



Control, Risk and Fraud

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Agenda

- Introduction
- Check Fraud in the 21st Century
- Phishing & Pharming
- Internal Fraud

Introduction

- **Credit Card Fraud against consumers declining**
 - Effective fraud prevention systems
 - Synthetic ID fraud; no consumer victim
- **Thieves moving to other accounts**
 - New accounts
 - Checking accounts
 - Corporate Accounts
- **Rising crime methods**
 - Cyber attacks against consumers
 - Desktop & email compromise
 - Unauthorized access to credit reports
 - Hacks against retailers



Source: Gartner

Corporate Fraud Concerns

(1=Not important, 5=Most important)	Upper-Middle			Large Corporate		
	2006	2008	Diff	2006	2008	Diff
Concern about fraud from specific sources						
Checks	4.41	4.48	.07	4.51	4.53	.02
ACH debits	3.98	4.04	.06	4.08	4.24	.16*
Wire Transfers	3.67	3.74	.07	3.70	3.78	.08

Source: Phoenix-Hecht
www.phoenixhect.com

* Statistically significant change



Corporate Fraud Concerns

Scale 1 to 5 with 5= Very Important

Annual Sales

	\$100M- \$249M	\$250M- \$499M	500M- \$999M	\$1B- \$2.49B	Over \$2.50B
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Rate:					
Increase in concern about check fraud, last two years	24.0%	29.3%	33.9%	35.0%	38.5%
Importance of Positive Pay with payee verification	4.02	4.45	4.52	4.42	4.40

Source: Phoenix-Hecht
www.phoenixhect.com

Perpetrators still lead the race!



- Fraudsters persistently probing, collecting information, planning
- A few bright professional criminals
- Multitudes of copy cats
- Internet has increased the problem
- Effective, popular scam... big losses
- Banks' excruciatingly slow reaction time

Check Fraud in the 21st Century

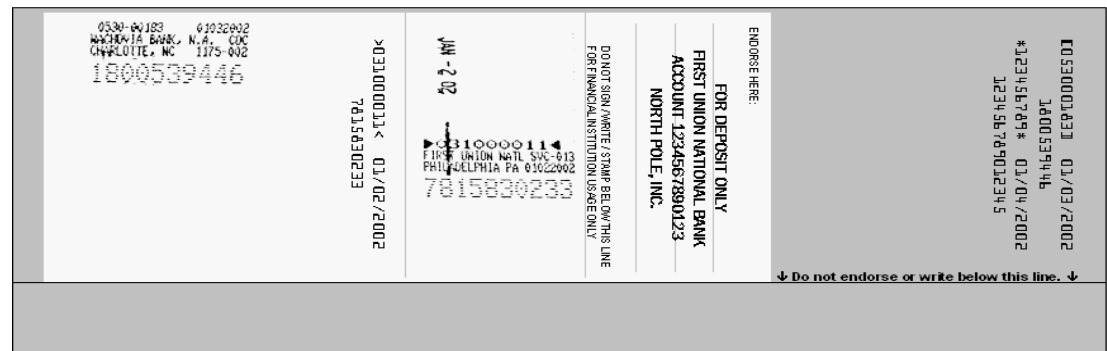
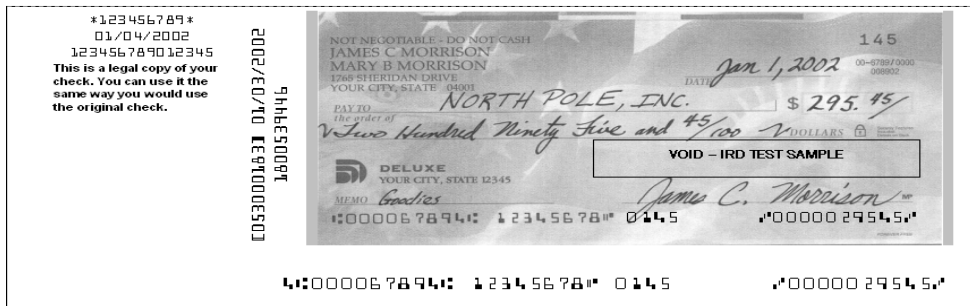
Background

- 64% of corporations have been victimized
- 75% of all banks have suffered check fraud losses
- Number 2 on the Top 10 list of crimes that hurt corporations
- Over 175,000 fraudulent checks are presented every day
- Over \$5 billion in value annually – and growing

Sources: AFP, KPMG, US Secret Service

Check 21

- Legalized substitute checks
- Became effective October 2004 for ALL checks
- DOES NOT require image processing
- DOES create foundational framework for image



What about fraud?

Are you expecting this?



Or this?



More importantly, what does your local prosecutor expect?

New indemnity may help

§ 229.53 Substitute check indemnity.

- (a) Scope of indemnity. A bank that transfers, presents, or returns a substitute check or a paper or electronic representation of a substitute check for which it receives consideration shall indemnify the recipient and any subsequent recipient (including a collecting or returning bank, the depository bank, the drawer, the drawee, the payee, the depositor, and any indorser) for any loss incurred by any recipient of a substitute check *if that loss occurred due to the receipt of a substitute check instead of the original check.*

Check Fraud – Best Practices

- Positive Pay – *with payee if possible*
- Reconciliation
- ACH Filters or Blocks
- *****
- Secure Your Check Stock
- Use Secure Check Stock
- Eliminate Manual Checks

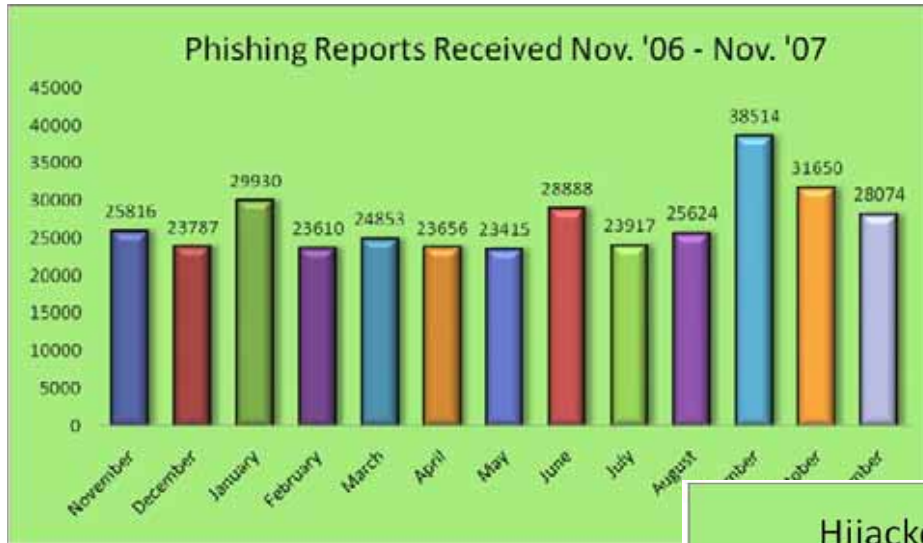
Phishing & Pharming

Phishing



The creation and use of e-mails and websites designed to look like e-mails and websites of well-known legitimate businesses to deceive Internet users into disclosing their bank and financial account information or other personal data such as usernames and passwords

Did you hear the one about?



Source: Anti-Phishing
Work Group

Phishing Attacks by Industry



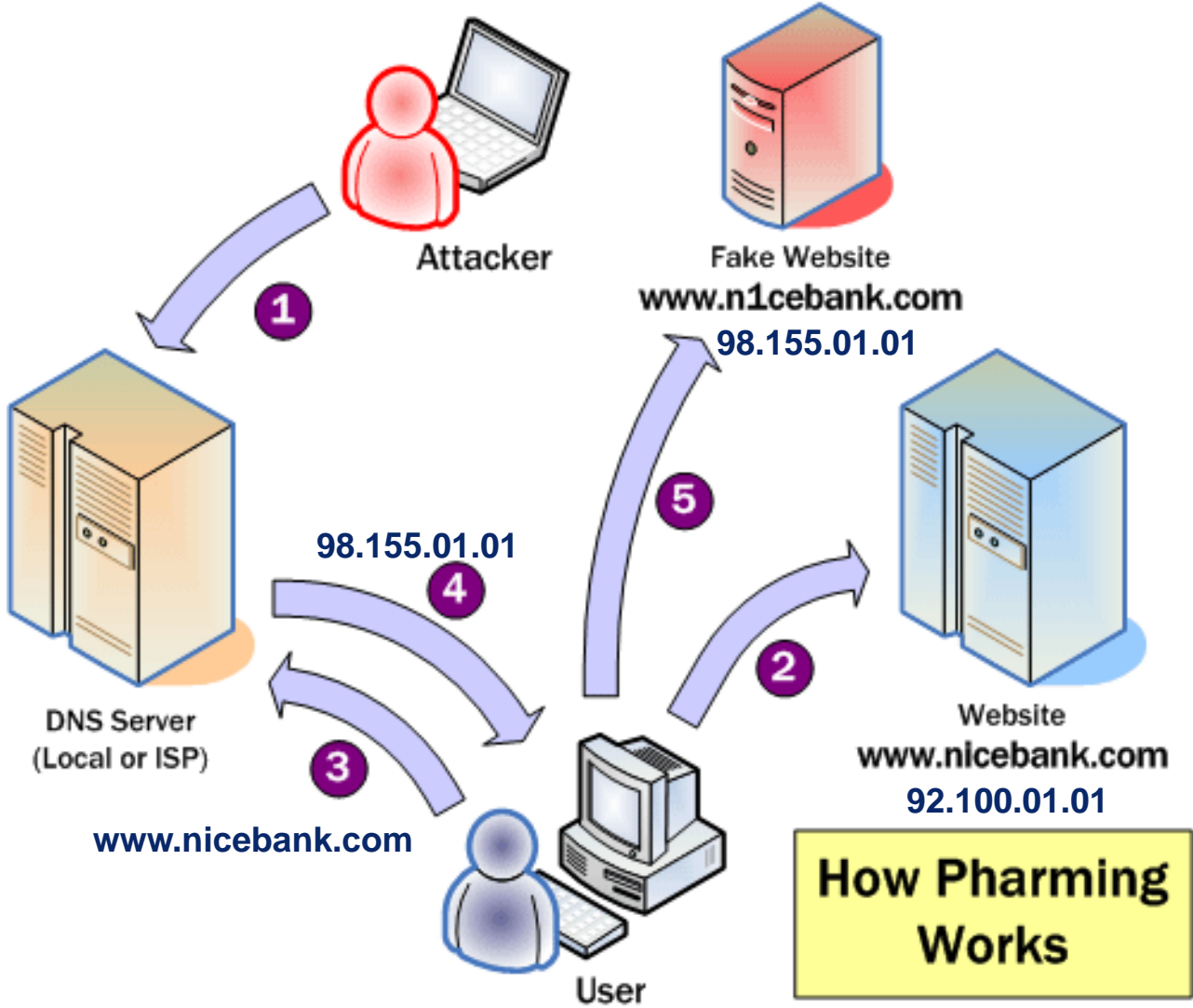
Source: Anti-Phishing
Work Group

Pharming



Phishing's evil twin – If you won't answer our email, we'll get you to come to us!

Pharming



Best Practices

- Educate your staff
- Never respond to emails or pop-ups asking for personal (corporate) info
- Avoid the use of links
- Type URL of financial sites into the address bar
- Don't send personal or financial info by email
- Be aware of the security status of your webpage
- Use pop-up blockers and anti-virus software
- Report suspicious activity

Internal Fraud

The bigger problem...

- 6% of all annual revenues lost to fraud
- \$660+ billion in U.S. alone
- 60% had no or poor internal control
- Most are first time offenders
- Small firms hit hardest – median loss \$98,000
- Causes almost 1/3 of all business failures

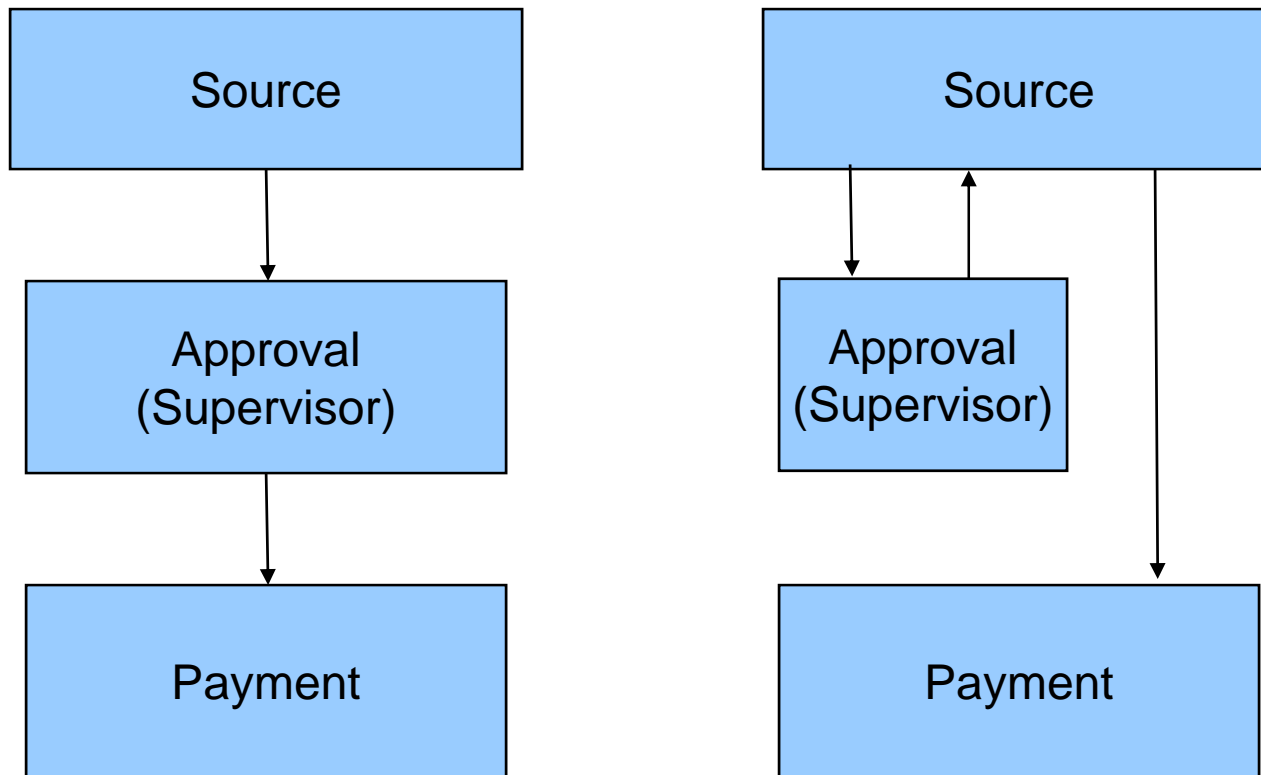
Sources: Assoc. of Certified Fraud
Examiners, US Chamber of Commerce

The “Model” Employee

- Comes to work early or leaves late
- Works nights and weekends
- Seldom takes vacation
- Comes in even during brief absences
- Asks others to hold work while gone

Trust but Verify

The “U-Turn” Concept



The Six Signs of Internal Fraud

- Accounting exceptions/anomolies
- Internal Control weaknesses
- Analytical symptoms
- Behavior changes
- Lifestyle changes
- Tips and complaints

Source: Assoc. of Certified Fraud
Examiners,

Best Practices

- Know your employees
- Enforce vacation policies
- Separation of duties
- Clear *documented* policies and procedures
- Blow the whistle
- Lead by example

Risk Diagnostic

1. You don't wire funds to entities outside your organization.
2. You don't use on-line banking tools to initiate wires, ACH, or other banking transactions.
3. Your policies and procedures are well documented and have been reviewed and updated within the last 18 months.
4. You use Positive Pay on all of your disbursement accounts.
5. You use ACH debit blocks or filters on all bank accounts.
6. ALL bank account reconciliations are up to date (30 days or less).
7. You have an internal fraud or ethics hotline.
8. You don't do any business over the internet.
9. You rarely overdraw any of your bank accounts.
10. You have done a formal Treasury Controls Review within the last two years.

Questions and Certification



To obtain a certificate of completion for CPE or other financial certification please email CPE@treasuryalliance.com

For further information

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