



## ARE YOU PROTECTED AGAINST CHECK FRAUD?



William McNamara, CPA  
Director of Construction Services Group  
Cowan, Guteski & Co., P.A.

**T**he speed of business can set an unforgiving pace on the business owner. Often as owner, you must allocate your time and focus between managing your company's internal operations and resolving marketplace or customer service concerns. In this environment, few see the warning signs of check fraud when problems first arise. Company checks are disbursed faster than the scribble posing as an authorized signature appears.

Check fraud is an alarming and often unreported event. A survey conducted by the American Bankers Association, indicated that losses resulting from check fraud amounted to \$5.5 billion in 2003 alone. The most common types of check fraud are forged signatures or endorsements (31% of the occurrences), bounced checks (17%) and counterfeit checks (15%). Bounced checks normally indicate either an error or known intent by the issuer. Forged signatures and counterfeited checks are deliberate acts of fraud. The risk from these types of check fraud can be minimized with some basic procedures and preventative measures implemented by the business owner.

In today's "electronic" environment, access to goods and services is easily attainable. When a checking account customer needs additional checks, they do not need to visit their local branch. Instead, they can go to any one of a number of websites from their office computer. An individual can order checks by simply using the brightly colored circular found in the Sunday newspaper or the detachable coupon inside a TV guide. Paper stock for computerized check printing can be purchased at office superstores in bulk quantities. These types of conveniences increase the chances of forgery or counterfeiting.

To combat counterfeit, check companies and financial institutions offer a variety of security features that will help you secure the integrity of your checks. They range from special paper designs with multiple colors and watermarks to electronic features like positive pay, online banking and electronic fund transfers.

When ordering new check stock, consideration should be given to purchasing blank checks that contain at least one, if not several of the following features:

- *Void Pantograph* – when a check is photocopied the word "Void" appears throughout the copy.
- *Dual Image Control Number* – pre-numbered checks are marked with a special ink that bleeds through the document so that the number can not be erased, changed or otherwise tampered with.
- *Artificial Watermark* – a corporate logo or other symbol is printed in white ink on the check which will only be visible when the check is held at a 45° angle, thus if copied the image will not appear.

- *High Resolution Borders* – intricate designs make duplication extremely difficult while distinguishing the check stock. This is very similar technology to what we see in the new currency printed by the U.S. Mint.
- *Thermochronic Ink* - a heat sensitive logo appears when the check is exposed to heat. By rubbing a section of the check with a fingertip to expose the logo, a fraudulent item can be stopped at the point of transaction.

All of these techniques allow a bank teller to identify the validity of the document presented for cashing. By differentiating your check from the ordinary, a fraud perpetrator will simply move on to a less sophisticated business operation. The cost of these features vary but when compared to a single fraud loss plus the lost time involved in replacing the check or establishing a new checking account in entirety, they become an inexpensive alternative. Check with your financial institution or check re-order supplier for specifics.

Often overlooked by companies are the internal controls they have in place for checks to be issued. These controls should be reviewed at least annually. Testing the procedures to determine in fact that they are being followed is essential. Often large companies require signatures of multiple people, but check stamps are used and not tightly controlled. This allows a single individual to validate a check, thus providing an opportunity for fraud. Also, if your internal policy requires two signatures it should be communicated to the receiver of your checks. A preprinted notation on the face of the check would identify the requirement and alert the teller.

Many banking institutions now allow businesses to use online banking features. One feature, positive pay, empowers the business owner to allow for only preauthorized amounts to be cashed. On a routine basis your company electronically transmits a list of checks and amounts that are authorized for payment. When a check is presented the amount is verified and the check is cashed. When an item is presented for cashing that is not included in the positive pay report, it would be highlighted and questioned prior to the funds being made available, thereby reducing the risk of loss.

In October of 2004, the “Check Clearing for the 21<sup>st</sup> Century Act” was implemented. “Check 21” as it is called, enables banks to capture images of checks and not require them to physically move the paper checks from one location to another. This process enables institutions to clear deposits faster and reduce the “holds” or “freezes” on deposited funds. In addition, banks began to provide to account holders “substitute checks” which reduced or eliminated the number of canceled checks returned to account holders at month end. The “substitute checks” are now the legal equivalent of a canceled check.

Additional benefits include the ability to review checks that have cleared almost immediately online, as opposed to waiting for bank statements at month end. The substitute checks are easier to store and maintain on file in most offices. Check imaging software allows some businesses to be more efficient and maintain stronger controls and records. Companies who have annual audits will be able to provide, via e-mail, supporting documentation for specific transactions being tested by their auditors. This will reduce the time spent gathering information for their inquiries and review.



40 Bey Lea Road, Suite A101, New Jersey  
 Phone: 732-349-6880 • Fax: 732-349-1949  
[www.cowanguteski.com](http://www.cowanguteski.com)

While Check 21 provides many benefits, it also requires a closer inspection of canceled checks. With substitute checks being returned in a clean and uniform matter, it will be more difficult to identify fraudulent checks. Owners will be required to focus more of their attention to the details rather than the appearance of the check.

To reduce the possibilities of check fraud in your organization begin by reviewing your practices and the safeguards currently in place. Once you have identified areas of concern, review them and apply procedures that will reduce their reoccurrence. Remember when reviewing these procedures that if the only answer to a question is, “*That is how it’s always been done,*” the control is more than likely ineffective and should be modified. Change is good; companies who adapt and grow are more likely to achieve their desired goals.

As one of the leading accounting and consulting firms for the construction industry, Cowan, Guteski & Co., P.A. works closely with their clients to help them develop effective internal controls to safeguard their assets. Contact Bill McNamara, CPA - Director of the Construction Services Group at 732-349-6880 extension 116 or [bmcnamara@cowanguteski.com](mailto:bmcnamara@cowanguteski.com) for more information on value-added strategies that can help you to reduce the risk of fraud in your business.

*About Cowan, Guteski & Company, P.A.*

As a diversified certified public accounting firm, Cowan, Guteski & Co., P.A. is committed to being an active partner in their client’s growth by delivering quality, valued-added services. With a focus on the construction industry, they provide business consulting, profitability enhancement, wealth management, forensic accounting and litigation support, in addition to traditional accounting and tax services. Cowan, Guteski & Company is a member of CPAmerica International, one of the world’s largest networks of independent certified public accounting firms. This affiliation allows them to offer clients the broad range of services and resources of a national firm, as well as the close personal attention and local market knowledge they expect and deserve. Visit [www.cowanguteski.com](http://www.cowanguteski.com) for more information on the services available to meet the unique needs of the construction industry.



40 Bey Lea Road, Suite A101, New Jersey  
Phone: 732-349-6880 • Fax: 732-349-1949  
[www.cowanguteski.com](http://www.cowanguteski.com)