



The Advantage of an Automated Expense Management Solution with SAS 70 Type II Certification in Sustaining Compliance with Sarbanes-Oxley

Gelco SmartPaper
March 2005

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The Advantage of an Automated Expense Management Solution with SAS 70 Type II Certification in Sustaining Compliance with Sarbanes-Oxley.

Introduction

For decades, Gelco Expense Management advocated the view that a well-controlled and automated expense management service was an essential tool of the fiscally effective company. We understood that travel expense management — the second largest discretionary cost for most organizations — provides companies the opportunity to gain greater financial control of their business expenses. As a result, Gelco Expense Management services were designed and continually enhanced to increase companies' internal control of travel expenses and provide greater corporate oversight of expense-account fraud.

As a result of this foresight, these same Gelco Expense Management services were proven to support companies' compliance efforts with the recent Sarbanes-Oxley legislative requirements. Sarbanes-Oxley legislation requires businesses to maintain advanced standards of financial disclosure and internal controls over costs. Companies that use Gelco Expense Management and ExpenseLink[®], its automated expense management solution with SAS 70 Type II certification, have these financial disclosure and internal controls already integrated into their travel expense management program, providing organizations an integrated solution for sustaining long-term compliance with Sarbanes-Oxley.

American Standard, a Gelco ExpenseLink® customer that has 50,000 employees, 103 manufacturing plants and operations in 29 countries, arrived at the same conclusion:

“We have noticed a significant improvement in travel policy compliance using Gelco ExpenseLink because it allows an itemization of expenses and periodic audits. ExpenseLink has made compliance with Sarbanes-Oxley routine. We rely on Gelco reports for our Sarbanes-Oxley internal audits — as well as for budgeting purposes.”

Ernest Guerra, Director of Travel Services
American Standard, Inc

The Chief Executive Officer of Gelco Information Network summarized the Sarbanes-Oxley advantage for all Gelco ExpenseLink companies when stating the following:

“Companies that have leveraged automated expense management solutions are ahead of the compliance curve on Sarbanes-Oxley, benefiting from the process and financial controls already built into the solution.”

Karen Beckwith, Chief Executive Officer
Gelco Information Network, Inc.

Gelco Expense Management has written this SmartPaper to shed light on how companies can sustain long-term compliance with the Sarbanes-Oxley Act through their integrated ExpenseLink expense management program. It is our intention that after reviewing this SmartPaper, you will be confident that while effectively managing your company’s travel and entertainment spending with our services, you are at the same time satisfying specific compliance requirements of the Sarbanes-Oxley Act – and saving your organization significant time and resources.

Sarbanes-Oxley Requirements Addressed by Gelco ExpenseLink®

The focus of this Gelco SmartPaper is the ability of Gelco ExpenseLink to address a company's financial disclosures requirements specific to sections 302 and 404 of the Sarbanes-Oxley act.

Section 404: Report on the Effectiveness of Internal Controls Over Financial Reporting

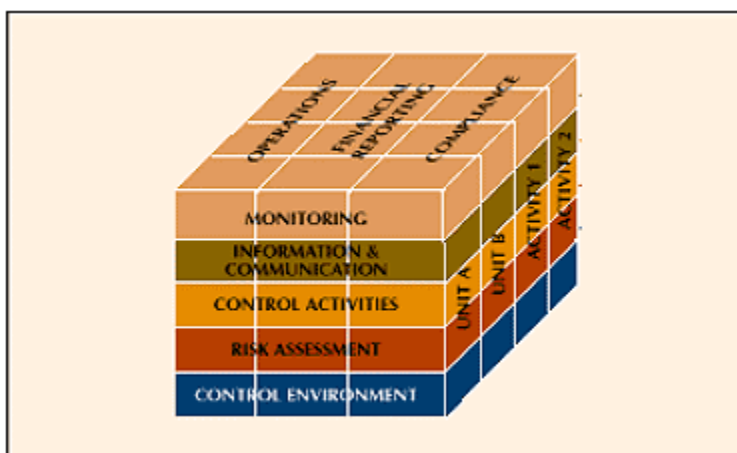
Section 404 of Sarbanes-Oxley legislation requires companies to provide a report on the *effectiveness* of their organization's internal controls over financial reporting. It requires a determination of whether those internal controls are sensitive enough to prevent or detect errors or fraud. Beginning with the first form 10-K filed in fiscal year 2005, Sarbanes-Oxley legislation also requires certification by the CEO and CFO on its internal controls over financial reporting included in the company's report.

Section 302: Independent Auditor Attestation to the Internal Control Report

According to Sarbanes-Oxley, changes in process or the organization can be translated into appropriate changes in internal controls if a clear record of those controls and responsibilities is maintained. Documentation is therefore necessary to be submitted to an independent auditor by the company to attest to the internal control report. Technology, specifically that which would be provided by an automated expense management service such as ExpenseLink, can simplify and reduce the expense of the documentation process to sustain real-time monitoring of the internal control system. This technology also provides the foundation for documenting changes in internal controls into the future.

The Committee of Sponsoring Organizations (COSO) Cube

The SEC went even further to establish the requirements for the framework to be used by an organization to determine the effectiveness of its internal controls. A company's business management is required to identify the framework used and recommends the integrated framework for internal control developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO.)



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The COSO Cube identifies five interrelated components that must be present and functioning for a corporation to have *effective* internal controls:

1. Control environment
2. Risk assessment
3. Control activities
4. Information and communication
5. Monitoring.

In the COSO Cube these five components are applied to controls as they relate to the effectiveness and efficiency of operations, reliability of financial reporting and compliance with laws and regulations. The SEC determined, however, that for its purposes these components would apply specifically to the reliability of financial reporting.

The Gelco Compliance Advantage

Gelco SAS 70 Type II Certification

The American Institute of Certified Public Accountants developed an auditing standard for service providers called Statement on Auditing Standards No. 70 (SAS 70). A SAS 70 audit establishes that a company that provides services has been through an in-depth audit of its own internal control activities. If a company is certifying the effectiveness of its internal controls over financial reporting to comply with Sarbanes-Oxley, then the expense management service provider must also be able to prove and certify effective internal controls.

Gelco achieved proof of the effectiveness of its internal controls when it completed SAS 70 Type II certification. Gelco provides the broadest scope possible for its SAS 70 report, including certification of not only Gelco control processes but certification of the control processes that are utilized by our customers in managing their expenses. In addition, Gelco provides a list of considerations for our customers in defining effective control procedures surrounding expenditures. In combination, you have the most comprehensive certification available from any vendor today.

The SEC stated that independent auditors might rely on the more rigorous SAS 70 Type II certification in preparing the attestation required under Section 404. Note that Type I SAS 70 certification does not have the same level of requirements as Type II and is therefore insufficient for SEC attestation required in section 404 of Sarbanes-Oxley. According to the SEC, companies can effectively 'skip' the work required to certify these processes themselves if its vendor organizations are SAS 70 Type II certified.

Companies that employ Gelco ExpenseLink have a distinct advantage over companies whose expense management services that have incomplete SAS 70 Type II certification.

ExpenseLink® Expense Management Controls

Transaction Authorization Controls

ExpenseLink provides for both general and specific authorization of transactions using ExpenseLink Intelligent Workflow. ExpenseLink Intelligent Workflow analyzes the expense report transaction information and compares it against management rules in order to determine the route that must be followed for authorization. ExpenseLink Intelligent Workflow uses a comprehensive set of configurable business rules to enforce compliance with your management policies by easily identifying questionable transactions for manager review and authorization prior to payment.

ExpenseLink also allows for user rule groups that enable very detailed expense management policies to be applied to specific departments, teams or individuals inside your organization. This provides administrators greater control over financial transactions.

Recording Transactions for Preparation of Financial Statements

ExpenseLink is the only expense management solution in the market that provides full sub-ledger capabilities, acting as the system of record for financial transactions. ExpenseLink guarantees the complete collection of adequate information to support financial transactions during the document preparation process by using configured required fields prior to transaction submission and automated interfaces to corporate card transactions.

As the system of record for employee expenses, the ExpenseLink service integrates into your general ledger system and provides complete sub-ledger reporting capabilities to support all of your financial reporting information.

Control Access to Assets

As with transaction processing, it is necessary that management provide both general and specific controls over access to company assets. ExpenseLink provides for specific rules to be configured that control access to assets at the individual purchase level and can obtain necessary approvals using an automated approval process. If the asset request is within the defined general management policy it can be completed with minimal effort, if the request exceeds any of the defined policies specific management approval is required before the user is provided access to the company assets controlled by the expense management solution.

Asset Reconciliation

ExpenseLink was constructed on the foundation of a generic payment system and as such it provides integrated tools for the reconciliation of distributed assets at the end of each fiscal reporting period. Detailed sub-ledger reconciliation reports, cash and receivable reporting as well as in-process transaction status information provides for complete reconciliation of the assets distributed as a part of the expense process.

Fraud Control

ExpenseLink implements the process defined by the American Institute of Certified Public Accountants for controlling fraud. The fraud control cycle is designed to not only identify fraud but also produce an environment that actively discourages fraudulent activity. Unlike other solutions in the marketplace, Gelco has recognized that fraud control is not about finding fraud but building an environment that prevents fraud before it begins.

Fraud Risk Assessment: Historical reporting tools regarding earlier fraudulent or questionable activity are available at any time, providing access to full historical records in order to assess the risk of fraud.

Antifraud Control Environment: Integrated business rules provide for automated antifraud controls within the transaction process. The environment is further enhanced via the Gelco audit service where transactions are audited by a disinterested third party providing for a guarantee of equal implementation of audit rules without concern for the title of the individual who submitted the transaction.

Designing and Implementing Antifraud Programs: Gelco Expense Management expert staff will provide access to best-in-class expense management processes and expertise while designing your solution implementation. Policy deployment, audit creation, regulatory references and historical analysis training are all provided during the implementation and the operation of the program is automated as much as possible with email alerts for questionable activity and historical reporting to allow for long-term control.

Communicating and Sharing Information: In order for an anti-fraud program to operate properly it is necessary that employees are aware of potentially fraudulent activity. ExpenseLink provides cost center managers access to the same fraud reporting and transaction review tools available to corporate users (but limited to transactions posted to their cost centers).

Monitoring Activities: Automated email notification of activity throughout the expense management process as well as historical reporting on configuration changes provide all of the tools necessary to monitor activity both as it happens as well as periodically review historical changes to look for potentially fraudulent activity.

In summary, ExpenseLink provides complete documentation, control, evaluation, reporting and auditing – essential components of the internal controls required to sustain compliance with Sarbanes-Oxley requirements.

The COSO Cube and ExpenseLink®: An Ideal Fit

According to the SEC, the COSO Cube provides the components for the framework to be used by an organization to determine the effectiveness of its internal controls.

Gelco ExpenseLink services fit the integrated control framework of COSO perfectly and comfortably to meet a company's Sarbanes-Oxley compliance needs.

Control Environment. Travel expense policies and procedures have the greatest impact on the largest number of employees in an organization. There are few areas management could choose to underscore its commitment to a control framework and through which it can communicate its expectations for behavior more effectively.

Risk Assessment. While Gelco does not become involved in a broader assessment of risks to corporate objectives, every organization with which Gelco works would include travel expense as a category that would be subject to risks.

Control Activities. Policies and procedures are communicated clearly to all employees when they are integrated into your Gelco expense management program. Policies are applied uniformly and automatically throughout.

Information and Communication. Precise reports make communication along the chain-of-command easy — and communication of exceptions to policy is built into our service. Gelco specifically targets findings that require management action in our reports and system of checks and balances.

Monitoring. Gelco ExpenseLink was created to allow easy monitoring of transactions both current and historical through our reporting and analysis service.

Conclusion

Writing about Sarbanes-Oxley in the Wall Street Journal, Bob Greifeld, Chief Executive Officer of NASDAQ noted: "...Many benefits of the law are just becoming apparent and if we fast-forward just a few years we can look for major improvements in how we run business — a true competitive advantage."

Although the task of sustaining effective internal controls can appear somewhat overwhelming, an integrated expense management service such as Gelco ExpenseLink® can satisfy the effective internal control requirements mandated in Sarbanes-Oxley for employee-initiated expenses. Gelco Expense Management provides companies a distinct compliance advantage and the CEO and CFO greater confidence that they are meeting reporting requirements for Sarbanes-Oxley. Gelco Expense Management services provide:

- Improved coordination of the company management team
- Improved and clarified corporate governance process
- Systematized process for early identification of business risks and incident management
- Systematized approach to dealing with change
- Increased operational effectiveness

Companies can immediately see the benefit of best-in-class processes for expense management such as those provided by ExpenseLink. ExpenseLink provides the only financial system of record for travel expenses in the market today as well as unparalleled

process improvements, compliance improvements and employee satisfaction. Sarbanes-Oxley is the catalyst for change today but the long-term benefits to your company in terms of reduced costs, improved business focus, reduction of business risk and controlled spending is the real driver for implementation of Gelco ExpenseLink.

We hope that this Gelco SmartPaper helps in your preparations for sustaining long-term compliance with the requirements of Sarbanes-Oxley legislation. It is our intention that you take away from this discussion the assurance that by effectively managing your company's travel and entertainment spending with Gelco ExpenseLink, you will satisfy specific compliance requirements of the Sarbanes-Oxley Act – and save your organization significant time and resources.

Gelco Expense Management will be happy to address any questions relating to our automated expense management solution and sustaining compliance with Sarbanes-Oxley. Please contact us to request more information.