

▶ *Hanover Risk Solutions*

## Check Fraud Prevention Checklist

Check fraud is a serious crime affecting retail businesses. Check fraud and counterfeiting produce annual estimated losses in the billions of dollars. Check fraud can be internal, from employees, or external, from customers. Therefore, to prevent check fraud, businesses need to consider both their internal and external exposures. The following questions can be used to assess a business's exposure to check fraud.

INTERNAL EXPOSURES	YES	NO	ACTION TO BE TAKEN
Have in-depth background checks been performed on employees in positions of financial responsibility? Know your employees - check their references and contact their past employers.			
Are employees with financial responsibilities bonded?			
Is check stock provided with security features, purchased from well-established vendors, and stored in a secure location?			
Are check books or bank records kept in a locked drawer, and not left unattended?			
Have sound procedures been established for accounts payable? The check writing and account reconciliation functions should be separated by making two people responsible.			
Are the number of personnel with the authority to sign checks limited?			
Are two signatures required on checks for large dollar amounts?			
Are check disbursements and deposits (i.e., bank statements) reconciled regularly, and the authorized signers not the same people who reconcile the account?			
Are surprise audits of all financial functions performed?			
Are vacation policies enforced? Embezzlers are often reluctant to take vacation for fear of being caught.			
Are accounts payables processed through a service bureau? A copy of the service bureau's security procedures should be kept on file.			

INTERNAL EXPOSURES (CONTINUED)	YES	NO	ACTION TO BE TAKEN
Are bank services, such as positive payment and signature verification systems, used to protect accounts payables? A positive payment system records pertinent information about a check, such as the amount, the check number, and date, and then transmits it to the bank to be verified, before the check can be paid.			
When a payment account is fraudulently used, is it standard procedure to close the account as soon as possible?			
Is communication maintained with your bank so that it knows as soon as possible of any changes in company policies? Bank contracts should be read and understood regarding the company's liability for fraud.			

EXTERNAL EXPOSURES	YES	NO	ACTION TO BE TAKEN
Are two forms of identification required for all payments by check and listed on the back of the check?			
Is it company policy to not accept third-party checks, such as payroll or government checks, since these may be stolen?			
If you accept a large number of payments by check, has consideration been given to the use of electronic check verification services?			
Do you make it a habit to know your business customers?			

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