

using technology to improve fee collection

by Doug Schoenberg

Collecting and processing payments — your center's financial health depends on it. It can also be one of your most time-consuming and unpleasant administrative tasks. Fortunately, it's an area where the smart use of technology can provide dramatic benefits. This article will discuss technology for everything from simple invoicing to sophisticated online payments. You'll learn keys to success — and pitfalls to avoid.

Effective accounts receivable and billing systems

The first and most important technology for managing and collecting fees is an effective and efficient accounts receivable system. When we first began working with child care centers almost 25 years ago, virtually all bookkeeping was done with paper and pencil. Today, the vast majority of centers use management and billing software either designed specifically for child care programs or a general



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purpose accounting software. Hopefully your center has accounting software that provides the basic functionality you need for managing tuition and payments such as the items below:

Accounting Software Feature Checklist

- Maintain complete running history of charges and payments with account balance constantly maintained
- Produce easily understood invoices that can be printed or emailed
- Generate an aging report of who owes you money and for how long it has been owed
- Posting of recurring charges with automatic calculation
- Posting of late payment fees and charges for extra hours with automatic calculation
- Quick entry method for payments and producing bank deposit slips
- Audit trail of when and by whom transactions were posted
- Ability to track security deposits separately from current charges and payments
- Year-end tuition paid statements

If your current account software is missing important features such as these, you may want to consider replacing it with a system that is better suited to the needs of your child care program.

Even with an excellent accounting system, fee collection can be time-consuming; but the work involved can be dramatically reduced by offering parents the ability to pay electronically.

Electronic payments

Offering electronic payments makes sense for most child care centers and school-age programs! Why? Because your center can collect payments more quickly and with less effort; and parents love the convenience as well as perks, such as airline mileage, that they get when they pay by credit cards.

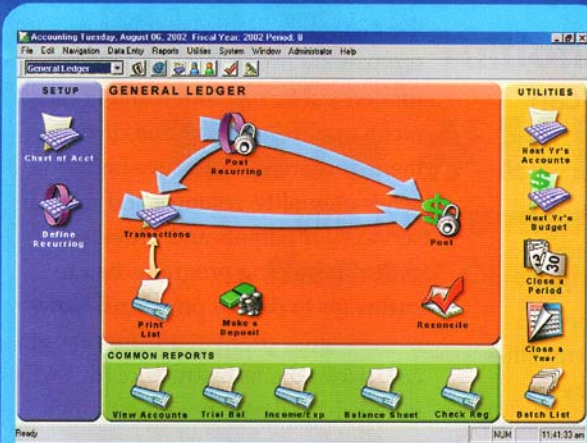
Electronic payments can encompass not only credit and debit card payments, but also payments by direct bank account debit via the Federal Reserve Automated Clearing House (ACH) network. Electronic payments can be preauthorized to be made automatically on a recurring basis or your parents can do something each billing cycle to initiate their payment. Parent-initiated transactions can be processed by your staff or directly by parents online.

Pre-authorized recurring vs. Parent-initiated one-time payments

Since almost all child care and preschool programs collect fees on a regular cycle,

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parents typically make payments on a recurring basis. The more appropriate distinction is whether you want to ask parents to authorize the automatic processing of the payment when it's due, or rely on parents to initiate the payments each time. Preauthorized fee collection eliminates challenges with late payments and reduces the work for both parents and center administrators.

Pre-authorization has grown in popularity as people have gained experience and confidence with making utility, health-club, insurance, and other regular payments this way — especially among today's generation of parents who practically grew up with electronic payments.

To manage pre-authorized recurring fee collection most effectively, you will need software that provides the following features:

- Securely encrypt and store credit card or bank account data

- Automatically generate and send for processing transactions each billing cycle
- Recurring amounts that can vary each billing cycle due to extra charges and adjustments
- Provides ability to process payments on the timing cycle you need (e.g., weekly, monthly, 1st and 15th, etc.)
- Ability to handle both credit cards and ACH transactions
- Integration with your accounts receivable system
- Automatic posting of returns

Despite the many advantages of pre-authorized recurring payment processing, it does require both centers and parents to change the payment process they are used to. As a result, many centers have been reluctant to adopt this method of fee collection. Centers that prefer to give their parents the freedom to make their payments individually each time they are due can still use electronic payments to make the process significantly more

convenient for parents and their staff. For parent-initiated payments, the question becomes whether the transaction will be processed by the center's staff or on more of a self-serve basis directly by the parent.

Self-initiated vs. Staff-processed transactions

Regardless of whether the payment is going to be staff processed or done on a self-service basis, the key challenges are the same:

- Collecting the correct payment amount
- Reducing the risk of human error
- Ensuring data security
- Maximizing administrative efficiency

Collecting the correct payment amount — There are a variety of techniques you can use to ensure that electronic payments are made for the correct amount. Generally, the simplest approach is to use a physical or electronic invoice or statement to communicate the charges and amount

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due. If you want to allow parents to process the payment on a self-service basis, electronic statements offer the advantage of making it possible to include a link to an online payment form. The best solutions will use 'smart-link' technology to minimize data a parent must enter when making a payment.

For staff-processed transactions, integration with your accounts receivable system makes it easy to ensure the payments are processed for the full balance due.

Reducing the risk of human error — The risk of data entry error increases substantially with one-time transactions. You can reduce the impact of human error and significantly improve the likelihood of a successfully processed payment with the right technology. The key is to use real-time validation and authorization of data whenever possible. For credit cards, this means that you want the credit card number and expiration

date checked immediately when it is entered. The amount of the transaction can also be authorized (approved) ensuring that amount is available on the card. In this way any data entry error or need for a different credit card can be identified and corrected immediately. This technique is advantageous regardless of whether the data is being entered by staff or parents. Real-time authorization for bank account debits is not available for e-check (ACH) transactions unless they are done via debit cards, which typically incur higher fees (see **Pitfalls** below), but it is still important to use technology that validates at least the bank routing number.

Of course one of the best ways to reduce data entry error is to eliminate it. Since these one-time payments are almost always being made by the same people, using the same credit card and bank accounts, the optimal solution is to save the account information so it doesn't need to be entered each time. The challenge is doing this in a way that is secure and protects this sensitive data.

Ensuring data security — The protection of credit card information is a paramount concern for the credit card industry, and there are many initiatives with numerous acronyms (CISP, PCI) that continue to impose tighter rules on the handling and storage of credit card data. The bottom line is that, if possible, you do not want to store credit card information; and if you do keep it, it must be secured. In computer terms, this means both password protected and encrypted, with similar protection of paper records that include credit card information.

Currently, many of the most onerous rules apply only to organizations that process large volumes of transactions, but there is a clear trend toward continuing to tighten controls throughout the credit card world. As a result, the current practices of many child care centers, such

as keeping a list of parents' cards to process each month, will need to change. Even worse are web forms that collect credit card information on a non-secure server (note: you can quickly tell if the server is secure by looking to see if the web site address starts with **https:**, not just **http:**), or forms that simply generate an e-mail that lists the credit card information.

You simply don't want to put parents' information at risk or expose your center to fines.

Maximizing administrative efficiency — The most critical aspect of administrative efficiency is eliminating the need for any double entry of payment data. For both staff-processed or parent-processed transactions, that means that processed payments (including the relevant approval data) should be easily downloaded or automatically recorded onto the parents' account ledger in your center management or accounting system. Solutions that require you to separately record the payment not only mean more work, but also increase the potential of human error. Integrated solutions also make it a snap to reconcile your processing statements.

Here are a few other features to look for to simplify payment administration:

- Payment receipting via printed or e-mailed receipt
- Ability to review completed (as well as non-completed) payment transactions
- Ability to issue any necessary credits/refunds
- Availability of online tools for reporting and analysis of transactions

Pitfalls to avoid

Credit card terminals — Physical credit card terminals were designed for face-to-face retail transactions and are ill-suited to processing child care payments since they require:

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	12/01/2006	Balance Forward				\$100.00	\$0.00
	01/17/2007	Kidnapgenen Tuttle	1/18/0805 1542008		Kidnapgen	\$125.00	\$125.00
	01/17/2007	Payment	Check 3224			\$125.00	\$0.00
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- Keying of card data that is time-consuming and prone to keying errors
- A method of securely storing card data for future transactions
- Separately keying payment data into your accounting system — this also creates the need to reconcile amounts between systems
- e-check (ACH) processing

Stand-alone processing solutions —

Many of the benefits of electronic payments diminish if you use payment processing solutions that do not integrate with your accounting software. Typically they require you to:

- Enter and maintain the same information, such as parent names, addresses, etc. in two places
- Don't ensure that amounts paid match balance due
- Reconcile transactions between systems

Non-secure and PCI compliant systems

— Because most child care payments will

be made from the same account or credit card each billing cycle, it is highly advantageous to have the ability to store payment account data for future use. If the data is stored on your computer, it is critical that it is encrypted to protect it from unauthorized access. An even better method is for account data to be stored on a PCI-compliant server maintained by your processing service with a solution that allows you or your parents to initiate charges to the stored account without needing to re-enter the data.

Debit cards — Don't confuse debit cards, which are processed through the credit card networks with ACH transactions.

In both cases the funds are deducted directly from the parent's bank account, but debit cards will incur a discount percentage, similar to credit cards. Typically, ACH transactions incur just a flat per transaction charge (typically less than \$.50) which usually is quite a bit less expensive than the debit card fees.

Final thoughts

We hope you now have a better understanding of the various tools and technologies that can be used by your center to improve fee collection. Here is a quick summary of the most important points:

- The foundation of effective fee collection is appropriate billing software.
- Electronic payments, whether preauthorized for recurring payments or parent initiated, can reduce time and effort spent on fee collection.
- The simplicity, security, and administrative efficiency of your online process can often be the most critical aspect of a successful solution.

With a better understanding of the subtleties of transaction processing you are well on your way to ensuring that your center has the right solution in place. The benefits of convenient and efficient processing of electronic payments can truly be significant for both parents and your center.