UNIVERSITY OF TOLEDO INTERNAL AUDIT DEPARTMENT
BUILD LENDER RELATIONSHIPS

Control practices

The following control objectives provide a basis for strengthening your control environment for the process of building lender relationships. When you select an objective, you will access a list of the associated business risks and control practices. That information can serve as a checklist when you begin reviewing the strength of your current process controls.

This business risk and control information can help you assess your internal control environment and assist with the design and implementation of internal controls. Please note that this information is at the generic business process level and many companies will need to go beyond generic models to address the specific business processes that support the financial and nonfinancial disclosures being made. You can combine the insight of this business risk and control information with your industry-specific knowledge and understanding of your company's environment when conducting internal control assessments and designing and implementing recommendations.

Effectiveness and efficiency of operations

A. Evaluate pricing and quality of financial services and relationships.
B. Understand expectations of suppliers and meet and exceed those needs that are realistic and achievable.
C. Manage exposure to bank vulnerability risk and optimize the number of relationships.
D. Obtain accurate, complete, and timely information about the performance of financial services providers.
E. Periodically assess lender relationships to ensure that they support execution of the business strategy.
F. Use bank relationships to expand globally.

Compliance with applicable laws and regulations

A. Monitor compliance with debt covenants.

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Effectiveness and efficiency of operations

A. Evaluate pricing and quality of financial services and relationships.

Business risks

- Value received will not exceed fees paid.
- Bankers will be passive in terms of their service orientation to the company.
- Financing will not be available when needed.
- Banking services will focus on transactions rather than on relationships.

Control practices

1. Use appropriate factors to evaluate current and prospective suppliers when establishing and maintaining financial services relationships.
2. Use an all-inclusive form to gather and evaluate supporting data for the bank evaluation process, and use scores-data about quantitative processes to numerically communicate the results of the process.
3. Monitor performance of financial services providers for strengths in areas such as competitive pricing, funds availability, willingness to make loans, geographic fit with the company, global relationships, product strength, long-term credit rating, and quality of relationship management.
4. Evaluate noncommercial banking relationships using these factors: capital markets expertise, innovativeness, ability to place securities, competitive pricing, quality of relationship officer, and the range, efficiency, and quality of service.
5. Evaluate banks on their total customer approach and not just on their products.
6. Inform banks of how well they are performing so that the banks will understand why the company directs some, but not all, of its business to a particular institution.

B. Understand expectations of suppliers and meet and exceed those needs that are realistic and achievable.

Business risks

- Finance and service costs will be excessive.
- Financing will be unavailable when needed.

Control practices

1. Maintain regular contact with key banking partners.
2. Schedule periodic meetings, at least annually, with senior banking and lending personnel to discuss company operations and future financing needs.
3. Ensure lead banks receive quarterly and monthly financial information.
4. Develop a customized reporting framework that tailors information to the needs of partners in key relationships.
5. Establish clear limits that define the information that can be shared with suppliers.
6. Obtain feedback periodically from financial service suppliers and provide key bankers and lenders an opportunity to evaluate the relationship and discuss with the company how it can be approved.

C. Manage exposure to bank vulnerability risk and optimize the number of relationships.

Business risks

- Risk will increase if company financial assets and lines are concentrated in banks departing from their core business.
- The company will lose deposits and investments when banks prove insolvent.

Control practices

1. Use credit ratings and other information provided by reputable third-party services to monitor financial services providers and analyze their strength.
2. Assess the extent to which the banks enter into new business lines that exceed their core business.
3. Set a specified credit rating for banks and restrict the use of banks with ratings below that level.
4. Restrict maximum total deposits to the insured limits when doing business with banks that are experiencing financial difficulties.
5. Terminate relationships with banks lacking sufficient financial strength.
6. Expand the use of non-bank institutions for transactions involving credit exposure.
7. Develop contingency plans in case of bank vulnerability.
8. Consolidate banking relationships and increase individual volume with fewer banks in order to gain leverage and cut costs.
9. Track indicators of bank performance such as average balances with banks, average bank earning rate, earnings from balances, float activity, fees, interest on working capital, overdraft costs, earnings from interest, and earnings from foreign exchange.
10. Inform management of each bank of the percentage of the company's business the bank receives and why it has been chosen for that business.
11. Consider factors such as increased bank participation in nonfinancial business, increased linkages between banks and insurance companies, and entrance of nonfinancial institutions into the financial marketplace when evaluating bank risk.
12. Seek innovative practices relentlessly to increase the cost-effectiveness of its relationships.

D. Obtain accurate, complete, and timely information about the performance of financial services providers.

Business risks

- Excess assets will be concentrated with institutions having higher-than-acceptable risks.

Control practices

1. Obtain ratings of financial services providers from reputable agencies.
2. Require treasury staff to provide feedback about the quality of financial services received.
3. Rank banks according to an established performance evaluation system.
4. Evaluate bank accounts by comparing, over a reasonable period of time, the value of its average outstanding balances and services received to its service charges.

E. Periodically assess lender relationships to ensure that they support execution of the business strategy.

Business risks

- Financing required to support the company's strategy will not be available when needed.

Control practices

1. Select and maintain quality long-term banking and other financial service relationships.
2. Conduct periodic meetings with senior personnel of key financial services providers.
3. Approve exposures to credit loss and the processes in place to control them.
4. Establish evaluation processes to measure bank and fund manager performance and service expectations.
5. Assess the benefits of the company's banking relationships periodically against the costs of maintaining those relationships.
6. Evaluate fund manager performance regularly using quantitative measurements and outside consulting advice.

F. Use bank relationships to expand globally.

Business risks

- Management will not receive the advice it needs to succeed in the global marketplace.

Control practices

1. Cultivate key banking relationships on the basis of service quality and price rather than just price alone.
2. Communicate company needs to banks in each country.
3. Reward banks for working hard to meet company needs by giving them business in other markets.
4. Assess proposals from banks quickly.
5. Explain in detail the reasons for deciding to reject a bank proposal.

Compliance with applicable laws and regulations

A. Monitor compliance with debt covenants.

Business risks

- The company will default on its covenants, requiring accelerated payment.
- Lender relationships will be strained.

Control practices

1. Establish a process for monitoring and reporting compliance with restrictive debt covenants.
2. Ensure all applicable managers understand lender covenants and their role in maintaining a state of compliance.