

NORTH CAROLINA  
DEPARTMENT OF STATE TREASURER



*Dale R. Folwell, CPA*

STATE TREASURER OF NORTH CAROLINA  
DALE R. FOLWELL, CPA

# Fraud: Detection & Prevention

December 2017

# Agenda

- **IT Security** – Bill Golden, CIO
- **State Banking Operations Fraud** – Brandon Watson, Banking Director
- **Unclaimed Property Fraud** – Brenda Williams, Deputy Treasurer, Unclaimed Property
- **Retirement Systems Fraud** – Tom Causey, Deputy Director of Operations NC Retirement Systems
- **Q&A**



# Data Protection

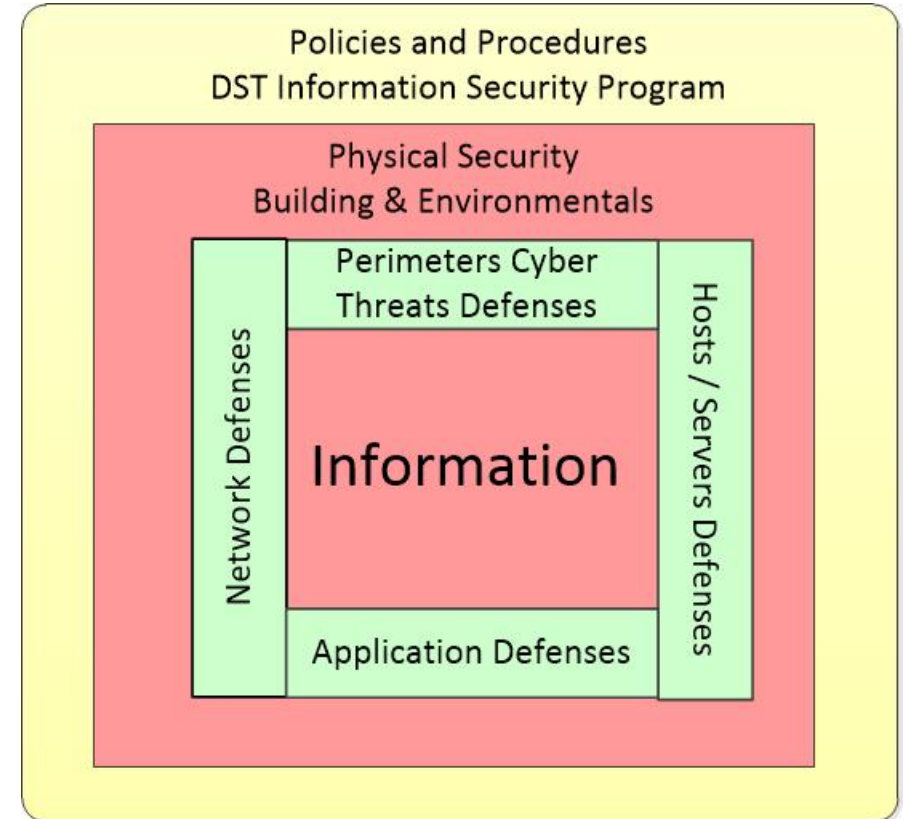
- **History**

- Robust and mature program implemented in 2002 / ISO and NIST compliant
- Experienced and very qualified staff

- **Non Technical Controls**

- Policies, standards and procedures well defined
- Current Business and User agreements that clearly and officially delineate information security responsibilities
- User Awareness Training
- Controlled process for requesting access to agency Information
- Cyber threat and IT Disaster response plan well established and tested regularly

## Defense in Depth (Layered Approach)



# Data Protection

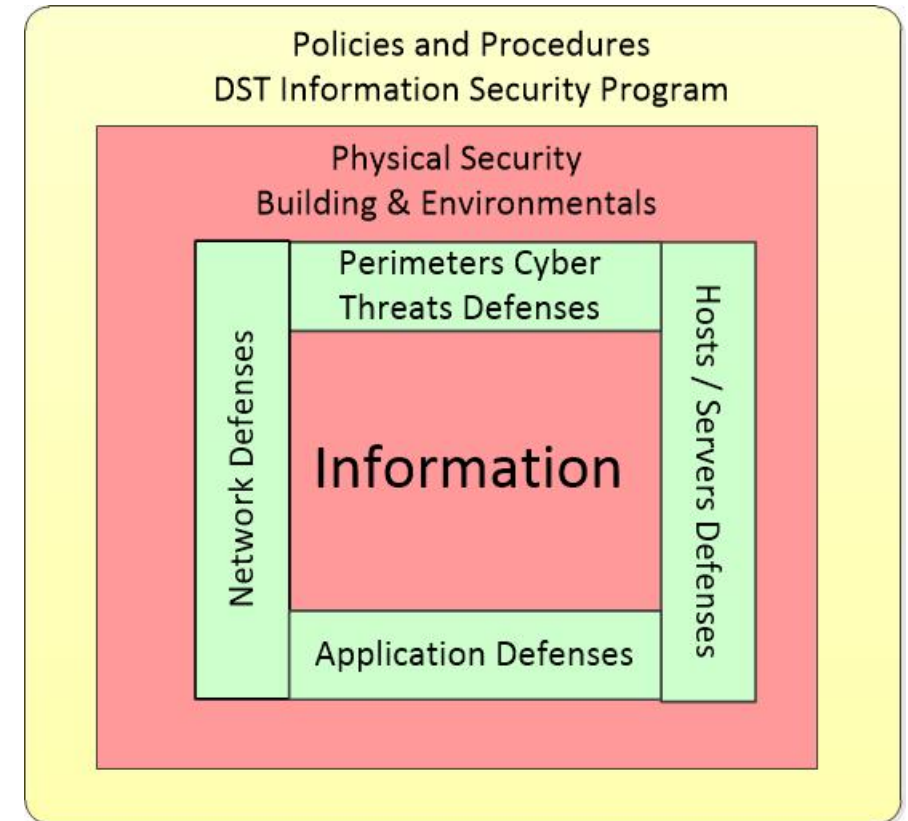
- **Technical Controls**

- Firewall / Intrusion Detection / Antivirus / Encrypted data and communication / Perimeter continual scanning / Locked down mobile devices / Vulnerability patching system
- 24X7 event logging, alerts and monitoring
- Disaster Recovery Preparedness

- **Future**

- Ongoing planning and upgrades keeping up with fast growing Cyber Threats
- Continuous Security Assessment to measure effectiveness of controls or proposed controls before acquiring new systems (On-Premises and Cloud).
- Up coming thorough third party security assessment for Banking, Retirement and Infrastructure systems
- Great partnership with NC Enterprise Security and Risk Management Office (ESRMO)

## Defense in Depth (Layered Approach)



# Fraud and State Banking Operations

— Brandon Watson, Banking Director

- Overview of Banking Operations
- Types of Bank Fraud
- Bank Partnerships & Education



# Overview

- **The State Treasurer serves as the State's banker.**
  - Ensures efficient banking services are provided to all State agencies and institutions.
  - This role is performed by the Financial Operation Division's Banking Section.
  - Relationships are maintained with over 30 banking institutions across the state.
  - Customers of State Bank include State Agencies, Community Colleges, Public Universities, School Systems, Counties, Boards
- **All revenues collected by a State entity (agency, university or community college) on behalf of the State must be deposited into an account in the name of the NC Department of State Treasurer ("DST").**
- **The Office of the State Controller and the DST Banking Section work together to manage the State's cash balances and book balances.**



# Statistics

- Over 750 disbursing and Short Term Investment Fund (STIF) accounts
- Over 600 one-off accounts, 6 main accounts, 6 concentration accounts.
- Over 800 location codes
- Processed 3.6 million warrants (\$19.7 billion) – FY 2016-17
- Processed 23,962 wires (\$181.4 billion) – FY 2016-17

Fiscal Year	Fraud Cases	Amount Recovered	Returns - Counterfeit	Amount Saved
FY 2014-15	115	\$156,048	385	353,070.55
FY 2015-16	93	\$114,012	248	\$466,419.56
FY 2016-17	91	\$423,037.10	374	\$924,443.13



# Types of Bank Fraud

B. Business  
Email/Imposter  
Fraud

A. Check Fraud

C. Wire Fraud





# Bank Fraud: (A) Check Fraud

## Counterfeit Check

- Fake check that bears correct account and routing information.

## Forged Check

- A legitimate check that has had the endorsement forged and has been deposited into a fraudster's account.

## Altered Check

- A legitimate check that has had information on it, usually the payee name, changed.



# Bank Fraud: (A) Check Fraud - Detection, Prevention, Recovery

- Check Verification Line – Banking Operations operates a line that banks can use to verify the validity of warrants
- Positive Pay – Match negotiated warrants to a file from the issuing agency.
- X9 – System used to review warrants that do not match a Positive Pay record.
- Affidavit and Indemnity Bond – Used to declare that a check hasn't been received and indemnify the State of North Carolina



# Bank Fraud: (B) Business Email/Imposter Fraud

- Email disguised as a request from a senior official to wire funds to a specific person.
  - Commonly in the \$19,000-20,000 range
  - Email address may be close to the real email address
    - Ex – bob@nctreasurer.com versus [bob@nctreasure.com](mailto:bob@nctreasure.com)
  - Often occur when the senior official is unavailable

**From:** Dale Folwell [<mailto:dale.folwell@admininfo.info>]  
**Sent:** Thursday, August 03, 2017 1:22 PM  
**To:** Fran Lawrence <[Fran.Lawrence@nctreasurer.com](mailto:Fran.Lawrence@nctreasurer.com)>  
**Subject:** Request

Fran ,

Can you please tell me available cash we have in our accounts as of today?.

--

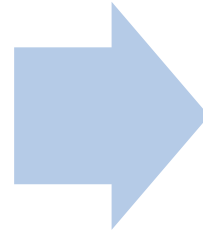
Dale R. Folwell, CPA  
State Treasurer of North Carolina



# Bank Fraud: (B) Business Email/Imposter Fraud

Manual wire requests to individuals receive a call back from Banking Operations asking additional questions.

- Who requested the wire?
- Purpose of the wire?
- Do you know the beneficiary?



If multiple attempts from different agencies are identified, Banking Operations will send an alert email message to its Core Banking administrators list.



# Bank Fraud: (C) Wire Fraud

- Unauthorized request to wire funds
  - Banking Operations has not experienced this type of fraud but has initiated controls in order to detect and prevent it.
    - On line wire requests must be approved by someone other than the initiator.
    - Manual wire requests must be signed by the authorized signer on file with Banking Operations which are verified prior to sending.
    - Banking Operations performs a callback verification to the number already on file to confirm the information and validity of the wire request.



# Bank Partnerships & Education

- Office of Foreign Assets Control (OFAC) – Specially Designated Nationals list review
- Available services to detect and/or prevent fraud
- Notification of fraud schemes
- Bank Alert meetings
- Webinars for Banking employees
- Externally, DST is creating a fraud newsletter to distribute semi-annually



# Unclaimed Property Fraud

— Brenda Williams, Deputy Treasurer, Unclaimed Property

- Types of Unclaimed Property Fraud
- Fraud Prevention
- Incidents of Fraud



# Unclaimed Property Division

- Types of Fraud
  - Attempt to claim funds for which an individual is not entitled
  - Falsification of documents





# Attempt to Claim Funds

- Individuals may attempt to claim funds that don't belong to them:
  - Have the same name
  - Property of ex-spouse, relative, neighbor or someone else they know
  - Individuals with large amounts of money
  - Funds reported as unclaimed property by their business



# Attempt to Claim Funds – Prevention

- NCCash.com website does not publish actual dollar amounts belonging to individuals. Website indicates “\$50 or less” or “Greater than \$50”.
- UPD requires notarized signature for claims \$50 and over.
- LexisNexis-Accurint is used to validate the claimant information matches information in the UPD database. Verifies SSN:
  - Is not associated with a deceased person
  - Is associated with the claimant
  - Is not associated with multiple individuals



# Attempt to Claim Funds – Prevention

- Claims for \$500 and over receive additional verification that the address to which the check is being sent is the current address associated with the owner per Accurant.
- 2<sup>nd</sup> approvals are conducted on claims to verify the Level 1 approval was accurate. (evidence is sufficient based on property reported)
- 3<sup>rd</sup> approvals are required for all claims for \$5000 or greater.
  - Verify evidence is sufficient to pay; conduct additional research as appropriate to further validate claim.
- Business (Holder) requests for refund of property reported must include justification for refund and be signed by two officers of the company.
- Legal review and approval is required for all requests for Holder Refunds.



# Falsification of Documents

- Individuals attempt to submit false documentation for evidence of name, address, etc.
- Valid official documents are altered to attempt to meet requirements.



# Falsification of Documents - Prevention

- UPD attorney reviews all official documents to verify validity: (POAs, Trusts, Clerk of Court Docs)
- Claims Processors examine all evidence documents to identify any anomalies.
  - Inconsistencies in font sizes.
  - Presence of odd lines that suggest information may have been whited out.
  - File number missing on estate documents that should have already been filed.



STATE OF NORTH CAROLINA

MECKLENBURG County

MECKLENBURG COUNTY  
FILED #22

MAY 24 2013

File No.

13-E-1728

In The General Court Of Justice  
Superior Court Division  
Before the Clerk

IN THE MATTER OF THE ESTATE OF:

Name Of Ward

AT

BY

CLERK OF SUPERIOR COURT

LETTERS OF APPOINTMENT  
GUARDIAN OF THE PERSON

DOB: 07/01/1948

☒ Incompetent Person

☐ Minor

G.S. 36A-1203, 35A-1206, 35A-1241

The Court in the exercise of its jurisdiction for the appointment of guardians of incompetent persons and minors, and upon proper application, has appointed the person(s) named below as Guardian(s) of the Person of the ward named above and has ordered that these Letters Of Appointment be issued.

The guardian of the person is fully authorized and entitled under the laws of North Carolina to have the custody, care and control of the ward, but has no authority to receive, manage or administer the property, estate or business affairs of the ward.

STATE OF NORTH CAROLINA

Mecklenburg County

RECEIVED JUN 13 2017

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# Other fraud prevention/detection strategies

- UPD participates in National Association of Unclaimed Property Administrators (NAUPA) fraud alert/discussion board.
  - The names of individuals and the strategies used to attempt to file fraudulent claims are shared with all states through the discussion board.
  - All states are notified of the details if an individual has successfully filed and received payment on a fraudulent claim.
- Properties that are under question based on alerts from other states are flagged to alert Claims Processors to seek management assistance before processing.



# Incidents of Fraud

- Claimants are notified to return funds.
- Appropriate authorities are notified.
  - SBI
  - AOC
  - Secretary of State is notified if the fraud involved a Notary's failure to fulfill their duties.





# Retirement Systems Fraud

— Tom Causey, Deputy Director Operations NC Retirement Systems

- Types of Retirement Fraud
- Fraud Prevention



# Retirement Systems Division

## *Potential Areas of Inappropriately Receiving a Benefit Payment*

- Disability
- Unreported Death
- Member Payroll Reporting
- Return to Work
- Unauthorized Request to Change Direct Deposit Information



# Retirement Systems Division

*Tools to Identify if Someone is Illegally in Receipt of a Benefit Payment*

- Fraud, Waste and Abuse Hotline and Email
- Compliance Team – Over Payment Process
- Medical Board, Re-Exams and Statement of Income Verification
- Active Death Matches
- Employer Reporting
- Require Certain Forms be Notarized
- ORBIT Online Self Service Security
- Department of Revenue – Access to Data for Investigations
- Local Law Enforcement & State Bureau of Investigation
- RSD Personnel ORBIT Access Security Protocols



