

Contract Management Helps Meet Sarbanes-Oxley Act Requirements

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The Sarbanes-Oxley Act is one of the most important pieces of legislation in corporate history, changing the rules of business forever.

Overview

On July 30, 2002 the Sarbanes-Oxley Act established new standards for corporate accountability. The primary objective of Sarbanes-Oxley (SOX) is to restore credibility and regain public trust in corporate reporting and those doing the reporting. In particular, the responsibility rests squarely on the shoulders of CEOs and CFOs of public companies to file their company reports and certify that the quarterly and annual results are correct, as well as to ensure that the proper disclosure controls and processes are in place. Not only must these controls be in place, but under §302 of SOX company executives are also required to certify that they:

- are responsible for establishing and maintaining disclosure controls and procedures for the company,
- have designed such disclosure controls and procedures to ensure that material information relating to the company is made known to them,
- have evaluated their effectiveness within 90 days prior to the report's filing date, and
- have presented conclusions about the effectiveness of disclosure controls and procedures in the report.

Achieving compliance with SOX has required significant effort as organizations attempt to solidify business processes and procedures while instating proper controls and visibility.

Contract Management

With the arrival of Sarbanes-Oxley, organizations are facing intense pressure to not only manage and control risk better, but also to increase the visibility of both financial and operational risk. In particular, §409 of SOX mandates real-time disclosure (within 48 hours) of material changes or events (both financial and operational) that may have an impact on an organization's perceived market value. These material changes can and do include events such as the loss of a large account or contractual non-performance which may set off additional risk. To effectively monitor this, a summary of an organization's contractual obligations must be included in the Management's Discussion and Analysis of Financial Condition and Results of Operation (MD&A) section of the SEC reports.

At the heart of controlling, disclosing, and offering greater visibility into risk is an effective contract management solution. According to the Institute for Supply Management, a typical Fortune 1000 firm maintains between 20,000 and 40,000 active contracts. However, most organizations manage their contracts in a fragmented and ad hoc manner – in fact, in a recent Aberdeen Group study, only 16% of companies report managing contracts on an enterprise-wide basis. Without having a contract management solution, companies cannot

UpsideContract supports SOX compliance

UpsideContract delivers a best-in-class solution to manage contracts and contractual obligations which ultimately helps companies meet the demanding requirements of the Sarbanes-Oxley Act.

The key features of UpsideContract used to address SOX requirements are:

Central Repository

The repository stores all contract details and associated information providing full visibility into agreements throughout the organization. This ensures that all authorized parties have real-time access to the most current contractual information.

Templates

Template-based contract creation ensures that the appropriate clauses, terms and conditions are used in order to comply with internal policies.

Workflow Engine

Establishing business rules within the workflow engine provides the necessary internal controls that are regulated automatically by the system.

Real-Time Reporting

Up-to-date information that needs to be reported or disclosed is readily available by running the real-time reports within UpsideContract.

Notifications / Alerts

Alerts and notifications can be established to monitor significant milestones to ensure that the appropriate individuals are aware of critical events.

easily obtain the data necessary to provide accurate reports and disclosure of their contractual obligations.

The reporting and control requirements under the Sarbanes-Oxley Act have only served to magnify an organization's need to better understand the nuances of all their contracts in order to enhance contract visibility, increase contract compliance, and provide an accurate and efficient ability to provide real-time disclosure of significant material events.

Enhanced Visibility

Upside Software's UpsideContract provides a best-in-class solution to contract visibility within the organization. According to an IACCM survey, 81% of companies reported that even locating a contract is challenging. Most organizations do not manage their contracts on an enterprise-wide basis, meaning that a complete picture of all contracts and contractual obligations is virtually impossible to have.

Organizations using UpsideContract have gained control and a better understanding of their contracts on a company-wide basis by having all agreements stored in a central contract repository. UpsideContract's central contract repository makes finding contracts easier and provides the accessibility necessary for company executives to provide a summary of contractual obligations as specified by SOX regulations.

Increased Compliance

Companies are using UpsideContract's template-based contract authoring structure to control and ensure that standard clauses, terms and conditions are contained within specific contracts thereby guaranteeing that agreements comply with internal policies. This template approach to contract management helps identify and minimize financial risk and result in increased contract compliance consistent with Sarbanes-Oxley.

In addition to utilizing templates, UpsideContract's workflow engine engages an organization's existing business rules to define and determine the appropriate internal controls for contract creation, review and approval. The workflow engine ensures that the processes (internal controls) established by the company to comply with SOX are managed automatically and are adhered to with a complete audit trail of authorizations (a key for auditors to attest that internal controls are in compliance).

UpsideContract provides the ability to track compliance and disclose the contractual obligations and performance of an organization on an enterprise-wide basis as is required under SOX reporting requirements. This allows companies to better understand their processes and continuously improve internal controls and contract performance and be able to immediately disclose material events and take corrective action when necessary.

Real-Time Disclosure

Organizations can use UpsideContract to report any financial or operational events that could be deemed to have an impact on an organization's perceived market value including, for example, the bankruptcy of a major customer or even the failure of a key supplier. UpsideContract provides real-time reporting and notification capabilities with the ability to establish alerts for significant events which ensure that the appropriate individuals are notified when required. This makes it possible for company executives to receive automatic notifications when contractual milestones have either been met or missed in order that accurate and timely reporting mandated by SOX is achievable.

Conclusion

The Sarbanes-Oxley Act has increased the importance of accurate and timely corporate reporting, placing the responsibility on company executives to certify that the results they report and the changes they disclose are true. Today, companies deal with more contracts with greater complexity than ever before making it even more important for companies to have a greater overall understanding of their contractual obligations and the potential risks associated with them. Failure to manage the creation and operation of contracts can expose organizations to risk, revenue loss, and severe penalties under SOX. Companies are now including contract management solutions like UpsideContract as an integral part of their risk management and corporate governance programs.

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