

Chapter 5: Check Tampering

What is Check Tampering?

- Form of Fraudulent Disbursement
- Employee does one of two things:
 - Prepares a fraudulent check for own benefit
 - Converts a check intended for someone else

Check Tampering Schemes

- Check tampering made up one-fourth of all fraudulent disbursement cases.
- Median loss of \$150,000.

Check Tampering Schemes

- Forged maker schemes
- Forged endorsement schemes
- Altered payee schemes
- Concealed check schemes
- Authorized maker schemes

Forged Maker Schemes

- Perp forges name of authorized signer
- Obtaining a blank check:
 - Perp usually has access to blank checks
 - Bookkeeper, a/p clerk, office manager, etc.
 - Checks not secured
 - Perp wrongly obtains key, combination, password to gain access
 - Voided checks not destroyed
 - Print counterfeit company checks

Stolen Checks - Countermeasures

- Keep blank check stock secured
- Seal boxes of blank checks with security tape

- Investigate out-of-sequence or duplicate check numbers on bank statement (indicates stolen or counterfeit check stock)
- Promptly destroy any voided checks

Stolen Checks - Countermeasures

- Print check stock on watermark paper supplied by company independent of check printer
- Incorporate security threads in check stock
- Periodically rotate check printers and/or check stock (so counterfeits will stand out)
- Use positive pay banking controls

Forged Maker Schemes

To whom is the check made payable?

- To the perp
- To an accomplice
- To “cash”
- To legitimate vendors (purchasing personal items)
- To fictitious person or entity

Forged Maker Schemes

Forging the signature

- Free-hand forgery
- Photocopy legitimate signature onto check
- Signature stamps
- Computer-generated signatures

Forged Signatures - Countermeasures

- Strictly limit access to signature stamps
- Use distinctive ink for check signing
- Have authorized check signers verify their signatures on canceled checks

- Investigate nsf checks or out of balance conditions in checking account

Forged Endorsement Schemes

- Intercept company company check intended for third party
- Convert check by forging endorsement

Forged Endorsement Schemes

Intercepting the check:

- Perp's duties involve handling signed checks
- Signed company checks not secured
- Checks returned to company (incorrect address)
- Alter delivery address – check mailed to perp

Intercepted Checks - Countermeasures

- Separate functions of cutting, signing, and delivering checks
- Surveillance cameras in mailroom
- Independently investigate customer complaints that payments not received
- Investigate any returned check with a dual endorsement
- Periodically lodge “test” checks in payables system and follow their trail

Altered Payee Schemes

- Intercept company check intended for third party
- Change name of payee
- Method depends on who prepared the checks

Altered Payee Schemes

Checks *not* prepared by perpetrator:

- Check washing

- White-out payee name
- “Tacking On” (I.R.S. becomes I. R. Stevens)

Altered Payee Schemes

Checks prepared by the perpetrator

- Perp obtains signatures on blank checks (perp highly trusted)
- Check typed or written in erasable ink
 - Perp gets authorized person to sign check
 - Signed check given to perp to mail
 - Change payee and/or amount
 - When cashed check returned with bank statement, perp restores original name, amount

Altered Payees – Countermeasures

- Require use of permanent ink on all checks
- Strictly segregate check preparation from delivery and bank statement reconciliation
- Use carbon copy checks (even if check is altered, copy will have true payee, amount)
- Use computer-generated checks
- Consider eft’s in place of checks, where practical

Concealed Check Schemes

- Very blatant, not very common
- Perp prepares check payable to self
- Gives check to authorized signer along with stack of legitimate checks
- Check gets signed; signer not paying attention, trusts perp.

Authorized Maker Schemes

- Fraudulent checks written by perp with check-signing authority
- Cash, pay personal bills, etc.

- Where controls prevent signer from handling blank checks or bank statements, perp uses influence to override controls

Authorized Maker Schemes – Countermeasures

- Do not let check signers have access to blank checks
- Require dual signatures over threshold amt
- Confirm all checks to current vendor list
- Spot-check cancelled checks for support
- Look for lifestyle changes in authorized signers

Concealing Check Tampering

- If perp reconciles the bank statement:
 - Code fraudulent check “void”
 - When statement arrives, destroy bogus checks
 - Force totals on reconciliation (add wrong)
- If payee/amount were altered:
 - Re-alter cancelled checks to match postings

Concealing Check Tampering

- Enter false info in disbursements journal
- Code checks to very active or dormant accounts
- If check to legitimate payee was intercepted, perp may re-issue check so payee doesn't complain
- Create bogus support for check

General Check Tampering Red Flags

- Excessive number of voided checks
- Missing checks
- Non-payroll checks payable to employees

- Altered or dual endorsements on returned checks
- Alterations to payee, amount on returned checks
- Questionable payees or payee addresses
- Duplicate or out-of-sequence check numbers

Check Tampering Controls

- Separate the following duties
 - Check cutting and posting
 - Check signing
 - Check delivery
 - Bank statement reconciliation
- Require proper support for all checks
- Mail checks immediately after signing

Check Tampering Controls

- Keep accounts payable records secure from tampering
- Have bank statements delivered, unopened, to two or more independent employees
- Bank statements reconciled by more than one person
- Periodically rotate personnel who handle and code checks

Check Tampering Controls

- Bank-Assisted Controls
 - Establish maximum dollar limits for checks drawn on accounts
 - Use positive pay system
- Purchase company checks from reputable producers