

10 Steps TO MAKING THE MOST OF A POOLED CASH FUND



Governments have options to use pooled cash for cash accounts and investment accounts. Pooled cash is a method for tracking the cash balance of each fund by using a single centralized fund in order to improve the efficiency of daily operations, enhance investment allocations, and simplify monthly bank reconciliations.

1 Establish a pooled cash fund in your general ledger. A pooled cash fund is a single, stand-alone fund used solely to track the cash balance of a centralized bank account that will hold the cash assets of many different funds. The pooled cash fund in the general ledger will keep track of the total overall balance and activity within that bank account, while at the same time tracking the amount of cash that belongs to each individual fund.

2 Record transactions appropriately. Each general ledger transaction that involves cash will be recorded in both the affected fund (e.g., general fund, enterprise fund) by recording the revenue or expense, but it will also track the cash part of the transaction in the pooled cash fund. When needed, this is an easy way to ensure that inflows and outflows are properly recorded as revenues or expenditures/expenses across multiple funds.

3 Achieve operational efficiencies. Pooled cash simplifies cash management by consolidating multiple bank accounts into a single account. This eliminates the need for manual bank transfers among fund-

specific bank accounts for cashflow needs and reduces the number of monthly bank reconciliations that are needed.

4 Improve management of bank accounts. Having a single bank account simplifies management tasks and ensures that all of the government's assets are secured under the care of the government. There is less opportunity to inadvertently miss a single orphan account, which could then be forgotten, and whose assets could be at risk of loss or additional fees.

5 Improve liquidity. Instead of moving money between accounts using manual transactions to cover payroll, accounts payable, or debt service payments, the single pooled account can cover the outflow of cash, and also track which fund has experienced the expenditure/expense. This helps the government manage cash flow and ensures timely payments with less risk for overdraft conditions.

6 Improve investment opportunities. Invest idle cash in a pooled account. Once the government completes a cash flow analysis by anticipating cash inflows and outflows, the entity can invest idle funds to improve investment income for the government. Even short-term investments can earn income over 30, 60, or 90 days with targeted maturity dates.

7 Decrease costs related to bank fees. Fewer bank accounts and fewer transfers among multiple bank accounts mean lower bank fees for the government, including fees for bank accounts and transaction costs. It also reduces the risk of incurring overdraft fees.

8 Know the limits. In some situations, state and/or local laws or regulations, bond indentures or covenants, or practices for managing custodial credit risk (deposit insurance and collateral) or concentration risk may limit a pooled cash strategy. These limitations don't necessarily mean that governments must maintain separate bank accounts. In many cases, the organization enforcing the limit will be satisfied and will allow the use of pooled cash if the government has implemented it effectively and can adequately account for all transactions.

9 Easily monitor cash balances via the organization's ERP system. When implementing pooled cash, the cash balance of individual funds can be easily monitored or controlled using features within an enterprise resource planning (ERP) system. Because funds don't need to have cash in an individual bank account, funds can "borrow" cash from other funds seamlessly. Without proper controls, this can lead to a negative cash position within an individual fund, but managing cash balances among funds is easily done when they are centralized in a single pooled cash fund.

10 Simplify your monthly bank reconciliation. All cash receipts and disbursements (e.g., revenues, expenditures/expenses, payments of receivables and liabilities) of the pooled cash bank account are reflected within the pooled cash fund. Fewer bank accounts in operation means fewer bank accounts to be reconciled. All transactions are reflected in the single pooled cash fund; bank reconciliation can usually be done by using the isolated transactions within the pooled cash fund. ■