

Money for Nothing? Best practices for fraud prevention

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State Treasurer's Office

October 15, 2025



Nancy Ruoff



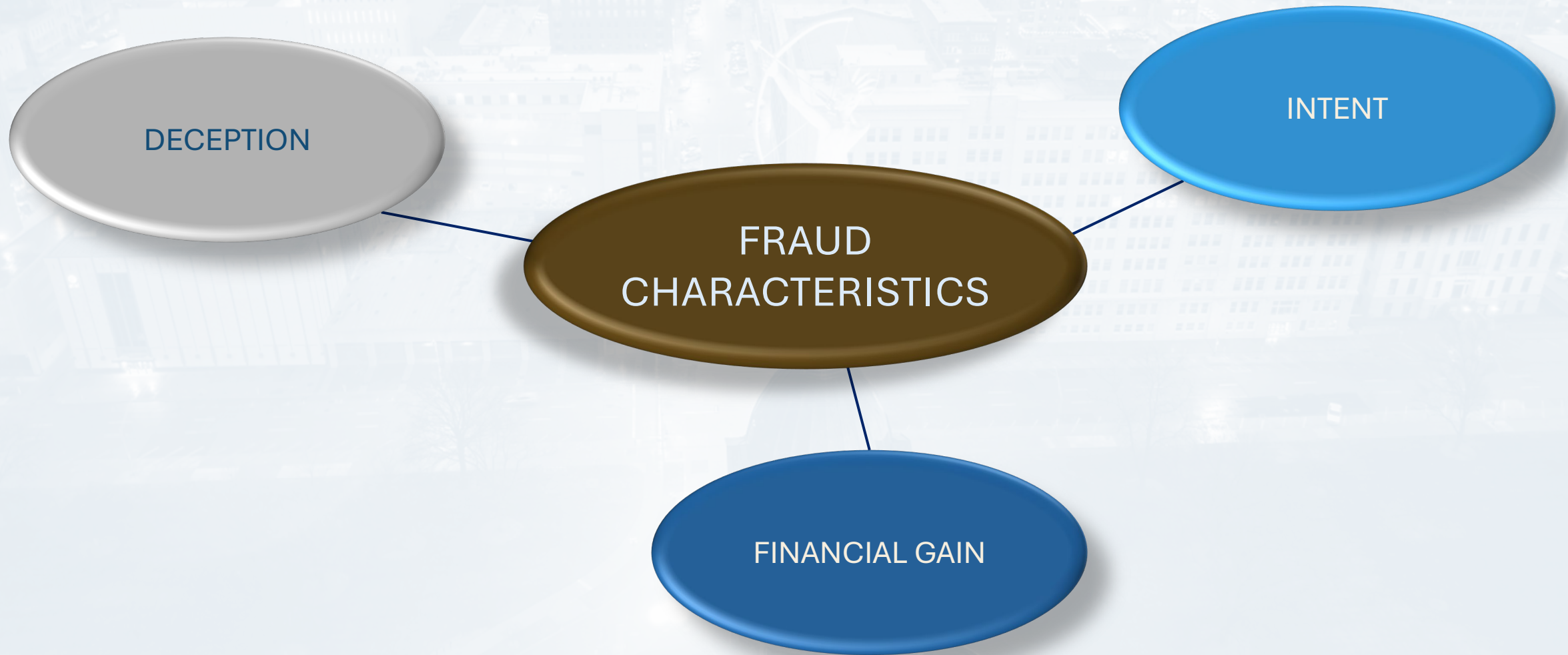
Shauna Wake

Overview

- General Fraud Information
- State of Kansas Experience
- Check Processing
 - Types of Fraud
 - Examples from SOK
 - Prevention
- ACH Processing
 - Types of Fraud
 - Prevention
- Agency Resources



What Makes It Fraud?



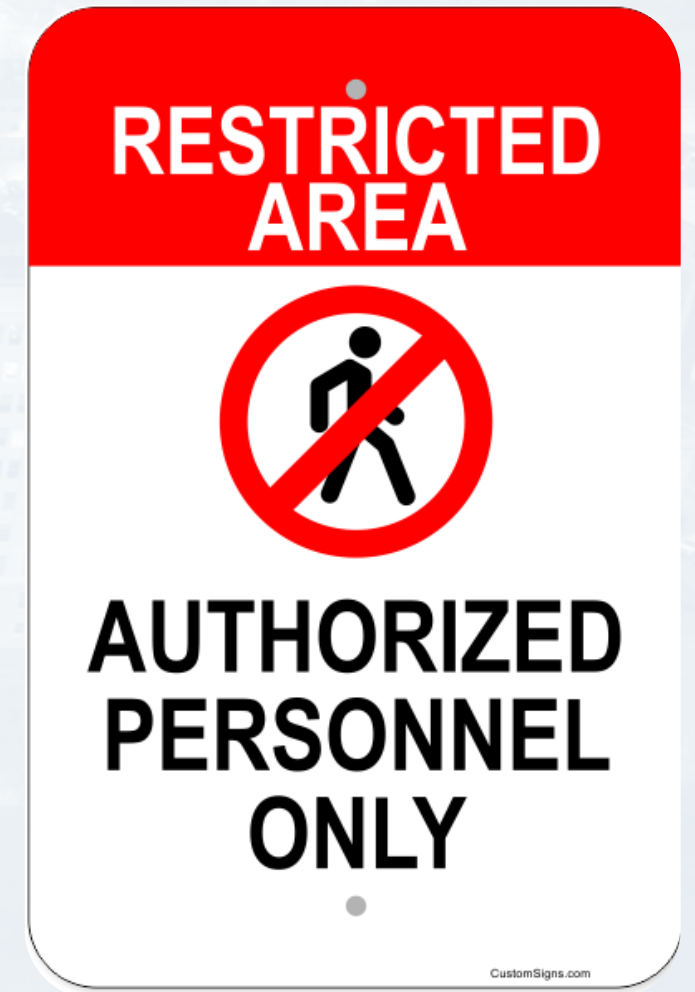
Payment Initiator

Authorized Initiator

- Initiator manipulated
 - Misplaced trust
- Initiator acted fraudulently
 - Internal control failure
- Initiator used modified data
 - Account/Process Compromised

Unauthorized Initiator

- Person impersonates authorized party
- Individual/Entity forges/counterfeits payment



(FedPaymentsImprovement.org)

Authorized Initiator

Change Direct Deposit Details

SW Shauna Wake <jj7198903@gmail.com>
To Shauna Wake
Tue 4/25/2023 3:45 PM

Follow up. Completed on Tuesday, April 25, 2023.

Attention: This message originated from a source external to the State Treasurer's Office. Use appropriate caution when using any links or attachments contained in this message.

Hi Tracy,

I want to change my direct deposit paycheck account into a new account. Can I get an Authorization form, which includes the required bank account information or i send my new account Information for the Change.

Thanks,
Shauna Wake

- Payment to Prepaid Card Accounts
- Impersonation of Authorized Individual
- Fraudulent Claims –
 - Unclaimed Property
 - Tax Return
 - Unemployment

State of Kansas

- **Constituents as Targets**
 - SOK is Authorized Party
 - Bad Actor impersonates SOK
 - Ex: Toll Charge Texts
- **ACH Fraud**
 - Authorized initiator
 - Ex: Banking Information Falsely Updated
- **Check Fraud**
 - Unauthorized initiator
 - Items Intercepted in Transit
 - Ex: Forged/Altered Items Presented for Payment
- **Wire Fraud**
 - STO Wire Form
 - No SMART or OAR Approval

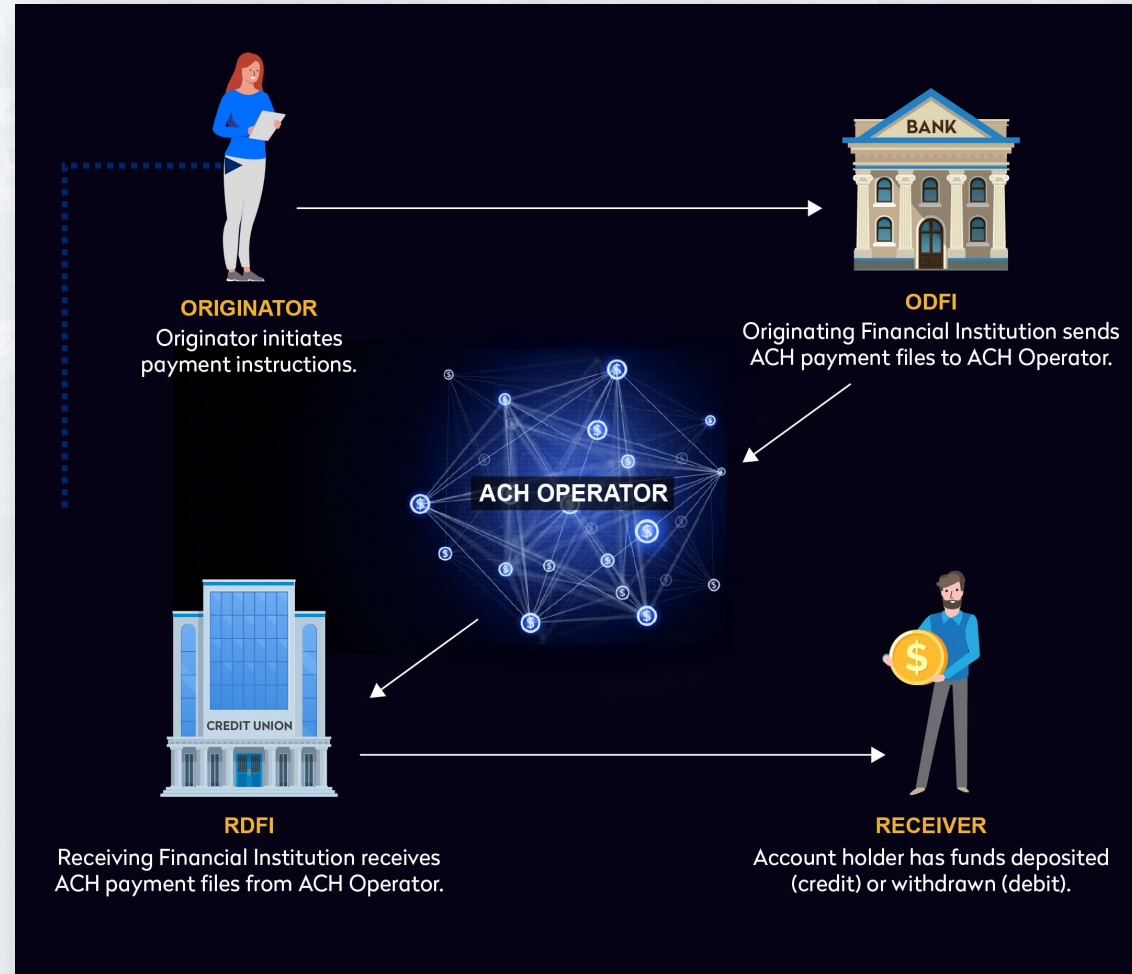


Check Clearing Process



(FedPaymentsImprovement.org)

ACH Clearing Process



Check Fraud



- Forged Items
 - #738 at \$675,299.28
 - Presented & Returned within business day July – Sept 2025
- Types of Check Fraud
 - Counterfeit
 - MICR Printer
 - Altered
 - Amount Altered
 - Payee Name Altered
 - Forged Endorsement
 - Item Intercepted

Incoming Checks

- Review Check
 - Verify Amounts
 - Legal Line vs Numerical Value
 - Confirm MICR Present
- Constituent Information
 - Contact In Case Of Issues
- No EFT Refunds


When in doubt, give us a shout!

John Doe
PH. 555-555-5555
123 Main Street,
Anywhere 10000

DATE: _____ 20 _____ 0001

PAY TO THE ORDER OF: _____ \$ _____

_____ DOLLARS

 Pine Creek Bank
456 First St
Anywhere 2000000

FOR: _____

1234567890 00123456 0101

ENDORSE HERE

Check Here for Mobile Deposit

Do Not write/sign/stamp below this line.

ORIGINAL DOCUMENT

SECURITY FEATURES
Microprinting around border and face.
Words "ORIGINAL DOCUMENT" on back.

Fraud Risk By The Numbers

- In 2025, \$5.75 was the average ‘total cost’ of every \$1 in fraud loss for U.S. financial services (LexisNexis The True Cost of Fraud Study)
- Financial institutions use a mix of manual and automated techniques to combat fraud using an average of three approaches at each stage of a customer journey (LexisNexis The True Cost of Fraud Study)
- 44% of institutions primarily use manual processes for fraud prevention (LexisNexis The True Cost of Fraud Study)

Fraud Risk By The Numbers

- Paper checks are 16x more likely to be lost, stolen, altered or delayed (U.S. Bureau of the Fiscal Service 8/14/25)
- In FY25 the State of Kansas issued 702K payments, 42% of those payments were made by check
 - \$1.767 billion in Cleared Checks
 - \$20.5 billion in SMART Vendor ACH Payments
- In FY24 the State of Kansas issued more than 10K payments by check that were > \$50K each

SOK Check Fraud Prevention

SMART Access

- Access Limited to Authorized Initiators
- Vendor Records are Centrally Maintained

Automation

- Automated Internal Controls
 - SMART Vendor Payments
 - Payroll Processes
 - Tax Payments, Unemployment, Claims Payments
- Presented Items Verified Electronically
 - Items pulled for manual review if errors
- Banking System Protections

Manual Processing

- Inherent Control Weaknesses



SOK Check Fraud Initiatives

Use Alternative Payments

- Checks
 - Inherently More Risk
- ACH Payments
 - Processes Established
 - More Secure Payment

Payee Positive Pay

- Warrant Modernization Project
- Proactive Approach



Types of ACH Fraud Risk

Fraudulent submission of ACH banking changes can occur due to:

- Phishing/Malware/Data Breaches resulting in
 - Compromise of individual's email account (or Employee Self Service)
 - Compromise of supplier's actual email account
- Business Email Compromise or Spoofing of an individual or supplier's email address
- Social engineering to obtain info/documents
- Fraud due to theft/lack of internal controls such as separation of duties

SOK ACH Fraud Prevention

- SHARP payroll direct deposit form is only available through Employee Self Service or an agency HR/Payroll office
- SMART Finance direct deposit form is only available by the agency providing the form to a verified supplier contact
- All direct deposit initiation or change requests REQUIRE SOK Agency Certification by direct validation in person or via phone to a known number not received as part of the request communications



ACH Agency Certification

DA-184 Excerpt

*Payroll only

EMPLOYEE SIGNATURE
(electronic signature is not acceptable)

DATE

Section B: Agency Certification

I, the undersigned, certify that I have verified the employee is the requester of the change of information and that the information is true and correct.

Signature: _____ Date: _____ Print name: _____

Agency number: _____ Department ID: _____ Phone number: _____

(Check One)

- Verified requested changes in person using employee identification (preferred method)
 Verified requested changes with employee using known employee phone number

NOTE: The agency certification requirements for SHARP/SMART have successfully prevented multiple fraud attempts

ACH Bank Account Validation

- Effective 9/29/25 a new process has been added for all SHARP and SMART ACH changes (new/updated bank accounts)
- Bank account validation will return a 'risk' rating for the bank account information provided
- Additional validation by agency will be required for changes that return a 'high' risk rating per bank validation
- Agencies who perform transactions outside of SMART should contact STO for information on how to implement account validation



SOK ACH Payment Initiative



- Cost of ACH is \$.26 - \$.50 cents vs. \$2 - \$4 to issue a paper check (AFP 2022 Payments Cost Benchmarking Survey)
- ACH is:
 - Faster
 - Cheaper
 - More Secure
 - More Efficient
- Agencies are encouraged to evaluate all suppliers and pursue transition to ACH in all possible circumstances
- Agencies with direct payment programs can consider issuing payments via paycard vs check

SOK ACH Payment Initiative



- OAR, OPC and STO are partnering to increase ACH participation and reduce risk of check fraud
- All new suppliers will be required to accept payment via ACH (complete DA-130 form) as part of contract terms unless supplier justifies an opt-out
- Agency heads and CFOs will be receiving a communication from Sec. of Admin/State Treasurer detailing high volume/high dollar suppliers receiving payment by check with request to proactively work to transition these high-risk existing suppliers to ACH

Agency Resources

Fraud happened – now what?

SMART Fraud Reporting Tile
Checklist w/ Direction
Report Form

Remember!
Timing Is Important
You're not alone - contact
US

Report Suspected Fraud Here



State of Kansas
Department of Administration
Office of Accounts and Reports
DA-165 (Rev. 02-2025)

Agency Fraud Reporting Checklist

This checklist must be used by agencies to document fraud incidents (unsuccessful or successful) for internal purposes to ensure all required steps are completed. Agency must complete the checklist for the specified incident type noting for each required step the name of the individual who completed the step and the date on which it was completed. This completed form and any associated documentation should be stored internally as a record for the agency and may be audited by the Office of Accounts and Reports (OAR).

Date/Time of Incident: _____ Incident Type: Unsuccessful Fraud Successful Fraud

Questions?



Contact Information

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