

**Case Study Title:** Cosmetics Manufacturer Reduces Compliance Costs/Maximizes Shareholder Value  
**SOX Compliance in the Cosmetics Manufacturing Industry**

---

**Situation Abstract:**

In the late third quarter of 2006, the recently appointed Controller for a small Southern-California based cosmetic manufacturer contacted Sox Solutions and requested urgent help in executing a full review of its Internal Controls over Financial Reporting and Internal Control infrastructure for all its business processes as well as Information Technology in line with the Sarbanes-Oxley Act ("SOX") of 2002 requirements. The company's management had recently filed an S-1 report with the U.S. Securities & Exchange Commission indicating its intent to become a publicly-traded organization in the NASDAQ Stock Exchange.

The company's Controller knew the company did not have the adequately trained internal resources to execute an ICFR assessment. Although the company's external auditor of record had executed a review of its financial statements in the past, it had never executed a review of ICFR and, as a result, the company did not have a baseline foundation upon which it could rely on to meet SOX's requirements. To complicate matters further, the company had not yet instituted an Internal Audit function within the organization.

At this point, the company's mission was clear: it wanted to send a clear message to potential investors that they should rely upon the company's financial statements and invest in the future growth of the company. The execution of a full review of its ICFR would help spur investor confidence and validate the company's mission to execute its business activities with full transparency, disclosure and integrity.

**The Challenges:**

The company faced a number of challenges that included:

- a) A limited compliance budget.
- b) An accelerated compliance execution calendar on account of its successful IPO.
- c) Limited or non-existent internal expertise and trained resources.
- d) Limited cooperation from its existing employees.
- e) The desire to automate its SOX compliance activities as much as possible.

**How Sox Solutions Helped:**

Sox Solutions presented and assigned three professional resources to execute an action plan that will help the company meet its year-end Sarbanes-Oxley compliance on time. The action plan is objective-focused in nature and includes the following activities:

- a) Documentation of the company's entire range of Business and Information Technology ("IT") processes indexed to meet the provisions of Sarbanes-Oxley in Narrative form.
- b) Indexing the identified ICFR to significant accounts, Financial Statement Assertions, Business Risks, materiality and Control Objectives through Risk & Control Matrices.
- c) The identification and presentation of the Business and IT process gaps that could adversely impact the company's operations to its senior management team for immediate correction.
- d) The identification and presentation of best-practice value-centric recommendations that could improve the company's operations in the near as well as the long term.
- e) Presentations and validations of the company's revised compliance methodology and approach to its Big 4 External Audit team.
- f) The re-testing of Business and Information Technology Internal Controls after the company's management team addressed the gaps Sox Solutions originally identified.
- g) The conceptualization and implementation of a software application that will automate SOX compliance activities for the company for a sustainable period of time in the future.

**Lessons Learned:**

Sox Solutions helped develop and implement a strategy that shifted responsibility and accountability for SOX compliance to its functional Business and IT Process Owners. In addition, Sox Solutions provided training for the company's staff members; prepared a compliance baseline the company could rely upon for future compliance activities and implemented an automated solution that will help the company reduce its compliance costs in the future and require the active participation of every business process owner.

The Controller praised Sox Solutions for the objective-focused expertise it had provided a company that had never executed an ICFR review and praised the comprehensive approach Sox Solutions used to address the urgent needs of the company, which provided it a compliance roadmap it could use to manage the execution of its SOX compliance activities effectively and efficiently. The company's Controller also acknowledged that the ICFR review would also help the company streamline its Business and Information Technology process functions for optimum operational performance.