Sarbanes-Oxley

The Wave of Change is Rolling Ashore. Are You Ready?

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Five Broad Steps to Ensure You Are in Compliance

1. Document the Business Purpose of the Event
2. Create Clarity Between Business & Personal Expenses
3. Be on the Lookout for Conflicts of Interest
4. Shop and compare
5. Assess Gaps and Improve Processes

If you are not clear on the effects of the July 2002 Sarbanes-Oxley Act by now, you are like most planners and suppliers in the travel and events industry. Case law pertaining to it is scant and experts disagree on its implementation. What is abundantly clear: This is a momentous industry event that is permanent. Both planners and suppliers need to understand the primary provisions of the law that affect travel and events. There are general actions you can take now as eventual court rulings define practical application of the law.

Financial market experts consistently label the July 2002 Sarbanes-Oxley Act (SOX) as the broadest-sweeping legislation to affect corporations and public accounting since the Securities Acts of 1933 and 1934. Experts disagree on its exact implementation for meetings and events, but 2005 will likely bring the first random audits of companies. Close scrutiny of their Travel and Procurement departments is certain. It is complex and case law is scant. What is abundantly clear is that this is a large industry event that permanently changes the meetings landscape.

SOX was created to ensure transparency, honesty and accountability as a result of the Enron, Tyco, and WorldCom financial market scandals of the 90s. Tyco's well publicized, lavish Toga Party was often used as a glaring example of abuse during the committee hearings on SOX. Today, ensuring that our own theme parties are in compliance as a legitimate business expense are but one obvious implication public company planners and procurement departments face.

WHO'S AFFECTED?

Even if you don't work for a public company, you will or are being affected because the legislation created a climate of scrutiny and disclosure. In the spring of 2003, New York Attorney General Eliot Spitzer proposed legislation patterned on Sarbanes-Oxley that would require many New York not-for-profit corporations to have an audit committee with statutorily defined duties. By August of 2004, 23 other states introduced their own accounting reform to add private companies and/or nonprofit organizations to the mix. Association management companies are taking note of the significant role they will play in assisting smaller non-profits with compliance.

KEY POINTS OF SOX FOR PLANNERS AND SUPPLIERS

Understanding why SOX is important to senior management is crucial. Sarbanes-Oxley is about accountability. If you haven't felt the pressure yet, you will. Sections 103, 302, 402(a) and 404 primarily impact meetings and travel departments. (See www.sec.gov.) A summary is available at the American Institute of Certified Public Accountants web site: http://www.aicpa.org/info/sarbanes_oxley_summary.htm. While corporate auditors and counsel are best suited to address SOX's specific effect on your department and organization, a general understanding of four key points will provide a framework for understanding:

- **Quarterly Executive Certification of Real-Time Data—**CEOs and CFOs must certify their financial statements and must have established and currently maintain internal controls. They must do so on a quarterly and annual basis. Further, they must certify that they have designed those controls to ensure that all information related to the company and its subsidiaries is made known to them. These controls and financial statements must be internally audited according to independent standards and then certified by outside auditors and lawyers. CEOs and CFOs are held directly responsible for the accuracy of financial statements. Penalties may be levied up to $5 million in fines, a 20-year jail term or both.

- **Controls are Mandated and Deficiencies Must be Corrected—** Company Auditors are mandated to identify "any material internal control weakness" or "significant deficiency" in order to verify that management has sufficient operational command to produce reliable and compliant financial reports. The law requires strict documentation of financial reporting procedures to ensure that any associated processes are correct and transparent, and irregularities or errors minimized. Accountability must be enforced by proper systems or process controls, documented activity trails and storage of appropriate records. Deficiencies must be reported and fixed quickly. If the deficiencies involve fraud, it must be exposed and prosecuted.
- **Communication of Travel Policy is Important—** Anything that *might* be construed as a personal loan to an executive rather than a legitimate business expense is prohibited.
- **Each Employee is Responsible for Mapping Processes That Work—**With senior management under this much scrutiny, individual managers become personally responsible for obtaining and reporting accurate, meaningful information. No excuses allowed.

SEC focus is on ensuring that public companies handle transactions with the best interests of their shareholders in mind. Meetings and travel are essentially transactions based, so their close examination is important.

FIVE BROAD STEPS TO ENSURE YOU ARE IN COMPLIANCE

- **Document the Business Purpose of the Event.** Since a working expense approval system is mandated, obtain written approval by senior management for each event including its purpose and budget. Then plan the event in line with that purpose and budget.
- **Create Clarity Between Business & Personal Expenses.** Document which travel and event expenses are corporate and which are personal. Mandates to use a corporate card for business expenses ease the pain of monitoring company cars and aircraft, event expenses and travel advances. Clear communication of travel policies and guidelines are more important now. Do employees understand the rules? Does the system prove that they follow them?
- **Be on the Lookout for Conflicts of Interest.** SOX requires a written code of ethics for its senior financial officers. Document that the expenses and actions related to events comply with your organization's written conflict of interest statement. When grey areas surface for anyone's travel expense, choose what a shareholder would want to see happen.
- **Shop and Compare.** Examination of all purchases associated with meetings is guaranteed. Avoid simply rebooking the same hotel or car agency or production company without putting it out to bid. Even if everything worked out great on the last meeting, an auditor will prefer a report proving you negotiated the best contract to meet an event's stated objectives. It would also help for the report to show the value of the savings or terms negotiated.
- **Assess Gaps and Improve Processes.** Expect and plan for both internal and external auditors. Assess the purchasing, expense and risk mitigation process, make sure policies are in place, do a procedure checkup, set objectives and measure current policies and procedures against them, creating a timeline of benchmarks as they are met. Communicate to senior management what needs to be done by building a strong business case for it. Don't forget to consider security issues

SOX introduces new costs and time-consuming procedures that can be heavy burdens for small organizations and difficult for all. However, none of this is bad news for those who plan or supply services for events. It dovetails nicely with current corporate procurement and travel consolidation trends. Smart planners and suppliers will no doubt use this strong law to bring about long needed changes. Certainly, the reason for improving a public company's return on its meetings' investment has only been enhanced by the Sarbanes-Oxley legislation. So this new wave of change is already rolling ashore. Hop on your surfboard and go for it! m