

# OHIO AUDITOR OF STATE KEITH FABER



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## Auditor of State Advisory Memo

**To:** All Local Governments, Public Offices and School Districts

**From:** Keith L. Faber, Auditor of State

**Date:** July 15, 2024

**Subject:** Check Fraud Against Local Governments and School Districts

The Auditor of State's office (AOS) is aware of a substantial increase in check fraud schemes being committed against political subdivisions in Ohio.

Typically, these check fraud incidents involve a legitimately issued check being stolen from the mail and altered so that the funds are paid out to an unintended recipient. This can be accomplished in a variety of ways, but primarily, we have seen fraudulent endorsements on the negotiable instrument, alteration in the payment amount or redirecting of the deposit to another financial institution. These schemes are often referred to as check washing. For example, a township issues a check to pay a vendor for legitimate services. The check is placed in the mail but is intercepted by a bad actor before the check can be received by the intended vendor. The bad actor changes the endorsement on the check to himself, changes the amount to add in an extra \$10,000, and deposits the check into a different account.

AOS wants to raise awareness related to this activity and suggest steps to take if local government falls prey to check fraud. A local government or school district who is the victim of this type of fraud should not bear the loss of funds that the bad actor received. The political subdivision's bank should make the account holder whole if a bank pays on a fraudulent check where the fraud was not committed by an employee of the account holder and the account holder did not unreasonably delay in notifying the bank of the fraud.

*What should you do?*

- Take care to ensure that checks are maintained and issued responsibly. For example, do not leave blank checks easily accessible to unauthorized users and do not issue checks leaving the "payee" line blank. Be sure the box indicating the amount paid and the written description of the amount paid are exactly the same amount.

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- Be vigilant in observing activity in bank accounts, reviewing bank statements frequently and no less than monthly, and conducting reconciliations to ensure that any questionable activity is timely detected.
- Time is of the essence. If you notice something suspicious related to vendor payments or suspect fraudulent activity on your accounts, immediately engage your legal counsel and promptly alert the bank. Also, follow up with the financial institution in writing to formally contest the fraudulent payment and provide transactional details.
- Under Section 1304.35 of the Ohio Revised Code, the customer should alert the bank to the details of the suspected fraud in a reasonable amount of time – generally no longer than 30 days.
- Upon discovery of fraudulent activity, contact your County Sheriff or local law enforcement.
- Finally, alert your AOS region to the fraudulent check scheme.

Thank you for your attention to this matter. If you have any questions, please contact your regional AOS office using [Contact Us \(ohioauditor.gov\)](https://www.ohioauditor.gov) located on the Auditor of State website.