



John A. Carey
Inspector General

OFFICE OF INSPECTOR GENERAL PALM BEACH COUNTY

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Preventing CHECK WASHING

In Palm Beach County there have been multiple recent instances of government entities defrauded by check washing, at times resulting in substantial losses of taxpayer dollars.

Check 'washing' scams involve changing the payee name and/or the dollar amount on checks, and fraudulently cashing or depositing them. Stolen paper checks can be washed in chemicals to remove ink, and some scammers will use copiers or sophisticated scanners to print fake copies of a check. The United States Postal Inspection Service says that scammers often create a fake identity before cashing a washed check.



Even as fewer people, businesses, and governments use paper checks, the annual number of check fraud cases reported by banks has nearly doubled during the past two years, according to the Financial Crimes Enforcement Network.

Government can take steps to prevent check washing

Many government entities have largely moved away from the use of paper checks. A government entity that can effectively issue payments to its vendors exclusively through electronic fund transfers, such as Automated Clearing House (ACH) payments,¹ can likely eliminate check washing.

However, some government entities believe that in certain instances, offering paper checks as a form of payment is necessary. On these occasions, government entities should implement sufficient safeguards to reduce the chance of theft and fraud:

¹ An ACH is an electronic fund transfer made between banks and credit unions across what is called the Automated Clearing House network. ACH is used for all kinds of fund transfer transactions, including direct deposit of paychecks and monthly debits for routine payments. <https://www.consumerfinance.gov/ask-cfpb/what-is-an-ach-en-1065/>

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- Use paper checks with security features such as watermarks and threading, micro-printing and holograms, and chemical reactivity and security inks.²
- Request that payees, such as vendors, obtain their paper checks directly from the entity whenever possible. Ensure checks are only provided after verifying identification via a government issued ID card and require the receiver sign a check disbursement log to document their identity and receipt of the check.
- Safeguard paper checks prior to posting or pick-up: store in a secure location; restrict access to only designated individuals; and appropriately segregate check running, signing, mailing, and custodial duties.

Check verification services such as ‘positive pay’ offer automated cash-management services used by financial institutions to deter check fraud. Banks use check verification services to match a database of checks issued by payers with the checks presented for payment. Checks that are considered suspicious are sent back to the issuer for examination. The system acts as insurance against fraud, losses, and other liabilities. There may be a charge incurred for using the positive pay system, although some banks now offer the service for a reduced fee or free.

Recommendations

We recommend that government entities that issue paper checks examine alternative payment methods and safeguards:

1. When practicable, replace paper check payments with electronic fund transfers.
2. For vendors or citizens who are not comfortable with or not appropriate for electronic fund transfers, consider the use of a check verification system such as positive pay.
3. Coordinate check verification and security options and improvements with your financial institution.



² <https://www.finance-monthly.com/2023/05/check-security-features-what-to-look-for-to-protect-against-fraud/>