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Steps to Protect Your Credit Union From Embezzlement

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Objectives

- Understanding the importance of being proactive vs. reactive
- Understanding the importance of investing in protection
- The areas of concern and how to protect yourself from internal and external fraud



Your first priority and your job is to protect your credit union, the assets of your members and ensuring the safety and soundness of your credit union!

- Feelings should never enter into it
- It isn't about trusting individuals
- Anyone is capable of fraud or embezzlement
- It's not about you or your employees

Understanding Embezzlement

- Operate with the understanding that anyone is capable of anything
- Internal controls are a good thing
- Limited staff is never an excuse
- Internal controls are an operational expense and a must



Make It a Priority

- Don't say you can't afford the training
- Don't say you can't afford the audits
- Don't say you can't afford safeguards
- These are the basics
- Brand and image is everything



Training and Education

- Board of directors
 - > Strong board governance and engagement
 - > Previous professional experience
- Supervisory committee
 - > At least one member of the supervisory committee would be on the board or attend the board meetings
- Internal audit department
 - > Report directly to board of directors or supervisory committee
 - > Allows for independent decision making and judgement

Training for Staff

- A training should be conducted annually for all staff members to ensure they are aware of what processes are normal and what is not normal.
- They should be made aware of how they can report suspicious activities anonymously.
- The board should be supportive of such efforts and hold the CEO accountable to ensure these standards are being met.



Plan for Reporting Suspicious Activity

- Any employee of the credit union who is suspicious of any type of fraud has a fiduciary responsibility to report it
- The report of suspicious activity should be received by more than one person
- Anonymous hotline
- MCUL



Policies and Procedures

- Your CEO needs to find it as big of a priority as your board does
- Your board needs to view policies and procedures as a top priority
- Must be followed and audited
- We don't have time isn't enough
 - > Borrow from other credit unions



Nepotism and Conflict of Interest

- Instances of relatives working together
- Instances of relatives reporting to other relatives
- Instances of doing business on inappropriate accounts
- Lack of professionalism
- Understanding conflict of interest
 - > Members
 - > Vendors
 - > Board



Dual Control

- Accessing any negotiable items
- Vault access
- Balancing
- Wire transfers
- Requiring multiple approvals when people in authority or their families are involved
- 2 people working together



Separation of Duties

- A person handling cash should not post to the accounting records
- A loan officer should not disburse loan proceeds for loans they approve
- Those printing credit cards should not be printing PINS
- Member address changes must be verified by a second employee before the change can be activated

Quality Control

- Underwriting
- Perfecting the lien
- Pulling loans for review randomly
- Pulling new account for review randomly
- Keeping track of cedar point tickets



5 Consecutive Day Leave

- Someone must track this rule or it doesn't work
- Have people turn in keys and codes and suspend remote access to email
- This includes CEO and executive team members



Scheduled *and* surprise cash counts of teller drawers, the vault, ATMs and of non-currency negotiables (card stock, stamps, Cedar Point tickets, etc.)

- Cash counts should be done by the internal auditor (if possible) or at least by two employees that do not normally handle cash. Under no circumstance should the employee assist in auditing his/her own drawer without someone else present. Same thing for vault teller
- The surprise counts must be a true surprise for all parties
- The branch manager should not be made aware
- Quarterly at minimum
- Internal Audit or Supervisory Committee

Outstanding Checks

- the CU should look at outstanding checks (cashiers checks, money orders and payable checks from the credit union) and any outstanding for an extended time. (90 days)
- Need to be stopped and moved either to a general ledger (stale dated checks) or a process needs to be put in place so the CU does not leave outstanding checks on the books for an extended period of time.
- It is a great place that fraud could take place. If a check is out there for 6 plus months an employee could “re-issue” it to themselves.

Key Control

- Should be a record tracking all keys and codes dispersed to all employees and those should be accounted for at all times. When issued and when turned in.
- You should have a log for all of these items as part of the separation policy and checklist.



Video Cameras and Security

- Video cameras should be available in any area that may have cash present however if that isn't possible, there should be dual controls and a log to track movements
- Video cameras should be tested regularly for accuracy, time/date presence and to make sure they are in working order
- You should maintain your video for 6 months if possible

Other Suggestions:

Balance All General Ledgers Monthly

- Any clearing accounts or suspense accounts
- Over/short activity

Loan and Share verification

- Send correspondence to members to verify this activity

Audit a Sample of All New Loan and Share Accounts

Back Up Auditor

- Whoever handles each audit should also have a back up person who audits the same things should this person leave or should they be part of the inappropriate behaviors

Employee Account Activity

- Reports to verify unusual activity
- Kiting
- Money laundering
- Monthly
- Individual monthly report to board



Accounts Payable Audit

- Audits should be performed on a regular basis
- Create policy and procedure that any work above a certain threshold should be quoted and the results should be tracked and filed



Employee Hiring and Separations

- Make sure all credit union property is tracked when disbursed, updated regularly and then again tracked when the employee leaves.
- All employee property should be tracked and logged.
- You should have a log for all of these items as part of the separation policy and checklist.
- Upon separation, immediately disable the former employees alarm codes, VPN access, system ids and email.

Annual Audits

- Annual system audit of what kind of access everyone is provided with attention to cash privileges. We often add privileges without then taking them away.
- Vault access audit
- Key and code access to both vault, buildings and area



Loan Process

- If staffing permits, two different employees should be processing/approving the loan and disbursing it. If one employee can do it all, then they can easily set up fake loans.
- Use new loan reports to check and see if this is happening.
- Checks should be in place for instances in which loans are being done for relatives. They should not be conducted by an immediate family member.

Internal Controls Review

Keep *your* credit union out of the headlines...



Credit unions need a strong and effective system of internal controls to operate safely and effectively. The more complete the controls, the less tempted an employee will be to commit a dishonest act. Internal controls constitute a system of checks and balances that hold individuals accountable for their actions.

Our Internal Control Review focuses on the areas most susceptible to employee dishonesty and fraud such as:

- ♦ Cash handling
- ♦ Teller controls
- ♦ Vault controls
- ♦ Bank reconciliation
- ♦ Audit controls
- ♦ Lending controls
- ♦ Wires

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