

CASE STUDY

Cabarrus County's \$2.5 million dollar problem

At the beginning of 2019, the county was a victim of business payments fraud.



Known as “Where Racing Lives,” Cabarrus County is home to an exciting motorsports heritage with iconic venues including Charlotte Motor Speedway and zMax Dragway.

Population:
216,608

**2021 general
fund budget:**
\$276M

The Event
\$2.5M stolen
\$780K recovered
\$1.8M loss

Account takeover, vendor impersonation, email compromise... by any name, fraudsters are continuing to focus on the vendor master as a point of entry to scam organizations large and small out of significant sums of money. According to the Association for Financial Professionals annual Payments Fraud and Control Survey, 74% of companies reported they were the target of an attempted or successful payments fraud scam in 2020. The FBI's annual Internet Crime Report shows that between 2016-2020, fraudsters stole \$28 billion via email fraud.

This case study highlights how Cabarrus County fell victim, their search for a solution, and their implementation of PaymentWorks.

PaymentWorks, a Nacha Preferred Partner for Business Identity, eliminates the risk of business payments fraud, ensures compliance, and reduces costs by automating the complex vendor onboarding and management process.



THE EVENT and THE AFTERMATH

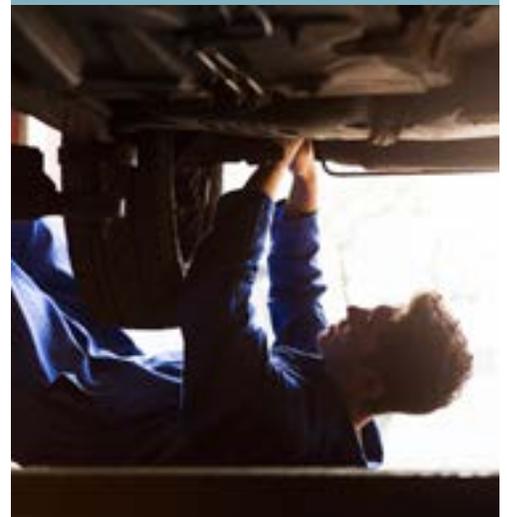
In November of 2018, the Cabarrus County School System received an email with a simple request from what they believed was their construction vendor. The vendor emailed and submitted an update to the banking information in their existing vendor record. As per the county process, that request was forwarded to the county finance department and that department in turn submitted the request for paperwork which involved completing an EFT form and including banking documentation on bank letterhead. Following the approval, two Cabarrus County staff members made the change in the financial system where vendor records were housed, and then on December 21st sent payment for \$2.5 million to that bank account. **This type of change happens every day, at every type of organization of every size, and the county was no different.** No one gave it another thought.

However, this time it wasn't business as usual. [*The county had been duped.*](#)

Shortly thereafter, the real construction vendor contacted the school system and inquired about the status of the payment. Panic began to set in as the county realized the original vendor request was not made by the actual vendor, but someone posing as them instead. Law enforcement agencies were brought in immediately and the internal team initiated a stop to most EFT payments. They moved predominately to check payments, as the team reviewed vendor files and attempted to validate banking. People's primary duties became secondary to figuring out how to quickly address this problem. Fortunately, the county was able to recover some of the money – \$780,000 – but that left \$1.8 million still unaccounted for. Ultimately, that money was never recovered, and the county had to use an emergency fund to make up the difference.

“There’s always an opportunity for mistakes because you’re doing the work manually. You can get interrupted by a phone call, or somebody needs to ask a question from another department. If you’re not really careful, you can lose track of the data and where it is being entered. Those mistakes are costly.”

**TOM NUNN,
PROCUREMENT OFFICER**



COURSE CORRECTIONS

With the immediate change to check payments, the county had already moved incredibly quickly to mitigate their risk, but they also took time to examine and make needed changes to their entire processes in the short term. Once that was locked down, it was time to get to work to determine a long-term plan for mitigating the risk involved with vendor management. **They knew they didn't want to be in the check writing business forever, but needed to radically rethink how they handled vendor banking information so as to not fall victim again.**

The toll on the organization was clearly more than just financial, but emotional as well, as employees replayed the events and tried to discern how this could have happened. The pressure to never make a mistake like that again was looming large.

“Centralizing vendor management and communication were critical improvements. These new steps added time, but collectively gave us more assurance during those early moments that a future fraud event would be prevented,” said Rash Khatri, Budget Director.

While they were confident they had drastically reduced the potential for another fraud, the team soon discovered all these new processes came with a cost: making sure everyone was comfortable with a payment going out the door was taking hours and hours of time for multiple employees to accomplish. **The workload was immense with some steps needing two to three sets of eyes to approve.** Employee morale was quickly becoming a problem and the new Deputy County Manager Rodney Harris knew something had to change.



“The workload was too much. On top of that, you had the angst and anxiety about making the next mistake and losing your livelihood. And that was a big driver for why we sought out a partner that would help us to automate.”

**RODNEY HARRIS,
DEPUTY COUNTY
MANAGER**

IT'S NOT LIKE CHICKEN POX

Falling victim to a payments fraud scheme isn't like getting chicken pox—it can happen more than once. The level of vigilance that Cabarrus instituted after their 2018 fraud event was necessary, but clearly not sustainable. Automating the many manual steps they were taking to verify each piece of vendor information became the goal.

“Well, what are we going to do now? All these procedures have been in place for so long, where do we start? What's our best plan of attack?” said Tom Nunn, Procurement Officer, remembering his initial thoughts.

To fill this need, the county selected PaymentWorks, a business identity platform.

“*The attempts don't stop, it's a constant battle. In the last year alone, I'm aware of three instances where similar business email compromise fraud attempts were made. We're fortunate that our processes and partnerships have caught those events.*”

**RODNEY HARRIS,
DEPUTY COUNTY
MANAGER**

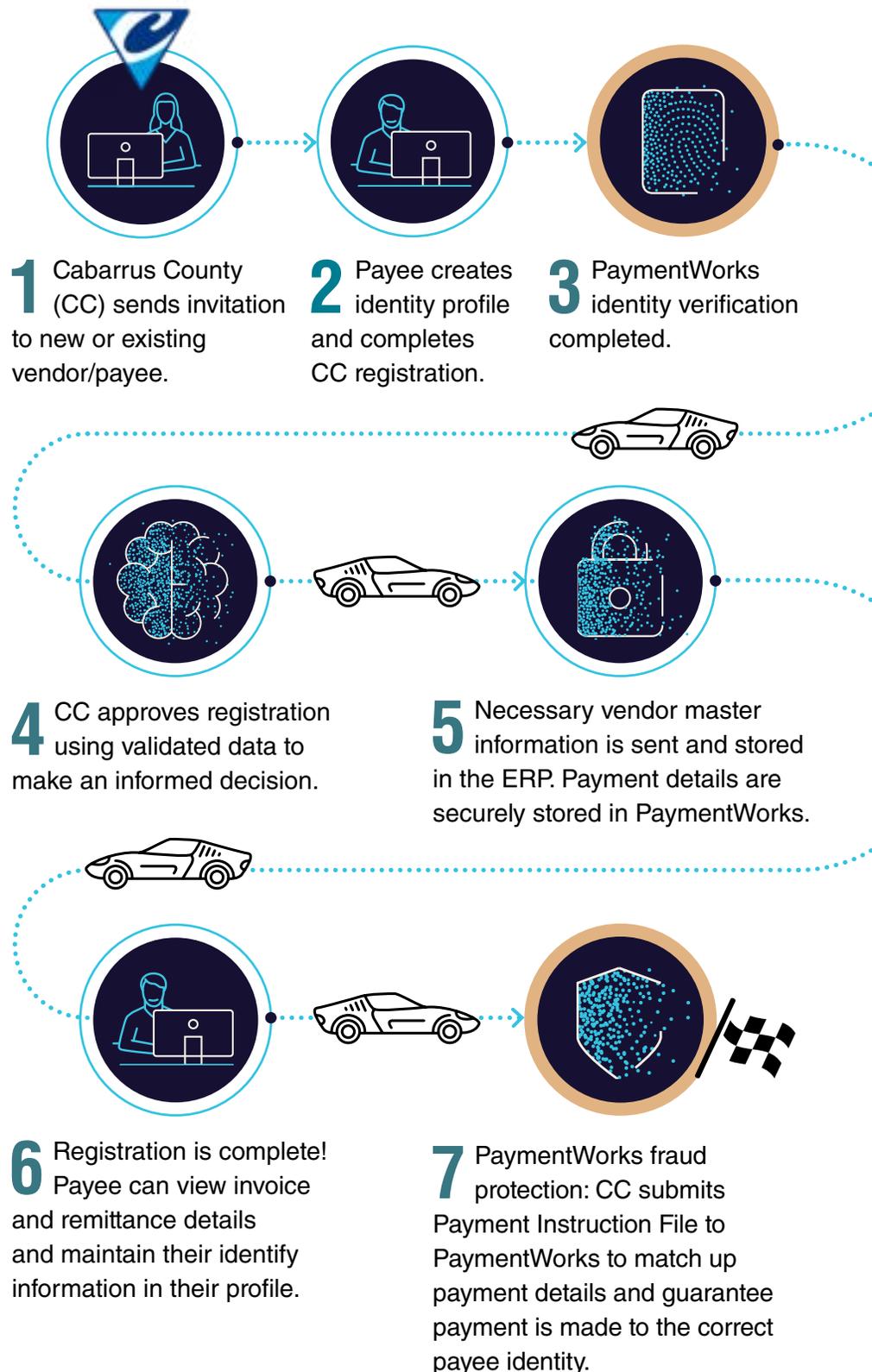


Cabarrus County's new vendor onboarding experience with PaymentWorks:

HOW IT WORKS

"There was a lot of scrutiny when this happened, and we were in uncharted waters. The best thing we did is to mitigate the risks that Cabarrus County shoulders every day and alleviate the pain for the employees on the front lines who deal with the ins and outs of financials and payments," said Nunn.

With this new automated process, the county was able to swiftly return to their preferred payment method of ACH. **Within 90 days of implementing the platform they had reached nearly 100% of their ACH target for their entire vendor master file.**



OUT WITH MITIGATING, IN WITH ELIMINATING

Not satisfied with just mitigating the county's risk, Harris was determined to eliminate as much of that risk as was possible. With PaymentWorks he found what he was looking for.

MITIGATE

(verb): to make less severe, serious or painful

ELIMINATE

(verb): to completely remove or get rid of something

“When PaymentWorks vets a vendor and says it’s OK to pay, any risk of ACH to that bank account becomes a PaymentWorks problem,” said Harris. “Offloading that risk was important to the county.” Harris continued, “This project will also, in time, get us out of the banking business because the county will no longer house banking information in our ERP. We simply won’t be susceptible to hacking. That’s a huge benefit in addition to having PaymentWorks as our insurance policy in case the worst happens.”

With quick action, thoughtful planning, and the right partner, the county’s employees are back to sleeping soundly, each and every night.

“When I’m looking at data that is holding on me for approval, I feel very comfortable approving when I see validation from all the different areas in PaymentWorks.”

**ROSH KHADRI,
BUDGET DIRECTOR**

CONTRIBUTORS



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