
FINANCIAL INSTITUTION FRAUD



Association of Certified Fraud Examiners

GLOBAL HEADQUARTERS • THE GREGOR BUILDING
716 WEST AVE • AUSTIN, TX 78701-2727 • USA

TABLE OF CONTENTS

I. INTRODUCTION

What Is Financial Institution Fraud?	1
Credit Versus Non-Credit Losses.....	1
Learning Objectives.....	2
Video Supplements.....	2
Review Questions and Final Examination	2

II. LOSS PREVENTION AND RECOVERY PROGRAMS

Loss Prevention Challenges	5
Video.....	5
Prevention Versus Recovery	6
Developing a Fraud Prevention Program	8
Ethical Culture.....	8
Fraud Risk Assessments.....	9
Internal Controls	9
Video.....	10
Understand the Institution’s Role.....	10
Employee Background Checks	11
Reporting System	11
Continuous Monitoring.....	12
Oversight	12
Awareness Training	13
The Importance of Customer Identification	13
Screening Technologies	17
Review Questions	18

III. HISTORY OF REGULATIONS

Uniform Commercial Code, Article 4, Bank Deposits and Collections	19
UCC Section 4-205: Depository Bank Holder of Unindorsed Item.....	19
UCC Section 4-208: Presentment Warranties.....	19
UCC Section 4-302: Payor Bank’s Responsibility for Late Return of Item	20
UCC Section 4-401: When Bank May Charge Customer’s Account.....	20
UCC Section 4-403: Right to Close an Account	20
UCC Section 4-403: Right to Stop Payment on a Check.....	20
UCC Section 4-404: Bank Not Obligated to Pay a Check More Than Six Months Old.....	20
UCC Section 4-406: Customer’s Duty to Discover and Report Unauthorized Signature or Alteration	20
Regulation CC—Availability of Funds and Collection of Checks.....	21
Subpart A—General.....	21
Subpart B—Availability of Funds and Disclosure of Funds-Availability Policies	21
Subpart C—Collection of Checks	22
Money Laundering Legislation.....	23
The Bank Secrecy Act	23
Money Laundering Offenses	24
USA PATRIOT Act	25

III. HISTORY OF REGULATIONS (CONT.)

Identity Theft Legislation	27
Identity Theft and Assumption Deterrence Act	27
Gramm-Leach-Bliley Act	27
Identity Theft Penalty Enhancement Act.....	29
FACT Act’s Identity Theft Red Flag Rule	29
Review Questions	31

IV. IDENTITY THEFT

Identity Theft Methods and Preventions	34
Dumpster Diving	34
Mail Theft.....	35
Stealing Wallets or Purses	35
Social Engineering.....	36
Phishing	41
Video.....	43
Video.....	44
Typo Squatting or URL Hijacking.....	47
Shoulder Surfing.....	47
Skimming.....	47
Bogus Charities and Raffles.....	48
Fake Employment Opportunities.....	48
Rental and Loan Applications	48
The Internet	49
Public Records.....	49
Check or Debit Cards.....	49
Hacking.....	50
Pretexting	51
Using an Accomplice Within the Organization.....	52
Utility Companies, Health Clubs, and Schools.....	52
Review Questions	53

V. NEW ACCOUNT FRAUD AND ACCOUNT TAKEOVERS

New Account Fraud.....	55
Screening New Account Applicants.....	56
Video.....	58
Red Flags of New Account Fraud	59
Measures to Detect and Prevent New Account Fraud.....	62
Video.....	66
Account Takeover Fraud.....	66
Detection.....	67
Prevention	67
Video.....	67
Review Questions	69

VI. COUNTERFEIT CHECK ACTIVITY

Creating Counterfeit Checks	72
Routing Numbers.....	72

VI. COUNTERFEIT CHECK ACTIVITY (CONT.)

MICR Line	72
Printing Checks	73
Counterfeit Cashier's Checks	73
Gang or Group Activities: Account Information Development and Recruitment	74
National Tiered Gangs	75
Local Gangs	75
International Gangs	76
Obtaining Information to Counterfeit Checks.....	76
How Checks Are Processed	78
POS Check Processing.....	79
Check 21	79
Remote Deposit Capture	81
Deterrence Measures	81
Teller Line	82
Early Warning Systems.....	82
Thumbprint Signature Programs	83
Positive Pay.....	83
Reverse Positive Pay	83
MICR Readers	84
Safety Paper.....	84
Direct Deposit	85
Teller Cameras	85
Tracking Identification Information	86
Processing Software Systems.....	86
RDC Controls.....	86
Awareness Training	86
Video.....	87
Review Questions	88

VII. FORGED INSTRUMENTS

Forgery Types.....	91
Simple Forgery.....	92
Practice Forgery.....	92
Tracing Forgery	92
Automatic Check-Signing Mechanisms	92
Forged Maker	92
Red Flags of Forged Maker Schemes.....	93
Forged Endorsement.....	94
Types of Endorsements	94
Forged Endorser Red Flags.....	96
Split Deposit Fraud.....	96
Other Forgery Schemes	97
Dumpster Diving	97
Payroll Forgeries.....	97
Prevention and Detection Measures for Forged Instruments	98
Business Check Verification	98
Identity Verification.....	98

VII. FORGED INSTRUMENTS (CONT.)

Writing Lacks Fluidity	99
Signatures Do Not Fit End-to-End Signature Lines	99
Carbon-Paper Residue on Checks	99
Worn and Weathered Checks.....	99
Different Colored Inks on the Check Face.....	99
Drive-Up Window Deposits	99
Misspelled Name of the Account Holder.....	100
Felt-Tip Pens	100
Memo Line.....	100
Re-Endorsed Check.....	100
Endorsement Guarantee.....	101
Endorsement Verification.....	101
Specific Endorsements.....	101
Verification of True Account Holder	101
Review the Serial Number	101
Cash Back Is Not a Deposit.....	101
Review Questions	103

VIII. MISCELLANEOUS FRAUD SCHEMES

“Known Customer” Unauthorized Withdrawals.....	105
Methods Used to Become a “Known Customer”	105
Prevention of “Known Customer” Unauthorized Withdrawals.....	106
Check Kiting.....	106
Red Flags of Check Kiting Schemes	108
Prevention of Check Kiting.....	109
Video.....	109
Loan Kiting.....	109
Loan Fraud.....	110
Common Loan Fraud Schemes	110
Red Flags of Loan Fraud	112
Prevention of Loan Fraud	113
Mortgage Loan Fraud.....	113
Video.....	114
Builder Bailout.....	114
Property Flipping and Flopping.....	115
Loan Falsifications	116
Nominee Loans	117
Straw Borrowers.....	117
Air Loans	117
Data Breaches.....	118
Sources of Data Breaches	118
Common Challenges with Protecting Data.....	118
Data Breach Prevention.....	119
Electronic Funds Transfer Fraud	119
Electronic Bill Presentment and Payment.....	120
Wire Transfers	120
Payment Card Fraud.....	121

VIII. MISCELLANEOUS FRAUD SCHEMES (CONT.)

True Name Fraud	122
Check Washing.....	123
Prevention of Check Washing.....	124
Internal Fraud Schemes	124
Conditions Conducive to Insider Fraud	124
Internal Fraud Red Flags.....	125
Common Internal Fraud Schemes.....	126
Video.....	127
General Prevention Measures	129
Stop Payment.....	130
Proper Endorsement	130
Available Funds.....	130
Alterations.....	131
Date Verification.....	131
Account Opening Date	131
Transaction History	131
Check Holds	131
Recent Large Deposits	132
Inspection of Negotiable Instruments.....	132
Vigilance Among Employees	133
Review Questions	134

IX. AWARENESS TRAINING

Introduction.....	137
Who Should Attend?	137
Frequency and Length of Fraud Awareness Training	137
Comprehensive Training.....	138
Topics to Cover in Training.....	138
Understanding the Path of Least Resistance	139
How to Develop, Market, and Deliver a Strong Awareness Program.....	141
Seven-Step Approach for Developing an Awareness Training Program	141
Educating the Consumer.....	145
Review Questions	147

X. LAW ENFORCEMENT LIAISON, NETWORKING, AND REPORT WRITING

No Financial Institution Is an Island	149
Video.....	150
Case Development, Packaging, and Marketing	150
Writing the Report.....	151
The Type of Offense.....	152
The Date the Offense Became Known	152
The Dates of Offense.....	152
Locations of Offense.....	152
Suspect(s) Information.....	152
Information About Any Complainants	152
Information About Any Witnesses	152
Investigated By	153

X. LAW ENFORCEMENT LIAISON, NETWORKING, AND REPORT WRITING (CONT.)	
Body of the Report	153
Reporting Suspicious Activity	154
Financial Crimes Enforcement Network	154
Bank Secrecy Act.....	154
Suspicious Activity Reports	155
Review Questions	157
XI. APPENDIX: VIDEO TRANSCRIPTS.....	159
XII. SOLUTIONS TO REVIEW QUESTIONS	
II. Loss Prevention and Recovery Programs.....	167
III. History of Regulations	170
IV. Identity Theft.....	173
V. New Account Fraud and Account Takeovers	177
VI. Counterfeit Check Activity.....	181
VII. Forged Instruments.....	184
VIII. Miscellaneous Fraud Schemes.....	188
IX. Awareness Training.....	191
X. Law Enforcement Liaison, Networking, and Report Writing.....	192
XIII. FINAL EXAMINATION	E-1
XIV. INDEX	I-1