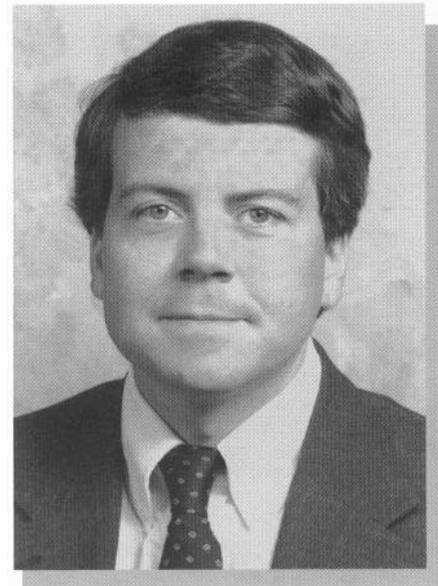


Letters to the Auditor

BY JOHN C. LANDRETH, CPA



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Positive Pay System Can Foil Forgers

Dear Letters to the Auditor,

Recently my hospital has been the victim of check forgeries. I never knew it before but through the advanced technology of scanners and commercially available check printing software, today's bad guys can easily create pretty legitimate looking check forgeries. These problems were discovered during our accounting department's monthly reconciliations. We will not be out any funds, but it has raised concerns from our management as to whether our controls are adequate or should be improved. Do you have any suggestions'?

Signed,
Stung by the Bud Guys!

Dear "Stung,"

Forged signatures, altered checks, and good old counterfeiting have long been present in American business. You are correct, "the bad guys" are keeping up with technology and so should hospitals along with their banks and financial institutions. As you indicated, it doesn't take much effort to produce a good looking and passable forgery of a company's check stock and authorized signatures, etc. In many cases, all you need is a good scanner, respectable looking check stock and a good laser printer. (With a color laser printer, a good forger can practically clone your check-signature and all.)

It's my understanding that check forgers are on the rise in this country and internationally. A common method is to establish a bank account under a fictitious name using false identification, and submit a forged check from a known large corporation's bank account. When the check clears, the account is cleaned out and the forger disappears. Ultimately, the corporation or hospital's bank is credited for these funds but the bank is at a loss. The Uniform Commercial Code (UCC) holds banks accountable for verifying proper identification and determining appropriate endorsements. Today's forgers and bad guys are finding more and creative ways to take advantage of the legal limitations placed on banks.

In most cases, when someone contacts a bank about a check they can only verify that the account balance has sufficient funds to process and cash the check. They cannot verify the check amount

unless you have positive pay. Another service that some financial institutions are offering customers (many times at no charge) is called "positive pay." Under a "positive pay" system, the customer submits to the financial institution a tape of authorized disbursements with specific details i.e. check number, amount, and payee. If check #123 is submitted to the bank in the amount of \$5,000 when the original check #123 was payable for only \$50, the bank, upon presentation by another bank, will reject it. This saves the bank from the administrative and potential loss by providing access to the funds and it saves you a lot of hassle in administrative efforts completing affidavits, etc.

Similar situations are occurring in major cities in regards to payroll check forgeries. Organized crime as well as semi-organized crime (gangs) often create bogus payroll checks and then cash them. These people have false identification and social security cards, and know that these banks will cash a payroll check when it is less than a threshold amount. "Positive pay" cannot prevent these kinds of forgeries, but as banks become smarter and catch up with these technologically-proficient "bad guys," they eventually will.

How can you make the check forger's job more difficult? First of all, do the best you can to keep your check stock out of the hands of people who don't need to have it. Keep tight security over your check stock and work to keep as many of your employees as possible on direct deposit for payroll. Work with your bank on special features in check design and formats that discourage copying or altering. Pursue, with your financial institution, the outsourcing of check printing and mailing direct to payees.

Of course, it's difficult to protect and limit access to a financial instrument whose intention is to be a semi-public document. It's unreasonable to assume that something as fundamental as a check would have limited exposure. In many cases several people may have contact with a check through processing, endorsement, negotiation, etc. But you can do some of these basic things to make a crook's job more difficult.