PACE credit union finds more fraud in its lending books

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PACE Savings and Credit Union said there will be 'no significant impact' on the credit union's financial resources following the discovery of additional fraud in its lending books.Fred Lum/The Globe and Mail

Troubled PACE Savings and Credit Union has discovered more fraud in its lending books, revealing to its members that a mid-level manager misappropriated funds in connection with $7-million in loans.

The misconduct was uncovered this summer after going undetected for more than a decade, PACE said in a statement sent to members. One employee was suspended and later fired for cause after a forensic investigation that combed through nearly 13 years of records on PACE's loans to retail banking customers.

The loans at issue have a current balance of $7-million and had several unspecified problems, but neither PACE nor the financial regulator overseeing the credit union – the

Financial Services Regulatory Authority of Ontario (FSRA) – have provided details about how funds were misappropriated or how the former employee may have benefited personally.

The latest revelations of wrongdoing come nearly three years after the predecessor to FSRA seized control of PACE over an array of alleged governance problems. Since then, the Vaughan, Ont.-based credit union, which has nearly $1-billion in assets and 13 branches in Ontario, has had multiple false starts in an attempted turnaround after regulators alleged former PACE executives had engaged in fraud and self-dealing.

PACE said there will be "no significant impact" on the credit union's financial resources. Yet the revelation was serious enough that PACE has withdrawn its financial statements dating back to 2018 – the year the credit union was first placed under administration by provincial authorities – and plans to restate them. PACE's external auditor, PricewaterhouseCoopers, also withdrew its opinions of those financial statements.

The additional fraud came to light through "normal and continuous improvement processes" for PACE's internal financial controls, according to FSRA spokesperson Judy Pfeifer. PACE then retained audit and accounting firm Grant Thornton LLP to do a forensic investigation into irregularities in the loans. The firm combed through the credit union's entire retail lending portfolio – which includes personal loans and mortgages – dating back to 2008.

The misappropriation of funds "appears to have taken place from 2010 to 2021," Ms. Pfeifer said.

Based on that probe, "we are confident that PACE has identified all material misappropriations," Ms. Pfeifer said in an e-mail. She also said this type of misconduct can be "difficult to identify," especially when it involves numerous transactions in small amounts, and "FSRA continues to work with PACE management to enhance controls and protocols."

The employee who was fired is now co-operating with the credit union's investigation, according to PACE's statement to members. The matter was referred to police to consider whether criminal charges should be laid against the former employee.

PACE chief executive officer David Finnie declined to comment.

The misappropriation of funds adds to mounting financial pressure on PACE, which recently reached a $40-million settlement with investors who had suffered steep losses on financial products sold to them through a subsidiary of the credit union. Since at least June, FSRA has been exploring a possible sale or merger of the credit union, and the discovery of new fraud in its loan books could complicate discussions with potential suitors.

At the same time, PACE is in litigation that seeks to recover funds from PACE's former top executives and board members, including Larry and Phillip Smith, the father and son who served as president and CEO until 2018. As administrator of PACE, FSRA is pursuing "other outstanding misappropriation matters" through that litigation, Ms. Pfeifer said.

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