CPIM Academy

CPIM

Center For Public Investment Management

A PROGRAM BROUGHT TO YOU BY:

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Cash 105

Basic Treasury Management

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Treasury Management

- Treasury Management (TM) covers all aspects involved in managing an entity's financial assets
- TM goes beyond simple cash management to deal with longer-term borrowing and investing, capitol management, and operational, financial, and reputational risk

Treasury Management

- The overall goal of treasury management (TM) is to manage the cash and related assets for an organization.

- Regardless of wealth or efficiency, there is a limited and fluctuating amount of cash and assets available at any given time.

Treasury Management Objectives

- TM is responsible to manage and use that pool of resources as efficiently and effectively as possible.

- Maintain liquidity: ensure the organization's ability to meet current and future financial obligations in a timely and cost-effective manner.

Treasury Management Objectives

TM establishes the policies and strategies that maintain the following:

- Manage holdings of non-earning cash
- Providing adequate liquidity.
- Invest excess cash to generate income
- Pay debt to reduce interest expenses

Treasury Management Objectives

- Manage Investments: Invest excess funds in a prudent manner for short/long term needs.
  - Preservation of principal is primary objective
  - Ensure liquidity and maximizing overall return
  - Investments should be conducted with a board approved investment policy

Treasury Management Objectives

- Liquidity: Maintaining access to medium and long term financing:
  - To support planned asset expansion and the organization existing asset base
  - Provides the financial flexibility needed to take strategic action when investment opportunities arise
  - Reduce excess interest expenses by monitoring debt

Treasury Roles and Responsibilities

- Board of Directors/Board of Deposit
  - Approve Policy
  - Approve new investments and exceptions
  - Set performance metrics
- Chief Financial Officer (CFO)
  - Oversee risk, tax, investor relations, investment strategy
  - Approve minor exceptions

Treasury Roles and Responsibilities

- Treasurer
  - Policy custodian
  - Manage overall financial risk
  - Distribute policy revisions
- Assistant Treasurer
  - Oversee investment activities
  - Collect performance info
  - Recommend investment variations

Treasury Roles and Responsibilities

- Cash Manager
  - Day-to-day cash management
  - Manage accounts
  - Usually reports to treasurer
- Risk Manager
  - Disaster recovery and contingency planning
  - Insurance
  - Usually reports to CFO

Treasury Roles and Responsibilities

- Internal Auditor
  - Ensures controls for operating procedures to protect against loss from inefficiency or fraud
  - Usually reports to board of directors to ensure objectivity
- Credit manager
  - Sets credit policies
  - Usually reports to CFO

Treasury Roles and Responsibilities

- Accounts payable and accounts receivable
  - Payments to/from vendors and suppliers
  - Consistent with credit terms
  - Usually reports to CFO
- Investor Relations
  - Provides outside investors with up-to-date info.
  - Usually reports to CFO

Disbursements

- Primary role of disbursements is <u>control</u>
- Funds sent and received exactly as requested by accounts payable
  - Verify payment processed and debited from disbursement account accurately
- Ensure funds availability
- Control risk/fraud

Disbursements

- May range from a single bank account to very complex systems covering multiple banks, accounts, and management products

- ZBA-Zero Balance Account
  - End of day balance is maintained at zero
  - Credits and debits that post are netted at close of each business day

Disbursements-ZBA con't

- ZBA-usually disbursement account that company issues checks, initiates ACH, or wire transfers.
  - Allows multiple divisions to initiate and segregate payments from separate accounts
  - Reduces excess balances and need for manual transfers
  - Protects main account from fraud since blocks can be applied

Disbursements

- Positive Pay: service that primarily combats check fraud
  - Company sends file of payment info to disbursement bank at or before physically sending checks
  - Bank matches check serial numbers and dollar amounts of checks presented against data-base
  - Bank pays only checks that match

Disbursements

- Controlled Disbursement: service provides same-day notice to company of checks that will clear against disbursement account on given day
  - Account is typically not funded each day until after the daily notification is received.
  - Automatic or manual funds transfer
  - Daily clearings are normally available by mid-morning

Disbursements-ACH

- Direct Deposit: Automated Clearing House (ACH)
- Transfers made from company's account to employees, vendors, and partners.
- Most common forms of ACH include:
  - Payroll
  - B2B transactions
  - Tax Payments

Disbursements-Wires

- Wire Transfers-used to make large value immediate payments
- Repetitive wires: frequent transfers to same party. Only date and dollar amount change
- Semi-repetitive: customer description changes
- Non-repetitive: debit and credit parties are different each time.

Disbursements-Wires Con’t

- Drawdown Wire:
  - Company Bank (bank A) requests other bank (bank B) to initiate a wire.
  - Wire from company’s account or another party’s account at other bank
  - Sends funds back to Bank A
  - Account being debited must pre-authorize the transfer

Disbursements

- Purchase Cards: credit cards used by business to purchase supplies and inventory
  - Purchases can be limited to approved vendors depending on merchant category code
  - Replaces paper requisition process
  - Usually provide purchase rebates
  - Delays payment for items until end of billing cycle

Manage External Vendors

- Request for Proposal-RFP
- Gathers vendor information and pricing for service needed.
- An in-depth RFP is beneficial with exception for non-commodity products (ex: printer paper)
- Align RFP with Future Objectives
    - What's working and what's not?

Manage External Vendors

- Factors that increase the mutual benefit and profitability of the vendor relationship:
  - Open and frequent two-way communication
  - Regular and timely feedback
  - Documentation of expectation of both parties in agreement and contracts
  - Fairly priced, efficient, and effective financial products
  - Complete, candid, and timely disclosure by both parties

Manage External Vendors

- Treasurer or investment board determines how many financial relationships
  - Costs of multiple relationships
  - Risk of single point of failure/concentration
  - Organizations credit needs
  - Capabilities of certain banks
  - Geography of service area

Manage External Vendors

- Often one bank is designated as the primary institution
  - Common for credit relationships
  - There may be different lead institutions for credit and other services.
- Maintaining secondary financial relationships allows the TM group to shift accounts if needed

Manage External Vendors

- Financial providers usually understand their share of business being provided.
  - Often referred to as “share of the wallet”.
  - Vendors often ask for more business

- Also beneficial to ask vendors which services they would like to provide.
  - Vendors may be stronger in certain areas

Treasury Management Conclusion

- Organizations and companies that maintain a strong TM organization are better positioned to:
  - Maintain a lower risk and durable reputation
  - Avoid public embarrassment through accountability
  - Attract and retain shareholders

Treasury Management

- Questions?