



TREASURY RESOURCES

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Best Practices for Ongoing SOX compliance

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Overview

- To maintain ongoing compliance, must have a good understanding of the purpose and objectives of SOX
- Ongoing requirements for compliance
 - Documentation
 - Testing
- Practical steps to ease your pain



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SOX Guidelines

- Initial push was hard, but ongoing maintenance can also be a challenge.
- “Chaos Theory” at work: natural evolution toward disorder rather than order
- Want to avoid continual re-writing of documentation but need good practices to keep things current and in sync.



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Ongoing Documentation Review

- Your activities and processes are dynamic while written documentation is static.
- Fact of life that docs will need ongoing revision to keep them current
- In future, when writing docs make them as scalable and generic as possible to avoid need to re-write for normal changes.



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Ongoing Testing

- To make annual attestation continual testing must be performed
- Sample size varies depending on frequency of activity and nature of control
 - Key controls tested continually, non-key controls tested only periodically or not at all
 - Frequent transactions such as wire transfers may require 60-90 or more annual samples while annual processes such as investment policy review will only have 1 annual test.



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Practical Steps

- Create Checklists and Sign-off lists.
- Create testable samples on an ongoing basis.
- Create a quarterly & monthly reporting packages to satisfy controls.
- Review docs on pre-determined periodic schedule.
- Have a methodology for incorporating new processes into your documentation.



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Create Checklists

- Use control matrix as your checklist.
- Sort controls into daily, weekly, monthly, quarterly, annual, and ad hoc.
- Assign a primary person to oversee each control, and have them:
 - create their own customized checklist
 - turn the list into a sign-off document
- Establish a reporting structure to treasury management which will ensure that the review is occurring and control is operating effectively.



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Create Testable Samples

- Know the test plan for each control and prepare documents in a way that will:
 - Provide appropriate evidence of preparation and review
 - Be conducive to testing
- Gather documents required in test plan for ongoing submission to internal audit or testers.
- Establish a system with internal audit to determine quantity and timing of test sample and pull test data on an ongoing basis to avoid excessive copying and re-filing of data.



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Use a Reporting Package

- Have a treasury operations report which is prepared quarterly or monthly and contains all your quarterly SOX compliance items
- Refer to Handout: Sample Table of Contents



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Review SOX Docs on a Schedule

- Have an assigned schedule to review and update all SOX documentation on a rotating basis during the 3 quarters prior to fiscal year end.
- Include evidence of this review in your quarterly operations report or files.
- If company does not have a defined process for updating documentation, create this for treasury and be sure all persons in treasury follow it in a consistent manner.



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New Process Methodology

- Have a methodology for incorporating new processes into your documentation.
- Focus on PCAOB Financial Statement Assertions.
- Don't overkill.
- Prepare to walkthrough new process with Internal Audit.



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Adding or Changing a Process

- Common examples
 - Change of banks
 - New custodian
 - Implement EFT batch payments program
- Similar process for all, regardless of nature of change
 - May need to update desktop procedures & policies
 - Must update SOX documentation
 - Control matrix
 - Narrative
 - Flowcharts
 - Segregation of duties schedule
 - Critical spreadsheets schedule



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PCOAB Standards

- To understand how to keep docs current, must understand how your process changes relate to the financial statement assertions:
 - Completeness & Accuracy
 - Existence & Occurrence
 - Rights & Obligations
 - Valuation & Measurement
 - Presentation & Disclosure
- Include review of Restricted Access



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Completeness & Accuracy Assertion

- There are no unrecorded assets, liabilities, transactions or events, or undisclosed items.
- You have captured a complete inventory of these items in the proper time period.
- The calculations you have used are accurate
- The methods you use to roll up data from underlying spreadsheets to your journal entries result in accurate data capture, free from errors.
- Example – Quarterly Interest Income is recorded completely, accurately and in the proper time period.



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Existence & Occurrence Assertion

- Assets or Liabilities presented really do exist as of a certain date.
- Recorded income or expense transactions or events that pertain to the company actually took place (occurred) during the period represented.
- Example – Securities held in the fire proof file or safety deposit box have been inventoried.



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Rights & Obligations Assertion

- Assets or Liabilities presented are truly rights (assets) or obligations (liabilities) of the company at the date shown.
- Example – ERISA plan assets have been excluded from the Trial Balance
- Example – All future operating lease commitments have been adequately disclosed.



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Valuation & Measurement Assertion

- An asset or liability is recorded at an appropriate carrying value (Valuation)
- An income statement transaction or event is recorded in the proper amount and revenue or expense is allocated to the proper period (measurement).
- Example – All investments have been appropriately marked to market and any pricing anomalies have been investigated.



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Presentation & Disclosure Assertion

- An item is classified, described, and disclosed in accordance with the applicable financial reporting framework.
- Example – Stock Based Compensation disclosure meets new SFAS 123R reporting requirements



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Restricted Access

- Proper segregation of duties is established
 - Access to Assets Purchasing Securities
 - Approval Authority Approving Investment Policy
 - Access to Records Making GL entries
- Access to assets & record keeping is appropriately restricted
- Example – Administration of Banking System requires dual control



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Updating Tip

- Focus your narrative on meeting the PCOAB Standards. This will ensure your updates are SOX-relevant.
- Create a checklist for your new process that answers critical questions and write these up in your narrative.
- Example - Changing Banks is used on the following slides.



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Questions to Answer

- How will you ensure and provide evidence that with the new process:
 - All transactions are recorded completely, accurately, and in the proper period?
 - Period ending balances on the balance sheet are properly valued and measured?
 - All transactions posted to the financial statements represent valid transactions of the company
 - Required disclosures are made, and items are presented in the proper way?
 - Access is restricted and appropriate segregation of duties is maintained?



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Completeness, Accuracy

- How will you provide evidence, with the new process, all transactions are recorded completely, accurately, and in the proper period (existence/occurrence)?
 - Get online access to bank's information reporting system, and download and store daily activity reports.
 - Capture all daily transactions in a spreadsheet or workstation and tie off to the ending ledger balance of the bank each day. Tie reports to use bank reports and use as supporting documentation to prepare JE's for the activity. Check JE's to ensure all activity is captured in a JE.
 - Add the new accounts are to the GL using written instructions



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Valuation, Measurement

- How will you provide evidence, with the new process, period ending balances on the balance sheet are properly valued and income or expense is properly measured?
 - Reconciliation is performed on new account to compare ending bank balance per online reports or statements to ending GL balances
 - Bank fees are reviewed and approved, and fee accruals are reconciled to actual fee payments



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Rights, Obligations

- How can you provide evidence that transactions in new account are valid transactions of company (rights/obligations of company)?
 - Account opening has been validly approved
 - Follow provisions of standard banking resolution or other corporate policy; proper number and title of persons have approved account opening; bank meets pre-determined criteria for new banks/accounts – such as credit rating of bank, purpose of account
 - Set the cash position for material accounts daily, and research unusual or unanticipated activity.
 - Account structure is conducive to monitoring activity in account (such as having account ZBA into the concentration account, which is then positioned daily or having the info reporting system show that account's activity and/or balances).



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Presentation, Disclosure

- How can you ensure and provide evidence that transactions in new account are properly presented and disclosed?
 - Are the accounts restricted cash?
 - Have you discussed the account structure and openings with Manager of GL Accounting or Divisional Controller to determine if any changes in FASB may require you to add or change current disclosures?



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Restricted Access

- How can you provide evidence that access is restricted and segregation of duties is maintained?
 - Follow provisions of standard banking resolution when assigning signatories or establishing funds transfer approvers
 - Review bank systems' segregation functionality
 - Verify the duties of authorization, access to assets, and recording of related transactions are separate. In this example:
 - Persons who authorize payments to 3rd parties by approving payment request are not the same as persons who sign checks and approve wires, and neither of these parties are the same as persons who review, approve, and post JE's or reconcile account.



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Segregation of Duties & Critical Spreadsheets

- Segregation of duties:
 - Review should be updated before any signature or funds transfer docs are signed – should be one of the first things done.
- Critical Spreadsheets:
 - Updated last, after new processes have been established.
 - Set cell protection, password protection, and restrict access to appropriate parties via directory-level access controls.



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Service Organizations & SAS 70 Reports

- Determine if a service organization is being used and if the outsourced activities are significant to the company's internal control over financial reporting.
- Determine if a Type II SAS 70 Report exists and review the activities
- If Type II SAS report does not exist determine alternative review procedures
- Example – Payroll Service updates Tax rates, used in performing withholding calculations, in a timely manner
- Refer to Handout: SAS 70 Review Template



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Questions

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