



GFOA Recommended Practice

Payment Consolidation Services (2007) (CASH)

Background. Payment consolidation services provide an efficient, cost-effective method of collecting payments made through on-line payment services. This service is provided, primarily, by financial institutions and may go by a variety of names such as: “payment consolidation service,” “electronic lockbox,” and “lockbox plus.” Currently, most financial institutions and companies such as CheckFree offer free payment services. Businesses and individuals have the option to make payments directly from their financial institution without the need to write a check or use a mail service to return the payment. They can even designate the specific day the payment should be made.

This new method of making payments has created significant problems for many governments. Governments no longer receive payment stubs with a check, but instead, they receive a check with an attachment listing multiple payments to the government from multiple payees. For entities using lockboxes, this creates exceptions that must be manually processed, often resulting in higher costs and potential delays before funds are deposited. Governments that receive payments directly spend significant additional time on processing since these payments cannot be electronically processed.

In a payment consolidation service, a financial institution acts as an agent on behalf of a government. The selected financial institution provider contacts those other financial institutions that provide online payments and arranges that all the payments to a specific government be sent to them. The financial institution processes these payments, deposits them daily, and sends the data to the government entity in a format that can be processed electronically. This process is similar to how a lockbox works with the exception that the payment consolidation service provider receives the payments and payment information electronically from the online financial institutions. A payment consolidation service allows for faster identification of these online payments so they can be posted more efficiently and accurately to a government’s accounts receivable and ERP systems.

There are numerous benefits to a payment consolidation service, including:

- expedited processing of payments,
- quicker updates to accounts receivable systems,
- reduced payment processing costs for lockbox services,
- reduced costs associated with check-and-list reporting,
- elimination of exception handling of electronic bill payments, and
- lower overall transaction processing costs per payment.

Recommendation. The Government Finance Officers Association (GFOA) recommends that governments consider the use of a payment consolidation service to improve the efficiency of their collection process. A competitive process can be used to select a payment consolidation service provider. Consideration should be given to vendors that provide daily deposits, exception listings, and electronic file remittance to the government entity.

Governments should consider the following when evaluating a consolidation service:

1. **Availability of Consolidation Services.** Governments seeking a consolidation service should evaluate which firms can provide consolidation services.
2. **Workflow and Cash Flow.** Any evaluation of consolidation services must include:
 - an analysis of the existing workflow from receiving mail to depositing payments and posting receivables,
 - volume of transactions,
 - staffing requirements,
 - time required to complete,
 - expected float savings from use of service,
 - security of the process,
 - employee accuracy,
 - customer service,
 - software or capital requirements, if any, and
 - service charges.

Costs associated with these processes can then be evaluated against the costs and benefits of engaging a consolidation service provider. Particular attention should be paid to any delays in depositing funds or posting of receivables.

3. **Technical Requirements.** Consolidation service processing has certain technical requirements. Depending on the needs and capabilities of the government entity, the transmission of data from the consolidation service back to the entity can range in sophistication from the exchange of hard copy records to retrieving the information via Internet access. Changes to existing software may be necessary to upload the information electronically.
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 consolidation service alleviates the dilemma of adequately staffing to meet a limited number of peak periods versus overburdening a small staff during critical periods.

GFOA also recommends that any contract entered into by a government entity and consolidation service 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

- GFOA Recommended Practice, *Use of Lockbox Services*, www.GFOA.org

Approved by the GFOA's Executive Board, October 23, 2007.