

Audit Report

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**Maryland Legal Services Corporation**

July 2017

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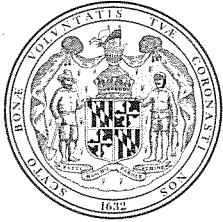
**OFFICE OF LEGISLATIVE AUDITS**  
DEPARTMENT OF LEGISLATIVE SERVICES  
MARYLAND GENERAL ASSEMBLY

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DEPARTMENT OF LEGISLATIVE SERVICES  
OFFICE OF LEGISLATIVE AUDITS  
MARYLAND GENERAL ASSEMBLY

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Legislative Auditor

July 19, 2017

Senator Craig J. Zucker, Co-Chair, Joint Audit Committee  
Delegate C. William Frick, 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 June 26, 2014 and ending May 7, 2017. 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,

A handwritten signature in black ink, appearing to read "TJ Barnickel III".

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, 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. 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 2014 through 2016, including the original revenue sources.

#### Funds Transferred by AOC to MLSC

Revenue Source	Fiscal Year 2014	Fiscal Year 2015	Fiscal Year 2016
IOLTA	\$ 2,162,550	\$ 1,902,867	\$ 1,896,120
Circuit Court Surcharges	5,028,421	4,752,259	4,605,494
District Court Surcharges	8,219,740	7,908,632	8,403,584
Abandoned Property Fund	1,500,000	1,500,000	1,500,000
<b>Total</b>	<b>\$ 16,910,711</b>	<b>\$ 16,063,758</b>	<b>\$ 16,405,198</b>

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, 2014, 2015, and 2016. 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 June 26, 2014 and ending May 7, 2017, 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.

To accomplish our audit objectives, our audit procedures included inquiries of appropriate personnel, inspections of documents and records, observations of MLSC's operations, and tests of transactions. Generally, transactions were selected for testing based on auditor judgment, which primarily considers risk. Unless otherwise specifically indicated, neither statistical nor non-statistical audit sampling was used to select the transactions tested. Therefore, the results of the tests 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.

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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Senior Auditor