

2004 Survey

Cash Management Technology
in State and Local Governments

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 Government Finance
Officers Association

 JPMorganChase

Cash Management Technology in State and Local Governments

For the first time in history, Americans have started making more payments electronically than with paper checks. How does your government compare to other governments in its use of technologies such as Internet payments, credit cards, electronic data interchange, kiosks, and automatic bank debits? What fraud prevention safeguards are governments like yours using? The Government Finance Officers Association and JPMorgan Chase sought the answers to these and other questions about cash management practices in a recent survey of state and local governments.

The GFOA/JPMorgan Chase survey found that many state and local governments currently accept payments via automatic bank debit, the Internet, and the telephone. In the near future, it is possible that many more governments will accept payments through these methods. The survey also found that most governments not only use physical checks and warrants, but also use technologies such as ACH (Automatic Clearing House) and wire transfers to disburse funds. A high percentage of governments use specific fraud prevention safeguards including: account

reconciliations from their bank, computer network security, and confirmation of transactions from financial institutions. However, fewer governments use other important fraud prevention safeguards recommended by the GFOA, including: positive pay, reverse positive pay, and ACH blocks and filters.

The survey was conducted in September 2004 using an online survey tool. The survey was emailed to GFOA members in over four thousand governments and 912 responses were received. Respondents reflect a wide variety of geographic regions, sizes, and types of governments in the United States and Canada. More than three-quarters of the respondents represent municipal and county governments.

We are pleased to provide you with a summary of the survey's findings and would like to thank all GFOA members who took the time to answer the survey questions.

Jeffrey L. Esser
Executive Director/CEO
GFOA

Mark E. MacKenzie
Senior Vice President
JPMorgan Chase

Key Findings*

Most governments deposit their receipts the same day or the next day.

- More than 90 percent of the governments surveyed deposit most receipts the same day or the next day.
- Larger governments tend to deposit receipts faster than smaller governments. Nearly 66 percent of governments with populations between 500,000 and 1 million deposit most receipts the same day, while around 38 percent of governments with populations less than 50,000 deposit most receipts the same day.

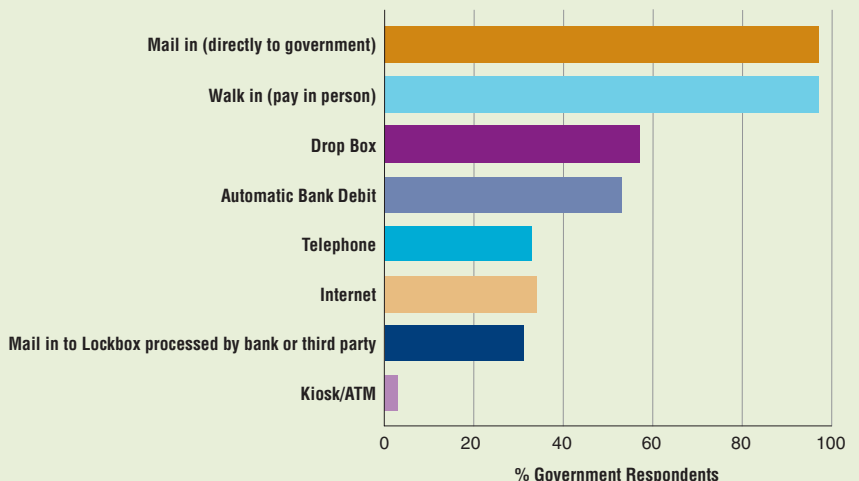
Many state and local governments currently accept payments via automatic bank debit, the Internet, and the telephone (see Exhibit 1).

- 54 percent of governments surveyed accept payment through automatic bank debit.
- A sizeable percentage of governments now accept payment through the Internet (35 percent) and the telephone (35 percent).

In the near future, governments may increase their acceptance of payments via the Internet and automatic bank debits.

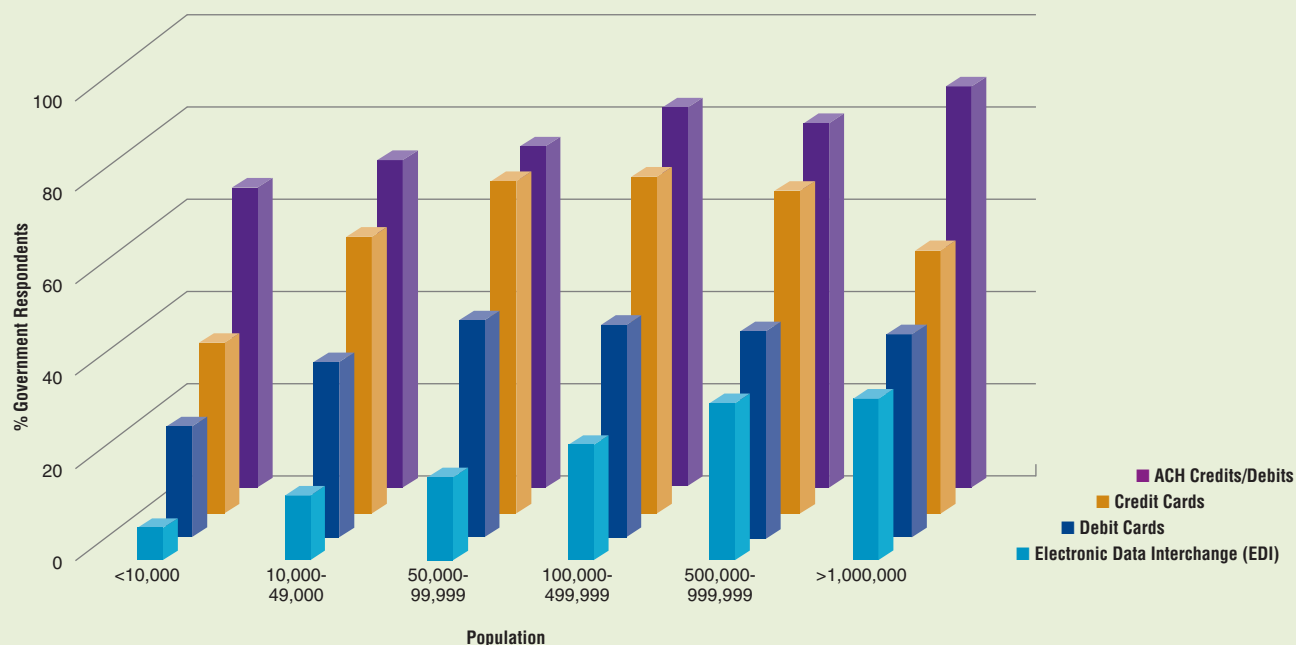
- More than 50 percent of governments who currently do not accept payments over the Internet said that they were considering accepting this method of payment.
- More than 40 percent of respondents who do not accept automatic bank debits responded that they were considering accepting this method of payment.

Exhibit 1 — Methods of Payment Accepted by Governments



*The following key findings are based on those governments who responded to the survey and cannot necessarily be generalized to all governments.

Exhibit 2 – Government Acceptance of Electronic Forms of Payment



Most governments accept some form of electronic payment (see Exhibit 2).

- 74 percent accept electronic payments via the Automated Clearing House (better known as ACH credits and debits).
- Nearly 80 percent accept wire transfers for some payments.
- 62 percent accept credit cards.

Most governments not only use physical checks and warrants, but also use technologies such as ACH and wire transfers to disburse funds.

- 86 percent use Fedwires or wire transfers.
- 78 percent use ACH credits/debits to disburse funds.
- 47 percent use purchasing/procurement cards. 22 percent are currently considering purchasing/procurement cards.

Few governments currently use electronic data interchange (EDI) and payroll/value cards.

- 7 percent use payroll/value cards and 17 percent of governments are considering payroll/value cards.
- 16 percent use electronic data interchange (EDI). 26 percent of governments are currently considering EDI.
- EDI is more widely used by very large governments. 37 percent of governments with a population greater than 1 million use EDI.

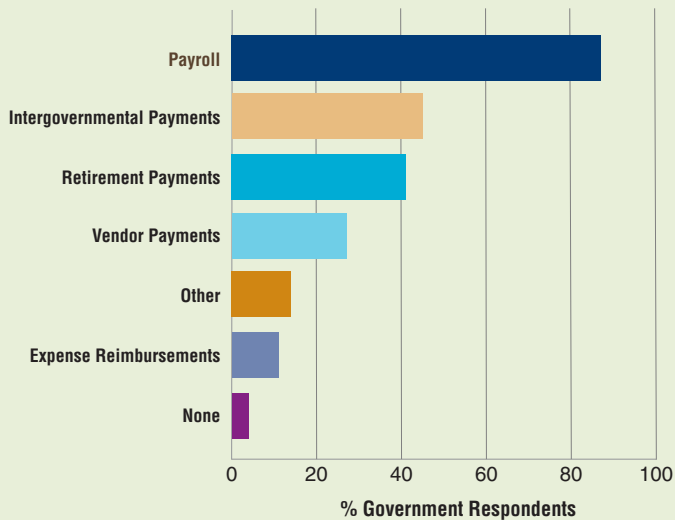
Governments typically make certain types of payments electronically (see Exhibit 3).

- Nearly 90 percent make most payroll disbursements electronically.
- About 50 percent make most intergovernmental payments electronically.
- 43 percent make most retirement payments electronically.
- 28 percent make most vendor payments electronically.
- 13 percent make most expense reimbursements electronically.

More than half of large governments use positive pay, an important fraud prevention safeguard recommended by GFOA, while its use is much lower in smaller governments. (GFOA recommends that governments make use of positive pay services provided by banks, through which banks pay only those items that match a check issue file provided to the bank.)

- Survey results suggest that positive pay is used much more widely by larger governments. Positive pay is used by more than half of the governments with populations of more than 100,000. In contrast, only about 15 percent of governments with populations under 50,000 use positive pay.
- 34 percent of all respondents indicated that their governments use positive pay.

Exhibit 3 — Disbursements that Governments Typically Make Electronically



- 4 percent of respondents use reverse positive pay.
- 16 percent of respondents said that they are not familiar with positive pay, and 29 percent indicated that they are not familiar with reverse positive pay.

Some governments who use ACH for disbursements are not familiar with ACH fraud prevention safeguards recommended by GFOA.

- 24 percent of respondents who use ACH for disbursements reported that they use separate accounts for ACH debit activity (where volume and type of payment warrant).
- 39 percent of respondents who use ACH for disbursements reported that they use ACH blocks and ACH filters. Nearly 20 percent of those who use ACH for disbursements responded that they were not familiar with this safeguard.

Other important fraud prevention safeguards are used by a high percentage of governments. Following is a list of additional fraud prevention safeguards recommended by GFOA followed by the percentage of respondents who use each safeguard:

- Computer network security to protect against viruses (96 percent);

- Passwords for authorized personnel to initiate transactions (93 percent);
- Confirmations of transactions from financial institutions (81 percent);
- Account reconciliations from bank (79 percent);
- Implementation and periodic review of internal controls that address access control, data confidentiality, data integrity, and other security (74 percent);
- Written agreements for electronic transactions with financial institutions in compliance with Uniform Commercial Code Article 4A (70 percent);
- Dollar limits for authorized personnel (69 percent);
- Dual controls for the establishment of repetitive transactions (63 percent);
- Dual controls for the authorization of non-repetitive transactions (59 percent); and
- Check imaging for account reconciliation (59 percent).



Government Finance
Officers Association

203 North LaSalle Street, Suite 2700
Chicago, IL 60601-1210
www.gfoa.org



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866-880-GOVT
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