

5.6 Prevention of Cheque Fraud Guidance

Background

In recent years there have been several incidents of counterfeit cheques being processed through the Co-op Bank accounts in Barnet schools. This is part of a wider significant problem and has involved the bank's fraud team and in consultation with the fraud squad in London.

This note gives guidance on what to do if fraud is detected or suspected and measures to protect the school.

What to do if cheque fraud is suspected or detected

Schools should immediately contact

- The police and obtain a crime reference number

The crime or suspected crime needs to be reported by the Head or a signatory of the account on which the fraud has occurred.

- The bank

The school should contact its banker and report all relevant details including the crime reference number. The bank should take responsibility for investigation and advising what action should be taken. It should also arrange to refund the school's loss.

The relevant number to report a fraud to the Cooperative Bank is 0845 603 9128 and the e-mail address is fraud@cfs.coop

- The local authority

Please let the Schools Accountancy section know details by email (schools.accountancy@barnet.gov.uk) so that we can monitor the extent of problems across all schools.

Measures to protect the school

There are a number of steps schools should take to protect themselves from cheque fraud. These are set out in **Appendix A**.

The design and security of a cheque can significantly affect the ease with which it can be counterfeited or altered. APACS (The Association for Payment Clearing Services) is constantly working to improve efficiency in cheque clearing and reduce the opportunities for fraud. The Association sets technical standards for cheques, e.g. APACS Standard 3, and has set up the Accredited Printer Accreditation Scheme.

Also in the light of what has been happening in Barnet schools we are recommending that when you need to order more cheques that you opt for the added security cheques. Many LBB schools use a company called "Checkprint" but schools must ensure that Contract Standing Orders are followed and competitive quotations are obtained to ensure value for money.

Details of the advantages of the more secure cheques are set out in **Appendix B**.

It is recommended that schools opt for the more secure option of cheques which is more expensive but show the school is endeavouring to safeguard itself from fraud.

Appendix A

Steps that protect your school from Cheque Fraud

Writing a cheque

- Write the payee's name close to the word "Pay" and end it with a thick horizontal line or asterisks to prevent any additions or alterations being made.
- Avoid the use of abbreviations and initials in the payee's name as these can be easily altered.
- The amount in words should start as close as possible to the left hand margin of the cheque; start with a capital letter and end with the word "only". Draw horizontal lines to fill any space. The figures in the amount box should be very clear and any spare space ruled through.
- On printers asterisks can be used instead of horizontal lines.
- A word-string is much more secure than boxes when using a computer to infill your cheques. However, where cheques must be printed using "amount boxes" they can be made more secure by filling unused boxes for millions, thousands, hundreds, etc. with asterisks or the word zero". Nil or none should not be used.
- If a cheque is altered, sign the alteration rather than just using an initial.
- Incorrect cheques should be retained but clearly and boldly marked "cancelled" across the cheque and any remittance advice.
- A uniform method of cheque completion is highly recommended, because this makes any fraud or forgery far easier to detect.
- At the risk of stating the obvious never sign blank cheques!

Disguised post

The following steps will make it more difficult for fraudsters to identify and intercept cheques sent in the post –

- The use of plain non window envelopes
- The use of stamps instead of a franking machine
- The use of more secure mailing methods such as registered post or special delivery for high value cheques.

Other Options

Schools should consider using their bankers' internet banking service to pay larger transactions by BACS. Schools that are part of the LA banking contract can pay a monthly fee to use the Co-op internet banking service as set out below;

The Co-op Bank has an Internet system called Financial Director On-line and have a number of options for schools;

- Option A to view their account details only - the cost of this will be £5.00 per month
- Option B to view their accounts and also make one off BACS payments where one person inputs the transaction and another person authorises the payment. - cost would be £15.00 per month
- Option C to view accounts and send bulk BACS files which would need approval (not possible for one person to upload the file will need to be dual control). - the cost of this will be £30.00 per month.

In addition, all schools would be in a position to use the Coop's free cheque fraud prevention service Positive Pay.

(The costs are subject to change and were correct as at Feb 2011)

Features of cheques:

1 Standard cheques

These do have secure options which are set out below but these can still be counterfeited

Security Features

Including solvent-sensitive and water-sensitive inks, printed with designs which cannot easily be copied

The amount Box

Must be clearly visible to the human eye and within the print contrast levels required for image processing

Ultra Violet

Feature incorporated in the cheque background for security and as protection from colour copying

The Paper

Cheques only printed on CBS1 APACS specified paper

Tablet Back-ground

This area includes all APACS security features leaving more free area for company identity

2 Cheques with added security

For added security additional 'features' can be introduced to the design, layout or base paper used in cheque production

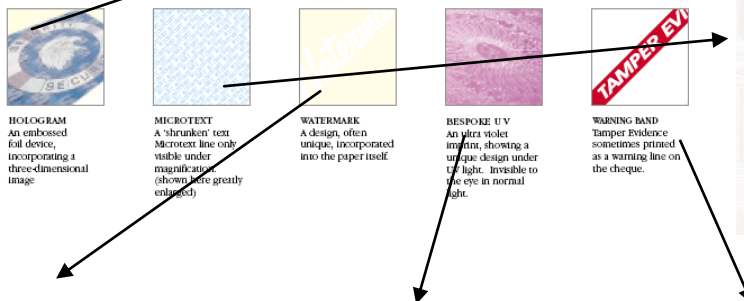
These 'features' are not a requirement of Standard 3, which sets out the inherent security safeguards required by APACS, but can be added, either to create a more 'unique' special cheque for business users, or to add an incremental level of 'visual security' to deter the potential fraudster

ADDED SECURITY

A brief definition of each 'feature' is set out below. More information, together with costs, can be obtained from The TALL Group.

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Hologram

An embossed foil device incorporating a three dimensional image

Microtext

A 'shrunken' text
Microtext line is only visible under magnification (shown here greatly enlarged)

Watermark

A design often unique, incorporated into the paper itself

Bespoke UV

An ultra violet imprint showing a unique design under UV light. Invisible to the eye in normal light

Warning Band

Tamper evidence sometimes printed as a warning line on a cheque

