How to control the cash splash

CATE LUZIO EXPLAINS HOW TREASURERS CAN REGAIN CONTROL OVER EXPENSE PAYMENTS.

Recently there has been a trend for organisations to centralise their cash management and treasury functions to increase efficiencies as they expand their operations across the globe. This more centralised approach to treasury has meant that controlling the commercial cards used by the organisation's staff has become a growing concern for the treasurer, and in some cases the chief financial officer (CFO); traditionally, the procurement or travel manager kept control of the function.

Over the last few years and as a result of the financial crisis, a key challenge for organisations has been to find ways to reduce costs such as travel and expenses (T&E) spend, which typically represents between 1.5% and 3% of revenue for companies in the top travel category, according to MasterCard International. By gaining more visibility into employee spend, a company is better positioned to negotiate bigger rebates with suppliers as well as implement tighter controls and greater efficiencies in expense management. Commercial cards have now become integrated into the treasury suite and overall working capital management.

There are various types of commercial cards available today:

- Corporate cards, sometimes known as T&E cards, are expense management programmes that drive efficiencies in travel and entertainment expenses. Staff can use them globally and they can be issued in different currencies.
- Purchasing cards are generally used for lower-value purchases and to reduce the administrative burden associated with business purchasing and expenses. They provide greater control over purchasing and invoice payments with controlled spend limits.
- Virtual cards in the form of embedded accounts or lodge accounts are electronic central accounts that help consolidate billings for regular suppliers. The account numbers of virtual cards are given to authorised suppliers for use in all transactions.
- The single-use account is a virtual accounts payable tool that generates single-use numbers online through a web interface for card-not-present transactions. These tools also offer the opportunity to integrate e-invoicing or order-to-pay.

THINKING GLOBAL, ACTING LOCAL As many companies move towards a more global operating model, there has been a greater demand and expectation for issuers to make cards available in local currencies, as well as having local expertise. Some issuers are investing in their international capabilities and meeting this demand from their clients. This is achieved

through a network of alliance banks that provide local solutions, local expertise and local language capability.

The key issues are to understand the importance of thinking globally but acting locally and to support staff. JP Morgan, for example, has a global relationship manager located wherever the company is domiciled and a local relationship manager in each region. Whether dealing with the headquarters or local entities it is necessary to have someone who interacts with the client and partners within the network.

GLOBAL CARD PROGRAMMES The trend towards centralisation and globalisation will mean a continued focus on reducing back-office and operational costs. As employee spend contributes significantly towards a company's overall costs, the need to implement a global card programme and integrate it into the overall treasury suite is vital to achieving optimal cash management efficiency.

There are many benefits to implementing a global card programme. They include improved purchasing power by negotiating better rebates with suppliers, greater visibility through enhanced data reporting methods, and increased control over T&E spend.

A global card programme is fast becoming not just an addition to effective cash management, but a necessity.

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Key auditing and compliance strategies

In today's highly regulated environment, a global card programme provides the foundation and visibility tools to improve corporate spending management. Best practices and innovative strategies include the following.

- **Create checks and balances** A set of checks and balances and a segregation of duties must be established between the individuals involved in card management. As a minimum, cardholders should not be their own approving manager/executive. Different individuals must be identified for card programme responsibilities related to request, authorisation and execution.

  One leading energy company manages about 13,500 cardholders and 120,000 expense reports per year. All expense reports and associated receipts must be reviewed and approved by the cardholder's direct manager. These expense reports go through at least one review cycle.
- **Set consistent policies globally** The development of policies should support all aspects of the card programme, including card issuance guidelines, transaction controls, rules for card usage and record retention. No matter how your card management is structured, the same policies and processes should apply to all cardholders globally.
- **Mandate training** Education and a clear understanding of cardholder roles and responsibilities are vital. Companies should consider having card applicants participate in some form of training course before they receive their card.

  Employees at a leading oil company are required to take a training course every two years to continue using their card.
- **Establish controls upfront** Upfront controls and back-end auditing practices provide safeguards. Common upfront measures include cardholder transaction limits, monthly spend limits, and the blocking of unauthorised merchant category codes (MCCs).

  A pest control company has implemented single-use account technology as a way of making one-time payments to its subcontractors. Once a subcontractor's work is complete and the claim approved, a limited-use account number is issued to pay it securely. In the past, the company would pay its subcontractors by giving them a credit card number and expiry date. The director of card services says: "Subcontractors would double-charge us or charge us before the work was complete. The control is now very tight."
- **Optimise use of technology** IT is key to helping pinpoint potential card misuse and guiding the auditing process. Organisations should seek to partner with an issuer that provides web-based payment management tools to support all areas of card programme administration, including enhanced reporting and visibility of spending. Best-in-class systems enable administrators to block unauthorised purchase categories, monitor compliance, modify spending limits and cancel cards. A variety of standard reports provide the transaction detail needed for vendor analysis and delinquency monitoring.

  A leading coffee company has a programme with 4,300 cardholders and 45,000 expense reports a year. The accounts payable team uses an online reporting tool to oversee spending. A specialist identifies transactions that fall under certain restricted MCCs, as well as merchant names placed on the company's high-risk transaction list. Four or five emails are sent out each day asking cardholders for extra information on questionable transactions, copying their manager. It is an effective control if employees sense that their spending is being monitored.
- **Foster positive relationships** While monitoring and enforcement are vital to success, it is important that card programme administrators are not viewed negatively. For your programme to grow and succeed, you must establish positive relationships with your cardholder base. Create an environment where cardholders feel comfortable going to you with questions and issues. Sometimes spend limits or other restrictions need to be loosened in order for cardholders to be more effective in their job.
- **Conduct regular reviews** Card programme policies should be reviewed and updated periodically to reflect any changes in the company that affect the use of the card. As a minimum, it is recommended that reviews of the card programme policies should be scheduled annually.