

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
AUDIT COMMITTEE

OPEN SESSION

Tuesday, October 19, 2010

9:21 a.m.

Hyatt Regency Hotel
320 West Jefferson Street
Louisville, Kentucky 40202

COMMITTEE MEMBERS PRESENT:

Victor B. Maddox, Chairman
Harry J.F. Korell, III
Gloria Valencia-Weber
John G. Levi, ex officio

OTHER BOARD MEMBERS PRESENT:

Sharon L. Browne
Robert J. Grey, Jr.
Charles N.W. Keckler
Laurie I. Mikva
Martha L. Minow (by telephone)
The Reverend Joseph Pius Pietrzyk, O.P.
Julie A. Reiskin

STAFF AND PUBLIC PRESENT:

Victor M. Fortuno, Interim President and General Counsel
Kathleen Connors, Executive Assistant to the President
Patricia Batie, Acting Corporate Secretary and FOIA Officer, Office of Legal Affairs
David L. Richardson, Treasurer and Comptroller
Mattie Cohan, Senior Assistant General Counsel, Office of Legal Affairs
Katherine Ward, Executive Assistant, Office of Legal Affairs
Jeffrey E. Schanz, Inspector General
Joel Gallay, Special Counsel to the Inspector General, Office of the Inspector General
Laurie Tarantowicz, Assistant Inspector General and Legal Counsel, Office of the Inspector General
Thomas Coogan, Assistant Inspector General for Investigations, Office of the Inspector General
Ronald "Dutch" Merryman, Assistant Inspector General for Audit, Office of the Inspector General
David Maddox, Assistant Inspector General for Management and Evaluation, Office of the Inspector General
Stephen Barr, Media Relations Director, Government Relations and Public Affairs Office
Janet LaBella, Director, Office of Program Performance
Matilde Lacayo, Program Counsel III, Office of Program Performance
Danilo A. Cardona, Director, Office of Compliance and Enforcement
Robert E. Henley, Member, LSC Finance Committee
Jeffrey A. Been, Executive Director, Legal Aid Society of Louisville
David R. Yoder, Executive Director, Legal Services of East Tennessee

Terry Brooks, Standing Committee on Legal Aid & Indigent Defendants (SCLAID), American Bar Association
Don Saunders, National Legal Aid and Defenders Association (NLADA)
Linda Perle, Center for Law & Social Policy (CLASP)

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1 PROCEEDINGS

2 (9:21 a.m.)

3 CHAIRMAN MADDOX: I'm going to call to order
4 the meeting of the Audit Committee. If we can have a
5 little order in the room. I need a gavel, but it's on
6 felt. It wouldn't work much.

7 All right. So welcome to the October meeting
8 of the Audit Committee of the Legal Services
9 Corporation. Could I first of all ask the members of
10 the committee to identify themselves and note their
11 attendance? Victor Maddox is the chairman.

12 PROFESSOR VALENCIA-WEBER: Gloria
13 Valencia-Weber, member.

14 CHAIRMAN MADDOX: And who else is on our
15 committee?

16 MR. KORRELL: Harry Korell.

17 CHAIRMAN MADDOX: So it's a three-member
18 committee, so we have 100 percent attendance and we're
19 ready to go.

20 The first item on our agenda would be the
21 approval of the agenda. Let me first make an amendment
22 to the agenda. Item No. 5 was to consider and act on

1 the complaint procedure for the Audit Committee. That
2 was a request that I had made in light of some things
3 that had come to light earlier in the year.

4 I had some thought that we would want to
5 change the existing procedure for the way the Audit
6 Committee could receive and act on complaints. On
7 further consideration, I decided that maybe the best
8 course would be to let the existing procedure remain in
9 place for a year or two and see how it works for us.

10 So I asked that that be removed from the
11 agenda. Apparently we didn't communicate that very
12 well. So I would ask that we remove item No. 5 from
13 our agenda, and once we get into the business, I'll
14 explain my thinking on the complaint procedure a little
15 bit just for further consideration down the line.

16 So, as amended with item 5 eliminated, is
17 there a motion to approve the agenda?

18 M O T I O N

19 MR. KORRELL: I'll move it.

20 PROFESSOR VALENCIA-WEBER: Second.

21 CHAIRMAN MADDOX: All in favor?

22 (A chorus of ayes.)

1 CHAIRMAN MADDOX: And the motion is agreed to
2 and the agenda is approved.

3 The next item is the approval of the minutes
4 of the committee's July 31, 2010 meeting. I didn't see
5 any need for change in the minutes.

6 MR. KORRELL: I'd just ask that they reflect
7 that I -- that's another one of the committee meetings
8 I attended by telephone as a nominee, not yet
9 confirmed. But it did not appear on the minutes.

10 CHAIRMAN MADDOX: With that addition, is there
11 any other change necessary to the minutes?

12 (No response.)

13 CHAIRMAN MADDOX: Is there a motion to approve
14 the minutes, as amended?

15 M O T I O N

16 PROFESSOR VALENCIA-WEBER: I'll move to
17 approve. Gloria Valencia-Weber.

18 CHAIRMAN MADDOX: Is there a second?

19 MR. KORRELL: Second.

20 CHAIRMAN MADDOX: Then the minutes of the July
21 31, 2010 meeting of the Audit Committee, as amended,
22 are approved.

1 That brings us to our first substantive item
2 on the agenda, which is the report on internal
3 financial controls, which will be provided to us by
4 David Richardson, the Corporation's treasurer and
5 comptroller. Mr. Richardson?

6 MR. RICHARDSON: Good morning, everyone. On
7 page 144 of your board book, I will summarize the
8 information as we go through here a little bit. If I
9 get too detailed, just wave at me and I'll slow down
10 and back off a little bit.

11 CHAIRMAN MADDOX: Can I just -- before you do
12 that, I just had a request that all the members
13 identify themselves when they speak. We do have others
14 on the phone. Martha Minow, is Martha on the phone?

15 (No response.)

16 CHAIRMAN MADDOX: Apparently not. But please
17 identify yourselves for the record.

18 And then before you begin, Mr. Richardson, the
19 report on the internal financial controls is extensive.

20 And I think we have perhaps -- it's a new Audit
21 Committee, and we could spend hours understanding the
22 depths of the internal control process, not only for

1 the Corporation but in the abstract.

2 And so I'm going to leave it to you to use
3 your discretion to decide how much of this report it
4 makes sense for you to go through in detail, and
5 perhaps how much of it you might want to summarize or
6 provide an executive summary of, so that as the
7 committee has an opportunity to review the memo in
8 greater detail in light of your explanation and your
9 presentation, we perhaps might be able to ask more
10 substantive and meaningful questions of you at our next
11 meeting.

12 For me, having some understanding of internal
13 controls and audit procedures and the like, it's
14 nevertheless a daunting presentation. So with that,
15 I'd turn it over to you and leave it to your good
16 judgment.

17 MR. RICHARDSON: Well, I do intend to
18 summarize as we go through here because what I have
19 done is we have an accounting manual that is over 60
20 pages. So I have summarized some of the more salient
21 points, the more important points here, to me as far as
22 providing you some information.

1 Mainly what I want to get across here I'll
2 state right up front, and that is that we have a lot of
3 checks and balances in place. Money comes from the
4 Treasury. We request money. We don't get our full
5 appropriation at the first of the year. We pull it
6 down from the Treasury as we need it.

7 Normally it is myself and one other individual
8 who pulls the money from Treasury. When that is done,
9 we discuss it. We go through it. We decide on an
10 amount. One makes the transfer and makes the journal
11 entry; then the other one reviews and approves it so
12 that we have a cross-check there.

13 CHAIRMAN MADDOX: Who are those two people
14 involved?

15 MR. RICHARDSON: Myself, and the other
16 gentleman is Martin Polacek.

17 Each of the journal entries that we do -- I've
18 gone through the cash received, the non-Treasury, the
19 cash we get -- is to show that it comes in to an
20 administrative assistant. She logs it in. She
21 produces a deposit slip.

22 It goes to an accountant, who reviews it. It

1 then comes to either Martin or myself, and we review it
2 and it goes to the bank. Another accountant then makes
3 the journal entry so that we can trace it. And then we
4 go back to the log to make sure that we account for
5 everything.

6 The Treasury part -- and let me back up to
7 that a little bit because we've just had a continuing
8 resolution. We have to send a letter to Treasury to
9 get our money. That letter went out last week. We
10 requested \$74 million. And that is 64ths -- 64 over
11 365, because there are 64 days in this continuing
12 resolution. And that's how they determine our money
13 based on last year's appropriation. It's just simple
14 math to multiply it out.

15 They will not give us the money until we
16 provide them the appropriation language. They won't go
17 look themselves. So we have to get it and provide it
18 to them. We've done that. It'll take anywhere from
19 three weeks to six weeks to get the money. And then we
20 go through the procedure that I explained before, start
21 drawing it down, and the cross-checks.

22 The purchasing I've just summarized here also.

1 One of the key points here is that when somebody needs
2 something, it's purchased through the Office of
3 Financial and Administrative Services. We take care of
4 that if there is a purchase order needed, and sometimes
5 it'll take a month or two to get the invoices in and
6 get everything approved.

7 Each month we report back to our directors the
8 budget that they have and their spending. Each month
9 we provide them the list of outstanding purchase orders
10 that they have in place so that they can follow up if
11 there's an invoice that's perhaps sitting on their
12 desk, or one of their employees, or they've got to call
13 a vendor to get it sent in so that we can make the
14 payment, so that we try to make sure that we're giving
15 full information and getting their input as to what is
16 needed.

17 The check-writing is only done by two people.
18 Again, that is Martin and myself. The rest of the
19 staff, they input the information, it is checked by
20 either Martin or myself, and then we produce the
21 checks.

22 So again, we have a cross-check there to make

1 sure of the coding of the information, to make sure
2 it's going to the correct account; make sure it's going
3 to the correct department. On page 146 I've laid out
4 who in the staff has responsibilities for those
5 activities. As you see at the front, myself and Martin
6 produce the checks. Wendy Christmas does the POs. And
7 you can look down through there and see the other
8 responsibilities.

9 CHAIRMAN MADDUX: Let me just ask you about
10 the check-writing process. You indicated that the
11 automated system that generates the checks does not
12 have pre-numbered checks so that the numbers are
13 generated as the check is generated.

14 From an internal control perspective, what's
15 the significance of that? Why is that important and
16 helpful?

17 MR. RICHARDSON: People have gone away from
18 pre-numbered checks because of laser printers, quite
19 honestly, and trying to keep them in order. So what we
20 do is we've created a log, and each time we write a
21 check, we log the first check number and the ending
22 check number. So that way, when we go back to the next

1 check run, we make sure that the first check follows so
2 that we can keep it in order.

3 I just mention that because it is something
4 that has changed in the industry in the last number of
5 years because of the ease of printing laser checks.
6 But we do have a cross-check in place to make sure that
7 we're accounting for all the checks.

8 Another thing that has come about is the
9 web-based payments. All of our grant payments except
10 one is made through a web-based direct deposit. The
11 files are generated. We get what is called a payment
12 run report. That payment run report gives us the
13 amount of checks to be issued on that particular day,
14 or payments, because of direct wires. It also gives us
15 the cash that is in our system so that we see if we
16 need to transfer any money into the account to cover
17 the checks.

18 We keep hearing a lot about IOLTA and the
19 interest on accounts. The interest that we earn on our
20 account is basically we have to put our money in the
21 bank two full days before grantmaking. For instance,
22 on the 28th of the month, we will deposit. We'll pull

1 money out of the Treasury to put into our accounts. So
2 the 29th and 30th, they see that they have the money,
3 and on the 1st, they transfer the payments to make sure
4 that they've got the money for the wires that are in
5 there.

6 So we're getting basically three days'
7 interest on the majority of that money a month. We do
8 have operating money; we keep 2- to \$3 million in the
9 bank in our accounts at all times so that we can make
10 payroll, make rent payments, and other payments so that
11 we're not going to the Treasury every Friday when we
12 write checks or every two weeks when we write a payroll
13 check. And that's perfectly acceptable to them.

14 Payroll is the 15th and the last day of the
15 month. If the 15th falls on a weekend, we pay on the
16 Friday. If the last day of the month is on a Saturday,
17 a Sunday, or even a Monday -- because there's a lot of
18 Monday holidays -- we pay the Friday before.

19 And that is done through ADP, Automatic Data
20 Processing. They have also taken over the payment of
21 our taxes. We paid those for years; they are now doing
22 that. We have also set up direct deposit for our

1 retirement payments. We transfer the file; they debit
2 our account for the amount of the retirement. So that
3 is all handled electronically at this point.

4 Credit cards: Each of you have available to
5 you a Citicorp government-issued travel card. It will
6 give you up to \$6,000 credit line for you to pay for a
7 hotel, pay for your meals. If you need to buy an
8 airline ticket under government rate, you can do that.

9 Many of you already have them. The new
10 members of the board, we will be contacting you in
11 regards to that in the next week or so to see if you
12 would like to have one of those available to you.

13 I would recommend that you do it. You never
14 know when you get caught in a circumstance that you
15 need a ticket, and certainly the government rate, if
16 you'd walk over to a ticket agency or an airline to
17 purchase a ticket for today, you should be able to get
18 the government rate unless it's a full flight.

19 If you go over to purchase one at the counter
20 without the government rate, you're going to pay the
21 prevailing rate. And we've seen savings of anywhere
22 from \$500 to \$1,000 in being able to do that.

1 CHAIRMAN MADDUX: Not only that, but you're
2 not going to be able to change your ticket if it's been
3 made with a government office unless you've got access
4 to a government card. I tried to do that in January or
5 April or sometime when the snowstorm came, and they
6 wouldn't let me change. So I was on standby. So it's
7 nice to have in your pocket, I guess.

8 MR. RICHARDSON: Yes. What I've done on page
9 149 and 150, -51, and -52, is just sort of lay out our
10 account structure. It shows that we have a Sun
11 Systems, which is a fund accounting software that we're
12 required to have. It shows on page 150 the account
13 structure, the asset, 1, and then three additional
14 numbers, liability, 2, three additional numbers.

15 So it's sort of consistent with the way you
16 would see a financial system in a textbook. The only
17 addition is the grant expense. We have used 6 for our
18 grant expenses there.

19 We have fund codes. Mainly at this point we
20 have our general operating, our appropriations, and we
21 have fixed assets. Departments, we have a budget for
22 the Board; a budget for the executive office; a budget

1 for my office, the Office of Financial and
2 Administrative Services; Government Affairs; Program
3 Performance. And then they roll up to a total budget,
4 which we passed this morning in our Finance Committee.

5 Some of the different items that's available
6 is on 151. You'll see that there's journal entries, a
7 journal import -- we can enter stuff into an excel
8 spreadsheet and we can import it into the system. Our
9 system also gives us the availability of extracting
10 information so that we can analyze accounts and come up
11 with account balances and be able to follow up on
12 those.

13 It gives us a great deal of flexibility in
14 following up on -- the main thing that we do is travel.

15 You think of -- we have people traveling this week.
16 We have the Board traveling. We have people from
17 Compliance and OPP, they're either traveling this week
18 or next week.

19 And we track the airline tickets. We track
20 the charges to the credit card. We make sure that
21 those charges are then accounted for with an expense
22 report. If we don't get an expense report in a certain

1 length of time, we will call you to say that you have
2 an outstanding expense report, so that we can make sure
3 to stay on top of these and follow up with them.

4 When you look at journal entries, we have
5 three accountants who make journal entries. They will
6 be reviewed by Martin or myself and then posted.
7 There's only the two of us, just like in writing
8 checks, that can post the entries.

9 If you would walk up -- and we provide the
10 information to our auditors that they can look at our
11 system -- they can log into the system. They can look
12 at any of the accounts. The Inspector General on times
13 has done a review. We've provided them access to the
14 system where they can look at it.

15 They go straight to the system; we don't try
16 to run reports and give them. We have done that
17 occasionally, but it's just better if they have the
18 information. They can look at it. They can do
19 anything they want. They can't change the system. And
20 that's done for internal control processes.

21 On page 153, you see the culmination of
22 planning for our audit. And this is the end stage.

1 Each employee -- you'll see initials in here and you'll
2 see our administrative assistant, Martin, Wendy, Jacob,
3 and Charito -- they have a very similar memo that is
4 prepared, and they complete account analysis monthly.
5 I've got it set up that we review them quarterly.
6 Either Martin or I will sign off on those or review the
7 analysis to make sure that we are on top of everything,
8 that we stay current, that we don't get behind.

9 I say we have a lot of checks and balances
10 with our journal entries and posting. Occasionally
11 there's still something that will get through that has
12 to be corrected. Those things are identified by doing
13 the account analysis.

14 We identify, of course, our cash, payroll,
15 rent, and the largest expense in the Corporation is the
16 grant expense. We analyze that monthly, and we make
17 the adjustments as we need monthly to make sure that
18 everything is in balance as we go through the year.

19 There's occasions, just like in anything else,
20 where we might get a little behind. It maybe doesn't
21 happen quarterly; it may happen every four or five
22 months. But when it gets down to the end of the year,

1 we're on this schedule. I produce this schedule in
2 preparation for the audit.

3 And our auditors are scheduled to come in on
4 November 8th. We will have an entrance conference at
5 that time. And the audit will either begin that
6 afternoon or the day after, and we hope to have
7 everything completed by Thanksgiving.

8 Of course, when you do the field work, when
9 they go back to their offices, they seem to always have
10 a few questions when the reviewers look at them. When
11 the partner in charge looks at it, she may have some
12 additional questions.

13 But then it goes through a quality control at
14 the auditors, and they have a different partner,
15 different from the partner who is in charge of the
16 audit, that will look at the materials. And that
17 person may have questions. But for the most part,
18 everything is done on site.

19 We produce the financial statements, the
20 balance sheet, the income statement, a cash flow
21 analysis. I prepare those and give them to the
22 auditors. I didn't include all of that because, as you

1 see here, there's a lot of material here. And this is
2 distilled from an even larger manual.

3 I know that is a very quick overview, but I
4 think that gives you the gist of how we get our cash
5 in, how we do our payroll, how we make our payments.
6 But I'd be glad to answer any questions you may have.

7 Julie?

8 MS. REISKIN: This might be a really stupid
9 question, but I've seen on certain grants where if you
10 feel like or someone feels that it wasn't used
11 properly, that someone might owe you money, a grantee;
12 or in the loan repayment thing, if someone doesn't
13 stay.

14 How does that -- do they just -- is this just
15 like everyone else? Do they just like write you a
16 check, and you have a deposit slip and you go to the
17 bank? Or how does that -- how do you get money that
18 isn't government money?

19 MR. RICHARDSON: Okay. For instance, we'll
20 take the loan repayment. If we provide an individual
21 employee of a grantee a loan and they decide to leave
22 for whatever reason, if it is deemed that they have to

1 pay that amount back, then they do write us a check.
2 Sometimes they will write it back over a period of
3 time. We've accepted up to a year for people to repay
4 the loan balances that's due to us.

5 For a grantee, I mentioned in the
6 memo -- didn't go over it here -- but we have a
7 subscription service through the Bureau of National
8 Affairs where they get Law Week, Employment Week, and
9 different law journals that BNA sells. We deduct those
10 from their checks and then make the correct payment.
11 We reconcile that each month.

12 In addition, if there's a grant recovery -- if
13 there is a questioned cost, if there is a fund
14 balance -- we deduct it from a check. We've had
15 circumstances where they're no longer a grantee. They
16 then write us a check.

17 CHAIRMAN MADDUX: Thank you for that report,
18 David. I have a couple of questions as well.

19 First of all, has the GAO ever raised any
20 questions about the extent or the effectiveness of the
21 internal controls regarding the financial accounting
22 system? I know there have been a lot of GAO reports

1 and whatnot. So far as I can tell, they all appear to
2 be dealing with process and procedures in dealing with
3 the grantmaking process or the field audits and the
4 like of the programs.

5 But I haven't seen anything from GAO that
6 questions or suggests improvements to the financial I
7 control system. Is that fair to say?

8 MR. RICHARDSON: That is correct, sir. The
9 memo that you have before you I have updated and
10 provided to the GAO people when they come in. And
11 they've looked at it and there has been no comment in
12 regards to it.

13 CHAIRMAN MADDOX: Right. Is it also
14 reasonably accurate that our external auditors have not
15 identified meaningful deficiencies in our internal
16 controls?

17 MR. RICHARDSON: They have not.

18 CHAIRMAN MADDOX: Insofar as the annual audit
19 is concerned, I know we've got your memo here which
20 suggests that that is going to begin on November 8th.
21 When will that actually be completed? When will we
22 have their final report?

1 MR. RICHARDSON: Actually, that is the next
2 thing on the agenda item, and I think Dutch is coming
3 forward to give us a report on that to lay it out.
4 But --

5 CHAIRMAN MADDOX: Well, he can do that. Let
6 me, while we've still got you, I've distributed to the
7 committee members and other Board members our Audit
8 Committee charter, and I have got a couple questions.
9 I want to understand how this works.

10 If you guys would look at page 2, the duties
11 and responsibilities, it lays out what I would consider
12 an extensive list of duties, 16 of them, some of which
13 are reasonably turgid in their language. And then
14 conceptually there's a lot of overlap and the like.

15 For perhaps some background, the reason this
16 committee exists -- and I think this is the second year
17 of the committee's existence -- is because the GAO, in
18 its 2007 report, I believe, identified the need for the
19 Corporation to have a separate audit committee that
20 would perform the traditional functions off an audit
21 committee.

22 I think a lot of these audit committee

1 functions derived from the broader government
2 experience with a multi-billion-dollar budget in the
3 Department of Defense or something. And so to some
4 extent, I think a lot of this -- some of this, at
5 least -- may be a bit of overkill. And I don't want o
6 diminish the need for our committee or the seriousness
7 of our purpose. But that's sort of how we got here,
8 and that's why we have these 16 items.

9 I think that for the three of us, as a
10 committee, to effectively exercise these
11 responsibilities is going to be a challenge, to say the
12 least. And I think that all of us are going to be on a
13 learning curve.

14 The immediate past chairman, Herb Garten, gave
15 me a set of materials that he had acquired regarding
16 audit committees and procedures and best practices and
17 the like, and I can share of that with you. It's
18 sitting on a six-foot shelf in my office right now,
19 some of which I've gotten through and most of which I
20 haven't.

21 So I guess the point of all that is it's a big
22 job and I don't want you, David, or Vic if he's here,

1 or you, Jeff, to think that as we sit here now, we are
2 all fully up to speed on our duties. Maybe some of us
3 are, but I'm not. And I'm sort of working to get
4 there.

5 Let me ask you to take a look at the
6 first -- you don't have the charter in front of you, do
7 you? Okay. Item No. 1: "The committee shall review
8 with management, the OIG, and the Corporation's
9 external auditors the contemplated scope and plan for
10 LSC's required annual audit."

11 Now, we haven't done that. I mean, not to say
12 that that's necessarily a bad thing; it's just a fact.

13 In the past, has the committee executed that function?
14 Did the committee members or some designee, the
15 chairman, perhaps, sit with you and Jeff and -- come on
16 forward, Jeff -- and the outside auditors and execute
17 what could be considered a review of the plan before it
18 was put together and implemented?

19 And if not, is there something that sort of
20 obviates our obligation to deal with item No. 1 in our
21 list of duties?

22 MR. SCHANZ: If I may jump in, Mr. Chairman,

1 this is Jeff Schanz, the Inspector General. We have
2 maintained close coordination on every step of the
3 annual audit with the Audit Committee, with the chair
4 of the Audit Committee, and we provide you the
5 opportunity to learn as much as you want to in whatever
6 time period you want to.

7 Now, in the past, we've had the chair of the
8 Audit Committee -- Herb Garten was in Baltimore, so it
9 was easy for him to come to LSC -- to be involved in
10 the entrance conference, the exit conference, and the
11 in-process briefings. And that opportunity does exist.

12 But we essentially serve as your ears and
13 eyes, we the IG and Mr. Richardson, during the course
14 of the internal audit. If there's any issues that are
15 being flagged, you'll know them as soon as I know them.

16 So as far as the scope of it, no. That's set
17 by contract, and it's a traditional financial statement
18 audit by professional standards. And as much
19 information as you want, and the information you were
20 talking about by Herb, we provided a lot of that to him
21 so we can maybe give you a thumbnail, Cliff Notes
22 sketch of what's in some of that material.

1 CHAIRMAN MADDOX: Well, I appreciate that.
2 And I certainly don't mean to suggest that you haven't
3 given us the opportunity. It is true that Herb could
4 take a shuttle or subway down to your office --

5 MR. SCHANZ: And he liked to.

6 CHAIRMAN MADDOX: Right. It's a little more
7 difficult for me, although the telephone line does run
8 all the way to Louisville and I'm certainly going to
9 make more use of it.

10 I guess my principal concern is, and it's
11 really almost more for the committee for us to consider
12 as we go forward, is to what extent do we honor our
13 obligations in the breach, and to what extent do we
14 identify those that have to have 100 percent ironclad
15 compliance? And I think that we don't have that
16 understanding among ourselves right now.

17 And it sounds like, to the extent that the
18 scope of the audit review and the outside auditor plan
19 is set, and hasn't been set in the past with the
20 committee's input, and it's a standard audit plan, it's
21 evident that our duties and responsibilities, to some
22 extent, there's some flexibility for us to adjust this

1 to the realities of our committee and our operation.
2 And if that's not a fair assessment, I'd like to know.

3 MR. SCHANZ: I think that's a fair assessment,
4 Mr. Chairman. This is our life. Audit is a major
5 function of an IG shop.

6 CHAIRMAN MADDUX: Right. Right.

7 MR. SCHANZ: We know a lot of the ins and
8 outs, and can educate or take some of the burden off
9 the committee as you see fit. This is what -- and
10 Dutch isn't at the table, but this is what he does for
11 a living. He's the AIG for audit.

12 CHAIRMAN MADDUX: Right.

13 MR. SCHANZ: So this is very familiar turf for
14 us.

15 CHAIRMAN MADDUX: Well, we will be taking
16 advantage of your expertise as our meetings and service
17 progresses because at least personally, I need to learn
18 more about the process, and I suspect the committee
19 does as well.

20 I have one more question, at least one more
21 question, about our charter. And it's No. 4 on our
22 charter. And it says we are to "review with the OIG

1 its internal audit responsibilities, sanctions, and
2 performance." And I don't really understand that
3 sentence.

4 I understand internal audit responsibilities.

5 What does it mean to say that the committee shall
6 review with the OIG its sanctions? Is that language
7 that you all have focused on in the past or know what
8 that means?

9 MR. SCHANZ: We have not. I think the
10 gravamen of this statement would be that when we
11 develop our annual work plan, we want, certainly, Board
12 input. We also want Audit Committee input so we're not
13 out there flying blind. We want to do the work that
14 the Board seems most appropriate and Congress seems
15 most appropriate.

16 So this may be an example of bad wordsmithing.

17 I don't know -- I certainly, as the Inspector General,
18 don't want to be sanctioned by the Audit Committee.

19 (Laughter.)

20 CHAIRMAN MADDOX: Well, I think it runs the
21 other way. The language suggests to me that OIG can
22 impose sanctions or make some plan for sanctions, which

1 I don't understand to be the case. So that language
2 really doesn't mean anything to us. And maybe we ought
3 to look at our charter overall as we go forward.

4 MR. MERRYMAN: Mr. Chairman?

5 CHAIRMAN MADDUX: Sure. I'm sorry.

6 MR. MERRYMAN: This is Ronald Merryman. I'm
7 the assistant inspector general for audit for LSC OIG.

8 I believe what you have here is the first
9 attempt at an audit charter that looked at best
10 practices throughout the nonprofit, but didn't have
11 IGs. Some of them have internal audit functions as
12 opposed to IG functions. And so some of the language,
13 I think, is actually taken from those types of things
14 and wasn't fully vetted for every word.

15 But in the case of the annual audit for LSC,
16 we actually do the contracting. We take care of the
17 contracting. We oversee the audit. We have a very
18 specific process that we go through to ensure and try
19 to assure ourselves and the Board that the auditor is
20 independent, that they have the qualifications either
21 by contract or by auditing standards they have to
22 follow.

1 We actually review work papers that deal with
2 the audit planning, deal with the risk assessments that
3 auditors must do, deal with their internal control
4 evaluations that they must do, and major decisions.

5 So we will review the work papers of the
6 auditor, and we will then also transmit the audit
7 report to the Board, simply saying if, in fact, we
8 found that everything was done, everything we looked at
9 was in accordance with standards; that although we're
10 not claiming any credit for the work done -- it's the
11 auditor's work -- that what we did, what we looked at,
12 did not disclose any instances where it was not in
13 compliance with standards. It's called a negative
14 assurance.

15 During the course of the audit, we are very
16 much involved with both Mr. Richardson and the auditor.

17 We look at ourselves as a moderator. If there's an
18 issue, a communication issue, we try to get in the
19 middle of that quickly and clear that up so there's no
20 holdups on the audit. And then if there's concerns
21 with the auditor, we address those concerns.

22 We keep the Board fully informed. The

1 auditor, outside auditor, will want to talk to the
2 Audit Committee, will want to engage them in their view
3 of what's going on and their knowledge of any problems
4 or issues. At the in-brief, there'll be an opportunity
5 to impact the scope of the audit.

6 They'll give an idea of what the scope is
7 going to be, although it'll be a standard financial
8 statement audit. I remember one time I think Mr.
9 Garten asked for an additional -- or an emphasis on a
10 particular area, which the auditors agreed to do.

11 If we want the auditors to do more work, we've
12 got to be very careful from the standpoint that
13 sometimes the Board wants to instruct the auditors to
14 do more work. We actually have to instruct them
15 because we have the contract with them.

16 And we've got to make sure we keep that
17 straight so we can speak for the Board and make sure
18 that gets done to the auditors, make sure they do the
19 work that's requested, and make sure we get the price
20 for what it's going to be and what it's going to cost
21 to get done and everything.

22 So we actually oversee the whole audit process

1 and act as a facilitator if there's any problems in
2 between, to bring parties together to make sure
3 everything is done correctly.

4 CHAIRMAN MADDUX: Thank you.

5 Harry?

6 MR. KORRELL: Thank you. Harry Korell.

7 Mr. Merryman, those comments bring up my
8 question. That really is: What is the source of the
9 charter? Obviously I got it as a new Board member and
10 read it on the plane on the way here, and had perhaps
11 some of the same reactions that the chairman is
12 mentioning.

13 We have annual responsibilities, some things
14 we're supposed to do a couple times a year, and it does
15 have us reviewing management representation letters and
16 certifications. And there's a lot of specific detail
17 requested of us.

18 I'm not terribly comfortable endorsing an
19 observe-in-the-breach sort of approach when we have a
20 very detailed list of things that we are tasked to do.

21 Mr. Merryman's comments suggest that some of these
22 things are also already being done by the OIG, and that

1 perhaps the creation of this doesn't necessarily track
2 the situation where you have an OIG doing a lot of
3 these things.

4 I'm just suggesting that at some point we
5 think about whether it makes sense to have that much
6 overlapping responsibility if we've got an OIG and a
7 staff doing a lot of these things.

8 MR. SCHANZ: If I could interject for a
9 moment, this was sort of a patchwork quilt. This is in
10 response to a GAO finding from one of the GAO reports,
11 so very quickly, the Board put together an Audit
12 Committee where none had existed prior. So there was
13 no precedent for this. So I think this is an
14 amalgamation of a lot of ideas.

15 Now, what you bring up -- and this is a little
16 bit beyond my jurisdiction -- but it may be a good
17 idea, any time there's a new Board or a new committee,
18 committee members, to step back and review charters as
19 a general proposition across the Board. Because this
20 is what was in place before, this does not necessarily
21 need to be what is in place now.

22 And I would offer that to the Board and to the

1 committees as an idea for moving forward. Just step
2 back for a little bit and see what works and doesn't
3 work. And of course, with the Audit Committee, we're
4 available, and the Finance Committee, we're available
5 to assist because now we've had experience in working
6 with certain committees where none existed prior.

7 CHAIRMAN MADDOX: Well, I think that's a good
8 suggestion.

9 I'm sorry. Dutch?

10 MR. MERRYMAN: I was going to say, if I can
11 add a little bit to Jeff's answer to your question of
12 the source, it came from various different charters
13 from -- the AICPA puts out a toolkit for boards that
14 has example charters. It came from other government
15 charters, possibly, if they had an audit committee.
16 There was a number of different places that it came
17 from, and the document was drawn up from that.

18 We were given the opportunity to review it.
19 We provided our comments and our input. I honestly
20 don't remember if all of them were adopted or not at
21 this point in time. And then ultimately, a charter was
22 presented to the Board for approval, and the Board

1 discussed it and adopted the current one.

2 So that's the general source of it. And we
3 can probably, either with Vic's help, and maybe if I
4 can check some of my records, we can pull out some of
5 those sources if we need to.

6 But that was the source. It didn't start from
7 scratch. It started from what was already out there
8 and existing.

9 MR. KORRELL: This is Harry. I certainly
10 don't want to ask you guys to do any more work on that
11 regard. I don't think we need to dig up the sources.
12 I was just curious how it came about and whether this
13 is something that's of long standing or -- and it
14 sounds like it's not. It's fairly new, and so maybe
15 not inappropriate for those of us who are new to this
16 committee to take a look at it and wonder whether we
17 might want to make some adjustments going forward.

18 CHAIRMAN MADDOX: I think that's right. This
19 is Victor Maddox, for the record. Let me, in the
20 interest of time, suggest that perhaps we put together
21 a briefing with the OIG's office by telephone when the
22 three of us as a committee could get a better

1 understanding about the background and maybe ways to
2 streamline our charter, and then perhaps deal with that
3 at our next meeting. That's fine.

4 MR. LEVI: And can I just say --

5 CHAIRMAN MADDOX: Sure.

6 MR. LEVI: This is John Levi. I would think
7 that a change in your charter, given the nature of the
8 Audit Committee, ought to -- as opposed to, say, Ops
9 and Regs or some other committee doing that for you,
10 ought to come from you to us so that -- and working
11 with the OIG and, to some extent Vic --

12 CHAIRMAN MADDOX: I think that's right.

13 MR. LEVI: -- to take what the last few
14 years -- because we're really rather uninformed as to
15 which of these things we, in the prior years, have been
16 in fact checking off or have really had no relationship
17 to. But you will be able to help us, I believe, Dutch
18 and Jeff, in saying, well, this should stay. This
19 should leave. Actually, we need to add in something.
20 And let's get the charter where it needs to be.

21 Does that make sense?

22 CHAIRMAN MADDOX: I think it does, John.

1 Thank you.

2 In the interest, again, of time, I'm going to
3 ask that we take out of order on our agenda item No. 6.

4 We've got the OIG's office here. And if there's no
5 objection, we can move to the briefing by the Inspector
6 General.

7 MR. SCHANZ: Well, in essence, you heard a lot
8 of it as it related to the annual audit. And I'll turn
9 it over to Mr. Merryman again to -- just I want to give
10 the Audit Committee, as well as the Board, a comfort
11 feeling that we've been doing the annual audit for
12 several years now and it pretty much runs like
13 clockwork. We did compete it again, and I'll let Dutch
14 deal with those details.

15 MR. MERRYMAN: As far as the annual audit is
16 concerned, we do go out under a competitive bid
17 contract. We awarded a contract for last year's audit
18 with two option years. We're in the second -- or we're
19 in the first option year of that contract this year.

20 We met with the IPA and with Mr. Richardson.
21 We sat down and talked about any issues we had. We got
22 everything resolved, if we had any concerns and

1 understandings, to make sure it works smoother, even,
2 the second time.

3 And other than getting hold of you, sir,
4 to -- Mr. Maddox, sir, to determine whether or
5 not -- what time would be available or if the 8th is
6 good for you for the in-brief; we want to make sure
7 that's available to you and the committee members to be
8 able to phone into, at least. That's really all I have
9 on the audit side of that.

10 As far as the second item on our report, which
11 deals with TIG audits underway, the only thing I have
12 on that that I can say at this time is that we are
13 evaluating the comments and the responses that we
14 received, and as soon as we have a final report, we
15 will provide it to the Board.

16 And that's all I have.

17 CHAIRMAN MADDOX: Thank you very much.

18 Any comments from the committee?

19 PROFESSOR VALENCIA-WEBER: I just wanted to
20 ask -- Gloria Valencia-Weber -- I just wanted to ask,
21 on the TIG report, what's the data you're using for
22 that report?

1 MR. MERRYMAN: The date that we're using?

2 PROFESSOR VALENCIA-WEBER: The data. What
3 information, data -- what is it that you're using to
4 construct that report?

5 MR. MERRYMAN: The data that we received from
6 LSC for the time period up through -- I don't have it
7 right in front of me, but it's in the audit report.
8 The data was, I believe, through 2008 into 2009 data.
9 There may have been a couple of things from 2010. I'd
10 really have to check it.

11 PROFESSOR VALENCIA-WEBER: I just wanted to
12 have an idea. This is information from the grantees as
13 well as what we have from our reports?

14 MR. MERRYMAN: No, ma'am. This was
15 information on what -- the headquarters information.

16 PROFESSOR VALENCIA-WEBER: Thank you.

17 CHAIRMAN MADDOX: Thank you, Dutch. Anything
18 else?

19 MR. MERRYMAN: Anything else, Jeff?

20 MR. SCHANZ: No.

21 CHAIRMAN MADDOX: Thank you very much.

22 Our next item is -- we're going to go back to

1 item No. 4, the report on the timely issuance of OCE
2 and OPP program visit reports. Janet LaBella and, on
3 the telephone, Danilo Cardona.

4 Mr. Cardona, are you on the phone?

5 MR. CARDONA: Yes, Mr. Chairman. I'm on the
6 phone.

7 CHAIRMAN MADDOX: Very good. And we have Ms.
8 LaBella at the table. So over to you.

9 MS. LABELLA: Thank you. For the record,
10 Janet LaBella, the director of OPP. And this report is
11 an update from the one we gave prior to the last Board
12 meeting, and it's for the period of 2010 up to and
13 including October 15th. And it deals with the final
14 program quality reports that were issued during that
15 period of time.

16 In that period of time, OPP issued 16 PQV
17 reports, final PQV reports, of which ten were timely
18 based on the applicable timelines that are in the OPP
19 office procedures manual, and six were not.

20 Of those six, two missed the target date by
21 less than a week. One was delayed due to an extension
22 given to the program for comments. That does not occur

1 infrequently. When a program gets a draft report, they
2 may ask program counsel if they can have an extension
3 of time in which they provide comments, and frequently
4 that has a ripple effect where our final report is then
5 delayed because we extended that courtesy to the
6 program.

7 So that was the situation with respect to one
8 of them. And the other one was a report that entailed
9 a visit that included a lot of materials in Spanish.
10 And that required additional staff time to translate
11 and digest and write the report.

12 And that's basically it for, again, the period
13 of reports that were issued. Now, keep in mind that
14 because the reports, the final reports, are not issued
15 up until 105 days or 135 days from the end of the
16 visit, that a lot of the early reports in 2010, of
17 course, were for visits that occurred in 2009, and
18 recent visits have not yet generated a final report.

19 So that's it unless you have any questions.

20 CHAIRMAN MADDOX: Any questions from the
21 committee or the other Board members?

22 (No response.)

1 CHAIRMAN MADDOX: If not, thank you very much.

2 MS. LABELLA: All right. Thank you.

3 CHAIRMAN MADDOX: That brings us to item No. 7
4 on our -- oh, I'm sorry. I forgot. Mr. Cardona.

5 MR. CARDONA: Thank you, Mr. Chairman. I was
6 very happy that I had to skip my report for a moment
7 there.

8 (Laughter.)

9 MR. CARDONA: My name is Danilo Cardona. I'm
10 the director of the Office of Compliance and
11 Enforcement.

12 As noted in the July 16, 2010 memorandum,
13 which was the last time that we updated the committee,
14 current OCE guidelines include a goal of 120 days for
15 issuing final reports for one-week visits, and 150 days
16 for visits spanning two weeks.

17 OCE guidelines also outline several exceptions
18 for that time frame, including complexity of issues
19 contained in the report may require additional time for
20 review and editing; program requests for extensions of
21 time in which to provide written comments; programs'
22 comments may raise additional issues for review and

1 consideration; all draft and final reports stemming
2 from program integrity reviews must be reviewed by the
3 Office of Legal Affairs prior to release; and issues
4 raised during the visit or by programs' comments may
5 require OLA opinions.

6 For the period January 1 through October 15,
7 2010, OCE conducted a combination of nine CSR/CMS and
8 follow-up review visits for which final reports should
9 have already been issued in order to meet OCE's goal
10 time frames.

11 Of those visits, final reports or letters have
12 been issued for six programs -- Kansas Legal Services,
13 Inc.; Greater Bakersfield Legal Assistance;
14 Southeastern Louisiana Legal Services Corporation;
15 Laurel Legal Services, Inc.; Community Legal Services
16 of Mid-Florida; and Legal Aid and Defender Association,
17 Inc., in Detroit.

18 All of these final reports were issued within
19 LSC's goal time frames, and one, Southeastern Louisiana
20 Legal Services Corporation, was issued only five days
21 late, two of which were on a weekend. Of the remaining
22 three visits for which reports have not yet been issued

1 in final, two are date due to the program -- Legal
2 Services of New York City and Indiana Legal Services,
3 Inc. requested extensions of time in which to submit
4 written comments to the draft report.

5 And the third, the Legal Aid Society of Orange
6 County, is late due to a combination of waiting for OLA
7 opinions before released the draft report, and the
8 program requesting an extension of time in which to
9 submit written comments to the draft reports.

10 So for all the reports at the Office of
11 Compliance and Enforcement, we are meeting the time
12 frames, with the except of these three that meet within
13 the exceptions to the time frames. And that is the
14 report.

15 CHAIRMAN MADDIX: Thank you, Mr. Cardona. My
16 impression is that the operation, your operation, is
17 working pretty well. Is that fair to say?

18 MR. CARDONA: It is fair to say, yes. The
19 reports are on time; staff are delivering on time, I'm
20 reviewing them with the deputy director, and they're
21 going out of here as soon as we can put them out.

22 And, as I said, the only delays are when

1 programs ask for comments, which is in our interest to
2 extend the time for the extension of comments because
3 in that way we can close the corrective actions and so
4 forth. And it doesn't make sense to issue a report
5 without comments because then we will have to follow up
6 and invest more time and money in going back to the
7 program. So it is running fairly smoothly, and that is
8 the case.

9 CHAIRMAN MADDOX: Thank you very much.

10 Any comments from our committee members or any
11 other board members?

12 (No response.)

13 CHAIRMAN MADDOX: Well, then, thank you, Mr.
14 Cardona.

15 MR. CARDONA: Thank you, Mr. Maddox.

16 CHAIRMAN MADDOX: And that takes us then to
17 item No. 7 on our agenda, which is public comment. Do
18 we have any comments from members of the public? Any
19 program directors want to chime in on OPP and OCE
20 procedures and reasonableness or unreasonableness?

21 (No response.)

22 CHAIRMAN MADDOX: Hearing no comments from the

1 public, then that will take us to item No. 8, to
2 consider and act on other business.

3 I just want to say in that regard that I will
4 be asking the OIG office to put together a briefing for
5 us, and I'll consult with you all on your schedules so
6 that we can talk on the phone about the charter and the
7 various ways that we can either amend it or develop a
8 plan to comply with it, and try to do that some time
9 before Thanksgiving so that we can make some progress
10 before our January meeting.

11 If there's no other business to act on, I
12 would consider and act on a motion to adjourn.

13 M O T I O N

14 MR. KORRELL: Motion to adjourn.

15 PROFESSOR VALENCIA-WEBER: Second.

16 CHAIRMAN MADDOX: All in favor?

17 (A chorus of ayes.)

18 CHAIRMAN MADDOX: So we are in adjournment.

19 Thank you very much.

20 (Whereupon, at 10:16 a.m., the meeting was
21 adjourned.)

22 * * * * *