Office of Inspector General
Legal Services Corporation

Inspector General
Jeffrey E. Schanz

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MEMORANDUM

TO: Board of Directors
Legal Services Corporation

FROM: Jeffrey E. Schanz
Inspector General

SUBJECT: Transmittal of FY 2020 Financial Statement Audit Report

DATE: May 20, 2021

The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of CliftonLarsonAllen, LLP (CLA) to audit the financial statements of the Legal Services Corporation (LSC) as of and for the fiscal years ended September 30, 2020, and 2019. The contract required that the audit be performed in accordance with auditing standards generally accepted in the United States of America, as well as the standards applicable to financial audits contained in the *Government Auditing Standards,* issued by the Comptroller General of the United States.

CLA's Independent Auditor's Report on the Financial Statements, Independent Auditor's Report on Internal Control, and Independent Auditor's Report on Compliance and Other Matters were dated April 20, 2021. The OIG received the final reports from the Independent Auditor on May 5, 2021.

In its Independent Auditor's Report on the Financial Statements, CLA reported that LSC's financial statements fairly presented, in all material respects, the financial position of LSC as of September 30, 2020, and 2019, and the related statement of activities and changes in net assets, cash flows, and functional expenses for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

CLA’s Independent Auditor’s Report on the Financial Statements and Independent Auditor’s Report on Compliance with Laws and Other Matters reported that the results of their tests disclosed no instances of noncompliance or other matters required to be reported under *Government Auditing Standards*.

CLA’s Independent Auditor’s Report on Internal Control identified one significant deficiency in internal control that is considered to be less severe than a material weakness yet important enough to merit attention by those charged with governance. CLA found there were inadequate segregation of duties over financial reporting specific to management of grantee payment information, inadequate system access controls, and a lack of written policies and procedures within the finance department.

The OIG reviewed the audit reports from CLA and related audit documentation and inquired of their representatives. The OIG's review disclosed no instances in which CLA did not comply, in all material respects, with *Government Auditing Standards*. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, opinions on LSC's financial statements, conclusions about compliance with applicable laws and regulations, or the effectiveness of internal controls. CLA is responsible for the attached audit reports, dated April 20, 2021, and the conclusions expressed therein.

Attachment

cc: Ron Flagg
President

LEGAL SERVICES CORPORATION

FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2020 AND 2019

LEGAL SERVICES CORPORATION
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YEARS ENDED SEPTEMBER 30, 2020 AND 2019

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Inspector General and Board of Directors
Legal Services Corporation
Washington, DC

We have audited the accompanying financial statements of Legal Services Corporation (a nonprofit organization), which comprise the statements of financial position as of September 30, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Legal Services Corporation as of September 30, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2020 Legal Services Corporation adopted new accounting guidance for recognizing revenue from contracts with customers. Our opinion is not modified with respect to this matter.

Additionally, management has adopted aspects of Accounting Standards Update (ASU) No. 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* relating to contributions received. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated April 20, 2021, on our consideration of Legal Services Corporation's internal control over financial reporting and the results of our test of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Legal Services Corporation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Legal Services Corporation's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, Maryland
April 20, 2021

LEGAL SERVICES CORPORATION
STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2020 AND 2019

	2020	2019
ASSETS		
Cash and Cash Equivalents	$ 116,257,033	$ 120,563,289
Accounts Receivable, Net	136,842	156,507
Grant Receivable	1,202,775	1,164,475
Prepaid Expenses and Other Assets	358,490	316,098
Property and Equipment, Net	324,538	383,391
Contributions Receivable	105,000	365,000
Total Assets	$ 118,384,678	$ 122,948,760
LIABILITIES AND NET ASSETS		
LIABILITIES		
Grants Payable	$ 67,580,987	$ 63,996,651
Accounts Payable and Accrued Expenses	693,669	554,199
Accrued Payroll and Other Payroll Liabilities	1,550,645	1,388,196
Deferred Revenue	-	800,000
Total Liabilities	69,825,301	66,739,046
NET ASSETS		
Without Donor Restrictions	8,569,797	8,151,404
With Donor Restrictions	39,989,580	48,058,310
Total Net Assets	48,559,377	56,209,714
Total Liabilities and Net Assets	$ 118,384,678	$ 122,948,760

See accompanying Notes to Financial Statements.

LEGAL SERVICES CORPORATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE						
Federal Appropriations	$ 27,300,000	$ 462,700,000	$ 490,000,000	$ 24,725,000	$ 405,275,000	$ 430,000,000
Grant Revenue	-	2,698,997	2,698,997	-	2,580,000	2,580,000
Contributions	462,653	863,319	1,325,972	292,927	1,095,835	1,388,762
Investment Income	42,270	943,379	985,649	103,113	1,681,340	1,784,453
Other Income	318,783	-	318,783	388,504	-	388,504
Donated Services	-	-	-	-	-	-
Net Assets Released from Restriction	475,274,425	(475,274,425)	-	399,518,379	(399,518,379)	-
Total Support and Revenue	503,398,131	(8,068,730)	495,329,401	425,027,923	11,113,796	436,141,719
EXPENSES						
Program Services:						
Grants and Contracts	488,542,169	-	488,542,169	413,208,431	-	413,208,431
Total Program Services	488,542,169	-	488,542,169	413,208,431	-	413,208,431
Supporting Services:						
Management and Grant Oversight	7,898,468	-	7,898,468	8,811,344	-	8,811,344
Office of Inspector General	6,191,645	-	6,191,645	5,439,598	-	5,439,598
Fundraising (Institutional Advancement)	347,456	-	347,456	339,470	-	339,470
Total Supporting Services	14,437,569	-	14,437,569	14,590,412	-	14,590,412
Total Expenses	502,979,738	-	502,979,738	427,798,843	-	427,798,843
CHANGE IN NET ASSETS	418,393	(8,068,730)	(7,650,337)	(2,770,920)	11,113,796	8,342,876
Net Assets - Beginning of Year	8,151,404	48,058,310	56,209,714	10,922,324	36,944,514	47,866,838
NET ASSETS - END OF YEAR	$ 8,569,797	$ 39,989,580	$ 48,559,377	$ 8,151,404	$ 48,058,310	$ 56,209,714

See accompanying Notes to Financial Statements.

LEGAL SERVICES CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2020

	Program Services	Supporting Services				
	Grants and Contracts	Management and Grant Oversight	Office of Inspector General	Fundraising (Institutional Advancement)	Total Supporting Services	Total 2020
Compensation and Benefits	$ 11,172,143	$ 5,470,252	$ 4,781,983	$ 294,223	$ 10,546,458	$ 21,718,601
Professional Fees	769,468	368,533	651,474	262	1,020,269	1,789,737
Travel	216,134	153,667	93,285	3,100	250,052	466,186
Technology	932,793	1,020,824	213,843	22,393	1,257,060	2,189,853
Occupancy	876,397	623,887	366,853	23,300	1,014,040	1,890,437
Other Expenses	441,306	261,305	84,207	4,178	349,690	790,996
Grants	474,133,928	-	-	-	-	474,133,928
Total Expenses	$ 488,542,169	$ 7,898,468	$ 6,191,645	$ 347,456	$ 14,437,569	$ 502,979,738

See accompanying Notes to Financial Statements.

LEGAL SERVICES CORPORATION
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2019

	Program Services	Supporting Services				
	Grants and Contracts	Management and Grant Oversight	Office of Inspector General	Fundraising (Institutional Advancement)	Total Supporting Services	Total 2019
Compensation and Benefits	$ 10,262,164	$ 6,415,938	$ 4,245,814	$ 299,234	$ 10,960,986	$ 21,223,150
Professional Fees	805,246	438,866	515,392	-	954,258	1,759,504
Travel	730,115	555,969	185,591	6,255	747,815	1,477,930
Technology	31,461	96,926	20,886	790	118,602	150,063
Occupancy	876,632	565,405	354,963	28,524	948,892	1,825,524
Other Expenses	1,200,224	738,240	116,952	4,667	859,859	2,060,083
Grants	399,302,589	-	-	-	-	399,302,589
Total Expenses	$ 413,208,431	$ 8,811,344	$ 5,439,598	$ 339,470	$ 14,590,412	$ 427,798,843

See accompanying Notes to Financial Statements.

LEGAL SERVICES CORPORATION
STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ (7,650,337)	$ 8,342,876
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	140,703	140,053
Loss on Disposal of Assets	327	3,623
Changes in Operating Assets and Liabilities:		
Accounts Receivable	19,665	(116,922)
Grant Receivable	(38,300)	137,926
Prepaid Expenses and Other Assets	(42,392)	(7,330)
Contributions Receivable	260,000	(350,000)
Grants Payable	3,584,336	299,489
Accounts Payable and Accrued Expenses	139,470	(23,930)
Accrued Payroll and Other Payroll Liabilities	162,449	116,542
Deferred Revenue	(800,000)	800,000
Net Cash (Used) Provided by Operating Activities	(4,224,079)	9,342,327
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(82,177)	(118,269)
Net Cash Used by Investing Activities	(82,177)	(118,269)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,306,256)	9,224,058
Cash and Cash Equivalents - Beginning of Year	120,563,289	111,339,231
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 116,257,033	$ 120,563,289

See accompanying Notes to Financial Statements.

NOTE 1 ORGANIZATION AND PURPOSE

Legal Services Corporation (LSC, we, us, our) is a District of Columbia not-for-profit corporation, established by Congress in the Legal Services Corporation Act of 1974, Public Law 93-355, and amended in 1977 by Public Law 95-222. The purpose of LSC is to provide financial support to independent organizations that directly provide legal assistance in non-criminal proceedings or matters to persons financially unable to afford such counsel.

(a) Programs

Basic Field Grants – Provides funding to support the delivery of high-quality civil legal services and access to justice to low-income people throughout the United States and U.S. territories.

Technology Initiative Grants – Provides funding to promote technology to address the civil legal needs of low-income people to stretch limited resources, automate functions, and create easy-to-use information online for self-represented litigants.

Pro Bono Innovation Fund – Provides funding for the development of innovative and replicable pro bono efforts to serve low-income people through private, volunteer attorneys.

Herbert S. Garten Loan Repayment Assistance Program – Provides funding to individuals working for LSC grantees to assist with the payment of eligible law school loans. The program mitigates the economic hardships confronting attorneys, which helps LSC grantees recruit and retain highly qualified attorneys and increases the attorneys ability and willingness to stay employed by a legal aid organization.

Natural Disaster Supplemental Grants – Provides funding to legal aid organizations to address damage caused by hurricanes, wildfires, earthquakes, tornadoes, floods, and other natural disasters to support the delivery of legal services to individuals affected by disasters.

Veterans Consortium Pro Bono Program – Provides funding from Congress through the U.S. Court of Appeals for Veterans Claims in the Military constructions, Veterans Affairs, and Related Agencies. The program provides free attorneys for low-income veterans and their dependents challenging denials of veterans benefits in federal court.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act– Provides funding to help address the increasing numbers of people needing assistance due to the pandemic in the areas of evictions, domestic violence, unemployment assistance, consumer debt and income maintenance.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Financial Presentation

LSC's financial statements are prepared on the accrual basis of accounting. Accordingly, revenue is recognized when earned, and expenses are recorded when incurred in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). LSC recognizes contributions, including unconditional promises to give, as revenue in the period received. Contributions, net assets, and changes therein are classified and reported based on the existence or absence of donor-imposed restrictions. For the years ended September 30, 2020 and 2019, a portion of LSC's net assets are classified as with donor restrictions. These amounts represent contributions that are limited in accordance with donor-imposed stipulations.

(b) Cash and Cash Equivalents

LSC considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. LSC maintains its cash and cash equivalents (and certificates of deposit) in financial institutions which, at times, may exceed federally insured limits or are uninsured. LSC has not experienced any losses in such accounts.

(c) Liquidity

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use and excluding amounts obligated for basic field grants, within one year of the statement of financial position date, comprise the following as of September 30:

	2020	2019
Cash and Cash Equivalents	$ 116,257,033	$ 120,563,289
Accounts Receivable, Net	136,842	156,507
Grant and Contributions Receivable, Net	1,202,775	1,164,475
Total Financial Assets Available	117,596,650	121,884,271
Less:		
With Donor Restrictions	(39,989,580)	(48,058,310)
Basic Field Grants	(67,580,987)	(63,996,651)
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	$ 10,026,083	$ 9,829,310

LSC has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses, which are, on average, approximately $4,500,000.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Program-Related Receivables

Loans under the Herbert S. Garten Loan Repayment Assistance program are measured at fair value at inception and recognized as a receivable. If the recipient meets the conditions of the loan to remain employed by a legal aid organization for one full calendar year, then LSC forgives the loan amount. LSC recognizes grant expense and depletes the receivable balance on an annual basis for those loans that meet the requirements to be forgiven. If a recipient ends their employment with the legal aid organization prior to filling the full year commitment, then the loan remains as due to LSC. There are limited repayment terms on these outstanding loans resulting in the loan amounts being outstanding for a long period of time. LSC recognizes an allowance on the receivable balance for loans that are outstanding and relate to recipients who are still employed at the legal aid organization and are fulfilling their one-year requirement. As of September 30, 2020 and 2019, accounts receivable for the program were $1,272,269 and $601,900, with an allowance of $1,246,000 and $587,200, for a net receivable of $26,269 and $14,700, respectively.

(e) Grants and Contributions Receivable

Receivables are carried at original invoice or promise to give amount. Management determines the allowance for doubtful accounts by identifying questionable accounts and by using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. All grants and contributions receivable were deemed fully collectible within one year at September 30, 2020 and 2019.

(f) Property and Equipment

Property and equipment are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets. LSC annually reviews property and equipment assets for impairment of value and any adjustment necessary to reflect material impacts in value. The estimated useful lives are as follows:

Furniture and Equipment	10 Years
Software	10 Years
Leasehold Improvements	5 Years

(g) Grants Payable

Grant expense is recognized in the period the grant is countersigned and is payable within one year, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense and as a grant payable in the period in which the grantee meets the terms of the conditions.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets that are not subject to donor-imposed stipulations. Included within net assets without donor restrictions are resources available for LSC and the Office of Inspector General for general operations or designated by the board of directors for a specific use and are not subject to donor-imposed restrictions. For the periods ending September 30, 2020 and 2019, there were no board designated amounts in net assets without donor restrictions.

Net Assets With Donor Restrictions – Net assets with donor restrictions consist of assets whose use is limited by donor-imposed restrictions. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

(i) Revenue and Revenue Recognition

LSC receives federal appropriations which are reported as revenue in the period the appropriation is enacted into law. The federal appropriation is an unconditional, nonreciprocal contribution of cash to LSC from Congress.

Unconditional grants and contributions, including federal appropriations, are recognized as revenue when received or promised and are reported as support with donor restriction if they are received with donor or grantor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restriction are reclassified to net assets without donor restriction and reported in the statements of activities as net assets released from restrictions. As of September 30, 2020, LSC had $350,000 in unrecognized conditional contributions.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a program basis in the statement of activities and changes in net assets. The statement of functional expenses presents the natural classification detail of expenses by function. Most expenses are directly identified with a program activity or supporting service. However, certain costs are attributable to more than one program activity or supporting service and require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries, occupancy, technology, depreciation, printing, office supplies, and consulting based on estimates of time and effort. In addition, certain financial and human resource service costs were allocated to the Office of General Inspector supporting service category.

(k) Concentration of Risk

LSC receives substantially all its revenue from direct federal government appropriations. Should there be a significant reduction in this revenue, LSC’s programs and activities could be negatively affected.

(l) Tax Exempt Status

LSC is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the District of Columbia. Income, which is not related to its exempt purpose, less applicable deductions, is subject to federal and state corporate income taxes. LSC had no unrelated business income for the years ended September 30, 2020 and 2019.

(m) Estimates

The preparation of financial statements in conformity U.S. GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements. Estimates and assumptions may also affect the reported amount of revenues and expenses during the reporting period. Accordingly, actual results may differ from those estimates.

(n) Change in Accounting Principle

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which updates numerous requirements in U.S. GAAP, eliminates industry-specific guidance, and provides entities with a single model for recognizing revenue from contracts with customers. The core principle of the new standard is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 requires entities to identify contractual performance obligations and determine whether revenue should be recognized at a point in time or over time, based on when control of goods and services transfers to a customer. On October 1, 2019, LSC adopted ASU 2014-09 using the modified retrospective method, adoption of this guidance did not have a significant impact on LSC’s financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Change in Accounting Principle (Continued)

During fiscal year 2020, LSC also adopted ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. The guidance provided in this ASU will assist in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or as exchange (reciprocal) transactions and whether a contribution is conditional. As required by ASU 2018-08, LSC applied the requirements on a modified prospective basis to agreements that either are not completed as of October 1, 2019 or entered after October 1, 2019. The adoption of ASU 2018-08 did not have a significant impact on LSC's accounting for contributions, or federal appropriations. As allowed under the ASU, LSC will adopt the Contributions Made portion of the guidance in fiscal year 2021.

(o) Recent Accounting Guidance

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which is the leasing standard for both lessees and lessors. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard as amended, is effective for fiscal years beginning after December 15, 2021 with early adoption permitted. A modified retrospective transition approach is required for leases existing at, or entered after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Management is currently evaluating the impact of this standard on the financial statements.

(p) Reclassification

For comparative presentation purposes, certain 2019 amounts have been reclassified to conform to the 2020 presentation. These reclassifications had no effect on previously reported net asset amounts.

NOTE 3 PROPERTY AND EQUIPMENT

Property and equipment consist of the following at September 30:

	2020	2019
Furniture and Equipment	$ 1,765,696	$ 1,750,464
Software	33,399	33,399
Leasehold Improvements	13,095	13,095
Subtotal	1,812,190	1,796,958
Less: Accumulated Depreciation and Amortization	(1,487,652)	(1,413,567)
Total Property and Equipment, Net	$ 324,538	$ 383,391

Depreciation and amortization expense totaled $140,703 and $140,053 for the years ended September 30, 2020 and 2019, respectively.

NOTE 4 GRANTS RECEIVABLE

LSC operates under various federal appropriations and grants from private sources. Grants and contributions receivable consist of the following at September 30:

	2020	2019
Advances to Grantees for Program Specific Grants	$ 1,167,775	$ 614,475
Other Private Grants	35,000	550,000
Total	$ 1,202,775	$ 1,164,475

As of September 30, 2020 and 2019, all grants receivable are expected to be collected or settled within one year.

NOTE 5 RETIREMENT PLANS

Pursuant to the Legal Services Corporation Act, all officers and employees hired before October 1, 1988, are participants in the Civil Service Retirement Systems (CSRS), although they are neither officers nor employees of the federal government. The CSRS plan is administered by the United States Office of Personnel Management (OPM).

NOTE 5 RETIREMENT PLANS (CONTINUED)

LSC makes CSRS contributions at rates applicable to agencies of the federal government. The contributions do not equal the full-service cost of the pension expense, which is the actuarial present value of benefits attributed to services rendered by covered employees during the accounting period. The measurement of service cost requires the use of actuarial cost methods to determine the percentage of the employees' basic compensation sufficient to fund their projected pension benefit. These percentages (cost factors) are provided by OPM and the excess of total pension expense over the amount contributed by us and by our employees represents the amount that must be financed directly by OPM. Post-retirement CSRS benefits are paid by OPM. No amounts have been recognized in the financial statements for these imputed costs. LSC does not report in our financial statements CSRS' assets, accumulated plan benefits or unfunded liabilities, if any, applicable to the LSC's employees.

All officers and employees hired after September 30, 1988, are ineligible for the CSRS plan, but they are eligible to participate in LSC's pension and thrift plan, which is a tax deferred annuity plan subject to Section 403(b) of the Internal Revenue Code. LSC contributes 6% of each eligible employee's salary regardless of their participation. In addition, there is a matching contribution of the first 3.51% contributed by the employee. This matching contribution amount was increased from 2.51% to 3.51% effective January 1, 2020.

LSC's contributions to these plans for the years ended September 30, 2020 and 2019, were approximately $1,510,994 and $1,314,685, respectively. The amounts are included in compensation and benefits on the accompanying statements of functional expenses.

LSC also offers tax deferred annuity savings plans. CSRS eligible employees may contribute pretax earnings to the federal Thrift Savings Plan, and 403(b) eligible employees may contribute additional pretax earnings to the Section 403(b) plan. These plans are subject to different maximum amounts as permitted by the prevailing laws. LSC makes no contributions to these tax deferred savings plans.

NOTE 6 NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at September 30, 2020 and 2019, consist of:

	2020	2019
Emergency Disaster Relief	$ 12,154,152	$ 22,987,340
Technology Initiative Grant	10,329,188	8,930,340
Pro Bono Innovation	8,203,895	8,073,940
Loan Repayment Assistance	2,853,306	1,920,014
Basic Field Grants	2,203,845	3,764,823
U.S. Court of Veterans Appeals	102,313	71,718
Other Purpose Restrictions	4,142,881	2,310,135
Total	$ 39,989,580	$ 48,058,310

NOTE 7 COMMITMENTS AND CONTINGENCIES

Leases

LSC is obligated under a lease agreement for office space through May 2023. Total rent expense for the years ended September 30, 2020 and 2019, was $1,710,000 for each year. In addition to base rent, LSC is required to pay its pro rata share of real estate taxes and operating expenses in excess of the base year, as defined by the lease, for the fiscal years ended September 30, 2020 and 2019, were $98,262 and $86,774, respectively. LSC has the right to terminate the lease by giving no less than 120-day prior written notice if LSC does not receive an appropriation from Congress for administrative costs sufficient to cover LSC and its rental obligations for any period during the term of the lease.

Future minimum lease payments are as follows:

Fiscal Year	Amount
2021	$ 1,710,000
2022	1,710,000
2023	1,140,000
Total Minimum Lease Payments	$ 4,560,000

Conditional Grants

As of September 30, 2020, subject to the grantees meeting the applicable terms and conditions, conditional grants awarded to date are expected to be paid in the following years:

Fiscal Year	Amount
2021	$ 11,869,147
2022	11,910,909
2023	4,985,312
Total Conditional Grants Awarded to Date and Unpaid	28,765,368
Total Conditional Grants Advanced to Grantees	1,167,775
Total	$ 29,933,143

Advances of conditional grants are included in grants receivable on the statements of financial position until such time as the conditions are met and the grant expense is recognized. Management expects the grantees will achieve the milestones set forth in the conditional grants and thus the grant amounts will ultimately be recognized as an expense in future years. Unpaid amounts will be funded by net assets with donor restrictions.

NOTE 8 SUBSEQUENT EVENTS

LSC has evaluated subsequent events occurring after the statement of financial position date through April 20, 2021, the date the financial statements were available for issuance and determined that no additional disclosures are required.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Inspector General and Board of Directors
Legal Services Corporation
Washington, DC

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Legal Services Corporation, which comprise the statement of financial position as of September 30, 2020, and the related statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated April 20, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Legal Services Corporation's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Legal Services Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of Legal Services Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying schedule of findings as item 2020-001 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Legal Services Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Legal Services Corporation’s Response to Findings

Legal Services Corporation’s response to the findings identified in our audit is described in the accompanying schedule of findings. Legal Services Corporation’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Greenbelt, Maryland
April 20, 2021

2020-001 – Segregation of Duties

Type of Finding: Significant Deficiency in Internal Control Over Financial Reporting

Criteria or Specific Requirement: Management is responsible for establishing and maintaining internal controls over financial reporting and safeguarding of assets.

Condition: We noted the following conditions existed during the year under audit:

- A process to review and verify the accuracy and propriety of changes to grantee payment information was not in place. This task was performed by one individual without review or approval and without a multifactor authentication process with the grantee.
- Within NetSuite, a total of nine administrator users were identified consisting of both consultants and LSC employees to ensure the accounting system was properly implemented. The administrator permission is unrestricted in nature and does allow the user to delete, edit and modify transactions within the system. During our testing, we identified a journal entry in NetSuite that was dated in January 2020; however, it should have been dated in January 2021. When LSC corrected the journal entry they modified the date of the journal entry that had already been posted.
- Legal Service Corporation's written policies and procedures within the finance department do not accurately reflect current policies and procedures utilized for accounting transactions and financial reporting.

Context: Subsequent to year end, LSC and one of their grant recipients were defrauded of approximately $1,100,000 through a Business Email Compromise scheme. The $1,100,000 was intended for a legitimate grantee but was wired to the perpetrator's bank account. In addition, during fiscal year 2020, LSC implemented a comprehensive accounting software, NetSuite. Documentation of a comprehensive policies and procedures manual for the finance department would help identify gaps in internal controls and areas where duties are not adequately segregated.

Cause: Inadequate segregation of duties over financial reporting specific to management of the grantee payment information, inadequate system access controls, and a lack of written policies and procedures within the finance department.

Effect: The effects of these conditions include the following:

- The lack of segregation of duties over the maintenance of grantee payment information and the lack of multifactor authorization of changes to payment information with the grantee provides an opportunity for fraud or errors in payments to grantees to occur. Fraud or errors in grantee payments would likely be detected but not prevented.
- The conditions raise a concern that automated controls are not properly limiting the abilities of system users and supporting segregation of duties which could result in errors or fraud occurring and not being prevented or detected in a timely manner.
- The ability to make changes to transactions that have been approved and posted weakens the integrity of the system's data.
- The lack of written policies and procedures within the finance department creates the risk that unidentified control weaknesses exist.

Recommendations: We recommend the following:

- Management of LSC should create written policies and procedures within the finance department and use this process to identify and mitigate weaknesses in current practices and controls paying specific attention to automated controls and segregation of duties.
- Specifically LSC should ensure that individuals with administrator rights within NetSuite are limited to only those who require that level of access to perform their duties and that access rights provide an automated control that supports segregation of duties.
- LSC should evaluate their system of managing grantee payment information and make changes to controls to ensure these duties are segregated. LSC should consider implementing automated controls to prevent unauthorized changes from being made. Lastly, LSC should require a multifactor authentication process with grantees to ensure any changes to payment information are valid.

Management Response and Corrective Action Plan:

LSC management concurs with the auditors' assessment of a significant deficiency related to the inadequate segregation of duties specific to a business email compromise incident in December 2020. Management takes seriously its obligations for establishing and maintaining internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and compliance with applicable laws and regulations. As explained below, management has taken corrective action or in some cases is in the process of completing the corrective action.

Written Policies and Procedures

In April 2020, CLA recommended in their management letter that LSC update its accounting manual to reflect current policies and procedures in the Office of Financial and Administrative Services (OFAS). In management's response to the 2020 management letter recommendation, LSC indicated that OFAS would document all new and updated policies and procedures after the new accounting system, NetSuite, was in place. In order to maintain effective internal controls, OFAS acknowledged it should: 1) document and maintain adequate policies and procedures; 2) communicate these policies and procedures; and 3) monitor compliance with policies and procedures. LSC engaged an auditing firm in November 2020 to document OFAS' existing policies and procedures, make recommendations to strengthen internal controls and incorporate new NetSuite processes in the new accounting manual. The project is scheduled to be completed in July 2021.

NetSuite Administrator Rights

During a system implementation, it is very common to have multiple users with administrator rights to integrate third party software and configure the accounting system. The administrator role is a powerful role because it is a global role that applies to the entire accounting system and it cannot be customized. NetSuite recommends organizations have more than one administrator for the system.

During the 2020 audit, CLA noted there were nine administrators of which six were consultants and three were LSC staff, serving in their capacities as IT administrator, NetSuite administrator and accounting administrator. An administrator role must be assigned to do one of the following tasks: 1) assign roles; 2) configure NetSuite for operations; 3) external development; 4) resolve user issues; 5) define processes within NetSuite; 6) system clean-up; and 7) establishing best practices across the NetSuite environment. Once the third-party software integrations are completed, the total number of administrators in NetSuite will be two. OFAS has implemented practices to strengthen segregation of duties with administrator rights:

1. Administrator roles and rights were reviewed. As a result of the review, a new role was created for the specific rights to perform functions essential for accounting transactions, which eliminated the need for one administrator in the accounting system.

2. All users' access rights will be reviewed on a periodic basis to ensure that there is a legitimate business purpose for the access granted to each user.

3. An email is sent to the CFO when a user's access has changed to confirm if the appropriate access has been granted.

Managing Grantee Payment Information

OFAS is implementing a third-party self-service vendor management portal where grantees, vendors, employees, and other payees can login and update their banking information directly, including tax form collection. The third-party software integrates with NetSuite to allow the seamless transfer of vendor data with documentation and sign-off requirement handled through automation. It also includes a multi-factor authentication in which the vendor is granted access to the portal after successfully presenting evidence to an authentication mechanism. The solution will be implemented in May 2021.