



CLEARING, SETTLEMENT, COLLECTION AND SUSPENSE ACCOUNTS

Clearing, settlement and suspense accounts are useful tools for tracking items in transit, holding items for final disposition and to aid in balancing accounts. The most common of these types of accounts would be bank's Federal Reserve or correspondent bank accounts. Suspense accounts are usually used to temporarily record items that can not be fully identified. While these types of accounts are useful, and in the case of the Federal Reserve and correspondent bank accounts necessary, they can be fraught with dangers if not properly controlled and monitored.

Over the years BancInsure has paid several large claims involving Federal Reserve Bank or correspondent bank accounts. These claims generally involved an employee making fraudulent entries to the Federal Reserve or correspondent bank accounts to offset fraudulent withdrawals of cash or deposits to their personal checking accounts. These losses occurred due to the lack of separation of duties between entry making and reconciliation of the accounts. Often times these embezzlements went undetected for long periods of time due to external and internal auditors not verifying the final disposition of an entry. These embezzlements were discovered

Several years ago, BancInsure paid a large claim involving a suspense account. An employee of the bank was making fraudulent entries to a collection account to offset various other fraudulent entries. Again the employee making the entries was also responsible for the reconciliation of the account and he was able to hide the embezzlement for a considerable period of time by rolling the loss forward into new fraudulent entries. It was finally discovered by the external auditors while the perpetrator was on vacation.

BancInsure has recently paid another claim involving one of these types of accounts. Our insured bank has a motorbank facility. The motorbank facility serves as a night depository for several large national discount stores. The stores make deposits nightly, including large sums of currency. The tellers work-up the deposits and transfer the excess cash to the vault. Since there is much more currency flowing into the branch than being paid out, it is necessary to ship it to the main office on a daily basis. In order to aid in the balancing the both the main office and branch vaults, and to track the cash shipments, a cash transfer account was set-up. The branch vault teller made an entry when she shipped the cash and the main office vault teller made an entry when the cash was received. The branch vault teller was also responsible for and reconciling the cash transfer account. The branch vault teller began taking cash reportedly shipped to the main office. The amount taken would be rolled forward to the next day's transfer in a classic "lapping" scheme. The scheme went on for approximately nine years before being detected by the bank's internal audit department during a review of the cash transfer procedures. Interestingly, surprise cash counts of the vaults were conducted monthly during this period, but not in coordination with a test of the cash transfer account. When the loss was discovered, it had grown to \$759,000. BancInsure paid the claim after applying the appropriate deductible. Bank has changed operating procedures to prevent one employee from controlling a transaction and changed auditing procedures so that cash audits include a review of the cash transfer accounts.

BancInsure has become a leading writer of Financial Institution Bonds in the United States by providing a sound, stable market, excellent service and fair claims service. If you would like to learn more about BancInsure coverages, please contact your BancInsure marketing representative.