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**ILLINOIS  
GOVERNMENT  
FINANCE OFFICERS  
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## Electronic bill presentment and payment: A primer for finance officers

By Lance Leader, General Manager, Third Millennium Associates, Inc.

The technological advances of the last decade have forever changed the way governments do business. Enterprise resource planning systems have streamlined government operations by integrating internal business functions and processes as never before. Now that many governments have purchased and implemented ERP systems, the focus of government technology is shifting toward external services—to what is commonly referred to as *government to citizen initiatives*. As people have grown accustomed to the convenience of online commercial services, they are beginning to expect to be able to transact business electronically with government as well.

Citizen demand for online services is perhaps most acute when it comes to paying utility bills, the most frequent point of contact between local governments and their citizens. Although a certain segment of the population will probably always pay their water, sewer, and sanitation bills in person at city hall or by mailing a check, many citizens are now clamoring for paperless payment alternatives. Life has simply become too sophisticated and fast-paced in recent years for many people to continue to write dozens of checks each month and to pay for the postage necessary to send their payments via “snail mail” when they can receive and pay their bills in a matter of minutes, often for free.

Citizens are not the only ones who recognize the potential of electronic payments. Utility billing and payment processing is one of the most time- and labor-intensive activities in government. Governments understand that they would save a lot of money—both in terms of reduced costs and collection float—if all of their customers were to pay their utility and tax bills over the Internet. Although concerns over security and privacy and a lack of industry standards have prevented this from happening so far, electronic bill presentment and payment is certain to gain momentum in future years. Electronic bill presentment and payment, or EBPP, refers to **the electronic delivery of billing statements to customers and the electronic initiation of payment by those customers.**<sup>1</sup> The purpose of this article is to familiarize finance officers with the mechanics of EBPP so that they can evaluate its desirability and feasibility for their jurisdictions.

### EBPP delivery models

Like most other technology offerings, electronic bill presentment and payment comes in a variety of shapes and sizes. These variations can be categorized into two major EBPP delivery models—the biller-direct model and the consolidation model. Although the two models both provide an electronic alternative to paper billing and payment processes, they differ significantly from one another in terms of how this

# GASB 39: determining component units

By Scott Lawry, Virchow & Krause Company

In conjunction with the change in governmental reporting for component units, the Governmental Accounting Standards Board (GASB) amended GASB 14 and issued Statement 39. This statement was issued in May 2002 and is effective for fiscal periods beginning on or after June 15, 2003.

Previously, Statement 14 said that all entities associated with a primary government are potential component units and should be evaluated for inclusion in the financial reporting entity. Now, Statement 39 sets forth new criteria to determine if an organization should be reported as a component unit. These new criteria will likely result in more component units being included in the reporting entity.

Statement 14 defined the financial reporting entity to include other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Statement 39 has expanded those criteria. Entities (including non-governmental entities) which are legally separate, tax-exempt organizations affiliated with a primary government and meeting *all* of the following criteria should be discretely presented within the primary government's financial reporting entity.

## The qualifying criteria

- The money received or held by the separate organization is entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- The primary government (or its component units), is entitled to, or has the ability to otherwise access, a majority of the money received or held by the separate organization. While access does

not necessarily imply control, the focus is on the "ability to access," not whether it did so in the current period. For example, if an affiliated organization historically provides resources to a college, this would indicate that the college can "otherwise access" the resources even if no resources were transferred in the current year.

- The money received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, is significant to the primary government.

Significant means at least "material" to the financial statements taken as a whole. This criterion is aimed at concerns expressed that would have required school districts to always include parent teacher organizations (PTO) in their reporting entities. Unless the PTO provides "significant" financial support, they need not be included.

Organizations meeting the criteria should be presented separately as component units within the primary government's financial statements. Since inclusion is still a matter of professional judgment, be sure to contact your auditor to discuss if inclusion is warranted.

Scott Lawry is an Accountant with Virchow & Krause Company.

## The New Reporting Model

### Across

5. Fund statements required only for these types of funds
7. New letter required
9. Simplest depreciation method
11. Government wide statements on this basis
12. Less than stellar opinion

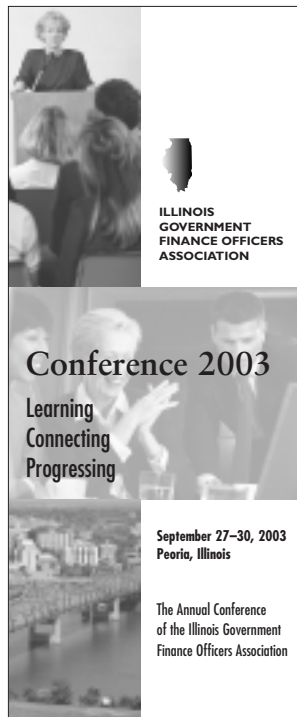
### Down

1. Inventory, value, & depreciate
2. Charged on government wide statements for general fixed assets
3. Standards setting group
4. GFOA recommends it be \$5,000 for capital
6. Asset reporting to 1980 required if revenue \$10 Million or more
8. Generally accepted accounting principles
10. Replaces combining statement
11. Governmental accounting structure

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September 27–30 for the latest  
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## Amendment to the State Gift Ban Act

**O**n August 28, 2002, Governor Ryan signed into law PA 92-0853 which, among other things, amends the State Gift Ban Act of the State of Illinois, as amended (the "Act"), to permit a member, officer, judge or employee (each as defined below) to receive gifts from any one prohibited source\* during any calendar year having a cumulative total value of less than \$100. This exception to the Act's prohibition on gifts replaces the former exception relating to "an item of nominal value such as a greeting card, baseball cap, or T-shirt." As a result, speculation as to what constitutes "nominal value" under the Act is no longer required. We expect that this amendment to the Act will provide guidance in determining the permissibility of certain gifts.

For more information, go to *Illinois Municipal League Review* of January 2003, "Legal Q & A Governmental Ethics" on pages 29-30 at <http://www.iml.org/rm/mags/2003/Review%2001-2003.pdf>.

\*Prohibited source means any person or entity who:

(1) is seeking official public action (i) by a member of the General Assembly (a "member"), State constitutional officer (an "officer"), or judge or associate judge of the State Supreme Court, Appellate Courts and Circuit Courts (a "judge") or (ii) in the case of an employee of a governmental entity (an "employee"), by the employee or by the member, officer, judge, governmental entity, or other employee directing the employee; (2) does business or seeks to do business (i) with the member, officer, or judge or (ii) in the case of an employee, with the employee or with the member, officer, judge, governmental entity, or other employee directing the employee; (3) conducts Public Activities regulated (i) by the member, officer, or judge or (ii) in the case of an employee, by the employee or by the member, officer, judge, governmental entity, or other employee directing the employee; (4) has interests that may be substantially affected by the performance or non-performance of the official duties of the member, officer, employee, or judge; or (5) is registered or required to be registered with the Secretary of State under the Lobbyist Registration Public Act.

—Illinois Municipal Department of Chapman and Cutler

## Associates Forum gets into gear

**T**he new IGFOA Associate Forum, created to increase opportunities for Associate members to suggest and advise the Executive Board on matters relating to Associate membership and the government finance profession, met in December and February. Areas of advisement are:

- ✓ Associate membership dues;
- ✓ Associate membership benefits;
- ✓ Associate participation in the Annual Conference and other training events;
- ✓ Retention of Associate members,
- ✓ Outreach to potential Associate members; and
- ✓ Other matters on which the Board may request advice and input.

The Associate Forum will also coordinate and act to carry out specific tasks and projects as assigned by the Executive Board.

The Associate Forum's six Associate members are appointed by the IGFOA President and serve at the President's discretion. The inaugural Associate Forum consists of three members each appointed to a two-year term and three members each appointed to a one-year term. Thereafter, members will serve two-year terms. The Associate Representative to the Executive Board serves as Chair.

Members are:

- Gary Karshna, Capital Gains Inc. — Chair
- Timothy Sharpe, Actuary — one-year term
- John Falduto, Oak Brook Bank — two-year term
- John Peterson, Legg Mason Wood Walker, Inc. — one-year term
- Steve Cousins, PMA Financial Network Inc. — two-year term
- James Leader, Third Millennium Associates — two-year term
- Fred Lantz, Sikich Gardner & Co. — one-year term

Answers for crossword puzzle on page 2

Across: 5. GASB; 7. MDA; 8. Retroactive; 9. Threshold; 10. Qualified; 12. Depreciation; Down: 1. Infrastructure; 2. Government wide; 3. Full accrual; 4. Major; 5. GAAP; 6. Straight line; 11. Fund

# Illinois' fiscal mess: How we got here and what needs to be done

By David R. Olson, University of Illinois, Springfield

**T**welve years ago the newly elected Illinois governor found the state with a giant fiscal problem. Like all elected politicians, Jim Edgar had ideas for new programs and initiatives that he had discussed during the 1990 campaign. But much of that had to be put on hold until the state's finances could recover. Beginning in FY 1994, the most critical aspect of Illinois' financial condition, the health of the state's general fund, started to improve and continued to improve every year. The Illinois line on Chart 1 tracks a widely used financial condition indicator of the state's general fund—the percentage of general fund revenues that remain in the fund at the close of the year. The state's most recent comprehensive annual financial report for FY 2002, released on May 8, 2003, confirms that it only took four years to undo that recovery and to drive the state's general fund into the largest financial hole ever recorded—a record \$3.3 billion NEGATIVE general fund balance compared to general fund revenues of \$23 billion, or a negative

14.4 %. This was one of the reasons cited by Moody's when they announced on May 13 that Illinois' bond rating would be lowered.

## Michigan, Pennsylvania & Ohio

Illinois is very similar to Michigan, Pennsylvania and Ohio in a number of ways. All four states are roughly equal in size and have diverse economies, combining agriculture and industry. All four contain large urban areas, suburbs as well as rural sections. However, after the economic downturn of 1990-91, the state of Michigan decided to create, and Pennsylvania and Ohio decided to significantly increase, their general fund budgetary resources, including "rainy day funds," in order to help tide over their general funds when the next recession hit. Chart 1 shows the size of those budgetary resources compared to general fund revenues over the past few years. While all three of our sister states went into the current recession with substantial budgetary resources, Illinois was actually in a large fiscal deficit prior to the beginning of the recession.

## The new governor's opportunity

Of course prior governors aren't entirely to blame. The Illinois State Legislature failed to restrain itself and proceeded without regard to the longer run consequences of the state's faulty fiscal policies. But thanks to the 1970 Illinois Constitution, the Governor has an extensive amendatory veto power, a power that could be used to discipline the legislature.

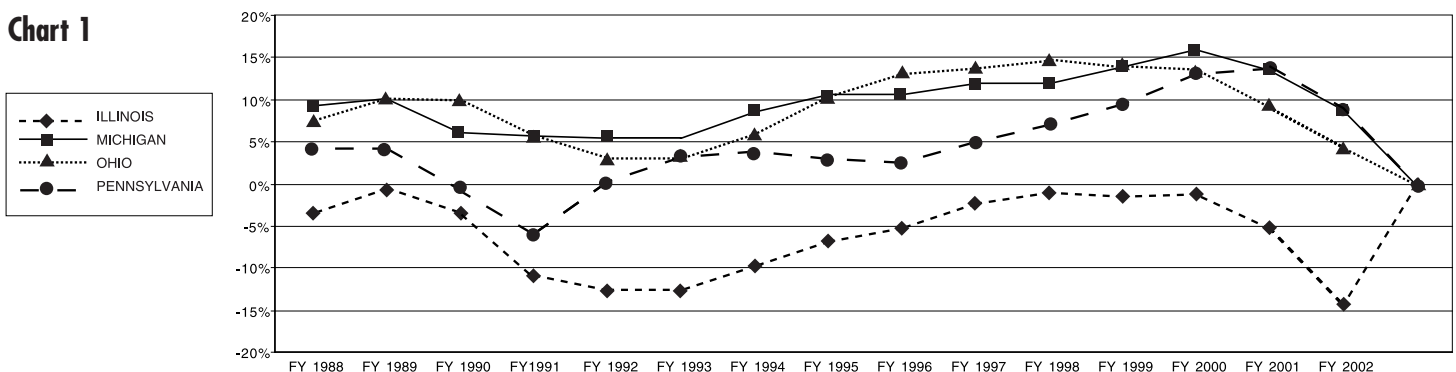
Illinois now has a new Governor whose party controls both houses of the legislature. If Governor Blagojevich decides to change things, he could provide the fiscal discipline that is so necessary if Illinois is to emerge from its current difficulties and avoid repeating the mistakes of the past. He will have to postpone some of his initiatives but if he is determined to change the fiscal policy of Illinois state government, he can perhaps provide the long-term fiscal perspective that has been sorely lacking.

## Need for a financial cushion

Article VII, Section 2 of the Illinois Constitution requires the Governor to submit a budget proposal so that "Proposed expenditures shall not exceed funds estimated to be available for the fiscal year..." and the General Assembly is empowered to make appropriations for all expenditures that "...shall not exceed the funds estimated...to be available during [the fiscal] year." But the single, most important fiscal reality is that Illinois state government revenues, derived largely from income and sales taxation, will grow only as fast as the Illinois economy. What Illinois has been doing in the past is to let expenditures follow revenues—and in good economic times, this has allowed expenditures to expand greatly. But when the economy sours, Illinois' revenue growth also slows (although general fund revenues have not actually

continued next page

Chart 1



	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
IL	-3.4%	-0.6%	-3.4%	-10.8%	-12.5%	-12.6%	-9.6%	-6.8%	-5.2%	-2.3%	-1.0%	-1.4%	-1.3%	-5.2%	-14.4%
MI (fy)	9.4%	10.2%	6.2%	5.7%	5.6%	5.5%	8.6%	10.5%	10.7%	11.9%	12.0%	14.0%	15.9%	13.5%	8.9%
OH	7.5%	10.2%	9.9%	5.7%	3.0%	3.1%	6.0%	10.5%	13.1%	13.6%	14.6%	14.0%	13.4%	9.0%	4.3%
PA	4.2%	4.2%	-0.8%	-6.0%	0.4%	3.2%	4.0%	2.9%	2.5%	5.1%	7.0%	9.6%	13.2%	13.6%	9.1%

# Fiscal mess

continued

declined in recent years until FY 2002). Which is why Illinois state government faces tough budgetary decisions now and in the near future. But there was a way to at least partially ameliorate this problem. If spending increases in the general fund had been limited to the long-run growth rate of revenues allowing for the build up of a fiscal cushion (a “rainy day fund”), Illinois could have

2001, revenue increases slowed to 2.3 percent while expenditures increased by nearly 6.3 percent. For FY 2002, revenues declined by 6.2 percent while expenditures declined by only 1.8 percent. It is apparent that the fundamental problem is the lack of attention being paid to the big picture with expenditure decisions made each year without regard to the long-run consequences.

## What if?

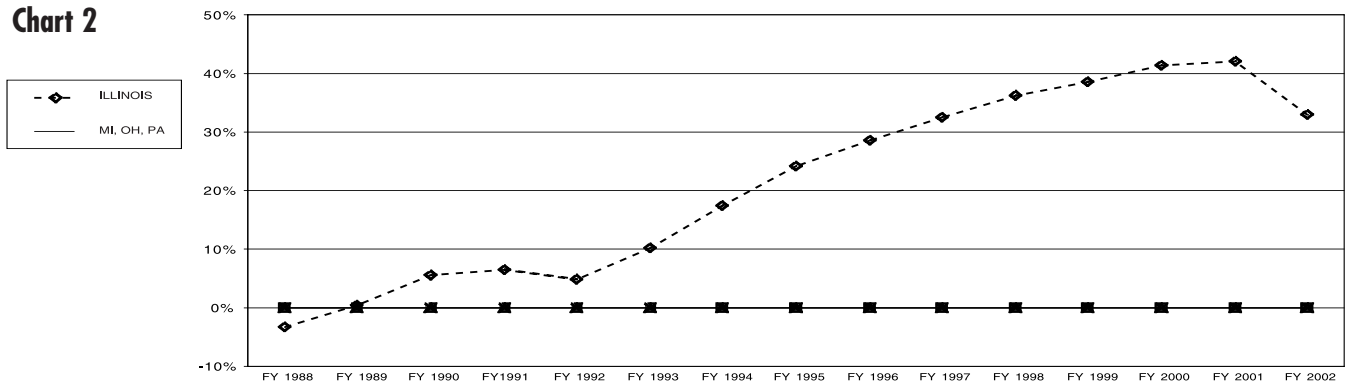
A useful starting point for analysis is what would have happened to Illinois’ general fund had spending

state government to avoid the demands for tax increases and/or drastic budgetary reductions, as well as the inevitable budgetary gimmicks and fiscal sleight-of-hand that will be required for Illinois’ FY 2004 budget.

## Looking forward

Local governments in Illinois have long recognized the need for this kind of fiscal management and have effectively used this approach. To his credit, Illinois State Comptroller Daniel Hynes has been a consistent advocate for a “rainy day fund” that

Chart 2



	FY 1988	FY 1989	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
IL	-3.4%	0.3%	5.5%	6.5%	4.8%	10.3%	17.4%	24.3%	28.6%	32.7%	36.2%	38.5%	41.3%	42.1%	33.1%
MI (fy)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
OH	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
PA	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

at least partially avoided the tough fiscal medicine that is now at hand.

## Looking back

During the 13-year period of 1988-2001, revenues to Illinois’ general fund grew at an average rate of 6.7 percent per year. Unfortunately, general fund expenditures and net transfers to other funds grew at a 7.2 percent average rate per year. This imbalance goes a long way toward explaining why Illinois is in such poor financial shape. During years when revenues expanded dramatically, expenditures were also allowed to increase dramatically. For example, FY 1993 revenues increased by 15.4 percent but expenditures increased by 14.9 percent. In FY 2000, revenues increased nearly 8.4 percent but instead of allowing this abnormal increase to improve the health of the general fund, expenditures and transfers were also allowed to increase by nearly 8 percent. In FY

growth been limited to average revenue growth of 6.7 percent over the past thirteen years. Chart 2 shows what would have happened to the general fund-fund balance/ revenue percentage with just a little bit of fiscal discipline. Instead of a negative percentage, the general fund could have accumulated significant budgetary resources during the 1990’s, reaching over 40 percent by FY 2000. In terms of dollars, over \$10 billion of resources would have been available at the beginning of FY 2002. For fiscal year 2003, over \$7.5 billion would have been available.

While there can and should be discussion about the precise methodology to be used in planning for Illinois’ general fund, this example clearly shows the benefits from some kind of long-term plan in the future. Instead of simply riding the changes in revenue up and down, building financial resources and limiting spending to long-term revenue growth would allow

could, if properly managed, provide crucial support for the state’s general fund in difficult financial times in the future. As the new Governor works his way through the present budget difficulty, he should also commit himself to the philosophy of “never again.” He should chart a new fiscal policy and dedicate himself to enforcing spending discipline in the future by using his amendatory veto power so as to accumulate the resources necessary to sustain the health of Illinois’ general fund over the long term. If he does, he will not only leave his successor in a much more enviable financial position than he has inherited, but he will also prove that it is possible for Illinois state government to manage its fiscal affairs rationally, a truly monumental and lasting legacy by which future governors and legislatures will be measured.

David R. Olson, Ph.D. CPA is an associate professor of accountancy at the University of Illinois at Springfield.

# Electronic billing

continued from front

is accomplished and how much it costs billers and consumers. Exhibit 1 lists the advantages and disadvantages of each model.

## **Biller-Direct**

The biller-direct model is so named because there are no intermediaries between the biller and the customer. Even though bill translation and formatting and Web site hosting are sometimes outsourced, the bill originates from the biller and payment is made directly to the biller. As such, this model offers the maximum level of control over bill presentment and payment, including security and user friendliness. Customers who are signed up for EBPP are notified by e-mail when a bill is pending. To execute a transaction, the customer simply opens the e-mail and selects “pay bill.”

A popular variation of the biller-direct model is to e-mail an electronic version of the billing statement to the customer—not just notification that the bill is available for viewing and payment. The customer simply opens the message to see the e-mail version of the bill. Clicking on a button in the bill takes the user to a full version of the bill or directly to payment of the bill, where payment options can be selected and executed. Because of the graphics and links inherent in this delivery mechanism, customers must have modern Internet browsers to take full advantage of it.

For billers, the main advantage of the biller-direct model is that they retain complete control over the billing process. However, designing, hosting, and maintaining an EBPP system is expensive. The cost of developing an EBPP system ranges from \$40,000 to \$100,000. For consumers, the biller-direct model is a free—usually—and convenient way of paying bills that spares them the costs of writing and mailing checks. The drawback is that consumers must visit the Web sites of each of their service providers to enroll for EBPP service.

## **Exhibit 1**

### **Biller-Direct Model vs. Consolidation Model**

#### **Biller-Direct Model**

##### **Advantages:**

- Biller control of the bill delivery process
- Solid reporting capabilities
- Reliability of e-mail as a delivery mechanism
- No fees for the consumer
- No postage or check writing costs
- Better customer service than third parties
- Consumers are more comfortable with established service providers than with unknown third parties

##### **Disadvantages:**

- Expensive to establish, design, host, and maintain
- Consumers must visit multiple Web sites to view and pay their bills
- A single biller may not be able to offer all of the payment options desired by consumers

#### **Consolidation Model**

##### **Advantages:**

- No need to implement costly technology infrastructure
- No postage or check writing costs
- Consumers have access to payment options not supported directly by individual billers
- Consumers can pay all of their bills through a single Web site

##### **Disadvantages:**

- Need for coordination among multiple parties
- Lack of a universal data exchange standard
- Perceived privacy/security flaws
- Cumbersome enrollment procedures
- Fragmented customer service
- Consumers must pay a fee for online bill payment

Source: A. Andreeff, L. Binmoeller, E. Boboch, O. Cerda, S. Chakravorti, T. Ciesielski, and E. Green, “Electronic Bill Presentment and Payment: Is It Just a Click Away?” *Economic Perspectives* XXV, no. 4 (2001): 2-16.

#### **Consolidation**

In the consolidation model, the biller sends customer account information to a bill consolidator, which collects bills from multiple billers and aggregates them for the consumer on a central Web site. Although some bill consolidators present bills on their own Web sites, most go through a consumer service provider—usually an Internet search engine or a financial institution.<sup>2</sup> The obvious advantage to this model is that customers can pay all of their bills through a single Web site instead of having to visit separate sites for each individual service provider. However, consumers usually pay a price for this convenience.

Unlike the biller-direct method, consolidation does not require the biller to invest in expensive hardware and software to electronically bill customers. However, the biller must pay a fee to the bill consolidator for providing the portal for electronic bill presentment and payment. This fee typically amounts to 10¢ to 15¢ per transaction. Billers aren’t the only ones who pay for the convenience of EBPP under the consolidation model. Popular providers like USPS eBillPay, Paytrust, Yahoo! Bill Pay, and CheckFree usually

charge a flat fee of \$5 to \$10 per month and/or 10¢ to 20¢ per transaction. Many consumers still are not willing to pay for the convenience of EBPP.

There are a couple of other drawbacks to the consolidation model. Many consolidators remit customer payments to billers by mailing paper checks. In addition to the float inherent in this method of payment, the checks sometimes do not include account numbers, which can cause problems in updating customer accounts.

In the consolidation model, the biller surrenders control over the bill delivery process to a third party. The exchange of billing information between the biller and the consolidator heightens consumer concerns about privacy and security and biller concerns about data accuracy. Universal acceptance of a common data exchange standard may eventually allay these concerns and lead to more widespread use of the consolidation model.

#### **Issues affecting EBPP enrollment**

Because of the security concerns and high fees, few governments are using a variation of the consolidation model. As such, the balance of this

continued next page

# Electronic billing

continued

article assumes a preference for the biller-direct model. This section highlights three of the most important issues governments need to consider as they contemplate electronic bill presentment and payment: privacy/security, payment options, and user friendliness. Each of these issues impacts EBPP enrollment levels.

## **Privacy/security**

When it comes to conducting financial transactions over the Internet, the privacy of customer information and the security of payment information are of paramount importance. For an EBPP system to be viable, customers must be able to trust the privacy and security of electronic transactions. The current trend is to use proven private sector companies for the transmission and storage of proprietary information. VeriSign in particular has gained a reputation for its “turn-key” security systems. Many people now recognize VeriSign’s Secure Site Seal and have confidence in the security of Web sites displaying the seal. VeriSign relies on Secure Sockets Layer technology, or SSL, which is the industry standard for protecting Internet transactions. SSL’s 128-bit encryption is virtually impossible to defeat.

The security of customer profile data residing with the biller in a protected database is no less important than the security of the transactions themselves. There are several technologies that can be used to secure sensitive customer data such as credit card numbers and bank account numbers. Data Encryption Standard, or DES, is a widely adopted encryption method. Other encryption methods are also available. Most of these methods use an algorithm and a single or combination set of keys to encrypt sensitive data, rendering it undecipherable and therefore meaningless to unauthorized intruders.

EBPP systems, both biller direct and consolidation models, require the customer to create and reference a username and password to access some or all of the system features. Security is further enhanced when neither the

system nor its administrators can reproduce existing passwords. This type of encryption is sometimes called a hash. In the event of a lost or forgotten password, the system generates and e-mails a replacement password to the customer.

## **Payment options**

The payment options used by customers in an EBPP environment are essentially the same as those used in a paper-based billing process. In the biller-direct model, the four main payment options are ACH, credit card, debit card, and electronic check. The more payment options available to customers, the more likely they are to migrate to electronic payments. Through electronic presentment, billers can even encourage customers to use the most cost-effective payment option. For example, a government could elect to have the ACH option presented first—before the main payment selection page.

ACH is the most common electronic payment option. ACH typically involves a customer authorizing a biller to debit his or her bank account on a recurring basis. Electronic checks are a variation of ACH in which a customer provides his or her bank routing and account number online to electronically pay bills. Historically, many customers have been reluctant to sign up for ACH direct debit payments for fear of losing control over the timing and amount of their payments. The introduction of electronic checks and other one-time debit payments should make ACH a more attractive alternative for electronic payers.

While ACH is the most common electronic payment option offered by billers, credit cards are the most popular among online consumers. Credit cards offer consumers maximum control over the timing and amount of their payments. However, credit cards are a more costly payment alternative for governments than ACH or debit cards because of the processing fees merchants must pay the credit card companies. These fees are generally 2.5 percent to 3 percent of each transaction. Some governments charge consumers a “convenience fee” to recover their costs, but these fees can be a barrier to EBPP adoption.

## **User friendliness**

Just like the perceived degree of transaction security and the availability of different payment options, the user friendliness of the system influences the likelihood that customers will switch from paper bills to EBPP. An intuitive system is more likely to be used than one that requires the consumer to invest undue amounts of time and energy just to figure out how to use it. One simple yet powerful way to flatten the learning curve for users is to ensure continuity of navigation between the EBPP system and the rest of the government’s Web portal. Fortunately, it is relatively easy to copy backgrounds, headers, and navigation bars for seamless transitions between Web pages.

A critical component of user friendliness is the enrollment process. Many EBPP enrollment procedures are so cumbersome and require so much information that they discourage potential users. In our opinion, the most successful enrollment procedures require as little information as possible, yet still obtain the information necessary to authenticate payment instructions—a tricky balancing act. An account number, service address, password, customer name, and e-mail address are required to create a customer profile. Additional information, including social security number, mother’s maiden name, driver’s license number, and work contact, are intrusive and will reduce adoption rates.

Other user-friendly features include one-click exit buttons, print page buttons, and dual bill presentment channels. Citizens that visit the electronic payment site without intending to enroll, for example, must be able to easily exit the system. Intrusive logout procedures decrease the probability that those citizens will return to the system. For citizens who remain unconvinced about the security of electronic payments, the ability to easily generate a paper confirmation page offers additional perception of safety. Finally, allow your citizens the option of receiving both an electronic bill and a paper bill. Once they realize that the paper bill is extraneous, most customers opt for electronic presentment only. Providing this option

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# Electronic billing

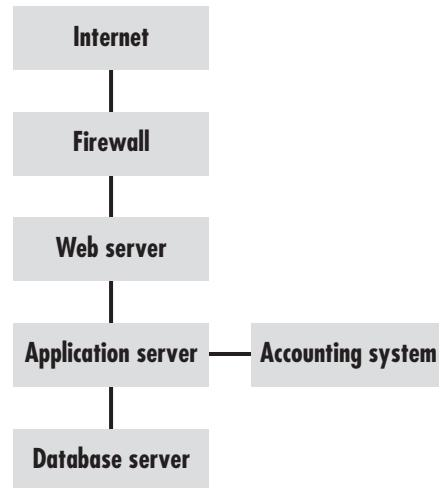
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demonstrates your sensitivity to security concerns.

## System implementation

The hardware required to host an EBPP application is the same as is needed to host an ordinary Web site, plus the servers and software necessary to provide secure access to billing data and to process payment transactions. All application and Web servers should be commercial quality. Multiple clustered servers and redundant disk storage for all data is also desirable. Although the cost of an average desktop computer has dropped, the cost of a redundant and secure Web application-hosting platform can be significant. This is because of the number of servers necessary to host an

**Exhibit 2**  
**Typical EPBB architecture**



EBPP application and the quality required of the systems used. Exhibit 2 illustrates the typical relationship among these components.

It is important to recognize that hackers and other would-be intruders can potentially find vulnerabilities in EBPP systems that do not exist in static Internet portals. Once a government decides to offer an Internet portal for billing and financial data, firewall protection must be significantly improved to protect the EBPP application and its data against malicious attacks. The administration of a firewall is a constant process of upgrading and configuring to protect against ever-changing security threats.

The operating systems used to host EPBB Web applications are typically Windows or one of several varieties of open-source technologies, e.g., Linux, UNIX. The operating system is largely a function of the software package being used, which can be written in a variety of language environments and may contain many different modules. A full-featured EBPP package typically includes the following modules: e-mail delivery, bill presentment, user profiles, payment processing, general ledger export, administration, reporting, and archive.

Governments that decide to author and host their own EBPP platforms must first decide on the platform and the language. A new family of Web scripting languages and toolsets has replaced and/or significantly modified older legacy languages such as Cobol, Fortran, BASIC, and others. Some of these languages and accompanying tools are optimized for a particular proprietary operating system and therefore must be hosted by that system. Some languages are more platform independent and can be executed on a variety of operating systems. A robust EBPP system may include more than 100,000 lines of code.

By nature, an EBPP system is an extension of governmental accounting processes. As such, effective integration with existing accounting systems and practices is imperative. Account profiles, invoices, and payment activity must be communicated between these systems. XML is an emerging standard for exchanging financial data. An EBPP system that utilizes XML in its database can import and store data from any accounting application and

## E-billing in Carol Stream: A case study

When the Village of Carol Stream developed its E-Government Strategic Plan, one of the key goals was the ability to accept payments via the Internet, the first type being water and sewer bill payment, where 10,400 customers are billed monthly. The system is designed to be user-friendly. Customers access the e"STREAM" system via the Village's web page and are prompted through all of the screens. Although e"STREAM" was designed to accept Internet utility bill payments, the first option the customer sees is for signing up for a direct debit (ACH) payment program.

The system gives customers a lot of flexibility. They can sign up to receive an e-bill and pay by check, receive a paper bill and pay electronically (credit card or ACH) or receive an e-bill and pay electronically. Customers can use the system to see their last 14 months of utility bills.

Once a customer has signed up for the e"STREAM" service, a confirmation is then e-mailed back to them. Also, if the customer signed up for credit card payments, they only have to enter the credit card information once. In fact, once a customer is successfully signed up, they do not have to access the Village's web page to make a payment.—all they do is click the payment option contained in the billing e-mail. A key element to the e"STREAM" system from the staff's perspective is that "backroom" processing has been addressed.

Some additional features built into the system are:

- If the e-bill is undeliverable after three tries over an 18-hour period, a paper bill is automatically sent out with a notice that the e-bill was undeliverable. The Village then receives a list of all of the paper bills sent.
- The system will not accept a payment that is for more than three times the amount due and it will not accept a payment for less than half the amount due. The customer will also be prompted when the amount they are paying is different than the amount that is due.
- Any informational inserts that would go out with the printed bills along with billing information that appears on the back of the paper bill are included with the e-bill.
- Customers can e-mail the billing staff from their e-mail file with questions or comments.
- An FAQ section which contains the most frequently asked questions.

The response has been relatively good. We do not have any expectations as to how many customers will ultimately choose the e"STREAM" system but as of the end of May, 328 (3.2%) have signed up.

Stan Helgerson chairs GFOA's Committee on Cash Management and is Finance Director for the Village of Carol Stream.

continued next page

# Electronic billing

continued

easily transform the data into various output channels. Output can be in the form of e-mails, PDF images, HTML Web pages, and paper documents. Because of the increasing acceptance of XML and the ease of transforming it from one dialect to another, EBPP systems that use this standard should be able to adapt to evolving electronic payment technology.

Credit card transaction data is typically uploaded to the accounting system on a daily basis, eliminating the need to key in the data manually. The most efficient method is to convert data files from your EBPP system into the format of your bank lock box. Report generators tally the daily transaction activity and batch it into a file to be uploaded to the accounting system. For this reason, your report generator must be able to restructure the file to your lock box format. Governments that do not use a lock box can receive batch payments directly from the Internet banker. Once this module is created, the file should upload with ease and update accounts receivable on a daily basis.

One of the goals of EBPP is to eliminate the need to generate and deliver a paper bill. However, paper bills are not going away any time soon. As such, governments will need to have a mechanism for suppressing paper bills for those accounts that have fully adopted EBPP. If the EBPP system has an integrated paper bill generator, this feature will be included. Otherwise, an independent paper billing process will need to know when to suppress and when to send a paper bill. For this reason, it is desirable that a single delivery system be responsible for the generation and output of both paper and electronic billing channels. Tightly integrated systems can also automatically trigger the delivery of a paper bill in the event that electronic delivery fails.

## Conclusion

As people grow more accustomed to the convenience of paying their bills electronically and more comfortable with the security of such transactions, they will demand that governments

## RISK MANAGEMENT

# Transferring contractual risk

**R**isk management can take many different forms. It is not just developing and implementing loss control policies or purchasing insurance to cover a loss or claim—it also involves the concept of Contractual Risk Transfer. As the term indicates, the concept of contractual risk transfer involves transferring a certain risk to another party by means of a contract or agreement.

The transfer of these risks can be accomplished in two specific ways:

- (1) being named as an additional insured on another party's insurance; and
- (2) by entering into a Hold Harmless and Indemnity Agreement with the other party.

### Being named an additional insured transfers the risk

Being named as an additional insured on another party's insurance policy means that you are, in essence, covered under the other party's insurance for a specific risk; thereby transferring the risk to another party. For example, should an injury, loss or damage result from the acts of a contractor while performing work for the municipality those losses, injuries or damage are covered by the contractor's insurance. Since you generally will not have caused the injury, loss or damage or have any control over the actions of the contractor, it is very important that the risk be transferred to the contractor. Being named as an additional insured is one way of accomplishing this transfer.

### Hold harmless and indemnity agreements should be requested

Another way to accomplish this transfer is by a hold harmless and indemnity agreement. Hold harmless and indemnity agreements or provisions should be requested along with the additional insured status. The term indemnity or "to indemnify" means to protect against and compensate for damage, loss or injury. To hold a party harmless means to assume by agreement the liability of a risk inherent in the situation, thereby transferring the risk.

The Intergovernmental Risk Management Agency (IRMA) strongly encourages and recommends that governments require first, a Certificate of Insurance from the other party verifying the types and amounts of insurance that party carries available. Secondly, the Certificate of Insurance should always contain language providing the government with additional insured status under the insurance policy. IRMA also recommends that the additional insured status be provided by Endorsement. Finally, an Indemnity and Hold Harmless agreement or provision should be required as well.

By complying with these recommendations, the government has transferred both liability and risk for any loss, damage or injury caused by the other party.

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provide this option. For their part, governments can cut their billing and collection costs by scaling down cumbersome paper-billing procedures. Although cost savings may not fully materialize until a critical mass of the population is paying its bills online, more and more governments are now engaging in electronic bill presentment and payment. The gradual trend toward EBPP is one that is not likely to abate until consumers at least have the option of paying all of their bills electronically. Even if your government is

not in a position to seriously consider electronic bill presentment and payment, understanding how it works and the issues involved will prepare you for the day when it does become a priority.

#### Notes

- 1 A. Andreeff, L. Binmoeller, E. Boboch, O. Cerda, S. Chakravorti, T. Ciesielski, and E. Green, "Electronic Bill Presentment and Payment: Is It Just a Click Away?" *Economic Perspectives* XXV, no. 4 (2001): 2-16.
- 2 Ibid, 7.

# IGFOA launches online directory exclusively for members!

**B**y September 20th, all IGFOA members should have received user names and passwords to use the new online directory. This directory allows members to:

- find up-to-the-minute member contact information;
- build your own RFP distribution list;
- query colleagues on specific topics based on demographics and areas of interest;
- discuss hot topics through moderated bulletin boards;
- find details on IGFOA events;
- and more!

## To enter the IGFOA Directory

The directory can be reached through the IGFOA web site <http://www.igfoa.org> or directly at <http://my.memberclicks.com/igfoa>. Click on the IGFOA logo anytime to reach the IGFOA home page.

The **Login** page is the first page you will see when you go to your MemberClicks directory. There are two fields for **Username** and **Password**. To log in to your MemberClicks directory:

1. Enter your Username and Password in the fields provided.
2. Click on the LOGIN button.

You will be directed to the main directory page. From here you can view all records (except those hidden by individual members), search using specific condition, or use the quick name search in the upper right corner to find a specific member.

## Recovering your password

If you have forgotten your password, recover it by clicking on the **FORGOT YOUR PASSWORD** button below the password box. A new window will appear. Next:

1. Enter your email address in the **Forgot Your Password?** window. Make sure to enter the same email address that you use with your MemberClicks account.
2. Click on the **SUBMIT** button. Your user name and password will be sent to that email address.

Please allow up to three working days to receive your password. This process is not automated and IGFOA staff needs to verify your information before forwarding. *Plus, there are two of us (staff) and 850+ of you (members)!*

## To tailor your contact information

From the menu bar you can link to your member profile. Please check your profile information and update or change it as necessary. We recommend you change your password at least once every three months. Please protect the integrity of our directory by protecting your password.

Your profile allows you to **specify how and what type of information you wish to receive from IGFOA**. You may indicate e-mail or fax as your preferred mode for receiving information from IGFOA. Whenever possible, IGFOA will use your preferred contact method.

You may also specify **what type of information you wish to receive**.

Use the **Primary Chapter** field to change your chapter affiliation. To add a chapter affiliation, submit an updated membership form with payment for the additional chapter to the IGFOA office or contact [info@igfoa.org](mailto:info@igfoa.org) or 630-629-1460.

Use the **Notices and Member News** field to select:

- **General news & announcements:** choose this category to receive monthly newsletter (IGFOA Dispatch), announcements and registration for meetings, seminars, conferences, and events.
- **Jobline:** choose this category to receive the weekly Jobline with new position openings.
- **Legislative:** choose this category to receive periodic updates on legislative activity of interest to government finance officers.
- **Surveys:** choose this category to be included in periodic surveys on topics of interest to members.
- **Women's Network:** choose this category to receive news and meeting announcements from the IGFOA Women's Network.
- **None:** choose this category only if you do not wish to receive any information or announcements from IGFOA, whether sent by e-mail, fax, or hard copy delivery.

To select multiple categories, hold the hold the control button on your keyboard [Ctrl] while clicking on the category. **CAUTION:** If you choose None, you will not receive any IGFOA member information, but can continue to use the IGFOA on-line directory.

**Tailor your Service and Resource Topic categories:** From the Service/Resource Categories public sector members may select specific topics of interest. When other members are looking for information or help about a topic, they may search to find other members willing to help. You need not be an expert in a topic to serve as a resource! Associate members may use this field to indicate the services they provide. Using this field, members may search for firms providing specific services to request information or solicit quotes, proposals, or bids. Don't see the service or topic you want? E-mail [mshank@igfoa.org](mailto:mshank@igfoa.org) to inquire about a particular category.

## Who sees your member information

The IGFOA online directory is only accessible to members. Members may hide individual fields that they do not wish other members to view. Using the **My Profile** menu selection, click on the box to the left of the field to hide that particular item or to hide all information, click on the hide record box at the top of your profile. Other members will not be able to see the information, however the IGFOA directory administrator will be able to view the information and send announcements as specified under **Notices and Member News**. To block information from other members and the IGFOA directory administrator, simply delete the information in that field. To remove information from fields that are not open to editing by members, please contact the IGFOA office at [info@igfoa.org](mailto:info@igfoa.org) or 630-629-1460.

**Need help?** If you need more information about a specific field, simply click on the field name for a short description. For generic assistance Click on Help from the main menu to reach the Members Help or FAQs.

For additional help please contact the IGFOA office at [info@igfoa.org](mailto:info@igfoa.org) or 630-629-1460.

# Counting your lemons

**D**o you grapple with debits and credits? Do you fantasize about teaching basic accounting to your kids, police chief, administrator, or trustees? Then check out *The Accounting Game: Basic Accounting Fresh from the Lemonade Stand*, by Judith Orloff and Darrell Mullis, published by Sourcebooks, Inc., Naperville, Illinois. Though the accounting lessons are presented for a for-profit business, most of the lessons are transferable to government accounting—however the book does not address the modified accrual basis.

This book does contain some entertaining, but distracting, commentary such as, “You’re pretty sure the banker just complimented you, though it’s hard to tell because the banker’s eyebrows and lips hardly move.” Structured as a game, the book walks you through the transactions to run a lemonade stand like a business. An endorsement by John Hernandez, Director of Corporate Communications, American Greetings notes, “The game approach makes the subject matter most understandable. I highly recommend it to anyone frightened by either numbers or accountants.”

Take the book’s pre-test below and see if you have what it takes to run a lemonade stand!

1. Which one of the following items is not found on a Balance Sheet?  
A. Cash                                      B. Gross Profit  
C. Assets                                      D. Liabilities
2. Which accounting system most accurately reflects profitability?  
A. Cash Accounting                      B. Flow of Funds Accounting  
C. Accrual Accounting
3. An account receivable is:  
A. an Asset                                      B. Owner’s Equity  
C. a Liability
4. Which of the following is most important to the daily operations of a business?  
A. Assets                                      B. Retained Earnings  
C. Cash
5. When people speak about the bottom line, they are referring to:  
A. Net Profit                                      B. Gross Margin  
C. Gross Profit
8. A prepaid expense is:  
A. an Asset                                      B. Owner’s Equity  
C. a Liability
7. Is LIFO/FIFO a method of:  
A. Inventory Evaluation                  B. Profit Ratio  
C. Financing
8. Which would you find on an income statement?  
A. Expense                                      B. Fixed Asset  
C. Liability
9. Which of the following expenses does not affect your cash position in running a business:  
A. Lease Expense                          B. Advertising Expense  
C. Depreciation Expense
10. Which of the following is a basic accounting equation:  
A. Net Worth = Assets + Profits  
B. Gross Profit - Sales = Gross Profit Margin  
C. Assets = Liabilities + Owner’s Equity



answers on back page



**Inside:**

**A primer on electronic billing...**

**GASB 39 news...**

**GASB crossword puzzle—yes, really!...**

**Illinois' fiscal mess... and more!**

# Baseball in the Burbs



**Sunday, August 24**

Please join IGFOA at Alexian Field in Schaumburg, Illinois for some summer baseball fun at a game between the Schaumburg Flyers and the Winnipeg Goldeyes. Enjoy a pre-game picnic with all you can eat dogs, brats, BBQ chicken with all the fixings. Admittance to the picnic area opens at Noon. Game time is 1:20 pm.

The Membership Committee is pleased to offer this fun networking option to all IGFOA members and their guests. Tickets for this event (includes dinner, beverage, and game) are only \$20 for adults and \$5 for kids. More information on the game and directions to the ballpark will be sent prior to the event.

Members and guests interested in attending are asked to respond no later than Tuesday, July 22. This will ensure that our picnic area is reserved and seats for the game will be set aside.

To register phone IGFOA at 630-629-1460 or RSVP by e-mail to [info@igfoa.org](mailto:info@igfoa.org).

Confirmation, driving directions and other details will be sent to each registrant. For more information on the Flyers go to: <http://www.flyersbaseballs.com>.

## 2003 IGFOA calendar

- July 31 Chicago Metro Chapter Networking Day, Bartlett Hills
- Aug. 1 South Metro Chapter Luncheon, House of Hughes Crestwood  
*Contact Barbara Richards 630-852-5000 X201*
- Aug. 14-15 Downstate Summer Conference, Bloomington/Normal  
*Contact Patty Martinez 309-454-9514*
- Aug. 24 IGFOA Picnic & Baseball at the Schaumburg Flyers
- Sept. 3 IGFOA Financial Reporting for Non-Finance Folks, IPRA, Carol Stream
- Sept. 10 Cash Handling Seminar, TBA
- Sept. 12 IGFOA Chicago Metro Legislative Update and Lunch, TBA, Northeast suburbs
- Sept. 27-30 IGFOA 2003 Annual Conference, Pere Marquette, Peoria
- Oct. 24 South Metro Chapter/SSMMA Seminar:GASB 34 MD&A workshop, East Hazel Crest  
*Contact Barbara Richards 630-852-5000 X201*
- Nov. 6 Capital Planning and Budgeting Seminar, Northern suburbs
- Dec. 4 Chicago Metro Holiday Luncheon, The Lodge, Oak Brook
- Dec. 10 Payroll Seminar, IPRA Carol Stream
- Dec. 12 South Metro Holiday Luncheon, House of Hughes Crestwood  
*Contact Barbara Richards 630-852-5000 X201*

*Unless otherwise noted, for information please contact IGFOA at [info@igfoa.org](mailto:info@igfoa.org) or 630-629-1460*