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HUMAN RESOURCES  
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RELEASED

The Honorable Jesse Helms  
United States Senate

Dear Senator Helms:

Subject: Information on Selected Legal Services Activities  
in North Carolina (HRD-82-38)

This report presents the results of our review of Legal Services of North Carolina, Inc. (LSNC), and one of its subgrantees, Eastern Carolina Legal Services, Inc. (ECLS). Our review focused on several allegations and questions you brought to our attention concerning:

- LSNC's and ECLS' review and approval of applications by potential clients, including whether ECLS had rejected cases involving individual legal problems in favor of class-action litigation.
- The reasonableness of ECLS' costs for managing its caseload.
- The reasonableness of LSNC's purchase and ECLS' subsequent renovation of a building in Wilson, North Carolina, for use as ECLS office space.
- The cost of operating LSNC as a central intermediary responsible for distributing funds and providing support to 15 legal services subgrantees in North Carolina.
- The legality of LSNC's use of Federal funds to support lobbying activities.
- Other miscellaneous issues relating to ECLS operations.

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We examined Legal Services Corporation (LSC), LSNC, and ECLS policies and procedures concerning LSNC's activities as an LSC grantee and ECLS' activities as an LSNC subgrantee. We also analyzed cost and caseload records of LSNC in Raleigh, North Carolina; ECLS in Wilson, North Carolina; and the LSC regional office in Atlanta, Georgia. We interviewed representatives of each of these organizations and other persons familiar with LSNC and ECLS operations. We did not evaluate all aspects of these operations; rather, we focused on the matters listed above. Our review was conducted in accordance with the GAO "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

In summary, we found that:

--Neither LSNC nor its subgrantees, including ECLS, had placed primary emphasis on pursuing class-action litigation. ECLS appeared to follow the program eligibility requirements set forth in the Legal Services Corporation Act of 1974 and the implementing LSC regulations as it reviewed potential clients' applications for services. Between September 1980 and November 1981, ECLS accepted about 770 cases and rejected, for various reasons, about 400 applications. Since its inception, ECLS had not participated in a class-action proceeding. According to ECLS officials, ECLS gives low priority to class-action cases because such cases require more staff resources than officials said they could spare. (See enc. I, p. 2.)

--For the first 9 months of 1981, ECLS' average cost per accepted case was about \$530, compared to an average of about \$291 for the other 11 LSNC subgrantees that provided generalized legal services. The per-case cost for the 12 LSNC subgrantees ranged from \$164 to \$796. The Executive Directors of both LSNC and ECLS attributed ECLS' higher than average per-case cost to the fact that ECLS is a relatively new subgrantee which (1) incurred startup costs and (2) had not yet generated a steady demand for its services. They believed that, as ECLS becomes established, the demand for its services will increase and its per-case cost will decrease. The officials also said the fact that ECLS' clientele is from a generally rural area contributes to its higher than average cost per case. (See enc. I, p. 4.)

--In anticipation of establishing ECLS as a subgrantee, LSNC in October 1979 purchased a house in Wilson, North Carolina, for use as ECLS office space. The house, which contains about 4,500 square feet of space, was purchased for \$49,156 in cash. Later renovations cost an additional \$110,500. No formal lease/purchase analysis was performed when the building was purchased. However, LSNC and ECLS officials told us that the office space was purchased and renovated, rather than leased, because, at the time of the purchase, legal services seemed assured of continued Federal funding. It was deemed to be more economical, in the long run, to purchase rather than lease office space. Such purchases of property are not unusual. Seven of LSNC's subgrantees, including ECLS, have spent about \$778,000 for purchasing and renovating office space.

The reasonableness of LSNC's decision to purchase (rather than lease) is difficult to assess retrospectively since the options available to LSNC at that time, and their costs, are unknown. The ultimate reasonableness of the decision will depend largely on how long ECLS remains in the Wilson property and the residual value of the property when ECLS vacates it. (See enc. I, p. 6.)

--LSNC, as the principal legal services grantee in North Carolina, distributes LSC funds to 15 legal services subgrantees--12 that provide general services and 3 that provide services to specifically targeted groups. As the principal grantee, LSNC gave subgrantees administrative support in such areas as budget and finance, accounting, community education, and legislative advocacy. It is also responsible for long-range planning and development of legal services capability throughout the areas served by its subgrantees. LSNC's budget for 1981 was about \$6.8 million; LSNC retained about \$900,000 and allocated the remainder to its subgrantees.

--Our analysis showed that the average per-case cost for LSNC's subgrantees (including the cost of operating LSNC) was about \$90 lower than the estimated average per-case cost of comparably organized programs in Georgia and Alabama. LSNC's Executive Director believed that it would be less efficient and cost-effective for LSC to make its grants directly to LSNC's subgrantees since the services LSNC now performs centrally would have to be performed by each subgrantee. A Price Waterhouse study of LSNC's accounting system and fringe benefit administration supported the Executive Director's view on this matter. The Director of LSC's Atlanta regional

office also supported the Executive Director's view, citing other program effectiveness considerations to support his opinion.

--LSNC and its subgrantees had five attorneys and two non-attorneys registered as lobbyists. We found no evidence that their activities violated antilobbying provisions of Federal statutes and LSC's implementing regulations.

All of the questions and allegations raised are discussed in the enclosure to this letter.

As requested by your office, we have not obtained written comments on this report. Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, copies will be sent to the President of LSC and the LSNC and ECLS Boards of Directors and will be made available to others on request.

Sincerely yours,



Gregory J. Ahart  
Director

Enclosure

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ABBREVIATIONS

ECLS	Eastern Carolina Legal Services, Incorporated
GLS	Georgia Legal Services Program, Incorporated
LSA	Legal Services of Alabama, Incorporated
LSC	Legal Services Corporation
LSNC	Legal Services of North Carolina, Incorporated

INFORMATION ON SELECTED LEGALSERVICES ACTIVITIES IN NORTH CAROLINAINTRODUCTION

In a September 17, 1981, letter, Senator Jesse Helms of North Carolina brought to our attention several allegations and questions concerning the activities of Legal Services of North Carolina, Inc. (LSNC), and one of its subgrantees, Eastern Carolina Legal Services, Inc. (ECLS). These organizations are funded through the Legal Services Corporation (LSC), located in Washington, D.C. We focused our review on:

- LSNC's and ECLS' review and approval of applications by potential clients, including whether ECLS had rejected cases involving individual legal problems in favor of those involving class-action litigation.
- The reasonableness of ECLS' costs for managing its caseload.
- The reasonableness of LSNC's purchase and ECLS' subsequent renovation of a building in Wilson, North Carolina, for use as ECLS office space.
- The cost of operating LSNC as a central intermediary responsible for distributing funds and providing support to 15 legal services subgrantees in North Carolina.
- The legality of LSNC's use of Federal funds to support lobbying activities.
- Other miscellaneous issues relating to ECLS operations.

We examined LSC, LSNC, and ECLS policies and procedures concerning LSNC's activities as an LSC grantee and ECLS' activities as an LSNC subgrantee. We also analyzed financial records and caseload information maintained by LSNC in Raleigh, North Carolina; ECLS in Wilson, North Carolina; and the LSC regional office in Atlanta, Georgia. We interviewed representatives of each of these organizations and other persons familiar with LSNC and ECLS operations. We did not evaluate all aspects of LSNC and ECLS operations; rather, we focused on the specific matters listed above. Our review was made in accordance with the GAO "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions."

BACKGROUND

LSNC and its subgrantees form a group of nonprofit corporations providing legal services to the indigent in 83 of North Carolina's 100 counties. The other 17 counties are served by LSC grantees in Charlotte, Durham, and Winston-Salem. LSNC was founded in 1976 as the result of a North Carolina Bar Association Foundation study, which showed a need for statewide legal services for the indigent.

LSNC, located in Raleigh, North Carolina, receives its funding primarily through grants from LSC, a nonprofit corporation established by the Congress to fund legal services for the poor in civil matters. LSNC generally does not provide direct legal services to clients; rather, it funds 15 subgrantees for this purpose. Among the services LSNC provides for its subgrantees are administration, finance, community education, and legislative advocacy. LSNC also develops long-range plans for expanding and developing legal services throughout the area it serves.

The LSNC budget for 1981 was about \$6.8 million, of which about \$900,000 was retained for LSNC operating expenses and the remainder allocated to its 15 subgrantees.

Of LSNC's 15 subgrantees, 12 provide general legal assistance and 3 provide specialized assistance to mental patients, migrant farmworkers, and prisoners.

ECLS, one of LSNC's newer subgrantees, provides general legal services to the indigent in six counties (Nash, Edgecombe, Wayne, Wilson, Greene, and Lenoir) in the eastern part of the State. ECLS, located in Wilson, North Carolina, has its own board of directors, but relies on LSNC for guidance and administrative and legal support.

During 1979 and part of 1980, ECLS, as part of an LSNC expansion program, was primarily engaged in obtaining personnel and facilities. Though incorporated in July 1980, it did not start representing clients until September 1980. ECLS' budget for calendar year 1980 was \$411,024. Funds amounting to \$158,478 were carried over to 1981.

LSNC AND ECLS DO NOT EMPHASIZE  
CLASS-ACTION LITIGATION

Neither LSNC nor its subgrantees, including ECLS, had placed primary emphasis on pursuing class-action litigation at the expense of representing individual clients.

The Legal Services Corporation Act of 1974 and LSC regulations, as incorporated into LSNC's policy manual, are the primary guidance LSNC's subgrantees use to determine applicants' eligibility for general legal services. Basically, clients are eligible if their income does not exceed the Federal poverty level by more than 25 percent. LSC's regulations also require consideration of other relevant factors, such as potential clients' current income prospects, their liquid net assets, and other factors affecting their financial conditions. The cost of private legal advice is also considered. Each LSNC subgrantee is responsible for determining client eligibility and can further restrict the cases it accepts.

Because ECLS does not have enough staff to help every eligible applicant, it has established, for planning purposes, objectives for its caseload mix which it uses in reviewing and approving applications. The objectives established for each category of cases, as shown below, reflected ECLS' analysis of perceived client needs and its projected staff availability.

<u>Category</u>	<u>Percent of total cases</u>
Public assistance benefits	25
Family	15
Consumer	12
Housing	12
Education	11.5
Services	10
Elderly	7.5
Employment	7

ECLS staff members interview applicants and tell them whether they meet the eligibility criteria. If a client is eligible, ECLS either gives on-the-spot advice and closes the case or takes it under advisement. Cases taken under advisement are reviewed in staff meetings to determine whether they meet ECLS' caseload objectives. If so, ECLS pursues legal action; if not, the client is advised to seek other remedies.

From September 1, 1980, through November 9, 1981, ECLS accepted about 770 cases. ECLS rejected 401 cases for the following reasons:

--208 had insufficient or no merit.

--38 applicants were not eligible because they did not meet the income criteria or because they were nonprofit institutions.

--136 applicants had legal issues involving low-priority family-related matters, such as divorce, separation, custody/visitation, property, or wills.

--19 were rejected for other reasons.

ECLS was not rejecting individual client cases in favor of class-action litigation. During the first 9 months of 1981, LSNC's subgrantees pursued only 5 class-action cases out of 13,266 cases accepted. ECLS had not accepted any class-action cases. ECLS officials said they preferred not to be involved in class-action cases because such cases require more staff than could be spared.

#### ECLS' CASE MANAGEMENT COSTS

Neither LSNC nor its subgrantees maintain records showing the costs associated with specific cases of the subgrantees. To get an indication of ECLS' per-case costs as they compared to LSNC's other subgrantees, we reviewed records relating to the subgrantees' total costs and the total cases they accepted during the first 9 months of 1981. During this period ECLS' average cost per accepted case amounted to \$530--\$239 more than the average cost of accepted cases for LSNC's 11 other subgrantees that provided general legal services. LSNC and ECLS officials attributed this higher per-case cost to the fact that ECLS is a relatively new organization which had incurred startup costs and had not yet developed a steady demand for its services.

The following table--which shows the dates of incorporation of LSNC's 12 general legal services subgrantees, the number of cases they accepted during the first 9 months of 1981, and their average cost per accepted case--tends to support the officials' views.

<u>Subgrantees</u>	<u>Date started operating or incorporated</u>	<u>Number of accepted cases</u>	<u>Total cost</u>	<u>Average cost per accepted case</u>
Central Carolina Legal Services	1967	2,439	\$ 529,524	\$217
East Central Community Legal Services	July 1973	1,838	443,278	241
Western North Carolina Legal Services	Dec. 1974	762	350,520	460
Legal Services of the Lower Cape Fear	Nov. 1975	1,986	326,652	164
North State Legal Services	May 1976	814	315,905	388
Lumbee River Legal Services	Nov. 1978	1,767	425,410	241
Catawba Valley Legal Services	Feb. 1979	734	215,659	294
Legal Services of the Blue Ridge	Mar. 1979	558	251,021	450
Pisgah Legal Services	Aug. 1979	440	231,053	525
Legal Services of the Coastal Plains	Oct. 1979	409	256,864	628
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ECLS	July 1980	554	293,713	a/530
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Pamlico Sound Legal Services	Feb. 1981	<u>148</u>	<u>117,748</u>	796
Total (excluding ECLS)		<u>11,895</u>	<u>\$3,463,634</u>	\$291

a/ECLS caseload and cost data not included in the calculated average cost per accepted case for LSNC's other general subgrantees.

LSNC and ECLS officials said that, as ECLS becomes more established, its average per-case costs should decrease. They added, however, that the rural nature of the counties ECLS serves may tend to keep ECLS' costs higher than the LSNC subgrantees serving clients in predominately urban areas because, in rural areas, the subgrantees have to take the services to the clients. The LSNC program having the highest average costs per accepted case is that of Pamlico Sound Legal Services, which in addition to being the newest LSNC subgrantee, serves an area encompassing several rural counties. Legal Services of the Coastal Plains, which has the second highest average per-case cost, also serves a rural area.

ECLS' average per-case costs have been compared by several people concerned about LSNC's activities to the per-case cost of the North Carolina Indigent Criminal Defendant Program. Officials of the Administrative Office of the Courts in North Carolina told us the per-case cost of \$179 represents only the average amount of individual checks paid to participating attorneys <sup>1/</sup> and does not include all program costs. They also said that the actual average per-case cost would be higher than just the attorney fees because it would include such items as administrative support provided by counties and the Administrative Office of the Courts' cost to review vouchers and pay bills.

REASONABLENESS OF DECISION TO  
PURCHASE ECLS OFFICE SPACE

In October 1979 LSNC purchased a house in Wilson, North Carolina, for \$49,156 to provide about 4,500 square feet of office space for ECLS. LSNC used grant funds for this purchase and paid cash for the house. Before ECLS began accepting cases in September 1980, repairs and renovations costing about \$110,500 were made to the building.

LSNC and ECLS officials told us that, although several properties were considered, no formal lease/purchase analysis was performed when the building was purchased. However, they said that the office space was purchased and renovated rather than leased because, at the time of the purchase, legal services seemed assured of continued Federal funding and it was deemed to be more economical, in the long run, to purchase rather than lease office space.

LSNC records show that, in addition to ECLS, six other LSNC subgrantees have purchased real property. The following table shows, for the seven LSNC subgrantees, the amounts spent to purchase real property and, in three cases, to renovate the property.

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<sup>1/</sup>More than one check may be issued for a case.

<u>Subgrantee</u>	<u>Purchase cost</u>	<u>Renovation cost</u>
Legal Services of the Coastal Plains, Ahsokie	\$ 20,000	
Pisgah Legal Services, Ashville	40,000	
Legal Services of the Blue Ridge, Boone	111,112	\$ 54,134
Lumbee River Legal Services:		
Fayetteville	95,000	
Pembroke	58,000	53,418
Pamlico Sound Legal Services, New Bern	121,200	
East Central Community Legal Services, Smithfield	65,662	
Eastern Carolina Legal Services, Wilson	<u>49,156</u>	<u>110,557</u>
Total	<u>\$560,130</u>	<u>\$218,109</u>

LSC's regulations and property management manual for legal services programs state that LSC shall retain control over grantee purchase and disposition of assets. In this regard, LSC restricts the disposition of grantee property with a fair market value of \$1,000 or more to

- transfer to another LSC program or to a nonprofit program serving the poor in the same community,
- sale to highest bidder, or
- sale at fair-market value.

Proceeds from the sale of property must be credited to the account of either the grantee or LSC and may be used for general program purposes or for purchasing other property.

The reasonableness of LSNC's decision to purchase (rather than lease) is difficult to assess retrospectively since the options available to LSNC at that time, and their costs, are unknown. The ultimate reasonableness of the decision will depend largely on how long ECLS remains in the Wilson property and the residual value of the property when ECLS vacates it.

LSNC'S ESTABLISHMENT AS AN INTERMEDIARY FOR LEGAL SERVICES SUBGRANTEES

LSNC was founded in 1976 as the result of a study of the need for statewide legal services for the indigent by a special committee of the North Carolina Bar Association Foundation. Among other things, the committee concluded that:

- With every legal aid office operating under the direction of independent and unrelated boards of directors, there was no direction to the necessary growth and expansion of legal services.
- The professional staffs in each office, all understaffed, gave most of their attention to purely local problems.
- Each office competed against the others for money to finance its efforts.
- There was no overall direction to each office's efforts.
- Many of the functions of the individual legal services offices could be carried out more efficiently and effectively with centralized direction.

The committee recommended a system it believed would combine the best features of a highly centralized organization, such as that in Georgia, and a loose confederation of local programs with centralized support functions, such as that in Florida. Its recommendation provided for:

- Local offices that would retain their separate identity and be supervised by local boards of directors.
- A central office that would establish broad policies, receive and allocate funds, and evaluate progress to assure a high level of performance and compliance with established policies.

LSC's Atlanta Regional Director and LSNC's Executive Director view LSNC as an integral organizational component of the North Carolina legal services program. They believe that it provides for economies of scale in administration, consistency in public relations, coordination of legal services efforts, and better accountability than would result if LSC had to deal individually with LSNC's 15 subgrantees.

The LSNC Executive Director believed that legal services program costs in LSNC's service area probably would not be reduced if LSC made grants directly to LSNC's current subgrantees since essential financial and administrative functions, currently performed centrally, would have to be decentralized. According to LSNC's and ECLS' Executive Directors, LSNC provides accounting services without which each subgrantee would require an accounting system and staff. They also said decentralization would likely increase fringe benefit costs since the advantage of group programs would be lost. Price Waterhouse, after studying LSNC's accounting system and fringe benefit administration, recommended that both

activities be managed centrally. These recommendations were based on considerations of efficiency and effectiveness.

To obtain a perspective of the reasonableness of annual costs of operating LSNC and its subgrantees, we compared LSNC's (and its 15 subgrantees') costs with those of similarly organized legal services networks. As shown below, LSNC's per-case costs compared favorably to those of Georgia Legal Services Program (GLS) and Legal Services of Alabama (LSA).

	<u>LSNC</u>	<u>GLS</u>	<u>LSA</u>
Total costs (note a)	\$5,409,390	\$6,953,026	\$4,516,339
Total cases (note b)	13,469	14,284	9,136
Average cost per case	\$402	\$487	\$494

a/All costs are for calender year 1980.

b/Represents cases reported for calender year 1980.

An analysis of selected LSNC expense items expressed as a percentage of total expenses indicates that LSNC's expenses compare favorably with those of the other two legal services programs:

<u>Expense item</u>	<u>Percentage of total expense</u>		
	<u>LSNC</u>	<u>GLS</u>	<u>LSA</u>
Salaries	62	61	59
Fringe benefits	7	7	12
Travel	4	6	4
Telephone	4	4	4
Office space	4	6	5

LSNC's fringe benefits amounted to about 12 percent of salaries, about the same as GLS' 12 percent and less than LSA's 20 percent.

LSNC'S USE OF LEGAL SERVICES  
FUNDS FOR LOBBYING

We found no evidence to indicate that LSNC's lobbying activities violated antilobbying provisions of Federal statutes 1/ and LSC's implementing regulations. These regulations require that:

--"Recipients shall adopt appropriate procedures and forms to document that the legislative activities in which they engage fall within the activities permitted in section 1612.4(a)." 2/ (46 FR 16268, Mar. 12, 1981) (45 CFR 1612.4(b))

--"Recipients may not establish full-time legislative offices unless the decision to establish such an office is formally made by the Board of Directors of the recipient \* \* \*." (45 CFR 1612.4(c))

As of November 1981, LSNC and its subgrantees had five attorneys and two nonattorneys registered as lobbyists in North Carolina. An examination of case files showed that the five attorneys who were registered as lobbyists for LSNC met the requirements of 45 CFR Part 1612.4(b) since they were specifically authorized to seek legislative relief for clients by a signed and dated "Retainer (request)" executed by the clients.

One nonlawyer, the Director of Legislation, provides coordination and assistance to attorneys of LSNC's subgrantees representing clients in legislative matters. This position was approved by LSNC's Board of Directors in December 1977, as required by 45 CFR 1612.4(c). The other nonlawyer registered as a lobbyist was responsible only for monitoring legislative committee meetings and advising LSNC attorneys on matters pending in the North Carolina General Assembly. LSNC's Executive Director said that the employee does not lobby but was registered as a lobbyist as a precautionary measure because of the State's strict lobbying laws.

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1/42 U.S.C. 2996f(a)(5)(A) and appropriations restrictions combined in section 607(a) of the annual Treasury, Postal Service, and General Government Appropriation Act and in LSC's annual appropriations contained in the Departments of State, Justice, and Commerce, the Judiciary and Related Agencies Appropriation Act. For discussion of these statutes, see 60 Comp. Gen. 423 (1981).

2/LSC has interpreted this to mean that "If legislative advocacy is to be undertaken on behalf of an eligible client, the recipient will secure an agreement in writing or other appropriate documentation specifically authorizing such representation."

OTHER MATTERS RELATING TO  
ECLS OPERATIONS

Specific questions have been raised concerning (1) the extent of services ECLS provides to Wayne County clients, (2) ECLS' use of funds for travel and professional dues, (3) the employees' benefits program, and (4) the qualifications of its Executive Director.

Services to Wayne County clients

In a June 24, 1980, letter to a Wayne County senior citizens group, the Director of LSC's Atlanta regional office stated that, based on a funding formula using \$7.76 for each of Wayne County's eligible poor, the allocation of legal services funds for the county would be about \$170,000. This apparently raised the expectation that these funds would be allocated directly to the county. In discussing this matter with us, LSC's Regional Director said that his predecessor's letter had incorrectly implied that the final estimates used for planning purposes would actually be allocated to specific counties although funds actually are allocated to grantees, such as LSNC, and are not designated for specific counties. He said that LSC's primary concern is that legal services be made available to all potential clients in a service area but that it was LSNC's and ECLS' responsibility to determine the best way to provide these services.

LSNC and ECLS officials told us they decided to forego offices in each county of ECLS' service area since such action would result in considerable duplication of facilities and staff. Moreover, fluctuations in workloads among the six counties served could compound the inefficiency of a decentralized system. Accordingly, they decided on one ECLS office to provide service to clients in the six-county area. The ECLS Executive Director acknowledged, however, that Wayne County may not receive as much service from ECLS as Wilson, Nash, and Edgecombe Counties because of its distance from the Wilson office.

To ascertain whether ECLS was providing services to Wayne County, we reviewed records relating to (1) its community education efforts in the county and (2) a limited number of cases involving provision of legal services to county residents. ECLS records showed that it made 25 community education presentations in the county during 1980 and the first 7 months of 1981. ECLS' application and case records for the 13-month period following September 1, 1980, showed that ECLS received at least 112 applications from county residents. ECLS gave the applicants advice in 32 of these cases, accepted 35 cases for additional action, and rejected 45 cases.

ECLS' use of funds for travel,  
professional dues, and subscriptions

An analysis of ECLS travel records for the first 9 months of 1981 did not indicate that funds were used to pay for "exotic trips and retreats" as has been alleged. In all cases trips by ECLS staff appeared appropriate and related to program activities.

ECLS had budgeted \$5,500 for professional dues and subscriptions for 1981. It had spent about \$1,000 for these items during the first 9 months of 1981, and we found no evidence that the money was spent for other than ECLS program purposes.

Fringe benefits

ECLS' employees are provided \$100,000 in life insurance. This insurance is part of an overall fringe benefit package administered by LSNC for employees of all legal services grantees in North Carolina. As noted previously, LSNC's fringe benefit package compared favorably with those of GLS and LSA.

Salary and qualifications  
of ECLS' Executive Director

ECLS' Executive Director is paid \$31,500 annually, as approved by the ECLS Board of Directors. As a lawyer, she is a member of the New Jersey and District of Columbia Bars but had not been admitted to the North Carolina Bar. The ECLS Board of Directors--aware that membership in the North Carolina Bar is a requisite of the position--has told her that, if she does not pass the State bar examination in February 1982, it will call for her resignation.

INTEREST INCOME EARNED  
WITH INVESTED GRANT FUNDS

LSC grantees in North Carolina received about \$156,000 in interest income during calendar year 1980 by investing grant funds. It is not unusual for grantees to earn such income.

We examined independent auditor reports for six grantees to ascertain their interest income for 1980 and the amount of grant funds carried forward. These amounts are shown in the following schedule.

<u>Grantee</u>	<u>Interest income</u>	<u>Carryover funds</u>
LSNC	\$109,236	\$1,122,788
GLS	180,798	1,095,960
LSA	289,393	2,262,080
North Central	10,912	71,609
Southern Piedmont	26,980	181,899
Northwest	9,688	44,235
	<u>\$627,007</u>	<u>\$4,778,571</u>

We reported in 1980 1/ that LSC grantees are not required to return funds not expended by the end of the fiscal year. As a result, millions of dollars of unused grant funds have been accumulated by grantees and deposited in checking and interest-bearing savings accounts and, in some cases, invested in interest-bearing Treasury bills. We expressed our belief that LSC should closely monitor the use of funds by its grantees to minimize yearend carryovers and reduce subsequent funding to adjust for excessive carryover balances.

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1/"Review of Legal Services Corporation's Activities Concerning Program Evaluation and Expansion" (HRD-80-103, Aug. 28, 1980).