Cash Managment Fundamentals

Course Description:

This session focuses on the elements of cash management within the public funds manager's responsibilities, basic working principles, and practices of cash management procedures, policies, and technology. It is ideal for all newcomers to the cash management function.

Learning Objectives:

1. Define cash management terminology
2. Understand banking services
3. Identify collection methods
4. Understand basic cash flow elements

Principles of Cash Management

A good cash management system is an important tool for every public funds manager. Ultimately, cash management supports a particular purpose. That purpose may be to support the daily activities of a governmental unit or a school district, to service the retirement of a long-term debt issue, or for one of a number of other purposes.

Cash management plays an important part in helping to ensure that the goals of a particular fund are met. It is important to keep the goals and objectives of the fund in mind when developing specific cash management strategies. While the purposes for funds vary, there are a number of common concepts that pertain to the management of all funds.

The development of an overall cash management system can greatly facilitate the cash management process. Such systems can be manual or electronic or a combination of both. A good cash management system should incorporate all of the pertinent aspects of cash management for a given fund and ultimately should result in making the whole cash management process both accurate and efficient.

Definition of Cash Management

Cash management at its most basic level is the strategy of how a company or government administers and invests its cash. Daily cash management involves minimization of non-interest or low-interest pools of cash and utilizes efficient methods of collection and disbursement. To summarize: putting the cash to work more quickly and keeping the cash in applications that produce income.

Cash Management Objectives

- Protection of assets
- Maintaining Liquidity
- Maximizing returns from cash balances

Safeguarding Assets

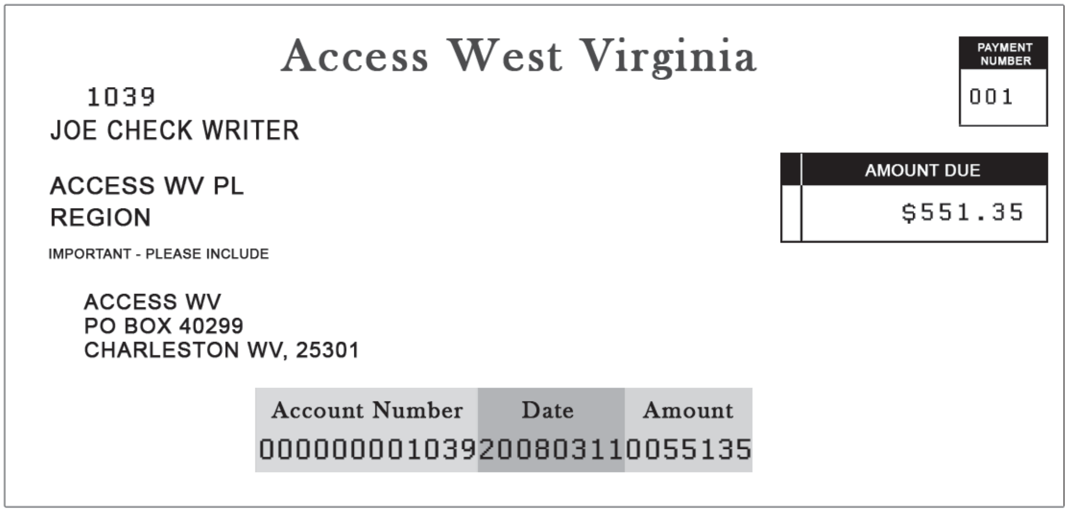
Public officials have a special duty to the citizens to ensure that government resources are properly managed and protected. A strong internal control system helps protect cash assets from loss or misuse. Governments also face the risk of external fraud, bank failure and investing risks.

Collections

Revenue collection administration is one of the most important functions of governments. The following area discusses the different collection methods.

- **Lockbox** is a collection system in which a processor collects payments from a specific post office box, processes the remittances, and deposits the payments into the payee’s bank or investment account.

The payer remits their payment of coupon and paper check. The coupon contains a scan line with specific information such as account number, date due and amount. High speed equipment is used to process the payment and the result is the capture of the data into a file that can be uploaded into the government’s accounts payable system as well as images of the check and stub.



Access West Virginia

PAYMENT NUMBER
001

1039
JOE CHECK WRITER

AMOUNT DUE
$551.35

ACCESS WV PL
REGION

IMPORTANT - PLEASE INCLUDE

ACCESS WV
PO BOX 40299
CHARLESTON WV, 25301

Account Number	Date	Amount
0000000001039	20080311	0055135

- Advantages:
  - Reduction of manual opening, posting, depositing
  - Faster availability of funds

- Disadvantages
  - Cost of post office box
  - Adding coupon to invoice
  - Programming to load extract file directly into receivable system

- **ACH (Automated Clearing House)** is an electronic alternative to checks. It is sometimes called direct debit or electronic check. ACH is an efficient and cost effective method of collection. More information about a payment can be transmitted by ACH than by a check.

ACH can be set up for ***repetitive debit*** collections such as utility bills or school lunch payments. Authorization to debit payer accounts is established according to NACHA (National Automated Clearing House Association) rules. In general, an authorization form is signed and a voided check provided to the processor along with a unique ID for the payer. This information is used by the processor to establish the payor setup. The government continues to send out invoices (which are required for notification of changing amounts) and sends a payment file to the processor with ID and amount. The processor creates a payment file with bank information and the resulting remittance is settled into the government's bank or investment account.

ACH can also be used over the ***internet*** and performs the same function as a paper check. Additional security features can be provided such as authentication, public key cryptography, digital signatures and encryption. One common use is for the payment of college tuition.

- **Check Conversion** is the process of turning a paper check into an electronic debit. Scanners are used to capture the information from a paper check and transmit the scanned images and/or ACH data to a bank for posting and clearing. This process is authorized by a federal law called the **Check Clearing for the 21st Century Act (Check 21).**

Interactive Voice Response (IVR) is phone technology used for capturing payment information. Prerecorded audio directs callers through a menu of payment options.

- **Overall Advantages of ACH:**
  - Reduction of manual opening, posting, depositing
  - Faster availability of funds

- **Overall Disadvantages of ACH:**
  - Cost of banking or third party services
  - Requires knowledge of NACHA rules
  - Programming to create remittance file or to upload credit file

- **Wire Transfers (also known as Fedwire)** is the Federal Reserve's electronic means of transferring immediate funds. Wire transfers are used for large value payments when immediate settlement is required.

  - Advantages:
    - Immediate settlement

  - Disadvantages:
    - Expensive

- **Credit Card (Merchant Service)** collections are widely used for governments of all sizes. The public expects easy access to the services of government and governments have realized significant benefits from card acceptance, such as the following:
  - Increased certainty of collection
  - Reduced return check processing costs
  - Accelerated payments and the availability of funds
  - Improved audit trail
  - Reduced cashiering costs
  - Enhanced customer convenience
  - Increased participation in government programs and services
  - Improved overall cash flow

Methods of Collection

- **Point of Sale (POS) -** In the government office, credit cards are swiped through a terminal which connects to the processor for authentication.

- **Internet -** The customer enters payment information through a web site which passes the information to the processor for authentication.

- **Interactive Voice Response (IVR)** is phone technology used for capturing payment information. Prerecorded audio directs callers through a menu of payment options and can utilize credit card and electronic check collections.

- **Settlement** occurs within 24 to 72 hours depending on the type of card used and the processor.

- **Chargeback** (reversal of payment) can occur if the customer contests a charge made to their account.

Fees for Services

- **Discount rate** is a percentage of each transaction that is charged to the merchant services account by the credit card processing company. This amount can vary from one to three percent or more.

- **Other fees** can include monthly account fees, chargeback fees per item fees, interchange fees, research fees, etc.

- **Convenience Fees** may be charged to the customer to help offset the cost of the **discount rate**. Convenience fees may only be used for internet or phone transactions and must be the same dollar amount regardless of the amount charged or the card used. Some third party providers offer a percentage convenience fee for tax collections.

- **Payment Card Industry (PCI) Compliance** are data security standards required by the credit card companies to ensure security during the processing, storing and transmitting of data.

Disbursements

Protection of public funds should be a top priority for all government officials. The disbursement function requires multiple levels of security and constant diligence to prevent fraud with rapid changes in technology. A strong internal control function is integral to protection. The following area will discuss common controls used to protect disbursements.

- **Check writing** is susceptible to forgery, check alteration, and counterfeit checks.

  - **Physical** controls should be maintained over the check writing process. The use of unique check stock with watermarks and graphical designs can assist in providing protection. Access to check stock, printing devices, and signature plates should be controlled as well as the storage of paid checks. Proper approval for payment, review and the signature process should be established in internal control procedures. Checks should also contain language specifying the period of time the check is valid (i.e. “Valid for six months from date of issuance”)

  - **Positive Pay** compares a file of authorized checks to those presented for payment. A file containing issue date, payee name, and amount is submitted to the entity’s bank and compared to checks presented for payment. Any suspicious payments are submitted to the issuer.

  - **Reverse Positive Pay** relies on the issuer to monitor all presented checks and to reject any non-conforming payments.

  - **Stop Payment** is instruction to the bank to prevent honoring an issued check. A stop payment request is generally issued against erroneous payments. Stop payment requests are only good for a specific period of time and care must be taken to monitor those payments especially if using reverse positive pay, and to remove those items from the positive pay data.

  - **ACH** payments offer governments an efficient and inexpensive payment method. However, new methods of fraud have developed along with the new payment technology. Additional protection methods must be put in place to prevent unauthorized ACH debits and multiple ACH debits for the same payment. Governments should consider separate bank accounts for ACH payment activity if volume warrants or the use of debit account blocks.

  - **Purchasing/Procurement Card (P-Card)** many governments are using P-cards for small dollar purchases of supplies and services. P-cards can be controlled by spending limits and for pre-specified types of purchases. P-cards can reduce invoicing costs, but require strong internal controls over monitoring their use.

  - **Travel Card** is similar to the P-card, but is restricted to travel expenses. Like P-cards, travel cards reduce invoicing costs, but also require strong internal controls over monitoring use.

◆ **Fed wire** can be used for large dollar payments that require guaranteed settlement or for a specific settlement time. Fed wires are especially useful for debt service payments. Recurring wires can be established for regular payment.

Cash Flows

Cash Flow is basically the movement of money in and out of the public fund. The three main elements are: inflows, concentration and outflows. **Cash Flow Analysis** tracks historical information can be used to document the pattern of flows and identify areas that could benefit from improved efficiencies. **Cash Flow Forecasting** projects future cash flows and can provide insight needed to ensure adequate liquidity and maximize investment return as well as aid in the reduction of borrowing costs.

- **Inflows: Speed Up Cash Coming In**
  Use of lock box, ACH, wire transfers can accelerates the receipt of incoming cash

- **Funds Concentration** is a common strategy when funds are collected in more than one location. Funds from outlying accounts are moved to a concentration account, where they can be utilized and managed most effectively.

- **Outflows: Slow Down and Manage Cash Going Out**

  ◆ **Controlled Disbursement:** provides same day notification, usually by early or mid-morning, of the dollar amount of checks that will clear against the controlled disbursement account that day.

  ◆ **Positive Pay**: used in conjunction with controlled disbursement accounts. It matches check serial numbers and dollar amounts of clearing checks to an issue file in an effort to combat check fraud.

  ◆ **Account Reconcilement**: provides several levels of service to assist in the reconcilement of checking accounts.

  ◆ **Zero Balance Account**: maintains a zero balance in an account by transferring funds into or out of a master account at the same bank.

Cash Flow Analysis

- **Steps for Cash Flow Analysis**

  ◆ **Obtain Information**
  Obtain month-end cash and investment balances for the past two years.
  Bank statements for the previous twelve months
  Develop an understanding of the nature of cash flows affecting a particular fund
    - What are the sources of cash flows?
    - What is the timing of cash flows?
    - What are the amounts of cash flows?

  Determine the low point and normal seasonal patterns.
  Identify “core” or minimum balance and determine whether that is likely to change in the foreseeable future (because of community or tax dynamics).

    Other Helpful Information
    Current year budget
    Summary of the current investment maturities
    Capital projects spending projections

Payroll and payroll tax dates
Federal Reserve holiday schedule
Bank holiday schedule
Your organization's holiday schedule
Repetitive payment dates

Cash Flow Forecasting

One of the common concepts that should be incorporated into a good cash management system is that of forecasting cash flows. Cash flow forecasting is the process of analyzing and predicting future cash flows for the purpose of liquidity management and maximizing investments.

In addition to the cash manager, individuals in departments that either receive or expend money would typically be consulted in developing or revising the cash flow forecast, as well as members of management and new business directives and actions.

Forecasting Cash Flows

- **Short-Term: Liquidity and Investment Balances Over 30-Day Period**

Short-term forecasts aid in scheduling cash concentration and lockbox accounts transfers, funding disbursement accounts, and making short-term investing and borrowing decisions.

A basic method of preparing a short-term forecast involves making estimates of short-term receipts and disbursements.

Once the *cash receipts schedule* and the *cash disbursement schedule* are prepared, they can be combined and decisions can be made regarding minimum cash balances and the amount of funds available for investment.

- A *cash receipts schedule* summarizes projections of incoming cash flows from various sources such as:
    - Property tax levy
    - Cash Sales
    - Payments on accounts receivable
    - Interest income
    - Sales of assets

  A *cash disbursement schedule* would include forecasts of various items including:
    - Payroll
    - Taxes
    - Debt payments
    - Utilities

- **Medium-Term: Net Cash Positions for One Month to a Year**

Focuses on the overall cash position rather on daily position management.

Can be projected by summarizing the short-term daily forecasts or using the projected income statements and balance sheets to predict cash flows by adding back non-cash charges and credits in balance sheet accounts.

Typically in the form of monthly or quarterly estimates.

Provides valuable information to make liquidity and investment decisions.

- **Long-Term: Covers Period of One or More Years**

Based on projections of revenue streams, expenses, and changes to the balance sheet.
Can be used for financial planning and analysis, and by financial institutions in credit evaluations.

- **Provide for a Comparison of Actual Cash Flows**
  - Predicted cash flows provide a standard of measurement and comparison for actual cash flows. A variance analysis can be used to identify possible problem areas and can be used to adjust or improve future cash flow projection to reflect new trends.

Maintaining Liquidity

Maintaining sufficient liquidity to pay obligations is a key cash management task. Liquidity can take several forms. In its simplest form, cash balances maintained at banks are a ready form of liquidity. These balances may or may not receive an earnings credit.

Liquid funds are not restricted to cash, however. Short-term investments that can be converted into cash quickly and without penalty are also a ready form of cash and would be considered to be near liquid investments. Finally, short-term borrowing arrangements can be a source of liquidity as well.

- **Investing Excess Cash**

Excess cash should be invested within the guidelines of the **Investment Policy**.

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  - **Account Reconcilement**: provides several levels of service to assist in the reconcilement of checking accounts.
  - **Zero Balance Account**: maintains a zero balance in an account by transferring funds into or out of a master account at the same bank.

- **Minimize Cash Needed for Liquidity and Investment Balance**
  - On a periodic basis, a cash flow forecast should be prepared or updated. The cash flow forecast should project future inflows and outflows and set minimum liquidity requirements.
  - *Information reporting* assists in the decision-making process of holding and/or investing available balances.
    - Bank reports provide daily balance and transaction detail listings via computer.
    - Account analysis summarizes transaction activity, average balances, and service charges on a monthly basis.

- **Optimize Short-Term Investment Income**
  - Achieving optimal short-term investment income is critically dependent upon cash flow forecasting. This cash flow forecast should project both the amounts and the time-horizon over which funds may be committed.

- **Provide for a Comparison of Actual Cash Flows**

- Predicted cash flows provide a standard of measurement and comparison for actual cash flows. A variance analysis can be used to identify possible problem areas and can be used to adjust or improve future cash flow projection to reflect new trends.

- **Minimize Excess Bank Balances and Borrowing Costs**
  - Bank balances typically earn low or zero returns. Accordingly, it is important to keep bank balances at a minimum, thus allowing funds to be invested and earn a higher return.

    When bank balances are insufficient to cover outflows, short-term borrowing costs may be incurred. It is important to maintain sufficient funds and/or schedule investment maturities in order to minimize borrowing costs.

    Minimizing bank balances to increase investment earnings and maintaining sufficient bank balances to meet liquidity needs are usually conflicting goals. A key task of the cash manager is to balance these goals in such a way as to minimize the net cost of funds, thereby improving the overall cash management results.

    - Negotiate fees and compensating balances
    - Daily monitoring of bank balances
    - Short-term investments

Determining Daily Cash and Investment Position

- **Execute Daily Routine With Written Procedures Documenting the Process**

- **Obtain Bank Balances**

- On a daily basis, banks will provide a transaction detail, listing each separate transaction of collection and disbursement activities from the previous day. On a monthly basis, banks will provide an account analysis summarizing transaction activity, average activity, average balances, and service charges.

- **Project Investible Cash Balances With Documented Procedures**

- **Obtain Market Information**
  - Identify and use benchmarks for comparison

Determining Cash Flow

One of the common concepts that should be incorporated into a good cash management system is that of forecasting cash flows. Cash flow forecasting is the process of analyzing and predicting future cash flows for the purpose of liquidity management and maximizing investments.

In addition to the cash manager, individuals in departments that either receive or expend money would typically be consulted in developing or revising the cash flow forecast, as well as members of management and new business directives and actions.

- **Determine Cash Flow Projection**
  - Forecasting cash inflows and cash outflows
    - Forecasting the daily net cash position is critical in determining future maturities of investments, as well as in anticipating borrowing needs.
  - Develop an understanding of the nature of cash flows affecting a particular fund
    - What are the sources of cash flows?
    - What is the timing of cash flows?
    - What are the amounts of cash flows?

- **Projection of Investible Cash Balances**
  - It is necessary to project the minimum cash balances needed to ensure liquidity and to estimate the amount of cash available for investment.

- **Categorize Cash Flow Sources by Their Degree of Certainty**
  - Certain cash flows
  - Forecastable cash flows
  - Less predictable cash flows

- **Obtain Helpful Information**
  - Bank statements for the previous twelve months
  - Current year budget
  - Summary of the current investment maturities
  - Capital projects spending projections
  - Payroll and payroll tax dates
  - Federal Reserve holiday schedule
  - Bank holiday schedule
  - Your organization's holiday schedule
  - Repetitive payment dates

Forecasting Cash Flows

- **Short-Term: Liquidity and Investment Balances Over 30-Day Period**
  - Short-term forecasts aid in scheduling cash concentration and lockbox accounts transfers, funding disbursement accounts, and making short-term investing and borrowing decisions.
  - A basic method of preparing a short-term forecast involves making estimates of short-term receipts and disbursements.
  - Once the *cash receipts schedule* and the *cash disbursement schedule* are prepared, they can be combined and decisions can be made regarding minimum cash balances and the amount of funds available for investment.
  - A *cash receipts schedule* summarizes projections of incoming cash flows from various sources such as:
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  - A *cash disbursement schedule* would include forecasts of various items including:
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- **Medium-Term: Net Cash Positions for One Month to a Year**
  - Focuses on the overall cash position rather on daily position management.
  - Can be projected by summarizing the short-term daily forecasts or using the projected income statements and balance sheets to predict cash flows by adding back non-cash charges and credits in balance sheet accounts.
  - Typically in the form of monthly or quarterly estimates.
  - Provides valuable information to make liquidity and investment decisions.

- **Long-Term: Covers Period of One or More Years**
  - Based on projections of revenue streams, expenses, and changes to the balance sheet.

- Can be used for financial planning and analysis, and by financial institutions in credit evaluations.

- **Variance Reporting Requirements**
  - Comparisons of actual daily receipts and disbursements to the cash forecast highlight discrepancies. Once the prior year actual data is compared to the annual forecast, it then can be adjusted to reflect new developing trends or to question areas of large variances for on-going forecasts.

- **Treasury Management Software**
  - Many vendors provide various forms of treasury management software that provide cash budgeting, bank balance capturing, daily receipts and disbursement worksheets, and investment reporting.
  - When reviewing such systems, an important consideration is to ensure that the various components are integrated. Using numerous stand alone systems can be inefficient.

Reading and Managing an Analysis Statement

- **Understand Components of Analysis Statement**

- **Verify Fee Schedule**

- **Monitor Transaction Volumes**

- **Adjust Compensating Balances as Needed**

Monitoring/Controlling Interest Rate Risk on Invested Funds

The value of investments, to varying degrees, is subject to interest rate risk. An increase in the level of interest rates will decrease the value of an investment portfolio, while a decrease in rates will increase the value of a portfolio. Thus, there is an inverse relationship between interest rates and the price of fixed-income instruments.

Typically, the longer the maturity of an instrument or a portfolio, the greater the impact of a given change in interest rates. It is important that the exposure of an investment portfolio to changes in interest rates be measured. Depending upon the type of fund, typical measures of interest rate exposure include weighted average days to maturity, weighted average years to maturity, and weighted average duration.

- **Goal Is to Receive Highest Return Rate as Possible**

- **Review Economic Data**

- **Review Market Information**

Developing an Investment Policy/Strategy

- **Objective Is to Ensure the Safety of the Principal While Meeting the Operating Cash Requirements and Earning Market Rate of Return**
  - The purpose of the investment policy is to establish the investment objectives of in a manner that stresses safety of principal of the government Ohio Operating Fund (“the Fund”), and in a manner which maximizes security of principal while meeting the operating cash requirements of the Fund, and earning a market rate of return over time.

- It should be used as a guideline for overseeing all Funds and to serve as a notice of the restrictions for all entities conducting investment business with the Fund.
- All investments should be made in a prudent manner.

- **Investments Shall be Made in Compliance With all Federal, State, and Local Laws**

- **The Investment Objectives Shall be Reviewed by the Investment Oversight Committee at Least Annually**

- **A Copy of the Policy Shall be Forwarded to Each Broker/Dealer/Bank Doing Business With the Entity for Review and Their Signature**

The Request for Proposal (RFP) Process

For many public funds managers, the task of creating a Request for Proposal (RFP) can be a difficult or challenging experience. Experienced money managers know that sending out a good RFP is a critical step towards ensuring that your public entity receives the highest quality banking services at the lowest reasonable cost.

Additional RFPs can be developed for specific services such as ACH activity, concentration bank, safekeeping services, trustee and paying agent services, and trust and custody services. Each can be arranged to be paid for in soft-dollar arrangements or in direct fees, per the Bank's approval.

Things to Consider When Preparing an RFP

- **Understand the Reasons for Sending Out an RFP**

- **Set Realistic Time Frames**

- **Prioritize Decision-Making Criteria**
  - What issues are most important?
  - What you must have and what you are willing to accept?
  - What are your key decision drivers?

- **Determine Bank Selection Process**

- **Determine Evaluation Process**

- **Determine Services and Quality of Services Expected and Acceptable**

Check Fraud

- **Growing at an Alarming Rate**
  - From 1991 to 1993, the number of check fraud cases reported by the nation's 308 largest commercial banks increased 136%, and the dollar losses rose 43.5%, according to an American Bankers Association study. New statistics are being compiled every day.

Annual losses to corporations and banks due to check fraud have reached $10 billion, according to a "conservative estimate" by Dun & Bradstreet.

- **Easier to Commit Than Ever Before**
  - Using a laptop computer and a color printer that together cost less than $5,000, it would take a criminal today about 12 minutes to create a sophisticated forgery. A few years ago, it might have taken 12 days.

The trend toward laser printing corporate checks is creating unwanted exposure. Laser printers employ non-impact printing technology, making it easy for criminals to literally lift dollar amounts and payee information off checks using Scotch Magic Tape or even Post-It Notes.

All a criminal needs in order to forge a company's check is to see one. The criminal can call any one of the more than 100 new "checks in the mail" catalogue companies, provide them with specifications and have a company's checks the next morning.

- **"Safest Crime to Commit in America"**
  - With the country's prisons full, check fraud is rarely prosecuted. The imprisonment rate on check fraud is about 2%. Also, only a small percent of court-ordered restitution is ever collected.

Cost/Benefit Analysis

- **Fee Compensation Benefits**
  - Usually earn higher rates of interest on investments than earnings credit rate on collected balances.
  - Fees can be budgeted and compared with other costs, while balances are not as directly comparable.

- **Balance Compensations Benefits**
  - Daily transaction requirements often result in some collected balances which could be used for compensation.
  - Loans and other services are priced more favorably if collected balances are maintained.

- **Fee and Balance Compensation Benefits**
  - Balance compensation is not as visible as fees for budgeting purposes.
  - Collected balances used as the compensation basis with deficiencies paid for in fees, the value of transaction balances are maximized with the possibility of a reduction in overall service costs.

- **Interest Bearing Accounts Versus Sweeps/Investing**
  - Basic comparison of rates with the additional costs of the sweep.

- **Bank Selection**
  - Bank selection begins with the development of an understanding of banks. In addition to the structure of the banks, the decision of whether the banks are to be money center banks, regional banks, community banks, or private banks must be made.

The selection of the type of bank is as important as the services to be provided. Concerns about bank consolidation should be addressed at this level. The lowest price proposed may come from an institution in need of deposits or from a poor service provider. As a result, there is no simple way to evaluate bank depository proposals.

- **After Selection**
  - Multiple relationships
  - Length of contract
  - Reality of staff demands
  - Exit strategy

- **Monitoring**
  - Bank credit-worthiness
  - Performance under the scope of services
  - The merger market
  - Fees

- **Issues**
  - Credit card and debit card use
    - Credit card usage has grown and could be accelerated by the acceptance of the general public of debt or prepaid cards.
  - Fees or compensating balances
  - Community, regional, or money-center bank
  - Daylight overdrafts and the effects of the RFP on cash management and the cost of funds
  - Custodial arrangements
  - Direct deposit
  - Lock-box systems
  - EFT, ACH, ATM, CRA
  - Controlled disbursements, reserve requirements, and account analysis
  - Computerized daily balance reporting systems
  - The "fire wall" of custody, investment banking, trust services and letters of credit, paying agent, and trustee services
  - Audits, reconciliation services
  - Bank relationship managers and the perquisites

- **Core Bank Services**
  - As is the case in all matters involving finance, identifying the ultimate objective(s) determines what product should be utilized. Large, complex public enterprises may have multiple and sometimes conflicting objectives that require some compromise on the actual selection of core products. For example, every department or agency may wish or need to have various demand deposit accounts, ballooning the cost of services and fostering fragmented cash management unless some less-than-ideal banking services are implemented. Judgement of comparison of cost and added value then enter the equation for selection of services.

Deposits in financial institutions offer a degree of safety as a result of the Federal Deposit Insurance Company (FDIC). Current law allows an account to be insured up to $100,000. How the account is titled becomes important by FDIC regulations. However, the obvious benefit of using FDIC to the maximum is the insured deposit feature. The cost of collateralizing any uninsured deposits must be factored into the overall evaluation of banking and money costs.

- **Bank Organizations**
  - Banks are organizations that provide services for the transactions and management of money and other assets. There are several characteristics that distinguish banks even though they offer similar services. They are:
    - Charter (federal or state)
    - Ownership (stock or mutual)
    - Operations (commercial or savings)
    - Membership (Federal Reserve or non-members)
    - Insurance (some organizations do not qualify for insurance)

These differences not only impact the operational needs, but also require consideration by the public enterprise of the macro economic impact to the geographical area. For example, commercial banks are for-profit, privately owned; they may be money center banks, regional, or community banks.

- **Wire Transfers**
  - Wire transfers are one of the most important functions a commercial bank supplies. Preference points in depository selection should be given to depositories with direct access to the Federal Reserve System. Correspondent bank wire transfer activity weakens controls and is more susceptible to delay and tracking problems.

Electronic Funds Transfer (EFT)* and the *Automated Clearing House (ACH) system are other methods of moving money in volume. Both differ from wire transfers in several ways. Wire transfers are collected funds, provided the wire transfer is sent and received on a timely basis. The depository agreement should be negotiated to include specific cut-off times and requirements. Daylight overdraft rules and reserve requirements imposed on banks by the federal system should be reviewed carefully in the context of wire transfer issues.

ACH activity is much less expensive and more time-predictable than wire transfers. A common use of ACH payments is in the direct deposit of payroll. Simply stated, a tape of payments is provided to the bank after a pre-notification test has been conducted with an "address" and amount. The ACH payment is warehoused with other payments to be made on the specified date and ultimately released the day before the due date of the payment to the receiving account. Credit for the ACH is posted in the recipient's account the next business day. Caution not to prematurely schedule ACH payments for warehousing, since looking for a specific ACH payment that has been warehoused is like looking for a needle in a haystack. Cost differences between wires and ACH can be dramatic.

- **Account Information**
  - Account analysis information is a monthly summary of activity, average balances, and charges for services. The American National Standards Institute (ANSI) developed a standard account analysis format that many banks use to send data electronically. Multiple bank relationships and multiple accounts can be better managed by using spreadsheet tools to compare costs and information found on the account analysis.

The number and types of bank accounts used by the public enterprise depends of course on needs. The use of *concentration accounts* reduces the need for some accounts while providing a great measure of efficiency for the remaining accounts. All cash is transferred by the bank into a single account. *Zero balance disbursement accounts* are an integral part of the concentration system, allowing the concentration of cash for investment purposes. Maintaining zero balances in the checking component of the account lockbox components in the concentration account help reduce collection float and provide an efficient method of outsourcing multiple payment collections. *Sweep accounts* provide for daily automatic transfer of funds from a demand deposit to an investment component.

- **Understanding and Developing Banking Relationships**
  - Quarterly/Semi-Annual relationship reviews
  - Community involvement
  - Location of banking offices and processing centers
  - Quality of service

Cash Flow Analysis

- **Cash Flow Characteristics Allow the Investment Official to Determine:**
  - More permanent balances that can be invested beyond the end of the current operating cycle.

- Those amounts that may be required to fund currently known operating cycle needs, such as payrolls or debt payments.
- Balances that must be maintained for immediate liquidity for unanticipated needs.

- **Allow the Entity to Maximize Returns While Providing Adequate Liquidity**

- **Steps for Cash Flow Analysis**
  - Obtain month-end cash and investment balances for the past two years.
  - Determine the low point and normal seasonal patterns.
  - Identify “core” or minimum balance and determine whether that is likely to change in the foreseeable future (because of community or tax dynamics).