IBM Workplace for Business Controls and Reporting lowers the cost of compliance

Overview

■ **The Challenge**
Sarbanes-Oxley compliance threatened to consume 5 to 10 percent of annual revenues at Cyanotech; lack of an automated controls management process made compliance with all regulatory requirements expensive

■ **Why IBM?**
IBM offers a cost-effective, comprehensive controls management platform

■ **The Solution**
IBM® Workplace™ for Business Controls and Reporting software running on an IBM @server® xSeries® system

■ **The Benefit**
The cost of Sarbanes-Oxley compliance has been reduced by half; comprehensive controls management platform can be extended to automate other compliance efforts; improved financial reporting results in better business transparency and more effective management

Harvesting the bounties of the sea usually refers to fresh fish or tasty crab, but Cyanotech fishes for riches on a smaller yet no less profitable scale. A world-leading supplier of high-value natural products derived from microalgae, Cyanotech has been farming microalgae on Hawaii's Big Island since the company was founded in 1983. Today, Cyanotech produces supplements and other products for humans and animals from the nutrient-rich catch, including BioAstin (an anti-inflammatory human antioxidant), NatuRose (an animal feed supplement), Spirulina Pacifica (a human dietary supplement) and phyco-biliproteins (florescent pigments for immunological diagnostics).

Based upon a deep understanding of the science of microalgae, Cyanotech

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has developed a number of patented processes for extracting nutrients from these organisms, including a cold seawater drying technique that helps retain the nutritional value during the drying process. In fact, the company's scientific advances in working with microalgae have helped Cyanotech stake its claim as a captain of the industry. "Because of our cold sea water drying process and other patented techniques, our products retain a very high level of nutrient content," explains Jeff Sakamoto, chief financial officer at Cyanotech. "What distinguishes us from the competition is the high quality of our products."

While Cyanotech has pioneered the science of microalgae, Sakamoto does not rush to tab his company as a high-tech innovator; in fact, he is careful to point out that as a small business, Cyanotech cannot afford unnecessary, expensive IT products. "While we are a high-science company, we are more medium-tech than high-tech," he says. "As a small company, we try to focus on the adoption of appropriate technologies that help us solve real business problems."

The high cost of compliance

As with many publicly traded companies, Cyanotech faced a real and daunting business challenge after Congress passed the Sarbanes-Oxley Act of 2002. While section 404 of Sarbanes-Oxley threatened high administrative costs to all public companies, the burden weighed heavier on small and medium-sized outfits like Cyanotech. "I agree with the intent of the legislation to increase investor confidence in the financial markets," explains Sakamoto. "But for a company of our size—with fewer than 100 employees and less than US$25 million in annual revenue—the encumbrances of Sarbanes-Oxley compliance, especially section 404, were more than a little frightening."

All totaled, Sakamoto concluded that the cost of complying with Sarbanes-Oxley could be in the neighborhood of 5 to 10 percent of annual revenue. "That figure comprises the cost of compiling and maintaining the documentation as well as the labor involved in the internal audit and review—and all of that has to be repeated on a quarterly basis," Sakamoto says.

Selecting an integrated compliance-support solution

Prior to Sarbanes-Oxley, Security and Exchange Commission reporting requirements were met using existing office productivity software, such as spreadsheets and word processing documents. "But those stand-alone tools do not allow you to accumulate, coordinate and view all of the internal controls and their impact on financial information in a single place," explains Sakamoto. "We needed an electronic

format that could be accessed from multiple points. The functional managers and executives in the company had to be able to create and revise the internal controls documentation interactively. And the internal and external auditors needed to be able to review the adequacy of those controls across the entire company."

Once Sakamoto made the decision to automate, he then set about comparing vendors and software packages. "We did a standard cost-benefit analysis," claims Sakamoto. "Initially we looked at about twelve packages and assessed six pretty closely. All of the vendors except IBM were selling products that addressed only Sarbanes-Oxley compliance—nothing more."

Ultimately, Sakamoto was swayed by the ability of IBM to deliver a solution to his total compliance problem, not just Sarbanes-Oxley. "IBM Workplace for Business Controls and Reporting is a portal that can be applied to any aspect of a business that requires records keeping and interactive process updates," says Sakamoto. "With IBM Workplace for Business Controls and Reporting, we can use one piece of software to control the documentation issues around Sarbanes-Oxley, ISO 9000 quality certification, Good Manufacturing Practice (GMP) regulations, Health Insurance Portability and Accountability Act (HIPAA) requirements and European Union and Asian registration efforts."
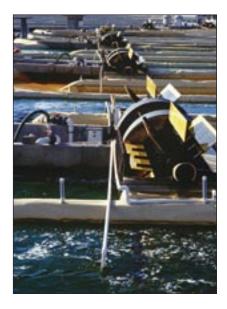
Sarbanes-Oxley compliance and beyond

Now that IBM Workplace for Business Controls and Reporting is installed, Cyanotech management believes that its compliance efforts are focused and moving ahead. "As a small company, we are required to comply with section 404 of Sarbanes-Oxley at the end of our fiscal year in March 2007. While that sounds far off, we're not sitting back and waiting to start the process," Sakamoto explains. "With IBM Workplace for Business Controls and Reporting, we expect to be fully functional with our upgraded compliance efforts by the end of 2005, and expect to have time to thoroughly test and audit our efforts." Plus, implementation and training as performed by IBM Software Services for Lotus (ISSL) enabled IBM to efficiently provide end-to-end support for Workplace for Business Controls and Reporting—further reducing the time to value for Cyanotech.

IBM Workplace for Business Controls and Reporting gives auditors a view into the financial data mandated by Sarbanes-Oxley. "Internal and external auditors will be able to use IBM Workplace for Business Controls and Reporting to easily review our controls on a random basis across our entire company," says Sakamoto. "They

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will be able to examine the history of each policy, how it started, if it changed, why it changed, when the changes were made, how the changes were approved by the management team and what the effect on internal controls has been. The efficiency of having all of this aggregated into a portal user interface can potentially lower our audit costs and increase our level of compliance."

Beyond Sarbanes-Oxley, Sakamoto sees the potential for IBM Workplace for Business Controls and Reporting to become the company's single portal for many regulatory and compliance efforts. "As a small company, we look for our IT investments to have multiple uses," explains Sakamoto. "With IBM Workplace for Business Controls and Reporting, we can have our entire team—technical production personnel, research and quality control scientists, accounting, sales and management—using one uniform portal. We don't have to retrain people on new software for different regulatory issues, and we don't have to purchase separate controls packages for Sarbanes-Oxley, ISO 9000, GMP and so on. With IBM Workplace for Business Controls and Reporting, we can deliver our reporting with one product using a uniform interface, which improves productivity and saves us money."

Heightened productivity and preservation of prior investment

Because IBM Workplace for Business Controls and Reporting integrates easily with existing software, it leverages prior technology investments and keeps employees working productively. "Our users can append files from other packages such as Microsoft® Visio® or Excel to the IBM Workplace for Business Controls and Reporting records," explains Sakamoto. "This means that there is less of a learning curve, so our employees can focus on the content of the documents and their job functions instead of converting their documentation to a new program."

Roles based access gives users exactly what they need

By enabling the Cyanotech IT department to set access privileges and limit user functions based on the role of the person accessing the portal, IBM Workplace for Business Controls and Reporting allows front-line employees to contribute documentation granularly and helps management assess and respond to compliance issues quickly. "Our front-line employees might want to review attached spreadsheets or Visio drawings. An operational manager might want to see his department as a whole or check to see if all areas are up to date. An external audit committee or an executive might want a high-level graphical view of the company to get a sense of overall com-

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pliance," Sakamoto explains. "IBM Workplace for Business Controls and Reporting allows us to implement those distinctions and functionalities, helping us present the right people with the right information."

In fact, by offering a number of graphical views of compliance data, IBM Workplace for Business Controls and Reporting not only makes it easier for management to grasp the status of compliance efforts, it also gives management a new and powerful tool to assess overall operational efficiency. "Easy-to-understand graphs generated by IBM Workplace for Business Controls and Reporting software provide a clear view of where we stand with our compliance issues, as well as how effective we are in our day-to-day management of operations across the company," says Sakamoto.

Compliance costs cut by half

The most visible benefit of IBM Workplace for Business Controls and Reporting is that it helps lower the cost of compliance with Sarbanes-Oxley regulations. "With IBM Workplace for Business Controls and Reporting, our Sarbanes-Oxley compliance efforts are going to cost us about 2 to 3 percent of our annual revenue," calculates Sakamoto. "Conservatively, that is a 50 percent reduction in our initial estimates of cost of compliance."

More transparency for better informed decisions

Aside from direct cost savings, IBM Workplace for Business Controls and Reporting delivers greater business transparency and exposes potential efficiency gains within a company, helping employees throughout the company make more informed decisions. "It's hard to use the words 'Sarbanes-Oxley' and 'business benefit' in the same sentence, but I will say this: the improved visibility is most beneficial within the company," Sakamoto says. "Having different levels of an organization see the processes in action and put question marks on things that have been taken for granted can't help but improve business decision making. Plus, it allows people within a company to see the logic behind the decision to follow a certain procedure. IBM Workplace for Business Controls and Reporting has the ability to improve communication and efficiency for any organization—not just those facing the burden of Sarbanes-Oxley compliance."

Perhaps the greatest benefit of IBM Workplace for Business Controls and Reporting is that it allows Cyanotech to continue to focus on the science of microalgae without the fear that Sarbanes-Oxley and other compliance efforts will present a very un-micro economic problem. "IBM Workplace for Business Controls and Reporting means our business can sail ahead without worrying that Sarbanes-Oxley will sink the ship," concludes Sakamoto.

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For more information

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For more information about the IBM Workplace Business Controls and Reporting Solution, visit www.lotus.com/products/product5.nsf/wdocs/bcghomepage

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