



BEST PRACTICES



Dave Yost
Ohio Auditor of State

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Positive Pay helps guard against check fraud

A month into her job as Liberty Township’s fiscal officer, Nancy Denutte was going through her tasks, reconciling checks issued by the Delaware County community when she came across an eye-popper: A check for \$134,000.

Cashed by the Royal Bank of Scotland (not a bank the township of 29,300 people typically does business with), the check contained the signatures of all three township trustees. But it was a fraud. Authorities believe someone created the fake check and copied the trustees’ signatures from the township’s website. Fortunately for Liberty Township, the funds were returned.

Although the circumstances in Liberty Township are unusual, check fraud involving government is not unique. A survey by the Association for Financial Professionals (AFP) found that 91 percent of all organizations experienced payment fraud with checks, and 28 percent through ACH debits. Fraud has become ubiquitous.

After the check fraud experience, Liberty Township trustees decided to further protect tax dollars by enrolling in “Positive Pay.” Positive Pay is a service that essentially requires customers to provide their bank with a list of checks that are to be paid, while payment is withheld for any checks that don’t match.

After meeting with leading Ohio bankers, Auditor of State Dave Yost is encouraging all government entities to consider enrolling in a Positive Pay program to add a layer of protection to their accounts. In the financial world, Positive Pay is considered a best practice in terms of deterring fraud.

“While technology has created new, more-convenient ways for us to do our banking, it also has created new opportunities for criminals who have become more sophisticated,” Yost said. “As sad as it is to say, it’s too easy for someone to create a phony check or to alter a check

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What is Positive Pay?

A fraud-detection tool offered by most banks that matches certain key pieces of information before making payment. Here are two variations and how they work:

Check Positive Pay



Customer assigns check data and sends to the bank



Checks are presented for payment



Bank matches checks vs. data



Reverse Positive Pay



Customer issues checks



Customer monitors checks on their own



The decisions

1. Match: check is paid
2. No match: check is suspended
3. Default decision of customer’s choosing



Other anti-fraud services

Check/Debit Block

Check Block is a service that restricts the withdrawals on the checking account to electronic transactions only. This eliminates the chance that a fraudulent paper check is created and presented for payment. This is particularly useful on accounts that checks are not drawn on. Debit Block is a service that prohibits anyone from “pulling” on your account or limits those businesses that can do so.

ACH Positive Pay

The ACH Positive Pay service allows a customer to set parameters on payments (amounts, day of the week, transaction types, etc.). For instance, payments that occur regularly with similar amounts can be set up to pay automatically, while any payments that fall outside normal transactions will be suspended until authorized.

Masking/UPIC

Through a masking program, the actual account number of a client is never public on any check that is paid – nearly eliminating the chance the number can be stolen. The bank assigns a number to a client and then decodes the number behind a secure paywall before making the required transactions.

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and rip you off today?”

“Fraud protection like Positive Pay is a necessary step to protect tax dollars. We think those entrusted with tax dollars at schools, libraries, townships, villages and beyond should look seriously at this option,” Yost continued. “It’s a relatively inexpensive safety net.”

Liberty Township, for example, is paying its bank \$50 a month for the service, plus transactional fees that bring the total to \$65 monthly.

What is Positive Pay?

If you don’t know, you’re not alone: A survey conducted by the Auditor’s office found nearly half of local government respondents were unaware of Positive Pay. More than 780 fiscal officers responded and 49 percent were unfamiliar with it. Of respondents, 65 percent said they either have no anti-fraud systems in place on their bank accounts or were unsure. (Full details of the survey follow this report.)

Positive Pay is a fraud detection tool offered by most banks that matches key information in transactions presented for payment to determine whether the transaction should be completed.

There are different variations of Positive Pay: Check Positive Pay, Reverse Positive Pay, Check Block, ACH Debit Block, ACH Positive Pay, and an account masking program such as UPIC. Banking executives said the most frequently used service is “Reverse Positive Pay” because typically it is the least expensive. However, that service requires the customer to take more steps. All major banks provide some type of Positive Pay service, usually branded differently and with different cost structures.

Positive Pay/Check Positive Pay

Each day, a government client provides a list of checks they issued, including the amount, the check number and sometimes the name of the payee.

Using Positive Pay or Check Positive Pay, banks verify checks presented for payment against the list provided by the government client. If all of the information on the check does not match the information the client has provided, the check will be suspended and held until the client approves it. If it is disallowed by the client, the check is returned. If no action is

taken, the default setting selected by the client is used (usually set to pay). This is typically done online, although some communities utilize fax machines for verification. Clients can choose the frequency of verification (same or next day).

Reverse Positive Pay

With Reverse Positive Pay, government clients actively monitor checks being processed for payment. Each business day, the client reviews the daily report of checks presented for payment and either accepts or rejects them. Those that are accepted are paid, while those rejected are returned to the client for review.

There are other fraud prevention tools based on the types of transactions typically associated with certain accounts that limit their vulnerability to fraud.

According to bank officials, some smaller communities do not have the most up-to-date technology and might believe they’ll have difficulty implementing a Positive Pay-type safeguard. However, many banks have ways to provide the protection, although it requires more manual labor.

While Positive Pay has made accounts much more secure, bank officials stress that enrolling in one of the Positive Pay anti-fraud measures isn’t enough. Those responsible for paying and reconciling bills must stay vigilant. “No tool works if it’s not used,” agreed Auditor Yost.

Banking leaders said effective fraud management includes these steps:

- Educate employees on how to recognize fraud
- Separate tasks by function (check issuance and reconciliation) and vary procedures by day and individual
- Require and enforce mandatory vacations
- Monitor and reconcile accounts promptly
- Examine check signatures
- Verify sequence in serial or check numbers

“The sophistication with which thieves operate today requires we take additional steps to protect public dollars,” Auditor Yost said. “I recommend all governmental entities review the safeguards on their accounts and consider adding Positive Pay to their arsenals. It’s hard to be too safe.”

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Up next

Cyber Crime

In our next Best Practices release, we will share insights on new developments and ways for governments to protect themselves.



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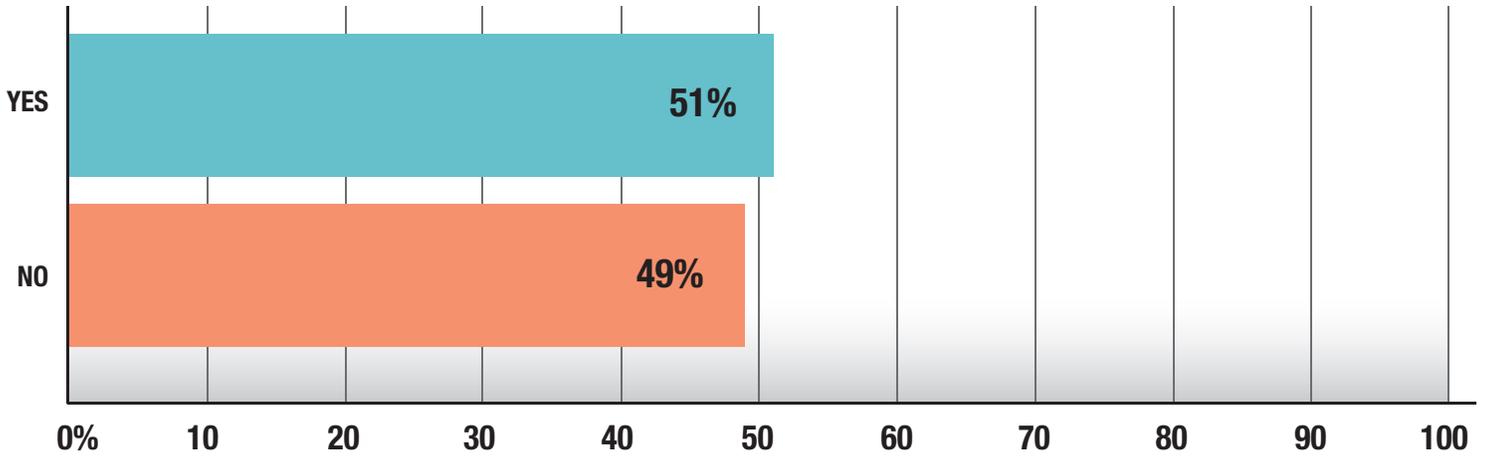
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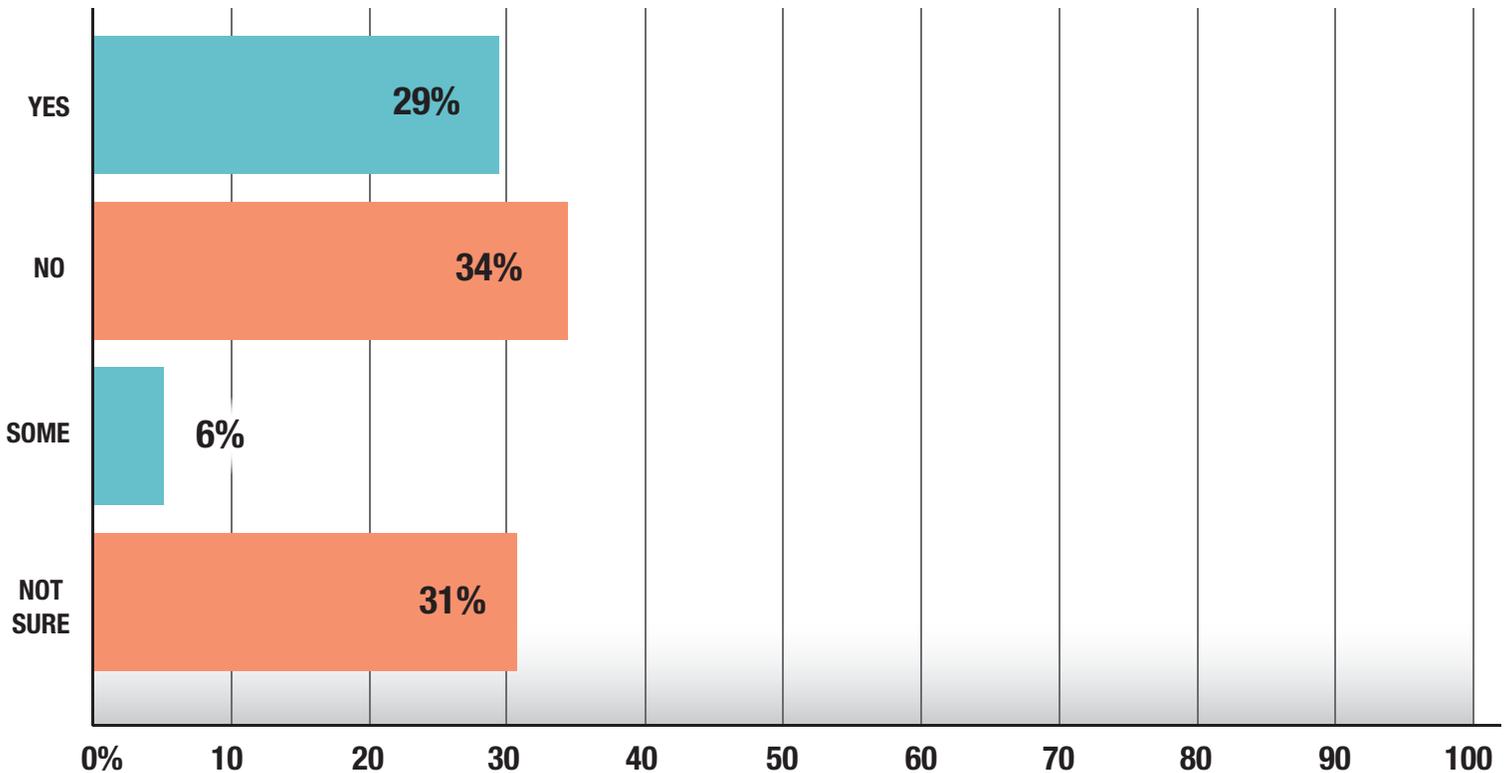
Survey results

In an effort to gauge the involvement and interest in anti-fraud services by local governments, the Auditor of State’s office sent out a survey in early September to its 5,800 clients and received more than 780 responses. Of the 516 respondents who shared what type of office they worked for, 141 were from townships, 105 school districts, 85 village officers, 68 responded “other”, 44 libraries, 39 city officials and 39 from county government. Here are some of the key results:

Are you familiar with fraud-prevention services such as Positive Pay?

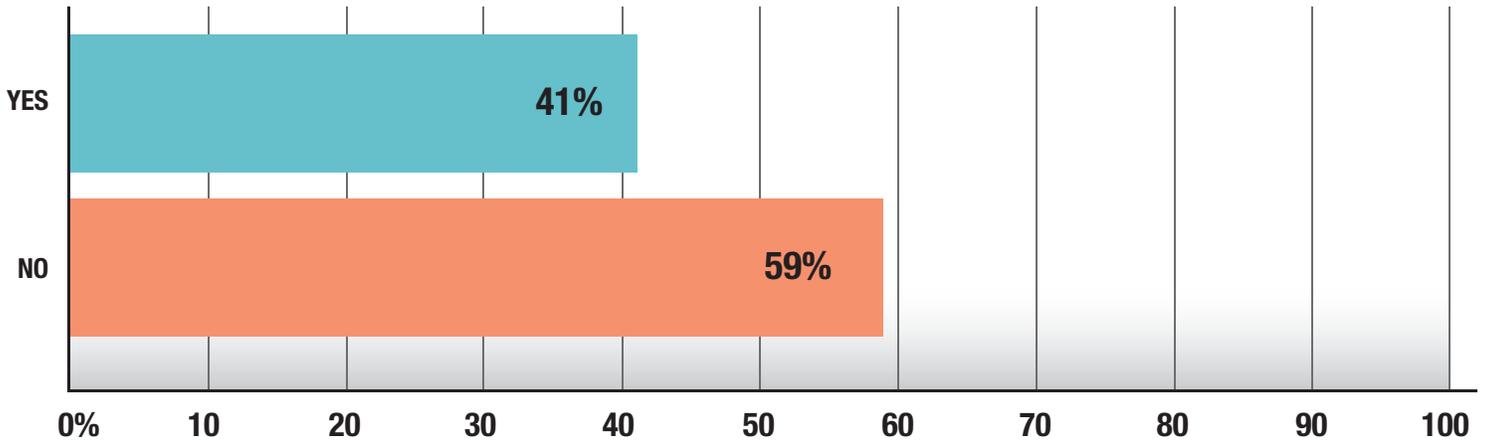


Are there anti-fraud systems such as Positive Pay in place on your government (library, township, village, school district, etc.) bank accounts?



Survey results

If you use anti-fraud service on your accounts, have you ever prevented a fraudulent check from being paid or caught an inadvertent error?



If you have considered subscribing to an anti-fraud service but did not, what prevented you from doing so?

