Managing Governance, Risk and Compliance with Enterprise Content Management

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By William M. Sinnett

Purpose
This report describes Enterprise Content Management (ECM) technology and how it can enable and facilitate corporate governance, risk and compliance processes. This FERF Research Series report is being sponsored by Hyland Software, Inc.

Executive Summary

U.S. companies have been subjected to an ever-increasing amount of regulation in the past five years, and the Sarbanes-Oxley Act of 2002, which applies to all U.S. publicly traded companies, is perhaps chief among these new regulations. Regulatory compliance has always been included in the cost of doing business. However, companies must find new tools and technologies to facilitate the compliance process and to then enhance the cost effectiveness and efficiency of their compliance. "Sarbanes-Oxley Section 404 Compliance: From Project to Sustainability" (FERF: November 2005) documents some of these efforts. Companies are looking for solutions to help them comply with regulatory requirements to make these requirements less burdensome. Additionally, these solutions should have the flexibility to integrate with legacy or future line-of-business systems.

Companies are actively looking for tools to help reduce the burden of regulatory compliance, and Enterprise Content Management (ECM) provides a potential solution.

ECM is defined by the Association for Information and Image Management (AIIM) (www.aiim.org) as "the tools and technologies used to capture, manage, store, preserve, and deliver content and documents related to organizational processes." Over the past 10 years, a number of vendors have developed software for various aspects of ECM. Ideally, this software should be capable of imaging, storing and retrieving documents to improve, standardize and automate day-to-day business processes for increased efficiencies, and should be able to standardize these procedures to ensure adherence with the compliance requirements of an ever-increasing number of regulations. Also, ECM software should be able to interface with any existing Enterprise Resource Planning (ERP) software so that it can be used without leaving the ERP system.

This Issue Alert reviews three types of ECM software components that address three areas of compliance:

- Front-end compliance project management,
- Day-to-day business process improvement and automation, and
- Back-end document retention and archiving.

Introduction

Enterprise Content Management (ECM) is defined by AIIM as:

"The tools and technologies used to capture, manage, store, preserve, and deliver content and documents related to organizational processes. ECM enables four key business drivers: continuity, collaboration, compliance, and costs."

According to AIIM, "90% of the information that organizations must manage today is unstructured, information that is not organized in the rows and columns of a traditional database." (John F. Mancini, *The Emperor's New Clothes: The Current State of Information Management Compliance*, AIIM, 2004) This unstructured information is integral to most business processes, which cannot be improved until the information is standardized, digitized and managed.

AIIM discusses how ECM enables the four key business drivers in a Web article titled "What is ECM?" (http://www.aiim.org/article-aiim.asp?ID=31521)

Continuity
Business continuity planning is a strategy for ensuring that operations continue in the event of any disruption, natural or man-made. ECM technologies allow the creation of centralized repositories where vital corporate information can reside.

Collaboration
Collaboration is the art of working together. With today's collaborative tools, business units and teams can work together anytime and in any place.

Compliance
Complying with regulations should be viewed as an opportunity to improve common business practices, and not just an ongoing cost to the business. ECM tools, properly used, can help reduce the overall cost of compliance to the business.

Costs
The costs of not implementing ECM tools are too often left unmeasured until too late. While calculating a direct return on investment can be difficult, it is possible to see the impacts of the improved process efficiency on the business. ECM tools can make the organization more efficient and drive down the cost of doing business.

The New Regulatory Environment

Besides the Sarbanes-Oxley Act of 2002, there have been a growing number of regulations for publicly traded companies in the U.S. during the past five years. Here is a brief summary of some of the more prominent regulations:

The Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 was designed to protect shareholders and the public from accounting errors and fraudulent practices. Administered by the U.S. Securities and Exchange Commission (SEC), it sets deadlines for compliance and publishes a wide range of rules and requirements. The consequences for failing to comply with certain provisions range from fines to imprisonment. Several sections of the act illustrate the need for better document processing and retention:

Section 302 mandates that executives be held personally responsible for financial reports, requiring them to sign the documents.

Section 404 requires both the management of publicly held companies and outside auditor firms to report on the effectiveness of the company's internal controls.

Section 802 prohibits management from knowingly altering or destroying any documents related to a federal investigation or bankruptcy. In addition, the external auditors must retain audit paperwork for five years.

SEC Rule 17a-4

The SEC's books and records rules, Rule 17a-3 and Rule 17a-4 under the Securities Exchange Act of 1934, specify minimum requirements with respect to the records that broker-dealers must make, and how long those records and other documents relating to a broker-dealer's business must be kept.

Rule 17a-4 requires broker-dealers to store electronic records in a non-rewritable, non-erasable format and provides retention periods for those records. The rule became effective May 2, 2003.

HIPAA

The Health Information Portability and Accountability Act (HIPAA) protects "individually identifiable health information," which is any data identified by name, social security number, address or birth date, whether it is electronic, paper or oral. Effective April 2005, it requires best practices for assuring that electronic patient data is confidential, available as needed and maintained with integrity intact.

HIPAA affects all companies with employer-sponsored health plans and all healthcare providers that transmit patient information electronically for claims, benefit eligibility and referral authorizations.

Check 21
The Check Clearing for the 21st Century Act facilitates check truncation by creating a new negotiable instrument, called a substitute check, which would permit banks to truncate original checks, to process check information electronically, and to deliver substitute checks to banks that want to continue receiving paper checks.

Check 21 was signed into law on October 28, 2003, and became effective on October 28, 2004. It affects all banking institutions.

Graham-Leach-Bliley Act (Financial Services Modernization Act) of 1999
The Graham-Leach-Bliley Act created a new "financial holding company" under section 4 of the Bank Holding Company Act of 1956. Such a holding company can engage in a statutorily provided list of financial activities, including insurance and securities underwriting and agency activities, merchant banking and insurance company portfolio investment activities.

Enterprise Content Management Software

Over the past 10 years, a number of vendors have developed software for various aspects of ECM. Ideally, this software should image, store and retrieve documents to improve, standardize and automate day-to-day business processes for increased efficiencies, and it should standardize these procedures to ensure adherence with the compliance requirements of an ever-increasing number of regulations.

In a November 2005 white paper, titled "Magic Quadrant for Enterprise Content Management 2005," the Stamford, Conn. market-research firm Gartner notes that the ECM market "has continued its transition from a best-of-breed focus to more mature, fully integrated ECM suites."

Gartner defines today's ECM suites as encompassing the following core components:
- Document management for check-in/checkout, version control, security and library services for business documents;
- Records management for long-term archiving, automation of retention and compliance policies, and ensuring legal and regulatory record compliance;
- Document capture and document imaging for capturing and managing paper documents;
- Document-centric collaboration for document sharing and supporting project teams; and

- Workflow for supporting business processes, routing content, assigning work tasks and states, and creating audit trails.

("Magic Quadrant for Enterprise Content Management 2005" is available at: http://mediaproducts.gartner.com/reprints/hylandsoftware/131821.html

"Magic Quadrant for Enterprise Content Management 2006" will be available at this link in the near future: http://www.onbase.com/English/Products/OnBaseProductModules/Downloads.)

Complete suites of ECM software provide e-mail archiving, document retention, policy and procedure compliance and physical and electronic records management.

ECM Software Components

Because corporate governance, enterprise risk and regulatory compliance responsibilities permeate all business and financial processes, single function "niche" software solutions may not be appropriate. Instead, financial executives should look for complete suites of ECM software components that will provide a solid foundation for a strong corporate governance, risk and compliance (GRC) framework.

When evaluating ECM software, financial executives should consider at least three types of software components that are currently available.

Front-End Compliance Project Management

The front-end compliance project management component is used for specific projects, such as compliance with SOX Section 404, which requires the documentation and control of business and financial reporting processes.

For compliance with SOX 404, each critical business and financial reporting process should be assigned to a process owner, who is then given the responsibility to document that process and its related control for annual testing. This is an example of project management.

The front-end compliance project management component of ECM software should ensure proper documentation of controls, documentation review, control testing, gap tracking and report generation, and it should provide a collaborative environment for governance and risk assessment.

Specifically, the front-end compliance project management component should provide:
- Proper documentation of controls,
- Policy and procedure management,
- Audit testing,
- Investigation management,
- Issue tracking,
- Incident management,
- Electronic work papers,
- Documentation generation, and
- Project organization.

The front-end compliance project management component will replace desk-top software applications such as spreadsheets and databases that have been used to organize and manage process documentation. This component should provide document and version control, so that documentation can be stored, updated, reviewed and disseminated. Ideally, the software will keep track of each individual who has reviewed and updated individual process documentation and when any changes were made.

Day-to-Day Business Process Improvement and Automation

After the business or financial reporting process has been documented, the process owner is challenged to improve that process for cost efficiency as well as internal control effectiveness.

The day-to-day business process improvement and automation component of ECM software should improve, standardize and automate business processes for increased efficiency across the enterprise, to ensure adherence with compliance requirements. These processes include the imaging, storage and workflow of documents. Additionally, ECM software should have the ability to integrate with legacy and future line-of-business systems.

Specifically, the day-to-day business process improvement and automation component should:

- Automate and strengthen processes,
- Automate and strengthen controls,
- Automate document review and approvals,
- Provide audit trails, and
- Provide legacy integration.

An example of process improvement and automation is the purchase-to-pay cycle. Purchase orders and invoices can be scanned, retained and routed to predetermined individuals for review and approval. The process-improvement component will keep track of who reviewed and approved each purchase order and invoice, and it will note the date and time that it was reviewed and approved. These same purchase orders and invoices can then be retrieved for inspection during the annual audit much quicker than paper documents.

The ECM process improvement component can be used for any business or financial reporting process, such as accounts receivable, accounts payable and exception management.

Back-End Document Retention and Archiving

The back-end document retention and archiving component should provide document and information retention for e-mails and other physical and electronic records and documents. Documents can be archived based on specific regulatory requirements.

Specifically, the back-end document-retention-and-archiving component should provide:
- Archiving and retrieval of e-mails and instant messaging,
- Physical and electronic records management,
- Data protection,
- Document security,
- Ease of document retrieval,
- Document tracking and version controls, and
- Automation of document retention.

The electronic imaging feature of the back-end document retention and archiving component allows for better document control. It is hard to control paper documents that can be lost or taken by unauthorized individuals and copied.

One of the primary benefits of the ECM back-end document retention and archiving component is that it can store documents for quick retrieval much better than a metal file cabinet. Other benefits are that it can also provide audit trails of who has retrieved and reviewed given documents, and it can restrict access to confidential documents, which is required for HIPAA compliance.

Conclusions

Enterprise Content Management (ECM) includes the tools and technologies used to capture, manage, store, preserve, and deliver content and documents related to organizational processes. ECM enables four key business drivers: continuity, collaboration, compliance, and costs.

Although companies must find new procedures and technologies to facilitate the regulatory compliance process, such technologies should be capable of integrating with legacy and future line-of-business systems. ECM is a potential solution. An ECM system should be capable of imaging, storing and retrieving documents to improve, standardize and automate day-to-day business processes for increased efficiencies. It should also standardize these procedures to ensure adherence with the compliance requirements of an ever-increasing number of regulations.

Because corporate governance, enterprise risk, and regulatory compliance responsibilities permeate all business and financial processes, single function "niche" software solutions may not be adequate. Instead, financial executives should look for complete suites of ECM software components that will provide a strong corporate governance, risk and compliance framework.

About the Author
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About the Project Sponsor, Hyland Software, Inc.
Hyland Software Inc., established in 1991, is the developer of OnBase, a rapidly deployable suite of enterprise content management (ECM) software applications. OnBase is a modular suite of ECM applications that includes document imaging, workflow, electronic document management, COLD/ERM, and records management. OnBase allows organizations to manage all digital content, including scanned paper documents, faxes, print streams, application files, electronic forms (E-forms), Web content, multi-media files and e-mails. OnBase is used by businesses and government agencies around the world to reduce the time and cost of performing important business functions and address the need for regulatory compliance through the management, control and sharing of digital content with employees, business partners, customers and other constituencies. For more information about OnBase please contact an OnBase Authorized Solution Provider or visit www.onbase.com .

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