

MicroStrategy Solution for Financial Transparency Fact Sheet

1. Introduction

With the signing of the Sarbanes-Oxley Act into law in the summer of 2002, corporate America entered a new phase where even “honest” errors and misinterpretations of accounting rules could be cast in the same light as corporate fraud. Companies now face increased corporate risks for inaccurate or incomplete financial reporting – ranging from adverse public opinion and investor flight to full financial restatement and stock crash to capital squeeze and Chapter 11. Moreover, companies face increased criminal penalties for violations of the Security Exchange Act of 1934.

Further, individual officers also now face dramatically steeper personal fines and criminal sentences for misrepresentation on reports filed with the Security and Exchange Commission (SEC). Holding sole responsibility for certifying the completeness and accuracy of periodic filings to the SEC, principal executives and financial officers are looking to disclosure committees and management rank-and-file for additional verifications, in turn requiring them to sign next-level certifications.

Compounding the broadened scope of financial reporting requirements is the accelerated timeline for filing quarterly and annual reports with the SEC. By 2004, the filing deadlines for 10Ks will be only 60 days and for 10Qs only 35 days.

Without proper systems, controls, and procedures in place, companies risk facing a trade-off between accuracy and speed. In order to comply with new and revised SEC reporting requirements and to increase investor confidence, companies are establishing financially transparent reporting systems.

2. The Solution

2.1 Accounting Systems

The most prevalent computer systems in finance departments are not capable of providing the level of financial transparency now required. Specifically, accounting systems like SAP, Lawson, Oracle, PeopleSoft, and JDE were never meant to provide general-purpose data accessibility to large numbers of people. These systems were optimized over many years for transactional operation, such as entering data, allocating expenses, clearing transactions and calculating taxes.

2.2 Budgeting and Planning Applications

Existing Budgeting and Planning applications such as those provided by Hyperion and Cognos were built to manage the complex workflow of budgeting and subsequent tracking of results against budgets and forecasts. As such, these budgeting applications provide only simple reporting with restricted drilling capability into details. Further these systems are not designed for automatic analysis of financial data, forensic anomaly detection or spotting variance patterns that would indicate a potential financial error or wrongdoing.

2.3 MicroStrategy Financial Transparency Solution

What is needed for financial transparency is a system that is designed at the outset for unconstrained analysis of massive amounts of data. MicroStrategy’s business intelligence software delivers exactly this kind of flexible analysis environment needed for fully transparent financial reporting.

MicroStrategy technology allows users to seamlessly drill from summary reports down to the lowest level of transaction or journal entry, while supporting hundreds to thousands of users with complete data security. More importantly, MicroStrategy technology can automatically scan entire financial databases, looking for anomalies or variances that merit investigation, and subsequently proactively alert specific individuals. This kind of unconstrained analysis is what companies are clamoring for to open up “controlled visibility” into their corporate financials and help to substantially limit their liability.

3. Five Financial Transparency Best Practices Adopted by MicroStrategy’s Customers

3.1 Gather All Financial Data Into a Cohesive Data Base

The first best practice is extraction and gathering of data from the various different transactional systems into a cohesive data store— a critical prerequisite for providing a single seamless view. The standardization of data not only facilitates analysis, it also serves as the environment to support a large and flexible library of reports tailored to many different users. With such a system, users are able to run reports or queries anytime that is convenient for them, without having to wait for an analyst to run through printed reports or an IT person to create a specialized report.

3.2 Get Many More “Eyes on the Data”

The second best practice for catching and preventing financial reporting problems is focussing many more eyes on the data. It has been concluded by many companies that the best way to catch and fix errors and misdeeds early is by having many more people looking at the data on a continuous basis as part of their day to day job. The capability of controlled distribution to many can assist dramatically in making important or suspicious data more visible.

The challenge is to provide a system that allows all users to look at the data using whatever interface is most convenient or available to them. The use of the Microsoft Excel interface is preferred by most financial analysts. At higher levels managers might simply want to receive reports or alerts directly via e-mail, while still other people prefer the familiar browser interface. MicroStrategy allows all of these types of users to equally access the same data and the same reports.

MicroStrategy’s security architecture allows each person’s role to dictate exactly what data that person is allowed to see. Views of the data can be restricted along any dimension: organizational unit, geography, time, product and so on.. Further, controls help manage each person’s depth of data access: summary-level only, detail-level only, or even mid-level information only.

MicroStrategy technology works with extranets and portals so that external people can also play a role in auditing and certifying

financial information. While ensuring the highest security available, access can be provided easily to external auditors, board members, or other external entities.

3.3 Provide “Live Reports” That Allow People to Drill to the Lowest Level of Transaction Detail

The third best practice is provision of dynamic live reports as opposed to static printed reports. Financial users absolutely need live reports that allow them to drill down interactively on the report to the lowest level of transactional detail if necessary to really understand the root cause of any problem or anomaly.

MicroStrategy allows users to click on any row or column of a report or any part of a graph and successively drill down to lower and lower levels of detail. For example, a person starting out at a Consolidated Profit & Loss statement could drill down to look at the P&L of a division, and then click on a row to drill down to a single cost account within that division, and then further drill into the specific transactions that make up that cost account. This best practice not only provides for the raw capability to “drill anywhere”, but also allows for this train-of-thought investigation in a seamless and expeditious manner.

Further, at any time users have the ability to drill across to compare any data with any other data to look for trends or root causes to explain a result. All of this analysis is based on the latest data available in the database, and not reliant upon aged printed reports.

3.4 Put a Spotlight on The Accounting Treatment of Material Components

The fourth best practice is identification and spotlighting on all the material elements of the financial results. Identifying all material elements, and allowing people to investigate any of the detail behind those material elements, fosters certification of financial results with the utmost confidence.

MicroStrategy technology provides the facility to set up special spotlight reports designed to highlight all the material elements of any given financial result specific to company's areas of vulnerability. Spotlight reports may be run at any time or on a periodic basis. The results of these spotlight reports are a collection of all material elements as measured by some customized criteria, for example: “top 10 transactions”, or “all transactions above \$1 million”. More importantly, MicroStrategy provides powerful statistical and financial functions for creation of more sophisticated spotlight criteria.

Further, MicroStrategy allows for proactive dissemination of alerts with the results of the spotlight reports to specific individuals. Subsequently those users are able to drill on each item of the spotlight report to verify the problems.

3.5 Proactively Scour the Financial Databases for Anomalies Using Variance Triggers

The fifth and final best practice is the proactive scouring of the financial databases for any anomalies that should merit further investigation. This is a data mining technique that detects patterns of variances and then pro-actively sends alerts to specific individuals

who are best able to analyze and judge if there are any inconsistencies, gaps, or inaccuracies in the data.

MicroStrategy provides for the set-up of many different kinds of triggers, ranging from simple threshold values to more sophisticated financial variances and ratios. MicroStrategy customers have found that more sophisticated variances tend to catch more subtle problems. For example, actual results compared to historical trends can find items that might fit within an expected average range, but are inconsistent with a seasoning trend. Comparing actual results to a logical, expected pattern is an even more powerful pattern-matching variance. In many financial transactions, there is a specific logical sequence of events that should occur. Any variance from the logical pattern is a potential red flag.

4. MicroStrategy Provides Financial Transparency Quickly with Out-of-the-Box Financial Reporting and Analysis

The MicroStrategy 7i Business Intelligence Platform has been optimized to provide flexible, comprehensive and accurate financial reporting. In addition to over 100 standard OLAP and mathematical functions, users have over 100 advanced financial and statistical functions at their disposal. MicroStrategy's powerful BI software has all of the features needed to implement these five financial transparency best practices.

Out-of-the-box MicroStrategy 7i ships with a financial reporting starter set of reports and analyses based on the reports created by existing customers have built financial transparency. The starter set includes 55 reports that act as templates from which hundreds more can be easily and rapidly designed.

These report templates are organized into 8 reporting areas: Accounts Payable, Accounts Receivable, Balance Sheet, Costs/Expenses, Revenues and Forecasts, Profit and Loss Statements, Planning and Forecasting Analysis, and Cash Flow.

All the reports are built on a default physical and logical multi-dimensional model that can be easily extended, customized or replaced by the customer's existing financial data base. The reports and analysis are organized to provide summary and detailed level analysis through 7 distinct perspectives, namely: Organization, Time, Vendor, Customer, Invoice/Transaction, Account, and Employee.

The MicroStrategy 7i Business Intelligence Platform with these new features allow very fast deployment of Web-based financial reporting systems. Companies can deploy an operational system within 90-120 days rather than the usual 6-12 months.