

Business Cycles/Processes: This list is an inventory of processes that may require documentation under SOX. It is not comprehensive; add to it as you see fit.

General Controls (1)

- Code of corporate conduct communicated & monitored
- High authority approval process
- Formal Operating Policies and Procedures documentation
- Effective Board of Directors
- Audit Committee
- Training programs
- Appropriate organizational structure
- Anti-fraud programs in place
- Contracts negotiation, approval & monitoring
- IT Controls
- Segregation of duties
- Effective system of intercompany communications
- Formal chart of accounts
- System exists for accurate financial reporting
- Whistle-Blower program

Cash/Investments/Treasury (2)

- Investment policies and procedures
- Investment purchases & sales
- Investment classification for FS (held to maturity, available for sale or trading)
- Investment income recording, including realized and unrealized gains & losses
- Bank deposit procedures
- Bank reconciliation procedures
- Bank transfers and wire transfers procedures
- Cash balance monitoring
- Insurance coverage & risk management, including fidelity coverage
- Foreign exchange and hedging procedures
- Commitments and contingencies, including noncancelable operating leases

Receivables/ Cash Receipts (3)

- Billing procedures
- Collection procedures for delinquent accounts
- Sales returns & allowances/credit memos
- Allowance for bad debts
- Bad debt write-off authorizations and procedures
- Controls over accounts written-off
- Reconciliation and posting procedures, subsidiary ledger to general ledger
- Cash receipts procedures, including:
 - Receipt of checks and/or lockbox procedures
 - Safeguarding of received checks until deposited
 - Bank deposit procedures for checks received

<ul style="list-style-type: none"> ○ Posting receipts to Accounts Receivable subledger
Inventory (4)
<ul style="list-style-type: none"> • Purchasing procedures • Receiving procedures • Physical safeguards • Physical counts • Inventory movement and tracking procedures • Inventory valuation • Inventory write-offs and scrap • Controls of scrap
Other Current & Long-Term Assets (5)
<ul style="list-style-type: none"> • Formal processes for asset acquisitions and write-offs • Periodic reconciliations to general ledger • Periodic review and evaluation of allowance accounts • Accounting procedures for capitalized software acquisition costs
Property, Plant & Equipment (6)
<ul style="list-style-type: none"> • Formal policies and procedures for property, plant & equipment • Capital spending requests and approval process • Additions and recording of fixed asset costs • Determination of asset lives and depreciation methods • Identification and differentiation of capital leases vs. fixed asset purchases • Accounting and monitoring of project development costs (e.g., self-construction) • Controls (e.g., tags, serial number tracking) over fixed assets and annual counting and reconciliation procedures • Procedures for fixed asset transfers and retirements • Security procedures for high value assets • Safeguarding of fixed assets, including preventative maintenance policies, protection from the elements and insurance
Goodwill (7)
<ul style="list-style-type: none"> • Policies and procedures for acquiring and recording goodwill • Policies and procedures to determine compliance with GAAP • Procedures for annual impairment test
Accounts Payable and Procurement (8)
<ul style="list-style-type: none"> • Vendor acceptance and maintenance • Requisitioning goods and services • Purchasing of goods and services • Receiving • Returns • Processing of vendor invoices • Processing of vendor invoices, including: <ul style="list-style-type: none"> ○ Matching with purchase orders and receiving reports ○ Taking available discounts ○ Coding with account numbers • Returning goods for credit

- Reconciliation and posting procedures, subsidiary ledger to general ledger
- Approval for payment
- Cash disbursements procedures, including
 - Review and approval of invoices for payment
 - Generation of unsigned check
 - Review of support and signing of checks
 - Mailing of checks and cancellation of invoices
 - Filing procedures for paid invoices and other support (e.g., P.O.s)

Accrued Liabilities (9)

- Formal procedures for estimating unpaid balances
- Periodic reconciliations of control accounts to general ledger
- Review for reasonableness vs. prior periods
- Reversing of accruals and re-accruals of invoices not yet processed

Long-Term Debt (10)

- Procedures for identifying and recording long-term debt obligations
- Procedures for identifying off-balance sheet obligations
- Accrual of interest expense
- Procedures for financial reporting, including reclassification of short term portions and disclosure of payment terms, rates and collateral in footnotes to financial statements
- Procedures for covenant compliance and certification

Equity (11)

- Monthly reconciliation procedures for equity accounts, including a monthly roll-forward
- Policies and procedures for repurchases of Company's stock
- Policies and procedures for authorizing and recording new offerings
- Periodic reconciliation of outstanding shares with Transfer Agent records and adjustment of differences
- Form 4 Reporting of Section 16 Officers and Directors
- Approval, documentation and disclosure procedures for Stock Option plans
- Black-Scholes Model and footnote disclosure of pro-forma compensation expense
- Policies and procedures to deter insider trading

Revenue (12)

- Customer acceptance and set up
- Setting credit limits
- Receipt of sales orders
- Approval of sales orders re terms, prices, etc.
- Acknowledgment of sales orders
- Shipping of goods or delivery of services
- Revenue recognition policies and practices

Cost of Goods Sold (13)

- Procedures for relief of inventory upon sale
- Procedures for establishing standard costs to estimate jobs
- Procedures for reviewing variances from standard costs and taking remedial action for negative variances
- Procedures for reviewing gross margin variances from budget

Pensions (14)

- Procedures for calculating pension liability
- Controls surrounding proper disclosures
- Reliance on outsource providers / experts

Payroll (15)

- Procedures for adding and changing employee data to the employee master file
- Procedures for hiring, promoting and terminating employees
- Procedures for accumulating time, reviewing and approving hours worked
- Procedures for determining and documenting pay rates and changes in pay rates
- Procedures for periodically reconciling the payroll journal to the general ledger
- Withholding procedures, including those for garnishments
- Procedures for timely payment of withholdings and employer's share of payroll taxes
- Vacation and sick pay monitoring and accrual
- Payroll accrual procedures for month end close
- Payroll tax reporting procedures, including forms 941, 940, W-2 and state forms
- Procedures for restricting access to paychecks, signature plates and other critical payroll materials
- Payment procedures, e.g., internal generation of checks or direct deposits, or by a third-party agency (SAS 70 reviewed?);
- Segregation of duties between payroll personnel and Human Resources

Taxation (16)

- Procedures to monitor ongoing tax compliance and reporting processes
- Procedures to tie or reconcile data used in tax reporting to source data and audited information
- Federal income tax filing procedures and return preparation
- Procedures for tax planning and research
- Procedures for payment of quarterly estimates of income tax
- State Income and Franchise tax filing procedures
- Procedures for determining, filing and payment of sales & use taxes
- Procedures for determining and payment of property taxes
- Procedures for tax planning and research
- Tax provision procedures for FAS 109

Insurance (17)

- Procedures for determining and monitoring insurance exposures
- Procedures for reconciling total insurance premiums paid to insurance expense and prepaid insurance

Financial Planning and Analysis (18)

- Procedures for creating a budget
- Monitoring and investigating budget variances
- Monitoring and investigating variances from prior periods

Purchase Accounting for Acquisitions and Acquisition / Integration (19)

- Due diligence procedures prior to acquisition
- Purchase Method of Accounting for June 2001 and later acquisitions – FAS 141

- Integrating acquiree's G/L onto acquiror's G/L and/or interim consolidating procedures
- Deciding whether to include acquiree in 404 assessment this year or delay up to one year (and disclose in Form 10K)
- Policies and procedures for acquisition and sale of long-term investment assets (e.g., subsidiaries)

Management Information Systems – IT General Controls (20)

- Procedures for physical security and maintenance of computer assets and resources
- Procedures for access control of computer media inventory
- Procedures for digital security from viruses and hackers
- Procedures for database administration (DBA) and use and backup & recovery processes, audit trail logging requirements and DBA administrative activities
- Procedures for network operations and telecommunications monitoring
- Security procedures for passwords and changing passwords
- Procedures for system backups
- Procedures, plans and documentation for disaster recovery
- Procedures for the acquisition of new hardware
- Procedures for the acquisition of new software and use monitored for compliance with licensing agreements
- Procedures for hiring and training IT personnel

Financial Reporting and Disclosure Controls (21)

- Procedures for review of trial balance and preliminary financial statements prior to month-end close
- Procedures for periodic analytical review of all balance sheet and income statement items
- Procedures for updating and reviewing all material footnote disclosures as well as new pronouncements that come to light, both for quarterly and for annual financial statements
- Procedures for reconciling any internal management reporting with any and all external reporting
- Procedures for SEC reporting, including formation of an SEC Disclosures Policies and Procedures document, SEC Disclosure Committee, internal checklists detailing responsibilities of preparation, review and approval for key sections of Forms 10-Q and 10-K.
- Procedures of the Audit Committee in pre-reviewing all quarterly earnings press releases and Forms 10-Q and 10-K.
- Formal distribution list for all financial reports

Inter-company / Consolidation / Close Process & GL Accounting (22)

- Identification procedures for intercompany transactions, including nature and account codes
- Reconciliation procedures
- Elimination procedures for both balance sheet and income statement accounts
- Procedures for elimination of all intercompany transactions
- Procedures for maintaining and reviewing a list of all standard consolidation entries as

part of the consolidation process

- Procedures for management review of foreign subs' financials for reasonableness on a monthly basis
- General control procedures, including:
 - Standard chart of accounts
 - Formal accounting policies and procedures manual
 - Segregation of duties
 - Journal entries are supported and reviewed by supervisors
- Formal account reconciliations
- Formal month-end cutoff procedures
- A formal list of standard journal entries made each month, e.g., accruals, adjustments, reversals and allocations
- Review of all intercompany accounts for zero balances at month end