



Best Practices for Check Fraud Prevention



Foreword

With significant changes occurring in accounts payable technology and the diversification of payment types used, preventing payments fraud has become an increasingly complex and top-of-mind concern for businesses. CFOs and security/compliance officers should be taking the necessary steps to understand their security vulnerabilities and apply best practices for fraud prevention.

Checks remain a primary target for business payments fraud, according to banks, industry groups, and fraud experts alike. Check fraud is common and often perpetrated by someone internally. A CFO or compliance officer often doesn't discover fraud until a layoff occurs and they realize that something is not right. Many cases of internal fraud - orchestrated by those who are usually first in to work and last out and don't take vacations — are uncovered during company layoffs. In addition, company-wide layoffs typically leave accounting and treasury departments short-staffed which may weaken operational internal controls.

Checks are still an extremely popular form of payment for business-to-business payments. According to the 2013 AFP Electronic Payments Survey, 92% of organizations use checks when paying at least some of their major vendor/suppliers, and the average company makes 43% of its payments to major suppliers by check (the largest percentage by payment type). With many major suppliers and high-dollar transactions continuing to be paid by check, checks are also vulnerable to fraud.

- Checks (consumer and business) were the payment instrument with the highest average value of unauthorized transactions in 2012.
- Federal Reserve Payment Survey, December 2013
- Checks continue to be the preferred target of thieves, with 87% of organizations being victims of attempted check fraud.
- AFP Payments Fraud Survey, 3/13
- 52% of organizations have experienced check fraud in the past year. This was the payment method experiencing the second highest level of fraud, behind credit/cards (66%).
- ISMG, 2013 Faces of Fraud: The Threat of Evolution, September 2013

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Best Practices

Preventing Check Fraud

1. Use a High-Security Check Printing System

Whether an organization is printing checks to a single printer, multiple printers across a network, or remote locations, the latest check printing technology offers advanced features designed to add high-security to the disbursement process.

MICR Check Printing

Today's leading MICR check printing systems, such as SecureCheck from AP Technology, offer a wide range of internal controls for fraud prevention that can be securely managed from a host server: audit trails, event logs, user permissions, approval workflow, email notifications for check printing activities, electronic check-image archiving, and more. The SecureCheck system also offers printed-check security features, such as security fonts and watermarks.

Remote Check Printing

Staffing companies, professional employer organizations, construction companies, commercial banks, title companies, title attorneys, mortgage lenders, or any organization that manages multiple checking accounts and issues checks for distribution at a number of locations will see the security and productivity advantages of implementing a secure remote-check-printing process. The APSecure-RCP solution from AP Technology delivers check files securely over the Internet for printing to blank stock at remote sites. This web-based solution immediately eliminates the significant security risks associated with standard mail or express delivery of volume check runs.

On-Demand Check Printing at Remote Locations

Some organizations require the capability to write or print checks as needed at remote locations. Manual processes in these situations are open to inaccuracies and fraud. An on-demand check printing system, such as APSecure-ODC from AP Technology, enables checks, including checks for vendors and refunds, to be printed on-demand at any remote location with centralized process management and real-time data reporting. With APSecure-ODC, organizations can enable their remote locations to conveniently print checks on site using an intuitive web interface, while ensuring optimal fraud control and efficiencies.





2. Use High-Security Blank Check Stock

Using blank check stock is another important factor in securing your process. Blank stock has the advantage of being void of all check information aside from the check's embedded security features - which protects your organization against check alteration and duplication attempts. Check printing solutions from AP Technology enable you to make the switch to using blank stock.

3. Create a Positive Pay Partnership with Your Bank

Positive pay is an essential best practice for check fraud prevention that forms a partnership between you and your bank. With positive pay, the bank validates each check it receives for payment against a check issuance file you provide. Discrepancies are flagged for your review and payor-approval is required before payment is made.

Implementing positive pay helps your organization meet UCC Uniform Commercial Code standards of 'ordinary care' for fraud prevention and gives you leverage for full loss-recovery in the event of a check fraud incident.

Positive Pay Software

Creating properly formatted positive pay files and automating regular transmission of files to your bank can be done quickly and easily with positive pay software. SecurePay software from AP Technology is the nation's leading positive pay solution, and is compatible with all accounting software packages. Nine of the ten leading U.S. commercial banks currently recommend SecurePay software for rapid and economical implementation of positive pay protection.



4. Implement Best Practices for Fraud Prevention

In addition to technology-based solutions, your organization should consider incorporating best practices for fraud prevention into your operations:

- Daily account reconciliation
- Post No Debit flags on zero balance or depository accounts
- Controlled access to company payments areas and systems
- Consistent system password updates
- Awareness of payment procedures and security risks during employee vacations and turnover
- Knowledge of your bank's check destruction policy, imaging system, and check fraud detection practices
- Knowledge of check stock security features, including developments in the area of image-survivable features
- Employee hotlines where workers can anonymously report abuse
- Possible bonding treasury officials

Along with considering the aforementioned best practices, perform an inventory of your current practices and internal controls by taking the **Check Fraud Risk Assessment Survey** at <http://www.aptechnology.com/for/cfra>

In today's changing payments landscape, the most effective check fraud prevention planning combines best-of-class technologies with the best internal practices for secure accounting.

Contact

For immediate attention on check fraud solutions, contact the AP Technology Sales Department at 800.652.2877 or sales@aptechnology.com

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