



IAMU PROGRAM NEWSLETTER

Winter Edition 2017

EXPOSURE

“It will never happen here” and “That only happens in big cities”. Those are responses we frequently hear when discussing employee theft coverage with municipal officials across Iowa. Those responses are admirable given that we never want to think the worst of our fellow Iowans. However, the issue with those statements, and similar ones, is that they aren’t reality. Statistics and losses across Iowa unfortunately confirm this.

As recently as 2011 Iowa ranked 4th worst in the nation for risk of major embezzlement. The theft of public money in Iowa is on the rise. We have seen a spike in both frequency and severity of these losses. From 1996-2005 there were 79 state audits that uncovered just over \$4.3 million of missing funds (*average audit of \$55,000*). Compare that to the following six years (2006-2011) where 111 state audits uncovered just under \$10 million of missing funds (*average audit of \$90,000*).

Employee theft losses can happen anywhere across the state. In just the past two years, a state auditor investigation found at least \$562,090 was embezzled or misspent in Garwin, IA (*population 527*), and an audit investigation found \$246,000 of missing funds for the city of Delhi, IA (*population 460*).

SOLUTIONS

Addressing the employee theft exposure for every municipality must be a priority in order to be good stewards of taxpayer dollars. An adequate solution should include both improved segregation of duties and increased insurance coverage.

Segregation of duties is critically important for municipalities in order to prevent and uncover employee theft. We understand this can be difficult for municipalities, especially smaller ones, but it is imperative that these controls are in place. Segregation of duties not only aids in loss prevention, but also directly impacts the amount of employee theft coverage that can be purchased. Please see additional information on page two.

The EMC insurance policy for IAMU members provides a base employee theft coverage limit up to \$100,000 with limited underwriting. This limit can be increased up to \$500,000 with additional underwriting. However, very few IAMU members currently take advantage of these higher limits (*over 75% have \$100,000 or less in coverage*). It is very important to address inadequate limits because, as stated earlier, the average state audit investigation from 2006-2011 uncovered an average of \$90,000 in missing/misspent funds.

If you have questions regarding your employee theft coverage, please contact your local agent or Jester Insurance Services.

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Above statistics were all gathered from various Des Moines Register articles

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SEGREGATION OF DUTIES

Concepts:

- 1.) Certain accounting/bookkeeping functions are designed as checks and balances. If the same person is responsible for multiple duties, the inherent protection of the check and balance system is removed.
- 2.) Trust but verify. Giving a single person, even a long-term trusted employee, unquestioned control of your finances is not a wise practice.

Checklist (each "yes" answer identifies a potential problem area):

- 1.) Is the person who handles your cash also responsible for recording deposits?
- 2.) Does the person who pays or orders inventory also receive the inventory?
- 3.) Are two or fewer people responsible for the accounting function?
- 4.) Is your review of financial journals sporadic?
- 5.) Is the person using a credit card also responsible for reconciling the statement?

EXAMPLES OF PROPER SEGREGATION

Clerk

Write checks
Distribute payroll
Process vendor invoices
Disburse petty cash
Record general ledger entries
Use credit card

Mayor

Sign checks
Approve payroll
Approve invoices for payment
Reconcile petty cash
Reconcile bank statements
Reconcile credit card statement

Council Member

Mail checks
Authorize employee time sheets
Authorize purchase orders
Complete deposit slips
Perform interbank transfers
Authorize credit card usage