



Office of Inspector General
Legal Services Corporation



Inspector General

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FRAUD ALERT 16-01

TO: Executive Directors

FROM: Jeffrey E. Schanz,
Inspector General  

DATE: October 19, 2015

SUBJECT: Client Trust Accounts

The purpose of this Fraud Alert is to inform you of prior Client Trust Account (CTA) investigations that uncovered issues of fraud, waste or abuse. We hope this information assists you in developing CTA policies and procedures that protect your programs against potential theft or embezzlement of CTA funds.

Based on work completed by the Office of Inspector General (OIG) for the Legal Services Corporation (LSC), we discovered instances of grantee employees mishandling or stealing CTA funds. The opportunity to commit these schemes was generally due to a breakdown of internal controls that allowed grantee employees to misappropriate CTA funds. Attorneys have a fiduciary duty to properly account for CTA funds. Failure to do so can result in ethics violations.

As a result of OIG investigations, grantee employees have been criminally prosecuted or terminated from employment for theft of client funds.

In one scheme, a grantee employee requested and received payment of filing fees from clients which she converted for her personal use. The employee falsely indicated that clients did not have the fiscal means to pay fees and then sought filing fee waivers or submitted a request to the grantee to pay the filing fee. The grantee and client had no

knowledge of the employee's actions. Through this scheme, the employee was able to steal more than \$25,000 in client funds.

In another case, clients provided cash and money orders to a grantee employee for litigation expenses which were properly receipted. Rather than deposit the funds in the CTA, the employee deposited \$970 into her personal bank account. Eventually, the grantee realized that the funds were missing from the CTA. The OIG requested further CTA accounting records and was able to identify additional missing funds attributed to the employee. In total, the employee misappropriated \$1,651.

Other OIG investigations have revealed the following:

- Clients were properly receipted but the associated funds were not processed for deposit;
- Delays of up to six weeks from the time funds were received to the time funds were deposited. In some instances, client funds could not be traced to a deposit;
- Multiple grantees pay case related fees and expenses for their clients with the understanding that clients will reimburse the program after the case is closed;
- A client provided a donation directly to a grantee advocate and the advocate kept a portion of the funds.

Our investigative work has disclosed the following patterns that have led to the theft or misuse of CTA funds:

- No segregation of duties with respect to grantee employees tasked with issuing receipts and grantee employees tasked with depositing CTA funds;
- Untimely delays between the receipt of CTA funds and deposit of funds;
- Inconsistent fiscal procedures and untimely CTA bank reconciliations;
- Generally weak internal controls, lack of oversight and poor procedures for handling client funds.

OIG investigations and proactive reviews have identified the following grantee questionable practices that can expose CTA funds to vulnerability and misuse:

- Issuing receipts to clients that do not capture all of the following information: date, name of payee and payer, name of person issuing the receipt, amount of funds received, monies received in form of cash, money order, etc., a receipt number that is part of an ascending pre-numbered sequence, and associated case number;

- Failing to account for missing or out-of-sequence receipts issued to clients;
- Maintaining multiple receipt books or out-of-use blank receipts from which receipts may be issued;
- Failing to maintain all copies of voided receipts;
- Failing to properly maintain individual client ledgers;
- Allowing banks to charge unspecified monthly fees to the CTA.

OIG investigations and proactive reviews have also identified the following grantee best practices to minimize the risk of theft or misuse of CTA funds:

- Review state bar CTA and IOLTA guidelines;
- Do not commingle CTA funds with other grantee accounts;
- Maintain individual client ledgers that track all transactions (from deposit to last disbursement) for each client;
- Establish accounting practices that capture all instances where a court has waived client fees and adjust annual litigation expenses accordingly;
- Provide retainer agreements or client engagement letters indicating that all payments to the program should be made directly to the grantee and not to individually named advocates or staff members. Payments should be personally delivered or mailed directly to the grantee;
- Open and review incoming mail in the presence of two grantee staff members;
- Utilize client intake forms at the onset of each case indicating whether: (1) the client will pay for litigation expenses; (2) the grantee will pay for litigation expenses; (3) the grantee will pay for litigation expenses and seek reimbursement from the client if fiscally possible;
- Designate an employee to receive client funds and have the advocate or another employee witness the receipting process;
- Establish grantee policies that either discourage or prohibit the receipt of cash;
- Secure un-deposited CTA funds in a locked safe or container until time of deposit;
- Deposit CTA funds the same day as receipt, or the next business day;
- Perform CTA bank reconciliations every thirty days;
- Maintain unclaimed CTA funds for the time period required by your state, usually three to five years;
- File annual reports of unclaimed property with the state and escheat necessary funds. File negative reports of unclaimed property with the corresponding state office if no CTA funds are eligible for escheatment in a given year;

- Post signage in the intake area stating that all clients who provide funds to the grantee should (1) make payments payable directly to the program, not to individual advocates or staff members; (2) be issued a receipt;
- Prohibit “borrowing” of CTA funds.

Our intent is to inform you of these practices to assist you in protecting your CTA funds from fraud, waste and abuse. Reporting these matters to the OIG can further help protect grantee funds. We encourage you to distribute this fraud alert to your staff. In addition, we welcome requests for OIG training to increase awareness of potential fraud indicators in LSC programs.

The financial accounting and reporting standards for the administration of grantee CTAs are set forth in Appendix V of the [LSC Accounting Guide for Recipients](#). The LSC Accounting Guide describes the accounting policies, records, and internal control procedures to be maintained by grantees to ensure the integrity of accounting, reporting and financial systems.

For any questions concerning this Fraud Alert, please contact Dan O'Rourke, Assistant Inspector General for Investigations, at 202-295-1651 or dorourke@oig.lsc.gov. For more information on fraud prevention please refer to the OIG [Fraud Prevention Guide](#).

I hope you find this Fraud Alert useful. Our Fraud Hotline telephone number is 800-678-8868 or 202-295-1670; email hotline@oig.lsc.gov; fax 202-337-7155.