



# INAFP

Inland Northwest Association for Financial Professionals

## INAFP NEWS

February 2009

[www.inafp.org](http://www.inafp.org)

### January Meeting Recap

**Financial Statement Risk in the Current Economic Environment** was the topic of January's meeting. Andy Livingston of Deloitte Touche, LLP delivered the presentation. Andy provided a great overview of how the US economy has ended up in its current dire straits. From the beginnings of the mortgage bubble burst during the summer of 2007, to the bailout package implemented by President Bush, all of the major milestones to our current economic downturn were highlighted.

Andy then went on to discuss the issues that are presently at the forefront for auditors when evaluating financial statement risk given the present state of the economy. Economic conditions have had a severe impact on balance sheets and financial results for many different reasons. The auction rate securities market effectively ceased last February, which has resulted in questions as to the fair value of formerly highly liquid investments. As operations falter during these difficult times for business, impairment of operations and of assets needs to be carefully considered. In the current illiquid environment, fair value considerations also must be looked at with a scrutinizing eye.

Pension plans have also taken a beating as the markets have suffered some of the worst results in decades. Decreases in the value of plan assets will have pre-tax, dollar-for-dollar negative consequences on the balance sheet of a company sponsoring the pension plan. This in turn will impact cash flow due to pension funding requirements, and could also potentially affect a company's debt covenant calculations.

Mr. Livingston went on to discuss income tax consequences, loan loss allowances for financial institutions, revenue recognition issues and a few other pertinent topics given today's economy. Auditors truly have a multitude of things to consider when evaluating

financial statement risk. One thing that became abundantly clear as Andy continued to talk, whether you are an auditor or an investor in today's economy, **PROCEED WITH CAUTION!**

### Best Practices for Protecting Online Payments and Financial Data Against Fraud

Fraud is a multi-billion dollar industry and corporations with transaction and trading partner databases are the top targets. E-mails pretending to be from legitimate businesses, financial institutions or government agencies trick corporate employees into providing credentials and personal information. Crimeware planted on PCs steals credentials directly, often using systems that intercept users' online account user names and passwords. The number of crimeware-spreading URLs at mid-year 2008 is 258 percent higher than in the comparable period in 2007, according to the Anti-Phishing Working Group.

Treasury and finance professionals are prime targets of Internet-based fraud because of their job responsibilities. Insider fraud is also a pervasive and costly problem. AFP's 2008 Payments Fraud and Control Survey reported that internal fraud was responsible for financial losses at 20 percent of organizations that experienced check and ACH fraud. Treasury should take a proactive approach to securing sensitive, transaction information and make data security a top priority.

The AFP Payments Advisory Group developed the comprehensive list provided below of best practices for protecting on-line payments and financial data against fraud. The best practices focus on three areas where effective action is critical: general fraud awareness and prevention; online system administration; and payment initiation.

The Advisory Group highlights two major aspects of the fight against fraud:

- Educate employees and enlist them in the effort to protect sensitive information
- Use technology, but technology alone cannot protect systems. Strong management controls are essential.

### ***General Fraud Awareness and Prevention***

- Educate employees not to share passwords or divulge account or log-in credentials to anyone.
- Warn employees against responding to online e-mail solicitations from the company's banks. These e-mails are fraudulent. Most banks have policies that prohibit the use of e-mails to request account or user ID information.
- Include employee security training as part of the new hire procedure and conduct ongoing security awareness training to educate employees about online threats and the company's security policy.
- To test employees' response to phishing, ask IT to send "fake" phishing messages to employees and monitor whether they clicked on the links or forwarded the messages to the security department.
- Confirm that all PCs in your department are protected by company firewalls and the latest virus protection software.
- Use multi-factor authentication tools offered by banks, such as tokens, digital certificates, smart cards.
- Use password management tools, including those that synchronize passwords across multiple applications and store passwords in encrypted files.
- Lock down laptops in the office with a physical device that secures the laptop to the docking station.
- Develop policies for protecting laptops off site (e.g., home, hotel, vehicle).
- Rotate banking duties among employees to help prevent collusion.

### ***Online System Administration***

- Assign dual system administrators for online cash management services.
- System administrators add or change user access to services, accounts and functions. Dual administration allows for segregation and verification of set-up and maintenance tasks.
- Assign every user a unique log-in and password. User ID sharing within departments should not be allowed, even for view-only access.
- Periodically evaluate employee job functions and remove online services that are no longer needed.
- Periodically review audit logs to confirm that employees have access only to the functions needed for their jobs.
- Require that online passwords be changed periodically.
- Use strong password formats, such as alphanumeric with length greater than five characters.
- Disable user IDs and passwords for employees on leave or extended vacation.
- Delete online user IDs as part of the exit procedure when employees leave the company.
- Ensure that your system provides an audit trail with complete reports of payment transactions, including each action involved, the user who performed the action and the date/time of the action.

### ***Payment Initiation***

- Segregate responsibilities among different employees for payments template maintenance, payments entry and payments approval.
- Establish different payment initiation and approval limits for employees based on their job level and responsibilities.
- Set up alerts to notify managers of payments initiated above a threshold amount that should warrant management attention.
- Use bank-defined ACH templates to initiate repetitive ACH transactions.
- Use bank-defined and bank-maintained wire templates for high-dollar, repetitive wire transfers.
- Require dual approval to initiate non-repetitive wire transfers, to change a repetitive wire transfer template or to change the "comments" field.
- Use the fraud defenses offered by your bank to protect your accounts from unauthorized ACH debits. ACH anti-fraud services include ACH debit blocks, ACH debit filters and ACH positive pay.

*AFP Payments Advisory Group /January 2009*

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## February's Meeting Topic

Please join us on February 25th and our speaker M. Chad Dickson from Wells Fargo for a discussion on "Treasury Solutions for Optimizing Working Capital." Learn more about initiatives to optimize working capital. Chad will be illustrating how to leverage existing and/or emerging technologies to automate business and payment processes. These initiatives provide solutions that create greater financial transparency and directly impact a company's bottom line.

Chad joined Wells Fargo as part of the Wholesale Internet and Treasury Solutions group in 2006. His focus is working with Clients and providing consulting/solutions around optimizing company's Accounts Payable and Accounts Receivable processes. Prior to joining Wells Fargo, Chad worked in the technology industry focused on deploying cutting edge financial services solutions with many of the world's largest banks. He has worked for Corillian Corporation, Metavente and EDS in consulting and sales roles, globally.

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## 2009 Northwest Summit for Financial Professionals – Save the Date!

The Twentieth Annual Conference will be held in Seattle on May 20-22. This conference brings together treasury professionals from various Northwest regions providing dynamic networking opportunities. The conference is designed for all levels of treasury management expertise including Treasury Managers, CFO's, Controllers, Accountants, Lawyers, and providers of treasury management services in both practitioner and managerial roles. We will keep you updated as the details of the conference are finalized.

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## Economic Commentary edited by Kevin Roth

Make it 13 months in a row as the U.S. economy again failed to create jobs on a net basis in January. If the fact that U.S. payrolls shrank by nearly 3.6 million jobs since January 2008 was not bad enough, Friday's (2-6-09) employment report reaffirmed that the labor markets were in a freefall. In just the past three months, 1.77 millions jobs have disappeared on a net basis—this is largest three-month decline since the end of World War II. Shrinking payrolls have led to a diminishing demand for almost everything from vehicles to credit.

The last time the U.S. economy lost more than 598,000 jobs in a single month, "Kung Fu Fighting" and "Cat's in the Cradle" were number one hits on the radio (that is, December 1974). In fact, U.S. payrolls have declined by a bigger margin only four times in the 70 year history of the Bureau of Labor Statistics' data series, with the largest being a 1.97 million decline in payrolls in September 1945. The goods producing sector, consisting primarily of manufacturing and construction, experienced a loss in payrolls of 319,000. Over the past year, this sector has seen payrolls shrink by 1.74 million workers. The service sector picture was not any more pretty—in January, payrolls shrank by 279,000 jobs with 1.77 million jobs gone over the past year. If recent history regarding revisions holds true going forward, do not be surprised to see these payroll declines upwardly revised in the coming months.

Overall, there were very few bright spots in the data. Education & health services (+45,000) and government (+6,000) were the only two major industry sectors to experience positive growth in payrolls in January. The headline unemployment rate, based upon a different survey, grew to 7.6 percent to its highest level since September 1992. Unemployment rates increased for virtually every major demographic group with the unemployment rate for high school graduates rising to 8.0 percent and those for college degree holders hitting 3.9 percent. BLS reported on Thursday that there were 626,000 initial claims made for unemployment benefits during the week ending January 31st, the largest amount since 1982.

Last week, the Federal Reserve released its latest quarterly results of its lending survey. The Senior Loan Officer Opinion Survey on Bank Lending Practices showed that financial institutions continued to tighten lending standards during the fourth quarter of 2008. However, the net percentage of survey respondents indicating that their financial institution had tightened lending standards was actually lower than what had been found in the third quarter survey.

<http://www.federalreserve.gov/boarddocs/SnLoanSurvey/200902/default.htm>

About 65 percent of respondents from domestic banks indicated that they had tightened lending standards on commercial and industrial (C&I) loans to large and middle-market firms during the fourth quarter. Even though this percentage was lower than what was reported for the third quarter, it remained higher than the peak levels observed during both the 1990 and 2001 recessions. Around nine out of ten domestic banks increased spreads of loan rates over their cost of funds for C&I loans to large and middle-market firms and to small firms. Further, a large majority of banks indicated that they were charging higher premiums on riskier loans and were increasing the costs of credit lines to firms of all sizes. Finally, approximately 70 percent of domestic banks had tightened covenants on C&I loans to large and middle-market firms.

The Federal Reserve reported on Friday (2-6-09) that consumer credit outstanding at the end of December had declined \$6.6 billion from the previous month (an annualized decline of 3.1 percent). This was the third consecutive month in which the amount of outstanding consumer credit (not including mortgages, home equity loans, and other real estate secured loans) had declined. Revolving credit had declined 7.5 percent on an annualized basis while non-revolving credit fell 0.2 percent. This was the fourth decline over the past five months in which the amount of non-revolving credit fell, reflecting (among other things) the sharp decline in the demand for (and availability of) auto loans.

From AFPonline/research/February 9, 2009



## President's Message

Greetings!

It may be hard to believe, but spring is just around the corner. May will be here before we know it, and so too will the regional conference, May 20-22 in Seattle. This year, as always, there are many fun activities planned. There are also many opportunities for continuing professional education for a good value. It should be another great event.

As members of the INAFP, there is a registration fee discount. Please let me know if you are planning on registering and I will be sure to get you the discount code. Online registration begins February 16. Visit <http://www.northwestsummit.org> for more information.

Our thanks again to Andy Livingston for his very informative presentation on ***Financial Statement Risk in the Current Economic Environment***. It was a sobering reminder that the ramifications of this economic downturn are still yet to be fully realized. Companies will continue to assess and evaluate the financial impacts of these difficult times.

This month's presentation is ***Optimizing Working Capital***. Chad Dickson from Wells Fargo will illustrate how to leverage existing and/or emerging technologies to automate business and payment processes. Keep checking the INAFP website for information on meetings in the coming months – <http://www.inafp.org>. Hope to see you at the meeting.

Sincerely,

Brian Eldred

### 2008 – 2009 Board of Directors:

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