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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 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 an excellent source of purchasing—anything from computers to paper clips. However, these vendors generally require payments by electronic means, and can present challenges to comply with state and local law.

Credit Cards: Public Act 266 of 1995 (MCL 129.241) authorizes the use of credit cards to pay for goods and services. The law requires that the township board adopt a written policy controlling the use of the cards. Items required in the policy include the following:

- Official(s) are required to oversee employees' use of the card
- A system of internal controls governing their 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. MTA also has a sample policy available at www.michigantownships.org/mta9863581.asp.

Credit card use may be the best way to pay for these types of purchases. 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 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: Electronic checks present a bigger challenge, since they represent immediate reduction to cash accounts, and instant payment to vendors. Credit card charges are payments with IOUs to the credit card company, and can be disputed or reviewed. Electronic payments require the same set of checks and balances as payments with physical checks:

- The clerk initiates the writing of the check on receipt of the invoice, statement or other request for payment, approved by the appropriate township official. The clerk signs the check, which then becomes a warrant.

- The clerk presents warrant for township board approval.
- After board approval, the treasurer signs and it becomes a check. The treasurer mails the check along with remittance advice to vendor.

With electronic checks, the process should be the same, with a few notable exceptions—a listing of the electronic payments would replace the actual check, and after board approval, the treasurer initiates the electronic transaction with the vendor.

In addition, PA 738 of 2002 (MCL 124.301) requires all local units of government to approve a resolution authorizing payments of "automated clearing house (ACH) transactions," which is a way to process electronic payment of invoices to external parties. The act requires the resolution to include:

- an ACH policy
- designation of an electronic transfer officer
- documentation of payments
- establishment of an internal controls system

MTA's website, www.michigantownships.org, contains sample resolutions and policies.

Q. Our board meets monthly. What if there isn't enough time to go through this process?

It is recommended that you have the board pre-authorize electronic payments, as it would for other transactions, such as utility and bond payments that have to be accomplished prior to board meetings. These authorizations should be for specific types of transactions, and then subject to ratification at the next meeting. Also, to simplify bank reconciliation and to provide additional internal control, townships should consider using imprest bank accounts for third-party drafting and clearing from township accounts.

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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