



Selling Used Tape May Present a Sarbanes-Oxley Related Internal Control Risk

This paper identifies the potential risks of selling used tape in the context of government regulations such as the Sarbanes-Oxley Act.

Situation

Selling used tape cartridges to a third-party vendor can appear to be a compelling financial proposition, but it could lead to a deficiency in your company's Sarbanes Oxley IT internal control evaluation. Companies may not realize that their corporate data often remains on tape media when it's sold, letting company data leave the premises unaccounted for. Common "recertification" procedures touted by used tape sellers don't always guarantee that data will be erased before the cartridge is sold to another company.

Degaussing (erasing data through magnetization) isn't always possible on newer tape formats and deleting the file index just removes the data "map" not the data itself. Writing a test pattern on the tape can still leave data remnants that are vulnerable to access by someone with enough technical savvy.

Sarbanes-Oxley Background

- The Sarbanes-Oxley Act of 2002, sponsored by Sen. Paul S. Sarbanes and Rep. Michael Oxley and signed by President Bush, was created to help remedy the many corporate accounting failures and falsified financial reports of recent years. It is the biggest securities legislation in 70 years and it established a new Public Company Accounting Oversight Board to set auditing standards. The Sarbanes-Oxley Act (SOX) established many new requirements for SEC registered companies and the firms that audit them.
- The focus for most public companies is SOX Section 404, which requires public companies to document their financial and IT controls, periodically evaluate the effectiveness of these controls, and report publicly on their evaluation. External auditor firms are required to test and evaluate management's assessment, and to perform their own test of the controls so that they can express an opinion about the company's control process. 2004 was the first year in which companies were required to report on their internal control evaluations.
- When companies or their external auditor find problems with internal controls, they are required to categorize the severity of each deficiency into one of three categories:
 - **Deficiency** – Deficiencies are only reported to internal management. Management is expected to take appropriate steps to correct the deficiency.
 - **Significant Deficiency** – Significant deficiencies are more serious than plain deficiencies and therefore must be reported to the company's audit committee of the board of directors. Such deficiencies must be corrected, or they may subsequently be moved to the most severe type of deficiency.
 - **Material Weakness** – Material weaknesses are the most severe type of deficiencies and as such, must be reported publicly by the company. Material weaknesses also automatically result in an adverse internal control opinion by the external audit firm. This deficiency can have a detrimental impact on a company's reputation and even on the careers of those responsible for it.

What does this mean for the data center?

Imation recommends secure tape destruction as a best practice method for managing excess tape inventory, tape format migrations or obsolete/retired tape cartridges. Companies that consider selling their used cartridges may face IT control risks that could lead to a SOX related internal control deficiency.

- Tape cartridges can contain sensitive data that may be proprietary to your company, your company's clients and/or your business partners.
- Your company's data should not leave the premises unaccounted for or unprotected. You can never be certain that your data has been completely erased despite efforts to degauss or overwrite. Cartridge destruction is the only safe way to ensure information is not leaving the company and getting into the hands of others.
- Companies in the healthcare field also need to be concerned about patient privacy regulations. Data privacy-compliant tape destruction facilities are available when necessary.

Adopt a "Don't Get Used" policy

Used tape distributors are the only companies that profit from the used tape market. Selling your old or used media can put your company at risk for a Sarbanes-Oxley related internal control deficiency. Eliminate that risk by opting for secure destruction to properly retire your media.

Buying used tape media can look like a compelling financial offer, but keep in mind that the history of used tape cartridges is unknown. You don't know what you could get: debris, errors, limited remaining useful life, voided manufacturer's warranty or even another company's data. Don't introduce an unknown variable into your data center environment—always specify "new" on your purchase orders.

For more information, visit www.imation.com/usedtape