

A loss control advisory from the ABA-sponsored insurance program underwritten by Progressive

60-Day Reclamation Rule for Treasury Checks Heightens Fraud Exposure

Be aware that the government has a 60-day period to reclaim funds for fraudulent checks, allowing a long lead time for a thief to disappear with misappropriated funds – as in the following case.

A new customer opened a corporate account at a bank's brokerage arm with a \$159,000 IRS Treasury Check, payable to the corporation. The brokerage did its due diligence and even contacted the Treasury to determine that the check number was valid. The account was opened in the same name as the payee on the check. The customer provided all the required paperwork, including the incorporation papers and the corporate resolution authorizing him to set up the account, authorize trading and be the signatory. He provided his driver's license, a Social Security card, and everything that was required.

The brokerage sent the check through their correspondent bank, and the Treasury cleared the check. After a two-week hold, the check was released and the customer transferred \$95,000 electronically to an overseas account. Suspicious of the account activity, an employee contacted the Treasury, where it was confirmed that although the deposited check number was valid, both the payee and the amount had been altered. **The Treasury reclaimed the amount of the check, but the bank had already released the funds to a foreign bank account, which had been cleared out.**

Under Reg 31 CFR § 240.6, a government check is only provisionally paid, and not finally paid, until 60 days after presentment. Despite the fact that the Treasury provisionally cleared the check in this case, it lawfully reclaimed the funds within the 60-day period and the bank sustained the loss.

Remind your employees that Treasury checks and foreign checks – including Canadian – require special handling. A phone call to verify the legitimacy of a check, as well as the payee and amount, can prevent significant losses.

For more information about check fraud losses, contact Ann Gardiner, Bond Claims Manager at 800-274-5222.