

Integrating Paper-  
based Information for  
Sarbanes-Oxley Section  
404 Compliance





# Contents

Sarbanes-Oxley - Not Going Away	2
Section 404 is Really About People and Processes	3
But What About Controlling Your Paper-Based Information?	4
eCopy - Integrating Paper-based Financial Transactions and Forms	5
The eCopy Advantage	7
Section 404 is Just the Beginning	8

# Sarbanes-Oxley - Not Going Away

The major corporate governance issue for publicly traded US companies today is compliance with the Sarbanes-Oxley Act (SOX). Although the SEC has recently extended the compliance deadlines for Section 404 of SOX, this doesn't mean the regulation is going away.

Under the new compliance schedule, for companies with a market capitalization over \$75 million and at least one annual report filing with the SEC, the deadline to begin to comply with the 404 requirements has moved out from June 15, 2004 to November 15, 2004. For all other issuers, Section 404 compliance is required for fiscal year ending on or after July 15, 2005, as opposed to the original date of April 15, 2005.

But as a Gartner, Inc. report suggests, "companies should not view this delay as a sign that Sarbanes-Oxley will be weakened or ultimately repealed." Gartner, the leading provider of research and analysis on the global IT industry, believes the opposite. They advise, "Companies should use the extra time to ensure that their processes and applications meet the requirements."<sup>1</sup>

The bottom line, if you are a publicly traded company, the delay in the compliance deadlines should be viewed as an opportunity to develop and execute the optimal Section 404 action plan, not as justification for postponing action.

"...use the extra time to ensure that their processes and applications meet the requirements."



# Section 404 is Really About People and Processes

Let's review what Section 404 requires. A public company's annual report will have to include an internal control report that contains the following elements:

- > A statement of management's responsibility for establishing and maintaining adequate internal controls over financial reporting
- > A statement identifying the particular framework or methodology used by management as the basis for evaluating the effectiveness of internal controls
- > Management's annual assessment of the effectiveness of the company's internal controls
- > A statement that the company's independent auditor has issued an attestation report

In practice, this means public companies are required to:

**Document all controls.** Formally document all existing processes and controls for financial reporting - and who owns the controls.

**Evaluate the design and effectiveness of internal controls.** Evaluate the design and effectiveness of internal controls using the defacto standard, the COSO Internal Controls - Integrated Framework.

**Identify and correct deficiencies.** Identify what can go wrong with the controls and what policies and procedures will be used to remedy control deficiencies.

**Test controls and remedies.** Test controls and remedies to verify they perform as designed.

**Report on internal controls.** All of the previous steps are then pulled together into a formal report, which provides management's conclusions on the effectiveness of the company's internal controls over financial reporting.

**Prepare an independent audit of internal controls.** Finally, the company's independent public accountant attests to the report and management conclusions.

These steps towards Section 404 compliance are about documentation, analysis, and appropriate processes, with technology facilitating these steps, not leading them.

## What is an Internal Control?

An internal control, in the context of Section 404, is a process designed and implemented to provide reasonable assurance of the reliability of a company's financial reporting.

# But What About Controlling Your Paper-Based Information?

The answer to SOX compliance isn't hidden in any software package. In fact, "Gartner anticipates that more than 80% of the changes will be updates to systems and will not require new technology."<sup>2</sup> Your existing IT systems can probably be leveraged to automate internal controls for Section 404 compliance. They can help ensure the integrity and accuracy of the financial data that is being reported.

But what about all the purchase orders, invoices, and other documents, which the financial data is based on? All of these documents are financial evidence that should be collected and managed. For most companies, these documents are often in paper form. Relevant paper documents include transactions with vendors, partner, or suppliers such as: invoices, purchase orders, contracts, checks, receipts, or internal forms such as budget approvals, expense statements, pay stubs, and purchase requisition forms.

Because of Sarbanes-Oxley, all of this paper-based information is potentially relevant to the company's financial assertions. Thousands of paper documents now need to be retained and easily retrieved. Organizations that don't have a strategy for these

paper-based documents are putting themselves at risk. These paper transactions should be collected and stored in a document repository to ensure:

- > The integrity and accuracy of the underlying transactional documents
- > A complete audit trail
- > Internal and external auditors and legal counsel have instant access to all relevant financial evidence

How can these paper-based transactions be captured easily and cost-effectively on location throughout your organization?

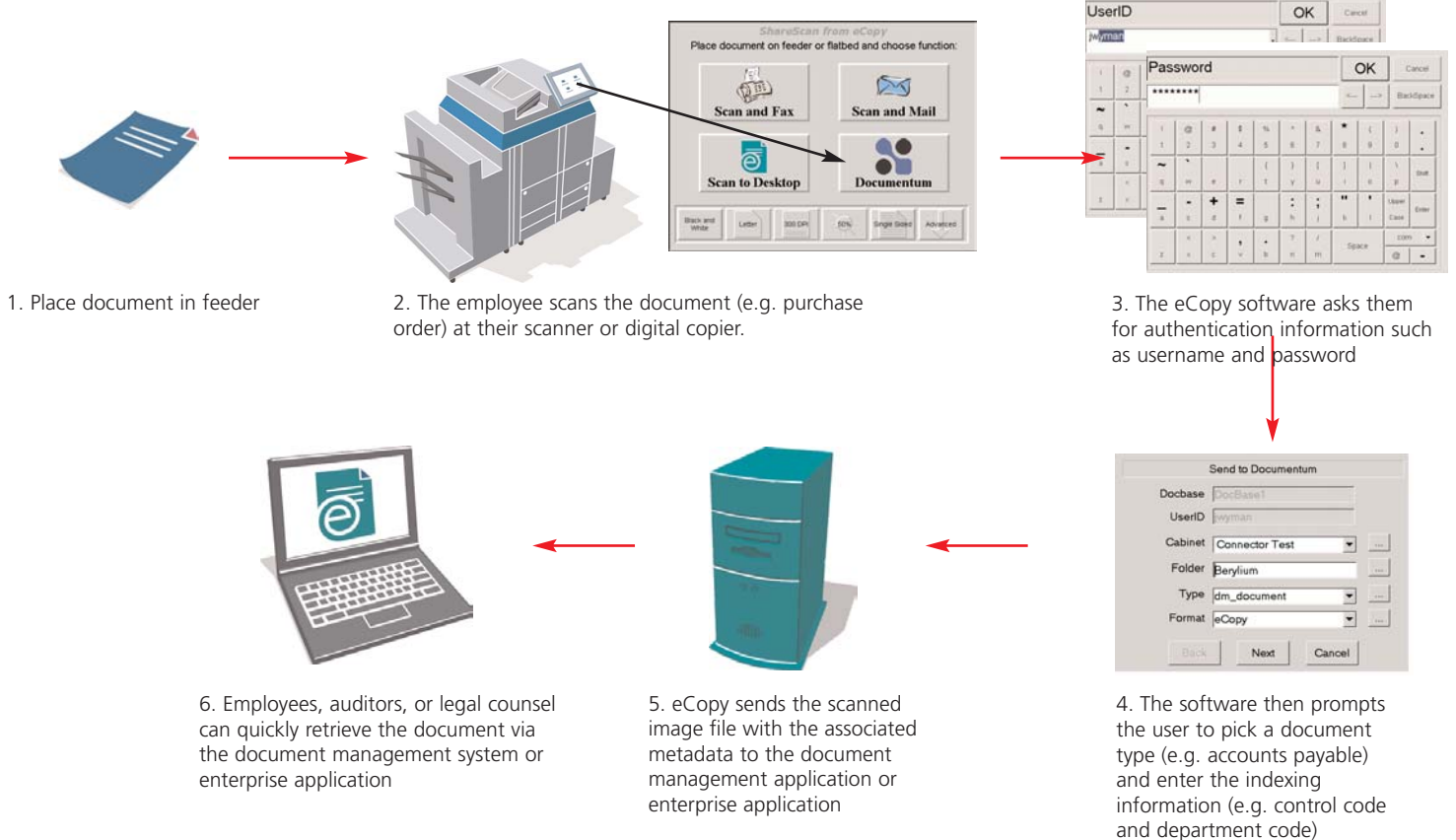
# eCopy - Integrating Paper-based Financial Transactions and Forms

Since 1992, eCopy, Inc. has provided open and flexible solutions that rapidly integrate paper-based information into existing business processes and applications.

eCopy products combine the power and ease-of-use of the ubiquitous office copier or scanner with the instantaneous distribution capabilities of e-mail and fax, to deliver the first convenient, low-cost, general business solution for easily integrating paper-based documents into your applications. The eCopy seamlessly connects your scanner or digital copier to your company's e-mail, document management system, or enterprise application.

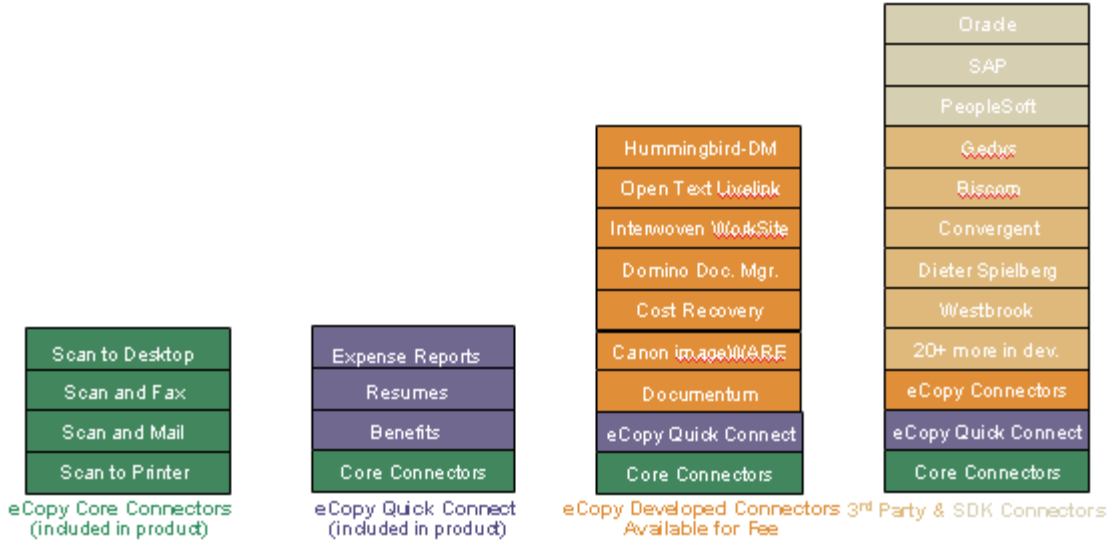
Let's look at how eCopy makes it easy for any department to capture paper-based information and instantly move it to your document management system.

## "The eCopy Process for Scanning to Your Document Management Application"



eCopy offers "Connectors" to provide seamless integration with leading document management systems such as Documentum, Hummingbird, Interwoven/iManage, and Lotus Domino.Doc. For integration with Oracle, Peoplesoft, SAP, and other enterprise applications, eCopy offers a Software Developer's Kit (SDK). eCopy's SDK can dynamically link your scanner or digital copier into your existing applications. Additionally, the SDK saves scanned documents directly into the application database and validates information for application integration.

You can also use the eCopy Quick Connect feature to provide simple integration of scanned documents into your existing applications - without requiring authorization - so anyone can use it. Easy to use for administrators and users, eCopy Quick Connect offers custom "Scan to" Buttons, versatile file naming, indexing, and destination options. For example, you could create a "Scan to Controls" button that captures and indexes purchase orders or other documents that you want to keep as financial evidence and stores them in a folder that can then be moved into your financial application or document management system.

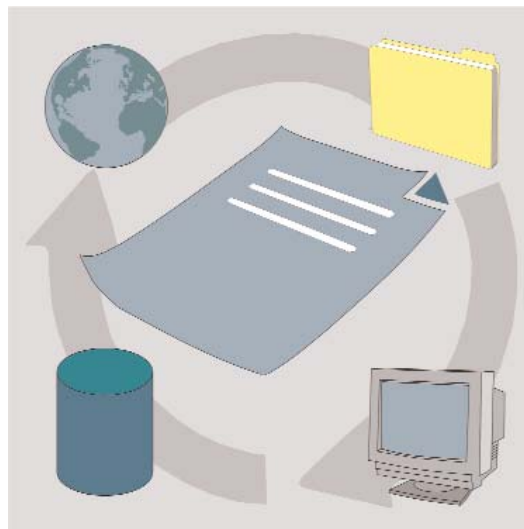


# The eCopy Advantage

Integrating the eCopy solution with your existing IT investments can cost-effectively solve a major compliance issue - how to incorporate paper-based financial information into your compliance architecture.

Here is a summary of the benefits of the eCopy approach:

- > Paper-based information from any department can be easily and instantaneously collected and documented as financial evidence - without requiring expensive scanning solutions
- > All financial transactions - electronic and paper - have an audit trail
- > Internal and external auditors and legal counsel have instant access to all financial evidence
- > eCopy integrates seamlessly and securely with your existing networks, e-mail systems, and business applications and enables you to make greater use of your investment in scanners or digital copiers.



# Section 404 is Just the Beginning

Section 404 is the most pressing Sarbanes-Oxley requirement, but really it's only the first inning.

Although the SEC has not yet set a deadline for Section 409, it's already causing plenty of worry. According to John Hagerty, an analyst at AMR Research Inc., "from an IT perspective, Section 409 will cause the most heartburn of all the Sarbanes-Oxley mandates."<sup>3</sup> Section 409 will require immediate disclosure of material changes to your company's business conditions or operations. This will heighten the need to have all financial data and supporting information immediately accessible, for both financial reporting and legal discovery.

eCopy can help ensure that all relevant paper-based documents are captured online and easily retrieved, ensuring you respond timely and efficiently to these regulations by seamlessly and securely integrating all relevant paper-based information into your compliance architecture.

For more information on eCopy and eCopy products, please visit [www.ecopy.com](http://www.ecopy.com).

<sup>3</sup> "Rapid-Reporting Mandate Adds To Compliance Woes," Computerworld, July 14, 2003.

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