



OFFICE OF THE INSPECTOR GENERAL  
MONTGOMERY COUNTY MARYLAND

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# Review of the County's Use of Paper Checks

Montgomery County Department of Finance

OIG Publication #26-19

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## EXECUTIVE SUMMARY

Montgomery County pays for goods, services, refunds and reimbursements using a variety of payment methods including paper checks, purchasing cards (P-Cards), single use authorizations (SUA), electronic payments via bank draft (Automated Clearing House or ACH), and electronic payments via wire transfer. Although County policy recognizes that making payments through SUA and ACH carries a lower cost to the County, the default method continues to be paper checks.

This review was conducted in furtherance of the OIG's duty to identify actions that would increase productivity and efficiency of County programs and operations. It focused specifically on the impact of the County's reliance on paper checks and compared the use of paper checks in both quantity and dollar value to ACH payments for paying County obligations.

Our review found that the County issued over 80,000 paper checks in FY23 and 24. By using paper checks instead of making all payments electronically through an ACH process, the County is paying almost 5 times as much per transaction in fees. In addition to higher costs, paper checks create operational inefficiencies due to the necessary tracking that is required for outstanding and returned checks. It also exposes the County to greater risk of fraud including theft, duplication, and alteration of checks.

### OBJECTIVES

Through this review we attempted to evaluate the County's use of paper checks to pay vendors and County employees and to assess potential cost saving opportunities.

### SCOPE AND STANDARDS

Our review covered check disbursements and related fees and bank charges for paper check payments made from July 1, 2022, to June 30, 2024. This review was conducted in accordance with generally accepted government auditing standards (GAGAS).

### RESULTS

The County's reliance on paper checks contributes to elevated costs, operational inefficiencies, and heightened exposure to fraud.

### RECOMMENDATION

As a result of our finding, we made one recommendation that Finance renew its efforts to encourage the use of ACH payments to reduce reliance on paper checks.

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## BACKGROUND

The mission of the Department of Finance (Finance) is to “prudently manage financial operations, recommend and implement sound fiscal policies, safeguard public assets, and encourage a safe environment on public property”. Finance seeks to accomplish this mission through six divisions which include Operations and Administration, Information Technology, Fiscal Management, Controller, Treasury, and Risk Management. The department’s approved operating budget in fiscal years (FY) 2023 and 2024 were \$103,537,516 and \$112,142,753, respectively. This review sought to assess the County’s use of paper checks to pay County obligations. As such, the focus of this review was on Finance’s Controller Division (Controller).

The Controller oversees expenditure and cash flow management as well as the preparation of annual financial statements. Under the Controller, the Accounts Payable (AP) Section ensures timely and accurate payments for goods, services, refunds, and reimbursements, compliance with County payment policies, and provides approval for payments of \$10,000 or more. Per the County’s Accounts Payable Policies, the County issues payments using the methods described in Table 1, listed in order of preference and cost effectiveness.

*Table 1: Details from Accounts Payable Policies, Section 7. Payment Methods*

Payment Type	Cost to Process	Description
Purchase Card (P-Card)	Lowest cost to process	County earns rebate on expenditure. Vendor must agree to credit card payment.
Single Use Authorization (SUA)	Low cost to process	Virtual credit card payment method selected by the department when invoice is processed. Vendor must sign up to receive payment via SUA.
Electronic Payment via Bank Draft (ACH)	Low cost to process	Vendor receives funds in two business days. Vendor must be set up for ACH payments.
Printed and Mailed Check	Medium cost to process	Additional processing time is required for vendor to receive payment.
Electronic Payment via Wire Transfer	Highest cost to process	Separate banking information is required. Reserved for payments where payment timing is critical such as real estate settlement.

The AP Section is also responsible for validating the information of vendors who register with the County Vendor Registration System (CVRS), including verifying addresses for new vendors and existing vendors that submit address changes using the Experian Address Validation check<sup>1</sup>.

All vendors wishing to do business with the County are required to register in CVRS and must provide information such as the business' name, business licenses or documents, business type, tax identification number, business address, contact information, and optionally, ACH information if they wish to receive payments electronically. Unless selected otherwise, payments are made through paper checks. Vendors may change their election at any time by providing banking information in CVRS.

The County contracts with a banking institution (bank) to provide services such as check services, account reconciliation, depository management, and wire transfers. With the exception of 4 locations that can print paper checks to support the Department of Health and Human Services (DHHS), paper checks are printed and mailed by the bank. The bank also provides the County with an electronic positive pay feature to help prevent check fraud for disbursements and payroll checks. This process involves the County providing the bank with details for issued checks such as payee information, check number, and the dollar amount of the check, which the bank then compares to checks presented for payment. If no discrepancies are noted, the check automatically clears the bank; however, if discrepancies exist, the County reviews the check in question through the bank's positive pay feature to resolve issues.

The Treasury Division (Treasury) maintains a report with information from checks that are returned or undeliverable to their intended recipient. The report is provided to AP once a week along with the returned checks for matching with information contained in the County's financial system (Oracle). If AP suspects an address change has occurred that was not documented in Oracle, they will inquire with the relevant department to obtain the new address. They then determine whether the check should be reissued or resent to the correct address, voided, or held onto for three years until the check becomes abandoned property.<sup>2</sup> AP keeps an updated report on the disposition of returned checks. As of April 1, 2025, AP lists had approximately 1,468 returned checks from FY23 and FY24 that were being monitored.

### **OIG Approach**

We conducted this review in accordance with generally accepted government auditing standards (GAGAS). Appendix A contains additional information on this review's objectives, scope, and methodology.

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<sup>1</sup> Experian Address Validation check is an online software that utilizes United States Postal Service (USPS) data to determine the accuracy and completeness of physical addresses, flag inaccuracies, and correct errors. It provides real-time verification of addresses to reduce returned mail and save on postal costs.

<sup>2</sup> Uncashed checks can be held by the County for three years. During those three years, in accordance with State Law the County attempts to contact and notify the recipient. If those efforts are unsuccessful and the check remains unclaimed after three years it is turned over to the Maryland Comptroller's Office which then attempts to find the rightful owner.

## FINDINGS AND RECOMMENDATIONS

Pursuant to the OIG's mission to identify actions that would enhance the productivity and efficiency of County programs and operations, this review focused on the County's use of paper checks relative to other payment methods and the potential cost savings resulting from lessened or discontinued use of paper check payments. Additionally, we analyzed the number of checks outstanding<sup>3</sup> and the number of checks returned to the County after issuance to determine effectiveness.

Our review found that in FY23 and 24 the County spent approximately \$9,000 more each year to issue paper checks than they would have if the payments had been made by ACH payments. Making payments through paper checks also requires additional levels of staff monitoring, oversight, and review. Additionally, we noted that using paper checks poses elevated risks of fraud that the County must mitigate through the purchase and implementation of various fraud prevention tools.

**Finding 1: The County's reliance on paper checks contributes to elevated costs, operational inefficiencies, and heightened exposure to fraud.**

The Montgomery County Accounts Payable Policies contain a section titled "Payment Methods" which lists supported payment options available for use by County departments. It notes that ACH payments have a low cost to process while paper checks have a medium cost to process and require additional time to receive payments. In 2016, acknowledging that ACH payments were the most cost-effective and timely method of payment, Finance sent a letter to all vendors encouraging them to sign up for ACH payments. According to Finance, this effort resulted in an increase in the number of vendors who opted to be paid by ACH. More recently however, we found that the County issued 46,098 checks in FY23 and 49,508 in FY24, a 7.4% increase year to year.

We reviewed the County's contract for banking services and found that the County pays \$0.24 per paper check compared to only \$0.05 for each ACH transaction.<sup>4</sup> Using the total number of payments made by the County via paper check in FY23 and FY24, we calculated how much the County could have saved if those payments had instead been made via ACH transactions. The analysis revealed that using ACH transactions in place of paper checks could have potentially saved the County \$8,758.62 in FY23 and \$9,406.52 in FY24. Table 1 displays the result of this comparison.

<sup>3</sup> Outstanding checks are checks that have been written and issued by the County but have not yet been cashed or deposited by the recipient, meaning it has not cleared the bank and remains a liability for the County.

<sup>4</sup> The per transaction amount excludes charges assessed by the bank for particular services associated with each method of payment.

Table 2: Total Cost Comparison

Fiscal Year	Number of Paper Check Payments	Total Cost of Paper Checks (\$0.24)	Comparative Cost Using ACH Payments (\$0.05)	Potential Savings
FY23	46,098	\$11,063.52	\$2,304.90	\$8,758.62
FY24	49,508	\$11,881.92	\$2,475.40	\$9,406.52

Beyond higher costs, paper checks also create operational inefficiencies due to the oversight required to monitor returned and outstanding checks. During discussions with AP, we learned that anywhere from 5 to 20 checks are returned to the County each week, and, in some cases, the same check may be returned multiple times. This results in repeated costs for the same transaction. According to the County Treasury Division's list of returned checks, 876 unique checks were returned in FY23 and 839 in FY24; the checks were valued at over \$21 million across both years.

Once AP receives the weekly list of returned checks, they are responsible for identifying the reason for the return and determining the appropriate next steps. AP explained that they will try to match returned checks with vendor information to identify any recent address changes. If an updated address is found, the check is either remailed or voided and reissued to the correct address. If the reason for the returned check cannot be determined, the check must be held for three years before it is classified as abandoned property and given to the state.

In addition to the staff time required to track and evaluate returned checks, accountants in the Controller Division also track and monitor outstanding checks that have yet to be cashed and maintain an outstanding list for each County bank account used for disbursements. As of April 3, 2025, the outstanding check list for the bank account associated with AP payments included 9,613 checks totaling more than \$23 million. The Controller Division must regularly monitor these checks to determine if and when they clear the bank so they can be removed from the outstanding check list. This monitoring process requires staff attention and resources, diverting time away from other duties.

During fieldwork, we compared the FY23 and FY24 returned check lists to the outstanding check list as of April 3, 2025. Our analysis identified 570 checks totaling \$719,886.93 that appeared on both the returned check list and the outstanding check list. This dual status can complicate cash reconciliation efforts and cash flow tracking, placing an administrative burden on staff responsible for managing each list. Moreover, checks that are both returned and outstanding may be more susceptible to fraud, including theft or unauthorized cashing.

The 2024 Association of Financial Professionals (AFP) *Payments Fraud and Control Survey* highlights risks associated with check payments. According to this report, checks remain the method of payment most vulnerable to fraud with 65% of organizations surveyed reporting fraud related incidents in 2023. A significant vulnerability stems from the continued use of untracked mail to deliver checks – used by 82% of organizations despite a rise in mail related fraud such as check theft and alteration. Additionally, the report noted that many organizations lack plans to phase out check usage even though their susceptibility to fraud is well documented. This ongoing reliance, combined with outdated delivery methods and insufficient tracking, makes checks a persistent and costly risk.

Through discussions with AP, we confirmed that check fraud remains a concern for the County. AP explained that common fraud attempts include individuals photographing County-issued checks and attempting to recreate them, or individuals intercepting original checks and attempting to alter payee information to cash them fraudulently. The County also receives fraudulent invoices from entities posing as vendors not registered in CVRS. To mitigate these risks, the County employs several safeguards, including the use of positive pay services through the banking institution, address verification using Experian Address Validation, and controls requiring vendors to update banking information only through CVRS.

In addition to the higher costs associated with paper checks their use also exposes the County to elevated risks of theft and fraud. Continued outreach to vendors to encourage the use of ACH payments may help to mitigate some of these risks.

#### **Recommendation 1**

**We recommend Finance renew efforts to encourage the use of ACH payments, to reduce the reliance on paper checks, including making the default payment method ACH, sending letters to vendors to encourage switching from paper check to ACH, and phasing in a requirement to only pay vendors through ACH.**

## OIG COMMENTS TO CHIEF ADMINISTRATIVE OFFICER'S RESPONSE

The County Chief Administrative Officer's response to our report is included in its entirety in Appendix B. Although the response notes concurrence with the OIG's recommendation, Finance is awaiting information from the Office of the County Attorney and unable to present a thoroughly developed action plan at this time. As a result, we will categorize the recommendation as Open – Unresolved until Finance presents a plan and we have had the opportunity to review it.

Appendix C summarizes the CAO's response to our recommendation and the OIG's assessment of the County's progress towards fully implementing the stated actions.

# APPENDIX A: OBJECTIVES, SCOPE, AND METHODOLOGY

## Objectives

The objective of this review was to evaluate the County's use of paper checks to pay vendors and County employees and assess potential cost saving opportunities.

## Scope and Methodology

The scope of our review covered various subject areas and time periods as outlined below:

- 1) All check disbursements that were made from July 1, 2022, to June 30, 2024.
- 2) All fees and bank charges related to paper check and ACH payments from July 1, 2022, to June 30, 2024.
- 3) A list of all checks returned to the County from July 1, 2022, to June 30, 2024.
- 4) A current list of all outstanding checks issued by the County but not yet cashed or deposited by the recipient.

From April 2025 to July 2025, we conducted fieldwork to achieve our objective. We conducted walkthroughs to gain an understanding of the County's preferred payment methods and related procedures. We reviewed the Accounts Payable's policies and procedures and analyzed the County's usage of paper checks in relation to electronic payments, and all related costs.

We obtained and reviewed the following criteria for our review:

- 1) Accounts Payable Procedure – Return Check Procedures, Effective May 7, 2015.
- 2) Accounts Payable Policies – Financial Governing Principles and Standards, Effective October 1, 2022.
- 3) Accounts Payable Section Policies – Authorized Payment, Effective April 1, 2018
- 4) Authorized Payment Policy Exceptions dated March 8, 2022.
- 5) Accounts Payable Held Check Guidelines

### *Objective 1 – Evaluate County's use of paper checks and potential cost savings*

To evaluate the County's use of paper checks, we first obtained the relevant criteria, specifically the Controller Division's Accounts Payable Policies – Financial Governing Principles and Standards which details the approved payment methods for payments to vendors. We also held discussions with Finance personnel to gain an understanding of the usage of each payment method used by the County as well as the associated costs for each type of payment method. Additionally, we obtained and reviewed the County's contract for banking services and the accompanying fee schedule to determine direct costs related to each payment method.

We then exported and reviewed the County's invoice payment data for FY23 and FY24. Using various excel functions, we performed procedures to determine how many unique checks the County issued in each fiscal year, and how many other payments were made by electronic fund transfers, single-use authorizations, and wire transfers. We performed a cost analysis to determine the cost savings yielded through the use of different payment methods to pay vendors in FY23 and FY24.

To determine the number of checks returned to the County, we obtained the returned check logs from Finance and Treasury for FY23 and FY24. We inquired with Finance as to the reasoning for the returned checks and the process of reissuing or voiding the checks. We also requested and obtained the listing of outstanding checks as of April 3, 2025, from the Controller Division. We completed a comparative analysis of the two listings to determine how many checks appear on both lists.

Finally, we obtained a list of outstanding payroll checks and reviewed it against the database of active and retired County employees and election judges to verify that checks were made out to persons affiliated with the County.

#### *Auditing Standards*

We conducted this review in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the review to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our objectives.

# APPENDIX B: CHIEF ADMINISTRATIVE OFFICER'S (CAO) RESPONSE

The Chief Administrative Officer provided the following response to our report:



## OFFICE OF THE COUNTY EXECUTIVE

Marc Elrich  
*County Executive*

Richard S. Madaleno  
*Chief Administrative Officer*

### MEMORANDUM

March 24, 2026

TO: Megan Davey Limarzi, Inspector General

FROM: Richard S. Madaleno, Chief Administrative Officer *BSM*

SUBJECT: Inspector General Confidential Draft Report: Response and Action Plan – Review of the County's Use of Paper Checks (OIG Publication #OIG-26-19)

Thank you for the opportunity to respond to the issues identified in the report. The Montgomery County Department of Finance (Finance) performs the critical function of ensuring timely and accurate payments to vendors for goods and services provided to all County programs and operations, including public safety, health and human services, transportation, and all other government operations.

We agree with the importance of reducing the issuance of paper checks. Your report's noted finding and recommendation will be useful as we continue to improve processes in the future.

**Recommendation 1:** We recommend Finance renew efforts to encourage the use of ACH payments, to reduce the reliance on paper checks, including making the default payment method ACH, sending letters to vendors to encourage switching from paper check to ACH, and phasing in a requirement to only pay vendors through ACH.

**Response.** We concur with this recommendation. However, we would need time to assess the legal, equity, process, and system considerations before we implement defaulting vendor payments to ACH.

Thank you for bringing these matters to our attention.

cc: Fariba Kassiri, Deputy Chief Administrative Officer, Office of the County Executive  
Michael Coveyou, Director, Department of Finance  
Michele El-Gamil, Internal Audit Manager, Office of the County Executive

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## APPENDIX C: RECOMMENDATION STATUS AND FOLLOW UP

This Appendix provides a summary of the findings and recommendations presented in this report along with the OIG’s assessment of the County’s progress towards addressing the recommendations. The OIG categorizes progress towards implementation into the following 4 status groups:

- Open Unresolved: No management response, inadequate response, or no agreement on corrective action plan.
- Open In Progress: Agreed on planned action, auditee is in the process of implementing stated actions, but no evidence of implementation has yet been provided to the OIG.
- Open Resolved: Auditee provided support to OIG indicating implementation was complete, OIG testing to ensure implementation.
- Closed: Recommendation has been implemented.

Finding #	Finding	Recommendation	CAO Response	Status
1	The County’s reliance on paper checks contributes to elevated costs, operational inefficiencies, and heightened exposure to fraud.	We recommend Finance renew efforts to encourage the use of ACH payments, to reduce the reliance on paper checks, including making the default payment method ACH, sending letters to vendors to encourage switching from paper check to ACH, and phasing in a requirement to only pay vendors through ACH.	<b>Concur:</b> Finance will need time to assess the legal, equity, process, and system considerations before they implement defaulting vendor payments to ACH.	<b>Open – Unresolved</b>