

*Insider Fraud Has Become a  
Regular Headline in Trade  
Periodicals—*

What is it and what **MUST**  
board members do about it?

# *Insider Fraud*

What's going on and what does it mean to board members?

# Fraud

- ▶ Theft or misappropriation of assets
- ▶ False claims for payment or reimbursement
- ▶ Accepting or offering bribes or gifts
- ▶ Blackmail or extortion
- ▶ False or fictitious accounting

# Fraud (Cont.)

- ▶ False or misleading financial statements
- ▶ Paying excessive fees
- ▶ Violating policy against self dealing
- ▶ Willful indifference

	FY 2013	FY 2014	FY 2015
IRS Investigations Initiated	156	108	84
Prosecution Recommendations	128	100	69
Indictments/Informations	122	91	73
Sentenced	146	88	160
Incarceration Rate*	78.8%	64.8%	80.6%
Average Months to Serve	32	30	44

\*Incarceration includes confinement to federal prison, halfway house, home detention or some combination thereof

DATA SOURCE: Criminal Investigation Management Information System

# Insider Fraud



Insiders pose a substantial threat to financial services organizations by virtue of their knowledge of and access to propriety systems and their ability to bypass security measures through legitimate means

# Insider Fraud

- ❑ “Low and slow” does more damage and escapes detection longer
- ❑ On average, over 60 months pass between hiring and start of fraud
- ❑ Most insiders use means not technically sophisticated

# Insider Fraud

- ❑ Non-technical employees more likely to commit fraud in banking and finance industry
- ❑ Previously authorized access to carry out fraud



# Insider Fraud

- ❑ Senior position employees are the primary perpetrators of malicious activity
- ❑ Their activity lasts approximately 33 months; while non-management crime typically lasts an average of 18 months
- ❑ Managers use their superior access to information and relative lack of supervision to sustain longer crimes

# Insider Fraud

Who does the most damage?

- Accounting Employees
- Customer Service Employees
- Technical and Analysis Employees

# Detection

- Anonymous tips
- Customer complaints
- Co-worker suspicions
- Questioning abnormal activities
- Audits/examinations
- Very small percentage found by fraud monitoring software and systems



# Board Members Fiduciary and Regulatory Responsibilities

- ❑ Ensure appropriate internal controls
- ❑ Regularly complete an individual assessment of compliance through a reasonable audit program
- ❑ Remember that your regular annual audit is not designed to identify fraud

# FRAUD PREVENTION

What a Board of Directors can  
do

# What a Board Can Do:

- ❑ Conduct periodic surprise audits and annual review of procedures

# What a Board Can Do:

- ❑ Clearly document *and consistently enforce policies and controls*

# What a Board Can Do:

- Institute periodic security awareness for all employees



# What a Board Can Do:

- ❑ Provide training on policies, red flags and whistleblower activity
- ❑ Provide a process for anonymous tips
- ❑ MCUL offers hotline - 800.262.6285 ext. 193

# What a Board Can Do:

- ❑ Look for unexplained financial gains in any periodic reinvestigations of employees
  - ❖ Regular review of all employees, particularly if under financial stress or living beyond their means

# What a Board Can Do:

- ❑ Log, monitor, and audit employee online actions
  - ❖ Enforce account and password policies and procedures
  - ❖ Log and monitor to review online actions of employees

# What a Board Can Do:

- Pay special attention to accountants and managers
  - ❖ Segregate critical duties when possible to deter fraudulent activity

# What a Board Can Do:

- ❑ Ensure that the auditing function is unpredictable in schedule, frequency, and subject (what is being audited)

# What a Board Can Do:

- Restrict access to personally identifiable information
  - ❖ Ensure employee privileges are necessary and appropriate for job duties

# What a Board Can Do:

- Develop an insider incident response plan
  - ❖ Damage control
  - ❖ Consistent information
  - ❖ Ensure that everyone understands requirements

# What a Board Can Do:

- ❑ Require two party authorizations upon initiation and release of all wires and ACH releases
- ❑ Require daily staff reconciliation of wires and ACH releases
- ❑ Ensure proper segregation of duties - where possible separate authorizing, preparing, signing, and mailing of payments



# What a Board Can Do:

- ❑ Individuals reconciling bank statements should not also be able to write checks and make entries in general ledger.
- ❑ Review signature cards and authorities on a regular basis. Adjust as necessary. Remove individuals timely.

# What a Board Can Do:

- ❑ Review all bank accounts regularly.
- ❑ Review all investment accounts regularly to ensure broker statements accurately reflect the institution's investments and investment characteristics.
- ❑ Ensure individuals maintaining investment information cannot also make the investment. Segregate duties as able.

# What a Board Can Do:

- ❑ Ensure appropriate controls over individuals who can access credit union information from remote sites.
- ❑ Ensure policies and procedures in place are appropriate and follow. Review and amend regularly.

# What a Board Can Do:

- ❑ Follow up on Currency Transaction Reports. Ensure they are completed accurately and timely.
- ❑ Ensure management monitors unusual or repeated activity.
- ❑ Ensure regulations regarding Suspicious Activity Reports are followed.

# What a Board Can Do:

- Monitor cash reserves: Are they depleting without explanation?
- Ensure no employee has any mail for the credit union rerouted to a personal residence or private mailbox.
- Periodically review accounts marked “no mail.”

# What a Board Can Do:

- ❑ Take audit and exam exceptions seriously
- ❑ Ask auditors and examiners where they see weakness in controls
- ❑ Don't merely rely on an annual audit
- ❑ Don't skimp on audit costs-- cheapest is not always the best option

# What a Board Can Do:

- ❑ Require all board members to read and understand MCUL Whitepaper: *Mitigating the Risk of Internal Fraud*
- ❑ Require board members to sign Voluntary Anti-Fraud Control Certification
- ❑ Adopt a fraud policy

# What a Board Can Do:

*Hope for the best  
and plan for the  
worst!*



# Questions

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