

THE IMPACT OF SARBANES-OXLEY

On IT and corporate governance

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Abstract

The intent of the Sarbanes-Oxley Act of 2002 is to protect investors by improving the accuracy and reliability of corporate disclosures. The Sarbanes-Oxley Act created new standards for corporate accountability, as well as new penalties for acts of wrongdoing. It changes how corporate boards and executives must interact with each other and with corporate auditors. Holding the CEO and CFO accountable for the accuracy of financial statements eliminates the possibility of an individual defending his action with, "I wasn't aware of financial issues."

SIMPLE INTENT. FAR-REACHING IMPACT.

All public U.S. and international companies that have registered equity or debt securities with the Securities and Exchange Commission need to comply. The key components of Sarbanes-Oxley are formalizing and strengthening internal checks and balances within corporations and instituting levels of control and sign-off to ensure that financial reporting exercises full disclosure and corporate governance is transacted with full transparency. This rests on the ability to document, trace and audit any change that affects the financial reporting structure.

“Anyone who knowingly alters, falsifies, destroys, or otherwise tampers with a document or record can be fined and/or imprisoned for up to 20 years.” —**Sarbanes-Oxley Act of 2002**

The Impact of Sarbanes-Oxley on IT and Corporate Governance

Practically speaking, before the Sarbanes-Oxley Act, the stance regarding controls was all too often, “if nothing goes wrong, it is assumed that the controls are working.” Not only has that bar been raised, but it is now also under a microscope. If the control activity is not identified, documented and validated, the control is not considered effective even if it happens in practice. Controls must now be supported by evidence to demonstrate that they are in place and working effectively.

Although there is more than enough general information available on the Act; this paper specifically focuses on how the Sarbanes-Oxley Act impacts the IT Department. IT and corporate governance ensure a transparent, compliant, and accountable information infrastructure throughout the enterprise. Mistakes are costly. Without the foundation of technology, compliance with Sarbanes-Oxley can easily become a profit leech that is likely to swiftly and dramatically impact a company's success.

ROLE OF IT IN SARBANES-OXLEY

The role of IT is twofold. First, provide support for enterprise-wide compliance. These process controls provide checks and balances for the functional organizations, such as Finance, Order Processing, and so forth. For example, a standard process for managing an order from initiation through collection of payment must exist and be followed with appropriate approvals. Second, ensure that IT itself has adequate and documented controls around security, application deployment, change management and other areas. Thus, changes to an internal SAP system must be tested and signed off by the appropriate parties before being approved for implementation.

All companies have various levels of IT control, but the processes are often informal, or they lack adequate documentation and evidence. Frequently, the deficiency lies in the consistency and quality of the documentation and evidential matter.

ENTERPRISE-WIDE COMPLIANCE—STOP THE INSANITY

At any given time, IT juggles hundreds of projects and change requests from business users throughout the organization. Since any application that impacts the balance sheet must comply with Sarbanes-Oxley, IT must manage and track each and every change request. Managing this via e-mail, spreadsheets and sticky notes, or relying on nonintegrated systems is time-consuming, costly and most of all, risky. Imagine tracking 700 change requests across multiple locations and several hundred users. As one Serena customer discovered, “it wasn’t very efficient or productive.” Yet this customer was not unlike most mid-size to large companies. To gain control, the company implemented Serena® TeamTrack® enterprise-wide. TeamTrack is a web-architected, secure and highly configurable process and issue management system. Now, every department submits change requests to IT and participates in the sign-off process, increasing productivity as well as providing complete, secure documentation and evidential matter in compliance with Sarbanes-Oxley requirements.

ENSURING IT’S HOUSE IS IN ORDER

Any change that can affect financial data must be reported under Sarbanes-Oxley. If a defect in the ERP system means past financial data was not correct, the company may need to restate earnings. This means change management must be much more carefully documented and monitored than in the past.

Application lifecycle solutions provide control over IT processes to make them certifiable and auditable. Effective and enforced processes ensure that a company’s mission-critical software applications are not exposed to potential failure due to oversight, error and other various risks. Moreover, a good solution offers an effective way of controlling IT processes around and beyond software development, providing the ability to capture, track, version and report on changes to any process or system in an IT setting.

The objective of Sarbanes-Oxley is to govern companies’ internal controls over financial reporting to ensure accuracy. For years, financial management has been using spreadsheets to manage many processes. Some of these spreadsheets are quite complex in nature, with complicated formulas, layers of linked spreadsheets, data imports from other applications and multiple people entering and pulling data. Because spreadsheets do not provide the process controls, audit trail, versioning or reporting required to submit adequate evidence, they are no longer an effective means of managing financial data by themselves. Subsequently, many companies have tried to implement or reconfigure their existing high-overhead, complex ERP system. Because these systems are difficult to configure, use and maintain, management quickly discovers how inordinately time-consuming these systems can be.

PAYROLL RECONCILIATION—MONTHS... OR SECONDS?

Each pay period the Payroll Clerk at a mid-sized manufacturing company must review and reconcile budgeted payroll against actual payroll. If there is a difference over 2.5%, the Payroll Clerk must raise an issue and document the reason. A difference of 5% or more must go to the Department Manager for explanation (a one-time bonus, etc). This data must then go to the Financial Director, who reviews the data and approves it or raises further issues for resolution by the Payroll Clerk. The process continues until all issues are resolved and approved by the Financial Director.

Providing evidence of this one internal control can take months to implement in most ERP systems, and if the process or people change, it may require consulting services to reconfigure the system appropriately. *Unfortunately, the law isn't so patient.*

TeamTrack, Serena's process and issue management solution provides the process wrapper around the internal control processes—driving the right information to the right people at the right time. Self-documenting and secure audit trails, and version control of spreadsheets and other Microsoft Office files (when combined with Serena® ChangeMan® Meritage™) automatically provide the evidence required by Sarbanes-Oxley. Without the financial or the system overhead.

Serena TeamTrack manages this internal control effortlessly. An automated script creates an issue in TeamTrack and the Payroll Clerk is notified when it is time to reconcile payroll. Whether payroll reconciliation is tracked in a spreadsheet, in TeamTrack or another system, the file is simply attached to the issue (this does not apply if it's already in TeamTrack) and "Sent for Approval." This notifies the Financial Director, who reviews the attached or inherent data, and either Approves or Rejects it with detailed notes. The complete and secure audit trail is self-documenting, and the evidence is provided to fulfill the requirements of Sarbanes-Oxley.

Some other examples of financial internal control processes (also easily managed by TeamTrack) include:

- General Ledger entry, reconciliation and approval
- Procurement to Payables including purchase request, approvals, budget reconciliation and payment
- Customer Orders to Cash including discount approvals, legal and financial management approvals, customer signatures, credit approvals and accounts receivable validation

There are no two organizations alike, thus there are no “one-size-fits-all” solutions. All solutions require adaptability and configurability to meet the needs of individual organizations and their specific processes. The difference is in how easy the solution is to configure, modify, maintain, and employ by non-technical users.

Across platforms, TeamTrack creates enforceable and configurable workflows for any IT process and documents every change and/or action made by every person involved in a given process, providing evidence about what has been done, by whom and when. Easily modeled and fine-tuned, a clear view is provided every step of the way and assurance that processes cannot be subverted is in place.

TeamTrack governs the access to systems and information including:

- Dashboard view of compliance status in all areas
- Functional department view of compliance status and open issues
- Control of changes to the production environment
- Approval of the change request by all pertinent stakeholders throughout the change request lifecycle
- Detailed, secure audit trail throughout the change request lifecycle
- Managed process of the change itself
- Integration with existing tools in the environment

“With Professional®, we now have visibility and reportability into the projects. Software is a really valuable resource — it’s part of the company’s assets. We need to know where the projects are at any time and be able to obtain statistics about our productivity and then be able to communicate this. Using Professional is the perfect tool for this.” — **Brian Lai, Software R&D Manager, ASM Pacific Technology**

SARBANES-OXLEY AND SECTION 302

TeamTrack also automates the process of the quarterly representation letter certification process for compliance with Section 302 of the Sarbanes-Oxley Act. This process tracks the certification of relevant employees to make sure they have fully submitted and disclosed all revenue activities, and that no further revenue activities are pending. Fully configurable to match the organizational structure of any company, individual employees first provide certification for their areas of jurisdiction. Upon their approvals, these certifications are rolled up into summary certifications for business unit executives to provide their attestation. Once approved, a final request is presented to corporate management for final review and certification. Very simply, each step of the process is tracked, employees are automatically notified as to their specific tasks, and the executives have a full view of compliance status.

Providing mechanisms for intelligent task management and routing among project team members, TeamTrack provides workflows for each internal control document type to intelligently route tasks based on status or other data associated with internal controls. Assigned tasks are indicated on each user’s Home Page. Task details provide each user with links to work that must be performed and actions they must take to complete their tasks.

Real-time dashboards provide executives and managers with configurable, up-to-the-minute status, alerts and drill-down capabilities that enable issues to be identified and corrected quickly and easily.

Specific certification functionality includes:

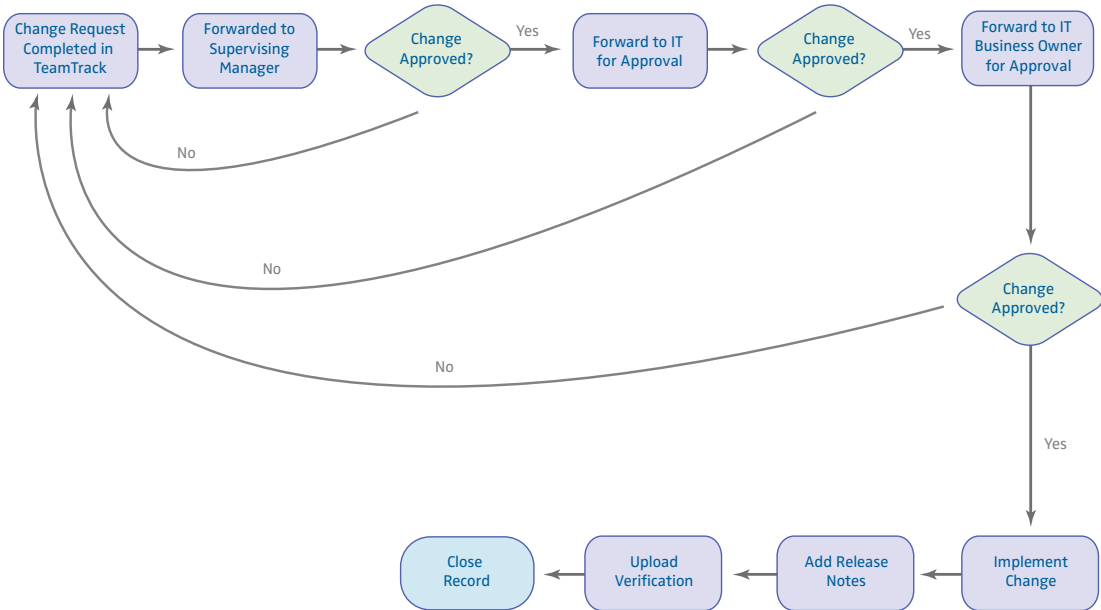
- Full configurability of any form
- Full change control, audit trails and monitoring
- Version control over each respondent state/instance of every issue
- Automated workflow-driven processing from assessor to certifier to survey administration to managerial oversight via monitorable, email notifications
- A highly flexible workflow, where certification processes may be executed for any object level, including entity-specific, process-specific and/or control-specific views.
- Full certification and sub-certification support including standard templates to help ensure the rapid deployment and consistent support of executive reporting obligations

The time and effort of establishing rigorous, repeatable processes reaps many rewards including:

- An enterprise-wide process for managing change
- A single point of control for all changes, across other tools and platforms
- Reduced risks of compliance issues and audit failures
- Greater compliance with processes and procedures
- Greater scalability to support business expansion

Within the IT department, TeamTrack provides the process wrapper to ensure that there are repeatable, enforceable, auditable processes around managing projects and managing the entire application development lifecycle.

CHANGE CONTROL WORKFLOW



At a minimum, the following information is captured: date of the change request, person(s) requesting the change, documentation update date, and move-date into production. The attached documents include: change verification, baseline update and change control workflow.

THE PROOF

At Robert Mondavi, Serena TeamTrack was key in achieving government regulatory compliance. The company had a critical audit trail covering the complete project lifecycle and providing proof of internal customer approvals. Robert Mondavi found itself well prepared to achieve Sarbanes-Oxley compliance when it came to providing an audit trail of development activities. Each member of the team can easily create reports in TeamTrack to show audit trails, so they can routinely spot-check processes to maintain Sarbanes-Oxley compliance.

As another example, a large national bank found that TeamTrack helped them keep their own house in order to support Sarbanes-Oxley compliance. By automating their development processes and meeting their Service Level Agreements consistently, they created a more stable production environment, dramatically improved their rate of change success rate, consumed less time resolving production issues, and had more IT projects completed with the same number of resources. The bank has better metrics relating to production issues, environment and change management. The IT Director said, "I took an organization from a stage 2 maturity level to a stage 4.5 maturity level with TeamTrack, with minimal investment in 14 weeks, fully supporting our Sarbanes-Oxley compliance initiatives."

Enforcable controls

Ensure that all functional departments document, use, enforce and automatically provide evidence of their process controls and control changes to the production environment.

Accountability

No step is forgotten. That way you'll know exactly who did what and when.

Flexibility

Modify your control processes on-the-fly, and automate the mechanisms for continual review.

Compliance is an ongoing, dynamic process. Once the initial work of Sarbanes-Oxley compliance is completed, organizations must focus on moving to an optimized level of internal control that improves the efficiency of the entire process.

SUMMARY

Non-compliance penalties range from the loss of exchange listing, loss of corporate insurance to multimillion dollar fines and imprisonment. It can result in a lack of investor confidence. A CEO or CFO who submits a wrong certification is subject to a fine up to \$1 million and imprisonment for up to ten years. If the wrong certification was submitted willfully, the fine can be increased up to \$5 million and the prison term can be increased up to twenty years.

Clearly, failure to comply with these regulations will result in forced public disclosures, which may lower shareholder confidence and tarnish the company's brand. Compliance is not only a matter of the law, but critical to the protection of the company's brand and value in the marketplace.

Mistakes are costly. Without the foundation of a simple, yet flexible solution such as TeamTrack, compliance with Sarbanes-Oxley can easily become a profit leech that is likely to swiftly and dramatically impact a company's success.

SARBANES-OXLEY AND SERENA PRODUCTS

For more information on how the following products support Sarbanes-Oxley, visit www.serena.com or contact your account representative.

TeamTrack Enterprise Process Management—The process wrapper around the internal controls and change requests

TeamTrack Connector for SAP®—Pre-defined process for managing changes to the SAP environment

Collage—Audit trail and process enforcement for Web content requests and changes

Dimensions—Robust application lifecycle management for distributed and mainframe environments

ChangeMan ZMF—Application development version control for the mainframe

ChangeMan Meritage—Version management for Microsoft Office files

ChangeMan Version Manager—Application development version management

ABOUT SERENA

Serena Software, the Change Governance™ leader, helps more than 15,000 organizations around the world—including 96 of the Fortune 100 and 90 of the Global 100—turn change into a business advantage. Serena is headquartered in San Mateo, California, and has offices throughout the U.S., Europe, and Asia Pacific.

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Learn more about the enterprise-wide power of Serena products by visiting www.serena.com or contacting one of our sales representatives in your area.

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