LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
AUDIT COMMITTEE
OPEN SESSION

Monday, April 13, 2015
1:37 p.m.

Legal Services Corporation
3333 K Street, N.W.
Third Floor
F. William McCalpin Conference Center
Washington, D.C. 20007

COMMITTEE MEMBERS PRESENT:
Victor B. Maddox, Chairperson
Harry J.F. Korrell, III
Gloria Valencia-Weber
David Hoffman (Non-Director Member) (by telephone)
John G. Levi, ex officio

OTHER BOARD MEMBERS PRESENT:
Charles N.W. Keckler
Victor B. Maddox
Laurie Mikva
Martha L. Minow
Father Pius Pietrzyk, O.P.
Julie A. Reiskin
STAFF AND PUBLIC PRESENT:

James J. Sandman, President
Lynn Jennings, Vice President for Grants Management
Rebecca Fertig Cohen, Special Assistant to the President
Patrick Malloy, Grants Management/Legislative Fellow, Executive Office
Wendy Rhein, Chief Development Officer
Ronald S. Flagg, Vice President for Legal Affairs, General Counsel, and Corporate Secretary
Mark Freedman, Senior Assistant General Counsel, Office of Legal Affairs
Stefanie Davis, Assistant General Counsel, Office of Legal Affairs
David L. Richardson, Comptroller and Treasurer, Office of Financial and Administrative Services
Carol A. Bergman, Director, Office of Government Relations and Public Affairs
Carl Rauscher, Director of Media Relations, Office of Government Relations and Public Affairs
Jeffrey E. Schanz, Inspector General
Laurie Tarantowicz, Assistant Inspector General and Legal Counsel, Office of the Inspector General
John Seeba, Assistant Inspector General for Audit, Office of the Inspector General
Daniel O'Rourke, Assistant Inspector General for Investigations, Office of the Inspector General
Joel Gallay, Special Counsel to the Inspector General, Office of the Inspector General
Roxanne Caruso, Director of Audit Operations, Office of the Inspector General
Magali Khalkho, Director of Management Operations, Office of the Inspector General
STAFF AND PUBLIC PRESENT (Cont'd):

Daniel Sheahan, Program Evaluation Analyst, Office of the Inspector General
Lora M. Rath, Director, Office of Compliance and Enforcement
Megan Lacchini, Deputy Director, Office of Compliance and Enforcement
Lisa Watson, Deputy Director for Fiscal Compliance, Office of Compliance and Enforcement
Sheila Mashhadishafie, Program Counsel, Office of Compliance and Enforcement
William Carl Isler, Program Counsel, Office of Compliance and Enforcement
Kia Ashley, Program Counsel, Office of Compliance and Enforcement
Helga Merz-Hafezi, Fiscal Compliance Specialist, Office of Compliance and Enforcement
Shanda Gottlieb, Fiscal Compliance Specialist, Office of Compliance and Enforcement
Thomas Enright, Fiscal Compliance Specialist, Office of Compliance and Enforcement
Chinnamma Mathew, Administrative Assistant, Office of Compliance and Enforcement
Janet LaBella, Director, Office of Program Performance
Traci Higgins, Director, Office of Human Resources
Peter Campbell, Chief Information Officer, Office of Information Technology
Eric Jones, Network Engineer, Office of Information Technology
Robert E. Henley, Jr., Non-Director Member, Finance Committee
Robin C. Murphy, National Legal Aid and Defender Association (NLADA)
Terry Brooks, American Bar Association Standing Committee on Legal Aid and Indigent Defendants (SCLAID)
Dominique Martin, Law99.com
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PROCEEDINGS

(1:37 p.m.)

CHAIRMAN MADDOX: All right. We're going to call the public session of the Audit Committee meeting to order. And the first item on our agenda is the approval of the agenda. Is there a motion?

MOTION

MR. KORRELL: So move.

PROFESSOR VALENCIA-WEBER: Second.

CHAIRMAN MADDOX: Gloria, second. All in favor?

(A chorus of ayes.)

CHAIRMAN MADDOX: Opposed?

(No response.)

CHAIRMAN MADDOX: So the approval of the agenda is agreed to.

Item number 2 is approval of the minutes of our Committee's January 22, 2015 meeting. Is there a motion?

MOTION

PROFESSOR VALENCIA-WEBER: So move.

CHAIRMAN MADDOX: Gloria. Second?
MR. KORRELL: Second.

CHAIRMAN MADDOX: All in favor?

(A chorus of ayes.)

CHAIRMAN MADDOX: Opposed?

(No response.)

CHAIRMAN MADDOX: The minutes are approved.

Item number 3 is a briefing by the Office of Inspector General. I recognize Jeffrey Schanz, the Inspector General. Welcome.

MR. SCHANZ: Thank you, Mr. Chairman. I would like to draw your attention to a couple of the emails that I forwarded to you. And I learned something today. I think it was Mr. Sandman that said you have to make your website proactive, not expecting people to visit it.

So what I do for the Board is I notify you every time I issue a report. I heard a recommendation already today that I will accept readily, is to identify to you the importance of the report and what it's generally about.

And then I'd draw your attention once again to our website because there's a plethora of information
in there as far as fraud prevention and some of the
tings we've been doing in the background that don't
ecessarily make the semiannual report.

One example of that is I did send to you
recently the results that we call on a capstone report,
but the results of our QCR initiative, where we assess
the quality of the IPA, independent public accountant,
reports that are done of each and every grantee.

So some of them are deficient and they don't
meet GAGAS. So we have a contract, an ongoing
contract, with -- we're recompeting it because we've
completed the cycle of all the IPA reports that come in
quarterly -- well, not quarterly, but I mean in the
course of over four years, we take a quarter of them
and take a look at the IPA reports on a quarterly -- or
once a year.

So that has totaled that we've completed the
cycle of all IPA reports. And then I put together --
or I didn't put together but my staff put together a
report that shows where the IPAs should have done more
work or should have drilled down or should have looked
for fraud in a different way than in which they did.
And we feel like that gives us ultimate coverage of what's happening in the field, between Management's OCE and OPP reviews, between the IG reviews, and audits and investigations which we follow up on hotline calls. And then the last part of it is the QCR, quality control review, of what the IPAs are doing.

So that information was provided to you, and I would draw your attention to it. I know you're busier than I am, but -- maybe. So anyway, I appreciate your time and attention to take a look at the things that we do produce.

A lot of the questions that have been asked in the last two days are in fact on our website as far as the reports that we issue, as far as the QCR report, and as far as what I believe are very good, independent, and objective audit reporting.

And that's what I have, Mr. Chairman. Any questions?

CHAIRMAN MADDOX: Thank you, Jeff. I do think it would be helpful if, at least for me and maybe for others on the Board, when you forwarded a report that
you had posted to the website, you maybe provided a
short abstract, executive summary, just because in my
case, I get your reports in my emails. I'm in the
middle of something else. I put it in a file labeled
OIG, and then at some point a month down the road,
maybe, or a few weeks, I actually get to read it.
But it would be helpful, I think, if you could
provide some --

DEAN MINOW:  Headline.

CHAIRMAN MADDOX:  -- headline, thank you, just
highlighting why this report is important, what its
significance is in your view. Now, it may well be that
all of that is there in your cover letter, which
typically accompanies the reports.

MR. SCHANZ:  Correct.

CHAIRMAN MADDOX:  Even so, it's always nice to
have an executive, high-level summary in the email. So
that would just be a thought for how to help make that
reporting more user-friendly for me.

MR. SCHANZ:  Message received, Mr. Chairman.

I can do new and improved.

CHAIRMAN MADDOX:  I know.
MR. SCHANZ: And try to put some -- I don't know what they're called -- graphics on the message, but --

CHAIRMAN MADDOX: Just leave the emoticons out, please.

MR. SCHANZ: That's what I was looking for. Thank you.

CHAIRMAN MADDOX: No emoticons.

MR. SCHANZ: But yes, we can do that. And obviously, or maybe not so obviously, but I'm used to doing that with the Department of Justice reports that could total 2- to 300 pages.

CHAIRMAN MADDOX: Sure.

MR. SCHANZ: So we always did --

CHAIRMAN MADDOX: Well, again, this is not to -- following the Korrell principle -- I'm going to give it a more sophisticated title. Following the Korrell principle, I don't want to be creating work for you or your staff. But if you've put the reports together, you probably already know how you would headline it. So that would be great.

Any other questions for Jeff on this or any
other topic? Gloria?

PROFESSOR VALENCIA-WEBER: Yes. This was --
and I just had to cruise through it very fast, so I
could be asking an inadequately phrased question here
-- but this is on the IPAs that are hired by our
grantees, and you look at a quarter of them.

And the difficulties that you found, are they
related to the IPAs that our grantees are hiring,
whether they have problems finding a IPA that can do
the kind of audit for a nonprofit? Or is it something
else that these IPAs say they're doing an appropriate
audit but in fact have not?

MR. SCHANZ: It would be the latter. John is
here to protect my flanks again, so I thank you, John.
But what we take a look at is, are they doing an audit
according to standards? And can the grantee or LSC
Management rely on that?

And in some cases, we find out that no, not
only is the work insufficient, but we've moved to
suspend and debar two IPAs in the last two years
because their work just isn't up to any standard. And
with that, I'll turn it over to John, who has more
MR. SEEBA: This is John Seeba. Basically, Jeff nailed it. These are reviews of the IPA, the work that they do. And because of the regulatory environment that we're in, there's a lot of special things that they need to do for us. And a lot of times they skip over those areas or don't do a complete job. So these checks and balances basically help us make sure that they're getting a quality audit. And then if they don't do it, we actually go back and make them complete the audit, and make sure they do it properly.

PROFESSOR VALENCIA-WEBER: Does that include your recommending that they find another IPA?

MR. SEEBA: The only situation where that happens is if they get debarred. And then they actually have to go back and redo the audit.

MR. SCHANZ: And as a matter of course, Gloria, we wouldn't do that anyway because that would be stepping in the grantee management's decisions. And that's something we do not do.

CHAIRMAN MADDOX: Jeff, I've got one more
question. Just to follow up on something that we've
talked about previously, in the list of OCE actions
regarding your referrals, there's a reference to the
Minnesota grantee, NorthEastern Minnesota, and your
office found that the IPA had determined that the
grantee did not have an internal control system
designed to provide for the preparation of the
financial statements. And you noted that this was a
prior year finding as well.

OCE's response was basically to say this was a
small grantee with a small staff. And so the matter
was closed, with OCE effectively pledging to continue
to provide assistance. I'm just wondering if from your
perspective there needs to be anything more done in
that situation, and is there some sort of systemic
issue whereby small grantees, however that may be
defined, effectively don't have internal controls?

We saw in the Dakota Plains grantee almost
$100,000 over a four-year period that has been
questioned, and effectively because of the lack of
controls, given the size of the staff. It seems like
that's a large number, and it seems like this issue
crops up a lot.

Julie, I know, has suggested to me that in her organization, which is a nonprofit, they have a very small staff, I think six people overall full-time, Julie --

MS. REISKIN: Fifteen paid, six full-time, one-third financial. And we manage to do all of those controls.

CHAIRMAN MADDOX: Yes. So I'm just wondering, is there an issue there that we need to be concerned about or that OIG needs to be giving more thought to? Are you satisfied with OCE's response to that situation in Minnesota and generally?

MR. SCHANZ: Well, I can give you a general answer, and the specific answer, I don't have enough details on that. But my staff meets with OCE and OPP on a biweekly basis, so these issues can be vetted at that time.

To me, I don't know if I've established a reputation here, but to me, the size of the grantee doesn't matter. It's the issue and the subject matter that I pursue.
And the prior Board, when I first started seven years ago, my recommendation was, if you're too small to have an audit staff or an audit committee, then you could use a board member. You could refer it to a board member, who could take a look as somebody who's a CPA on the board that would step into that role.

So as far as I'm concerned, internal controls are endemic in every single grantee we have, regardless of the size. And I would have to defer to Management and my auditors to give you more information on the details of the discussion, but I do want to highlight that if something falls through the cracks, Jim and I meet biweekly and --

CHAIRMAN MADDOX: I'm not suggesting anything's falling through the cracks. I just wonder if there's, A, a different of philosophy about this -- and I don't know, Jim, if you want to chime in, of course please do -- I just would hate to find out a year or two from now that we've lost $300,000 because a small grantee had set up phony vendors and had duplicated problems we've seen people go to jail for.
So I guess the real question is, is there any
difference of opinion between Management and your
office about the seriousness of this issue and whether
it needs to be addressed more systemically?

MR. SCHANZ: Well, I can speak from my point
of view, which I just did for the record. I believe
that internal controls are necessary for every program,
no matter what size. At the last Friday meeting, I
mentioned there's an inverse relationship between your
reliance on internal controls and the amount of
substantive testing that you do.

So if we find no separation of duties, or the
same person that does account receivables is doing
accounts payable, that's a problem. And like I said,
regardless of the size, you can make ways for -- I
recommended one, have the board of directors step in,
somebody with a financial background.

We have examples here with -- we have subject
matter experts on the Finance Committee for -- you make
a decision to go forward, but you never get away from
the basic criteria that you need to have the internal
controls. You have to have separation of duties. And
the answer from my point of view, Vic, is very emphatically no. That would not make a difference for the OIG.

CHAIRMAN MADDOX: Well, I just highlight the issue because it seems like we hear about it a lot. Thank you, Jeff.

Any other questions for Jeff?

MR. HOFFMAN: Vic, it's David. I've got a couple of questions.

CHAIRMAN MADDOX: Sure, David. Go ahead.

MR. HOFFMAN: The first one, Jeff, is following up on what Vic was asking. I know that, again, it's a theme of what we ask about regarding the interactions and interplay between your office and OCE. And obviously, one of the things that we have typically been doing in these meetings is hearing from OCE with this chart that goes over the referrals from the IG's office and what OCE has done about them.

And just as example -- I'm looking at page 195 of the book, where on the second line the referral number from the IG is 2014-703030 -- so in October 2014, the IG issued a referral finding that the IPA
found that the program did not properly record revenue and assets. So it sounds like a significant deficiency.

What this OCE chart says is that their initial review did not find a similar deficiency. And then it goes on to say they're still looking at it again. They're looking at it again. And it's been six months.

So here's my question for you. When we see this -- you presumably see this chart as well, and you're presumably up to speed at least as much as we are, and hopefully more, in terms of what OCE's reaction is to your findings. And there are times when they are disagreeing with you.

Is it part of your plan in communicating with us as a committee to bring to our attention those instances where the IG's office disagrees with or has a concern about OCE's conclusions?

I understand, and we think it's a valuable thing that the first point here is the tremendous communication between the two offices, and presumably if there are differences of opinion, that there can be communications between the two offices to try to figure
out whether there's really a disagreement or not.

But when there is a disagreement, are you bringing it to our attention if you find it significant? Because of course we're spending time questioning OCE about, well, why did you at times disagree with the IG's office here. But it's important to us, if you have a concern, that you're bringing it to us.

Is that part of what you plan to do when you communicate with us?

MR. SCHANZ: As of this date, I can certainly do that. I have not in the past. I delegate, and not everything to me rises to the level of the IG to the President. But I do keep that option and those avenues of communication open on a regular basis.

Now, if Jim and I have scheduled meetings, I'm getting a little bit beyond your point here. But I do want to let you know that this is an OCE chart. This is not an IG chart. So until right now, I haven't really scrutinized it, which is bad on me, and I will start doing that to make sure.

But Management has the ultimate authority on
any IG referral. And as you know as a former IG, I can't step into Management's shoes on many, many issues, and this may be one of them. But I will certainly flag, and I would probably say John Seeba and Lora Rath will flag, any issues where there's a disagreement to bring to my attention.

MR. HOFFMAN: Yes. And just to cut to the point about it -- I appreciate what you said and I think that would be helpful -- obviously, the situation that the Committee would like to avoid is a situation where the IG does an audit or an information, finds something problematic, refers that to the OCE.

OCE looks at it independently, finds no problem, and when the IG learns that the OCE found no problem even after meetings with OCE or the President, you disagree and you think it's significant.

What we want to avoid is that it just sort of falls into a black hole and the disagreement is noted and nothing happens because those are important situations to ensure that -- and it may just be a difference of opinion.

But if you feel like there's a problem with a
grantee that OCE missed and is wrong in not taking action, I don't know of any way for it to avoid the black hole except for you to raise it with us or do something similar.

So I think if that's on the IG office's mind and we know it's on the OCE's mind, I think we're minimizing the likelihood that things will fall in the black hole.

MR. SCHANZ: I understood where you're coming from. But I can assure you that I follow up on most -- when we were talking a little bit earlier about why every IG report isn't the first on the Board's reading list, I was shocked.

But notwithstanding my feeble attempt at humor, no. We stand by our reports. And I think a clear example would be a questioned cost proceeding. And I won't give if we have the evidence that says our questioned costs are appropriate and relevant and supported.

It is Management's, then, decision to do their own. I agree there's some duplication there, and there may be some streamlining efficiencies that we could
look at. But I believe that that would be Management's decision on doing their questioned cost proceeding.

    We've given them our best evidence. You heard a little bit earlier that we've provided OCE with our working papers. And we're always available to meet with them on the discussions.

    We have a different standard than OCE does, which is why independent IGs were created, so it's not all couched in Management's jurisdiction. And I believe we meet that standard by providing independent and objective reports.

    And our leading example, I guess on that, is Inland Counties. That was open for way too long, but we weren't giving on the questioned cost. There were $1.2 million, as I recall, of questioned cost. And then we refer it to Management for action, and we follow up.

    And there was a reference earlier to an agreement that we have now with Management on timelines for follow up that try to tighten up the procedures.

MR. HOFFMAN: Well, I can just close it out. And Vic, I think this is similar to some of the
discussion we've had. To make these discussions efficient, I think the situations that are most important for us to hear are ones there the IG's office has found a problem. They've raised a red flag. And then OCE has disagreed. And after their discussions, the IG still feels like, no, OCE, you're wrong. There's a red flag.

I think if the IG says, okay, we're done; we tried our best and OCE didn't agree, I guess there's nothing more to do about the red flag, then there's a concern that a problem continues to exist that might grow and so on.

So I think that we don't have a lot of time in these meetings. And between the two offices, if those situations are being brought to our attention in a very efficient manner, I think we're using our time best in these meetings. And I think we would need both, really, the IG and the OCE to help us get to that point if the Committee agrees that would be a good, efficient process.

CHAIRMAN MADDOX: Thank you, David. I think it would be a good process. And Jeff, just as a matter
of governance, I think you report to the Board, not to
the President. And if you and the President disagree
and it's a matter of significance in your judgment,
then I guess I assume that you would bring it to the
Board's attention.

MR. SCHANZ: I would not only bring it to the
Board's attention, but by means of my semiannual report
to Congress, I'd bring it to Congress's attention also.

CHAIRMAN MADDOX: Sure. But I wouldn't want
the Board to necessarily have to wait until the
semiannual report. It might be six or seven months.

MR. SCHANZ: Right.

CHAIRMAN MADDOX: So I echo David's thoughts
and comments, and I think it's very helpful.

Obviously, it's a matter of judgment. There's a
continuum of things. Maybe you have a mild
disagreement on some point. It's not worth bringing it
to anyone else's attention. You've done your best.

But if it's a major disagreement, you don't
necessarily have to salute and stand at attention. And
I wouldn't think that that would be in your nature.

So I would encourage you to do that. I think
the Committee probably agrees. If there's any
disagreement, speak now. But otherwise, I think that's
a great approach, and I look forward to you guys
incorporating that into your ongoing operations.

Any other questions?

MR. HOFFMAN: Vic, I've got one more, and I'm
going to try to do this very, very quickly.

I think, Jeff, a similar thing that I want to
understand is I read your March -- I think it was your
March 13th memo regarding the IPA reviews. And I
think, as a former Fiscal Task Force member, we know
that your reviews of the IPAs is critical because the
IPA reviews of the grantees are critical. The IPAs,
for the most part, are the front-line defense. So if
the IPAs are doing their job well, that really is a
great safeguard for LSC funds.

So I thought your report was -- it was a
four-page report. I thought it was a very good
summary. It shows that there are numerous instances in
a minority of the cases where the IPAs have some
deficiencies in their audit processes that led to some
deficiencies that you noted.
And then you have recommendations for IPAs. And it was consistently noted that those IPAs who provided specific signoff and a reference from the compliance supplement generally achieved the objectives. "We recommend that the IPAs take care in documenting assurance that each direct and material compliance supplemental element is addressed."

There are a few other recommendations, and the deficiencies seem significant. There weren't proper interviews that were conducted at times. The people who needed to be interviewed at times weren't.

My question for you is about recommendations for IPAs. I take it that give your use of the word "recommendation," an IPA who's been advised by you that they have deficiencies could listen to your recommendation and then not follow it. It's a recommendation. It's up to them.

I'm wondering whether the system, the LSC system in which the IG is really the lead office, the LSC system for reviewing the IPAs to make sure they're doing a sufficient job is tight enough, in a way, because instead of recommendations, you could of course
require them as a condition of their audit being accepted -- and actually, that's a question. Could you require them to fulfill certain conditions or certify or establish to your satisfaction they are doing things differently? I wanted to get your view on that because I think you're doing a real good job. I want you to be able to be as firm as is appropriate with the IPAs so that the LSC is getting the maximum benefit from that.

MR. SEEBA: This is John Seeba. Basically, when we respond back when they have to do work, we basically tell them, the IPA, that we will not accept their report until they complete these particular deficiencies.

So in a way, I don't view them as recommendations. They're basically, they have to do them. And I don't think I know of a circumstance where they have not done them. And they actually provide us copies of their work papers to show the work that they actually completed.

So I think we're pretty firm in most regards with making sure that they do a complete and thorough
audit.

MR. HOFFMAN: Well, John, that sounds good, although that seems inconsistent with what your March 13th memo -- that seems firmer than the way you wrote it in the March 13th memo, which is a memo to all executive directors and all IPAs, where the words you used were "recommendations," and it wasn't as you describe.

If the reality is as you describe, I'm in favor of that. It sounds like your memo to them should say that.

MR. SCHANZ: Well, David, this was a capstone report, a summary. When we deal with IPAs on a one-on-one basis, it's much more forceful, and we won't accept the audit until they do A through Z. This is just a summary report, and as you correctly noted, it was sent to all grantees, all EDs, and all IPAs so they can see what the universe looks like.

And on a specific and one-on-one basis, we don't give an inch and won't accept the report unless they go back --

MR. HOFFMAN: So Jeff, let me just shortcut
this because I think that's very helpful. And I'm interested in this in part because of the way you communicate with the Committee so that we can efficiently grasp, to the maximum degree possible, the good work you're doing.

So one of the things you said earlier was you send us emails to show the things that you post on the website. So we review them, and this is something that you apparently posted on the website regarding your IPA review.

I think this may be a situation where if this is all we see regarding the work you're doing on IPA reviews, we may be left with the perspective that I had, which now that I asked you questions, it doesn't sound like I have a full understanding of how robust you are in your oversight of the IPAs for the reasons that you and John just said.

But I don't think that gets communicated to us by merely emailing us your website summary. Now, it'll be up to you to figure out how to give us a briefing that gives the more thorough and robust understanding.

But we should have that thorough and robust
understanding because it sounds like you're being firmer with them, and that's good. It's just that this summary doesn't communicate that.

MR. SCHANZ: In addition, we put this in our semiannual report. I know that's not an immediate answer to your question. But we try to ventilate it as much as we can without getting down into the weeds.

I am happy to get down into the weeds with the Committee on these. But yes, I don't shirk any responsibilities within the IG, so everything that you know from your background and I know from my 40-plus years in the environment, there's a fine line between too much information and enough information.

And I haven't dealt with a board until this -- well, this job. So maybe I'm over-cautious in over-burdening you with too much information. But it is available. And like I said earlier --

MR. HOFFMAN: Yes. And just again, I think --

like let's take this topic of having the Audit Committee understand what you're doing to oversee the IPAs. So what you provided us is basically a publicly-available four-page summary report that we can
look at, and it takes five minutes to look through. It's helpful.

But another five or ten minutes of information because you provide a summary one-pager or a slide or examples of the kind of individualized reports that you're -- that doesn't take us long to review.

I just think it's in your office's interests, and I think it's in the Committee's and the Board's interest, that you just make sure that we have a full understanding of the thorough work you're doing. Because I didn't have that from reading this, it sounds like, and I think it would be more efficient if you just send it to us. And if you need to go beyond what's posted on your website, that's perfectly appropriate.

MR. SCHANZ: I'm reading my communication to the Board. Sorry.

MR. HOFFMAN: And Vic, I'm done with that. I just wanted to make that point.

I think, Jeff another -- you all are doing fantastic work, and I think that I want to be checking during these meetings about the level of oversight of
different aspects that are strong regarding grantee fund review, and this is one of them. So I think if you think about what I've said and can provide us a little more information on the IPA review going forward, that would be helpful.

Thanks, Vic.

CHAIRMAN MADDOX: Thank you, David. And thank you, Jeff. If you've got any other comments, feel free. I don't want to shortcut you, but --

MR. SCHANZ: Well, no. I'm just gauging how I can say "new and improved" in --

CHAIRMAN MADDOX: You already said it.

MR. SCHANZ: Yes. So --

CHAIRMAN MADDOX: No. I want to echo David's comments as well, and I think the Committee does, that you guys are doing great work. We think that the OIG's office is being very responsive. You've changed procedures, you've brought on personnel, and the operation seems to be much improved from five years ago.

But we just think the communication level can always be a little bit more improved. What were your
three C's, again?

MR. SCHANZ: Communication, cooperation, and coordination.

CHAIRMAN MADDOX: There you go. All right. Well, thank you very much. I want to try to keep us moving.

The next item on our agenda is a briefing by General Counsel regarding the update of the risk management matrix. And I recognize Ron Flagg.

MR. FLAGG: Thank you. I will be brief. This is obviously a quarterly report, and now, with a format that the Committee's familiar with, I would really just make, I think, maybe two points.

One is that while we give this report to the Audit Committee every quarter, obviously it has application to all of the Board Committees. And even in really just the last 24 hours, while the Committees have been meeting, we've had oversight reports to each of the Committees.

Ops and Regs heard reports on enforcement mechanisms, human capital management, performance management. The Governance Committee heard about the
compilation of sources of authority. The Delivery of
Legal Services obviously had -- virtually its entire
meeting was an oversight occasion on a report from OPP.
The Finance Committee, really every time it
meets, gets a report on the status of our funding
levels. And this Committee just heard on electronic
data, and always gets a report in very granular detail
on the relationship between the IG's office and OCE.
So I'd just make that observation.

Management uses this matrix as a tool to
identify where we might do additional reports. And we
certainly invite the Committee chairs, although I think
they are already aware of the invitation and have taken
advantage of it, to tell us where they would like
additional reports.

The only other point I'd make is, upcoming at
the next meeting, without having given additional
thought, and there will be additional reports, I'm
sure, as we move toward July, we will do a periodic
review of our regulations since I believe July is when
we're going to do our regulatory agenda.

And I expect that our new contract manual will
be in use at that point, and we will share with probably the Ops and Regs Committee an example of how our new tool that we're going to be using in contracting will work.

With that, I just would be happy to entertain any questions.

CHAIRMAN MADDOX: Are there any questions for General Counsel?

(No response.)

CHAIRMAN MADDOX: If not, thank you, Ron, for your report. It's helpful as always.

MR. HOFFMAN: Hey, Vic, just FYI, I'm having trouble hearing you again. It's very, very faint. I was able to hear Ron, however.

CHAIRMAN MADDOX: I'm just a shrinking violet.

(Laughter.)

MR. HOFFMAN: There you go. It's some connection. It was going in and out. But now I could hear you just at the end.

CHAIRMAN MADDOX: So we're going to move to item 5 on our agenda, which is the briefing about referrals from the Office of Inspector General to the
OCE, including matters from the annual independent public accountants' audit of grantees. And I recognize the Director of the Office of Compliance and Enforcement.

MS. RATH: Thank you, Mr. Chairman. Thank you to the Committee for allowing me this opportunity to give our quarterly update on OCE's activities related to referrals from the Office of Inspector General, specifically from the audit division.

Starting at page 185 in your briefing book, I have provided one memo explaining the following chart, which are the questioned cost referrals from the audit division. And then immediately following that is the chart related to the independent public auditor findings.

I'd like to briefly go over the memorandum to just let you know what we've worked on since we last spoke in January. At the beginning of calendar year 2015, there were two referrals from the audit division that remained open. During the quarter, an additional one was referred to us. During the quarter, we were able to close one referral, so there are now currently
two referrals open.

To update some of the information in the memo, the first one that was open at the beginning of the year and remains pending is Legal Services New York City. I spoke to them -- not yesterday, late last week, and we have agreed upon the amount of derivative income to be questioned, and it actually won't be questioned.

They've agreed to restate it into their LSC funds because as derivative income, it wasn't misspent, so we shouldn't actually recoup it. But instead, they will transfer the money from a non-LSC funding line into the LSC funding line going forward.

So we've agreed to that amount. It's about $286,000 because when OCE readjusted the numbers, it went up from what the OIG had initially referred.

CHAIRMAN MADDOX: Let me ask you about that.

MS. RATH: Yes?

CHAIRMAN MADDOX: That's in comparison to the $196,000?

MS. RATH: Yes.

CHAIRMAN MADDOX: So it went up by $100,000 or
so, or $90,000?

   MS. RATH: About $90,000, yes.

CHAIRMAN MADDOX: I wanted to ask you about
the resolution you have underway. First of all, I
challenge anyone to diagram the last sentence in that
paragraph, the one that starts, "The Vice President
entered into initial conversations," because --

   MS. RATH: It's a little long.

CHAIRMAN MADDOX: -- it is a challenge to follow. But tell me exactly. You're transferring
money from non-LSC funds to the LSC funding line.

   MS. RATH: Yes.

CHAIRMAN MADDOX: And this is because they
didn't -- let me make sure I understand. They received
awards of attorneys' fees. They didn't allocate those
fees or some part of those fees to the LSC line.

   MS. RATH: Correct.

CHAIRMAN MADDOX: Even though the cases that
they got the fees on were funded in part with LSC
funds.

   MS. RATH: Correct.

CHAIRMAN MADDOX: So the money hasn't been
misspent. It hasn't disappeared. It's just there in
the accounting world, and it's not properly allocated.
So you're just going to --

MS. RATH: Move it.

CHAIRMAN MADDOX: -- move that money as an
accounting mechanism to properly reflect the LSC
contribution. Is that right?

MS. RATH: Correct. And we will also be
working with them to ensure that they have the accurate
policies and procedures in place to make sure that does
not happen again the future. They're working on that.

CHAIRMAN MADDOX: Yes. That may be the bigger
question. Is this something that other grantees may be
doing improperly?

MS. RATH: That's a case-by-case basis. We
usually look at attorneys' fees when we're onsite.
This is the first one that the OIG referred to us.
There's actually that same issue in West Virginia, a
much smaller amount, so it is something that OCE will
be paying greater attention to in the future. The regs
are fairly clear about derivative income and how it
should be allocated.
CHAIRMAN MADDOX: And when you say derivative income, you mean attorneys' fees awards?

MS. RATH: No. Derivative income is any income, extra income, that stems from LSC funds. So derivative income could be if they used LSC funds to purchase real property, and when they sold it, they made --

CHAIRMAN MADDOX: Capital gain?

MS. RATH: Yes. So they --

CHAIRMAN MADDOX: But it also includes attorneys' fees?

MS. RATH: Yes.

CHAIRMAN MADDOX: And that's relatively new because attorneys' fees weren't allowed until a few years ago. Right?

MS. RATH: Exactly. Exactly.

CHAIRMAN MADDOX: All right. I'm sorry. Go ahead.

MS. RATH: So hopefully, with their agreement, we should be able to move forward on getting that money moved. So hopefully that will be resolved by our next meeting.
The new referral that remains open is Legal Aid of West Virginia. We have the materials and we're reviewing them, so we'll be making a recommendation to the vice president as to whether to initiate a questioned cost or not and how to proceed with that.

Then we were able to close Nevada Legal Services; it had been pending since August 18th. Through informal negotiations with the program, we were able to determine from information that they provided to the OIG and that they provided to us that they needed to return $1222, which they did. They provided us with a check.

The resolution time for that was 214 days. And I mention that because as was alluded to before, there is now an agreement in place for what will happen when a referral comes, when we will ask for information. And the target timeline for completing OIG referrals is 270 days. So that information will be provided to the Committee at each report so that we can keep track of how we're doing with meeting those targets.

CHAIRMAN MADDOX: And that agreement is
between you and OIG?

MS. RATH: It's between Jim and effect, so yes. So if there are any questions about the memo or the first chart, I would be happy to answer those.

CHAIRMAN MADDOX: Martha?

DEAN MINOW: Just very helpful. Thank you.

MS. RATH: Thank you.

CHAIRMAN MADDOX: I agree.

Gloria?

PROFESSOR VALENCIA-WEBER: Yes. The charts have gotten more helpful. There is on this chart, though, a number of grantees that do not have the state they're in. And if it's not in the title of the grantee, then we don't know always where they're from.

MS. RATH: Oh, I'm sorry. Yes. For the IPA referral, the audited financial statements, you are correct. I neglected to add some of the states in. I will correct that for the next meeting.

PROFESSOR VALENCIA-WEBER: And on -- let's see -- I'm sorry. It looks like I missed the note that I posted, that I put down. So that's okay.

MS. RATH: Well, and with the IPAs, while
you're looking for that, Gloria, if you want, you'll notice that there's approximately 35 referrals pending for 15 grantees. Several of them, or a few of them, are grantees with multiple referrals.

These are programs that both OPP and OCE are working with to solve, cure the deficiencies. And in many cases they've been lingering and staying open because we want to be able to make sure that the corrective action that the program said they were going to take has been taken, that it's being taken on a sustained basis, before we close it out because we don't want to say it was done and then somebody else comes behind us and it really wasn't. So that's why some of them are lingering for so long.

PROFESSOR VALENCIA-WEBER: On the whole, the reports look better than from the first version that you had. And I was noting also, what were the longest existing difficulties that are on here? And there's just the Appalachian still from 2013, but by and large, we are moving faster.

There is, in the Inland Counties still, a follow 2012. But then they're related to later ones,
so I understood that from reading it.

    MS. RATH: Yes. That's one of the reasons for
keeping them open, to see whether --

PROFESSOR VALENcia-WEBER: Because -- yes.

MS. RATH: -- it's an ongoing issue. And in
relation to Inland Counties, we were just there. We
went there in January. So we'll see what the findings
of the report are with that, whether we're going to
need to implement any special grant conditions, or
whether things are resolved.

And for AppalReD, we are actually doing a
technical assistance review to that program at the end
of the month to try and help them with some of these
issues that have been ongoing.

PROFESSOR VALENcia-WEBER: Well, the chart
does a better job of connecting those older and newer
ones.

MS. RATH: Yes. I tried putting them all
together rather than having a long list.

CHAIRMAN MADDOX: John?

MR. LEVI: Well, separate from the one we
discussed earlier, there was another at least one or
two of these that were small grantees with the internal
control problem.

I just wonder if -- we keep seeing that --
that we maybe have to be more even -- we discussed this
earlier. But it just seems like an area in which maybe
we have to even be somewhat more proactive.

MS. RATH: And I agree with you, sir. And one
of the things now, I think the Board is aware that in
August we hired a deputy director specifically for
fiscal compliance. She's still in the process of
learning the whole system. But as these systemic
issues come up, I am hoping that she will be able to
help me come up with how we should address it. So it
is on our radar.

CHAIRMAN MADDOX: Yes. I was going to --
John, you preempted me. I'm glad because I was going
to ask you, Lora, about the NorthEastern Minnesota
issue. There is a case where OIG said inadequate
internal controls, and OCE closed the referral simply
by saying, well, we'll follow it. We'll give them some
guidance. Basically, nothing concrete was done by OCE.
Correct?
MS. RATH: Correct. We have contacted the program, and we recognize that they're a small program. Recommendations were made about hiring additional staff, which they don't have the money for. So it has been listed.

In addition to us saying, unfortunately, we have to close it, it is in the risk assessment chart for something for us to keep our eye on, especially when the next fiscal application is done. We ask them to complete segregation of duties worksheets and other things like that. So that will give us a better picture. And if we need to go onsite and try and strong-arm the fix, we will do so.

MR. LEVI: We heard, I think, earlier discussion about a board member providing -- or some checks and -- don't we get a suggestion as to how they're going to address that? Okay, they don't have the money to hire an employee, but here's what they'll do?

MS. RATH: We do have that, and I just haven't put all of the detail into the charts. If everybody would like all the detail, we can add to the charts.
MR. LEVI: Well, "OCE will continue to provide technical assistance to the program," it says. So that may be one thing, that we're going to be the internal control. But wow, that's almost -- that's a conflict.

MS. RATH: Well, no. The technical assistance is to help them develop what is going to be their system for checks and balances, to provide them suggestions, see how whatever suggestion they take, whether it works or not, and if it doesn't work, provide them with another suggestion until the deficiency is cured. It's not that we would be taking over.

CHAIRMAN MADDOX: Lora, just for reference, do you know how large this organization is in terms of their accounting staff? What do you mean by a small office or small grantee? Off the head. If you don't, that's fine.

MS. RATH: I don't. I don't want to answer without looking it up. I can get an answer back to you.

CHAIRMAN MADDOX: Well, I think that John's point is one that I share, which is that by and large,
we would like to know that you are taking some concrete steps. And this chart doesn't exactly tell us that anything concrete is being done.

And it may well be that that concrete step is that you've had discussion with the executive director; the executive director has talked to the board; the board's aware, whatever that may be. But we don't want to come back a year or two from now and see that they're on the list of questioned costs because $200,000 is missing.

MS. RATH: Right. And so what I'll do is I will leave this on the chart and I will add additional detail for the next meeting to see that you are comfortable with the activities that we've taken going forward. Some of the times I'm trying to shorten the information I'm giving.

CHAIRMAN MADDOX: Sure. I understand, yes.

MS. RATH: But if more information is needed, I'm more than happy.

CHAIRMAN MADDOX: Gloria?

PROFESSOR VALENCIA-WEBER: We've spent time trying to figure out just, in an ad hoc way, what's a
small grantee. I was wondering if we could get from you and Lynn just a quick breakdown by cohort of what the size staffing you know among our grantees, from the smallest to whatever would be the largest, and break it down into cohort groups that make sense to you.

MS. RATH: Yes. We can do that.

PROFESSOR VALENCIA-WEBER: Because what Julie's response was is that her organization can handle this. And I'm on the board of another small organization in a certain way, but one of the things that we excel at, which makes a lot of difference for not only the state and city funds for which we have to provide the audit, but also for the Annie Casey and the Robert Wood Johnson because we have a lot of external ones.

And we have put a CPA on our board, and that makes a lot of difference. So when we have the city come, they say, we're just going to meet and have coffee because you people always have clean audits. And that's what we want.

CHAIRMAN MADDOX: Thank you, Gloria. Any other questions?
MR. LEVI: I was just going to say, it did seem to me -- and it would be helpful, maybe, also for other grantees; I don't know -- but if a board member, just like our board here, added expertise to this committee, can they help their own grantees when this kind of thing is flagged to them, use their own networks to get somebody to pro bono the proper check and balance?

Are we giving them examples of, you could do this, you could do that, and incidentally, we're not just going to give you the examples, but in two weeks we'd like to know what you're thinking about, and in another two weeks what you decide?

MS. RATH: So we are giving the examples. And one thing I'd like to point out is, as part of the last go-round of fiscal applications, when we saw that there were deficiencies, for example, in the audit charter or that somebody said that they didn't have a fiscal expert on staff, we followed up with those programs, whether there were special grant conditions required or not. We followed up with them with a separate letter. We're not doing, as of yet, the level of
followup after that that you suggest. But we can
definitely try and figure out how to do that.

MR. LEVI: Well, I understand we're making
work, and I want to be mindful of Harry's principle
here. But at the same time, these are places where,
unfortunately, we've had issues. I don't mean this
specific -- any program.

MS. JENNINGS: This is Lynn Jennings. Just a
general comment. Many of the things that we've
discussed in this Committee and in the DLS Committee
all -- we see trends and patterns developing.

Over the past couple of years, and Jim's
tenure and your tenure, we've been working on some
issues that were pointed out before in terms of
management. And now we're improving our oversight and
getting that done to a level where everybody is
pleased.

Now, the next phase is to really engage in
taking these trends, seeing where the deficits are, and
doing some capacity-building. So in that phase, I
would like to ask you all for some help. We're trying
to work within the resources we have to do the
technical assistance that we need, but it's not nearly what it needs to be.

And so as you prepare for your Institutional Advancement Committee work, when you do talk to foundations or other funders, it would be very helpful to get some ability to have some capacity-building grants. The Hewlett Foundation is big on capacity-building, and so that's just a pitch I'm going to make.

That's what we really need to do to take a group of smaller grantees, where we've seen some deficits, and provide ongoing technical assistance to them as a group. So we need to rejuggle some resources internally, but I don't think that, as it is now, that it would be sufficient to address all of the trends and deficits that we've seen.

CHAIRMAN MADDOX: Martha?

DEAN MINOW: That's certainly a great priority. It does strike me that there might be a way to take a lesson from our Fiscal Oversight Committee and look for some volunteer services. And I'm particularly thinking of retired financial people, and
the We Serve Corps, and other kinds of programs for
retired people. I think this is just a perfect project
to pitch to them.

CHAIRMAN MADDOX: And Julie?

MS. REISKIN: Just a question. When you're
talking about capacity-building, are you talking about
some kind of funding or program to provide
capacity-building to the field, or capacity-building at
LSC to better help the field? And part two is, would
this be an ongoing need or a project that has an end
date?

MS. JENNINGS: Well, both would be great. But
generally, what the Hewlett Foundation does is they
give capacity-building grants to their grantees when
they see a deficit. So that's something that I'd like
to model.

To have a little seed funding to pay for a
couple of FTEs to be able to do technical assistance
full-time would be great. As I said, Jim and I are
having those discussions internally, how to make it
happen.

But really, to be as robust as we want and
need to be, I think that there are additional resources that are needed. And that would be -- my idea would be a one-time infusion to work for two years to really get something up and running.

CHAIRMAN MADDOX: Thank you, Lynn.

Lora, is there anything else from you?

MS. RATH: No. Nothing from me, unless there's any other questions.

CHAIRMAN MADDOX: No. Thank you. That was very helpful. We look forward to hearing from you at our next meeting.

The next thing on our agenda is to consider and act on other business. Is there any other business?

(No response.)

CHAIRMAN MADDOX: Well, I'll just note that there is a memo from Traci Higgins regarding the 403(b) Thrift Plan. It's simply an update, and it effectively says that all of the Thrift Plan funds are doing well. So those of you with money in the 403 Thrift Plan, you can sleep easy tonight.

There was no action item or no Management
report. So the memo is there for your review.

Is there any public comment?

(No response.)

CHAIRMAN MADDOX: Seeing and hearing none, the only other thing I would say in other business is I would note for the Committee that it's been two or three years now since our charter was revised. And I would like to ask everybody on the Committee to think about how well the charter has been working, and maybe we can discuss that at our next meeting, and if there are any suggestions for how better to implement the charter.

I had suggested some time ago, when we initially adopted it, that we would have some systemic review on a regular basis of various items in the charter. I'm not sure if we've ever put that into place. I just think it's worth five minutes of our discussion at the next meeting. So we'll look for that in July.

If there's no other business, I would entertain a motion to adjourn.

//
MOTION

PROFESSOR VALENCIA-WEBER: So moved.

CHAIRMAN MADDOX: And a second?

MR. KORRELL: Second.

CHAIRMAN MADDOX: All in favor?

(A chorus of ayes.)

CHAIRMAN MADDOX: Opposed?

(No response.)

CHAIRMAN MADDOX: And hearing none, the motion's passed and the meeting's adjourned. Thank you.

(Whereupon, at 2:36 p.m., the Committee was adjourned.)

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