




Office of Inspector General
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FRAUD ALERT
11-01-JS

TO: Executive Directors

FROM: Jeffrey E. Schanz 
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SUBJ: Employee Theft of Cash

This Alert is to inform you that the Office of Inspector General (OIG) has received recurring reports from grantees of the loss or theft of cash from their offices. The missing cash has typically been either client funds or monies donated to the program. Although the amount of cash reported as lost or stolen may have been relatively small, generally ranging from \$80 to several hundred dollars (though in one case as much as \$3,900), the incidents created a difficult problem for the executive directors involved, and for their programs. In each reported case, multiple individuals were identified as having knowledge of and access to the funds, leaving managers and staff with the nagging question, "Do we have a thief among us?"

In all instances, cash received by the program was properly receipted. The breakdown occurred when the person responsible for the deposit of the funds failed to do so promptly. In one extreme case, cash was held by the individual responsible for the cash deposits for up to 60 days. Other potentially contributing factors in the loss of funds were inadequate physical security in storing the cash and a delay in recording the cash in the ledger as it was received.

The OIG investigations found that cash was not properly secured when it was not deposited on the day of receipt. For example, in some cases it was kept in an unlocked cabinet or drawer of the person responsible for making the deposit, and the location of where the cash was kept was known by other grantee employees. The office manager, managing attorney, or executive director did not know cash was being held overnight or

over a weekend, as all the programs affected had policies directing that cash was to be deposited on the day of receipt.

Delays in recording cash received in the accounting systems can further compromise the ability to identify potential fraud and losses, as monthly bank reconciliations would not reflect cash received on a timely basis. Where this becomes a pattern, it can undermine controls. For example, in one instance, the bank reconciliation identified a missing deposit, but the grantee accountant did nothing, thinking that the deposit had simply missed the bank statement's cut-off date. The executive director at this program was not informed of the loss of cash until 90 days after it was received by the program and six weeks after the bank reconciliation that identified the missing cash deposit.

In addition to the loss of much-needed funds, these types of incidents can have consequences often more troubling for program managers: possible employee terminations; feelings of mistrust between employees responsible for handling cash; the polarization of office staff as they "choose sides" in intra-office disputes; the loss of trust that managers have for those involved; and the potential loss of confidence from stakeholders as to the grantee's ability to safeguard funds.

There are a number of things that grantees can do to help avoid this type of problem. If cash is received and must be held overnight, make sure that it is secured in a safe and locked place. The person securing the cash should advise their supervisor that they have received cash and that the funds will be deposited on the next business day. Make sure any money received is promptly recorded in the grantee's books, and ensure there is quick follow-up if deposits are not reflected in the monthly bank reconciliation. Make sure that any anomalies dealing with cash are quickly reported to the office manager, supervising attorney, or executive director.

Pursuant to LSC Grant Assurances, grantees must promptly contact the OIG about embezzlements and other thefts.¹ The OIG has investigators and auditors on staff with considerable expertise in preventing, detecting, and investigating fraud. We are available to assist however we can in helping in your efforts to ensure your program's resources are protected.

Please remind your employees about the OIG Hotline, available at (800) 678-8868 or (202) 295-1670, via email at hotline@oig.lsc.gov, or by mail to P.O. Box 3699, Washington, DC 20027-0199. Claimant names will remain confidential, if desired. Individuals may also contact Chief Investigator Mike Shiohama at (202) 295-1655, or by email at ms@oig.lsc.gov.

¹ Paragraph 15 provides that the grantee "will notify the LSC OIG by telephone within two (2) work days of the discovery of any information that gives it reason to believe it has been the victim of misappropriation, embezzlement or other theft or loss of \$200 or more of LSC funds, non-LSC funds used for the provision of legal assistance, client funds, or property. Such notice shall be followed by written notice by mail, e-mail or facsimile within ten (10) calendar days of the discovery of the theft or loss. The required notice shall be provided regardless of whether the funds or property are recovered. Once it has determined that a reportable event has occurred, it agrees it will contact the OIG before conducting its own investigation into the loss."