



RECOMMENDED PRACTICE

Procurement of Banking Services (1997 and 2004 and 2005) (CASH)

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

Recommendation. The Government Finance Officers Association (GFOA) recommends that state and local governments should undertake the following practices to receive effective banking services at reasonable costs:

1. Periodically initiate competitive-bidding and negotiation processes, in accordance with the state and local laws and regulations, for major banking services. The processes should include requests for proposals and should cover services, fees, earnings credit rates, and availability schedules for deposited funds.
2. Have contracts for banking services that specify services, fees, and other components of compensation.
3. Establish a relationship manager who will best understand the needs of the entity and be able to provide service improvement recommendations as well as cohesive communications.
4. Evaluate the relative benefits and costs of paying for services through direct fees, compensating balances, or a combination of the two. Factors to consider in this evaluation are the earnings credit rate, reserve requirements and insurance fees on deposits.
5. Evaluate their needs against the costs and benefits of specific banking services, including but not limited to:
 - Electronic
 - balance and transaction-reporting services
 - stop payments
 - payment 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
 - zero-balance
 - interest-bearing
 - investment sweep account

- Security features
 - positive pay services
 - reconciliation services
 - ACH blocking/filtering capabilities
 - check to ACH conversion
 - NSF/ACH conversion for representation of NSF check
 - collateral requirements

 - Cash management services
 - lock-box services
 - credit card receipt merchant services
 - safekeeping custody arrangements
 - procurement cards
 - payroll/value cards
 - web links for Internet payment for services
6. A cash management review and comprehensive evaluation should be performed prior to the issuance of a RFP to ensure that the cash manager asked for all required and optional banking services. This preliminary work is necessary periodically to take advantage of changes in banking services and technology as new services become available.

References

- *Banking Relations: A Guide for Governments*, Nicholas Greifer, GFOA, 2004.
- *Cash Management for Small Governments*, edited by Ian J. Allan, GFOA, 1989.
- *An Introduction to Treasury Agreements*, Linda Sheimo, GFOA, 1992.
- *An Introduction to Treasury Management Practices*, GFOA, 1998.

Approved by the GFOA Executive Board, March 2005.