Fireside Chat

Guarding from Within-

Fraud Protection
& Effective
Internal Controls

R&A
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Guarding From Within

- How Weak Internal Controls Create Fraud Opportunities

Poll: Which area concerns you most at your credit union today?

1. Cash
2. Loans
3. Cybersecurity
4. Fraud

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Why Internal Controls Matter

Controls:

- Prevent fraud
- Detect fraud
- Demonstrate oversight

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Internal Controls & Bond Claims

After a fraud bond carriers often ask-

- Were controls documented?
- Were controls followed?
- Was management oversight present?

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Cash & Bank Reconciliations

- **Weak Control-** Reconciliations are not independently reviewed.
- **Fraud Opportunity-** Cash theft can go undetected.
- **Supervisory Committee Question-** Who reviews bank reconciliations?
- **Takeaway-** Every reconciliation should have evidence of review.

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Investments

- **Weak Control-** No independent review of investment activity
- **Fraud Opportunity-** Unauthorized transactions or valuation errors
- **Committee Question-** How are investments independently verified?

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Lending

- **Weak Control-** Same employee approves and funds loans
- **Fraud Opportunity-** Unauthorized loans, fictitious loans, preferential treatment
- **Committee Question-** Can one person approve and fund loans?

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Loan Documentation

- **Weak Control-** Missing approvals, missing collateral support
- **Fraud Opportunity-** Loans unsupported by policy
- **Committee Question-** What exceptions are we seeing in loan files?

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Allowance for Credit Losses (CECL)

- **Weak Control-** Insufficient review of assumptions
- **Fraud Opportunity-** Manipulation of earnings, Understated reserves
- **Committee Question-** Who challenges management's assumptions?

Deposits

- **Weak Control-** Inadequate review of member account activity
- **Fraud Opportunity-** Unauthorized withdrawals, account manipulation
- **Committee Question-** How are unusual account transactions monitored?

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Accounts Payable & Expenses

- **Weak Control-** Invoices paid without approval
- **Fraud Opportunity-** Fictitious vendors, personal expenses, duplicate payments
- **Committee Question-** How are new vendors approved?

Payroll

- **Weak Control-** No review of payroll changes
- **Fraud Opportunity-** Ghost employees, unauthorized compensation
- **Committee Question-** Who reviews payroll change reports?

IT Controls

- **Weak Control-** Excessive system access.
- **Fraud Opportunity-** Unauthorized transactions, data manipulation
- **Committee Question-** Who has administrator rights?

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Vendor Management

- **Weak Control-** Overreliance on third parties
- **Fraud Opportunity-** Data breaches, compliance failures
- **Committee Question-** How are critical vendors monitored?

Management Override

- **Weak Control-** Ability to bypass normal procedures
- **Fraud Opportunity-** Any fraud scheme

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Four Controls That Never Go Out of Style

- Segregation of Duties
- Independent Review
- Reconciliations
- Documentation

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What Auditors Find Most Often

- Missing documentation
- Segregation issues
- Late reconciliations
- Unresolved findings
- Outdated policies

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Questions Every Supervisory Committee Should Ask

- What internal control weaknesses have been identified this year?
- Where do we have segregation of duties limitations?
- What would concern our bond carrier if a claim were filed today?

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Supervisory Committee Fraud Protection Cycle

Ask Questions

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Identify Weaknesses

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Follow Up

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Strengthen Controls

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Reduce Fraud Risk

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Back to **Ask Questions**

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Fraud Protection Through Oversight

A strong supervisory committee:

- Creates accountability
- Encourages transparency
- Ensures findings are addressed
- Strengthens internal controls
- Improves fraud detection

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Fraud often begins when controls fail.

Fraud often continues when oversight fails.

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Let Us Know How We Can Help

ANNUAL FINANCIAL AUDITS

- Opinion Audits
- Agreed-Upon Procedures Audit

CONSULTING SERVICES

- Strategic Planning
- Merger Services
- CEO Searches
- Forensic Audits
- Product Validations
- 990 Tax Forms
- Director Training

INTERNAL CONTROL AUDITS

- BSA Compliance Audit
- ACH Compliance Audit
- Branch Operations Audit
- Cash Counts
- Business Continuity Plan Audit
- Closed Accounts Internal Control Audit
- Consumer Lending Audit
- Collections Audit
- E-Banking Audit
- Human Resources Internal Control Audit
- IS&T Audit
- Military Lending Act Review
- Mortgage Lending Audit
- Payroll Administration Audit
- Related Party Audit
- SAFE Act Compliance Audit
- Servicemembers Civil Relief Act Review
- Website Compliance Audit
- Wire Transfer Audit

Thank you, NACUSAC!

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