

What is the Sarbanes-Oxley (SOX) Act of 2002?

Following the bankruptcy of Enron in 2001, Congress responded to heightened public concern about corporate integrity and accounting firm irregularities by passing the Sarbanes-Oxley Act of 2002 on July 30, 2002.

The law's provisions are generally intended to (1) establish greater independence between public accounting firms and their audit clients; (2) remove incentives for management misrepresentation of the corporation's financial condition; (3) provide sanctions for corporate/accounting firm misconduct; and (4) establish oversight of the accounting practice.

Section 404 of SOX has the most relevance to HR/Payroll functions. Simply put, Section 404 requires companies to establish, maintain and evaluate an adequate internal control structure related to financial transactions and financial reporting and report on its assessment of internal controls on an annual basis. Companies must also identify the framework used to assess the effectiveness of the internal controls.



Who must comply with the provisions of SOX Section 404 and when?

Section 404 pertains only to corporations that are registered with the SEC. Deadlines for complying with the provisions of this section were recently extended, and depend on the SEC status of the corporation as follows:

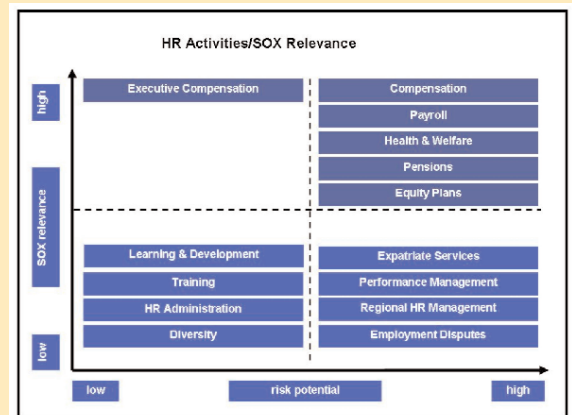
- Accelerated filers, generally U.S. companies with equity market capitalization over \$75 million that file at least one annual report with the SEC, now have until Nov. 15, 2004 to comply with Section 404. The previous deadline was June 15. This impacts a large portion of the Fortune 500.
- Non-accelerated filers, on the other hand, now must begin to comply with Section 404 for their first fiscal years ending on or after July 15, 2005, rather than the original April 15, 2005 deadline.

Why is Section 404 relevant to HR/Payroll functions?

SOX compliance requirements can have a major impact, not just on Finance and IT but also on the Human Resource function. People costs usually represent an organization's largest expenditure, and major opportunities exist to make HR business processes more consistent, reliable, and efficient, especially in the context of Section 404 requirements for sound internal controls.

Although the SOX legislation is targeted primarily at board governance and accounting practices, its reach extends across the organization and into human resources. Today, CFOs are realizing there are several business processes residing in the HR department that have a direct and material impact on corporate financial statements. Most companies spend 40% to 60% of their budgets on people-related costs, including salary and wages, benefits, training, and personnel administration. It follows that many of the business processes that HR manages have a direct impact on the corporate financial statements:

- Many HR processes involve money. From an auditor perspective, anything deemed to have a material impact on financial statements is important, and this includes many HR-related processes that involve money, including payroll, bonuses, and benefits.
- Risk needs to be managed. Inadequate HR compliance can lead to significant fines and legal exposures. This includes a myriad of compliance requirements, including US equal employment opportunity (EEO), fair labor standards (FLSA), and family and marital leave (FMLA). In addition, HR practices can reduce risks related to hiring, employee turnover, succession of key positions, employee grievances, and labor relations issues.



Source: Price Waterhouse Coopers

Where can I learn more about SOX?

Here are a couple of good websites that contain information about the Sarbanes-Oxley Act of 2002:

<http://www.sec.gov/spotlight/sarbanes-oxley.htm>

<http://www.sarbanes-oxley-forum.com/index.php>

- Data integrity needs to be maintained. HR data integrity has a very significant impact on security and internal control. The HR management system (HRMS) is the primary system of record regarding who works for the company. This information is often shared with IT security administrators and site security to establish access rights. Key challenges in managing the integrity of HR data arise because this data is constantly changing and its use is so pervasive throughout the organization.



How does Abra HRMS help companies comply with SOX Section 404?

Abra HRMS helps achieve and maintain regulatory compliance by automating processes, maintaining accuracy and security of data, managing risks related to fines and legal exposures, and tracking the completion of certifications and other critical training.



Here are several examples of how Abra HRMS helps companies comply with Section 404:

SOX-Related HR Activity	Abra HRMS Component(s)	Abra Solution Description
Accurate payroll payments & transactions	Abra Payroll Abra TaxFile	Trial payroll feature generates gross-to-net, check/direct deposit and allocation reports; allows users to calculate payroll, confirm accuracy and make changes prior to running final payroll; automatically creates ACH and EFT payment files; optional tax file service files returns and ensures payments are made
Payroll liability calculations	Abra Payroll	Calculates payroll tax liabilities for federal, state and local tax jurisdictions using built-in tax tables that are updated by Best on a quarterly basis
Employee benefit liability calculations	Abra HR Abra BE	Calculates employee premiums and employer contributions for insurance and savings type benefit plans using flexible rate tables; employee premiums automatically link to payroll deductions; employees directly elect benefit overages online; generate census reports and employer cost reports to reconcile benefit provider billings
Compensation management	Abra HR Abra Payroll	Define salary grades and assign to job codes; group job codes by compensation plan (i.e., executive); Define earnings codes to track payments of compensation plan components (i.e., bonuses)
Roles/responsibilities and formal job descriptions	Abra HR	Attach formal job description documents to each employee record
Competency tracking	Abra HR Abra Recruiting	Track employee skills, years of experience & educational achievements; match employees to job requisitions based on job requirements
Employee performance evaluation	Abra HR	Track details of current pay, date and reason for last pay adjustment; track summary performance evaluation scores & date of next review; Attach completed evaluation forms to employee record
Education, training & certification tracking	Abra Train	Define training programs and track employee progress; track all types of employee training activities and certifications; attach documentation to employee records
Compliance management	Abra HR Abra Payroll Abra Attendance	Compliance tracking and reporting for EEO, OSHA, FLSA, FMLA, ADA, etc.
Organization and reporting structure	Abra HR Abra OrgPlus Abra ESS	Define company structure with organization codes; assign primary and secondary supervisors to each employee; maintain company organization charts; publish charts on employee self service pages
Application supports segregation of duties	Abra HRMS	Access to application can be defined for each user by module (HR, Payroll, etc.) activity (actions, processes, etc.) and task (i.e., 'assign leave of absence')
Data accuracy & integrity	Abra HRMS Abra ESS/BE	Actions define data collection procedures for all common HR activities such as 'new hire;' Mandatory data entries for required fields; ESS/BE transaction approval workflows; validation of database entries
Data security & information access	Abra HRMS	Database encryption option; user log-in security; define user data access by module, task, and by field as read, read/write or none; Audit files track data changes by user, date & time
Self service security & information access	Abra ESS/BE	Define employee access rights based on organization, employment status, etc. Log-in security identifies employees based on SSN and other information; define specific ESS roles for each employee; audit tables track requests and approvals by user, date & time
Event monitoring and notification	Abra Alerts	Monitor database transactions, changes, dates or other criteria and generate automatic email notifications to appropriate person(s)
Electronic documentation	Abra HRMS	Attach any type of electronic document to the employee record; document types (such as W-4) can be deemed 'required' or 'optional'
Communication of policies, procedures & standards	Abra ESS	Post links to policy, procedure & standards documents on the employee self service home page for all employees to review