



CITY OF FORT BRAGG

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COUNCIL COMMITTEE ITEM SUMMARY REPORT

MEETING DATE: May 28, 2014
TO: Finance and Administration Committee
FROM: Rosana Cimolino, Finance Director
AGENDA ITEM TITLE: **Receive Report Regarding Implementation of LockBox Services and Discuss with Staff**

ISSUE:

To increase efficiency in the Finance Department staff is recommending establishing a lockbox service with Wells Fargo Bank.

SUMMARY:

Utility billing payments received in the mail are currently processed by Finance Department staff. One way to streamline the collection of water, sewer, utility, or other types of recurring remittances is to outsource the processing to a lockbox provider. Lockbox processing involves a third party service provider (typically a bank) handling all of the activities involved with remittances, including collecting, depositing, and reporting. By using lockbox services, a government reduces mail float, processing float, and check clearing float, allowing funds to be collected more quickly than through normal in-house processing. The primary cost component of lockbox processing is the per item fee.

Lockbox processors will perform the following basic functions for a government: collect remittances from the Post Office, open the mail, scan or key in the coupon information, scan or key in the check information, encode and endorse all of the checks received, deposit the checks to make check clearing deadlines, and create and send an electronic file and/or a hard copy report with information on the items processed each day. Any number of exception-type activities can be arranged for, such as creating customized reports, mailing any correspondence received, making photocopies of the checks received, reconciling mismatched items, etc.

Lockbox services are designed to expedite the collection of paper-based payments and provide timely payment information to update accounts receivable records. 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. Receipts are transmitted for automated download and posting/crediting to individual accounts.

Most lockbox services function in the following manner:

1. The bank contracted to provide lockbox service maintains a separate post office box in the government's name.
2. Customers' remittances (that is, the document indicating amount due) and enclosed check are mailed to the specific post office box, rather than to the post office box for the government's regular mail (often facilitated by using pre-addressed, bar-coded envelopes).
3. The bank collects the remittances periodically during the day. Depending on volume, the bank may collect remittances perhaps as often as once every two hours or as infrequently as once a day.
4. Bank staff opens the remittances and sorts the check payments and accompanying data.
5. Checks that match the particular bill, invoice, or other data are processed for deposit that day.
6. Exceptions (non-matching items) may or may not be processed according to the special customized computer program. Any checks that are not processed are turned over to the government for action.
7. Copies of all normal, accepted remittances and accompanying data are forwarded daily to the government (on CD-ROM and/or via the bank's online reporting) for its internal posting process. The posting process is automated among some governments. That is, the responsible government financial manager can capture data from the bank's online reporting tool and automatically post it to the internal financial management system.

Lockbox service will increase staff productivity by freeing personnel from manually handling mail and posting manual payments. Payment information will be received in a report that can be uploaded to Springbrook. Staff time can be reallocated to higher-valued tasks such as auditing and analysis of revenue, expenses, and business processes. Billings and payments are cyclical, creating peaks and valleys in cash management staffing demand. Shifting payment processing responsibility to a lockbox processor alleviates staffing challenges such as overburdening our small staff during critical periods.

Lockbox service also establishes an improved audit trail with reduced storage of documents by the City. Lockbox systems store this data electronically and it remains accessible to the staff indefinitely.

An analysis of the cost for the service will be provided at the meeting.

RECOMMENDATION:

Receive report and provide direction to staff regarding establishing lockbox service.

ATTACHMENTS:

Exhibit A: Analysis of lockbox service cost compared to staff costs (to be distributed at the meeting)