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Reboot Your Treasury Workstation

Susan Albonetti
Assistant Treasurer
University of Cincinnati

Laura Delaney
VP, Assistant Treasurer
Prudential Financial, Inc.

Carole Fallon
Senior Treasury Associate
The Ohio State University

AGENDA

- Background
- Presenter/Company Information/Responsibilities
- University of Cincinnati Projects
- The Ohio State Projects
- Prudential Financial Inc. Projects
- Lessons Learned
- Questions/Follow-up
- Contact Information

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REBOOT YOUR TREASURY WORKSTATION

Reboot Background

- Decision: Use a treasury workstation?
- How to RFP? How to implement?
- Our Strategy:
  - Test drive the system(s)
  - Understand capabilities
  - Determine enhancements needed
  - Process reengineering
  - Partner with your provider
  - Be creative/think outside the box

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REBOOT YOUR TREASURY WORKSTATON

University of Cincinnati

**Susan Albonetti
Assistant Treasurer**

Functional Responsibilities Include:

- Management cash management/liquidity
- TIP (Temporary Investment Pool) Accounting
- Treasury systems – Remote deposit, lockbox, virtual vault, etc.
- Design improvements in treasury processes and procedures across campus
- Accounts Receivable
- PCI (Payment Card Industry) Compliance

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University of Cincinnati

- Premier public urban research university
- 194 years old
- Annual Budget- $1.1B (2012-2013FY)
- Enrollment- 43,000 (2014FY)
- Largest employer in greater Cincinnati
- Research University
  - First oral polio vaccine – Albert Sabin
  - First antihistamine, Benadryl – George Rieveschl
  - First program of cooperative education

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- Several Portfolios comprise TIP

  (Temporary Investment Pool)
  - Outside managed #1
  - ADDED: Outside managed #2
  - ADDED: Treasury Managed
  - ADDED: Debt Proceeds
  - Money market sweep on each

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- Added Outside managed #2
  - Securities include CMOs
    (Collateralized Mortgage Obligations)
  - Greater number of purchases and sales
  - Increased number of transactions to track
  - 35% additional transactions
  - 3 Additional Portfolios
  - "Paydown" transactions
  - Other
- Result: unplanned/unknown cash flows
- Result: Added time spent on manual entries and reconciliation

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Investment Accounting & Reconciliation of Transactions

Objectives:

- Reduce manual input of accounting transactions

- Improve workflow

- Increase productivity

- Increase automation of reconciliation of investment transactions

- Systems integration between custody bank and workstation

- Improve integrity of data/reduce errors

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Project Steps

- Plan to ensure smooth data transfer
- Meet with Vendor
- Lay out needs and document requirements
- Determine components required from file
- Determine file needed from custodian browser system
- Develop CSV file export from custodian browser system
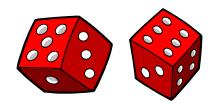- Review data at point in time and confirm veracity
- TEST

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Project challenges

- Changes in the department
- New employees
- Temporary professionals
- Time
- Competing priorities

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Planned procedures

- Import report into treasury workstation

- Run reconciliation daily

- Ensure all interest received

- Purchases, liquidations, interest, accruals are captured in the workstation.

- Agree to custody data? Use reconciliation tool in TWS

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Potential Planned Projects:

- 822 file import for bank analysis
  - Reduce manual work on review of bank fees
  - Assist in catching pricing errors

- Reconciliation of merchant account data
  - Eliminate manual reconciliation executed at each merchant department
  - Improve speed of reconciliation
  - Improve productivity

- Cash forecasts – operating cash data

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Prudential Financial Inc.

Laura Delaney

Vice President & Assistant Treasurer

Functional Responsibilities Include:

- Liquidity Operations (includes cash management and capital markets operations)

- Bank Administration (includes admin., contracts, bank compensation, state deposits, etc.)

- Treasury Systems (banking, treasury workstation, capital markets, derivative, and bank relationship systems)

- Legal Entity Management Oversight

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- Prudential Financial is one of the world's largest financial institutions.

- Prudential had 48,498 employees and sales associates worldwide as of December 31, 2012.

- Prudential Financial, through its subsidiaries, serves institutional and individual customers in more than 35 countries as of December 31, 2012.

- Prudential Financial, Inc. Common Stock began trading on December 13, 2001 on the New York Stock Exchange under the symbol "PRU."

- The Prudential Insurance Company of America traces its roots to the Prudential Friendly Society, founded by John Fairfield Dryden in Newark, New Jersey, in 1875.

- Assets under management amounted to $1.044 trillion at June 30, 2013.

- Prudential Financial has one of the largest distribution forces in the financial services industry, with 19,632 insurance sales people worldwide as of June 30, 2013

- Approximately $3.6 trillion of gross life insurance in force worldwide as of December 31, 2012.

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Prudential- background

- Department level business continuity
- Legal Entity Management Oversight
- Using a workstation for 20 years (domestic)
- Previously had separate systems for forecasting, positioning and wire transfer functions
- Single domestic solution implemented in 2010

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Prudential- TWS Functional Requirements

- Forecast Cash

- Reconcile & Position Cash

- Transfer Cash

- Maintain Bank Inventory

- What else ???

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Prudential - Technology Strategy

- Consolidate systems and processes
- Enhance controls
- Enhance consistency of data
- Leverage automation and technology
- Eliminate redundant applications and processes
- Enhance user experience
- Improve cycle time

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Prudential- Evolution of Product

Historical:

- Developed "worksheet" approach in Cash Positioning to address account roll-up (parent- child relationship)
- Enhanced controls around dual factor authentication utilizing Prudential's token id infrastructure

Current:

- Develop robust Account Administrative functionality leveraging account tables enabling us to maintain a single set of account records
- Develop flexibility to accept account administration records from external workflow tool in addition to direct input and approval
- Develop eBAM capabilities to deliver Bank Administrative SWIFT messages to banks

Future:

- Digitized signatures for authorized signature updates
- eBAM
- Bank Agreement archive

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The Ohio State University

Carole Fallon

Senior Treasury Associate

Functional Responsibilities Include:

- Investment Team $2B Short and Intermediate Fixed Income
- Cash Management
- PCI Compliance and Merchant Processing
- Treasury and Banking Systems
- Treasury Workstations – 15+ years

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The Ohio State University

- Annual Budget $5.7 billion
- Employees – 32,091
- Enrollment - 63,058
- Monetized Parking Operations– 50 year lease $483 million
- Century Bonds – 1st public university to issue 100 year Bonds
- 16th best public university - *U.S. News & World Report*
- 10 "Top 10" Graduate programs - *U.S. News & World Report*
- Wexner Medical Center - one of the country's best for 20 years
          U.S. News & World Report
- TBDBITL

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Purpose of Long Term Cash Forecast?

- Is there enough cash to pay bills?

- If "No" then borrow money or withdraw funds from investments

- If "Yes" then how long can funds be invested? (Longer term investments yield higher returns)

- Rating agencies – want to know company can pay interest and principal on borrowed funds

Building a Long Term Cash Forecast

Forecast Methods

- **Judgemental**
  - **Bottom Up – known daily cash flows**
  - Top Down – converting monthly/yearly totals into daily
  - Analogous – use patterns and seasonality
- **Statistical**
  - Monte Carlo – simulate various outcomes
  - Regression – identify relationships between various cash flows
  - Distribution Analysis

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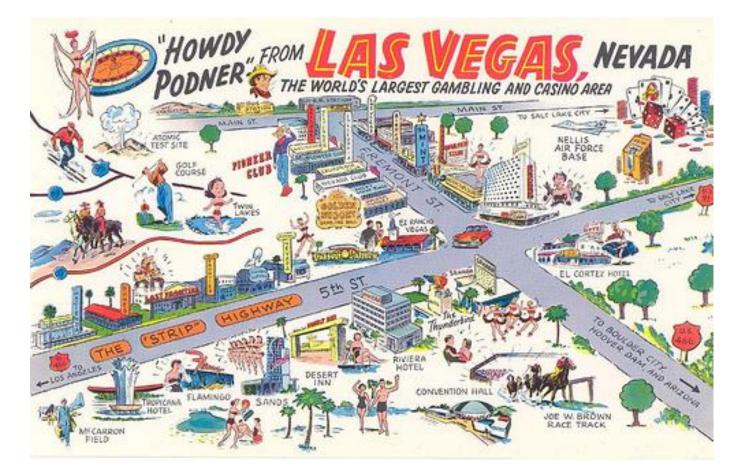
Determine Forecast Categories

Examples:

- Tuition
- Medical Center
- Payroll
- Retirement Benefits

Key Players in Determining Categories

- Treasurer and CFO
- AP
- AR
- Controller's office

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Mapping Bank Accounts and Daily Bank Transactions

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If…Then Mapping Rules

Bank Accounts

JPMXXX   ➡   Tuition

JPMYYY   ➡   Medical Center Deposits

HUNXXX   ➡   Payroll

JPMZZZ   ➡   Medical Benefits

Bank Transactions

Example:
$32,000; ACH IN; 6/27/12 ORIG CO NAME=**TICKETMASTER** LLC,ORIG ID=ENTRY DESCR=1028 IRE,ENTRYCLASS=CCDTHE OHIO STATE UNIVERS

Ticketmaster   ➡   Athletics

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Issues to Consider when Determining Forecast Categories

- **Separate Bank Accounts?**
  - Are the categories processed in a separate bank account?
  - Should separate accounts be opened?
  - **Solution** – New Tuition, New Development, and new Payroll bank account.
- **Inflows?**
  - How are deposits made to your company?
  - Check deposits have no unique bank description in BAI file.
  - **Solution** – Monthly query in PeopleSoft for Tuition, Athletics, and Medical Center and reclassify these items in TWS.
- **Outflows?**
  - How are payments made from your company?
  - Example, AP payments are made in PeopleSoft and TWS cannot identify these transactions.
  - **Solution** – ACH payments through the bank portal to separately identify payments for Payroll Taxes, Medical Benefits and Retirement Payments.
  - **Solution** – notification to Treasury and "split a record"

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TWS Report

	8/1/2013 to 8/30/2013 Forecast	8/1/2013 to 8/30/2013 Actual	8/1/2013 to 8/30/2013 Variance
1. Inflows	$0	$415,800,000	$415,800,000
ATHLETIC	$0	$500,000	$500,000
DEBT_IN	$0	$300,000	$300,000
DEPOSITS	$0	$50,000,000	$50,000,000
DEVELOPM	$0	$10,000,000	$10,000,000
MEDC_DEP	$0	$150,000,000	$150,000,000
SUBSIDY	$0	$25,000,000	$25,000,000
TUITION	$0	$180,000,000	$180,000,000
2. Outflows	$0	($360,080,000)	($360,080,000)
AP_MAIN	$0	($90,000,000)	($90,000,000)
AP_MED	$0	($45,000,000)	($45,000,000)
DEBT_OUT	$0	($80,000)	($80,000)
MED_BENF	$0	($15,000,000)	($15,000,000)
OTH_DISB	$0	($20,000,000)	($20,000,000)
PAYROLL	$0	($100,000,000)	($100,000,000)
PER_STRS	$0	($40,000,000)	($40,000,000)
STU_DISB	$0	($50,000,000)	($50,000,000)
NetCashFlow	$0	$55,720,000	$55,720,000

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Excel

Operating Fund Cash Flow for FY-2014							
	Current Month			**Current Fiscal Year-to-Date**			**Prior Y-T-D**
(in Millions)	**Actual**	**Forecast**	**Variance**	**Actual**	**Forecast**	**Variance**	**Actual**
Athletics	10.00	10.00	-	20.00	20.50	(0.50)	20.00
General Deposits (1)	20.00	25.00	(5.00)	50.00	51.00	(1.00)	45.00
Development & Donations	30.00	31.00	(1.00)	25.00	28.00	(3.00)	30.00
Medical Center	100.00	110.00	(10.00)	200.00	220.00	(20.00)	200.00
Research Found Transfers	20.00	25.00	(5.00)	40.00	45.00	(5.00)	39.00
State Subsidy	30.00	29.00	1.00	60.00	65.00	(5.00)	61.00
Tuition	175.00	150.00	25.00	225.00	230.00	(5.00)	221.00
Total Inflows	$ 385.00	$ 380.00	5.00	$ 620.00	$ 659.50	(39.50)	616.00
Accounts Payable Main	(100.00)	(95.00)	(5.00)	(150.00)	(155.00)	5.00	(140.00)
A/P Medical Center	(150.00)	(140.00)	(10.00)	(100.00)	(110.00)	10.00	(95.00)
Debt Prin/Int Payments	(10.00)	(5.00)	(5.00)	(5.00)	(1.00)	(4.00)	(1.00)
Medical Benefit	(10.00)	(15.00)	5.00	(25.00)	(30.00)	5.00	(24.00)
Payroll	(80.00)	(75.00)	(5.00)	(160.00)	(190.00)	30.00	(158.00)
Employee Retirement Ben	(40.00)	(35.00)	(5.00)	(80.00)	(90.00)	10.00	(75.00)
Payroll Taxes Paid	(30.00)	(25.00)	(5.00)	(80.00)	(85.00)	5.00	(75.00)
Total Outflows	$ (420.00)	$ (390.00)	$ (30.00)	$ (600.00)	$ (661.00)	$ 61.00	$ (568.00)
Net Operating Fund Cash Flow (JPMC, Hunt, Fifth Third)	$ (35.00)	$ (10.00)	$ (25.00)	$ 20.00	$ (1.50)	$ 21.50	$ 48.00
Management Comments:							
Current Month:							
Annual:							
(1) General Deposits - $XXXM Received 07/03/13 for the Signing Contract							

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Final Step

Reconcile to other Financial Reports

- Financial Statements – FASB, GASB
- Financial Models
- Controller's office
- Department Budgets

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Consolidated Statement of Cash Flows

CONSOLIDATED STATEMENTS OF CASH FLOWS

Cash Flows from Operating Activities:

Tuition and fee receipts
Grant and contract receipts
Receipts for sales and services
Payments to or on behalf of employees
University employee benefit payments
Payments to vendors for supplies and services

Student loans issued
Student loans collected
Student loan interest and fees collected
Other receipts (payments)

Net cash provided (used) by operating activities

Cash Flows from Noncapital Financing Activities:

State share of instruction and line-item appropriations
Additions to permanent endowments
Drawdowns of federal direct loan proceeds
Disbursements of federal direct loans to students
Disbursement of loan proceeds to related organization
Repayment of loans to related organization

Net cash provided (used) by noncapital financing activities

Cash Flows from Capital Financing Activities:

Proceeds from capital debt
State capital appropriations
Gift receipts for capital projects
Payments for purchase or construction of capital assets
Principal payments on capital debt and leases
Interest payments on capital debt and leases

Net cash provided (used) by capital financing activities

Cash Flows from Investing Activities:

Net (purchases) sales of temporary investments
Proceeds from sales and maturities of long-term investments
Investment income, net of related fees
Purchases of long-term investments

Net cash provided (used) by investing activities

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The Ohio State University
Lessons Learned

- Before "hard coding" the TWS categories, determine the forecast categories
- Meet with key management to determine categories
- Meet with departments to determine the best categories
- Review bank structure – change it
- Review bank transactions – are deposits or payments bundled? Can they be unbundled?
- Hard coded or Flexible Reports - presentation of information or additional information needed on reports.

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University of Cincinnati

Lessons Learned

- Management changes – Be aware
- Time allotment for project work
- Resources for project work
- Have a clear plan
- Plan should be as detailed as possible

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Prudential
Lessons Learned

- Develop <u>very</u> clear business requirements
- "Test Drive" the system(s)
- Collaborate with vendor on enhancements
- Participate in User Groups
- Utilize references during RFP/RFI processes
- Require release notes
- Create a detailed project plan
- Be flexible if something doesn't

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Questions?

- **Susan Albonetti susan.albonetti@uc.edu**

- **Laura Delaney laura.delaney@prudential.com**

- **Carole Fallon   fallon.82@osu.edu**

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