

Financial Forum



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Q. Our bank offers remote deposit capture (RDC), which allows us to scan checks and deposit them directly to our bank account—without actually going to the bank. Is this permissible?

Yes, we believe you have authority to make deposits through the automated clearinghouse (ACH) system, provided you have followed the requirements of Public Act 738 of 2002. Local units of government are required to approve a resolution authorizing payments and credits using the ACH. The resolution must contain:

- Approval of an ACH policy
- Designation of an electronic transfer officer
- Documentation of payments
- Establishment of a system of internal controls

MTA's website, www.michigantownships.org, contains sample resolutions and policies (search for "Authorizing Electronic Transactions").

Q. How does the process work?

The RDC process is relatively simple: Once the township has established an RDC relationship with its bank, officials will be able to scan each deposit item (i.e., checks) into digital image files using a desktop scanner and personal computer. The image files are then transmitted electronically to the township's bank. Often, banks will recommend the use of a particular brand of scanner that is compatible with the bank's RDC solution.

Q. Are there special risks associated with RDC?

While RDC can be a tremendous time-saving tool for many townships, the service is not without risk. With RDC, many of the risks previously assumed by the bank in processing paper deposits may be shifted to the township, under its agreement with the bank.

Since it is not readily apparent from the face of the check that it has been deposited electronically, intentional or unintentional redeposit of the item—either into the township bank account or an employee's personal bank account—could expose your township to monetary liability should these items clear after they have been deposited. This risk is impacted by the fact that your bank will likely require you to retain the items deposited remotely for a period of time before destroying them. Other risks likely to be assumed by your township in RDC involve potential fraudulent use of remitter's bank account numbers, from inappropriate access to deposited items kept on file at the township.

As is often the case, technology can be a double-edged sword, and RDC is no exception to this rule. Officials should remain aware of the added risks and take protective measures, including:

- Limiting access to bank-mandated paper files of deposit items maintained by the township
- Timely destruction via secure shredding and incineration, with dual controls over the process

If your township decides to implement RDC, the ACH policy and internal controls adopted by the township board should be reviewed and updated to incorporate these additional requirements.

To help local units of government further improve controls over cash, the Government Finance Officers Association (GFOA) has published a white paper, *Bank Account Fraud Protection* (available at www.gfoa.org/downloads/cashbankaccountfraud.pdf). This white paper details procedures that should help combat fraud, such as:

- Separating disbursement accounts from depository accounts
- Placing ACH blocks on all depository accounts
- Implementing positive pay on all disbursement accounts
- Designating all depository accounts to reject withdrawals except for transfers to specific township bank accounts
- Securing check stock daily
- Using lock boxes to accomplish cash receipts

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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