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Procurement Process and the Sarbanes-Oxley Act

May, 2005



EXECUTIVE SUMMARY

Public companies are spending a great deal of time and effort to comply with the Sarbanes-Oxley Act of 2002 (SOA). The measuring stick as to whether a company meets the standards of SOA is determined by the effectiveness of the design of and compliance to its internal processes. These internal processes include control activities used to ensure the reliability of the financial reporting and disclosure.

Expenditures are a key element to managing financial risk, and spend management is an important ingredient to effective internal controls within the procurement process.

SiteStuff, Inc. (SiteStuff) is a Procurement company that offers web-enabled technology services for managing repetitive operating expenses for commercial Real Estate clients. Key service offerings include: bid management for building maintenance contracts, product ordering and order status, electronic invoicing and large project procurement services.

The SiteStuff service application suite provides a valuable procurement solution for property managers and contains:

- Custom Request for proposal (RFP) templates and flexible bidding tools
- Extensive product catalog
- Comprehensive spend management reports
- Market validation reporting
- Consolidated and electronic invoicing

The SiteStuff service application suite offers its clients the opportunity to efficiently implement or enhance their existing procurement control environment.

David Powell of Texas, LLC (DPT) is an Austin, Texas-based consulting firm that provides internal audit services for SOA compliance to numerous publicly traded companies. DPT has identified typical control objectives, control activities, and risk of non-compliance around the internal controls of the procurement process.

SiteStuff employed DPT to evaluate their procurement service application suite to assess impact of SOA. This paper provides the results of the study with detailed identification of processes that align with SOA control activities. Our conclusion is that key features of the SiteStuff service application suite may enhance the procurement process and support compliance with Sarbanes-Oxley.



SUMMARY AND KEY POINTS OF SARBANES-OXLEY

The Sarbanes-Oxley Act (SOA) was passed by Congress in July 2002 in response to various issues, including corporate mismanagement and inaccuracies in public reporting. The SOA requires public companies to demonstrate that they have effective internal processes surrounding financial controls, reporting and disclosure, in addition to addressing several other subject areas. The primary objective of the SOA is “to protect investors by improving the accuracy and reliability of corporate disclosures made pursuant to the securities laws” (Sarbanes-Oxley Forum).

One area of focus addresses the effectiveness of the design and operation of a company’s internal controls. An example of an ineffective design may be the lack of documented policies and procedures, making it difficult to ensure the proper oversight and enforcement of the internal control. The operation of the internal control may be ineffective by virtue of the employees not consistently following formal procedures (e.g., obtaining approvals that are in the policy).

Clearly, key elements in a company’s internal control structure are the controls surrounding its computer systems and computer applications that play a significant role in the accounting process. SOA requires companies to assess these controls to ensure that they can be relied upon. Additionally, external auditors are now required to audit IT general computer controls and application-specific controls, certifying that they are functioning appropriately.

Section 404 of the SOA requires publicly traded companies to disclose in their public filings with the Securities and Exchange Commission the effectiveness of their internal controls, as well as material weaknesses in their internal controls, if any exist. As a result, this legislation has created a major corporate effort to review and where necessary, implement policies and procedures relating to internal controls, test the effectiveness of these controls, and remediate any issues that are discovered. Section 404 has resulted in the expenditure of significant internal resources as well as money for external consultants and auditors to comply with the necessary provisions.

The CEO and CFO of public companies are now held accountable for the effectiveness of the internal controls of their company. Section 302 of SOA requires these executives to certify on a quarterly basis the accuracy of their financial reports and the adequacy of their internal controls. Additionally, Section 906 requires executives to certify that certain filings (including all quarterly and annual reports) comply with the disclosure requirements and accurately report the company’s financial condition and operation results.



As reported in the April 12th edition of Compliance Week, in March 2005, 116 companies disclosed material weaknesses within their internal controls. **Of these material weaknesses, seventy percent (70%) related to the financial close, account reconciliation, or inventory process areas.**

PROCUREMENT REQUIREMENTS OF SARBANES-OXLEY

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) set forth a common framework for enterprise risk management. It is within this framework that internal control objectives and control activities are defined at a high level. These controls are then further defined and reviewed by external auditors of public companies.

As you would expect, expenditures are a key risk area to the financial health of a company. A large part of expenses are controlled and managed through the procurement process. The control activities for these business processes are typically reviewed within the procurement process area and include the following sub-process areas:

- Purchase Orders
- Receipt of Goods
- Invoicing Processing
- Payments
- Adjustments

Some common controls over the procurement process are related to spending level approvals, proper recording of purchasing and invoice information, and segregation of duties among procurement personnel. Section 404 of SOA requires that control activities be tested by management and external auditors.

The elements of Section 404 of the SOA focus on how well the internal controls of a public company are designed, documented, and then executed. The framework for internal controls is defined by control objectives, control activities, and risks. These are defined below.

Control objectives: The internal processes that provide reasonable assurance of the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations.

Control activities: The company-specific internal control processes that satisfy the control objectives and address the risks posed if the control objectives are not met.

Risks: The negative consequences surrounding financial reporting and disclosure of not consistently adhering to the internal control activities.



Examples of typical control objectives, typical control activities and the risks associated within each of these business sub-process areas are listed below.

| Procurement Function | SOA Control Objective | SOA Control Activity | Risk of Non-compliance |
|------------------------|---|---|---|
| Purchase Orders | PO transactions are reviewed and approved. | Proper competitive bidding procedures are performed when required by the policy of the company or by federal requirements. Approved vendors are utilized. Procedures identify the parameters for selection of approved vendors to avoid the use of too many vendors for the same product or service. | Purchasing of products and services occurs with improper oversight resulting in issues with spend management, unethical or non-existent bidding, or regulatory requirements. |
| Goods Receipts | Goods received are in the same quantity and quality as goods ordered through the P.O. | All goods received are matched to an open purchase order and subsequent invoice and management reviews any exception. | Goods received do not match the quantity or quality of goods ordered. Goods received are improperly recorded or not recorded at all which can cause matching and tracking issues between PO's, invoices and receipt of goods. |
| Invoicing | Invoices appropriately reflect goods or services purchased and are accurately input for processing. | Preconfigured customer options ensure vendors, quantities, price, extensions, footings, payment terms (including available discounts), supplier name and code, PO reference and accuracy of the account distribution are consistent between the invoice and PO. | Inconsistent invoice processing can lead to paying incorrect amounts, overdue payments and unmatched documentation. |
| Payments | Disbursement is made to the correct payee and for authorized amounts. | Items selected for payment are approved and payees name and address are automatically pulled from the customer approved vendor master file. | Amounts can be disbursed to incorrect payees or incorrect amounts can be disbursed or additional reconciliation efforts can result. |
| Adjustments | Credits for returned goods, allowances, and other adjustments are correct and properly recorded. | Supplier statements are reviewed for past due items and open credits in order to ensure accurate and timely resolution and subsequent processing. | Inconsistent, incorrect and untimely recording of adjustments can create errors and record keeping challenges. |

Procurement controls that comply with Section 404 require that internal controls address how companies track and manage their spending with third-party suppliers of products and services. Companies expend significant effort to ensure that adequate controls exist around procurement activities. Companies may choose specialized software to streamline this process.



SITESTUFF PROCUREMENT SERVICES AND SARBANES-OXLEY

SiteStuff was incorporated in 1999 and provides procurement services to a committed client base. Utilizing web-enabled technology, SiteStuff's capabilities include bid management for building maintenance contracts, an electronic catalog of key maintenance products, purchase order processing, order status, electronic invoicing, and financial settlement tasks. The SiteStuff mission is to provide quantifiable value to its client partners through cost savings, time savings and process efficiencies. Principal service offerings are listed below.

Bid Management Platform (See Appendix A)

A web-based Request for Proposal (RFP) tool is provided to streamline the creation, distribution, review and awarding of property-related service contracts, from landscaping and security services, to HVAC maintenance and water management.

Product Sourcing (See Appendix B)

An online product catalog is provided for routine purchases of maintenance, repair and operating (MRO) products, and a "walk-up" solution is available for mobile technicians and emergency/spot purchases. All of the clients' buying power is aggregated to negotiate competitive national contracts that deliver significant cost savings to clients. SiteStuff may also assist clients with large capital or project based purchasing for lighting, HVAC equipment, multi-site construction and tenant improvement purchases.

Information Management

SiteStuff provides each client with in-depth corporate spend reporting. Information regarding detailed purchasing and bidding activity, as well as savings analyses are completed by SiteStuff on a local, regional or national basis. SiteStuff may also export spend and invoice information via electronic file based on the need of the client, providing full insight into spend management.

The SiteStuff business model is focused on managing repetitive facility expenses (MRO products and services) for its clients. This requires an execution of best practice relationships with manufacturers, distributors, service providers, and contractors. With regard to its clients, SiteStuff's mission is to provide property managers with an online offering that is cost-efficient, effective and simple to use. Real estate companies often have decentralized purchasing by location and the property managers may have limited tools for managing their spend. SiteStuff is able to service the common needs of large real estate locations and their recurring purchasing needs.

The SiteStuff Bid Management Platform provides property managers with RFP templates, bidding tools and tracking capabilities. Property managers have full access to configurable RFP templates that provide extensive criteria to build a comprehensive proposal for service providers. Additionally, the templates provide full insight into questions and answers for all service providers and the system generates an automated report of responses, thereby facilitating an efficient side-by-side comparison of bids submitted. By tracking bidding activity, clients can have full insight into who is being



selected to bid and who is being awarded service contracts from the management, market or property level. The Bid Management Platform provides the tools for a fair and ethical selection of service providers.

SiteStuff establishes relationships on the MRO product side by providing manufacturers and distributors access to an electronic marketplace that contains real estate customers with large-volume and consistent buying patterns. Typically, the factors that make a good fit between the manufacturers, distributors and SiteStuff are pricing, product selection, service levels, location and ability to deliver. SiteStuff monitors its manufacturer and distributor partners' performance through a scorecard of metrics. In many cases, contractors working for a SiteStuff client property can utilize the SiteStuff services to make purchases for the building, and the client is provided visibility into that spend. Common categories of products and services purchased by real estate companies include janitorial supplies, lighting, HVAC consumables, electrical, hardware tools and office products.

As mentioned, SiteStuff provides the property managers simple, flexible tools and options to conduct and track their bids, complete their purchases, and track their costs as needed. The web-based procurement software is preconfigured with client-specific options that help minimize the amount of data that needs to be manually keyed in. The proper configuration of these options typically lessens the number of mistakes at the time of ordering or bidding.

Some key options are listed below (* - *identifies action aligned with SOA control activity*):

Bid Management Platform

1. **RFP Templates** – Configurable templates are provided to clients with content that is specific to real estate service needs. Project specifications can be configured by simply selecting from a broad list of criteria (contract period, definition of service, insurance provisions, etc.). Clients can insert questions or select from an extensive list of standardized questions (rates, personnel, etc.) to be asked of the service provider, thus providing a more complete proposal. Clients may also host their own internal templates to comply with their internal policies.

** The breadth of template content provides specific value through consistency, resulting in standard practices and a greater potential for comparable bids.*

** Provides a solution for clients that require a competitive bidding process.*

2. **Attachments** – Additional documents such as client work specifications, floor plans, standard contract documentation, sample certificates of insurance, or any other relevant information can be attached to the proposal. This facilitates the inclusion of even more detailed requirements, which in turn could lead to a more precise bid response.



3. Contractor Database

a. Clients have control over which service providers receive their bid. Service providers not in the contractor database can be invited to the bidding process.

** Provides the flexibility for clients to create a fair and ethical bidding process.*

b. Service directory displays icons for Minority and Women owned businesses and/or client-specific preferred contractors.

** Provides clients the ability to abide by regulatory requirements or internal procedures regarding bidding.*

4. Negotiation and Awarding Bids – Bid negotiations are conducted and tracked on the SiteStuff application. Bids can be compared side-by-side (SiteStuff website compare feature) to evaluate the answers to the RFP questions in a standardized format. Negotiations are performed through the SiteStuff Bid Management Tool with the negotiation dialogue and comments kept online as a reference tool for future use. Property managers may then award the bid to a service provider and enter this award information within the Bid Management Tool for future tracking needs.

** A complete history, including negotiations and the awarding of the bid, is kept electronically for future reference by executive management or property managers. This provides historical evidence of internal control practices.*

Product Sourcing

1. Targeted Supply Chain – SiteStuff partners with only the best-in-breed manufacturers and distributors. As a result, clients only have access to quality providers. SiteStuff also proactively manages this supply chain to ensure that performance standards are met.

2. Configurable Shopping Lists – At the time the client account is established for a property, customized shopping lists can be created that are specific to that property.

** Selection of items from a property-specific list avoids purchasing incorrect items.*

3. Client-Specific Accounting Codes – Accounting codes can be assigned to each product defined in a shopping list. The cost of a single product can be split, based on percentages, across multiple accounting codes. Clients utilizing this option receive these pre-coded accounts on their invoices (coded by line item on the invoice and also as a pro-rated summary by G/L code at the bottom of the invoice). SiteStuff clients have the option to request a periodic export of invoice and account code information to a spreadsheet format.

** Preloading these codes reduces the potential for error at the time of order entry.*



** The optional flat file export feature provides a method for tracking and reviewing expenses before uploading to the client's accounting system.*

4. **Custom Catalog** – SiteStuff can create custom catalogs for clients, upon request.

** Limiting the selection of items from a client-specific catalog avoids purchasing incorrect items.*

5. **Workflow Approvals** – A hierarchy of three configurable approval levels is available for purchases of products at defined thresholds.

** This feature allows the client management to have oversight of the purchases before they are committed.*

** Segregation of duties is provided through this process by allowing for order approval by someone other than the individual entering the order.*

6. **Multiple Invoicing Options** – Clients are provided the option of receiving individual invoices or consolidated invoices. This can provide flexibility for clients to match the processing of invoices as it fits their payment process. Options include consolidated, individual (by order) or flat file. They can also elect to receive them electronically in pdf, electronically as a flat file, download them from the website or receive a hard copy via USPS.

** The optional flat file export feature provides a method for tracking and reviewing expenses before uploading to the client's accounting system.*

7. **Credit Card Processing** – Clients have the option of paying for their purchases by credit card, in addition to the standard on account purchasing.

Information Management

1. **Dashboard Summary report (SiteStuff website)** - Shows the following information to client management (by timeframe, region and location/property):

- a. Purchasing activity stated as total dollars and as an amount per square foot
- b. Number of orders
- c. RFP's that were sent and awarded

** Provides client management the ability to track requirements for fair and ethical bidding policies.*



2. Comparative Timeframe Spend Report (SiteStuff website) – Compares procurement activity for two client-selected timeframes. Shows the following to client management (by timeframes, region, property type and location/property):

- a. Purchasing activity stated as total dollars and as an amount per square foot
- b. Location/Property purchasing activity by category
- c. Spend variance between the two time periods with drill down to property level detail.

** Provides clients the ability to track variances of time-driven spend activity within categories. Clients can compare PSF (Per Square Foot) costs between their properties that could potentially identify spending efficiencies and inefficiencies.*

3. Bid Management Category Activity Report (SiteStuff website) - Shows the following to client management (by timeframe, client, and category):

- a. Contracts awarded and value of contracts (annual and total contract value)
- b. Number of service providers invited to respond to an RFP
- c. Number of bids received
- d. Average contract length (years)

** Client evaluates whether internal bidding policy and procedures are followed, by service category.*

4. Bid Management Activity Report (SiteStuff website) – Shows client management similar information as the Bid Management Category Activity report but summarized to the client level.

** Client evaluates bid information at a company level and determines if spending and bids are appropriate for the timeframe reviewed. Provides additional oversight of the process.*

5. Order Trend Report (SiteStuff website) - Provided visibility into purchasing activity for a specified timeframe, either by client general ledger account code, SiteStuff SKU or product category. This report provides transparency into specific products ordered and the quantity of each. At a client or regional level, this report may be used to identify areas where standardizing to specific products across a portfolio would further increase cost savings and/or quality. At a property level, this report provides a tool to create budgets from historical activity on a line item basis, and to complete variance analyses when comparing budget to actual expenditures.



** Provides client management with insight into spend at a detailed product level. This reporting feature allows clients to track and manage their product level spend and identify potential variances within their budget.*

Market Validation

Throughout the year, SiteStuff performs multiple pricing analyses for existing and potential clients that compare its product pricing to other suppliers in the marketplace. These analyses are designed to ensure that SiteStuff is competitive and can provide the client evidence of continued savings as well as value by utilizing its services. Some components from the 2004 studies are listed below:

- 17 pricing analyses completed
- 11 management companies, representing nearly 100 properties
- 2000 unique products of which 710 accounted for 60% of sales

An aggregate report of this pricing analysis is published annually and the 2004 study showed that on a weighted average, properties realized a 7.4% savings.

** This study provides a benchmark report for clients to use as evidence that by utilizing the SiteStuff offering, they are effectively managing their spend against external benchmark pricing metrics.*

Additional services 'On the Horizon'

New features to the SiteStuff service application suite are being developed with an expected delivery date in 2005. These features will enhance the ability to track specific client documents and provide a more robust spend management reporting portfolio for clients. These new features are listed below:

- **Bid Management Platform**
 - Auto-attachment of client documents to an RFP. Client-standard documents such as Terms and Conditions, Sample Certificate of Insurance, and Standard Contract documentation would be automatically attached to a clients' RFP each time one is created.
 - RFP template editor enhancements will reduce the time required for SiteStuff to create customized bidding templates and facilitate the engagement of more complex contracts.
 - Additional RFP Questions/Property Information will enhance information collected through the RFP process such as the total contract value versus the yearly amounts, budgetary information, the incumbent provider, properties involved in group bids, contract terms, etc. This information will facilitate improved reporting.

Future Enhancement Considerations

Future enhancements will be scoped and developed by SiteStuff, as a result of client discussions on desired application features.



SUMMARY

Sarbanes-Oxley compliance requires a great effort by all public companies – large and small. SOA is still in its infancy and companies will need to continuously adapt and refine their internal controls through each review cycle. Both the procurement and spend management processes will be key focal points of these reviews. Procurement processes that are well documented and operate effectively and efficiently will reduce the exposure to risk and improve the financial health of the company.

SiteStuff provides procurement service applications that can facilitate the procurement process for companies. Key features of the SiteStuff service application suite provide the capabilities for companies to support or enhance their procurement efforts to comply with Sarbanes-Oxley. To summarize, the key controls that the SiteStuff service application suite aligns with are:

Bid Management Platform

The breadth of template content provides specific value through consistency, resulting in standard practices and a greater potential for comparable bids.

Provides a solution for clients that require a competitive bidding process.

Provides the flexibility for clients to create a fair and ethical bidding process.

Provides clients the ability to abide by regulatory requirements or internal procedures regarding bidding.

Provides a complete electronically hosted history, including negotiations and the awarding of bids, for future reference by executive management or property managers. This provides historical evidence of internal control practices.

Product Sourcing

Using client-specific lists for selection of items minimizes incorrect purchasing.

Pre-loaded accounting codes reduce the potential for error at the time of order entry.

The optional flat file export feature provides a method for tracking and reviewing expenses before uploading to the client's accounting system.

Workflow feature allows client management to have oversight of the purchases before they are committed.

Segregation of duties provided through the workflow process allows for order approval by someone other than the individual entering the order.



Information Management

The Dashboard Summary Report provides client management the ability to track requirements for fair and ethical bidding policies.

The Comparative Timeframe Spend Report provides clients the ability to track variances of time-driven spend activity within categories. Clients can compare Per Square Foot (PSF) costs between their properties and potentially identify spending efficiencies and inefficiencies.

The Bid Management Category Activity Report allows the client to evaluate whether internal bidding policy and procedures are followed, by service category.

The Bid Management Activity Report allows the client to evaluate bid information at a company level and determine if spend and bids are appropriate for the timeframe reviewed and also provides additional oversight of the process.

The Order Trend report allows client management insight into spend at a detailed product level. This reporting feature allows clients to track and manage their product level spend and potential variances within their budget.

Market Validation

This study provides a benchmark report for clients to use as evidence that by utilizing the SiteStuff offering, they are effectively managing their spend against external benchmark pricing metrics.

FLOWCHARTS OF SITESTUFF MRO PROCESSES AND CONTROLS

The flowcharts on the following pages represent the process flow of the key services provided by SiteStuff (Appendix A – Bid Management Platform, Appendix B – Product Sourcing) and typical SOA controls.



About David Powell of Texas, LLC

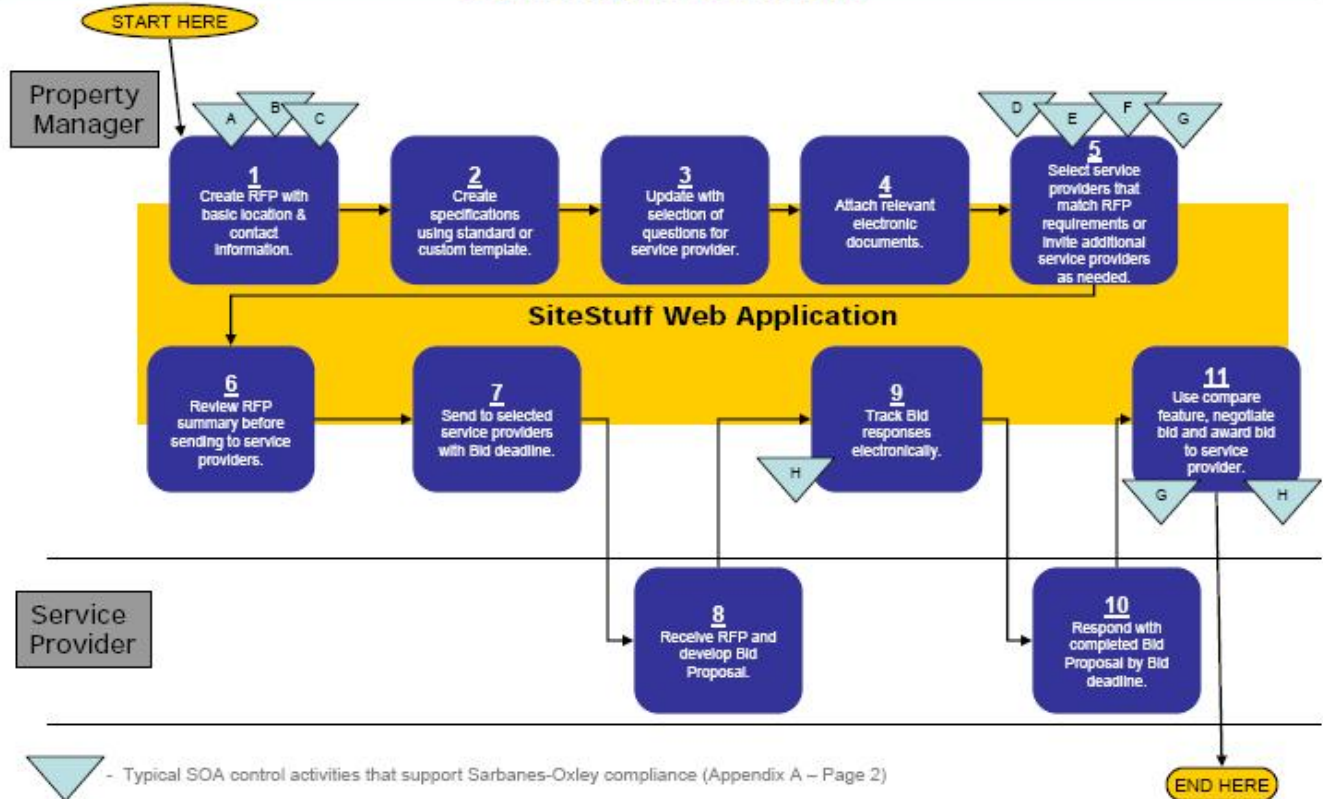
David Powell of Texas, LLC (DPT) is a professional services firm based in Austin, Texas, and has been serving numerous clients since 1999. A sister company, David Powell, Inc., has been serving clients in Silicon Valley for over 20 years. DPT has over 40 professionals in Austin currently serving clients ranging from early-stage venture-back companies to large public companies. DPT has been assisting companies to comply with the Sarbanes-Oxley Act (SOA) in both the financial and information technology (IT) processes and controls. Experience of the SOA engagement professionals include a former Big 4 audit partner, a former Dell, Inc., senior internal audit consultant and a Fortune 500 company IT Manager. DPT has managed the SOA internal audit engagements for multiple publicly traded companies across a variety of industries. DPT has considerable expertise in compliance matters including methodologies and programs for assisting our clients in their SOA compliance.

The descriptions and process workflows of the SiteStuff Product Sourcing and Bid Management Platform were obtained by DPT personnel through demonstrations of the SiteStuff products and interviews with SiteStuff employees. DPT does not represent that the SOA controls identified will be functioning in all SiteStuff Customer situations. Rather, the SiteStuff tools allow the Customers to easily implement these controls in their processes. The SiteStuff Customers will need to design the appropriate internal processes to ensure the proper control design.

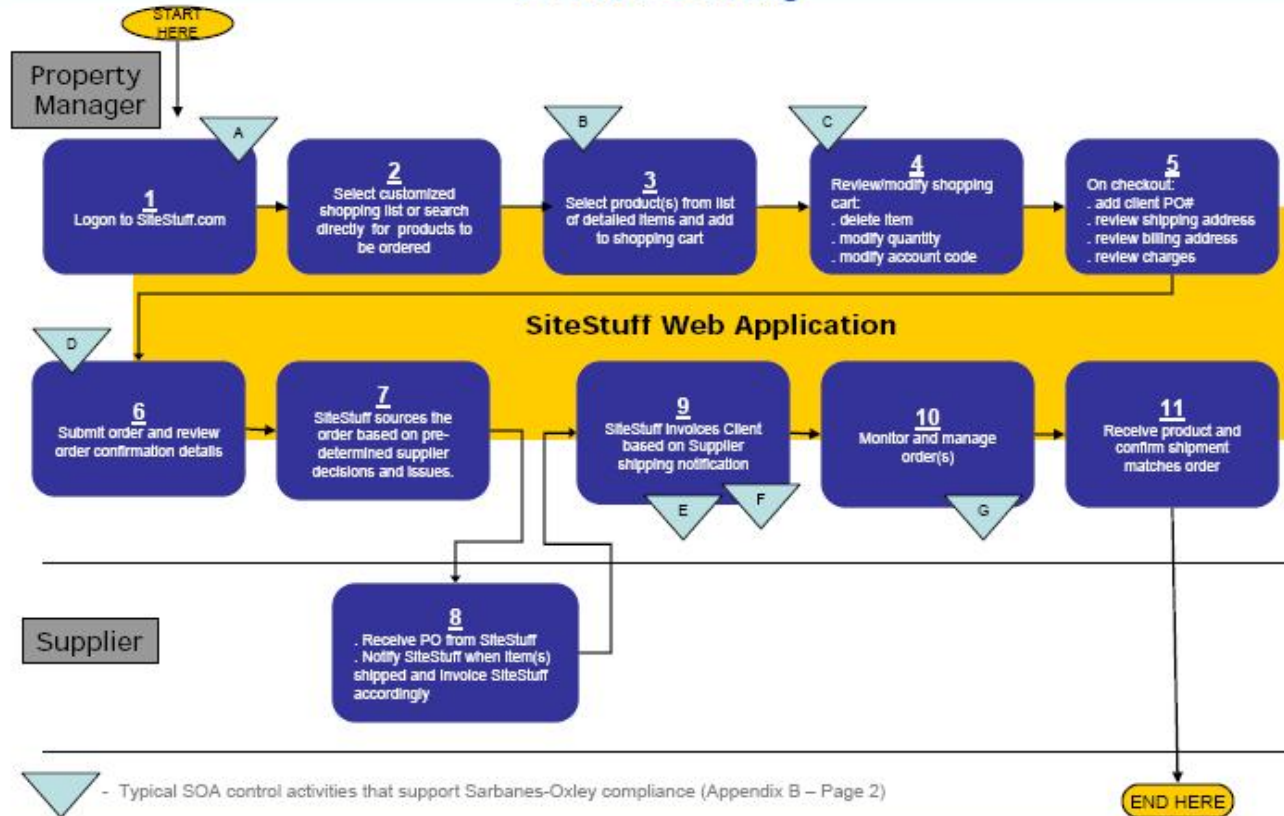
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Appendix A Bid Management Platform



Appendix B Product Sourcing



B.1

David Powell of Texas



Appendix B (cont)

Product Sourcing – Internal Controls Addressing Sarbanes-Oxley

- A** Formal authorization is required for access to the SiteStuff application.
- B** Orders have fields for all pertinent commitment information including: item descriptions, quantities, price, delivery requirements, freight terms, taxes, payment terms and account distribution.
- C** Key data fields must be populated to process an order. These fields generally are: ship to address, supplier, buyer, item catalog and unit of measure. Any entries with invalid, missing or incomplete information are rejected.
- D** Approval limits can be configured within the application, which allows authorized users to approve orders before it is released and within the approved spending limits.
- E** Standard reports are created for differences between items ordered and items shipped. Reports are reviewed and all incorrect items are researched, and corrected on a timely basis.
- F** Duplicate invoice numbers are not permitted. Incorrect entry of price, quantity, amounts, supplier, or customer account codes is prevented.
- G** Open orders can be reviewed and follow up occurs on orders over 30 days old.

