Compliance with Sarbanes-Oxley and Enterprise Risk Management Creates Best Practices in Remittance Processing for Treasury and Cash Management

Executive Summary

In 2004, Congress, at the request of the Federal Reserve, passed legislation to radically change the fundamentals of processing checks. The legislation termed Check Clearing for the 21st Century, or Check 21, is designed to enable digital images of a paper check to substitute for the actual paper check. Obviously, one of the major benefits is that paper checks no longer have to be transported to various Federal Reserve Banks and Clearing Banks for processing. Another even more noteworthy benefit of Check 21 is how fresh technologies that surround Check 21 can enable improved compliance with Sarbanes-Oxley as well as improve overall customer service, and reduce operational costs. One of the principal requirements for Sarbanes-Oxley is for corporations to document and create controls around all important financial processes. With Check 21 and its attendant technology, Remote Deposit Capture, companies are able to extend business rules and manage processes to the point of receipt of a check and to effect immediate control over the check deposit and posting portion of the cash receipts process. Because of process rules, role based activities can be enforced, service levels and service level escalation is ensured, and audit trails are established on an item basis throughout the check receipt, account posting, and reconciliation process. In addition, via integration into the corporate general ledger, faster and more accurate posting of payment information is possible.

Issues of Compliance and Risk and Process Management

Nearly five years after the passage of Sarbanes-Oxley (SOX) legislation Corporate America is still dealing with the effects, ramifications, and oversight of this sweeping legislation. In some respects one has to wonder if corporate financial reporting in the pre-Enron days was really all that bad. But, since the passage of SOX we have seen a fair number of corporate executives go to jail or be heavily fined due to their management of the financial aspects of the companies that they were charged to operate.

A recent study showed that nearly 61 percent of companies say that they have not yet completed implementation of their SOX compliance processes. Moreover, approximately 64 percent of those same companies have already identified deficiencies within their financial/ERP database environments related to SOX. As companies delve deeper into their internal financial and operational processes, they find more and more areas that need to be addressed.

In the United States as the lack of corporate financial reporting and controls were being clearly understood, another quasi compliance area began to creep into the corporate lexicon – Risk Management. There was a time when risk management meant the use of insurance and other financial products that could be acquired or used to manage the risk of loss. But, clearly risk management has evolved, spurred on by SOX, to include more than ensuring that the corporation had adequate property and liability insurance. Now, the definition of risk management includes just about every aspect of the company and a determination of “what can go wrong” and what
would the be the effect of an event causing financial harm to the corporation. So, now we have Risk Managers that look at possible events such as the effect of avian flu on the company’s workforce and how the company would or could operate in an environment where employees were quarantined and unable to work out of their usual cubicle.

A new compliance paradigm is evolving as a result of SOX and that new paradigm is to ensure compliance by deploying technology that can control a myriad of financial processes and support the resulting financial/operational reporting. For example, in purchasing, process controls can enforce authority levels and limits and enforce senior level sign-off on purchases over a predetermined limit. If an employee has authority at a set limit, any purchases that exceed that limit will be blocked or escalated to supervisors for final resolution. Also, if multiple sign-offs are required, then the deployed system will enforce those rules to ensure compliance with mandated procedures. By using technology to enforce day-to-day business processes management will have better control over those processes as well as the financial reporting that those events support or are a part.

The essence of compliance with SOX is to understand the financial processes and to utilize technology to build a fence around important processes to ensure not only compliance with SOX but with the larger corporate risk management function as well. The Federal Reserve has weighed in on the need and importance of enterprise-wide compliance and risk management noting that oversight rests with a company’s board of directors, and their oversight compliments management’s responsibility for ensuring compliance and the implementation of controls. The Fed notes, “Both large and small organizations should transition away from task oriented compliance programs to process oriented compliance programs which require compliance to be tested and validated on an ongoing basis.” A key element in the regulatory understanding of enterprise risk is a direct result of the success and value in such areas as Bank Secrecy Act and anti-money laundering compliance, information security, privacy, transactions with affiliates, and conflicts of interest.

With SOX and Enterprise Risk being closely linked in terms of compliance and risk management many corporations have embarked on a review and a re-engineering of numerous long-established back-office accounting and treasury functions. The development of the Model Treasury Office is much more than a concept it is a definite path to upgrade and improve procedures and processes and to align those processes with corporate compliance and risk management and objectives. A significant challenge in re-engineering the corporate treasury/accounting function is to bridge the gap between finance functions that emphasize greater efficiency and the finance functions that become a partner in managing the business.

A key element of moving finance into the corporate mainstream is to develop more efficient and transparent cash management and accounts receivable function throughout the entire organization, whether centralized or distributed. A significant element in creating the Model Treasury Office is to develop and implement “straight-thru-processing” along every level of the accounting/treasury operation. By incorporating straight-thru-processing, relevant processes can be leveraged to maximize cash management to help fund growth, develop new marketing opportunities, and to comply with regulations.

Managing Costs, Benefits, and Understanding the Difference

The escalating cost of compliance with SOX, Enterprise Risk Management, and other regulatory issues has been fairly well documented. Audit costs are significantly higher than they were before SOX, and those costs are added to the overall cost of the finance/accounting function. Within finance/accounting 65% of the cost of those functions is for personnel and only 12% of the costs are for information systems. If finance/accounting was a key business function such as claims in an insurance company or loan processing in a bank, the percentage of cost attributed to personnel would be significantly less than 65%. One reason for the high relative labor cost in finance and accounting is the lack of automated business processes and workflow. Most
corporations have realized the efficiencies inherent in the deployment of certain technologies that speed production, improve customer service, manage settlement processes faster, and do more with less. However, accounting and finance is an area that has seen some technological improvements such as ERP, accounting software, budget and planning software and tools, as well as improved reporting. But overall, many companies lag behind in investing in improved back-office/financial processes simply because the ROI is low or not compelling when compared to spending money in more customer facing aspects of the business. Again, primarily due to the people intensive nature of many financial processes the dilemma for many financial managers is whether to spend on technology that delivers better management information or to spend on technology that will improve processes, controls, and reduce that 65% of the departmental cost that is attributed to personnel. Compounding that decision is the current thrust for more detailed audits and auditing standards that require companies to reassess internal controls over a myriad of processes. One of the most important processes that is under scrutiny from auditors is cash and cash management.

**Strengthening Remittance Process Controls**

One Controller from a Fortune 500 company recently commented that the last major improvement in treasury was the introduction of the ten-key adding machine. If one were to look at certain processes – remittance processing, for example – you would likely see checks being processed and handled much the same way as they have been handled for the last 40 years. While companies may have invested in certain technologies for improved management of elements of the treasury/accounting areas the exigencies of Sarbanes-Oxley and Enterprise Risk Management are forcing companies to oversee financial processes at a much more granular level than ever. While a financial dashboard provides management with some high level information, those systems are not designed to deliver worker level data to management over a myriad of separate and distinct financial processes some of which are automated and many that are manual. According to SOX Section 404 requirements, each company must determine those financial statement items that require process control and documentation. In most organizations, revenue, accounts receivable, and cash receipts are significant targets for auditors and are also significant within financial reporting.

For many companies the mundane is also the most problematic. From a risk management perspective, the receipt of checks and the handling of checks is a fairly low level function that generally entails little automation and very little process documentation. However, from a risk management standpoint, fraud, lost or stolen checks, and errors in posting create reputational risk. Think of the risk to a company’s reputation when a check is lost or misplaced, and the company must go back to the customer and have them re-write a check to replace the one that was lost. Now think of the reputational damage if that company is an investment firm, and the lost check is your annual contribution to your IRA. Based on the damage that relatively simple process can cause, it behooves companies to ensure that financial processes, such as cash receipt and payments, be automated and documented to ensure accuracy.

**Check 21 and Remote Deposit Capture Aid in Compliance**

In 2004, Congress, at the behest of the Federal Reserve, passed legislation to radically change the fundamentals of processing checks. The legislation termed Check Clearing for the 21st Century, or Check 21, is designed to enable digital images of a paper check to substitute for the actual paper check. Obviously, one of the huge benefits is that paper checks no longer have to be transported to various Federal Reserve Banks and Clearing banks for processing. Another benefit is that companies have a new tool with which to improve the entire check/cash receipt process and to make that process compliant with regulatory requirements, but to also use that tool to reduce cost of operations and improve back-office functionality.

By deploying Check 21 technology that integrates into general ledger and accounts receivable systems a company now has the ability to create a straight through processing environment for all
checks whether those checks are accepted at a remote location or at the home office. With the advent of Check 21 the imaging of a check at the point of receipt is a significant benefit to business that needs to improve controls over their remittance process. Remotely capturing a check (also known as Remote Deposit Capture or RDC), enables a company with disparate locations to scan checks at the point and time of receipt, get the deposit process initiated and checks to the company’s principal bank or banks. No longer does a remote location need to copy checks, overnight checks, or physically take checks to the bank. By scanning the check, the Check 21 system should be able to accept the image of the check, digitally transfer that check image to a location or to a person responsible for completing the deposit to the bank, as well as facilitating the posting of the check directly into the A/R system for an outstanding customer balance. In addition, audit trails are established as well as ensuring that work rules are followed. Because of the systematic approach to managing the check receipt, posting, deposit, and reconciliation aspect of payments there exists an opportunity to rethink and to re-engineer the entire payment process to enhance operating efficiencies, improve compliance, and to improve treasury and cash management.

In looking at how information technology fits into Check 21 the IT Governance Institute does weigh in with some guidance on what any IT application, especially those that deal with compliance related processes should deliver. The IT Governance Institute notes that “given the Sarbanes-Oxley Act’s requirements for independent attestation of controls by external audit, controls will more than likely require the attributes and characteristics of Stage 3 or higher for key control activities.” The following chart illustrates the stages of IT controls that would be germane to Sarbanes-Oxley compliance:

![IT Controls Stages Chart](image)

Source: IT Governance Institute

When it comes to payment processing, many companies have processes that are at Stage 2 or 3 and very few companies have adopted technologies that will enable them to operate at a Stage 4 or 5. When processes are optimized, a company benefits from improved decision-making because of high quality information, internal resources are used effectively and efficiently and information is timely and reliable.
Benefits Beyond Compliance

While there are significant benefits in compliance via Check21/Remote Deposit, the operational efficiencies and cost savings of RDC to a commercial enterprise are substantial and comprised of multiple value points. Take for example, enterprises where cash on hand is invested, settlement on average of two days earlier means tens of thousands of dollars, or more, over a year of incremental interest income that is realized because the funds settle more quickly. For many large businesses, the savings from improved interest income can be in the millions of dollars. When adding the operational advantages of eliminating trips to the bank or branch, giving a business the ability to negotiate check processing fees with multiple banks, and improving control over the entire check management process it is easy to see the advantages of RDC and Check 21.

Remote Deposit Capture has four areas of operational advantage

- **Transactional** benefits include significantly reduced courier and bank fees. In many cases, multiple regional bank accounts can be consolidated into one primary account. There is no longer a need to have a bank relationship geographically convenient to the branch. Processing fees are substantially lower for check images than for other clearing methods.

- **Financial** benefits include accelerated availability of funds, later posting times, and faster notification of returns. The interest gained on earlier investment of funds virtually pays for RDC deployment. Using the Standard and Poor’s 500 Weighted Average Cost of Capital (WACC) of 15%, your savings over one year on receipts of one million per day will be $150,000!

- **Operational** benefits include time savings from reducing or even eliminating redundant data entry, simplifying bank reconciliation, and improved customer satisfaction because accounts are credited faster. Most banks accept later posting times for imaged checks. The need to photocopy checks for permanent record retention is completely eliminated. Fraudulent checks are identified faster, and a clear audit trail is available to make compliance easier.

- **Informational** benefits result from automating the process. The resulting data can be easily incorporated into enterprise business rules, process monitoring, and business intelligence systems. The capture process can be automatically posted to your accounts receivable or back-office software.

The cost of entry is low which results in a rapid return on investment primarily due to simplicity to deploy and train staff on the use of the check scanner and software. If implemented optimally, RDC provides immediate and sustained improvement in funds and operations.

Summary

Deployment of properly designed and developed Check 21/Remote Deposit Capture technology enables improved compliance at the highest levels contemplated by Sarbanes-Oxley and other regulatory or governing bodies. In addition, the advent of Check 21 offers companies an opportunity to re-think and re-engineer key business processes that surround payment processing and posting to improve compliance, to create operational efficiencies as well as phenomenal gains in working capital, audit-ability, and decreased expenses with a rapid return on investment. Choosing the right system augments this value by integrating data directly into your back office systems and infrastructure.
About RemitPro

RemitPro is a technology provider focused on treasury management and risk management applications for commercial businesses. RemitPro accelerates funds while minimizing risk through its industry leading remote deposit capture and customer authentication services. RemitPro provides Software as a Service which enables improved operational control, lower costs, and accelerated availability of funds. The RemitPro product family includes industry leading eRemitPro for remote deposit capture delivering real-time integration to accounts receivable applications, RiskAlert for customer authentication/identity validation and OFAC screening, and ICLExchange+ for normalizing standard-variant X.9.37 files among corporations and financial organizations. For more information call 877-861-0005 or email sales@remitpro.com.