meet at the same place: SOX compliance. The Sarbanes-Oxley Act of 2002 is still new and professionals are unsure about the path they have begun. Only time will tell what the true effects and costs will be. Has SOX solved the accounting problems like those found at Enron or WorldCom? That is debatable. Several interviewees noted, while they understand the reasoning behind Sarbanes-Oxley, they feel it was a knee-jerk reaction. Compliance with the act may cost some millions while others can cash in on fees and software packages. The act was meant to provide more accurate, reliable and complete information for stockholders and the general public. However, any restatements that may come out of the act may shake the market and stockholder's confidence. Perhaps SOX was not the needed solution and what the publicly held corporations really needed was a lesson in ethics and basic accounting standards. "You can do all of this [SOX] but you can't legislate ethics and morals (Internal Auditor 1)." Robert Fulghum wrote a poem entitled, "All I ever needed to know, I learned in kindergarten." Perhaps instead of SOX, corporate America needs to be sent back to kindergarten to be reminded to play fair, to not take things that are not yours, to share everything, and to follow the Golden Rule in order to strengthen the morals and ethics of corporate America (Fulgham, 1988).

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Appendix

Accounting Managers 1 & 2

Unit 1
Company X
Spring 2004

Development/Implementation

1. Describe the internal controls accountant position Unit 1.
2. Why was the internal controls accountant position developed? (Sarbanes-Oxley, Enron, other corporate accountability issues, etc.)
3. Why was it developed to be separate from the internal auditor function?
4. Specifically, how does this position address Sarbanes-Oxley?
5. What other solutions were considered in dealing with the corporate accountability issues that arose from Enron and Sarbanes Oxley?
6. Does this position aid in determining compliance with GAAP?
7. Who was involved in the development of the position?
8. What sources of input were taken into consideration for the development and implementation of the internal controls accountant position? (management level, internal auditors, external auditors, others)
9. Was the internal audit function consulted during the development of the position? Why or why not?
10. Was the external auditor involved in the development? Why or why not?
11. Were there any outside consultants involved in the development or implementation?
12. When was it developed?
13. What was the timeline for development and implementation?
14. What were the goals and expectations for the position?
15. Who helped set these goals and why were they involved?
16. Why were these goals set?
17. What projects were intended for the position?
18. Were there any guidelines established or resources provided for the position?
19. Who assisted in drafting these guidelines or finding resources? (management, supervisors, co-workers, internal auditors, external auditors, others)
20. During development, was the position intended to be permanent or temporary? (If temporary, what was the expected duration of the position?)
21. What were the guidelines or criteria for filling the position?
22. What was the process for developing the guidelines for hiring and who provided input?
23. What challenges were faced during the development and implementation from the different perspectives? (internal controls accountant, co-workers, supervisors, management, internal auditors, external auditors, others)

Current

24. Describe a few examples of items or projects that the internal control accountant position deals with.
25. What resources are currently used given the experience and how are these resources expected to change?
26. How have people reacted to the position? (co-workers, management, upper-management, internal auditors, external auditors, others)
27. Describe interactions with both accounting and non-accounting personnel regarding internal control issues. (How much interaction is there with non-accounting personnel vs. accounting personnel?)

Transition

28. Why was it switched from a developmental position to a full-time position?
29. Is this transition a continuation or a redesign of the position?
30. Describe the challenges and reactions of others during the transition.
31. After a period of implementation and even a transition, have the guidelines changed?
32. Have the goals and expectations changed after the transition and period of implementation?
33. Have the guidelines for filling the position changed since it switched from a developmental position to a full-time position?
34. Has the duration of the position changed (temporary vs. permanent) since the period of implementation and transition?
35. Is this position committed to be permanent or is it on a trial basis to be evaluated at a later date?

Evaluation

36. From your perspective, how effective has the position been as far as meeting goals and expectations?
37. Who was involved in the evaluation of the position? (management, supervisors, co-workers, internal auditors, external auditors, others)
38. Were the internal auditors consulted in the evaluation of the position? Why or why not?
39. Were the external auditors, D&T, consulted in the evaluation? Why or why not?
40. Were there any outside consultants utilized to evaluate the position?
41. Describe the observed benefits of the internal controls position.
42. Describe the observed downfalls of the position.
43. Have ways the position can be improved been identified?
44. Will any of these be implemented? Why or why not?
45. Has this position changed the relationship with the corporate office?
46. Has this position changed the relationship with the internal auditors?
47. Has this position changed the relationship with the external auditors?
48. What are the costs of the internal controls accountant position? (development, implementation, continuation)
49. How would you describe the pros and cons of the position to a customer?
50. How would you describe the pros and cons of the position to a stockholder?

CPA 1 & 2

Spring 2004

1. Describe how your position is affected by Sarbanes-Oxley.
2. How has your company responded to Sarbanes-Oxley?
3. What is your company's solution to Sarbanes-Oxley compliance?
4. What are some solutions to Sarbanes-Oxley compliance that you have witnessed at your various clients?
5. Has Sarbanes-Oxley affected the company's relationship with clients?
6. Has Sarbanes-Oxley changed the focus of audits (new areas of focus or areas that are focused on more)?
7. Has Sarbanes-Oxley changed the approach to various audits?
8. Other than accounting/finance, what other functional areas (IT, supply management, etc.) are being affected by Sarbanes-Oxley and how are the coping?
9. My case study is on a position entitled "Internal Controls Accountant." The position deals solely with internal control issues for one division in a larger company. Specifically, the position deals with processes and procedures to ensure proper controls. It also deals with Sarbanes-Oxley to some extent because the position provides assurance that proper internal controls are in place, assesses the internal controls in place, and informs management of strengths, weaknesses and changes relating to internal controls (SOX 302). Furthermore, this extensive knowledge of existing internal controls provides more information for the report on internal controls required by SOX 404. Although compliance is determined by the corporate office, this position helps ensure that the division is in compliance with the corporate office's standards. Have you encountered any positions similar to this?
10. Are you aware of any other approaches to Sarbanes-Oxley compliance in other businesses or industries?

Former Internal Auditor

Company X
Spring 2004

1. Describe how Sarbanes-Oxley affected the internal audit function when it was passed.
2. Did the focus of audit work changed, domestically and/or internationally?
3. What were the reactions of folks (both Company X employees/management and internal auditors) at the international units to the new SOX requirements?
4. What were the initial steps taken to meet the SOX requirements? Specifically for 404 or 302?
5. Did the role of internal audit at the units or in the corporation change? (an active role at the units or more of a reference/resource for the units)
6. How has Sarbanes-Oxley changed the relationship and communication between the units and the internal audit function? Corporate and the internal audit function?
7. How has Sarbanes-Oxley changed the relationship and communication between the company and the external auditors?
8. Compare pre-SOX, post SOX, and the transition (on internal audit, the accounting function, the company, the general business environment).
9. Any additional comments about Sarbanes-Oxley . . .

General Accounting Supervisor

Unit 1
Company X
Spring 2004

Development & Implementation

1. Describe the internal controls accountant position at Unit 1 of Company X.
2. Why was the internal controls accountant position developed? (Sarbanes-Oxley, Enron, other corporate accountability issues, etc.)
3. Why was it developed to be separate from the internal auditor function?
4. Specifically, how does this position address Sarbanes-Oxley?
5. What sources of input were taken into consideration for the development and implementation of the internal controls accountant position? (management level, internal auditors, external auditors, others)
6. Was the internal audit function consulted during the development of the position? Why or why not?
7. What was the timeline for development and implementation? (initial brainstorm to actual implementation)
8. What were the goals and expectations for the position and why were they set?
9. Who helped set these goals and why were they involved?
10. What projects were intended for the position?
11. Were there any guidelines established or resources provided for the position and who assisted in drafting these guidelines or finding the resources? (management, supervisors, co-workers, internal auditors, external auditors, others)
12. What were the guidelines or criteria for filling the position?
13. What was the process for developing the guidelines for hiring and who provided input?
14. What challenges were faced during the development and implementation from the different perspectives? (internal controls accountant, co-workers, supervisors, management, internal auditors, external auditors, others)

Transition

15. Why was it switched from a developmental position to a full-time position?
16. Is this transition a continuation or a redesign of the position?
17. Has the duration of the position changed (temporary vs. permanent) since the period of implementation and transition?

Evaluation

18. From your perspective, how effective has the position been as far as meeting goals and expectations?
19. Who was involved in the evaluation of the position? (management, supervisors, co-workers, internal auditors, external auditors, others)

20. Describe the observed benefits and downfalls of the internal controls position.

Internal Auditor 1

Company X
Spring 2004

1. Describe the approach Company X is taking to meet Sarbanes-Oxley compliance requirements.
2. Was there any guidance provided to the units as far as *how* to meet the requirements (in addition to the bulletins sent out by corporate) or was it left to the individual units to determine what would be most effective for them?
3. Is there guidance available or a plan in place for the maintenance of Sarbanes-Oxley compliance?
4. How has the internal audit function been a part of meeting Sarbanes-Oxley compliance (particularly section 404)? Does it play an active role at the units or is it more of a reference/resource for the units?
5. How has Sarbanes-Oxley changed the relationship and communication between the units and the internal audit function? Corporate and the internal audit function?
6. How has Sarbanes-Oxley changed the relationship and communication between the company and D&T?
7. What role has IT played in Sarbanes-Oxley compliance?
8. Are there any other functional areas that are being affected by SOX? If yes, how are they responding?
9. What effects have you observed due to Sarbanes-Oxley, both positive & negative?
   - -In audit work?
   - -In the areas of focus during the audits?
   - -In the information found at the units?
   - -In the information the units provide?
10. Compare pre-Sarbanes-Oxley, post-Sarbanes-Oxley, and the transition between as far as the internal control function, the accounting function, general business environment, etc.
11. What are some of the different approaches to Sarbanes-Oxley compliance that you are aware of, both inside the company and outside?
12. Any additional comments regarding Sarbanes-Oxley and its affects and/or section 404 or 302 . . .

Internal Auditor 2

Company X
Spring 2004

1. Describe how the internal controls accountant position in the Unit 1 addresses Sarbanes-Oxley and other corporate accountability issues.
2. What do you know about the development and implementation of the position?
3. What effects have you observed due to the internal controls accountant position, both positive & negative?
   - -In your audit work?
   - -In the areas of focus during the audit?
   - -In the information found at the unit?
   - -In the relationship with the unit?
   - -In the information the unit provides?
4. How has the position changed the communication between the division and the internal audit function?
5. What challenges did the internal auditors experience and observe because of the new position?
6. What benefits did the internal auditors experience and observe due to the internal controls accountant position?
7. How would you evaluate the effectiveness of the position?
8. How would you evaluate the benefits of the position? The downfalls of the position?
9. Discuss your opinion regarding the decision to make the internal controls accountant position a full-time position as opposed to a developmental position.
10. Have you come across this type of position in other units?
11. Could other units benefit from this kind of position?
12. Describe other solutions you have observed to the corporate accountability issues.
13. Compare the effectiveness of the various solutions.
14. Any additional comments . . .

Internal Auditor 3

Company X
Spring 2004

1. Describe the approach Company X is taking to meet Sarbanes-Oxley compliance requirements.
2. How has the internal audit function been a part of meeting Sarbanes-Oxley compliance (particularly section 404)? Does it play an active role at the units or is it more of a reference/resource for the units?
3. How has Sarbanes-Oxley changed the relationship and communication between the units and the internal audit function? Corporate and the internal audit function?
4. How has Sarbanes-Oxley changed the relationship and communication between the company and the external auditors?
5. What role has IT played in Sarbanes-Oxley compliance?
6. What effects have you observed due to Sarbanes-Oxley, both positive & negative?
    -In your audit work?
    -In the areas of focus during the audit?
    -In the information found at the units?
    -In the information the units provide?
7. What are some of the different approaches to Sarbanes-Oxley compliance that you are aware of, both inside the company and outside?
8. Any additional comments regarding Sarbanes-Oxley and/or section 404 . . .

New Internal Controls Accountant

Unit 1
Company X
Spring 2004

1. Describe the internal controls accountant position at Unit 1 of Company X
2. What were the goals and expectations for the position when you started?
3. Have those goals and expectations changed at all since that time?
4. What guidelines and resources were you given when you started?
5. How do people (both accounting and non-accounting personnel) react to the position? (Do they approach you about things or do you approach them, are they open or defensive, etc.)
6. What role does IT play in the job of the Internal Controls Accountant? (knowledge regarding IT or accessing IT as a resource, etc.)
7. What projects or issues do you focus on?
8. How do you prioritize?
9. Is management involved in the prioritization? How involved is management in the position in general?
10. What projects are being continued from before the transition?
11. Are there any new projects or areas of focus that have been added?
12. What were the challenges faced during the transition?
13. How does this position address Sarbanes-Oxley?
14. How much time is spent on Sarbanes-Oxley related items?
15. From your perspective, how effective has the position been as far as meeting goals and expectations?
16. Describe the observed benefits of the internal controls position.
17. Describe the observed downfalls of the position.
18. How does the position affect the relationship and the communication with the internal audit function?
19. How does the position affect the relationship and the communication with the external auditors?
20. How does the position affect the relationship and communication with the corporate office?
21. Can the position be improved and if so, how?

Original Internal Controls Accountant

Unit 1
Company X
December 22, 2003

Development/Implementation

1. Describe the internal controls accountant position Unit 1.
2. Why was the internal controls accountant position developed? (Sarbanes-Oxley, Enron, other corporate accountability issues, etc.)
3. Why was it developed to be separate from the internal auditor function?
4. Specifically, how does this position address Sarbanes-Oxley?
5. What other solutions were considered in dealing with the corporate accountability issues that arose from Enron and Sarbanes Oxley?
6. Does this position aid in determining compliance with GAAP?
7. Who was involved in the development of the position?
8. What sources of input were taken into consideration for the development and implementation of the internal controls accountant position? (management level, internal auditors, external auditors, others)
9. Was the internal audit function consulted during the development of the position? Why or why not?
10. Was the external auditor involved in the development? Why or why not?
11. Were there any outside consultants involved in the development or implementation?
12. When was it developed?
13. What was the timeline for development and implementation?
14. What were the goals and expectations for the position?
15. Who helped set these goals and why were they involved?
16. Why were these goals set?
17. What projects were intended for the position?
18. Were there any guidelines established or resources provided for the position?
19. Who assisted in drafting these guidelines or finding resources? (management, supervisors, co-workers, internal auditors, external auditors, others)
20. During development, was the position intended to be permanent or temporary? (If temporary, what was the expected duration of the position?)
21. What were the guidelines or criteria for filling the position?
22. What was the process for developing the guidelines for hiring and who provided input?
23. What challenges were faced during the development and implementation from the different perspectives? (internal controls accountant, co-workers, supervisors, management, internal auditors, external auditors, others)

Current

24. Describe a few examples of items or projects that the internal control accountant position deals with.
25. What resources are currently used given the experience and how are these resources expected to change?
26. How have people reacted to the position? (co-workers, management, upper-management, internal auditors, external auditors, others)
27. Describe interactions with both accounting and non-accounting personnel regarding internal control issues. (How much interaction is there with non-accounting personnel vs. accounting personnel?)

Transition

28. Why was it switched from a developmental position to a full-time position?
29. Is this transition a continuation or a redesign of the position?
30. Describe the challenges and reactions of others during the transition.
31. After a period of implementation and even a transition, have the guidelines changed?
32. Have the goals and expectations changed after the transition and period of implementation?
33. Have the guidelines for filling the position changed since it switched from a developmental position to a full-time position?
34. Has the duration of the position changed (temporary vs. permanent) since the period of implementation and transition?
35. Is this position committed to be permanent or is it on a trial basis to be evaluated at a later date?

Evaluation

36. From your perspective, how effective has the position been as far as meeting goals and expectations?
37. Who was involved in the evaluation of the position? (management, supervisors, co-workers, internal auditors, external auditors, others)
38. Were the internal auditors consulted in the evaluation of the position? Why or why not?
39. Were the external auditors, D&T, consulted in the evaluation? Why or why not?
40. Were there any outside consultants utilized to evaluate the position?
41. Describe the observed benefits of the internal controls position.
42. Describe the observed downfalls of the position.
43. Have ways the position can be improved been identified?
44. Will any of these be implemented? Why or why not?
45. Has this position changed the relationship with the corporate office?
46. Has this position changed the relationship with the internal auditors?
47. Has this position changed the relationship with the external auditors?
48. What are the costs of the internal controls accountant position? (development, implementation, continuation)
49. How would you describe the pros and cons of the position to a customer?
50. How would you describe the pros and cons of the position to a stockholder?

Other Unit Representative 1

Company X
Spring 2004

1. How has your unit approached Sarbanes-Oxley compliance?
2. Internal Auditor 2 explained that there is an entire department dedicated to internal controls at your unit; please describe the department (size, delegation of responsibility, etc.).
3. What changes have you observed due to Sarbanes-Oxley?
4. Specifically, how are sections 404 and 302 being approached?
5. Is the internal controls department covering other functional areas, like IT, or is it only accounting/finance?
6. Has Sarbanes-Oxley changed your relationship with the internal auditors? External auditors? Other Company X units/divisions?
7. My case study is on a position entitled "Internal Controls Accountant" in Unit 1 of Company X. The position deals solely with internal control issues. Specifically, the position deals with processes and procedures to ensure proper controls. It also deals with Sarbanes-Oxley to some extent because the position provides assurance that proper internal controls are in place, assesses the internal controls in place, and informs management of strengths, weaknesses and changes relating to internal controls (SOX 302). Furthermore, this extensive knowledge of existing internal controls provides more information for the report on internal controls required by SOX 404. Although the corporate office determines compliance, this position helps ensure that the division is in compliance with the corporate office's standards. Compare this to positions in at your unit or within the internal controls department.
8. Any additional comments on Sarbanes-Oxley, internal controls, etc. . .

Other Unit Representatives 2-8

Company X
Spring 2004

1. How has your unit approached Sarbanes-Oxley compliance?
2. What changes have you observed due to Sarbanes-Oxley?
3. Has Sarbanes-Oxley changed your relationship with the internal auditors? External auditors? Other Company X units/divisions?
4. My case study is on a position entitled "Internal Controls Accountant" at Unit 1 of Company X. The position deals solely with internal control issues. Specifically, the position deals with processes and procedures to ensure proper controls. It also deals with Sarbanes-Oxley to some extent because the position provides assurance that proper internal controls are in place, assesses the internal controls in place, and informs management of strengths, weaknesses and changes relating to internal controls (SOX 302). Furthermore, this extensive knowledge of existing internal controls provides more information for the report on internal controls required by SOX 404. Although compliance is determined by the corporate office, this position helps ensure that the division is in compliance with the corporate office's standards. Does your unit have a similar position? If yes, please describe the position. If no, why not?
5. Any additional comments on Sarbanes-Oxley, internal controls, etc. . .

Representative at Company B

Spring 2004

1. How has your company responded to Sarbanes-Oxley?
2. What is your company's solution to Sarbanes-Oxley compliance?
3. Have any changes been made to the internal controls structure?
4. What effects of the Sarbanes-Oxley Act have you observed?
5. Has Sarbanes-Oxley affected the company's relationship with CPAs?
6. What other functional areas (IT, supply management, etc.) are being affected and how are they dealing with the new requirements?
7. My case study is on a position entitled "Internal Controls Accountant." The position deals solely with internal control issues for one division in a larger company. Specifically, the position deals with processes and procedures to ensure proper controls. It also deals with Sarbanes-Oxley to some extent because the position provides assurance that proper internal controls are in place, assesses the internal controls in place, and informs management of strengths, weaknesses and changes relating to internal controls (SOX 302). Furthermore, this extensive knowledge of existing internal controls provides more information for the report on internal controls required by SOX 404. Although compliance is determined by the corporate office, this position helps ensure that the division is in compliance with the corporate office's standards. Have you encountered any positions similar to this?
8. Are you aware of any other approaches to Sarbanes-Oxley compliance in other businesses or industries?

SOX 404 Coordinator

Company A
Spring 2004

1. Your position is entitled "SOX 404 Coordinator." Please explain what that means and your responsibilities.
2. How has your company responded to Sarbanes-Oxley?
3. What is your company's solution to Sarbanes-Oxley compliance?
4. What effects of the Sarbanes-Oxley Act have you observed?
5. Has Sarbanes-Oxley affected the company's relationship with CPAs?
6. My case study is on a position entitled "Internal Controls Accountant." The position deals solely with internal control issues for one division in a larger company. Specifically, the position deals with processes and procedures to ensure proper controls. It also deals with Sarbanes-Oxley to some extent because the position provides assurance that proper internal controls are in place, assesses the internal controls in place, and informs management of strengths, weaknesses and changes relating to internal controls (SOX 302). Furthermore, this extensive knowledge of existing internal controls provides more information for the report on internal controls required by SOX 404. Although compliance is determined by the corporate office, this position helps ensure that the division is in compliance with the corporate office's standards. Have you encountered any positions similar to this?
7. Are you aware of any other approaches to Sarbanes-Oxley compliance in other businesses or industries?