

Automated Lockbox Services

Getting in Lockstep with Processing Demands

A SourceHOV White Paper

Michael Smith
Senior Director of Business Development



Like many organizations, the government is no stranger to economic pain. Events shaping the current landscape include workforce reductions, budget cuts and increased expenses – all these create challenges for State Department of Revenue (DOR) organizations. Amid the layoffs and hiring freezes the underlying pressure remains: do more with less and still efficiently collect and account for the state's revenue to improve cash flow.

Delivering quality services for taxpayers will always be a key agency priority. But, with fewer staff resources administering services using manual or inefficient processes can hinder the ability to respond to taxpayer inquiries, process returns, deposit money or issue refunds in a timely manner. While the movement to an electronic processing environment continues to move forward, and with some states now requiring taxpayers to issue payments electronically, still many states rely on older technology and paper transactions.

Even with an increasing proportion of documentation that is now electronic, managing revenue processes in a blended payment environment still requires the right resources, systems, processes and expertise. Inefficiencies in managing the tax return process at any point along the continuum from keying tax returns to processing tax refunds, distributing or depositing tax payments can contribute to inefficiencies, errors, budgetary waste and excess costs.

In November 2011, the House Oversight and Government Reform Committee passed H.R. 3029, a bill that aims to cut the federal workforce by 10 percent over the next three years.² Some states such as Minnesota may see as much as a 15 percent reduction over the next four years.

For your department the careful management of taxpayer dollars is paramount. Programs such as public safety, transportation, economic development and environmental protection are funded by revenue the departments of revenue

collect in order to support state and local government entities and initiatives. And states are often still dealing with budget shortfalls most due to revenue loss. According to the Center on Budget and Policy Priorities, 18 states are on track to lose \$4.6 billion in state corporate and individual income tax revenues during the next two state fiscal years.¹

Revenue loss can be attributed to reduced local property tax rates, fewer construction projects and other expenditures that occur due to limited staff resources. For example, an increase in tax refund delays due to fewer processing staff results in more interest paid to taxpayers due to late refunds. Insufficient resources and antiquated systems can also impact the speed of deposits and increase cash float.

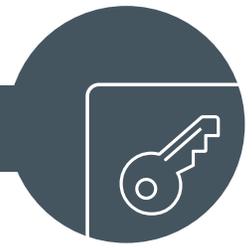
With fewer resources and increased documentation requirements, department of revenue organizations need better solutions that solve their staffing issue, improve processing time and facilitates regulatory compliance. Relying on manual processes and internal resources inhibits revenue organizations from efficiently and effectively administering revenue and serving the taxpayers in their jurisdiction. An experienced Business Process Services (BPS) partner with automated lockbox processing services can help revenue organizations overcome their staffing challenge, reduce or improve check deposit time and minimize cash float. By leveraging technology, your department can streamline remittance processes, increase deposit speed and capture revenue more quickly.

The Digital Divide

The passage of the Check Clearing for the 21st Century Act (Check 21) created new electronic depositing options, but it also compounded management challenges for Department of Revenue organizations. Designed to make check processing more efficient, Check 21 enables banks to process check information electronically and deliver substitute checks to banks that want to continue receiving paper checks.

¹ Center on Budget and Policy Priorities, "States Can Avert New Revenue Loss And Protect Their Economies by Decoupling From Federal Expensing Provision," April 2011 (<http://www.cbpp.org/cms/index.cfm?fa=view&id=3413> retrieved 2/22/12)

² The Library of Congress, Bill Number H.R. 3029, (<http://thomas.loc.gov/cgi-bin/query/z?c112:H.R.3029:#> retrieved 2/22/12)



While most DORs have fewer paper checks circulating through collection processing systems, organizations still require systems and resources to manage and process paper checks and the supporting taxpayer documentation. They also need capability to create a legal equivalent of the original check that includes all the information contained on the original check. A digital version, minimizes the need for additional handling and increases speed of deposit. As the number of paper returns and payments diminish, it is no longer cost-effective to maintain internal resources to support a paper process.

To illustrate the movement from paper to electronic, consider the Alabama Department of Revenue. In 2003, the department processed 1.2 million manual check deposits. In 2011, Alabama DOR processed 178,000 as a result of the dramatic increases in ACH/electronic payments and legislative law changes. An electronic process also reduces the cost of physically handling and transporting original paper checks adding further efficiencies to the process. For example, deposits can be made many times a day versus daily or bi-weekly. As a result, insufficient funds can be recognized sooner. This enables DORs to quickly proceed with communication and collection activities.

As reduction of paper checks continues, DOR organizations should focus on driving further efficiencies and outsource when it makes sense. For example, cash deposits and foreign checks cannot flow through the electronic process so organizations need resources and expertise to manage those exceptions. Rather than make the investment internally, DOR organizations can look to a trusted partner with expertise, and controls along with the ability to handle special circumstances and manual transactions. Organizations that do not have a Check 21 process in place should consider the lost cash float, reduced turnaround time, exception processing and full-time employee labor cost, as well as additional facility space required to handle paper processes. For organizations with a Check 21 process, it may not be cost-effective to host systems internally or dedicate staff resources. As DORs seek to gain more processing efficiencies, reduce check deposit time, improve cash float and reduce costs, a business process services partner with an automated lockbox services system can help drive efficiency and speed revenue availability.

Fundamental Improvements

Automated lockbox services can benefit government organizations by reducing cash float and streamlining processes. Working with a trusted partner provides the scalability and expertise DOR organizations require to efficiently and effectively manage tax return revenue processes and to deposit checks more timely for faster revenue availability. Other benefits of working with a business process services partner and improving revenue processing include:

Automated processes for faster, streamlined results

– The right partner has the technology and resources to minimize the complexity of processing tax return documents, collecting payments and issuing refunds. Electronic workflow streamlines processes, drives efficiencies and reduces cash float. This helps DOR organizations avoid bottlenecks, gain visibility into transaction activities, deposit funds more quickly and optimize revenue.

40 years ago, the IRS received about 360 million information return documents a year. Today, it is over two billion.³

State-of-the-art cloud-based technology – Software as-a-Service (SaaS) software delivery provides access to the most current capabilities without additional capital investment in expensive equipment, IT support resources or software licenses. Vendor-supported upgrades and centralized management alleviate the need for additional management, freeing your department resources to focus on more value-driven initiatives.

Increase deposit frequency and speed – Reduced cash float is one of the biggest advantages of automating revenue processing. Electronic deposit provides the ability to recognize insufficient funds sooner enabling organizations to improve fund collection activities. By increasing check processing speed, DOR organizations can gain access to funds more quickly.

³ Internal Revenue Service, "Prepared remarks of IRS Commissioner Doug Shulman at the National Press Club," April 2011 (<http://www.irs.gov/newsroom/article/0,,id=238204,00.html> retrieved 2/22/12)



Documented audit trail – From original capture through presentment and return, a centralized repository for all payment and payment-related transactions provides full audit documentation for easier search and retrieval and demonstrates proof of compliance. A timely compliance approach also enables faster problem resolution by enabling tax authorities to proactively address issues such as inaccurate, fraudulent or missing information at the time of filing.

Resource flexibility – Tax returns can be complex with many pages of support documentation. A dual payment environment requires staff and processes to efficiently handle both paper and digital documentation and payments. The right partner will have expert, trained resources, systems and the ability to scale up or down to meet your agency's fluctuating volume demands.

Safe, secure access – Permission-based controls and SSL-encryption supports secure document exchange and provides industry-standard security processes for transacting with the highest level of security.

Enhanced reporting – Automated processes and electronic workflow increase visibility into transaction activities such as the number of received checks, dollar amount and exceptions. This enables DORs to rapidly

respond to taxpayer inquiries, efficiently search or locate documentation and support compliance initiatives. With better visibility around cash management, DORs can better forecast their budget and program requirements and accurately predict where they can continue existing programs or outsource other functions.

Getting in Lockstep with Processing Demands

Lockbox services can address the complicated demands of a blended payment environment and enable DORs to efficiently process electronic transactions. Many states may not have the budget or resources to build the technology infrastructure needed for their current and future processing demands. As government organizations continue to do more with less, having the right partners and technology solutions is critical.

It is time for DORs to evaluate whether they have the most efficient method for depositing checks. Partnering with a trusted provider facilitates a streamlined, compliant process and enables Department of Revenues to minimize cash float and optimize revenue. As Department of Revenues push hard to deliver optimal service to taxpayers, access to modern technology and expert resources will simplify the process and accelerate DOR success.

About the Author - Michael H. Smith is the senior director of Business Development for SourceHOV. With more than 15 years experience in the outsourcing industry and a member of numerous industry advisory boards, Smith brings an informed perspective on trends and best practices in business process outsourcing (BPO) solutions. He is also a Certified Information Capture Professional (ICP) and Certified Document Imaging Architect (CDIA). As part of his responsibilities at SourceHOV, Smith has presented at government and private sector conferences. For more information, email MikeSmith@sourcehov.com or visit www.sourcehov.com.