

A Growing Financial Threat

While the use of paper checks has dramatically diminished, thieves still view them as a source for stealing revenue. The [Financial Crimes Enforcement Network](#) warns that many thieves are returning to old-fashioned financial theft, using paper checks. That's one reason why the U.S. Postal Service urges us not to send checks through the mail, where they may be vulnerable.

"Check kiting" is one type of fraud that relies on "float time." That's the delay period between when a check is deposited in a bank and when the bank collects the related funds. Float time has narrowed in recent years, but it hasn't disappeared. Generally, there's enough delay that unethical businesses can take advantage of that time.

Typically, a check-kiting scheme involves two or more banks or multiple accounts at one bank. The perpetrator's goal is to falsely inflate the account balance, allowing checks that would otherwise bounce to clear. This federal crime can result in up to 30 years in federal prison, plus hefty fines. Even if a bank doesn't press charges, it may close the account and report the incident to ChexSystems, like a credit bureau.

Strategies for Grounding the Kite

Check kiting is a federal crime that can lead to up to 30 years in federal prison, plus hefty fines. Even if a bank doesn't press charges, it may close the account and report the incident to ChexSystems (similar to a credit bureau), making it difficult to open a new business account.

Here are five strategies your organization can implement to keep people from using your company's accounts for check-kiting:

- 1. Educate employees about bank fraud.** Describe the types of transactions that qualify as bank fraud and their red flags. This will make workers aware of suspicious activities and demonstrate management's commitment to preventing fraud.
- 2. Rotate key accounting roles.** Segment accounting duties, and, if possible, rotate tasks among staffers to help uncover ongoing schemes and limit opportunities to steal.
- 3. Reconcile bank accounts daily.** Make sure someone trustworthy who isn't involved in issuing payments reconciles every company bank account.
- 4. Maintain control of paper checks.** Store blank checks in a locked cabinet or safe and periodically inventory the blank check stock. Also, limit who's allowed to order new ones.
- 5. Go digital.** The most effective way to prevent check fraud is to stop using paper checks altogether. Consider replacing them with ACH payments or another form of electronic payment.

Tighten Up

Check-kiting is relatively easy to perpetrate, mainly if your company isn't vigilant about its check stock and bank account activity. [Contact us](#) for help tightening your internal controls.