By Max Messmer, Editor

Sarbanes-Oxley Act: What Does It Mean to Me?

Without a doubt, corporate governance has become the primary topic of conversation among accounting and finance professionals. In the wake of corporate scandals, investor confidence decreased and the call for corporate accountability became paramount. This spurred Congress to develop and pass the Sarbanes-Oxley Act (S-O) to promote effective accounting controls and ethical business practices. Likewise, the Securities & Exchange Commission, the New York Stock Exchange, and NASDAQ have issued their own respective guidelines. New executive certification requirements, accelerated filing deadlines, and increased penalties for misconduct are mandating changes in the way many corporate accounting and finance departments operate. Even day-to-day management responsibilities are being impacted as these departments hire additional staff to meet mandatory deadlines and ensure accuracy of financial reports. Better communication, higher standards for performance, and an ethical corporate culture will be needed to support accounting and finance professionals in their efforts to comply with S-O and ensure a healthy corporation. The following questions can guide executives and managers in evaluating their daily management duties in this new environment.

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Are we balancing our time between strategic planning and traditional accounting duties?

Over the years, financial executives and managers have grown ever more strategic in their roles, becoming critical business advisors and leaders. Today, however, the key is to maintain this focus while continually ensuring accurate reporting. It may be helpful to appoint one staff member as the expert on generally accepted accounting principles (GAAP). While some companies have turned to their external auditors for guidance on adhering to GAAP, others have opted to rely on an internal employee who can also resolve unique accounting matters in accordance with the organization's values and emerging corporate governance standards.

Have we evaluated all business risks and their potential impact?

Risks are inherent in any business, but it's important for managers throughout the organization to understand the repercussions and identify potential solutions up front. For example, if a company is implementing a new technology system, a cost-benefit analysis will need to be conducted, and security issues will need to be assessed. Executives and managers must be in complete agreement on managing and monitoring risks, and they must communicate these priorities to their employees.

Are we personally reflecting and reinforcing company values?

All company activities must be conducted with integrity. Therefore, accountability must emanate from senior managers and extend to all employees. Does your organization have a formal code of conduct? Is it reinforced accordingly? When the staff hears one set of values but sees another enforced by managers, the messages are inconsistent. If an employee at any level violates ethical standards, swift action should be taken to report the matter to the person's supervisor. If he or she is a direct report, promptly discipline the individual, and correct the situation. Processes and procedures should be evaluated regularly, and a system of appropriate checks and balances should be established.

Have we assigned responsibility throughout the organization?

While CEOs and CFOs must formally certify the accuracy of information contained in annual and quarterly reports, they aren't the only ones held accountable. Professionals at every level will need to identify, assess, and manage business risks as appropriate to their seniority. To ensure employees throughout the organization understand their duties and management's expectations, supervisors need to provide detailed job descriptions. These should list recurring and periodic tasks, the individual's limits of authority, and the chain of accountability—in other words, whom to consult when issues exceed individual scopes of responsibility. This will simultaneously empower staff and provide a necessary basis for effective performance evaluations.

Are we rewarding employees for achieving corporate governance goals?

To enforce accountability, performance expectations must be clearly defined and aligned with review and reward systems. Salary increases, financial incentives, and promotions should be contingent upon achieving corporate governance objectives as outlined in each individual's job description. When an employee fails to meet one or more goals, managers should discuss the situation with him or her to determine the source of difficulty and, of course, correct the problem as soon as possible. The situation and outcome should then be documented in the event further action is required.

Are we aware of activities that could impair our corporate image?

Beyond issues related to potential financial restatements or proposed tax positions, managers should also take note of the company's overarching social responsibility. Is the organization striving to be a good corporate citizen? Consider such aspects as environmentally safe products and practices, health and safety issues (of employees, customers, and the general public), philanthropic endeavors, supplier diversity programs, quality assurance, and exemplary customer service. While members of the accounting and finance department may not be ultimately responsible for these areas of business, they may lend support and offer valuable insights through participation on cross-functional teams and task forces. Their bottom-line perspective can ensure proper alignment of business objectives with social responsibilities.

Executives and managers should work with employees at all levels to establish proper checks and balances and clarify accountability. Ongoing communication with staff will be imperative to convey information to them as well as to listen to their concerns or ideas. As managers become more involved in day-to-day functions and foster a corporate culture that supports—and rewards—actions that enhance corporate governance, organizations will be better positioned to ensure their compliance with the Sarbanes-Oxley Act and guidelines from other regulatory agencies. ■

Max Messmer is chairman and CEO of Robert Half International Inc. (RHI), parent company of Robert Half® Finance & Accounting, Accountemps®, and Robert Half® Management Resources. RHI is the world's first and largest specialized staffing firm placing accounting and finance professionals on a full-time, temporary, and project basis. Messmer's most recent books are Motivating Employees For Dummies®, Managing Your Career For Dummies®, Job Hunting For Dummies®, *2nd Edition,* Human Resources Kit For Dummies® *(Hungry Minds, Inc.); and* The Fast Forward MBA in Hiring *(John Wiley & Sons, Inc.).*