

**Abstract:** Despite the business community's rapid adoption of digital payment methods, some companies continue to rely on paper checks. But there's a long-standing problem with checks: They make businesses vulnerable to several damaging types of fraud, including check kiting. This article describes how a check kiting scheme works.

## **Check kiting is no small matter**

A check kiting scheme relies on "float" time, which is the period between when a check is deposited and when the bank collects the funds on the check. Some banks accept check deposits and release funds immediately, in the interest of good customer service. That's similar to providing accountholders with interest-free loans.

In recent years, the float time has narrowed, but there's still opportunity to capitalize on that delay and some unethical businesses take advantage of that time. Check kiting schemes typically involve two or more banks, though some schemes can involve multiple accounts at one bank if there's a lag in how the institution processes checks. The perpetrator's goal is to falsely inflate the balance of a checking account so that written checks that otherwise would bounce, clear.

### **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. That makes workers aware of suspicious activities and demonstrates management's commitment to preventing fraud.
- 2. Rotate key accounting roles.** Segregate accounting duties. Rotate tasks among staffers if possible 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 most check fraud is to stop using paper checks altogether. Consider replacing them with ACH payments or another form of electronic payments.

### **Tighten up**

Check kiting is relatively easy to perpetrate, particularly if your company isn't vigilant about its check stock and bank account activity. For help tightening your internal controls, contact us.