

# Missing Funds Procedures Guide

*PTA's mission is to make every child's potential a reality by engaging and empowering families and communities to advocate for all children.*

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# Missing Funds Procedures Guide

## Overview

Financial irregularities, including suspected theft or fraud, can occur in any organization despite best efforts at prevention. When PTAs discover or suspect that funds may be missing, prompt and appropriate action is essential to protect the organization, its members, and its mission. This guide provides step-by-step procedures for responding to potential financial irregularities.

The procedures outlined in this guide serve multiple purposes: protecting remaining assets, gathering evidence for potential insurance claims or legal proceedings, maintaining organizational integrity, and ensuring compliance with legal obligations. Early and decisive action often determines the success of recovery efforts and helps maintain member and community confidence in PTA leadership.

## Immediate Response Steps

When missing funds are first suspected, immediate action is critical to prevent further loss and preserve evidence.

### Secure All Financial Assets

**Stop all financial activity immediately:** If theft or fraud is suspected, halt all check writing, electronic transfers, and cash handling until the situation can be fully assessed. This prevents additional unauthorized access to funds.

**Change all account access:** Immediately change passwords for online banking, payment processing accounts, and any electronic financial systems. Remove access for any individuals who are no longer authorized or whose access may be compromised.

**Secure physical assets:** Collect all checkbooks, cash boxes, credit/debit cards, and other financial materials. Store these items securely with limited access until the investigation is complete.

**Contact your bank immediately:** Notify your bank of suspected unauthorized activity and request that they monitor accounts for suspicious transactions. Consider placing temporary holds on accounts if significant theft is suspected.

## Document Everything

**Record all details:** Create a written record of when the irregularity was discovered, who discovered it, what evidence exists, and what actions have been taken. Include specific amounts, dates, and individuals involved.

**Preserve evidence:** Gather all relevant documentation before it can be altered, destroyed, or misplaced. This includes bank statements, canceled checks, receipts, financial reports, and any electronic records.

**Photograph or copy documents:** Create backup copies of all important documents in case originals are needed for legal proceedings or insurance claims. Store copies separately from originals.

**Maintain chain of custody:** Keep detailed records of who has access to evidence and when. This documentation may be important for insurance claims or legal proceedings.

# Investigation Process

A thorough investigation must be conducted to determine the scope of any problems and provide the information needed for recovery efforts.

## Conduct Complete Financial Review

**Immediate comprehensive review:** A complete financial review must be conducted immediately by individuals who were not involved in day-to-day financial operations. This review should examine all accounts, transactions, and financial records.

**Expand review period:** Examine financial records for a longer period than the suspected timeframe. Financial irregularities may have occurred over extended periods before being discovered.

**Use independent reviewers:** The review committee must consist of individuals who had no involvement in financial management and no conflicts of interest. Consider engaging a professional accountant if the amounts are significant.

**Document findings thoroughly:** Create detailed written documentation of all findings, including specific amounts, time periods, methods used, and individuals who had access. This documentation is essential for insurance claims and potential legal action.

## Identify Scope and Timeline

**Determine total impact:** Calculate the full extent of missing funds, including direct losses and any additional costs such as bank fees, bounced check charges, or operational disruptions.

**Establish timeline:** Document when irregularities began, how long they continued, and what events may have triggered their discovery. This information helps identify weaknesses in controls and supports insurance claims.

**Assess control failures:** Identify which financial controls failed and why. Understanding these failures is essential for preventing future problems and may be required for insurance claims.

**Review personnel access:** Document which individuals had access to funds during the relevant time periods and what level of access they possessed. This information is critical for both recovery efforts and future prevention.

## Board Action Requirements

The executive board has legal and fiduciary responsibilities that must be fulfilled when financial irregularities are discovered.

## Emergency Board Meeting

**Call immediate meeting:** The board must meet within 48 hours of discovering suspected irregularities. All board members should attend, and the meeting should be properly documented with official minutes.

**Review investigation findings:** The board must review all findings from the financial review and discuss the scope of the problems. Members should ask questions and ensure they understand the full situation before making decisions.

**Authorize necessary actions:** The board must formally authorize all actions to be taken, including contacting insurance companies, law enforcement, attorneys, and other parties. Individual officers should not take these actions without board authorization.

**Document all decisions:** All board decisions must be recorded in official minutes with specific details about actions authorized, individuals responsible, and timelines for completion.

## Legal Obligations

**Duty to recover funds:** The board has a legal obligation to take all reasonable actions to recover stolen or misappropriated funds. Failure to act appropriately can result in personal liability for board members.

**Insurance obligations:** Most fidelity bonding policies require prompt notification of suspected losses. Delays in reporting may affect coverage or claim amounts.

**Legal consultation:** Consider consulting with an attorney when significant amounts are involved or when criminal activity is suspected. Legal advice helps ensure proper procedures are followed and rights are protected.

**Documentation requirements:** Maintain detailed records of all actions taken and decisions made. These records may be required for insurance claims, legal proceedings, or regulatory compliance.

## Recovery and Reporting

### Insurance Claims Process

**Contact bonding company immediately:** Report potential claims to your fidelity bonding insurance provider within 24 hours of discovery. Many policies have strict notification requirements that must be met to preserve coverage.

**Provide complete documentation:** Submit all requested documentation promptly and completely. Incomplete or delayed submissions may affect claim processing or amounts recoverable.

**Cooperate with investigation:** Insurance companies will conduct their own investigations. Cooperate fully with their requests and provide access to personnel and records as needed.

**Understand coverage limitations:** Review your policy to understand what losses are covered, what deductibles apply, and what documentation is required. Some policies exclude certain types of losses or have specific requirements for coverage.

### Legal Action Considerations

**Law enforcement reporting:** Contact local law enforcement if criminal activity is suspected. The board may be legally required to report suspected crimes, and early reporting often improves chances of recovery.

**Civil recovery options:** Consider civil legal action to recover funds, even if criminal charges are not filed. Civil actions have different standards of proof and may be successful even when criminal prosecution is not pursued.

**Restitution agreements:** In some cases, voluntary restitution agreements can be negotiated without formal legal proceedings. These agreements should always be reviewed by an attorney before signing.

**Recovery prioritization:** Consider multiple recovery options simultaneously rather than relying on a single approach. Insurance, criminal restitution, and civil recovery can sometimes be pursued concurrently.

## Communication with Members

**Transparency requirements:** The membership must be informed about financial irregularities and the actions taken by the board. PTA funds belong to the members, and they have a right to know how their resources are being protected.

**Appropriate timing:** Balance the need for transparency with the requirements of ongoing investigations. Premature disclosure may interfere with recovery efforts, but excessive delays damage trust and credibility.

**Professional presentation:** Present information factually and professionally without speculation or personal opinions. Focus on actions taken and steps being implemented to prevent future problems.

**Ongoing updates:** Provide regular updates to the membership as situations develop and recovery efforts progress. Maintain transparency throughout the process to preserve trust and confidence.

## Prevention and System Improvement

### Strengthening Financial Controls

**Implement dual controls:** Require two-person involvement in all financial transactions, including cash counting, deposit preparation, and expense approval. No single individual should have complete control over any financial process.

**Separate responsibilities:** Divide financial duties among multiple individuals so that authorization, record keeping, and physical custody of funds involve different people. This separation makes unauthorized transactions more difficult.

**Regular reconciliation:** Conduct monthly bank reconciliations by someone other than the treasurer. Regular independent reconciliation catches problems quickly and deters unauthorized activity.

**Enhanced documentation:** Require written documentation for all financial transactions with appropriate approvals and supporting materials. Good documentation supports both audit trails and insurance coverage.

### Improved Training and Procedures

**Officer training:** Provide comprehensive training for all officers handling funds, including proper procedures, internal controls, and warning signs of potential problems. Well-trained officers are the first line of defense against financial irregularities.

**Written procedures:** Develop detailed written procedures for all financial activities and ensure all volunteers understand and follow them. Written procedures provide consistency and accountability.

**Regular review updates:** Update financial procedures regularly based on changing circumstances, new risks, and lessons learned from problems. Effective controls evolve with changing needs and circumstances.

**Board oversight:** Implement regular board review of financial activities, including monthly financial reports, quarterly control assessments, and annual procedure updates. Strong board oversight prevents many problems and catches others early.

## Warning Signs and Early Detection

**Monitor these indicators:** Watch for unexplained variances between budgets and actual results, missing documentation, reluctance to provide financial information, changes in deposit timing or amounts, and complaints about unrecorded transactions.

**Implement detection systems:** Use independent reconciliation, random transaction reviews, and regular financial reporting to catch problems early when they're easier to resolve and recovery is more likely.

**Create reporting culture:** Encourage members to report concerns or unusual activities without fear of retaliation. Many financial problems are first noticed by volunteers who observe activities that don't seem right.

**Regular control assessment:** Periodically evaluate the effectiveness of financial controls and update them based on changing circumstances, new risks, and organizational growth.

## Legal Considerations and Professional Advice

### When to Consult Attorneys

**Significant amounts:** Consider legal consultation when suspected losses exceed \$1,000 or when multiple transactions are involved. Legal advice helps ensure proper procedures and maximize recovery potential.

**Criminal activity:** Consult with an attorney before reporting suspected criminal activity to law enforcement. Legal advice helps protect the organization's interests and ensures proper procedures are followed.

**Insurance disputes:** If insurance companies deny claims or offer inadequate settlements, legal consultation may be necessary to protect your rights and recover appropriate amounts.

**Employment issues:** When employees or contractors are suspected of theft, legal advice is essential to avoid wrongful termination claims or other employment law violations.

### Documentation for Legal Proceedings

**Maintain chain of custody:** Keep detailed records of who has access to evidence and when. Proper documentation of evidence handling may be critical for successful legal proceedings.

**Preserve electronic records:** Create backup copies of electronic records and maintain them separately from working files. Electronic evidence can be easily altered or destroyed if not properly preserved.

**Witness statements:** Document statements from individuals who witnessed suspicious activities or have relevant information. Written statements preserve testimony that may be important later.

**Professional review:** Consider having financial records reviewed by a certified public accountant to provide professional opinions about irregularities and proper financial management.

# Recovery Strategies

## Multiple Recovery Approaches

**Insurance claims:** Fidelity bonding provides the most reliable recovery method for many organizations. Maintain good relationships with insurance providers and understand policy requirements.

**Criminal restitution:** Criminal convictions may result in court-ordered restitution, but this process can be slow and uncertain. Don't rely solely on criminal proceedings for recovery.

**Civil litigation:** Civil lawsuits can recover funds even when criminal prosecution is unsuccessful, but they require significant time and expense. Consider costs versus potential recovery amounts.

**Asset recovery:** Investigate whether individuals who took funds have recoverable assets such as property, bank accounts, or other financial resources that could satisfy judgments.

## Practical Recovery Considerations

**Cost-benefit analysis:** Consider the cost of recovery efforts versus the amount that might be recovered. Small amounts may not justify expensive legal proceedings.

**Timing factors:** Act quickly as delay may reduce recovery options. Assets may be dissipated, evidence may disappear, and legal rights may be affected by delays.

**Cooperation benefits:** Individuals who cooperate with investigations and provide voluntary restitution may be viewed more favorably by courts and prosecutors, potentially increasing recovery amounts.

**Community impact:** Consider the impact of recovery efforts on your PTA's reputation and relationships within the school community. Balance recovery goals with organizational mission and long-term effectiveness.

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This guide provides general guidance and should not be considered legal advice. For specific legal questions, consult with qualified legal counsel. Ohio PTA provides this information as a service to our members and cannot guarantee its accuracy or completeness. Individual circumstances may require different approaches than those outlined in this guide.

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