



Benchmarking Higher Education



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Agenda

Survey Background

Key Findings - Treasury Control and Governance Follow-Up

- Sarbanes-Oxley
- Policies and Procedures
- Technology
- Opportunities for Improvement

Key Findings - Debt Management Practices

- Technology
- Debt Management - Internal
- Debt Management - External
- Debt Management - Staffing

Mini Survey



Benchmarking Survey Background

- **Objectives**

1. To gather additional data on treasury control and governance practices based on feedback from last year's survey presentation.
2. To benchmark debt management practices in higher education from both an internal and external perspective.

- **Sample size:** 400 institutions

- **Response rate:** 8% (32 colleges and universities)

- **Survey completed:** 4th Quarter, 2005

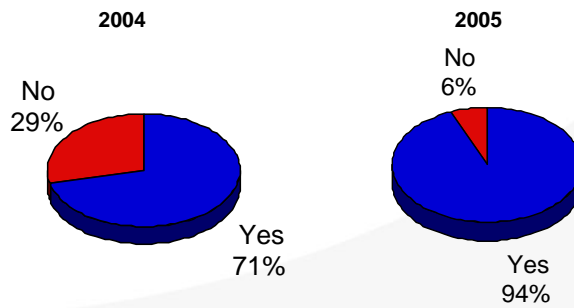
Key Findings Treasury Control and Governance Follow-Up



Key Findings - Sarbanes-Oxley

Colleges and universities have strengthened controls in response to Sarbanes-Oxley.

Has your college/university increased its focus on control and governance activities as a result of Sarbanes-Oxley?



Source: 2006 Treasury Institute Benchmarking Survey
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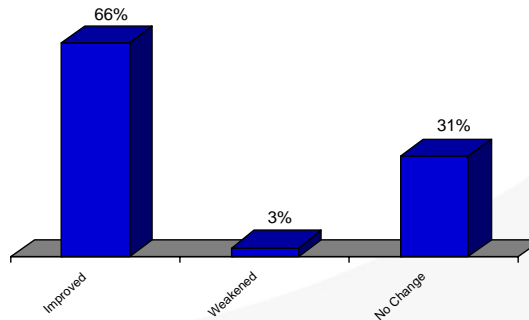
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Key Findings - Sarbanes-Oxley

During the past 12 months colleges and universities have improved controls in Treasury.

Do you feel that the controls in Treasury have improved, weakened, or stayed the same during the past 12 months?



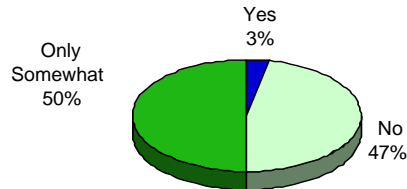
Source: 2006 Treasury Institute Benchmarking Survey
Treasury Strategies, Inc. www.TreasuryStrategies.com

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Key Findings - Sarbanes-Oxley

Most schools do not meet the compliance standards of Sarbanes-Oxley.

Do you believe that your current operational and financial reporting controls satisfy the base requirements established by the Sarbanes-Oxley act?



Areas of additional work to meet SOX standards:

- Documentation
- Establish formal policies and procedures
- Timely reconciliations
- Decentralized cash management

Source: 2006 Treasury Institute Benchmarking Survey

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Key Findings - Sarbanes-Oxley

New initiatives relative to controls and governance are being undertaken:

- Review of Sarbanes-Oxley compliance with Board
- Established audit committee of the Board
- Updating and documenting policies and procedures
- Internal control self-assessment and sub-certification
- Review by external consultants or auditors
- Enterprise risk management advisory committee
- Fraud hotline
- Adoption of fraud-related bank services
- Payee positive pay
- Ethics policy
- Treasury workstation
- ACH filters

Source: 2006 Treasury Institute Benchmarking Survey

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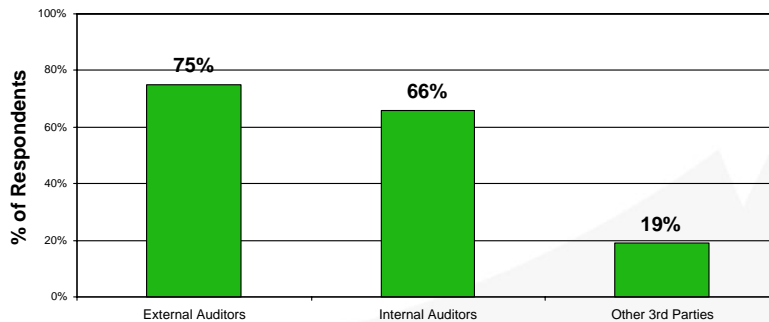
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Key Findings - Treasury Policies and Procedures

Many colleges and universities are not performing treasury control reviews on a regular basis.

Those that do were asked "Do you utilize the following groups to review your Treasury functions from a control perspective?"



Source: 2006 Treasury Institute Benchmarking Survey

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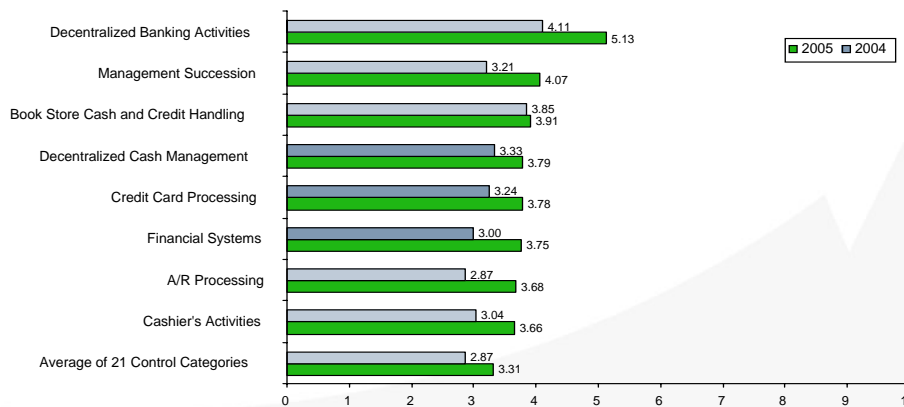
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Key Findings - Treasury Policies and Procedures

Institutions believe that control risk has increased across the board in comparison to a year ago.

Self-Assessed Control Risk (1=Lowest, 10=Highest)



Source: 2006 Treasury Institute Benchmarking Survey

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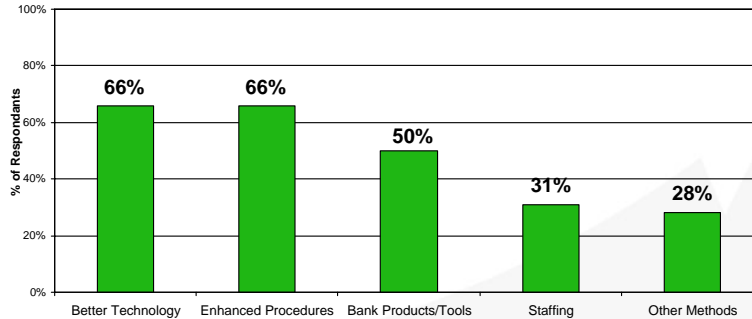
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Key Findings - Treasury Policies and Procedures

Universities and colleges plan to address treasury risk in 2006 with technology, enhanced procedures, and increased staffing.

Mechanisms to address the greatest risk within Treasury



Source: 2006 Treasury Institute Benchmarking Survey

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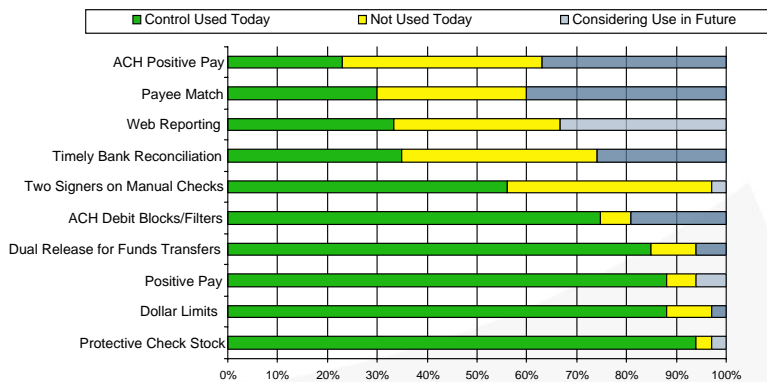
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Key Findings - Treasury Policies and Procedures

Schools currently utilize numerous core treasury controls and plan to adopt more in 2006.

Treasury's Control of Risk Management



Source: 2006 Treasury Institute Benchmarking Survey

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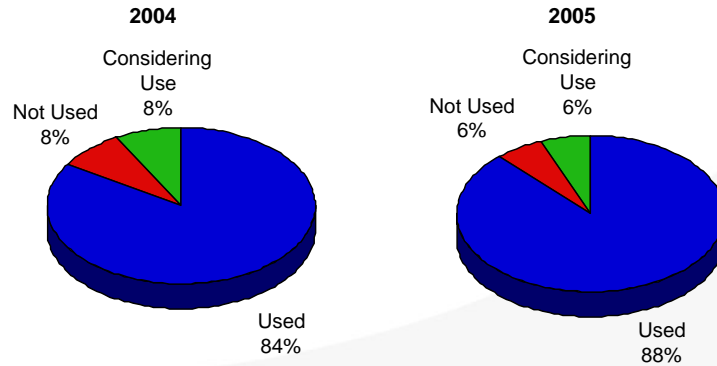
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Key Findings - Treasury Policies and Procedures

Use of positive pay is increasing among schools.

Positive Pay Usage in Higher Ed



Source: 2006 Treasury Institute Benchmarking Survey
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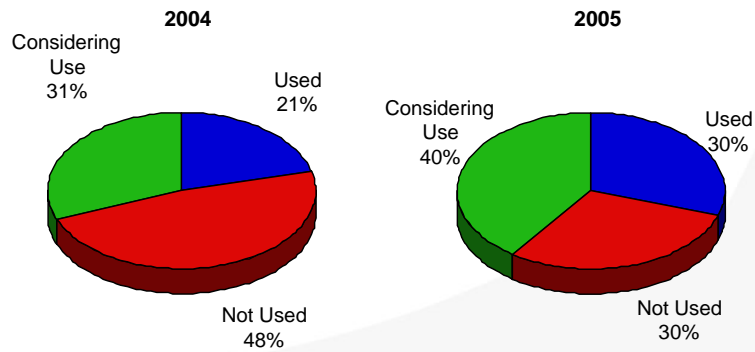
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Key Findings - Treasury Policies and Procedures

Payee Match is still an emerging technology.

Usage of Payee Match Controls



Source: 2006 Treasury Institute Benchmarking Survey
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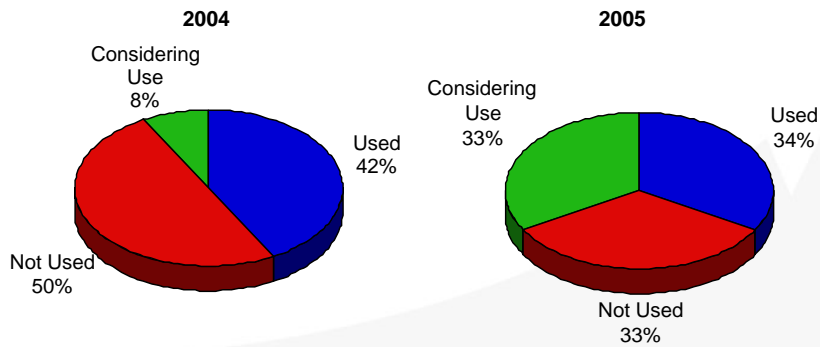
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Key Findings - Treasury Policies and Procedures

Web reporting is an important tool used by many schools to monitor accounts, detect potential fraud and remediate errors.

Use of Web Reporting



Source: 2006 Treasury Institute Benchmarking Survey
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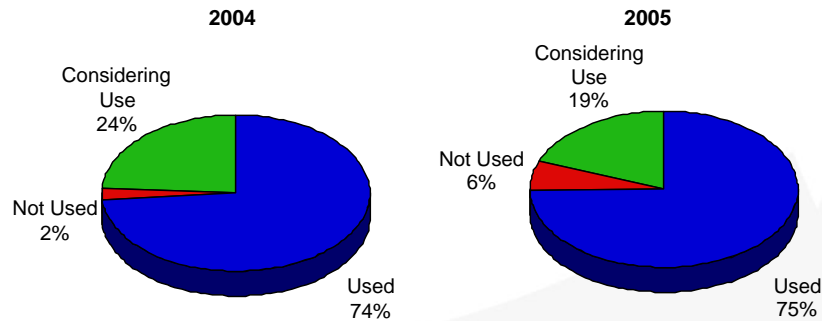
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Key Findings - Treasury Policies and Procedures

Many colleges and universities are effectively utilizing ACH debit controls.

Usage of ACH Debit Controls



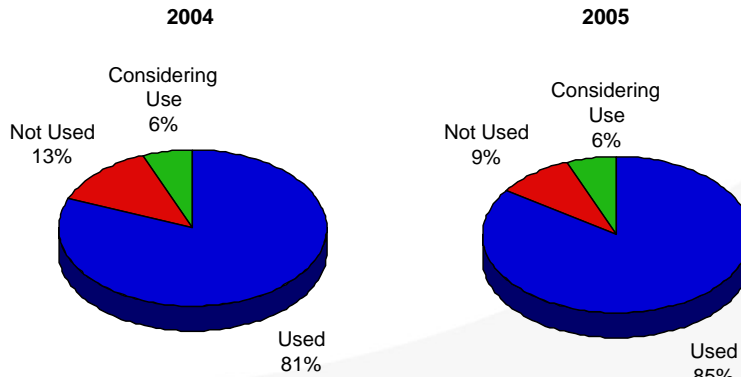
Source: 2006 Treasury Institute Benchmarking Survey
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Key Findings - Treasury Policies and Procedures

Schools are continuing to implement EFT payment controls.

Dual Release of Electronic Funds Transfers



Source: 2006 Treasury Institute Benchmarking Survey
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Key Findings - Treasury Policies and Procedures

How do you monitor/control the banking or other cash and liquidity management activities performed by units/areas outside of treasury?

- Timely reconciliation
- Centralization of cash management activities
- Limiting cash activity outside of Treasury
- Extensive internet monitoring
- Audits
- Reporting

Source: 2006 Treasury Institute Benchmarking Survey

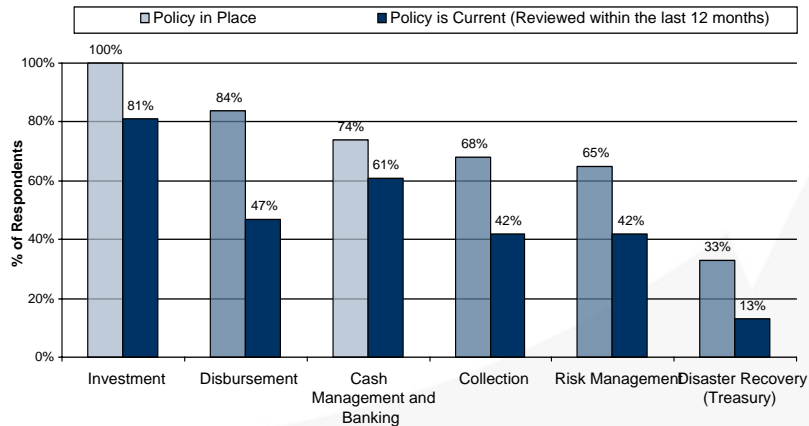
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Key Findings - Treasury Policies and Procedures

Most schools have in place updated policies for key treasury activities. However, many schools need to conduct policy reviews.



Source: 2006 Treasury Institute Benchmarking Survey
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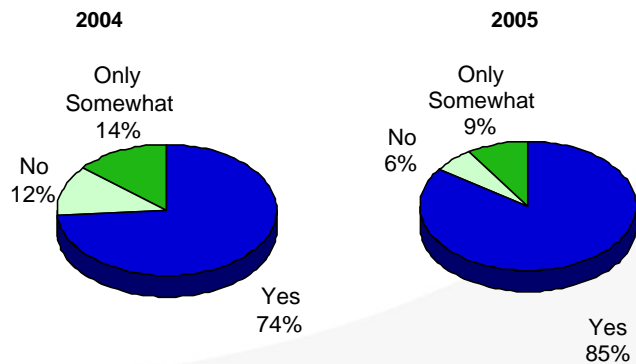
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Key Findings - Treasury Technology

Many schools believe that treasury automation has helped to mitigate risk.

Has treasury technology helped mitigate risk in your operation?



Source: 2006 Treasury Institute Benchmarking Survey

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Opportunities for Improvement

Based on the findings of this benchmarking research, the following practices require greater emphasis at many schools:

- Segregation of duties is an important fundamental control practice.
 - Always segregate responsibilities involving cash handling, accounting, reconciliation and transaction processing.
- Treasury functions should be reviewed/audited on an annual basis.
 - Reviews can be performed by internal audit, by external resources (i.e., consultants, accountants, etc.), or through self assessment techniques.
- Centralization of key treasury activities adds greater control.
 - Bank management and administration
 - Funds transfer
 - Liquidity management



Opportunities for Improvement (continued)

- Bank and vendor services and tools are available to improve general controls.
 - Positive pay and payee match
 - Debit blocks and filtering
 - Bank account reconciliation tools
 - Treasury workstation systems
- Ensure that written policies are in place, and are maintained.
 - Treasury/cash management
 - Debt and investment management
 - Disbursement activities
 - Collections
 - Disaster recovery
 - Risk management
- While SOX compliance is not mandatory in the public sector, its control standards should be viewed as a best practice.

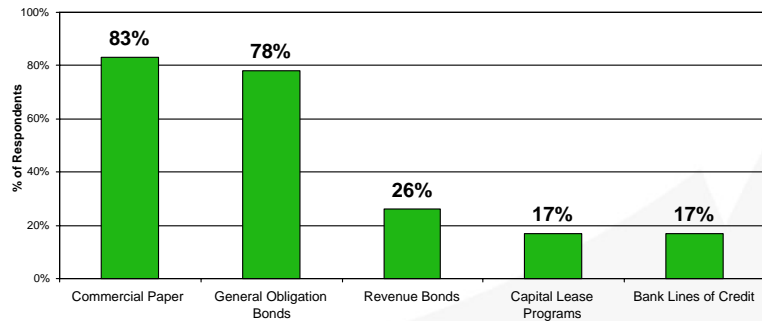
Key Findings Debt Management Practices in Higher Education



Key Findings - Debt Management Practices

Schools authorize and issue a variety of short and long-term debt instruments.

Educational Institution Debt Instrument Usage



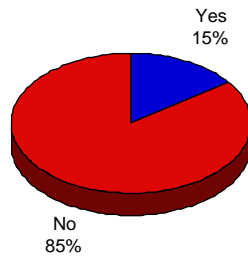
Source: 2006 Treasury Institute Benchmarking Survey

Key Findings - Debt Management Technology

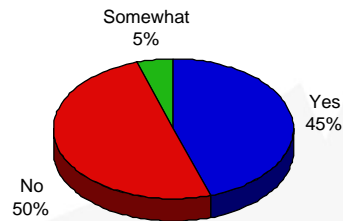
Many colleges and universities are not effectively using a system or software package to manage debt.

Debt Management Technology

Use Technology to Manage Debt



Technology has improved Debt Management



Source: 2006 Treasury Institute Benchmarking Survey
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Key Findings - Internal Debt Management

Loan process responsibilities vary across different roles

<u>Loan Process</u>	<u>Internal Loans</u>	<u>External Loans</u>
Loan compliance with internal requirements	Treasury, Finance, Controllers	Treasury, Finance, Controllers
Review and final approval	BOT, CFO, Treasurer, VP Finance	BOT, CFO, Treasurer, Provost
Signatory	Treasurer, CFO, Controller	BOT, Treasurer, Outside Bond Counsel
Establishes funds in account for loan activity	Treasury, Controllers, Accounting	Treasury, Controllers, Accounting
Collection of P&I	Treasury, Controllers, Accounting	Treasury, Controllers, Accounting
Recovery actions (in case of delinquency or inability to pay)	Treasury, Finance, General Counsel	Treasury, Finance, General Counsel

Source: 2006 Treasury Institute Benchmarking Survey

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Key Findings - Internal Debt Management

In all cases, Treasury was involved in the process!!

<u>Loan Process</u>	<u>Internal Loans</u>	<u>External Loans</u>
Loan compliance with internal requirements	Treasury , Finance, Controllers	Treasury , Finance, Controllers
Review and final approval	BOT, CFO, Treasurer , VP Finance	BOT, CFO, Treasurer , Provost
Signatory	Treasurer , CFO, Controller	BOT, Treasurer , Outside Bond Counsel
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Source: 2006 Treasury Institute Benchmarking Survey

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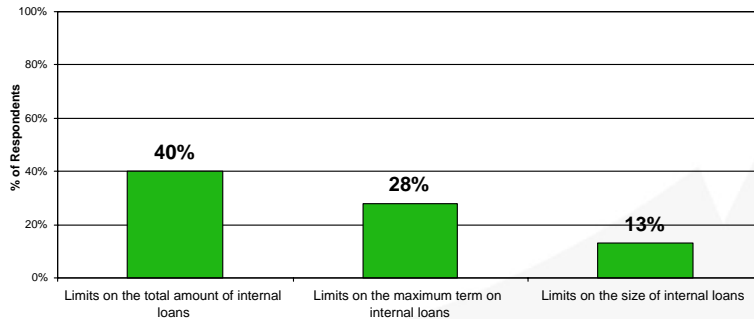
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Key Findings Internal Debt Management

Key Findings - Internal Debt Management

Few schools have established internal limits on debt amount and tenure.

Internal Debt Management Policies

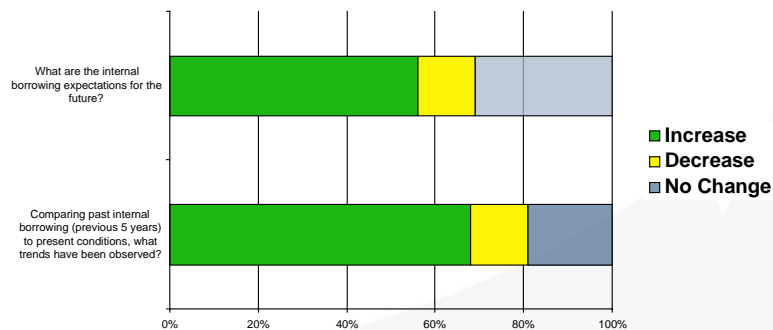


Source: 2006 Treasury Institute Benchmarking Survey

Key Findings - Internal Debt Management

Internal borrowing trends have increased over the past 5 years and institutions expect this trend to continue.

Internal Borrowing Trends and Expectations



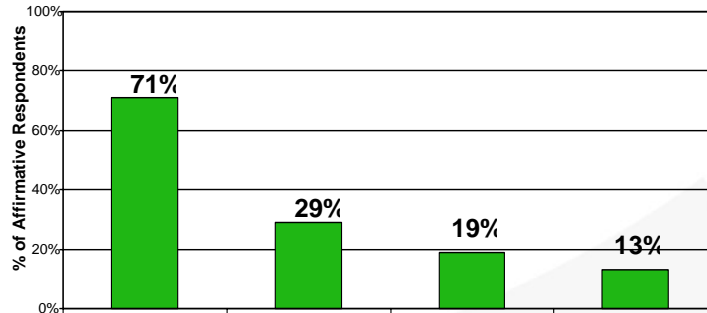
Source: 2006 Treasury Institute Benchmarking Survey



Key Findings - Internal Debt Management

Many university and college internal loans are restricted to capital projects. Few institutions offer internal loans with grace periods or interest rate caps.

Internal Loan Policies



Are there any types of projects that are forbidden for internal loan funds? Does any part of the loan process or repayment differ if a gift proceed will be used to repay it? Do internal borrowers receive any type of grace period? Is there a maximum rate that can be charged?

Source: 2006 Treasury Institute Benchmarking Survey

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Key Findings

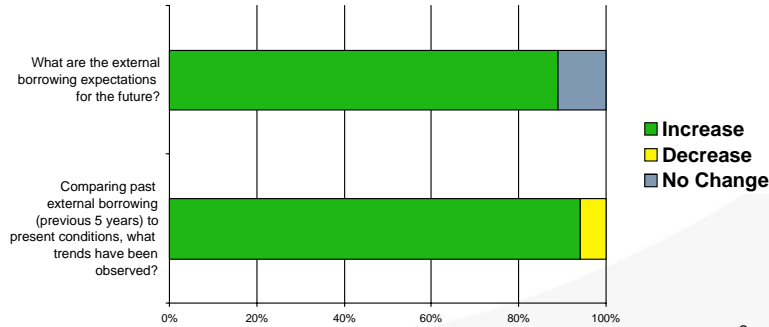
External Debt Management



Key Findings - External Debt Management

External borrowing trends have increased over the past 5 years and institutions expect additional increases in the future.

External Borrowing Trends and Expectations



Source: 2006 Treasury Institute Benchmarking Survey

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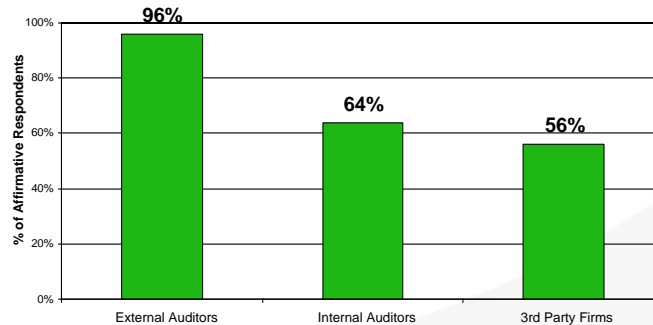
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Key Findings - External Debt Management

External loan records are reviewed regularly by auditors and other 3rd parties.

Audit Source for External Debt



Source: 2006 Treasury Institute Benchmarking Survey

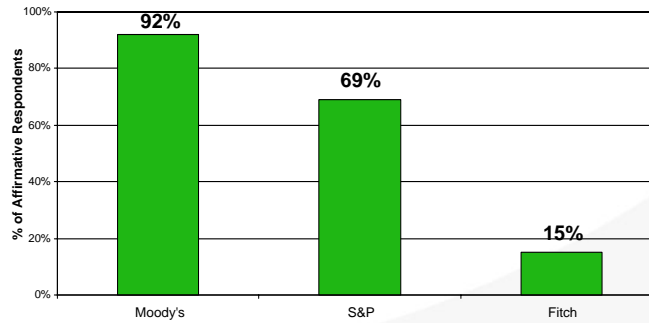
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Key Findings - External Debt Management

All respondents' external debt is rated by an outside rating agency.

Rating Agency Used

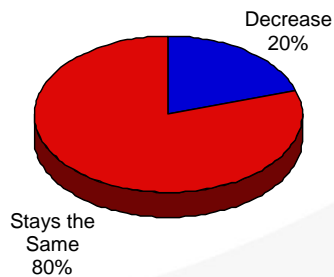


Source: 2006 Treasury Institute Benchmarking Survey

Key Findings - External Debt Management

Levels of external debt are often independent of the school's budget.

How do levels of external debt change when the school's overall operating budget decreases?



Source: 2006 Treasury Institute Benchmarking Survey



Key Findings - External Debt Management

Areas where institutions believe that they could improve loan and debt management processes:

- Setting/establishing policies
- Staffing
- Hedging
- Reporting
- Monitoring via automated real-time technology

Source: 2006 Treasury Institute Benchmarking Survey

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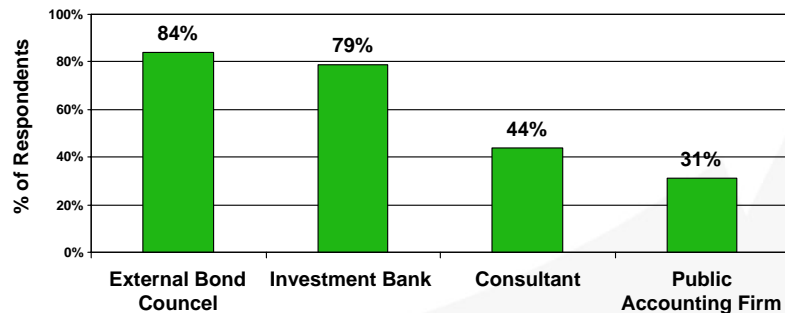
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Key Findings - External Debt Management

All respondents use external advisors to assist in the issuance/placement of new debt.

External advisor used in the issuance/placement of new debt



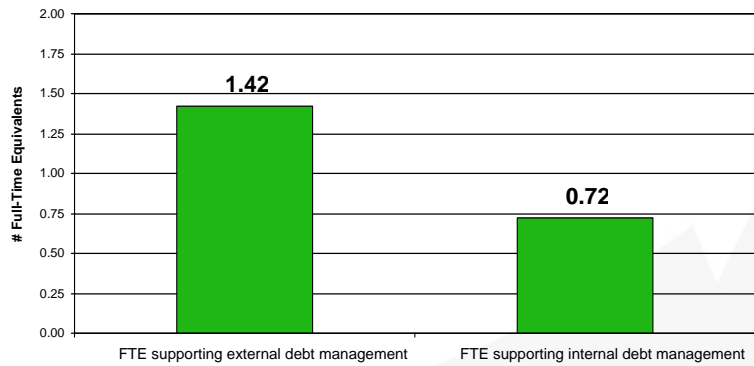
Source: 2006 Treasury Institute Benchmarking Survey

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Key Findings - Staffing Debt Management

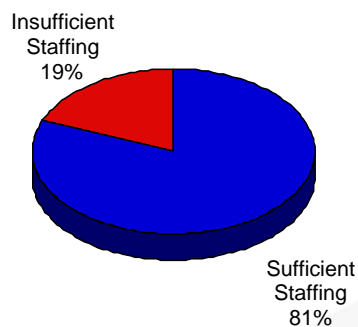
Universities and colleges report limited staffing for debt management



Source: 2006 Treasury Institute Benchmarking Survey

Key Findings - Staffing Debt Management

While debt management staffing is thin, the vast majority of respondents believe levels are sufficient.



Source: 2006 Treasury Institute Benchmarking Survey



Opportunities for Improvement

Based on the findings of this benchmarking research, the following practices require greater emphasis at many schools:

- Develop effective policies to guide internal and external debt management practices.
 - Policies provide clarity around operating parameters and process responsibilities
- Explore the benefits of debt management technology
 - Debt management systems can enhance efficiency and strengthen controls
- Develop effective reporting to support debt management activities
 - Debt related metrics
 - Comparative current and historical benchmarking



Mini Survey

Have you found this material to be valuable?

Yes Somewhat No

Why?

What other control or debt management data are you interested in?

What other topics would interest you?



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- Founded in 1982
- Consults on matters related to
 - Treasury processes and operations
 - Treasury performance
 - Treasury technology
 - Payment systems
 - Liquidity management
- Clients include users and providers of treasury services
- 40 + consulting professionals
- Offices in Chicago and New York

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