



# **Michigan School Business Officials**

## **Cash Management**

**February 16, 2023**

# MSBO Managing You Districts Funds

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*PFM Asset Management LLC*

**NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE**

# Agenda

- I. Cash Management: Big Picture**
- II. School Cash Management**
- III. School Code – Permissible Investments**
- IV. Cash Flow Analysis – How Much, How Long**
- V. Case Study: Cash Management In Practice**
- VI. Current Market Conditions**
- VII. Investment Strategy Considerations**
- VIII. Appendix: Investments Defined**

# Cash Management: Big Picture





## Cash Management

### DEFINITION

**Cash management** may be defined as all activities undertaken to ensure **maximum cash availability** and **maximum investment yield** on a government's idle cash.

Cash management is concerned with the **efficient management of cash** from the time revenue is earned to the time a check or disbursement clears the bank.

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### BASIC ELEMENTS

**Cash mobilization**: get the cash in as quickly as possible.

**Controlled disbursement**: release cash at the last possible moment.

**Investment program**: make the cash work in the meantime.

# ASBO Best Practices – Cash Management & Investing

## The school business official understands and demonstrates the ability to:

**Select** professional advisors/contractors such as bond counsel, rating agencies, financial advisors, and underwriters.

**Use** lease purchasing and partner with other jurisdictions such as municipalities, counties, and other school districts.

**Develop/recommend** investment policies for the governing board to include investment objectives such as maximizing investment income and preserving the investment principal.

**Develop** specifications for the selection of banking and other financial services.

**Apply** the concept of compensating balances.

**Comprehend** procedures and legal constraints for cash collection and disbursement.

**Calculate** the yields and understand the risks of various investment options legally available to a school district.

# ASBO Best Practices – Cash Management & Investing

**The school business official understands and demonstrates the ability to:**

**Apply** various methods of cash forecasting.

**Apply** appropriate types of short-term debt financing instruments available to school districts.

**Analyze** monthly internal transfers and loans.

**Analyze** the legal constraints and methods of issuing long-term general obligation bonds, including the bond rating process and the role of the bonding attorney and rating services.

**Analyze** the implication of arbitrage rules that may apply to the issuance of long-term general obligation bonds; provide for arbitrage payable when appropriate.

**Prepare** a cash flow analysis, including a fund balance report, for the board of education.

**Review** accrued receivables and understand permitted collection processes.

# Cash Management & Investment Objectives

## ❖ Safety

Protect principal

High quality investments

## ❖ Liquidity

Provide necessary liquidity to cover both ongoing and unexpected cash needs

Cash flow analysis

## ❖ Return

Provide necessary recognizing need for safety and liquidity, and subject to restrictions specified by the state statutes and the local governing body

## ❖ Compliance with legal restrictions / regulations

## ❖ Accountability and Transparency

## ❖ Stability (Limited Volatility)

## ❖ Simplicity



# Internal Control Objectives



## **To provide reliable data for management.**

Transactions that represent economic events are recorded in accordance with prescribed procedures in the right accounts in the correct amounts on a timely basis.



## **To safeguard assets and records.**

Access to assets and related documentation should be restricted to authorized personnel. Furthermore, the accounting records are maintained so that they continue to reflect the operation of the government.



## **To establish accountability.**

Responsibility for assets and other resources should be well defined. Timely verification and follow-up procedures are essential.



## **To promote operational efficiency.**

Internal controls should reduce unnecessary duplication of effort and deter inefficient use of government resources.



## **To facilitate financial reports.**

The system should assure that transactions are recorded to permit preparation of financial statements in conformity with generally accepted accounting principles (GAAP).

# School Cash Management



# Cash Flow Analysis

- ◆ Cash flow analysis is the estimate of cash receipts and disbursements during a given period; this management tool provides direction for:
  - Determining cash balances needed to meet obligations
  - Estimating timing for borrowing needs
  - Ability to invest funds when cash flow permits
    - Matching short-term investments with expected cash outflows
    - Avoid the need to liquidate investments prior to maturity



## ◆ Cash & Cash Equivalents:

- Example: Checking Account, Short Term Investment Accounts

## ◆ Restricted Cash and Cash Equivalents:

- Example: Bond Proceeds to be used for capital projects of the District, or Voted Debt Service

## ◆ Deposits & Investments:

- Research Board Policy
- Consult your legal counsel



# District's Board Policies and the Business Office Procedures

- ◆ What is your District's Investment Policy?
- ◆ Depository of Funds Policy?
- ◆ Who are your Authorized Signors?
- ◆ Does your District have an ACH Policy?
- ◆ Internal Controls are imperative!

# Cash Flow

## Preparing a Cash Flow

- ◆ Doesn't need to be complex – can use excel
- ◆ Gather your information first
- ◆ Determine weekly, monthly, etc.
- ◆ Usually Largest: General Fund
- ◆ Involve your accounts payable and payroll staff

## Cash Flow Spreadsheets

- ◆ Monthly?
- ◆ Weekly?
- ◆ Combined? (or even daily)



# Knowing Your Cash Flows

## Understanding your liquidity needs is vital

- There can be opportunity costs to excess and insufficient liquidity

## Cash flow analyses can increase earnings potential

## Historical analysis

- Stability of school district
- Reliability of historical data

## Projections

- Student enrollment
- Educational programs
- Outsourcing
- Payroll cycle
- Revenue stream

# Benefits of Cash Flow Forecast

- ◆ Plans for liquidity
- ◆ Can increase investment income / decrease interest expense
  - Amounts available for investment
  - Period of time to hold the investment
  - Assists with investment strategies
- ◆ Forecasts problems: trend lines
  - Revenues not being collected properly
  - Expenditures exceed budget



# Cash Flow Timing Considerations

## ◆ State Aid is paid on the 20th of each month (except September)

- No State Aid paid in September
- Be careful for the three pay month
  - Some districts have successfully transferred to bi-monthly payroll making sure second pay of the month is after the state aid (15th & 30th)
- Be sure to look at weekly balance to determine your cash low points

## ◆ Property tax collections

- When are your operating taxes collected? (100% summer tax collections solves a lot of cash flow issues)
  - Funds collected at the beginning of the school year to eliminate / prevent state aid borrowing; improves timing of cash receipts
  - A substantial amount of tax collections are usually received by September 15th, making it easier to cover expenses during the month when no state aid is received

## 4 Large Sources of Cash In-Flows

### ◆ State Aid Payments

- 11 payments only – October to August

### ◆ Tax Collections

- General Fund &/or Debt

### ◆ Federal Grants

### ◆ State Grants



# Large Sources of Cash Out-Flows

- Payrolls: (Gross cost) General Fund, Food Service, Community Service
- ORS (MPSERS)
- 147 C Payments – Usually start in November
- Health Insurance – Use gross cost -100% is paid
- Debt & Loan Payments:
  - Buses, Leases, Non-voted Bonds, Equipment
- Daily Operations: Utilities, teaching supplies, bus fuel, property & liability, legal, audit

# Cash Flow Projection

		July		August		Sept.		Oct.		Nov.		Dec.
	Fri	Amount	Fri	Amount	Fri	Amount	Fri	Amount	Fri	Amount	Fri	Amount
Beginning Cash/Investments		6,194,053.00		6,170,338.74		4,942,118.09		2,676,726.01		5,983,503.27		4,583,228.10
Receipts:	20	3,548,342.35	20	3,548,342.35			22	3,521,385.60	20	3,521,385.60	20	3,521,385.60
Taxes received		258,810.18		752,265.03		1,165,747.11		3,965,959.12		2,160.76		278,704.69
Date/Loan received-No Set Asides												
Set Asides												
Miscellaneous Income		287,184.63		690,260.77		597,194.02		161,009.09		309,246.41		166,306.92
Interfund												
<b>TOTAL RECEIPTS</b>		<b>4,094,337.16</b>		<b>4,990,868.15</b>		<b>1,762,941.13</b>		<b>7,648,353.80</b>		<b>3,832,792.78</b>		<b>3,966,397.21</b>
Expenditures												
Payroll (Wage/Tax/ORS/TSA)	6	1,785,623.96	8	1,355,115.31	7	1,397,783.88	8	1,679,358.38	8	1,616,932.68	7	1,593,708.34
	23	1,605,115.31	23	1,305,342.57	21	1,853,870.33	23	1,685,246.82	23	2,384,571.13	21	2,022,946.79
Other Invoices			3	394,303.70	7	58,276.60	5	138,039.61	2	98,573.19		
	6	185,108.75	10	359,261.28	14	12,114.10	12	299,936.04	9	481,647.59	7	317,774.03
	13	355,809.47	17	130,251.19	21	584,240.62	19	15,085.28	16	283,092.08	14	197,692.56
	20	53,994.60	24	77,021.23	28	122,047.69	26	450,504.84	23	255,280.98	21	49,024.43
	27	32,071.24	31						30	111,528.40	28	37,325.42
Misc -Srv fee,Non PR ACH,Sales tax												
INS Employee Contributions				60,646.98				73,405.57		1,441.90		
Date/Loan Payment (Debt)												
Date/Loan Payment (State Aid)		100,328.08	22	2,537,146.53								
Miscellaneous Invoices												
<b>TOTAL EXPENDED</b>		<b>4,118,051.42</b>		<b>6,219,088.80</b>		<b>4,028,333.21</b>		<b>4,341,576.54</b>		<b>5,233,067.95</b>		<b>4,218,471.58</b>
Ending Cash/Investments		6,170,338.74		4,942,118.09		2,676,726.01		5,983,503.27		4,583,228.10		4,331,153.73
<b>TOTAL 18/19 STATE AID</b>		<b>38,789,155.00</b>										
<b>TOTAL 18/19 TAX RECEIPTS</b>		<b>7,894,646.00</b>										
<b>TOTAL 18/19 OTHER INCOME</b>		<b>5,373,059.00</b>										
<b>TOTAL 18/19 OTHER FIN SOURCE</b>		<b>70,000.00</b>										
<b>TOTOL 18/19 INTERFUND</b>												
<b>TOTAL 18/19 P/R/FICA/RET</b>		<b>41,177,902.00</b>										
<b>TOTAL 18/19 OTHER</b>		<b>10,923,448.00</b>										

For illustrative purposes only



# Typical Operational Borrowing Options

## ◆ State Aid Note:

- Most common
  - Set asides decisions
- The district must show a cash flow deficit to issue a state aid note
- Borrowing levels continue to decline as a percent of state aid
- Timing is critical

## ◆ Tax Anticipation Note:

- Similar to state aid notes, but pledges tax revenues instead of state aid
- Not as common for local school districts

## ◆ Line of Credit:

- Potentially less appealing to school districts due to Treasury approvals required, even if it is qualified
- Costs
- Additional filings for each draw down



**"If I knew how I could pay it back I could save it up in the first place."**

# Considerations For Reducing/Eliminating Need to Borrow

## ◆ Summer Tax Collections

- 100% Operating tax from two largest municipalities

## ◆ Switch from 26 pays to 24 pays

## ◆ Corporate purchase card

- Vendors paid via credit; delay of cash leaving bank account

(added benefit – REBATE!)

# School Code – Permissible Investments



# Revised School Code Section 1221

Treasurer shall deposit funds in a **"financial institution"** or **"joint investment authorized by Section 1223"** and as designated by the board of education

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Financial institution" is defined as:

- State or national chartered bank
- State or federally chartered savings and loan association
- Savings bank
- Credit union whose deposits are insured by an agency of the U.S. government

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Must maintain a principal office or **branch office located in this state** under the laws of the state of Michigan or U.S.

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Be **an eligible depository** for state funds as well



# Revised School Code Section 1223: Permitted Investments

Code	Sector	Maximum Maturity	Minimum Credit
a)	U.S. Treasuries	No Limit	n/a
b)	Certificates of Deposit	No Limit	n/a
c)	Commercial Paper	270 days	Rated Prime
d)	Government Agencies or Instrumentalities	No Limit	n/a
e)	Repurchase Agreements*	No Limit	n/a
f)	Bankers' Acceptances	No Limit	n/a
g)	Mutual Funds**	No Limit	n/a
h)	Investment Pools**	No Limit	n/a
i)	CDAR's – Michigan Bank	No Limit	FDIC
a)	Obligations of the State of Michigan	5 years	n/a

\*Agreements must be collateralized with U.S. Treasury or Federal Agency obligations

\*\*Mutual Funds and investment pools must be composed entirely of investment vehicles legal for direct investment by a school district

# Allowable Bank Accounts and FDIC Insurance

School Code allows for deposits into checking, NOW, savings, money market, CD's, and CDARs



Bank Account Type	In State (bank is located in the same state as the public entity)	Out of State (bank is located outside of the state of the public entity)
<b>Demand Deposit</b> <i>including NIBTA and Interest Bearing Transaction Accounts</i>	\$250,000	Not separated
<b>Time &amp; Savings</b> <i>including Negotiable Order of Withdrawal (NOW) and Money Market accounts</i>	\$250,000	Not separated
<b>Total</b>	\$500,000	\$250,000

*“Public entities can only invest in banks that have a physical place of deposit  
in the state of Michigan”*

# Cash Flow Analysis:

How much for how long



# Cash Flow Timing Considerations

## State Aid

- State aid is paid on the 20th of each month (except September)
  - Be careful for the three pay month
    - Some districts have successfully transferred to bi-monthly payroll making sure second pay of the month is after the state aid (15th & 30th)
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## Property tax collections

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# Focus on Big Ticket Items



**Most of cash flow (80%)  
can be captured in major  
line items:**

## **Material Inflows:**

State Aid  
Tax Collection  
Grants



## **Material Outflows:**

Payroll  
Benefits / ORS  
Capital Expenditures



# Weekly Cash Flows - Example

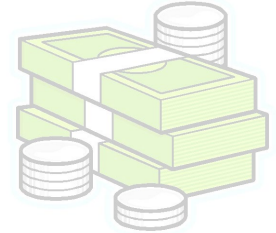
	Week of 07/01/2019 07/05/2019	Week of 07/08/2019 07/12/2019	Week of 07/15/2019 07/19/2019	Week of 07/22/2019 07/26/2019
Balance Fwd.	\$ 202,587	\$ 1,495	\$ 300,086	\$ 258,256
<u>Revenues</u>				
Local Revenue( Taxes)	\$ -	\$ 119	\$ -	\$ -
Local Revenues (Miscellaneous)	\$ 19	\$ 49,442	\$ -	\$ -
Local Revenues (Athletic Related)	\$ -	\$ -	\$ -	\$ -
Payschool Deposits	\$ -	\$ -	\$ -	\$ -
State Aid (300's)	\$ -	\$ -	\$ -	\$ 1,367,763
Federal( Title/IDEA/)-(400's)	\$ -	\$ -	\$ 53,148	\$ -
Payments from Other Schools (500's)	\$ 33,360	\$ 13,675	\$ -	\$ 40,080
Transfers In (600's) including Food Service	\$ -	\$ 2,292	\$ -	\$ 7,655
Wire Transfer	\$ -	\$ 800,000	\$ -	\$ -
Loan Proceeds		\$ -	\$ -	\$ -
Total	\$ 33,379	\$ 865,528	\$ 53,148	\$ 1,415,498
<u>Expenditures</u>				
Payroll	\$ -	\$ 295,211	\$ -	\$ 312,628
Board Bills	\$ -	\$ 256,809	\$ 90,354	\$ 236,811
EDUSTAFF/xxx - ACH	\$ -	\$ -	\$ -	\$ -
xxxx - ACH	\$ -	\$ -	\$ -	\$ -
xxxx Wires	\$ -	\$ 13,551	\$ -	\$ 13,324
xxxx. - ACH (projection is ER only)	\$ 233,271	\$ -	\$ 4,122	\$ -
xxxxxxxxxxxx/ach	\$ 1,200	\$ -	\$ -	\$ 636
Health Equity	\$ -	\$ 1,365	\$ -	\$ 1,175
Purchase cards (Huntington)	\$ -	\$ -	\$ -	\$ 108
Other/Bank Fees/ArbiterPay	\$ -	\$ -	\$ 503	\$ -
Loan Payback/Wire Transfer	\$ -	\$ -	\$ -	\$ 900,000
Total	\$ 234,471	\$ 566,936	\$ 94,978	\$ 1,464,682
Cash Balance	\$ 1,494.96	\$ 300,086.45	\$ 258,256.41	\$ 209,072.66

**Case Study:**

# **Cash Management in Practice**



# It Starts with Banking



Banking To Do	Samples
<b>SAFETY</b>	Understand Bank Financials
Deposit ASAP	Streamline Collection Process
Disbursement Trickle	Spread payables run (bi-monthly)
Control Costs	Regular review of analysis
Automate	Utilize bank services for efficiency
Earn ECR / Interest	Use LGIP / TERM
Relationship	Develop relationship with advisor

## ◆ Banks make most of their income through spread

$$\text{Loan Rate} - \text{Deposit Rate} = \text{Spread}$$

- Interest Spread was compressed when Fed Funds went to 0%. Deposit rates bottomed at 0% while loan rates continued spiral down = compression
- Banks focused on service fees and ancillary revenue areas (brokerage, wealth management, etc.) to bolster revenues
- The Overnight Fed Funds rate was reduced to 0% to 0.25% in 2020 and 2021. The Fed has increased rates to 4.5% - 4.75% in 2022 and 2023. Banks can be slower to respond rising market rates with paying higher interest rates.

## How Banks Invoice Fees? Account Analysis Statements

ANALYSIS STATEMENT		ANALYSIS STATEMENT		ANALYSIS STATEMENT		ANALYSIS STATEMENT		ANALYSIS STATEMENT	
FISCAL YEAR		FISCAL YEAR		FISCAL YEAR		FISCAL YEAR		FISCAL YEAR	
01/01/00		01/01/00		01/01/00		01/01/00		01/01/00	
GROUP SUMMARY ANALYSIS		GROUP SUMMARY ANALYSIS		GROUP SUMMARY ANALYSIS		GROUP SUMMARY ANALYSIS		GROUP SUMMARY ANALYSIS	
MAX. AVG. COST CENTER NUMBER 415 000400		MAX. AVG. COST CENTER NUMBER 415 000400		MAX. AVG. COST CENTER NUMBER 415 000400		MAX. AVG. COST CENTER NUMBER 415 000400		MAX. AVG. COST CENTER NUMBER 415 000400	
DATE PREPARED 09-07-12		DATE PREPARED 09-07-12		DATE PREPARED 09-07-12		DATE PREPARED 09-07-12		DATE PREPARED 09-07-12	
FUNDING 00-11-12		FUNDING 00-11-12		FUNDING 00-11-12		FUNDING 00-11-12		FUNDING 00-11-12	
ANAL. SETTLEMENT 12-11-12		ANAL. SETTLEMENT 12-11-12		ANAL. SETTLEMENT 12-11-12		ANAL. SETTLEMENT 12-11-12		ANAL. SETTLEMENT 12-11-12	
SETTLEMENT & ACCOUNT TYPE DEBIT 500		SETTLEMENT & ACCOUNT TYPE DEBIT 500		SETTLEMENT & ACCOUNT TYPE DEBIT 500		SETTLEMENT & ACCOUNT TYPE DEBIT 500		SETTLEMENT & ACCOUNT TYPE DEBIT 500	
OFFICER NUMBER 10000		OFFICER NUMBER 10000		OFFICER NUMBER 10000		OFFICER NUMBER 10000		OFFICER NUMBER 10000	
PAGE 1 OF 42		PAGE 2 OF 42		PAGE 3 OF 42		PAGE 4 OF 42		PAGE 5 OF 42	
CUSTOMER SERVICE: 1.888.930.9309		CUSTOMER SERVICE: 1.888.930.9309		CUSTOMER SERVICE: 1.888.930.9309		CUSTOMER SERVICE: 1.888.930.9309		CUSTOMER SERVICE: 1.888.930.9309	
INVESTMENT SUMMARY		INVESTMENT SUMMARY		INVESTMENT SUMMARY		INVESTMENT SUMMARY		INVESTMENT SUMMARY	
INVESTMENT LEADER BALANCE \$ 6,546,325.42		INVESTMENT LEADER BALANCE \$ 6,546,325.42		INVESTMENT LEADER BALANCE \$ 6,546,325.42		INVESTMENT LEADER BALANCE \$ 6,546,325.42		INVESTMENT LEADER BALANCE \$ 6,546,325.42	
INVESTMENT COLLECTED BAL LESS RESERVE REWARDMENT .00		INVESTMENT COLLECTED BAL LESS RESERVE REWARDMENT .00		INVESTMENT COLLECTED BAL LESS RESERVE REWARDMENT .00		INVESTMENT COLLECTED BAL LESS RESERVE REWARDMENT .00		INVESTMENT COLLECTED BAL LESS RESERVE REWARDMENT .00	
AVAILABLE INVESTMENT BALANCE 6,546,325.42		AVAILABLE INVESTMENT BALANCE 6,546,325.42		AVAILABLE INVESTMENT BALANCE 6,546,325.42		AVAILABLE INVESTMENT BALANCE 6,546,325.42		AVAILABLE INVESTMENT BALANCE 6,546,325.42	
BALANCE SUMMARY		BALANCE SUMMARY		BALANCE SUMMARY		BALANCE SUMMARY		BALANCE SUMMARY	
AVG POSITIVE LEADER BALANCE \$ 64,763,779.74		AVG POSITIVE LEADER BALANCE \$ 64,763,779.74		AVG POSITIVE LEADER BALANCE \$ 64,763,779.74		AVG POSITIVE LEADER BALANCE \$ 64,763,779.74		AVG POSITIVE LEADER BALANCE \$ 64,763,779.74	
AVG LESSER BALANCE 64,763,779.74		AVG LESSER BALANCE 64,763,779.74		AVG LESSER BALANCE 64,763,779.74		AVG LESSER BALANCE 64,763,779.74		AVG LESSER BALANCE 64,763,779.74	
LESS AVG FUND 1,651,786.87		LESS AVG FUND 1,651,786.87		LESS AVG FUND 1,651,786.87		LESS AVG FUND 1,651,786.87		LESS AVG FUND 1,651,786.87	
AVG COLLECTED BALANCE 81,402,437.07		AVG COLLECTED BALANCE 81,402,437.07		AVG COLLECTED BALANCE 81,402,437.07		AVG COLLECTED BALANCE 81,402,437.07		AVG COLLECTED BALANCE 81,402,437.07	
AVG NEGATIVE COLL. BALANCE .00		AVG NEGATIVE COLL. BALANCE .00		AVG NEGATIVE COLL. BALANCE .00		AVG NEGATIVE COLL. BALANCE .00		AVG NEGATIVE COLL. BALANCE .00	
AVG POSITIVE COLL. BALANCE 81,402,437.07		AVG POSITIVE COLL. BALANCE 81,402,437.07		AVG POSITIVE COLL. BALANCE 81,402,437.07		AVG POSITIVE COLL. BALANCE 81,402,437.07		AVG POSITIVE COLL. BALANCE 81,402,437.07	
LESS RESERVES .00		LESS RESERVES .00		LESS RESERVES .00		LESS RESERVES .00		LESS RESERVES .00	
AVAIL BAL FOR EARNING CREDIT 81,402,437.07		AVAIL BAL FOR EARNING CREDIT 81,402,437.07		AVAIL BAL FOR EARNING CREDIT 81,402,437.07		AVAIL BAL FOR EARNING CREDIT 81,402,437.07		AVAIL BAL FOR EARNING CREDIT 81,402,437.07	
AVAILABLE BALANCE FUNDING 12,147,455.77		AVAILABLE BALANCE FUNDING 12,147,455.77		AVAILABLE BALANCE FUNDING 12,147,455.77		AVAILABLE BALANCE FUNDING 12,147,455.77		AVAILABLE BALANCE FUNDING 12,147,455.77	
NET AVAILABLE BALANCE 69,254,981.30		NET AVAILABLE BALANCE 69,254,981.30		NET AVAILABLE BALANCE 69,254,981.30		NET AVAILABLE BALANCE 69,254,981.30		NET AVAILABLE BALANCE 69,254,981.30	
LESS RESERVES ON NET AVAIL BAL .00		LESS RESERVES ON NET AVAIL BAL .00		LESS RESERVES ON NET AVAIL BAL .00		LESS RESERVES ON NET AVAIL BAL .00		LESS RESERVES ON NET AVAIL BAL .00	
DEFICIT COLLECTED BALANCE 69,254,981.30		DEFICIT COLLECTED BALANCE 69,254,981.30		DEFICIT COLLECTED BALANCE 69,254,981.30		DEFICIT COLLECTED BALANCE 69,254,981.30		DEFICIT COLLECTED BALANCE 69,254,981.30	
EARNINGS CREDIT SUMMARY		EARNINGS CREDIT SUMMARY		EARNINGS CREDIT SUMMARY		EARNINGS CREDIT SUMMARY		EARNINGS CREDIT SUMMARY	
AVAIL BAL FOR EARNING CREDIT 81,402,437.07		AVAIL BAL FOR EARNING CREDIT 81,402,437.07		AVAIL BAL FOR EARNING CREDIT 81,402,437.07		AVAIL BAL FOR EARNING CREDIT 81,402,437.07		AVAIL BAL FOR EARNING CREDIT 81,402,437.07	
EARNINGS ON AVAILABLE BALANCE 17,325.86		EARNINGS ON AVAILABLE BALANCE 17,325.86		EARNINGS ON AVAILABLE BALANCE 17,325.86		EARNINGS ON AVAILABLE BALANCE 17,325.86		EARNINGS ON AVAILABLE BALANCE 17,325.86	
LESS TOTAL SERVICE CHARGE 20,453.39		LESS TOTAL SERVICE CHARGE 20,453.39		LESS TOTAL SERVICE CHARGE 20,453.39		LESS TOTAL SERVICE CHARGE 20,453.39		LESS TOTAL SERVICE CHARGE 20,453.39	
DEFICIT									

# Earnings Credit Rates/Compensating Balances

- ◆ Earnings Credit Rates (ECRs) are credits offered by a bank to offset service charges.
  - Credits typically are only good for paying bank fees and
  - Unused credits expire eventually
- ◆ Historically, the rate paid was often pegged to the U.S. Treasury bill rate.
- ◆ During the financial crisis, banks moved from pegs to bank-managed rates.



# What to Watch For in Your Compensating Balances

- Some banks set aside a 10% reserve.
  - This reduces the amount they pay you a credit on.
- Banks that charge FDIC assessments typically apply it on the ledger balance (a higher amount).
  - They are charging you for balances that are not yet available to you in the account
- Earnings Credit paid on the collected balance (a lower amount).
  - They are paying you only for the balances that are available in the account



# What to look for?

**Bank of America**



Deposit Bank Assessment

**J.P.Morgan**

Premium Assessment Fee

**KeyBank**



Deposit Assessment

**usbank**

Deposit Coverage



Recoupment Monthly

# Sample Analysis Statement

*FDIC-like charges are typically included in line item portion of monthly analysis statement*

<u>Service Description</u>	<u>Unit Price</u>	<u>Volume</u>	<u>Service Charges</u>
RECOUPMENT MONTHLY IB	0.12750	1,500.13	191.27
RECOUPMENT MONTHLY	0.12750	28,371.73	3,617.40
<b>BALANCE &amp; COMPENSATION INFORMATION</b>			<b>3,808.67</b>
CONT DISB CREDITS POSTED	0.35000	36.00	12.60
DESKTOP DEPOSIT-DEPOSIT CREDITED	0.35000	75.00	26.25
ACCOUNT MAINTENANCE W/ CHK RETURN	4.80000	5.00	24.00
ZERO BALANCE MASTER ACCOUNT MAINT	9.45000	1.00	9.45
ACCT MAINTENANCE	4.80000	4.00	19.20
ACCT MAINTENANCE CHEXSTOR-PLUS	4.80000	1.00	4.80
ZERO BALANCE MONTHLY BASE	6.75000	7.00	47.25
DEBITS POSTED	0.04000	765.00	30.60
<b>GENERAL ACCOUNT SERVICES</b>			<b>174.15</b>

# Bank Charges Can Significantly Reduce the Benefit of the ECR

<i>No Reserve Requirement or FDIC</i>			<i>Reserve Requirement and FDIC Assessed</i>		
Earnings Credit on Compensating Balance			Earnings Credit on Compensating Balance		
Total Collected Balance		\$25,000,000	Total Collected Balance		\$25,000,000
Less Reserve Requirement	0%	\$0	Less Reserve Requirement	10%	\$2,500,000
Available Balance		\$25,000,000	Available Balance		\$22,500,000
Earnings Credit	0.25%	\$5,308	Earnings Credit	0.25%	\$4,777
	$\$25,000,000 * 0.25 * 31/365$			$\$22,500,000 * 0.25 * 31/365$	
Less FDIC Assessment	0%	\$0	Less FDIC Assessment	0.10%	\$2,123
	$\$0 / (\$25,000,000 * (31/365))$			$\$2,123 / (\$25,000,000 * (31/365))$	
Net Earnings Credit	0.25% on Collected Balance	\$5,308	Net Earnings Credit	0.125% on Collected Balance	\$2,654

*For illustrative purposes only.*

# Low Interest Environment Leads to Negative Earnings

Total Required Balance			16,262,590.18
Additional Balance Required			2,447,172.39
Earnings Credit Allowance	3,974.30		
- Less Actual Analyzed Charges	4,678.28		
Net Position	<u>(703.98)</u>		
Analyzed Results Transferred In		(635.18)	
Total Analyzed Result		<u>(635.18)</u>	
Charge posted to account (016) 2801883		on 06/10/20	635.18

\$1.00 Of Unit Price Is Equal To 3,476.19 Of Composite Balance

Investable Balance Receives An Earnings Credit Of 0.350000%

- ◆ Despite having balances of nearly \$14 million, pay bank \$704 for May. On an annualized basis, client pays \$8,450 to bank for maintaining \$14 million on deposit.
- ◆ The higher the balance the higher the monthly fee due to “Deposit Charge”.  
Paying just for keeping money at bank.



## ◆ Strategies to Reduce Fees / Increase Efficiency

- Reduce bank balances to minimize “Deposit Charge”.
- Utilize Local Government Investment Pool as State Aid Depository – move money to bank as needed to cover payroll and payables.
- Based on Cash flows, invest available funds in longer term investments seeking to increase yield

## ◆ Utilize Bank for what they do best – transactions and data

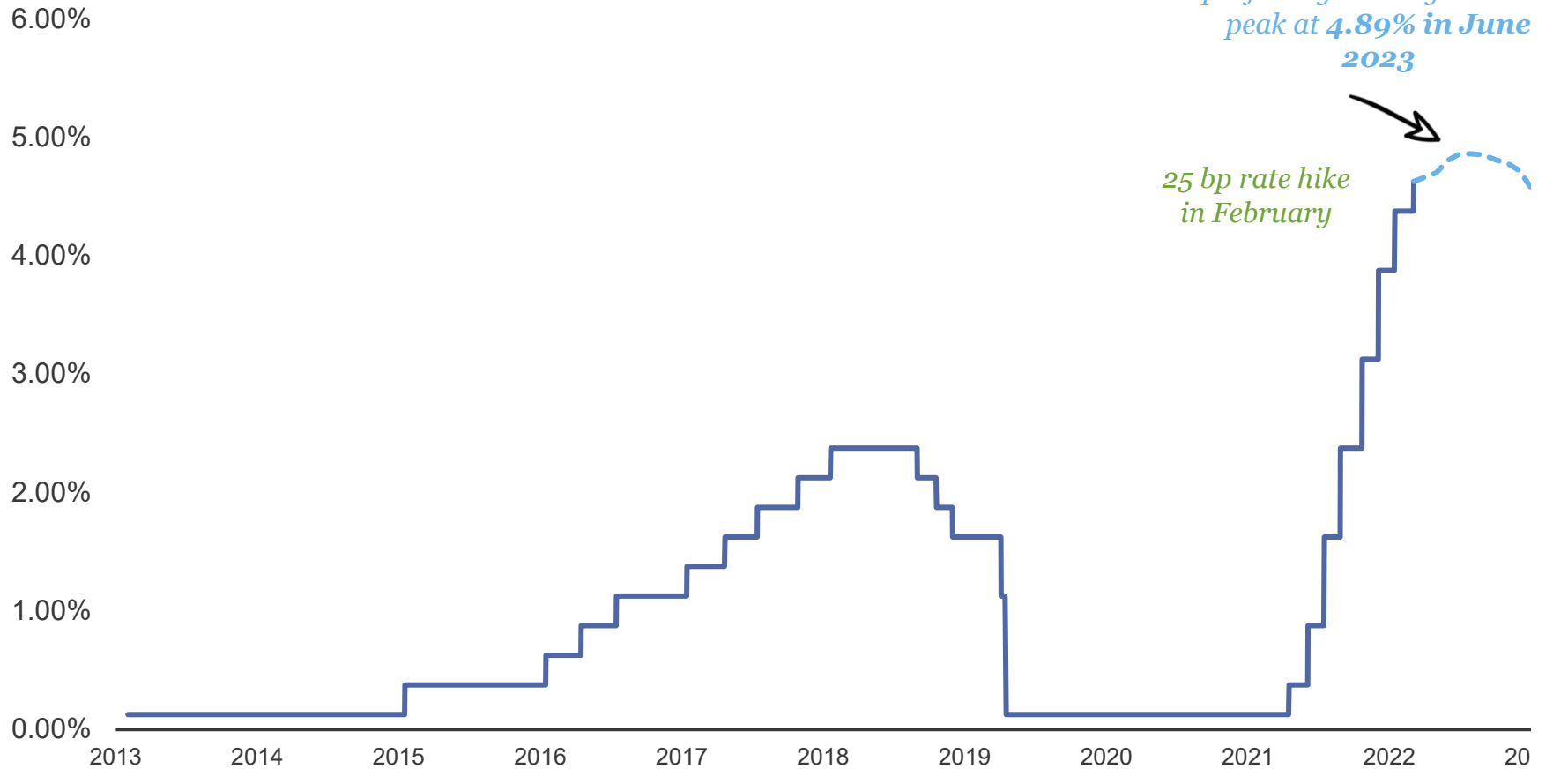
- Look for opportunities to become more efficient / enhance internal controls through bank services (positive pay, reconciliation services, data exports, etc.)
- Evaluate usage of banking services to determine which services could be eliminated or replaced with more inexpensive services
- Review bank analysis statement with banker at least annually to eliminate unnecessary services and unnecessary charges.

# Current Market Conditions



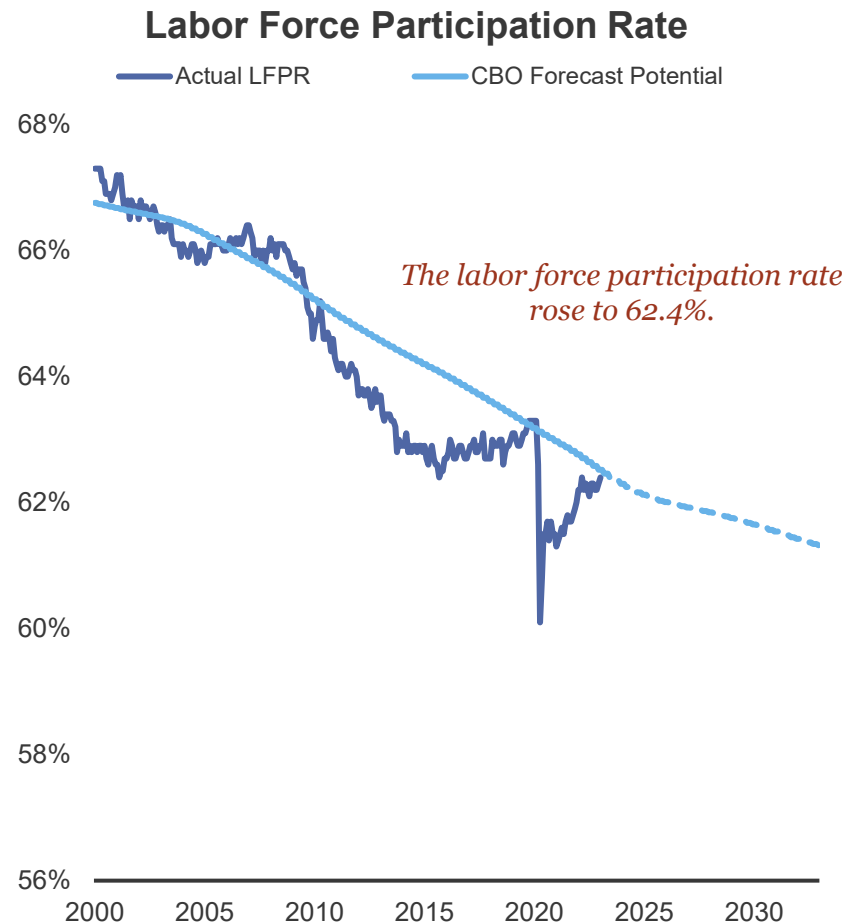
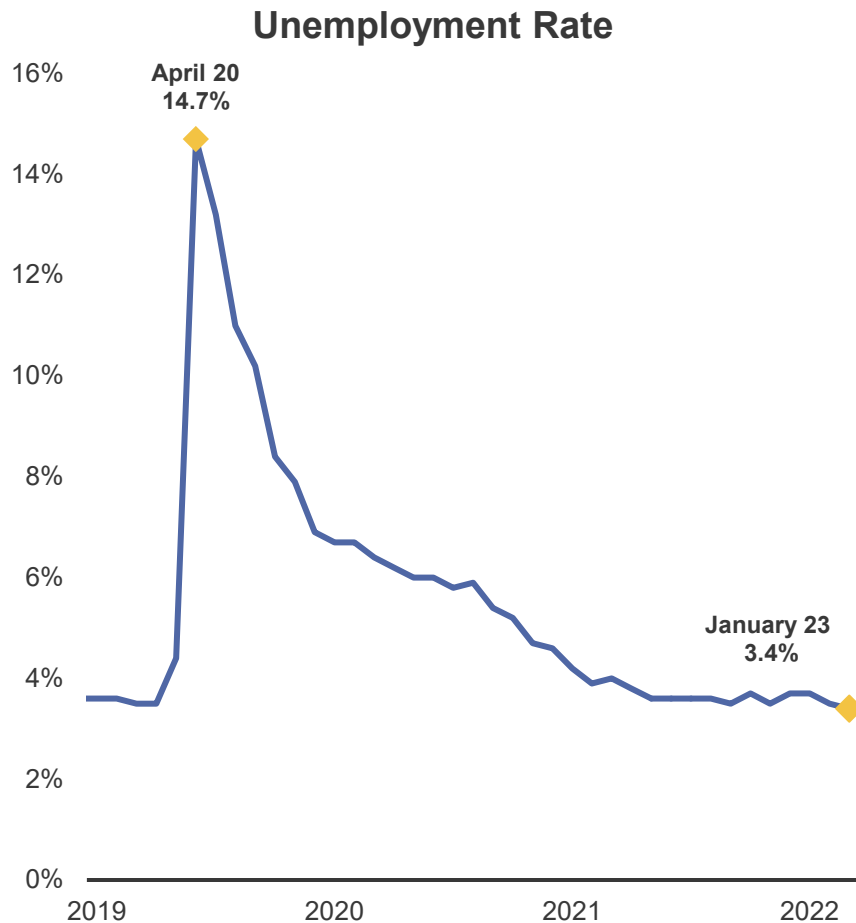
# Short-Term Interest Rates Are Still Rising

## Federal Reserve Target Overnight Rate



Source: Bloomberg, as of 02/01/2023.

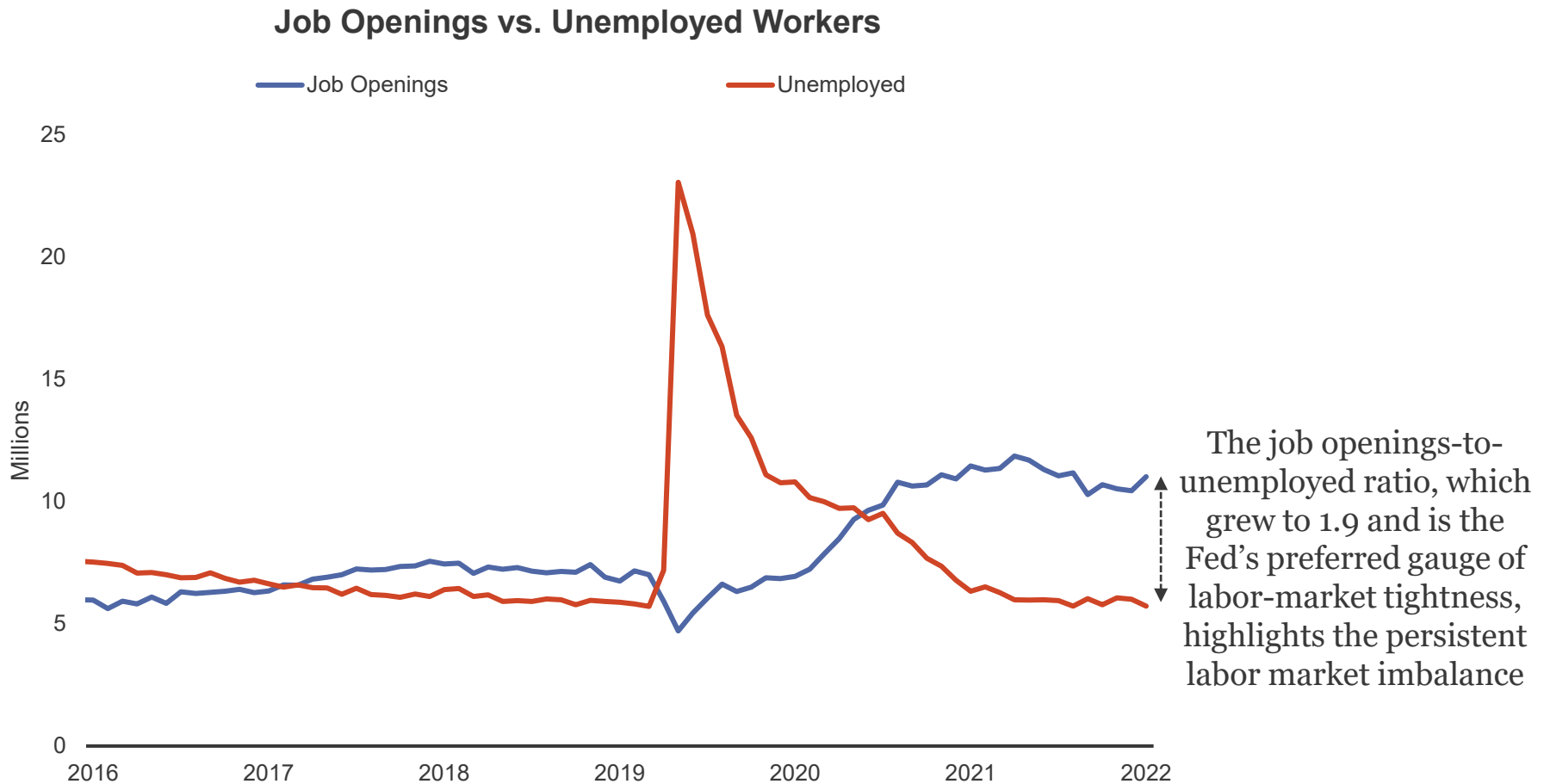
# U.S. Economy Added 517,000 Jobs in January; Unemployment Rate Fell to 3.4%



Source: Congressional Budget Office January 2023 economic projections, Bureau of Labor Statistics. Bloomberg, as of January 2023. Data is seasonally adjusted.



# The Labor Force Imbalance Persists



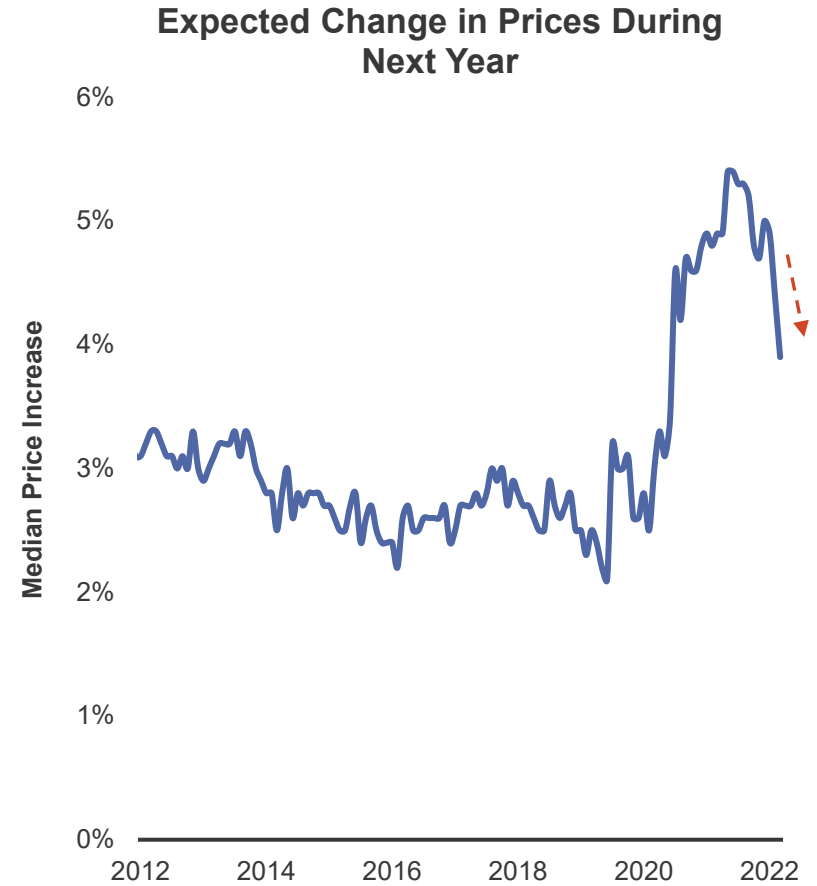
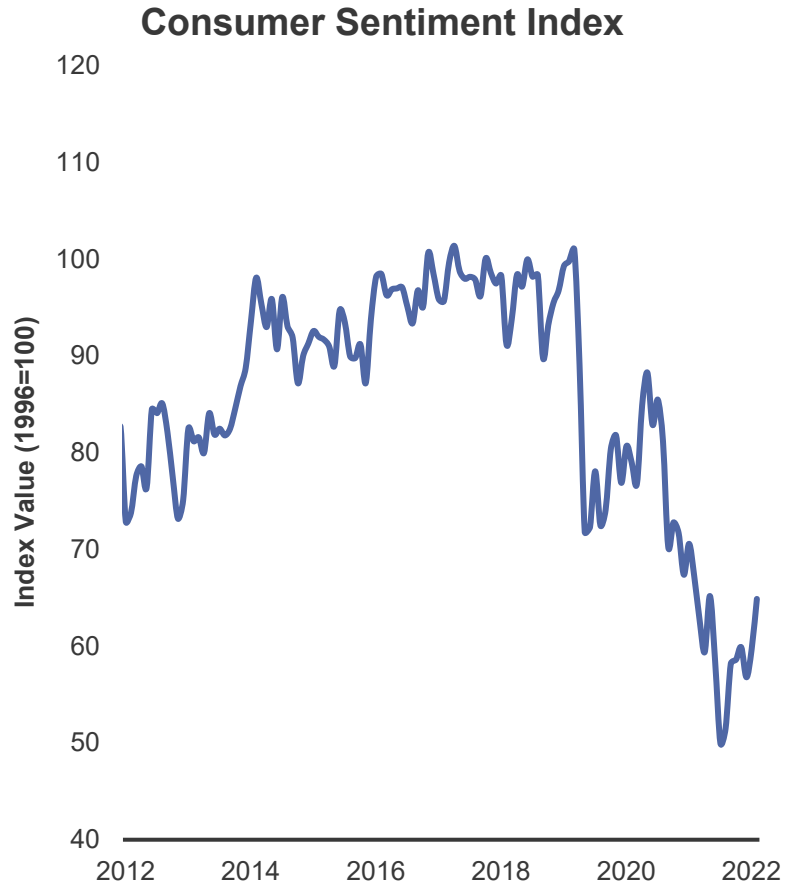
Source: Bloomberg, as of December 2022. Data is seasonally adjusted.

# FOMC Slows Rate Hikes, Signals Further Increases Are Coming at February Meeting

## February FOMC Meeting

- ▶ The Federal Reserve slowed its drive to rein in inflation and said further **interest-rate hikes are in store** as officials debate when to end their most aggressive tightening of credit in four decades.
- ▶ The Committee decided to raise the target range for the Federal Funds target rate to **4.50% – 4.75%** and anticipates that “**ongoing increases**” would be needed to bring inflation under control.
- ▶ Powell indicated **that rate cuts in 2023 are not as likely** as the market believes by reiterating that restrictive policy will be maintained.
- ▶ "There is only one way forward here, and that's for Congress to **raise the debt ceiling**," Powell said in response to a question at his press conference following the Fed's latest interest-rate-setting meeting.

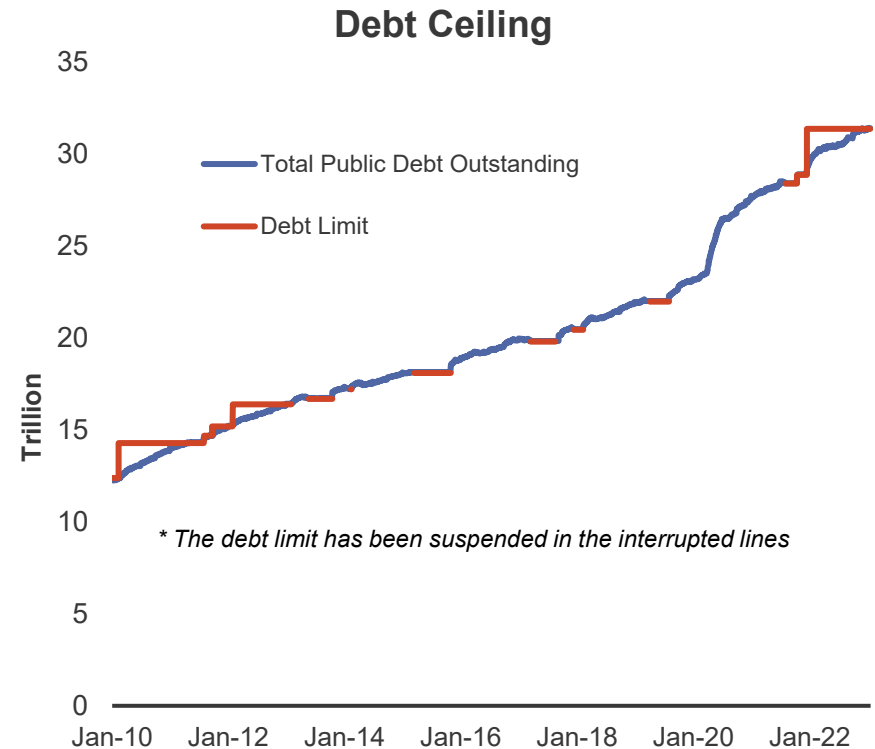
## Signs of Slowing Inflation Boost Consumer Confidence Off Record Lows



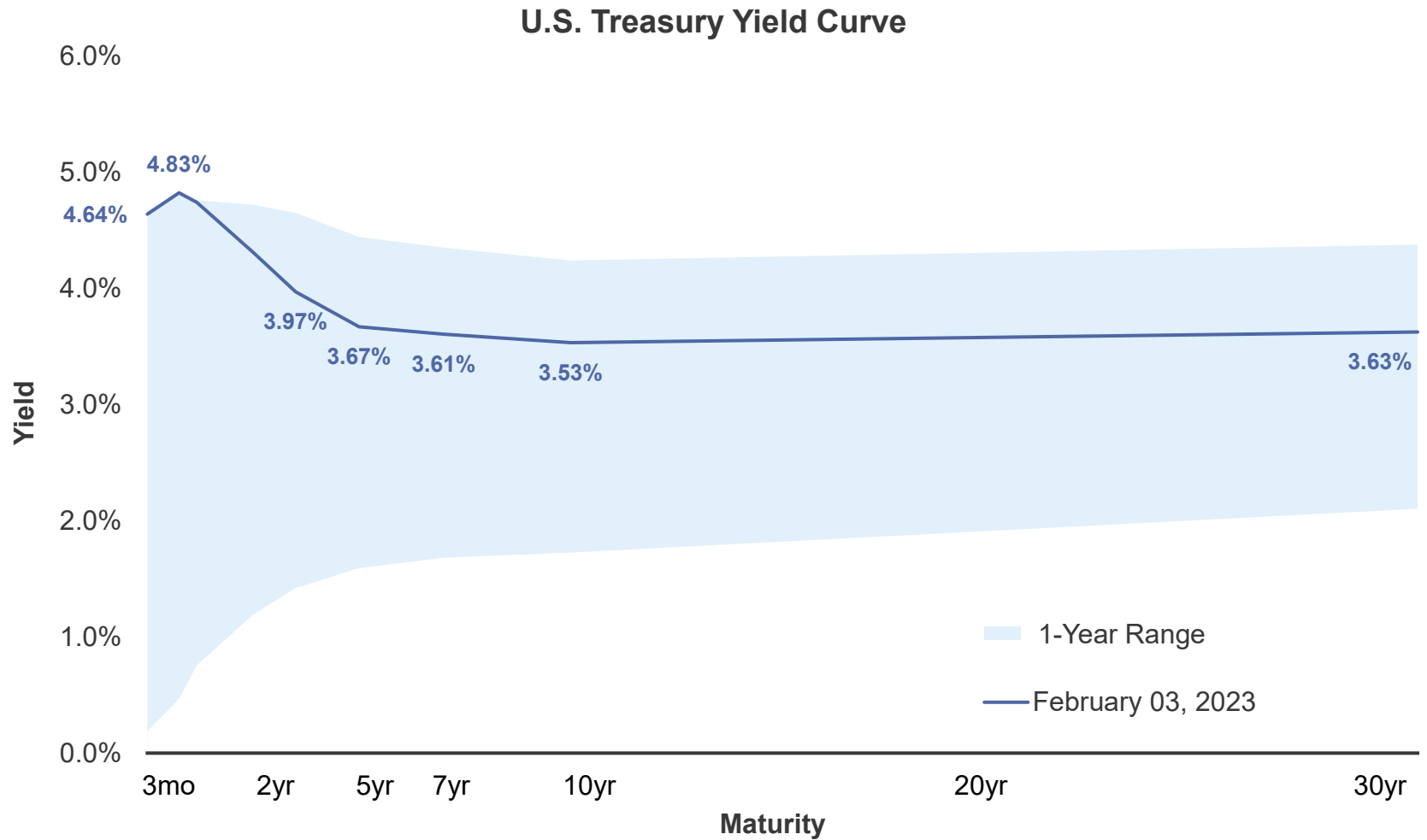
Source: Bloomberg, University of Michigan Consumer Sentiment and underlying index components, as of January 2023.

# Treasury Has Hit the Debt Limit

- ▶ The statutory debt limit is the maximum amount of U.S. government debt authorized by Congress. The current limit, last increased in December 2021, is \$31.381 trillion.
- ▶ Failure by Congress to raise the debt limit would hinder the Treasury Department's ability to meet the nation's existing legal obligations, including Social Security and Medicare benefits, military salaries, principal and interest on the national debt, tax refunds, and other payments.
- ▶ Raising the debt limit does not authorize new spending, it simply allows the Treasury to raise sufficient funds to meet spending obligations already approved by Congress.
- ▶ The Treasury Department has implemented "extraordinary measures" in order to prevent the United States from defaulting on its obligations as Congress deliberates on increasing the debt limit. Secretary Yellen has indicated these measures can last at least into June, but timing is subject to considerable uncertainty.

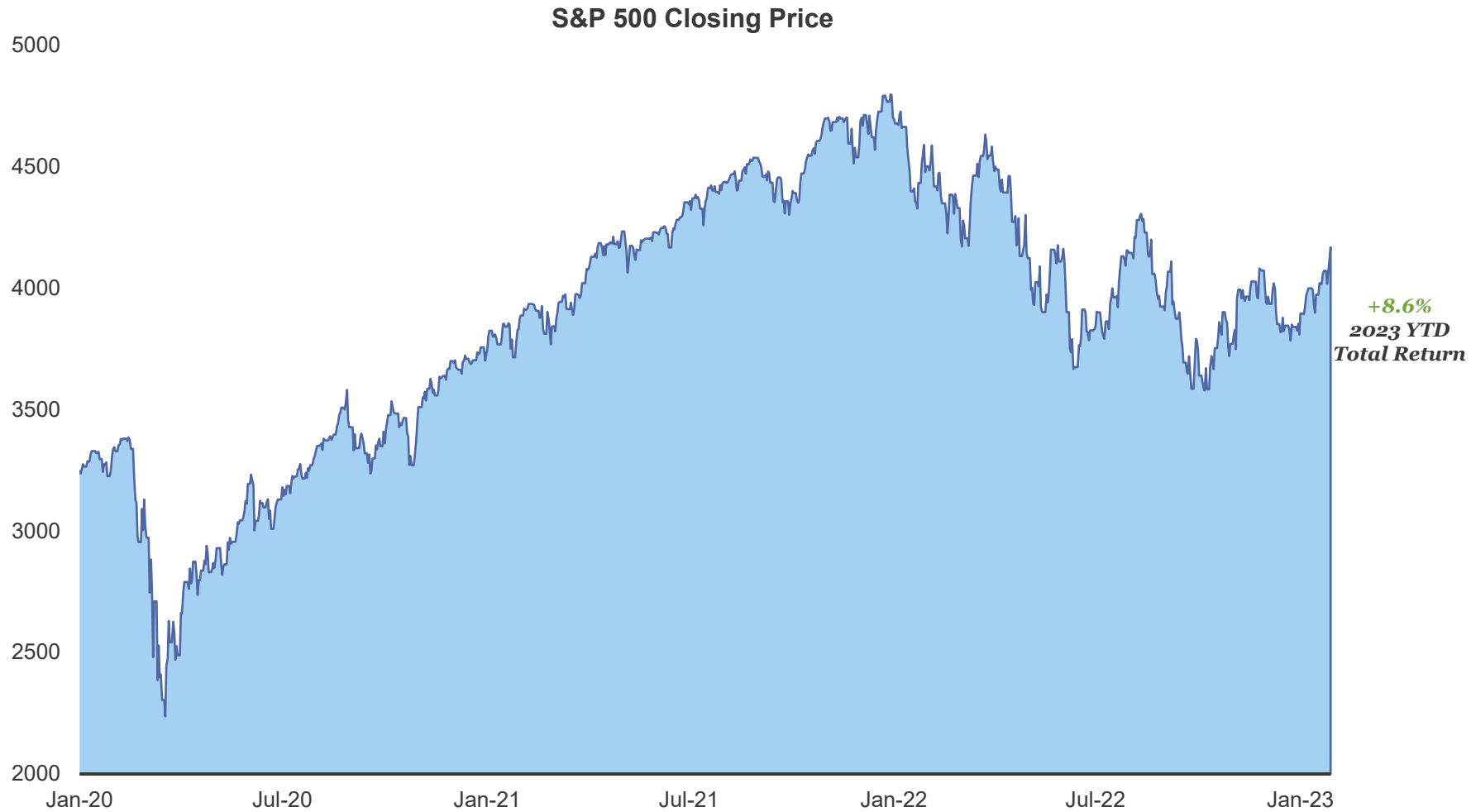


# Yield Curve Is Deeply Inverted



Source: Bloomberg, as of 2/3/2023.

# Equities Rally Following Fed Meeting



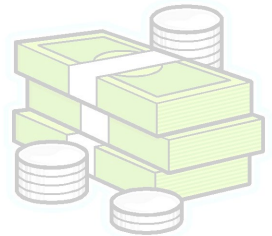
Source: Bloomberg, as of 2/2/2023.

# Investment Strategy Considerations



# Investment Considerations

Investing is about safely optimizing available funds while meeting liquidity demands.  
Need to know how much for how long?



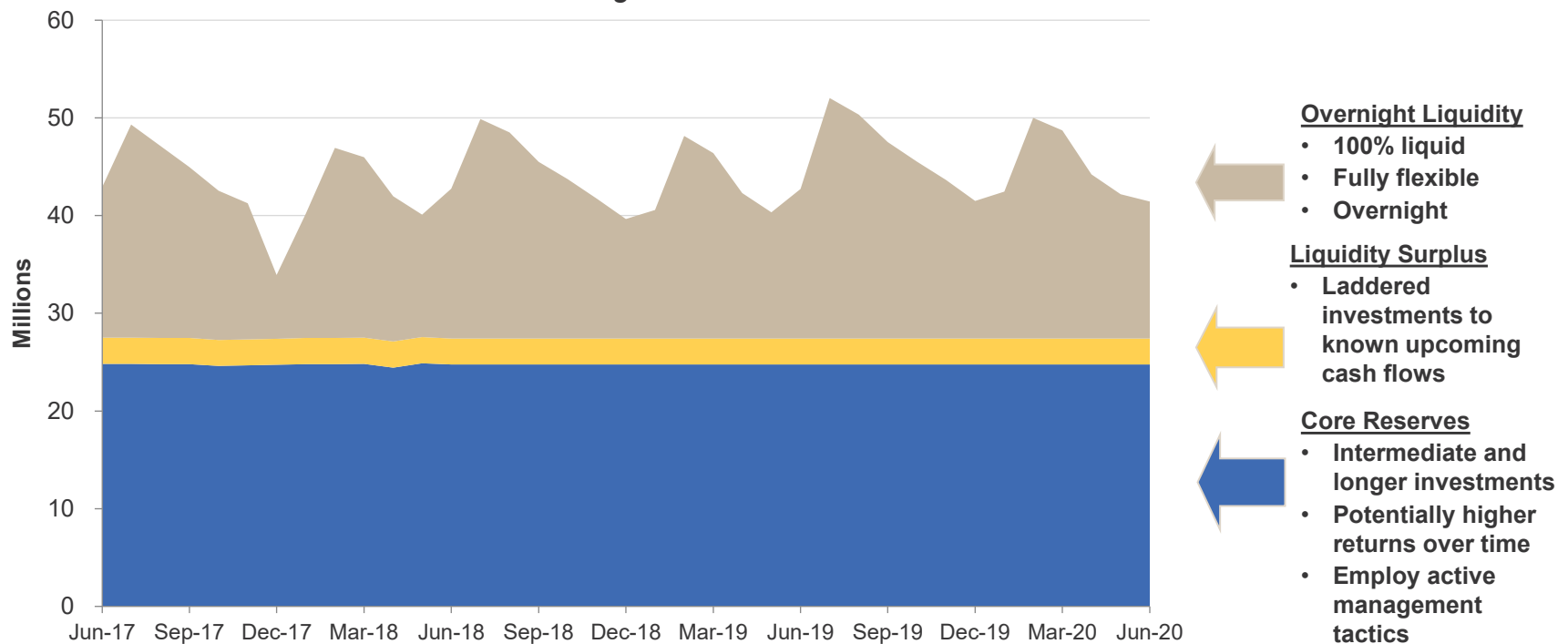
Investing To Do	Samples
<b>SAFETY</b>	Understand Credit Ratings
<b>KNOW CASH FLOW</b>	Invest Debt Service to May Due Date
<b>DIVERSIFICATION</b>	Utilize pool or separate account
<b>UNDERSTAND RISKS</b>	Understand credit, interest risks, etc.
<b>SIMPLICITY</b>	KISS – sustainable process
<b>EARNINGS</b>	Use LGIP / TERM / CD's
<b>RELATIONSHIP</b>	Develop relationship with advisor



# Cash Flow Analysis Leads to Prudent Investment Decisions

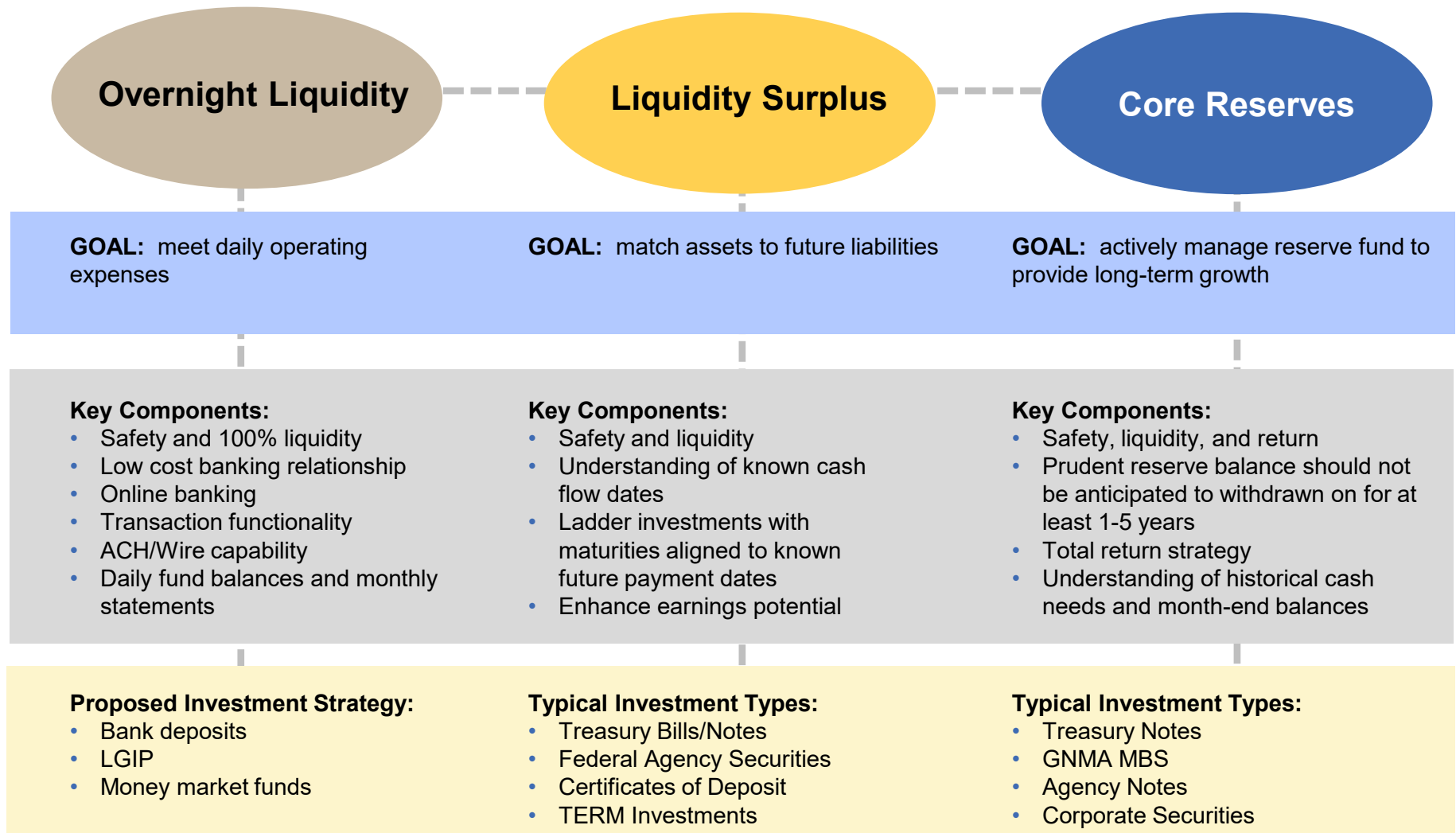
- ◆ Excess liquidity in an investment management program can be an opportunity cost
- ◆ Detailed cash flow analysis can help prudently define fund balances that can be invested in intermediate – to longer-term investments at potentially higher yields.

**Sample Cash Flow Analysis**  
*June 2017 through June 2020*



For illustrative purposes only

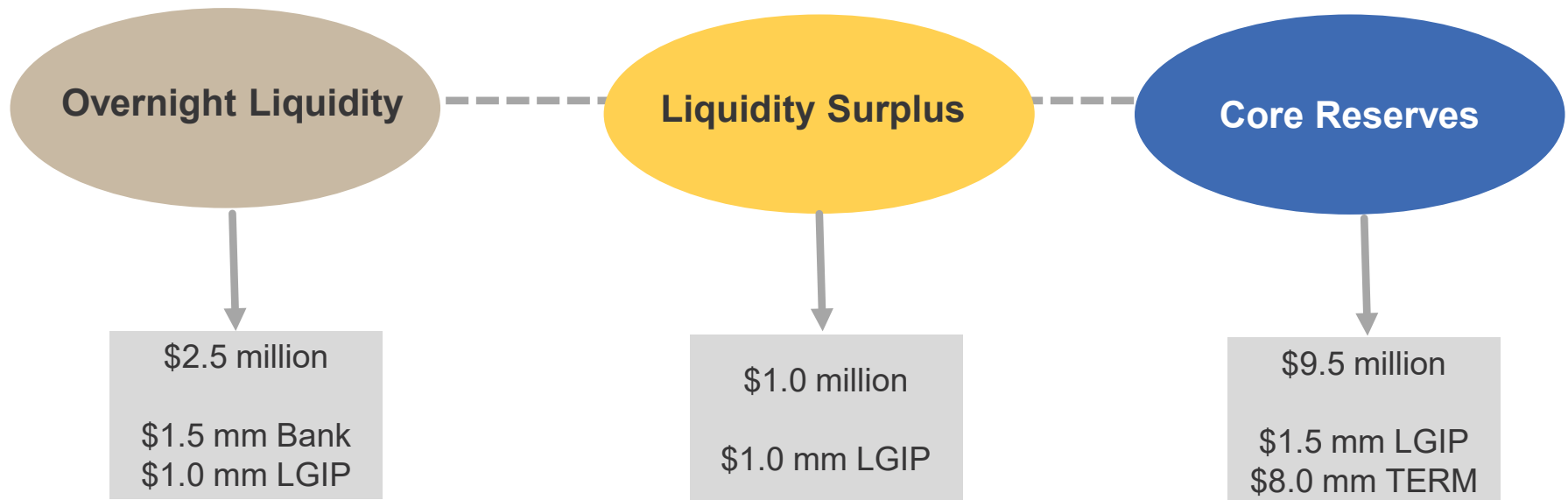
# Basics of a Cash Management Program



# Sample Investment Allocation

## Assumptions:

- Total Funds available = \$12 million
- Annual Budget of \$30 million = \$2.5 million per month expenditures
- Debt Service of \$9.5 million – November \$1.5 million / May \$8 million
- Tax Collection – 100% Summer of \$9.5 million



Note: The above example is for illustrative purposes and is not a recommendation for investing.

# Helpful Hints

01

Remember “S L Y” – Safety, Liquidity, and Yield (in that order)



02

Safeguarding of assets – safety comes first



03

Historically, yield curve provides higher earnings longer-term



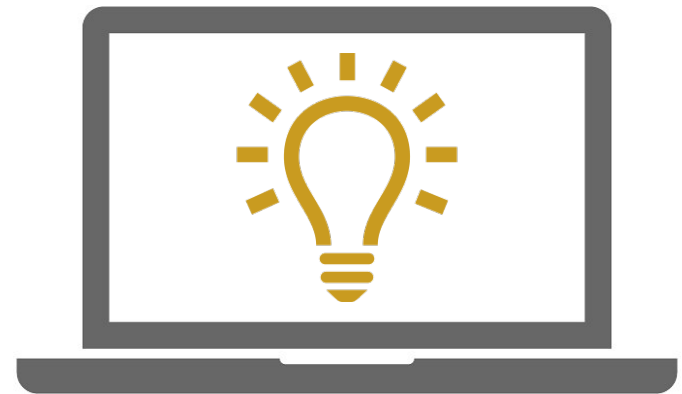
04

Cash flow analysis is fundamental to managing public funds



05

If you can't explain it, don't buy it. Ask questions and tap into your colleagues and MSBO



# Appendix: Investments Defined



# Sources

- ◆ Government Finance Officers Association

<https://www.gfoa.org/best-practices>

- ◆ Association of School Business Officials International

<https://asbointl.org/>

- ◆ Michigan Legislature

[http://www.legislature.mi.gov/\(S\(tljqyswwc1twda4w2u4uv43j\)\)/mileg.aspx?page=getObject&objectName=mcl-380-1221](http://www.legislature.mi.gov/(S(tljqyswwc1twda4w2u4uv43j))/mileg.aspx?page=getObject&objectName=mcl-380-1221)

- ◆ Government Finance Officers Association of Texas

<https://gfoat.org/>

# Security Types – U. S. Treasuries

◆ The Treasury Department issues debt to meet budgetary needs in the form of **U.S. Treasury securities**:

- Highest credit rating (full faith and credit of the U.S. government)
- Most marketable security – provides for liquidity
- Fixed rate and term
- Non-callable

Description	Maturities	Interest Payments
U.S. Treasury Bills	Short-term 4, 13, or 26 weeks	Issued at discount – buy for less than par; at maturity receive full par
U.S. Treasury Notes	Intermediate-term 1 to 10 years	Paid semi-annually; priced at current market
U.S. Treasury Bonds	Long-term 10 years or more	Paid Semi-annually; priced at current market

# Security Types – Federal Agencies

- Michigan School Code allows for investments in **securities issued or guaranteed by agencies or instrumentalities of the U.S.**
- Variety of debt instruments including **bullets**, **callables**, **fixed**, **variable**, etc.

Federal Agency / GSE	Short Name	Government Backing / Rating
Government National Mortgage Corporation	Ginnie Mae GNMA	Full faith and credit of the U.S. government
Federal Home Loan Mortgage Corporation	Freddie Mac FHLMC	Implicit backing of the U.S. government, temporarily explicit backing, AAA rating
Federal National Mortgage Association	Fannie Mae FNMA	Implicit backing of the U.S. government, temporarily explicit backing, AAA rating
Federal Home Loan Bank	FHLB	Implicit backing of the U.S. government, temporarily explicit backing, AAA rating



# Credit Rating Scale

Moody's		S&P		Fitch		Description	
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term		
Aaa	P-1	AAA	A-1+	AAA	F1+	Prime	Investment-grade
Aa1		AA+		AA+		High grade	
Aa2		AA		AA			
Aa3		AA-		AA-			
A1	P-2	A+	A-1	A+	F1	Upper medium grade	
A2		A		A			
A3		A-	A-2	A-	F2	Lower medium grade	
Baa1	BBB+	BBB+					
Baa2	P-3	BBB	A-3	BBB	F3		
Baa3		BBB-		BBB-			
Ba1	Not prime	BB+	B	BB+	B	Speculative	Non-investment grade
Ba2		BB		BB		Highly speculative	
Ba3		BB-		BB-			
B1		B+		B+			
B2		B		B			
B3		B-		B-			
Caa1		CCC+	C	CCC	C	Substantial risks	
Caa2		CCC				Extremely speculative	
Caa3		CCC-				Default imminent with little	
Ca		CC				prospect for recovery	
C		C					
/		D	/	DDD	/	In default	
				DD			
			D				

# Bank Cash Management Tools

- ◆ Banks offer multiple Cash Management Tools to make your job more efficient, increase security and earnings.

Deposit	Payment	Data Services	Security
Employee Courier	Check	Online Reporting	Positive Pay
Armored Service	ACH	Prior / Same Day	ACH Positive Pay
ACH	Wire		ACH Block
Wire	Purchasing Card	Account Reconciliation	Dual Authentication
Remote Deposit	File Transfer	Check Imaging	Notifications
Lockbox		Deposit Imaging	
Merchant Processing		ZBA / Sweeps	

# Questions?

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Director  
734.255.7985  
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**pfm** \ asset  
management

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# BREAK

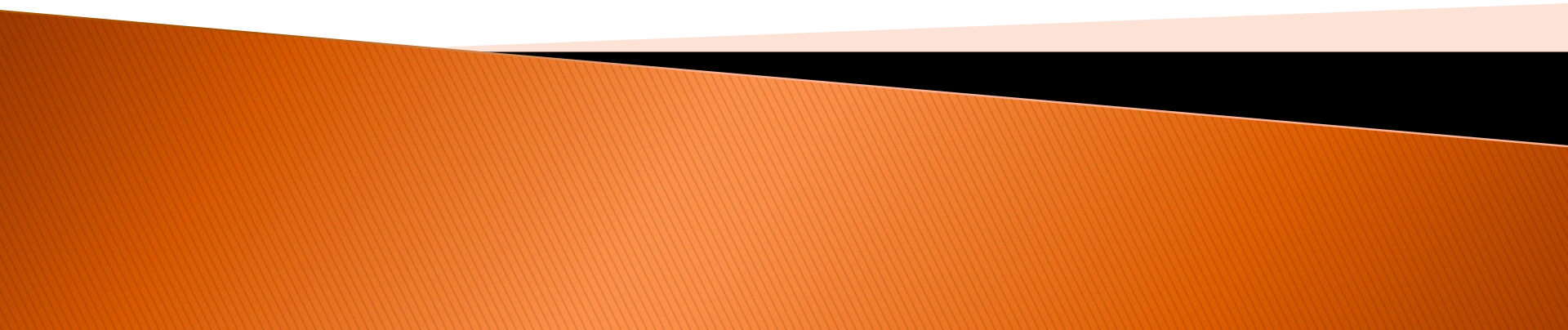


**Michigan School Business Officials**  
**Certification Class**

# **Cash Management**

**February 16, 2023**

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**Executive Director of Business Services**  
**Clarkston Community Schools**  
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**[mbrogers@clarkston.k12.mi.us](mailto:mbrogers@clarkston.k12.mi.us)**



# Cash Management Topics

- ▶ Financial Services Overview
- ▶ Cash Collection
- ▶ Cash Disbursement
- ▶ Purchase Card Procedures
- ▶ Internal Transfers & Loans
- ▶ Cash Flow Analysis
- ▶ Budgeting
- ▶ Fund Balance
- ▶ Fraud & Abuse





# Financial Services Overview

Banking RFPs available on MSBO website

**Identify a bank that can offer most comprehensive service at most competitive rate.**



# Financial Services Overview

- ▶ Provide bank with schools current account structure
  - General Fund/Athletics
  - Food Service
  - Club Accounts
  - Interest Sweep Account
  - Debt/Bond Accounts
- ▶ Provide bank with volume & balances
  - # deposit tickets & checks paid
  - # ACH Debits/Credits
- ▶ Additional services required
  - Internet Banking
  - Check Imaging

# General Bank Information

## ▶ Financial Strength

- Safety & Soundness (capital ratios, market capitalization, total assets)

## ▶ Credit Ratings

- Standard & Poor's/Moody's
- Bank Financial Strength
- Bank Deposits
- Issuer Rating

## ▶ Financial Statements

## ▶ [www.bankrate.com](http://www.bankrate.com)

## ▶ Bank Contact Personnel Qualifications

## ▶ References




# Cash Collection & Disbursement (since Covid-19 – More Electronic)

- ▶ Boosters / PTO Groups
- ▶ Activity Funds (Fund 29)
- ▶ Food Service
- ▶ Athletics
- ▶ General Fund



Comprehensive procedures are  
available on MSBO website

# Recommendations for Boosters and PTO's

- ▶ Treasurer should issue monthly financial report to the organization's board
  - ▶ Keep formal minutes in a book that is a permanent record passed on to successors
  - ▶ Prepare and maintain formal bylaws
  - ▶ Encourage use of B.O. procedures
  - ▶ Best practice to stay completely separate from these organizations (requirement of GASB 84)
  - ▶ Some schools choose to meet annually to review internal controls
  - ▶ PTOs hire outside firm to complete formal audit
  - ▶ Annual Attorney Seminar
- 

# Activity Funds (Fund 29 or GF)

- ▶ New activity funds must get BOE approval
- ▶ Gasb 84: will become either fund 29 or GF (unless you have no admin controls)
- ▶ All monies collected must be deposited
  - No commingling of personal monies with club funds
  - No money left in desks overnight
  - All funds collected should be counted by club treasurer (employee of District) and building secretary.
  - Building secretary will make the deposit
- ▶ Disbursements – **No Cash used for expenses**
  - Activity Purchase Card will be issued to Treasurer
  - Business Office will process checks requested through the Building Secretary
  - Do not use for General Fund expenditures
- ▶ Reconciliation (Treasurer, Building Secretary & Business Office)

# Food Service

## ▶ Collections

- Cashiers verify their start up cash before & after shift
- Cashiers verify collections at end of shift
- Cashiers turn monies into FS Secretary for verification
- Secretary makes daily deposits
- Bank verifies her deposit is correct
- FS Director verifies Secretary deposit with actual deposit slip
- Business Office reconciles bank statements

## ▶ Disbursements

- Purchase Orders & invoices approved by FS Director
- Business Office processes payments

## ▶ General Ledgers

- FS Director and Business Office reconcile monthly
- Business Office manages the general ledger

# Athletics

## Cash Collection

- The ticket seller verifies beginning & ending ticket number with Athletic Secretary
- Ticket seller counts all cash & reconciles tickets
- The cash box and tickets are verified by Secretary
- Ending ticket number is logged
- Some Districts are moving to scanners
- The cash box is kept locked up and then deposited the following day; Business Office counts and deposits
- Business Offices reconciles bank statements
- ▶ Disbursements – No Cash
  - Athletic Directors approves all purchases
  - Business Office processes payment
  - Athletic Secretary pays officials – Arbiter/Ref Pay
- ▶ General Ledgers
  - Business Office reconciles with AD monthly
  - Business Office manages the general ledger



# Gate Receipt & Expense Report

Date:\_\_\_\_\_ Opponent\_\_\_\_\_ Sport\_\_\_\_\_

Officials Pay Workers Pay

-----

-----

Ticket Color:\_\_\_\_\_

Next unsold ticket#\_\_\_\_\_

First sold ticket#\_\_\_\_\_

No. tickets sold\_\_\_\_\_

x \$5.00 per ticket\_\_\_\_\_

## Gate Receipts

### Count Sheet:

100s\_\_\_\_, 50s\_\_\_\_, 20s\_\_\_\_, 10s\_\_\_\_, 5s\_\_\_\_, 1s\_\_\_\_, Coin\_\_\_\_, Cks\_\_\_\_

Counted by\_\_\_\_\_Date\_\_\_\_\_ Counted by\_\_\_\_\_Date\_\_\_\_\_

Deposited by\_\_\_\_\_Date\_\_\_\_\_ Escorted by\_\_\_\_\_

# Gate Receipt & Expense Report

Total Cash in Cashbox\_\_\_\_\_

Less Cash Advance Amt.\_\_\_\_\_

Total Gate Receipts\_\_\_\_\_

Pre-Sale Amount\_\_\_\_\_

Total Deposit\_\_\_\_\_



# General Fund

## ► Collections

- All Checks are opened by Business Office Assistant
- Every check is copied and stapled to bank receipt
- Checks are deposited through remote scanners
- Accountant or Director verifies and post receipts
- Bank Reconciliations are completed monthly
- Cash is counted by two staff members
- Segregation of Duties

## ► Disbursements

- Purchase Orders processed by Building Secretary
- Building Principals/Department Directors approve POs
- All orders and invoices approved by Building Secretary
- Finance Director approved POs over \$10,000
- BOE approves purchases over dollar limit set by policy
- Business Office processes payments

# Deposit Worksheet

Date\_\_\_\_\_

Activity Account Name\_\_\_\_\_

Persons Counting\_\_\_\_\_

Advisor\_\_\_\_\_ Depositor\_\_\_\_\_

## Coins

## Bills

Pennies\_\_\_\_\_ Ones\_\_\_\_\_

Nickels\_\_\_\_\_ Twos\_\_\_\_\_

Dimes\_\_\_\_\_ Fives\_\_\_\_\_

Quarters\_\_\_\_\_ Tens\_\_\_\_\_

Halfs\_\_\_\_\_ Twentys\_\_\_\_\_

Silver Dollars\_\_\_\_\_ Fiftys\_\_\_\_\_

Total Coins\_\_\_\_\_ Total Bills\_\_\_\_\_

Checks Total (from below)\_\_\_\_\_

Grand Total \_\_\_\_\_

## Check Listing

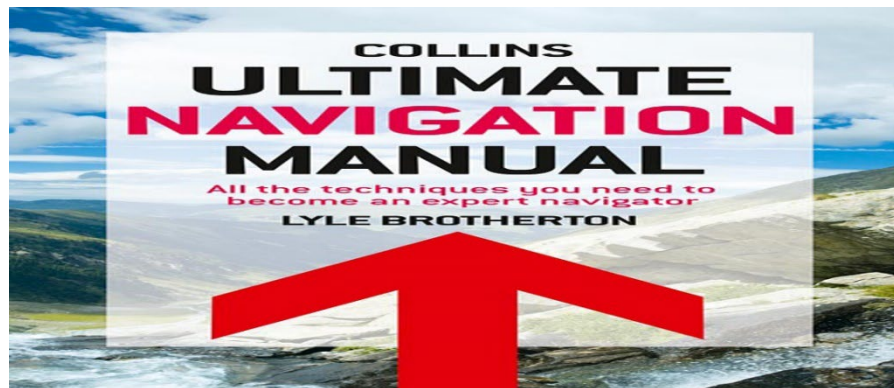
Name

Check Number

Amount

# GENERAL FUND – GRANTS

- ▶ YOU SHOULD HAVE IN PLACE A FEDERAL PROCEDURE MANUAL!
  - MSBO has examples/templates on their website
  - You should make it your own
  - Make sure that you are following the procedures
  - Your auditors will request it
  - Can share mine – [mbrogers@clarkston.k12/mi.us](mailto:mbrogers@clarkston.k12/mi.us)



# Purchase Card Procedures

- ▶ Every purchase card holder signs an agreement
- ▶ Every purchase card holder is given a copy of the policies and procedures
- ▶ Dollar limits are placed
- ▶ All receipts must be turned in with credit card statement to Business Office – No exceptions!
- ▶ No receipt or sales tax reimburse the District
- ▶ Purchases over \$500 still need either a Purchase Order or prior Business Office approval
- ▶ Summary of all purchases shared with BOE
- ▶ Auditor reviews statements and receipts
- ▶ Transparency Requirement
- ▶ Failure To Follow Procedures – Card Limit to \$0



# Purchase Card Procedures

Purchase card agreements and procedures are available on the MSBO website under the purchasing page.

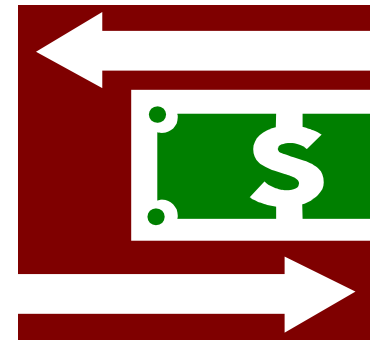
Here is the link:

<http://msboonline.msbo.org/SPP/Policies/SPP/Policies.aspx?hkey=40c61621-b99e-4e7a-92b3-536c4dabfd10>

Or I can share mine – [mbrogers@clarkston.k12.mi.us](mailto:mbrogers@clarkston.k12.mi.us)

# Internal Transfers and Loans

- ▶ Due from Other Funds
  - General Fund / Debt Fund
  - General Fund / Food Service
  - Debt Fund / Debt Fund
- ▶ Incoming and Outgoing Transfers to/from ISDs
  - Check Accounting Manual – listed as a transfer not an expense
- ▶ Reconciled for annual audit





# Examples of Transfers

- ▶ Debt funds to/from General Fund
  - Property taxes
- ▶ General Fund to/from Food Service
  - Payroll run through General Fund
  - Payable checks run through General Fund
  - Federal and state electronic transfers
  - Purchase Card purchases
- ▶ ISD Transfers
  - Vocational and Special Education mills
  - Itinerant Staff
- ▶ Reconciliation spreadsheet for auditors–  
BEST PRACTICE–MONTHLY

# Cash Flow For Borrowing (MFA)

- ▶ MFA pool program closes approx. Aug 20<sup>th</sup>
- ▶ Cash flow projection (14 month)
- ▶ Detail for greatest shortfall of the year
- ▶ Cash flow and application on MFA website
- ▶ Get assistance from attorney
  - ▶ Cash flow spreadsheet to attorney in May
  - ▶ Board resolution to attorney in June
- ▶ It is a one year note
  - ▶ Set aside (usually the less costly choice)
  - ▶ No set aside (all paid on 8/20)
- ▶ Can borrow from bank (more flexible)

# Monthly Cash Flow



- ▶ Excel spreadsheet completed monthly
- ▶ Make sure that we can meet all payroll & payables
- Cash Flow Example:

Aug 31, 2022 Bank Balance	\$2,800,000
September Revenue (Local)	\$152,000
September Payables	(\$513,000)
September Payroll	(\$991,000)
Sept 30, 2022 Bank Balance	\$1,448,000



# CASH FLOW ANALYSIS

- Before Oct 20, we are 33% into the 2022/2023 year but have received 0% of 90% of our funding.

## Cash Flow Continued:

Sept 30, 2022 Bank Balance	\$1,448,000
October Revenue	\$18,000
Oct payables before Oct 20	(\$108,163)
Oct Payroll before Oct 20	(\$1,100,000)
Oct 19, 2022 Bank Balance	\$257,837

# CASH FLOW ANALYSIS

## Cash Flow Continued:

Oct 19, 2022 Bank Balance	\$257,837
Oct 20 State Aid	\$1,400,000
Oct 30 payroll	(\$550,000)
Oct 23 payables	(\$300,000)
Oct 31, 2022 Bank Balance	\$807,837

**\*If pay bi-weekly need to be ready for three payrolls. Going to bi-monthly can help cash flow and reduce borrowing needs.**

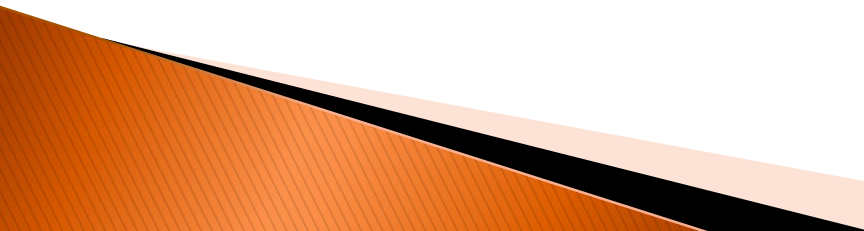


# Budgeting

- ▶ Start with previous year's budget
- ▶ Complete budget to actuals
- ▶ Build assumptions into the budget
- ▶ All budget categories must be completely re-justified each fiscal year to cut waste
- ▶ Improve organizational and fiscal efficiency
- ▶ The primary purpose of a budget is to translate educational priorities into programmatic and fiscal terms
  - This is more and more difficult when finances become tighter and tighter
  - Covid-19 Challenges – Falling off the cliff...



# General Budget Process

- ▶ Estimate revenues
  - ▶ Envision the educational programs
  - ▶ Estimate expenses to support these programs
  - ▶ Balance program needs against revenue and expenditure realities
  - ▶ Gather input from administrators
  - ▶ Project all salaries and benefits
  - ▶ Determine any equipment needs
  - ▶ Consider fuel and utilities
  - ▶ Develop first draft and review with finance committee and make necessary adjustments
  - ▶ First & second reading at BOE meetings
  - ▶ Budgets for Gasb 84 Fund 29 (captures activity accts)
- 

# Budget Heading Examples

- ▶ Description
  - Teachers' Salaries
- ▶ 2022/2023 Final Budget
  - \$2,373,000
- ▶ Increases
  - \$0
- ▶ Decreases
  - \$107,000
- ▶ 2023/2024 Original Budget
  - \$2,266,000
- ▶ Comments
  - Step Increases; 0% raise; Elim 1.83 fte

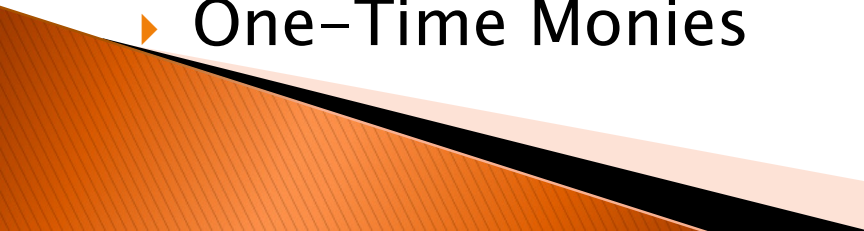


# Fund Balance

- ▶ Reasonable Fund Balance
- ▶ Recommended Fund Balance
- ▶ Describing Fund Balance to Board & Public
- ▶ Fund Balance Policy
- ▶ Fund Balance Designations



# Reasonable Fund Balance

- ▶ State and federal funding cuts
  - ▶ Tax collection practice
    - 100% summer/100% winter
    - 50% summer / 50% winter
  - ▶ New school construction may require additional operating costs
  - ▶ Bond rating agencies
  - ▶ Declining enrollment
  - ▶ Future Obligations
  - ▶ Fund Balance trends
  - ▶ Borrowing needs
  - ▶ Monthly Cash Flow Analysis
  - ▶ Early Warning Legislation
  - ▶ One-Time Monies
- 

# Recommended Fund Balance by MSBO

**15 to 20 Percent of Budget**


## Rationale:

- ▶ Necessary to avoid borrowing during the two-month period between August and October state aid payments
- ▶ Allows district to absorb mid-year cuts in state funding
- ▶ Avoids major changes to educational programs.
- ▶ Avoids mid-year layoffs
- ▶ Available for unanticipated and unbudgeted expenditures
- ▶ These economic times may be unrealistic
- ▶ Covid-19

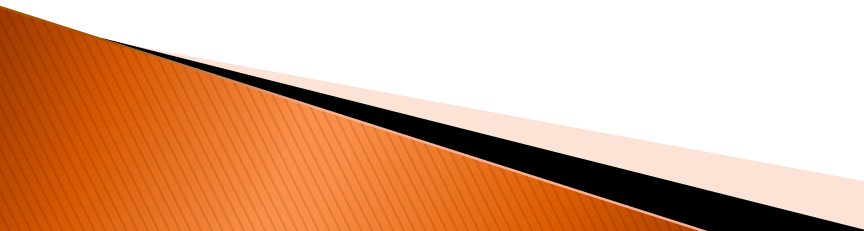
**Visit MSBO at [www.msbo.org](http://www.msbo.org) under school finance**



# Describing Fund Balance to the Public

- ▶ FB is necessary because at the end of each fiscal year the State of Michigan owes each district payments approximating 16% to 18% of their state aid.
  - ▶ Each year Michigan schools begin operations in August or September without any current year state aid – which then starts in October.
  - ▶ Our auditors recommend 10–15% fund balance.
  - ▶ With 100% summer tax collection we need 9% to avoid cash flow borrowing.
- 

# Describing Fund Balance to the Public (example)

- ▶ Compared to a situation for an individual, 15% fund balance amount is the equivalent of \$6,000 for a person who earns \$40,000 per year.
  - ▶ This \$6,000 would be the only amount available for emergencies of that individual.
  - ▶ It would be used for such items as roof repairs, unanticipated home maintenance, unplanned medical bills, unexpected income loss, vehicle repairs, etc.
- 

# Fund Balance Board Policy

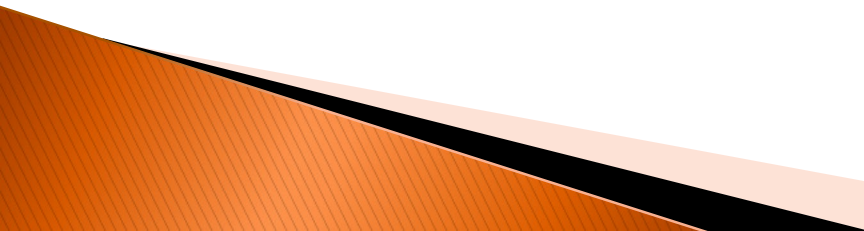
**The Board of Education recognizes that good fiscal management comprises the foundational support to the entire school program. To make that support as effective as possible, the board intends to maintain a fund balance of ten percent of the district's general fund annual operating expenditures. If a fund balance declines below ten percent, it shall be recovered at rate of one percent, minimally, each year.**

**Or**

**You could have a fund balance policy that designates the importance of fund balance and fiscal responsibility and not state a specific %.**



# Fund Balance Designations

- ▶ Technology Replacement
  - ▶ Capital Outlay Purchases
  - ▶ New Roofs and Boilers
  - ▶ Other Board Approved Items
- 

# GASB 54 Fund Balance

- ▶ Effective June 30, 2011
- ▶ Five Tier Fund Balance
- ▶ Nonspendable – Inventory, prepaid items
- ▶ Restricted – Legal constraints
- ▶ Committed – Board approved
- ▶ Assigned – Gov't entity intends
- ▶ Unassigned
- ▶ [www.cde.ca.gov/fg/ac/co/documents/gasb54.doc](http://www.cde.ca.gov/fg/ac/co/documents/gasb54.doc)




# Tips on Fraud Prevention


The best way to prevent fraud from happening in your organization is to be **Alert and Observant.**




# Organization Created Opportunities

- ▶ Absence of policies and procedures
  - ▶ Lack of adequate controls: administrative, operational, processing or documentation
  - ▶ Turnover/loss of key employees
  - ▶ Inadequate personnel screening
  - ▶ Constantly operating under crisis conditions.
  - ▶ Impersonal relationship and low morale
  - ▶ Current school district environment in MI
  - ▶ Lack of segregation of duties
  - ▶ Covid-19 – working from home & online
- 

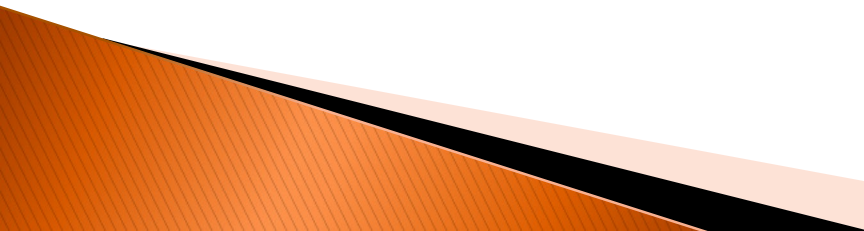
# Preventing Fraud

- ▶ Design and implement procedures and internal controls
  - ▶ Have a fraud risk evaluation by external auditors
  - ▶ Conduct internal/external surprise audits
  - ▶ Ongoing fraud education and training
  - ▶ Create a culture of honesty and ethics – set tone at the top
  - ▶ Create an environment in which staff believe that fraud will be detected and punished
  - ▶ Don't forget the Boosters/PTO Group
- 

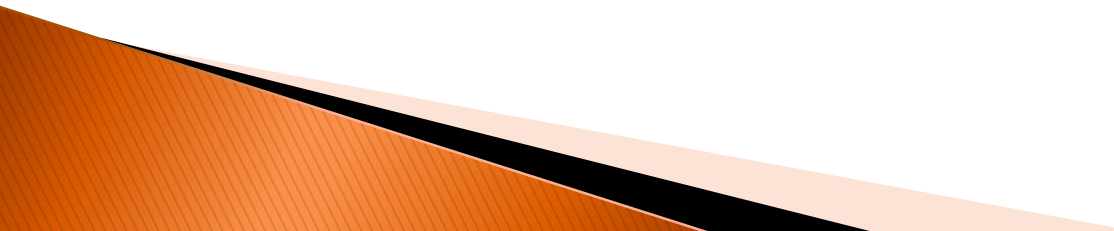
# Fraud Examples

- ▶ Real examples that I have experienced:
    - Previous Superintendent turned in receipts multiple times for reimbursement, fake receipts, changed receipts
    - Secretary didn't deposit all fundraisings funds
    - Bus Driver stole student's I-pod
    - PTO president/super-volunteer only deposited checks no cash from fundraisers
  - ▶ Everyone was terminated and prosecuted – no tolerance message was sent
  - ▶ The district changed procedures and added more internal controls
  - ▶ Auditors were immediately brought-in
- 

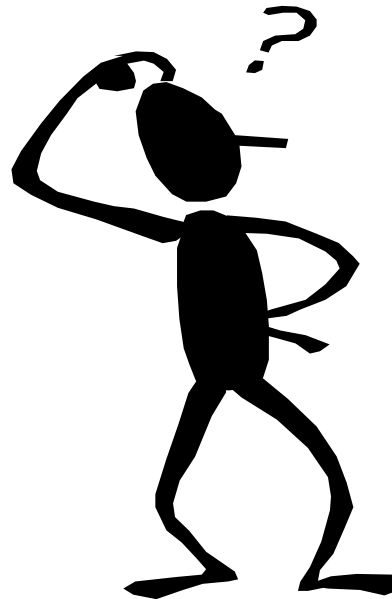
# Procedures & Internal Controls Implemented

- ▶ Conduct surprise audits
  - ▶ Implement procedures
  - ▶ Monthly reconciliation between treasurers, building secretary and business office
  - ▶ Building secretary training
  - ▶ Require more than one signature on checks
  - ▶ Require different people to collect, deposit and invest funds – segregation of duties
  - ▶ Don't Allow or Limit Crowdfunding
- 

# Procedures & Internal Controls Implemented

- ▶ Implemented new deposit worksheet
  - ▶ Implemented online payment program
  - ▶ Formed fundraising committee
  - ▶ More thoroughly review everyone's reimbursements including Superintendent
  - ▶ Developed written Business Office procedures
  - ▶ Secretary Training
- 

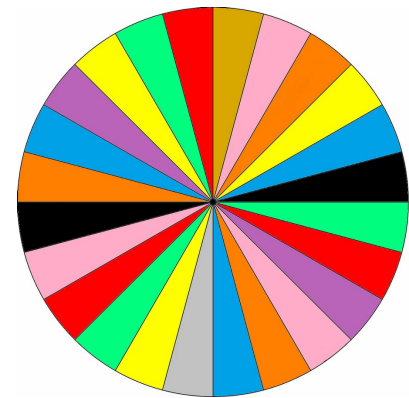
Any Questions?



# BREAK



When we  
return, we'll  
spin the  
wheel for a  
gift card  
prize!





# Cash Management – Prevent Fraud in Your School

PRESENTED BY

Kristi Krafft-Bellsky  
Partner

February 16, 2023



YEO & YEO

BUSINESS SUCCESS  
PARTNERS

# Meet Your Presenter



**Kristi Krafft-Bellsky, CPA**  
Partner, Quality Control Director

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**YEO & YEO**  
LET'S THRIVE

# Today's Topics

- Fraud Facts
- Fraud triangle
- Risks to cash receipts
- Risks to payroll
- Risks to disbursements
- Vendor fraud
- Cybersecurity risks
- Preventive measures

# What is Fraud?

- A false representation of a matter of fact - whether by words or by conduct, by false or misleading allegations, or by concealment of what should have been disclosed -that deceives and is intended to deceive another so that the individual will act upon it to his or her legal injury.

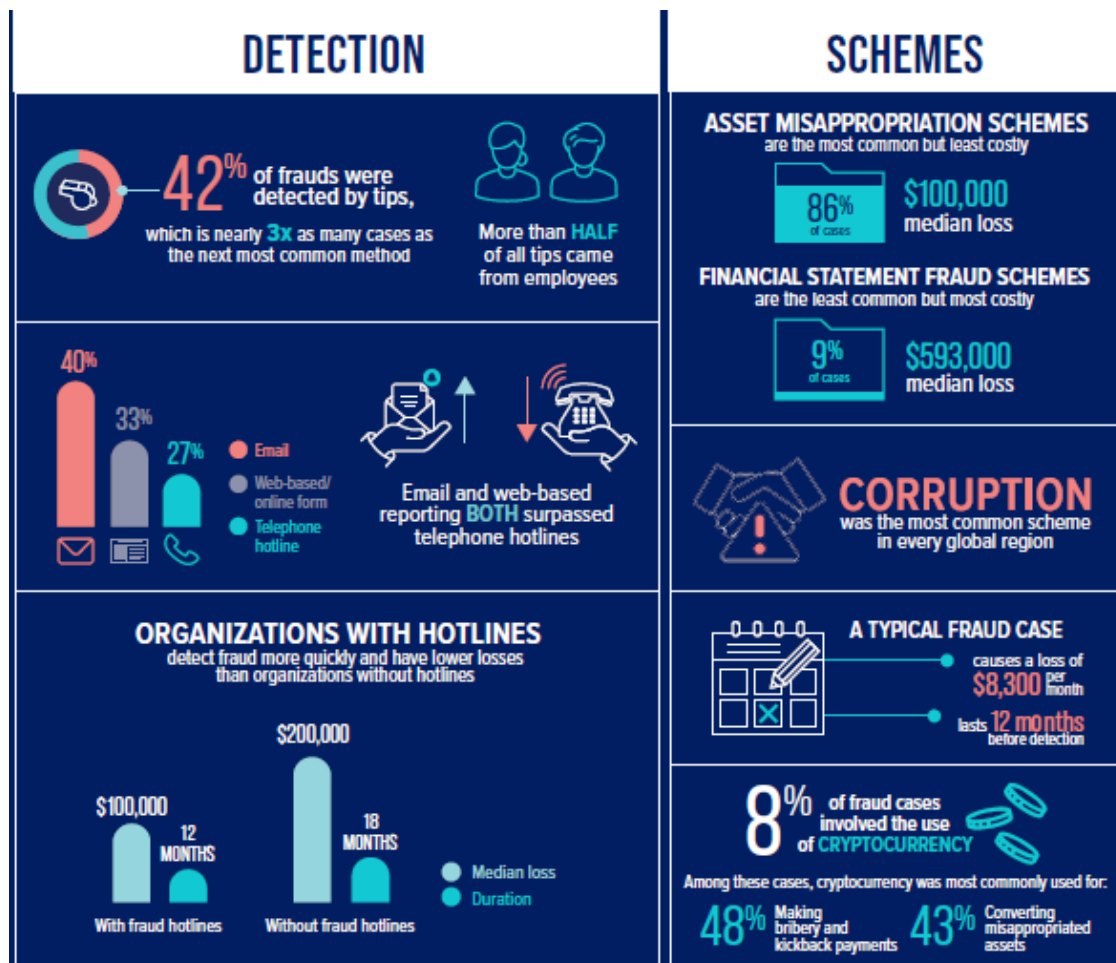
# Fraud Facts



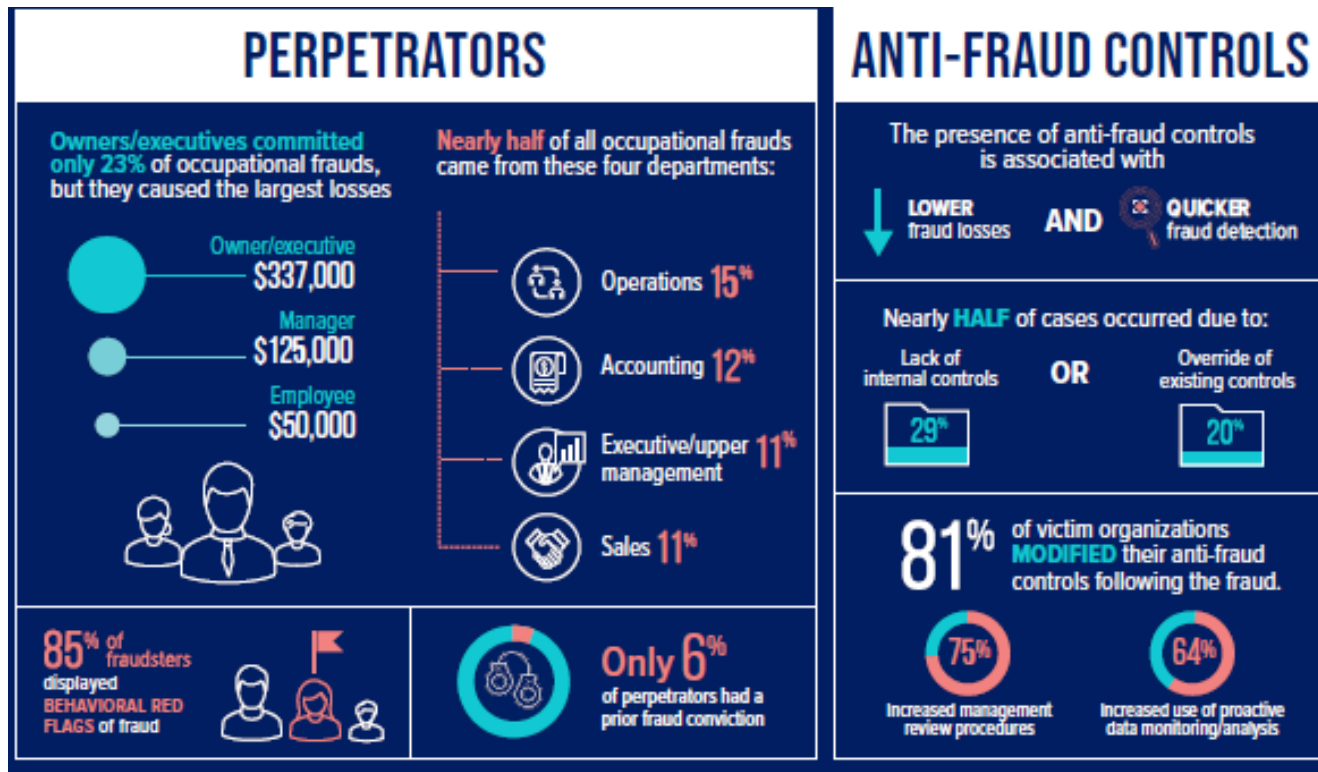
Source: Association of Certified Fraud Examiners 2022 *Report to the Nations*

# Fraud Facts

Source: Association of Certified Fraud Examiners 2022 *Report to the Nations*

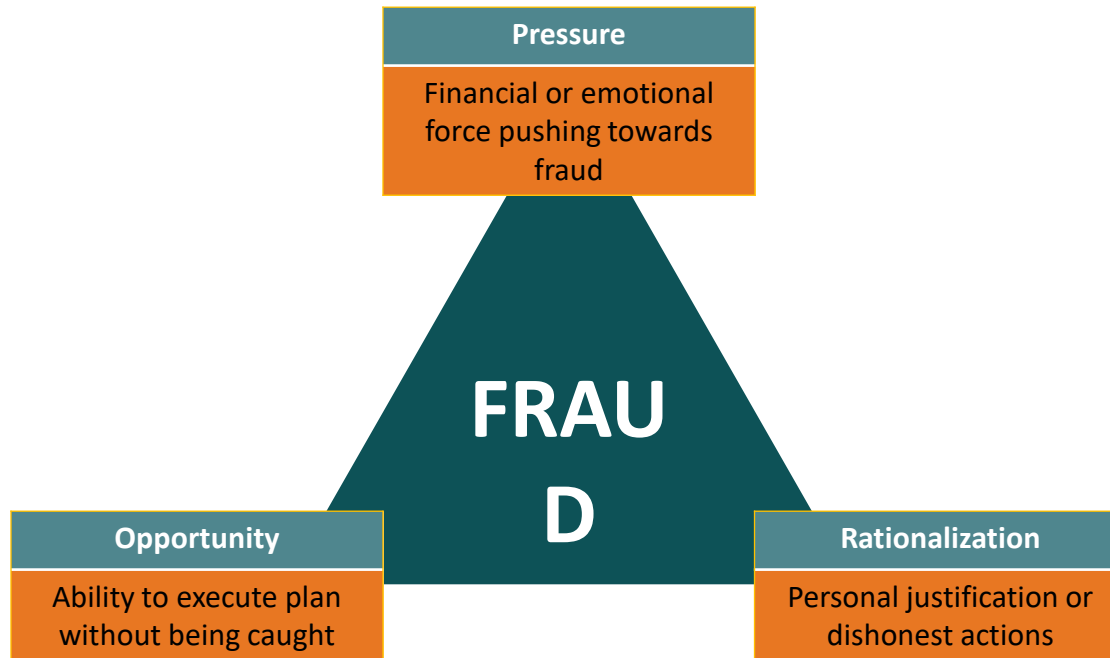


# Fraud Facts



Source: Association of Certified Fraud Examiners 2022 *Report to the Nations*

# Fraud Triangle





# Pressure

- Financial hardship
- Personality changes
- Living beyond one's means
- Outside business interests
- Unwillingness or unable to share workplace duties



# Rationalization



# Opportunity

- Fraudsters don't wish to be caught, so they must believe their activities will be undetected
- Opportunity is created through WEAK internal controls and poor oversight
- Districts have the most control over this leg of the fraud triangle

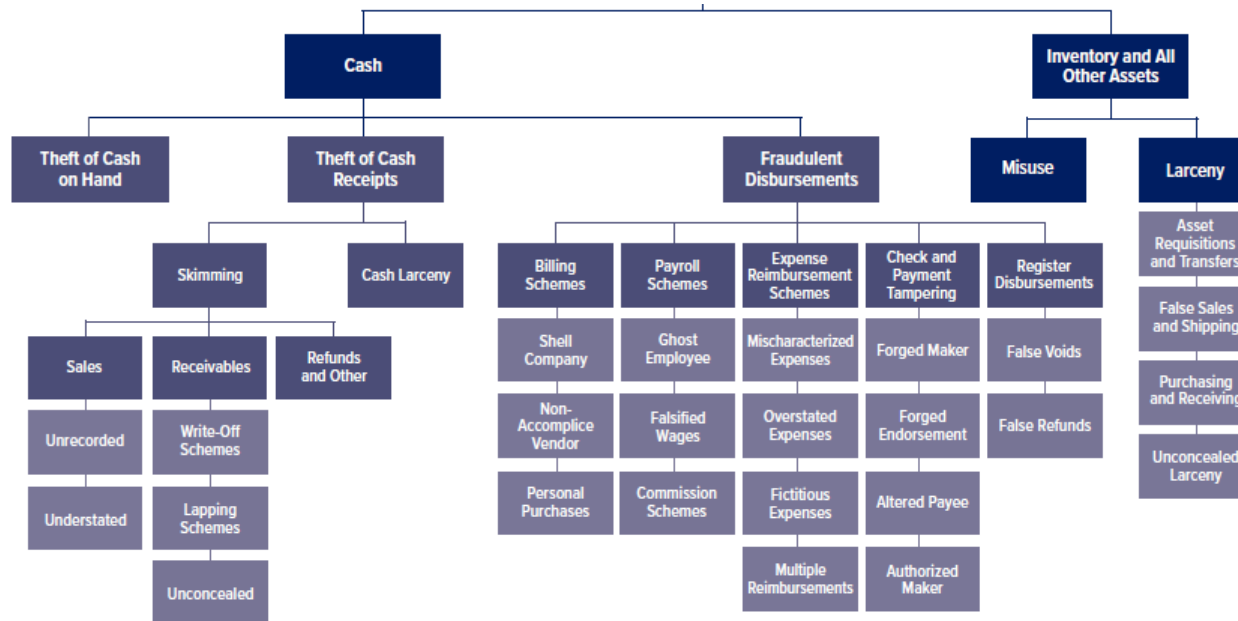
# Fraud Facts

Source: Association of  
Certified Fraud Examiners  
2022 *Report to the  
Nations*

FIG. 44 HOW OFTEN DO PERPETRATORS EXHIBIT BEHAVIORAL RED FLAGS?



# Fraud Facts



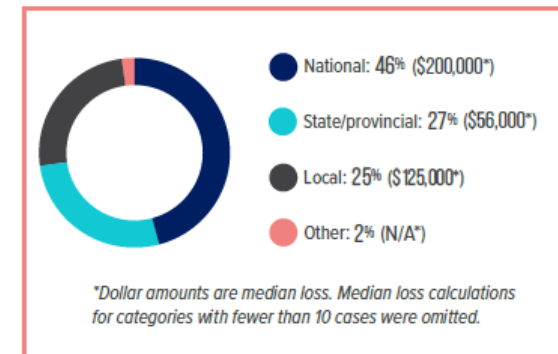
Source: Association of Certified Fraud Examiners 2022 *Report to the Nations*

# Fraud Facts

FIG. 21 WHAT ARE THE MOST COMMON OCCUPATIONAL FRAUD SCHEMES IN VARIOUS INDUSTRIES?

INDUSTRY	Cases	Billing	Cash larceny	Cash on hand	Check and payment tampering	Corruption	Expense reimbursements	Financial statement fraud	Noncash	Payroll	Register disbursements	Skimming
Banking and financial services	351	10%	11%	14%	14%	46%	8%	11%	11%	4%	2%	10%
Government and public administration	198	21%	8%	7%	9%	57%	12%	8%	16%	16%	3%	8%

FIG. 16 WHAT LEVELS OF GOVERNMENT ARE VICTIMIZED BY OCCUPATIONAL FRAUD?



Source: Association of Certified Fraud Examiners 2022 *Report to the Nations*

# Cash Handling Guidelines

- Separate the components of cash handling – collecting, depositing, and reconciling
- Pre-numbered receipts for cash received in person
  - Sequentially numbered tickets at events
- Stored in a secure location until deposited
- Timely reconciliation prepared, reviewed, and maintained



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# Think Like an Auditor

- All copies of voided receipts are retained and show the reason for cancellation across the face of the receipt
- Mathematical accuracy of receipt reports is periodically verified
- Support is reviewed for appropriate signatures
- No receipts are missing
- Receipts are issued in numerical order





# Think Like an Auditor

- Activity Funds – how can you find misuse?
  - Think about the activities within a district and correlate that to your expected activity within an account.
  - Try to develop a predictive test when possible to test for completeness

# Food Service

- Cash is collected and applied immediately to student account or meal purchased.
- Amount entered into cash register matches cash received.
- Cash register drawers are counted down after each meal service.
- Discrepancies are explained.
- Look for voided sales



# Food Service

- Do surprise cash counts
- Look for red flags
  - Rubber bands
  - Paper Clips
  - Tally marks

# Ghost employees

- This person does not exist
  - Do any two employees have the same social security number
  - Duplicate direct deposit routing numbers
  - Employee number outside of normal sequence
  - Have someone outside of the payroll process periodically look at employee list
  - Testing of cutoff for deceased, retired or terminated employees. Any extra pay given
  - Segregate the duties of adding employees and paying the employees

# Falsified Wages

- Time card fraud
  - Punching in or out for another employee
  - Recording overtime not worked
  - Forging supervisor signatures
  - Updating the pay rate without authorization
  - Can your system produce an audit trail to look at changes?
  - Extra pay monitoring – longevity, etc...



# Benefit fraud

- Vacation and sick days
  - Are there controls to make sure that all time used has been recorded?
- Expense Reimbursement
  - Recording additional mileage
  - Using a district credit card to pay for gas and submitting mileage
  - Recording additional expenses by not including the detail of the receipt and just the credit card total.
  - Duplicate requests made
  - Falsification of documents

# System Manipulators

- Manipulates tax reporting forms for their own benefit
  - Transfer federal withholdings from other employees to themselves
  - Quarterly overpayment of 941 then added to their withholdings
- Grade changing risk
  - What controls are in place to prevent an employee from accepting a bribe



# Disbursements

- Watch all forms and consider controls over
  - Procurement – who is involved in the bidding process
  - Purchase Cards or Credit Cards – who has access, what controls are in place to make sure there is no abuse. What supporting documentation is retained for charges
  - EFTs – who can authorize, is there a transfer limit as to which accounts can be transferred to and max dollar amounts?
  - Checks – controls over signature, bank reconciliations, approval of invoices
  - Related parties – how are they identified?



# Policies vs. Procedures

- A **policy** is a guiding principle used to set direction in an organization. A **procedure** is a series of steps to be followed as a consistent and repetitive approach to accomplish an end result.



# Best Practices for Procedures

- Written, uniform, accessible, and complete
- Exact instructions for each task
- Who, what, when, where and how
- Timeline from initial need to payment in full
- Reference to policies, as applicable
- Exceptions to procedures (emergency purchases, staff turnover or absence, etc.)

# Purchasing Policy

- Items covered under the policy
- Full and open competition
- Good administrative practice and sound business judgment
- Single purchase transactions
- Bid requirements and timeline
- Bid protest process
- Emergency purchase guidelines

# Common Purchasing Fraud



# Reality Check

- New Mexico - Española Public Schools – Hiring a company that had the school district as its only client and kept all invoices under school board approval threshold
- New York - Hempstead School District - Kickbacks from a contractor doing business with the district and using public money to pay for personal expenses in a more than \$50,000 scheme
- Ohio - Glen Este Middle School - Kickbacks received for eighth-grade overnight field trips to Washington D.C. Totaled \$17,745 over three years.
- Texas - Nova Academy - Accepted \$50,000 in kickbacks in exchange for steering a school technology contract to a friend, who then botched the job

# Vendor fraud

- Ban significant gifts
- Verify vendor setup/changes in information
- Disclose any personal relationships within the district
- Define acceptable business relationships
- Obtain references and contact them
- Background checks on vendors
- Use addresses and not PO boxes whenever possible
- Look for multiple payments to vendors that appear to circumvent approval thresholds
- Look for duplicate payments
- Expenditure account usage compared to budget

# Uniform Guidance 2 CFR 200

- Must use own documented procurement procedures
- Oversee contractors are performing in accordance with contract
- Written conflict of interest standards on selection, award, and administration
  - Must include disciplinary actions

# Uniform Guidance 2 CFR 200

- Procedures must avoid duplicative or unnecessary items
- Where applicable, lease versus purchase analysis
- Encourage inter-entity agreements where appropriate for procurement or use of common/shared goods/services
- Only award contracts to responsible contractors able to perform successfully
- Must allow for full and open competition

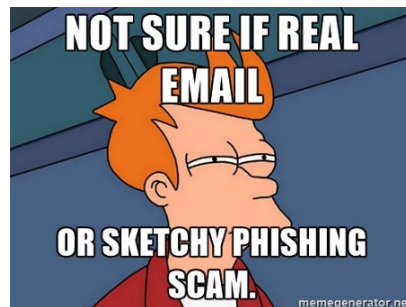


# Yellow Book 2018

- Consider waste or abuse
  - Available grant funds
  - Unnecessary purchases
  - Personal use items
  - Double dipping to get expenditures reimbursed twice

# Cybersecurity Risk

- Schools are at high risk for targeted phishing attacks
- Ransomware attacks
- Training for your employees
- Policies on how information is transferred
- Look into insurance policies to see what is covered.
- Do you know your IT controls?



# More Examples

- Grand Rapids Public School – 2022 email compromise resulted in MESSA payments of \$2.8 million being routed to a fraudulent account
- Jackson and Hillsdale Counties impacted by ransomware in November 2022 resulting in school closure for three days from compromised credentials
- Los Angeles, CA district hit with ransomware in 2022

# Cybersecurity Best Practices

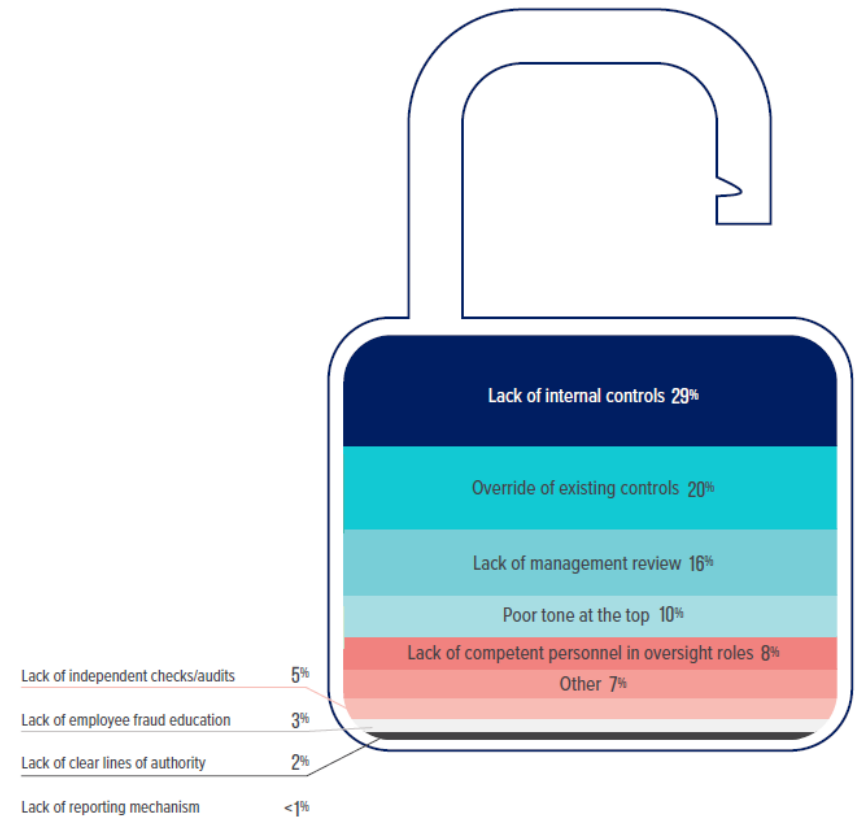
- MISecure.org resources
  - Best practices
  - Self audit
  - <https://misecure.org>



# Internal Controls

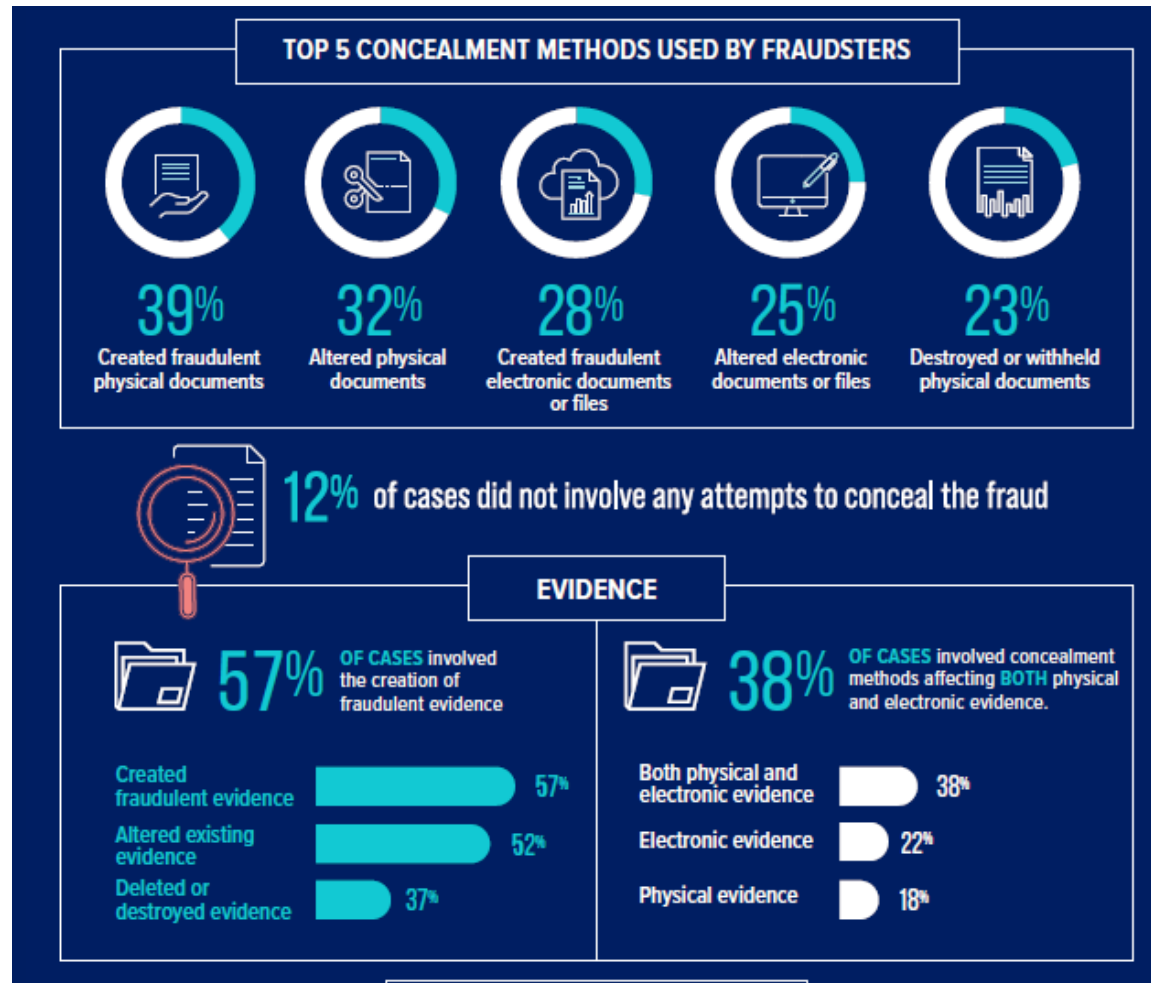
Source: Association of Certified Fraud  
Examiners 2022 *Report to the Nations*

FIG. 29 WHAT ARE THE PRIMARY INTERNAL CONTROL WEAKNESSES THAT CONTRIBUTE TO OCCUPATIONAL FRAUD?



# Internal Controls

Source: Association of Certified Fraud Examiners 2022 *Report to the Nations*



# Prevention and Detection

- Know your policies and procedures
  - Make them available and accessible to all
  - Put in front of key personnel
  - Question deviations from procedures
  - Do you have segregation of duties
  - Don't allow exceptions



# Prevention - Conflict of Interest

## Shall Not:

- Engage in or have a financial interest, directly or indirectly, that conflicts with the District.
- Use position to benefit or create a benefit for any other individual or agency besides the District.
- Forego disclosing any business interest in a proposed contract.
- Engage in business, private sector of their profession.
- Make use of materials, equipment or facilities of the District for private practice.



# Prevention and Detection

- Be mindful of new vendors and long-term vendors
- Disable unused vendors
- Do background and credit checks
- Train staff on what to look for
- Think like a thief
- What is the tone at the top
- Trust but verify

# Prevention and Detection

- Think like an auditor
  - Compare vendor and employee addresses
  - Compare direct deposit/EFT account numbers
  - Compare tax ID numbers – any SSN for vendors?
  - Research your vendors – Google, website, invoice content
  - Reimbursements and CC receipts – agree to product received at the district
  - Compare invoice info to website info
  - Compare receiving info to invoice/PO and look at addresses
  - Are all cash accounts properly identified by the District?

# Prevention and Detection

- Think like an auditor
  - Review cleared checks for a break in sequences.
  - Perform an unplanned audit of supplies and inventory
  - Haphazardly select purchase orders and verify they followed the correct procedures
  - Review budget to actual line items to ensure all amounts classified are appropriate



# Prevention and Detection

- Work with your vendors
  - What types of banking controls does your financial institution offer
  - Positive Pay
  - Multi-Factor Authentication
  - Transfer limits

# Train Employees

- Train employees as to what constitutes fraud, and how it impacts the District (publicity, job loss, morale, etc.)
- Ensure employees understand where to seek advice when they are faced with uncertain ethical decisions.
- Communicate a policy of zero-tolerance through words and actions.
- Provide employees a confidential outlet to report suspicious or fraudulent activity.
- Instruct employees on how to recognize red flags and early warning signs.

# Dealing with Suspected Fraud or Abuse

- ☐ Do you have a whistleblower policy?
- ☐ Does everyone in the district know what it is?
- ☐ Does the policy tell employees how and to whom to report suspected activity?
- ☐ Does anyone follow-up with and inform the whistleblower?

# Take aways

- Review your policies and procedures to see if they are still up to date
- Look at the best practices and self-audit from MISecure
- Walk through each transaction cycle and ask yourself where could someone misappropriate assets
- Consider if additional training is necessary





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# Finalize Credit for Attendance

**New Process:** The MSBO Evaluation is your record for attendance.

**Please complete by February 21**

- ✓ Receive an email from survey monkey for the MSBO evaluation. Your evaluation will be your record for attendance.
- ✓ Receive e-mail from [MOECS-noreply@michigan.gov](mailto:MOECS-noreply@michigan.gov) to fill out an evaluation for SCECHs.