



Reciprocal News

Helping to Manage Your Risk. A publication designed for the benefit of Ontario's Electricity Industry - March 2010.

Avoiding Mail and Cheque Fraud

Advances in technology have forced an increase in security measures to help prevent fraud and theft. LDCs should take measures to ensure they are protecting themselves and customers. LDCs should develop internal policies and controls for the various types of payment methods offered to customers. Fraud protection for both cheque payments and automatic payments through bank accounts need to be addressed. According to the CIBC, it has been estimated cheque fraud will continue to grow by 25% each year.

A cheque that falls into the wrong hands can be altered and cashed. Given the large volumes of cheques passing through a LDC, a fraudulent cheque may be paid. There are three main types of cheque fraud:

- 1) Counterfeit - cheques not written or authorized by the account holder
- 2) Forged - Stolen cheque not signed by the account holder
- 3) Altered - an item that has been properly issued by the account holder but has been intercepted and the payee and/or the dollar amount of the cheque have been altered.



How can you protect yourself from fraud from items drawn on your account

1. Do not use window envelopes when mailing cheques as they make it easier for criminals to identify the contents as being a cheque
2. Reduce the use of cheques in favour of electronic payments such as wire payments, direct deposit and pre-authorized payments
3. Keep cheque stock in a secure location
4. Destroy unused cheques from closed accounts immediately
5. Checks and balances - split responsibilities so no one person is responsible for cheque issuance and reconciliation
6. Prompt account reconciliation
7. When reordering cheques use continuous serial numbers and only order one set per account
8. When laser printing cheques, issue multiple passwords to those responsible for cheque printing and use cheque paper with toner anchorage to permanently bond toner into the paper
9. Use high quality cheques that incorporate a reasonable mix of security features
10. Report any old outstanding cheques and suspected fraud on your account immediately



Internal Controls and Procedures to Prevent Cheque Fraud

LDCs should have a series of fixed internal procedures and controls regarding cheque handling:

1. New hires and all staff who distribute funds should be verified. When hiring new employees they should be subject to; Criminal Record check, Credit bureau check, prior employment check and education check
2. All applicants should sign a waiver indicating they will not request access to the results of these tests if they are not successfully hired
3. Set and follow clear signature review procedures before cheques are mailed. Establish a policy clearly outlining signing authority requirements based on the value of the cheque. Cheques should also be signed by two people
4. Centralized disbursement rather than returning issued cheques to individual departments for mailing
5. Establish procedures to limit access of staff (outside of cheque issuing staff) to completed cheques
6. Bank balances should be monitored on a daily basis
7. Actual cheques should be reconciled monthly to the bank statement
8. Technical security features can include:
 - a. Magnetic Ink Character Recognition (MICR) printed text
 - b. Toner retention to make it more difficult to change numbers or letters
 - c. Watermarks that cannot be removed or easily replaced
 - d. Void pantograph where "VOID" shows up on photocopied cheques
 - e. Thermo-graphic ink - changes colour when rubbed
 - f. Fluorescent fibres - shows up under fluorescent light
 - g. Develop controls to determine who holds access to cheques and signing authority
 - h. Only authorized staff should have access to cheque stock, facsimile signature stamps and cheque order forms
 - i. Enforce security features - control of cheque stock should be maintained throughout the entire cheque printing signing and dispatch process
 - j. Implement security features on cheque paper stock

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A Service Offered by Banks

Positive Pay Services is a service offered by most banks in Canada and is used by many levels of government and public sector businesses. It is arguably the most efficient and effective mechanism to prevent or detect cheque fraud. It is a service that helps to identify fraudulently issued or altered cheques. The following is a brief description of the positive pay process:

- 1)** a comparison is performed based on cheque serial number and amount between cheques being cleared through the bank
- 2)** the bank requires an electronic file be sent to the bank for each cheque run that outlines details of cheques to be issued, including payee details
- 3)** incoming cheques are monitored and unmatched items, including altered payee, are flagged for immediate action
- 4)** the bank advises of any exceptions on a daily basis

There are other benefits of using Positive Pay Services:

- 1)** Improved cash controls, enabling more timely and accurate reporting
- 2)** May reduce LDC administration associated with fraudulent cheques
- 3)** By alerting the LDC to exception items quickly, a reduced risk of honouring fraudulent items
- 4)** Positive pay systems may streamline the management process with online access to exception records and images of used cheques and the ability to make pay/no pay decisions online immediately

Other services offered by banks include account reconciliation features and cheque imaging.

It is almost impossible to prevent fraud but you can significantly minimize the risk faced by your

LDC, thus reducing the chance of someone counterfeiting or altering your cheques. It is critical good procedures related to your cheque processing process are in place and it is essential your cheques are difficult to counterfeit or alter.

By implementing processes and working with your bank, you may reduce your LDCs risk of cheque fraud. If you would like further information or wish to discuss, please contact Gary Durie Risk Analyst at 800.668.9979 or gdurie@mearie.ca

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