

Fraud Prevention Review

Legal Services of Northern Michigan, Inc.

RNO 423130

Report No. 24-0159-A-FV

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OFFICE OF INSPECTOR GENERAL

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LEGAL SERVICES CORPORATION

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Introduction to Fraud Prevention Reviews

The Office of Inspector General (OIG) for the Legal Services Corporation (LSC) periodically conducts and reports on Fraud Prevention Reviews (FPRs) at LSC grantees, as time and resources allow. The aim is to proactively identify potential financial and regulatory vulnerabilities that could result in fraud, waste, or abuse, if not addressed. We report on vulnerabilities and offer suggestions to help the grantee address any risk(s) we identified. As warranted, we also highlight good practices during an FPR that other LSC grantees could consider adopting to mitigate fraud risks. FPRs are agile oversight reviews that are focused on *prevention* of fraud, waste, and abuse.

During FPRs, the OIG conducts informational interviews and focused document reviews of grantee's financial transactions, including accounting, travel, credit cards, payroll, and office expenditure records. The OIG also reviews grantee internal policies and procedures used to protect against fraud.¹ The FPR focuses on fiscal and regulatory areas considered high-risk or prone to fraud, waste, and abuse. If the OIG identifies indications of actual fraud or noncompliance during an FPR, then the OIG will initiate a separate inquiry and conduct investigative activities as appropriate. In the interest of exercising due professional care as called for in federal OIG investigative standards, any such investigative inquiry will not be documented in an FPR report.

In keeping with our mission to promote good fraud prevention practices and transparency, the OIG places completed FPR reports on our [OIG website](#). These reports are available to our key stakeholders and the public and are meant to be a resource for LSC grantees conducting risk assessments or reviewing internal policies.

The FPR of Legal Services of Northern Michigan

The report provides a summary of an FPR conducted at Legal Services of Northern Michigan (LSNM) in Escanaba, Michigan, which is one of 130 grantees that LSC currently funds to

¹ The OIG conducts FPRs in accordance with OIG internal policy that aligns with the Council of the Inspectors General on Integrity and Efficiency (CIGIE) Quality Standards for Federal Offices of Inspector General (Silver Book). The suggestions we report on are not considered to be formal recommendations for corrective action.



provide civil legal aid to low-income Americans. The areas reviewed during the FPR were discussed with LSNM management and are detailed in this report along with any responses the OIG received from LSNM.

In 2023, LSNM received over \$2 million in combined LSC grant funds and non-LSC funding. In addition to the LSNM headquarters office located in Escanaba, Michigan, LSNM has five other offices in the state. Below is LSNM's reported 2023 staffing and funding data:

LSNM 2023 Staffing and Funding Data		
Staffing	LSC Basic Field Grant Funding	Other (non-LSC) Funding
20	\$1,092,659	\$1,110,339

Suggestions for LSNM and Good Practices Other Grantees Could Consider Adopting

The OIG offered LSNM suggestions to address potential fraud risks at their program. In addition, other LSC grantees may consider replicating the following suggestions and good practices employed by LSNM in their efforts to prevent and detect fraud, waste, and abuse. We appreciate the cooperation of LSNM managers and staff as we conducted our FPR and appreciate their receptiveness to our suggestions.

For a chart of all the good practices discussed in this report, see [Appendix A: List of All OIG Fraud Prevention Practices Identified During FPR at LSNM](#).

Explanation of Fraud Prevention Suggestions and Good Practices Identified by OIG

Credit Card Purchases. The OIG commended LSNM for including a section within their policies detailing expenses that may not be charged to the LSNM credit card.



- The OIG suggested that LSNM review section 3.2.4.c of the [LSC Financial Guide](#) to determine whether additional guidelines within their credit card policy are required for personal use, cash advances, ATM withdrawals, and deadlines for submitting supporting documentation.
- The OIG suggested LSNM ensure employees document a business purpose for all credit card transactions to validate the expenses are legitimate.

Client Trust. The OIG suggested periodic reviews of the LSNM client trust receipt book for missing receipts or unusual activity to prevent or deter theft of client funds.

Cybersecurity Review. The OIG informed LSNM that having cyber insurance coverage and providing cyber threat awareness training to their staff were good practices to help prevent and thwart cyberattacks.

- The OIG suggested that LSNM include a banner when employees open their computers to inform employees that there is no expectation of privacy as they use LSNM computers.

Capital Purchasing and Vendor Review. The OIG suggested that LSNM consider revisiting their procurement threshold levels for receiving competitive bids to ensure they are obtaining best value when making purchases. The OIG advised that the “small purchases” threshold range of \$5,000 - \$150,000, without receiving competitive bids, was unusually large for an LSC grantee and captures nearly all of LSNM’s purchases.

- The OIG suggested LSNM review their existing contracts to ensure compliance with LSC’s requirement of prior approval for purchases that are allocable to LSC funds for \$25,000 or greater.²

Bank Reconciliations. The OIG suggested that adding the [positive pay](#)³ feature to the LSNM bank account would protect LSNM from check fraud schemes by ensuring that LSNM’s bank does not negotiate any checks unless the check number, payee, and amount provided to the bank by LSNM agrees with the same information appearing on the negotiated check. Positive pay can also assist by identifying checks that are outstanding, lost, or misplaced and if a replacement check is required.

² See 45 C.F.R. § 1630.6 Prior approval, and 45 C.F.R. § 1631.3 Prior approval process.

³ Positive pay allows a company and its financial institution to work together to detect check fraud by identifying items presented for payment that the company did not issue. Positive pay enables the bank to review checks presented for payment and compare them against a supplied list of checks issued.

Annual Leave Requirement for Staff with Fiscal Responsibilities. The OIG promotes rotating accounting duties and requiring employees with fiscal responsibilities, including the Executive Director (ED), to take extended leave (at least one-week duration) each year as a safeguard to prevent and detect fraud. LSNM's Accounting Manual did not include an annual leave requirement policy for those employees involved in fiscal duties. The OIG suggested that LSNM include an annual leave requirement policy in their accounting manual for these employees.

Review and Approval of Executive Director's Expenditures. The LSNM ED's expenditures are reviewed by the LSNM Board of Directors (Board). Board review of ED expenditures is a good practice to promote transparency and accountability. The OIG also suggested adding language to the LSNM financial oversight policy to include ED expenditures.

Staff Travel and Expense Reimbursements: The OIG noted as a good practice that LSNM consistently reconciles employee travel with the employee's timesheets.

- The OIG noted that LSNM's policy allows for travel advances, but the policy did not include all policy requirements detailed in section 3.2.4 of the LSC Financial Guide. The OIG informed LSNM that section 3.2.4 requires language in grantee policies related to travel advances. If a grantee allows employees to request and receive travel advances, the grantee's travel policy must identify when the employee is permitted to request a travel advance, how much the employee is permitted to request, and the process for such an advance to be approved. The policy should also address those situations where an employee must repay an advance.

Outside Practice of Law.⁴ The OIG suggested LSNM implement an outside practice of law (OPL) employee request form for compensated and uncompensated OPL requests and to develop an additional notification form for the employee to submit when the OPL is completed.⁵ The OIG also suggested LSNM update their OPL policy to require written approval by the ED for any OPL. The OIG discussed its [fraud advisory](#) on outside practice of

⁴ Outside practice of law means the provision of legal assistance to a client who is not receiving that legal assistance from the employer of the full-time attorney rendering assistance. See 45 C.F.R. § 1604.2(b).

⁵ All LSC grantees are required to adopt written policies that are consistent with 45 C.F.R. Part 1604 governing the outside practice of law by full-time attorneys. The grantee's policies may permit outside practice of law by full-time attorneys, only to the extent allowed by Part 1604, but may impose additional restrictions, as necessary, to meet the grantee's responsibilities to clients.



law and employment, which contains additional resources provided by the OIG and LSC for policy drafting and fraud prevention.

Outside Employment Policy Drafting Guidance (LSC [Program Letter 18-1](#)). LSNM does not have an Outside Employment (OE) policy. The OIG suggested LSNM create an OE policy to include a requirement that employees must notify their supervisor about OE including the name of the secondary employer, description of job duties, and hours and length of employment. The ED or designee must then determine if the OE interferes with the employee's duties at LSNM or will have an adverse effect on LSNM. The OIG also suggested LSNM develop an OE form similar to the one suggested for OPL that tracks requested OE and LSNM's approval/denial of the requests.

Part 1640 Application of Federal Laws to LSC Recipients. The OIG suggested an annual reminder to all staff and the LSNM Board that 45 C.F.R. Part 1640 regarding the application of Federal laws and notice to employees and Board members of the consequences of a violation of such Federal laws to the grantee, its employees, and Board members.

Conflict of Interest, Whistleblower, and Nepotism Policies (LSC [Program Letter 20-1](#))⁶. The OIG commended LSNM on its conflict of interest policy, which included an appendix that outlined and defined common workplace conflicts. The OIG also commended LSNM for including the duty to report to the OIG within their whistleblower policy.

- The OIG suggested LSNM change their nepotism policy to require review by the LSNM Board instead of the Deputy Director concerning any hiring or contracts with family members of the ED.
- The OIG suggested that LSNM remind its staff and Board of the whistleblower, nepotism, and conflict of interest policies at least on an annual basis.

Fraud, Waste, and Abuse Policy. The OIG informed LSNM that having an anti-fraud policy that defines fraud, waste, and abuse is a good practice and suggested adding language that if an employee has a complaint concerning the ED, they may go directly to the LSNM Board.



Response from LSNM

We thank LSNM leadership and staff for the courtesies extended to us during the FPR. See Appendix B for LSNM's response to the suggestions provided in the FPR. The OIG received LSNM's response on October 24, 2025.⁷

Appendix A

Fraud Prevention Good Practices Identified During the LSNM FPR	
<i>Credit Card Purchases</i>	Include a section within the accounting policies detailing expenses that may not be charged to the program's credit card, regardless of funding source.
<i>Credit Card Purchases</i>	Include a section within the accounting policies detailing expenses that may not be charged to LSC, such as penalties, fines, late fees, alcoholic beverages, flowers, and gifts.
<i>Credit Card Purchases</i>	Document business purpose for all transactions.
<i>Credit Card Purchases</i>	Ensure that the credit card policy meets the requirements section 3.2.4.c of the LSC Financial Guide related to personal use, cash advances, ATM withdrawals, and deadlines for submitting supporting documentation
<i>Cybersecurity</i>	Include a banner when employees open their program issued computers to indicate that there is no expectation of privacy.
<i>Client Trust</i>	Conduct a periodic review of the client trust receipt book for missing receipts or unusual activity.
<i>Capital Purchasing and Vendors</i>	Ensure that the threshold level for requiring bids is reasonable and fits your program's business risk model.
<i>Capital Purchasing and Vendors</i>	Determine cost allocation in advance for larger purchases to ensure compliance with LSC's prior approval requirement for costs allocable to LSC funds that is \$25,000 or greater.
<i>Bank Reconciliations</i>	Use positive pay with bank accounts to prevent check fraud.

⁷ In consultation with LSNM, some financial information was redacted from their letter.



<i>Annual Leave Requirement for Staff with Fiscal Responsibilities</i>	Require employees with fiscal responsibilities, including the ED, to take extended leave (at least one-week duration) each year.
<i>Staff Travel and Expense Reimbursement</i>	Reconcile travel reimbursements with employee timesheets.
<i>Staff Travel and Expense Reimbursement</i>	Include in the travel policy requirements for employee travel advances, including how much the employee is permitted to request, the process for such an advance to be approved, and when repayment may be required.
<i>Outside Practice of Law</i>	Consider requiring separate forms for compensated and uncompensated OPL and an additional form when the OPL is completed.
<i>Outside Employment</i>	Create an OE policy, which includes detailed practices related to OE risks such as prohibiting OE that conflicts with program operations.
<i>Outside Employment</i>	Develop an OE form similar to the one suggested for OPL that tracks requested OE and LSNM's approval/denial of the requests.
<i>Part 1640 Application of Federal Laws to LSC Recipients</i>	Provide an annual reminder to all staff and the LSNM Board of Directors related to Part 1640 and notice of the consequences of a violation of such Federal laws to a grantee, its employees and board members.
<i>Conflict of Interest, Whistleblower, and Nepotism Policies.</i>	Add an appendix to the policies that outlines and defines common workplace conflicts and including the duty to report to the OIG within their whistleblower policy.
<i>Conflict of Interest, Whistleblower, and Nepotism Policies.</i>	Require review by the Board for any hiring or contracting with family members of the ED.
<i>Conflict of Interest, Whistleblower, and Nepotism Policies.</i>	Remind staff and Board members of the whistleblower, nepotism, and conflict of interest policies at least on an annual basis.
<i>Fraud, Waste, and Abuse Policy</i>	Having an anti-fraud policy is a good practice. Consider including language that allows employees with a complaint concerning the ED to go directly to the Board.



Appendix B

Grantee Response



OFFICE OF INSPECTOR GENERAL
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LEGAL SERVICES CORPORATION



October 24, 2025

****VIA EMAIL**** -- [REDACTED]

[REDACTED]
Office of Inspector General, Legal Services Corporation

RE: LSNM Response to FPR Report No. 24-0159-A-FV

[REDACTED]

On behalf of Legal Services of Northern Michigan, Inc., and our staff that worked with you last year during the LSC OIG Fraud Prevention Review, we appreciated your visit and the positive recommendations you provided in your report. We reviewed your report and our responses to some of your recommendations are below. In addition, we append referenced LSNM policies or excerpts thereof. For those recommendations to which we did not provide a response, we respect the suggestions and will give them further consideration.

Credit Card Purchases

LSNM has instituted strong internal controls surrounding the use of its credit card. Our policy makes clear that the credit card is not available for general employee use and is subject to strict limitations. See, Item A. The following policy elements are in place:

- **Access:** [REDACTED]
- **Use Restrictions:** The card is prohibited from being used for cash access, gambling, adult establishments, or alcohol. Use for routine travel or lodging is also not permitted.
- **Spending Limit:** A board-approved monthly limit is in place (\$1,000 for 2025).
[REDACTED]
- **Transaction Oversight:** Monthly credit card statements are reviewed and approved in writing by a Deputy Director prior to payment. Additionally, the Board reviews all statements quarterly.
- **Payment:** The balance is paid in full each month to avoid interest or penalties.

Client Trust

Client trust accounts and office receipt books are reconciled monthly by both LSNM's contracted accounting service and program management. A monthly balance report is provided to the Board. It is worth noting that client fees total less than \$3,000 annually.

Cybersecurity Review

Since the OIG review, LSNM has purchased cybersecurity insurance. All LSNM staff have completed the KnowBe4 cyber security awareness training module annually.

LSNM does have a policy which clearly states that office technology devices are the property of LSNM and places restrictions on their use. See, Item B. Program policies are reviewed with new staff upon hiring and are available to all on the program WIKI. It should be noted that all computer users, except the technology responsible person, have user accounts that restrict them from downloading any software onto the device. LSNM will add language to the policy statement warning users that there is no expectation of privacy.

Capital Purchasing and Vendor Review

LSNM will discuss decreasing the "small purchases" upper limit with the Board of Directors. LSNM is cognizant of 45 C.F.R. § 1630.6 and has provisions in its policy following the restriction. See, Item C.

Bank Reconciliations

LSNM is discussing the possibility of instituting positive pay. [REDACTED]

Annual Leave Requirement for Staff with Fiscal Responsibilities

All financial staff except the director have a "use it or lose it" requirement on their leave time in their employment contracts. LSNM prefers this as an incentive rather than trying to force a person to take a specified time off. New employees with limited leave banked may need that their leave time to address family or health issues.

Staff Travel and Expense Reimbursements

Currently travel advances require the Director's approval. Tacitly that approval controls the amount and situations from which advances may be approved. Reimbursement terms are a part of the collective bargaining agreement. Language on the repayment of unexpended funds will be added to the next contract.

Outside Practice of Law

LSNM has taken OIG's suggestion and now has outside practice request and monitoring forms.

Outside Employment Policy Drafting Guidance

LSNM agrees to create an outside employment policy.

Conflict of Interest, Whistle blower, and Nepotism Policies

It is impractical for LSNM to have the Board approve any hiring of relatives, especially for short independent contract work, as they only meet four times a year. The Board is informed at the next regular meeting of any nepotism employment. Approval from a non-related administrator is required prior to the employ of a relative. We will discuss the possibility of Board involvement prior to the use of any relative where the financial implications to the program are expected to be over a defined amount.

Fraud, Waste, and Abuse Policy

LSNM has adopted a Fraud, Waste and Abuse Policy, which provides for involvement of the Board Chair. See, Item D. A provision will be added to provide on option for a direct complaint to the Board Chair of any suspected fraud, waste or abuse on the part of the Director.

LSNM thanks the OIG team for their consideration and insights. The review process was smooth, helpful and collegial.

Respectfully submitted,

LEGAL SERVICES OF NORTHERN MICHIGAN, INC.

**Kenneth
Penokie**

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Kenneth Penokie
Director

cc: Victoria Radke, Board Chair