



# Sarbanes-Oxley Act of 2002

*Sample Questions for General Compliance, Fraud Detection & Monitoring, and 404 Internal Control Implementation & Assessment*

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# Sample of Anonymous Fraud Questions Using ComplianceSight®

## 15 Categories of Organizational Fraud<sup>1</sup>

### **Bribery / Illegal Gratuities / Economic Extortion**

1. Are you aware of any situation where a review of the number of vendors was limited in order to have one vendor surface as the winner? If yes, please comment.
2. Are you aware of any employee receiving kickbacks? If yes, please comment.
3. Are you aware of a vendor charging the Company higher prices than normal? If yes, please comment.
4. Are you aware of any phony invoices from a vendor that were processed by an employee? If yes, please comment.
5. Are you aware of any situation where an employee purchased more inventory or services than the Company needed? If yes, please comment.
6. Are you aware of an employee purchasing poor quality inventory or services that lead to additional purchases or rework, respectively? If yes, please comment.

### **Conflict of Interest**

7. Are you aware of any undisclosed economic or personal interest that an employee, manager, or executive may have in a transaction, that may adversely affect the Company? If yes, please comment.
8. Are you aware of any personal employee relationship with a vendor that supplies goods or services to the Company, where that relationship may have affected a transaction with the Company? If yes, please comment.

### **Other Fraud Categories Covered by ComplianceSight Fraud Detection:**

**Fictitious Revenues / Revenue Timing Differences**

**Understated Liabilities and Expenses**

**Overstated Assets / Valuation**

**Improper Disclosures**

**Non-Financial Fraudulent Statements**

**Cash Larceny<sup>2</sup>**

**Skimming<sup>3</sup>**

**Inventory Misuse/Larceny**

**Billing Schemes**

**Payroll Schemes**

**Expense Reimbursement Schemes**

**Check Tampering**

**Register Disbursements**

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<sup>1</sup> *Proactively Detecting Occupational Fraud Using Computer Audit Reports*, By: Richard B. Lanza, CPA, PMP, Foreword By: Joseph T. Wells, CFE, CPA, Founder and Chairman, Association of Certified Fraud Examiners

<sup>2</sup> Cash larceny is the taking away of an employer's cash without both the employer's consent and will. Cash larceny differs from other schemes where cash is taken, such as skimming, in that the sale is recorded on the company's books.

<sup>3</sup> The removal of cash from the company prior to the recording of that cash into the Company's accounting system.

## Sample of 404 Assessment Questions Using ComplianceSight®

Assessments in this area are in three major categories:

1. Evaluation of Internal Controls at the Entity Level;
2. Evaluation of Internal Controls at the Process, Transaction, and/or Application Level; and
3. Evaluation of the Overall Effectiveness, Areas in need of Improvement, and the Establishment of Monitoring Systems

### 1. Evaluate Internal Controls at the Entity Level (i.e., at each major company entity)

#### 1.1. Evaluate the Entity's Control Environment

##### 1.1.1. Evaluate entity's integrity, ethical values, and behavior of top management

- 1.1.1.1. My <entity>'s top management has been proactive in communicating the ethical and behavioral standards expected.
- 1.1.1.2. My <entity>'s top management has been proactive in removing or reducing incentives and temptations that might prompt personnel to engage in dishonest, illegal, or unethical acts.

##### 1.1.2. Evaluate entity's management's control consciousness and operating style

- 1.1.2.1. My <entity>'s top management is proactive in establishing, communicating, and monitoring policies and procedures.
- 1.1.2.2. My <entity>'s top management places a strong importance on good internal controls.

##### 1.1.3. Evaluate the entity's commitment to competence

- 1.1.3.1. My <entity>'s top management demonstrates a commitment to staffing key roles with competent personnel.
- 1.1.3.2. My <entity>'s top management places a strong importance on job skill and knowledge development.

Other Question Areas (continued):

- 1.1.4. Evaluate organizational structure and assignment of authority and responsibility
- 1.1.5. Evaluate HR policies and procedures in place

- 1.2. Evaluate Entity Risks
  - 1.3. Evaluate Entity Information and Communication
  - 1.4. Evaluate Entity Control Activities (i.e., policies and procedures that help ensure that management's directives are carried out)
  - 1.5. Evaluate Entity's Monitoring of Internal Controls
  - 1.6. Assess the Public Company Overall
2. Evaluate Internal Controls at the Process, Transaction, and/or Application Level
    - 2.1. Define Significant Accounts, or Groups of Accounts.
    - 2.2. Identify and Evaluate Routine Transactions
    - 2.3. Identify and Evaluate Non- Routine Transactions
    - 2.4. Identify and Evaluate Estimation Transactions
    - 2.5. Evaluate the documentation regarding the flow of transactions
    - 2.6. Evaluate the Financial Reporting Process
    - 2.7. Evaluate Policies and Procedures regarding: Authorization; Safeguarding of Assets; Asset Accountability; and Segregation of Duties.
    - 2.8. Evaluate the Effects of IT on Application Controls and General Controls
3. Evaluate Overall Effectiveness, Areas for Improvement, and Establish Monitoring Systems
    - 3.1. Evaluate Overall Effectiveness
    - 3.2. Identify Matters for Improvement
    - 3.3. Evaluate the mechanisms used to continually monitor or correct internal controls

**Sources:**

The Committee of Sponsoring Organizations of the Treadway Commission (COSO)  
Publication: *Internal Control – Integrated Framework*;

Statement on Auditing Standards (SAS) No. 55  
Publication: *Consideration of Internal Control in a Financial Statement Audit*,  
as amended by SAS 78 and SAS 94;

Ernst & Young  
Publication: *Preparing for Internal Control Reporting*  
*A guide for Management's Assessment under Section 404 of the Sarbane-Oxley Act*

# Sample of General Sarbanes-Oxley Compliance Questions Using ComplianceSight®

## Five Categories of Organizational Assessment:

1. Auditor Independence
2. Corporate Governance and Responsibility
3. Company and Management Disclosure
4. Analyst Conflicts of Interest
5. General Organizational Assessments

### 1. Auditor Independence

#### 1.1. Non-Audit Services

- 1.1.1. Does the Company's Audit firm provide bookkeeping or other services related to the accounting records or financial statements of the Company?
- 1.1.2. Does the Company's Audit firm provide financial information systems design and implementation?
- 1.1.3. Does the Company's Audit firm provide appraisal or valuation services, fairness opinions, or contribution-in-kind reports?
- 1.1.4. Does the Company's Audit firm provide actuarial services?
- 1.1.5. Does the Company's Audit firm provide internal audit outsourcing services?
- 1.1.6. Does the Company's Audit firm provide management or human resource related services?
- 1.1.7. Does the Company's Audit firm provide broker/dealer; investment advisor; or investment-banking services?
- 1.1.8. Does the Company's Audit firm provide legal services and/or expert services unrelated to the Company's audit?
- 1.1.9. Does the Company's Audit firm provide any other services, not previously defined in this assessment, that are now considered impermissible by the Public Company Accounting Oversight Board, by regulation?

#### Other Areas of Questions:

- 1.2. Audit Committee Pre-Approval of Audit and Non-Audit Services
- 1.3. Audit Partner Rotation
- 1.4. Report(s) to Audit Committee
- 1.5. Cooling Off Period

### 2. Corporate Governance and Responsibility

- 2.1. Audit Committees
- 2.2. Certification of Financial Statements
- 2.3. Insider Trades During Black-out Periods
- 2.4. Attorney Professional Responsibility

3. **Company and Management Disclosure**
  - 3.1. **General Disclosures**
  - 3.2. **Disclosures in Periodic Reports - Pro Forma Disclosures**
  - 3.3. **Disclosures in Periodic Reports - Special Purpose Entities**
  - 3.4. **Loans to Officers and Directors**
  - 3.5. **Insider Transactions**
  - 3.6. **Management Assessment of Internal Controls**
  - 3.7. **Financial Officer Code of Ethics**
  - 3.8. **Audit Committee Financial Expert**
4. **Analyst Conflicts of Interest**
5. **General Organizational Questions**

**Sources:**

*Sarbanes-Oxley Act of 2002 – Law and Explanation*, James Hamilton, J.D., LL.M. and Ted Trautmann, J.D, © 2002, CCH Inc., ISBN: 0-8080-0840-4;

<http://www.sarbanes-oxley.com/index.php>;

<http://www.pcaob-online.com/>

CommerceOne, Inc. and its Sr. Financial Staff;

Headwater, Inc. and its Sr. Financial Staff;

PeopleView, Inc. and its Board of Directors;

And

Various Legal and Accounting Experts too numerous to mention;