

**MARYLAND-NATIONAL CAPITAL PARK & PLANNING COMMISSION**

**Department of Finance  
ACH and Direct Deposit Audit  
Report Number: CW-003-2022**

**June 30, 2022**

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# **ACH and Direct Deposit Audit**

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## I. EXECUTIVE SUMMARY

### A. Background

The Maryland-National Capital Park and Planning Commission (Commission), Department of Finance (Finance), provides fiscal management and oversight of all financial activities. The Department is led by Mr. Gavin Cohen, Secretary-Treasurer.

The Department is organized into three (3) divisions:

- Corporate Business Services & Finance Administration
- Corporate Accounting
- Corporate Procurement

The Department provides financial guidance to operating departments; financial reporting and policy development; disbursements and purchasing transactions; investment management; debt issuance; financial information systems management; accounts payable; and payroll operations.

The Commission favors handling disbursements through electronic means such as automated clearing house (ACH) or direct deposit (DD) because these payments are more efficient, effective, economical, and less subject to incidences of fraud than issuing and mailing checks.

Due to the inherent<sup>1</sup> risk of unauthorized transfer of funds, the audit focused on ACH and direct deposit transaction processing.

ACH is an electronic network for processing debit and credit financial transactions. Accounts Payable offers electronic payments to vendors through the ACH Payment Program. Oversight of the function is within Corporate Accounting. Payments can be posted directly to vendors' bank accounts instead of issuing checks. Below are Accounts Payable (AP) budget performance measures for fiscal year 2021 - 2022:

	<b><u>FY21</u></b> <b><u>(actual)</u></b>	<b><u>FY22</u></b> <b><u>(estimated)</u></b>
Invoices processed	55,744	57,000
% Paid 30 days or less	93%	95%
Total AP checks issued	8,401	9,000
Total ACH payments	<u>5,463</u>	<u>7,000</u>
Total Payments Issued	13,864	16,000
ACH as a % of Total Payments	39%	44%

Direct Deposit transactions are electronic payments made directly into an employee's bank account, instead of issuing a paycheck. Oversight of the payroll

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<sup>1</sup> Risk before any internal controls

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function is within Corporate Business Services & Finance Administration. Payroll processed 103,634 payments during fiscal year 2021, with 90% processed as Direct Deposits.

## **B. Objective, Scope and Methodology of the Audit**

### **Objective**

The purpose of the audit was to identify opportunities to strengthen internal controls, improve operational efficiencies and help ensure compliance with Commission policies and procedures.

In addition, the audit scope was designed to identify possible fraud, waste, or abuse within the process(es) being audited.

### **Scope**

The scope of the audit included, but was not limited to, the following audit procedures:

- Performed walkthroughs with staff to gain an understanding of ACH and Direct Deposit processes.
- Tested a sample of electronic fund transfers of vendor ACH payments transmitted to the Bank of America and reviewed for complete, accurate and timely transmissions.
- Tested a sample of vendor payment ACH set ups and reviewed for receipt of required documentation and vendor data reconciliation.
- Tested a sample of employee Direct Deposit set ups, confirmed receipt of validating documentation submitted by the employee.
- Reviewed security controls including employee user access to financial applications and maintenance of activity logs to support historical vendor and employee account activity data.

The audit covered the period from October 1, 2020 through September 30, 2021.

### **Methodology of the Audit**

Inquiry, observation, data analysis, and tests of transactions were performed to complete the audit objectives.

The audit was conducted in accordance with the *U.S. Generally Accepted Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the established audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

**C. Major Audit Concerns**

The results of our evaluation and testing procedures indicated no major audit concerns.

**Overall Conclusions**

The results of our evaluation and testing procedures indicate no major weaknesses in the design or operation of internal controls for the administration of ACH and Direct Deposits, Department of Finance. On an overall basis, we consider the controls to be satisfactory.

We believe all weaknesses identified and communicated are correctable and that management's responses to all recommendations satisfactorily address the concerns. It is the responsibility of management to weigh possible additional costs of implementing our recommendations in terms of benefits to be derived and the relative risks involved.

We wish to express our appreciation to the Department of Finance management and staff for their cooperation and courtesies extended during the course of our review.



Wanda King  
Assistant Inspector General



Renee M. Kenney, CPA, CIG, CIA, CISA  
Inspector General

June 30, 2022

**Conclusion Definitions**

<b>Satisfactory</b>	No major weaknesses were identified in the design or operation of internal control procedures.
<b>Deficiency</b>	A deficiency in the design or operation of an internal control procedure(s) that could adversely affect an operating unit's ability to safeguard assets, comply with laws and regulations, and ensure transactions are properly executed and recorded on a timely basis.
<b>Significant Deficiency</b>	A deficiency in the design or operation of an internal control procedure(s) which adversely affects an operating unit's ability to safeguard assets, comply with laws and regulations, and ensure transactions are properly executed and reported. This deficiency is less severe than a material weakness, yet important enough to merit attention by management.
<b>Material Weakness</b>	A deficiency in the design or operation of an internal control procedure(s) which may result in a material misstatement of the Commission's financial statements or material impact to the Commission.

## II. DETAILED COMMENTARY AND RECOMMENDATIONS

### 1. Document Operating Policies and Procedures

**Issue:** Corporate Accounting (Accounting) does not have adequate policies and procedures. When asked to provide copies of its policies and procedures, Accounting provided the OIG with an “ACH Application Verification Procedure and Checklist” (Checklist). The assigned accountant uses the Checklist to verify ACH setup.

A formalized operating policy and procedure manual should identify internal control requirements such as segregation of duties, transaction review and approval processes, detailed roles and responsibilities, and system security requirements (see audit recommendation #2).

**Cause:** Management understands the importance of policy and procedure manuals. However, Accounting is experiencing staffing issues due to a change in business operations due to COVID-19, coupled with staff vacancies.

**Criteria/Risk:** Policies and procedures bring uniformity to operations, and therefore reduces the risk of an unwanted event. Policies and procedures also promote consistency for both employees and customers and ensure appropriate training and knowledge transfer.

Formalized policies and procedures will provide Accounting Management with additional tools to identify gaps and expediently resolve irregularities. For example, formalized policies and procedures may:

- Establish expected processing timelines<sup>2</sup> as well as guidance on remediation.
- Help ensure customer communications sent to various electronic mailboxes are expediently reviewed and processed.
- Identify essential business reports to assist management in identifying gaps and irregularities (e.g., delayed processing of ACH vendor payment requests).

**Issue Risk:** High

**Recommendation:** Management should develop standard operating policies and procedures manual(s) for its business functions.

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<sup>2</sup> The Office of the Inspector General (OIG) judgmentally selected 15 ACH vendor payment requests for detailed testing. It appeared 3 out of the 15 transactions (20%) were not processed timely (99, 112, and 365 days), based on the processing time for the other 12 transactions.



**Management Response:**

Management concurs with the recommendation and understands the importance of formalizing written processes and procedures.

While there are not standard written policies and procedures to the extent recommended above, assigned staff have working tools in place to efficiently and effectively set up and manage the incoming ACH applications. These tools were in process of being developed prior to the audit announcement and are continually fine-tuned as needed.

Staff understand each step in the ACH application process by using the ACH Application Verification Procedure and Checklist as their procedures for each ACH application received. The checklist provides a step-by-step guide to ensure proper paperwork is received, the correct company contact is verbally contacted to confirm the ACH application, any additional verification needed is documented, and that each request has proper record keeping.

In addition, an ACH Set Up Tracking spreadsheet is used to document each request and provide an up-to-date status for the requests. The manager uses this to manage the program, understand any issues at hand, and to see at a glance the number of requests incoming monthly.

The detailed checklist will be used to develop more formal policies and procedures, including the additional recommended items above which will provide a more comprehensive approach for the ACH Program.

Please note that for reporting on data changes for ACH vendor payments there is a report available (AP135 Invoice Vendor Audit Report) which captures all vendor changes as recommended.

**Expected Completion Date:** 9/30/2022

**Follow-Up Date:** 02/01/2023

## **2. Strengthen Forensic Attributes**

**Issue:** During OIG’s review of assigned security roles and transactional audit reports, opportunities to strengthen forensic attributes were identified.

- **Security Assignments:** Security role assignments within Infor<sup>3</sup> for financial administrative personnel are not assigned using the “least privilege” principle. All roles reviewed by the OIG were assigned an “ALL\_ACCESS” role. In addition, the assigned roles are not reviewed by Corporate Business Services & Finance Administration management on a defined basis.
- **Reporting on Data Changes:** Current audit reports only capture the most recent change to a direct deposit record. Prior actions are not retained. To mitigate weak logging controls, additional manual controls such as dual processing have been implemented by Corporate Business Services & Finance Administration. **(Note: At the conclusion of the audit, Administration identified an option within Infor/Lawson to access payroll Direct Deposit and ACH history).**

**Cause:** Prioritization of resources within the Department of Finance impact the assignment of security roles and creation and use of custom security reports.

**Criteria/Risk:** The principle of “least privilege” reduces unnecessary access and reduces risk of accidental and/or purposeful data incidents.

Capturing information such as who changed critical data, what time the change was made, and how the change was made is a valuable forensic tool. The ability to capture this data may reduce fraud, waste, and abuse. It may also assist management in identifying gaps in staff training and knowledge.

### **Recommendation:**

- **Security Assignments:** We recommend Corporate Business Services & Finance Administration develop a matrix that identifies all administrative users within Infor, including their primary and secondary job responsibilities. Once complete, assignment of security roles within Infor should be based on least privilege. In addition, we recommend management review the assigned roles on a periodic basis to ensure assignments are up to date.
- **Reporting on Data Changes:** Management should develop policies and procedures to ensure changes to ACH and Direct Deposit records are captured (e.g., “Data Change Report”). As part of the process, we recommend, identifying risk-based activities/transactions, such as ACH and

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<sup>3</sup> The Commission’s ERP application.

Direct Deposit changes, that would benefit from this additional reporting control. Once the activities/transactions are identified, information valuable to management, such as who changed the data, what was changed, and the time they made the change, should be captured.

**Issue Risk:** Medium

**Management Response:**

Management concurs with the recommendations. A review of existing security roles specifically for Direct Deposit has been completed and we identified individuals that no longer needed access to the direct deposit screen and have removed that access. Security roles for all applications will be done periodically and the Segregation of Duties (SOD) assessment tool available on Kinsey will be used to identify areas that require more review. It is known that due to our organizational structure and staffing limitations that we will have roles that will fall outside the best practice of least privileged access and SOD, and these will be reviewed for risk mitigation and acceptance in cases where it is necessary due to work program design and staffing limits.

Please note that there is an audit log option on PR212 for Direct Deposit changes that can be run to discover who made changes to any employees DD record.

**Expected Completion Date:**

**Direct Deposit role review** – Completed 5/18/2022  
**ERP System role audit** – Ongoing with initial review expected to be completed by 12/31/2022.

**Follow-Up Date:** 02/01/2023