

### The treasury upside

During the procedure-review phase of SOX, treasuries often uncover redundancies and inefficiencies that can be remedied to make treasury more effective, for example:

- **Multi-formats and sources of information**, coming from business units, banks, accounting and systems.
- **Manual application of “automated” information**, e.g., treasury receives data from banks via the web, but then downloads and manually enters the data into the accounting system, TMS or spreadsheet.
- **Use of multiple bank systems/interfaces** which are a combination of pc and web-based access.
- **Lack of segregation of duties**; many treasuries are lean, which means that often the same person handles the execution wires, FX, investments and borrowing transactions.
- **Proliferation of bank accounts**; by reviewing all existing relationships, treasurers can determine whether they are effectively utilized, as well as whether the controls and signatories are up to date. ¶¶

Treasury management

## From Compliant to Effective: Beyond 404

By Susan A. Hillman, Treasury Alliance Group LLC

**SOX 404 preparations forced many treasuries to update policies and review procedures; but simply getting the compliance “green light” doesn’t mean treasury is truly effective.**

The basics of Sarbanes-Oxley Section 404 are brief and straightforward. Section 404 requires that publicly traded companies must:

- (1) “State the responsibility of management for establishing and maintaining an adequate internal control structure and procedures for financial reporting; and
- (2) Contain an assessment, as of the end of the issuer’s fiscal year, of the effectiveness of the internal control structure and procedures of the issuer for financial reporting.”

**Yet the simplicity of Section 404 is deceiving. It masks the reality that companies have spent a considerable amount of time and expense documenting procedures, changing policies and processes and insuring that adequate controls are in place.**

This has been a particular challenge for treasuries, since SOX 404 covers both accounting and treasury issues. Treasury is thus affected in terms of risk management, funds movement, and interface with banks and treasury service providers. And, in addition, its activities also determine critical accounting entries and financial statement “numbers.”

Such a huge amount of technology and human resources has been invested in SOX over the last two years, that often, once auditors sign-off, treasurers assume that because they are SOX-compliant their treasury processes are also effective. This is not necessarily true. SOX 404 readiness is not a test of treasury management best practices. In many areas, the focus of SOX and treasury activities diverges (see table next page).

The good news is that there is substantial overlap. Properly performed, the documentation and mapping process of SOX can generate many benefits (see below). Yet it does not “automatically” lead to best-in-class treasury.

### Identifying best process benefits

Treasury can benefit from the SOX review, in particular in the following areas:

- **Policies.** Up-to-date policies are the cornerstone of effective treasury management. The policies should cover treasury’s various financial responsibility, e.g. risk management, funding, investment, intercompany flows, banking, and treasury reporting.

The 404 review determines if policies include control guidelines—i.e., who is responsible for providing information, what are the levels of authority for transaction execution, which accounts are used and that responsibility and access to bank accounts demonstrates the right level of controls.

For companies with robust treasury policies already in place, the SOX review mainly helped bring into line out-of-date language. The gear-up was much more arduous, of course, for companies without such policies.

- **Procedures.** The documentation and mapping of treasury activities has been perhaps the most demanding task related to SOX 404 readiness.

The procedures that treasuries use for everything from daily cash management to hedging, from bank interfaces to transaction execution, had all come under the SOX microscope. The good news is that this is probably one of the areas of biggest benefit (see box on left).

### Going beyond compliance

The detailed findings and mapping of the SOX preparation process—as well as the time and cost involved—has led some companies to conclude that the 404 undertaking can be used as a substitute for a thorough treasury review.

Treasurers presume that, based on the documentation and mapping, they can draw conclusions as to what treasury and banking structure is suitable for their organization, and if treasury “best practices” are in place.

The fallacy of this assumption is that a mapping exercise focused primarily on procedures and controls is relatively one-dimensional, whereas treasury’s needs are certainly not.

Although helpful in highlighting certain

areas of inefficiency or control concerns, a compliance review does not address, for example, the liquidity, risk and tax elements that are essential for managing a global treasury at a world-class level.

Also, while the thorough documentation and mapping process related to SOX 404 does provide a baseline, it will not render the in-depth information required to evaluate global treasury operations, determine necessary changes, and implement best practices.

**Compliance vs. efficacy**

Comparing 404 considerations to what is really essential for best practices in treasury man-

agement (see table below) points out why treasury will have to spend more time—and resources—once the compliance review is complete to upgrade its processes.

The danger is that in ensuring that the adequate controls and improved procedures are put into place, treasury will simply put a new coat of paint on what may be an inefficient treasury structure, inadequate risk management procedures and sub-optimal banking arrangements. A 404 compliance review can offer treasury the opportunity to insure policies and procedures are up to date, but it is only an initial step (for next steps, see box). ■

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**COMPARATIVE TABLE: SOX FOCUS VS. TREASURY 'BEST-PROCESS/PRACTICE' FOCUS**

Area	404 Considerations	Treasury Issues
<b>Staffing</b>	Levels of authority & controls; segregation of duties	Coverage, expertise, ability to interface effectively with global treasury operations
<b>Policies</b>	In place for specific activities performed; controls in place as required	Correct policies for all treasury activities covering liquidity, risk management and banking
<b>Systems</b>	Access, security	Efficiency and reduction of manual tasks and interfaces; treasury manual is in place for all procedures
<b>Reporting</b>	Financial reporting procedures	Cash forecasting from all global units; consolidated bank reporting
<b>Treasury Structure</b>	N/A	Regional/global arrangements that allow tax-effective management of liquidity and risk
<b>Banking Structure</b>	Only as it relates to signatory authority and documentation	Correct banks in place by country/region; overlays in place where cost effective
<b>Banking Services</b>	Security, controls	Use of best services by country; electronic collection and payment mechanism in place where possible; web-based bank interfaces
<b>Working Capital Management</b>	N/A	Focus on balance sheet; effective cash management techniques
<b>Risk Management</b>	Policies, controls	Quantification of all FX exposures: P&L, balance sheet; determination of strategy development of comprehensive policy; FAS 133 compliance
<b>Liquidity Management</b>	Loan documentation; investment procedures guidelines and controls	Maximize internal cash; integration with tax objectives; minimizing interest expense and increasing return on investments

**Next Steps**

Even if treasury passes the SOX test with flying colors, as a follow-up, treasury should undertake some essential tasks to improve its overall procedures and eliminate admin and financial costs, for example:

- 1) **Develop a comprehensive bank database.** Treasury can use the "SOX" list of bank accounts as a baseline and follow-up with all business units and determine:
  - a. the G/L number can be associated with the correct bank account number
  - b. the currency, location and contact information for the bank account
  - c. the purpose of the bank account (all services)
  - d. approximate annual cost (charges) through this bank account
  - e. local company contact/responsibility for the account.
- 2) **Work with Tax to assess the present global structure,** and determine if greater tax and treasury efficiencies can be obtained by setting up SPV (Special Purpose Vehicles) for managing liquidity, moving profits to lower tax jurisdictions, centralizing FX gains and losses and improving cash management techniques.
- 3) **Evaluate banking services or other outsourcing avenues** to manage liquidity and risk globally, e.g., netting, overlay structures, centralizing payment execution, and the use of P-cards.
- 4) **Quantify all P/L currency exposures** by business unit (a task made simpler if an ERP system is in place). ¶