

FINANCIAL MANAGEMENT DEFINITIONS AND KEY MEASURES

Version 2.0.0

THE FRAMEWORK FOR PROCESS IMPROVEMENT

Experience shows that benchmarking's potential to drive dramatic improvement lies squarely in making out-of-the-box comparisons and searching for insights not typically found within intra-industry paradigms. To enable this type of beneficial benchmarking, the APQC Process Classification FrameworkSM (PCF) serves as a high-level, industry-neutral enterprise model that allows organizations to see their activities from a cross-industry process viewpoint.

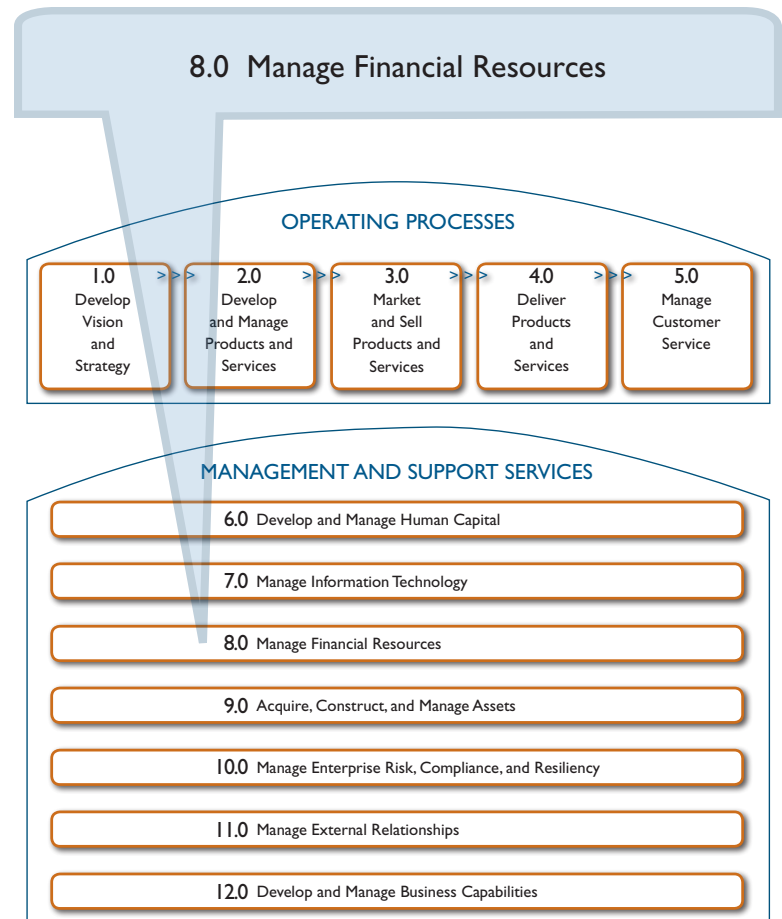
The PCF enables organizations to understand their inner workings from a horizontal process perspective, rather than a vertical functional viewpoint. The PCF does not list all processes within a specific organization, and every process listed in the framework is not present in every organization.

Originally created in 1992 by APQC and a group of members, the framework has experienced more than twenty years of creative use by thousands of organizations worldwide. The PCF is supported by APQC's Open Standards Benchmarking research. It is continuously enhanced as APQC's Open Standards Benchmarking team further develops definitions, processes, and measures. Please visit APQC's web site periodically for updates. The PCF is available for organizations of all industries and sizes at no charge by visiting www.apqc.org/pcf.

HISTORY

The Process Classification Framework was originally envisioned as a taxonomy of business processes. The initial design involved more than 80 organizations from the United States and worldwide. Since its inception, the PCF has been updated several times to reflect changes in the way organizations do business.

In response to feedback from users of the PCF, APQC regularly engages practitioners, consultants, and academics to develop definitions based on real-world experience with the processes. That collaborative effort resulted in this document: a listing of processes with definitions and selected key performance indicators from APQC's Open Standards Benchmarking repository. The definitions contained in this document are to be considered in conjunction with the PCF. The content in this document will be updated according to research performed by APQC and subsequent updates to the PCF. This document was created using PCF version 6.0.0.



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The PCF was developed by APQC and member companies as an open standard to facilitate improvement through process management and benchmarking regardless of industry, size,

or geography. The PCF organizes operating and management processes into a number of enterprise-level categories, including categories, process groups, and over 1,000 processes and associated activities. The PCF and its associated measures and benchmarking surveys are available for download and completion at no charge at www.apqc.org.

ABOUT APQC

APQC is a member-based nonprofit and one of the world's leading proponents of knowledge management, benchmarking, and best practices business research. Working with more than 750 organizations worldwide in all industries, APQC provides organizations with the information they need to work smarter, faster, and with confidence. Visit www.apqc.org or call +1-713-681-4020 and learn how to Make Best Practices Your PracticesSM.

8.0 Manage financial resources (10009)

The category *Manage financial resources* encompasses the processes associated with an organization's financial management practices. It includes the process groups *Perform planning and management accounting*, *Perform revenue accounting*, *Perform general accounting and reporting*, *Manage fixed-asset project accounting*, *Process payroll*, *Process accounts payable and expense reimbursements*, *Manage treasury operations*, *Manage internal controls*, *Manage taxes*, and *Manage international funds/consolidation*.

Key Performance Indicators:

- Number of finance function FTEs per \$1 billion revenue
- Total cost to perform finance function as a percentage of revenue
- Personnel cost to perform finance function per finance function FTE

8.1 Perform planning and management accounting (10728)

This process group encompasses financial planning processes, including preparing quarterly and annual projections of revenue, expenses, operating profit, net income, and capital investments. The processes in this group support decision making through an analysis of the organization's historical effectiveness and by recommending the most effective ways to allocate scarce resources to ensure that economic value is created for shareholders.

Key Performance Indicators:

- Total cost per \$1,000 revenue for:
 - *Perform planning and management accounting*
 - *Perform planning/budgeting/forecasting*
 - *Perform cost accounting and control* and *Perform cost management*
 - *Evaluate and manage financial performance*
- Personnel cost per FTE for:
 - *Perform planning/budgeting/forecasting*
 - *Perform cost accounting and control* and *Perform cost management*
 - *Evaluate and manage financial performance*
- Number of FTEs per \$1 billion revenue for:
 - *Perform planning/budgeting/forecasting*
 - *Perform cost accounting and control* and *Perform cost management*
 - *Evaluate and manage financial performance*
- Cycle time in days to:
 - Complete the annual budget
 - Complete the financial forecast
 - Perform financial evaluation of new products/customers/markets

8.1.1 Perform planning/budgeting/forecasting (10738)

This is the process of developing periodic plans, budgets, and forecasts to achieve organizational performance goals. This includes setting assumptions for revenue, cost levels, and cash flows expected in the pursuit of organizational growth. It includes proactive cost control and reporting on actual-versus-targeted financial results. It may also include predicting financial results for the next four-to-six quarters on a rolling-forward basis. Budgets and forecasts should reflect financial targets derived from strategic plans. They also serve as a discussion platform at regular business review meetings in which managers can decide if, how, and when to alter tactics to ensure that performance targets are achieved.

8.1.2 Perform cost accounting and control (10739)

This is the process of developing and implementing methods and models for allocating operating and overhead costs across products and/or services. This is typically used to evaluate and control product/service pricing, profitability, and trends. This includes inventory accounting, cost of sales analysis, product costing, variance analysis, and profitability reporting.

(8.1 Perform planning and management accounting continued)

8.1.3 Perform cost management (10740)

This is the process of developing and implementing methods and approaches to analyze cost drivers, improve business processes, benchmark, deploy/utilize assets and resources, and evaluate value drivers. Within this process, critical success factors and performance indicators should be determined and linked with activity-based measures.

8.1.4 Evaluate and manage financial performance (10741)

This is the process of developing and implementing a framework that guides internal decision makers as they deploy resources—financial, human, technical, etc.—in the pursuit of sustainable, profitable growth. It ensures that decisions are aligned with stated organizational goals by measuring performance against predetermined targets and managing the corrective action process.

This process includes assessing customer and product profitability, evaluating new products, lifecycle costing, optimizing the customer and product mix, tracking the performance of new customer and product strategies, preparing activity-based performance measures, and managing continuous cost improvement.

8.2 Perform revenue accounting (10729)

This process group includes recording/reporting data related to the sale of goods and/or services provided to customers. Revenue accounting, a major component of preparing formal financial statements, reflects the decisions an organization makes to recognize revenues in a given reporting period. Costs (both direct and allocated) are then applied to revenue to determine profit. *Perform revenue accounting* includes revenue recognition decisions as well as decisions about reserves held back for bad debts and outstanding liabilities such as warranties.

This process group is greatly affected by process 3.5.4 *Manage sales orders*¹, which is explained in the *Related Processes* section of this document.

Key Performance Indicators:

- Total cost to perform the order to invoice processes per \$1,000 revenue
- Total cost to perform the revenue cycle per \$1,000 revenue (deprecated)
- Total cost to perform per \$1,000 revenue for:
 - *Process customer credit*
 - *Invoice customer*
 - *Process accounts receivable*
 - *Manage and process collections*
 - *Manage and process adjustments/deductions*
- Number of FTEs per \$1 billion revenue for:
 - *Process customer credit*
 - *Invoice customer*
 - *Process accounts receivable*
 - *Manage and process collections*
 - *Manage and process adjustments/deductions*
 - Order to invoice cycle
- Personnel cost to perform *Process accounts receivable* per FTE
- Cycle time in days for:
 - credit approval
 - generating complete and correct billing data
 - transmission of invoice to receipt of payment
- Percentage of :
 - total receipts that are processed error-free the first time
 - invoice line items processed error-free the first time
 - manual receipts
- Number of:
 - invoice line items processes per *Invoice customer* FTE
 - invoices processed per *Invoice customer* FTE
 - receipts processed per *Process accounts receivable* FTE
- Days sales outstanding
- Total cost to invoice customer per:
 - invoice line item processed
 - invoice processed
- Total cost for accounts receivable per customer receipt

¹See the *Related processes* section of this document for more information about process 3.5.4 *Manage sales orders*.

8.2.1 Process customer credit (10742)

This is the process of evaluating customers' credit-worthiness. Typically performed in conjunction with the generation of an order or the creation of a new customer, this process encompasses all operations associated with credit checking including the establishment of credit policies, the analysis/approval of new account applications, the review of existing accounts, and the generation of credit/collection reports.

8.2.2 Invoice customer (10743)

This is the process of developing and delivering customer invoices. It includes creating methods and procedures for communicating and delivering invoices and statements for services and products. The process encompasses maintenance of customer/product master files, generation and transmittal of customer billing data to the customer, posting receivable entries, and resolution of customer billing inquiries. It does not include receiving payments; payment receipt is located in process 8.2.3 *Process accounts receivable*.

8.2.3 Process accounts receivable (AR) (10744)

This encompasses processing payments due from customers, including processing funds received, whether by check or electronically. This process involves establishing accounts receivable policies, receipt and deposit of customer payments, application of cash remittances, preparation of accounts receivable reports, and posting accounts receivable activities to the general ledger. It does not include generation of invoices; invoice generation is located in process 8.2.2 *Invoice customer*.

8.2.4 Manage and process collections (10745)

This is the process of coordinating and collecting payments due. This process includes generating letters and phone calls on delinquent accounts, deciding when to collect, and selecting a collection vehicle (e.g., an external agency or an in-house department). It also establishes policies for delinquent accounts, analyzes delinquent accounts, corresponds/negotiates delinquent accounts, holds internal discussions around account resolution, processes adjustments, and writes off uncollectible balances.

8.2.5 Manage and process adjustments/deductions (10746)

This is the process of receiving, rectifying, and monitoring customer adjustments and deductions resulting from warranties, claims, returns, and recalls of products and/or services. This process establishes policies/procedures for adjustments, analysis of adjustments, correspondence and negotiation with customers, internal discussions about account resolution, preparation of chargeback invoices, and processing related entries.

8.3 Perform general accounting and reporting (10730)

This process group contains processes related to managing an organization's ongoing financial records, including maintaining the chart of accounts, processing journal entries, and adjusting the organization's general ledger accounts. This group encompasses operational activities performed to close the books on a monthly, quarterly, and yearly basis as well as the recording, tracking, and depreciation of fixed assets.

Key Performance Indicators:

- Total cost of *Perform general accounting and reporting* (excluding fixed assets) per:
 - \$1,000 revenue
 - percentage of revenue
 - process FTE
- Personnel cost for *Perform general accounting* per process FTE
- Total cost for *Perform general accounting* per journal entry line item
- Total cost per \$1000 revenue to perform:
 - *Manage policies and procedures*
 - *Perform general accounting*
 - *Perform fixed-asset accounting*
 - *Perform financial reporting*
- Number of FTEs per \$1 billion revenue to:
 - *Perform general accounting and reporting (excluding fixed assets)*
 - *Perform general accounting*
 - *Perform fixed-asset accounting*
 - *Perform financial reporting*
- Cycle time in days to:
 - perform monthly close at the site level
 - complete monthly consolidated financial statements
 - produce monthly flash reports and complete the monthly consolidate financial statements (calendar days)
 - perform annual close at the site level
 - produce annual flash reports to completing consolidated annual financial statements
- Percentage of:
 - journal entry line items processed error-free the first time
 - change in business entity's gross margin over the past three years
- Number of journal entry line items per *Perform general accounting* FTE
- Number of accounts per *Perform general accounting* FTE

8.3.1 Manage policies and procedures (10747)

This is the process of controlling and updating policies and procedures related to financial management and control, including maintenance of the financial procedures manual and establishing service level agreements with internal customers/suppliers and external financial service providers.

8.3.2 Perform general accounting (10748)

This is the process of managing the general ledger including maintenance of the chart of accounts and processing journal entries, allocations, period-end adjustments (e.g., accruals, currency conversions), and intercompany transactions. It also encompasses reconciliation of general ledger accounts and intercompany transactions, preparation of the trial balance, and preparation and posting of management adjustments.

8.3.3 Perform fixed-asset accounting (10749)

This is the process of accounting for fixed-asset transactions including additions, retires, transfers, adjustments, and depreciation expenses. This process includes establishing fixed-asset policies and procedures, recording entries to the fixed-asset register, tracking fixed assets through physical inventories, and calculating and recording depreciation and expenses related to fixed-asset maintenance and repair. This process often supports tax, statutory, and regulatory reporting by providing data on fixed assets to the appropriate departments.

Fixed-asset projects that were proposed, pursued, and capitalized under process group 8.4 *Manage fixed-asset project accounting* are thereafter maintained within process 8.3.3, under the auspices of general accounting and reporting unless a project is initiated to dispose of the asset, in which case the project is again covered in process group 8.4.

8.3.4 Perform financial reporting (10750)

This is the process of gathering and consolidating periodic financial performance data and presenting snapshots of financial results for corporate-level, business unit-level, or department-level decision makers. These snapshots take the form of highly structured financial statements and may show comparisons with previous periods, various profitability or growth ratios, cost consumption rates, or even FTE deployment data.

8.4 Manage fixed-asset project accounting (10731)

This process group encompasses the financial planning and supervising of projects involving fixed assets (capital projects), including additions, retires, transfers, adjustments, and depreciation expenses. This group typically relates to the acquisition or disposal of fixed assets.

New fixed assets for the business that result from these projects will then be tracked under process 8.3.3 *Perform fixed-asset accounting*.

Key Performance Indicators:

- Total cost to perform *Manage fixed-asset project accounting* per \$1,000 revenue
- Number of FTEs per \$1 billion revenue for *Manage fixed-asset project accounting*

8.4.1 Perform capital planning and project approval (10751)

This is the process of developing capital investment policies and procedures and implementing them to create and approve the capital expenditure plan and budget. This includes performing justification for project approvals as well as reviewing and approving capital projects and fixed-asset acquisitions. This process covers the construction of a business case for a capital project.

8.4.2 Perform capital project accounting (10752)

This is the process of managing and accounting for ongoing activities related to capital projects including creating new projects, recording project transactions, monitoring and tracking spending, closing and capitalizing projects, and measuring financial returns on completed projects. Once a project is closed and the asset is capitalized, accounting for that asset is no longer part of this process; it is performed under process 8.3.3 *Perform fixed-asset accounting*. Once the project is capitalized, it is a fixed asset.

8.5 Process payroll (10732)

This process group consists of reporting time, managing pay, and processing taxes. Payroll administration tasks as defined under 6.4.4 *Administer payroll*² are not considered in scope for 8.5 *Process payroll*.

Key Performance Indicators:

- Total cost of *Process payroll* per:
 - percentage of revenue
 - disbursement
 - \$1,000 revenue
 - employee paid
 - manual check/payment
 - payroll FTE
- Personnel cost to perform *Process payroll* per \$1,000 revenue
- Total cost to perform *Report time* per:
 - \$1,000 revenue
 - employee paid
 - time record processed
- Total cost to perform *Manage pay* per:
 - \$1,000 revenue
 - employee paid
 - payroll disbursement
- Total cost to perform *Report payroll taxes* per:
 - \$1,000 revenue
 - 1,000 employee paid
- Number of FTEs for *Process payroll* per \$1 billion revenue
- Number of FTEs for *Manage pay* per \$1,000 employees paid
- Cycle time in business days to process payroll
- Number of employees paid per *Process payroll* FTE
- Number of time records processed per *Report time* FTE
- Percentage of employees receiving payroll disbursements via direct deposit
- Number of payroll disbursements processed per *Manage pay* FTE

8.5.1 Report time (10753)

Capturing employee time information and recording data in the time reporting system for use by payroll, benefits, billing (depending on business model), etc. Preparing data for payroll and benefits usage by analyzing and reporting paid and unpaid leave; monitoring regular, overtime, and other hours; and analyzing and reporting employee utilization. This includes establishing policies and procedures for reporting time, management activities, and system maintenance to effectively capture and report on employee time.

8.5.2 Manage pay (10754)

This is the process of calculating employee payroll for each pay period, including bonus runs throughout the year, and transmitting payments to employee accounts or directly to employees. It includes maintaining and administering employee earnings and deductions, monitoring changes in tax status in order to prepare the payroll each period, responding to all payroll-related inquiries, and processing adjustments and/or manual corrections as appropriate. This process also encompasses management activities and payroll system/interface maintenance to ensure accurate payments.

8.5.3 Report payroll taxes (10755)

This process ensures regulatory and statutory compliance for payroll tax obligations on behalf of the organization. This includes filing regulatory payroll tax forms in a timely manner and calculating and paying applicable payroll taxes. The production and distribution of employee tax statements on an annual basis (e.g., W-2s in the U.S. or local equivalent) is also covered in this process.

²See the *Related processes* section of this document for more information about process 6.4.4 *Administer payroll*.

8.6 Process accounts payable and expense reimbursements (10733)

This process consists of processing payments for operating expenses and other supplier charges, which includes verifying of accounts payable with vendor records, maintaining and managing electronic commerce, auditing invoices and approving payments, processing financial accruals and reversals, processing payments and taxes, researching and resolving exceptions, and adjusting accounting records. It also develops policies and procedures around processing of accounts payable and all related operations. Technology is typically key to achieving top performance in this process.

Key Performance Indicators:

- Total cost to perform *Process accounts payable and expense reimbursements* per \$1,000 revenue
- Number of FTEs for *Process accounts payable and expense reimbursements* per \$1 billion revenue
- Total cost of *Process accounts payable* per:
 - percentage of revenue
 - per \$1,000 revenue
 - disbursement/payment
 - invoice line item processed
 - invoice processed
- Total cost of *Process expense reimbursements* per:
 - percentage of revenue
 - \$1,000 of revenue
 - \$1,000 of T&E expenditures
 - per T&E disbursements
- Personnel cost per process FTE to perform:
 - *Process accounts payable*
 - *Process expense reimbursements*
- Cycle time for:
 - receipt of invoice until approved and scheduled for payments (in days)
 - receiving invoice until payment is transmitted (in days)
 - entering invoice data into the system (in hours)
 - approving and scheduling T&E reimbursements (in days)
- Percentage of:
 - disbursements that are first time error-free
 - invoice line items paid on time
 - invoice line items that are matched the first time
 - invoice line items received electronically
 - discounts available that are taken
 - expense report exception line items
- Number of disbursements per *Process accounts payable* FTE
- Number of invoice items processed per *Process accounts payable* FTE
- Number of invoices processed per *Process accounts payable* FTE
- Number of FTE to perform *Process accounts payable* per \$1 billion revenue
- Number of expense report line items per *Process expense reimbursements* FTE
- Number of T&E disbursements per *Process expense reimbursements* FTE

8.6.1 Process accounts payable (AP) (10756)

This process includes processing payments for operating expenses and other supplier charges. It also encompasses development of policies and procedures around processing accounts payable and all related operations. This process is often supported by key technology enablers.

8.6.2 Process expense reimbursements (10757)

This process includes approval and processing of advancements and reimbursements for employee expenses on the organization's behalf as well as capturing and reporting relevant tax data and managing personal accounts. This process often dovetails with processing accounts payable and includes development and use of policies and procedures.

8.7 Manage treasury operations (10734)

This process group includes management of treasury policies and procedures, cash, in-house bank accounts, debts, investments, and financial risks.

Key Performance Indicators:

- Total cost to perform *Manage treasury operations* per \$1,000 revenue
- Number of FTEs for *Manage treasury operations* per \$1 billion revenue

8.7.1 Manage treasury policies and procedures (10758)

This process involves establishing the scope and governance of treasury operations; creating and publishing treasury policies; developing, monitoring, auditing, and revising treasury procedures; developing and confirming internal treasury controls; and defining system security requirements.

8.7.2 Manage cash (10759)

This process includes managing and reconciling cash positions; managing cash equivalents; processing and overseeing electronic fund transfers; developing cash flow forecasts; managing cash flows; producing cash management accounting transactions and reports; managing and overseeing banking relationships; and analyzing, negotiating, resolving, and confirming bank fees.

8.7.3 Manage in-house bank accounts (10760)

The activities used to manage in-house bank accounts include managing in-house bank accounts for subsidiaries; managing and facilitating inter-company borrowing transactions; managing centralized outgoing payments on behalf of subsidiaries; managing central incoming payments on behalf of subsidiaries; managing internal payments and netting transactions; calculating interest and fees for in-house bank accounts; and providing account statements for in-house bank accounts.

8.7.4 Manage debt and investment (10761)

This process involves managing financial intermediary relationships; managing liquidity and issuer exposure; processing and overseeing debts and investments; making foreign currency transactions; and producing debt and investment accounting transaction reports.

8.7.5 Monitor and execute risk and hedging transactions (11208)

This process includes managing interest rate, foreign exchange, and exposure risks; developing and executing hedging transactions; evaluating and refining hedging positions; producing hedge accounting transactions and reports; and monitoring credit.

8.8 Manage internal controls (10735)

This process group consists of operating controls, monitoring compliance with internal controls policies and procedures, and reporting on internal controls compliance.

Key Performance Indicators:

- Total cost to perform *Manage internal controls*
- Total cost to perform per \$1,000 revenue to:
 - *Establish internal controls, policies, and procedures*
 - *Operate controls and monitor compliance with internal controls policies and procedures*
 - *Report on internal controls compliance*
- Number of FTEs per \$1 billion revenue for:
 - *Establish internal controls, policies, and procedures*
 - *Operate controls and monitor compliance with internal controls, policies, and procedures*
 - *Report on internal controls compliance*
- Cycle time in days to:
 - identify a change in risk until changes to risk management policies and procedures are completed and ready for deployment/communication/implementation by the business entity (including weekends)
 - identify a control violation until violation is reported/communicated to the control or process owner (including weekends)
 - report a control violation until an investigation is completed and remediation steps/control changes are developed
- Percentage of primary controls that are automated

8.8.1 Establish internal controls, policies, and procedures (10762)

This process covers establishing boards of directors and audit committees; developing and communicating a code of ethics; assigning roles and responsibilities for internal controls; defining business process objectives; identifying risks; and evaluating defining entity/unit risk tolerance.

8.8.2 Operate controls and monitor compliance with internal controls policies and procedures (10763)

This process incorporates planning, managing, operating, and monitoring internal control mechanisms, policies, and procedures. It includes designing and implementing control activities; monitoring control effectiveness; remediating control deficiencies; creating compliance functions; operating compliance functions; and implementing and maintaining technologies and tools to enable the controls-related activities.

8.8.3 Report on internal controls compliance (10764)

This process includes reporting to external auditors, regulators, shareholders, debt holders, securities exchanges, business partners, internal management, and any other bona fide third parties.

8.9 Manage taxes (10736)

This group includes processes associated with estimating an organization's periodic tax liabilities and ensuring that appropriate taxing authorities receive tax return filings and payments when due.

Key Performance Indicators:

- Total cost to perform *Manage taxes* per \$1,000 revenue
- Number of FTEs for *Manage taxes* per \$1 billion revenue

8.9.1 Develop tax strategy and plan (10765)

This process includes setting targets for periodic tax liabilities and assessing the tax impact of various activities, such as the acquisition or disposal of fixed assets or a deliberate change in employee population.

8.9.2 Process taxes (10766)

This is the process of accounting for taxes collected or paid.

8.10 Manage international funds/consolidation (10737)

This is the process of managing cash collections and disbursements made by operating units across the enterprise and, when appropriate, transferring cash from those units to parent-level bank accounts managed by the organization's treasury team.

Key Performance Indicators:

- Total cost to perform *Manage international funds/consolidation* per \$1,000 revenue
- Number of FTEs for *Manage international funds/consolidation* per \$1 billion revenue

8.10.1 Monitor international rates (10767)

This is the process of forecasting and monitoring changes in foreign currency value or interest rates around the world.

8.10.2 Manage transactions (10768)

This is the process of converting cash from one currency to another in the course of conducting cross-border trade or investment.

8.10.3 Monitor currency exposure/hedge currency (10769)

This process involves assessing an organization's exposures to potential financial losses that could occur as a result of changes in the relative value of currencies globally. Hedging currency exposures refers to the process of forecasting impacts of movements in foreign currency values and entering into financial transactions designed to offset or limit an organization's potential exposure to loss.

8.10.4 Report results (10770)

This process involves making accounting entries to formally report financial gains or losses experienced as a result of foreign exchange activity.

Related processes

These processes are not found in category 8.0 but apply to most financial management functions.

3.5.4 Manage sales orders (10185)

Once a sale has been achieved, the *Manage sales orders* process begins. It involves the acceptance/validation of sales orders, coordination with other departments required to fulfill the orders, data entry, and follow-up activities such as inquiries and reports of transactions.

6.4.4 Administer payroll (10497)

The *Administer payroll* process includes maintaining and administering the employee earnings and deduction information that is used to prepare payroll. These activities may or may not be part of the HR or payroll function. The activities of processing and distributing payments are not included in 6.4.4 *Administer payroll* and instead are covered under process group 8.5 *Process payroll*, specifically in process 8.5.2 *Manage pay*.



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