



Office of Inspector General
Legal Services Corporation

The Fraud Corner

ACH Transactions (7/20/2020)

As part of its Fraud Corner Series, the Office of Inspector General (OIG) is providing Legal Services Corporation (LSC) grantees with the following information and “best practices” to assist them in identifying and/or preventing fraudulent activity.

OIG reviews have revealed that many LSC grantees have been using Automated Clearing House (ACH) transactions, in which payments are transferred electronically from one verified bank account to another. Previously, grantees’ degree of usage varied considerably from program to program. Given the many recent constraints grantees have faced on access to their offices, accounting systems, and traditional payment mechanisms such as check writing, the COVID-19 pandemic has likely led to a substantial increase in grantees’ use of ACH transactions. The OIG does not support or oppose grantees’ use of ACH transactions; the purpose of this article is to inform programs of some potential benefits and hazards relating to ACH transactions, should they choose to employ them.

ACH transactions are widely used between businesses because they are speedy, paperless, secure transactions that save time and money. They are also widely used between businesses and consumers for ease and efficiency. For consumers, ACH payments commonly take the form of automatic withdrawals from a personal bank account to a business or vendor bank account for payment of a recurring invoice for services or goods.

ACH payments are often preferred to paper checks for several reasons:

- **An alternative to paper checks:** ACH eliminates the process of writing, mailing, and waiting for delivery of paper checks to vendors. With ACH payments, organizations enjoy the ease and efficiency of digitizing the paper check process. Neither vendors or customers have to deal with trips to the bank or waiting for the mail to accomplish payments.
- **Efficiency related to recurring payments:** With ACH payments, customers can set recurring payments to vendors without the risk of late payments.
- **Cost and time savings:** Organizations save time and money with ACH payments by eliminating costs associated with check printing, stamps, and envelopes. With ACH payment processing, sending payments electronically is a much faster process.
- **Improved security:** One of the major benefits of ACH payments is security, as such payments may only be sent from one verified ACH account to another.

- **Easier tracking and trails:** ACH payments provide a readily accessible electronic trail of payment records, which may ease in the creation of audit trails if accounting and payment questions arise.

Avoiding ACH Fraud

Today, fraud committed against company **bank accounts** usually occurs through the writing of unauthorized checks or by means of wire or ACH fraud. ACH fraud occurs when a criminal gains access to an **account** to make unauthorized ACH payments or withdrawals. A criminal can commit ACH fraud by possessing merely two pieces of information: your business checking account number and your bank routing number. With that information, a criminal can make an improper payment for goods or services, either by phone or **online**. Usually, the victim first learns of the ACH fraud when conducting a routine bank reconciliation, by which time the criminal (and the stolen funds) have long since disappeared.

The LSC Accounting Guide for LSC Recipients, Chapter 3-6, FRAUD PREVENTION, addresses key practices that can “help prevent fraud upon a grantee.” Item 17 of that chapter suggests grantees

[t]ake advantage of bank services such as e-mail notifications for certain transaction, positive pay services, ACH filters, blocks on certain transactions, on-line banking features and on-line credit card review features.

Grantees can reduce their vulnerability to ACH fraud by adopting any combination of the following measures:

- **ACH blocks:** The simplest way to prevent ACH fraud is to place a block on your bank accounts. The block will not automatically reject transactions, but will require you to review and approve each transaction before it can be completed, thereby eliminating the possibility of automatic or non-reviewed transactions. Although an ACH block should generally be required for client trust and similar accounts, for some large organizations the use of a block may not be practical for all operating accounts given the number of daily reviews it would likely require.
- **One-time authorization:** With a one-time authorization, you may authorize a single transaction by providing the pertinent vendor identification information and the amount of the transaction. The bank will verify the transaction using the information you have provided and process only that discrete transaction.
- **Set-up an ACH filter serving as an authorized user list:** If you have transactions that will recur on a regular basis, you can create an ACH filter which serves as an authorized-user list. You can also specify dollar amounts or limits, create date ranges, and choose between recurring or one-time use. If a request is received from a company not on the list (or falling outside the set parameters) the transaction will be rejected or placed on hold for you to review. (This is similar to the positive pay

feature discussed in the OIG's March 25, 2019, Fraud Corner article, "Preventing Checking Account Fraud through Bank Reconciliations and Positive Pay.") If your bank does not offer an ACH filter, consider opening a new account exclusively for authorized ACH transactions, and restrict who has access to that account within your organization.

- **Monitor all unblocked accounts daily to catch unauthorized activity.** As a rule, a consumer has 60 days to question or reject an unauthorized ACH transaction. However, commercial organizations have only two business days to reject unauthorized ACH payments and recover their money. If you do not question an unauthorized ACH transaction within the specified timeframe it may become much more difficult for you to recover any lost funds.

Financial institutions may provide many of the options discussed above using different terminology but providing essentially the same advantages. The OIG advises grantees who have not already done so to discuss the cost and availability of such options with their respective financial institutions.

Programs can fully benefit from the efficiencies and economies of ACH transactions while protecting their assets from fraud. While taking full advantage of the protections and controls offered by their financial institutions, Executive Directors must also be diligent in establishing internal controls to prevent fraudulent behavior within their programs. For example, to safeguard program funds Executive Directors can institute strict segregation of duties with respect to all ACH fund transfers, creating a dual control system in which one employee initiates a payment transaction and a separate employee must approve the transaction and release of program funds before any payments are actually disbursed.

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