GFOA Best Practice

Electronic Payment and Collection Systems

**Background.** Electronic payments are defined as financial transactions that are often initiated through the use of computer terminals, online banking automated phone systems or other methods of electronic funds transfer. Increasingly, governments are using electronic movement of funds and information to provide more ease and accessibility to government services for citizens and taxpayers.

**Electronic disbursement methods include:**

1. Fedwire provides real time processing with guaranteed settlement. The cost per transaction is high and it is generally used for large dollar transactions. Fedwire can be used for domestic as well as international payments.

2. ACH (Automated Clearing House) is a batch process with one or two day settlement. The cost per transaction is low and it is designed for high-volume, low-value transactions. ACH is mostly used domestically, but may be available for international transaction depending on the destination country.

3. Purchase Cards (Procurement Card or PCard) are used to reduce overall purchase and processing costs. The GFOA further recommends that, in addition to review the separately published Best Practice titled “Purchasing Card Programs”.

4. Prepaid Cards can be used for payroll, rebates, incentives, or single payment transactions.

5. EBT (Electronic Benefits Transfer) allows recipient transfer of government benefits to a point of sale terminal or Automated Teller Machines (ATM). Most EBT systems use magnetic stripe cards and online authorization. Smart cards may also be used.

For those governments who use electronic payments, the advantages and disadvantages are:

**Advantages:**

- Eliminates the handling, processing and storage of paper checks.
- Reduces the time spent on reconciliation.
- Improves the ability to control sensitive information that could be used to commit payment fraud.
- Eliminates the occurrence of lost or stolen checks and the cost of check reissuance.
- Enhances internal control of high volume, small dollar procurement, primarily when Purchase and Prepaid cards are utilized.
Disadvantages:

- Inadequate integration with the accounts payable systems.
- Internal controls imbedded in the production cycle of physical checks need to be updated to include electronic payment methods. Emphasis is now on information technology controls.
- Inadequate level of sophisticated services necessary for electronic payments by many smaller banks.
- Increases the need to protect sensitive financial account information stored in a government’s computer system from unauthorized internal and external access.

Electronic collection methods include:

1. Fedwire provides real time processing with guaranteed settlement. The cost per transaction is high and it is generally used for large dollar transactions.
2. ACH (Automated Clearing House) is a batch process with one or two day settlement. The cost per transaction is low. It is designed for high-volume, low-value transactions.
3. Credit Card is a batch process with one to three day settlement. Merchant fees vary by card type and generally range from one to three percent of the amount charged. This includes both Point of Sale (POS) and Mobile Point of Sale (MPOS).
4. Electronic Check Conversion converts checks to ACH collections. It is low cost, and has a one to two day settlement process.

Web based collections offer many advantages to governments and citizens. Payment portals can be linked from a government’s web page and allow a variety of payment methods. If legally authorized and implemented in accordance with appropriate guidelines, convenience fees may be utilized to offset the merchant fees to the customer.

Note: Credit card acceptance is subject to strong industry security requirements known as Payment Card Industry Data Security Standards (PCI-DSS).

Electronic collections offer the following advantages and disadvantages for government users:

Advantages:

- Accelerate receipts and availability of funds.
- Ease of payment and customer convenience.
  - 24 hour access to online payments.
  - Reduced costs for envelopes and postage.
  - Instant acknowledgement of online payment.
  - Opportunity to establish automated recurring electronic payment.
- Reduce cashiering and accounts receivable costs.
- Reduce cashiering lines.
- Enhance bank reconciliation.
- Reduce return check processing cost.
Disadvantages:

- Electronic collection systems may have inadequate or no integration with accounts receivable systems.
- Internal controls emphasis moves from manual posting of receipts to information technology control.
- Many small banks do not offer the level of sophistication necessary for electronic receipts.

**Recommendation.** The Government Finance Officers Association (GFOA) recommends that state and local governments should perform cost/benefit analyses, implement safeguards and routinely evaluate opportunities to make and receive electronic payments that are suitable for their specific needs in the following:

**Disbursements**

- Payroll and retirement payments
- Expense reimbursements
- Vendor payments
- Social benefits and child support payments
- Intergovernmental payments
- Other recurring payments

**Collections**

- Utility payments
- Tax payments
- License payments
- Grant payment
- Tuition payments
- Traffic tickets
- Other receipts

The GFOA further recommends that as part of their evaluation governments should also consider:

**Costs/Benefits**

- Cost savings versus bank/merchant fees and implementations costs
- Customer needs and desires
- Staff skills
- Information technology resources and the ability of government’s financial system to either generate or receive electronic transactions
- Impact (either positive or negative) on the availability of funds and interest earnings
- Statutes and regulations
- Safeguards
- Strong internal and information technology controls on all programs, data files and devices related to customers and employees information to ensure privacy and prevent unauthorized use, including network security to protect data files from internal and external threats.
- Written agreements that establish procedures, risk exposure, and indemnification issues should be executed with banks and third party providers.
- Strong segregation of duties, including dual control for the establishment of templates and the authorization of transactions, establishment of dollar limits for authorized personnel and the establishment and use of passwords, PINS and secure authentication for authorized personnel to initiate transactions.
- Bank service structure, including file receipt verification by the Originating Depository Financial Institution, establishment and use of adequate controls against unauthorized ACH debits, such as blocks and filters, the use of separate accounts for ACH debit activity where volume and type of payment warrants it, pre-noting or testing ACH transactions to vendors and employees when practical and the use of an ACH format that supports the transmission of the remittance advice when needed.
- Authorization of all ACH activity should be pursuant to NACHA rules and Federal Regulation.
- Implementation and periodic review of internal controls that address access control, confidentiality of data, integrity of data, and other information security issues as appropriate. Internal controls implementation and review should incorporate the current Payment Card Industry Standards.

References.


GFOA Best Practice, “Purchasing Card Programs”

GFOA Best Practice, “Accepting Payment Cards & Selection of Payment Card Service Providers”


Payment Card Industry Standards: [https://www.pcisecuritystandards.org/](https://www.pcisecuritystandards.org/).

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