

Staffing Industry REPORT[®]

FINANCIALS

Outsourcing in the Sarbanes-Oxley era

VMS providers undergo SAS 70 scrutiny

A bureaucratic-sounding accounting rule is putting a spotlight on staffing industry outsourcers – and costing them hundreds of thousands of dollars. But the targets of the latest regulatory initiative say it's good business and can help them become closer to their customers.

Companies that take over management of the staffing function as well as all the associated administrative processes for public corporations are, like their clients, required to meet certain financial accountability requirements of the Sarbanes-Oxley Act of 2002. Any time an outside service provider does work that could impact the financial bottom line of a public client, it must prove it has the proper systems controls in place.

That's where the Statement on Accounting Standards (SAS) 70 comes in. SAS 70 is an auditing principle developed by the American Institute of Certified Public Accountants for service providers and business process outsourcers. It prescribes a certain kind of audit, and SAS 70 compliance meets the Sarbanes threshold.

In the staffing industry the rule comes into play mainly with vendor management systems (VMS) or vendors on premises – companies that take over the entire corporate function of recruiting, staffing and procurement rather than just providing workers. Many have already been through double-barreled SAS 70 audits or are embarking on them.

One is Chimes Inc., the VMS subsidiary of **Computer Horizons Corp.** Chimes went through the SAS 70 process three years ago. Despite costing in the "six figures," President Barry Olson said undergoing two levels of SAS 70 audits was a good experience. "I believe it's made our business better – and taken costs out by doing this."

He said outside auditors looked at all departments within Chimes – sales, marketing, finance and human resources. In doing so, they identified areas where they could perform better. "The rigor that goes into this forced us to re-engineer processes and further develop software to ensure controls are in place," Olson said.

Taleo Corp. also is SAS 70-certified. While costly, the audits are necessary, said Virginia Gomez, director of product marketing. "Customers need to know that money going through Taleo is given to suppliers accurately," she said. "Customers are saying, I've got this \$10 million, \$20 million line item, and it needs be

accurately reported."

Taleo, formerly Recruitsoft Inc., added a VMS product when it bought White Amber Inc. in 2003. It does invoicing and billing within its software applications for contingent talent used by Fortune 500 companies. Gomez said the two SAS 70 audits – level two is more rigorous – covered the entire company, from HR to data storage. "It's a lot of work, but when you handle that much money it's a necessity," she said.

Hosting is key

The simple rule of thumb to determine when SAS 70 applies is whether "some aspect of your business is key to the financial statements" of your customer, said Mike Greene, a partner with Ernst & Young's technology and security risk services practice in Boston. For example, a law firm that provided some legal advice to a corporation probably wouldn't have to meet SAS 70 requirements. Neither would a staffing firm that supplies "warm bodies," he said.

But if the corporation handed over all its staffing functions to another business, then that company should see about getting the audit. "For a service provider who hosts a system off-site, outsourcing some important financial process for a public company, SAS applies," he said. He added that IT services companies that host applications or provide

Internet services are more commonly getting SAS 70 audits.

Greene said SAS 70 "certification" is becoming more important not only from a Sarbanes perspective but from a marketing one as well. "It's something [a company] can do as a market differentiator. It says something about quality." He added that many requests for proposals to vendors are specifying SAS 70 audits.

That can be a tough order for a small or midsize vendor doing business with a public company. "It can be their biggest line item," said Greene of the audits, which cost on average \$150,000 to \$250,000.

Another VMS provider that has been through the process is Beeline, owned by **MPS Group Inc.** Because the company itself is public, the preparation that MPS did for its own Sarbanes compliance paid off for Beeline. But Beeline's President Richard White said the SAS 70 audit wasn't simple. For example, Beeline brought in a consultant to look at the security of its computers.

White urged companies providing an outsourced service to be responsive to their customers and give them peace of mind. "It does add value, and it forces you to demonstrate key controls. It should be basic to how you do business," he said. ♦

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– Virginia Gomez, Taleo