



## Protect your Business from Check Fraud

Joel C. Farrar

*Foster Swift Business & Corporate Law Report*

May 2013

Advances in desktop publishing and color copying have led to dramatic increases in check fraud. Recently, Foster Swift's bank was presented with a fraudulent \$1,000,000 check that was drawn on Foster Swift's general account. The check was indistinguishable from any other Foster Swift check, and in years past may have been paid. But Foster Swift's accounting department subscribes to our bank's positive pay service, which notifies us of suspicious checks and Automated Clearing House (ACH) withdrawals before they are paid. The service informed our accounting department of the suspicious check and allowed the stoppage of payment.

Fraudsters use counterfeit checks, stolen check stock, altered checks, forged signatures, fraudulent endorsements, and other tactics to target business accounts. More worrisome, recent reports estimate that 33% of check fraud originates from within an organization, most often with respect to payroll. Check fraud can harm your business by causing cash flow problems, burdensome investigations, and even unreimbursed financial losses.

Your business can reduce its risk by improving its check security. Here are some suggested strategies:

- **Use your bank's positive pay service.** A positive pay service permits your accounting department to perform a daily reconciliation of your bank's check-clearing information with your check issue information.
- **Direct deposit payroll and use other electronic payment systems.** Payroll check fraud is the most common type of check fraud. Direct deposit of payroll substantially reduces this risk. Other types of regular payments can also be made electronically through an ACH system.

---

### **AUTHORS/ CONTRIBUTORS**

Joel C. Farrar

---

### **PRACTICE AREAS**

Business & Tax

Business Law

---



- **Improve Internal Controls.** Promptly review your bank statements; use different accounts for collections and disbursements; segregate accounts payable functions among authorized signors and reconcilers; restrict signing authority on your bank accounts; secure check stock; review mailroom procedures; conduct surprise audits; and shred cancelled checks and unneeded financial data.
- **Use Secure Check Stock.** Ensure that your checks have adequate security features.

If you have questions regarding security practices or other questions regarding business administration, contact Joel Farrar at (517) 371-8305.