

## ACCEPTING FINANCIAL INSTITUTION DRAFTS (CHECKS)

### I. PURPOSE

The following guideline establishes procedures for the acceptance and collection of checks. Specific objectives include:

- A. Prescribing a procedure to be followed by individuals accepting checks to ensure that all available information on the individual is documented in the event the instrument fails to clear the financial institution on which it is drawn.
- B. Set forth a series of steps to be followed by City Employees to verify that they have received checks from the individual thereof and can identify the individual, if necessary, in future collection proceedings.
- C. Assign responsibility for receipt, processing and documentation of checks to facilitate future collection.
- D. Measure the effectiveness of check screening and legal collection efforts in cases where checks are returned unpaid.

### II. BACKGROUND:

Many City Departments are involved in the collection of revenues. For example: the Little Rock Police Department (LRPD) collects from the sales of accident and police reports from individuals; the Finance Department receives monies for fines cash bonds, business licenses, landfill, street cuts, liens, etc.; and the Planning and Development Department is involved in the daily sale of building, sign and other permits. In addition, Parks and Recreation, Animal Services, Public Works, the River Market the Little Rock Zoo, Vehicle Storage Facility and the Landfill are frequent recipients of monies from various sources. As average receipts by the City have increased over the years, so too has the use of financial institution drafts or checks. Checks may either be drawn on the accounts of individual or businesses, or conveyed via mail or hand delivery.

The growing volume of checks accepted has resulted in increased incidents of checks returned for insufficient funds by financial institutions. Since it is not reasonable to expect individuals to carry cash in the amounts now being remitted, the City must improve requirements on those presenting checks in order to lessen exposure to losses.

A study of current trends indicates that a majority of failed checks are being received by the City's Court Cashiers and the Treasury Management Division of the Finance Department. In addition, money orders, cashier's checks drawn on a

bank, credit cards and cash are acceptable throughout the City as an alternative to checks. As technology has improved, payments via the Internet, such as credit cards or e-checks have increased in number. In addition, payments are accepted through the City's telephone system; however, checks continue to be the most frequent mode of payment.

### **III. PROCEDURES AND RESPONSIBILITIES:**

#### **A. Acceptance of Checks in Payment:**

All checks hand delivered by individuals will have the following information noted on the back by the receiving City Employee:

1. Legible initials of the City Employee receiving the check.
2. Name, address and residential telephone number of the individual.
3. Name of the individual's employer and a business telephone number.
4. Driver's License Number (and State, if not from Arkansas), date of birth, gender and race of the individual. This information shall be extracted by the City Employee directly from the individual's license. Photo identification is to be confirmed and the license information verified against the residential information. If a driver's license is unavailable, then a current photo I.D. is required. An expired photo I.D. will be refused.

When any of the above information is on the front of the check, it need not be entered again on the back. When the above information and documents are provided and verified, it shall be standard City-wide practice to accept individual checks. In no case will two-party checks (requiring endorsement) be accepted.

The Treasury Management Division of the Finance Department will produce and distribute a monthly listing of individuals or businesses from which checks will not be accepted for various reasons. This list will include all individuals or businesses that have had two (2) or more checks returned by the financial institution for insufficient funds in the past two (2) years. This listing will be updated monthly. City Employees will refer to this listing to ensure that they do not accept checks from individuals or businesses that are known to pass hot checks.

When checks are received at regular intervals from the same individual (i.e., liens, landfill, etc.), the information in items 2,3 and 4 above need only be provided once, and kept on file at the receiving location. Delivery in these cases may be accepted from other than the individual (i.e., spouse, associate, etc.). This file must be updated periodically to insure that the information kept is current. This exception will not extend to individuals who have had checks returned by financial institutions for insufficient funds.

Where checks are received through the mail, the City Employee will note, or stamp, 'mail' on the back. Hand-delivered checks on accounts of recognized business entities will be accepted; however, the personal information indicated above will be required for individuals making hand-delivery unless the firm is well-known to the receiving City Employee. In all cases, the employee will sign as the receiving individual. Employees stamp each check "For Deposit Only – City of Little Rock" to prevent checks from being redeemed for cash at a bank branch.

**B. Collection of Checks Returned Unpaid:**

Checks returned unpaid by the financial institution will be logged by the Treasury Management Office. The Treasury Management Office will attempt to contact, via telephone, the individual of a check returned for insufficient funds as soon as the check is received back from the financial institution. Checks returned for reasons other than insufficient funds will be handled on an individual basis. The City's Treasury Services Manager will be responsible for determining appropriate collection activities.

A returned check charge will be collected on each check returned by a financial institution. The amount of this charge is determined by the Finance Department Director, who will periodically review prevailing local rates and adjust the City's charge as necessary. The current charges for a returned check is \$25.00. Waiving this fee requires the written authorization of the City's Treasury Services Manager.

Insufficient Funds checks will be entered into the computer system by the Treasury Management Office. If City collection efforts are unsuccessful, an affidavit will be completed on the writer of the check and the case will be referred to the Pulaski County Prosecuting Attorney's Office for prosecution on the 10<sup>th</sup> of each month. This transfer will include all insufficient checks currently held by the Treasury Management Office (no insufficient checks will be withheld from the transfer group). The responsible individual in the Pulaski County Prosecuting Attorney's Office will initial the log as having received these checks. A copy of the log will be retained by both parties. A copy of each check referred to the Pulaski County

Prosecuting Attorney, both front and back sides, will be retained by the Treasury Management Office.

Normally, checks returned for reasons other than insufficient funds will not be referred to the Pulaski County Prosecuting Attorney's Office. However, if referral becomes necessary, the check(s) will be included on a normal monthly referral listing and a memorandum will be attached detailing past collection activities, etc.

Once successful collection has been accomplished, funds received will be delivered to the Treasury Management Division. Funds are received from the Pulaski County Prosecuting Attorney's Office twice a month, on the 15<sup>th</sup> and 1<sup>st</sup> of each month. The Treasury Management Division Employee accepting the payment will acknowledge this by notation and initial on both the Pulaski County Prosecuting Attorney's Office and the Treasury Management Office copy of the log entry for that check; and will record on those logs the receipt number of the posting of the returned check charge. Uncollected checks will be sent to the Sherwood Municipal Courts and the returned check will become a warrant for the writer of the check. Under no circumstances will an uncollected check be returned to the original Department.

A report will be prepared annually by Internal Audit, which will document the following:

1. Number and dollar amount of insufficient checks collected by the Treasury Management Office.
2. Number and dollar amount of checks transferred to the Pulaski County Prosecuting Attorney's Office.
3. Number and dollar volume of collections successfully prosecuted.
4. Level of compliance with the section of this guideline concerning information collected about the individual.
5. Recommendations for improving efficiency and effectiveness of the collection process.
6. Recommendations as to whether a given location should continue to accept checks or require additional information from the individual as a prerequisite to acceptance.

Approved:



---

Bruce T. Moore  
City Manager