CPIM Academy

CPIM

Center For Public Investment Management

A PROGRAM BROUGHT TO YOU BY:

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Treasurer of Ohio

CASH 106:

Basics of Cash and Treasury Management

2016

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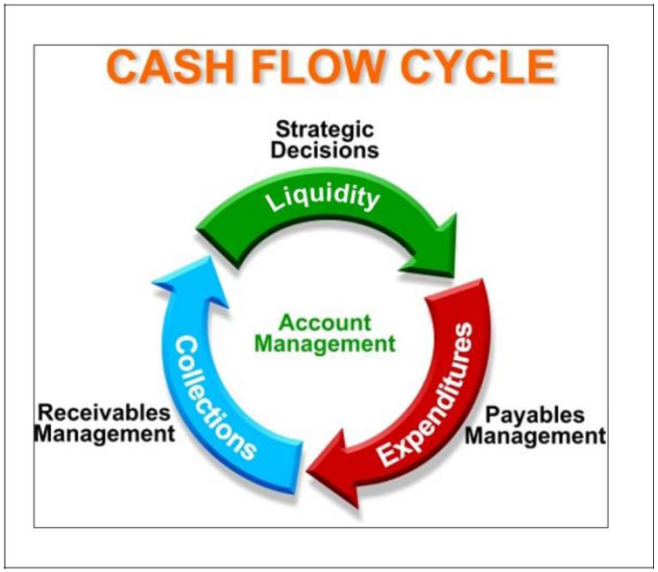
Class Objective

- Provide a high-level overview of cash and treasury management services.
- Reveal tips and processes that may improve efficiencies of existing practices.

Treasury Management

What is Treasury Management?

- Treasury Management helps you manage your working capital. Bank's liquidity solutions help government entities save and invest wisely. Payables and receivables capabilities help you manage the purchases and the receipt of payments for good and services.



Cash Flow

Cash flow *is the movement of your funds . Positive cash flow happens when the cash funneling into your entity is more than the out flow. Negative cash flow occurs when the outflow of funds is greater than your inflow of funds.*

- <u>Cash inflow/Revenue</u>
  - Revenue from income tax, real estate taxes, grants, utilities etc.
  - Interest
  - Dividends

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- <u>Cash outflow/Disbursement</u>
  - Payments to suppliers
  - Payments to employees
  - Payments to lenders/bond/note holders
  - Payments for other expenses

Treasury Management

How do Banks assist government entities with their Cash Flow?

Controlled Disbursements

Checking Account

ACH Positive Pay

Notes and Bond

Zero Account Balance

MMA/CD

Remote Deposit Capture

Merchant Services

ACH and Wires

Safe Cash

Check Positive Pay

Lockbox

Sweeps

Treasury Management

- **Checking Account** - is a deposit account which allows for withdrawals and deposits.
- **CD** - Certificate of Deposit is a savings certificate entitling the bearer to receive interest.
- **MMA** – Money Market Account is an interest-bearing account that typically pays a higher interest rate than a savings account, and which provides the account holder with limited check-writing ability.
- **ACH** - allows customers to make and receive payments electronically to or from any domestic U.S. bank and many foreign countries, using a standard format.

Treasury Management

- **Wires** – allows the transfer of funds from single individuals or entities to other individuals or entities, while still maintaining efficiencies of fast and secure movement of funds.
- **Merchant Services** – enables entities to accept any type of electronic payment, whether its credit cards, debit cards, check verification services.
- **Control Disbursements** – regulate the flow of checks through the banking system on a daily basis, usually by mandating once-daily distributions of checks (usually early in the day.)

Treasury Management

- **Remote Deposit Capture** – lets banks accept checks for deposit using electronic images instead of the original, physical, paper versions.
- **Zero Account Balance** - is a checking account in which a balance of zero is maintained by automatically transferring funds from a master account in an amount only large enough to cover checks presented.
- **Sweeps** - is an account that automatically transfers amounts that exceed (or fall short of) a certain level into a higher interest earning investment option at the close of each business day.

Treasury Management

- **Positive Pay** (check or ACH) - service employed to deter check fraud. Banks use positive pay to match the checks a company issues with those it presents for payment. Any check considered to be potentially fraudulent is sent back to the issuer for examination
- **Lockbox -** is a service provided by banks to companies for the receipt of payment from customers. Under the service, the payments made by customers are directed to a special post office box, rather than going to the company. The bank will then go to the box, retrieve the payments, process them and deposit the funds directly into the company bank account.
- **SafeCash –** is a solution that helps entities consolidate depository relationships, eliminate deposit discrepancies, reduce theft, free staff from the time-intensive task of counting and auditing cash, while receiving daily provisional credit on deposits.

Cash Flow Tips

Receivables:

- When are your funds available?
- Leverage use of onsite deposits via a **Scanner**
- Utilize electronic billing and collection services to replace items sent to your location:
  - **ACH**
  - **Lockbox**
- Acceptance of **Credit Card**
- Leverage Investment Sweep products or other investment options

Cash Flow Tips

Payables:

- **ACH** – allows the bank to provide initiation of recurring and pre-dated ACH transactions two weeks or more in advance of the settlement date.
  - NACHA has approved same day ACH transactions in 2016
- **Purchasing/Corporate Card** – can other purchases be migrated to a centrally managed purchasing card program?
- **Wire Transfer** – repetitive wire codes should be utilized to reduce time, cost and risk.
- **Controlled Disbursement** – utilize a unique routing number to help identify what items are being presented for payment in order to maximize investment opportunities.

Fraud Protection Tip

Check Block

Prevents checks from posting to the account. With Check Block all paper-based transactions which are automatically rejected and returned, this.

Check Positive Pay

Positive pay systems are used to eliminate check fraud. This is designed to stop thieves and con artists from cashing fake checks or changing the amounts to be paid from the company's checking account.

ACH Positive Pay

Protects against unauthorized ACH debits and/or credits by allowing you to place filters and/or blocks on ACH transactions. Only electronic payments that meet your personalized setting will be processed.

Do you leverage Dual Authorization?

Dual authorization provides entities with protection by initiating a second level of approval for a payment, transfers, stop payments, etc.…

Request for Proposals

Bank Selection Process

For Active Deposits

Designation of Depository
Ohio Revised Code 135.12

- Each governing board other than the state board of deposit shall meet every five years on the third Monday or such regularly scheduled meeting date of the month next preceding the date of the expiration of its designation of depositories for the purpose of designating the public depositories of the public money of the subdivision, ……..

Application For Active Deposits

- Each eligible institution desiring to be a public depository of the active deposits of the public moneys of the state or of a subdivision shall, not more than thirty days prior to the date fixed by section 135.12 of the Revised Code for the designation of such public depositories, make application therefore in writing to the proper governing board.

Eligible Financial Institutions

- ORC 135.03 -- Any national bank located in this state and any bank as defined by section 1101.01 of the Revised Code, subject to inspection by the superintendent of financial institutions, is eligible to become a public depository , subject to sections 135.01 to 135.21 of the Revised Code.

Dollar Eligibility for Deposits

- ORC 135.03 …… No bank shall receive or have on deposit at any one time public moneys, including public moneys as defined in section 135.31 of the Revised Code, in an aggregate amount in excess of thirty percent of its total assets, …… .

A Five Stage Selection Process Model for an Active Deposit Banking Institution

Selection Process Model

- Set objectives and create an appropriate scoring template
- Create and issue a RFP (Request for Proposal)
- Score and evaluate proposals, negotiate, and award contract
- Implement the banking arrangement; continually improving the relationship developed
- Establish a relationship with a key person at the bank-- one to go to for advice, address concerns, etc

Set Objectives for the Banking Relationship

Examples of Objectives

- Safety
- Competitive Pricing
- Promotion of Operational Efficiency
- Effective and Congenial Servicing of the Finances of the Entity
- Electronic Transfer Facility
- Fraud Prevention
- Enhancement of Check Issuance and Reconciliation
- Public Funds Officer
- Appropriate Collateralization of all Investments

Examples of Objectives (continued)

- Financially Sound Bank
- Earnings Credit vs Investment return
- Positive References
- Geographic Proximity
- Ability to Offer Desired Services
  - Product offerings
  - Deposit Process
  - Reconciliation
  - Internet
  - Credit cards
  - Problem resolution

Creation of a Request for Proposal (RFP)

- Simple Request (example)
- Complex Request (example)

Simple RFP – Implicit Assumptions

- All banks will be price competitive
- Only banks that are very interested in the account will apply
- If a bank wants more information, they will ask for it
- Any bank applying will have experience in handling public enterprise accounts

RFP (simple)

Columbus, OH 43251

The current depository agreements of the Anytown Library will expire June 30, 2013.

Pursuant to the Library policy and Section 135 of the Ohio Revised Code, the Library Board will meet on June 5, 2013 to award interim and/or active deposits of the District to eligible institutions making application for the five year period beginning July 1, 2013. TheLibrary has total deposits in the $2,000,000 to $4,000,000 range.

Applications must be submitted to the Library Fiscal officer, 123 Main St. Anytown 43123 **after** May 1, 2013, but **before** May 15, 2013.

Thank you for your partnership with the library.

Mrs. N. Umbers
Fiscal Officer

Complex RFP – Contents

- General Information
- Evaluation Criteria
- Qualifications
- Required Proposal Format
- Required Banking Services

Complex RFP – General Info

- Description of Entity
- Terms of Agreement
  - Termination clause
  - Length of agreement
- Response deadline
- Contact information

Complex RFP – Evaluation Criteria

- Based on Objectives
- Weighted accordingly

Complex RFP - Qualifications

- Sets minimum qualities for financial institution
- Sets minimum expectation level
- Indication of fees not listed on proposal will not be honored
- Review bank information on federal website
  - http://www.fdic.gov/bank/statistical

Complex RFP - Format

- Format requirement provides for ease of evaluation based on objectives
- Standard bid form based on current services
- Area for additional information

Complex RFP – Required Services

- Details current information for financial institution
- Can include specific transaction quantity information if desired

Score, Negotiate & Award

- Create a scoring template
- Negotiate with financial institutions if scoring results are close
- Award the services

Scoring Template

- Should be based on Objectives
- Weight each area according to our organization's priorities

Sample Scoring Template

- 10% Bank financial information
- 30% Services offered
- 5% Quality of Proposal
- 10% Location of banking centers
- 10% Recommendations
- 20% Relationship management
- 15% Pricing

Negotiate

- Remember this is a “Proposal” not a bid
- Many financial institutions will be glad to sit down and discuss changes to proposals
- May discuss innovative ways to change the government organization to provide efficiency of cost or operation

Award

- General
  - Place on governing board agenda for approval
  - Have financial institution personnel at board meeting
- Specific
  - Communication to recipient for detail verification
  - Implementation Plan

Implementation

- Schedule multiple meetings as soon as possible
- Designate key personnel from government and financial institution
- Schedule service startup

Implementation

- Setup items to consider:
  - Signature cards & opening of accounts
  - ACH & Wire authority
  - Credit Card usage
  - Checking supplies
  - Deposit related supplies & procedures
    - Deposit slips
    - Deposit stamps
    - Deposit bags

Relationship Management

- Regularly scheduled meetings with key personnel
  - Review implementation in process
  - Confirm interest calculations
  - Review analysis statements conformance to proposed pricing

Relationship Management

- New Product offerings
- Problem resolution
- Partnership for common issues

Questions