

## **Some Best Practices for Ensuring Your Bank does not become a Victim of Fraud.**

1. Establish a process for identifying and investigating insider fraud. This would include designating and empowering a fraud response team comprised of legal counsel, data processing experts, board members, and other personnel, who are ready to investigate insiders when red flags arise.
2. Five effective anti-fraud controls your bank can implement are:
  - #1 - Surprise audits.
  - #2 - Job Rotation/Mandatory Vacation
  - #3 – Fraud Hotlines If you decide to set up a hotline, the biggest hurdle you’ll have to overcome is the natural tendencies that employees may think you are trying to trick them. So I’d suggest contracting with a third party to operate the hotline, and using one where the hotline service only identifies callers as “caller.” Not male or female.
  - #4 – Tracing Funds
  - #5 – Monitoring your bank’s email system.
3. Establish and Communicate an Insider Fraud Policy and then periodically test it for compliance.
4. Incorporate a discussion of insider fraud prevention into your employee training initiatives to help your employees recognize fraud red flags and to create at the very least “a perception of detection.”
5. Ensure that your code of conduct is expressed strongly, and even more importantly – applied universally and vigorously to everyone right on up to the Board of Directors.

6. Obtain a copy of the banks balance sheet and income statement mid month rather than month end or quarter end. Do the same for past dues, overdrafts, kiting suspect, large item, and suspense items.
7. At a minimum: make sure the following big ticket accounts are being balanced on a regular basis and that there is sufficient rotation of duties with respect to such balancing. We are talking about correspondent bank accounts, loans, securities, other assets, deposits, official checks, vault cash, prepaids, and dormant accounts.
8. Ensure that your loan officers can not originate loans and also disburse loan proceeds or make master system changes.
9. Perform annual background check updates on all employees, including and especially bank officers. You need to have an intimate understanding of the current affairs of insiders, including any undisclosed related interests. At least annually, determine if any insiders have signature authority on any third party accounts at the bank. Robustly review insider accounts for unusual activity.
10. Review official checks and wires for insider activity.

Compiled by: John Lombardo, FDIC Chicago Regional Office

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