



<p>HORNE BANKERS' FORUM 2011</p>	
 <p>HORNE CPAs & Business Advisors</p>	<p>Fraudsters Want Money and Banks Have It.</p> <p>JEFF AUCOIN, CPA, CFF, CFE, CIA / Senior Manager</p>

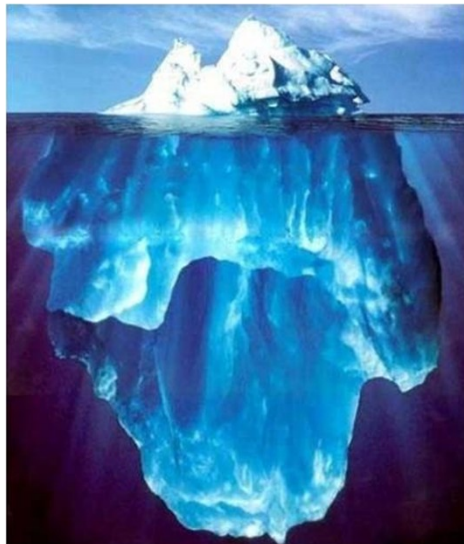
<p>Areas of Focus</p> <ul style="list-style-type: none">▪ Background▪ Risks<ul style="list-style-type: none">▪ Customer▪ Data▪ Bank Assets▪ Schemes & Controls (Bank Assets)<ul style="list-style-type: none">▪ Branch▪ Corporate <p>HORNE BANKERS' FORUM 2011</p>  <p>HORNE CPAs & Business Advisors</p>
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BACKGROUND

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Picture of Fraud



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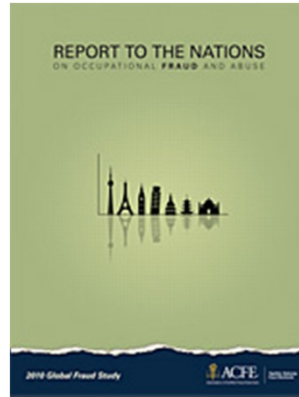
Magnitude of Fraud

- Total cases
 - Approximately 1,800
 - Median loss of \$160,000
 - Median time frame of 18 months

- Total US cases
 - Approximately 1,000
 - Median loss of \$105,000

- 5% of Annual Revenue

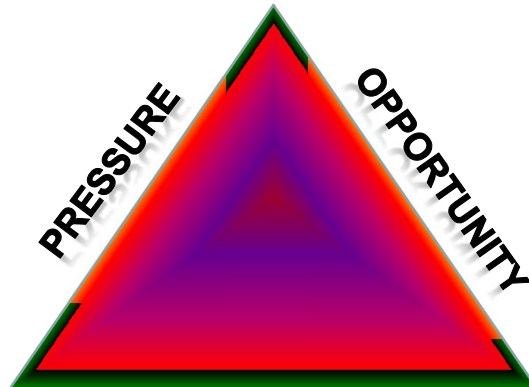
<http://www.acfe.com/rtn/2010-rtn.asp>



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Why Good People Go Bad!



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RISKS

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Types of Fraud Risk

A Venn diagram consisting of three overlapping circles. The top circle is labeled "Customer", the bottom-left circle is labeled "Data", and the bottom-right circle is labeled "Assets". The circles overlap in the center and at the intersections between two circles.

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Risk to Customers

UT-Battelle, LLC
One Bethel Valley Road
Oak Ridge TN 37830

Check No. 445

Date 9/16/11

Pay to the
Order of

Three thousand three hundred 00/100

\$2350.00

DOLLARS

US Treasury, New York, NY
35 Liberty Street
New York, NY 10045

[Signature]

Memo

⑆100000989541414000E0120⑆

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Risk to Data

- Who is attacking?
 - Sophisticated Hackers
 - Social Engineers
- How?
 - Phishing scams to customers or employees
 - Calling employees and requesting passwords
 - Dumpster diving
 - Logging into their account and randomly changing the web address
 - Many other ways

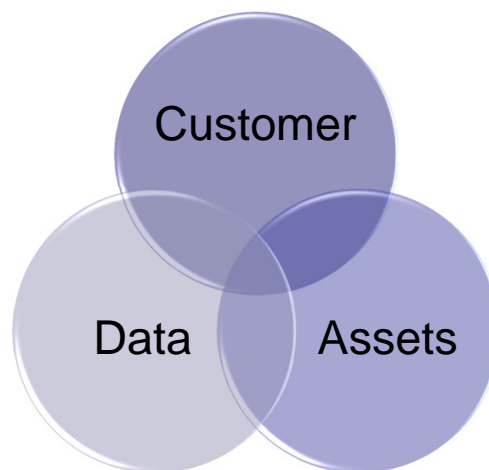
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Risk to Assets

- Who is the fraudster?
 - Branch Employees (e.g. tellers, managers, loan officers)
 - Corporate Employees (e.g. accounting staff, managers, executives)
- How?
 - Countless schemes

Types of Fraud Risk



SCHEMES & CONTROLS

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Branch - Schemes

1. 3/10/2011 – An assistant manager and bank teller stole approximately \$12,800 over a four month period by creating fictitious auditing reports that reflected her drawer was balanced at the end of her shifts.
2. 9/1/2011 – An account services supervisor allegedly embezzled \$493,686 over 5 years and 2 months by:
 - Withdrawing cash from customer accounts;
 - Causing cashier's checks to be issued to 3rd parties from those accts;
 - Transferring funds from other customer accts to the customer accts from which she embezzled

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Branch – Schemes

3. 4/4/2011 – A bank employee staged a kidnapping and bank robbery to cover up stealing money from the bank's ATM. He and his co-conspirators embezzled the money from the bank using the employees key to the ATM.
4. 1/8/2010 – A bank employee made unauthorized withdrawals from CD accounts totaling \$962,740 for six and a half years by "lapping" funds from maturing CDs to cover missing funds from earlier CDs.
5. 8/30/2010 – A bank vice-president fraudulently renewed a line of credit and obtained loans in her name and the names of others. She forged the names of others and pledged assets belonging to others. She was ordered to pay restitution of \$167,414.20.

Branch - Controls

- Segregation of duties
 - NOTE: Additional monitoring controls are required for smaller branches with less segregation of duties.
- Process/Control training for all employees
 - Explain why the process is necessary
 - Create a paper trail or electronic trail
 - Maintain appropriate documentation
 - Require sign-offs
- Mandatory vacation policy
- Branch/Job rotation
- Surprise audits (drawer/safe counts, teller account review, dormant account review, etc.)

Corporate - Schemes

1. 7/29/2011 – A bookkeeper stole approximately \$250,000 over a 20 month period by increasing her home equity line of credit from \$15,000 to \$350,000 by manipulating the bank's computer system.
2. 1/20/2011 – An employee responsible for managing the bank's property leases (landlord or tenant) stole over \$6 million for a period of many years. The following are some of the schemes he utilized:
 - 108 accounts payable transactions totaling approx. \$5.4 million to two entities controlled by he and his wife (he represented to the bank's vender management group that these two entities were exempt from due diligence and annual review)
 - Received payments for the bank of \$723,620 and altered the payee
 - Received another payment for the bank of \$450,000 and the check was made payable to "Entity c/o Bank"

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Corporate - Schemes

3. 7/29/2011 – An accounting administrator embezzled approximately \$760,000 over a 17 year period by fraudulently diverting and transferring funds from the bank's internal general ledger accounts to accounts she controlled. She used fraudulent bank cashier's checks, deposit and credit memoranda, and other documents to carry out and cover up the thefts.
4. 8/30/2011 – An administrative assistant in the trust department where she managed assets for beneficiaries, which included paying daily living expenses and making other disbursements. She was ordered to pay restitution of almost \$100,000 to repay funds that she fraudulently obtained over a 2 year period by requesting disbursements from the accounts that she used for her personal benefit.

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Corporate - Controls

- Segregation of duties
- Process/Control training for all employees/managers
 - Account Reconciliations
 - Explain why the process is necessary
 - Create a paper trail or electronic trail
 - Maintain appropriate documentation
 - Require sign-offs
- Job rotation
- Internal audits of high risk areas
- Retain external resources if specialized knowledge is required

Points to Remember

- Implement appropriate controls - Be creative if resources are limited
- Documentation of bank policies and procedures (code of conduct, conflicts of interest, etc.) - Employees/Managers should confirm understanding
- Train employees/managers as to why the controls are important - Employees/Managers should confirm attendance
- Protect and maintain records - Important for investigations
- Effective Internal Audit Function – Evaluate and use it
- External resources – Request thoughts/assistance from others

JEFF AUCOIN, CPA, CFF, CFE, CIA / Senior Manager



Jeff, who joined HORNE in 2010 serves as a fraud, forensic & litigation services senior manager in the Baton Rouge, LA, office. He frequently presents to local and regional audiences on the topics of fraud and forensic accounting. Jeff has managed numerous fraud investigations and has also advised clients on how to mitigate fraud losses through anti-fraud programs and enhanced internal controls.

Jeff Aucoin
CPA, CFF, CFE, CIA
Senior Manager
Main: 225.755.9798
Direct: 225.341.3115
jeff.aucoin@horne-llp.com

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