



Treasury Management Best Practices

November 13, 2024 | 8 CPE Credits

Outline



- Treasury Functions Overview
- Handling Receivables
- Handling Payables
- Fundamentals of Cash Flow Forecasting
- Internal Controls
- Fraud Discussion
- Emerging Issues
- General Discussion

Speakers



- Matthew C. Boggs
 - Treasurer, City of Oklahoma City, OK
- Ben Davidson
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- Brad Wilson, CPFO
 - Finance Director, City of Wood Dale, IL



Treasury Function Overview

Roles of Treasury Management



■ Daily Treasury Operations

- ✓ Receivables
- ✓ Payables
- ✓ Cash Flow Forecast

■ Bank Relationship Management

- ✓ Manage Banking Relationships
- ✓ Procure Banking Services
- ✓ Manage Bank Accounts

■ Cash Flow Forecasting/Liquidity Management

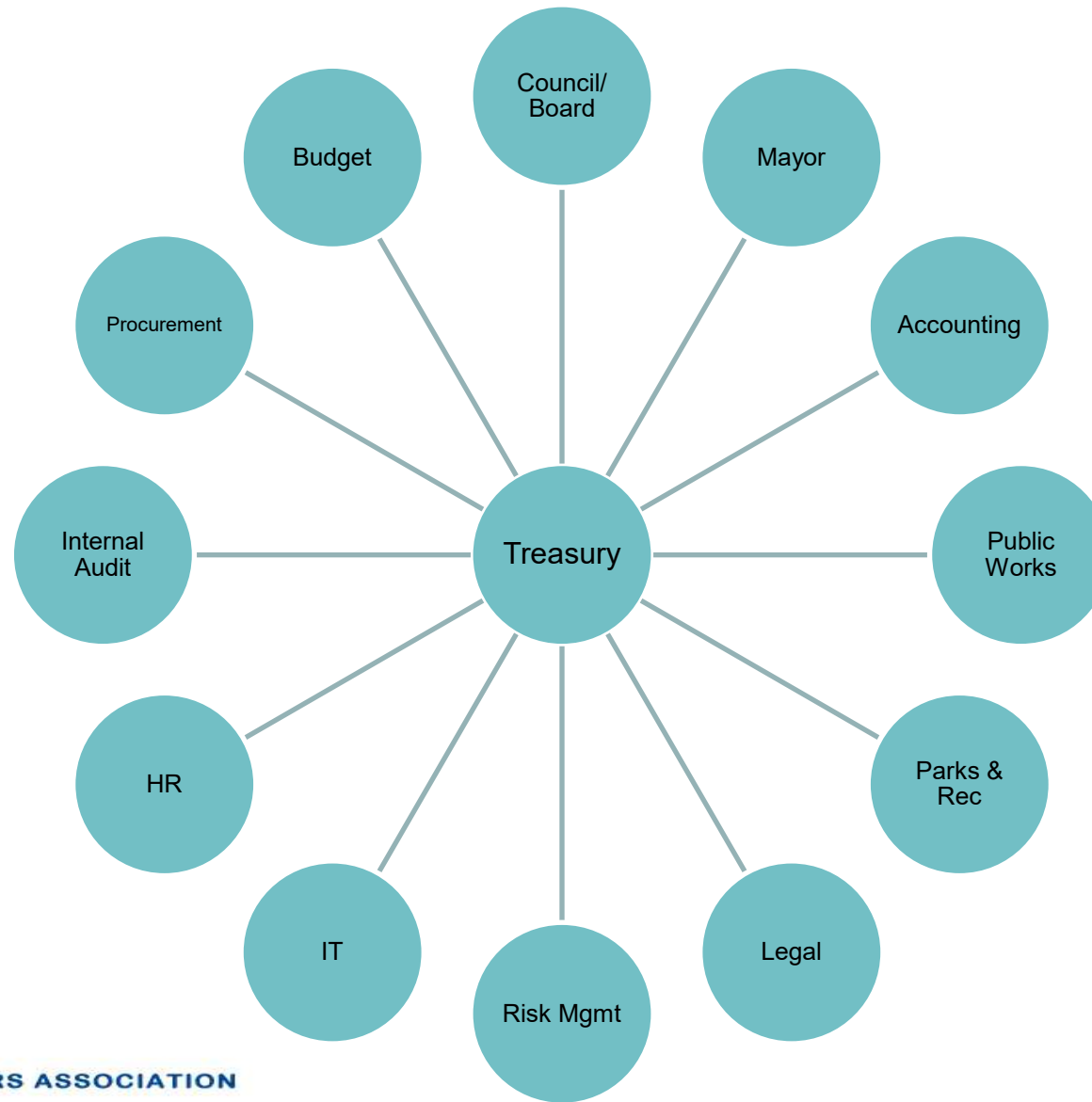
- ✓ Daily Liquidity
- ✓ Short Term Liquidity
- ✓ All Liquidity Needs

Roles of Treasury Management

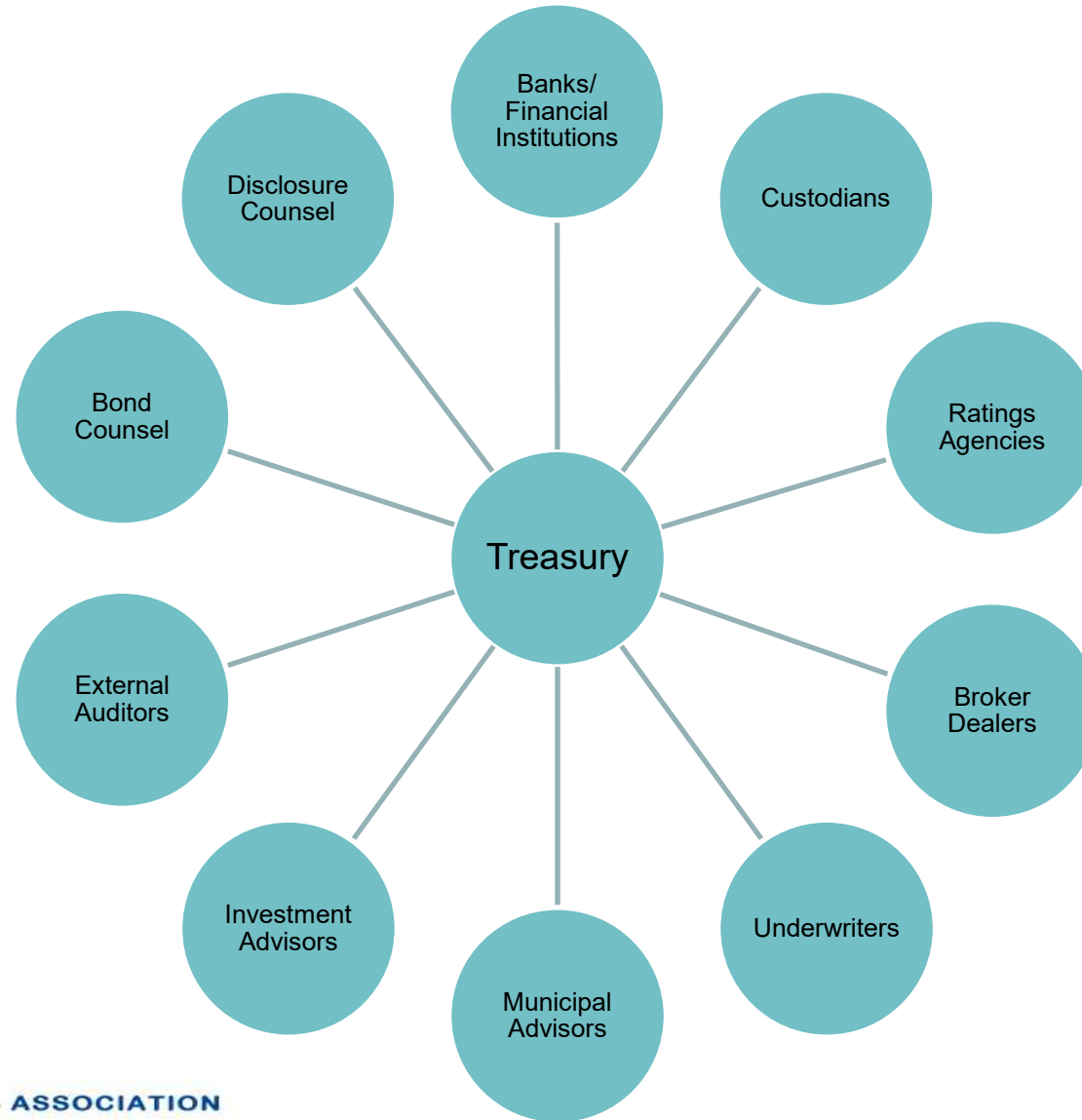


- Debt Management
 - ✓ Debt Issuance
 - ✓ Debt Management
 - ✓ Rating Agencies
- Information and Technology
 - ✓ Bank Reports
 - ✓ Treasury Management/ERP System
 - ✓ General Ledger Integration
- Other!

Internal Relationships



External Relationships



Getting Started in Treasury



- Every Organization has a Treasury Function
- Mission, Vision, Values
- Strategic Plan
- Operating Plan

Building Your Foundation / Vision



Am I Empowered to Provide Best Practices in the Treasury Organization?

How Can Treasury be Recognized as a Critical Component of my Organization?

CENTER OF THE UNIVERSE!

How am I Held Accountable for Having the Most Efficient, Timely, Transparent, and Accessible Model for Financial Processes, Transactions and Information Management?

Foundation / Vision



Developing your Culture:

- First – Assess Your Situation
 - ✓ What services do we provide?
 - ✓ How is the treasury unit perceived by others?
 - ✓ Are we familiar / current with Best Practices?
 - Are we even following internal policies?
 - Do we have internal policies?
 - ✓ Identify any risks to your organization
- Second- Develop Mission, Vision, Values
 - ✓ Mission - should align with greater organization
 - ✓ Vision - lead to strategic plan development
 - ✓ Values - standards of behaviors expected, how we work together

The City of OKC – Finance Mission Statement



The mission of the Finance Department is to provide financial planning, management and information services to City departments, elected officials and the public so they can make informed decisions and have confidence in the City's financial stewardship

Oklahoma City Finance AAA Standards



Collaborative

Here to help
Takes all of us



Curious

Innovative
Skeptical in a healthy way



Conscientious

Details Matter
Actions and non-actions both have
consequences

Designing Your Strategic Plan



- Determine your goals / direction for Treasury Services
- Ongoing evaluation of services (SWOT Analysis)
- Assessment / implementation of new technologies

Designing your Operating Plan



Review and Document your Current State:

- What services does our office / unit provide?
- What banks do we use? How long have we been with them?
- Do we know our transaction volumes?
- In what ways do we use Excel to manage our treasury functions? Is it too much?
- How old or obsolete are our Treasury Systems?
- How do transactions flow?
- Are our policies / procedures current w/ BPs?

Designing Your Operating Plan



Prepare Your Plan:

- Define Services
- Develop / Update Policies & Procedures
- Design Internal Controls / Process flows
- Staff Training
- Continuous Review

DISCUSSION QUESTIONS



- Does your entity have an operating plan for the Treasury Department?
- Please share examples from your entity's treasury office vision, strategic plan, operating plan.
- Other thoughts



Treasury Management Policies and Procedures

Policy & Procedure Elements



- Review/ understand State Law requirements
- Understand Local parameters:
 - ✓ What is set by Governing Body?
 - ✓ What is set by management?
- Policy vs Procedure characteristics:

Policy	Procedure
Widespread application	Narrow application – specific
Changes less frequently	Prone to change (process-based)
Usually expressed in broad terms	Often stated in detail
Statements of “what and/or “why”	Statements of “how”, “when” and/or sometimes “who”

Treasury Management Policies



- Banking Relations
- Investments
- Cash Handling
- Accounting for Insufficient Fund Checks
- Deposit Requirements
 - ✓ Check Endorsement
 - ✓ Cash Receipting
- Automated Clearing House (ACH)
- Debit and Credit Card Acceptance
- Internal Controls

Treasury Management Procedures



- Cashier Over/Short
- Currency Vault
- Unidentified Deposits
- Inventory Reconciliation
- Authorized Signatories
- Bank Reconciliation
- Armored Car

Developing a Checklist



- Policies to Include in Checklist:
 - ✓ General Banking
 - Minimum banking criteria
 - Collateralization of deposits
 - ✓ Cash Handling/Revenue Control
 - ✓ Credit/Debit Card Acceptance
 - ✓ Deposit Requirements
 - Check endorsement
 - Cash receipting
 - ✓ NSF Checks
 - ✓ Cashier over/short
 - ✓ Electronic Payments (ACH, Wire, etc.)
 - ✓ Inventory Reconciliation
 - ✓ Investment Policy

Discussion Question



- Do you have adequate policies and procedures for Treasury Operations?



Treasury Management: Receivables

GFOA Best Practice: Receivables



- Develop Policies and Procedures for Handling Receipts in Treasury Office
 - ✓ Reflect current federal and state laws and regulations
 - ✓ Timing of receipts impacts cash flow forecasting
 - ✓ Have established Billing and Collection Practices
 - ✓ Different types of payments may need separate practices and procedures
 - Grant funds may need to be treated separately
 - Establish unique tracking in your ERP system
 - ✓ Should not accept cryptocurrencies

GFOA Best Practice: Receivables



- Controls in place for timely deposit, reconciliation, and recognition of collected revenues
 - ✓ Also be aware of variances to budgeted revenues
- Employee background check and training
- Segregation of duties
- Record retention
- Internal controls and fraud reporting

Billing and Collection Practices



- Establish accounts receivable for services provided in advance of payment
 - ✓ Chart of accounts
- Establish terms for timely billing and collection
 - ✓ Municipal Code
- Write-off policy
- Use of outside collection services
- Decision making authority
- Changes/adaptations due to unexpected events

Billing and Collection Practices



- Why an outside collection service?
 - ✓ Due Diligence
 - ✓ Exhausted other efforts
 - Collection letters
 - Legal action
 - Property/asset seizure
 - Last step prior to write off
- Provide information to council/commission
- Collection agency
 - ✓ Fair Debt Collection Practices - certified

Collection Practices



- Governments should have in place policies and procedures for the types of receipts it will accept
 - ✓ Cash
 - ✓ Check
 - ✓ ACH
 - ✓ Wire Transfer
 - ✓ Credit/Debit Card
- Proper handling, reconciliation, and accounting of receipts is essential
- Electronic receipt methods should be well utilized
- Processing returned items
- Fraud prevention is imperative

Invoicing and Revenue Collection - Checklist



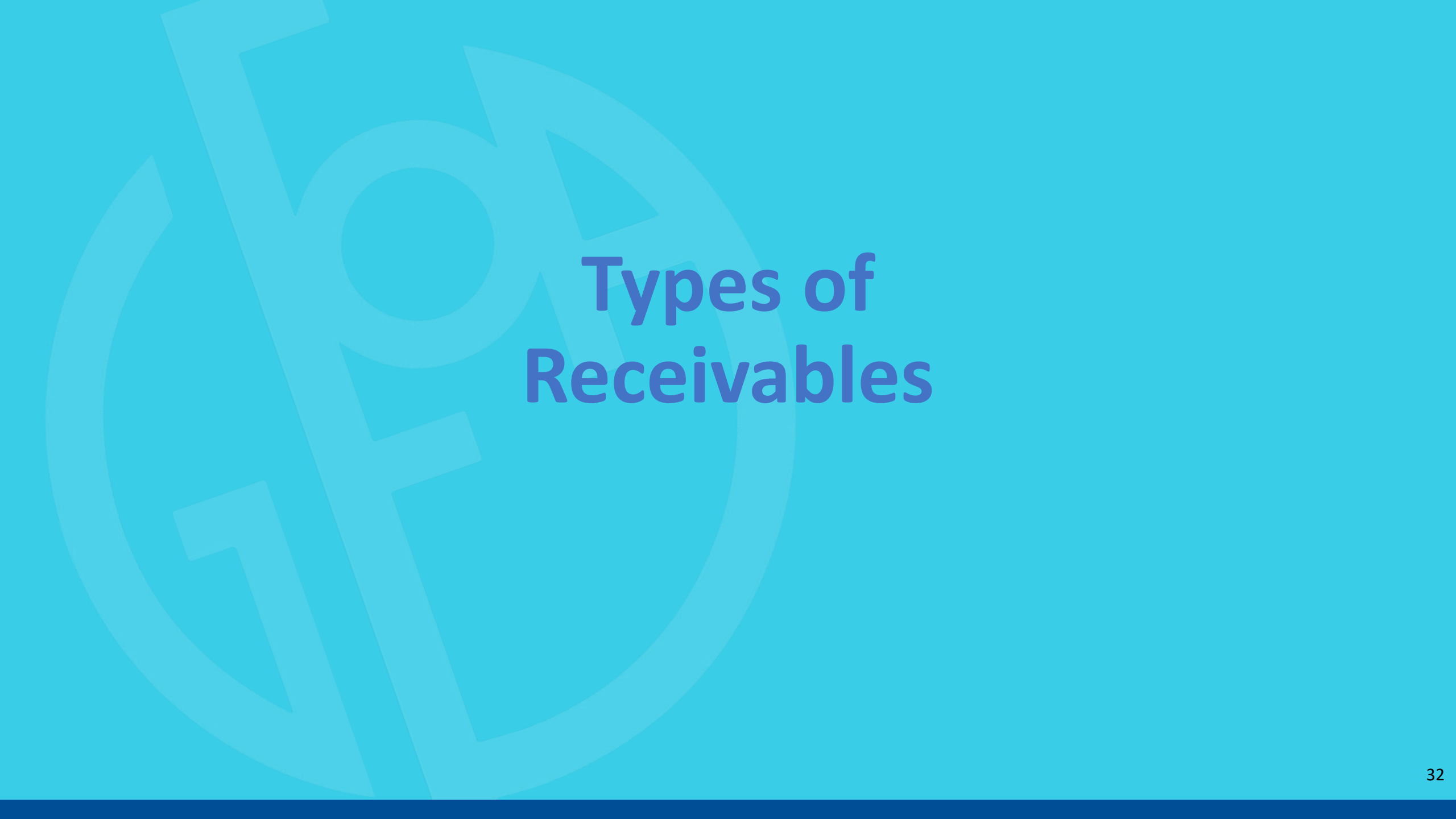
■ Invoicing and Revenue Collection

- ✓ Established Invoicing/Billing timeframe
- ✓ Dollar Thresholds
- ✓ Use of outside collection services
- ✓ Bad debt write off
- ✓ Receivables aging analysis
- ✓ Decision-making authority
- ✓ Employee training
- ✓ Written or electronic accessible procedures in place for employees to reference
- ✓ Periodic review of policies and procedures

DISCUSSION QUESTION



- What are some of the challenges you have faced with billing and invoicing?



Types of Receivables

Types of Receivables



- Receivable – for what?
 - Utility billing
 - Retiree health care
 - Ambulance
 - Tickets
 - Fuel
 - Intergovernmental/Grants
 - Other
- Frequency
- Due date
- Penalty
- Termination of service

- Compliance with municipal code

- How are each of these types of receivables addressed in policies and procedures?
 - Do you have policies and procedures?
 - Why should you?

Currency Management



- Not always practical to take money at one location or even consolidate for deposit
 - ✓ Set up good controls so deposits don't have to flow through Treasury function
 - ✓ All departments should enter deposits into cash receipting or accounting system daily
 - Void management
 - ✓ Receipts should be reconciled against the bank statement
- Use an armored car for outlying locations with large daily deposits
- Use security personnel to take deposits directly to a nearby bank branch
- Smart Safes and Currency Recyclers
- Training

Currency Management



- Trust, but Verify!
 - ✓ Allow departments to complete deposits to the bank
 - ✓ Use armored car service for transport
 - ✓ Verify deposits are in the bank
 - ✓ Working with financial institution to set up structure
 - Special coded deposit tickets to identify department
- Similar to companies with multiple locations
 - ✓ Merchant IDs for credit card processing identify department
- Each department should have a defined procedure

Discussion Question



- How many deposit locations do you have?
- Do you consolidate for deposit purposes?
- Does each location deposit daily?
- What issues have you encountered?

Currency Handling - Checklist



- Currency Handling
 - ✓ Vault/Safe/Smart Safe
 - ✓ Deposit methods
 - ✓ Cash drawer start and end of day procedures (including extraordinary cash receipts)
 - ✓ Counterfeit identification
 - ✓ Void Management
 - ✓ Training

Check Acceptance



- Checks Received In-House
 - ✓ Traditional deposit
 - ✓ Check Conversion
 - ✓ Remote Deposit Capture or Check 21
- Checks Received Externally
 - ✓ Lockbox Services
 - ✓ E-Lockbox Services
- Procedures for Return Checks
 - ✓ Department specific
 - ✓ Service specific – late fees etc.

Electronic Deposit Methods



■ Check Conversion

- ✓ Transforms a check to electronic settlement
- ✓ ACH transaction types
 - POP – Point of Purchase
 - ARC – Accounts Receivable Entry
 - BOC – Back Office Conversion
 - RCK – Returned Check Presentment
- ✓ Generally requires customer authorization or notification
- ✓ Consumer checks only

Electronic Deposit Methods



■ Remote Deposit Capture/Check 21

- ✓ Captures check and deposits through a scan
- ✓ Transmits directly to the bank for daily deposit
- ✓ Reduces costs
- ✓ Eliminates courier liability
- ✓ Can reduce default (NSF) risk with faster presentation
- ✓ Allows multiple location deposits or central deposit point
- ✓ Requires temporary archiving of paper check for clearing
- ✓ Eliminates paper check earlier in the cycle for efficient paperless processing

Electronic Deposit Methods



■ Remote Deposit Capture

- ✓ Written internal controls and procedures
- ✓ Physical check storage
 - Retention schedule – best practice
 - State Archivist Rules
 - Disposal after retention – shredding
- ✓ Storing check images
 - Redacting sensitive information
 - Payer address, account number, etc.
- ✓ Security – this information is stored on your network

BP: Using Remote Deposit Capture



- GFOA recommends that governments consider using RDC to improve effectiveness and efficiency of the accounts receivable process
- Evaluation Criteria For RDC Program:
 - ✓ Security
 - ✓ Financial institution policies and procedures
 - ✓ Image quality and internal handling of documents
 - ✓ Duplicate item presentment
 - ✓ Costs and risks
 - ✓ Integration into existing system – importing payments
 - ✓ Point of purchase – allowing physical check to be returned to customer at point of sale after conversion to ACH occurs

BP: Using Remote Deposit Capture



■ Cost Evaluation For RDC Program:

- ✓ Bank fees
 - Credit or discount when using RDC
- ✓ Labor – time savings
- ✓ Hardware cost at terminal
 - Unit at POS terminal - \$100 - \$500 each
 - Annual software cost
- ✓ Hardware cost – large operation
 - Multi-stage units - \$25,000 - \$100,000
 - Accepts multiple invoice types
 - Specific operating computer terminal
 - Annual maintenance contract - \$7,500
- ✓ What other jobs can be completed?
 - Scanning Assessor property transfer affidavits
 - Scanning change of address cards

GFOA BP: Use of Lockbox Services



- Two Basic Types: Wholesale (high dollar/low volume) and retail (high volume/low dollar)
- Governments Should Evaluate the use of Lockbox Services to Help with Accuracy, Cash Flow, Internal Controls, and Efficiency.
- Evaluation Criteria Should Include:
 - ✓ Availability of lockbox services
 - ✓ Workflow and cash flow
 - ✓ Technical requirements
 - ✓ Other considerations
- Lockbox Provider
 - ✓ Establish criteria for lockbox provider

Lockbox Considerations



- Cost-Benefit Analysis
 - ✓ Float – When are funds available?
 - ✓ Fixed and variable costs
 - ✓ Site selection (political issues)
 - ✓ Availability schedules (time zones)
 - ✓ System interaction
 - ✓ Detail posting alternatives
 - ✓ Networked systems
 - ✓ Staffing requirements
- Watch it in Action

Check Handling/Processing - Checklist



- Check Handling
 - ✓ Remote deposit capture
 - ✓ Check conversion
 - ✓ Lockbox services
 - ✓ Forgery identification

Automated Clearing House (ACH)



- Batch Process
- Least Expensive Form of Electronic Collection Method
 - ✓ Familiar
 - ✓ Convenient
 - ✓ High volume
- Collections Through ACH
 - ✓ Citizen/consumer/government-initiated
 - ✓ Government web site
 - ACH payment initiated by citizen
 - Linked through a provider or directly into government
 - ✓ Direct debit collection by government

Automated Clearing House (ACH)

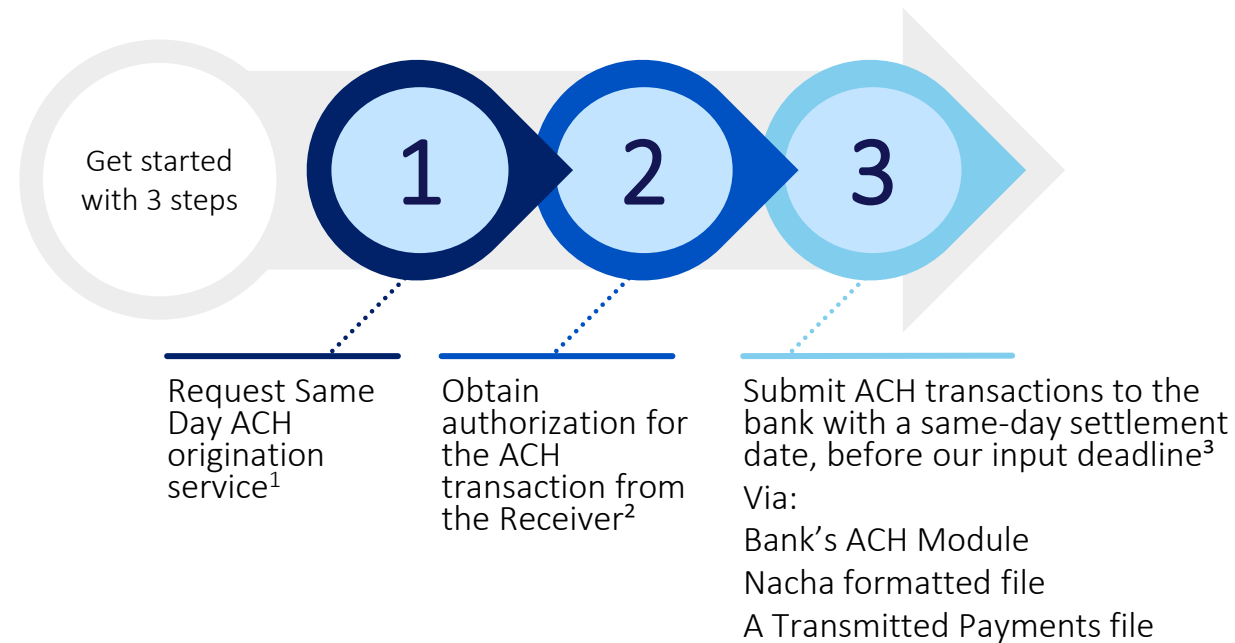


- Batch Process – Online Bill Payments
- MasterCard RPPS Network
 - ✓ Remote Payment and Presentment Service (RPPS)
 - ✓ Captures customer online payments using their own banking software
- Process
 - ✓ Third party provider captures payment on your behalf
 - ✓ Based on specific parameters
 - ✓ Captures payments and delivers as an ACH batch
 - ✓ Low cost and funds delivered faster

Same Day ACH



Same Day ACH - expedite payments while reducing cost



¹ Service may be established, when certain criteria have been fulfilled.

² Gain Receiver authorization in accordance with NACHA Operating Rules and Guidelines.

³ Excluding off-us ACH transactions greater than \$100,000 and International ACH transactions (IATs). As always, ACH Entries are subject to the NACHA return rules

This slide was used in the GFOA's 2021 conference presentation "Leveraging Technology to Help with Essential Treasury Office Functions".

ACH - Benefits



- Electronic Funds Movement vs. Physical Documents
- Cash Flow Certainty by Date
- Improved Reconciliation
- Information Reporting – Expanded Addenda
- Reduced Bank Fees Over Physical Handling
- Reduced Processing Time and Errors

Discussion Question



Has your entity been accepting and/or encouraging more ACH payments in recent years?

Credit Card Acceptance



- Merchant Services
- ERP integration
- Which Card Brands Will You Accept?
- Card Fees Based on
 - ✓ Credit, Debit, Rewards, Consumer, Commercial, Etc.
 - ✓ Transaction Environment
 - ✓ Transaction Entry Mode
 - ✓ Merchant Category Classification (MCC)
 - ✓ Volume of transactions

Credit Card Acceptance/ Merchant Services



Merchant Service Players



ENTITY	ROLE
Card Brands	Visa, MasterCard, Discover, American Express, etc.
Card Associations	Network of Issuing Banks and Acquiring Banks that process cards of a specific brand
Issuing Bank	Bank that sets credit limit for Customer and provides physical card
Customer	Uses card to make payment
Merchant	Entity that accepts card as payment
Acquiring Bank (Acquirer)	Bank that provides Merchant with merchant account and processes transactions for Merchant. Credits Merchant's account with daily transactions and gets paid, in turn, by Issuing Banks
Merchant Services Provider (MSP)	Provide point of connectivity for Merchant. Partnered with an Acquiring Bank
Payment Gateway	Software that connects Merchant to Acquiring Bank and MSP
Qualified Security Assessor	Third-parties that assess and validate PCI compliance

Merchant Service Providers



- Volume of transactions determines your merchant level
- Volume of transactions and dollars determine service provider interest
 - ✓ Providers charge by % or per transaction
 - ✓ Provide details for best estimate of cost
- Key determining factors in pricing services
 - ✓ Transaction volume
 - ✓ Transaction dollars
 - ✓ Average ticket

Merchant Service Providers



■ Know your credit card activity

Transactions Type	Jan-21	Feb-21	Mar-21
MasterCard	1,245	1,148	1,986
VISA	1,606	1,419	2,761
Discover	41	30	102
American Express	0	4	48
Debit/ATM	0	0	0
Total	2,892	2,601	4,897

Dollar Volume	Jan-21	Feb-21	Mar-21
MasterCard	\$ 66,469.45	\$ 71,892.50	\$ 95,993.25
VISA	\$ 136,262.45	\$ 138,996.12	\$ 167,724.15
Discover	\$ 2,636.25	\$ 1,162.00	\$ 4,867.00
American Express	\$ -	\$ 33.00	\$ 1,613.00
Debit/ATM	\$ -	\$ -	\$ -
Total	\$ 205,368.15	\$ 212,083.62	\$ 270,197.40

Avg Per Transaction	Jan-21	Feb-21	Mar-21
MasterCard	\$ 53.39	\$ 62.62	\$ 48.33
VISA	\$ 84.85	\$ 97.95	\$ 60.75
Discover	\$ 64.30	\$ 38.73	\$ 47.72
American Express	\$ -	\$ -	\$ -
Debit/ATM	\$ -	\$ -	\$ -
Total	\$ 71.01	\$ 81.54	\$ 55.18

Credit/Debit Card Acceptance – Pros & Cons



Pros

- Meets Customer Demands For Payment Options
- Increased Collections – Burden For Collection Is On Issuing Bank, Not Government
- Improved Audit Trail
- Reduced Cashiering And Check Processing Costs
- Control Improvements:
 - ✓ Simplified cashiering, reduce cash theft, reduce “bounced” checks, improved cash flow, enables internet-based transactions to occur

Credit/Debit Card Acceptance – Pros & Cons



Cons

- Merchant Liability if Not Using Chip-enabled Equipment (EMV)
- Settlement Times Vary by Card Accepted – Impacting Reconciliation
- Costs Associated With PCI Compliance
- Full “Bill” May Not Be Realized – Reduced By Fees Paid To Credit Card Companies
 - ✓ Some states prohibit payment of any amount less than full bill
 - Check state law and card association (Visa/MC) rules
 - ✓ Restrictions on charging convenience fees and surcharges
 - Check state law and card association (Visa/MC) rules
- Chargebacks – up to 6 months after transactions

Fees Charged to Government for Payment Card Usage



- Depends on method used to process payment and type of card used
- Discount rate – Percentage of sale that PC service providers charge merchants for processing transaction (all fees)
 - ✓ Assessment fee – smaller fee, paid directly to card network (e.g., Visa) for use of network
 - ✓ Interchange fee – largest fee, mostly paid by entities to the card brands and then onto the card holder's issuing bank

Fees Charged to Government for Payment Card Usage



- Merchant Service Provider Fees – based on the value of the transaction or fixed fee per transaction. More complex
- Administrative Fees – maybe charged by payment card provider
 - ✓ Statement fees
 - ✓ PCI non-compliance fees
 - ✓ Chargeback fees
 - ✓ Terminal fees
 - ✓ Settlement fees

Ways Fees are Assessed by Provider



- Three common ways merchant providers assess fees on governments/vendors
 - ✓ Flat Rate – Merchant Provider charges entity a flat fee, fixed percentage or mixture of both at the time transaction is processed
 - ✓ Interchange-Plus – Credit card company charges merchant provider for each transaction, merchant provider adds to that amount, to be paid by entity
 - ▶ Interchange fee (varies) + \$.10 merchant provider markup
 - ✓ Blended/Tiered – Tiers are based on cost structures. Least transparent

Reviewing Statements



- Ask Your Merchant Provider To:
 - ✓ Discuss billing statements with you
 - ✓ Provide an “annual rate review” for your organization
 - ▶ At least annual!
 - ▶ Changes (increases) may not be transparent, as merchant provider does not need to proactively let you know
 - ✓ Assist with ways to lower your costs

Participant Question



How does your government currently handle merchant service fees associated with credit card payments?

Ways Governments Charge Customers



- Convenience Fee

- ✓ Available to all merchants
- ✓ Established to allow customers the “convenience” of not paying in person
- ✓ Helps recoup costs of merchant fees
- ✓ May deter users from using payment cards

Ways Governments Charge Customers



■ Service Fees

- ✓ Only allowable to governments and higher education
 - Does not apply to HSA cards – they have a separate MCC code/non governmental
- ✓ Check state/local laws!
- ✓ May not be used in addition to convenience fee
- ✓ May be charged whether in person or online
- ✓ Guidelines must be followed, and discussed with merchant services provider
 - Fee must be disclosed BEFORE transaction is completed
 - Fee must show it comes from the entity/vendor NOT the credit card provider
 - Fee amount should be
 - Reasonable, and possibly capped
 - Flat or fixed cost not based on value of payment
 - Assessed on final amount net discounts, rebates, etc.
- ✓ Understand internal policies and procedures, including accounting matters

Ways Governments Charge Customers



■ NO FEES ASSESSED ON USER

- ✓ Government determines it will absorb all costs associated with accepting payment cards
- ✓ Policy decision
 - Mandatory vs discretionary
- ✓ Procedures
- ✓ Budgeting these costs
- ✓ Monitoring costs
- ✓ Reassessing decision making
- ✓ Regular RFP process

Using Third Party Providers



- Governments may wish to utilize outside provider to process acceptance of cards
- Know your state and local laws!
- Through the government's site, there is a portal to the third party billing system
- Third party charges a fee to the consumer
- Full amount is remitted to government
- Customer credit card information is not stored or captured by the municipal IT network
- Payments are reported and imported the next business day
 - ✓ Real time interfaces can be established for critical payments

PCI Compliance



- PCI DSS – Payment Card Industry – Data Security Standards
- Set Of Rules Established by The Payment Card Industry
- Applies to Every Merchant Which Accepts Payment Cards
- Rules Were Instituted To Prevent Payment Card Fraud
- PCI Security Standards Council - ([Pcisecuritystandards.Org](https://www.pcisecuritystandards.org))
- Continuous Monitoring / SAQ's / Training / Controls

Ask the merchant services provider for assistance with PCI DSS compliance and reporting. Understand your responsibilities.

PCI Requirement Breakdown



Six Goals	Twelve Requirements
Build and Maintain a Secure Network	1. Install and maintain a firewall configuration to protect cardholder data 2. Do not use vendor-supplied defaults for system passwords and other security parameters
Protect Cardholder Data	3. Protect stored cardholder data 4. Encrypt transmission of cardholder data across open, public networks
Maintain a Vulnerability Management Program	5. Protect all systems against malware and regularly update anti-virus software or programs 6. Develop and maintain secure systems and applications
Implement Strong Access Control Measures	7. Restrict access to cardholder data by business need-to-know 8. Identify and authenticate access to system components 9. Restrict physical access to cardholder data
Regularly Monitor and Test Networks	10. Track and monitor all access to network resources and cardholder data 11. Regularly test security systems and processes
Maintain an Information Security Policy	12. Maintain a policy that addresses information security for employees and contractors

PCI – Key and Upcoming Issues



- Changes forthcoming in 2024-2025
 - ✓ Recording in person transactions
 - ✓ Utilize PCI Standardization = less conditions, less costs, less worry
 - ▶ Customized approach is an option, comes with responsibilities
- Do what you can to minimize your scope
 - ✓ Fewer touch points = less conditions, less costs, less worry
 - ✓ Don't store information (especially account number)
 - ✓ Consider outsourcing credit card receivables
- Utilize PCI QSA to review your policies and procedures and conduct audit
 - ✓ https://listings.pcisecuritystandards.org/assessors_and_solutions/qualified_security_assessors

Participant Question



Is your entity PCI Compliant?

GFOA BP: Accepting Payment Cards and Selecting Payment Card Providers



- Review Pros and Cons Already Discussed
- GFOA Recommends the Costs and Benefits of Credit Card Acceptance be Evaluated Compared to Other Payment Mechanisms
 - ✓ System/internal ability and capability
 - ✓ Security breaches
 - ✓ Ability to use at different venues (e.g., special events)
 - ✓ **Fees applied to government** and end user
 - ✓ Implementation costs

GFOA BP: Accepting Payment Cards and Selecting Payment Card Providers



- Selecting Vendors: RFP Process and Evaluation
 - ✓ May be part of traditional banking services contract
 - ✓ How/When are funds available to government
 - ✓ Equipment costs and use (and training!)
 - ✓ Vendor reporting capabilities
 - ✓ Vendor security record and procedures
 - ✓ Government's liability in event of security breach
 - ✓ Problem resolution and chargebacks
 - ✓ Other parameters as discussed
- Extensive GFOA Resource on Accepting Payments Cards in LMS

Credit/Debit Card Handling - Checklist



- Credit/Debit Card Handling

- ✓ Processing fee
- ✓ Dollar thresholds
- ✓ Types of cards accepted
- ✓ Location of acceptance (in person, on phone, website, app)
- ✓ PCI compliance

CHAT QUESTION

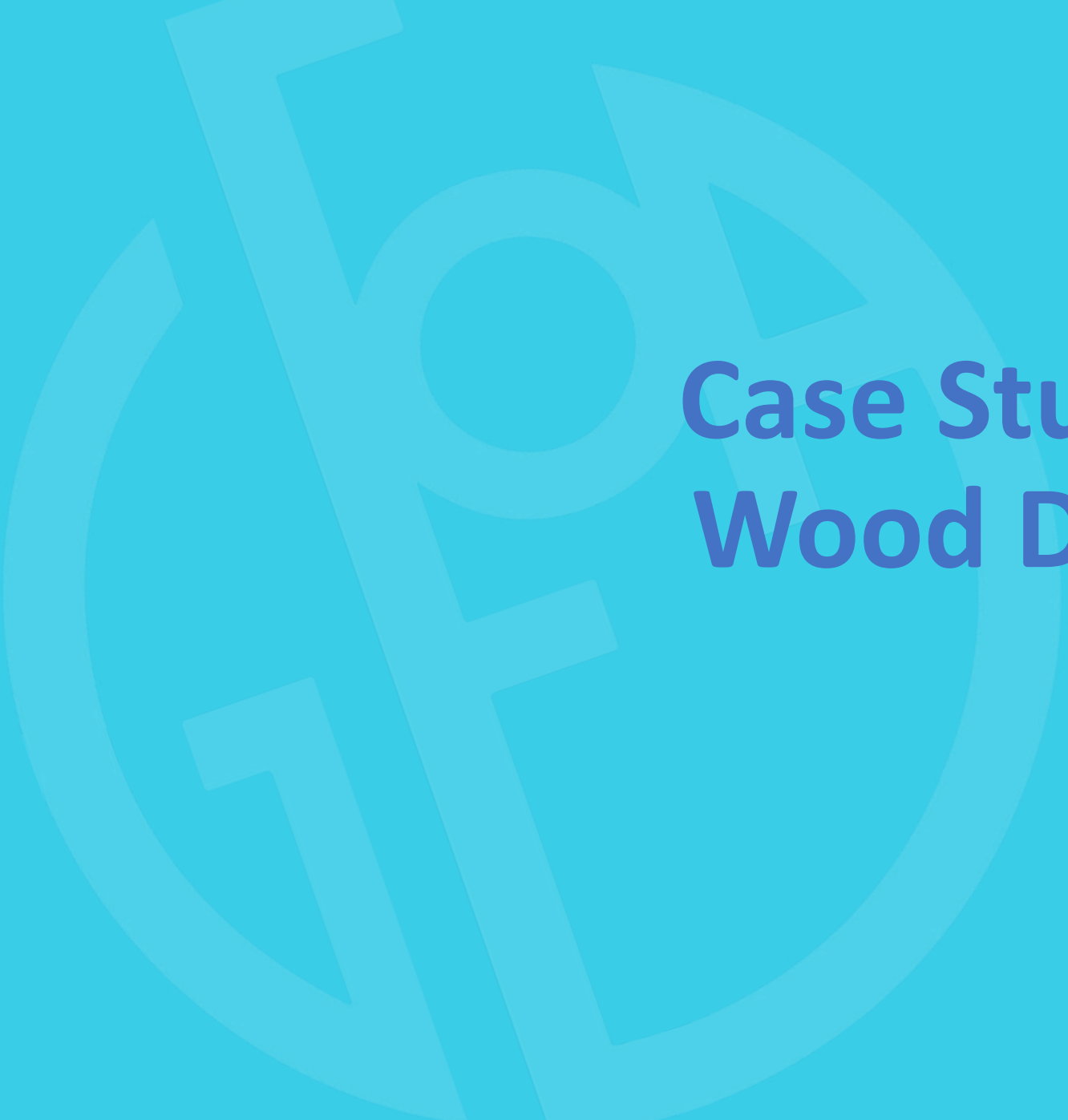


- What challenges – or positive stories – do you have regarding credit card/payment card processing?

Wire Transfer



- Large dollar/low volume
 - ✓ Higher cost
- Same Day Receipt
 - ✓ Settlement is final – not reversible
- Sometimes Difficult to Identify Purpose of Payment
 - ✓ Consider a dedicated account for certain incoming wires (i.e., grants, etc.)
 - ✓ Indicate identifying information sender should include
- Used for More Specialized Transactions:
 - ✓ Sale of Property
 - ✓ Specialized large dollar contracts



Case Study: Wood Dale

Wood Dale, IL Case Study



Processor Payment Method	2023 Monthly Average	%
In-person cash/ck	926	13.76%
Visa	2,010	29.86%
MasterCard	742	11.02%
Discover	57	0.85%
Auto-debit	1,271	18.88%
Recurring CC	250	3.71%
Retail Lockbox	753	11.19%
E-Lockbox	723	10.74%
Total	6,732	100.0%

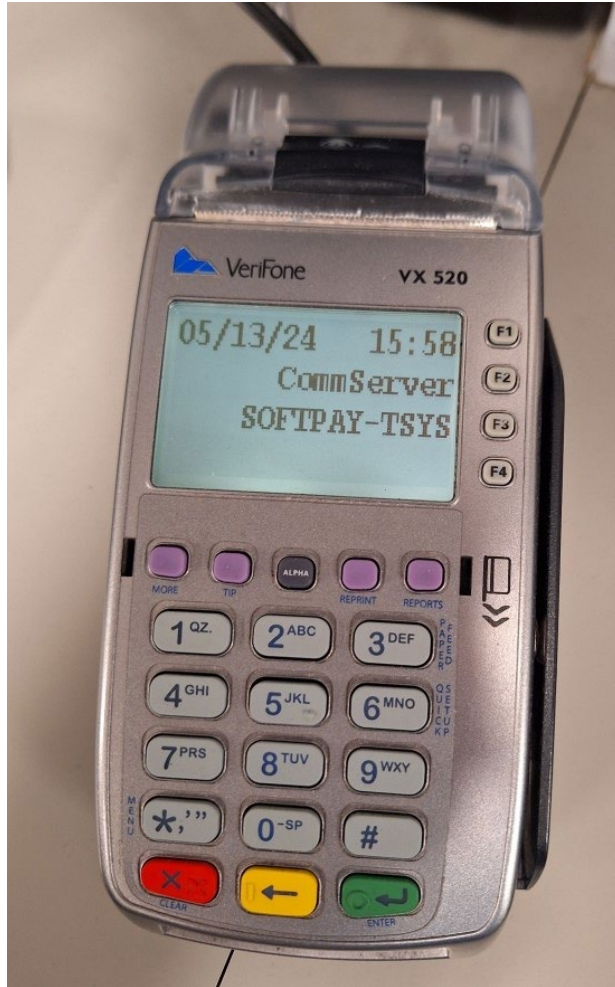
- Launched IVR - September 2024
- In-person and retail lockbox receipts down over the past 5 years
- Auto-debit up over 50%
- Recurring CC began in 2023
- E-Lockbox – online banking capture up 25%
- CC volume includes Metra (mass transit) parking fees

Case Study: City of Wood Dale



- Needed to modernize our processing infrastructure
 - ✓ ERP integration
 - ✓ IVR
 - ✓ Touchless options
 - EMV
 - Apple/Google Pay
 - ✓ PCI compliance
- Council asking why we were “behind the times”
 - ✓ Tap options are standard almost everywhere
- Current merchant provider relationship ending
- Growing discomfort of handing the card to staff to be ran
 - ✓ Fraud, “what are they doing with it back there”, etc.
 - ✓ Staff not wanting to do this to avoid accusations of wrongdoing

Case Study: City of Wood Dale



- Previous terminal VX520
- Pros
 - ✓ It actually works
 - ✓ Easy to use
 - ✓ Staff likes it
- Cons
 - ✓ No PIN pad
 - ✓ No tap
 - ✓ End of life
 - ✓ Not public facing
 - ✓ Staff handed each card to process
 - ✓ Not integrated with ERP

Case Study: City of Wood Dale



- New terminal Lane 5000
- Pros
 - ✓ Public facing
 - No staff interaction with the card
 - ✓ Touch screen with stylus
 - ✓ Tap enabled
 - ✓ Integrated with ERP
 - ✓ Accepts PIN transactions
 - ✓ PCI compliance
- Cons
 - ✓ "It takes longer"



Group Discussion

Group Discussion - Receivables



- What are some key concerns or solutions you have found that have assisted with collections?
- Have you expanded the types of payments that your entity receives? What more would you like to see?
- How does your entity implement receivables training? Is it just done at onboarding and/or on an ongoing basis?



Payables

GFOA BP: Payables



- Verify that the goods/services have been received
 - Approval and sign-off procedures
- How do you receive the invoice?
- Develop policies and procedures for handling payables in treasury office
 - Checks
 - ACH
 - P-Cards
 - Electronic account payable
 - Stored value cards/Pre-paid cards
 - Petty cash
 - Cryptocurrency - NO!!!
- Electronic Payment Methods Preferred

Types of Payables



- Invoices
- Transfers
- One off payments
 - Refunds
 - Utility Billing
 - Builder Escrow
- Payroll
- Debt coverage
- Jury duty
- Emergency needs

Automated Clearing House (ACH)



- Movement of funds in a batch process, which is best for high-volume, low-dollar transactions
 - ✓ Payroll
 - ✓ Routine vendor payments
 - ✓ Expense reimbursements
- Typically, low cost per transaction
- Benefits
 - ✓ Cash flow certainty
 - ✓ Improved reconciliation
 - ✓ Potential reduction in late payments and delinquencies
 - ✓ Reduced bank fees

ACH - Blocks and Filters



- Important for Fraud Prevention
 - ✓ Strict rules for verifying account information
- Simplest: Don't Allow ACH Debits!
 - ✓ Not always practical
 - ✓ ACH debits – only if specific approval required
- Limit to one account only
 - ✓ Put ACH blocks on all other accounts
- Utilize ACH filters
 - ✓ Provide originating company ID to bank for debits allowed
 - Credit card fees
 - Payroll taxes withheld
 - Special circumstances
 - ✓ Set dollar limits

Things to Consider



- ACH debits are not prohibited
 - ✓ Know when you should allow them.
 - ✓ State Law mandates use for a specific function.
 - Michigan Liquor Beer Wine Purchases
 - ✓ Separate account
 - Minimize exposure
 - Limit access
 - Review activity
- ACH debits fall into a positive pay approval
 - ✓ Approvers review activity and decision (pay or return)
 - ✓ Decision supported by specific transaction
 - Void, refund, dispute, and credit card fees
- Whitelist the company ID number or merchant ID

Checks



- Still a very common payment method for governments
- Security
 - ✓ Check stock
 - Security features
 - ✓ Copies of cancelled checks
 - Bank storage vs. record retention requirements
 - ✓ Signature disk or plate for facsimile signature
 - ✓ Reconciliation – should be done daily
 - ✓ Fraud prevention
 - Positive pay
 - Payee positive pay

Positive Pay – Why Bother?



CITY OF PHILADELPHIA
PHILADELPHIA, PA.
GENERAL DISBURSEMENT ACCOUNT

ACCOUNT
2079950021634
WELLS FARGO BANK

62-221
311

85422720

DATE July 21, 2022

PAY TO THE ORDER OF SANDRA SAUSVILLE

Eight Hundred and 00/100 DOLLARS

\$ **800.00**

Valid After 90 Days

MEMO PAY

Jargueline Dunn
AUTHORIZED SIGNATURE

⑈86422720⑈ ⑆031100225⑆ 2079950021634⑈

- Person enters their name in the “Pay to the Order of”
- May adjust the dollar amount
- Dollar amount in a different font
- Authorized signature is typed

Note: When do you decide to close the account and open a new one?

Review Fraudulent Checks



GRAND RAPIDS HUMAN RESOURCES
300 Monroe Ave NW #880
Grand Rapids, MI 49503-3112

JP MORGAN CHASE BANK
GRAND RAPIDS, MI 49503
www.chase.com
9-32/720

4812376

DATE 12/01/2020

PAY TO THE ORDER OF Randy H Tomplo \$ 943.17

Nine Hundred Forty Three Dollars 17/100** DOLLARS


Authorized Signature

12330

⑆4812376⑆ ⑆072000326⑆ 5768384863⑆

- Person enters their name in “Pay to the Order of”
- Numeric dollar amount is in a different font.
- City of Grand Rapids uses positive pay.
- City of Grand Rapids requires three signatures on the check.
- Authorized Signature = President Barak Obama

Fraudulent Checks



THE FACE OF THIS DOCUMENT HAS A COLORED BACKGROUND ON WHITE PAPER

Metropolitan Life Insurance Company
P.O Box 7110
Troy, MI 48067-7110
1-633-642-1007

BANCO POPULAR NORTH AMERICA
1-881/260

898

7/15/2022

MEMO IA: Final Payment Policy#7868482
Acc# 4405501423

PAY Forty-Two Thousand Six Hundred Fifty and 00/100^{ths} **\$ **42,650.00**

TO THE ORDER OF **NATHALY MELO**
413 CARAWAY DRIVE
KISSIMMEE, FL 34759

VOID AFTER 180 DAYS

RUB RED IMAGE
FADES WITH HEAT

VOID

Signature

#000000898# 103000648# 121530973#

Security Features Included Details on back

Fraudulent Checks



WARNING: THIS DOCUMENT HAS SECURITY FEATURES IN THE PAPER

RED HOT ELECTRIC, LLC.
PAUL BURKS

PO BOX 1272
NEWCASTLE, OK 73065
(405)240-1079

209436

DATE 6/21/21

39-64 / 1030

PAY TO THE
ORDER OF

Rowles

\$ 1302.89

one thousand three hundred two and 89/100 DOLLARS

JPMORGAN CHASE BANK, N.A.
100 N. BROADWAY
OKLAHOMA CITY, OK 73102-8606

MEMO

Material (wire 12/2-1005-etc)

[Signature]

⑈ 209436 ⑈ ⑆ 103000648 ⑆ 621012525 ⑈

Positive Pay



- A requirement for safety
- Relieves liability for fraudulent checks received
- The government sends check registers to bank
 - Online access to add specialty, one-off checks
- Bank database - screens check for validity
 - ✓ Check the number and amount of the check
 - ✓ Payee positive pay is now available
- Government reviews and approves exceptions
 - ✓ Timing is critical
 - ✓ Automatically rejected after an agreed upon time

Payables Checklist - Checks



- Check
- Check stock security
- Check copy security
- Fraud prevention
 - ✓ Positive pay
- Signature authorizations
- Outsourced check writing function
- System setup and security
 - Segregation of duties

Purchasing/Procurement Cards



- Credit card transaction at the point of sale, with typically no cost to the government
 - ✓ Small dollar transactions
 - ✓ Departmental purchases for fieldwork
 - ✓ Use instead of petty cash
- Need to establish robust programs and controls
- Safeguards include:
 - ✓ Ability to restrict merchant category codes for obvious non-business spending (e.g., liquor stores)
 - ✓ Individual transaction maximum (e.g., \$1,000)
 - ✓ 30-day statement cycle maximum (e.g., \$5,000)

GFOA BP: Purchasing Card Programs



- Benefits to government and vendor
 - ✓ Rebates to government
- Alternative to traditional purchasing process – can reduce paperwork (POs, Invoices, Checks) and be more convenient
- Advantages include:
 - ✓ Simplified payment process
 - ✓ Lower transaction costs
 - ✓ Ability to set and control purchasing limits
 - ✓ Better use of information to manage program
 - ✓ Greater control/transparency into purchases
 - ✓ Rebates
 - ✓ Accountability

GFOA BP: Purchasing Card Programs



- Some disadvantages, too
 - ✓ Duplicate payments
 - ✓ Perception of government using 'credit card'
 - ✓ Potential abuse
 - ✓ Front page risk!
 - ✓ Program requires administration
 - ✓ Cardholder must attach electronic receipts
 - ✓ Add general ledger account numbers
 - ✓ Departmental Review
 - ✓ Submit to AP team for review
 - ✓ It is easier for departments - efficiency

GFOA BP: Purchasing Card Programs



- Have written policies and procedures
 - ✓ Have detailed policies to prevent abuse
 - ✓ Conduct training on policies and procedures for ALL program participants
 - ✓ Employee sign-off on the policy before obtaining their card
- Vendor Selection: What to think about:
 - ✓ Use Competitive/RFP Process
 - May be different than banking services providers
 - ✓ Software Integration
 - ✓ Restrictions and Usability Functions
 - ✓ Training and Customer Support
 - ✓ Program Rebates (nice, but less important)

Payables Checklist – PCards



- Authorized users
- Authorized purchases
- Authorized limits
- Processing fees
- Rebates
- Authority to administer policy – cancel cards

DISCUSSION QUESTION



- Are there any policy concerns that remain at your entity for implementing and managing the p-card program?

CASE STUDY/COMPARISON



- Oklahoma City = 5000 employees, 180 p-cards
- Wood Dale = 98 employees, 51 p-cards
 - ✓ Previously used “house accounts” and blanket PO’s
 - ✓ Invoices would get lost leading to delays in payment
 - ✓ Often purchases were made without a name
 - Lack of accountability
 - ✓ Multiple/duplicate purchases of smaller items
 - ✓ Lack of price comparison shopping
 - ✓ No access to online vendors
 - ✓ Unnecessary trips to stores versus same/next day delivery
- WHY ARE THEY SO DIFFERENT???

CASE STUDY/COMPARISON



- Oklahoma City = 5,000 employees, 164 p-cards
 - ✓ Encouraged for all purchases under \$5,000
 - ✓ P-Card Payments in FY 24 - \$29.24M
 - ✓ Average Transaction is \$884
 - ✓ Top 3 Vendors: Verizon Wireless, NAPA and Granger
 - ✓ Earned \$486,829 in rebate revenue in FY 24 (\$4.7M since 2003)

2019 City of OKC P-Card Audit



- City Auditor performed audit of P-Card Program
 - ✓ Reviewed 9,322 purchases totaling \$7.1 million
 - ✓ Only one department was out of compliance
 - ✓ A Golf Course had 291 purchases totaling \$155,182 that were unreviewed
 - ✓ 95 transactions totaling \$11,060 were found to be fraudulent
 - ✓ An expanded review showed weakness surrounding the POS system at the Clubhouse Restaurant

E-Payables



- Credit card transaction, often without physical card, that allows governments to pay invoices electronically
- Using electronic credit card to replace checks
 - ✓ Government notifies bankcard issuer of approved invoice payment
 - ✓ Bank increases credit limit on vendor-specific credit card account in amount equal to approved payment
 - ✓ Bank notifies vendor of approved payment amount
 - ✓ Vendor controls when credit card fund balance is used
- Vendor gets paid faster (sometimes!), but does pay merchant fees
- Government gets rebate from purchase

Stored Valued/Prepaid Cards



- Established originally as “Pay Card” function
 - ✓ Creates virtual account at bank
 - ✓ Funds placed in the account/on card via ACH credit initiated by the government
 - ✓ Reduces time and liability on ‘lost cards’ to escheatment
 - ✓ For unbanked persons
 - ✓ Alternative for checks
- Creates virtual account for non-bank account holders
 - ✓ Allows mandated use if employee doesn’t elect direct deposit
 - ✓ Possible solution for items like jury duty
- Employee/Participant Benefits
 - ✓ Immediate access to funds
 - ✓ Unbanked do not incur check cashing fees
 - ✓ Can withdraw total amount from issuing bank
 - ✓ Watch out for card fees

Payables Checklist – Prepaid Cards



- Authorized user
- Authorized purchases
- Authorized limits
- Processing fees
 - ✓ If used for payroll, the municipality should consider paying any of the fees.



DISCUSSION QUESTION



- Does your entity use petty cash?
- If yes...
 - How many departments have their own?
 - How much do they have?
 - How often do they do a reconciliation?
 - Why?
- If no...
 - What have you replaced it with?
 - How has that worked out?

Petty Cash



- Hold over type of payment
 - ✓ Determine which departments may need petty cash
- Strict policies and procedures needed
 - ✓ When allowable to use
 - ✓ How to track
 - ✓ Reconciliation
 - ✓ Audit
- Look to alternatives
 - ✓ Prepaid cards
 - ✓ Procurement cards (P-cards)

Payables Checklist – Petty Cash



- Authorized custodians
- Authorized uses
- Authorized limits
- Reconciliation
 - ✓ Disbursement register like a checkbook register
 - ✓ Applicable receipt documentation
- Verification payment not also made by other means

Wire Transfer



- Immediate movement of funds between bank accounts with guaranteed settlement
 - ✓ Land/property purchase
 - ✓ Debt payments
- Used for large dollar, low-volume transactions
- Typically, the most expensive form of payment
- Settlement is final – no ability to return or reverse a transaction – (reversal can occur – no guarantees)
 - ✓ Understand when bank is sending wire vs when you send instructions
- Manual process
 - ✓ Manually initiated/approved by two different people
 - ✓ Multi-factor authentication

Wire Transfer



- Reversing a Wire Transfer
- When would it be possible?
 - ✓ Duplicate wire transfers
 - ✓ Errors made by sending or receiving bank
 - ✓ Fraudulent wire transfers
 - ✓ Collaboration between banks – no guarantee
- **Time is of the essence.**
- If fraud, you may be required to contact the FBI or FTC (Federal Trade Commission)

Note: The options for reversal are limited and there is no guarantee that funds will be recovered.

Cryptocurrency



- **JUST SAY NO!**

- ✓ **GFOA advises governments to abstain from accepting cryptocurrency for receivables, using cryptocurrency for payables, and investing in these products.**

- **Why Not?**

- ✓ No Set Definition of What “It” Is
- ✓ Unclear Regulatory Framework or Protections in Place
- ✓ Not Acknowledged by Banking System
- ✓ Governments Must Utilize U.S. Currency for Operations
- ✓ Extreme Volatility
- ✓ Important to Monitor Federal and State Regulatory Initiatives

Payables Checklist – Controls

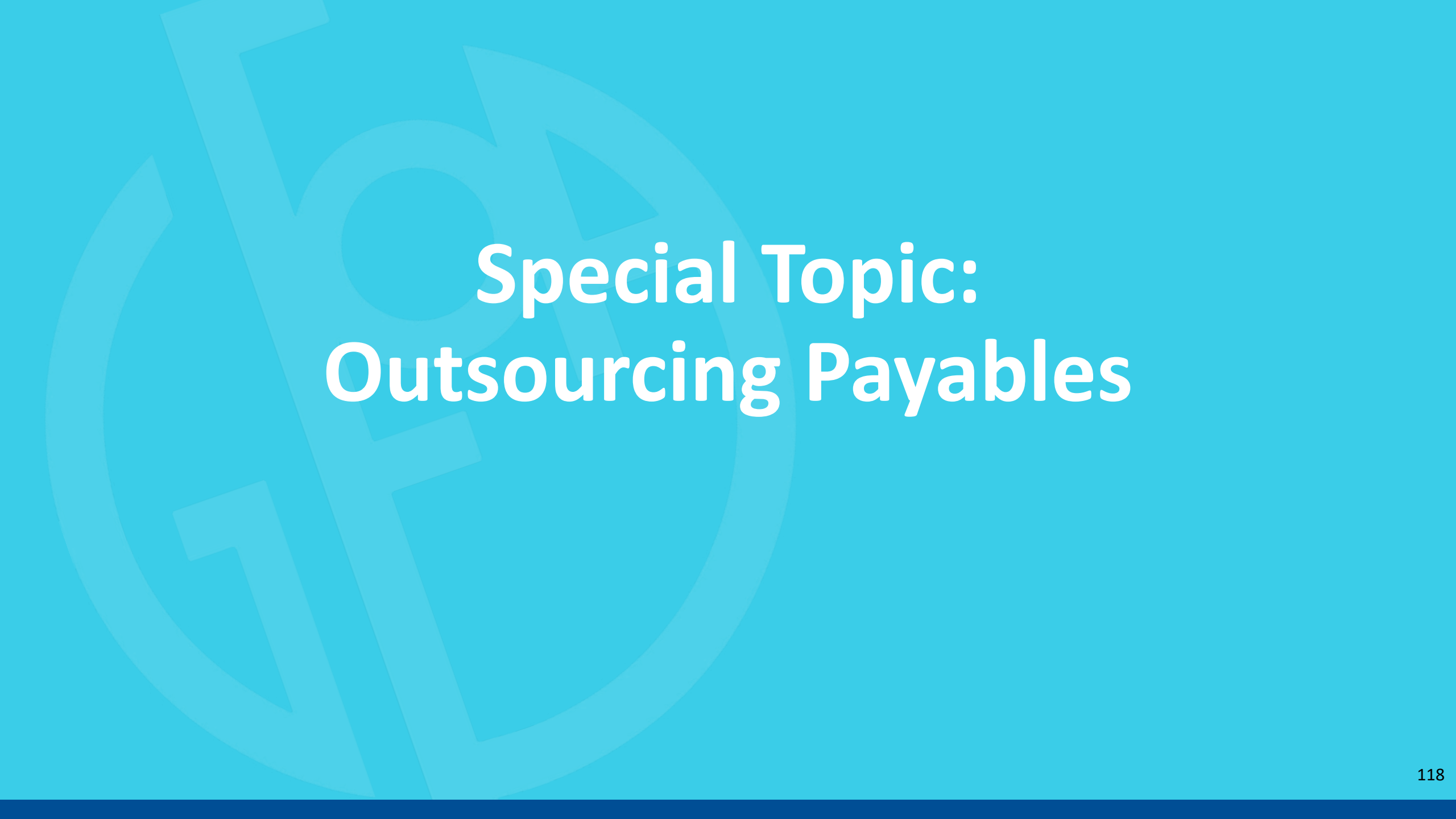


- Reconciliation procedures for all types of payables
 - ✓ ACH
 - ✓ Check
 - ✓ Credit card settlement
- Segregation of duties between receiving/making payments
- Supervisory procedures for all facets of payables
- Record retention of payables information
- Internal controls/fraud prevention
 - ✓ Awareness of sophisticated schemes (e.g., spoofing, fake invoices, changing banking information)
 - ✓ Independently verify vendor account changes
 - ✓ Outsourced vendor file information

Payables Checklist – Controls



- Impact on cash flow forecasting
- Bank resources and reporting functions
- Integration with banking services contract and RFP policies and development (see Banking Services RFP)
- New employee vetting and onboard training
- Ongoing employee training
- Periodic review of policies and procedures
- Emergency preparedness
 - ✓ What if your payables bank account is compromised?



Special Topic: Outsourcing Payables

DISCUSSION QUESTION



- Has your entity considered outsourcing payables?

Outsourcing Payables Resource



- Outsourcing Payables
 - ✓ External Providers to Manage Payables
 - ▶ Banks
 - ▶ Third Party Businesses
 - ✓ Scope
 - ▶ Just check writing
 - ▶ All payables (not payroll)
 - ✓ Considerations
 - ▶ Getting information to provider
 - ▶ Vendor management
 - ▶ Fraud prevention
 - ▶ One-off checks needed quickly
 - ▶ Other

Some Challenges



- Multiple payment processes / workflows
- Lost hours on very manual tasks
- Checks – and all their problems
- Vendor pressure for payment choice
- Ongoing vendor maintenance (bank info, address, contacts, etc.)
- Fraud exposure

Possible Goals



- Streamline payments process
- Reduce fraud risk
- Save time
- Save money
- Satisfy vendors
- Earn rebate