



BEST PRACTICE

Using Remote Deposit Capture (2010) (TIM) (new)

Background. Remote Deposit Capture (RDC) is a service that expands the window for deposit by allowing checks to be scanned into digital images and cleared electronically. A user can scan checks that it receives and transmit the scanned images to a financial institution for posting and clearing. Some financial institutions offer optional ACH conversion and clearing in combination with the RDC service. Typically, this option includes automatic decisioning of the items whereby the provider financial institution determines for the government what items can be converted to an Automated Clearing House (ACH). Thus, RDC removes the requirement of processing an actual physical check at a financial institution.

The basic requirements for RDC include a computer, an internet connection, a check scanner and a service provider such as a financial institution. RDC functionality spans from basic electronic check clearing to data download capabilities ranging from uploading to government receivables software, and, full interfacing with the government's receivables software.

The basic process is as follows:

1. Checks are received in the mail or in person.
2. Normal remittance processing is performed. This may include preparing the deposit and updating the accounts receivable system.
3. Checks are scanned, capturing the front and back of the check as well as microline data and dollar amount, to create a digital deposit.
4. The digital deposit is transmitted over an encrypted or secure internet connection to an RDC financial institution or service provider.
5. The bank receives the deposit images and data, and based upon the government entity's clearing options, the financial institution will provide ACH decisioning of the file. The financial institution will then clear the items based upon ACH and/or image deposit clearing, assign float to the items, and post the deposit to the government's account. Good funds are reflected based upon an agreed upon availability schedule.

Checks converted to ACH transactions are processed electronically. To use the ACH conversion option, a government entity must establish processes that conform with National Automated Clearing House Association (NACHA) rules. The most visible guideline put forth by NACHA is to provide proper notification to individuals submitting a check as payment.

There are two types of check-to-ACH conversion options:

- Accounts Receivable Conversion - Allows for the conversion of checks to ACH transactions at the point of sale.
- Back Office Conversion – Allows for the conversion of eligible checks to ACH transactions after the point of sale during back office processing.

Each conversion option has its own required process and notification. Checks that are not eligible for conversion may be cleared either as images or re-printed and cleared as paper documents. The re-printed checks are called Image Replacement Documents (IRDs).

The benefits of RDC include:

- **Simplified processing of deposits** – By eliminating a visit to the financial institution, electronic deposits of checks streamline the deposit process and saves time in travel, deposit balancing and data entry.
- **Reduced costs** – Because deposits are made electronically, transportation costs are reduced. In addition, the process streamlines, reduces or redirects staff costs.
- **Accelerated clearing of checks** – Receivables collection is accelerated when deposits are made electronically throughout the day. Reduction in travel time provides a longer time for processing checks. Also, many financial institutions that offer RDC offer extended cutoff time for deposits.
- **Improved availability of funds** - As deposits can take place earlier and in less time, the deposit window is expanded and the availability of funds improves as financial institutions have more time to process checks.
- **Added convenience** – Employees can transmit multiple deposits throughout the day, not restricted to branch hours.
- **Reduced return item risks** – Collection rates may be improved as return items are identified faster.
- **Consolidation of financial institution relationships** –A financial institution’s physical location no longer limits relationships. This portability and competition among financial institutions may allow for a consolidation of financial institution relationships.
- **Broader choice of financial institution relationships** - This same portability and competition among financial institutions may also allow for broader choice of financial relationships.
- **Item archive** – Typical RDC applications include some type of an archive that allows for quick and easy retrieval of images and or transactions.
- **Digitized format and reporting** – All data that is captured can be used in reporting and is easily downloaded and formatted for reports, or system/application integration.

Recommendation. The Government Finance Officers Association (GFOA) recommends that governments consider remote deposit capture to improve efficiency and effectiveness of accounts receivable processing.

In evaluating use of RDC, governments should consider:

- **Security** – Pursuant to standard industry approaches, the government is responsible for the safekeeping or destruction of the original checks. A government should coordinate with their provider for security in the retention, handling, voiding and destruction of the documents and images. While some RDC providers assist with the storage or destruction of the original items, most providers only offer recommended guidelines. Most service providers recommend retention time for keeping the original checks although there is no standard timeline. The timing of the financial institution reconciliation process should be considered when establishing a retention period. Governments should coordinate with their service providers to identify which items must be destroyed in this timeframe.
- **Financial institution policies and regulations** – The financial institution should provide guidance in a timely manner of applicable policies and regulations for RDC and any changes to these as they occur.
- **Image quality** – The government should ensure that the image captured is adequate to allow for processing and possible re-presentation for returned items.
- **Duplicate item presentment** – Governments should establish controls to ensure that items are only presented once for payment. While some service providers offer this service, the government is responsible for ensuring that an RDC-scanned item is processed only once.

- **Cost and risk**– The government should identify all equipment and service costs and determine if there is a cost benefit, and consider any associated risk.
- **Cash deposits** – RDC does not offer any solutions for cash payments, so governments will still need to address the deposit of cash.
- **Integration into existing applications** – RDC is characteristically a desk top application designed for check deposit. Some RDC applications offer additional functionality that includes data-keying, capture of additional data, and download of data with potential further use for reporting or importing into an enterprise system. Because it is an electronic deposit process, RDC may not be able to replicate current manual processes. Most government entities will need to evaluate their current deposit process and potentially re-engineer processes to fully take advantage of the savings and improvements of an RDC application. Not all RDC applications can be effectively integrated into enterprise applications, so data import and automated positing of receivables/enterprise systems should be carefully reviewed.
- **Point of Purchase** – Allows for the conversion of checks to ACH transactions at the point of sale with the physical check returned to the payee during the transaction. This is another electronic conversion option that should be considered based upon the type of transaction.

References.

- *Banking Services*, GFOA, Nick Greifer, 2004.
- National Automated Clearing House Association (NACHA), www.nacha.org.
- The U.S. Federal Reserve, www.federalreserve.gov.
- www.remotedepositcapture.com.

Approved by the GFOA's Executive Board, March 5, 2010.