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## Show Me the Money

With the unprecedented changes in our economy, many company's cash flows have been affected, and historical internal payable practices have changed as a result. Companies are now not only using traditional paper checks to make payments, but in addition, using ACH payments, credit cards, and purchase cards (a type of credit card for use by an employee and may only be used at certain types of merchant locations set by the employer). In addition, internal controls may have not been adjusted accordingly, and this could provide opportunities for errors or fraud on the part of your employees, your vendors, or outside fraudsters.

Some current areas we will take a look at are:

- Duplicate Payments / Multiple Payment Methods
- Payment Stretching
- ACH Transactions



### Duplicate Payments / Multiple Payment Methods

Duplicate payments to vendors are on the rise. In fact, approximately 50% of accounts payable departments indicate an increase in duplicate payments, mainly due to multiple payment methods now being utilized. When payments are made via paper checks through a centralized accounts payable department, it is easier to ensure controls are in place and practiced uniformly. When you have several departments, using several types of payment methods, it is more difficult to monitor and ensure uniformity and control duplicate payments.

Some good practices to follow are:

- Limit the payment method (in the Master Vendor File) for a vendor to one type: paper check, ACH, wire, credit card, or purchase card. Using a consistent method will limit duplicate payments.
- Set a payment timing policy to be adhered to by all departments (payments only on Fridays or a set day of the month, etc.)
- Reconcile all credit card and purchase card statements on a timely basis and ensure all vendor payments are recorded timely.
- Set a policy for entering vendor invoice or purchase order numbers to be adhered to by all departments (this will avoid two different departments paying the same invoice). Adding spaces or extra digits or letters should be unacceptable.

## ACH (Automated Clearing House) Transactions

ACH transactions consist of ACH credits and debits. ACH credits are where monies are deposited into your account directly, such as direct deposit of your payroll check or tax refund. On the other side are ACH debits, which are being used more and more frequently by companies to pay vendors, especially for routine items such as utility bills. Again, as in the previous discussion, this can lead to duplicate payments internally; however, there are other risks from outside the organization.

Apparently, with the increased usage of ACH debits, a new type of banking fraud is occurring. Many companies are utilizing their bank's "positive pay" service (which we recommend using), whereby companies submit a file to their bank for each check run produced, including a list of the check numbers and amounts (and in some cases, the payee). When a check is presented for payment to the bank, the bank verifies the check against the listing before it is paid. If the information does not match, the check is rejected. HOWEVER, fraudsters and criminals are learning to become one step ahead of what the banks are developing to stop fraud. Fraudsters are taking the rejected checks and resubmitting them as ACH debits, which positive pay is not designed to detect. The best defense for this type of fraud is to have an "ACH block" put on all bank accounts by your bank, except for possibly your main disbursement account. In addition, monitor all accounts on-line on a daily basis and investigate all unusual items with your bank immediately.



Lynn Basconi

## Payment Stretching

Organizations are struggling for ways to pay their bills. The practice of payment stretching, paying invoices after the stated due date, is being utilized as a way of managing cash flows. However, this practice has some risks, including duplicate payments. If a vendor is not paid within the specified days, say 30 days, usually the vendor will issue a second invoice that may not be marked as a "duplicate" or "second invoice." This second invoice, as well as the first, may be paid inadvertently.

Other issues to consider with planned payment stretching are:

- Analyze which vendors offer the best payment discount terms or the cost/benefit of these discounts.
- List out your critical vendors or suppliers. Payment stretching for these vendors may result in shortages of materials or critical supplies.
- Negotiate extended payment terms with vendors for large, infrequent purchases, such as a large order of computers for the office.

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## Conclusion

Obviously, companies are experiencing turbulent times, and historical practices and staffing of accounting departments have changed dramatically. However, segregation of duties and internal controls must change with the times.

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