



## Government Finance Officers Association

### Recommended Practice

#### Use of Lockbox Services (2003 and 2007) (CASH)

**Background.** Lockbox services are designed to expedite the collection of paper-based payments and provide timely payment information to update accounts receivable records. Lockbox services are usually provided by a third-party processor (usually a bank) that receives, opens, and processes payments for a government entity or business. For most entities, lockbox services should: increase payment and posting accuracy; improve cash flow by reducing processing time between delivery of mail and depositing of payments; and increase staff productivity by freeing personnel from the labor intensive process of manually handling mail, making daily deposits, and posting manual payments.

There are two basic types of lockbox services: wholesale (used for high dollar, low volume payments) and retail (used for high volume, low dollar payments such as taxes, utilities, licenses and fees, and accompanied by standardized remittance documents). Retail lockbox services generally are of primary interest to government entities.

**Recommendation.** The Government Finance Officers Association (GFOA) recommends that government entities evaluate the benefits and costs of utilizing lockbox services to determine if advantages can be gained in the areas of accuracy, cash flow, internal controls, and efficiency. The evaluation should consider:

1. **Availability of Lockbox Services.** Lockbox services have become a mature banking service and most areas typically have multiple banks and companies competing for lockbox processing accounts. Governments seeking a lockbox processor should investigate how local utilities and cable television firms process their payments. In areas that are not serviced, governments should evaluate the use of regional lockbox processors. Other than overcoming the public confusion about sending local payments to an out-of-area address, there is normally no technical requirement for lockbox processing to be performed locally.
2. **Workflow and Cash Flow.** Any evaluation of lockbox services must include:
  - an analysis of the existing workflow from receiving mail to depositing payments and posting receivables,
  - volume of transactions,
  - staffing requirements,
  - time necessary to complete,
  - expected float savings from using a lockbox,
  - security of the process,
  - employee accuracy,
  - enhanced customer service,
  - capital requirements, if any, and

- lockbox service charges.

Costs associated with these processes can then be evaluated against the costs and benefits of outsourcing to a lockbox processor. Particular attention should be paid to any delays in depositing funds or posting of receivables. Most lockbox processors guarantee that payments received are deposited into the organization's bank account the same day they are received.

Some lockbox processors offer the conversion of checks into ACH payments at the lockbox site to decrease processing time. ACH processing may result in a cost savings, as compared to check processing, and should be evaluated as an option for future and existing lockbox services.

3. **Technical Requirements.** Automated lockbox processing has certain technical requirements. The process must begin with a remittance document that meets the processor's specifications. Primary among these specifications is that the document contains a character recognition scan line that includes identification and payment information. Other document requirements typically include: form size, character placement, inclusion of a check digit, ink type, and paper quality. The type of printer used to produce the remittance document can have an impact on lockbox processing error rates and thus on overall costs. Laser printing is recommended with non-magnetic ink.

Depending on the needs and capabilities of the government entity, the transmission of data from the lockbox processor back to the entity can range in sophistication from the exchange of hard copy records to retrieving the information via Internet access. Other options include direct electronic transmission of data and data on CD-ROM. Changes to existing software may be necessary to upload the information electronically. Lockbox processors can also offer data storage services by converting remittances to electronic data and some offer on-line access to digital images of remittance checks and documents.

4. **Other Considerations.** Government billings and cash flows are often cyclical, causing problems in cash management operation staffing levels. Shifting payment processing responsibility to a lockbox processor alleviates the dilemma of adequately staffing to meet a limited number of peak periods versus overburdening a small staff during critical periods. Governmental entities also need to analyze the efficiency and cost/benefit of utilizing payment consolidation services to expedite the processing of on-line payments processed through the customer's financial institution.

GFOA also recommends that any contract entered into by a governmental entity and lockbox provider at a minimum include the following:

- treatment of exception (non-standard) items,
- turnaround time,
- disposition of documents (including imaging capabilities),
- funds availability schedule, and
- error tolerance.

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**

- *Banking Services: A Guide for Governments*, Nick Greifer, GFOA, 2004.
- *An Introduction to Treasury Agreements for State and Local Governments*, Linda Sheimo, GFOA, 1993.

Approved by the GFOA's Executive Board, March 2, 2007.