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Inside This Issue

- Bailiff, Take This Defendant Away! 1
- Whitepaper—Banking Audit: A New World 2
- Whitepaper—Banking Audit: A New World (continued) 3
- Bailiff, Take This Defendant Away! (continued) 4
- RIMS Annual Conference & Exhibition



Bailiff, Take This Defendant Away!

Like many government entities, the city of Happy Valley was not immune to a sagging economy. As revenues declined, the city council cut staff. In particular, twenty five percent of the accounting staff was let go in order to balance their budget. One such person eliminated was the accountant who reconciled receipts from the bail account and search and seizure fund with bank deposits. Fortunately for the accounting manager, Ron was there to pick up the slack.

Ron was a long time city employee who was very competent at his job. Over time he became one of their most trusted employees. He completed his work on time and without issues. He volunteered for projects, and took on extra responsibilities when called upon. It was not unusual to see Ron staying late “burning the midnight oil.”

Normally the supervisor would not delegate dual responsibilities to one person but because of Ron’s reputation as a trusted employee, she had no doubts he would do an honest job.

For the most part, the City of Happy Valley was a safe community. It had its share of crime but nothing too serious. Many, if not all, defendants were released on bail. Part of Ron’s job responsibilities was to account for bail money received and refunded, and account for the search and seizure money. The bail money account was pretty active with cash in and out. The search and seizure money was money the city held while a criminal case proceeded through the legal system. It tended to sit for longer periods.

In his free time Ron enjoyed betting on sporting events. In his mind he was pretty good at it. The reality is he lost more than he won, a lot more. His losses grew to the point where his wife was threatening to leave. Ron loved his wife but he loved gambling too. He reconciled this problem by “borrowing” the city’s money. He knew the city received a lot of cash in the form of bail. He also knew the seizure money sat for long periods of time. Ron figured if he borrowed cash from the bail money, he could use the seizure money to cover refunds from the bail account. In the meantime he would repay some of the “loan” with his winnings. It was the perfect arrangement. When he wanted to place a bet, which was often, he used bail money. To cover the bail money he used seizure money.

There was one problem for Ron; his winnings did not keep up with his “borrowing.” As the years went on he got deeper and deeper into the scheme.

Continued on Page 4



Whitepaper— Banking Audit: A New World

The following excerpts are from the whitepaper recently published by Lowers Risk Group entitled *Banking Audit: A New World*. This paper looks at changes to the regulations that are impacting the armored carrier industry and the financial institutions that work with them.

Background

The banking industry has undergone significant and historic change since the financial crisis of 2008. The Dodd Frank Wall Street Reform and Consumer Protection Act created heightened expectations and new regulations for financial institutions. This, in turn, has created the need for additional levels of oversight within the financial institution itself. However, it isn't just financial institutions that are feeling the impact. Third party service providers of financial institutions, including armored carriers, are being impacted as well.



Regulatory Developments

Anti-money laundering guidelines have been redefined and additional regulations, driven by the Treasury, have been introduced. The governmental agency responsible for monitoring the financial system is The Financial Crimes Enforcement Network ("FinCEN").

FinCEN's mission is to safeguard the financial system from illicit use, combat money laundering, and promote national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities. Financial institutions, as well as the armored car (CIT) industry, are required to abide by FinCEN reporting requirements.

In theory, this adds a layer of accountability to ensure customer accounts have been properly researched and cash deposits are legal. Both banks and CIT carriers have an obligation to report inconsistent deposit activity that doesn't match with the typical customer deposit profile. As banks outsource to the cash in transit (CIT) industry, they share accountability to record cash deposit/withdrawal anomalies and escalate reporting (as applicable), or face stiff penalties. On March 17, 2014, Thomas Curry, Comptroller of the Currency, spoke before the Association of Certified Anti-Money Laundering specialists. His remarks focused on compliance with the Bank Secrecy Act / Anti-Money Laundering Laws (BSA/AML) but his statements were reportedly broadly applicable to other risk management concerns of current interest to the OCC and other federal bank regulatory agencies.

Mr. Curry indicated in his remarks that most underlying BSA/AML infractions can be traced back to these underlying deficiencies: 1) The organization's culture of compliance, 2) The resources committed to compliance, 3) The strength of the organization's information technology and monitoring process, and 4) The quality of risk management.

Mr. Curry went on to say that these are the qualities that have an impact well beyond BSA/AML compliance and that "go a long way toward explaining how well an institution deals with credit and operations risk." One can certainly see how an organization's "culture of compliance" will impact the quality and reliability of any compliance audit program.

Financial institutions continually look for creative methods for cost reductions and at the same time internal audit programs become more detailed and often without the ability to properly measure results. Audit procedures are generally

Continued on Page 3

The Office of the Comptroller of the Currency (OCC), has identified significant potential for gaps in risk mitigation and compliance, which has brought more focus on auditing procedures.



Whitepaper— Banking Audit: A New World

Continued from Page 2

self-written and based on an implied set of standards drawn on the knowledge and experience of current employees or the hiring of industry experts to obtain an independent survey/review.

Conclusion

In recent years there has been a significant increase in government policy reform and regulation to monitor financial institutions. Audit controls associated with cash service providers are paramount as banks are held accountable to more stringent standards to protect banking customers and the bank. This level of oversight, as well as the creation of other government agencies to identify potential anti-money laundering and terrorist funding operations, has created the need for thorough professional audit procedures and controls.

Administering these procedures and controls with only internal resources tends to be more costly and can actually create additional risk. Losses from lack of oversight are common and much more costly when there are inadequate audit and compliance programs. A qualified third party working within the framework of industry standards or best practices, as well as the requirements of the financial institution, may properly address areas of compliance and audit findings as well as appropriate remediation efforts.

With its extensive knowledge and expertise in the cash handling industry, Lowers & Associates understands how best to employ the current "best practices" standards. Lowers & Associates has programs in place with the leading CIT carriers and insurers alike to both evaluate internal controls compliance, as well as perform full inventory cash and coin audits in any organization on whatever frequency is deemed necessary.

To download the complete [Banking Audit: A New World whitepaper](#) click on the graphic below. If you have questions about how Lowers Risk Group can assist your organization, we invite you to [talk to a risk management consultant](#).

*By D. Mark Lowers,
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Bailiff, Take This Defendant Away!

Continued from Page 1

City mayors come and go. A new mayor was elected on the platform of fiscal responsibility. One of the first mandates was to get a handle on the city's finances. Audits were conducted across the board. When the auditors reviewed Ron's books, they noted a shortfall. Ron explained it as a timing issue with deposits. The auditors didn't buy it and dug deeper. Eventually they uncovered a \$1,000,000 embezzlement.

Ron was a classic fraudster. He had the opportunity to steal, the means to steal, and rationalized why he should steal. He got away with stealing for as long as he did for a couple of reasons.

First, as with any lapping scheme, the fraudster has to maintain meticulous records of what he took, where the money came from, what got paid back, etc. These skills were right up Ron's alley.

Second, the city was penny wise and a pound foolish. Yes, they saved money by cutting staff. However, not maintaining a separation of duties was a major mistake. Ron knew he controlled all phases of the accounts—receipts, disbursements, and reconciliation. He was free to take what he needed and covered it up.

Third, internal audit was hit with staff cuts as well. They didn't have the manpower to drill down to the accounts Ron handled.

Lastly, the city was blinded by Ron's reputation. Ron was the last person they believed who would steal. An organization should not give one person full control even if it is a trusted person like Ron.

So what happened to Ron? He was arrested, arraigned, and ironically did not have the money to post bail.

Bailiff, take this defendant away!

*By Rachel St. Louis, Claim Technical Director
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RIMS 2015
ANNUAL CONFERENCE & EXHIBITION
APRIL 26-29 >> NEW ORLEANS



**Discover New Knowledge, New Innovations, and New Encounters
at RIMS 2015 Annual Conference & Exhibition!**

RIMS is going back to New Orleans for RIMS '15. In addition to the more than 160 education sessions, amazing keynotes, and an energetic Exhibit Hall, there is lots of NEW planned to improve your risk management program with advanced solutions.

Lowers & Associates will be at RIMS. If you are attending, please make an appointment to meet with us while in New Orleans. We look forward to seeing you there.

For more information about the conference, please visit www.rims.org.