



DON'T THINK YOUR COMPANY IS VULNERABLE TO CHECK FRAUD?... THINK AGAIN!



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The volume of business transactions in wholesale and distribution companies sets a demanding pace on the owners and managers, as they must allocate their time between managing internal operations and meeting the expectations of their customers. While it is easy to miss the early warning signs of check fraud in this fast-paced environment, the risk of loss to your company is too costly to ignore.

Check fraud is an alarming and often unreported event. A survey conducted by the American Bankers Association estimated the cost of attempted check fraud at \$12.2 billion in 2006 alone – a jump of 122% over the previous survey results from 2003. The most common types of check fraud are return deposit items, which attributed to 38% of fraud losses, followed by forged signatures and endorsements (30% of the losses), and counterfeit checks (28%). The risk from these types of check fraud can be minimized if you implement some basic procedures and preventive measures.

To combat counterfeiting, check companies and financial institutions offer a variety of security features that will help you secure the integrity of your company 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, consider 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* – prenumbered checks are marked with a special ink that bleeds through the document, preventing the number from being tampered with or erased.
- ✓ *Artificial Watermark* – a corporate logo or symbol is printed in white ink on the check that will only be visible on the original check, not a copied image.
- ✓ *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 that only appears when exposed to heat and can be seen by rubbing a section of the check with a fingertip.

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, your business will be less of a target to a perpetrator than

a business using an ordinary check stock. There is a cost to adding these features to a check order, but it can certainly prove to be a less expensive alternative to the cost of fraud. Check with your financial institution or check supplier for specifics.

Often overlooked by wholesalers, distributors and other businesses is the importance of internal controls in place for the issuance of checks. Control procedures should be reviewed and tested regularly for their effectiveness. As an example, a control requiring the endorsement of multiple people might be ineffective if the company uses check stamps, which make it easier for an imposter to validate a check without detection. It is also good practice to verbally communicate your internal policies to the receiver of your checks and add a preprinted notation on the face of your checks to identify the requirement to a bank teller so that he/she can identify fraudulent items.

Many banking institutions now allow businesses to use online banking features such as positive pay. This feature empowers the business owner to allow for only preauthorized amounts to be cashed. It works by electronically transmitting a list of checks and the amounts that are authorized for payment to the bank. If an item is presented for cashing that is not on the list, then this alerts the teller to contact the business owner prior to the funds being made available, thereby reducing the risk of fraud.

There are many ways in which check fraud can occur, but they all originate from a perpetrator identifying a weakness in the internal controls before the company owner or management does. By identifying ways that check fraud can occur in your company and implementing a control procedure, you can greatly reduce or eliminate the possibility of check fraud in your organization. Begin by identifying areas of concern and applying procedures that will reduce their recurrence. If a procedure has “always been done” a certain way, that’s not a good enough reason to continue business as usual; the control is more than likely ineffective and should be modified. Remember, change is good; wholesale and distribution companies who adapt and grow are more likely to achieve their desired goals.

About Cowan, Guteski & Co., P.A.

As a diversified certified public accounting firm, Cowan, Guteski & Co., P.A. is committed to being an active partner in its clients’ growth by delivering value beyond accounting, innovative solutions and consistent exceptional service. To discuss your particular situation, contact Stephen Reed, CPA, Director – Manufacturing & Distribution Services Group at 732-741-2624 extension 216 or by e-mail at sreed@cowanguteski.com or contact Daniel P. Kraybill, Senior Accountant – Manufacturing & Distribution Services Group at 732-349-6880 extension 145 or dkraybill@cowanguteski.com. You can also visit our Web site at www.cowanguteski.com for more information on the services available to meet the unique needs of the manufacturing and distribution industries.

