

Manager/Supervisor Risk Management

#112– 12/6/12

A twice weekly e-mail training for YCPARMIA members

TOPIC: FIDELITY

YCPARMIA's members can choose to participate in our Fidelity Program. The program is designed to cover employers from losses caused by the dishonest acts of their employees including fraud, theft, forgery, and embezzlement of cash or other entity assets. The crime can be committed in a number of ways, but the most common that we have seen are misuse of an entity credit card, theft of cash, and paying bills to fictitious firms and cashing the entity checks through a dummy account.

In some industries, like retail sales, employee theft is a major risk accounting for billions of losses each year. Fortunately public entities are not a significant part of those statistics, but losses do occur. YCPARMIA seems to get a claim about every five years, though actual member losses are much more frequent. Generally the member discovers the dishonest act, and the employee makes immediate restitution, or repayment, as part of their plea agreement or employment termination. YCPARMIA gets involved when the employee is unable to make immediate restitution.

On these larger claims YCPARMIA and our insurance carrier reimburses the member entity, and then goes after the employee for repayment. The insurance industry is very aggressive in pursuing these recoveries, and will seldom forgive the debt. With court assistance they will force the employee to divest themselves of assets, and then take periodic payments over an extended period of time. Their goal is always 100% recovery, and they have no interest in the hardships that repayment might cause. Adding to the guilty employee's difficulty in making repayment is the virtual certainty that their dishonest act will cost them their job.

There are a few constants that we have seen in the fidelity claims. They usually involve employees who have been with the entity for some time; the long relationship between the dishonest employee and management serves to limit the scrutiny of the employee's work activity. Some cases have revealed a practice of work units modifying or ignoring entity safeguards, and choosing instead to rely on the friendship and familiarity of the involved employees – misplaced trust. Some of the losses occur over an extended period of time, and evidence repeated acts. Managers and co-workers are generally shocked when the acts come to light, and often express anger, embarrassment, and a sense of betrayal.

The acts of all employees and elected officials of our participating members are covered under YCPARMIA's Fidelity Program. California recognizes that the fidelity exposure is aggravated by the nature of certain positions, and requires that the individuals holding those specified jobs be bonded. The YCPARMIA program includes the required coverage so that those individuals do not have to purchase individual bonds.

Next topic: Fidelity Coverages