Welcome!

CROGHAN COLONIAL BANK

EQUAL HOUSING LENDER • MEMBER FDIC

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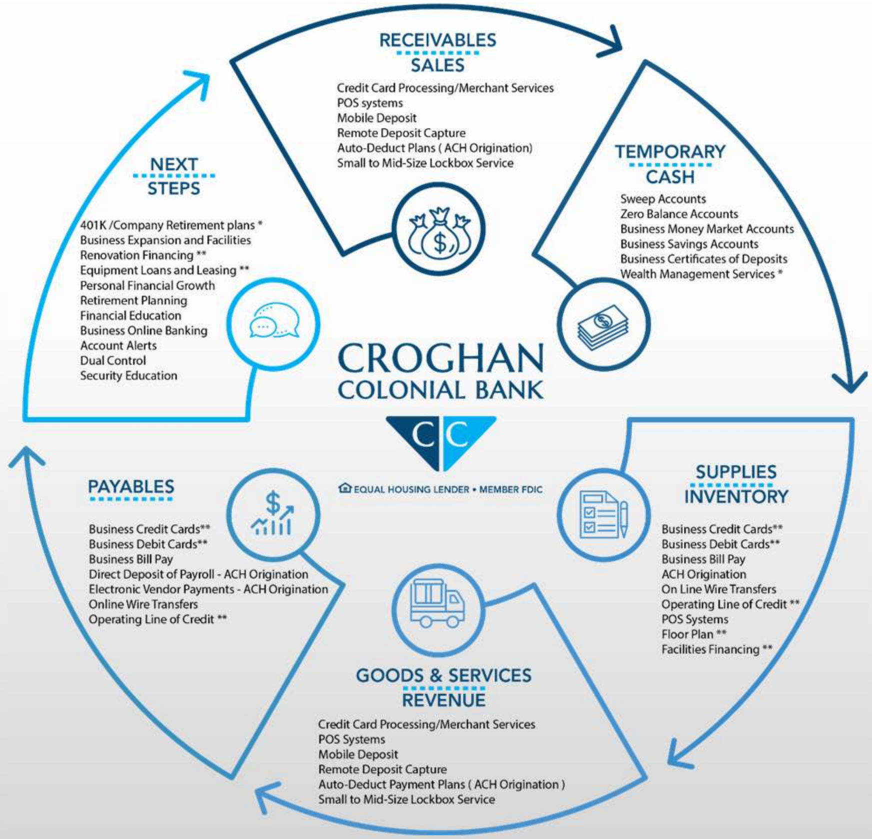
Cash Management & Banking Relationships

Agenda

- Cash Management Tools
  - What's Available and How Do They Help Fiscal Agents of Public Funds?
- Fraud Prevention
  - Banking Tools and Business Practices
- OPCS From The Banking Perspective
- Banking Relationships

Steps of The Process



*Services offered through our Wealth Management Department. Investment Products and services may lose value, are not a deposit, are not guaranteed by any financial institution, and are not FDIC insured or insured by any government agency.
**Services offered through our Commercial Lending Department. All loans are subject to credit approval.

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Collecting Revenue

- Credit Card Processing/ Merchant Services
- POS Systems
- Mobile Deposit
- Remote Deposit Capture
- Auto-Deduct Plans (ACH Origination)
- Small to Mid-Size Lockbox Service

Collecting Revenue

Credit Card Process / Merchant Services

- Stand Alone Terminals
- Mobile Devices –
  - Consider your internal policy and state/federal requirements related to use of personal/entity issued devices.
- Virtual Terminal/Web Based –
  - Consider your system security measures and your vendor's security measures
- POS Systems –
  - Balance the bells and whistles to the municipality's needs.
- Consider vendor's that provide the convenience fee option to reduce cost to the municipality.

Collecting Revenue

Also Called EFT's or Auto-Pay

- Can be used for reoccurring or one time transactions
- Requires written consent from the account holder.

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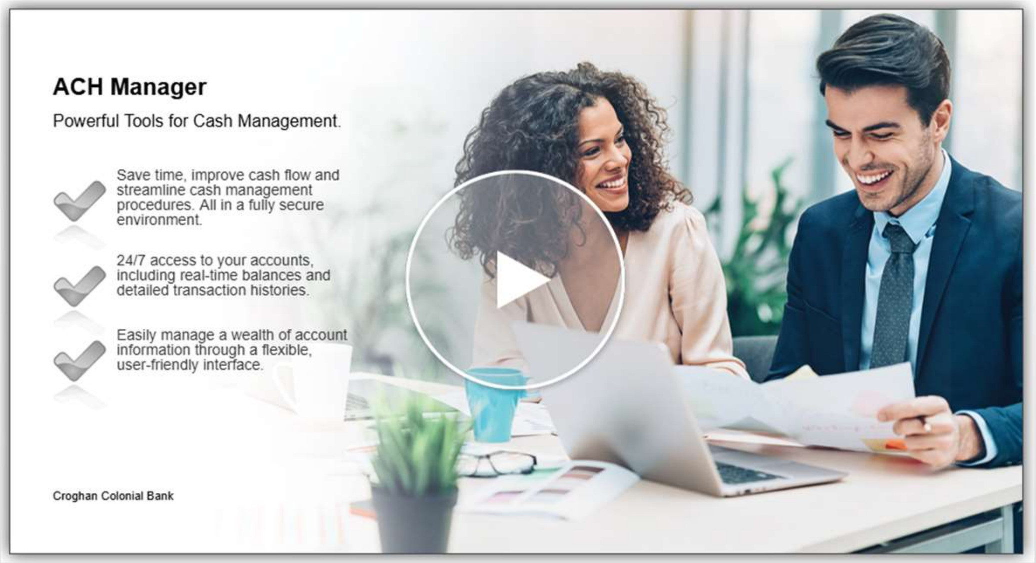
ACH Live Demo

Highlight the Ability to Include Multiple Invoice Numbers



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Collecting & Depositing Checks

Mobile Deposit / Mobile Capture

- Requires a Mobile Device
- Mobile Devices –
  - Consider internal policies, and state/federal requirements related to use of personal/entity issued devices.
- Works best with < 25 checks deposited per month as each check is an individual deposit.
- Daily Deposit Limits Average $2K Per Day.
  - Ask your bank if an increased limit is available.
- Typically a Low Cost or Free Service.

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Collecting & Depositing Checks

Remote Deposit Capture (RDC) / Check Scanning

- The role of 9/11 played in advancing The Check Clearing for the 21st Century Act – AKA check 21.
- Requires a bank approved check scanner capable of creating an approved X9 image file format.

The cost of the scanner varies.

- Banks sell them, lease them or sometimes allow you to use equipment without a rental fee. In those cases, the bank retains ownership of the equipment.
- Some banks charge a flat monthly fee for the service, others charge per transactions.
- If your bank offers account analysis, the services may be offset by compensating balances.

- Provides flexibility in posting payments since the checks remain with you for a minimum of 25 days.
- Eliminates trips to the bank for check only deposits. Reduces courier costs.

Collecting & Depositing Checks

Lockbox Service

- The bank is provided keys and contractual access to a Post Office Box holding incoming payments for the public entity.
- A bank courier picks up mail daily.
- Processing is customized. The bank opens the mail, deposits the checks and provides the contents of the envelope in various forms such as electronic images/ importable electronic reports to post payments with compatible accounting systems.
- Electronic lockbox scans barcodes printed on your billing statements to provide more detailed reports and compatible files to post payments.
- Fees include the PO box rental fee, monthly fee, per item fees and varying costs for the types of reports selected.
- Provides a built in dual control feature to item process and segregates the function of depositing checks into the account from the function of posting payments to accounts. Both are an added security feature/ internal control.

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Managing Temporary Cash

- Sweep Accounts
- Zero Balance Accounts
- Business Money Market Accounts
- Business Savings Accounts
- Business Certificates of Deposits
- Wealth Management Services

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Sweep Accounts

- A sweep account in general moves money back and forth between two accounts and are used to serve multiple purposes. In the private sector they're used to help secure funds in excess of the $250K FDIC limit and earn interest. In the public sector since all funds in excess of the $250K are collateralized regardless of the deposit product type, they're used to earn interest and one direction sweeps are used to reduce the risk of loss due to fraud.
- Funds are held in an interest-bearing account until items are presented for payment, allowing interest accrual for as long as possible.
- A REPO Sweep utilizes repurchase agreements of government agencies. For some banks, this is the same pool of investments they use to collateralize public dollars and fits within allowable investments for a public entity. Not all investment sweeps use the same type of investments so be sure to compare the product with your investment policies along with state and federal regulations.
- With a REPO Sweep, deposits in purchase shares, withdrawals redeem shares so a statement is created for each transaction along with a monthly statement. You'll have a separate monthly statement for the checking account the funds are transferred to and from.
- Rates are often negotiable with your bank. While all banks are impacted similarly by changes in the market, they don't all have the same liquidity needs. For that reason, some may have more flexibility with rate in varying terms.
- Due to things like the production of extra statements with shares purchased and redeemed, a REPO Sweep is more expensive for the bank to manage, so it may have a lower return or a monthly service fee.
- Costs might incent the bank to pay a higher rate in the general operating checking account, avoiding the need for a sweep to gain a return.

Zero Balance Accounts

- A Zero Balance Account can move in one direction or two.
- The most common use of a ZBA Account is for payroll.
  - The funds are held in a general operating Account and automatically moved to the payroll account as checks or ACH items are presented for payment
- ZBA's can be used to decrease interest expense when they're set up to automatically move funds to and from a line of credit.
  - These are commonly known as LOC Sweeps.
- One directional sweeps are often used to reduce the potential loss of funds due to fraud by providing a separate account number for external ACH/EFT transaction rather than providing the number to the account holding large sums of money. This can be done for both receivables and payables.
  - For receivables, when you provide a resident or fellow municipality with an account number to deposit funds into, it automatically moves to the account holding the larger balance without exposing its account number. When funds are deposited to the ZBA, they automatically sweep to the account holding the large balance.
  - When using the same for a payables EFT, be sure to have fraud monitoring methods in place that stop more than the authorized amount from being automatically transferred.

Manual Sweeps

- Money Markets and Savings Accounts are less costly for banks so there's a potential to earn a higher rate of interest by placing excess funds in those products as a holding account and manually "sweeping" the funds when needed.
  - Use a simple online transfer to move the funds.
- Determine your cash position when you do your payables.
  - Transfer enough funds from the holding account to cover the anticipated clearing items.
- When deposits come into the account, manually " sweep " them into the holding account to gain the return.

Certificates of Deposit

Various bank products come in and out of fashion as the rate environments change.

- Certificates of Deposit have recently come back in fashion and depending on your liquidity needs might be a good fit.
- For those with concerns about rate volatility –
  - CD's are a tool to help lock in rates.
- For those concerned about maintaining liquidity while still earning a good rate –
  - staggering CD terms has been an option.
- Based on the bank's liquidity needs, you might be able to negotiate various terms.

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Purchasing Supplies & Inventory

- Business Credit Cards
- Business Debit Cards
- Business Bill Pay
- ACH Origination
- Online Wire Transfers
- Operating Line of Credit
- POS Systems
- Floor Plan
- Facilities Financing

Business Debit Cards

- For security purposes, debit cards are more commonly issued in both the municipality's name and the authorized individual's name
- For internal controls, some banks are able to set different POS (purchase ability) and Cash Limit (ATM or Cash Back) limits on each card.
- Various services are available through the bank to restrict the types of purchases made, locations used, etc.
- There are also services to turn on and off various fraud monitoring while traveling.

Business Credit Cards

- For security purposes, credit cards are more commonly issued in both the municipality's name and the authorized individual's name
- For internal controls, some banks are able to set different limits for each card holder that role up into the total limit for the government entity.
- Individual card and group statements may also be available.
- Security alerts may be available.
- Various services are available through the bank to restrict the types of purchases made, locations used, etc.
- Check your bank's ability to turn on and off various fraud monitoring while traveling.

ACH Origination Service

- ACH Origination Service allows you to send payments electronically.
- Addenda records can be included in the transaction to include PO and invoice numbers for combined transactions.
- Eliminates the cost of posted, printed checks and paper envelopes.
- Ensures timely receipt of payment to secure potential discounts, etc.
- Reduces the number of interception points for potential fraud.
- Dual control can be added for security.

Online Wire Transfers

- Online wire transfers can be set up with dual control for added security.
- Check what verifications your bank uses for security –
  - For Example, call backs offer an out of band method of verifying the transaction's authenticity.

Operating Line of Credit

While the process to obtain a bank loan – vs – issuing a bond may be simpler and could offer lower issuance costs, there are many factors to consider.

- Has the agency verified the legality and fiscal prudency of using a bank loan?
  - Not all government agencies can use bank loans. Talk to your rep at the Auditor of State's Office and your designated legal counsel.
- Determine what terms are best for the agency –
  - If it's a variable rate, can the government manage the risk of an increase and to what extent?
- How will the bank be selected?
  - What will the RFP process look like and what qualifications will the agency require in their selection.

Providing Goods & Services

- Credit Card Processing/Merchant Services
- POS Systems
- Mobile Deposit
- Remote Deposit Capture
- Auto-Deduct Payment Plans (ACH Origination)
- Small to Mid-Size Lockbox Service

Receiving Payment

Utilities, Vendor’s License, Pet License, Rec Center Memberships, Facility and Equipment Rentals, etc.

- POS (Point of Sale Systems) and/or Merchant Service systems allow you to collect payment via credit card, debit card and bank account EFT. Match the system features and costs with your needs. Also verify system compatibility.
- POS and Merchant Service can offer a convenience fee to the card holder to reduce transactional expense to the municipality.
- Mobile Deposit and Remote Deposit Capture allows you to collect checks and immediately deposit the funds into the account from various locations. Verify your policies and regulations on the use of personal devices – vs - government issued devices and appropriate levels of security.

Managing Payables

- Business Credit Cards
- Business Debit Cards
- Business Bill Pay
- Direct Deposit of Payroll – ACH Origination
- Electronic Vendor Payments – ACH Origination
- Online Wire Transfers
- Operating Line of Credit

Managing Payables

Payroll, Vendor and Supplier Payments

- Issuing Checks
- Debit and Credit Cards
- ACH Origination
- Wire Transfers

Managing Payables

Construction Projects, Escrow Retainage Accounts

- Consider an Escrow Retainage Account
- Ensures funds designated to the project are segregated from all other funds.
- Applies a dual control and segregation of duties on disbursing the funds.
- The Account is in the name of the bank, the municipality and the contactor.
- The designated bank officers are the signers.
- The contractor and municipality draft the agreement with specific triggering terms : What criteria and documentation must be provided to the bank to authorize a draw.
- Checks can be issued directly to the contractor or jointly with the municipality depending on the terms of the agreement.
- The municipality receives all interest.

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Fraud Prevention

- Internal Controls
- Bank Security Services
- Sound Business Practices
- Common Fraud Methods Targeting Public Agencies
  - What is it?
  - How it happens?
  - Why it matters?
  - Preventative Actions.

Transactional Fraud

Check Washing

- Paper checks are vulnerable to the multiple points of interception.
- Chemicals are used to remove the payee.
- Traditional methods of reconciling accounts don’t catch this crime as the check number and amount remain the same. We must now look at the payee to be sure it’s not been altered.
- Waiting until the paper statement comes to reconcile makes retrieving stolen funds more difficult. Monitor the account daily and report fraud to your bank within 24 hours from the transaction posting.
- Reduce the circulation of paper checks by utilizing ACH Origination.
- Set up Account Alerts.
- Reduce the amount of funds sitting in transactional accounts where the number is exposed by the circulation of paper checks.

Transactional Fraud

Check Counterfeiting

- Paper checks are vulnerable to the multiple points of interception and continue to be the most comment targets for criminals.
- Requires a higher level of sophistication to duplicate the checks, new check numbers, amounts and payees.
- The logo, signatures and even security water marks are much more easily replicated with today's criminal technology.
- Traditional methods of reconciling accounts don't catch this crime as the check number and amount remain the same. We must now look at the payee to be sure it's not been altered.
- Waiting until the paper statement comes to reconcile makes retrieving stolen funds more difficult. Monitor the account daily and report fraud to your bank within 24 hours from the transaction posting.
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Email Compromise

Email Spoof

- Criminals use a fake or hacked account to trick businesses into providing information or clicking on a link/attachment that has malware.
- The email address looks very similar to the authentic email address, often off by only a couple of characters. For example a lower case "r" and a lower case " n" side by side can look like a lower case "m."
- They often replicate company logos and pictures to appear authentic.

- Example –
  - Email appears to come from a supplier or vendor giving you instructions to send payment via ACH or wire transfer rather than mailing a check. The account information provided goes to the perpetrator.

Email Compromise

Email Takeover

- Often, the criminal begins with an email spoof that has a link or attachment with malware.
- Once the victim clicks on the link or attachment, it turns on the malware that’s capable of taking over the email account.
- Once the email account is taken over, the perpetrator has access to all of the contacts. They send emails from the actual email address to the contacts stating they no longer want paper checks and provide ACH or Wire information. They may also claim to have changed banks and provide the account information.
- The malware can be even more invasive than those that target email accounts, to include various levels of system intrusion and even ransomware.

Email Compromise

Malware & Ransomware

- Often, the criminal begins with an email spoof that has a link or attachment with malware.
- Once the victim clicks on the link or attachment, it turns on the malware that's capable of taking over the email account.
- The victim later receives a message stating the system has been taken over and demands payment to regain access.

Preventative Measures

- Set up alerts.
- Review activity daily eliminating the need for waiting on paper statements to detect fraud.
- Set up dual control on ACH Origination and Wire Transfers.
- Use strong passwords.
- Train your staff on proper email and internet usage.
- Avoid Public Wi-Fi.
- Determine appropriate levels of accountability for infractions.
- Protect sensitive information through secure email portals.
- Verify the email address. Keep in mind if the person sending you the email has had an email takeover it will be the correct email address.
- Use an out of band method to verify the authenticity of the email. " The Old fashioned phone call is back in fashion." Verify phone numbers.

Preventative Measures

- Keep equipment updated.   Often, those victimized by electronic means of fraud have shown a lack of investment in software and equipment and/or a lack of training among their staff on proper email and internet usage.
- Back up your data.
- Meet with your insurance agent to ensure all fraud policies, cyber riders, etc. are up to date with today's methods of crime.
- Establish an incident response plan and disaster recovery plan so employees know what steps to take if your system is compromised.
- Consider having a consultation with your contracted or on staff system technicians to review your procedures, software, etc.
- Be mindful of clicking on attachments and links.
- Install reputable antivirus and antimalware software. Keep those, other financial software and your versions of operating systems up to date.

OPCS From Banking Perspective

- Applications for Public Funds and Memorandums of Agreement
- Maximum Collateral Requirement
- State Approved Reduction in Collateral
- OPCS Fees
- Daily Files to OPCS
- OPCS Login Credentials and System Questions
- Remedy to a collateral deficit.

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Application for Public Fund

- Required of the bank when providing a bank account for any government entity and must be signed by the bank and government designated officials.
- States the asset size of the bank at the time of the application along with a statement ensuring the bank will not accept more than 30% of its asset size in public dollars, including all public dollars currently on deposit with the amount of the new application.
- It will state the maximum amount the bank will collateralize in Active, Interim and Inactive funds.
- An Application for Public Funds should accompany any bids so the public entity can determine how much of their funds the bank is able to collateralize.
- The application is usually a 3 or 5 year term.

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Memorandums of Agreement

- Required of the bank when providing a bank account for any government entity and must be signed by the bank and government designated officials.
- States the maximum amount the bank will collateralize in active, interim and inactive funds.
- The Memorandum is usually a 3 or 5 year term.
- It often includes CD rates as of the date of the Memorandum. Keep in mind that the bank may negotiate rates with the government entity during the term of the agreement.

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OPCS Workflow

- Once the bank has opened a public fund account, they add the account and contact information to a daily file that's uploaded to the state's OPCS system.
- Once the file is received by OPCS, the state issues log in credentials and sends them via email based on the contact information provided in the bank file.
- All questions pertaining to logging into and using the OPCS system can be directed to the Treasurer of State's Office.
- While in the OPCS system, the fiscal agent can confirm on a daily basis that all of their bank accounts are collateralized to the percentage required by the state for all of the banks holding their funds (if the bank is participating in the OPCS program).
- CUSIP numbers are also provided in the bank file so the fiscal agent can look at the collateral instruments on any given day.
- The state provides an attestation process within the OCPS system that the fiscal agent must complete on the required frequency set within the ORC.
- If at anytime a bank is deficient on the amount of collateral provided, the bank and the government agency is notified via the OPCS system. The bank then has two business days to remedy the deficiency by pledging the required amount of additional collateral.

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Managing Banking Relationships

Establish a Contact Person Trained in Managing Public Funds Whose Familiar With:

- Collateralization/ OPCS
- Memorandum of Agreement Renewals
- Allowable Investment Tools & Banking Products for Public Entities
- Allowable Bank Borrowings for Public Entities
- Conducting Needs Assessments
- Managing Liquidity Needs and Negotiating Rates
- Functionality and Troubleshooting for all Cash Management Tools including ACH Origination, Remote Deposit Capture, etc.
- Responding to an RFP

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Conducting an RFP

- Consider using your Account Analysis Statement as a base.
- Include details of your current transaction volume (paper and electronic transactions – credits and debits as well as the deposited item count.
- Include your average collected balance on each account.
- Include what digital banking tools you currently have or would like to have.
- Include your requests for conducting transactions at the branch.
  - ie. Night Depository, Deposit Tickets, etc.
- List the security tools you currently use along with those you'd like to have.
- Ask the participants to list whether they participate in OPS or do a Direct Pledge.
- Ask at what percentage they collateralize the funds and what the OPCS fees are.
- State what type of accounts or tools you're currently using for shot-term, mid-term and long range excess cash. Ask for their recommendations, rates and fees.
- Ask for the per item and/or monthly service fees for all transaction types and services.
- Ask if they allow a reduction in fees for a compensating balance and what is their earnings credit rate.
- Ask if they're willing to fix the pricing provided in their bid and for how long.
- Ask for a listing of the staff who'll manage your accounts along with their bio's. Comparing experience and qualifications is as important as comparing pricing.

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