

# Procurement of Banking Services

The original recommended practice was developed by the Government Finance Officers Association (GFOA). Some aspects of the practice have been revised by the Financial Management Capacity Building Committee (FMCBC) for use by Nova Scotia municipal governments. The original GFOA recommended practice is *Procurement of Financial services*, approved by the GFOA Executive Board, 2005. Other sources used are footnoted in the text.

## Recommendation

The Government Finance Officers Association (GFOA) recommends that local governments should receive effective banking services at reasonable costs. When municipalities are selecting banking services, the GFOA recommends that municipalities consider the following practices:

- Periodically initiate competitive-bidding and negotiation processes.
- Have contracts for financial services that specify services, fees, and other components of compensation.
- Establish a relationship manager who will best understand the needs of the entity and be able to provide service improvement recommendations and cohesive communications.
- Evaluate the benefits and costs of paying for services through direct fees, compensating balances, or a combination of the two.
- Evaluate their needs against the costs and benefits of specific financial services, which may include electronic services, accounts, security features, and cash management services.

## Purpose

The purpose of procuring the proper financial services for a municipality is to ensure that a municipality selects the financial services best suited for their needs. Many financial institutions offer many different services, however, a municipality should be aware of all of the services that are available. Municipalities should also competitively select their financial institution based on the various services that can be made available. Opportunities may exist by jointly procuring financial services with other units.

## Background

Municipalities all use a variety of financial services offered for the deposits, disbursements, and safekeeping of public monies. There have been continual changes in technology, cash management practices, and financial institution industry structures.

Cash managers and municipalities are also offered significant opportunities to re-evaluate financial services and costs.

## Considerations for Policy Development

There are many different services a municipality can acquire from financial institutions. Municipalities should be aware of the various financial services available from different financial institutions. More importantly, municipalities should evaluate if they are willing to pay for these services. All of these additional services come at various costs, and municipalities should consider the costs associated with the desired service. The following ten financial services are only some of the services available from various financial institutions. These ten services are elaborated in *Appendix I*.

1. Reconciliation Services
2. Acceptance of Payments of Account
3. Positive Pay
4. Relationship Management
5. Purchasing Card Processing
6. Lockbox
7. Online Financial Banking / Telephone Financial Banking
8. Electronic Services
9. Direct Deposit
10. Security

Municipalities should consult Annex 502.4 – Procurement – Provisions for municipalities and municipal organizations in the Agreement on Internal Trade (Consolidated Version) on page 47, which outlines the procurement responsibilities of municipalities ([http://www.ait-aci.ca/index\\_en/ait.htm](http://www.ait-aci.ca/index_en/ait.htm)) when procuring financial services.

Furthermore, municipalities are required to consult the Agreement on Internal Trade ([http://www.ait-aci.ca/index\\_en/ait.htm](http://www.ait-aci.ca/index_en/ait.htm)) and the Atlantic Procurement Agreement ([http://www.gov.ns.ca/tenders/policy/htm\\_files/atlpro.htm](http://www.gov.ns.ca/tenders/policy/htm_files/atlpro.htm)). If a municipality wishes to seek assistance, the Department Nova Scotia Economic Development – Procurement Division will provide support (<http://www.gov.ns.ca/tenders/>).

## Appendices

### Appendix I: Components to Consider when Procuring Financial Services

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### *1. Reconciliation Services*

Reconciliation services provided by the financial institution can allow a municipality to reconcile its cheques in an automated fashion. Reconciliation services provided by the financial institution can offer different levels of information to facilitate the reconciliation of the municipality's operating account statement for a selected period. Reconciliation services have the ability to save municipality's time in reconciling their financial institution statements, and can help identify fraudulent items.<sup>1</sup>

Reconciliation services can provide comprehensive reports in balance with a municipality's financial institution statement in electronic format. Financial institutions may offer flexible reconciliation periods to correspond with a municipality's reporting periods (for example, daily, weekly, bi-monthly, or monthly). Financial institutions may offer a variety of special features when reconciling a municipality's account. Some service features may include:

- Matching paid cheques against the issued cheque list provided by the municipality
- Paid cheques can be provided in serial number order
- Reports can be made available electronically or in hardcopy form.<sup>2</sup>

### *2. Acceptance of Payments of Account*

Acceptance of payment of account (APA) provides a municipality with payment collection (taxes and fees) with a fast depositing system to the municipality's account. Financial institutions often work cooperatively with other financial institutions to accept non-electronic bill payments on the municipality's behalf. APA can provide taxpayers with more tax payment and fee payment options. APA allows taxpayers to pay by telephone or online, which enables municipalities to receive their funds faster. This will enhance the efficiency and speed that the payments are received.<sup>3</sup>

Some financial institutions may offer additional service features that municipalities may want to consider when procuring financial services:

- One point of contact
  - The financial institution can make arrangements with other financial institutions to accept bill payment, and the municipality's financial institution will act as the single point of contact for all service-related issues.

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<sup>1</sup> CIBC. Account Reconciliation Service. <http://www.cibc.com/ca/small-business/cash-management/acct-reconciliation-srvc.html>.

<sup>2</sup> Ibid.

<sup>3</sup> CIBC – Global Deposits & Payments. Acceptance of Payments of Account (APA).  
<http://www.cibc.com/ca/lrg-corporate/cash-management/accept-of-pmnts-accts.html>.

- Electronic payment option
  - The electronic payments can be made at the automated financial institution machines or through telephone and online banking services of participating financial institutions.
  - The financial institutions can forward the remittance information and funds to the financial institution electronically, and it can consolidate the electronic remittance information and forward it to the municipality.
- Accelerated depositing of funds
  - Deposits to the municipality are received faster because all participating financial institutions exchange their settlements electronically.<sup>4</sup>

### *3. Positive Pay*

Positive pay is an automated cheque matching process, where the issued cheques list is matched to the daily paid items and exception items are identified (such as fraudulent cheques). These are often recorded on a daily report and are referred back to the municipality for pay or no pay instructions.

Positive pay has the potential to reduce exposure to cheque fraud and identify exception items at the time of presentment, rather than subsequent statement reconciliation. Positive pay can also limit the reconciliation process to unmatched items. Lastly, positive pay can enable financial institutions to send copies of exception items to the municipality for their review, which can potentially reduce fraud and identify theft more quickly.<sup>5</sup>

Different financial institutions may offer different services with regards to positive pay. Municipalities should examine the different services that best suit its needs.

- Electronic matching is based solely on cheque serial number and the encoded amount.
- Some financial institutions will provide a payee match service, where the cheque is compared to the payee information on the issued cheque file. If the information does not match, the municipality will be notified to provide a pay or no pay decision.
- Cheques matching information on the issued cheque file municipalities provide the financial institution is automatically paid.
- The financial institution can fax or electronically send a copy of the exception items report, which can detail the cheque serial number account. This will allow the municipality to provide a pay or no pay instructions quickly.
- A full account reconciliation period will be sent at the end of the municipality's accounting period.<sup>6</sup>

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<sup>4</sup> CIBC – Global Deposits & Payments. [Acceptance of Payments of Account \(APA\)](http://www.cibc.com/ca/lrg-corporate/cash-management/accept-of-pmnts-accts.html).

<http://www.cibc.com/ca/lrg-corporate/cash-management/accept-of-pmnts-accts.html>.

<sup>5</sup> CIBC. Positive Pay. <http://www.cibc.com/ca/commercial/business-solutions/cash-management/positive-pay.html>.

<sup>6</sup> Ibid.

#### 4. Relationship Management

It is important for the financial institution to recognize the specific needs and requirements of the municipality it represents. Each municipality's needs are unique, and financial institutions should respond to those individual needs. Each financial institution should provide a municipality with a relationship manager that knows the detailed information of the municipality's banking needs. The relationship manager should have a long-term commitment to the municipality and have a team of experts capable of meeting the municipality's needs.<sup>7</sup>

#### 5. Purchasing Card Processing

If a municipality is interested in acquiring purchasing cards, they should consider a financial institution that will enable a purchasing card system. If a municipality decides to implement a purchasing card system for its municipal employees, it should consider a financial institution that has a suitable purchasing card system. For further information on purchasing cards, please see the recommendation by the FMCBC's *Purchasing Card Programs* best practice (<http://www.gov.ns.ca/nsmfc/documents/PurchasingCards.pdf>).

#### 6. Lockbox

Payments go directly to the lockbox, which is opened by the financial institution on behalf of the municipality. Lockbox eliminates in-house remittance processing for payments received from the municipality's taxpayers. A lockbox system managed by the financial institution enables a faster collection of the taxpayer's payments. This system can enhance a municipality's cash flow and the time spent waiting for the money to be received. A financial institution is also capable of creating an electronic file listing the details of all of the invoices paid.<sup>8</sup>

Lockboxes can reduce mail delays. With a lockbox, manual processing and cheque handling expenses can be eliminated, and the reconciliation time can be significantly reduced. Accounts receivable management and reporting can be simplified, and cash flow forecasting can be improved.<sup>9</sup>

If a municipality decides to have a lockbox with a financial institution, there are certain service features available that they may want to consider:

- The financial institution can provide the municipality with a deposit summary by fax or phone on the same day as the deposit.
- A detailed report can be sent electronically on the same day as the deposit.

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<sup>7</sup> Scotiabank. [Relationship Management](http://www.scotiabank.com/cda/content/0,1608,CID8179_LIDen,00.html).

[http://www.scotiabank.com/cda/content/0,1608,CID8179\\_LIDen,00.html](http://www.scotiabank.com/cda/content/0,1608,CID8179_LIDen,00.html).

<sup>8</sup> CIBC. [Lockbox](http://www.cibc.com/ca/small-business/cashmanagement/lockbox.html). <http://www.cibc.com/ca/small-business/cashmanagement/lockbox.html>.

<sup>9</sup> Scotiabank. [Lockbox Features](http://www.scotiabank.com/cda/content/0,1608,CID6161_LIDen,00.html).

[http://www.scotiabank.com/cda/content/0,1608,CID6161\\_LIDen,00.html](http://www.scotiabank.com/cda/content/0,1608,CID6161_LIDen,00.html).

- Daily backup materials can be batched and sorted according to the municipality's specifications, and can be sent to the municipality.<sup>10</sup>

## 7. *Online Banking / Telephone Banking*

There are two ways a financial institution can offer services without a municipal employee going down to the financial institution branch: online and telephone banking. Online and telephone banking also provides convenience by allowing municipalities to receive payments electronically from ratepayers / taxpayers.

### a) *Online Banking*

Online banking allows a municipality to manage its finances and cash flow through reviewing account activities, paying bills, and transfer funds at one place at any time of the day. Online banking provides significant convenience for municipalities, which can result in enhanced efficiency. Municipalities have access to their account balances, which results in greater control and monitoring of its cash flows.<sup>11</sup>

One of the more useful functions of online banking is wire payment, which involve delivery of funds online. Wire payments can be a safe and secure payment method for municipalities, which can increase their efficiency.<sup>12</sup> Municipalities can also establish their payment templates and pre-define payment instructions. There can be repetitive or one-time payments, same-day or future-value payments, or local, provincial, or federal payments.<sup>13</sup>

Some important benefits to wire payments are:

- Finality of payment
  - Wire payments are final, they cannot be recalled without permission of the payee and settlement is guaranteed.
- Convenience
  - Wire payments can be done at the municipal office with flexible options and templates.
- Added control
  - Municipal administrators can access each employee accounts, dollar amounts, and payment templates.
- Ease of use
  - Most online financial institution wire payments are very user friendly.<sup>14</sup>

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<sup>10</sup> CIBC. Lockbox. <http://www.cibc.com/ca/small-business/cashmanagement/lockbox.html>.

<sup>11</sup> RBC Royal Bank. Internet Online Bankning.  
[http://www.rbcroyalbank.com/RBC:QrrHY71A8MAAibiWH8/business/services/internet\\_banking.html](http://www.rbcroyalbank.com/RBC:QrrHY71A8MAAibiWH8/business/services/internet_banking.html).

<sup>12</sup> Scotiabank. Wire Payments. [http://www.scotiabank.com/cda/content/0,1608,CID6163\\_LIDen,00.html](http://www.scotiabank.com/cda/content/0,1608,CID6163_LIDen,00.html).

<sup>13</sup> BMO Bank of Montreal. Wire Payments.  
[http://www4.bmo.com/business/0,4344,35490\\_36178,00.html](http://www4.bmo.com/business/0,4344,35490_36178,00.html).

<sup>14</sup> BMO Bank of Montreal. Wire Payments.  
[http://www4.bmo.com/business/0,4344,35490\\_36178,00.html](http://www4.bmo.com/business/0,4344,35490_36178,00.html).

When a municipality is selecting a financial institution to perform its online banking, it should ensure that their security measures are thorough, and will protect the municipality's confidential and sensitive information. For further information on comprehensive security measures, please see item *10. Security*.

*b) Telephone Banking*

With most financial institutions, if a municipality has access to online banking, they have access to telephone banking. Similar to online banking, telephone banking enables access to a municipality's account beyond business hours and any place where there is access to a telephone. Many financial institutions offer a toll-free number, so there is usually no fee for the municipality. This may provide a better alternative to online banking where internet access is not available.<sup>15</sup>

The same concepts of online banking apply to telephone banking. Typically the same services offered with online banking are available through telephone banking. Municipalities should also be concerned with similar security issues surrounding online banking when initiating telephone banking. For further security issues, see item 10 Security.

*8. Electronic Services*

Financial institutions have traditionally provided many paper documents and procedures, however, these can now be provided electronically. Some examples of services that financial institutions can provide for municipalities are electronic daily statements, electronic cheque services, and cheque imaging.

- Electronic Daily Statement (EDS)
  - All daily transaction details can be received electronically for easy reconciliation.
  - EDS can include daily account balances, total debits and credits, individual transaction details, and previous day closing account balances.
  - EDS's can be directly delivered to the municipality in a variety of formats.<sup>16</sup>
- Electronic Cheque Services
  - There are various electronic cheque services:
    - Cheque reconciliation
      - Automate and streamline cheque reconciliation processes at predetermined times.

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<sup>15</sup> RBC Royal Bank. [Telephone Financial institutioning](http://www.rbcroyalbank.com/RBC:QrrHY71A8MAAbiWH8/business/services/banking_phone.html).  
[http://www.rbcroyalbank.com/RBC:QrrHY71A8MAAbiWH8/business/services/banking\\_phone.html](http://www.rbcroyalbank.com/RBC:QrrHY71A8MAAbiWH8/business/services/banking_phone.html).

<sup>16</sup> Scotiabank. [Electronic Daily Services](http://www.scotiabank.com/cda/content/0,1608,CID8300_LIDen,00.html).  
[http://www.scotiabank.com/cda/content/0,1608,CID8300\\_LIDen,00.html](http://www.scotiabank.com/cda/content/0,1608,CID8300_LIDen,00.html).

- Fraud detection
  - Virtually eliminate the risk of fraud by monitoring and identifying cheques.<sup>17</sup>
- Cheque Imaging
  - Cheque imaging allows a municipality to store and retrieve cheques using an image library provided by the financial institution.
  - Cheque imaging allows the municipality to access the image of an original cheque (front and back), and store it on a CD.
  - This can enable a municipality to develop a comprehensive and efficient filing system to retrieve cheques more quickly.<sup>18</sup>

## *9. Direct Deposit*

Direct deposit enables municipalities to pay employees and suppliers easily and cost-effectively. Most financial institutions can easily enable direct deposit directly into the individual accounts specified at Canadian financial institutions. In order for employees and suppliers to receive direct deposit, they must provide the municipality with their financial institution information, and provide the correct authorization allowing the municipality to directly deposit the respective funds. Direct deposits are most commonly found for municipal employee's payroll process. This provides a safer and more confidential method of paying municipal employees.<sup>19</sup>

There are key benefits to implementing a direct deposit system within a municipality.

- Saves the municipality money
  - Paper cheques take time and cost money, but direct deposit allows for a more efficient use of a municipality's administrative resources.
  - Direct deposit can reduce administrative and operating costs.
- Increase efficiency
  - Direct deposit reduces the time required to manually issue cheques and send them to the recipients. The financial institution automatically deposits the cheques to the recipient, resulting in a much faster transaction.
- Easier to do payroll
  - As long as an employee is registered for direct deposit, the financial institution will handle the depositing of their salary or wages.
  - Employees will get paid on the established time and date set by the municipality and the financial institution.
- Convenient
  - Payments through direct deposit are very reliable, and the money can be received at a set time and date.

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<sup>17</sup> Scotiabank. [Electronic Cheque Services.](http://www.scotiabank.com/cda/content/0,1608,CID8365_LIDen,00.html)

[http://www.scotiabank.com/cda/content/0,1608,CID8365\\_LIDen,00.html](http://www.scotiabank.com/cda/content/0,1608,CID8365_LIDen,00.html).

<sup>18</sup> CIBC. [Cheque Imaging.](http://www.cibc.com/ca/lrg-corporate/cashmanagement/cheque-imaging.html) <http://www.cibc.com/ca/lrg-corporate/cashmanagement/cheque-imaging.html>.

<sup>19</sup> CIBC. [Direct Deposit.](http://www.cibc.com/ca/lrg-corporate/cash-management/directdeposit.html) <http://www.cibc.com/ca/lrg-corporate/cash-management/directdeposit.html>.

- Direct deposit is also convenient because the deposits are made directly into the respective financial institution's accounts, ensuring the money is received immediately.<sup>20</sup>

## 10. Security

When placing confidential information online, it is extremely important to establish security measures to keep that information protected. Financial institutions may provide security measures or assurances, and municipalities should seek financial institutions that ensure certain aspects of security.

- Authentication
  - Authentication involves the municipality and the financial institution verifying each other's identity during the exchange of sensitive and confidential information.
  - In the case of online municipal services, IDs and passwords provide authentication.
  - This can help prevent malicious third parties from accessing the sensitive and confidential information.<sup>21</sup>
- Certification Authority
  - A certification authority is a trusted third party that issues certification that can be used by the municipality or the financial institution to verify their identity or credentials.<sup>22</sup>
- Digital Certificate
  - A digital certificate is a digital stamp using encryption technology to certify where an electronic document originated.<sup>23</sup>
  - External companies can provide digital certificates, which provides certification authority (such as Entrust or Verisign). These services can be verified by seeing a closed padlock that appears at the bottom of the browser site when using the website.<sup>24</sup>
  - This provides a high level of identity verification.
- Electronic Signatures
  - A digital signature has similar properties to a handwritten signature.
  - It provides authentication, proof of identity, non-repudiation, proof that transaction took place, and integrity.<sup>25</sup>
- Encryption.
  - Encryption is the process of scrambling or encrypting the data in a form that cannot be read or understood by unauthorized individuals.

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<sup>20</sup> CIBC. Direct Deposit. <http://www.cibc.com/ca/lrg-corporate/cash-management/directdeposit.html>.

<sup>21</sup> RBC Financial Group. Security Glossary. <http://www.rbc.com/security/glossary.html>.

<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

<sup>24</sup> BMO Bank of Montreal. Online Banking FAQs.

[http://www4.bmo.com/business/0,4518,35490\\_36241,00.html](http://www4.bmo.com/business/0,4518,35490_36241,00.html).

<sup>25</sup> RBC Financial Group. Security Glossary. <http://www.rbc.com/security/glossary.html>.

- This ensures security during transactions over the internet and protecting the confidential information stored in the municipality's databases.<sup>26</sup>
- When accepting electronic payments, municipal websites should automatically log the user out if they are inactive for more than ten minutes, and any unfinished transactions will not be processed.
- Privacy Policy.
  - The financial institution should have a comprehensive privacy policy available for online banking and online transactions.
  - When selecting a financial institution, their privacy policies should be aligned with the needs of the municipality.

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<sup>26</sup> RBC Financial Group. Security Glossary. <http://www.rbc.com/security/glossary.html>.

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