



333 Bush Street  
 San Francisco, CA 94104  
 (415) 263-5400  
 www.statefundca.com

Date: May 5, 2017

**TO: MEMBERS, AUDIT COMMITTEE**

<b>I. AGENDA ITEM # AND TITLE :</b>	Open Agenda Item 4: Completed Closed Audits
<b>II. NAME AND PROGRAM:</b>	Dante Robinson, Chief of Internal Affairs
<b>III. ACTIVITY:</b>	<input checked="" type="checkbox"/> Informational <input type="checkbox"/> Request for Direction <input type="checkbox"/> Action Proposed <input type="checkbox"/> Exploratory
<b>IV. JUSTIFICATION:</b>	<input checked="" type="checkbox"/> Standard/Required Item <input type="checkbox"/> Board Request – New Item <input type="checkbox"/> New Topic from Staff

**V. EXECUTIVE SUMMARY:**

There were eighteen projects reported in the February closed session and one was determined non-proprietary. The Internal Audit Department has one non-proprietary projects that we are reporting in this open session.

IAD highlights the following project:

- 2016 Counterfeit Check Investigations

**VI. ANALYSIS:**

- In the 2016 Counterfeit check Investigations, IAD highlights that 99 potential counterfeit checks were investigated during 2016. Two State Fund providers were victims of a check endorsement scheme during which perpetrators cashed 41 State Fund checks issued to the providers. The perpetrators were provider employees during the fraudulent schemes.

**VII. RECOMMENDATION:**

- No action needed

**VIII. PRESENTATION EXHIBITS:**

- None

**IX. APPENDIX:**

- Internal Audit Appendix Completed Closed Audits



## **APPENDIX: INFORMATIONAL DOCUMENT FOR AUDIT COMMITTEE**

### **Completed Closed Audits**

Dante Robinson, Chief of Internal Affairs

#### **2016 Counterfeit Check Investigations PAO 823**

##### **Objectives/Scope**

Each year the Internal Audit Department (IAD) receives and investigates altered or counterfeit checks reported by victims and potential victims. The objective for each check investigation was to determine whether:

- There was a loss to State Fund.
- Internal employees were involved in the check fraud.
- There was a control breakdown.

##### **Conclusion**

During 2016, IAD investigated 99 potential fraudulent checks. The number of checks is a great increase from 2015 which only had 11 potential fraudulent checks. The Positive Pay control continues to be an effective automated fraud preventive tool offered by banks.

IAD did identified 41 checks that resulted in a monetary loss, because the perpetrator was able to cash checks owed to two providers. Perpetrators were successful because they forged endorsed the checks and the original checks were not altered so the positive pay would not detect discrepancies. The two vendors were provided the forgery affidavit documents to complete with the Treasury, so the banks would cover the loss for cashing the checks. State Fund would re-issue payments owed once the forgery affidavit process was completed.

IAD reported the counterfeit checks to the United State Postal Service to investigate for mail and wire fraud. IAD provided copies of the counterfeit checks and USPS tracking numbers to assist in their investigation.

IAD reported six forged endorsed checks to the Coral Springs Police Department in Florida and they were able to confirm the suspect cashed the checks and are in the process of prosecuting the perpetrator who was a former employee of the provider.

The common methods used by fraudsters were altered checks and counterfeit checks. The common scheme used by fraudsters was using internet websites to locate and lure in potential victims. The majority of the counterfeit checks investigated this year originated from South Carolina. The Federal Trade Commission indicates crime rings perpetrate most of the counterfeit checks scams.

**Proprietary: No**