



Sarbanes-Oxley Compliance in the EH&S Arena

For the past two years, the information technology (IT) community has been abuzz with talk of the Sarbanes-Oxley Act. Indeed, strategic advisory firm AMR Research (www.amrresearch.com) reported last year that companies would spend an estimated \$2.5 billion in 2003 to comply with the Act, and that 85% of companies surveyed would require changes in their current IT systems. With the November 2004 compliance deadline fast approaching, is your organization ready for Sarbanes-Oxley? What does the Sarbanes-Oxley Act have to do with environment, health, and safety (EH&S), you ask? It adds a new layer of complexity to an already-complex set of business rules that govern EH&S information. This column provides a brief synopsis to help you sort out the key impacts of this landmark legislation.

IT'S ALL ABOUT IT SYSTEMS

The Public Company Accounting Reform and Investor Protection Act of 2002 (*Public Law 107-204, July 30, 2002*), also known as the Sarbanes-Oxley Act, contains the most sweeping changes in Securities and Exchange Commission (SEC) regulations since their inception in the 1930s. Passed in the wake of more than a few corporate scandals, the law calls for tightened corporate governance, enhanced financial disclosure, and strict penalties for white-collar crimes. The objective is to preserve shareholder value of publicly traded corporations and, thereby, regain the public's trust.

While Sarbanes-Oxley is primarily financial legislation, it is also a systems issue and, more important, a cross-functional

issue. Companies must ensure that they have sufficient management systems in place to govern the creation and documentation of information in financial statements. Since IT systems generate, manage, and report information, companies need controls so that the information systems are able to stand up to audit scrutiny. Information used in financial statements originates from many sources throughout the enterprise, including EH&S. Therefore, companies must ensure that people in all aspects of the business understand the responsibility for the validity of information. Operations, management, and staff alike may be held more accountable for EH&S events from now on because of Sarbanes-Oxley.

Sarbanes-Oxley applies to public companies, although other types of organizations have taken notice. The Act, like the Title V air permits legislation, requires written certification of compliance by senior officials. It also extends EH&S reporting beyond existing SEC rules that cover accounting for environmental liabilities. Take note of sections 302, 404, and 409 of the Act, in particular:

Section 302

- requires that the chief executive officer (CEO), chief financial officer (CFO), and a public accounting firm certify the accuracy of financial statements and disclosures;
- requires public companies to make "material" information readily available to the public; and
- prescribes criminal penalties for knowing or willful violation.

Section 404

- requires a statement of management's responsibility for establishing and maintaining adequate internal controls over financial reporting. Companies must have an accurate process to generate statements, and the process must meet accepted standards; and
- requires that the CEO and CFO certify the accuracy of the information contained in any SEC filing. This section also requires a company to submit to an audit to prove that controls are in place to ensure information accuracy.

Section 409

- calls for "rapid and current" disclosure of "material changes"—basically, anything that could affect a company's perceived market value—within four days, whereas previous rules allowed reporting in the company's next quarterly or annual report.

EVALUATION IS KEY

IT is critical to Sarbanes-Oxley compliance, since companies use financial software, e-mail, and other enterprise systems for financial reporting. Companies must have systems in place to provide the appropriate level of documentation, quickly

convey information on potential business risks to the right people, and establish decision-making protocols.

When Sarbanes-Oxley became law, most major corporations did not have the IT systems in place to respond to the real-time reporting requirements. Even corporations with sophisticated enterprise software had isolated systems that did not communicate with each other. These systems lacked automated workflows and alerts to get the right information to the right people to allow them to make timely decisions (Worthen, B. "Your Risks and Responsibilities: You may think the Sarbanes-Oxley legislation has nothing to do with you. You'd be wrong," *CIO Magazine*, May 15, 2003). People in different business functions entered the same data into different systems and data quality varied from system to system. And strict data security and audit trail measures were not applied consistently across the enterprise. Sarbanes-Oxley has forced corporations to examine and, in many cases, rearchitect their IT systems.

NOW IS THE TIME

Companies that have developed good EH&S management systems are on their way to being able to comply with Sarbanes-Oxley requirements. Whether your organization is public or private, it is time to evaluate your EH&S management systems



and the resulting IT needs. The evaluation of IT systems requires a cross-functional team of EH&S, IT, business, and operations experts. You can derive great benefits from an evaluation, finding opportunities to consolidate information and resulting in fewer, easier-to-manage systems. The IT system evaluation should verify that each division of the company has documented business processes that cover data generation, documentation, management, and reporting. The evaluation should also consider all aspects of e-records management, such as records retention and archiving requirements, the need for and impacts of maintaining both hard copy and electronic records, confidentiality and privilege associated with audit work papers and reports, document workflow, and security and internal controls.

Sarbanes-Oxley compliance in the EH&S world means having

- a clear understanding of the types and magnitude of EH&S events that could be considered “material” information (see Section 302 above);
- key performance indicators that alert management to potential problems;
- a set of documented business processes for the generation, documentation, management, and reporting of EH&S data;
- an integrated system in place to facilitate the sharing of EH&S information throughout the enterprise;
- documented workflows that operations, staff, and senior management can easily set in motion when an EH&S event occurs;
- an alert/notification system to ensure that information reaches the appropriate people in case of a material EH&S event;
- a system to ensure the accuracy and timeliness of information; and
- adequate training processes.

Sarbanes-Oxley has sweeping consequences, leaving few areas of the corporate enterprise untouched. On the positive side, the legislation affords companies the opportunity to identify, define, and improve best practices in managing the generation and use of information. The greatest payoffs can come in the form of improved information sharing and better, fewer, and easier-to-manage IT systems. ☺

About the Author

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