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FRAUD CORNER

TO: LSC Grantee Executive Directors, Board Chairs and Chief Fiscal Officers

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SUBJECT: Credit Card Fraud Prevention

As part of its Fraud Corner Series, the Office of Inspector General (OIG) is providing Legal Services Corporation (LSC) grantees with the following information and best practices to assist you in identifying and/or preventing fraud related to the use of credit cards.

Nearly all LSC grantees make use of credit cards and/or purchase cards tied to individual retailers (Sam's Club, Office Depot, and others) to facilitate the process of making recurring or one-time expenditures. Credit cards and purchase cards offer grantees many advantages and allow grantees to make purchases with ease and efficiency.

While beneficial for ease of business operation, credit cards pose an inherent risk of fraud, waste, and abuse. As a result, grantees should have internal controls that limit employees' abilities to make improper purchases and allow the grantee to quickly detect any improper credit card use. This article will highlight OIG cases involving credit card fraud schemes, as well as wasteful and abusive credit card spending. We will also highlight best practices that can help grantees limit risks associated with credit cards.

Examples of Credit Card Fraud

The OIG has observed instances where grantee credit cards have been vulnerable to employee embezzlements through the purchase of items for personal consumption, items purchased for resale, or through cash advances. In many fraudulent credit card transactions, the card holder's activities were not transparent to grantee staff as they were usually point-of-sale transactions, telemarketing purchases or purchases made over the internet. The same holds true for automated teller machine (ATM) withdrawals. Frauds carried out through the use of a credit or ATM card often go undetected because

the only evidence of purchases or monetary withdrawals is a monthly credit card statement which may not be reviewed independently, or in a timely manner.

In past cases, credit card frauds were concealed by:

- A grantee employee creating false receipts/invoices and providing them to the grantee accounting department to make it appear that personal purchases were business-related.
- A grantee manager submitting a credit card statement payment voucher without the purchase description portion of the statement.
- Grantee management employees opening a credit card account in the name of the grantee, controlling access to the credit card statements and access to the online credit card account, and using the new card for both personal and business purchases.
- Abuse of executive authority, for example, senior staff not following grantee credit card policies.

Unfortunately, credit cards and credit card information are vulnerable to third-party theft as well. Many of the best practices listed below may also help to prevent and detect third-party credit card theft and fraudulent transactions.

Examples of Credit Card Misuse

While not considered fraudulent activity, the OIG has identified multiple cases where grantees used credit cards to purchase items (allocated to LSC funds) that were ultimately found unreasonable and unnecessary under LSC Regulations. In these cases, the purchases ultimately resulted in a loss of program funds because LSC required the grantees to either reimburse LSC for the expenditure (using non-LSC funds) or have their basic field grant payment(s) reduced by the amount in question.

Examples of credit card purchases that are typically considered a misuse of LSC funds include meals for staff events (celebrations or holiday parties) with no reasonable business purpose, credit card transactions with no supporting documentation (receipts), alcohol, late fees, unreasonable travel related expenses, annual holiday gift card purchases for employees, and purchases that may violate the grantee's procurement or ethics policy. The Disallowed Costs section of the revised LSC Financial Guide, which is currently in draft form, provides guidance on expenditures not allowed by LSC. In addition, you may review LSC Program Letter 18-3, Compliance Guidance, for more information or when there is a question concerning proper use of LSC funds, your LSC representative is available to provide guidance.

Best Practices Associated with Credit Card Use

All employees who are authorized credit card users should be required to sign a credit card use acknowledgement form. The form should clearly state all policies for appropriate credit card use or direct employees to the associated policies. The form should make clear that each credit card transaction must have a legitimate business purpose, and that misuse of the card can result in suspension or revocation of credit card privileges, as well as disciplinary action, up to and including suspension or termination from employment.

Recommendations on Use of Credit Cards:

- Limit the number of credit cards issued to only those with an operational need.
- Proper internal control policies should require that individuals who are authorized to make credit card purchases are segregated from the approval process, credit card reconciliation, and payment processes.
- Ensure each issued credit card can be accounted for by fiscal staff and determine if the card is in use.
- Require that credit cards are properly assigned, and employees maintain possession and control over the card(s) at all times.
- Authorized credit card users must ensure the security of their account. This means credit cards should only be used by the account holder, and only for legitimate business purposes.
- Set credit limit thresholds that make sense for the role of the individual card holder.
- When an individual purchase exceeds the threshold, use a written pre-approval form, or formal procurement process, that includes amount of the expense, description and business purpose for the item or service, and documentation of receipt of competitive bids to obtain best value (or sole source justification, if appropriate).
- Require timely submission of itemized receipts from employees for each transaction.
- Perform timely reconciliations of the receipts to the credit card statements.
- Many business credit card issuers and banks offer the ability for customers to receive real-time notifications of credit card purchases by email or via text messages. These features usually allow customers to receive purchase notifications at predetermined dollar thresholds. If your credit card issuer offers such services, designate an accounting staff member or members to receive real-time notifications.
- If the Executive Director uses a credit card for travel or business-related purchases, those incurred expenses should be reviewed by a designated Board member on a regular basis.
- When a cardholder leaves the organization, retrieve the credit card and remove the employee's name and their access to the account.
- Report any fraud misuse or abuse of program credit cards to the appropriate management official and the OIG.

If you have any questions or comments or would like additional information about this post please contact Daniel O'Rourke, OIG Assistant Inspector General for Investigations, at (202) 295-1651 or by email Dorourke@oig.lsc.gov.