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Q. One of our vendors, a software company, requires us to pay for software updates by credit card or electronic checks. These updates are necessary for us to process payroll, and may be required several times a year. How can we accomplish these transactions and comply with state law?

Many townships find that online vendors can provide them with excellent source of purchasing anything from computers to paper clips. However, these vendors generally require payments by electronic means, and can present challenges to local governments' need to comply with state and local procurement standards. We need to deal with each of the different transactions separately.

Use of credit cards is authorized by Public Act 266 of 1995 (MCL 129.241), which requires that the township board adopt a written policy controlling the use of the cards. Some of the items required in the policy include:

- Official(s) are required to oversee employees' use of the card.
- A system of internal controls governing credit card use must be established.
- The board must review specific invoices (charges) placed on the card before payment of credit cards.

A complete listing of the required elements can be found in MCL 129.241.

Given these requirements, it appears that credit card use is acceptable to pay for the software update. The software company should allow you to print a confirmation of your download, along with some specific information regarding your transaction, which would serve as the invoice. The township clerk should sign off that the item was received in good order. This invoice, along with other invoices, should be attached to the monthly statement, which is then forwarded to the official who monitors the use of the credit card. He or she should also sign off on the check request accompanying the invoices and the credit card statement to forward to the township board with the other bills, invoices and charges to approve for that month.

Electronic checks to third parties, or use of debit cards may not be permissible. State law appears to permit the following method of payments:

- Physical checks, with dual signature (clerk/deputy clerk **and** treasurer/deputy treasurer). The cancelled checks (or electronic images) must be returned to the township for bank reconciliation.
- Credit cards as noted above.

- Automated clearing house (ACH) payments, run through the Federal Reserve, as authorized by PA 738 of 2002.
- Electronic Federal Tax Payment System (EFTPS) run by the U.S. Department of Treasury (payment through the EFTPS is required by federal tax law).

If your township uses an ACH system to pay vendor bills, townships should consider a number of internal control improvements, drawn from the recommendations of Government Finance Officers Association (GFOA) best practices for ACH transactions, including:

- Enhancing computer virus protections.
- Passwords for initiating transactions.
- Daily account reconciliation of ACH imprest accounts.
- Periodic internal control reviews that address control, data confidentiality, data integrity and other general computer security controls.
- Written agreements with financial institutions covering ACH transactions.
- Dollar limits for authorized personnel and dual passwords required for dollars above a specific limit.
- Dual controls to establish repetitive transactions and non-repetitive payments.
- Reconcile ACH transactions or accounts daily—by someone other than the originating party.
- Use ACH filters and blocks. In a GFOA study, only 34 percent of 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.

Information provided in Financial Forum should not be considered legal advice, and readers are encouraged to contact their township auditor and/or attorney for advice specific to their situation.

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