



Fraud Prevention:

How protected are you today?

Audiences marveled during the movie *Catch Me If You Can* about the check fraud career of Frank Abagnale. Many people watched the movie and thought “how easy it was to get away with fraud back then.”

That was then, this is now...but check fraud has not gone away, it has in fact increased and remains a threat to the bottom line of businesses throughout the United States.

The top 1,000 U.S. companies have been surveyed, asking them to rank the crimes that hurt their business the most, both internally and externally. Check fraud made the list approximately 10 years ago, when it ranked ninth. Today, it ranks second.

Source: KPMG International

New Technology, Familiar Scams

With the advent of cheap, high-quality printers and easy-to-use computer software, document fraud of all kinds is easier than ever before, and check fraud is also increasing.

One common type of fraud is check washing – costing \$815 million each year – where the criminals obtain legal written checks, usually through theft, then use household chemicals to erase the legal recipient, and replace it with themselves. They then take these checks to local banks and credit unions and cash them.

Another common type of fraud is check counterfeiting. With actual blank check stock available at many office supply stores, a realistic design and a high-quality printer can produce very authentic-looking documents. The large counterfeiting rings will then apply a scanned image from a check to the back-side of this actual check stock.

These counterfeit checks are then used in familiar schemes. One example that has been used many times, but could affect your business, a subsidiary, or a large plant from your company is a quick hit on a small town, which works like this:

- A professional check-fraud ring will print some high-quality checks using the name of a large local employer, potentially a company like yours.
- They will then come into a small town on payday (usually a Friday or the 15th or 30th of the month) and hire a few local people to take the checks into local merchants that cash checks, have them cashed and receive a portion of the money for their effort. In a small town, everyone knows the name of the largest employer, so the checks are routinely cashed without question. Many of these scams can net the fraud rings \$25,000 - \$100,000 from a single town on a single day.
- Nearby towns that also have workers from that employer are the next targets, and if it is a town near a state border, many times the fraud rings will run up the border in one state, and back down the border in the next state.

These scams seem small enough, but Ernst & Young tallies the total forged checks at 500 million annually, totaling over \$10 billion, and rising.

The Association of Financial Professionals conducted their regular *Payments and Fraud Control* survey of businesses in March 2007 and found:

- 72% of organizations experienced attempted or actual payments fraud in 2006.
- Nearly half of organizations added to their internal controls and procedures during 2006 to bolster their protection against payments fraud.
- One-quarter of organizations either added or revised approvals for check payments during 2006.
- Nearly all organizations that experienced payments fraud were victims of attempted check fraud.
- Summary Quote: "While check imaging and check conversion are driving paper out of the system, businesses and other organizations continue to make the bulk of payments by check."

How Companies Protect Themselves

There are several actions that companies and merchants are taking to avoid becoming a victim of check fraud. The first is becoming familiar with the problem, and what criminals are doing. The diagram below gives some key information about checks to increase your understanding.

Other actions you can take with your paper checks include using highly secure check stock, and standardizing your checks across your organization. Different centers throughout your company may be able to issue checks, but standardizing the stock as much as possible makes sure that everyone is using a very secure payment tool, and makes it easier to identify counterfeiters that are using any other kind of stock.

CHECK OUT THE DETAILS

Bank name and address: Forgers sometimes slightly alter the bank's name or list a bad phone number or address.

Color: Counterfeits are sometimes a slightly different color than real ones

Bottom line ink: The bottom line on real checks is printed using a glossy magnetic ink that allows machines to read the information. Many forgers do not bother printing checks with magnetic ink, and instead use a dull printer ink. Banks won't automatically spit the check back as fraudulent, because machines have trouble reading legitimate checks sometimes, too.

Sources: National Check Fraud Center, P-I reporting



Perforation: Checks that come from a legitimate printer have a rough edge. In some cases, though, the micro-perforated edge is hard to see.

Routing numbers: The first two digits of the routing number indicate in which of the 12 Federal Reserve Districts the bank is located. Forgers can change the number to an incorrect bank to buy more time.

Safety information: Even forged checks sometimes contain safety language such as, "Official check," or "This is a colored document with a watermark."

SEATTLE P-I

There is a lot of less-secure check stock floating around every day which is prone to fraud, although not all is at the expense of the employer. To ensure that your company has strong security features on your own check stock, or on checks that you receive from clients, the following is a list of high tech features that can help reduce the risk of fraud.

Security features to improve the safety of your check stock can include:

- Watermarks
- High Resolution Micro Print
- Security Inks
- Chemical Voids
- Copy Void Pantograph
- Three-dimensional Reflective Hologram

ADP Changes the Fraud Equation

Employers faced with the costs of fraud have looked to their payroll companies and financial institutions to help them prevent illegal activity. ADP has taken a leading position in this regard, coming up with secure payroll instruments unmatched by the rest of the payroll industry. Looking to reduce fraud, they have also aggressively pushed companies to go electronic and reduce the risk posed by paper checks. ADP conveniently bundled these services for employers in its TotalPay® product.

"ADP's Security-Enhanced Paycheck is absolutely the most secure corporate check being used in the marketplace today. The company took great steps in its initiative to produce a secure check stock of this magnitude."

Frank Abagnale, Document Security Expert

"There has not been a loss on an ADPCheck™, on either our side or the client's side for five consecutive years," Dolly Molina, ADP Fraud Prevention expert said. "Regardless, our clients are completely protected because of ADPCheck's internal and external positive pay controls that quickly identify and resolve fraudulent checks, eliminating loss."

"But as a business, financial, or accounting manager, or small business owner, you can't get complacent about fraud risks because we see the scammers trying new technology every day," Molina continued. "The strength of ADPCheck is not only the multiple security features, but our team here monitoring the issues on our clients' behalf."

Moving Away From Paper to Electronic and Plastic

Many companies are making a highly secure switch completely out of paper into electronic and plastic payment tools. With a direct electronic link from the company to the deposit account, the risks associated with paper checks are substantially mitigated. Plastic payment tools such as paycards, or incentive cards also are more difficult to duplicate, and may also carry additional protection such as the VISA® Zero Liability Policy.

Paycards also are a safe option for the company as well as the end user, since the load on to the card is done by electronic transaction. Using these cards not only for payroll, but for incentives, signing bonuses, and termination pay, combined with electronic transfers and direct deposit, can virtually eliminate checks, thereby significantly reducing fraud.

ADP offers TotalPay which gives you three secure ways to pay your employees, offering your business the ultimate in security, and your employees choice and convenience.



- Full-Service Direct Deposit
- ADPCheck™
- ADP TotalPay® Card

How This Approach to Fraud Prevention Benefits Employers

Actively working to prevent fraud has benefits for employer clients of ADP. One recent example involved a well-known Seattle-area service business. Without the company's knowledge, they became wrapped up in one of the currently popular lottery scams.

People around the Seattle area received letters in the mail claiming that they were lottery winners, and were entitled to the prize of \$550,000. In this letter was the name of a lottery official and a phone number that they needed to call. Also included in the envelope was a very realistic looking copy of an ADP check which included the name of this local well-known employer. The enclosed check was for \$4750.

When the recipient called the number, they were told that they should go ahead and deposit the check in their bank as the first part of their winnings. Then to activate the rest of their Lottery winnings, they needed to send a cashiers check for \$2000 to a holding company in Canada. The company would then release the rest of their winnings to them.

The recipient followed the instructions and deposited the fraudulent ADP check in their account, took out \$2000 from their account and sent it away to Canada. Within seven days the bank came back and denied the deposit because the check was fraudulent. So the recipient was out \$2000. This fraud then went back to the ADP Client Company who was supposedly the issuer of the check. ADP stepped in on behalf of the client and dealt directly with the bank. Because the ADPCheck is so secure, they can help banks determine the fraudulent nature of the check that may provide clues and help stop the fraud from occurring. Additionally, since ADP holds the funds and issues the checks for the employer, the employer is not liable for any losses.

That burden falls on ADP. Because of the security features of ADPCheck, there hasn't been a loss in over five years.

ADP's TotalPay Card also provides strong employer protection. Plastic cards are more difficult to manufacture than paper checks so they already provide an extra measure of protection.

Common fraud

still occurs – such as the skimming of numbers at a gas station, or the POS terminals being replaced by scammers at the Park City Mall on the north side of Vancouver BC to capture PIN numbers of shoppers paying for their purchases at various mall stores.

However, when this type of fraud occurs with an ADP TotalPay Card, it is between the merchant, the cardholder, and the bank. The employer is entirely removed from the equation, making the ADP TotalPay Card an extremely effective tool for reducing fraud that employers are liable for. Employees then have the peace of mind of being covered by the VISA Zero Liability Policy when using their TotalPay Card.

This is the strength of the integrated ADP approach to fighting fraud, and protecting employer clients from the risks and expenses associated with this common crime.

Governmental Actions and Regulations

The U.S. Federal Social Security system tried in the 1990's to reduce fraudulent check activity, enforcing that recipients open bank accounts and receive direct deposit. Many recipients did comply, which has positively impacted the amount of fraud. However, some recipients filed a class-action lawsuit that this new rule was unconstitutional, and the Federal Government relented according to Milwaukee-based Special Agent Mike Clemmons of the agency's office of inspector general.

One defendant, Clara Denson, 47, of Milwaukee, was authorized to collect checks for her and nine other people. By claiming checks made out to different people were lost, someone could avoid being investigated for a longer period of time, according to Michelle Jacobs, deputy chief of the U.S. attorney's criminal division. Denson is accused of double-cashing checks at least 60 times, with losses of more than \$25,600 to the government.

Source: Milwaukee Journal Sentinel

State Regulations on Electronic Pay

While there is no federal regulation mandating electronic pay, a number of states have begun enacting legislation. While this sets the stage for stronger methods to reduce check fraud, it also makes it very difficult on large companies with operations in multiple states to understand and comply with the laws.

- As of the end of 2007, 15 states have allowed employers to mandate electronic pay, which has been interpreted as direct deposit or paycards.
- Another eight states are considering that type of legislation.
- Other states are mandating electronic pay methods for their own state disbursements, but have not yet extended that to other businesses within the state.

The impetus behind these moves can be traced back to reducing costs, many of which are incurred as a result of check fraud. One authoritative resource for the latest updates in state regulations is the **American Payroll Association** (www.americanpayroll.org).

Additional Resources:

U.S. Secret Service Financial Crimes Division

http://www.ustreas.gov/usss/financial_crimes.shtml

National Check Fraud Center

<http://www.ckfraud.org/>

Association of Financial Professionals

<http://www.afponline.org/>

StopCheckFraud.com

<http://www.stopcheckfraud.com/statistics.html>

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