

Audit Report

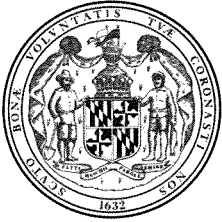
Maryland Legal Services Corporation

September 2014



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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Karl S. Aro
Executive Director

DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Thomas J. Barnickel III, CPA
Legislative Auditor

September 18, 2014

Senator James C. Rosapepe, Co-Chair, Joint Audit Committee
Delegate Guy J. Guzzone, Co-Chair, Joint Audit Committee
Members of Joint Audit Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Legal Services Corporation (MLSC) for the period beginning August 16, 2011 and ending June 25, 2014. In accordance with State law, MLSC receives funding from the Maryland Legal Services Corporation Fund, which is administered by the Administrative Office of the Courts. The funds received are distributed to grantees that provide civil legal assistance to eligible clients.

Our audit did not disclose any findings.

We wish to acknowledge the cooperation extended to us by MLSC during the course of this audit.

Respectfully submitted,

Thomas J. Barnickel III, CPA
Legislative Auditor

Background Information

Agency Responsibilities

The Maryland Legal Services Corporation (MLSC) is a nonstock, nonprofit corporation that distributes funds to grantees (nonprofit organizations) that provide certain legal assistance to income-eligible clients who are unable to pay for private counsel. MLSC is governed by a nine-member Board of Directors appointed by the Governor with the advice and consent of the Maryland Senate.

In accordance with the Annotated Code of Maryland, MLSC receives the vast majority of its funding from the Maryland Legal Services Corporation Fund (Fund), which is administered by the Administrative Office of the Courts (AOC). The Fund primarily includes interest on lawyer trust accounts (referred to as IOLTA) and certain surcharges assessed in civil court cases as provided for in State law. In addition, effective July 1, 2013, the State law was amended to provide for the Governor to appropriate \$1.5 million each year to the Fund from abandoned property funds deposited in the State's General Fund. Prior to this change, funding from the abandoned property funds was \$500,000 each year. Throughout each fiscal year, the AOC issues equal monthly disbursements from the Fund to MLSC based on projected Fund income. The table below depicts the amounts transferred by AOC from the Fund to MLSC related to fiscal years 2012 through 2014, including the original revenue sources.

Funds Transferred by AOC to MLSC

Revenue Source	Fiscal Year 2012	Fiscal Year 2013	Fiscal Year 2014
IOLTA	\$ 2,547,333	\$ 2,155,769	\$ 2,162,550
Circuit Court Surcharges	4,363,880	4,728,105	5,028,421
District Court Surcharges	8,429,072	8,387,762	8,219,740
Abandoned Property Fund	500,000	500,000	1,500,000
Total	\$ 15,840,285	\$ 15,771,636	\$ 16,910,711

Source: AOC records

Financial Statement Audits

In accordance with the Human Services Article, Section 11-407 of the Annotated Code of Maryland, MLSC engaged an independent accounting firm to perform audits of its financial statements for the fiscal years ended June 30, 2011, 2012, and 2013. In the related audit reports, the firm stated that MLSC's financial statements presented fairly, in all material respects, the financial position of MLSC and the respective changes in its financial position for the years then ended in conformity with the accounting principles generally accepted in the United States of America.

Findings and Recommendations

Our audit did not disclose any significant deficiencies in the design or operation of MLSC's internal control. Our audit also did not disclose any significant instances of noncompliance with applicable laws, rules, or regulations.

A draft copy of this report was provided to MLSC. Since there are no recommendations in this report, a written response was not necessary.

Audit Scope, Objectives, and Methodology

We have conducted a fiscal compliance audit of the Maryland Legal Services Corporation (MLSC) for the period beginning August 16, 2011 and ending June 25, 2014 as prescribed in the Human Services Article, Section 11-408 of the Annotated Code of Maryland. The audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The objectives of this audit were to examine MLSC's financial transactions, records, and internal control, and to evaluate its compliance with applicable State laws, rules, and regulations.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of significance and risk. The areas addressed by the audit included cash receipts, bank accounts, and grant

disbursements. Our audit procedures included inquiries of appropriate personnel, inspections of documents and records, and observations of MLSC's operations. We also tested transactions and performed other auditing procedures that we considered necessary to achieve our audit objectives. The reliability of data used in this report for background or informational purposes was not assessed.

MLSC's management is responsible for establishing and maintaining effective internal control. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets, and compliance with applicable laws, rules, and regulations are achieved.

Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that conditions may change or compliance with policies and procedures may deteriorate.

Our reports are designed to assist the Maryland General Assembly in exercising its legislative oversight function and to provide constructive recommendations for improving State operations. As a result, our reports generally do not address activities we reviewed that are functioning properly.

AUDIT TEAM

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