Got A Troubled Treasury Department?

By Daniel J. Carmody

CONTINUOUSLY REVIEWING AND BENCHMARKING OPERATIONS, TECHNOLOGIES AND POLICIES HELPS TREASURERS MITIGATE RISKS ASSOCIATED WITH INEFFICIENT AND OUTDATED OPERATIONS.

It's never been more important than now to be aware of all issues that could negatively impact treasury and cash operations. To gain a comprehensive understanding of an organization's current treasury challenges, many treasurers and others are conducting detailed treasury reviews.

These reviews document and benchmark current treasury processes, internal controls, disaster recovery, bank relationships, technologies and personal workload allocation, among other things. When best practices are not incorporated into each treasury review area, it could indicate a troubled treasury department.

Inefficient Treasury Process

Many treasury departments overly rely on treasury staff for routine daily processes. Though this may work for small- to mid-size organizations, once complexity is interjected into the cash-management process, consider treasury-process reengineering or treasury-automation solutions.

To determine whether a treasury department has inefficient operations, start by documenting all processes in a narrative and flowchart format. All processes should be considered, including bank polling, cash reconciliation, cash positioning and electronic fund-transfer process.

Completing a thorough process documentation will provide a detailed understanding of resources required to complete each. And documenting each process in a flowchart format allows firms to determine, at a summary level, the complexity of each process.

Once all process documentation is completed, critically review each one to determine if it is truly efficient. When reviewing the treasury process documentation, consider these questions:

- How can we streamline this process?
- Is this process secure?
- Is there technology in the marketplace that can assist us in this process?

- What are the risks if we do not enhance this process?

Assuming that there's at least one process that can be enhanced, consider work-flow modification or process-automation technology.

Work-flow modification is typically the fastest and least expensive method for implementing treasury best practices. The goal is to implement more streamlined and secure procedures while utilizing in-house technologies and resources. Changes can be as simple as emailing a document instead of faxing; or as complicated as migrating an entire process from one department to another.

Treasury-technology automation relies on either bank- or third-party software — such as treasury workstations — to enhance treasury operations. Both methods can make a meaningful improvement to an organization's treasury operations.

It is important to remember, however, that a critical review of treasury processes should be an ongoing process. Frequently reviewing treasury-management processes will help ensure the consistent implementation of treasury best practices.

NOT HAVING A TREASURY DISASTER-RECOVERY PLAN COULD BE — LITERALLY — DISASTROUS. SUCH A PLAN SHOULD INCORPORATE TREASURY PROCESSES, REMOTE ACCESS TO FINANCIAL INSTITUTIONS AND A LIST OF ALL CRITICAL CONTACTS — WITHIN AND OUTSIDE OF THE ORGANIZATION, AMONG OTHER THINGS.

Weak Internal Controls

Treasury departments are consistently being asked by senior management to assume more responsibility with the same or even less resources. It is this dynamic that can lead to weakened internal controls. Therefore, it is vital that treasury professionals consistently place internal controls at the top of their priority list when implementing any new processes or technology.

Treasury internal controls can be generally divided into three areas: process internal controls, audit trail monitoring and separation of responsibilities.

To implement better internal controls for treasury processes, many organizations should first look to their financial institutions for assistance. Many financial firms have either a software program or a Web site that can download banking reports and process electronic funds transfers.

Generally the internal controls that are built within these programs are sufficient to improve both the bank reporting and electronic-funds transfer internal controls.

A treasury department can also consider implementing a treasury workstation. After implementation, the treasury-workstation processes are established with the incorporation of all predetermined internal controls. All operators of the workstation must abide by the implemented internal controls to execute each process.

The final internal control area is the separation of responsibilities. Generally speaking, it's best to have treasury operations and treasury accounting reporting to separate supervisors and managers. By consistently separating functional areas of responsibility, the organization can help ensure that issues pertaining to one area will not be influenced by another.

Since treasury practitioners manage the organization's cash, it is also vital that internal controls are implemented, reviewed and improved frequently. The challenge of consistently improving internal controls far outweighs the risk of having poor internal controls.

What Constitutes a Disaster?

Not having a treasury department disaster-recovery plan in place could be — literally — disastrous. A disaster-recovery plan should incorporate treasury processes, remote access to financial institutions and a list of all critical contacts — within and outside of the organization, among other things.

The challenge many organizations face is determining what constitutes a disaster. Is it a disaster when you cannot make it into your office? Or is it a disaster when the organization does not have liquidity? It is the determination of the disaster that is equally as important as the creation, testing and maintenance of a recovery plan.

Treasury departments should have a clear set of criteria for when to execute their disaster-recovery plan. It is also wise to consider alternative sources for liquidity or treasury management in case a financial institution experiences a disaster.

Unbalanced Personnel Workload

Having unbalanced personnel workload allocation within a treasury department can lead to inefficient processes and potential internal control issues. Furthermore, improperly allocated workload can increase the stress level of treasury practitioners, which — in turn — can indirectly increase treasury personnel turnover.

A relatively quick method for determining if there's improper workload allocation within your department is to ask each treasury practitioner to document all of their responsibilities. Comparing each person's listed responsibilities provides a method to determine each employee's workload allocation.

A parallel project that can be conducted during the workload allocation review is updating all job descriptions. The revised job descriptions will provide assistance during employee evaluations and vacant position recruitment. Furthermore, it may discover employees in your department who have successfully taken on additional responsibility above and beyond their current job description.

Bank Relationships

In general, it's difficult to determine what the optimal number of bank relationships should be for an organization. The optimal number should be determined on a case-by-case basis and based upon current and future business requirements. The determination of the optimum number is essentially a balance between business requirements and the streamlining of treasury operations.

The challenge that many treasury departments face is that banking relationships are often determined outside of treasury's influence. Thus, an organization could have multiple bank relationships that can have a negative influence on treasury operations.

By implementing a comprehensive and efficient banking-relationship management policy, a treasury department can effectively address all business requirements while also improving operational efficiency. It is at this convergence point — when treasury requirements and business requirements meet — that the optimal number of bank relationships can be determined.

Once the optimal number of relationships is determined, the treasury department may simultaneously enhance its bank account architecture, potentially reduce bank fees and improve internal controls.

It is imperative that today's treasurer consistently implement best practices by conducting comprehensive treasury reviews. By continuously reviewing and benchmarking operations, technologies and policies, a treasurer can help mitigate the risks associated with inefficient and outdated treasury operations.

Daniel J. Carmody, *(dan@treasolution.com) is managing director of TreaSolution Inc., where he heads the Chicago firm's Treasury Consulting practice.*