



Rabobank

Account Reconciliation & Positive Pay Services Agreement

This Account Reconciliation and Positive Pay Services Agreement is entered into on this 23rd day of April, 2014 by and between City of Reedley ("Customer," "you," "your," and similar terms) and Rabobank, N.A. ("we," "us," "our," "Bank" and similar terms).

WHEREAS THE CUSTOMER REQUESTS TO USE THE BANK'S POSITIVE PAY AND ACCOUNT RECONCILIATION SERVICES ("SERVICES"). IN CONSIDERATION THEREOF, THE BANK AND THE CUSTOMER AGREE TO BE SUBJECT TO THE TERMS AND CONDITIONS SET FORTH IN THIS AGREEMENT. ANY USE OF THE SERVICES SHALL ALSO BE SUBJECT TO THE TERMS AND CONDITIONS SET FORTH IN THE COMMERCIAL ONLINE BANKING AGREEMENT

POSITIVE PAY SERVICES Description: The Services will validate checks being presented for payment and match them against check registers (check number and amount) that the Customer transmits to the Bank in the form of a Checks Issued File. The Checks Issued File should be transmitted to the Bank prior to the distribution of checks.

- **Positive Pay with Positive Payee-** Positive Payee is an enhancement to Positive Pay that provides additional protection by detecting alterations to the payee name. The payee match is performed by comparing the payee name from the face of the check via OCR and matching the payee against the name of the issue payee provided by the customer.
- **Reverse Positive Pay-** A check fraud prevention tool that out-sorts all items paid on the account to enable the customer to review and detect fraudulent transactions.
- **SAND® Secure Barcode-** Fraud detection methodology that encrypts check issue information into an image-survivable secure barcode placed on the check at the time the check is printed. The original check issue information is locked in the encrypted barcode and it is unlocked at the time the check is validated to compare it against the information on the check presented to detect any discrepancy.

ACCOUNT RECONCILEMENT SERVICES Description: The Services will facilitate the full or partial reconciliation of a business checking account. The Service monitors checks, credit, non check debits and outstanding items electronically on a daily basis and reports differences between the check register and paid items.

- **Positive Pay with Full Account Reconciliation-** Monitors all transactions (credits and debits, checks and ACH) and reports all outstanding items.
- **Partial Account Reconciliation-** Monitors issued checks and reports on outstanding checks.
- **Deposit Reconciliation-** Reports information on all deposits to the customer account(s).

ACH SERVICES Description: Services enable customers to monitor and mitigate ACH fraud on their accounts.

- **ACH Filter-** Customer can give the bank the list of companies authorized to process ACH items to their accounts. The bank will 'Filter' incoming items and allow through only those that are on the list.
- **ACH Block-** Customer can put a block on an account that they do not want ACH items transactions allowed.

To effectively utilize these Services, the Customer must comply with the following requirements:

- Generate the Checks Issued File in the specified format for uploading into the system.
- Adhere to the Instructions provided by the Bank for Using Payee Positive Pay
- Conduct a test of the file upload with the bank.

CHECK ISSUED FILE: Check Issued File must specify the date each check was issued, check number for each check and dollar amount of each check written on the account since the last submitted Check Issued File and if using Positive Payee the payee name must be included with the check issued information.

Each time you upload a Check Issued File, the Bank will add those checks to your check register. If a Check Issued File is not uploaded on a banking day, then your check register will not be updated on that banking day.

For Full Account Reconciliation: The Bank provides an electronic file for all items posting to the account at the end of the Customer accounting cycle and makes it available in the following formats: BAI 2 and PDF.

For Partial Account Reconciliation: The Bank provides a file for the cleared checks for each banking day which can be retrieved by you online at any time.

For ACH Block and Filter: You can sign up for ACH Filter and/or Block and then manage which ACH files you want to receive and on which accounts.

Check Issued File must be uploaded through Commercial Online Banking and received by 9 pm Pacific Time. The Check Issued File must be transmitted to the Bank prior to the distribution of checks.

The Bank will make the information available regarding the Suspect Items with email notification alerting the customer that transactions are ready for review and disposition by 9 am Pacific Time for the "Suspect Items" reported on the prior day.

Pay or Return decision(s) must be received for the prior day's Suspect File by 11 am Pacific time. If the Bank does not receive instructions regarding a Suspect Item by the applicable cut-off time, based on your specification of default option, the Bank will either return all Suspect Items to the depository bank or pay all Suspect items. Any items approved to pay by customer and later deemed to be fraudulent are the sole responsibility of customer.

The Bank will compare your Check Register containing the exact serial number of the check and the exact dollar amount of each reported check with the information that is encoded on that banking day's Presented Checks that are presented to us for payment against your Account. If you are using Positive Payee, the bank will compare the payee provided in your Check Register to the payee on the item presented for payment against your account. This comparison will be done only on the banking day Presented Checks are received by us and will be done only against the checks that are in your Check Register. If the check serial numbers, dollar amounts and payee (for Positive Payee) match exactly, we will treat the matching items as valid and properly payable and will process those items for payment, assuming you have sufficient available funds in your Account for the payment.

If there are checks presented to us on or as of that banking day that do not match the serial number or the dollar amount or the payee as set forth in your Check Register we will notify you of these mismatched checks by sending you an email that SUSPECT ITEM(s) are available online for your review and disposition.

It is your responsibility to submit the Checks Issued File in the agreed upon specified upload format and conform to the time specifications as set forth in this Agreement.

WE MAKE NO FURTHER EXAMINATION OF THESE POSITIVE PAY ITEMS WITH RESPECT TO STALE DATES, FRAUDULENT OR MISSING SIGNATURES OR ENDORSEMENTS OR MATERIAL ALTERATIONS. WE CONSIDER THESE POSITIVE PAY ITEMS AS BEING PAID AND SUBJECT TO APPLICABLE STOP PAYMENT ORDERS, OUR RIGHT TO OFFSET, AND THE AVAILABILITY OF ADEQUATE FUNDS IN THE ACCOUNT

SUSPECT ITEM LIST: We will send email notification by the applicable cut off time to the Customer designated contact listed on Addendum B. Suspect Item List will be available online. Pay or Return decisions must be submitted through Commercial Online Banking by the Customer by the applicable cut off time to the Bank.

Notification to **Pay** or **Return** a Suspect Item must be decided by 11 a.m. Pacific Time through Rabo On-line for Business.

DEFAULT INSTRUCTIONS: If we do not receive instructions, regarding the payment or return of Suspect Items by the applicable cut off time, we will follow the Default instructions you specify below.



Put in Check box Return Check Default: Bank will return all Suspect Items to the depository bank unless notified by the Customer. Notification to pay a Suspect Item must be input through Commercial Online Banking, by 11 a.m. Pacific Time and must identify the check number and the amount specified in the Suspect Item List

Put in Check Box Pay Item Default: Bank will pay all Suspect items unless notified otherwise by the customer. Notification to pay or return a suspect item must be input through Commercial Online Banking, by 11 a.m. Pacific Time and must identify the check number and the amount specified in the Suspect Item list.

This Service applies to Presented Checks that are presented for payment to us through normal interbank clearings. It is not designed to compare your Checks Issued File and Check Register against checks that are presented in any other manner (e.g., at a teller window, through an automated teller machine, or by mail).

PLEASE NOTE: By selecting the Pay All option, you are directing the Bank to pay all Suspect items. You acknowledge that by pre-authorizing the bank to pay all Suspect items you are bearing all risk associated with those transactions. You further acknowledge that selecting the Pay All option you are waving your right to approve the item before it is paid.

Instructions and Notifications:

The Customer or the Bank, at its discretion, may each submit to the other party a revision of any instruction or notification provided for under this Agreement. The revised instruction or notification must (i) be sent in its entirety and not in the form of a partial amendment to the communication originally sent, (ii) reference the original instruction or notification, (iii) clearly specify that it is a revision of the original or prior instruction or notification and (iv) be sent in the format and medium, and be received by the deadline(s) and at the place(s), established by the receiving party. A properly submitted revised instruction or notification serves to revoke the original.

The Customer shall only use Suspect Item List that have not been revoked by the Bank.

The Bank shall only use Check Issued Files that have not been revoked by the Customer in the handling of Presented Checks under this Agreement.

The Bank shall not be obligated to comply with any instruction or notification not received by the Bank, or received in a format or medium, after a deadline, or at a place not specified or agreed to under this Agreement but may instead treat such an instruction or notification as though it had not been received. The Bank is not responsible for verifying receipt by the Customer of any Suspect Item List.

The Bank is not responsible for detecting any Customer error contained in any Checks Issued File, Pay Request or Return Request sent by the Customer to the Bank.

Lost, Damaged or Destroyed Checks.

Any Presented Check that is damaged, lost or destroyed ("Damaged Checks") so as to be rejected by automated processing systems during processing will not be covered by this Agreement.

The Customer and the Bank will co-operate in the payment decision regarding processed Damaged Checks. The Customer agrees that the Bank has discretion regarding returning a Damaged Check to the presenting bank or otherwise to any depository financial institution. This means that the Bank is not obligated to (but may) return a Damaged Check, unless expressly instructed otherwise by the Customer. The Customer further agrees the Bank's decision to return a Damaged Check does not obligate the Bank to return future Damaged Checks. If the Bank returns a Damaged Check, it may return the Damaged Check by any means reasonable, including by use of notice in lieu of return or by return of copies of the Damaged Check. The Bank will use its best efforts to notify the Customer of a Damaged Check.

REMEDIES:

Commercial Code Liability:

To the extent applicable, the liability provisions of California Commercial Code Divisions 3 and 4 shall govern this Agreement, except as modified below.

Wrongful Honor It shall constitute wrongful honor by the Bank if the Bank pays a Suspect Check listed in a timely and un-revoked Suspect Item List

In the event that there is wrongful honor:, the Bank shall be liable to the Customer for the lesser of the amount of the wrongfully paid Suspect Check or the Customer's actual damages resulting from the Bank's payment of the Suspect Check, but for no other damages suffered as a result of the wrongful honor.

Notwithstanding the improper payment of a Suspect Check, the Bank expressly reserves the right to assert that the Customer is liable for the amount of the wrongfully honored Suspect Check on the grounds that the Suspect Check was properly payable under Section 4-401(a).

The Bank retains the right to assert the Customer's failure to exercise reasonable care under Sections 3-406(a) and 4-406(c). The Bank's improper payment shall not in and of itself constitute a failure of the Bank to have exercised ordinary care under the loss allocation provisions of Sections 3-406(b) and 4-406(e).

The Bank retains the right to assert the defense that the Customer has sustained no actual damages because the Bank's honor of the Exception Check discharged for value an indebtedness of the Customer.

Rightful Payment and Dishonor

If the Bank honors an Exception Check in accordance with the Customer's pay request, such honor shall be rightful, and the Customer waives any right it may have to assert that the Exception Check was not properly payable under Section 4-401.

If the Bank dishonors an Exception Check in accordance with the Return Default or in accordance with a Return Request issued by the Customer, the dishonor shall be rightful, and the Customer waives any right it may have to assert that the dishonor was wrongful under Section 4-402.

The Customer agrees that the Bank exercises ordinary care whenever it rightfully pays or returns an Exception Check consistent with the provisions of the Agreement.

Assignment

To the extent that the Customer suffers a loss under this Agreement, the Bank assigns to the Customer any claim that the Bank would have against a depository or collecting bank to recover the loss, including any claim of breach of warranty under Commercial Code Sections 4-207, 4-208, and 4-209.

GOVERNING LAW

This Agreement shall be construed in accordance with and governed by the laws of the State of California. In the event of inconsistency between a provision of this Agreement and the California Commercial Code, the provisions of this Agreement shall prevail.

GENERAL PROVISIONS

Limitation on Damages: The Bank will be subject to a standard of good faith and without gross negligence. We will be deemed to have exercised ordinary care if our action or failure to act has been in conformity with this Agreement.

If we pay checks or items in accordance with this Agreement, you release us from any claim that the checks or items were not properly payable. If we dishonor items in accordance with this Agreement, you release us from any claim that the checks or items were properly payable and any claim for wrongful dishonor. You agree to be bound by any Check Issued File, Pay Request or Return Request, whether or not authorized by you that is issued in your name and accepted by us in accordance with this Agreement. We will not be responsible for determining or reporting to you whether there is an unauthorized signature or alteration of any item presented against your Account.

The Bank will be liable to you only for damages arising directly from our intentional misconduct or gross negligence in the performance of the Services. We will not be responsible for any loss, delay, cost or liability which arises, directly or indirectly, in whole or in part, from: (a) your actions or omissions, or those of third parties which are not within our immediate and reasonable control; (b) your negligence or breach of any agreement with us; (c) any ambiguity, inaccuracy or omission in any instruction or information provided to us; (d) any error, failure or delay in the transmission or delivery of data, records or items due to a breakdown in any computer or communications facility; (e) accidents, strikes, labor disputes, civil unrest, fire, flood, water damage (e.g., from fire suppression systems), terrorist action or acts of God; (f) causes beyond our reasonable control; (g) the application of any government rule, guideline, policy or regulation; (h) the lack of available funds in your Account to complete a transaction; (i) our inability to confirm to our satisfaction the authority of any person to act on your behalf; or (j) your failure to follow any applicable software manufacturer's recommendations or our Service instructions. There may be other exceptions to our liability, as stated in your deposit agreement with us.

We will not be responsible under any circumstances for special, indirect, punitive or consequential damages that you incur as a result of our actions or omissions, even if we are aware of the possibility for such damages. Our liability and your remedy for actual costs and losses resulting from our actions and/or omissions, whether the claim is in contract or tort, will equal six (6) times the average monthly charge for the Service for the three (3) months immediately preceding the cost or loss, not to exceed \$1000.00.

Any claim, action or proceeding by you to enforce the terms of this Agreement or to recover for any Service-related loss must be commenced within one (1) year from the date that the event giving rise to the claim, action or proceeding first occurs. You agree to cooperate with us in any loss recovery efforts we undertake to reduce any loss or liability that arises in connection with the Service.

You acknowledge that our Service fees have been established in contemplation of: (a) these limitations on our liability; (b) your agreement to review statements, confirmations, and notices promptly and to notify us immediately of any discrepancies or problems; and (c) your agreement to assist us in any loss recovery effort.

Equipment: You are responsible for the installation, maintenance, and operation of the Computer and browser software. The risk of error, failure, or non-performance is your risk and includes the risk that you do not operate the Computer or software properly. The Bank is not responsible for any errors or failures from any malfunction of the Computer or the software nor is it responsible for any electronic virus,

viruses, worms, or similar software that you may encounter. The Bank has no liability to you for any damage or other loss, direct or consequential, which you may suffer or incur by reason of your use of the Computer or the software. The Bank makes no warranty to you regarding the Computer or the software, including any warranty of merchantability or fitness for a particular purpose. You are responsible for providing and maintaining any equipment that is necessary for the Services, such as telephones, terminals, modems and computers. You agree to use equipment that is compatible with our programs, systems and equipment, which we may change from time to time. We assume no responsibility for the defects or incompatibility of any computers or software that you use in connection with the Services, even if we have previously approved their use.

Fees: You agree to pay us the fees we establish for this Service. See Schedule of Fees and Charges, Addendum B. We may charge fees directly to your Account with us. If you fail to pay any amount owing to us under this Agreement, the amount will bear interest at the rate of 18% per year until paid. If your Accounts with us are analyzed, you may be able to use your available earnings credit to offset Service fees.

In addition to the Service fees, you agree to pay for all taxes, tariffs and assessments levied or imposed by any government agency in connection with the Service, this Agreement, and/or the software or equipment made available to you (excluding any income tax payable by us). You also are responsible for the cost of any communication lines and any data processing charges payable to third parties.

Reliance on Third Parties: Our ability to provide the Service is dependent upon our ability to obtain or provide access to third party networks. In the event any third party network is unavailable or we determine, in our discretion, that we cannot continue providing any third party network access, we may discontinue the Service or may provide the Service through an alternate network. In such situations, we will have no liability for the unavailability of access.

Banking Days: Our banking days are Monday through Friday, excluding bank holidays or any other day we are authorized or required to be closed for business. Information and reports received after a cutoff hour or on a non-banking day may be deemed received as of the next banking day. Our Service may occasionally be unavailable due to needed maintenance or system/network interruptions.

Notices: You agree to notify us immediately if you discover: (a) any error or discrepancy between your records and the information we provide to you regarding your Account or transactions (e.g., in a statement, confirmation, or electronic report); (b) unauthorized transactions involving your Account; (c) a breach in the confidentiality of your Security Code ("User Password"); or (d) other problems related to the Service.

Unless otherwise agreed, notices required by this Agreement must be in writing. Notices to you may be mailed or sent to you at the statement, e-mail or mailing address shown for you in our deposit or Service records. Notices to us must be sent to:

**Rabobank N.A. 90 E. Thousand Oaks Blvd, 3rd Floor, Thousand Oaks, CA. 91360.
Attn: Commercial Deposit Support**

Termination: You or we may terminate this Agreement with or without cause by giving seven (7) days prior notice to the other party. We may terminate the Service immediately and without prior notice if: (a) you breach any agreement with us; (b) the confidentiality of your Security Code is compromised; (c) we believe that an unauthorized transaction has taken or may take place involving any of your Accounts or the Service; (d) you become insolvent or the subject of a bankruptcy, receivership, or dissolution proceeding; or (e) we are uncertain as to any person's authority to give us instructions regarding your Account or the Service. The termination of this Agreement will not affect the rights or obligations of either party that arise prior to termination.

Disputes: The parties expressly agree that any legal proceeding, any action, dispute, claim, or controversy of any kind (e.g., whether in contract or in tort, statutory or common law, legal or equitable) now existing or hereafter arising between the parties in any way arising out of, pertaining to or in connection with this Agreement shall be resolved by binding arbitration in accordance with the Commercial Arbitration Rules and Supplemental Procedures for Financial Disputes of the American

Arbitration Association ("AAA"). The foregoing matters shall be referred to as a "Dispute." Any of the parties hereto may, by summary proceedings (e.g., a plea in abatement or motion to stay further proceedings), bring an action in court to compel arbitration of any Dispute. Any such arbitration shall proceed in **Los Angeles County, California**, and shall be governed by the substantive laws of the State of California.

The decision of the arbitrator shall be final and binding upon all parties and judgment upon the award may be entered in any court having jurisdiction thereof by any party. Any arbitrator chosen to preside over the dispute must be a member of the California State Bar either actively engaged in the practice of law or a retired member of the California State or federal judiciary, and, unless otherwise agreed in writing, must have expertise in the process of deciding disputes in the deposit account and/or internet banking services context.

Any party who fails to submit to binding arbitration following a lawful demand of the opposing party shall bear all costs and expenses, including reasonable attorney fees, incurred by the opposing party in compelling arbitration.

In Disputes involving indebtedness or other monetary obligations, each party agrees that the other party may proceed against all liable persons; jointly and severally, or against one or more of them, less than all, without impairing rights against other liable persons. Nor shall a party be required to join the principal obligor or any other liable persons in any proceeding against a particular person. A party may release or settle with one or more liable persons as the party deems fit without releasing or impairing rights to proceed against any persons not so released.

These arbitration provisions shall survive any termination, amendment or expiration of any provision of this Agreement, unless otherwise expressly agreed in writing.

UNLESS OTHERWISE PROHIBITED BY LAW, THE PARTIES UNDERSTAND THAT THEY ARE WAIVING THEIR RIGHT TO A JURY TRIAL, OR A TRIAL BEFORE A JUDGE IN A PUBLIC COURT.

Amendments: We may from time to time and at any time amend (add to, delete or modify) the terms of this Agreement, the Service fees, and our operating procedures by providing you with prior written or electronic notice. We may amend our security procedures without prior notice if immediate changes are required for security reasons, or the changes do not have a material adverse effect on your use of the Service.

Entire Agreement: This Agreement including and Addendums and schedules constitutes the entire agreement between the Bank and the Customer with respect to the subject matter hereof and supersedes all prior or contemporaneous agreements and understandings regarding the subject matter hereof, whether written or verbal, supplements (and supersedes where inconsistent) the terms of your deposit agreement with us. Unless we provide otherwise in writing, they constitute (along with any Service fee schedule) the entire agreement between you and us with respect to the Service.

Monitoring of Communications: You agree on behalf of yourself, your employees and agents that we may monitor and record your telephone and electronic communications in connection with the Service at any time, without further notice to you or any party to the communication.

Assignment: We may assign our rights and delegate our duties under this Agreement to a company affiliated with us or to a third party. You may not assign this agreement or any right or delegate any obligation under this Agreement without our prior written consent.

No Third Party Beneficiaries: This Agreement is made for the exclusive benefit of you and us. No third party has any rights under this Agreement.

Validity: If any provision of this Agreement is found to be void or invalid, the remainder of this Agreement will remain in full force and effect.

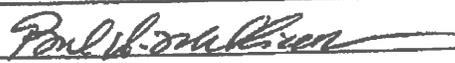
Waivers/Overdrafts: Any waiver by us must be in writing in order to be effective. Our waiver of any right will not be deemed a waiver of other rights or of the same right at another time. Our practice of allowing

overdrafts will not obligate us to continue the practice at a later date. We may discontinue permitting overdrafts at any time and without prior notice.

Headings: Headings to sections of this Agreement and any Addenda are used for convenience only and shall not be deemed a part of this Agreement.

Effective Date: Upon the successful completion of testing, we will advise you when the Service becomes available for your use. This Agreement will become effective as of the following date:

COMPANY NAME(S): <i>If multiple entities, please enter the name of each entity below.</i>	
City of Reedley	

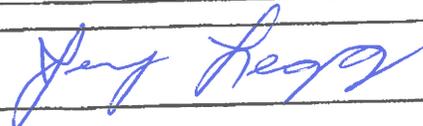
Authorized Signature:	
Print Name:	Paul A. Meiklan
Print Title:	Director of Finance & Administrative Services

Date:	4-23-14
-------	---------

Authorized Signature:	
Print Name:	
Print Title:	

Date:	
-------	--

RABOBANK, N.A.	
Relationship Manager Signature:	
Print Name:	Gary Dodd
Print Title:	VP - Reedley Branch Manager

Treasury Relationship Manager Signature:	
Print Name:	Jerry Legg

Print Title:	SVP/Government Banking Manager
--------------	--------------------------------

DEFINITIONS:

"AGREEMENT" MEANS THIS ACCOUNT RECONCILIATION & POSITIVE PAY SERVICES AGREEMENT AND AS IT MAY BE AMENDED FROM TIME TO TIME.

"ACCOUNT" MEANS THE ACCOUNT(S) OF THE CUSTOMER, MAINTAINED AT THE BANK, TO WHICH THESE SERVICES RENDERED BY THE BANK WILL APPLY. REFER TO ADDENDUM B.

"AVAILABLE FUNDS" MEANS FUNDS ON DEPOSIT IN AN ACCOUNT AND AVAILABLE FOR WITHDRAWAL PURSUANT TO FEDERAL REGULATIONS AND THE BANK'S APPLICABLE FUNDS AVAILABILITY SCHEDULE AND POLICIES.

"CHECKS ISSUED FILE" MEANS A RECORD DESCRIBING CHECKS ISSUED BY AND PROVIDED BY THE CUSTOMER TO THE BANK AS DETAILED IN THIS AGREEMENT.

"CHECK REGISTER" MEANS A CUMULATIVE LIST OF CHECKS REPORTED ON THE CHECKS ISSUED FILE CREATED BY THE BANK.

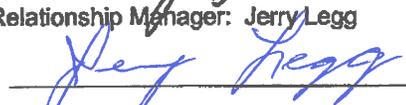
"EXCEPTION CHECK" MEANS A PRESENTED CHECK IDENTIFIED IN AN EXCEPTION CHECKS REPORT.

"PRESENTED CHECK" MEANS A CHECK DRAWN ON THE ACCOUNT AND PRESENTED TO THE BANK FOR PAYMENT THROUGH THE CHECK COLLECTION SYSTEM. A CHECK PRESENTED TO THE BANK BY THE PAYEE DIRECTLY (FOR EXAMPLE, OVER-THE-COUNTER) OR OTHERWISE OUTSIDE OF THE BANK'S AUTOMATED CHECK COLLECTION SYSTEM WILL NOT BE A PRESENTED CHECK AND WILL NOT BE GOVERNED BY THIS AGREEMENT.

Unless otherwise defined in this Agreement, the meanings set forth in the California Commercial Code Division 3-"Negotiable Instruments" and California Commercial Code Division 4-"Bank Deposits and Collection" are operative.

For Bank Use Only

Application approved by RM & reviewed by TRM:

Relationship Manager: Gary Dodd	Phone: 559-638-8131
Signature: <u></u>	Date: <u>4/28/14</u>
Treasury Relationship Manager: Jerry Legg	Phone: 916-797-8210
Signature: <u></u>	Date: <u>4/28/14</u>
Branch Name and Number: Reedley, 1160	
Contact Person (if different than RM):	Phone:

Processor Use Only			
Date Received:	Received by:	Co ID:	Completion Date:
Service Activation Date:	Super User ID: (First 3 letters of Co name & SU1)	Processed By:	

RETURN COMPLETED FORM TO:

Rabobank, N.A.
90 E. Thousand Oaks Blvd., #3rd Floor
Thousand Oaks, CA 91360
Attention: Commercial Deposit Support
Phone: (800) 959-2399 Option 4
Fax: (805) 917-4064

Addendum A

Positive Pay & Account Reconciliation Set Up Form

Omitted due to sensitive nature of information on form.

Addendum B

Positive Pay/Positive Payee & Account Reconciliation Schedule of Fees

Product:	Monthly Fee:	Per Item Fee:	Other Fees:
Positive Pay	\$50	<ul style="list-style-type: none"> \$0.10 per item processed 	<ul style="list-style-type: none"> \$15 Exception item returned \$0.50 Per item presented not issued
Positive Pay with Full Account Reconciliation	\$125	<ul style="list-style-type: none"> \$0.10 per item processed 	<ul style="list-style-type: none"> \$15 Exception item returned \$0.50 Per item presented not issued
Positive Pay with Positive Payee	\$50	<ul style="list-style-type: none"> \$0.10 per item processed 	<ul style="list-style-type: none"> \$15 Exception item returned \$0.50 Per item presented not issued
Positive Pay with Positive Payee with Full Reconciliation	\$125	<ul style="list-style-type: none"> \$0.10 per item processed 	<ul style="list-style-type: none"> \$15 Exception item returned \$0.50 Per item presented not issued
SAND Secure Barcode	\$50	<ul style="list-style-type: none"> \$0.10 per item processed 	<ul style="list-style-type: none"> Software Set-up Fee \$195 \$15 Exception item returned
SAND Secure Barcode with Full Reconciliation	\$125	<ul style="list-style-type: none"> \$0.10 per item processed 	<ul style="list-style-type: none"> Software Set-up Fee \$195 \$15 Exception item returned
Partial Account Reconciliation	\$35		
Deposit Reconciliation	\$25		
Reverse Positive Pay	\$50	<ul style="list-style-type: none"> \$0.10 per item processed 	<ul style="list-style-type: none"> \$15 Exception item returned fee
ACH Filter	\$10	<ul style="list-style-type: none"> \$0.10 per item processed 	<ul style="list-style-type: none"> \$10 Per ACH return
ACH Block	\$10	<ul style="list-style-type: none"> \$0.10 per item processed 	<ul style="list-style-type: none"> \$10 Per ACH return



REEDLEY CITY COUNCIL

- Consent
- Regular Item
- Workshop
- Closed Session
- Public Hearing

ITEM NO: 4

DATE: April 22, 2014

TITLE: APPROVE AN ACCOUNT RECONCILIATION & POSITIVE PAY SERVICES AGREEMENT WITH RABOBANK, N.A.

SUBMITTED: Paul A. Melikian, Director of Finance & Administrative Services 

APPROVED: Nicole R. Zieba, City Manager 

RECOMMENDATION

That the City Council approve an Agreement with Rabobank, N.A. for Account Reconciliation & Positive Pay Services for City operating and payroll bank accounts for the purpose of increasing fraud prevention.

EXECUTIVE SUMMARY

Positive Pay is widely believed to be the single best fraud prevention device available to public agencies. A recent survey of California public agencies conducted by California Society of Municipal Finance Officers dated March 2014, highlighted that, of the approximate 100 public agencies that responded, roughly 98% of those responded say that their agency uses Positive Pay as a way to protect their accounts. Of the 2% that did not have it place, respondents indicated that they are in the process of instituting it. Reedley does not currently have Positive Pay in place; therefore City accounts are currently placed in an unnecessary position of risk for potential fraud. In addition, more and more of the City's payments are made through the Electronic Funds Transfer (EFT) or Automated Clearing House (ACH). The attached Agreement will also allow the City to setup/utilize ACH Filters, in which staff provides the bank the list of companies authorized to process ACH items to City accounts. The bank will 'filter' incoming items and allow through only those that are on the list.

BACKGROUND

Financial assets held in bank accounts make attractive targets for criminals. The Uniform Commercial Code has clearly stated that the liability for fraudulent items lies with the depositor, not the bank. An important fraud prevention tool is Positive Pay. Positive Pay is a type of account reconciliation service provided by banks in which they compare checks that are received for payment against the record of the checks issued by the City. If the bank receives a check that does not match the information in the City's record, it identifies it as an exception item and notifies the City immediately. The City has until the next business day (11AM PST) to make a decision whether to pay a suspect item. In the rare case that no one is available to review the suspect item by the cutoff, the service will be setup to automatically reject the item (the check will not be paid). This fraud prevention tool adds an additional step in the accounts payable process, in that staff will now be required to send a file to the bank each time a batch of checks is run.

FISCAL IMPACT

The annual cost of Positive Pay and ACH Filter service is estimated to cost approximately \$1,300 to \$1,500 annually (depending upon the number of monthly items) and paid from the monthly account analysis process. Account analysis is the process in which the bank nets all service fees against interest earnings on the account balances for that month; so any increase in bank fees reduces interest earnings that are posted to City funds.

ATTACHMENTS

- 1) Account Reconciliation & Positive Pay Services Agreement (Addendum A Omitted)
- 2) GFOA Recommended Practice: *Bank Account Fraud Prevention* (2007)



Government Finance Officers Association

Recommended Practice

Bank Account Fraud Prevention (2007) (CASH)

(This RP replaces the RPs - *Check Fraud Protection* and *Use of Positive Pay or Reverse Positive Pay*)

Background. Financial assets held in bank accounts make attractive targets for criminals. Coupled with rapidly changing technology, including Check 21 authorized remote deposit capture, the need to protect public funds should be a top priority for all governmental entities. Traditional methods of fraud include forgery, identity theft, and check alteration. Newer forms of fraud have developed that take advantage of technological progress. These include unauthorized Automated Clearing House (ACH) drafts, multiple electronic deposits of the same check, and electronic intra-bank transfers. The Uniform Commercial Code has clearly stated that the liability for fraudulent items lies with the depositor, not the bank. Included with the law are significantly short lead times for the depositor to identify and report fraudulent items, especially if electronic account reporting is used.

In the past, many governmental entities relied upon physical security features embedded in the check stock. These included watermarks, unique colors, and graphical designs. With the rapid increase in the usage of remote deposit capture (Check 21) and image transfer, many of these physical measures have become obsolete and have limited effectiveness in preventing bank account fraud.

It is equally important to note that as remote deposit capture (Check 21) technology is adopted by each entity additional liability is created. In essence, each deposited check must be secured and destroyed in a timely fashion. It is critical when implementing this service to produce carefully written procedures specifically addressing the added concerns.

An important fraud prevention tool is positive pay. Positive pay is a type of account reconciliation service provided by banks. With positive pay, a bank compares checks that it receives for payment against the record of the checks issued by the government. If the bank receives a check that does not match the information in the government's record, it identifies it as an exception item (i.e., a non-conforming positive pay item).

Recommendation. The Government Finance Officers Association (GFOA) recommends that governments consider the following steps to protect themselves against bank account fraud:

- 
1. Implement positive pay on all disbursement bank accounts and reconcile daily. Positive pay is the single best fraud prevention device available.
 2. Instruct your bank to *return* all non-conforming positive pay items as the default instruction.
 3. Ensure that a clear policy exists to differentiate between staff approving positive pay exceptions and staff initially preparing the check.
 4. Designate all depository accounts to reject any and all withdrawals other than intra-bank transfers.

5. Place total ACH blocks on all accounts that are not disbursement accounts. (Disbursement accounts should never be the depository accounts; see Recommendation 4 above.)
- 6. Place total or selective ACH blocks on all disbursement accounts.
7. Develop a formal plan to review ACH blocks. At a minimum, this should be done on an annual basis.
8. Conduct periodic and surprise audits or reviews of procedures. At a minimum, this should be done on an annual basis.
9. Provide for the physical security of returned checks and check copies or digital images. Electronic storage of check images is preferred over retaining paper copies.
10. Provide for the physical security of electronically deposited checks including storage in a secure facility, timely destruction via secure shredding and incineration, and dual control of the process. The depositing governmental entity is liable for any fraudulent usage of these checks.
11. Secure check stock daily. Remove continuous forms from printer, lock printer, and secure check stock in a locked environment.
12. Ensure that there is appropriate security over signature plates, cards, and software.
13. Require all checks over a specified amount to have an additional review process.
14. Ensure that your financial institution provides for multi-factor identification when using on-line banking services. Ensure appropriate separation of transaction duties for administration of the on-line system.
15. Consider the usage of Universal Payments Identification Codes (UPIC) for all disbursement accounts. This protects all bank accounts from identification from outside sources.
16. Review signature cards and authority levels at least annually and whenever any changes occur. Ensure that your financial institution provides a quarterly listing, by account, of all approved signers and access-only individuals.
17. Ensure proper segregation of duties among staff initiating, authorizing, preparing, signing, and mailing payments and reconciling bank statements.
18. Consider outsourcing the disbursements process.
19. Consider outsourcing the payment receipt process to an outside lockbox provider. This may provide additional separation of duties, security of confidential account information, and added reporting capabilities. A careful consideration of the cost versus benefit should accompany this consideration.

References

- *Banking Services: A Guide for Governments*, Nick Greifer, GFOA, 2004.
- *Evaluating Internal Controls: A Local Government Manager's Guide*, Stephen J. Gauthier, GFOA, 1996.

Approved by the GFOA's Executive Board, March 2, 2007