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 2013 Financial Statement Audit Report

DATE: January 8, 2014

The Office of Inspector General (OIG) contracted with the independent certified public accounting firm of WithumSmith+Brown, PC (WS+B) to audit the financial statements of the Legal Services Corporation (LSC) as of September 30, 2013. The audit was required to be conducted 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.

The Independent Auditors' Report on LSC's Financial Statements and Report On Internal Control over Financial Reporting and On Compliance and Other Matters by WS+B were dated December 19, 2013. The OIG received the final reports from the Independent Auditor on December 20, 2013.

The Independent Auditors' Report by WS+B stated that LSC's financial statements present fairly, in all material respects, the financial position of LSC as of September 30, 2013 and 2012, 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.

WS+B's 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* did not identify any deficiencies in internal control that are considered to be material weaknesses; and, reported that the results of their tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

OIG reviewed the audit reports from WS+B and related audit documentation and inquired of their representatives. OIG's review disclosed no instances in which WS+B did not comply, in all material respects, with *Government Auditing Standards*. Our review, as differentiated from an audit in accordance with 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. WS+B is responsible for the attached audit reports, dated December 19, 2013, along with the conclusions expressed in the reports.

Along with the audit report, the OIG is transmitting a management letter prepared by the Independent Auditor that addresses an opportunity for strengthening LSC's internal controls and operating efficiency related to LSC's process for preparing complete and accurate footnote disclosures. The letter also includes two recommendations to improve the process, which LSC management agreed to consider.

Attachment

cc: Jim Sandman
President

WithumSmith+Brown
A Professional Corporation
Certified Public Accountants and Consultants

Legal Services Corporation

Financial Statements

September 30, 2013 and 2012

With Independent Auditors' Report

Legal Services Corporation
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WithumSmith+Brown
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Certified Public Accountants and Consultants

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Independent Auditors' Report

To Inspector General and Board of Directors,
Legal Services Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of Legal Services Corporation ("LSC"), which comprise the statements of financial position as of September 30, 2013 and 2012, and the related statements of activities 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.

Auditor's 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 auditor's 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 LSC as of September 30, 2013 and 2012, 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 Matter

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Management's Discussion and Analysis is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013, on our consideration of LSC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Withum Smith + Brown, PC

Silver Spring, Maryland
December 19, 2013

Basic Financial Statements

Legal Services Corporation
Statements of Financial Position
September 30, 2013 and 2012

		2013		2012
Assets				
Current Assets				
Cash and cash equivalents	$	71,080,835	$	73,577,157
Accounts receivable, net		16,935		29,073
Prepaid expenses and deposits		305,584		228,840
Total current assets		71,403,354		73,835,070
Property and equipment, net		463,096		637,802
	$	71,866,450	$	74,472,872
Liabilities and Net Assets				
Current Liabilities				
Grants and contracts payable	$	57,581,223	$	60,201,520
Accounts payable		305,261		600,877
Accrued vacation and other liabilities		1,145,307		1,098,335
Deferred revenue		5,504,763		3,630,389
Total current liabilities		64,536,554		65,531,121
Net assets				
Unrestricted				
Undesignated		6,256,633		7,326,689
Board designated		334,095		690,069
Net investment in fixed assets		463,096		637,802
Total unrestricted		7,053,824		8,654,560
Temporarily restricted		276,072		287,191
Total net assets		7,329,896		8,941,751
	$	71,866,450	$	74,472,872

The Notes to Financial Statements are an integral part of these statements.

Legal Services Corporation
Statement of Activities and Change in Net Assets
Year Ended September 30, 2013

	Unrestricted	Temporarily Restricted	Total
Support and Revenues			
Federal appropriations	$ 339,926,164	$ 950,000	$ 340,876,164
Grant revenue	2,519,572	-	2,519,572
Other income	29,657	-	29,657
Change in deferred revenue	(1,874,374)	-	(1,874,374)
Net assets released from restriction	961,119	(961,119)	-
Total Revenue	341,562,138	(11,119)	341,551,019
Expenses			
Program services			
Grants and contracts	320,928,559	-	320,928,559
Herbert S. Garten Loan Repayment Assistance Program	1,095,858	-	1,095,858
Supporting services			
Management and grants oversight	16,538,760	-	16,538,760
Office of Inspector General	4,599,697	-	4,599,697
Total Expenses	343,162,874	-	343,162,874
Change in net assets	(1,600,736)	(11,119)	(1,611,855)
Net assets, beginning of year	8,654,560	287,191	8,941,751
Net assets, end of year	$ 7,053,824	$ 276,072	$ 7,329,896

The Notes to Financial Statements are an integral part of these statements.

Legal Services Corporation
Statement of Activities and Change in Net Assets
Year Ended September 30, 2012

	Unrestricted	Temporarily Restricted	Total
Support and Revenues			
Federal appropriations	$ 348,000,000	$ -	$ 348,000,000
Grant revenue	2,726,363	293,000	3,019,363
Other income	11,569	-	11,569
Change in deferred revenue	3,044,274	-	3,044,274
Net assets released from restriction	18,309	(18,309)	
Total Revenue	353,800,515	274,691	354,075,206
Expenses			
Program services			
Grants and contracts	332,178,276	-	332,178,276
Herbert S. Garten Loan Repayment Assistance Program	575,462	-	575,462
Supporting services			
Management and grants oversight	16,025,687	-	16,025,687
Office of Inspector General	4,371,640	-	4,371,640
Total Expenses	353,151,065	-	353,151,065
Change in net assets	649,450	274,691	924,141
Net assets, beginning of year	8,005,110	12,500	8,017,610
Net assets, end of year	$ 8,654,560	$ 287,191	$ 8,941,751

The Notes to Financial Statements are an integral part of these statements.

Legal Services Corporation
Statements of Cash Flows
Years Ended September 30, 2013 and 2012

	2013	2012
Cash flows from operating activities		
Change in net assets	$ (1,611,855)	$ 924,141
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	262,709	315,820
Loss on disposal of assets	544	-
Changes in assets and liabilities:		
Accounts receivable	12,138	(12,600)
Prepaid expenses and deposits	(76,744)	(53,965)
Grants and contracts payable	(2,620,296)	(3,986,334)
Accounts payable	(295,616)	(367,451)
Accrued vacation and other liabilities	46,972	(126,955)
Deferred revenue	1,874,374	(3,044,274)
Net cash used by operations	(2,407,774)	(6,351,618)
Cash flows from investing activities		
Purchase of property and equipment	(88,548)	(199,383)
Net cash used by investing activities	(88,548)	(199,383)
Net decrease in cash and cash equivalents	(2,496,322)	(6,551,001)
Cash and cash equivalents		
Beginning of year	73,577,157	80,128,158
End of year	$ 71,080,835	$ 73,577,157
Supplemental information		
Income taxes paid	$ -0-	$ -0-
Interest paid	$ -0-	$ -0-

The Notes to Financial Statements are an integral part of these statements.

1. Organization and Purpose

Legal Services Corporation ("LSC") is a private non-membership District of Columbia nonprofit 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.

2. Summary of Significant Accounting Policies

Basis of Accounting

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.

The federal appropriations include amounts received and expended in furtherance of LSC's objectives.

Basis of Presentation

LSC follows accounting standards established by the Financial Accounting Standards Board (FASB) which is the source of generally accepted accounting principles (GAAP) for not-for-profit entities. The financial statement presentation follows the recommendations of the FASB Accounting Standards Codification (ASC) 958, Not-for-Profit Entities. Under FASB ASC 958, LSC is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

LSC has recorded transactions in the following net asset categories:

Unrestricted net assets – net assets that are not subject to donor imposed restrictions.

Temporarily restricted net assets – Net assets subject to donor or grant imposed restrictions that will be met by the passage of time or which will be fulfilled by the actions of LSC.

Cash and Cash Equivalents

LSC's cash and cash equivalents includes a fund balance with U.S. Treasury of $1,359,145 and $39,548,455 as of September 30, 2013 and 2012, respectively.

Accounts Receivable

Accounts receivable are net of an allowance of $534,666 and $593,848 as of September 30, 2013 and 2012, respectively, determined based on historical experience and an analysis of specific amounts.

Property and Equipment

Capital assets are stated at cost and depreciated using the straight-line method over the estimated useful lives of the assets of five to ten years. Depreciation is reported as an unallocated expense and is not directly identified with individual functions.

Revenues

Federal appropriations are normally reported as support and revenue in the period the public law makes them available and the appropriations remains available until expended. Unexpended appropriated funds are shown as deferred revenue and adjustments are made to the account Change in Deferred Revenue to recognize the annual adjustment. The exception this year is the appropriated funds to LSC under Public Law 113-2 for the Disaster Relief Appropriations Act of 2013 to address civil legal issues to low-income people significantly affected by Hurricane Sandy. These unexpended appropriated funds are shown as temporarily restricted. The legal assistance must be accomplished through mobile resources, technology resources, pro bono assistance, and other services resulting from the super storm. There is a two-year limitation on the availability of these funds at which time they must be returned to the Department of the Treasury.

Grants and Contracts to Recipients
Liabilities, expenses and revenues related to grant and contract awards are recognized when the awarding document is fully executed. Grant awards are made to recipients on a calendar year basis from appropriations received by LSC.

Grant Recoveries
Grantees who have not complied with the requirements of the Legal Services Corporation Act of 1974 and implementing regulations may be subject to actions that result in a recovery of grant funds. Sources of grant refunds may include recoveries of disallowed costs, excess fund balances, unexpended funds on Private Attorney Involvement programs and sanctions imposed by LSC for failure to comply with other regulatory requirements, as well as other types of recoveries. Grant recoveries are reported as a reduction of grant and contract expenses on the accompanying statements of activities.

Net Assets
Net assets related to federal appropriations have been reported as designated, undesignated or temporarily restricted. Designated net assets represent amounts that have been earmarked by the Board of Directors for continuing programs and administrative activities. Undesignated net assets represent appropriated federal carryover and other operating excess, which are available for future use at the discretion of the Board of Directors. The net assets reported as temporarily restricted include appropriated funding for Hurricane Sandy Disaster Relief, which has a two-year limitation on the availability and limits the use of the funds and the Public Welfare Foundation grant due to donor stipulations that limit the use of the donated asset. Net assets invested in fixed assets represent investments in property, equipment and computer software, net of accumulated depreciation and amortization.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Income Taxes
LSC is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code and the applicable income tax regulations of the District of Columbia, except for unrelated business income. No provision for income taxes was required for the year ended September 30, 2013 and 2012, as LSC had no net unrelated business income.

LSC evaluates its uncertain tax positions using the provisions of FASB ASC 450, Accounting for Contingencies. Accordingly, a loss contingency is recognized when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimates and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position or for all uncertain tax positions in the aggregate could differ from the amount recognized. There were no liabilities for uncertain tax positions as of September 30, 2013 and 2012. There was also no tax related to interest and penalties reported in the financial statements.

LSC's Forms 990, Return of Organization Exempt from Income Tax, for the years ending September 30, 2011, 2012 and 2013 are subject to examination by the IRS, generally for 3 years after they were filed.

Concentration of Revenue
LSC receives substantially all of 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.

3. Concentration of Credit Risk – Deposits

At September 30, 2012, LSC funds were in non-interest bearing accounts. LSC's cash accounts are subject to Federal Deposit Insurance Corporation (FDIC) limits. Non-interesting bearing accounts were fully insured by the FDIC through December 31, 2012. As of January 1, 2013, FDIC insurance coverage was limited to $250,000 per institution. In January 2013, Management started using sweep accounts when the unlimited FDIC insurance coverage ended, and invested amounts over $250,000 in high-quality, short-term mutual funds that consist of U.S. Treasury obligations to protect the funds. The bank account balances at September 30, 2013 and 2012 total $69,719,690 and $34,026,702.

4. Equipment

Property and equipment consists of the following at September 30, 2013:

September 30, 2013

	Beginning Balance	Additions	Disposals	Ending Balance
Furniture and equipment	$ 2,333,827	$ 76,988	$ (67,586)	$ 2,343,229
Software	566,188	6,013	-	572,201
Leasehold improvements	455,647	5,546	(455,648)	5,545
Subtotal	3,355,662	88,547	(523,234)	2,920,975
Less: Accumulated depreciation /amortization	(2,717,860)	(262,709)	522,690	(2,457,879)
Capital assets (net)	$ 637,802	$ (174,162)	$ (544)	$ 463,096

Property and equipment consists of the following at September 30, 2012:

September 30, 2012

	Beginning Balance	Additions	Disposals	Ending Balance
Furniture and equipment	$ 2,309,951	$ 100,216	$ (76,340)	$ 2,333,827
Software	467,022	99,166	-	566,188
Leasehold improvements	455,647	-	-	455,647
Subtotal	3,232,620	199,382	(76,340)	3,355,662
Less: Accumulated depreciation /amortization	(2,478,380)	(315,820)	76,340	(2,717,860)
Capital assets (net)	$ 754,240	$ (116,438)	$ -	$ 637,802

Depreciation/amortization expense for the years ended September 30, 2013 and 2012 was $262,709 and $315,820, respectively.

5. Financial Instruments

Certain financial instruments are required to be recorded at fair value. Changes in assumptions or estimation methods could affect the fair value estimates; however, we do not believe any such changes would have a material impact on financial condition, results of operations or cash flows. Other financial instruments, including cash equivalents, other investments and short-term debt, are recorded at cost, which approximates fair value.

6. Fair Value Measurements

The Financial Accounting Standards Board established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that LSC has the ability to access.

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment or estimation.

Fair values of assets measured on a recurring basis at September 30, 2013 are as follows:

	Fair Value Total	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Money Market Accounts in U.S. Treasury Notes	$ 69,482,281	$ 69,482,281	$ -
Loan Repayment Assistance Program Receivable	10,338	-	10,338
Total	$ 69,492,619	$ 69,482,281	$ 10,338

Fair values of assets measured on a recurring basis at September 30, 2012 are as follows:

	Fair Value Total	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Loan Repayment Assistance Program Receivable	$ 4,952	$ -	$ 4,952
Total	$ 4,952	$ -	$ 4,952

Assets measured at fair value on a recurring basis using significant observable inputs (Level 2 inputs):

LSC maintains cash balances at two financial institutions with offices in the Washington, DC metropolitan area. Each institution maintains target balances up to $248,000 with any excess funds swept to an account that purchases mutual funds investing in U.S. Treasury bills with an average dividend rate of 0.01% for 2013, which is arrived at by the financial institution deducting a fee of up to 0 basis points from the dividend rate provided by the institutions Treasury Reserves. Annual expense ratios are based on amounts incurred during the most recent fiscal year, as shown in the funds' audited financial statements, and may have been restated to reflect current service provider fees, net of any waivers, reimbursements or caps that the fund's manager may have committed to the fund and that are currently in effect. Monthly fees and expenses are approximate, assume that the investor held shares of the fund valued at the ending balance for the entire month, and do not include the effect of any transactions that may have been made during the month.

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3 inputs):

The LRAP accounts receivable is stated at the amount management expects to collect from refunded loans. Through an evaluation each year, management adjusts the LRAP allowance account based on its assessment of the current status of individual loans. The net of these two amounts is the receivable reported in the financial statements.

The table below presents information about the changes in the Loan Repayment Assistance Program:

	2013	2012
Beginning Balance	$ 4,952	$ 7,586
Net increase, (decrease)	5,386	(2,634)
Ending Balance	$ 10,338	$ 4,952

7. Grant Revenue

LSC was awarded grants from the U.S. Court of Veterans Appeals for the purpose of furnishing legal assistance to veterans. Grant revenues for the years ended September 30, 2013 and 2012, total $2,519,572 and $2,726,363, respectively.

The Public Welfare Foundation (PWF) has awarded LSC two grants totaling $293,000: a planning grant (grant # 12-014) and a resulting research grant (grant # 12-131). An overview of both grants appears below:

Planning Grant (grant # 12-014): On November 18, 2011, PWF informed LSC of the award of a planning grant in the amount of $17,000. The grant period initially was scheduled to run for two months, from December 1, 2011 through January 31, 2012. The grant was designated to conduct preliminary planning in preparation for the design and implementation of a new outcomes measurement and reporting system for LSC and its grantees. PWF made full payment of the planning grant funds to LSC on January 17, 2012. PWF granted a no-cost extension to LSC through March 31, 2013. LSC expended all funds from the planning grant, and submitted its final report to PWF on May 30, 2013.

Research Grant (grant # 12-131): On June 18, 2012, PWF informed LSC of the award of a grant in the amount of $276,000. The grant period currently is scheduled to run for eighteen months, from July 1, 2012 through December 31, 2013. The goals of the project are to: (1) enhance LSC's ability to assess the quality, efficiency, and effectiveness of the programs that LSC funds; and (2) provide grantees with better tools to assess their own performance, manage their operations, and increase private financial support. The grant is designated to support work by LSC in furtherance of two goals: (1) to improve LSC's data collection system to strengthen its assessment efforts and secure information to advance its goal of equal access to justice for the poor; and (2) to provide data analysis tools to help LSC's grantees manage their operations and increase financial support for their work. PWF made full payment of the grant funds to LSC on July 16, 2012.

8. Grants and Contracts Expense

Grants and contracts expense for the years ended September 30, 2013 and 2012 consists of the following:

	2013	2012
Basic Field Programs	$ 316,345,623	$ 323,232,739
U.S. Court of Veterans Appeals	2,521,819	2,721,170
Hurricane Sandy Relief	874,041	-
Grant From Other Funds	329,298	253,346
Technology Initiatives	914,080	6,045,050
Grant Recoveries	(56,302)	(74,029)
Total	$ 320,928,559	$ 332,178,276

9. Management and Grants Oversight

Management and grants oversight expenses for the years ended September 30, 2013 and 2012 consists of the following:

	2013	2012
Compensation and benefits	$ 11,972,618	$ 11,461,883
Temporary employee pay	628,592	434,164
Consulting	428,096	540,767
Travel and transportation	646,481	717,372
Communications	83,218	86,509
Occupancy cost	1,710,000	1,711,870
Printing and reproduction	59,448	61,182
Other operating expenses	747,054	696,122
Capital expenditures	50,294	63,459
Total	16,325,801	15,773,328
Depreciation and amortization	262,709	315,819
Loss on disposal of assets	544	-
Less: capitalized assets	(50,294)	(63,460)
	$ 16,538,760	$ 16,025,687

10. Office of Inspector General

LSC's Office of Inspector General expenses for the years ended September 30, 2013 and 2012 were as follows:

	2013	2012
Compensation and benefits	$ 3,928,043	$ 3,743,718
Temporary employee pay	9,775	22,647
Consulting	340,229	312,569
Travel and transportation	218,597	206,430
Communications	21,436	17,792
Printing and reproduction	8,496	8,170
Other operating expenses	73,121	60,313
Capital expenditures	38,253	135,922
Total	4,637,950	4,507,561
Less: capitalized assets	(38,253)	(135,921)
	$ 4,599,697	$ 4,371,640

11. 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 System ("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").

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 LSC and by LSC 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 its financial statements CSRS assets, accumulated plan benefits or unfunded liabilities, if any, applicable to its 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, LSC matches the first 2.51% contributed by the employee. Individuals can make contributions up to the maximum amount permitted under federal income tax rules.

LSC's contributions to these plans for the years ended September 30, 2013 and 2012 were $992,067 and $999,611, respectively. The amounts are included in compensation and benefits for management and administration 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. No contributions are made to these tax deferred savings plans by LSC.

12. Operating Lease

On June 1, 2003, LSC commenced an operating lease agreement for office space which provides for a non-escalating annual base rent for a 10-year term. A new lease agreement was entered into September 2012, commencing in June 2013, for an additional 10 years. Under the new lease, LSC has an obligation to pay a portion of building operating expenses in excess of the base year. No additional building operating expenses were incurred in FY 2013. LSC has the right to terminate the lease by giving no less than 120-day prior written notice in the event that 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 required under this leases as of September 30, 2013 are as follows:

Fiscal Year		Amount
2014	$	1,710,000
2015		1,710,000
2016		1,710,000
2017		1,710,000
2018		1,710,000
Thereafter		7,980,000
	$	16,530,000

Rental expense for the years ended September 30, 2013 and 2012 is $1,710,000.

13. Contingencies

Grants and Contracts

LSC receives its funding from appropriations by Congress and grants from the U.S. Court of Veterans Appeals and, accordingly, may be subject to federal audits. In addition, LSC provides significant funding to numerous independent organizations, which are subject to their own independent audits and audits by LSC.

LSC's management does not expect any significant adjustments as a result of federal audits, should they occur, or from the audits of the grantees' independent auditors.

Claims

Since 1997, LSC has been defending two separate but subsequently consolidated cases challenging LSC regulations. Plaintiffs sought injunctive relief but no monetary damages, except for attorneys' fees. Because the matter had been dormant since 2009, Plaintiffs agreed to voluntarily dismiss the cases without prejudice in July 2013, and they are now closed. No funds had been previously recorded in the financial statements for any contingent liability associated with payment of attorney fees.

In 2011, several LSC employees filed wage discrimination complaints with the Equal Employment Opportunity Commission (EEOC). During 2013, the EEOC dismissed all of the complaints, finding "no evidence of violation." No funds had previously been recorded in the financial statements for any contingent liability associated with these matters.

Collection Matters

In 2010, upon concluding that an LSC grantee had misused LSC funds and committed other financial irregularities, LSC disallowed approximately $716,261 of the grantee's costs. On appeal, LSC agreed to reduce that amount to $467,619. In 2011, LSC terminated the grantee, which later went out of business and is currently believed to be insolvent. The Corporation continues to explore its options regarding potential recovery of the previously disallowed amount of $467,619. No amounts have been recorded.

14. Loan Repayment Assistance Program

Through the Herbert S. Garten Loan Repayment Assistance Program (LRAP), established in 2005 and funded by Congressional appropriations, LSC makes a limited number of forgivable loans to attorneys employed by its grantee programs to help repay law school debt. Each participant receives up to $5,600 per year for three years – for a maximum of $16,800 if they remain eligible and funding remains available.

Participants must commit to remain with the LSC-funded legal services program for three years. As long as the participant remains in good standing, the loans are forgiven. Participants that do not successfully complete employment within the loan terms must repay the loans. No provision has been made in the accompanying financial statements to reflect any interest on the loans as management has deemed these amounts to be immaterial.

Accounts receivable are stated at the amount management expects to collect from refunded loans. Management provides for probable forgiven amounts through an adjustment to a valuation allowance based on its assessment of the current status of individual accounts. Accounts receivable balances are written-off through a charge to the valuation allowance in the year the loans are forgiven. Deferred revenue is comprised of funding available for future loans and loan amounts outstanding.

		2013		2012
LRAP balances at September 30, 2013 and 2012 are as follows:				
Cash	$	1,428,855	$	1,606,088
Accounts receivable, net	$	10,338	$	4,952
Deferred revenue	$	1,439,193	$	1,611,040
LRAP activity for the years ended September 30, 2013 and 2012 are as follows:				
Loans made	$	1,107,054	$	573,308
Loans forgiven	$	1,143,840	$	1,095,391
Allowance for loan forgiveness	$	(47,982)	$	(519,929)

15. Temporarily Restricted Net Assets

In 2012, LSC received a grant totaling $293,000 from the Public Welfare Foundation for the development and implementation of improvements to LSC's system for data collection and analysis, development of a data collection tool kit for grantees to use, and to provide training and technical assistance for the tool kits use. Total expenses for the Public Welfare Foundation grant at September 30, 2013 and 2012 were $87,078 and $5,809, respectively.

In 2013, LSC received restricted appropriated funds under the Disaster Relief Appropriations Act of 2013 to LSC to address civil legal issues for low-income people significantly affected by Hurricane Sandy. Grants totaling $874,041 were provided leaving a balance of $75,959.

The balances of the restricted funds at September 30, 2013 and 2012 are $276,072 and $287,191, respectively.

In 2011, LSC received donations totaling $12,500 which are restricted for the American Bar Foundation *Access Across America* research project. These funds were expended in 2012.

16. Subsequent Events

Legal Services Corporation has evaluated subsequent events occurring after the statements of financial position date through the date of December 19, 2013, the date the financial statements were available for release.

Fiscal Year 2014 Funding

On October 17, 2013, Congress passed a Continuing Resolution (CR) to fund the government for FY 2014 at current FY 2013 levels, post sequestration, through January 15, 2014. The FY 2014 CR reflects a bicameral, bi-partisan agreement after a 16-day government shutdown that began on October 1, 2013. The agreement includes increasing the debt limit through Feb. 7, 2014, requiring a bicameral budget committee to develop a conference report by December 13, 2013, back-paying furloughed federal employees, and requiring that the income of individuals seeking health care subsidies through state insurance exchanges be verified.

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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*

Independent Auditors' Report

To the Inspector General and Board of Directors,
Legal Services Corporation

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 the Legal Services Corporation ('LSC') as of and for the year ended September 30, 2013 and have issued our report thereon dated December 19, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered LSC's internal control over financial reporting (internal control) to determine the 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 LSC's internal control. Accordingly, we do not express an opinion on the effectiveness of LSC'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether LSC'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 determination of financial statement amounts. 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*.

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.

Withum Smith + Brown, PC

Silver Spring, Maryland
December 19, 2013

Appendix

Mission

The Legal Services Corporation's mission is to promote equal access to justice in our nation and to provide grants for **high-**quality civil legal assistance to low-income persons.

Organization

Congress enacted legislation establishing the Legal Services Corporation (LSC) as a private, nonprofit corporation in 1974. LSC is governed by an 11-member Board of Directors appointed by the President of the United States and confirmed by the U.S. Senate.

LSC is the single largest source of funding for civil legal assistance for low-income individuals and families in the United States. LSC currently provides grants to 134 legal services programs, which operate as independent nonprofit organizations with their own boards of directors. Substantially all of the Corporation's funding comes from the Congress, and almost 94 percent of the annual congressional appropriation is distributed to these programs through a competitive grants process. LSC provides oversight; guidance and training to ensure the programs provide high-quality legal services and comply with congressional restrictions, LSC rules and regulations, and grant conditions.

The Corporation's two largest departments provide oversight of LSC grantees:

- The Office of Program Performance (OPP) has primary responsibility for implementing the competitive grants applications and awards process, sharing best practices for providing high quality civil legal services and promoting innovative uses of technology by grantees.
- The Office of Compliance and Enforcement (OCE) has primary responsibility for monitoring grantee compliance with the LSC Act, regulations, and funding restrictions. OCE also enforces LSC's Accounting Guide, initiates questioned cost proceedings, identifies required corrective actions and conducts necessary follow-ups, and provides technical assistance and training.

LSC is currently implementing the recommendations of the Fiscal Oversight Task Force report issued in 2011 adopted by LSC's Board of Directors in January 2012. The report is available at http://www.lsc.gov/media/press-releases/lsc-solicits-public-comment-report-fiscal-oversight-task-force.

LSC hired a Vice President for Grants Management in September 2012 to oversee the Corporation's day-to-day programmatic operations, competitive grants process, and assessment and oversight of grantees, and to manage implementation of the recommendations of the Fiscal Oversight Task Force.

Other Corporation departments include the Office of Finance and Administration, the Office of Legal Affairs, the Office of Information Technology, and the Office of Government Relations and Public Affairs.

In addition, LSC has an independent Office of Inspector General (OIG) established by federal statute to conduct and supervise audits, investigations, and reviews in order to detect and prevent fraud and abuse, and to promote economy, efficiency, and effectiveness in LSC's programs and operations. The OIG provides LSC and the Congress with objective assessments of LSC's programs and activities. It reports on problems and deficiencies and on the need for and progress in addressing corrective actions. The OIG is charged with making recommendations with respect to laws and regulations affecting LSC. The OIG is also responsible for oversight of the annual audits of LSC and its grantees, performed by independent public accountants (IPAs), as well as, the monitoring of grantee compliance with LSC regulations via the IPA audit process and the OIG's regulatory vulnerability assessments. The OIG is a separate line item in LSC's annual appropriation.

Access to Justice and Delivery of Civil Legal Assistance

Equal access to justice is a core principle of American democracy. LSC is the backbone supporting our national system of access to civil justice for low-income Americans stands. The system is also supported by state and local appropriations, Interest on Lawyers' Trust Accounts (IOLTA) funds, court filing-fee surcharges, foundation support, and private contributions.

LSC awards and oversees grants to 134 independent, nonprofit legal aid programs in every state, the District of Columbia, and U.S. territories. Persons eligible for LSC-funded services are generally at or below 125 percent of the federal poverty line; in 2013 that was an income of $29,438 for a family of four and $14,363 for a single person.

Nearly 61.6 million Americans were estimated to be eligible for LSC-funded services in 2013, according to the most recent information available from the U.S. Census Bureau; that is 19.5% of the U.S. population and an increase of 21% since 2007. In 2012, the year for which the most recent data are available, matters involving family law represented 34.4% of cases closed by LSC grantees. The next largest category involved housing matters, at 26.1% of cases closed. Other major case categories were income maintenance (12.1%) and consumer issues (11.2%). LSC-funded programs closed a total of 809,830 cases in 2012—a 10% decline from the previous year, reflecting a 15 percent decline in LSC funding for basic field grants between FY 2011 and FY 2012.

LSC grantees are unable to meet the legal needs of all low-income Americans seeking civil legal assistance. Data collected from LSC-funded programs in 2005 and 2009 showed that for every client served by a grantee one eligible person who sought help was turned away because of insufficient resources.

For many grantees, funding reductions have been compounded by the statutorily-mandated, census-based grant reapportionment. Thirty jurisdictions have experienced census-based reductions in LSC funding because of changes in the distribution of the poverty population across the country between 2000 and 2011. Sixteen have experienced cuts of at least 10%, and 10 have experienced cuts of more than 20%. Twenty-five of the 30 jurisdictions experiencing census-based funding reductions saw *increases* in the absolute size of their poverty populations between 2000 and 2011; the reductions were only in their *share* of the U.S. poverty population.

Overview of Financial Statements

The annual financial report presents LSC's financial position and results on operations in three parts: 1) Management's Discussion and Analysis (this section), 2) comparative financial statements, and 3) notes to the financial statements.

Management's Discussion and Analysis provides an overview of LSC's financial position and results of operations for fiscal years 2013 and 2012 and an overview of the fiscal year 2013 operating budget experience.

Financial Highlights

LSC received its largest appropriation, $420 million, in FY 2010. Since that time, LSC's overall appropriation has been reduced by 19%, to $339.6 million for FY 2013. LSC is currently funded at less than the 2008 level (LSC's FY 2008 appropriation was $350.5 million) and at just $40 million more than the 1980 level.

On March 27, Congress passed the Consolidated and Further Continuing Appropriations Act of 2013, which provided LSC with an appropriation of $365 million. The appropriation was reduced by sequestration of 5% pursuant to the Budget Control Act of 2011, and further reduced by two across-the-board rescissions (1.877% and .2%) resulting in FY 2013 funding of $339.6 million.

LSC's funding and financial status are dependent on action by Congress, and, as the experience of the last three years demonstrates, can fluctuate materially. Any funds not expended in one fiscal year are carried over into the following fiscal year.

The following tables show the critical elements of the budgets and their breakdowns for fiscal years 2013 and 2012:

Table 1--For the year ended September 30, 2013

	(1) FY 2013 Appropriations	(2) FY 2013 Reductions	(3) FY 2013 Funding	(4) FY 2012 Carryover	(5) FY 2013 Consolidated Operation Budget
I. Delivery of legal assistance					
1. Basic Field Programs	$ 339,400,000	$ (23,255,251)	$ 316,144,749	$ 833,865	$ 316,978,614
2. US Court of Veterans Appeals Funds	2,726,000	(206,428)	2,519,572	8,999	2,528,571
3. Grants From Other Funds	-	-	-	546,361	546,361
4. Technology Initiatives	3,400,000	(241,530)	3,158,470	1,181,438	4,339,908
5. Hurricane Sandy Disaster Relief Funds	1,000,000	(50,000)	950,000	-	950,000
Delivery of legal assistance total	346,526,000	(23,753,209)	322,772,791	2,570,663	325,343,454
II. Management & grant oversight	17,000,000	(1,207,656)	15,792,344	5,833,596	21,625,940
III. Herbert S. Garten loan repayment assistance program	1,000,000	(71,038)	928,962	1,606,088	2,535,050
IV. Inspector General	4,200,000	(298,361)	3,901,639	1,923,992	5,825,631
Total Budget	$ 368,726,000	$ (25,330,264)	$ 343,395,736	$ 11,934,339	$ 355,330,075

Table 1--For the year ended September 30, 2012

	(1) FY 2012 Appropriations	(2) FY 2012 Funding Reduction & Recission	(3) FY 2011 Carryover	(4) Court of Vets Appeals & Adjustments	(5) FY 2012 Consolidated Operating Budget
I. Delivery of legal assistance					
1. Basic Field Programs	$ 322,400,000	$ -	$ 1,666,604	$ -	$ 324,066,604
2. US Court of Veterans Appeals Funds	-	-	3,807	2,726,363	2,730,170
3. Grants From Other Funds	-	-	725,077	-	725,077
4. Technology Initiatives	3,400,000	-	3,826,487	-	7,226,487
Delivery of legal assistance total	325,800,000	-	6,221,975	2,726,363	334,748,338
II. Management & grant oversight	17,000,000	-	4,302,956	293,000	21,595,956
III. Herbert S. Garten loan repayment assistance program	1,000,000	-	1,181,550	-	2,181,550
IV. Inspector General	4,200,000	-	2,231,553	-	6,431,553
Total Budget	$ 348,000,000	$ -	$ 13,938,034	$ 3,019,363	$ 364,957,397

Table 2
Statement of Financial Position

	September 30 2013	September 30 2012
Total current assets and other assets	$ 71,403,354	$ 73,835,070
Net property and equipment	463,096	637,802
Total Assets	$ 71,866,450	$ 74,472,872
Grants and contracts payable	$ 57,581,223	$ 60,201,520
Other liabilities	1,450,568	1,699,212
Deferred revenue	5,504,763	3,630,389
Total Liabilities	64,536,554	65,531,121
Net Assets		
Undesignated	6,256,633	7,326,689
Designated	334,095	690,069
Net investment in fixed assets	463,096	637,802
Temporarily restricted	276,072	287,191
Total Net Assets	7,329,896	8,941,751
Total Liabilities and Net Assets	$ 71,866,450	$ 74,472,872

Table 3
Statement of Activities

	Years ended September 30, 2013	2012
Revenue		
Federal appropriations	$ 340,876,164	$ 348,000,000
Grant revenue	2,519,572	3,019,363
General revenues		
Change in deferred revenue	(1,874,374)	3,044,274
Interest & other income	29,657	11,569
Total revenue	341,551,019	354,075,206
Expenses		
Program activities	322,024,416	332,753,738
Supporting activities	21,138,458	20,397,327
Total expenses	343,162,874	353,151,065
Change in net assets	(1,611,855)	924,141
Net assets, beginning of year	8,941,751	8,017,610
Net assets end of year	$ 7,329,896	$ 8,941,751

Fiscal Year 2013 and 2012 MGO Budgetary Analysis and Activity Description

Table 4 presents the final budgets for Management and Grants Oversight (MGO) for Fiscal Years 2013 and 2012.

Table 4
Management and Grants Oversight
Operating Budgets for Years Ending September 2013 and 2012

Budget Category	2013	2012
Compensation and benefits	$ 14,187,975	$ 13,319,050
Temporary employee pay	806,100	659,950
Consulting	1,039,891	1,346,100
Travel & transportation expenses	1,258,700	1,306,650
Communications	123,350	152,150
Occupancy cost	1,721,350	1,758,500
Printing and reproduction	92,650	91,100
Other operating expenses	2,176,674	2,573,756
Capital expenditures	219,250	388,700
Total	$ 21,625,940	$ 21,595,956

OPP continues to invest resources in program quality visits, program engagement visits, capability assessment visits, technical assistance, and other initiatives for grantee support. OPP focuses on the quality of legal services provided by grantees, using LSC's Performance Criteria as its primary guide. OPP's assessment of local program delivery systems included reviews of grantee priorities, client intake systems, outreach activities, legal work management and supervision, pro bono and private attorney involvement, board governance, leadership, resource development, and strategic planning.

During Fiscal Year 2013, OPP:

- Conducted full program quality visits to 17 grantee programs and one capability assessment in 15 states and territories to ensure the delivery of high-quality civil legal assistance.
- Performed 21 shorter program evaluation or technical assistance visits in 18 states and territories to assess grantee activities, to follow up on prior concerns, or provide technical assistance.
- Evaluated 94 proposals for funding from 65 applicants covering for 94 service areas in 30 states, the District of Columbia, Puerto Rico, and American Samoa. There were no multiple-applicant service areas.
- Administered the Herbert S. Garten Loan Repayment Assistance Program (LRAP), which provides forgivable loans to attorneys to help LSC grantee programs recruit and retain highly qualified attorneys. A total of 199 attorneys at 85 programs received loans in FY 2013. Recipients ranged from new hires to attorneys with six years of service with a grantee.
- Provided guidance to LSC-funded programs in more than 15 states and the District of Columbia preparing for or responding to disasters, hosted four national disaster update and networking calls.

During Fiscal Year 2013, OCE assessed the policies and procedures of grantees for compliance with legal requirements in such areas as client-income eligibility, nature of legal assistance provided, use of non-LSC funds, sub-grants, and compliance with various statutory and regulatory prohibitions.

During Fiscal Year 2013, OCE:

- Conducted eight Case Service Report/Case Management System reviews, five Compliance Reviews, three Follow-Up Reviews, two Technical Assistance Reviews, one Focused Intake Review, one review of compliance with 45 C.F.R. § 1610, one section 1610 Follow-Up Review, and two fiscal Capability Assessment visits.
- Received 12 audit finding referrals from the Office of Inspector General for the audited financial statements for fiscal years ending between 6/30/12 and 12/31/12. OCE also received and, as appropriate, acted on 14 audit findings.
- Opened 90 complaints against grantees for violations of the LSC Act, regulations, and guidelines, and closed 125 complaints.
- Reviewed and approved or denied 68 sub grant applications.
- Reviewed 118 grantee/sub grantee-audited financial statements for fiscal years 2011 and 2012 to ensure compliance with the Accounting Guide for LSC Recipients (2010 ed.).
- Reviewed grantees' fund balances, acting on 19 fund-balance waiver requests.
- Reviewed and approved 20 requests for prior approval to purchase personal property, to purchase or sell real property, or to make capital improvements, pursuant to 45 CFR § 1630.5(b).
- Provided on-site CSR training for 2 grantees and onsite Executive Director Orientation (EDO) training for 3 grantees. OCE also provided 8 webinar-based EDOs, and provided training and guidance on compliance issues at the 2013 Technology Initiative Grant (TIG) and Management Information Exchange (MIE) conferences, both in January 2013.

Note 7 under Notes to Financial Statements presents the final expenses for MGO for fiscal years 2013 and 2012.

Major Challenges for LSC

The need for civil legal assistance to low-income Americans has never been greater. Low-income Americans face legal issues involving matters of subsistence, safety, and family stability, and the number of low-income persons in poverty has risen substantially in recent years. Even before the 2008 recession, studies in several states found that about 80 percent of the legal needs of low-income families go unmet. Increasing numbers of unrepresented litigants are swamping state courts, especially those that deal with housing and family law matters.

LSC's overall appropriation has shrunk from $420 million in FY 2010 to $340 million in FY 2013. Basic Field grants in FY 2013 were $316.1 million, $78 million less than in FY 2010; the reduction has led to staff layoffs and reduced services at LSC-funded programs. Between 2010 and 2012, 923 full-time grantee staff positions were eliminated due to funding cuts. This represents a 10 percent loss of legal aid staff positions in just two years. Going forward, LSC and its grantees will face significant challenges in meeting the demand for civil legal assistance at a time of federal budget reductions.

At its October 2012 meeting, the Board approved a new Strategic Plan for LSC for 2012-2016. The plan sets forth three main goals for the next five years: to maximize the availability, quality, and effectiveness of the civil legal services that LSC's grantees provide to eligible low-income individuals; to become a leading voice for civil legal services for poor Americans; and to achieve the highest standards of fiscal responsibility both for itself and its grantees.

LSC continues to make progress in implementing the recommendations from the June 2010 report by the Government Accountability Office (GAO) regarding controls over grant awards and grantee program effectiveness. To date, the GAO has closed 12 of the 17 recommendations. LSC has provided additional documentation and request for close-out for all but one of the remaining open recommendations. LSC expects to submit documentation on the one remaining item early in 2014.

LSC faces an additional challenge, and an opportunity, in expanding access to justice by increasing pro bono and volunteer services at legal aid programs. The LSC Board's Pro Bono Task Force released a report of findings and recommendations on October 2, 2012 at the U.S. Capitol. The Task Force, co-chaired by Dean Martha Minow of the Harvard Law School and Harry J. F. Korrell III of Davis Wright Tremaine LLP, included more than 60 distinguished leaders and experts from the judiciary, major corporations, private practice, law schools, the federal government, and the legal aid community.

LSC is negotiating its first collective bargaining agreement with its unionized employees. Employees in professional and administrative positions are represented by the International Federation of Technical and Professional Engineers.

RECENT EVENTS

In May 2013, LSC hired Ronald Flagg as its new Vice President for Legal Affairs, General Counsel, and Corporate Secretary. Mr. Flagg was previously senior counsel and a partner in the Washington, DC office of Sidley Austin LLP. In addition to his work at Sidley, Flagg has been a leader in pro bono legal service and professional activities, including service as president of the 95,000-member District of Columbia Bar, chair of the District of Columbia Bar Pro Bono Committee, chair of the Governing Board of the AARP Legal Counsel for the Elderly, and member of the board of the Washington Lawyers' Committee for Civil Rights and Urban Affairs and of LSC's Pro Bono Task Force. He currently chairs the board of the National Veterans Legal Services Program.

On October 1, 2013, LSC awarded Hurricane Sandy Relief Grants to four legal aid organizations in New York and New Jersey to provide mobile resources, technology, pro bono assistance, and other services to help victims of Hurricane Sandy address civil legal issues resulting from the super storm. Funding for the grants was part of the Disaster Relief Appropriations Act of 2013. The legislation included $1 million for LSC to provide assistance to low-income people in areas significantly affected by Hurricane Sandy. Sequestration reduced LSC's appropriation to $950,000. LSC's inclusion in the Congressional response to Hurricane Sandy marked the first time since 1993 that a supplemental appropriations bill included funding for LSC after a disaster. LSC distributed separate disaster relief emergency grants of $295,379 to provide funds to assist the four grantees in Sandy disaster areas in dealing with damage sustained by the recipients and with the surge in demand for legal services as a result of the disaster.

In October 2013, LSC awarded 33 Technology Initiative Grants (TIGs) to 23 legal aid programs in 21 states and territories, totaling $3,390,152. The grants will support a variety of initiatives, including the development of "legal triage" tools to guide self-represented individuals through complex legal procedures, online support for pro bono attorneys, and improved access to legal assistance for people in remote areas.

Fiscal Year 2013 OIG Budgetary Analysis and Activity Description

In fulfilling its statutory responsibilities, the OIG is guided by its own strategic and annual work plan and led by Inspector General Jeffrey E. Schanz. The FY 2013 OIG budget funded reviews of external grant recipients, IPAs, and internal LSC management operations and activities.

External grant recipient and IPA-focused projects included:

- Audits of selected internal controls or technology initiative grants at LSC grant recipients including: Legal Aid and Defender Association, Inc. (Detroit, MI), Lone Star Legal Aid, Inc. (Houston, TX), Community Legal Services (Phoenix, AZ), Idaho Legal Aid Services, Legal Services of the Virgin Islands Inc., Georgia Legal Services Program, Central Virginia Legal Aid Society, Indiana Legal Services, and an additional seven grantee audits in progress at the end of the fiscal year;

- Desk reviews of 132 grantee audit reports with referral of all significant findings to LSC management for follow-up and resolution;

- Quality Control Reviews (QCRs) to provide greater assurance as to the quality of the IPAs' audit work and identify or respond to potential concerns that may arise with a particular grantee or IPA. The reviews are conducted by an independent certified public accounting firm, operating under contract to the OIG. This fiscal year 30 QCRs were completed and the OIG issued a summary advisory memorandum for all IPAs and grantee executive directors;

- Investigations of fraud or financial irregularities and subsequent prosecutions of significant theft of grant recipient funds, as well as investigations of regulatory compliance. The OIG opened 30 and closed 23 investigations of criminal, compliance, fraud and regulatory vulnerability matters;

- Proactive fraud awareness briefings designed to assist LSC and its grantees in preventing and detecting fraud, as well as advisories, webinars, fraud and regulatory vulnerability assessments. The OIG closed three grantee fraud vulnerability assessments and five regulatory vulnerability assessments; and performed 13 fraud awareness briefings, one webinar (attended by 65 staff members from 31 LSC grant recipients) and issued one fraud advisory and one management information memorandum;

- In addition, during the period the OIG issued a summary report of the 19 fraud vulnerability assessments completed from October 2009 through September 2012; and, a summary report of the eight regulatory vulnerability assessments conducted from January 2012 through December 2012;

- Operation of a nation-wide Hotline for the reporting of suspected fraud, waste or abuse in recipient programs or LSC;

- Received a favorable ruling on appeal of an order enforcing subpoena issued in support of an OIG investigation of a LSC grantee's possible violations of Congressional restrictions.

Projects reviewing selected LSC management operations and activities included:

- Oversight of the FY 2012 LSC corporate audit;

- A fraud vulnerability assessment of selected LSC corporate fiscal activities;

- Finalization of OIG supported improvements to LSC's regulations on enforcement mechanisms;

- A review of the process by which LSC awarded a sole-source contract to a consulting firm to conduct a compensation study;

- OIG comments on LSC initiatives, including revisions/updates to LSC's Risk Management Program and its conflicts of interest policy.

In addition, the OIG participates as a member of the Council of the Inspectors General for Integrity and Efficiency, the official organization of Federal inspectors general, and on its various committees and working groups.

Table 5 presents the final OIG budgets for Fiscal Years 2013 and 2012.

Table 5
Office of Inspector General
Operating Budgets for Years Ending September 2013 and 2012

Budget Category	2013	2012
Compensation and benefits	$ 4,363,500	$ 3,954,400
Temporary employee pay	25,000	40,000
Consulting	550,000	619,850
Travel & transportation expenses	321,600	385,000
Communications	28,000	34,050
Occupancy cost	4,000	6,000
Printing and reproduction	12,000	10,100
Other operating expenses	426,531	1,182,153
Capital expenditures	95,000	200,000
Total	$ 5,825,631	$ 6,431,553

Future Events

In pursuit of the OIG's statutory mission, goals and objectives, the OIG will update its strategic and annual work plans, perform audit, evaluation, and investigative fact-finding activities and will make recommendations concerning laws and regulations affecting LSC in accordance with the IG Act and LSC appropriations laws. The OIG will continue to carry out its Congressionally-assigned responsibilities to oversee the IPAs' grantee audits, conduct reviews of grantees' internal controls, financial processes, and compliance with LSC laws and regulations, conduct audits and investigations, and evaluate the effectiveness and efficiency of the programs and operations of LSC and its grant recipients.

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To the Inspector General and Board of Directors
Legal Services Corporation:

In planning and performing our audit of the financial statements of Legal Services Corporation ("LSC") for the year ended September 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the LSC's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of LSC's internal control. Accordingly, we do not express an opinion on the effectiveness of the LSC's internal control.

During our audit, we became aware of the following matters, which we believe represent opportunities for strengthening internal controls and operating efficiency:

During the course of the audit, certain items provided by LSC were not complete and accurate and were not delivered by the agreed-upon due dates. Specifically, some of the footnote disclosures provided by LSC contained inaccuracies or were incomplete, including those related to Federal appropriations time restrictions, and LSC's restricted use of the appropriations. Additionally, in certain cases, LSC's footnote disclosures did not agree to the financial statements as required. These inaccuracies resulted in delays in being able to issue draft financial statements (including footnote disclosures) by the agreed-upon due date.

Footnote disclosures are an integral part of a complete set of financial statements prepared in accordance with U.S. GAAP. Management is responsible for the preparation and fair presentation of the information contained in the footnote disclosures.

The process of preparing financial statements with a complete set of footnote disclosures can frequently result in the identification of additional entries that need to be posted. Therefore, the books of account should not be considered closed and the trial balance deemed to be final until the financial statements and footnotes have been completed.

We recommend that LSC designate an individual(s) to review the annual financial statements and footnotes for completeness and accuracy and to establish oversight to ensure all audit deliverables will be completed and accurate. We also recommend that LSC utilize a disclosure checklist in preparation of its financial statements and establish a dollar threshold and cut-off date for posting transactions after the books have been closed at year-end.

Management Response

Management acknowledges that completed footnotes are an integral part of financial statements prepared in accordance with U.S. GAAP. Management also acknowledges that some information for four footnotes was submitted after the due date of November 11, 2013. The few revisions described above did not result in any delay in issuance of the final financial statements. The final report was issued on December 19, the date specified in the timeline WS+B provided to LSC at the opening conference on October 16. Management will consider the recommendations.

We wish to thank the Comptroller and Inspector General and their departments for their support and assistance during our audit.

This report is intended solely for the information and use of management, the Board of Directors, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.

Withum Smith+Brown, PC

Silver Spring, Maryland
December 19, 2013