

Fraud Prevention Review

Legal Aid of North Carolina
RNO 634032

Report No. 24-0046-A-FV
February 2024



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 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 Aid of North Carolina

The report provides a summary of an FPR conducted at Legal Aid of North Carolina (LANC), which is one of 131 grantees that LSC currently funds to provide civil legal aid to low-income Americans. The areas reviewed during the FPR were discussed with LANC management and are detailed in this report along with responses the OIG received from LANC.

¹ The OIG conducts FPRs in accordance with OIG internal policy that aligns with the Council of the Inspectors General for 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.



In 2023, LANC received over \$44 million in combined LSC grant funds and non-LSC funding. In addition to the LANC headquarters office located in Raleigh, North Carolina, LANC has 20 offices throughout the state. Below is LANC's reported 2023 staffing and funding data:

Legal Aid of North Carolina 2023 Staffing and Funding Data		
Staffing	LSC Basic Field Grant Funding	Other (non-LSC) Funding
464	\$17,212,603	\$27,391,635

Suggestions for LANC and Good Practices Other Grantees Could Consider Adopting

The OIG offered LANC 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 LANC in their efforts to prevent and detect fraud, waste, and abuse. We appreciate the cooperation of LANC 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 LANC.](#)

Explanation of Fraud Prevention Suggestions and Good Practices Identified by OIG

Credit Card Purchases. LANC's Credit Card Policies detail the three different types of cards that LANC maintains: gas cards, Bankruptcy E-Filing credit cards, and individual cards assigned to multiple staff members to use for necessary business expenses.

- The OIG did not identify any misuse or fraudulent purchases related to fuel purchases.



- Regarding business expenses, the OIG suggested LANC ensure any purchases of food are accompanied by supporting documentation, such as expense reports and receipts and include with the supporting documentation a detailed explanation of the business purpose.
- The OIG commended LANC for including a section within their policies detailing expenses that may not be charged to LSC or other government contracts, such as penalties, fines, late fees, alcoholic beverages, flowers, and gifts.
- Regarding the LANC credit card policies, the OIG suggested that LANC assign a dollar threshold limit to each specific credit card, instead of the \$5,000 to \$50,000 range included in their policy.
- The OIG suggested that LANC include a specific timeframe for local offices and cardholders to submit individual statements and receipts, as opposed to the “timely manner” currently included in the policy.
- The OIG suggested LANC remove the ability for card holders to obtain cash advances and to also include language within their policy stating that use of cash advances by credit card holders is prohibited if the credit cards are not used for an individual employee’s travel.

Information Technology (IT) and Cybersecurity Review. The OIG suggested that LANC include a banner when employees open their computers to indicate that there is no expectation of privacy as they use LANC computers.

Capital Purchasing and Vendor Review. LANC’s Support Service Office acts as a clearing house/reviewer of all purchases over \$200. LANC offices must submit a Purchase/Procurement Request form to Support Services to include a description of the item, reason for purchase, and if exigent circumstances are present. The OIG found the mission of the Support Services team to be as a good practice and a method to ensure consistent application of LANC policy, the ability for LANC to receive best value for purchases, and a safeguard measure to prevent fraud in the purchase of goods and services at LANC.



Bank Reconciliations. LANC uses the [positive pay](#)² feature with their bank and LANC accounting staff perform a comparison of the detail in the check register with the detail appearing on the negotiated check. LANC's process is a good practice for fraud prevention and is helpful in identifying checks that are outstanding, lost, or misplaced and if a replacement check is required.

Annual Leave Requirement for Staff with Fiscal Responsibilities. The OIG promotes rotating accounting duties and requiring employees with accounting responsibilities to take extended leave (at least one-week duration) each year as a safeguard to prevent and detect fraud. LANC's Accounting Manual did include an annual leave requirement policy. The OIG suggested that LANC amend this policy to also require the Executive Director (ED) to take extended leave.

Review and Approval of Executive Director's Expenditures. The LANC ED's expenditures are approved monthly by the CFO for payment and a single member of the LANC Board of Directors (board) reviews her expenditures on a quarterly basis. Board review of ED expenditures is a good practice to promote transparency and accountability. OIG suggested that the ED provide the entire board with at least a quarterly summary of her expenditures.

LSC Investment Requirements and Guidance (LSC [Program Letter 23-1](#)). The OIG's review of LANC's Federal Deposit Insurance Corporation (FDIC) insurance limit showed that LANC consistently had a balance in noninterest-bearing accounts that exceeded the FDIC insurance limit. LANC informed the OIG it would be looking into starting a sweep account³ which would give LANC the assurance that all funds were invested in fully insured accounts.

² 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.

³ A sweep account is an account held pursuant to a contract between an insured depository institution and its customer involving the prearranged, automated transfer of funds from a deposit account to either another account or investment vehicle located within the depository institution (internal sweep account), or an investment vehicle located outside the depository institution (external sweep account).



Outside Practice of Law.⁴ The OIG informed LANC that its policies to require separate forms for compensated and uncompensated Outside Practice of Law (OPL) and an additional form when the OPL is completed were good practices.⁵

Outside Employment Policy Drafting Guidance (LSC [Program Letter 18-1](#)). The OIG positively noted to LANC that its outside employment policy offered good practices related to outside employment risks such as prohibiting outside employment that conflicted with LANC's operations. The OIG suggested that LANC's policy on outside employment also include part-time employees and suggested requiring an approval form for outside employment that tracks requested outside employment and LANC's approval/denial of the requests (similar to the process LANC uses for OPL requests).

45 CFR Part 1630 Cost Standards and Procedures. The OIG reviewed purchases and payments to vendors, contractors, and employees, on the LANC credit card. Based upon our review of selected LANC purchases, the OIG provided LANC with guidance from LSC's Financial Guide on disallowed costs and suggested LANC update its policies and practices to meet LSC requirements. In addition, LANC's accounting system provided a full description of information in their check register which is useful to any third-party reviewer. The check register provided information on vendor name, invoice number, invoice amount, description of purchase, account number/allocation code assigned, project description, and project number. This degree of descriptive information is not normally found in grantee check registers and the OIG found this to be a good practice. The additional information in LANC's check register allowed the OIG to develop a quick understanding of the spending practices and allocation methods used by LANC.

45 CFR Part 1640 Application of Federal Laws to LSC Recipients.⁶ The OIG noticed that LANC's anti-fraud policy reflected a good practice and suggested adding language related to reported suspected fraud etc. to the OIG Hotline as required by LSC Grant Terms and

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.

⁵ All LSC grantees are required to adopt written policies that are consistent with 45 CFR 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.

⁶ Part 1640 is meant to ensure that grantees use LSC funds in accordance with Federal law related to the proper use of Federal funds. Part 1640 provides notice of the consequences of a violation of such Federal laws by a grantee, its employees or board members. The grantee must certify that they have informed their employees and board members about these laws and the individual and organizational consequences of violating them.



Conditions. In addition, OIG mentioned that the abstract of the LSC regulations in the LANC Personnel Policy does not include Part 1640 and suggested adding it.

Response from LANC

We thank LANC leadership and staff for the courtesies extended to us during the FPR.

See Appendix B for LANC's response to the suggestions provided during the FPR.⁷

Appendix A

Fraud Prevention Good Practices Identified During the LANC FPR	
<i>Credit Card Purchases</i>	Ensure any food or meals purchases are accompanied by supporting documentation and a detailed explanation of the business purpose.
<i>Credit Card Purchases</i>	Credit card policies should include a section 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>	Assign a dollar threshold limit to each specific program issued credit card.
<i>Credit Card Purchases</i>	Include a specific timeframe for cardholders to submit individual statements and receipts, as opposed to a general requirement such as "timely manner."
<i>Credit Card Purchases</i>	Remove the ability for card holders to obtain cash advances and include language within the program's policy stating that use of cash advances by credit card holders is prohibited if

⁷ In consultation with LANC, some sensitive banking and financial information was redacted from their letter.



	the credit cards are not used for an individual employee's travel.
<i>IT and Cybersecurity</i>	Include a banner when employees open their program issued computers to indicate that there is no expectation of privacy.
<i>Capital Purchasing and Vendors</i>	Use a Support Service Office to act as a clearing house/reviewer of all purchases over \$200.
<i>Bank Reconciliations</i>	Use positive pay with bank accounts to prevent check fraud.
<i>Annual Leave Requirement for Staff with Fiscal Responsibilities</i>	Require employees with accounting responsibilities, including the ED, to take extended leave (at least one-week duration) each year.
<i>Review and Approval of ED's Expenditures</i>	Require a board member to review ED expenditure at least quarterly and consider providing the entire board with a summary of the ED's expenditures.
<i>FDIC Insurance</i>	Use sweep accounts to ensure that program funds are invested in fully insured accounts.
<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>	Include in the policy detailed good practices related to outside employment risks such as prohibiting outside employment that conflicts with program operations.
<i>Outside Employment</i>	Consider applying the outside employment policy to part-time employees.
<i>Part 1630 Cost Standards and Procedures</i>	Include in your purchasing policy guidance from LSC's Financial Guide on disallowed costs.
<i>Part 1630 Cost Standards and Procedures</i>	Consider including in the check register information such as vendor name, invoice number, invoice amount, description of purchase, account number/allocation code assigned, project description, and project number.
<i>Part 1640 Application of Federal Laws to LSC Recipients</i>	Consider adopting an anti-fraud policy that includes language related to reporting suspected fraud to the OIG Hotline as required by LSC Grant Terms and Conditions and informing staff of Part 1640 requirements.



Appendix B

Grantee Response



OFFICE OF INSPECTOR GENERAL
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March 7th, 2025

Mr. [REDACTED]
Office of Inspector General, Legal Services Corporation
** VIA EMAIL **

RE: LANC Response to FPR Report No. 24-0046-A-FV

Dear [REDACTED],

On behalf of Legal Aid of North Carolina, Inc., and our team that worked with you last year during the LSC OIG Fraud Prevention Review, we appreciated your visit and were thankful for the review as well as the positive feedback and recommendations provided. We have read through the report and have the following response around the focus areas you reviewed:

Credit Card (and Other Purchases)

I am pleased to report that LANC has either implemented the OIG suggestions for credit card purchases in this Report or will do so by the end of the year.

In 2024, LANC switched our limited number of credit cards from [REDACTED] Bank to [REDACTED] Bank. As part of our monthly process, accounting staff sends to each card holder a spreadsheet transaction register requesting completion along with receipts, to be returned within 2 weeks. Fiscal staff will follow up until the information is received for proper review and recording in the financial system. As part of this communication, we require a description and business purpose for any expense paid for on the card, including food, and require all receipts to be submitted and approved monthly. In the rare case of a lost/missing receipt, we require the employee to complete an Affidavit of Missing Receipt with an explanation.

Regarding Card Limits, with the new [REDACTED] card program, we have systematically assigned specific limits based on the nature and use of the card. [REDACTED]

To further strengthen the process and data gathered, this year we plan to use our [REDACTED] system [REDACTED] existing capability to download card data and route those transactions to the card holder to capture electronically all required information including receipts and obtain approvals. This capability has been tested and is planned for implementation over the next several months.

Lastly, cash advances were disabled in the [REDACTED] System so no one can obtain an advance via a credit card and [REDACTED] has demonstrated excellent fraud controls.

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Information Technology (IT) and Cybersecurity Review

LANC agrees with the Report's recommendation for the placement of a banner visible to employees when logging into a LANC computer or other device. Our IT team is currently reviewing the best way to implement this recommendation by the end of this year.

Subsequent to your visit, we applied and obtained grant funding from [REDACTED] to conduct a full cybersecurity maturity assessment in 2025. [REDACTED] was selected to perform this review and that three-month engagement is currently underway.

Annual Leave Requirement for Staff with Fiscal Responsibilities

We can confirm that all our Finance and Accounting staff did complete at least one full week of Vacation/Leave during 2024, some up to two concurrent weeks. Our CEO/ED also was able to take more than one full week during 2024. As suggested, we will update our Accounting Manual to amend the leave policy that requires the CEO take extended leave.

LSC Investment Requirements and Guidance

To address how deposits were exceeding the \$250,000 FDIC limits at times, LANC recently implemented an [REDACTED] Sweep [REDACTED] at one of its banks. We have one remaining account that we will set up [REDACTED] Sweep to assure the end of day balance does not exceed \$250,000. Also, in 2024 we established a new [REDACTED] account that is professionally managed by [REDACTED] and is invested in [REDACTED], each below \$250,000.

Outside Employment Policy

As OIG has recommended, LANC will update the outside employment policy to apply to both full and part-time staff. Also, we will develop a form to be used for "approval requests" for outside employment, consistent in concept to that currently used for Outside Practice of Law.

Fraud Reporting

Following your visit, LANC posted the LSC OIG Hotline poster in our headquarters as well as in the fiscal staff area. This year, we are also printing and mailing posters to all our offices for prominent display in these locations.

Thank you again to you and the OIG staff who visited us. We appreciate the feedback, support and also the opportunity to strengthen our fraud controls.

Sincerely,

A handwritten signature in black ink that reads "Ashley Campbell".

Ashley H. Campbell
CEO/Executive Director
Legal Aid of North Carolina, Inc.

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