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Kimberly-Clark: Benefitting From SOX

By Anna Maria Virzi

The maker of Kleenex tissue and other products faced a daunting task: Document 4,000 different financial controls. It could have been worse.

When Jerry Rehfuss, a finance director at Kimberly-Clark Co., was asked in July 2003 to head up the company's efforts to comply with the Sarbanes-Oxley Act of 2002, he cringed.

Adhering to the federal law, crafted in response to the manipulation of financial statements at companies such as Enron and WorldCom, would be a massive undertaking for Kimberly-Clark, a \$15 billion global company best known as the maker of Kleenex and Scott tissue products and Huggies diapers.

"I am not averse to doing work, but this was one of the biggest pieces of corporate regulation that's come in decades," Rehfuss recalls.

Worse, the federal government had not yet fully spelled out what companies needed to do to avoid running afoul of the new law.

Still, Rehfuss took the job, heading up a core team of six employees and another 200 local and regional coordinators. The major thrust involved the law's key provision, known as Section 404; it requires publicly traded companies such as Kimberly-Clark to identify, test and document internal controls to prevent errors or fraudulent activities that affect the accuracy of financial statements. Once internal auditors test a sample of those controls, any problems must be documented and remediated.

Preparing an internal controls report turned out to be a major undertaking because of Kimberly-Clark's size and complexity. With headquarters in Irving, Texas, the company manufactures tissues, toilet paper, diapers and other paper products at locations around the world including Shanghai, China; Klucze, Poland; and Jakarta, Indonesia.

As Rehfuss sums it up, "60,000 employees in 50 countries at 200 locations. Different languages, cultures, time zones, systems."

To pull it off, Kimberly-Clark created what Rehfuss calls a "giant filing cabinet," albeit an electronic one, that can be accessed by 2,000 employees who perform varying activities—from attaching Word or Excel documents that spell out control procedures, audit-test results or action plans to signing off on results. In all, the filing system serves as a repository for tens of thousands of documents and keeps tabs on some 4,000 controls.

Kimberly-Clark has an advantage over many other companies: For more than three decades, the manufacturer has maintained a five-volume document called "Corporate Financial Instructions" that includes more than 1,000 internal control requirements for key processes.

This document served as the starting point for the Sarbanes-Oxley review of processes such as payroll, sales orders, billing, cash disbursement and computer access; it also identifies

internal controls such as making sure, in accounts payable, that one employee signs off on the invoices prepared by another employee.

"We started with a playbook of existing controls applicable to every Kimberly-Clark location worldwide," Rehfuss says. "From location to location, country to country, the actual controls might vary. But the basic principles—say, for each transaction, one person needs to prepare it and another person needs to authorize it—have been in place for each process."

Kimberly-Clark retained Ernst & Young as a consultant to determine the measures most likely to have an impact on the accuracy of financial statements. During this phase, which stretched from September to December 2003, the team identified 80 key processes and 370 significant controls, and then asked subject-matter and process experts within Kimberly-Clark whether anything should be added or removed from the exhaustive review.

Then, 200 regional and locator coordinators were asked to determine whether these processes take place at their location, and then identify the employees, or "control owners," responsible for making sure the controls are documented and tested.

At first, Kimberly-Clark executives thought they might have up to 20,000 controls that would have to be documented and tested. Upon closer inspection, that number came down to about 4,000. That's because not every process or control applies to every location. For example, Kimberly-Clark had accounts-receivable and accounts-payable controls listed for its different locations in Europe.

"The reality was that those reside in Brighton [England] at the shared service center," Rehfuss says. "So, the business centers in those countries did not have to document those controls."

At first, most of this information was maintained in what the team called a "control map," an Excel spreadsheet that listed processes applicable to each Kimberly-Clark location, as well as any variations. If, for example, an office in Indonesia used a slightly different accounts-receivable control than another site, that is documented in the spreadsheet as an "alternate" or "compensating" control.

Build Controls, Test Controls, Automate Controls. Easy, Right?

Identifying and documenting controls is only one hurdle. After that, an auditor tests a sample of those controls. If an auditor finds that a control isn't being followed, e.g., a supervisor had not signed off on a sales order, that finding is recorded as an "issue." The problem is investigated to determine the cause, and a correction plan must be developed, executed and, last of all, documented.

As Rehfuss and his team identified controls, they sized up software to store documents and keep the project on track.

In late 2003, Kimberly-Clark chose Paisley Consulting's hosted version of a Web-based document management application called Risk Navigator over products from SAP and PricewaterhouseCoopers.

Paisley's product is easy to customize, according to Frank Molina, senior project analyst at Kimberly-Clark for the Sarbanes-Oxley project. "With some systems, you have to change your project to fit the system," he says, adding that Kimberly-Clark didn't have to change its project.

For instance, the manufacturer could set up the software to reflect its organizational structure, showing the processes tracked by each of the 2,000 control owners.

And, access to the Risk Navigator database can be restricted based on an employee's duties. A worker responsible for five controls, for example, can enter reports for only those

activities in his purview. Or a regional manager can review the Sarbanes-Oxley work of any or all control owners in his region, and find out if those controls were tested by an auditor, if problems were discovered, and if documents describing the remediation action were filed.

For an overview of the compliance work, senior managers can choose to see a list of reports identifying problems with internal controls for the entire company or a single division, and monitor what action has been taken to resolve these issues.

Using Risk Navigator, e-mail can be sent to control owners—who hold positions such as customer service manager or accounting supervisor—reminding them to complete their documentation.

Kimberly-Clark's external auditors have read-only access to the system so they can review completed reports "to make sure we've done what we've said we're going to do to fix a problem," Molina says. But the auditors cannot change the controls.

Kimberly-Clark did not uncover fraud during its examination, but it discovered that some controls were not always being followed. "Because of our high standards, we had hundreds of exceptions and hundreds of issues—many of which were very easy to address," Rehfuss points out. "In some cases, it might be a reminder to certain employees, 'You have to review this and sign this every time.'"

Most oversights were chalked up to "human error," he says, such as a new employee, maybe someone filling in on a temporary basis, who was not aware that he had to electronically sign off on an invoice created by another employee.

An eye-opener for Rehfuss: the impact and pervasiveness of controls that involve information technology. "You could create the potential for widespread errors and, in the worst case, intentional fraud [without proper control over access] because so much of our business and transactions are run by computers," he says.

Documenting controls limiting access to computer systems, and then auditing them, proved to be a major task. That's because thousands of employees have access to software applications and computer systems.

Approaches to documenting and storing information about employee access to computer systems varies from department to department at Kimberly-Clark—a process that Mike Grill, leader of the company's information-technology internal control team, and Jolene Meissner, a senior analyst in the information-technology services unit, are working to make uniform in the coming year. "Someone might print an e-mail and sign it. Someone else might put that in a spreadsheet with an electronic signature. We want to do that in a common way," Meissner says, so it's easier to audit or test whether policies are being followed.

Limiting access to computer systems turned out to be a top challenge for other companies as well, according to Larry E. Rittenberg, an accounting professor at the University of Wisconsin and co-author of a January 2005 report on Sarbanes-Oxley's impact on companies. "Controlling access sounds simple," he says. "But it requires a lot of diligence on the part of everyone in an organization to map out what rights each individual should have to data. And make sure when someone changes a position [within a company] or leaves, those rights and privileges don't go with the employee. It's basic blocking and tackling."

Keeping Right Hand, Left Hand in Sync

Kimberly-Clark had a head start over other companies on another front. In 2000, the company's North American security support team developed an in-house application to make sure that one person in a company cannot perform two conflicting tasks—such as signing off on both purchases and account receivables. In the accounting world, this is

known as "segregation of duties." Two years later, that team upgraded to an off-the-shelf software tool from Virsa Systems that works with SAP software to flag those conflicts.

Jayne Gibbon, North American security support team leader for Kimberly-Clark, says that when Sarbanes-Oxley took effect, detecting segregation of duties was one fewer requirement that her company had to worry about. The software tool "allowed us to significantly reduce the amount of time it took to document and test the effectiveness of our processes," she says. "We could run a report and show the auditors that we don't have any conflicts."

While the cost of complying with Sarbanes-Oxley is relatively easy to quantify, the benefits are more difficult to measure. In 2004, Kimberly-Clark spent more than \$10 million on the effort, including labor, audit fees and other expenses, or at least \$670,000 for every \$1 billion in revenue—a proportionally lower spend than many other companies. Corporations with average revenue of \$5 billion spent \$4.36 million for Section 404 compliance, or about \$870,000 for every \$1 billion in revenue, according to a March survey by Financial Executives International.

A big benefit: There is more discipline in how companies control their organizations, Rittenberg says. "There is more uniformity in controls, more awareness of the need to control companies, starting at the top and extending to the board," he explains.

At Kimberly-Clark, the internal control review brought increased awareness that a policy or procedure might be executed in slightly different ways from one location to another. "Let's say there are 10 steps to paying an invoice—how we provide access to the systems, how we reconcile our accounts," Rehfuss says. "It's pretty basic stuff, but we have found it gets executed differently" at assorted locations.

Before some controls are standardized, Kimberly-Clark may need to update its information systems. Take the company's use of SAP resource planning software. Because the software was rolled out in phases over years around the globe, the company has four or five different versions in use, Rehfuss says. As a result, Kimberly-Clark's top executives have discussed the possibility of standardizing SAP so that controls can be executed more consistently throughout the company. And, a result, the company could better ensure that records are consistent and accurate and thus easier to collect and analyze.

The supporters of Sarbanes-Oxley contend that the law will bring long-term benefits for investors and companies alike.

"This reporting helps restore investor confidence. We think it helps manage the business, not just improve accounting," says Gregory Jonas, a managing director of Moody's Investors Service, a firm that rates the creditworthiness of companies.

"Benefits we're seeing are more qualitative than quantitative," says George I. Victor, a certified public accountant and director of quality control at Holtz Rubenstein Reminick, an accounting firm in New York. "There's more oversight, stricter controls. Those are benefits you might not be able to put a dollar value on."

And that's nothing to sneeze at—for Kimberly-Clark or anyone else.

Kimberly-Clark By the Numbers

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Business: Manufacturer of facial and bathroom tissues, paper towels, napkins, disposable diapers, and feminine-hygiene and incontinence-care products for consumers; health and

hygiene products for business. Brand names include Kleenex, Scott, Cottonelle, Viva, Huggies, Depend and Kotex.

Project Leader, Sarbanes-Oxley: Jerry Rehfuss

Financials in 2004: Sales of \$15.08 billion; net income of \$1.8 billion.

Challenge: Identify, test and document 4,000 internal controls each year for a company with 60,000 employees at 200 locations in 50 countries.

Baseline Goals:

- Cut spending on Sarbanes-Oxley compliance by 25% in 2005, from more than \$10 million in 2004.
- Ensure that access to computer systems and applications is audited annually and reviewed quarterly; the process had been sporadic.
- Reduce the number of controls that need remediation and/or better documentation by at least 50%.

The Sarbanes-Oxley Act of 2002, aimed at reducing errors or fraud in financial statements, includes a key provision requiring companies to identify, test and document controls over processes such as revenue recognition, payroll and accounts receivable. After year-one in 2004, here are benefits some companies said they've seen.

No. 1	Improvements in controls or documentation processes	No. 1
No. 2	Better control environment throughout the company	No. 3
No. 3*	Strengthening of controls over computer systems	No. 2
No. 4	Use of risk management approaches to analyze and implement controls	No. 5**
No. 5	Increased control awareness by process owners	No. 4

***BASELINE:** Responses of 171 internal auditors on the benefits derived from documenting internal controls.

****ACTUAL:** Kimberly-Clark found it already had strong controls in place, so the benefits derived from Sarbanes-Oxley varied from many other companies'.

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