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Fraud & Security

RISK ALERTS

Timely insights to protect against fraud and mitigate risks

Employee Dishonesty: Protecting Financial Institutions from Insider Fraud

SUMMARY

While financial institutions devote significant resources to preventing external fraud, employee dishonesty remains one of the most difficult risks to detect because employees have authorized access to systems, cash, and sensitive member information. Insider fraud can result in financial losses, regulatory action, reputational damage, and loss of member trust. A strong internal control environment, coupled with a culture of ethics and accountability, is essential to reducing this risk.

COMMON TYPES OF EMPLOYEE DISHONESTY

Employee fraud may include:

- Theft of cash or negotiable instruments
- Unauthorized account transactions or account manipulation
- Loan, wire, ACH, or debit card fraud
- Misuse of member information
- Payroll or expense reimbursement fraud
- Abuse of system access or privileged user rights

- Collusion with members, vendors, or external fraudster

WARNING SIGNS

Be alert for employees who:

- Resist taking vacations or job rotations
- Override established procedures
- Frequently reverse or adjust transactions
- Display unusual lifestyle changes or financial stress
- Maintain excessive control over specific functions
- Become defensive when questioned about transactions

ANNUAL ANTI-FRAUD ACKNOWLEDGEMENT

Require all employees to review and sign the institution's Anti-Fraud Policy annually. This reinforces expectations for ethical conduct, reminds employees of their responsibility to report suspected fraud, documents their understanding that fraud will not be tolerated, and strengthens the organization's ability to address misconduct when it occurs.

RISK MITIGATION: BEST PRACTICES

- Maintain strong segregation of duties and dual controls
- Limit employee access based on job responsibilities and regularly review user permissions
- Monitor exception reports, privileged user activity, and employee transactions
- Conduct surprise audits, cash counts, and required job rotations
- Perform thorough pre-employment background checks for sensitive positions
- Provide ongoing fraud awareness training for employees and management
- Maintain confidential reporting channels for suspected misconduct
- Investigate suspicious activity promptly and preserve appropriate documentation

KEY TAKEAWAY

No financial institution is immune to insider fraud. Effective internal controls, independent oversight, employee accountability, annual policy acknowledgments, and a strong ethical culture that fraud will not be tolerated remain the most effective defenses against employee dishonesty. Institutions that proactively assess and strengthen these controls are better positioned to protect member assets, maintain regulatory compliance, and preserve reputational harm.

RISK MITIGATION RESOURCES

- Association of Certified Fraud Examiners (ACFE) – Fraud prevention resources and occupational fraud studies
- FFIEC – Guidance on internal controls and information security
- FinCEN – Financial crime and suspicious activity reporting guidance
- NCUA and FDIC – Supervisory guidance and internal control resources
- Allied Solutions Fraud Prevention Center, Internal Controls

Need assistance or want to request a consultation?
Contact our risk specialists at risk_specialist@alliedsolutions.net

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