What Does Township of Efficiency Look Like?

Presented by

David R. Williamson, CPA

PSLZ, LLP
Certified Public Accountants
(***Formerly Post, Smythe, Lutz and Ziel of Plymouth LLP***)
P: (734) 453-8770
FAX:(734) 453-0312
david@pslz.com

Special Thanks To:

Lauren Bila, Treasury Management

PNC

Also Thanks To:

- Government Efficiency the Case for Local Control-The Association of Towns of the State of New York
- Government Finance Officer's Association (GFOA)-Best Practices

Is Bigger Government Better?

- New York State/Toronto Canada Uni-Gov Results Says No!
- Post Consolidation Studies Indicate That Regionalized Government tends to be *less* Efficient Than Smaller Government.

Regionalized Governments Tend To Be More Expensive

- Harmonization of Services-tends to expand services upon a larger geographic area, without regard to demand or need
- Harmonization of Labor Agreements-consolidation tends to incorporate high cost contracts with the least flexible work rules
- Dilution of Democracy-marginalizing citizen's influence and creating economies of scale for lobbyist

What Are Townships Doing Now To Reduce Costs?

- **Collaboration/Combinations**
- **Cost Sharing**
- **Outsourcing Services**

Common Examples

- Assessing-with private parties or local County
- Police Services-typically with county Sherriff
- License and Permits-issued by county or agency on behalf of Township
- Fire Suppression-most common contract with local city/township neighbors, or occasionally through joint venture
- Utilities-outsourcing or collabaration

This Collaboration is Authorized by

- **Article III, § 5 Intergovernmental agreements service by public officers and employees (State Constitution)**
- **Article VII, § 28, Intergovernmental Agreements (State Constitution)**
- Urban Cooperation Act of 1967, Public Act 7 of 1967, MCL 124.501, et seq.

Financial Administration Seem to Lag Behind

- Treasury Cash Management
- Payroll/Human Resources
- Multiple Year Budgeting/Forecasting

Treasury/Cash Management Recommendations-GFOA

- Use Positive pay on All Disbursement Accounts
- Use Controlled Disbursement Accounts
- Implement Stronger Internal Controls for ACH Transactions
- Use Multiple disbursement accounts to control electronically the maximum dollar amounts of individual checks allowed to clear.

GFOA Recommendations

- Consider Use of Lock Boxes
- UPIC coding rather than MICR on the disbursements
- Separate disbursement accounts from depository accounts
- Consider Accepting Electronic Payments
- Collateralization of Public Deposits

2012 AFP Survey Results

- 71% of organizations experienced attempted or actual payments fraud
- 29% had increased incidents of fraud
- 46% reporting fraud experienced 1-5 instances of attempted or actual fraudulent activities
- 29% of victims experienced financial loss
- Among those that experienced loss, typical loss was $18,400
- 14% of organizations experienced attempted fraud targeting user IDs/passwords
- Checks were dominant payment form targeted

Liability – Who Pays?

- Each case is different and could be unique to the size of the company and the industry.
- Report fraud timely – fill out an Affidavit of Fraud form and a police report.
- Banks are now starting to refuse to pay for fraudulent items if it can be proven that the client was negligent or did not report the fraud in a timely fashion.

Liability – Who Pays?

- UCC Revisions define responsibilities for check issuers and paying banks under "ordinary care."
- UCC Section 3-103(7) – ordinary care requires account holders to follow "reasonable commercial standards."
- Under 3-406, if the account holder fails to exercise ordinary care, they may be restricted from seeking restitution from fraud.
- UCC 4-406 requires customers to reconcile bank statements in a reasonable time-frame (soon after received)-or ACH transactions DAILY

What is Positive Pay?

An Electronic check register is sent to the bank as often as checks are issued.

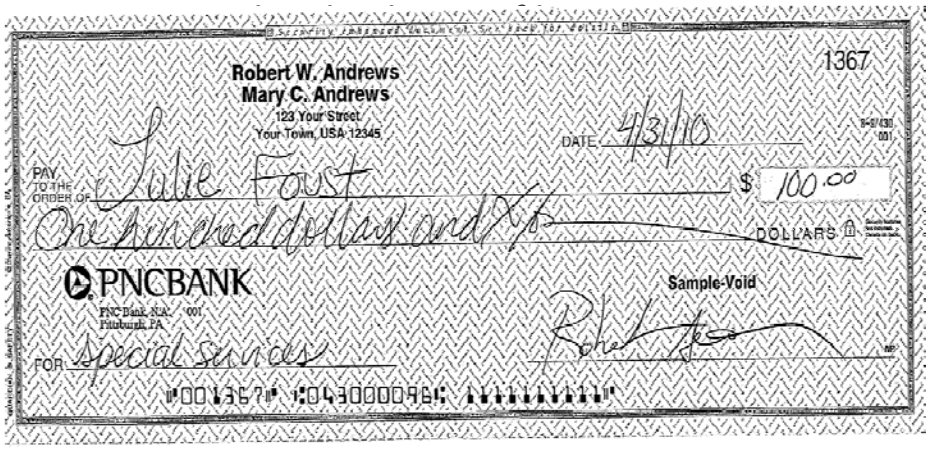
- Whenever a check is presented for payment but there is no record of it being issued, or a difference in the amount, the bank refers the check to its customer client for a pay/no pay decision, or is rejected for payment.
- According to the GFOA, only 15% of the governments under 50,000 use positive pay, even though many of these smaller units have poor internal control.

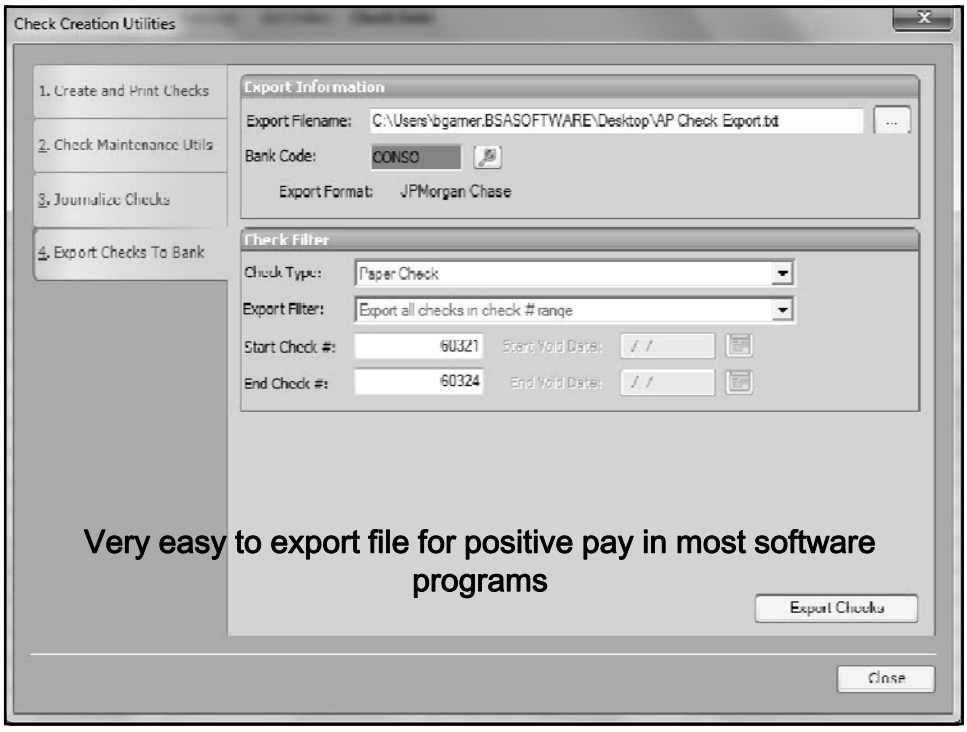
Positive Pay Options

- Bank Match Positive Pay –bank gets check issue file and compares items presented for payment.
- Reverse Positive Pay – Receive paid information from your bank in order to do your own daily comparison. Then notify bank.
- Teller Positive Pay – Extends the protection of Bank Match Positive Pay to the teller line for added protection.
- ***Payee Match Positive Pay – Positive Pay compare the payee line of a check to your check issue file.***
- Maximum Dollar Review – Automatically returns checks over a set amount.

Positive Pay

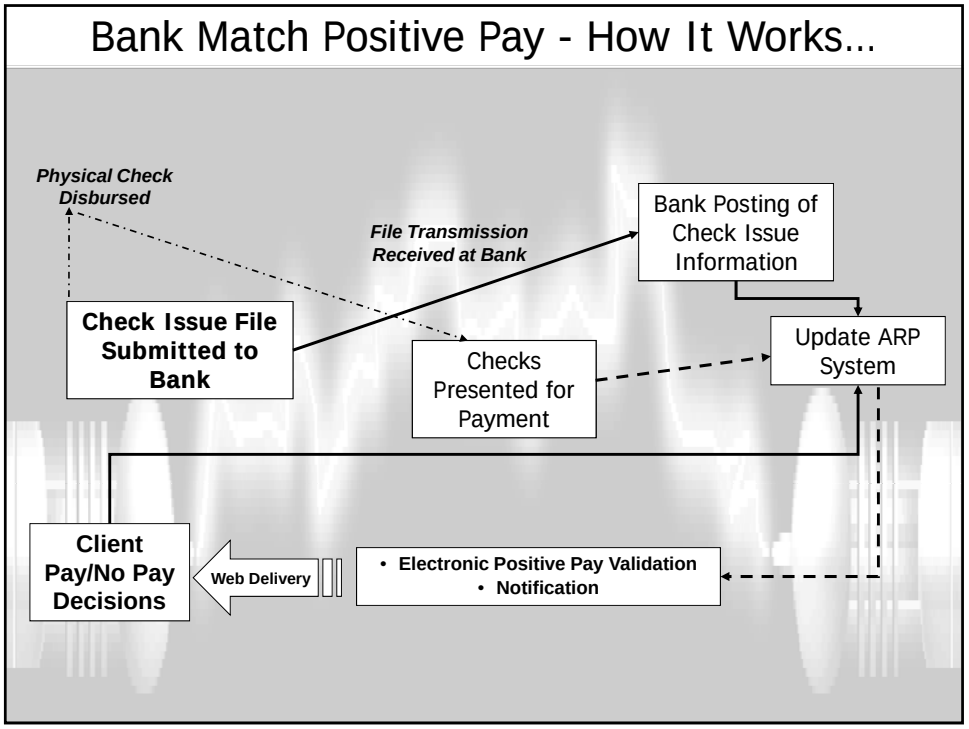
DATE, DOLLAR AMOUNT, CHECK NUMBER and PAYEE can all be reviewed and compared



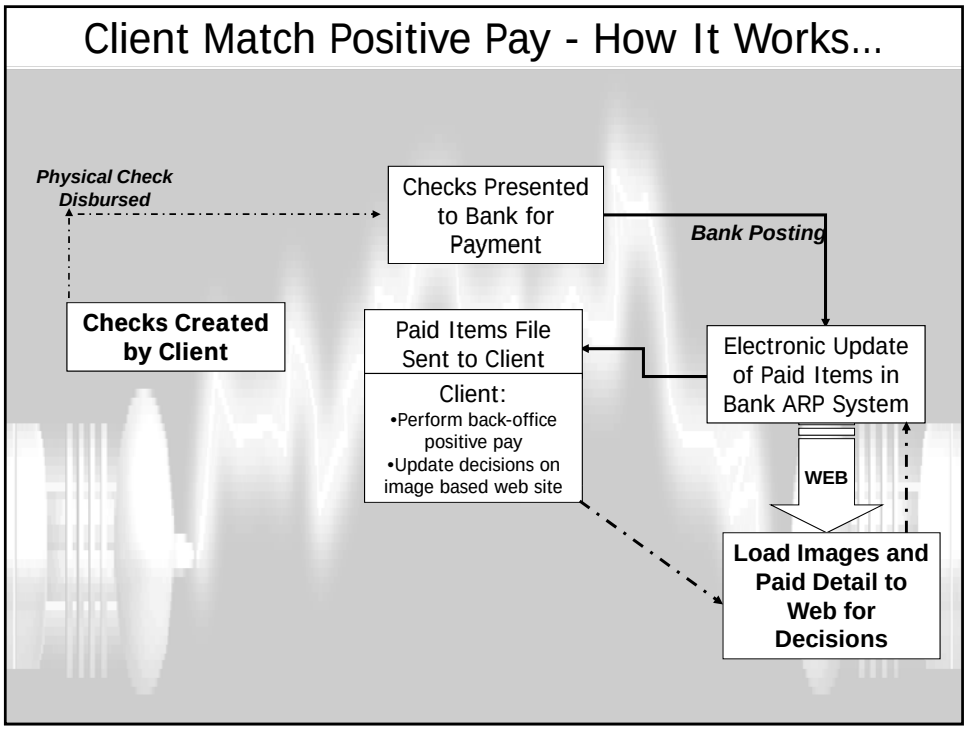


Very easy to export file for positive pay in most software programs

Bank Match Positive Pay - How It Works...



Client Match Positive Pay - How It Works...



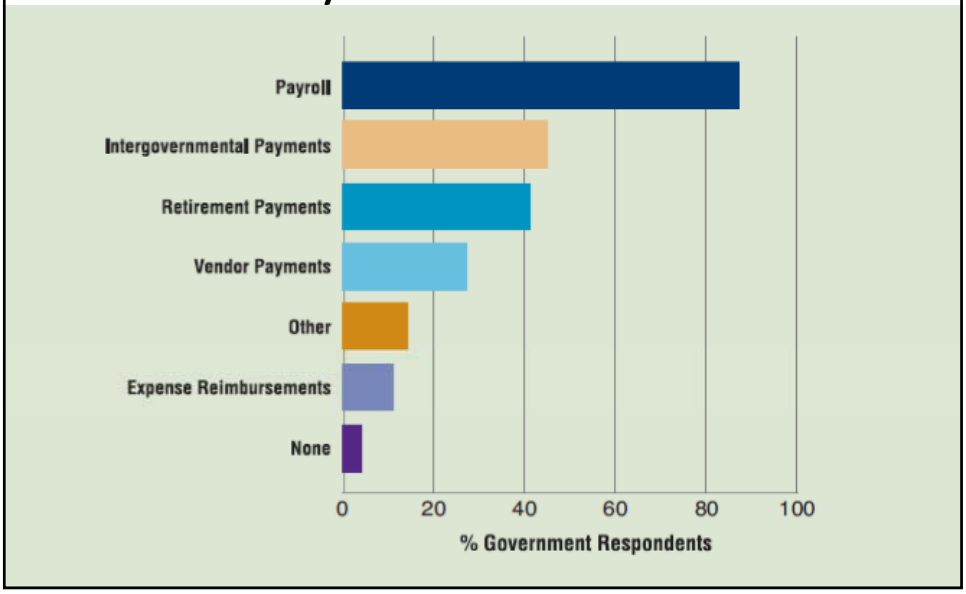
Positive Pay Benefits

- Fraud Protection
- Account Reconciliation Services-outstanding items are calculated by the bank for you, and in some cases, (e.g. use of imprest accounts) bank reconciliation.
- Must review costs and determine feasibility, remember fraud expensive, bank charges are not!

ACH Electronic Payments Permissible Under Michigan Law

- PA 738 of 2002 (MCL 124.301) requires the governing body of all local units of government to approve a resolution authorizing payments of "automated clearing house (ACH) transactions," which is a way to process electronic payments or receipts to external parties. The act requires the resolution the following:
  - an ACH policy;
  - designation of electronic transfer officer;
  - documentation of payments, and
  - The establishment of internal controls system.

Typical Electronic Payments Made By Governments



Internal Controls/Fraud Protection

- Prior to commencing electronic payments and receipts, townships should work with their banks, data processing professionals and auditors to ensure that the township is protected from fraud.
- A recent study conducted by the Government Finance Officers Association (2004) showed that governments are using the ACH system more frequently to accomplish vendor payments, payroll, and intergovernmental payments (e.g. property tax disbursements), and accept payments, ***but lag in implementing fraud protection.***

Internal Control Suggestions

- Use ACH Filters and Blocks-in the GFOA study, only 34% of the governments use ACH filters and blocks. These tools would allow the township to "block" all ACH transactions in specified accounts, or "filter" the ACH transactions to allow payments and receipts from authorized sources only.
- Use separate ACH bank account-only 24% of the governments surveyed in the GFOA study use separate bank accounts.

Growing Fraud Problems with ACH

- Positive pay will protect the township from check fraud, while ACH filters and blocks, and the use of a separate imprest bank account for ACH transactions will help combat the ***growing fraud problems with ACH transactions.***

  In an article published in the Banking Technology News, (July 2007) a recent study showed that 36% of the banking customers surveyed experienced some form of ACH fraud, mostly as a result of failure to implement the previously mentioned controls.

GFOA Recommendations

- Enhancing computer virus protections
- Passwords for initiating transactions
- Daily account reconciliation of ACH accounts
- Periodic internal control reviews that address control, data confidentiality, data integrity, and other general computer security controls
- Written agreements with financial institutions covering ACH transactions
- Dollar limits for authorized personnel, and dual passwords required for dollars above a specific limit.
- Dual controls to initiate and accomplish transaction
- Reconcile ACH transactions or accounts ***daily-person other than originating party***

Why ACH Blocks/Filters and Daily Reconciliation?

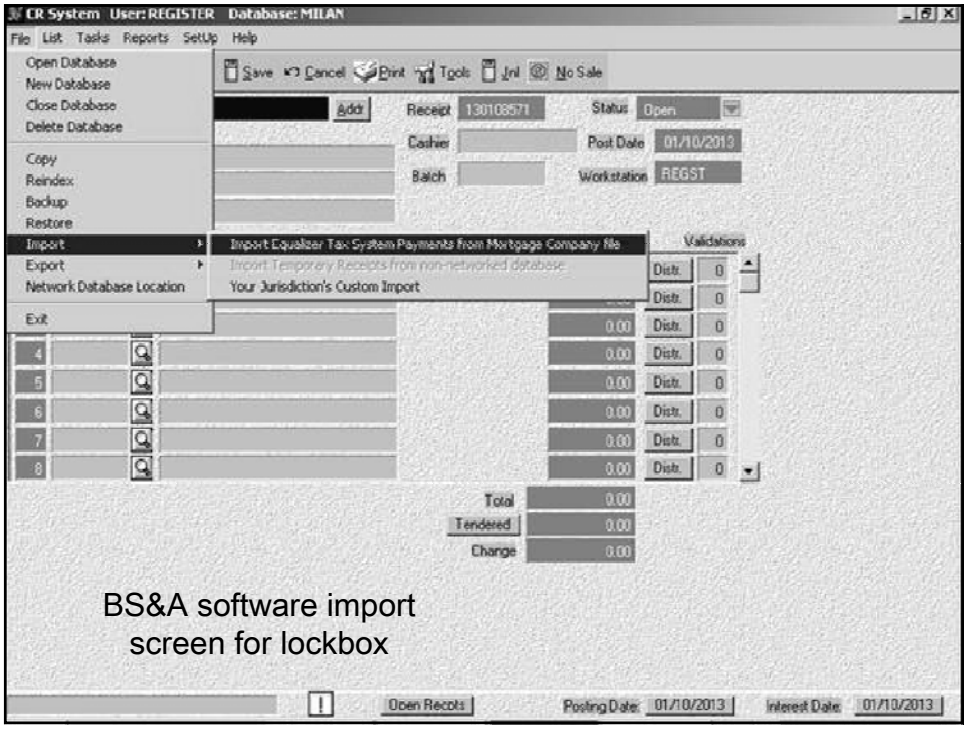
- Business and Corporate clients have only 1 business day to refute fraudulent debits to their accounts
- Three-quarters of organizations indicate that ACH debit blocks prevented financial loss from ACH fraud
- The internal defense most frequently cited as responsible for preventing financial losses from ACH fraud is daily reconciliation

Lock Box Services

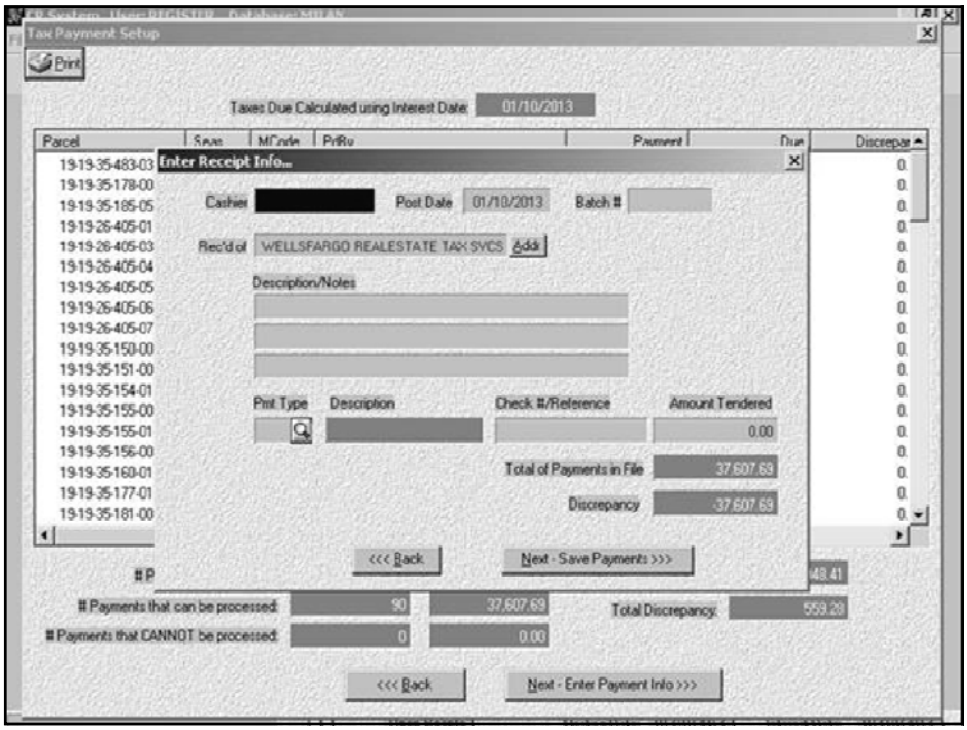
- Lock Box Services-P.O. box used for customer remittances that is used for mail payments. Bank opens mail, captures and stores data through MICR or OCR, and transmits details to township.
- Usually bank will work with your software vendor and update tax or utility billing records. Note-only 11% of governments under 10,000 in population use Lock Boxes!

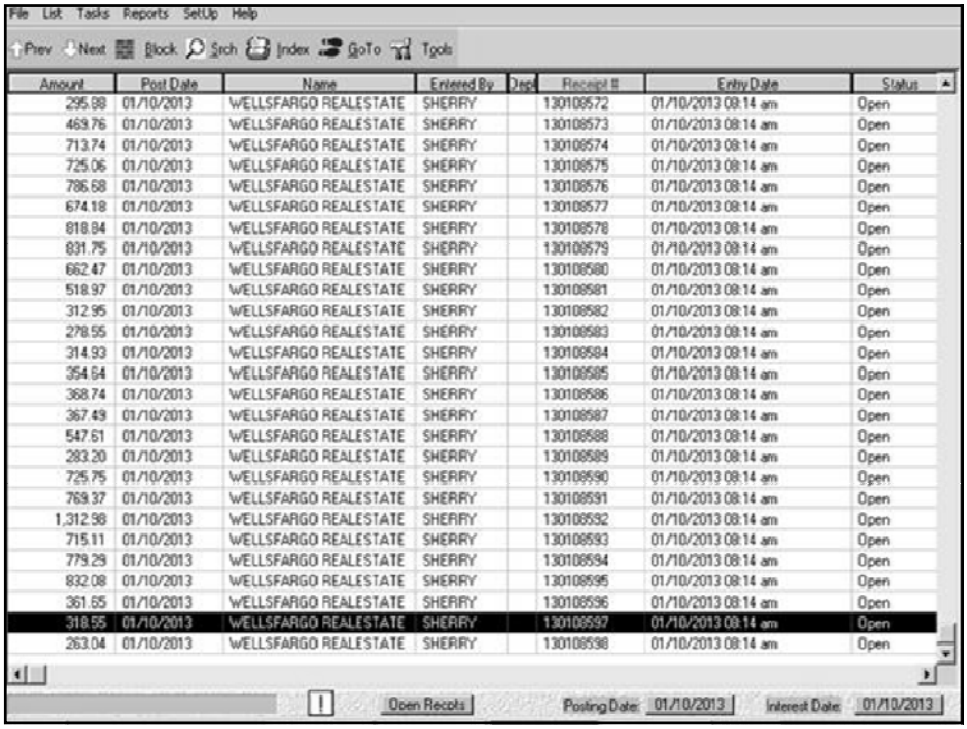
Lock Box Benefits

- Accelerates deposit and collection of receivables.
- Increases efficiency and internal control through outsourcing the receivables collection process**-solution to poor tax collection controls?**
- Improves posting to an accounts receivable system with data entry and file transmission.



BS&A software import screen for lockbox





Remote Deposit Capture

- Remote deposit capture (RDC) allows depositors to convert the physical checks they receive from their taxpayers and residents, into digital images that can be electronically transmitted to their banks for deposit.
- Create digital image files using a desktop scanner and your personal computer. The image files are then transmitted to your bank electronically. Often, your bank will recommend the use of a particular brand of scanner that is compatible with the bank's RDC solution.
- Could save Treasurer lots of time-and allow rural townships to utilize services of out of area banks.

Corporation =Township

Step 1: Corporation receives check(s).

Step 2: Corporation's A/R department creates deposit transactions from desktop PC; Accomplished by using a check scanner and software provided by bank or other vendor.

A/R department would be Treasurer's office

Step 3: A/R department views the images of the checks captured. The quality of the check image is verified, additional data is entered if necessary, and the deposit is validated and balanced.

Step 4: An image based deposit is prepared, typically via the software provided by the bank. This is called an ICL, or image cash letter.

Step 5: The ICL deposit is transmitted via an encrypted, secure connection over the internet.

Step 6: The bank receives the corporation's ICL, posts to the corporation's account, and funds are cleared and deposited.

Step 7: When the ICL has been received and processed, the bank sends a confirmation of the deposit to the corporation (typically via email).

Step 8: Once the transmission of the check(s) has been validated as received by the bank, the original checks may be shredded.

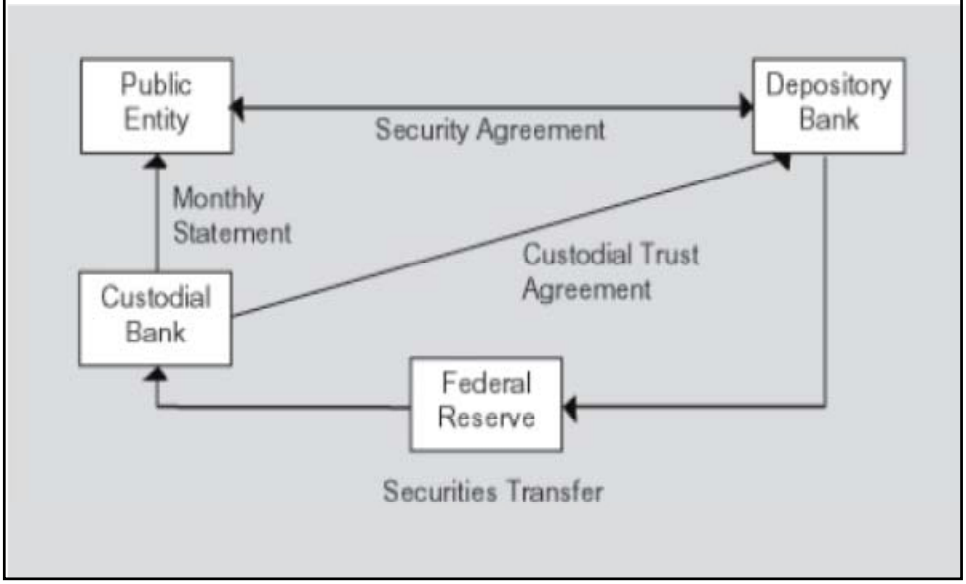
Protecting The Township Cash on Deposits-FDIC Insurance Limits

- $250,000 for checking and $250,000 for savings accounts for local units of government
- Benefits may outweigh costs associated with many different banks
- Impractical for larger and medium sized townships, e.g. Ypsilanti Township had $36M on deposit

Consider Collateralizing Your Deposits

- Collateralize investments-depository bank agrees to place in escrow (usually with a third-party trustee) securities, such as commercial paper, U.S. Treasuries, etc, whose market value is equal to a percentage of the uninsured bank deposits. This arrangement essentially grants the township with a security interest in banks' investments in case of a failure.
- Many states—not Michigan, *require* collateralization of public deposits-may result in lower interest rates.`

How Does Collateralization Work?

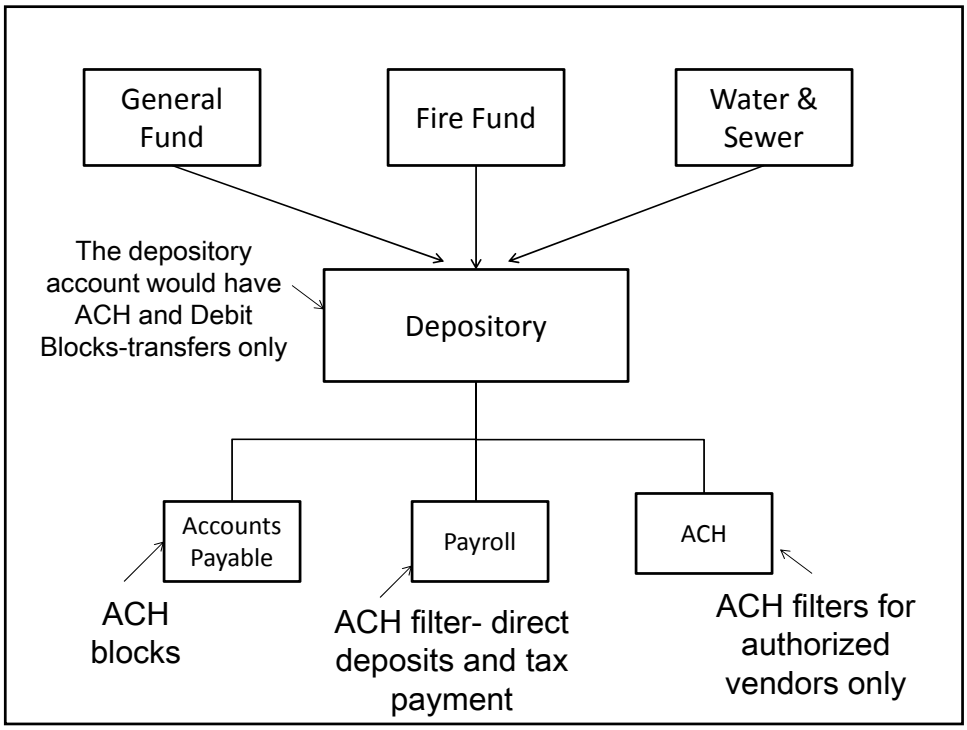


Pooled Cash

- Separate Depository Accounts From Disbursing Accounts-GFOA Recommendation-creates a 'fire-wall' around the Township's largest cash deposit.
- Pooling will Reduce Bank Fees, However State Law will Require Certain Accounts to Be Separately Maintained-Tax Collection, Debt Service.

Recommended Cash Disbursement Accounts

- Accounts Payable (small dollar limited individual transactions)
- Accounts Payable Larger transactions
- EFT Account
- Payroll Account
- Property Taxes



Cost Saving Approaches

- Townships should also review local ordinances and discuss with legal counsel prior to implanting a 'pooled investment program'.
- Most computer software programs are set up to accomplished pooled investments, and use of common disbursement accounts, and should make the transition smooth.
- Note: investment income, net of fees, must be allocated to all participating funds.

Payroll Human Resources

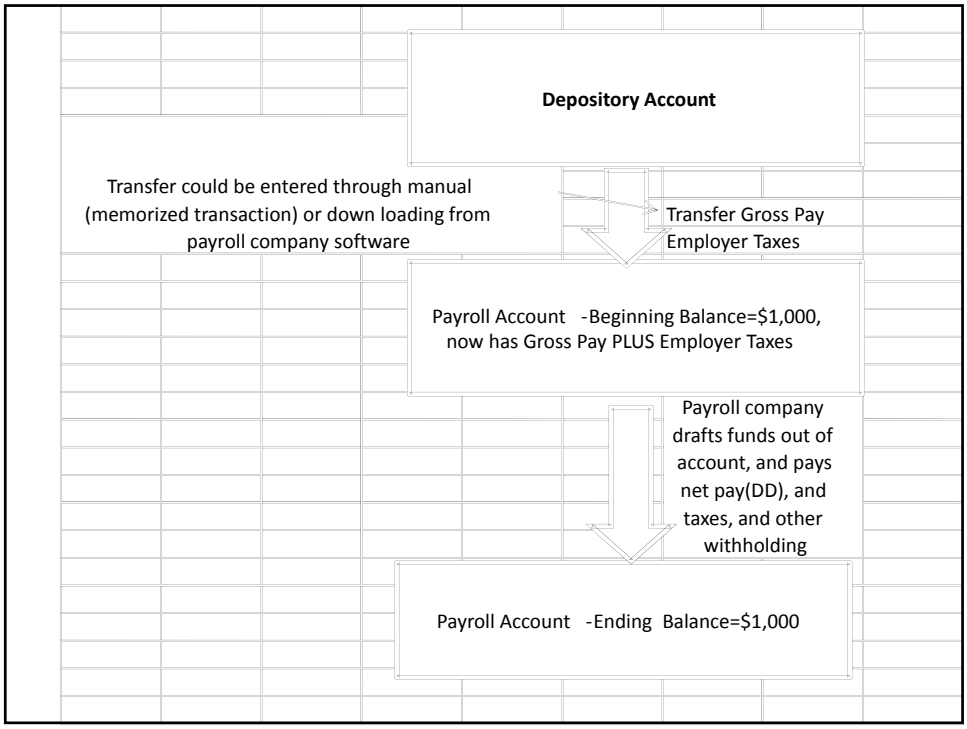
- Elected Officials Have a "Full Plate" in keeping up with fast changing payroll rules and regulations.
- Many Townships Don't Have Dedicated HR person.

Third Party Solutions

- Large Publically Traded Companies like Paychex, and ADP offer HR and Payroll services, that many private sector employers use.
- Payroll can be “no reconcile” accounts, by either writing all payroll disbursements off of third party account, or using ACH direct deposits and prepaid credit cards for those without bank accounts.

Third Party Services

- Can download payroll activity into most software packages.
- Provide HR services, on site, and through phone, developing employee manuals, applications, etc.
- Provide benefit administration services as well.



In Tough Times Multi Year Budgeting and Financial Forecasting Needs to Augment Annual Budgeting

Consider multiyear budgeting to implement more of a strategic approach in your budgeting.

- Many larger communities have adopted five year operating budgets, and 5-10 year capital budgets, in order to bring a 'longer view' to future spending plans.
- Extend the staff and board's management horizon. While annual budget process are required by state law, they typically use an 'incremental approach' by budgeting existing spending programs and staffing levels without any incorporation of strategic planning to resource allocation.
- Reduced staff time-typically multiyear budgeting is accomplished by the adoption of a multiyear spending plan, which consists of a firm appropriations budget for the immediately succeeding year, linked to "unenforceable" spending plans for the following year(s).

Annual Budgets Still Required-But…

Forecasts are necessary to determine the level of services that can be financed out of:

- Property Tax Revenue impacted by collapse of real estate market
- Declining State Shared Revenues
- Interest Income-inability to generate investment returns.
- Sharp increases in costs due to OPEB, Underfunded Defined Benefit Pensions, and Current Health Care Costs

Multi Year Forecasting Challenges

- Most Townships do not have internal resources to do sophisticated financial models, however, almost every accounting package allows users to export detail budgets to Microsoft Excel.
- Excel has some powerful, but fairly straight forward tools to use for simple models

Electronic Spreadsheet Tips

- Don’t imbed formulas
- Try and export historical data from accounting system
- Use them as worksheets to email or deliver to department heads
- Load with historical data

Wage Projection Example

Wage Summary-Public Facilities Activity 265				
Employee Name	Current Salary	Proj. Increase	Step Increase	Total Proj. Salary
Employee 1	34,000.00	1,020.00		35,020.00
Employee 2	45,000.00	1,350.00		46,350.00
Employee 3	32,000.00	960.00	144	33,104.00
Employee 4	36,000.00	1,080.00		37,080.00
Employee 5	35,000.00	1,050.00	660	36,710.00
Employee 6	22,000.00	660.00		22,660.00
Employee 7	12,000.00	360.00		12,360.00
TOTALS	216,000.00	6,480.00	804.00	223,284.00
Increase %	3.00%			

Fringe Benefit Projection Example

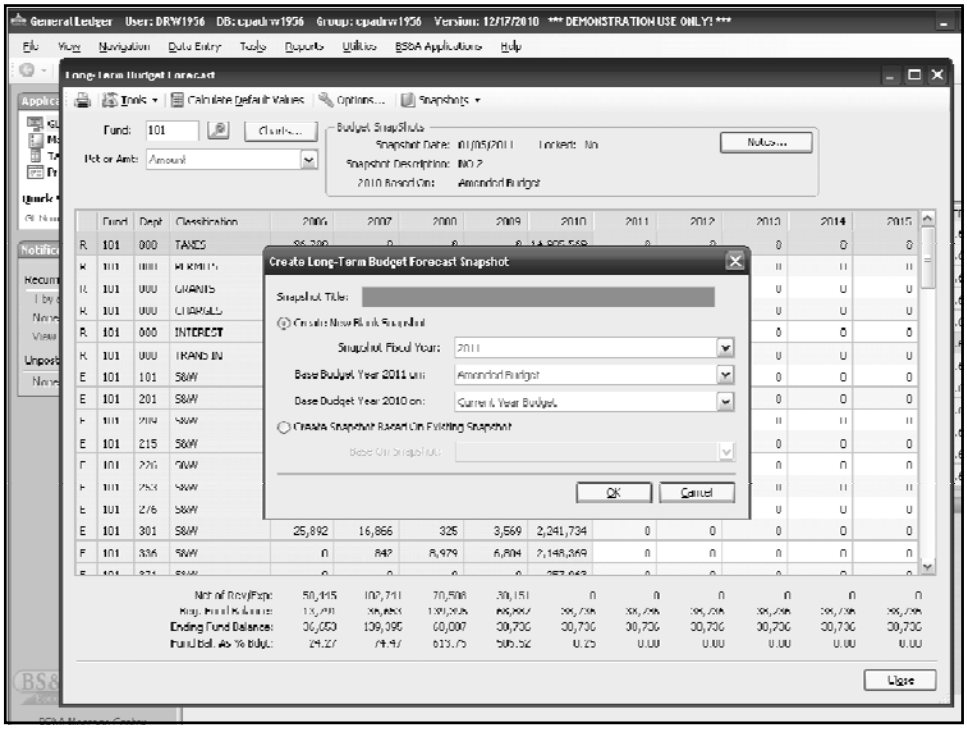
	HEALTH INSURANCE:		Social Sec.		Medicare:	
Employee	Blue Cross	3,100.00	1	0	1	0
Employee +1	Blue Cross	6,700.00	2	0.062	2	0.0145
Family	Blue Cross	7,640.00				
Family Continuation	Blue Cross	1,600.00				
Employee	Blue Cross	3,000.00				
Employee +1	C Choice	6,600.00				
Family	C Choice	7,000.00				
Family Continuation	C Choice	2,000.00				
No coverage		-				

Fringe Benefit Projection Example

Wage Summary-Public Facilities Activity 265								
EmployeeName		Total Fringe Cost		Health Insurance		Social Sec.		Medicare
Employee 1		3,593.00	1	3,100.00	1	-	2	493.00
Employee 2		3,752.50	1	3,100.00	1	-	2	652.50
Employee 3		3,464.00	5	3,000.00	1	-	2	464.00
Employee 4		3,622.00	1	3,100.00	1	-	2	522.00
Employee 5		8,147.50	3	7,640.00	1	-	2	507.50
Employee 6		1,683.00	9	-	2	1,364.00	2	319.00
Employee 7		918.00	9	-	2	744.00	2	174.00
TOTALS		25,180.00		19,940.00		2,108.00		3,132.00

Has BS&A Built A Better Mousetrap?

- While BS&A can easily Accommodate Sending and Receiving Data To/From Excel, they have also built in a powerful projection model building capabilities
- Uses “line items”, departments, and “classifications” as method of projecting future revenues and expenditures for budget and up to 10 future periods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Long-Term Budget Forecast
Tools Calculate Default Values Options... Snapshots
Fund: 101
Charts...
Pct or Amt: Amount
Budget SnapShots
Snapshot Date: 01/05/2011 Locked: No
Snapshot Description: BO 2
2010 Based On: Amended Budget
Notes...
Create Long-Term Budget Forecast Snapshot
Snapshot Title:
Create New Blank Snapshot
Snapshot Fiscal Year: 2011
Base Budget Year 2011 on: Amended Budget
Base Budget Year 2010 on: Current Year Budget
Create Snapshot Based On Existing Snapshot
Base On Snapshot:
OK
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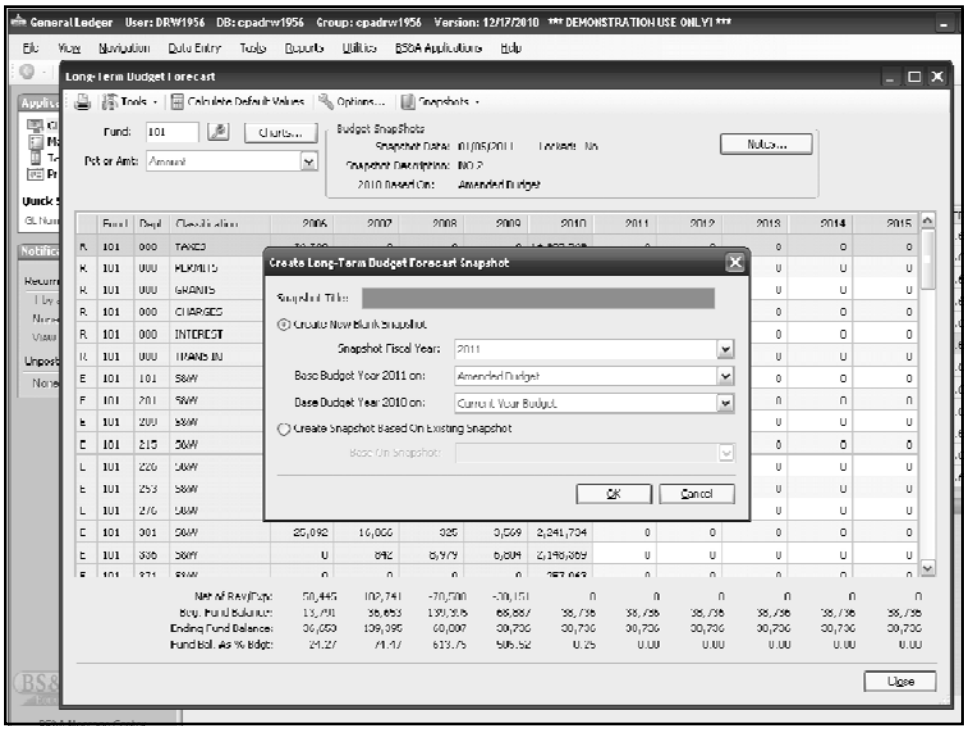
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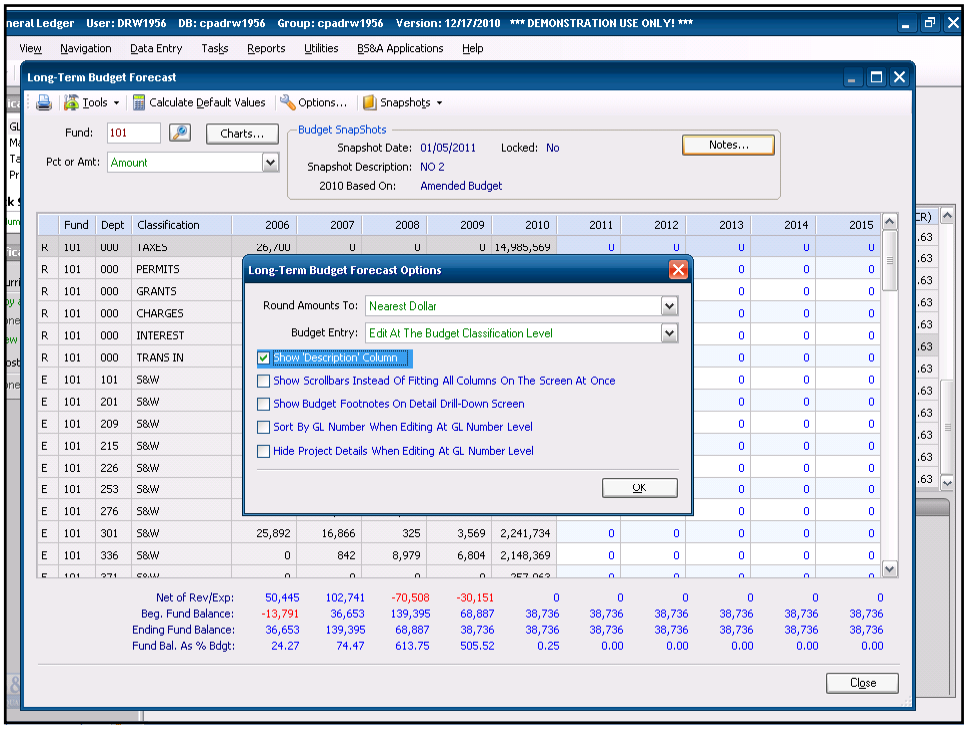
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Show 'Description' Column
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Show Budget Footnotes On Detail Drill-Down Screen
Sort By GL Number When Editing At GL Number Level
Hide Project Details When Editing At GL Number Level
OK
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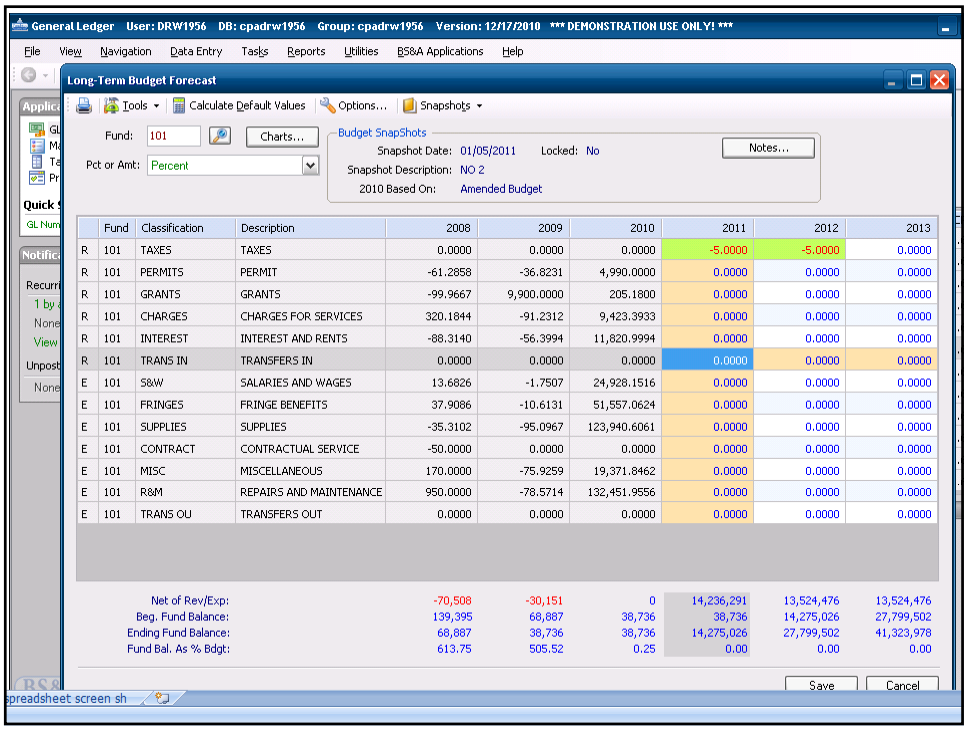
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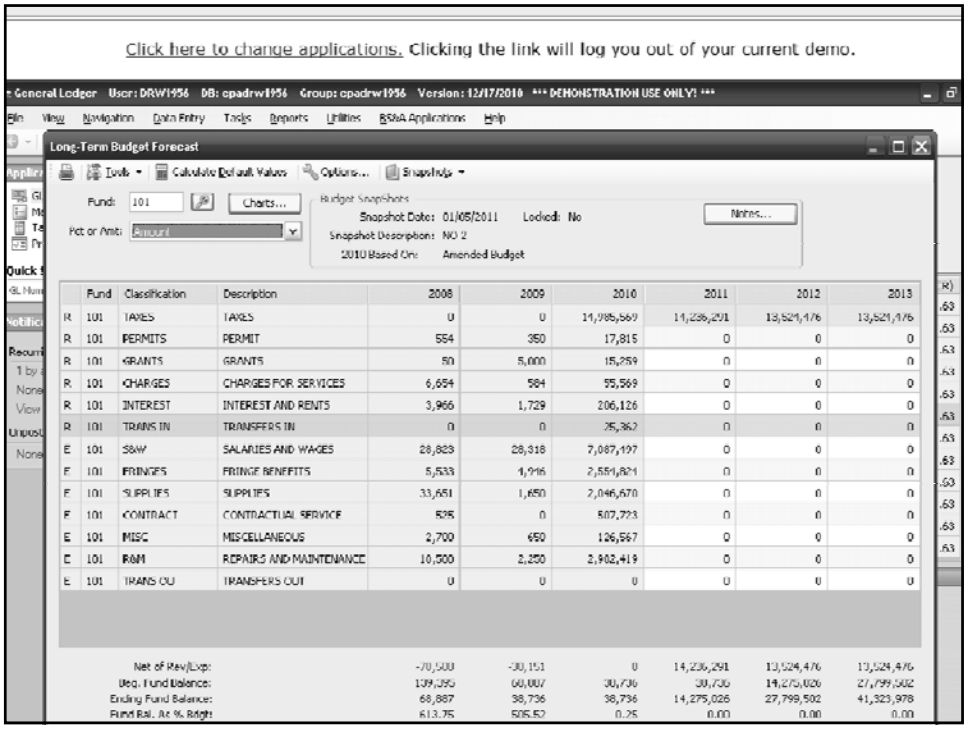
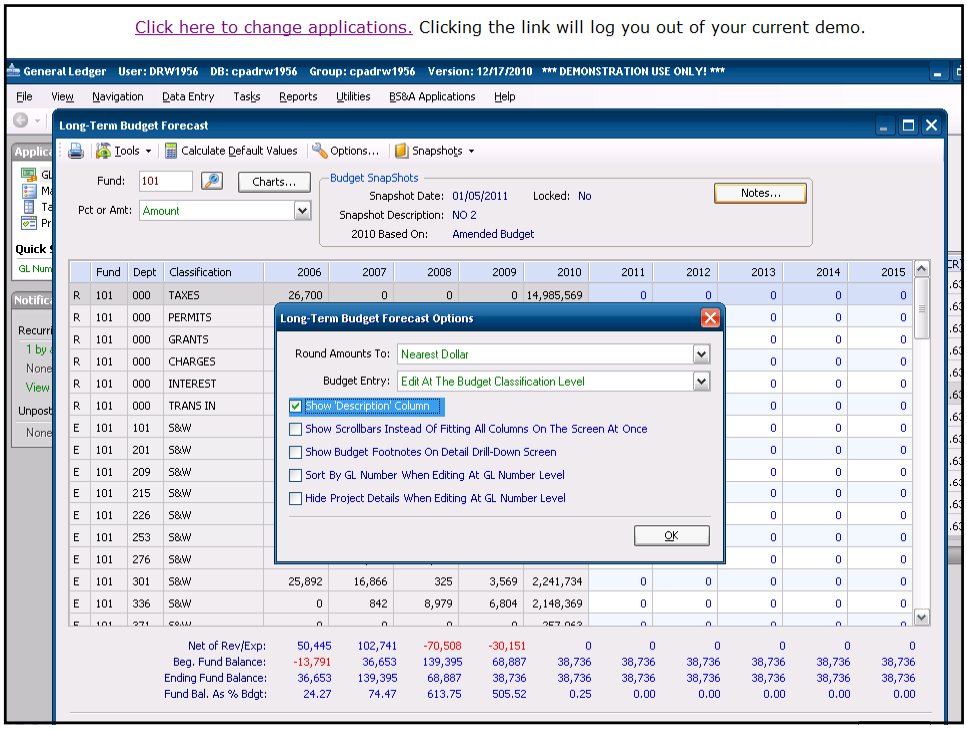


Powerful Time Saving Expenditure Forecasting Tools


Click here to change applications. Clicking the link will log you out of your current demo.
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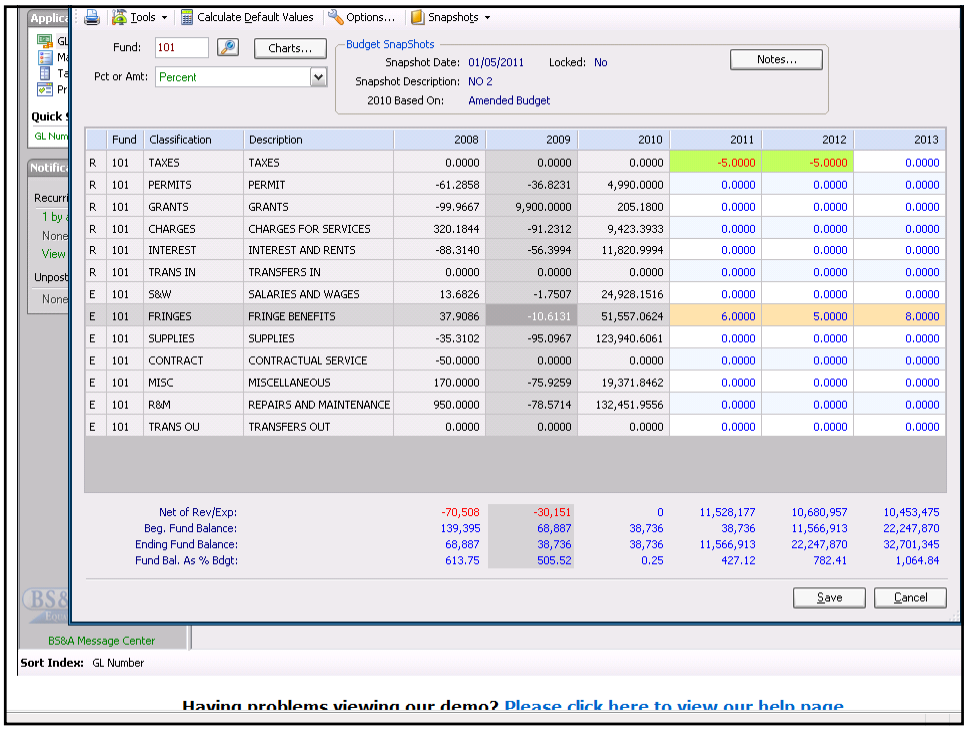
Beg. Fund Balance:
Ending Fund Balance:
Fund Bal. As % Bdgt: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BS&A Message Center
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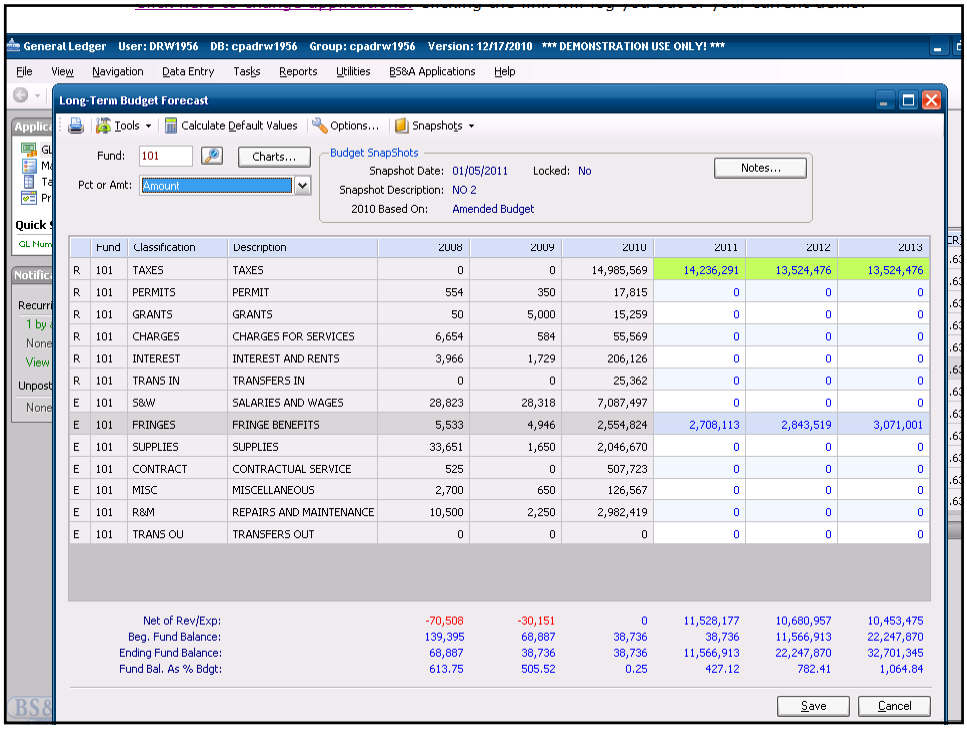
Having problems viewing our demo? Please click here to view our help page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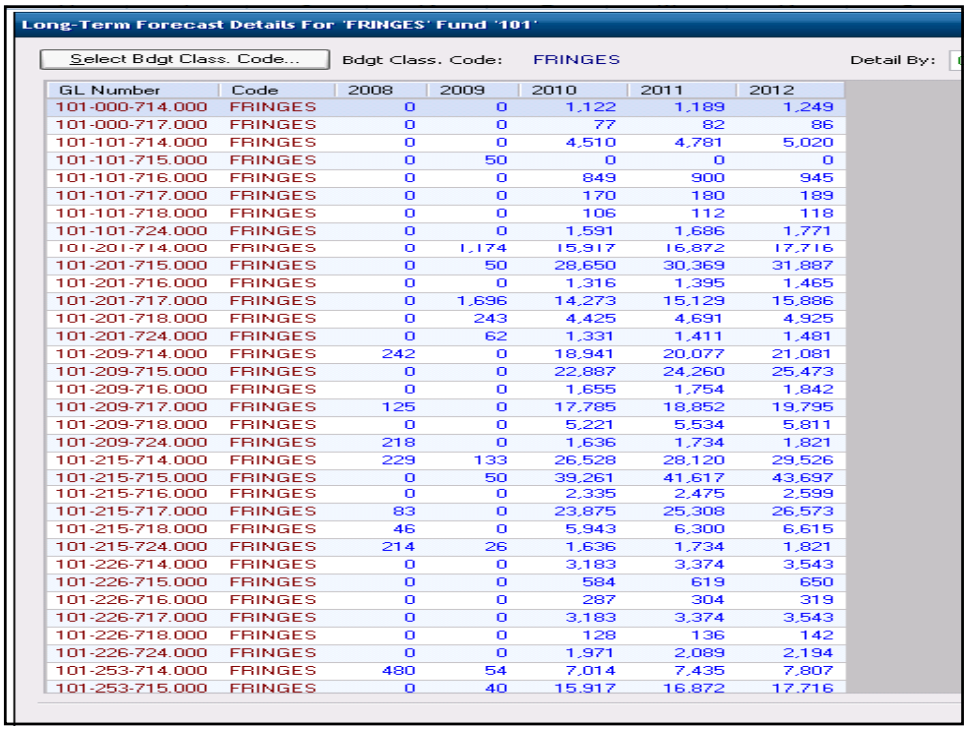
R 101 PERMITS PERMIT 554 350 17,815 0 0 0
R 101 GRANTS GRANTS 50 5,000 15,259 0 0 0
R 101 CHARGES CHARGES FOR SERVICES 6,654 584 55,569 0 0 0
R 101 INTEREST INTEREST AND RENTS 3,966 1,729 206,126 0 0 0
R 101 TRANS IN TRANSFERS IN 0 0 25,362 0 0 0
E 101 S&W SALARIES AND WAGES 28,823 28,318 7,087,497 0 0 0
E 101 FRINGES FRINGE BENEFITS 5,533 4,946 2,554,824 2,708,113 2,843,519 3,071,001
E 101 SUPPLIES SUPPLIES 33,651 1,650 2,046,670 0 0 0
E 101 CONTRACT CONTRACTUAL SERVICE 525 0 507,723 0 0 0
E 101 MISC MISCELLANEOUS 2,700 650 126,567 0 0 0
E 101 R&M REPAIRS AND MAINTENANCE 10,500 2,250 2,982,419 0 0 0
E 101 TRANS OU TRANSFERS OUT 0 0 0 0 0 0
Net of Rev/Exp: -70,508 -30,151 0 11,528,177 10,680,957 10,453,475
Beg. Fund Balance: 139,395 68,887 38,736 38,736 11,566,913 22,247,870
Ending Fund Balance: 68,887 38,736 38,736 11,566,913 22,247,870 32,701,345
Fund Bal. As % Bdgt: 613.75 505.52 0.25 427.12 782.41 1,064.84
Save Cancel


Long-Term Forecast Details For 'FRINGES' Fund '101'
Select Bdgt Class. Code... Bdgt Class. Code: FRINGES Detail By:
GL Number Code 2008 2009 2010 2011 2012
101-000-714.000 FRINGES 0 0 1,122 1,189 1,249
101-000-717.000 FRINGES 0 0 77 82 86
101-101-714.000 FRINGES 0 0 4,510 4,781 5,020
101-101-715.000 FRINGES 0 50 0 0 0
101-101-716.000 FRINGES 0 0 849 900 945
101-101-717.000 FRINGES 0 0 170 180 189
101-101-718.000 FRINGES 0 0 106 112 118
101-101-724.000 FRINGES 0 0 1,591 1,686 1,771
101-201-714.000 FRINGES 0 1,174 15,917 16,872 17,716
101-201-715.000 FRINGES 0 50 28,650 30,369 31,887
101-201-716.000 FRINGES 0 0 1,316 1,395 1,465
101-201-717.000 FRINGES 0 1,696 14,273 15,129 15,886
101-201-718.000 FRINGES 0 243 4,425 4,691 4,925
101-201-724.000 FRINGES 0 62 1,331 1,411 1,481
101-209-714.000 FRINGES 242 0 18,941 20,077 21,081
101-209-715.000 FRINGES 0 0 22,887 24,260 25,473
101-209-716.000 FRINGES 0 0 1,655 1,754 1,842
101-209-717.000 FRINGES 125 0 17,785 18,852 19,795
101-209-718.000 FRINGES 0 0 5,221 5,534 5,811
101-209-724.000 FRINGES 218 0 1,636 1,734 1,821
101-215-714.000 FRINGES 229 133 26,528 28,120 29,526
101-215-715.000 FRINGES 0 50 39,261 41,617 43,697
101-215-716.000 FRINGES 0 0 2,335 2,475 2,599
101-215-717.000 FRINGES 83 0 23,875 25,308 26,573
101-215-718.000 FRINGES 46 0 5,943 6,300 6,615
101-215-724.000 FRINGES 214 26 1,636 1,734 1,821
101-226-714.000 FRINGES 0 0 3,183 3,374 3,543
101-226-715.000 FRINGES 0 0 584 619 650
101-226-716.000 FRINGES 0 0 287 304 319
101-226-717.000 FRINGES 0 0 3,183 3,374 3,543
101-226-718.000 FRINGES 0 0 128 136 142
101-226-724.000 FRINGES 0 0 1,971 2,089 2,194
101-253-714.000 FRINGES 480 54 7,014 7,435 7,807
101-253-715.000 FRINGES 0 40 15,917 16,872 17,716