Check fraud is one of the largest challenges facing businesses and financial institutions today. With the advancement of computer technology it increasingly easy for criminals, either independently or in organized gangs, to manipulate checks in such a way as to deceive innocent victims expecting value in exchange for their money.

A significant amount of check fraud is due to counterfeiting through desktop publishing and copying to create or duplicate an actual financial document, as well as chemical alteration, which consists of removing some or all of the information and manipulating it to the benefit of the criminal. Victims include financial institutions, businesses that accept and issue checks, and the consumer. In most cases, these crimes begin with the theft of a financial document. It can be perpetrated as easily as someone stealing a blank check from your home or vehicle during a burglary, searching for a canceled or old check in the garbage, or removing a check you have mailed to pay a bill from the mailbox.

Check Fraud Tips for Businesses

A combination of precautions that a business might undertake could greatly reduce the likelihood of check fraud. Poor internal controls may lead to collusion between employees or third parties who; copy, steal, alter and forge checks.

- Order checks and deposit slips wisely
- Make sure that your checks include Security Features that will help combat counterfeiting and alteration.
- Make sure you notify your check supplier (and financial institution, if necessary) if a new check order has not been received within a reasonable amount of time after you ordered them.
- Maintain adequate physical security of your checks, deposit slips, etc.
- Secure all reserve supplies of checks, deposit slips and other banking documents in a locked facility.
- Keep blank checks locked up at all times and limit the number of people with access to your checks. If your checks fall into the possession of unscrupulous employees, you could be liable for substantial losses.
- Change the locks on your facility when an employee leaves your employment
- Never leave checks or bank records unattended in order to assist customers Issuing and reconciling checks
- Assign accounts payable functions to more than one person and make each one responsible for different payment areas.
- Require more than one signature on large dollar check amounts. In this way, any losses you may incur will be low denominations only.
- Immediately notify the bank of any change to your accounts payable process and personnel. You don't want former employees who may have secreted some checks from your business to retain authorization to sign them after they have left your employ.
- Reconcile your account promptly and regularly — quick fraud detection increases the likelihood of recovery. Businesses and personal consumers who do not balance their accounts monthly and don't find the discrepancies until months have passed, can become liable for losses.
- When taking a check from a consumer, make sure you ask for current and proper identification. Check that the identification name and address matches the name and address on the check. Also, write down their driver's license number and their date of birth on the check.
- Obtain a current phone number, if not already on the check, and write it on the check.
- Take a fingerprint of the consumer using their right index finger.

Bad Checks: Signs to Look for

Below are several signs that may indicate a bad check. While one sign on its own does not guarantee a check to be counterfeit, the greater the number of signs, the greater the possibility that the check is bad.

- The check lacks perforations.
- The check number is either missing or does not change.
- The check number is low (like 101 up to 400) on personal checks or (like 1001 up to 1500) on business checks. (90% of bad checks are written on accounts less than one year old.)
- The type of font used to print the customer's name looks visibly different from the font used to print the address.
- Additions to the check (i.e. phone numbers) have been written by hand.
- The customer's address is missing.
- The address of the bank is missing.
- There are stains or discolorations on the check possibly caused by erasures or alterations.
- The numbers printed along the bottoms of the check (called Magnetic Ink Character Recognition, or MICR, coding) is shiny.
- The MICR encoding at the bottom of the check does not match the check number, is missing or does not match the bank district and the routing symbol in the upper right-hand corner of the check.
- The name of the payee appears to have been printed by a typewriter. Most payroll, expenses, and dividend checks are printed via computer.
- The word VOID appears across the check.
- Notations appear in the memo section listing "load," "payroll," or "dividends." Most legitimate companies have separate accounts for these functions, eliminating a need for such notations.
- The check lacks an authorized signature.

Tips for Detecting Counterfeit Checks

- **COLOR** - By fanning through a group of returned checks, a counterfeit may stand out as having a slightly different color than the rest of the checks in the batch.

- **PERFORATION** - Most checks produced by a legitimate printer are perforated and have at least one rough edge. However, many companies are now using in-house laser printers with MICR capabilities to generate their own checks from blank stock. These checks may have a micro-perforated edge that is difficult to detect.

- **MICROLINE INK** - Most, but not all, forgers lack the ability to encode with magnetic ink the bank and customer account information on the bottom of a check. They will often substitute regular toner or ink for magnetic ink, which is dull and non-reflective. Real magnetic ink applied by laser printers is the exception and may have a shine or gloss.
- If a counterfeits MICR line is printed or altered with non-magnetic ink, the banks sorting equipment will be unable to read the MICR line, thus causing a reject item.
- Unfortunately, the bank will normally apply a new magnetic strip and process the check. This works to the forger's advantage because it takes additional time to process the fraudulent check, reducing the time the bank has to return the item. But banks cannot treat every non-MICR check as a fraudulent item because millions of legitimate checks are rejected each day due to unreadable MICR lines.

- **ROUTING NUMBERS** - The nine-digit number between the colon brackets on the bottom of a check is the routing number of the bank on which the check is drawn. The first two digits indicate in which of the 12 Federal Reserve Districts the bank is located.
- It is important that these digits be compared to the location of the bank because a forger will sometimes change the routing number on the check to an incorrect Federal Reserve Bank to buy more time.

Bad Check Restitution

If your business is confronted with a check that is returned as non-sufficient funds there are steps you can take to see if you meet the eligibility requirements. Please contact the Eighteenth Judicial District Attorney Bad Check Restitution Program at 800.722.6952 for questions.

Name: _____

Badge # _____

Phone: _____

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Check Fraud and Counterfeit Prevention Tips

How to reduce your vulnerability to crime