# First Friday Fraud Facts+

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*The Idaho State Controller's Office distributes this newsletter as a cost-effective method of increasing awareness about ways to detect and prevent fraud, waste, and abuse in government.*


**Questions or Comments:**

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Welcome to First Friday Fraud Facts+ (F4+). This edition will discuss check fraud.

## History about Checks

For hundreds of years, people have used checks or other forms of demand drafts as a method of payment. In the U.S., the use of checks is estimated to have peaked in 1995, with about 49.5 billion checks written in that year. Since 1995, check use has declined due to increased use of debit cards, ACH (Automated Clearing House), and other electronic payment methods. Despite the continued decline over the past several years, billions of checks are still written each year, and the use of checks is predicted to continue for the foreseeable future.[1] According to a study issued in December 2013 by the Federal Reserve System, an estimated 21 billion checks were written in 2012 alone.[2]

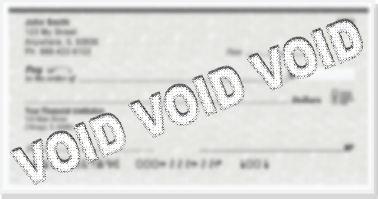
## Check Fraud

Check fraud occurs when a person issues a paper instrument which cannot be legally negotiated or which does not have cash to back it up, with the intent to defraud.

Instruments used in check fraud schemes include cashier's checks, official checks, expense checks, money orders, and other paper instruments. The Office of the Comptroller of Currency (OCC) identified two hundred different examples of counterfeit or fictitious paper instruments.[2]

## Cost of Check Fraud

According to the Federal Reserve Payments Study, the average value of unauthorized check transactions in 2012 was $1,221 compared to $730 for ACH and $105 for general purpose debit cards. Total unauthorized check transactions in 2012 was $1 billion.[2]




## Check Fraud Schemes

According to James H. Freis, Jr., director of the Financial Crimes Enforcement Network (FinCEN), check fraud continues to be "one of the simplest and most prevalent ways to commit a financial crime, (and) to steal money."[1] Some examples of check fraud schemes are:

- Check Kiting — Opening accounts at two or more banks and then depositing checks into the other account and using the "float time" to artificially create account balances.
- Stolen checks illegally endorsed and deposited or cashed.
- Checking accounts opened under falsified or stolen identity, and checks written from accounts with little or no available funds.
- Counterfeit convenience checks (e.g., cashier's checks, traveler's checks, money orders) created using copiers, scanners, or computers.
- Checks written on closed accounts.
- Payee or amount altered on check.
- Forged signature.[1]

## Recognizing Check Fraud

Inspecting the following information when receiving checks may help detect check fraud.

- No check number or the check number is the same on multiple checks.
- The font for the customer's name is different than the font for the customer's address or bank's name and address.
- Bank address and/or customer address is missing or is hand written.
- Check color appears to be discolored or faded.
- The check number in the Magnetic Ink Character Recognition (MICR) on the bottom of the check doesn't match the check number on the top of the check.
- The MICR information is not complete.
- The check shows the word VOID on it.
- The security features on the check appear to be missing or altered.
- Information on the memo line doesn't match the reason the check is being negotiated.
- Signature appears to be forged or the check isn't signed.
- The MICR encoding numbers on the bottom of the check are shiny. Note: The genuine ink used for the MICR is dull or non glossy.[3]

## Check Fraud Prevention Tips

- Keep bank records, checks, deposit slips, and canceled checks in a safe and secure location such as in a safe, locked drawer, or locked filing cabinet.
- Reconcile bank statements within 30 days of receipt of the statement.

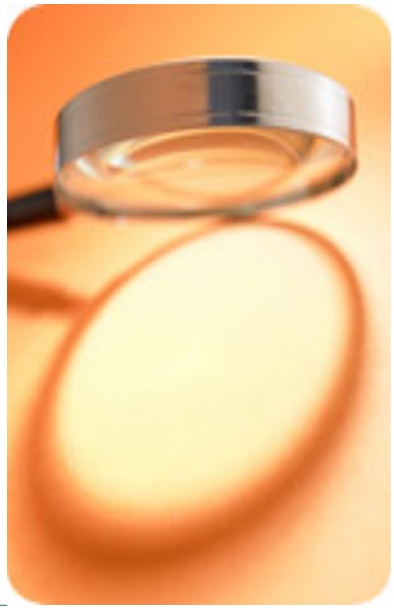
- Do not disclose account numbers over the phone or in email.
- When writing checks, do not leave the payee and amount lines blank.
- Use a gel-type ink pen when writing checks to prevent the ink from being washed away.
- Do not mail bills from a mailbox. Send bills from the Post Office or give them directly to the known postal carrier.
- Verify identification, such as a driver's license, when accepting checks in person.
- Do not provide cash-back on checks that are presented for payment. If there is an overpayment, ensure that the check clears the bank before issuing a refund.
- When possible, accept checks during business hours in case the bank needs to be contacted for verification.[3]

## FRAUD CASE

A check fraud scheme involving a postal worker and seven other individuals resulted in approximately $625,000 in losses. In the scheme, the postal carrier would steal boxes of blank checks from victims' mail and then deliver the checks to his accomplices. Once the blank checks were distributed, the postal worker and the accomplices would write the checks for various amounts, usually less than $5,000, forge the victims' name on the face of the checks, and endorse them. The endorsed checks would then be deposited into valid accounts which the fraudsters had opened at the victims' banks. The fraudsters would then withdraw the funds from their newly opened bank accounts.

Before the fraud was discovered, about $1.5 million in fraudulent checks were deposited impacting 122 victims and 258 different bank accounts.[4]

Several of the fraudsters were convicted and received sentences ranging from 6 to 46 months in prison plus 3 years of supervised release.[5]



[1] Financial Crimes Enforcement Network. "Prepared Remarks of James H. Freis, Jr. Director, Financial Crimes Enforcement Network U.S. Department of the Treasury" (October 2010). http://www.fincen.gov/news_room/speech/html/20101002.html. Accessed March 17, 2014.

[2] The Federal Reserve System. "The 2013 Federal Reserve Payments Study," (December 2013). http://www.frbservices.org/files/communications/pdf/research/2013_payments_study_summary.pdf. Accessed March 17, 2014.

[3] National Check Fraud Center, "Check Fraud Prevention", http://www.ckfraud.org/ckfraud.html. Accessed March 18, 2014

[4] Grant, Jason, "8 people accused of bank fraud for alleged stolen check scheme" *The Star-Ledger*, (February 2012), http://www.nj.com/news/index.ssf/2012/02/8_people_accused_of_bank_fraud.html. Accessed March 18, 2014.

[5] The FBI Federal Bureau of Investigation, U.S. Attorney's Office, Newark Division, "Newark Man Sentenced to 46 Months in Prison in Scheme to Steal Checks from U.S. Mail", (May 2013), http://www.fbi.gov/newark/press-releases/2013/newark-man-sentenced-to-46-months-in-prison-in-scheme-to-steal-checks-from-u.s.-mail. Accessed March 18, 2014.