

Employee Dishonesty

Questions the Supervisory Committee Should Ask



Association Credit Union Internal Auditors - 2013 Annual Conference



Today's Agenda

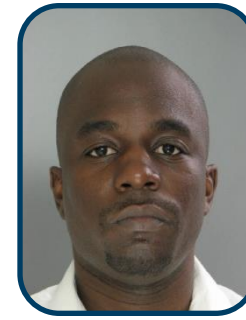
- Who would steal from our credit union?
- Why would an employee steal?
- How can we prevent employee dishonesty?
- How can we detect employee dishonesty?
- Can you help?



Who would steal from our credit union?

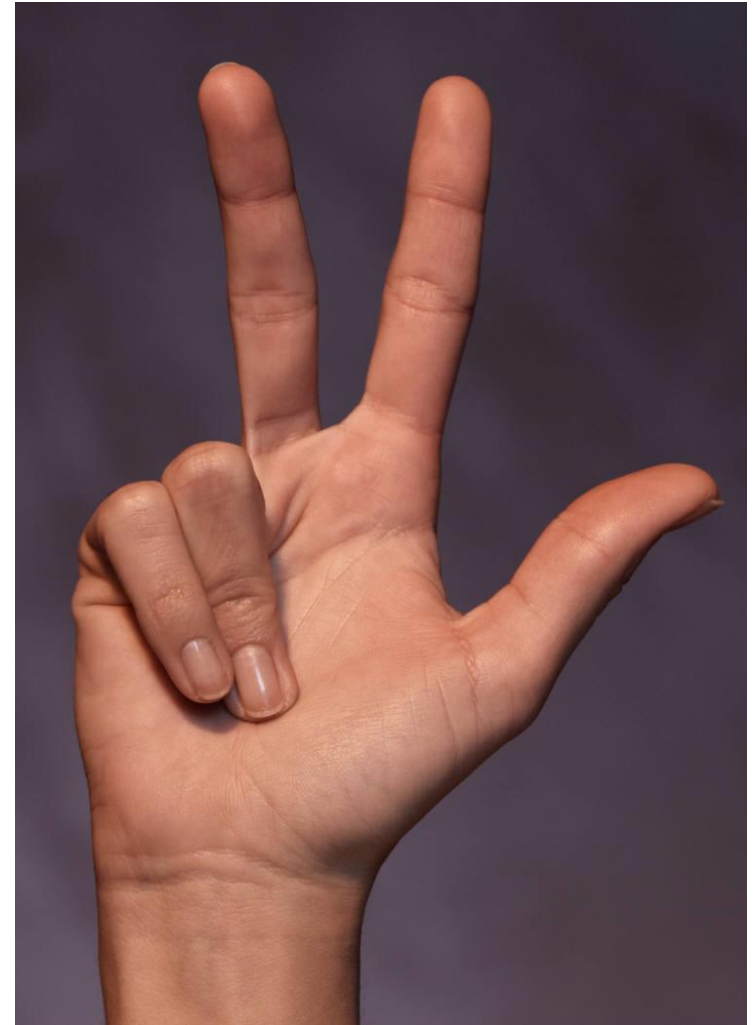
- Control issues -- refuses to vacation, seldom leaves desk, or hoards data
- Overly nervous or defensive during audits and questions
- Lives beyond their means
- Experiencing financial difficulties

The face doesn't always match the crime



Why would an employee steal?

1. Need (gambling, drugs, financial stress)
2. Opportunity (weak or no internal controls)
3. Rationalization “*I was going to pay it back. I was owed*”



Do not remain complacent



- Our employees are all trustworthy
- We have strong internal controls
- We conduct yearly audits that will catch any wrongdoing
- We've all known each other for years
- Our employees would never steal
- This can't happen to us because we have safeguards in place



How can we prevent & detect employee dishonesty?



- Cash Supplies
- Loans
- Expenses Reimbursements
- Employee & Family Member Accounts
- Dormant Accounts

Cash Supplies



Cash Supplies – Internal Controls

- Counted under dual control
 - Individual bills
 - Dual control at all times
- Transfer of cash counted under dual control
 - Individual bills
 - Supplier and recipient
- Spare key control procedure in place
- Individual responsibility
 - Lockable cash drawers
 - Lockable tray
- Forced dual control
- ATM
 - Forced dual control

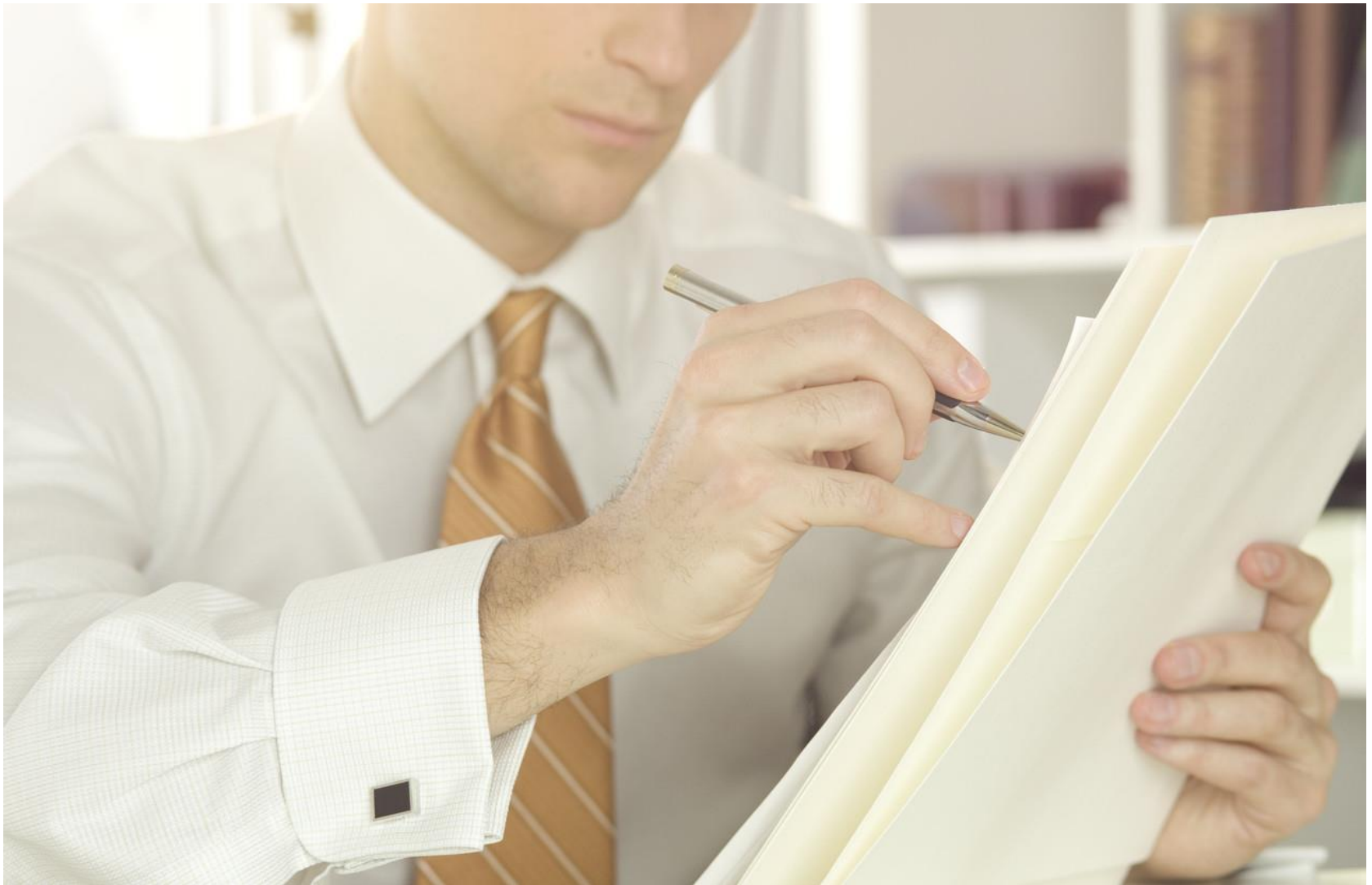
Cash Supplies – Audit Controls

- Verify cash shipment
 - Individual bills
 - Dual control at all times
- Verify transfer of cash under dual control
 - Individual bills
 - Supplier and recipient
- Verify adequate spare key control
- Surprise cash counts
- Individual responsibility
 - Verify teller drawers locked
 - Verify teller keys taken home
- Verify adequacy of dual control
- ATM
 - Verify dual control

Theft of Cash – Loss Scenario

- The credit union Supervisory Committee Chairman notifies the Branch Manager that he will be in the credit union at 8 AM the next day to conduct a quarterly verification of all cash supplies.
- A \$30,000 cash shortage is discovered when counting the vault cash
- The Branch Manager states:
 - Cash deliveries are accepted and bulk verification of sealed plastic bags are performed by her (the branch manager)
 - Dual control is used when verifying cash deliveries (counting individual bills)
 - Vault cash is under dual control (two employees are required to be present when vault cash is accessed)

Loans



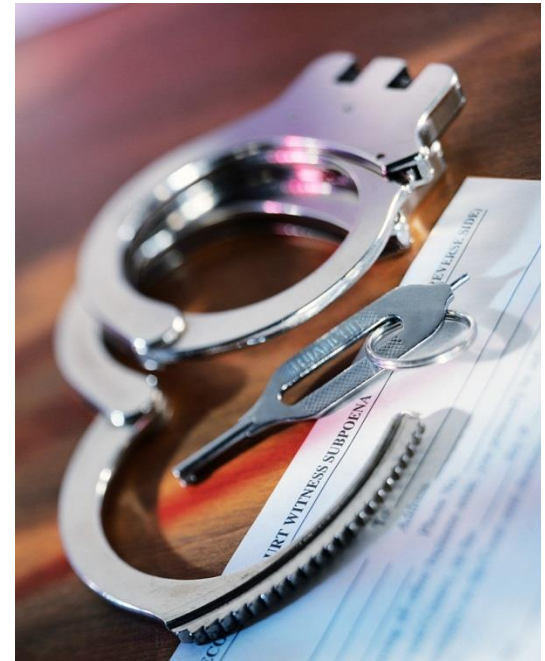
Loans – Internal Controls

- Separation of duties
 - Approval
 - Processing
 - Disbursement
- Policies
 - All inclusive
 - Approved by the board of directors annually and when changes are made
- Approval by next higher level of authority
 - Employee/officials and family members



Loans – Audit Controls

- Review file maintenance report
 - Due date advances
 - Payment amount changes
 - Payment frequency changes
- Review new loans
 - Confirm member
 - Documentation in file
 - Approval
 - Compliance with policy



Loans – Loss Scenario

- CEO/Loan Officer of \$5 million credit union, advanced due dates
 - On his loans
 - His girlfriend's loans
 - On over 25 delinquent loans
- He was paid an incentive for low delinquency
- The delinquency reports were included in the board minutes

Expense Reimbursement



Expense Reimbursement – Internal Controls

- Comprehensive policy
 - Approved by the Board of Directors annually
 - Dollar amounts
 - Personal usage limitations
- Approval requirements
 - Next higher level of authority
- Documentation
 - Receipts
 - Business purpose
 - Individuals present



Expense Reimbursement – Audit Controls

- Verify expenses are within policy guidelines
 - Approved expense
 - Approved dollar amounts
 - Approved personal usage limitations
- Verify appropriate approval requirements
 - Approved by next higher level of authority
- Documentation
 - Proper receipts
 - Business purpose included
 - Individuals present included

Expense Reimbursement – Loss Scenario

- CEO abused and misused her corporate credit card totaling a loss of \$111,800
- This occurred over three years
- It wasn't discovered until the credit card payments were not being made timely
- CEO was approving her own expenses as well as other employees
- There was an assumption that the Audit or Supervisory Committee did periodic reviews of CEO's statement and expenses—this was not the case
- The accounting department was directed to “just pay any monthly charges” by CEO
- On many occasions, employees submitted receipts without the proper expense report and explanation

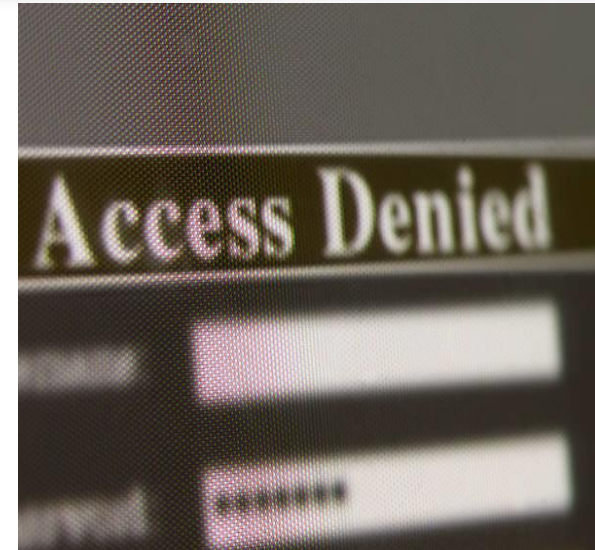
Employee & Family Member Accounts



Employee & Family Member Accounts

Internal Controls

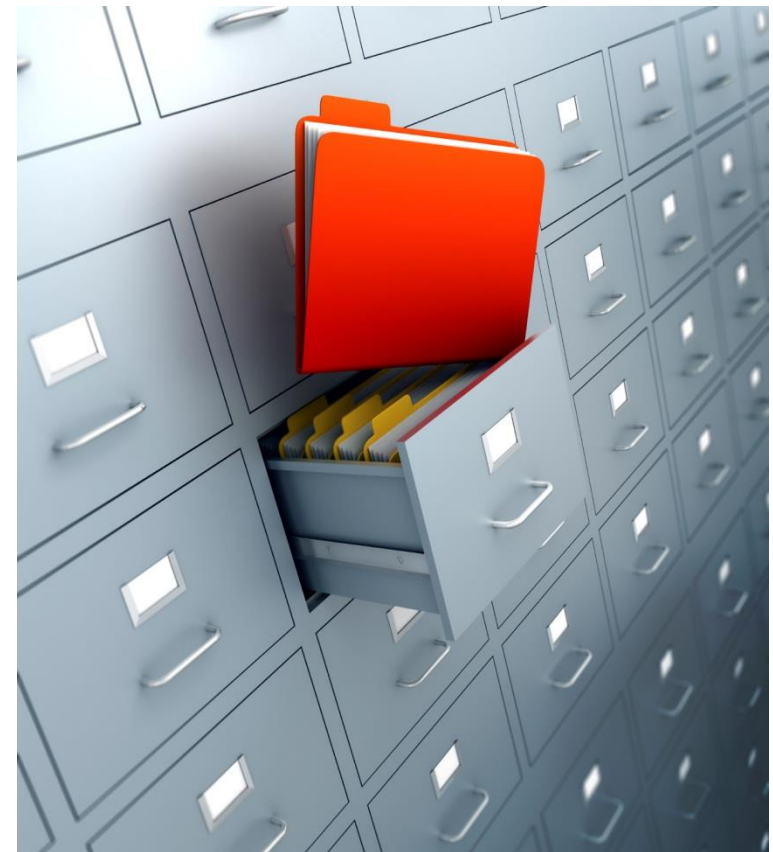
- Annual disclosure of insider accounts
 - Coded on the system
- Written policy prohibiting access
 - Signed annually
- Access blocked to own and family member accounts
 - Requires a supervisory override
- Loans not approved by a subordinate
 - Files segregated in locked file



Employee & Family Member Accounts

Audit Controls

- Review account activity and loan files
 - Overdrafts
 - Transfers
 - Loan payments accurate
 - Interest rates are correct
 - Collateral requirements met
 - Loan is within policy guidelines
 - Loan approval follows policy
 - Credit Limit increases approved
 - All loan documents are present



Employee & Family Member Accounts Loss Scenario

- Manager of a two employee credit union with assets of \$7 million dollars
- He deposited money collected on charged off loans into his children's accounts, then would falsify the member's account statements
- He would make payments to his HELOC at another financial institution with credit union checks
- No oversight of the manager's work

Dormant Accounts



Dormant Accounts

Frequently used to perform unauthorized transactions

- Internal Control
 - Require a supervisory override
- Audit Control
 - Review dormant account activity report
 - Verify withdrawals
 - Members signature
 - Direct communication
 - Mail
 - Email
 - Telephone

Dormant Accounts – Loss Scenario

- A teller was caught removing funds from several member's accounts over a period of two years
- The accounts were all dormant accounts, the teller knew which accounts were not active and flagged as dormant
- It came to the attention of the credit union after one of the members reviewed their statement and disputed several transactions and began researching previous statements
- Total loss to credit union was over \$240,000
 - Many of the transactions were performed in the morning before credit union opened
 - The teller was making several large deposits into her own account at the credit union during the time the withdrawals were made from member's accounts
 - She relied on the fact that the members were not reviewing their statements or performing any transactions and the account was flagged as “dormant”

Can CUNA Mutual Group help?



- Credit Union Protection Resource Center
- Bondability Verification
- Fraud Policy
- Whitepapers

Credit Union Protection Resource Center

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Protection Resource Center

- Loss Prevention Library
 - ACH / Wire Fraud
 - Check / Deposit Fraud
 - Corporate Governance
 - Cyber & Security Incident
 - Disaster Preparedness
 - Employee Dishonesty
 - Employment Practices
 - Internal Controls
 - Lending Risks
 - Plastic Card Fraud
 - Robbery / Burglary
 - Worker Safety
- RISK Alerts Library
- Risk Assessments

Tools and Resources

- CU Protection Claims Help
- Forms / Applications Search
- Frequently Asked Questions
- Policyowner Services Handbook

In The Spotlight

On-Demand Webinar:
Managing Your Uninsurable Risks

Internal Controls

Whitepapers

- ATM Receipts and Disclosure Notices
- ATM User Precautions
- Audit Controls
- Business Depository Accts Risk Considerations
- Creating a Risk Management Department
- Mitigating Losses through Internal Controls
- Mobile ATM Questionnaire
- Mobile Banking Risks and Controls
- Online Banking Risks and Controls
- Record Storage Program
- Regulation E - Home Banking Request/Disclosure Process
- Safe Deposit Box Services Risks
- Security Considerations for selecting ATM Locations
- Starting a Cash Operation

Checklists

- Vendor Contract Provisions Checklist

Articles

- The Importance of Inspecting ATMs on a Regular Basis
- E-Signatures: A New Avenue for Forgery?
- Vendor Due Diligence

Related Links

Related Products

- Bond
- Management & Professional Liability

CUP-0311-D15B
3/8/11

Ask a Risk Manager

800.637.2676 or email

Who is my Risk Manager?

Education & Webinars

- Schedule
- Registration
- Library
- Staff Training Modules

Building member trust Are You Prepared?

Protection based on your CU's specific needs, packaged with data breach services from Kroll.

[Learn More](#)



CUNA Mutual Resources

RISK Alerts

- Just-in-time updates on scams/risks

Loss Prevention Library

- Detailed whitepapers & checklists

Education & Webinars

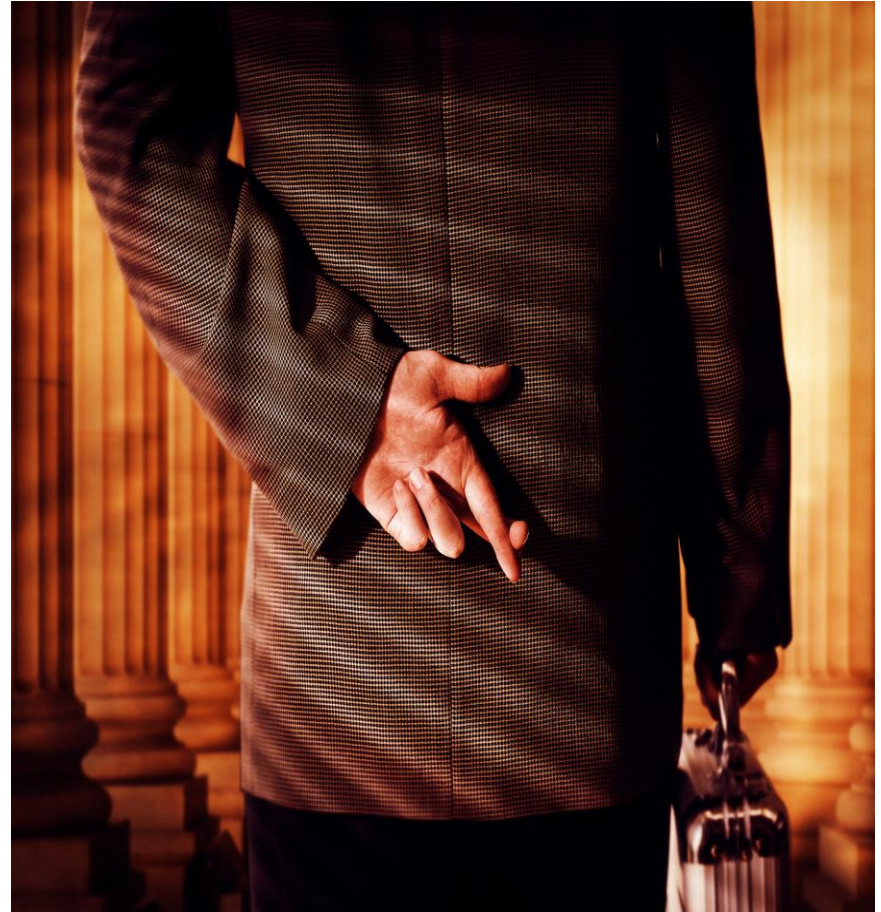
- On-demand webinars
- Training modules

Risk Assessments

- Online snapshot assessments & recommendations
 - Check Fraud
 - Plastic Card Fraud
 - Disaster Preparedness
 - Funds & Wire Transfer
 - Internal Controls
 - Data & Network Security
 - Lending Oversight

Bondability Verification

- Bondability verification
 - at www.cunamutual.com
 - User ID/Password required
 - Database contains 80,000+ names
 - Prior dishonest and/or malicious acts
 - No Charge

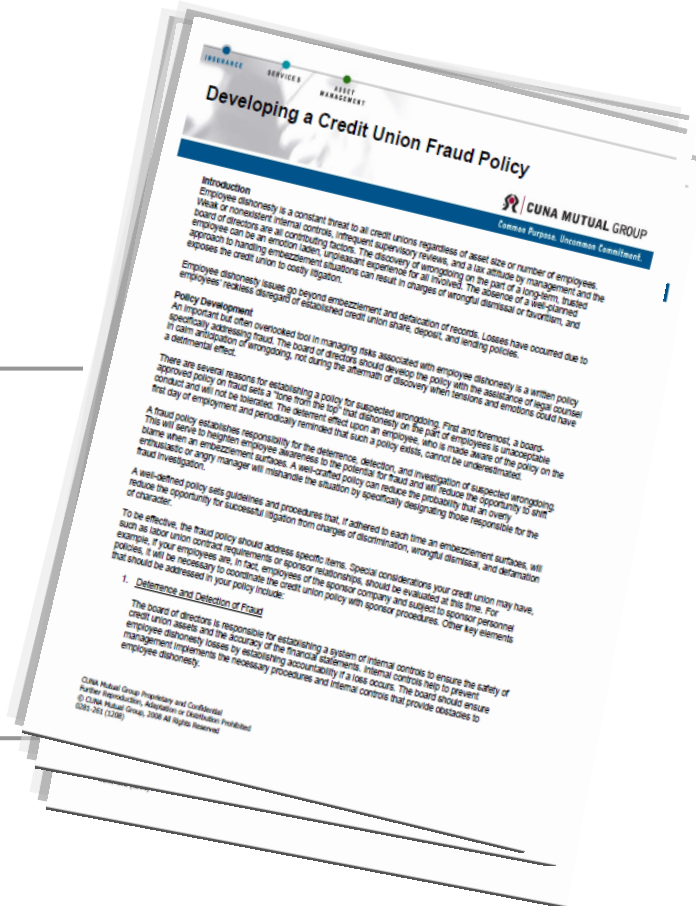


Fraud Policy

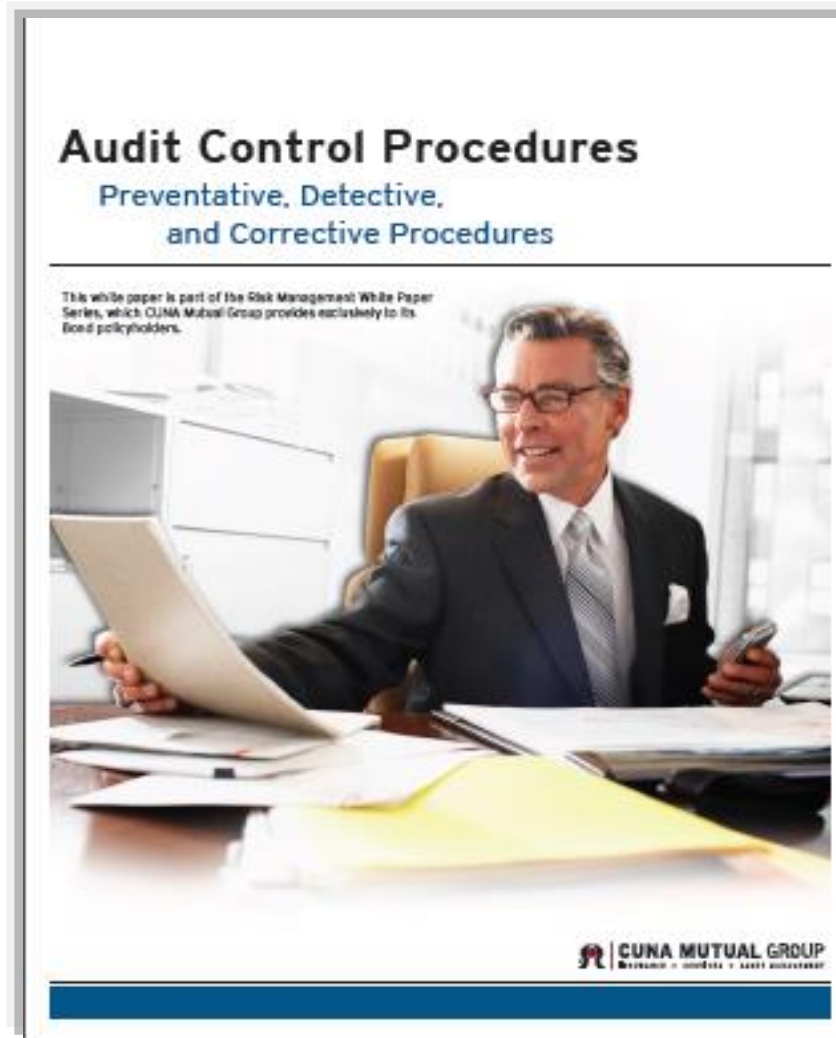
- Set the “Tone from the Top”

Fraud Policy

- Employee signature
- Updated annually
- Zero tolerance



Audit Control Procedures Whitepaper



Questions & Answers



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