

Audit Report

Maryland Legal Services Corporation

October 2011



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Karl S. Aro
Executive Director

Bruce A. Myers, CPA
Legislative Auditor

October 18, 2011

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

Ladies and Gentlemen:

We have audited the Maryland Legal Services Corporation (MLSC) for the period beginning March 16, 2009 and ending August 15, 2011. 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 (AOC). The funds received are distributed to grantees that provide legal assistance to eligible clients in civil proceedings or matters.

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,

A handwritten signature in cursive script that reads 'Bruce A. Myers'.

Bruce A. Myers, 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, State law provides for the Governor to appropriate \$500,000 each year to the Fund, which has historically come from abandoned property funds deposited in the State's General Fund. 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 for fiscal years 2009 through 2011, including the original revenue sources.

Funds Transferred by AOC to MLSC

Revenue Source	Fiscal Year 2009	Fiscal Year 2010	Fiscal Year 2011
IOLTA	\$ 3,950,869	\$ 2,276,001	\$ 2,524,001
Circuit Court Surcharges	2,525,772	2,888,062	4,026,588
District Court Surcharges	5,372,595	5,203,660	8,915,710
Abandoned Property Fund	500,000	500,000	500,000
Total	\$ 12,349,236	\$ 10,867,723	\$ 15,966,299

Source: AOC records

Financial Statements

In accordance with the Human Services Article, Section 11-407 of the Annotated Code of Maryland, MLSC engaged an independent accounting firm to audit its financial statements annually. In the related audit reports, the firm stated that the financial statements presented fairly, in all material respects, the financial position of MLSC as of June 30, 2009 and 2010, and the changes in its net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Status of Findings From Preceding Audit Report

Our audit included a review to determine the status of the three findings contained in our preceding audit report dated July 30, 2009. We determined that MLSC satisfactorily addressed these findings.

Findings and Recommendations

Our audit did not disclose any significant deficiencies in the design or operation of MLSC's internal control. Nor did our audit 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 audited the Maryland Legal Services Corporation (MLSC) for the period beginning March 16, 2009 and ending August 15, 2011 as prescribed by 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. We also determined the status of the findings included in our preceding audit report.

In planning and conducting our audit, we focused on the major financial-related areas of operations based on assessments of materiality 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 objectives. Data provided in this report for background or informational purposes were deemed reasonable, but were not independently verified.

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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