HORNE
CPAs & BUSINESS ADVISORS

CASE STUDY
FINANCIAL INSTITUTION EMBEZZLEMENT

Discovery

In 2013, a senior accountant of a financial institution discovered a suspicious $500,000 debit in a suspense general ledger account. Upon further research, the accountant discovered that this amount involved seven "cashier's" or "official" checks that were all issued by the head branch teller. In addition, the financial institution identified a related outage in the internal demand deposit accounts in the amount of $200,000.

The financial institution investigated the issue internally but was unable to identify the source of the unreconciled amounts. Furthermore, the financial institution engaged an accounting firm whom had previously done some internal audit consulting work to investigate the differences. At the conclusion of their work, the accounting firm was able to confirm that unauthorized transactions had taken place. However, they "were not able to locate the actual financial disposition of the amounts related to the unreconciled difference."

Approximately one year after discovering the issue, the financial institution proceeded with filing a claim with its insurance company. The insurance company asked for more information to substantiate the claim, and that's when the financial institution reached out to HORNE for assistance.

Assignment

The financial institution requested our assistance to quantify and document the actual loss and evaluate the possibility of other fraudulent activities.

Scheme

HORNE obtained electronic records from the financial institution and analyzed the transactional impact to the cash balance and/or check balance by reconciling the detailed transactions to various daily and batch reports. For each suspicious transaction, HORNE reviewed the detailed reports and available check images.

HORNE determined that the perpetrator would process fictitious "cash check" transactions by removing cash from her teller drawer and fraudulently entering that a check (which did not actually exist) was received. This would decrease the balance of her cash drawer and increase the balance of her checks tendered. The perpetrator would create a batch transaction for the amount she needed to close out her check balance to zero without having the actual checks available.

Normally, a teller would close their drawer at the end of their shift, which meant all checks received during the day would be included in a batch report, and there would be a zero balance for check transactions. However, the head teller's check balance grew over time.

The scheme appeared to have been conducted in two ways:

- The perpetrator would submit a batch transaction that did not contain the correct number and amount of the checks processed in the batch. This caused a variance between the amounts posted in the ledger and the actual deposited funds received by the financial institution.

- More often, the perpetrator would submit legitimate checks received (several days after the batch transaction) from members to support these transactions. Once the amount was too large to cover with member checks, she began issuing official checks to cover the variance in the batch transactions.

The head teller's authority allowed her to conceal her activities in a few ways:

- She had access to the general ledger account used for cash transactions. She was careful to process the transactions through this account and not through a member's account where it would appear on a member's bank statement and easily be detected.

- Most of the fraudulent transactions were entered near the beginning or the end of the day or on weekends when presumably she was the highest ranking management person present and there was less risk of someone uncovering her scheme.

During this period, the financial institution was not regularly reconciling the general ledger accounts which allowed the fraud to go undetected for several years. Tellers were also not scanning images of checks as part of the batch process. Fortunately, new management had taken over and tightened up controls by changing procedures, and these procedures had already been implemented when we arrived.

Results

When the financial institution asked for our assistance, it had uncovered improper official checks as well as an unreconciled amount in the internal demand deposit account. However, it was unclear how these were connected to a crime. We compiled a team of professionals from both our fraud and financial institution groups that analyzed the information, quantified and documented the loss, and explained the schemes to the appropriate parties. HORNE identified almost 300 transactions from January 2009 through June 2013 totaling over $500,000 which involved the disbursement of cash from the head teller's drawer without corresponding checks being deposited into the financial institution's account.

We coordinated with the insurance company related to our methods and procedures. Our work was used as support for the financial institution's claim to its insurance carrier. At some point during our investigation, the FBI became involved, and we discussed our work with them and coordinated efforts as they pursued prosecution. The former employee pled guilty, and we worked with the probation board as part of the restitution and sentencing process.