

Guard against becoming a victim of fraud

Any organization that accepts payments can be a victim of fraud. Employees, customers, vendors and others – virtually anyone who potentially has access to anyone’s financial information – can perpetrate fraud. And it’s easier for them to obtain that information than one may think.

The good news is there is much that can be done today to protect an organization from suffering a financial loss or from having information stolen that can be used by identity thieves. Here are some of the most important ways to protect records and finances:

Keep cancelled checks and bank statements under lock and key

To some, they may seem like old records, collecting dust in a back room. But placed in the wrong hands, they look like solid gold. To protect both the system and customers from identify theft, old checks, bank statements and related materials should be kept

locked away or appropriately destroyed. This includes old computers, hard drives, CD drives and floppies.

Maintain separation of duties

Separation of duties is perhaps the most fundamental rule of internal controls. It can also be one of the most difficult and costly to follow.

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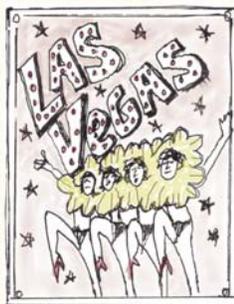
Most people understand the basic idea: no individual should control more than one phase of a financial transaction or operation. In practical terms, that means that the person who writes checks or makes deposits shouldn’t also be the one reconciling the bank account. If duties are kept separate, deliberate fraud would require the collusion of two or more individuals.

To most, separation of duties seems like common sense. But in reality, many small organizations

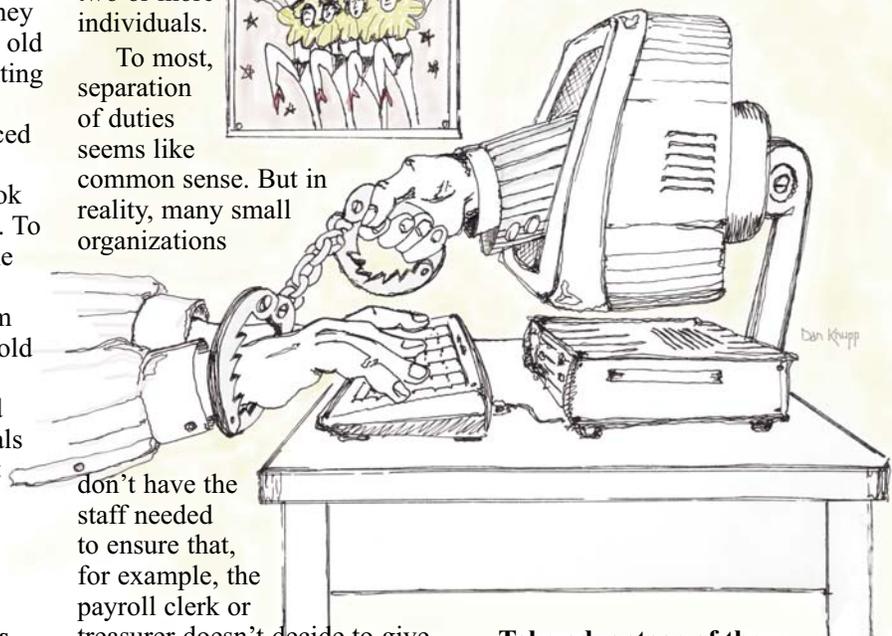
don’t have the staff needed to ensure that, for example, the payroll clerk or treasurer doesn’t decide to give him – or herself a substantial raise. Managers and board members must also be vigilant when signing the checks placed before them. More than one

organization has inadvertently paid to redecorate an employee’s home or pay off casino debts because someone was distracted during the check-signing process, or didn’t ask for proper backup to verify that the bill was genuine.

Considering the millions of dollars that are lost to fraud each year, the extra expense of hiring an accountant or other third party to administer payroll or handle other financial issues may be worth it.



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Take advantage of the latest fraud detection tools

The good news is that the same tools originally created to protect large companies from fraud are now available to virtually all

business account holders. If an organization is short on staff, these tools can also help maintain separation of duties.

Consider a bank lockbox, which allows a small city or rural water district to have its incoming payments collected at a secure post office box and then transported directly to a bank for processing. Lockbox services not only eliminate the need for employees to handle and deposit incoming checks, they also enable administrators to gain faster access to incoming funds.

Similarly, remote deposit enables managers to deposit checks into the bank account from the office by scanning a digital image of a check onto a computer and then transmitting the image to the bank. Remote deposit eliminates the need to physically deliver the check to the bank and reduces the risk of checks being lost or altered en route.

It is also not uncommon for debt-ridden employees to use checking account information to pay their personal bills electronically. Others can be prevented from fraudulently accessing the organization's account with an Automated Clearing House (ACH) debit filter that eliminates unauthorized electronic payments from the system's accounts. With the ACH block, managers identify

the persons authorized to take money from the organization's account electronically. Unauthorized users are automatically rejected.

While ACH block helps protect against electronic fraud, Positive Pay helps prevent paper check altering and forgery. With Positive Pay, managers provide the organization's bank with an electronic file each day of all the checks issued. The bank then matches the paid checks against the file. This process allows the bank to alert administrators if the amount or payee's name on a check has been altered, and refuse payment of that check.

Monitor account activity daily

Much can be done to stop fraud before it has a chance to occur. Still, it's important to watch for fraud daily, particularly during the account reconciliation process.

Online banking has made it easier for everyone to monitor banking activities and balances every day. Just be aware: if a manager is viewing the organization's account(s) online, remember that even though account numbers and amounts may match, the payee's name on a check may have been altered. If a perpetrator changes payee information, the organization will still need a service like Positive Pay to catch it.

And it should be noted while online banking with online bill payment is a very convenient tool for one to use personally or for a personal business, it may not be the best tool for a city's water system or rural water district. It could open the organization up to an employee or volunteer paying personal bills from a city's or district's accounts. If managers do utilize online banking, define how it will be used – for monitoring accounts only, or for making transactions including moving money between accounts or paying bills. And in both of these scenarios, managers must be extra vigilant when checking whether unauthorized transactions are being made.

Identifying potential problems sooner is also always better than later. To have the best chance of catching fraud, accounts should always be reconciled within a reasonable number of days. Check with your bank to determine its requirements.

The bottom line for cities and water districts: be aware. Yes, managers are busy, and "management" may just be a volunteer. But a little vigilance and caution exercised on a daily basis may reap great rewards in the long run. And it will allow a city or rural water district to keep a primary focus where it needs to be – on the customer.

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