



BEST PRACTICE

Procurement of Banking Services (1997, 2004, 2005, and 2010) (TIM)

Background. State and local governments use a wide variety of banking services for the deposits, disbursement, and safekeeping of public funds. Prudent procurement practices require the reevaluation of banking services on a periodic basis. In addition, continual changes in technology, treasury management practices, and banking industry structure offer public funds managers opportunities to reevaluate banking services and costs.

Recommendation. The Government Finance Officers Association (GFOA) recommends that state and local governments establish a procurement process and assure periodic reviews of banking services. Adhering to a defined due diligence in selecting banking services and establishing proper controls will help a government achieve its objectives of appropriate and cost-effective banking services while protecting its funds and reducing risk to its reputation. Governments should consider including the following practices in their procurement of banking services:

1. Periodically initiate a process of competitive procurement in accordance with the state and local laws and regulations, for major banking services. The process should use a request for proposals (RFP) that should include services, fees, earnings credit rates, and availability schedules for deposited funds. In addition, it is important to utilize independent bank evaluation services to verify creditworthiness of the financial institution prior to award of a contract and throughout the contract period.
2. Have contracts for banking services that specify services, fees, and other components of compensation. If applicable, this should include tri-party depository contracts that require that the custodian complies with collateral requirements.
3. Identify a primary relationship manager who will serve as a central point of contact, understand the needs of the entity and be able to offer recommendations for service improvements.
4. Evaluate the relative benefits and costs of paying for services through direct fees, compensating balances, or a combination of the two (blended). Factors to consider in this evaluation are the earnings credit rate, reserve requirements and insurance fees on deposits.
5. Evaluate the government's needs in comparison to the costs and benefits of specific banking services, including:
 - Electronic
 - balance and transaction-reporting services (image access and usage)
 - stop payments
 - payment capabilities
 - deposit capabilities
 - transmitted analysis and statements
 - digitized storage of paid checks and statements
 - stale date check management
 - access to safekeeping/custodial information
 - access to investment performance reporting

- Accounts

- controlled disbursement
 - collection account
 - zero-balance
 - interest-bearing
 - investment sweep account
- Security features
 - positive pay services including payee positive pay service (which is payee matching)
 - reconciliation services
 - Automated Clearing House (ACH) blocking/filtering services
 - check to ACH conversion
 - Non-sufficient funds (NSF)/ACH conversion for representation of NSF check (Represented Check Entries, RCK)
 - collateral requirements (reporting by the custodian required)
 - Treasury management services
 - lock-box services
 - credit card receipt merchant services
 - safekeeping or custody arrangements (delivery versus payment, DVP)
 - procurement cards
 - stored value (payroll) cards
 - Web links for Internet payment for services
6. A treasury management review and comprehensive evaluation should be performed prior to the issuance of an RFP to ensure that the treasury manager asked for all required and optional banking services. Consider using a Request for Information (RFI) or meeting with several banks in advance of the RFP process to determine if there are any products/services available that your jurisdiction would be interested in adding. This preliminary work is necessary periodically to take advantage of changes in banking services and technology as new services become available. In the event that these services are procured through the use of a request for proposal, the request for proposal and the vendor response should be included as part of the contract.

References.

- *An Introduction to Treasury Agreements*, Linda Sheimo, GFOA, 1993.
- *An Introduction to Treasury Management Practices*, GFOA, 1998.
- *Banking Relations: A Guide for Governments*, Nicholas Greifer, GFOA, 2004.
- GFOA Best Practice, *Collateralization of Public Deposits*, 2007.

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