



Fraud Alert

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2009

June • Alert 09 – 01

About the Fraud Scheme

We have recently learned that several states may have been defrauded by a scheme involving Automated Clearing House (ACH) payments to vendors. One state lost approximately \$2 million as a result of the scheme. The affected states received documents from the fraud perpetrators requesting changes to vendor bank account information. Once the bank account information was changed in the state's accounting system, payments for legitimate services were electronically sent to the new (fraudulent) bank account. The perpetrators then transferred or withdrew the money from the bank

account and disappeared. Because this type of fraud will likely be detected quickly by vendors who have not received payment, the frauds are occurring for large vendors with recurring payments. In some instances, ACH payments into the fraudulent bank account have been stopped by the receiving bank's fraud department. Other payments have been stopped because the state contacted the vendor directly to confirm the change in bank account information. Such controls discovered the fraud scheme.

What You Can Do to Protect Your Entity

Because of the nature of this scheme, a few well-placed internal controls can protect your entity from this type of fraud perpetration.

- Inform those in your entity who have responsibilities for maintaining or changing vendor information about the nature of this fraud scheme.
- Be alert for requests to change ACH vendor information, especially bank account information, for vendors that receive large payments.
- Confirm all requested changes of bank account information directly with the vendor prior to updating the vendor database.