Most fraud is detected internally (70%).
An ounce of prevention is worth a pound of cure.
Investing in resources that improve internal controls will pay significant dividends in problems and costs that are avoided.
External auditors have responsibility to detect material amounts of fraud and report deficiencies to “those charged with governance”.

Michigan Law Requires

- Generally the clerk maintains the accounting records.
- The treasurer maintains physical custody of the assets.
- All disbursements, except the property tax collection, require approval of the Board.
Treasurer must complete a formal receipt for all revenues coming into the township.

This can be accomplished by:

- computerized point-of-sales systems
- cash registers
- manual three-part receipts

Receipts are posted by the clerk to the General Ledger through:

- Cash Receipts Journal (manual system)
- Automated postings (point-of-sales systems)
- General Journal Entry (cash register)
Dual signatures are required for all checking accounts (except the separate tax collection checking account). The dual signatures MUST be the clerk (or deputy clerk) and the treasurer (or deputy treasurer).

The separate tax collection bank account statutorily only requires the signature of the treasurer. We recommend that the clerk post activity and reconcile banks to the General Ledger.

Michigan Law Requires

- Banks should be reconciled *timely* by an individual not involved in the receipt/bank deposit process

- Note: Revisions to the UCC in 1990 increased payer's check-fraud prevention responsibilities. Banks no longer assume sole responsibility. Townships now share the risk; the guiding doctrine is that the bank must exercise "ordinary care" in processing checks, but the township has an equal obligation, such as establishing systems and controls to prevent check fraud. The township could be held liable for losses due to check fraud in situations involving signature forgery, dollar amount alteration or delayed account reconciliation.
Adequate security must be provided over unused checks.

Checks must NOT be signed prior to being completely filled out.

All functions (i.e. deposit, write checks, issue checks, reconcile account) regarding a checking account should NOT be performed by the same individual.

Numerically controlled, pre-numbered checks must be used.

Actual checks must be returned to the township (electronically stored checks should meet this requirement).

Appropriate documentation (supporting invoices) must be attached for all disbursements.

Original bills, not copies, must be used for documentation.
Michigan Law Requires

- All disbursements must be approved by the legislative body.

- The board may establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings).

GFOA Recommendations

- Use Positive pay on All Disbursement Accounts.

- Use Controlled Disbursement Accounts.

- Implement Stronger Internal Controls for ACH Transactions.
2012 AFP Survey Results

- 71% of organizations experienced attempted or actual payments fraud
- 29% had increased incidents of fraud
- 46% reporting fraud experienced 1-5 instances of attempted or actual fraudulent activities
- 29% of victims experienced financial loss
- Among those that experienced loss, typical loss was $18,400

Liability Who Pays for Fraud?

- UCC Revisions define responsibilities for check issuers and paying banks under “ordinary care.”
- Under 3-406, if the account holder fails to exercise ordinary care, they may be restricted from seeking restitution from fraud.
- UCC 4-406 requires customers to reconcile bank statements in a reasonable time-frame (soon after received)-or ACH transactions DAILY
What is Positive Pay

- An Electronic check register is sent to the bank as often as checks are issued.

- Whenever a check is presented for payment but there is no record of it being issued, or a difference in the amount, the bank refers the check to its customer client for a pay/no pay decision, or is rejected for payment.

- According to the GFOA, only 15% of the governments under 50,000 use positive pay, even though many of these smaller units have poor internal control.

Positive Pay Benefits

- Fraud Protection
- Account Reconciliation Services: outstanding items are calculated by the bank for you, and in some cases, (e.g. use of imprest accounts) bank reconciliation.
- Must review costs and determine feasibility, remember fraud expensive, bank charges are not!
PA 738 of 2002 (MCL 124.301) requires the governing body of all local units of government to approve a resolution authorizing payments of “automated clearing house (ACH) transactions,” which is a way to process electronic payments or receipts to external parties. The act requires the resolution the following:

- an ACH policy;
- designation of electronic transfer officer;
- documentation of payments, and
- The establishment of internal controls system.

**ACH Payments**

**Typical Electronic Payments Made By Governments**

[Bar chart showing typical electronic payments made by governments.]

- Payroll
- Intergovernmental Payments
- Retirement Payments
- Vendor Payments
- Other
- Expense Reimbursements
- None
Protecting ACH Payments

- Prior to commencing electronic payments and receipts, townships should work with their banks, data processing professionals and auditors to ensure that the township is protected from fraud.

- A recent study conducted by the Government Finance Officers Association (2004) showed that governments are using the ACH system more frequently, but lag in implementing fraud protection.

Suggestions ACH

- Use ACH Filters and Blocks-in the GFOA study, only 34% of the governments use ACH filters and blocks. These tools would allow the township to “block” all ACH transactions in specified accounts, or “filter” the ACH transactions to allow payments and receipts from authorized sources only.

- Use separate ACH bank account-only 24% of the governments surveyed in the GFOA study use separate bank accounts.
Payroll Administration

- This section is designed to help elected officials understand and administer payroll
- Overview of payroll tax and withholding filing and payment requirements
- Software Options

Agenda

- Payroll basics-review of accounting concepts
- Social Security-who is covered and why
- Tax payments
- Required tax forms
  - Pre-Employment
  - Quarterly
  - Annual
- Software Options