

Fraud and Insider Abuse Program

EXAMINATION OBJECTIVES

To determine if the savings association has a fraud risk management program to manage fraud risk.

To recognize warning signs of fraud and insider abuse and to take appropriate measures to follow-up on possible instances of such activity.

To determine if the association's internal control system is applicable to officers and directors as well as other employees.

To determine the association's risk exposure associated with each significant instance of fraud or abuse.

To identify weaknesses in the association's internal controls through detection and analysis of any patterns of fraud or abuse.

To properly report suspected criminal misconduct uncovered during the examination to appropriate law enforcement authorities.

To determine if the association is reporting suspected criminal acts as § 563.180(d) requires.

To determine if the institution is properly completing Suspicious Activity Reports (SARs).

EXAMINATION PROCEDURES

LEVEL I

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1. Review the association's fraud risk management program. Determine whether it includes written policies that convey expectations for the board and senior management regarding managing fraud risk.

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2. Review the adequacy of the association's policies and procedures with respect to conflicts of interest. Determine whether the association requires directors, officers, and employees to sign a Code of Ethics statement.
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3. Discuss the issue of fraud and insider abuse with the internal auditors and, if necessary, the external auditors to assess whether they have any concerns. Determine if they have made any reports on suspected fraud to the board or others.

4. Review the preceding report of examination and fraud-related exceptions noted and determine whether management has taken appropriate corrective action.

5. Review the Matters Requiring Board Attention and Corrective Actions from the previous three or four reports of examination to ensure that the board and management have taken appropriate corrective action where necessary and persistent problems have not recurred.

6. Review the results of the questionnaires to determine if adequate controls are in place to mitigate fraud. Assess the adequacy of controls that would prevent officers and directors from perpetrating fraud.

7. Review the results of the various examination programs to determine if problems exist that may be symptomatic of fraud. In cases where fraud may be likely, investigate such problems to determine the cause of the problem (for example, poor staff training, errors, poor judgment).

8. Coordinate with the examiner conducting the BSA/AML compliance review to assess the association's policies and procedures on reporting suspected criminal activity to law enforcement agencies and its board of directors for compliance with § 563.180(d). Determine if any patterns of criminality exist, if the association has properly identified and addressed all related financial, operational, and legal risks and SARs are accurate, complete, timely and appropriate.

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9. Review the association's Identity Theft Program in compliance with 12 CFR Part § 571.90.

10. Assess the association's risk of fraud by reviewing the red flag warning signals and conditions in the association. You should do this in conjunction with performing other examination programs and procedures, completing the Fraud Risk Evaluation Form ([Appendix A](#)) and, if necessary, by other appropriate means. You should notify your supervisor when you have rated any individual fraud risk score 4 or 5, and you believe that there is significant potential for insider abuse or fraud.

11. Consult with the Examiner-in-Charge (EIC), field manager and other examiners concerning the need to expand examination scope within certain areas based on an indication of a higher than acceptable risk of fraud within certain areas of the association.

12. Notify the regional legal staff if any person attempts to obstruct the examination, in possible violation of criminal statute 18 USC 1517.

13. Obtain a list of deposit and loan accounts of directors, officers, and other affiliated persons. Test check these accounts for preferential rates and, for deposit accounts, appropriate board approval of any overdrafts.

14. Review Level II procedures and perform those necessary to test, support, and present conclusions derived from performance of Level I procedures.

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LEVEL II

15. Complete the following procedures if you identify any instance of suspected criminal misconduct:
- Immediately notify the EIC and field manager.
 - Consult with appropriate regional office staff or counsel to determine a course of action, including preparation of a SAR.
 - Obtain input from regional office legal staff on Right to Financial Privacy Act issues during the preparation of every SAR.
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16. The following elements are particularly important in preparing a successful SAR:
- A chronology of events.
 - A summary of suspected violations.
 - A list of key participants or affiliates.
 - A list of potential helpful witnesses.
 - Any supporting documentation.
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17. Review the association's independent audit reports to determine if specific procedures exist to detect fraud, as the American Institute of Certified Public Accountants (AICPA) rules require.
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18. For associations with composite ratings of 4 or 5, determine if, in possible violation of 12 USC § 1828(k), the association has done either of the following:
- Made, or has entered into an agreement to make, any golden parachute or indemnification payments.

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- Prepaid any salary, or any liability or legal expense, in anticipation of insolvency and with a view towards preventing the proper use or purpose of assets.
 - Notify the regional legal staff if the association has done either one.
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19. Ensure that your review meets the Objectives of this Handbook Section. State your findings and conclusions, and appropriate recommendations for any necessary corrective measures, on the appropriate work papers and report pages.

EXAMINER'S SUMMARY, RECOMMENDATIONS, AND COMMENTS

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