



Investigating an Embezzlement *by Van Butler, Assistant Claims Manager*

The unthinkable has happened. A customer has raised a question concerning certain entries or activity in his deposit or loan account, or an outside auditor brings unusual transactions to your attention. A review of the entries or activity reveals that an employee may be embezzling funds. You immediately notify the authorities and the bank's financial institution bond carrier. What do you do next?

It is the bank's duty to investigate and submit a sworn proof of loss with full particulars to its financial institution bond carrier. If the embezzlement is an isolated incidence or has not been ongoing for an extended period of time, the bank's investigation may be concluded in a relatively short period of time. However, if it has been going on for a period of years (which is not unusual), the investigation may be a major undertaking, including reviewing numerous old general ledger entries, documents and account activity over the period in question.

A decision must be made as to whether the investigation will be handled internally, solely with bank personnel or if outside assistance of forensic accountants or consultants is needed. In deciding whether to utilize outside assistance, bank management should access the resources available internally to conduct an investigation. Some of the questions to consider are:

- Are there employees with the necessary knowledge, skills and abilities to conduct the investigation?
- Are there sufficient employees to conduct the investigation in a timely manner without adversely affecting customer service?
- Are employees emotionally prepared for the task of investigating a co-worker and perhaps friend?
- Does the location of the records facilitate or hamper an investigation by current employees?

If you decide that outside assistance is needed, you may be surprised by how much their assistance may cost and how long the investigation takes. Fees charged by forensic accountants to conduct an investigation rival fees charged by attorneys. We have seen investigations that required months for a bank to determine the amount of its claim.

BancInsure offers additional coverage for the reasonable costs of establishing the amount of a fidelity loss by way of the Claims Expense Agreement in its Financial Institution Bond. The coverage is available at a reasonable cost and the bank can choose the amount of coverage it

wishes to purchase within the available limits. In choosing whether to purchase this coverage, or the amount of coverage, you should consider the issues posed above.

Banclinsure has paid several fidelity claims where the bank had chosen not to purchase Claims Expense coverage and bank incurred substantial investigative expense that would have been covered. Also there have been several instances where the amount of Claims Expense coverage purchased was less than the investigative expenses incurred. As mentioned earlier, a fidelity loss investigation of an embezzlement that is complex and has been ongoing for an extended period of time can be expensive and time consuming requiring expert assistance. You are encouraged to carefully consider Claims Expense coverage as method of protecting the bank from further losses.

If you'd like to learn more about Financial Institution Bond coverage from Banclinsure, please contact your Territory Sales Manager or Independent Agent.