

Audit Report

Maryland Legal Services Corporation

January 2022



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Gregory A. Hook, CPA
Legislative Auditor

January 19, 2022

Senator Clarence K. Lam, M.D., Senate Chair, Joint Audit and Evaluation Committee
Delegate Carol L. Krimm, House Chair, Joint Audit and Evaluation Committee
Members of Joint Audit and Evaluation Committee
Annapolis, Maryland

Ladies and Gentlemen:

We have conducted a fiscal compliance audit of the Maryland Legal Services Corporation (MLSC) for the period beginning May 8, 2017 and ending July 31, 2021. 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 during the audit by MLSC.

Respectfully submitted,

Gregory A. Hook, 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 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), certain surcharges assessed in civil court cases, and abandoned property¹ funds as provided for in State law. Throughout each fiscal year, the AOC issues equal monthly disbursements from the Fund to MLSC based on projected Fund income. Figure 1 below depicts the amounts transferred by AOC from the Fund to MLSC related to fiscal years 2017 through 2021, including the original revenue sources.

Figure 1
Funds Transferred by AOC to MLSC

| Revenue Source | Fiscal Year | | | | |
|---------------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | 2017 | 2018 | 2019 | 2020 | 2021 |
| IOLTA | \$ 2,334,097 | \$ 3,851,091 | \$ 5,695,715 | \$ 6,295,918 | \$ 2,298,532 |
| Circuit Court Surcharges | 4,209,879 | 4,107,183 | 4,116,196 | 3,531,770 | 3,219,883 |
| District Court Surcharges | 8,469,161 | 8,595,942 | 8,860,366 | 7,122,599 | 5,260,752 |
| Abandoned Property Fund | 1,500,000 | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 |
| Total | \$ 16,513,137 | \$ 18,554,216 | \$ 20,672,277 | \$ 18,950,287 | \$ 12,779,167 |

Source: AOC records

¹ Effective July 1, 2017, State law was amended to provide for the Governor to appropriate \$2 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 \$1.5 million each year. In addition, effective July 1, 2021, State law was again amended to provide for the Governor to appropriate \$8 million each year to the Fund from abandoned property funds deposited in the State's General Fund.

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, 2017, 2018, 2019, and 2020. 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 accordance with the accounting principles generally accepted in the United States of America.

Findings and Recommendations

Our audit did not disclose any deficiencies in the design or operation of MLSC's internal control. Our audit also did not disclose any 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 May 8, 2017 and ending July 31, 2021. 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.

As prescribed by the State Government Article, Section 2-1221 of the Annotated Code of Maryland, 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 grants, bank accounts, and disbursements.

Our assessment of internal controls was based on agency procedures and controls in place at the time of our fieldwork. Our tests of transactions and other auditing procedures were generally focused on the transactions occurring during our audit period of May 8, 2017 to July 31, 2021, but may include transactions before or after this period as we considered necessary to achieve our audit objectives.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, tests of transactions and to the extent practicable, observations of MLSC's operations. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk, the timing or dollar amount of the transaction, or the significance of the transaction to the area of operation reviewed. As a matter of course, we do not normally use sampling in our tests, so unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, unless sampling is specifically indicated in a finding, the results from any tests conducted or disclosed by us cannot be used to project those results to the entire population from which the test items were selected. We also 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. As provided in *Government Auditing Standards*, there are five components of internal control: control environment, risk assessment, control activities, information and communication, and monitoring. Each of the five components, when significant to the audit objectives, and as applicable to MLSC, were considered by us during the course of this audit.

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.

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