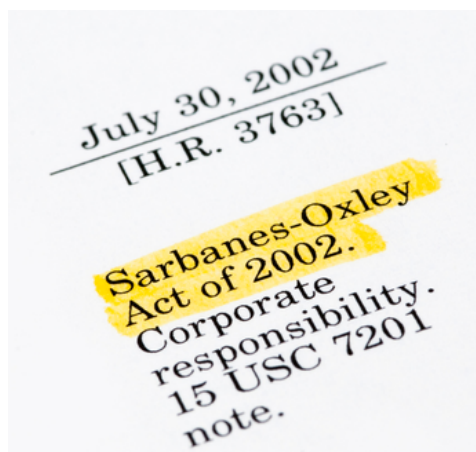# SOX Compliance Relies on Inventory Tracking and Accuracy

The Sarbanes-Oxley Act (SOX) was enacted in response to corporate accounting scandals of the 1980s and 1990s. The primary objective of the SOX Act is to restore investor confidence by ensuring accurate and reliable financial disclosures. To be SOX compliant, corporations are required to maintain transparency, accountability, and a highly precise level of reporting.

Inventory tracking is an integral part of achieving SOX compliance since it is integral to preventing fraud and financial inaccuracies. Two key sections of SOX – Section 302 and Section 404 – underscore the importance of internal controls, reporting accuracy, and the role inventory tracking is used to achieve compliance.

Lastly, most WMS platforms provide tools to support <u>cycle count</u> and inventory status reporting. With a WMS, cycle counting can be more efficiently managed and tracked, allowing for more frequent and accurate counts that provide near real-time visibility and reporting.

Company Leaders Certify the Veracity of Inventory Accuracy

Section 404 of SOX requires companies to establish and assess the effectiveness of internal controls over financial reporting (ICFR). Due to its impact on financial statements, inventory management is a critical part of these internal controls. These controls ensure that financial data is trustworthy and company assets are protected.

Section 302 of SOX mandates that CEOs, CFOs, and other company leaders certify the accuracy of financial statements, which are informed by warehouse inventory accuracy. This certification is a public statement attesting to the veracity of financial data. Accurate inventory tracking plays a pivotal role in this process. When companies demonstrate that their inventory records are precise, it enhances the reliability of financial statements and bolsters the claims made by senior management. Alternatively poor inventory tracking practices and accuracies place company leaders at risk of certifying and sharing inaccurate data.

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Inventory Tracking and Accuracy is Critical to SOX Compliancy

Internal Controls

As mentioned, SOX requires companies to establish and maintain effective internal controls to ensure the accuracy of financial statements. Warehouse Management Systems offer keen visibility to inventory levels; but as any supply chain executive will attest, the accuracy levels found in these systems can be suspect. This is not the fault of the systems of record, but instead it is the fault of the warehouse process used to collect inventory data (which is typically labor intensive and imprecise). Automated inventory tracking solutions from Vimaan bolster data and deliver a more accurate inventory view to the warehouse WMS.

Mitigation of Fraud Risk

Deploying stringent and automated inventory tracking procedures like those of Vimaan will detect inventory anomalies and discrepancies to reduce the chance of fraud or other undetected shrinkage. Regular inventory tracking reconciliations and audits help uncover irregularities and ensure that the reported inventory figures align with physical counts. Unfortunately, these audits can be infrequent due to the labor intensive nature of inventory cycle counting. This is why more warehouses are embracing cycle count automation using the Vimaan StorTRACK system that can audit and track inventory >20X faster than manual procedures – and automatically generate discrepancies and maintain an electronic audit trail.

Financial Statement Accuracy

SOX Compliance necessitates the certification of financial statements by senior management. Accurate inventory tracking data contributes to the reliability of these statements, instilling confidence in stakeholders and investors. Company leaders approved the purchase of warehouse management systems to support the goal of SOX compliance. However, these systems are inadequate, because WMS reported data is only as good as the data it receives from the warehouse floor and this data is typically out of date, incomplete or inaccurate. Company leaders are still required to assert that their inventory levels are correct, even if they are aware of their imperfect inventory tracking practices.

Enhanced Transparency

Accurate inventory tracking ensures that the company's financial statements reflect the true value of goods. Proper documentation of inventory status and transactions provides a clear audit trail that demonstrates the reliability of financial data. Vimaan delivers documentation and proof of inventory status whether it's entering the warehouse or is stored in inventory. Vimaan will also highlight WMS discrepancies allowing warehouses to improve the veracity of their inventory status reporting.

Accurate Inventory Valuation

Proper inventory tracking ensures that the company's inventory is accurately valued and documented. Inaccurate valuation can lead to overstatement or understatement of assets, which in turn affects financial ratios and performance indicators. Accurate inventory valuation is crucial for making informed business decisions and demonstrating compliance with SOX requirements. Typically, companies will incur the cost of inventory cycle counters in an attempt to generate audit trails and establish the necessitated level of accuracies. Relying on hard to hire/retain labor delays or prevents companies from achieving targeted inventory accuracies, which skews company financial statements.

Timely Reporting

SOX mandates stakeholders to regularly receive relevant and frequent financial reporting. As inventory tracking data is readily available, it supports the preparation of reliable company financial statements. All this aids in adhering to reporting deadlines and preventing delays that could erode investor trust. Due to the expense and labor required for extensive inventory cycle counting, many warehouses conduct thorough audits very rarely. The infrequency in reporting contributes in accuracies being incorrectly certified by company executives. These warehouses would benefit from using StorTRACK from Vimaan, to achieve faster, cost effective and more frequent audits of their complete inventory.

Over Dependency on Unreliable Labor Impacts Sox Compliance

With national warehouse labor attrition rates in the 40% or higher levels, warehouses experience some of the highest turnover rates of any industry. Despite these employee turnover trends, warehouses historically throw labor at the task of tracking inventory. This dependency on labor places companies at unnecessary risk of compromising their SOX compliance status. Warehouse computer vision mitigates these risks because this technology is automated, more efficient and more precise than your most reliable employees – in addition to providing automated and electronic audit trails. Vimaan solutions are used in critical areas of the warehouse to boost inventory tracking and accuracy, while reducing the dependency on expensive labor.

Sample workflows enhanced by Vimaan include:

Inbound Receiving:

Using DockTRACK Pallet and DockTRACK Parcel, warehouses quickly scan, document and validate incoming pallets, packages and cartons. DockTRACK scans 1D and 2D barcodes, reads text, counts boxes, and even accurately dimension pallets. The time to manually process incoming pallets requires 3-5 minutes (sometimes longer depending on the complexity of the goods). Warehouses using DockTRACK cut that time to under 30 seconds.

Cycle Counting:

Manual inventory audits are expensive, time consuming and imprecise. That's why warehouses embrace StorTRACK to automate cycle counting missions. Handled by existing MHE, StorTRACK can scan a 300' long aisle in under an hour. StorTRACK scans codes, reads alphanumeric text, counts boxes and reports on discrepancies. Warehouses using StorTRACK have reported an ROI in 8 months or less.

Outbound Shipping:

The final step in inventory tracking, warehouse shipping closes the loop, verifies, inspects and reports on outgoing goods back to the warehouse WMS. Warehouse shipping is labor intensive — requiring shipping associates to manually scan and inspect outgoing goods, while validating against order manifests. Like Inbound Receiving, warehouses benefit from the same DockTRACK capabilities listed above. DockTRACK scans and validates outgoing packages and pallets to ensure the correct orders reach your customers.

Vimaan Computer Vision Integrates with Other Warehouse Tech

As part of all its solutions, Vimaan provides ViewDECK, a web-based application that supports near real-time reporting of inventory status and trends. ViewDECK is also used for highlighting inventory discrepancies when compared to WMS data. Vimaan does not aim to displace WMS platforms that are successfully operating in warehouses; rather, their mission to make an existing WMS better with more up to date inventory data, further improving the overall value of the inventory management platform.

Vimaan uses common API calls to request and deliver information to WMS platforms. Customers can elect the level of integration that is most appropriate for their project. For example, they may choose to have a one-way communication, where Vimaan is simply requesting and retrieving inventory data, or two-way, where information is exchanged fluidly (as necessary). Alternatively, Vimaan offers a crawl, walk, run approach where inventory information is made available initially using flat files. Regardless of the approach, the Vimaan engineering team works closely with Customer IT teams to ensure alignment every step of the way. Vimaan has extensive experience integrating with some of the most prominent platforms including Manhattan, NetSuite, Infor, MS Dynamics in addition to several home-grown Customer applications.

And More!

Vimaan does not replace your WMS we make it better by providing the most up to date inventory tracking and accuracy. Additionally, when needed, warehouses can combine Vimaan computer vision with RFID technology. RFID can allow warehouses to gain access to inventory insights not available to computer vision. For vision to be successful, the intended inventory needs to be within a clean line of sight, and that will not always be the case. RFID tags attached to obscured or packed away containers allow warehouses to gain sight of these items. By integrating these two technologies warehouses can create a robust and highly detailed view of their inventory.

Mandatory Adherence to SOX

Achieving Sarbanes-Oxley compliance is not an option for public companies; it is a legal obligation to provide transparent and accurate financial reporting. Precise inventory tracking and reporting is integral to achieving SOX compliance. As companies attempt to establish or maintain compliance, they must understand the role of precise inventory management in achieving and sustaining SOX compliance.

Companies aiming to improve their adherence to SOX greatly benefit from deploying Vimaan solutions across their warehouses. Vimaan improves inventory capture and accuracy, while allowing companies to reduce their overhead and focus on growing their business without having to worry about out of date inventory tracking procedures.
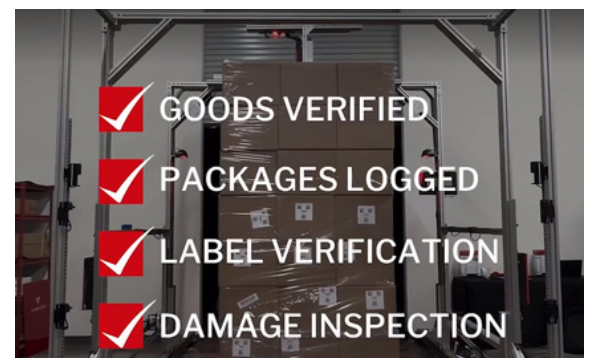
About Vimaan

Vimaan is a computer vision and AI solution company dedicated to providing 3PLs, Brands and Retailers with a 100% accurate view of their warehouse inventory. Headquartered in Silicon Valley, Vimaan automates and digitizes inventory capture, tracking and management across the entire warehouse, including inbound receiving, put-away and picking, cycle counting, order validation, and outbound shipping. Vimaan was founded to help companies solve the long-standing challenge of accurately monitoring, tracking and reporting on warehouse inventory.

Vimaan Computer Vision

The vision found in every VIMAAN product soves problems never before addressed in warehousing.

Far beyond barcodes, the platform is capable of reading all human readable text, eliminating the need for manual data entry and improving the flow of goods through your warehouse.

- OCR (Optical Character Recognition)
- Quantity tracking and product counting
- Dimensioning and damage detection
- Learns your environment
- No bar codes required

It's Time You Know the Truth About Your Warehouse Inventory

Inventory management is under more scrutiny than ever before.

The combination of inventory inaccuracies, increased E-Commerce orders, damaged goods and demanding customers have put a strain on already taxed warehouse inventory management practices. A VMS is only as good as the data it receives and when it operates off outdated or inaccurate data, it is felt across your entire business.

Vimaan's customers benefit from always having the most up-to-date and accurate status of their inventory. The access to this data has enabled our customers to:

- Automate manual and error prone auditing and validation tasks
- Decrease time to process and ship customer orders
- Eliminate write-offs for missing inventory or damage claims

Vimaan solutions help you keep tabs on all your inventory from the time it enters your warehouse to the second it leaves (and every second in between). WE ARE WALL TO WALL!
Typical customer results include:

>40%
REDUCTION RECEIVING AND AUDIT LABOR

>80%
REDUCTION IN MIS-SHIPMENTS AND CLAIMS

100%
INVENTORY LOCATION ACCURACY

And best of all, Vimaan Customers measure their ROI IN MONTHS, NOT YEARS!

VIMAAN

THE TRUTH IS HERE

Warehouse Inventory Vision and Verification
Precise and actionable insights from receiving to shipping and every step in-between

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