



Outsourcing Payables Resource

This Resource should be read in tandem with GFOA's Best Practice -
Payments Made by Governments

Background

GFOA recommends* that governments evaluate their Treasury office's payables function to consider if there is a benefit to outsourcing any of its payment functions to a third-party provider.

Outsourcing the payment function means to use a third-party entity to process payments that would typically flow through a government's accounts payable process. Outsourcing payments does not strip the government of the approval process of payments nor the fiduciary duty of treasury staff for these responsibilities. Approved payables are sent by the government to the third-party payment provider who will then issue the payments via check, ACH, payment card and other agreed-upon payment methods (however, please note that GFOA does not recommend outsourcing wire payments). It is also important for governments to be aware of expanding payment methods and to learn about these technologies. By streamlining the payment process and with enhanced controls in place that are part of the construct of banks and third-party payment providers, as well as the providers having insurance coverage, outsourcing the payables function could save staff time, mitigate risk, generate rebate revenue to the government, and have other positive impacts.

When evaluating if outsourcing the payables function makes sense, governments should also determine if all or particular types of payments should be outsourced, who will control the method for each payment (government, vendor or the payment provider), the timing for payments made, and the impact of that timing on the entity's balance sheet (e.g., real-time payment platforms vs checks).

Governments should engage in a thorough review of its current payment processes, and how they can be enhanced internally and/or externally.

Considerations

Governments should consider the following variables when determining whether outsourcing the entity's payables function is the right decision:

General

- Ask yourself – What are the entity's goals? What problems are trying to be solved? (e.g., overall efficiency, eliminating 'check writing' in the office, staff constraints, fraud prevention, cost savings etc.). Can these issues be addressed internally or is an external service more viable?
- Know if there are any State and local laws pertaining to payables and, if so, ensure that outsourcing the payables function is permissible.

- Discuss current payables procedures and options for outsourcing with key staff in the Treasury, Finance and other affected offices.
- Governments should identify the risks of each of their current processes. If the government has weak controls for verifying vendor bank account changes, it may be beneficial to transfer that process to a third-party payment provider who will make all ACH payments. As discussed in the Payments Made by Governments Best Practice, an important first step with any payables processing policies and procedures is to ensure that there is a sufficient purchase order process. Governments need to have robust review and authorization procedures for any payables made by the government to both enhance the invoice workflow process and to mitigate against fraudulent activity.
- Governments should have clear approval and workflow processes that apply internally and to external vendors' orders, invoices, payments, and other changes.
- Governments should determine what factors to consider when looking at outsourcing payables function (e.g., internal staffing, direct and indirect costs/savings, contract management, internal controls and security, physical check legacy issues, reconciliation processes, fraud prevention, recordkeeping, vendor relationships).
- Governments should determine what types of payments are currently being used by the government and how outsourcing payables might change the main type of payable (e.g., going from paper checks to ACH payments). Additionally, would such a change create a more expensive or less expensive total transaction cost for the government?
- Governments should understand the benefits of each of their current processes (checks, ACH, payment card), and where enhancements can be made to benefit the payables process.
- Governments should estimate the costs of each of their current processes. For example, the average cost to process a check is around \$3.00, if not more per check according to the Association of Finance Professional's 2022 Payment Costs Survey. This means that if your entity issues 5,000 checks each year, your check processing function costs \$15k or more annually.
- Work with your entity's procurement office regarding vendor payment details in contracts, and whether vendors can be paid through more efficient means.
- Consider if there are incentives that can be given to payees for more cost effective payment methods.
- Governments should also determine the level of controls they wish to retain and/or place with an outsourcing payment provider, including transferring and maintaining vendor data.

Payment Processes

- Governments should determine if there are invoices/payables that can NOT be outsourced and must be managed by the government (wires, p-cards, checks needed immediately).
- Governments should determine if they should outsource all types of payments, and/or if there are different considerations for each type of payable.
- If outsourcing multiple payment types, governments should consider the benefits of having the same third-party entity process those payment types.

Selecting Vendor – RFIs and RFPs

- Governments should ensure their own infrastructure and that of the bank/vendor is robust in preventing fraudulent activity, and be aware of which party has liability for any mishaps (including how files and vendor information are sent and received).
- Governments should discuss whether the third-party payment provider has experience with handling a government's payables function, be able to provide references, and discuss the options available, and the costs for such services, including start-up and ongoing costs.
- Governments should consider the potential disruption of terminating the third-party payment provider relationship down the road, if necessary. What impact will changing payment companies have on the government's vendors and on the government itself? Further, if the government has other business with the payment company, how will that business be impacted by such a termination.
- Governments should understand what service level guarantees are included in the contract, and what related remedies exist.
- Governments should engage in a RFP process to find the best outsourcing partner for them – whether that is a bank or third-party payment provider, and complete an overall cost/benefit analysis to determine if savings and/or other goals will be met. RFP components may include:
 - What are the transaction costs? (cost per transaction will likely differ by payment type)
 - What is the base fee, if any?
 - What is the rebate percentage? (how much money will be returned to you for payments that are made via card)
 - Does the rebate percentage apply to all card payments, or will you receive a lower rebate on high ticket payments?
 - Review the results of vendor match analysis. You should provide a list of active vendors along with payment volume (# and \$) for each vendor over a specified time (usually 12 months of data is sufficient). The proposer should be able to tell you which of those vendors they already have in their system and let you know how that impacts their cost proposal. They should be able to use the vendor match results to project the number of each transaction type (helps with the cost estimate), and how much payment volume is eligible for rebate (helps with the rebate amount).
 - Describe the vendor enablement process -- This will explain how they onboard new vendors. Do they handle it all? Or does the government have a role?
 - How often do they check with your vendors about changing payment methods?
 - Describe the vendor maintenance process -- This will explain their process for updating vendor data such as banking information, address, contacts, etc. There should be particular focus on how they verify the legitimacy of a change to the vendor's bank account information.
 - Do they guarantee the payments? For example -- If they issue a \$5,000 ACH payment to the wrong bank account, what happens? Is the government out \$5,000? Or does the third-party payment provider cover that? This could happen if they got tricked into changing a vendor's bank account information through fraud. A company with a strong vendor maintenance process should guarantee the payments because they are confident in their controls.
 - Request and call references.
 - How long does it take to process each type of payment? Be sure to understand the timeline from the payment processing deadline all the way through to when the vendor will receive your payment.

- What is their business model? What else do they do? A company whose sole focus is on delivering payments will make more of their money by getting a cut of the interchange fee on card payments. As a result, they are going to be very motivated to issue payments via card. If rebate revenue is important to the government, this is a key item to understand.
- Who will the government contact when support is needed? Will there be a dedicated account manager, or will the government have to contact a general support phone number/email.
- Who will the vendor contact when support is needed?
- Request a Systems and Organization (SOC-3) report to review their controls. Review it and ask questions.

Implementation

- Government should determine whether all payables could or should be outsourced, whether the government wishes to dictate how payments will be made (e.g., ACH, check) or if that can be determined between the third-party payment provider and the vendors receiving payment, and how to address unique types of payments such as emergency spending and jury duty.
- Governments should discuss internally and with third-party payment providers how information about a vendor being paid by the government is verified, and the process for any changes to that information. The handling of identifying information (EIN, SSN) should also be known.
- Governments should ensure their own infrastructure and that of the third-party payment provider is robust in preventing fraudulent activity, and be aware of which party has liability for any mishaps (including how files are sent and received).
- Governments should have a robust communications plan in place with internal departments and with the third-party payment provider both during the startup period and on an ongoing basis.
- Governments should work with the third-party payment provider to train government staff on the appropriate policies and procedures, including internal controls, when outsourcing payables.
- Governments should understand who to contact for support and who their vendors should contact for support.
- Governments should review all outstanding contracts related to their current payables program to ensure they would not be double paying for similar services.

Resources

GFOA Best Practice, Payments Made By Governments, <https://www.gfoa.org/materials/payments-made-by-governments> *

GFOA Best Practice, Procurement of Financial Services, <https://www.gfoa.org/materials/procurement-of-financial-services>

GFOA Best Practice, Due Diligence of Financial Services Providers, pending

Banking Services RFP Checklist, https://gfoaorg.cdn.prismic.io/gfoaorg/23baa72f-d3ae-4e7e-8450-11df18aa8ca2_BankingRFPChecklist_Final.pdf

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