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

Effectiveness and efficiency of operations

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. Establ

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

F. Use bank relationships to expand globally.

Business risks

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