

## MSBO Cash Management

Michael Barry, Director  
PPFM Asset Management

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734.255.7985 | [pfmam.com](http://pfmam.com)

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

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## Materials

<https://www.msbo.org/msbo-certification-program/msbo-certification-class-materials/>



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## 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



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# Cash Management: Big Picture



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## Cash Management

### 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.

#### 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.



Source: GFOAT.org – Objectives of Cash Management 1-16-14

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## 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.



Source: ASBO School Finance 2017

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## 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.



Source: ASBO School Finance 2017

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## 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



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## 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).



Source: GFOAT.org – Objectives of Cash Management 1-16-14

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# School Cash Management



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## 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



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## Types of Cash

- 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

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## 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 a ACH Policy?
- Internal Controls are imperative!



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## Cash Flow

### Preparing a Cash Flow

- Doesn't need to be complex – we 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)



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## Knowing Your Cash Flows

- Understanding your liquidity needs is vital
  - There are 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



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## Benefits of Cash Flow Forecast

- Ensures 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



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## 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



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## 4 Largest Sources of Cash In-Flows

- State Aid Payments
  - 11 payments only – October to August
- Tax Collections
  - General Fund &/or Debt
- Federal Grants
- State Grants



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## Largest Sources of Cash Out-Flows

- Payrolls: (Gross cost) General Fund, Food Service, Community Service
- ORS (MPERS)
- 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

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## 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 98,575.19	7 317,774.03	13 355,809.47
	6 185,108.75	10 359,261.28	14 12,114.10	12 299,938.04	9 481,647.59	7 317,774.03
	13 355,809.47	17 130,251.19	21 584,240.62	19 15,085.28	16 283,002.08	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>TOTAL 18/19 INTERFUND</b>						
<b>TOTAL 18/19 PR/PICARET</b>	<b>41,177,902.00</b>					
<b>TOTAL 18/19 OTHER</b>	<b>10,923,448.00</b>					

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## Cash Flow Daily

Date	Description	Dep #	Transaction	Balance	ACH		Club	Open Swim Receipts	Community	Athletic	Preschool	Checks Issued	Checks Paid	Payschools Deposits
					Deposits	Deposits								
2019	Balance Forward			4,080,327.37										
	7/2 Deposit - Preschool		3,637.80	4,083,965.17							3,637.80			
	7/2 ACH Credit-PaySchools		1,110.21	4,085,075.38	1,110.21									1,110.21
	7/2 SOM DDS		15.00	4,085,090.38										
	7/2 Checks Paid		(3,913.11)	4,081,177.27									3,913.11	
	7/3 ACH Credit-PaySchools		1,855.87	4,083,033.14	1,855.87									1,855.87
	7/3 SOM Refund		6,911.50	4,089,944.74										
	7/3 Checks Paid		(441.23)	4,089,503.51									441.23	
	7/5 ACH Credit-PaySchools		450.02	4,089,953.53	450.02									450.02
	7/5 Rec One		23,644.25	4,113,597.78										
	7/5 TRF TO SELF INSURANCE		(83,666.18)	4,029,931.60										
	7/5 Deposit - Adventure Club		11,267.00	4,041,198.60			11,267.00							
	7/5 Checks Paid		(480.00)	4,040,718.60									480.00	
	7/6 Deposit	40635	6,737.96	4,047,456.56		6,737.96								
	7/6 ACH Credit-PaySchools		1,628.70	4,049,085.26	1,628.70									1,628.70
	7/6 Deposit	40534	532.37	4,049,617.63		532.37								
	7/6 Payroll 0706		(633,749.46)	3,415,868.17										
	7/6 Fed Tax 0706		(206,320.04)	3,209,548.13										
	7/6 TSA 0706		(22,720.33)	3,186,827.80										
	7/6 Payroll MISC 0706		(143.76)	3,186,684.04										
	7/6 Checks Paid		(7,621.11)	3,179,062.93									7,621.11	
	7/9 ACH Credit-PaySchools		1,204.53	3,180,267.46	1,204.53									1,204.53
	7/9 Meal Magic		(22.86)	3,180,244.60										
	7/9 Payroll MISC 0706 (2)		(2,168.43)	3,178,076.17										
	7/9 Checks Paid		(189,883.08)	2,988,193.09									189,883.08	
	7/10 Printer Loan		363,445.03	3,372,638.12										
	7/10 ACH Credit-PaySchools		1,869.98	3,374,508.10	1,869.98									1,869.98
	7/10 NSF		(79.00)	3,374,429.10										
	7/10 Checks Paid		(109,881.62)	3,264,547.48									109,881.62	

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## 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."

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## 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!)



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## School Code – Permissible Investments



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## 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

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

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

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



Source: Michigan Legislature

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## 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

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## 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"*



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## Cash Flow Analysis:

### How much for how long



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## Knowing Your Cash Flows

### ❖ Understanding your liquidity needs is vital

There are 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



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## 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)
- Be sure to look at weekly balance to determine your cash low points

### Property tax collections

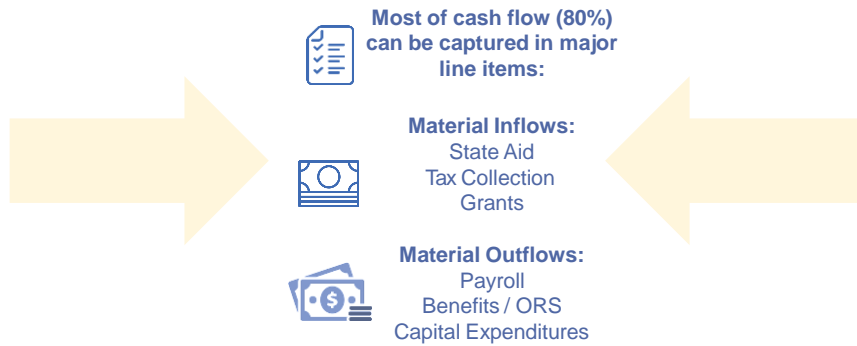
- When are your operating taxes collected? (100% summer tax collections solves a lot of cash flow issues)
  - Funds collected at the beginning of the school year to eliminate / prevent state aid borrowing; improves timing of cash receipts
  - A substantial amount of tax collections are usually received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



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## Focus on Big Ticket Items



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## Weekly Cash Flows - Example

	Week of 07/01/2019	Week of 07/08/2019	Week of 07/15/2019	Week of 07/22/2019
Balance Fwd.	\$ 202,587	\$ 1,495	\$ 300,086	\$ 258,256
Revenues				
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/MILAF	\$ -	\$ 800,000	\$ -	\$ -
Loan Proceeds	\$ -	\$ -	\$ -	\$ -
Total	\$ 33,379	\$ 865,528	\$ 53,148	\$ 1,415,498
Expenditures				
Payroll	\$ -	\$ 295,211	\$ -	\$ 312,628
Board Bills	\$ -	\$ 256,809	\$ 90,354	\$ 236,811
EDUSTAFF/PESG - ACH	\$ -	\$ -	\$ -	\$ -
WMHIP - ACH	\$ -	\$ -	\$ -	\$ -
EPARS Wires	\$ -	\$ 13,551	\$ -	\$ 13,324
MPSERS - ACH (projection is ER only)	\$ 233,271	\$ -	\$ 4,122	\$ -
Grand Rapids/Walker Tax W/H ACH	\$ 1,200	\$ -	\$ -	\$ 636
Health Equity	\$ -	\$ 1,365	\$ -	\$ 1,175
Purchase cards (Huntington)	\$ -	\$ -	\$ -	\$ 108
Other/Bank Fees/Arbiter Pay	\$ -	\$ -	\$ 503	\$ -
Loan Payback/Wire Transfer MILAF	\$ -	\$ -	\$ -	\$ 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

Source: Sample provided by school client for medium sized district

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# Case Study:

## Cash Management in Practice



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### It Starts with Banking

Banking To Do	Samples
SAFETY	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 Trust with advisor



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## Banking Math

### • 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%. Now the market expects the central bank to increase rates between 3 and 7 times in 2022.

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## How Banks Invoice Fees? Account Analysis Statements

The image displays a collage of overlapping Bank of America account analysis statements. The statements are detailed, showing various fees, interest rates, and account balances. The Bank of America logo is visible in the top left corner of the documents. The statements are arranged in a way that shows multiple layers, illustrating the complexity of bank account analysis.

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## 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.



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## 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

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## What to look for?

**Bank of America**



Deposit Bank Assessment

**J.P.Morgan**

Premium Assessment Fee

**KeyBank**



Deposit Assessment

**usbank**

Deposit Coverage

**WELLS  
FARGO**

Recoupment Monthly

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## Sample Analysis Statement

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

Service Description	Unit Price	Volume	Service Charges
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>

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## Bank Charges Can Significantly Reduce the Benefit of the ECR

No Reserve Requirement or FDIC			Reserve Requirement and FDIC Assessed		
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.

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## 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 (703.98)

Analyzed Results Transferred In (635.18)

Total Analyzed Result (635.18)

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.

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## Banking Optimization

### • 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 TERM to increase return

### • 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 creepage.



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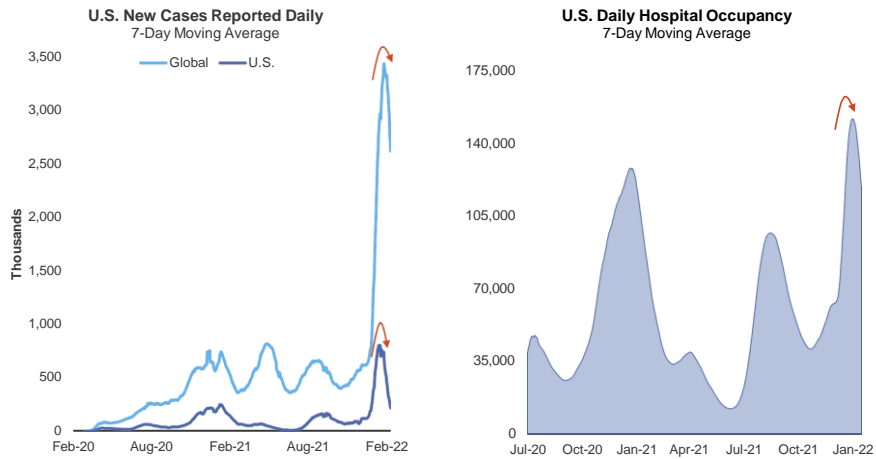
## Current Market Conditions



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## COVID Caseload Recovers from Omicron Variant Related Outbreak

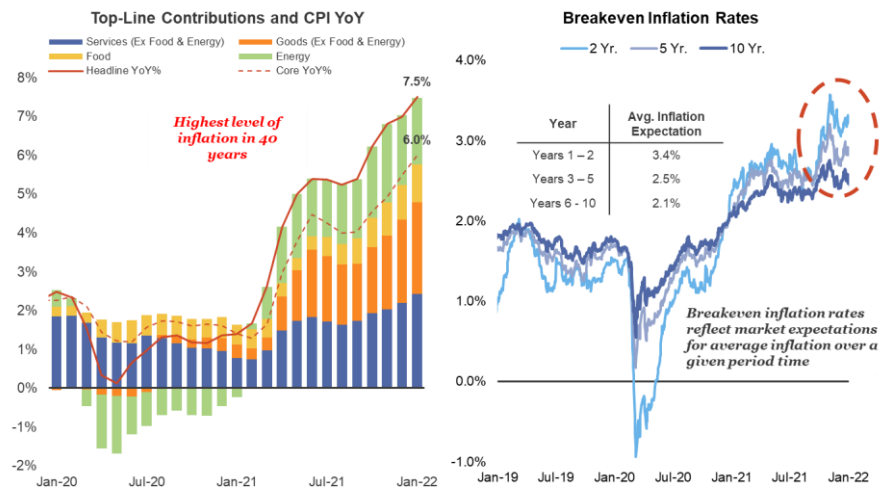


Source: Bloomberg, John Hopkins University Coronavirus Resource Center, Our World in Data, latest as of 2/10/2022.

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## Historically High Inflation Expected to Moderate over the Long Run

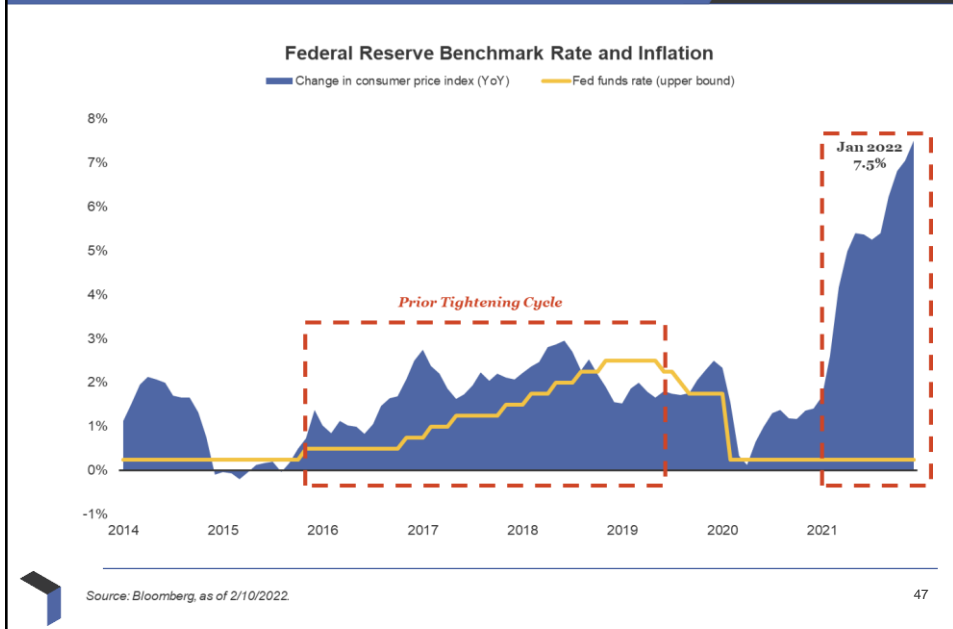


Source: Bureau of Labor Statistics as of January 2022. Bloomberg, as of 2/10/2022 (Right).

46

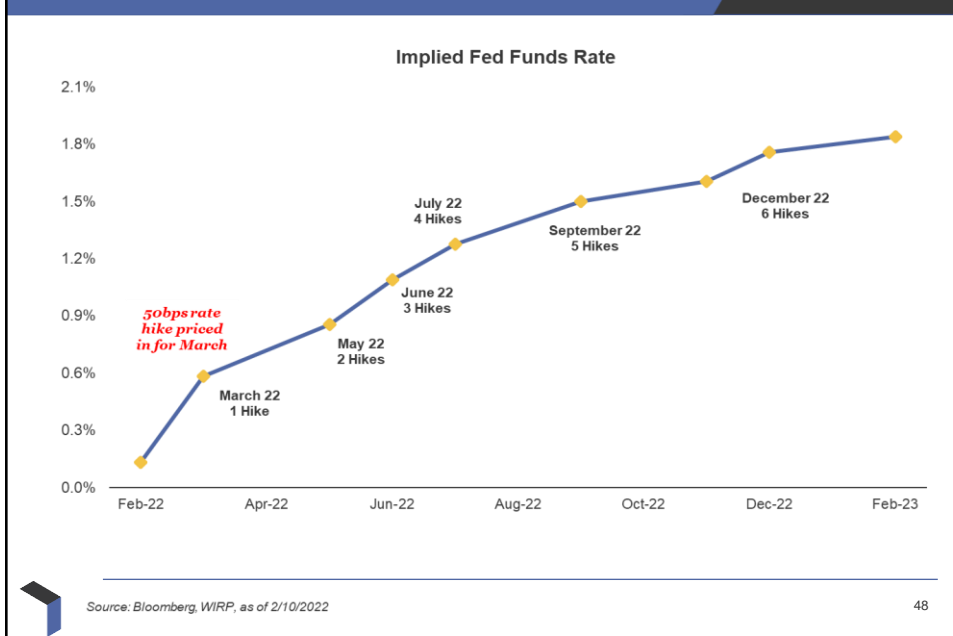
46

## Current Fed Benchmark Rate and Inflation Markedly Different Than in Prior Cycle



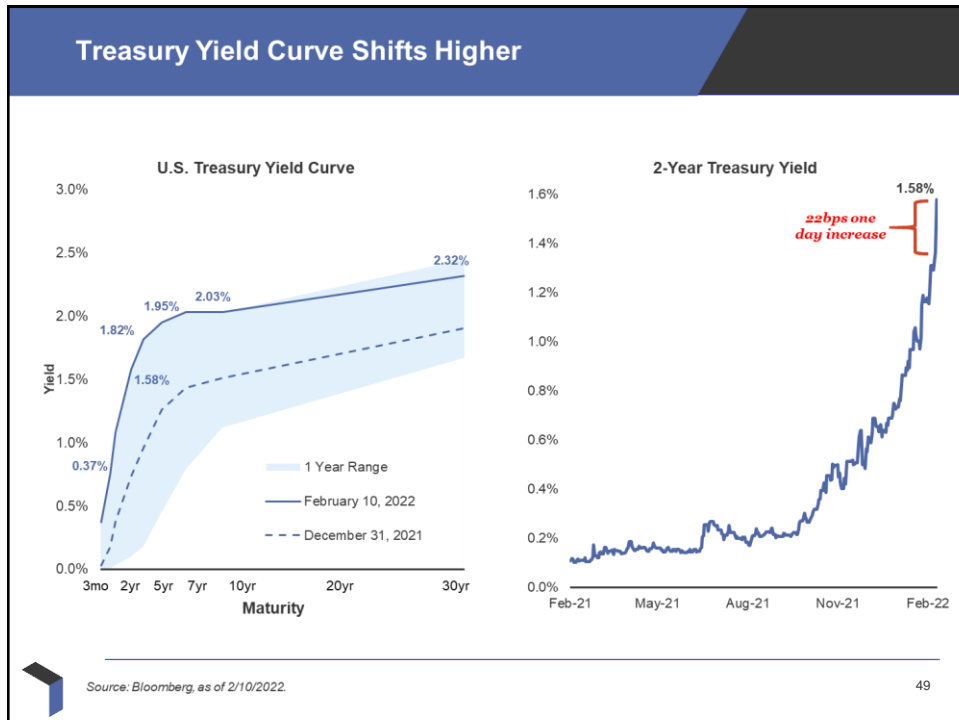
47

## Market Pricing in Six Rate Hikes During 2022



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## Investment Strategy Considerations



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



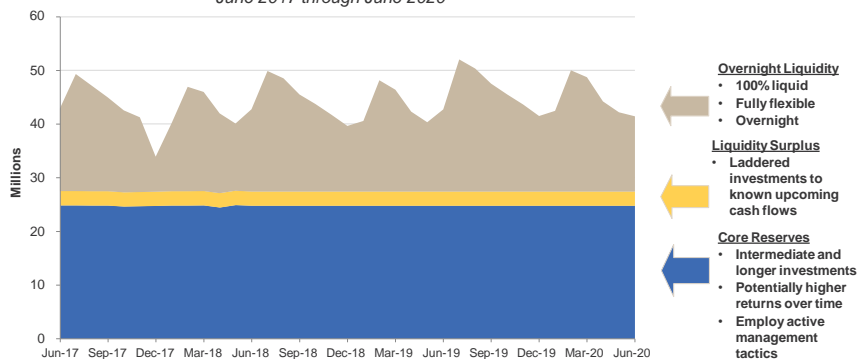
51

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## 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

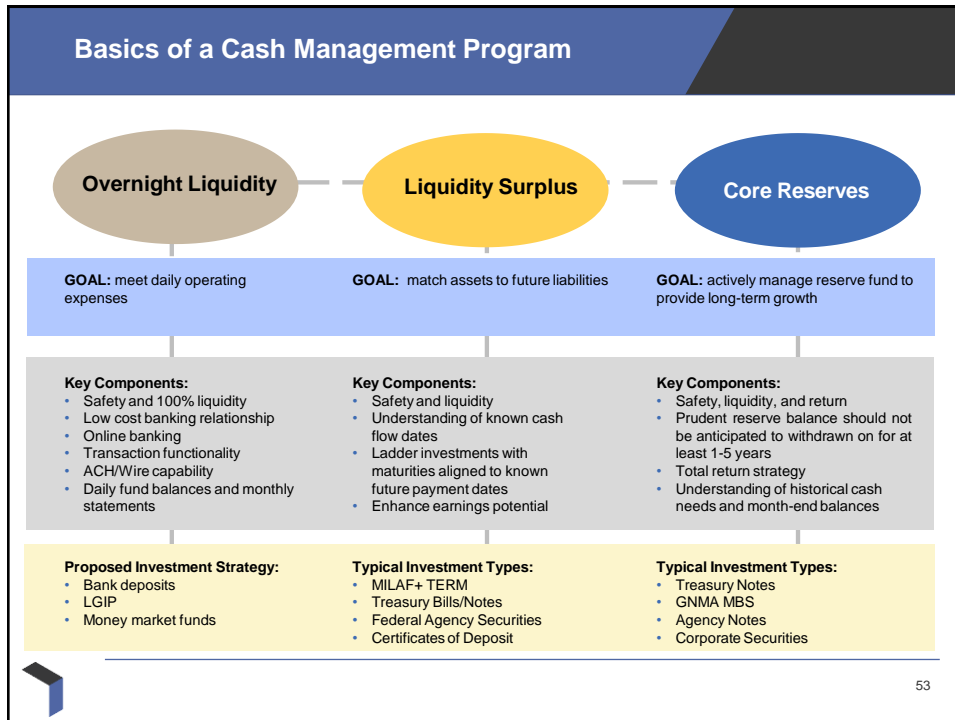


For illustrative purposes only

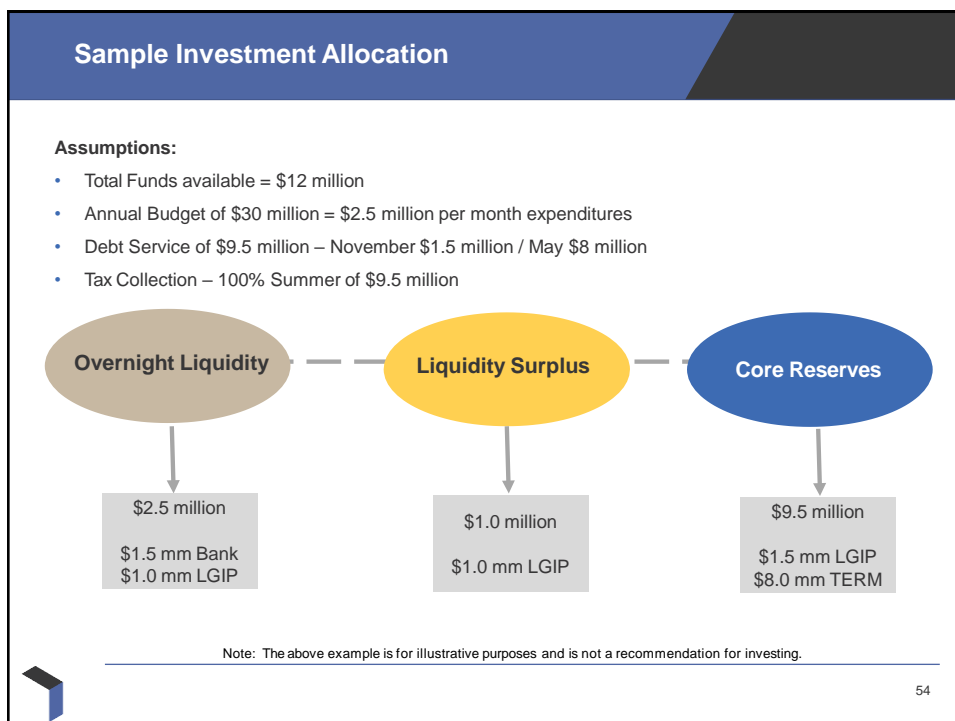


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## Helpful Hints

- 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 



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## Appendix: Investments Defined

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## 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/>

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## 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

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## Security Types – Federal Agencies

- Public Act 20 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

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## 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+			
Aa2		AA		AA			
Aa3		AA-		AA-			
A1	P-2	A+	A-1	A+	F1	Upper medium grade	
A2		A		A			
A3		A-		A-			
Baa1		BBB+		BBB+		F2	
Baa2	P-3	BBB	A-3	BBB	F3		
Baa3		BBB-		BBB-			
Ba1	Not prime	BB+	B	BB+	B	Speculative	
Ba2		BB		BB			
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		

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## 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	



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# Questions?

Michael Barry  
 Director  
 734.255.7985  
[barrym@pfmam.com](mailto:barrym@pfmam.com)

**pfm** asset  
 management

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## 5-Minute Break



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Michigan School Business Officials  
Certification Classes



# Cash Management

February 23, 2022

Mary Beth Rogers, EdS, CFO  
Executive Director of Business Services  
Clarkston Community Schools  
(248) 623-5410  
mbrogers@clarkston.k12.mi.us

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## Cash Management Topics

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



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## Financial Services Overview

Banking RFPs available on MSBO website

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



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## 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

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## 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



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

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



Comprehensive procedures are  
available on MSBO website

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## 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

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## 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)

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## 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

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## 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

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## 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\_\_\_\_\_

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## Gate Receipt & Expense Report

Total Cash in Cashbox-----

Less Cash Advance Amt.-----

Total Gate Receipts-----

Pre-Sale Amount-----

Total Deposit-----

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## General Fund

### ► Collections

- All Checks are opened by Business Office Assistant
- Every check is copied and stapled to bank receipt
- Deposit slips completed by Accountant or Director
- Payroll Specialist verifies and makes deposits
- Bank Reconciliations are completed monthly
- Segregation of Duties

### ► Disbursements

- Purchase Orders processed by Building Secretary
- Finance Director approves all purchase orders
- All orders and invoices approved by Building Secretary
- Business Office processes payments
- Purchase Card purchases
  - Issue to employees with monthly limits (\$1,000 or \$5,000)
  - All purchases over \$500 must have P.O. or B.O. approval
  - All statements with attached receipts forwarded to B.O.

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## 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

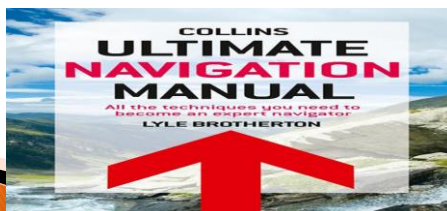
Name	Check Number	Amount
------	--------------	--------

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## 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



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## 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 Shut Down



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## Purchase Card Procedures

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

Here is the link:

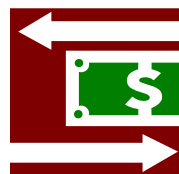
<http://msboonline.msbo.org/SPP/Policies/SPP/Policies.aspx?hkey=40c61621-b99e-4e7a-92b3-536c4dabfd10>

Or I can share mine - mbrogers@clarkston.k12.mi.us

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## 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



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## Examples of Transfers

- ▶ Debt funds to/from General Fund
  - Property taxes
- ▶ General Fund to/from Food Service
  - Payroll run through General Fund
  - 403B transfers
  - Federal and state electronic transfers
  - Purchase Card purchases
- ▶ ISD Transfers
  - Vocational and Special Education mills
  - Itinerant Staff
- ▶ Reconciliation spreadsheet for auditors

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## 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)

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## Monthly Cash Flow



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

- Cash Flow Example:

Aug 31, 2021 Bank Balance	\$2,800,000
September Revenue (Local)	\$152,000
September Payables	(\$513,000)
September Payroll	(\$991,000)
Sept 30, 2021 Bank Balance	\$1,448,000

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## CASH FLOW ANALYSIS

- Before Oct 20, we are 33% into the 2021/2022 year but have received 0% of 90% of our funding.

Cash Flow Continued:

Sept 30, 2021 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, 2021 Bank Balance	\$257,837

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## CASH FLOW ANALYSIS

### Cash Flow Continued:

Oct 19, 2021 Bank Balance	\$257,837
Oct 20 State Aid	\$1,400,000
Oct 30 payroll	(\$550,000)
Oct 23 payables	(\$300,000)
Oct 31, 2021 Bank Balance	\$807,837

**\*If pay bi-weekly need to be ready for 3 month payrolls. Going to bi-monthly can help cash flow and reduce borrowing needs.**

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## CASH FLOW ANALYSIS

- **This is based on a passed school aid budget and that we start receiving our federal and state funds.**

### Cash Flow Continued:

Oct 31, 2021 Bank Balance	\$807,837
Nov Payables before Nov 20	(\$100,000)
Nov Payroll before Nov 20	(\$550,000)
Federal Revenue (maybe)	\$350,000
Local Revenue	\$20,000
Nov 20, 2021 Bank Balance	\$527,837

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## 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

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## 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 acci-

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## Budget Heading Examples

- ▶ Description
  - Teachers' Salaries
- ▶ 2020/2021 Final Budget
  - \$2,373,000
- ▶ Increases
  - \$0
- ▶ Decreases
  - \$107,000
- ▶ 2021/2022 Original Budget
  - \$2,266,000
- ▶ Comments
  - Step Increases; 0% raise; Elim 1.83 fte

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## Fund Balance

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



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## 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

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## 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
- Covide-19

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

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## 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.
- ▶ Due to the declining fund balances state wide our auditors recommend 10–15% fund balance.
- ▶ With 100% summer tax collection we need 8–9% to avoid cash flow borrowing.

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## 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.

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## 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 %.**

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## Fund Balance Designations

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

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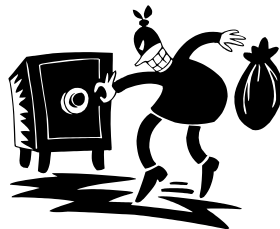
## GASB 54 Fund Balance

- ▶ 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)

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## Tips on Fraud Prevention

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



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## 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
- Consolidation of services – lack of segregation of duties
- Covid-19 – working from home & online

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## 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

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## 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

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## 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

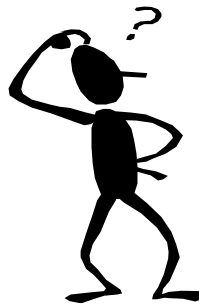
104

## Procedures & Internal Controls Implemented

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

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Any Questions?



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# 10-Minute BREAK



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



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**YEO & YEO**  
CPAs & BUSINESS CONSULTANTS



## Cash Management – Prevent Fraud in Your School

PRESENTED BY  
Kristi Krafft-Bellsky, CPA  
February 23, 2022

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## Today's Topics

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

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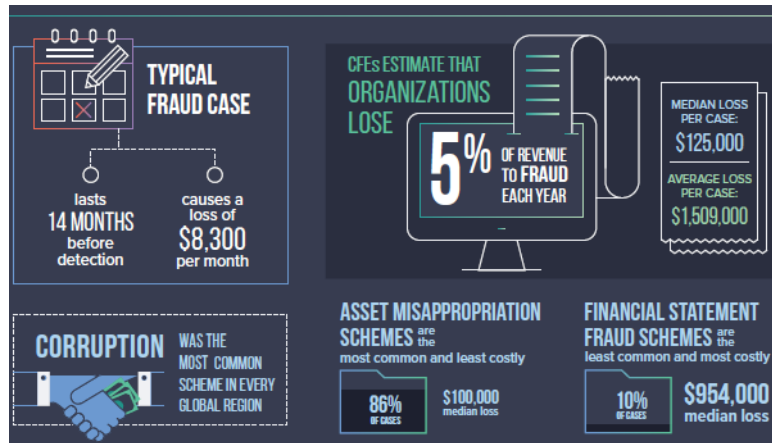
## What is Fraud?

- 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.

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## Fraud Facts

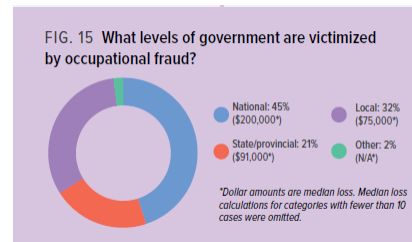
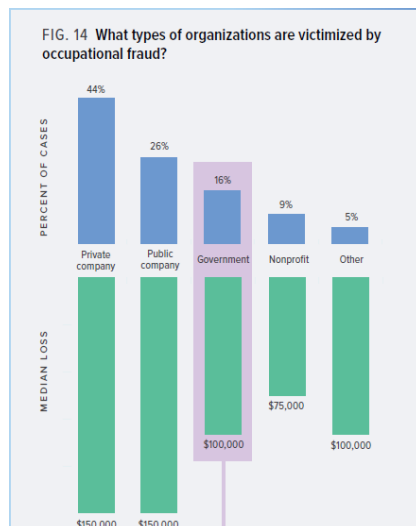


Source: Association of Certified Fraud Examiners 2022 *Report to the Nations*

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## Fraud Facts



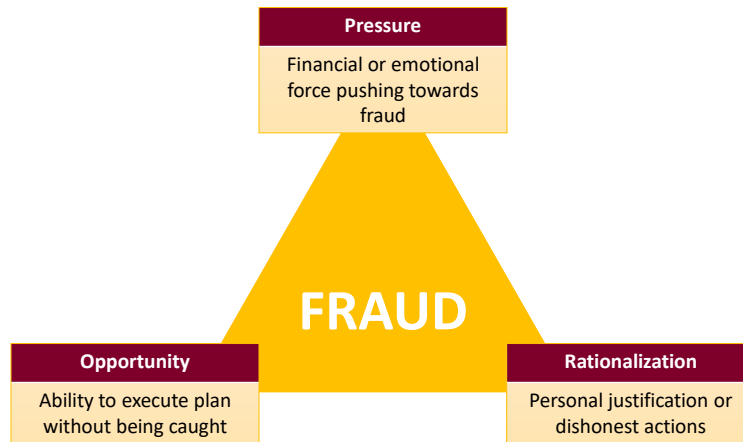
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## Fraud Triangle



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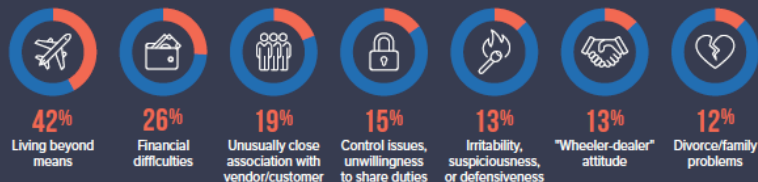
## Fraud Facts

### Behavioral Red Flags of Fraud

Recognizing the behavioral clues displayed by fraudsters can help organizations more effectively detect fraud and minimize their losses.

**85%** OF ALL FRAUDSTERS displayed at least one **BEHAVIORAL RED FLAG** while committing their crimes.

### 7 KEY WARNING SIGNS



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

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## Pressure

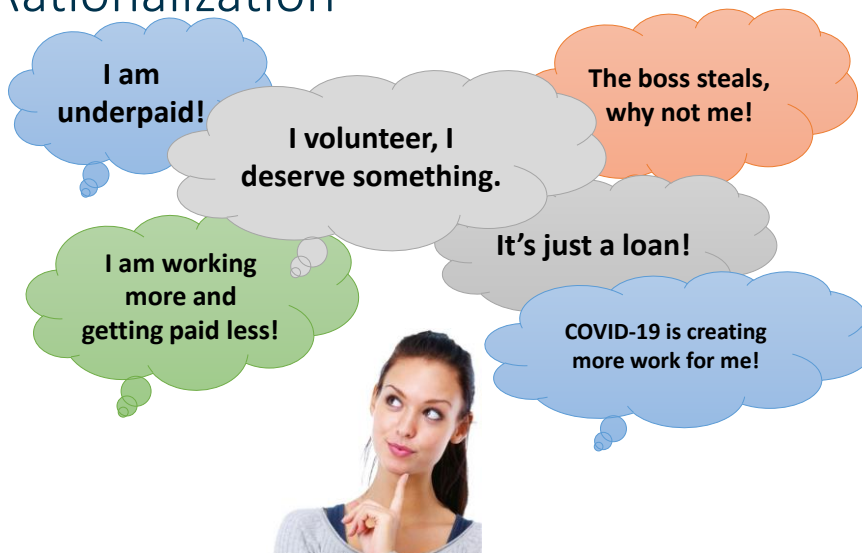
- Financial hardship
- Personality changes
- Living beyond one's means
- Outside business interests
- Unwillingness or unable to share workplace duties



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## Rationalization



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## 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
- COVID-19 has presented new "opportunities" for fraud

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## Cash Handling Guidelines- Recap

- 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



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## 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

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## 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



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## Food Service – cont.

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

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## 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

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## 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...



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## 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.

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## 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



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## 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?

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## 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.



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## 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.)

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## 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

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## Common Purchasing Fraud



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## Reality Check

- New Mexico - Española Public Schools – Hiring a company that had the school district as its only client and several companies keeping 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

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## 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

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## 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

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## 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

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## Yellow Book 2018

- Consider waste or abuse
  - Available grant funds
  - Unnecessary purchases
  - Personal use items
  - Taking advantage of COVID flexibilities to an extreme
  - Double dipping to get expenditures reimbursed twice

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## COVID Considerations

- Changes in controls
- Increase in funds available for Districts
- Budget uncertainties
- Food distribution

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## Cybersecurity Risk

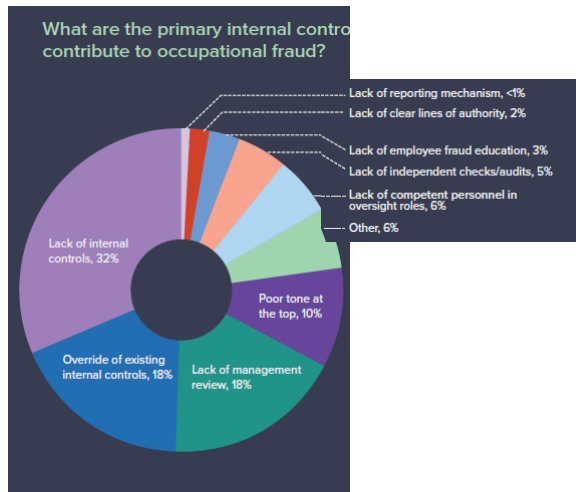
- Schools are at high risk for targeted phishing attacks
- Ransomware attacks
- Training for your employees
- Policies on how information is transferred
- Look into insurance policies to see what is covered.
- Do you know your IT controls?



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## Internal Controls

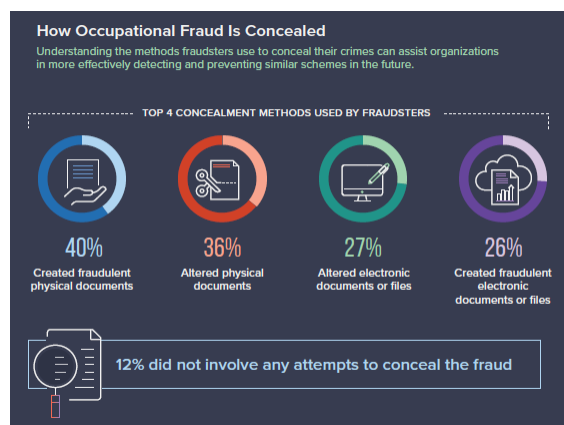


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## How Fraud is Concealed



Source: Association of Certified Fraud Examiners 2020 *Report to the Nations*

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## 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



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## 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.

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## 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

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## 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

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## 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



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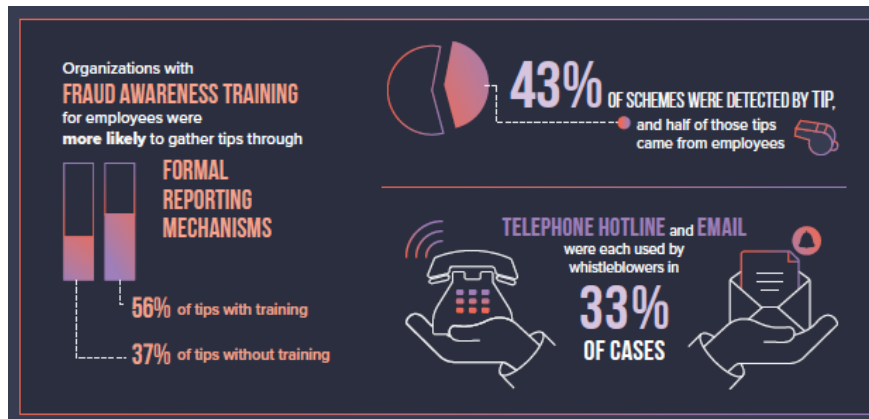
## Train Employees

- 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.

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## Detection Methods

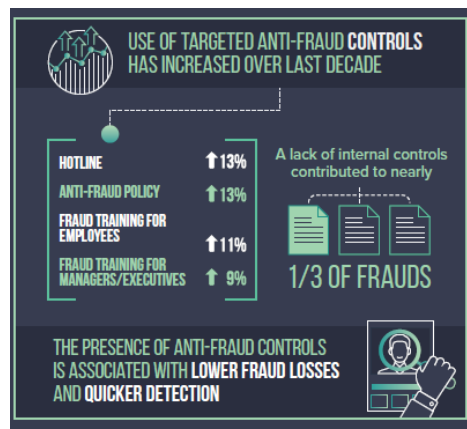


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## Detection Methods



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## 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?

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**Thank you!**  
 Kristi Krafft-Bellsky, CPA  
 krikra@yeoandyeo.com  
 (989) 793-9830

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## Finalize Credit for Attendance

- ✓ Return form to MSBO by **February 25, 2022**
  - E-mail – [cbyam@msbo.org](mailto:cbyam@msbo.org)
- ✓ Receive e-mail from MOECS–noreply@michigan.gov to fill out an evaluation for SCECHs.
- ✓ Receive an email from survey monkey for the MSBO evaluation.

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