inFORM Decisions

News for a Paperless Workplace

Case Study

" Where do you want your forms and checks to go RIGHT NOW"

Road Builder Implements Positive Pay, Curbs Check Fraud

Sully-Miller Contracting Company is completing a huge road building and paving job at Pier 400, an expansive new 343-acre freight terminal in L.A. Harbor. Visible across the harbor is Terminal Island Federal Penitentiary, home for those convicted of check fraud and other crimes.

> "The bank has rejected payments on fraudulent submissions on several occasions."
> *Marcella Wilson, Manager of Information Systems, Sully-Miller*

Weeks earlier, over $100,000 dollars in fraudulent checks were submitted for payment to Sully-Miller's bank account by what law enforcement authorities referred to as a well organized check fraud ring. Marcella Wilson, Manager of Information Systems at Sully-Miller says, "I don't believe they actually ever saw one of our checks, they just had an account number."

Wilson gets only slightly rattled now by ubiquitous reports of bogus checks. Several years earlier a similar event paved the way to new paper check safeguards at the company. Now an iSeries host based positive pay solution from inFORM Decisions imposes a process where every payroll check that is written is individually validated upon submission to the bank. Counterfeit checks are immediately rejected.

Sully-Miller, one of California's largest road construction companies, started building roads around the time Henry Ford started building cars to pack them. Based in Anaheim, they now have 11 plants throughout southern California.

Sully-Miller's core business applications for accounting and job costing applications run on an IBM AS/400 model 720, 206b, which supports 120 local and remote devices. These systems are highly integrated, so they can validate payroll against job costing on a line-by-line basis. "With the level of detail we have in job costing for jobs and equipment, it's much better to do payroll in house. There's no way we could use ADP," says Wilson. Checks are printed automatically and mailed weekly to Sully-Miller's 400 to 500 union and non-union employees.

In early 1989 one of the company's satellite offices was burglarized. Boxes of blank pre-printed checks were stolen, and it didn't take long for forged checks to start appearing at liquor and grocery stores, and check cashing facilities.

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Although the theft was immediately reported to both the police and bank, questions arose as to who would shoulder the liability.

New Rules

Shortly thereafter, in the early 1990s, changes were made to the Universal Commercial Code (U.C.C.), which introduced "negligence" and "ordinary care" as determinants of liability for check fraud losses. Prior to these regulation changes, banks usually absorbed the losses from check fraud in an effort to stay in good stead with their customers. Dan Forster, President of inFORM Decisions says, "If a bank or merchant's own failure contributes to a forged signature or alteration then responsibility lies with them."

According to a recent American Bankers Association Deposit Account Fraud Survey Report the most common type of check fraud in 2001 was forgery, with about one-third of fraud cases and fraud losses attributed to forged signatures and endorsements. As banks nationwide began to see the frequency of check fraud escalate dramatically, Sully-Miller's financial institution asked them to install a positive pay system. "We had to do if we were going to continue to do business with them," commented Wilson.

Positive pay is an inexpensive auditing methodology used to control check fraud. The check maker passes a file to their bank containing check numbers and amounts. The bank then compares that authorization file against checks that have been submitted for payment. If a correlation is made between the check number and amount, the check gets paid and if check number is not on the list or the amount is incorrect, it gets reported immediately to the check maker. Checks are typically reconciled daily to maintain a tight link between the bank and its client. Positive pay technology also eliminates posting and encoding errors, and adjustments that are made to correct processing problems.

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Since Sully-Miller already had Irvine California-based inFORM's MICR automated check-printing solution integrated into their AS/400 payroll system, Wilson decided to approach inFORM with her positive pay requirement. "I was very happy with iChecks," she said. iChecks increases laser check printing security by eliminating the need to inventory pre-printed checks. Creating checks on an as needed basis also reduces the cost of paper, labor and storage.

inFORM Decisions' iSeries Positive Pay is one component in the company's secure eBanking solutions suite, which includes iSeries ACH (Automated Clearing House), an iSeries-based eCommerce shopping cart, and an iSeries resident reconciliation module. iSeries Positive Pay integrates with any automated check writing software product including inFORM's iChecks solution. It enables companies to transmit check processing information directly from iSeries-AS/400 based applications to standard bank interfaces with a high level of security and reliability.

All information pertinent to a check run is saved to a cash-handling file by iSeries Positive Pay. At a scheduled interval, the product sums check amounts and plugs this information into a report, adds a header, trailer and font/layout template. iSeries Positive Pay then automatically transmits this report to the financial institution, which is authorized to clear only the check listed in the Positive Pay report. "No one has to

remember to do something," says Wilson.

Bisync or FTP through a secured server are the means available to communicate to the bank. Bisync has been a long time standard for electronic banking interfaces, whereas, FTP, which as been recently adopted, gives users and banks additional flexibility.

Wilson reviewed a demonstration of iSeries Positive Pay and decided that it was a good fit. "The price was very reasonable." iSeries Positive Pay can be licensed for any iSeries-AS/400 model/processor configuration for $3,000. inFORM had an office near by and offered to help Wilson install and configure the software and in a few hours it was collecting information on payroll payments. At Sully-Miller, iSeries Positive Pay is configured to communicate with their bank over a bisync line from the 720s ECS modem. "This saved money on hardware," says Wilson.

inFORM's Positive Pay includes several report format templates enabling Wilson to select one that fits their financial institution's standards. "Banks have not set on a standard for the file format; for ACH they have," comments Wilson.

Wilson was also sensitive to potential security issues that existed within the company. She reasoned that bogus positive pay reports could be created and sent, which would place responsibility directly on her employer according to U.C.S. rules. At Sully-Miller, iSeries Positive Pay is configured so it generally cannot be accessed outside of their payroll system. The only reports transmitted are those generated automatically by payroll jobs, or ad hoc reports that are initiated by a limited group of users with appropriate authorization.

Concrete Evidence

Can Sully-Miller now make a solid case for iSeries Positive Pay? Weeks after integrating inFORM's Positive Pay into their payroll operations, several counterfeit checks were presented to their account for payment. Without confusion or uncertainty they were immediately rejected. "The bank has rejected payments on fraudulent submissions on several occasions." According to Wilson, the bank that services their payroll account lets them go on line and get a report each day of items that don't match.

Check fraud losses were estimated at $15 billion in 1999 and are on the rise. Among the reasons for the startling increase in incident frequency given by experts are; technological advancements in areas such as laser printing, scanning and desktop publishing software, the decreasing cost of technology, and difficulty in detection. Given that over an estimated 65 billion checks are processed in the U.S. each year it isn't possible for banks to visually inspect each check for authenticity. Moreover, High-speed processing equipment used to clear checks can't discern increasingly sophisticated counterfeit checks from the real thing. All respondents to the American Bankers Association Deposit Account Fraud Survey ranked positive pay as the most effective method available for preventing fraud.

Today Sully-Miller uses inFORM's iSeries Positive Pay solely for payroll but will soon roll it into their AP system. "AP checks are cut everyday," Wilson says. Recently, a different bank used by Sully-Miller use for AP reported that 10 counterfeit checks, all bearing the same check number and amount were submitted for payment in different cities throughout the country.

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