

SOX Human Resource Staffing

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The ramifications from the Sarbanes-Oxley Act (SOX) of 2002 have been felt by accelerated filer companies for the past four years. Staff turnover, inefficient use of external consultants and increased workloads are very real for those organizations that have struggled with SOX. Simply put, many SOX efforts were not what they should have been due to a shortage of skilled personnel.

According to a recent *Compliance Week* study of 400 public companies, "personnel" topped the list of problems during the second year of SOX. Of these randomly sampled companies, 41.5 percent noted weaknesses due to insufficient staffing, poor training, segregation of duties and other related issues.

You don't have to look hard today to find an accounting professional frustrated by the high human resource cost and lack of clarity regarding SOX compliance. There are still many challenges with rationalizing the compliance process, but there are many lessons learned that can make future SOX efforts much less burdensome and costly for HR.

Large Cap Filers

One of the easiest ways to understand SOX staffing issues is to look at the SOX compliance maturity level of those companies doing the filing. There are the large capitalization (cap) filers who, in 2007, will be in the fourth cycle of SOX compliance. Many of these organizations have redirected their staff supporting SOX compliance documentation, testing and control remediation. Instead of using predominately external consultants, as was done in the first two years, companies have created internal SOX departments. Consultants are still being used to fill expertise gaps or meet the demands during heavy testing cycles.

Maintaining internal SOX staffing resources within large companies provides the audit department with more

confidence that the SOX staff will work best with other departments. They know the corporate culture and establish permanent relationships with the operating management and board of directors. There is usually less turnover with internal staff versus independent contractors who tend to change project engagements midstream and more frequently.

Large caps will be challenged to focus more on the SOX compliance process and how to best utilize existing internal and external SOX staffing resources. This will shift the emphasis to gaining efficiencies by reducing the cost and cycle time while improving the overall accuracy of the compliance effort. As many of the large caps continue to build internal audit capability to conduct SOX compliance work, they are realizing that internal audit people are scarce. Therefore, many still use external firms to fill the voids.

Small Cap Filers

This will be the first year non-accelerated filer companies will have to conduct a SOX internal controls review and comment on its adequacy. The challenge is to generate the staffing resources in-house to complete the effort since internal staff may not have the required skills, and they will be competing with the large caps for hiring external resources. Subsequently, many will need to use a consulting firm with prior SOX experience and that can provide the expertise to guide the small cap through the first year.

To build SOX project staff in the second quarter, don't wait for the third quarter. Waiting will force you to look for staff during a period when the demand will be very high for SOX expertise. This is especially true since many multinational companies are now required to complete some type of SOX-related compliance assessment and filing.

Large and small cap filers will also be assessing Internal Control over Financial Reporting (ICFR) during the same time period, something not experienced in prior compliance years. If you wait, you may have to pay a premium for people, and the quality of the remaining staff resources may be lower.

Private Companies

Private companies looking to go public should also consider how they want to complete a SOX compliance assessment. They need to understand the staffing challenges. These organizations would have basically the same staffing considerations as those of non-accelerated filers.

Significantly, there is no timetable from the Securities and Exchange Commission to do a SOX-related ICFR assessment until the company goes public. Therefore, the challenge is to maximize the value of that initial public offering within an appropriate timeframe. As such, SOX staffing should focus on obtaining the right external expertise to facilitate internal control areas key to venture capitalist interest, leading to an initial public offering and securing investor confidence.

CPAs and SOX Staffing

CPAs with relevant industry and internal control audit experience should consider filling some of the SOX staffing demand as independent consultants. This demand will be created when the non-accelerated filers, private companies and U.S.-based subsidiaries of multinational companies are required to comply with some type of SOX assessment.

As consultants, CPAs can receive competitive compensation, project variety and experience how different companies design their control frameworks. The demand for experienced and talented people with

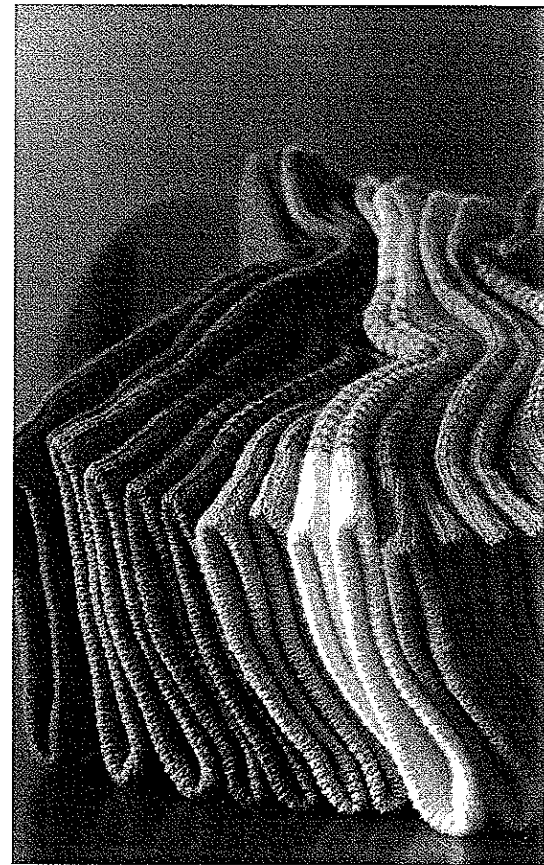
internal audit skills is high and should remain strong for the foreseeable future. For CPAs who want to get SOX experience, they can contact professional service and search firms. These firms are experienced in matching the company needs with the candidate's background.

It is critical to maintain SOX resource consistency in accounting and finance staff retention. Implementing programs now to ensure you have the right people in your organization will help avoid SOX workload burnout and minimize staff turnover. Companies need strong internal audit and accounting HR resources to excel in a post-SOX environment. These companies recognize that this core competency will ensure they have an effective SOX compliance process and the right SOX staff personnel.

Start staffing your SOX HR resources early. Implementing the appropriate staffing strategy will yield a cost-effective, timely and process-based SOX compliance effort that will provide successful results for your company. ❏

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