



# TREASURY RESOURCES

@ *PhoenixHecht.com*

This presentation was originally given by:

Robert T. Mayer  
Director, Treasury Risk Management  
Protiviti, Inc.

At the 2005 New York Cash Exchange

For questions about this material contact Robert at:

[robert.mayer@protiviti.com](mailto:robert.mayer@protiviti.com)

# **Impact of Sarbanes-Oxley Act How Treasury Managers, Banks and Financial Service Providers Can Benefit**

## ***The New York Cash Exchange***

Robert T. Mayer  
Director, Treasury Risk  
Management  
Protiviti, Inc  
101 Arch Street, Suite 1820  
Boston, Mass 02110  
robert.mayer@protiviti.com

September 8, 2005

# Agenda

- High level Overview of Sarbanes-Oxley Act
- Where Are We Now- Financial Reporting
- SOA's Impact on Cash & Treasury Managers
- SOA's Impact on Banks & Financial Service Providers
- Where are the Opportunity & Benefits
- Objectives, Hurdles and Issues
- Questions

# How Sarbanes-Oxley Evolved-

- December 2001 – Collapse of Enron
- High Profile Congressional Investigations
- Indictment, Conviction and Demise of a Big Five Accounting Firm
- Additional Corporate Failures, Scandals, e.g WorldCom June 2002
- Public Outcries For Reforms- Restore Investor Confidence

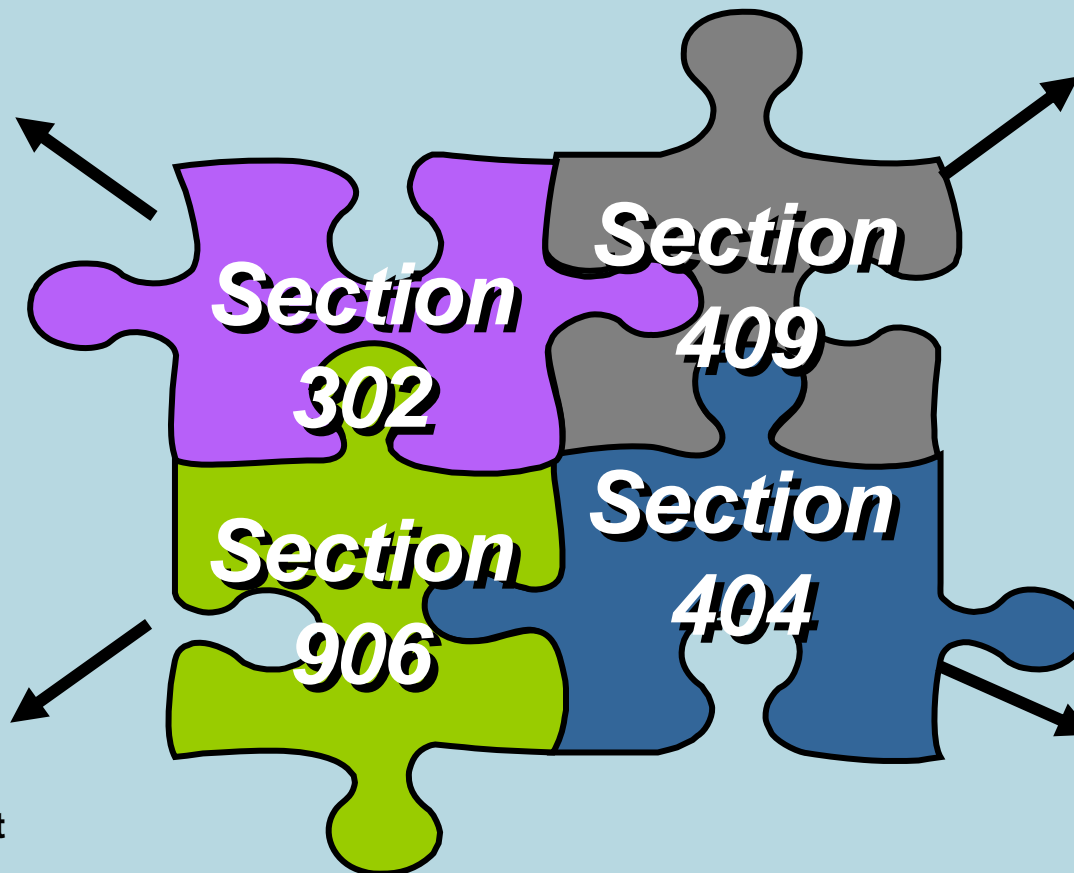
# How Sarbanes-Oxley Evolved-

- Enactment Of The Sarbanes-Oxley Act of 2002
  - Intended to help restore investor confidence in the integrity of financial reports issued by public companies
  - Requires officers of public companies to certify for various representations regarding the fairness of financial statements and the effectiveness of disclosure controls and procedures
  - Requires management to file an internal control report with annual report (10-K). The internal control report must articulate management's conclusion on the effectiveness of internal controls
- Creation (2002) of the “Public Company Accounting Oversight Board” (a.k.a. PCAOB)

# Section 404 is One Aspect of Sarbanes-Oxley Public Reporting Requirements

Expanded representations by certifying officers

Disclosure of material changes on a “rapid and current basis”



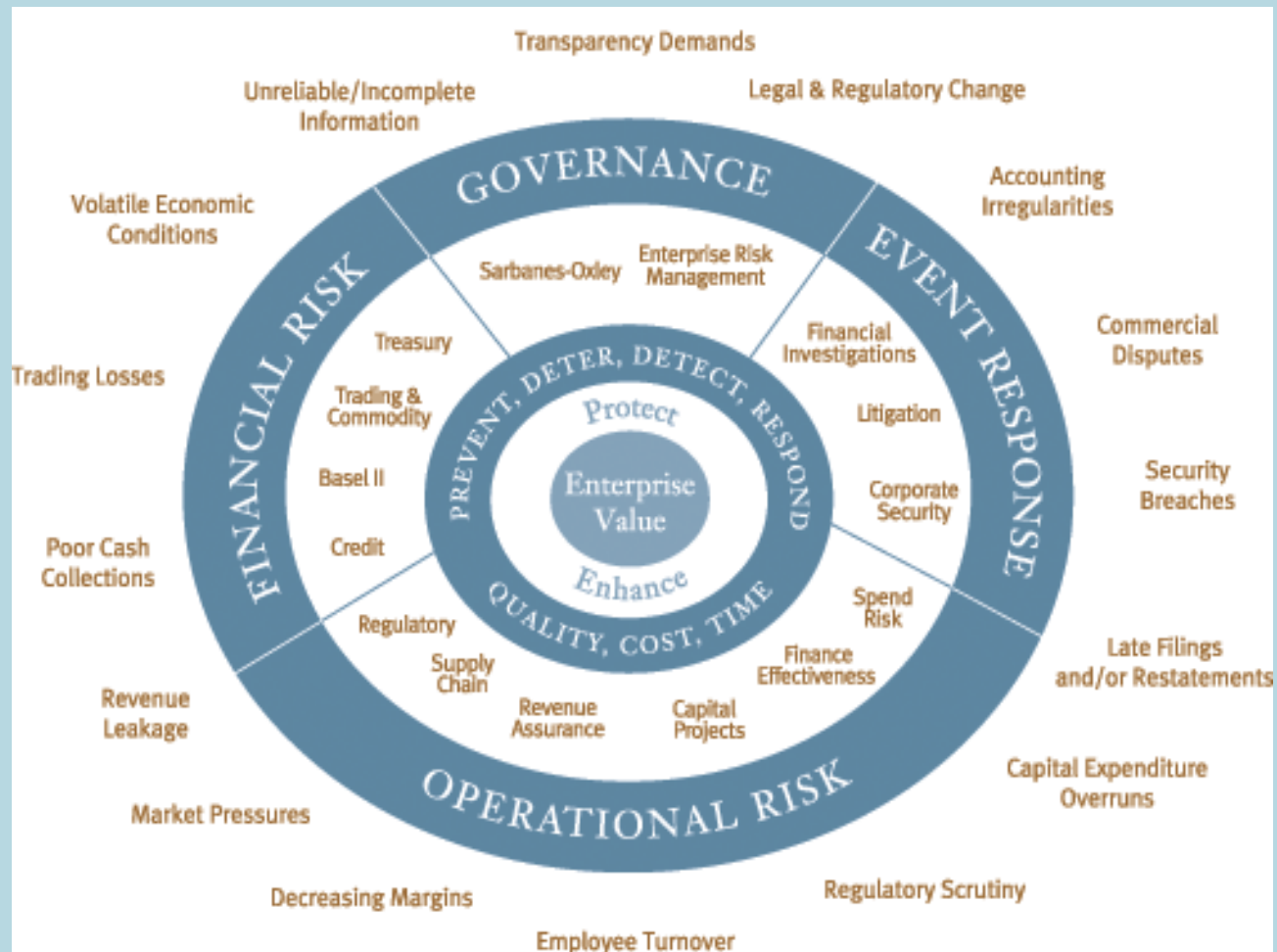
Focused representations by certifying officers linked to criminal provisions of the Act

Assessment of the effectiveness of internal controls and attestation from independent public accountants

## How Sarbanes-Oxley Evolved-

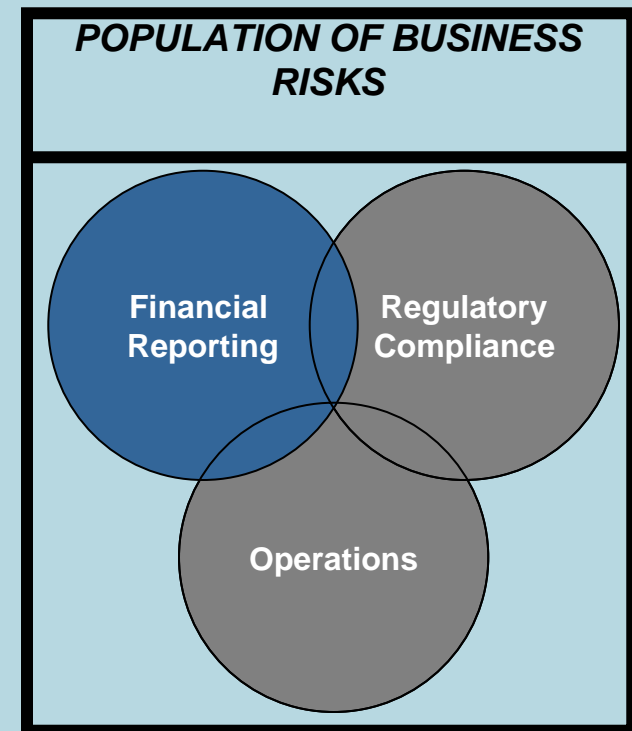
- June 2003 - SEC's "Final Rules" on Section 404
- March 9 2004 – PCAOB'S Announcement of Auditing Standard Number 2
- February / March 2005- First Round of 10Ks Released with 404 Certification for Year-end Accelerated Filers

# The 404 Financial Sphere of Influence



# Financial Reporting Controls

- **Section 404 applies to controls over financial reporting**
- Financial reporting assertions provide the context for evaluating risks at the process level
- Process risks must be defined at a sufficient level of granularity agreeable to management and the external auditor
- “Reasonable assurance” is the standard for evaluating effectiveness of controls design in achieving stated assertions



# Impact on Cash & Treasury Management

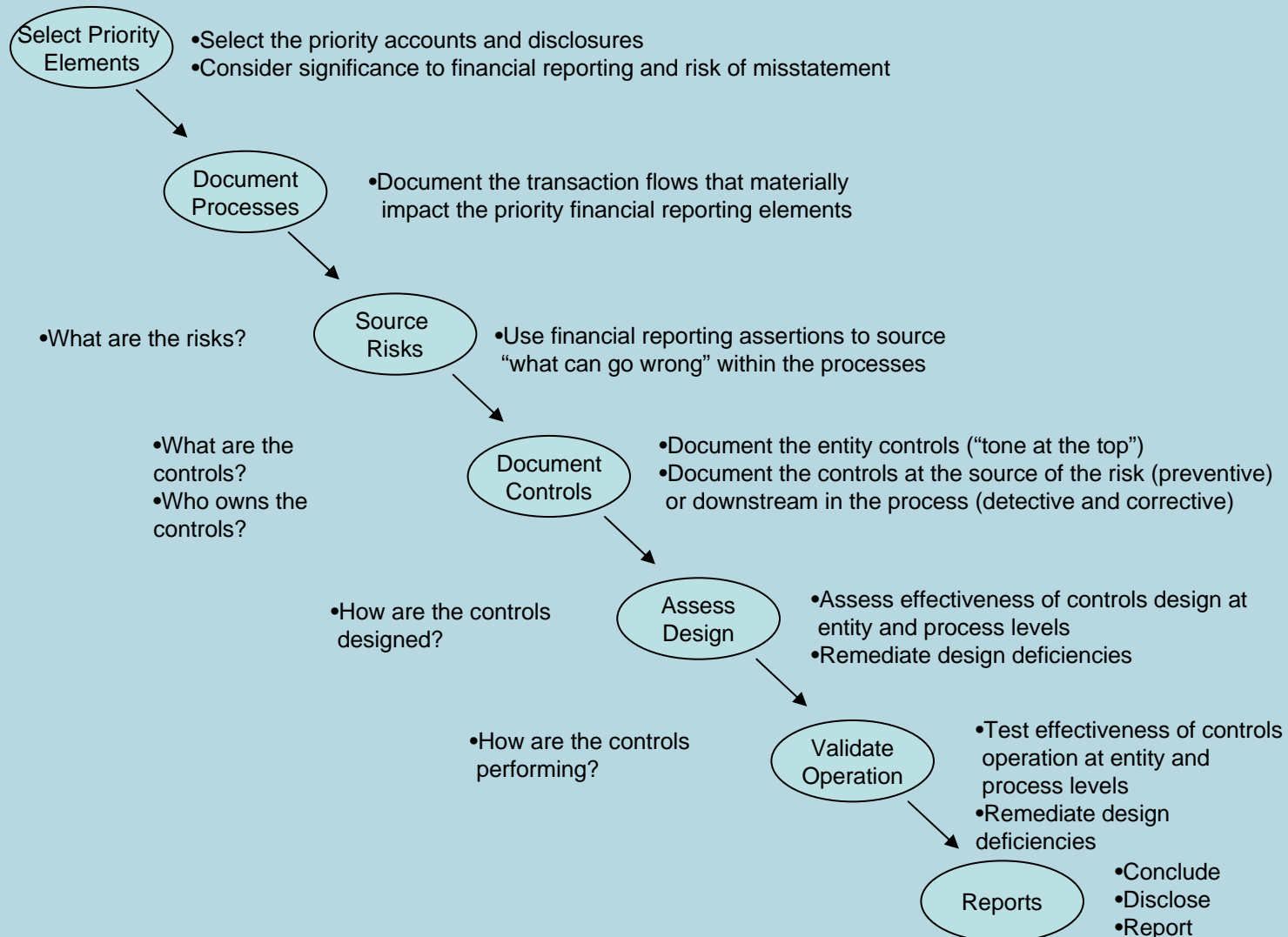
SOA took the “Compliance Scalpel” to many corporate cash and treasury management functions:

## **Regardless of whether Internal or Outsourced**

- Conducted risk assessments
- Evaluated formal policies and procedures
- Assessed processes and documentation
- Performed controls assessments
- Identified control and financial reporting deficiencies/weaknesses
- Developed corrective actions to mitigate and strengthen shortfalls
- Completed management and external auditor testing of controls

.

# Assessing Financial Reporting Controls



# Where Are We Now?

- Sarbanes compliance is not going away- **ACCEPT IT !**
- Year 2 SOA– Now underway for year-end accelerated filers- **ONLY 4 MONTHS UNTIL YEAR-END !**
- Growing potential for SOA/Governance type initiatives and requirements to migrate to:
  - Non-public corporate sector
  - Higher Education & Not-For-Profits
  - Quasi-Public Agencies
  - States, Counties and Cities

# Impact on Cash & Treasury Management

- Examples of Issues Identified in Treasury SOA:
  - Stale dated, limited or no formal policies and procedures
  - Heavy use and reliance on manual data and spreadsheets
  - Lack of straight thru processing
  - Limited to no treasury systems
  - Lack of acceptable controls and risk identification
- All of this supports the need to strengthen controls, enhance processes and to manage costs

# Impact on Cash & Treasury Management

## Examples of Opportunities and Benefits

| Opportunities   | Benefits  |
|---|---|
| Develop & <u>maintain formal and current treasury policies</u> , procedures, authorization matrixes, etc...       | <u>Introduce greater controls.</u> Formalize all policies and procedures to clearly define requirements, authorities and avoid risk of loss |
| Outsource <u>all</u> remittance processing, data capture and cash application                                     | <u>Centralize cash processing.</u> Uniform and controlled remittance processing with direct data transmission to A/R                        |
| Implement regular and timely corporate reporting of FX / currency exposures, quantify, measure and mitigate risks | <u>Risk identification &amp; reduction.</u> Define reliable level of exposures and risks and implement effective hedging strategy           |

# Impact on Cash & Treasury Management

## Examples of Opportunities and Benefits (Continued)

| Opportunities  | Benefits   |
|--|--|
| Outsource short-term investment management   | <u>Enhance process effectiveness and control.</u> Structured execution of the investment policy via a professional investment manager with greater technology/tools or utilize investment portals. |
| Introduce treasury and financial technology tools and move toward greater systems integration. | <u>Leverage technology.</u> Technology tools providing real time and critical financial information helps treasury function more effectively.  |
| Outsource disbursement processing  | <u>Cost reduction.</u> Once invoice validation and approval completed the process of issuing payments is often non-core, expensive and adds little value   |

# Impact on Cash & Treasury Management

| Opportunities  | Benefits  |
|--|---|
| Implement controlled disbursement and multi-level (signature/payee/\$ verification, bar coding) positive pay validation for check disbursement | <u>Control enhancement and risk reduction.</u> Greater control over potential fraud, stale dated items and escheat related activities.          |
| Eliminate separate T&E and reimbursement checks for employees.   | <u>Process improvement and cost reduction.</u> Include employee reimbursements as non-taxable payment in payroll ACH credits.                   |
| Convert to an E-pay disbursements environment.   | <u>Process and controls enhancement and cost reduction.</u> Increased A/P efficiencies, greater cash forecasting reliability and reduced costs. |

# Opportunities & Benefits:

## Corporates

- Provides opportunities to better manage the treasury:
  - Implement policies, procedures and controls
  - Utilize and leverage treasury technology
  - Forward looking, move away from paper
  - Identify, monitor and manage treasury risks
  - Outsource activities- “best price, best execution basis”
  - Strengthen integrity of financial reporting
  - Better utilize and leverage scarce corporate talent
  - Reduce/manage operating costs on variable basis

# Opportunities & Benefits

## Banks & Financial Service Providers

- Opportunity to:
  - Leverage technology and processing capabilities
  - Introduce or up-sell bank/financial services products such as:
    - Cash and treasury management systems
    - Data capture remittance processing services
    - Controlled disbursement & positive pay services
    - Investment management services and Portal tools
    - Disbursement and EFT outsourcing services
    - Corporate credit and Pcard services
    - Payroll services
- Become a more solutions driven and valued business partner

# Objectives, Hurdles & Issues

BUT there's a “**Hook**” for all parties:

- A public company can not contract away it's management responsibilities for SOA
- The Bank or Service Provider must demonstrate they have appropriate controls to meet corporate management's financial reporting requirements
- Public company's external auditors must test and be satisfied with controls and execution related to financial reporting regardless of whether internal or outsourced

# Statement on Auditing Standards (SAS)

## Enter the SAS 70

- Created by the AICPA in 1993
- Two Types:
  - SAS 70 Type I
  - SAS 70 Type II

**Type I** report describes the service organization's description of controls at a specific point in time (e.g. as at, June 30, 2005)

**Type II** not only includes the service organization's description of controls, but also includes detailed testing of the service organization's controls over a minimum six month period (e.g., April 1 to September 30, 2005)

# SAS 70 Reports

| SAS 70 Report Contents |   | Type I Report | Type II Report |
|------------------------|---|---------------|----------------|
| 1.                     | Independent service auditor's report (i.e., opinion)  | Included      | Included       |
| 2.                     | Service organization's description of controls.   | Included      | Included       |
| 3.                     | Information provided by the independent service auditor; includes a description of the service auditor's tests of operating effectiveness and the results of those tests. | Optional      | Included       |
| 4.                     | Other information provided by the service organization (e.g., glossary of terms).   | Optional      | Optional       |

# SAS 70 Type II

- Why the SAS 70 II is important?
  - Corporates:
    - The report provides a formal, independent 3<sup>rd</sup> party certification that the processes of the service provider have been defined, controls identified, tested and an acceptable opinion rendered.
    - Absent such a report, company management, **and** the external auditor would be required to perform its own procedures to review and observe processes, assess controls, and test processes and controls to assure compliance with financial reporting.
    - This would be time consuming and expensive for management, the external auditor(s) and the service provider (i.e., the bank)

# SAS 70 Type II

- Why is the SAS 70 Type II important for Banks / Financial Service Providers?:
  - Provides an independent 3<sup>rd</sup> party review, assessment and testing of key certain activities and controls
  - Provides an objective 3<sup>rd</sup> party opinion
  - Generally more efficient and cost effective for the corporate customers and their auditors.
  - Becomes an important process and compliance tool for retaining and attracting new customer business.

# Potential Issues

- SAS 70 Type II's are comprehensive documents
  - They often include closely guarded process and control information
  - The reports aren't "just handed out"
  - Non-Disclosure Agreements are often required
  - Corporates will have responsibility to control distribution and safeguard these reports

# Potential Issues

- Issue of Cost:
  - SAS 70 Type II's are **not inexpensive-**
    - At a minimum one report done annually for 6 month period
    - In SOA 404 world, likely 2 reports annually to close gaps for non-calendar year filers
    - Many banks and service providers have not had to commission these reports in the past – this will require a change in mindset
    - It's likely these costs will be passed on to the customer in terms of a service line or other allocation

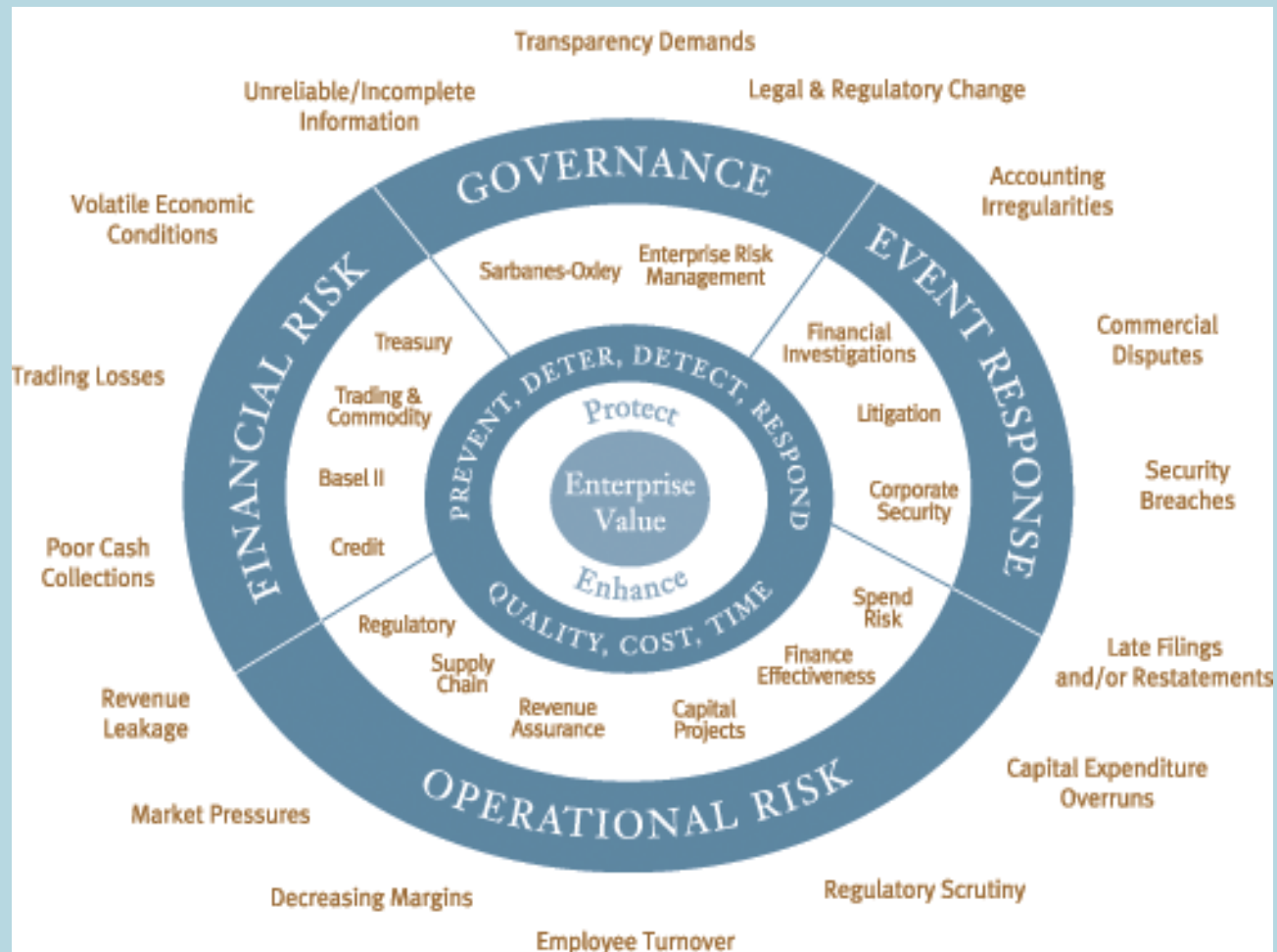
# Summary

- An objective of SOA legislation- To provide long term value in protecting the integrity of financial reporting
- All parties need to recognize financial reporting and compliance costs will increase, but more reliable controls will be the product
- Public companies need to comply and can not “Opt Out” of 404 compliance

# Summary:

- Achieving compliance with Section 404 will provide numerous benefits AND will likely create additional direct and indirect costs
- Banks & Financial Services providers have a significant opportunity to expand their service offerings in support of outsourcing and 404 compliance.

# The 404 Financial Sphere of Influence



# Questions ?

All those who need to  
understand the importance  
and benefits of  
Sarbanes - Oxley



# Say i