

# **Sample Corporation**

1243 State Street  
Santa Barbara, California 93101

## **Sarbanes-Oxley Act 404 Compliance**

**December 31, 2006**

**Sample Corporation**  
**Sarbanes-Oxley 404 Compliance Documentation**  
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**Section 1 - Planning**

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**Section 1.0 - Overview of Section 404 of the Sarbanes-Oxley Act**  
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On May 27, 2003, the Securities and Exchange Commission (“SEC”) voted to adopt the rules related to “Management’s report on internal control over financial reporting and certification of disclosure in exchange act periodic reports”. These rules were adopted to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. The final rules require that each annual report contain:

- (1) A statement of management’s responsibility for establishing and maintaining an adequate internal control structure and procedures for financial reporting*
- (2) Management’s assessment, as of the end of the company’s most recent fiscal year, of the effectiveness of the company’s internal control structure and procedures for financial reporting.*
- (3) That the company’s outside auditors attest to the report on management’s assessment.*

Accelerated filers, generally those companies with market capitalizations over \$75 million and who have previously filed an annual report with the commission, are required to comply for fiscal years ending on or after November 15, 2004. All other issuers are required to comply for fiscal years ending after July 15, 2007.

While the rules require that management assess the effectiveness of the company’s internal control structure, the rules do not specify a framework for making such an assessment. What it does specify is that the framework “be a suitable, recognized, control framework that is established by a body or group that has followed due-process procedures, including distribution of the framework for public comment”. The most widely recognized framework, that meets this definition, is the framework designed by the Committee of Sponsoring Organizations of the Treadway Commission. This framework was published in 1992 and is known as (“COSO”). In addition, the final rules do not specify a level of testing or documentation, nor do they specify the treatment of identified weaknesses. They do, however, specifically state that management is prohibited from concluding that the company’s internal control over financial reporting is effective overall if there is a material weakness in internal controls.

## Systems

An internal control system is defined by several major systems or components. Some companies may have systems that are quite broad (such as purchasing/ accounts payable/ cash disbursements) others may have systems that are more narrow (such as purchasing). How many systems you identify is up to you based on what makes the most sense for your organization. As always, it is advisable to discuss your systems with your outside auditors and other advisors.

This system is limited to 25 systems. If you have more than 25 systems, consider combining similar systems. When you have completed entering all of your systems, click on the 'Create' button. This will create a file for each identified system. Each created file will be named based on what you type in the file name field. If at a later date, you need to add a system simply input the new information into the next blank system below and click on the 'Create' button. Systems for which files already exist will be skipped and files will be created only for new systems. To delete a system after it has been created, delete the file name and description and click on the 'Modify' button. Then manually delete the file from your working directory. You may now input a new system to replace the deleted system.

File Name <small>Limited to 20 characters</small>	Full Description <small>Summary description less than 110 characters</small>	System Manager <small>Less than 40 characters</small>	
Disbursements	Purchasing, accounts payable and cash disbursements	<b>Tim Johnson</b>	Testing In-Progress
Receipts	Sales, accounts receivable and cash receipts	<b>Andrew Wilson</b>	Not Started
Inventory	Inventory, cost of sales and related income statement activity	<b>Mary Smith</b>	Not Started
Payroll	Personnel, payroll, employee benefits and related income statement activity	<b>Miguel Hernandez</b>	Not Started
Fixed Assets	Fixed assets, depreciation and other related income statement activities	<b>Marcy Saunders</b>	Not Started
Debt	Recording, interest expense, disclosure and compliance with debt covenants	<b>Deven Aragon</b>	Not Started
Treasury	Cash management and Investments	<b>Anthony Webber</b>	Not Started
Other	Other assets & liabilities and their related income statement activity	<b>David Meyers</b>	Not Started
Equity	Shareholder's equity, common stock, additional paid in capital, retained earnings and stock options and warrants	<b>Don Stone</b>	Not Started
Legal	Legal expenses and accrual and disclosure of threatened, pending and resolved litigation	<b>Christopher Wall</b>	Not Started
Taxes	Tax accounting, reporting and disclosure	<b>Laura Hayden</b>	Not Started
Leases	Capital and operating leases, their related income statement accounts and disclosure of commitments	<b>Lisa Sutter</b>	Not Started
Reserves	Inventory reserves, allowance for doubtful accounts, valuation of goodwill, intangibles and other reserves	<b>Michael Gonzales</b>	Not Started
Closing	Month end closing procedures	<b>Tonya Chang</b>	Not Started
Reporting	Financial reporting, including 10Q & 10-K preparation, Def 14a, 8-Ks, press releases and other shareholder communication	<b>Lisa Wilson</b>	
IT	Information processing	<b>Greg Anderson</b>	

System Count: 16



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**Section 2 –  
Documentation of Systems**



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**Section 2.0 – Overview**  
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In order to comply with Section 404 of the Sarbanes-Oxley Act, we have documented each of our major systems. This ensures that we have a comprehensive understanding of how each system works. This knowledge will play a critical role in the upcoming risk assessment and evaluation section, as well as throughout the compliance process.

We begin our documentation by gaining an understanding of the objectives of each system. What are the key inputs and where do they come from? What is the primary output? How do results get communicated? What happens when the objectives are not met?

Almost equally important is the role of personnel in the system. Who is in charge of the system? Is it a single manager or are multiple managers responsible for different areas. How are issues resolved? What roles does the staff play? How are issues communicated both within the system as well as to the rest of the company? What role do those outside the company play?

We then turn to workflow. How do items move through the system? What is the length of a typical transaction? How are exceptions handled? Are there areas that have been problematic in the past?

Policies and procedures can play a vital role in how a system functions. What are their roles in each system? Is the system highly structured? Is every decision dictated by a procedures manual? Or are staff allowed to make their own judgments? How often are procedures updated? Do they accurately reflect the system as it is today?

Proper oversight can often compensate for weaknesses in other areas. What role does the oversight function play in each of the systems? Are staff members held accountable for deviating from policy? Are exceptions talked about openly? Do staff members have an open door to seek guidance? What type of training procedures are in place?

The answers to these questions may be different for each of the systems within our organization. Understanding the nature of our systems is a crucial step in designing an effective internal control monitoring system.

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### **Section 2.1 – Purchasing, accounts payable and cash disbursements**

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The objectives of this system are to obtain the goods and services that the company needs to operate, appropriately record company expenses and liabilities and to disburse cash and relieve related liabilities.

This department is under the control of the Chief Financial Officer, Rodger Martin and the Vice President Controller, Nina Foster. The Director of Financial and Tax Reporting, Lisa Russell is the primary check signer and the Accounting Manager, Terry Johnson supervises the accounts payable department on a day to day basis. The Accounts Payable department handles invoice processing and check generation and disbursement.

The process begins with an order being placed for a good or service. Purchasing authority is limited to those employees listed in the purchasing memo. From time to time, it may be necessary for other employees to make a purchase they can do this, but must obtain a purchase order approved by someone on this list. This list is included in our documentation as Exhibit A. Purchase approval is documented by a signed purchase order, or an approved invoice. Any invoice to purchase order discrepancies must not exceed \$10. Recurring payments (such as rent and utilities) require approval upon setup only. In addition, the Company maintains credit cards or accounts with certain merchants for supplies. These cards are maintained by the accounts payable department and are checked out to an individual employee. The employee returns the card and submits the receipt when approved.

Once an item has been ordered, it is the purchasers responsibility to ensure that the good or service is received. Receipt can be evidenced by an employees signature (need not be an authorized signer), a shipping receipt, or accounts payable will call the receiving employee and verify receipt.

Invoices are sent by the vendor and directed by the mail room to the accounts payable department. If a signed purchase order is not on file, invoices are forwarded to the purchaser for their approval. The purchaser reviews the invoice for validity, verifying that the good or service was received, that the payment amount and term are correct. Once the purchaser has satisfied himself or herself as to the validity of the charge, he or she initials the invoice and forwards it to the accounts payable department.

The accounts payable department reviews the invoice for reasonableness and checks for evidence of the appropriate approval. The accounts payable department then checks to determine if the vendor already exists in the system. If the vendor does not exist, the vendor is set up in the system. Once a vendor is active in the system, the invoice is coded to a general ledger account and entered into the system. The accounts payable department is responsible for determining the initial coding. From time to time, they may seek the guidance of the Accounting Manager, Controller or Director of Financial & Tax

Reporting. Areas in which they may seek guidance are invoices relating to charges belonging in part to multiple subsidiaries, items that might require capitalization, and items for which the appropriate expense account is unclear. Capitalized items and lease payments will be handled in greater detail in the *Facilities, Leases and Capital Expenditures* system. Once the general ledger account has been identified, the invoice is entered into the system and the system calculates a pay date based on invoice date and established vendor terms.

The invoice is then allowed to age in the system until its specified due date or it is selected for payment. Check runs are made weekly and include all unpaid invoices with a pay date prior to the current system date. Rush checks are paid daily, if needed. Check stock is kept in a locked cabinet. Keys to this cabinet are held by the accounts payable department. The accounts payable system prints the next numerical check number on each check. Printed checks are matched to the invoice and presented for signature.

The signer reviews the invoice. He or she examines it for validity, making sure that the charges appear reasonable compared to his/her understanding of the company's needs. He/she also reviews the general ledger coding and makes sure that the invoice has been coded appropriately and recorded in the correct period. Accruals will be addressed in the *Month End Closing and Journal Entries* system. Lastly, he/she verifies approval, making sure that the invoice has been approved by an authorized purchaser and checks that the system check number is the same as the check stock. When he/she has satisfied himself/herself, he/she signs the check.

Signing Authority is as follows:

Director of Financial & Tax Reporting	Up to \$10,000
Controller	Up to \$25,000
Chief Financial Officer	Up to \$100,000
EVP & General Counsel	Up to \$100,000
CEO	Unlimited

In addition, any two signers together can sign for any amount. Anyone with signing authority may fill in for the Director of Financial and Tax Reporting as the primary signer.

Signed checks are returned to the accounts payable department, who is responsible for mailing them out. At this time a carbon copy of the check is attached to the backup and filed by year and vendor.

Manual checks are issued only very rarely, usually when there is no one available from accounts payable to print a check. Manual checks are hand written and the subsequently entered into the system. A small stock of manual checks is maintained alongside the regular checks.

All accounts payable checks are paid through a separate account, referred to internally as the checking account. There is a checking account for both subsidiaries. The Company utilizes a positive pay system in which a list of checks including check number, payee and amount are provided to the bank shortly after the check has been issued. The bank

flags any checks presented for payment that do not match the list. The accounts payable department research discrepancies and approves or declines payment. Declined checks will be returned to the presenter unpaid. Reconciliation of these accounts will be addressed in detail in the *Treasury, Financing and Debt Service* system.

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**Section 2.2 – Sales, accounts receivable and cash receipts**  
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Describe this system, be sure to include:

- Major functions and objectives
- Key personnel
- Workflow
- Critical policies and procedures
- Oversight process

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**Section 3 –  
Risk Assessment and  
Testing**

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**Section 3.0 – Overview**  
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The risk assessment and testing section contains a sub-section for each system that was identified in the planning process. Each sub-section will include the following items:

**Step Listing**

The work for each sub-section begins with a listing of the steps which make up that system. These are logical steps to achieve the objective of the system. The information to compile these steps is obtained from the system description in the documentation section, and is augmented through discussion with appropriate personnel.

**Risk Identification**

For each step identified, a risk evaluation is created. The first step to completing the risk evaluation is to identify the risks inherent in performing a particular step. The idea is to identify what could go wrong, even if no such event has ever occurred. Each step will have differing levels of risk. Some have multiple risks, while others have no identified risks.

**Risk Evaluation**

As risks are identified they are also evaluated. Each risk is evaluated on a scale of 1 to 10, with 1 being extremely low and 10 being extremely high. The risks are evaluated based on the likelihood of that risk occurring and the significance to the company if it occurred. These evaluations are made in the absence of any controls.

**Mitigating Controls**

After the risk has been evaluated, we consider what controls are in place and if those controls are sufficient to mitigate the identified risk. If the control is sufficient we move on to the testing phase. If the control is not sufficient, we go to remediation.

**Substantive Testing**

Once we know that the control is designed correctly to mitigate a particular risk, we only need to know if the control is being performed as designed, to know that the control is functioning effectively. To do this we perform substantive tests. Each risk has a testing work paper which identifies the population, the test to be performed, and the outcome.

**Remediation**

Risks, for which controls are absent or ineffective as well as those controls not being performed as designed, are subject to remediation. Remediation requires that the deficiency be remedied and then the control be subjected to additional testing.

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## Sarbanes-Oxley 404 Compliance Documentation

### Section 3.1 – Purchasing, accounts payable and cash disbursements

December 31, 2006

#### System 1:

Purchasing, accounts payable and cash disbursements

- *Step Listing*
- *Risk Identification*
- *Risk Evaluation*
- *Mitigating Controls*
- *Substantive Testing*
- *Remediation*



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## Sarbanes-Oxley Section 404 Compliance Documentation

### System Steps

December 31, 2006

**System:** Purchasing, accounts payable and cash disbursements

Step	Tab Name Valid Excel name, 20 characters or less	Step/Process Description Each system has a number of steps from the beginning of the process to the end of the process. Please describe the relevant steps below:
1	Order	Goods or service is ordered by authorized purchaser
2	Received	Good or service is received
3	Invoiced	Invoice for good or service is received
4	Approved	Invoice is approved by the appropriate person
5	Coded	Invoice is coded to a general ledger account by accounts payable
6	Vendor	If needed, new vendor is set up in the system
7	Input	Invoice is entered into the system
8	Aged	Invoice remains in the system until due date
9	Printed	Checks are printed and matched to their backup
10	Signed	Checks are reviewed for legitimacy and correct coding and then signed
11	Mailed	Checks are mailed to vendor

Lock System Steps

System Status Testing In-Progress ▼

Testing Level? 1.0

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**Summarized Risk Matrix**  
**December 31, 2006**

<b>Initial Testing:</b>									
<b>System Step</b>	<b>Risk</b>	<b>Control</b>	<b>Inherent Risk of Errors or Fraud (Likelihood)</b>	<b>Financial Statement Impact (Significance)</b>	<b>Initial Control Evaluation</b>	<b>Control Complexity (Testing Level)</b>	<b>Required Selections</b>	<b>Date Tested</b>	<b>Control should be tested again by:</b>
Order	Order is placed by an employee who is not authorized to make purchases.	Purchasing department is required to have a signed purchase order on file prior to placing an	Low	Low	Effective	Average	6	07/12/06	Jul-07
	Order amount exceeds signers limit	Purchasing department verifies that the amount is within the signers authority.	Medium	Medium	Effective	Average	30	07/15/06	Remediation
Received	Good or service never received	Accounts Payable requires confirmation of receipt (bill of lading) prior to payment.	Medium	Low	Effective	Average	5	07/14/06	Jul-07
	Good or service was diverted for personal gain	Authorized signers are responsible for their department budget. Significant variances from the	Medium	Medium	Effective	Average	12	09/05/06	Sep-07
Invoiced	Invoice amount is inflated	Invoices exceeding purchase order are sent to the department head for further approval	Medium	Low	Effective	Average	NA	Not Tested	No Selection
	Invoice is fraudulent; no merchandise ordered or received	Invoices must have proof of authorization and receipt prior to payment	Medium	Low	Effective	Average	NA	Not Tested	No Selection
<b>Remediation Testing:</b>									
<b>Remediation Sheet</b>	<b>Risk</b>	<b>Deficiency</b>	<b>Inherent Risk of Errors or Fraud (Likelihood)</b>	<b>Financial Statement Impact (Significance)</b>	<b>Initial Control Evaluation</b>	<b>Control Complexity (Testing Level)</b>	<b>Required Selections</b>	<b>Last Tested</b>	<b>Control should be tested again by:</b>
Remediation 1									
Order	Order amount exceeds signers limit	Purchasing department not consistently checking signer limits prior to ordering merchandise.	Medium	Medium	Effective	Average	30	10/12/06	Oct-07

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**System Risks and Controls**  
**December 31, 2006**

**System:** *Purchasing, accounts payable and cash disbursements*

**Step:** *Goods or service is ordered by authorized purchaser*

Risk ID	Describe the potential risks related to this step:	On a scale of 1 to 10, how likely/significant is this risk? 1=low, 10=high		Describe the control (s) that mitigate this risk:	Are controls sufficient to mitigate the risk? (Y or N)	Calculated Risk Score
		Likely?	Significant?			
1	Order is placed by an employee who is not authorized to make purchases.	3	2	Purchasing department is required to have a signed purchase order on file prior to placing an order. Requests from unauthorized employees will be denied if not properly authorized.	Y	6
2	Order amount exceeds signers limit	6	5	Purchasing department verifies that the amount is within the signers authority.	Y	30

# Sample Corporation

## Sarbanes-Oxley Section 404 Compliance Documentation

### Risk Assessment, Test Plan and Evaluation

December 31, 2006

**Risk ID:** 1

**System:** Purchasing, accounts payable and cash disbursements

**Step:** Goods or service is ordered by authorized purchaser

**Risk:** Order is placed by an employee who is not authorized to make purchases.

**Control(s):** Purchasing department is required to have a signed purchase order on file prior to placing an order. Requests from unauthorized employees will be denied if not properly authorized.

**Test:** Obtain checks issued from 1/1 until date of test and verify that underlying purchase is supported by a properly authorized purchase order.

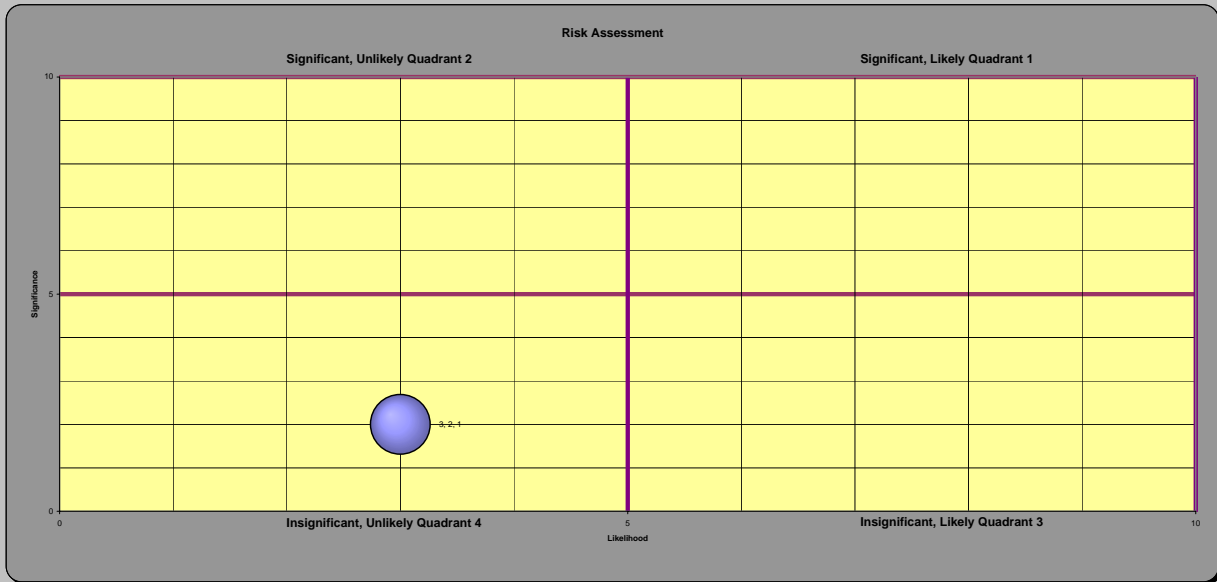
**Risk Assessment:** 6 out of 100 Low Risk

**Quadrant:** 4

**Last Tested:** July 12, 2006      **Test every** 1 year(s)      **Next Test?** Jul-07

**Design of Control?** Control appears effective to mitigate identified risk.

**Effectiveness of control?** Control is functioning as designed



# Sample Corporation

## Sarbanes-Oxley Section 404 Compliance Documentation

### Control Testing

December 31, 2006

**Risk ID:** 1

**System:** Purchasing, accounts payable and cash disbursements

**Step:** Goods or service is ordered by authorized purchaser

**Risk:** Order is placed by an employee who is not authorized to make purchases.

**Prepared By:**  
L. Smith

**Reviewed By:**  
T. Jones

**Date Completed:**  
7/12/2006

**Control(s):** Purchasing department is required to have a signed purchase order on file prior to placing an order. Requests from unauthorized employees will be denied if not properly authorized.

**Test:** Obtain checks issued from 1/1 until date of test and verify that underlying purchase is supported by a properly authorized purchase order.

The number of selections equals the risk score times the testing level. Risks that could result in a material weakness have a minimum testing size of 25 selections. If the population is less than the sample size then 100% will be selected.

**Test Level:** 1.0      **Risk Score:** 6      **# of Selections:** 6      **Interval:** 55443      **Random number:** 0

In order to perform detail testing an appropriate population must be selected. Examples of populations include checks, invoices, employee number, journal entry numbers, months of a year, or pages in a report.

**Population:** Checks issued 1/1/06 - 7/11/06      **Beg Sequence:** 1452563      **End Sequence:** 1785223

Selection #	Sequence #	Description	Amount	Verified Control(s)? (YorN)	Describe exceptions, if any?
1	1452563	Rent - Santa Ana	\$2,800.00	Y	
2	1508006	Verizon (805) 453-2332	\$97.12	Y	
3	1563449	Expense Report - T. Sanchez	\$27.56	Y	Purchase order not required
4	1618892	CompUSA	\$3,625.41	Y	
5	1674335	Dell Direct	\$999.99	Y	
6	1729778	Office Depot	\$1,400.00	Y	

**Testing Status** Success

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## Sarbanes-Oxley Section 404 Compliance Documentation

### Risk Assessment, Test Plan and Evaluation

December 31, 2006

**Risk ID:** 2

**System:** Purchasing, accounts payable and cash disbursements

**Step:** Goods or service is ordered by authorized purchaser

**Risk:** Order amount exceeds signers limit

**Control(s):** Purchasing department verifies that the amount is within the signers authority.

**Test:** Obtain purchase orders issued from 1/1 until date of test and verify that the amount is within the authorized signer's authority.

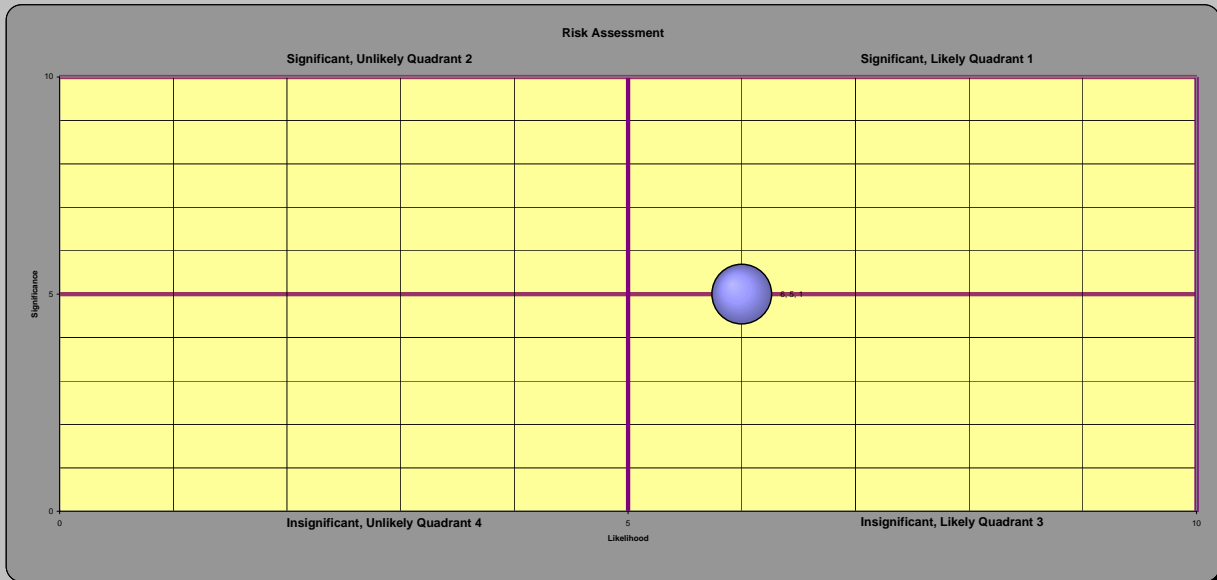
**Risk Assessment:** 30 out of 100 Low Risk

**Quadrant:** 3

**Last Tested:** July 15, 2006      **Test every** 1 year(s)      **Next Test?** Jul-07

**Design of Control?** Control appears effective to mitigate identified risk.

**Effectiveness of control?** Additional testing required to verify if control is functioning as designed



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## Sarbanes-Oxley Section 404 Compliance Documentation Control Testing December 31, 2006

Risk ID: 2  
 System: Purchasing, accounts payable and cash disbursements  
 Step: Goods or service is ordered by authorized purchaser  
 Risk: Order amount exceeds signers limit

Prepared By: L. Smith  
 Reviewed By: T. Jones  
 Date Completed: 7/15/2006

Control(s): Purchasing department verifies that the amount is within the signers authority.

Test: Obtain purchase orders issued from 1/1 until date of test and verify that the amount is within the authorized signer's authority.

The number of selections equals the risk score times the testing level. Risks that could result in a material weakness have a minimum testing size of 25 selections. If the population is less than the sample size then 100% will be selected.

Test Level: 1.0 Risk Score: 30 # of Selections: 30 Interval: 36 Random number: 3

In order to perform detail testing an appropriate population must be selected. Examples of populations include checks, invoices, employee number, journal entry numbers, months of a year, or pages in a report.

Population: Purchase orders 1/1/06 - 7/14/06 Beg Sequence: 21345 End Sequence: 22431

Selection #	Sequence #	Description	Amount	Verified Control(s)? (YorN)	Describe exceptions, if any?
1	21348	Human Resources - T Smith	\$2,500.00	Y	
2	21384	MIS - H. Saunders	\$1,800.00	Y	
3	21420	Human Resources - T Smith	\$500.00	Y	
4	21456	Support - K. Wilson	\$1,012.50	N	Exceeds Signer's authority of \$1,000
5	21492	MIS - H. Saunders	\$750.00	Y	
6	21528	Human Resources - T Smith	\$500.00	Y	
7	21564	Human Resources - T Smith	\$499.96	Y	
8	21600	MIS - H. Saunders	\$2,499.99	Y	
9	21636	Support - K. Wilson	\$1,300.00	N	Exceeds Signer's authority of \$1,000
10	21672	Support - K. Wilson	\$475.00	Y	
11	21708	MIS - H. Saunders	\$199.00	Y	
12	21744	Support - K. Wilson	\$50.00	Y	
13	21780	MIS - H. Saunders	\$37.12	Y	
14	21816	MIS - H. Saunders	\$13,000.00	Y	
15	21852	Human Resources - T Smith	\$500.00	Y	
16	21888	Support - K. Wilson	\$749.00	Y	
17	21924	Accounting - T. Cheng	\$650.00	Y	
18	21960	Accounting - T. Cheng	\$75.00	Y	
19	21996	Support - K. Wilson	\$800.00	Y	
20	22032	Accounting - T. Cheng	\$347.79	Y	
21	22068	MIS - H. Saunders	\$2,500.00	Y	
22	22104	MIS - H. Saunders	\$649.99	Y	
23	22140	Accounting - T. Cheng	\$100.00	Y	
24	22176	Human Resources - T Smith	\$767.00	Y	
25	22212	Accounting - T. Cheng	\$2,000.00	Y	
26	22248	MIS - H. Saunders	\$1,995.00	Y	
27	22284	MIS - H. Saunders	\$47.50	Y	
28	22320	Human Resources - T Smith	\$250.00	Y	
29	22356	MIS - H. Saunders	\$179.00	Y	
30	22392	Accounting - T. Cheng	\$2,326.65	Y	

Testing Status Remediation

**Sample Corporation**  
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**System Risks and Controls**  
**December 31, 2006**

**System:** *Purchasing, accounts payable and cash disbursements*

**Step:** *Good or service is received*

Risk ID	Describe the potential risks related to this step:	On a scale of 1 to 10, how likely/significant is this risk? 1=low, 10=high		Describe the control (s) that mitigate this risk:	Are controls sufficient to mitigate the risk? (Y or N)	Calculated Risk Score
		Likely?	Significant?			
1	Good or service never received	5	1	Accounts Payable requires confirmation of receipt (bill of lading) prior to payment.	Y	5
2	Good or service was diverted for personal gain	5	5	Authorized signers are responsible for their department budget. Significant variances from the budget are investigated by the Controller and reported to the CEO	Y	25



# Sample Corporation

## Sarbanes-Oxley Section 404 Compliance Documentation Risk Assessment, Test Plan and Evaluation December 31, 2006

**Risk ID:** 1

**System:** Purchasing, accounts payable and cash disbursements

**Step:** Good or service is received

**Risk:** Good or service never received

**Control(s):** Accounts Payable requires confirmation of receipt (bill of lading) prior to payment.

**Test:** For checks issued verify that confirmation of receipt exists. This is usually a bill of lading, but it could also be a department head signature indicating receipt.

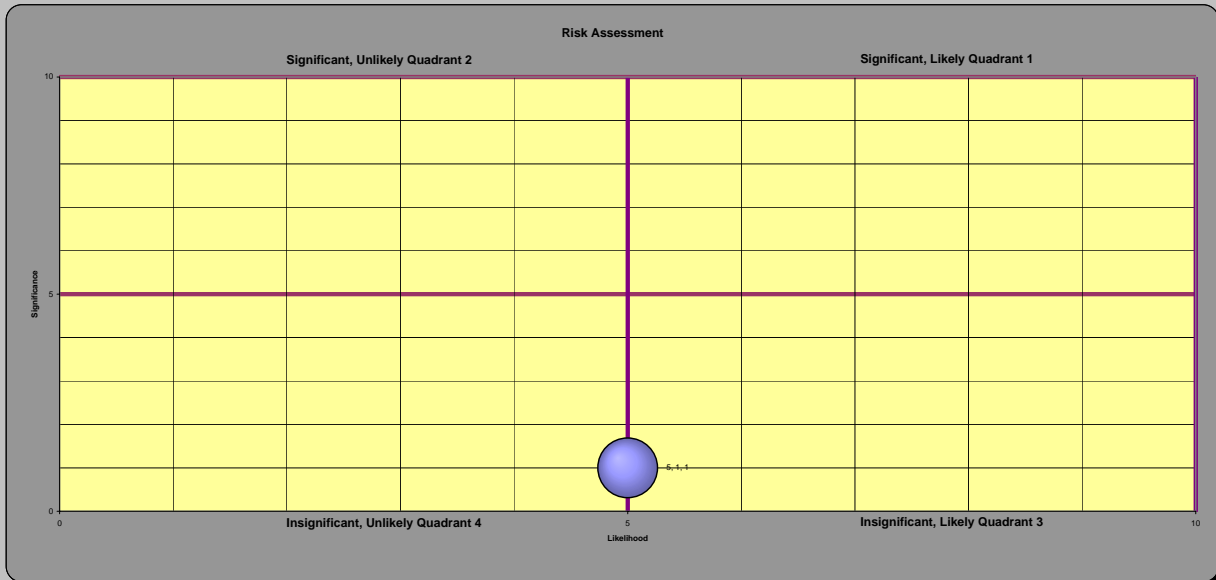
**Risk Assessment:** 5 out of 100 Low Risk

**Quadrant:** 4

**Last Tested:** July 14, 2006      **Test every** 1 year(s)      **Next Test?** Jul-07

**Design of Control?** Control appears effective to mitigate identified risk.

**Effectiveness of control?** Control is functioning as designed



# Sample Corporation

## Sarbanes-Oxley Section 404 Compliance Documentation Control Testing December 31, 2006

**Risk ID:** 1  
**System:** Purchasing, accounts payable and cash disbursements  
**Step:** Good or service is received  
**Risk:** Good or service never received

**Prepared By:**  
L. Smith  
**Reviewed By:**  
T. Jones  
**Date Completed:**  
7/14/2006

**Control(s):** Accounts Payable requires confirmation of receipt (bill of lading) prior to payment.

**Test:** For checks issued verify that confirmation of receipt exists. This is usually a bill of lading, but it could also be a department head signature indicating receipt.

The number of selections equals the risk score times the testing level. Risks that could result in a material weakness have a minimum testing size of 25 selections. If the population is less than the sample size then 100% will be selected.

**Test Level:** 1.0      **Risk Score:** 5      **# of Selections:** 5      **Interval:** 329      **Random number:** 5

In order to perform detail testing an appropriate population must be selected. Examples of populations include checks, invoices, employee number, journal entry numbers, months of a year, or pages in a report.

**Population:** Checks Issued from 1/1/06 - 7/13/06      **Beg Sequence:** 21345      **End Sequence:** 22995

Selection #	Sequence #	Description	Amount	Verified Control(s)? (YorN)	Describe exceptions, if any?
1	21350	GTE 2/28/2006	\$78.98	Y	Service - verified via dept head signature
2	21679	CD Direct 4/6/2006	\$199.97	Y	
3	22008	Compusa 5/31/2006	\$450.00	Y	
4	22337	Rent - Santa Ana	\$2,800.00	Y	N/A - Rent
5	22666	Office Depot 7/2/2006	\$237.56	Y	

**Testing Status** Success

# Sample Corporation

## Sarbanes-Oxley Section 404 Compliance Documentation

### Risk Assessment, Test Plan and Evaluation

December 31, 2006

**Risk ID:** 2

**System:** Purchasing, accounts payable and cash disbursements

**Step:** Good or service is received

**Risk:** Good or service was diverted for personal gain

**Control(s):** Authorized signers are responsible for their department budget. Significant variances from the budget are investigated by the Controller and reported to the CEO

**Test:** Obtain monthly budget to actual report and verify that variances exceeding 10% were identified and explained

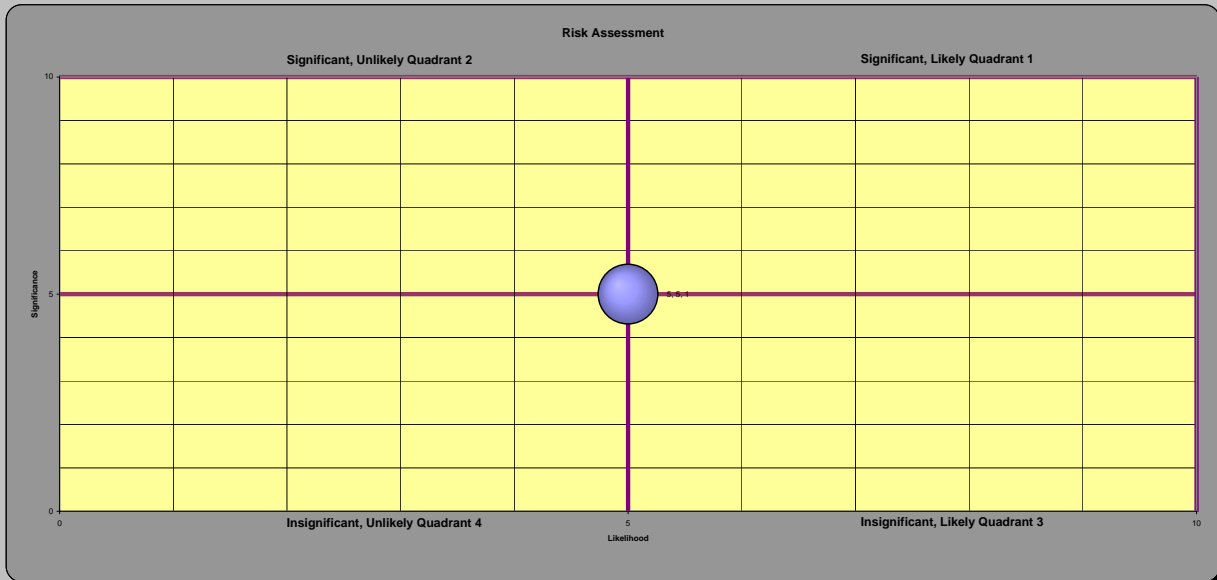
**Risk Assessment:** 25 out of 100 Low Risk

**Quadrant:** 4

**Last Tested:** September 5, 2006      **Test every** 1 year(s)      **Next Test?** Sep-07

**Design of Control?** Control appears effective to mitigate identified risk.

**Effectiveness of control?** Control is functioning as designed



# Sample Corporation

## Sarbanes-Oxley Section 404 Compliance Documentation Control Testing December 31, 2006

**Risk ID:** 2

**System:** Purchasing, accounts payable and cash disbursements

**Step:** Good or service is received

**Risk:** Good or service was diverted for personal gain

**Prepared By:**  
L. Smith

**Reviewed By:**  
T. Johnston

**Date Completed:**  
9/5/2006

**Control(s):** Authorized signers are responsible for their department budget. Significant variances from the budget are investigated by the Controller and reported to the CEO

**Test:** Obtain monthly budget to actual report and verify that variances exceeding 10% were identified and explained

The number of selections equals the risk score times the testing level. Risks that could result in a material weakness have a minimum testing size of 25 selections. If the population is less than the sample size then 100% will be selected.

**Test Level:** 1.0      **Risk Score:** 25      **# of Selections:** 12      **Interval:** 1      **Random number:** 0

In order to perform detail testing an appropriate population must be selected. Examples of populations include checks, invoices, employee number, journal entry numbers, months of a year, or pages in a report.

**Population:** Monthly budget variance for last 12 months      **Beg Sequence:** 1      **End Sequence:** 12

Selection #	Sequence #	Description	Amount	Verified Control(s)? (YorN)	Describe exceptions, if any?
1	1	Sept 05 Budget Report	N/A	Y	
2	2	Oct 05 Budget Report	N/A	Y	
3	3	Nov 05 Budget Report	N/A	Y	
4	4	Dec 05 Budget Report	N/A	Y	
5	5	Jan 06 Budget Report	N/A	Y	
6	6	Feb 06 Budget Report	N/A	Y	
7	7	Mar 06 Budget Report	N/A	Y	
8	8	Apr 06 Budget Report	N/A	Y	
9	9	May 06 Budget Report	N/A	Y	
10	10	Jun 06 Budget Report	N/A	Y	
11	11	Jul 06 Budget Report	N/A	Y	
12	12	Aug 06 Budget Report	N/A	Y	

**Testing Status** Success

**Sample Corporation**  
**Sarbanes-Oxley Section 404 Compliance Documentation**  
**Remediation of Control Deficiencies**  
**December 31, 2006**

**System:** *Purchasing, accounts payable and cash disbursements*

**List testing and design deficiencies below:**

Risk ID	Describe the potential risks related to this deficiency:	On a scale of 1 to 10, how likely/significant is this risk? 1=low, 10=high		Describe the deficiency:	Are controls now sufficient to mitigate the risk? (Y or N)	Status Deficiency Corrected	Step Name
		Likely?	Significant?				
1	Order amount exceeds signers limit	6	5	Purchasing department not consistently checking signer limits prior to ordering merchandise.	Y		Order

**Sample Corporation**  
**Sarbanes-Oxley Section 404 Compliance Documentation**  
**Remediation, Test Plan and Evaluation**  
**December 31, 2006**

**Risk ID:** 1

**System:** Purchasing, accounts payable and cash disbursements

**Risk:** Order amount exceeds signers limit

**Deficiency:** Purchasing department not consistently checking signer limits prior to ordering merchandise.

**Remediation:** Purchasing department underwent a formal training program on 8/12/06. All purchasing employees were required to attend. In the meeting, proper procedures were discussed and employees were informed that their supervisor would conduct random testing on a monthly basis. Employees found with one infraction would be disciplined, a second infraction would result in termination.

**New Test:** Obtain purchase orders issued after 8/12/06 and verify that no order amounts exceeded the purchasers authority.

**Risk Assessment:** 30 out of 100 **Low Risk**

**Quadrant:** 3 **Testing Failure would be considered:** Significant Deficiency

**Last Tested:** October 12, 2006 **Test every** 1 **year(s)** **Next Test?** October-07

**Design of Control?** Control appears effective to mitigate identified risk. **Testing Status:** Successful

**Effectiveness of control?** Control is functioning as designed

**Sample Corporation**  
**Sarbanes-Oxley Section 404 Compliance Documentation**  
**Remediation Testing**  
**December 31, 2006**

**Risk ID:** 1  
**System:** Purchasing, accounts payable and cash disbursements  
**Risk:** Order amount exceeds signers limit

**Prepared By:**  
L. Smith  
**Reviewed By:**  
T. Jones  
**Date Completed:**  
10/12/2006

**Deficiency:** Purchasing department not consistently checking signer limits prior to ordering merchandise.

**Remediation:** Purchasing department underwent a formal training program on 8/12/06. All purchasing employees were required to attend. In the meeting, proper procedures were discussed and employees were informed that their supervisor would conduct random testing on a monthly basis. Employees found with one infraction would be disciplined, a second infraction would result in termination.

**New Test:** Obtain purchase orders issued after 8/12/06 and verify that no order amounts exceeded the purchasers authority.

The number of selections equals the risk score times the testing level. Risks that could result in a material weakness have a minimum testing size of 25 selections. If the population is less than the sample size then 100% will be selected.

**Test Level:** 1.0      **Risk Score:** 30      **# of Selections:** 30      **Interval:** 17      **Random number:** 3

In order to perform detail testing an appropriate population must be selected. Examples of populations include checks, invoices, employee number, journal entry numbers, months of a year, or pages in a report.

**Population:** Purchase orders submitted 8/12/06 - 10/11/06      **Beg Sequence:** 25478      **End Sequence:** 26001

Selection #	Sequence #	Description	Amount	Verified Control(s)? (YorN)	Describe exceptions, if any?
1	25481	Human Resources - T Smith	\$1,500.00	Y	
2	25498	MIS - H. Saunders	\$2,800.00	Y	
3	25515	Human Resources - T Smith	\$1,500.00	Y	
4	25532	Support - K. Wilson	\$12.50	Y	
5	25549	MIS - H. Saunders	\$1,750.00	Y	
6	25566	Human Resources - T Smith	\$1,500.00	Y	
7	25583	Human Resources - T Smith	\$1,499.96	Y	
8	25600	MIS - H. Saunders	\$499.99	Y	
9	25617	Support - K. Wilson	\$300.00	Y	
10	25634	Support - K. Wilson	\$1,475.00	Y	
11	25651	MIS - H. Saunders	\$1,199.00	Y	
12	25668	Support - K. Wilson	\$50.00	Y	
13	25685	MIS - H. Saunders	\$37.12	Y	
14	25702	MIS - H. Saunders	\$10,000.00	Y	
15	25719	Human Resources - T Smith	\$500.00	Y	
16	25736	Support - K. Wilson	\$749.00	Y	
17	25753	Accounting - T. Cheng	\$650.00	Y	
18	25770	Accounting - T. Cheng	\$75.00	Y	
19	25787	Support - K. Wilson	\$800.00	Y	
20	25804	Accounting - T. Cheng	\$347.79	Y	
21	25821	MIS - H. Saunders	\$2,500.00	Y	
22	25838	MIS - H. Saunders	\$849.99	Y	
23	25855	Accounting - T. Cheng	\$100.00	Y	
24	25872	Human Resources - T Smith	\$767.00	Y	
25	25889	Accounting - T. Cheng	\$1,000.00	Y	
26	25906	MIS - H. Saunders	\$1,995.00	Y	
27	25923	MIS - H. Saunders	\$47.50	Y	
28	25940	Human Resources - T Smith	\$1,250.00	Y	
29	25957	MIS - H. Saunders	\$179.00	Y	
30	25974	Accounting - T. Cheng	\$2,326.65	Y	

Testing Successful?

**Sarbanes-Oxley Act  
404 Compliance**

**Section 4 – Conclusion**



