

Organizing for cash management

Q 4-06. How might one structure a cash management organization?

A ministry of finance that desires a strong cash management program will depend on two entities: the cash management committee to guide policy and a cash management unit to direct operations. Both entities will require extensive information submitted by organizations throughout the government.

Q 4-06.01. Which organizations should form the cash management committee?

To gain a broad perspective on the sources and needs of cash resources, the cash management committee should include representatives from the macroeconomic forecasting unit, for a broad look at the economy and its impact on fiscal flows; the revenue agencies, for more detailed forecasts of receipts in the near term; the major spending units, for more detailed information about likely outflows and about resources available; the central bank, for additional macroeconomic information and to coordinate banking reserve management; the budget team of the ministry of finance, for longer-term forecasts of outflows; the debt unit of the ministry of finance, to advise them of likely financing needs; and the office of the treasurer, for overall direction of cash management operations.

Q 4-06.02. What is the purpose of the cash management committee?

The cash management committee exists to achieve broad agreement among concerned parties on initial forecasts after reviewing details and on changes as suggested by trends in macroeconomic statistics, by budget amendments, and by cash flow projections and outcomes. Based on new or amended forecasts, the committee should establish performance goals for the cash management program and recommend improvements to cash management practices. The cash management committee is not expected to direct day-to-day cash management operations.

Q 4-06.03. What are the responsibilities of the cash management unit?

The cash management unit provides the daily functions necessary to manage fiscal resources. The unit should develop forecasts of cash flows and then monitor the forecasts' performance in comparison to actual cash flows. As part of its monitoring function, the unit should prepare cash flow reports and identify and report on important variances from trends or the forecast.

With its expertise on cash management, the unit should develop and maintain government-wide policies and procedures for cash management. The unit should

thus provide leadership and direction to all ministries and departments on cash management issues.

The unit is expected to recommend continuously improvements in all aspects of cash management to strengthen internal controls and enhance available cash balances. In developing new methods, the unit will prepares risk and cost benefit analyses. The unit is also the lead organization for maintaining banking relationships.

Q 4-06.04. Where should the cash management unit be located in the government?

The cash management unit must be under the direction of the treasury. Control and direction of the unit by the treasury is most easily accomplished by locating the unit within the treasury. This does not preclude, however, locating the cash management unit outside the treasury. It may even be subsumed under the debt management unit which itself may be located outside the treasury while under the ministry of finance.

Q 4-06.05. What are desirable qualifications for a cash manager?

The ideal candidate should have a strong technical education. This is most likely achieved by a degree in finance, accounting, or economics. The candidate should be familiarity with bank operations, the banking system, and bank products.

The candidate should also be able to apply their technical skills with insights that help them to discern trends and identify risks. The manager should also have strong analytical skills that support the ability to carry out variance analysis, to analyze business processes, and to conduct cost benefit analyses.

Technical knowledge should be supplemented with excellent verbal and written communication skills and leadership skills. The ideal candidate will possess the ability to establish positive working relationships with internal and external key players. This will be necessary if the cash manager is going to sell new ideas successfully.

Q 4-06.06. What are the key information sources for the cash management function?

The cash management committee and the cash management unit will require freely shared information from many sources. The banking system, both commercial banks and the central bank, will provide information on monetary conditions. The accounting system must provide information on balances, receipts, and disbursements. Information on budget spending quotas, plans and amendments is needed to set disbursement and investment timing of cash resources. The committee and the unit must have the information and reports to monitor budget execution. The macroeconomic forecast unit will provide and interpret its current

forecast of the key economic trends. The major spending units will share information on significant variances from the current budget. The revenue institutions will provide information on major deviations from forecast in receipt flows. The debt unit will furnish information of financing that is anticipated, interest payments, and maturing debt.