

Audit Report

Maryland Legal Services Corporation

May 2025



OFFICE OF LEGISLATIVE AUDITS
DEPARTMENT OF LEGISLATIVE SERVICES
MARYLAND GENERAL ASSEMBLY

Joint Audit and Evaluation Committee

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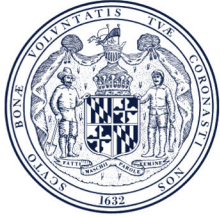
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DEPARTMENT OF LEGISLATIVE SERVICES
OFFICE OF LEGISLATIVE AUDITS
MARYLAND GENERAL ASSEMBLY

Victoria L. Gruber
Executive Director

Brian S. Tanen, CPA, CFE
Legislative Auditor

May 22, 2025

Senator Shelly L. Hettleman, Senate Chair, Joint Audit and Evaluation Committee
Delegate Jared Solomon, 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 August 1, 2021 and ending March 31, 2025. In accordance with State law, MLSC receives funding primarily through the Maryland Legal Services Corporation Fund and the Access to Counsel in Evictions Fund. 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,

Brian S. Tanen

Brian S. Tanen, CPA, CFE
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.

MLSC receives most of its funding from the Maryland Legal Services Corporation Fund (MLSC Fund), which is administered by the Administrative Office of the Courts (AOC). The MLSC Fund appropriation is set in the State's budget each year based on projected revenues. Throughout each fiscal year, the AOC issues equal monthly disbursements from the MLSC Fund to MLSC up to the appropriation limit.¹ The MLSC Fund primarily includes interest on lawyer trust accounts (referred to as IOLTA), abandoned property funds, and certain surcharges assessed in civil court cases as provided for in State law.

According to its records, during fiscal year 2024, MLSC's revenues totaled approximately \$71.6 million, including primarily \$47.9 million of MLSC Fund appropriations and \$11.1 million of eviction prevention funding through the Access to Counsel in Evictions Program. In addition, MLSC's expenditures totaled approximately \$50.3 million in fiscal year 2024. Revenues have significantly increased during the audit period (from \$21.8 million in fiscal year 2022) primarily due to increases in IOLTA revenue and a new legal services program, described below.

Access to Counsel in Evictions (ACE) Program and Fund

Effective October 1, 2021, the Real Property Article was amended to add Sections 8-903 and 8-909 of the Annotated Code of Maryland to create the ACE Program and the ACE Fund, respectively. The purpose of the ACE Program is to organize and direct services and resources in order to provide all covered individuals² in

¹ If actual revenues received in the Fund exceed the annual appropriation, the excess can either be disbursed through a budget amendment to the Fund appropriation or it can be carried forward to subsequent years.

² As prescribed by the Real Property Article, Section 8-901(c)(1)-(2) of the Annotated Code of Maryland, a "covered individual" means an individual who occupies a residential property under a claim of legal right other than owner, including a tenant in a building owned, operated, or managed by a public housing authority; and is a member of a household with an income that is not greater than 50 percent of the median income, adjusted for household size, in the State as determined by the United States Department of Health and Human Services or its successor.

the State with access to legal representation in evictions. The ACE Fund, which is administered by MLSC, includes funds received by the Division of Consumer Protection in the Office of the Attorney General from sources including any final settlement or agreement with or judgment against a party relating to an investigation or enforcement of the Maryland Consumer Protection Act.

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, 2021, 2022, 2023, and 2024. 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 August 1, 2021 and ending March 31, 2025. 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 MLSC's 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 August 1, 2021 to March 31, 2025, 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 performed other auditing procedures that we considered necessary to achieve our 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.

AUDIT TEAM

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