

# BANKING SERVICES NEWSLETTER

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University of California

❖ Office of the President ❖

Banking Services Group

## Cash Management Moving to Banking Services Group

To further align investment functions at the Office of the Treasurer and banking operations at the Office of the President, the cash management function will be moving to the Banking Services Group in early 2007. Michael Strach, who has been managing the UC-wide cash position for over 15 years with the Office of the Treasurer, will be moving his daily cash management activities to the Banking Services Group. Michael brings with him a wealth of day to day bank operations experience as well as relationships with all of our customers in the UC family. He is responsible for analyzing hundreds of millions of dollars in daily banking transactions and accurately determining the cash funding needs for the entire UC banking system, probably before many of us even arrive at work in the morning. Through his efforts, all surplus funds are drawn off our bank accounts into the STIP investment fund. Additionally, he manages many of the transfers necessary to fund a variety of

UC and UC-affiliated operations. His knowledge will be a real asset as the Banking Services Group continues to provide innovative services to its customers. Michael will retain his current phone number and email address, but his fax number will change to (510) 287-3339.

Along with this move, we are taking the opportunity to review the design and performance of the treasury workstation used for daily positioning and reporting of cash movements between UCOP, the campuses, and the foundations. We are potentially partnering with the California State University system which is also looking for a treasury workstation solution as a result of its recent separation from the State banking relationships. CSU will now manage many of its own banking functions with a business model that now looks more like UC's. CSU's first big evolutionary step began by accepting Wells Fargo's

*(BSG Changes Continued on page 3)*

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## Payment Card Industry Update – The New PCI

In 2006, UC continued a herculean effort to bring all of our credit card processing merchants into compliance with the Payment Card Industry data security standards (PCI DSS). Each campus worked hard to register its merchants with Ambiron TrustWave (ATW), modify its systems and procedures, and then to certify compliance with the standards. In September 2006, the credit card brands announced the formation of a new organization (dubbed "PCICo") chartered with ongoing responsibility for the PCI DSS which began with a revised version of the standards ("PCI 1.1"). The

new organization is driven by the card brands, but envisions input from an advisory board which includes card issuers (banks), processors, merchants (like us), and point of sale vendors.

The PCI 1.1 rules have been released and will be applicable to those making certifications during 2007 ([www.pcisecuritystandards.org](http://www.pcisecuritystandards.org)). Although the questionnaires for the revised standards aren't yet available, we can tell where the changes will focus:

- More details on protecting stored cardholder data

*(PCI Continued on page 2)*

## News from the PCard-Travel Conference

On October 26th in San Francisco and October 27th in Oakland we had the largest UC/US Bank conference to date. Apparently, with combined volumes exceeding \$270 million, we had a lot to talk about! Day one was held at the beautiful new UCSF Mission Bay facility, and was a very informative combined meeting. Presentations included:

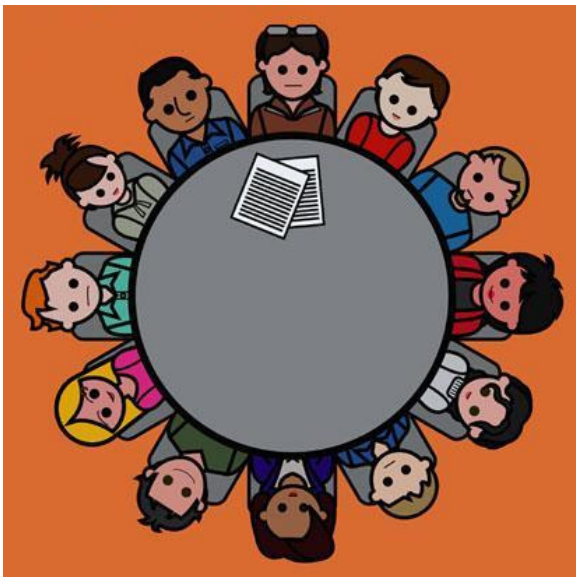
- Travel Council and Strategic Sourcing updates
- Fraud Statistics and Strategies
- Merchant Services Primer
- Disaster Planning
- Control Concerns Issues and Strategies
- Data Mining
- Purchase Card Growth Strategies and Challenges

However, the real highlight for many was the tour of the fabulous new Mission Bay campus!

Day two consisted of breakout meetings for the two groups at the Office of the President. This was the first Travel Card conference, and all agreed it was a valuable event. In 2007, the Travel Card conference will be held separately from the Procurement Card conference. Plan Ahead—2007 Conference Dates:

Travel Card: Sep. 25-26, @ UCSB

Procurement Card: Oct. 9-10 @ UCSB



## Changes afoot at US Bank

Michelle Leonard (415-922-1639, michelle.leonard@usbank.com) continues as the Corporate Card relationship manager for Berkeley, Davis, Santa Cruz, San Francisco, and all Labs. She also handles the Purchasing Cards for Berkeley, Davis, Los Alamos, and Livermore.

New to the team is Beth Houser (562-377-0258, beth.houser@usbank.com) who will handle the Corporate and Purchasing Card relationship for Irvine, Santa Barbara, Riverside, Los Angeles, Merced and San Diego.

Also new to the team is Kevin Noren (253-449-1823, kevin.noren@usbank.com) who will handle the Purchasing Card relationship for Lawrence Berkeley, San Francisco and Santa Cruz.

Susan Kisse is now supporting the California State programs and will be missed.

*(PCI Continued from page 1)*

- More detail on encryption
- New requirements for anti-virus software
- Protection requirements for web-facing applications (possible capital outlay)
- Annual training for merchants on importance of cardholder data security – at hire and annually.
- Policies and procedures to manage all connected entities

ATW has hosted online discussions of the new requirements with many of our Credit Card Coordinators and IT specialists participating. If you have responsibility for compliance and missed the sessions, contact Rich Powell for another chance to participate. We expect additional sessions when the revised questionnaires are published.

The new standards still don't provide guidance on how to apply the requirements to the wide range of merchant types found in an organization like UC. Many merchants use dial-up terminals or externally hosted payment systems. Their exposures differ greatly from an in-house eCommerce application where credit card data is stored on our servers.

We'll keep you posted as new developments arise.

# UC's Travel Management Program Takes Off

Over the last 6 months UC's new system-wide travel management program has achieved real progress towards the goal of establishing a series of preferred partners for air travel, hotel accommodations and car rentals. Direct negotiations with select air and hotel suppliers will begin shortly, and a new request for proposal soliciting price quotes for car rental services will also soon be issued. The new programs will be applied system-wide to maximize the University's leverage with suppliers. The three Travel Council teams representing air travel, hotel, and car rental services have provided valuable input to the process and all the teams will be represented in the actual negotiations.

The Agency and On Line Booking team is developing a comprehensive request for proposal on Agency services and a single On Line Booking tool to be applied throughout the UC system. The content of the RFP is based on a customer survey and focus group process conducted by UCOP, the various campuses, laboratories and medical centers. The team has identified a list of potential bidders and with Travel Council approval the RFP should be issued in February 2007. We anticipate the evaluation selection process will take 60 to 90 days.

The System Data Management and Policy Team has been active in addressing the adjustments that need to be made in order for UC to manage preferred supplier relationships in the commodity, service and policy areas. Policy compliance, data information and the measurement of the movement of market share to preferred suppliers will rely on this critical area.

## **BSG Changes** (Continued from page 1)

bid for cash management services last Fall. As our business models become similar, we hope to leverage our size, similarities, and needs as we each look to enhance our treasury workstation operations. Solutions could range from an upgrade of the current in-house developed system, to a new off-the-shelf system, to a full ground-up custom solution. Stay tuned for more on a project that will benefit us all.

Among the teams accomplishments are:

- A new system-wide travel policy currently in the approval process.
- A central office of travel management services with system-wide responsibility for the new travel program
- Development of a Mission Statement for the central office and further definition of the unit's role and duties.
- Defined local vs central responsibilities in Travel management along with initial discussions on the basic requirements for local travel program administration.
- Identified the data generated by multiple sources needed to measure the performance of preferred suppliers, authorized agencies and policy compliance.

The establishment of the central travel management office was a key step not only for the management of the system-wide program, but also for maintaining credibility and effective relationships with preferred suppliers. It also introduced a measure of support and advocacy for local campus and Lab programs. It echoes the University's commitment to

manage its T&E spend. The office, staffed by two to three associates and a director will be involved with local units in strategic sourcing, data management, benchmarking, program education and promotion, preferred supplier relationships, travel portal design and maintenance, travel policy compliance and representing the program to professional industry groups. The office also will function as an advocate for all elements in growing participation in the program.



## Administering Wells Fargo CEO

Back in 2003, Wells Fargo announced the retirement of the PC Manager desktop system in favor of the Web-based Commercial Electronic Office (CEO). For those who are unfamiliar with CEO, it is a service platform that allows user access to a number of bank account management tools such as electronic funds transfer and monthly statements. In the case of the University of California Disbursement and Payroll offices, typical user entitlements might include access to Image Positive Pay, ARP Register Maintenance,

Stop Payments, Photocopies, and Information Reporting.

Initially, CEO did not have a “self-administration” feature that would work well within the unique UC campus account structure. Consequently, most of the CEO administrative work, such as the set up of new users and corresponding privileges was managed by Wells Fargo bank personnel. A relatively recent system enhancement, however, now allows these administrative responsibilities to be managed centrally by UCOP Banking Services Group.

BSG has been working with Wells Fargo to update the fairly extensive UC roster of CEO Users, much of which is now out of date. As part of this initiative, we may be in contact with campus and medical center personnel in order to assist in the identification of obsolete User ID information.

Any new service needs associated with the management of CEO Users, or questions related to CEO administrative tasks, may now be directed to Jeff Donahue or any other UCOP Banking Services Group representative.

## New Audit Rules in Effect this Year with SAS 112

The American Institute of Certified Public Accountants (AICPA) issued its Statement on Auditing Standards (SAS) 112, in May 2006 and as a result, UC is anticipating greater scrutiny of our financial controls for the audit of our current fiscal year (2006-07). The SAS 112 standard defines three categories of ineffective internal controls and it requires auditors to communicate instances of breach to UC management and Regents. The AICPA essentially adopted the definitions from the Public Company Accounting Oversight Board (PCAOB), established under Sarbanes-Oxley. Auditors are now required to consistently apply the standards to both non-public and public entities. This is going to be significant for UC. The three categories, from lowest to greatest significance, are:

**Control Deficiency** – The design or operation of a control does not allow management to prevent or correct errors on a timely basis and it has a material impact of less than .2% of total expenses.

**Significant Deficiency** – A control deficiency or combination of control deficiencies that present more than a remote likelihood that a financial misstatement that is more than inconsequential could occur. The financial impact is greater than .2% but less than 1% of expenses.

**Material Weakness** – A significant deficiency, or a

combination of significant deficiencies, that present more than a remote likelihood that a material financial misstatement greater than one percent of expenses could occur.

These definitions will result in a “lowering of the Management Letter bar” and is expected to cause our public accountants to report a lot more matters to management and the Board. More control deficiencies are likely to be considered significant or material and will be communicated more broadly. If auditors find significant deficiencies and material weaknesses, they may have to issue an adverse opinion.



## Annual UC Cashiering Conference Largest Ever

We enjoyed record attendance at the annual UC Cashiering Conference held at UCI Medical Center on November 30th and December 1st. Banking Services Group was very appreciative of the significant effort put into the event by our local hosts, and would like to again pass along our thanks! As always, one of the primary benefits of the event was the opportunity to share ideas and “best practices” with other UC attendees. In addition to a number of very informative presentations led by UC staff, we also heard from representatives of Loomis Fargo & Co. (Loomis), Bank of America, and Global Payments Advisors.

Quite a bit of material was presented during the course of this two-day meeting. We purposely refrained from inundating the participants with too much paper, but did send out electronic copies of the presentation materials to the participants soon after the event concluded. If you did not receive copies of conference presentations, and would like to receive this information, please contact Jeff Donahue in Banking Services Group.

### A Presentation on the Future . . .

At the UC Cashiering Conference, attendees heard “prognostications” for the future of the US payment system from Dave Kurrasch, a consultant to the Banking Services Group. Dave identified a number of forces that are currently reshaping the industry. Perhaps the biggest catalyst for change is coming from large retail merchants who are fighting to lower the cost of credit card interchange fees. Dave believes that interchange rates will come down to the detriment of the credit card companies’ business models. When this happens, consumers will see their rebate and incentive cards, which carry the most expensive interchange rates, either decline in value or eliminated all together. This is one reason why the “Buy now-Pay later” proposition of today’s credit cards will gradually become less valuable to the buyer. Additional crystal-ball glimpses offered by Dave included the following forecasts.

- Debit card transaction volumes will continue to increase at the expense of credit transactions.

- PIN based debit cards will grow in dominance.
- The National Automated Clearinghouse (NACHA) will expand the categories and volume of paper checks eligible for conversion to ACH debits.
- New, easier to use and deploy devices – particularly mobile phones – will soon become the preferred payment interface.
- Enhanced authentication of payors and payees will continue to roll into the market.
- Certificates and physical tokens will be commonplace through widely distributed devices like cell phones.
- Consumer checks will virtually disappear as consumers convert to e-checks on-line and debit card transactions at retail locations. Debit will also move on-line.
- Business check volumes will remain constant, but they will be converted to electronic instruments. Check 21 image capture will convert paper to electronics. NACHA will make conversion of checks to ACH debits more pervasive.
- Solutions that combine ease of use (like PayPal, Google Pay) with enhanced safety will expand their share of the marketplace.

### What’s Up With BUS 49

Policy for Handling Cash and Cash Equivalents (BUS 49) is in the final Review stage...at long last! The policy was last updated in the 1990’s and with all of the changes in payment systems, it is overdue. The new policy, which will be distributed shortly includes:

- Updates to the UCC and NACHA requirements
- Inserts Privacy, Confidentiality, PCI and Physical Security Sections
- Strengthens the separation between policies and procedures, with a fuller disclosure of policies
- Includes considerable “how to” and “what’s this” information in the Appendices

We anticipate distribution to the revision team and the Controllers shortly. After receiving their feedback the policy will be finalized.

## Loomis Has a New Look

On November 16, 2006, Securitas, the world-wide security services company, announced that its Loomis Fargo & Co. division would assume a new brand identity by shortening its name to simply "Loomis". By doing so, Securitas and Loomis removed the last vestige to Wells Fargo Armored, which merged with Loomis Armored Inc. in 1997.



This name and organizational change should be relatively transparent to those UC locations that currently receive armored courier service through Loomis, with the exception of the "branding" changes associated with the company's logo and employee uniforms. The new logo is pictured above.

In addition, we understand that the uniforms worn by Loomis drivers will also have a very different look

later in the year. While the look of the uniforms might change, the dual identification card requirement outlined in the Loomis Identification System Brochure that's been distributed in the past should remain in place. As soon as an updated brochure providing new uniform information is available from Loomis, we will be sure to pass that information along. In the meantime, feel free to drop us a line if you'd like to receive an electronic copy of the Identification System Brochure that's currently available with Banking Services Group.

For more detail on the new Loomis company logo, see the following press release :

<http://www.securitas.com/en/News/Press-releases/Press-Releases/6812/>

## Disbursement Card Pilot Projects

Disbursement card projects in the works including: Pay, Event, and Gift Cards. Seems to be a lot of interest in the card space!

UCB has expressed an interest in piloting a pay card. Though UC's direct deposit penetration is very good, there is room to improve. Pay cards can be a way to provide a valuable service to individuals who don't have bank accounts or don't want direct deposit. Stay tuned to future issues of this newsletter to track progress.

Gift Cards may provide UCLA with the opportunity to modify their employee recognition program and Lawrence Livermore National Laboratory is hoping to convert to gift cards for payment

to blood donor research subjects. As you know the number of gift cards is increasing exponentially! UC expects to increase usage as well.

UCB is piloting a new concept in Event Cards. It is anticipated that there will be two flavors: Event Planner Cards and Event Cards. Dorothy Lawrence, who is managing this effort, is very pleased with the progress. This UCOP endorsed pilot will serve the needs of four campus departments. The functionality and robustness of the anticipated program is exciting. We expect the first cards to be issued by the end of February. Stay tuned for updates!

## Merger News: Mellon and BONY

Mellon Financial Corp and The Bank of New York have announced a merger agreement unanimously approved by each company's board of directors. The new company will be called The Bank of New York Mellon Corporation. The merger is valued at \$16.5 billion and must be approved by regulators and shareholders. It is expected to be completed early in the third quarter of 2007. The headquarters of the new company will be in New York City, but several important businesses will be headquartered in Pittsburgh. Banking Services Group does not foresee any interruption or changes to the services currently provided to the university by Mellon.

## Bank Service in Focus: Teller/Payee Positive Pay

For a number of years now, the University of California has relied on Positive Pay safeguards in order to combat the fraud associated with check disbursement activities. As many folks know, Positive Pay involves the transmission of check issue information from the customer to the bank containing serial number, issue amount, and issue date data. The bank then compares that data to items that are being presented for payment, and provides the customer "exception" information for those presented items that do not match the customer's issue file. Typically, Positive Pay exception processing is a daily routine that will periodically require a "pay" or "reject" decision from the customer within prescribed

bank deadlines. At UC, any exception items that are not acted on by the department automatically become rejected items.

A couple of years ago, campus Payroll and A/P areas took advantage of an enhancement within the Wells Fargo Positive Pay service offering that allowed for Payee Positive Pay at Wells Fargo branch locations. With this feature customers provide the bank with payee name information along with the other Positive Pay data components in their check issue file transmissions. This allows the bank to deny payment for a check presented at the teller window when the payee name does not match the information provided in the data file. This enhancement has proven to be a

very effective fraud deterrent, since it had been estimated that the vast majority (around 85%) of payee altered checks were presented for encashment at the teller window.



### Banks Expecting Growth in 2007

Bankers expect another strong year in the wholesale banking business, or so they indicated in Ernst & Young's latest Cash Management Services Survey. Bankers are anticipating extending what now look to be two solid years of growth into 2007. This would follow three years of flat to declining revenue for the segment. What is driving the growth?

Remote capture of check images is Comerica's fastest-growing cash-management offering. Merchants may begin converting them to ACH transactions under the back-office conversion rule going into effect in March.

Hubert J.P. Jolly, a managing director with Citigroup said Purchasing cards would become more popular

with workers seeking access to employer-sponsored benefits such as health savings accounts and flexible spending accounts.

Most major cash management banks let clients receive data over the Internet - the Ernst & Young survey remarked that banks can sometimes boost their revenue by providing this type of information both in paper and online. Danny Peltz of Wells Fargo said "office-in-the-pocket" applications would be one of three key themes for Wells in 2007. It's "the second coming of mobile," he said. Wells offers cash management alerts to treasurers' cell phones and similar gadgets, and the development of high-bandwidth wireless networks opens the door to new services, Mr. Peltz said. "You will be able to do a lot more with your mobile device than you ever have in the

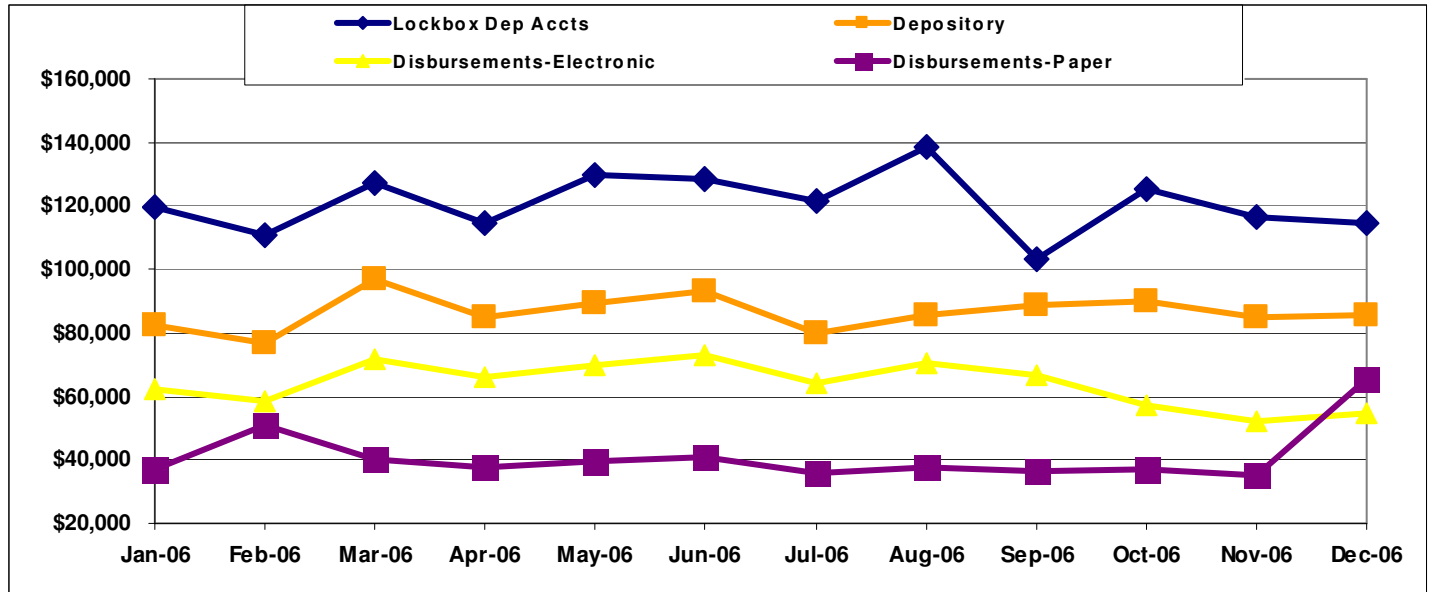
past." (adapted from *American Banker*, "The Outlook for Cash Management," Steve Bills 12/28/06)

### Mellon STP Update

Things are going well for the Mellon Project to automate all steps involved in ACH payment generation from the output by the appropriate UC System, through the receipt and confirmation by Mellon. About half of the applications have been converted and ACH payers are extremely appreciative for the elimination of the Control Totals call-in requirement. The biggest challenge has been to get the Mellon automated messages through some of our very sophisticated SPAM filters. We are very thankful to UCSB for piloting this superior method.

## Banking Fee Trends

The following trend chart shows UC's spending on four different types of bank accounts across all our bank vendors in calendar year 2006. Generally, our spending is fairly constant from month to month, but variation does occur. Banking Service Group analyzes UC's spending each month with specialized software from Weiland Financial Corp.



## Contacts

If you have questions, concerns or want to learn more about anything in this newsletter, please don't hesitate to contact us!

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## Keeping You Up-to-Date on Banking Developments

### OUR MISSION:

*Provide oversight, expertise, and leadership system-wide with respect to banking and related services used in the administration of UC funds. Recommend policies and services that promote "best practices" for all UC organizations.*

*Support clients (campuses, medical centers, labs, other UC departments) in their needs and in support of their goals by maintaining high levels of customer focus, by being responsive, and being effective in matching organizational needs with appropriate service providers.*

*Manage banking and related vendor relationships to ensure optimal pricing, consistently high levels of service and state-of-the-art services.*

*Fulfill the duties of the President, as described in the Standing Orders of the Regents, with respect to:*

- *Vendor selection for banking, credit card, and related services*
- *Bank account administration and control*
- *Bank system oversight*
- *Contract negotiation and execution for services used in the administration of UC funds.*

We're on the Web!

[www.ucop.edu/finmgt/banking/](http://www.ucop.edu/finmgt/banking/)