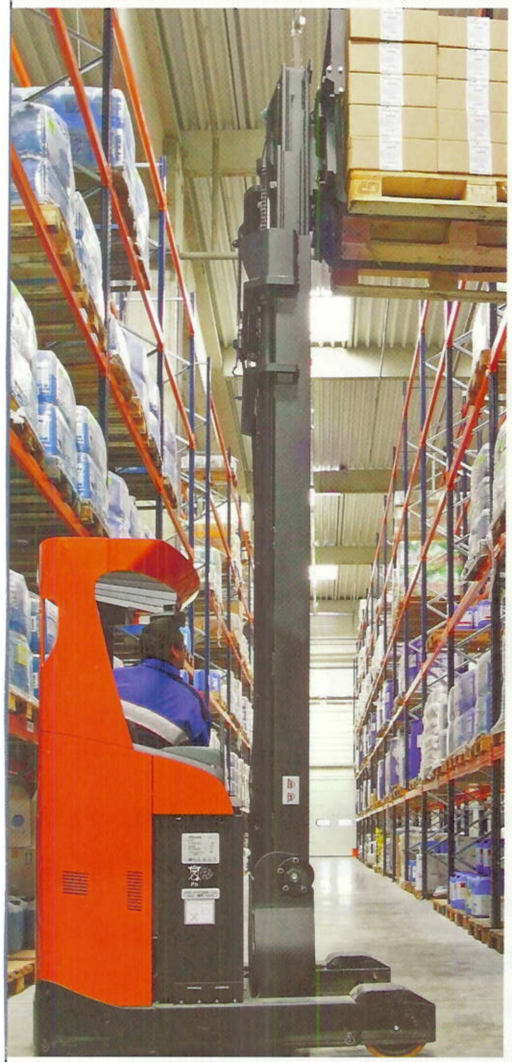
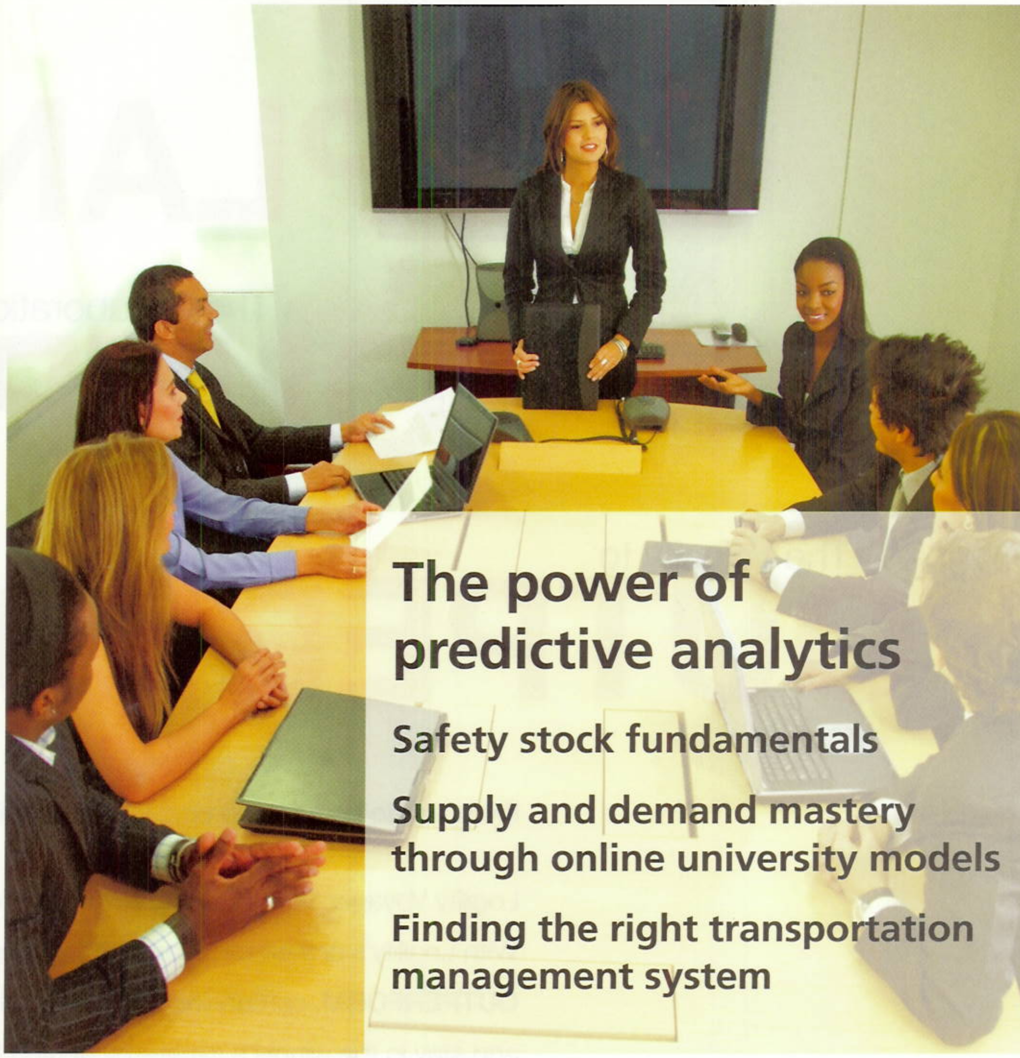
July/August 2011 Volume 21 | Number 4

APICS





The power of predictive analytics

Safety stock fundamentals

Supply and demand mastery through online university models

Finding the right transportation management system

Ideas and innovations in operations and supply chain management

APICS
The Association for Operations Management®

To comment on this article, send a message to feedback@apics.org.

By Matt Ravikumar, CIRM, CSCP

The Ins and Outs of Sarbanes-Oxley

Using SOX to gain greater control over your company's finances

The Sarbanes-Oxley (SOX) Act's standards for operations are mandatory for publically traded companies. However, I've recently come to realize that they can significantly help myriad organizations improve the bottom line by preventing common causes of financial drain.

SOX is a financial control and regulatory mechanism. Financial transactions are audited for possible conflicts of interests, segregation of duties, and general management control. Major areas of concern are revenue recognition, vendor payments, customer discounts, and whether financial adjustments are made via journal entries. Some SOX controls also affect manufacturing and compliance and thus can heighten efficiency and productivity while yielding better key performance indicators.

The standards that provide the greatest opportunity for benefit involve purchasing and receiving. When considering the former, begin by ensuring your purchasers are not the same people who request the items to be purchased. Always have a dollar limit so higher-ticket orders go through an approval process. Monitor repetitive requests for the same item or vendor to prevent people from bypassing approvals.

Close purchase orders at the end of the fiscal year if the threshold receiving percentage has been achieved. This prevents a buyer from reusing old purchase orders by creating amendments to them again and again. Purchase orders for services generally yield no formal receipts, so they should not be allowed to be amended, extended, or given supplements.

For receiving, first make sure your receiving professionals are not allowed to move stock. Otherwise, it is too easy to skip a required inspection process. In addition, products subject to an expiration date should have a double-check process to assure the vendor's lot number and expiration date were correctly entered into the inventory records. After all, an expiration date typo could result in a costly recall.

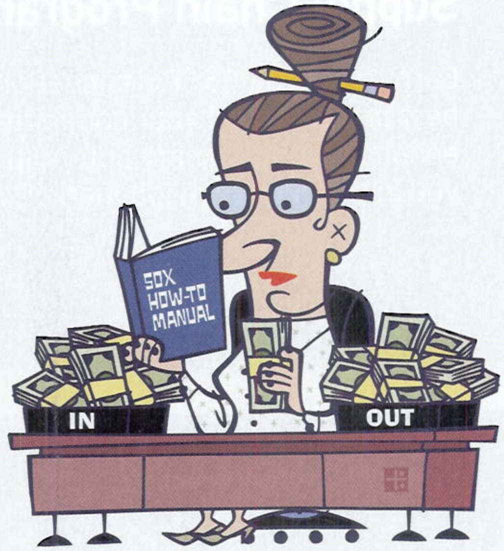


Illustration by Terry Colon

SOX also offers considerable opportunities with planning and work order management. There always is conflict between what planners require and what operations managers seek to accomplish. Good work order management will define who can release orders and who can make changes to their quantities or schedule dates. Any quantity or cost variance on a completed order alerts management to verify the bills of material or check for excess material consumption.

In short, to make the most of SOX standards, define your objectives. Determine whether the goals relate to risk management, regulatory compliance, process improvement, or cost management. Next, establish new processes by building a framework that is adaptable to organizational goals. Set deadlines for completion of objectives. These should be mandated from the internal audit team or management. Develop an implementation plan that defines activities and priorities, assigns responsibilities, and communicates the plan to key stakeholders. Finally, create standard and exception reports that are available to management and internal audit groups. As with all improvement activities, this step—review and monitor—can be the most critical to success.

Matt Ravikumar, CIRM, CSCP, is employed with a biotechnology firm in the San Francisco Bay area. He may be contacted at mattravikumar@gmail.com.

Do you have an anecdote that teaches, enlightens, or amuses? Consider sharing it with the readers of *APICS* magazine. Stories should be approximately 700 words. Email submissions to "Lessons Learned" editor Randall Schaefer at randallschaefer@att.net.