LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
AUDIT COMMITTEE
OPEN SESSION

Thursday, January 22, 2015
2:25 p.m.

Westin Colonnade Hotel
180 Aragon Avenue
Coral Gables, Florida  33134

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

OTHER BOARD MEMBERS PRESENT:
Robert J. Grey Jr.
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
Wendy Rhein, Chief Development Officer
Rebecca Fertig Cohen, Special Assistant to the President
Ronald S. Flagg, Vice President for Legal Affairs, General Counsel, and Corporate Secretary
Mark Freedman, Senior Assistant General Counsel, OLA (by telephone)
Stefanie Davis, Assistant General Counsel, OLA (by telephone)
Atitaya Rok, Staff Attorney, OLA
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, GRPA
Marcos Navarro, GRPA
Jeffrey E. Schanz, Inspector General
Laurie Tarantowicz, Assistant Inspector General and Legal Counsel, OIG
John Seeba, Assistant Inspector General for Audit, OIG (by telephone)
Daniel O'Rourke, Assistant Inspector General for Investigations, OIG
David Maddox, Assistant Inspector General for Management and Evaluation, OIG
Janet LaBella, Director, Office of Program Performance
Lora M. Rath, Deputy Director, Office of Compliance and Enforcement
Sophia Mason, Office of Human Resources
Herbert S. Garten, Non-Director Member, Institutional Advancement Committee
Frank B. Strickland, Non-Director Member, Institutional Advancement Committee
Allan J. Tanenbaum, Non-Director Member, Finance Committee
Nikole Nelson, Executive Director, Alaska Legal Services Corporation
Don Saunders, National Legal Aid and Defenders Association (NLADA)
Robin C. Murphy, NLADA
Lisa Wood, American Bar Association SCLAID Chair
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CHAIRMAN MADDOX: I'll call the meeting of the Audit Committee of the Legal Services Corporation to order. And we have with us today here in Miami Gloria Valencia-Weber, Harry Korrell, and myself. And is anyone on the phone?


CHAIRMAN MADDOX: Hi, Paul, Paul Snyder is attending on the phone.

David? David Hoffman, are you there?

(No response.)

CHAIRMAN MADDOX: I'm told David is dialing in. Oh, we are early? Thank you. We're on a tight schedule.

MR. FREEDMAN: Mr. Chairman, this is Mark Freedman from the Office of Legal Affairs.

CHAIRMAN MADDOX: Hi, Mark. Thank you for joining us. Thank you for your email earlier today also, which was very helpful.

All right. Well, we'll get some of the preliminaries out of the way, and David can probably
join us before we get to anything substantive.

So I note the presence of a quorum. And the first item on our business is the approval of the agenda. Is there a motion? Gloria?

MOTION

PROFESSOR VALENCIA-WEBER: I move approval of the agenda.

CHAIRMAN MADDOX: And a second?

MR. KORRELL: Second.

CHAIRMAN MADDOX: Harry, thank you. All in favor?

(A chorus of ayes.)

CHAIRMAN MADDOX: Opposed, no?

(No response.)

CHAIRMAN MADDOX: Approval of the agenda carries.

The second item is the approval of the minutes of the Committee's open session meeting of October 6, 2014. Is there a motion to approve those minutes? Gloria?

MOTION

PROFESSOR VALENCIA-WEBER: So moved.
CHAIRMAN MADDOX:  Paul? Second?

MR. SNYDER:  Second.

CHAIRMAN MADDOX:  Seconded by Paul.  All in favor?

(A chorus of ayes.)

CHAIRMAN MADDOX:  And hearing no opposition, the motion is agreed to and the minutes are approved. The next item is discussion of the Committee's evaluations for 2014 and the Committee's goals for 2015. We have summaries of the Committee evaluation responses beginning at page 81 in our Board book, and it seems that there is either strong agreement or agreement that the Committee's goals are being met, and its resources are adequate, and it functions well, et cetera. So I don't see any need for significant change there.

Ideas for improvement were that the Committee needs to be run more efficiently by the Chairman; that's a continuing recommendation.

MR. LEVI:  Do you know which Chair?

CHAIRMAN MADDOX:  I think that's me. And so I take that to heart. I reserve the right during today's
meeting to rap the gavel to anyone who goes more than
10 minutes, including the staff and Management.

Other than that, are there any comments or
discussion about the evaluations? Gloria?

PROFESSOR VALENCIA-WEBER: Among the
suggestions, some of which resound to what were on our
total Board feedback, is about how to make best use of
our time, and in terms of the amount of time we spend
in hearings and panels.

But for this Committee, I thought the
suggestion to perhaps set time limits in advance for
certain testimony we know were are going to have before
the Committee, and to ask our people to operate in a
certain time period -- and we're going to be having
this for some time to come as we keep developing the
coordination between the IG's Office and the Office of
Compliance as we're trying to tie together more
efficiently that whole cycle of reporting and
monitoring.

So I thought that was an interesting
suggestion to consider, allocating among our minutes
how much for which topic because we will be having
those.

CHAIRMAN MADDOX: Yes. I think that's a good suggestion, Gloria. It's one that may be easier in the abstract than it is in the application. But I just recall at our last meeting we had a panel of Janet LaBella, Lynn Jennings, and Lora Rath, and there was a lot of material that we could have discussed productively, and there just wasn't time to do it. So I was forced to wrap that to a conclusion.

But I'll try to do that more effectively in the future. And I agree with you completely that having more time for discussion and questioning is helpful.

PROFESSOR VALENcia-WeBER: Well, I don't think you should beat yourself so much of not being an efficient Chairperson. I think part of this is we are delving into substantive issues that have lain there uninvestigated for some time. And it's part of our way of making better what we just previously discussed, how to be prepared to operate as a Board.

CHAIRMAN MADDOX: Sure.

PROFESSOR VALENcia-WeBER: And so I think we
should be prepared -- if there is still something more to be discussed, a different topic, that we choose to delay that discussion purposefully for the next meeting, even if it's going to be by telephone, so we don't end up frustrated that we didn't get to X, and X was important.

CHAIRMAN MADDOX: Right. Well, I appreciate that, and I'll try to do that. I do try to send the agenda out some weeks in advance, and if anyone has suggestions for areas that we might focus more on and devote more time to rather than less, I certainly welcome those suggestions.

I understand that David Hoffman has joined us. Welcome, David.

MR. HOFFMAN: Thank you. Yes, I didn't want to interrupt in the interest of efficiency.

(Laughter.)

MR. SNYDER: But Vic, also, just real quick if I could, but Gloria's comment reinforced it, I don't think you should beat yourself up on this. I don't think it's critical of the Chairman's role. I think we have a very short time frame to try to work through the
agenda, and sometimes that time frame just may not be adequate. So I think the idea of --

CHAIRMAN MADDOX: Well --

MR. SNYDER: -- the agenda out may be helpful.

CHAIRMAN MADDOX: I appreciate that, Paul. I'm not beating myself up too much. I think the comment that the Chairman needs to run the meetings more efficiently may be my own.

(Laughter.)

CHAIRMAN MADDOX: It has a ring of familiarity to it.

On the future focus section, the last item is acceleration of the LSC's process to conclude on matters raised by the IG, and continue to enhance the relationship with the IG. I think that's an area where we will profitably focus our time this year, and I know we'll discuss that some more today when we look at the OIG/OCE referral issues. So we'll try to keep that as one of our goals of bringing to some appropriate resolution in the next six to nine months, I guess.

Anything else on that topic?

(No response.)
CHAIRMAN MADDOX: If not, we'll move on to item number 4, the presentation of the fiscal year 2014 annual financial audit. And I understand John Seeba, Assistant IG for Audits, and Nancy Davis with WithumSmith+Brown -- Nancy is probably on the phone.

MR. SEEBA: Actually, this is John Seeba, AIG for Audit. Unfortunately, Nancy could not attend today. She some conflicts with attending. So I will be reporting in her stead.

CHAIRMAN MADDOX: John, just one second.

Jeff, could I ask you to move down so that I can actually see you? Thanks. You can take the center stage. Sorry about that.

All right. I'm sorry, John. Go ahead.

MR. SEEBA: On January 13th, Jeff had sent out a copy of the audit opinion issued by WithumSmith+Brown to all the Board members. So hopefully you have seen that and have taken a look at that.

The good news is that the issued a clean opinion on the financial statements, and also issued their reports on internal controls and compliance with laws and regs and found no noncompliance issues to
report.

So basically, it's a very clean report, and everything went very smoothly this year. Kudos to David Richardson and his staff for providing all the information, and it went extremely smooth this year. So I'd like to thank David for all of that cooperation with our staff and with the staff of WithumSmith+Brown.

That concludes my comment.

CHAIRMAN MADDOX: Any questions from anyone on the Committee?

MR. LEVI: I understand she had a conflict. But I wouldn't like them to get into the habit, if they're our continuing firm, of not sending a delegate to represent them with respect to the Committee meeting of the Audit Committee when the audit is presented.

And I don't know whether they actually presented -- how does it get presented to the Board? Do they normally -- or it just comes from the Audit Committee, I think?

CHAIRMAN MADDOX: Well, in the past, Nancy or someone at the outside audit firm has attended this meeting and presented, either in person or by phone. I
wasn't aware that there wouldn't be anyone here today.

MR. LEVI: I appreciate that. This was not a
comment about the Chairman or --

CHAIRMAN MADDOX: No. Trust me, I'm not that
thin-skinned. I did have a conversation with Nancy on
December 18th as part of the closeout process. She
reported that there was a clean audit, that there would
be no management letter, that they were pleased, by and
large.

She asked if I had input, questions, concerns,
as Chairman of the Committee. I reported to her that
as far as we were aware, the processes work well.
We're not aware of any concerns for fraud or conflicts
of interest by Management, and that the OIG seems to be
working very well with Management. So it was a
positive discussion.

I think I circulated that document, my notes
of that conversation, to the Committee.

MR. LEVI: But her firm's name is Withum, and
I hope she'll be with us occasionally.

(Laughter.)

MR. LEVI: That was bad.
CHAIRMAN MADDOX: Barump-bump-ching.

All right. Well, if there are no other comments on that, thank you, John.

MR. SEEBA: You're welcome.

CHAIRMAN MADDOX: And we'll move now to item number 5, review of LSC's Form 990 for FY 2014. And I'll recognize the Corporation's comptroller, David Richardson. Welcome, David.

MR. RICHARDSON: Thank you, sir. Included on Google Docs on the website was the analysis that was completed of the Form 990 comparing it to the financial statements. I could not confirm that earlier today, so I did send you an email. So hopefully you've got two copies of it. I also have a hard copy, if you'd like to see it.

CHAIRMAN MADDOX: Is that the email that was sent at 2:12 p.m. today?

MR. RICHARDSON: Correct. I couldn't get somebody to confirm that it was on Google Docs, so I went ahead and sent it -- panicked, you might say, to make sure that you had it for the meeting.

CHAIRMAN MADDOX: Yes. I appreciate that.
MR. RICHARDSON: I hope you've had an opportunity to look at it. I know today's email was received late, but it was included on Google Docs. As I was saying, we have compared the materials from the 990 to the financial statements. The analysis shows that I have taken where it is included on the Form 990 and I've shown it in our financial statements so that you could track it in looking at it.

We've identified everything on the financial statement and the functional expenses, and I'll be glad to answer any questions you may have about that at this time.

CHAIRMAN MADDOX: Are there any questions from the Committee?

MR. SNYDER: No. This is a schedule, I think, that's really well done, and it was really helpful to link the two. So thanks, David.

CHAIRMAN MADDOX: Paul, I'm sorry. I had trouble hearing you; maybe others did, too. Could you repeat that?

MR. SNYDER: I was just saying that I think
this reconciliation is extremely helpful. Don't always see it with other organizations, and to tie the 990 to the financial statements is really helpful.

MR. RICHARDSON: Thank you, sir.

CHAIRMAN MADDOX: Is that the extent of your report, David?

MR. RICHARDSON: That is, sir.

CHAIRMAN MADDOX: No other questions from the Committee? Anyone on the Board have questions for David on that?

MR. KORRELL: Mr. Chairman, maybe we should handing out little gold stars for efficient presentations.

CHAIRMAN MADDOX: Yes.

(Laughter.)

MR. KORRELL: Mr. Richardson gets one.

CHAIRMAN MADDOX: I'm banking all this extra time. Thank you, David.

MR. RICHARDSON: Thank you, sir.

CHAIRMAN MADDOX: We'll move now to item number 6 on our agenda, which is the briefing by the Office of the Inspector General. And I see our
Inspector General, Jeffrey Schanz, is with us, and I so recognize you.

MR. SCHANZ: Thank you, Mr. Chairman. I do want to add, as far as the physical presentation of the audited financial statement, these meetings were normally in Washington. And in the interest of economy, we could have the entire audit team present the audited financial statement audit.

This is the first year that we've adjusted that, so therefore we felt, in the interest of economy and efficiency, that a verbal briefing would be sufficient. And that's why we did that. But I do recognize your point, John, that it's their product; they should present it. So we'll see what we can do in the future.

MR. LEVI: Just be on the phone. That's fine.

CHAIRMAN MADDOX: Yes. This isn't the first year we've met outside Washington in January. I think in maybe our third year, isn't it, we were in San Diego and New Orleans?

DEAN MINOW: Well, after we had several snowstorms that made it difficult to get in and out --
MR. LEVI: After Laurie and I almost ended up in the ditch.

DEAN MINOW: Yes.

CHAIRMAN MADDOX: Right. After I spent eight hours on the runway at Washington National.

DEAN MINOW: I spent two days on a train.

(Laughter.)

CHAIRMAN MADDOX: But actually, Jeff, I think this may be our fourth annual meeting outside of Washington in January. Well, well enough. Anyway, we appreciate it, and I think John's point is that the phone line runs all the way to wherever we might be.

MR. SCHANZ: I do want to talk to you just for a minute. I think at the last Board meeting, Gloria was wondering about staff credentials for the OIG audit staff. We compiled those, and several staff members have numerous degrees, but I'll give you a laundry list of them real quickly.

First, they all have to have 24 hours in accounting to be hired as an auditor in the government or the nonprofit world. Of our 11 professional auditors, we have four masters degrees, three CPAs,
three certified internal auditors, two certified fraud
examiners, one certified systems auditor.

We have a JD thrown in amongst the mix. We
have one individual certified in financial forensics.
We have one chartered in global management accountancy.
We have one certified in risk management assurance.
And we have an additional certified internal controls
auditors.

So we've done fairly well hiring in the
Washington area, and I'm very proud of the audit staff.
We've reconfigured a little bit that we'll talk about
when John's here.

John is not here because he looks like a
hockey player with his shoulder surgery and would not
be able to make it onto an airplane without taking up
two seats. So I will do my best to present what we're
doing in the Audit Committee in open session, and I can
discuss with you further in front of the Board.

As you noted in my performance appraisal, we
had a peer review, and we followed up on that with all
the training taking place by December 18th of the past
year. But never being one to rest on the laurels, and
I thought this was a shot across the bow, what we've engaged in since that time is something I will call continuous monitoring.

We've identified an individual who will, on my request if I see anything wrong or, short of my request, every six months, do a followup of the training that we've provided to staff. The first one was very thorough and very complete, and I've talked to John Seeba, the AIGA, Assistant Inspector General for Audit. And I want to make sure that we have a zero tolerance for anything that's moving along too slowly in my opinion or in the opinion of the person who's doing the continuous monitoring.

IGs, as you've heard me say before, we're the last bastion of financial control in spending government funds. So I take that job very seriously, and we've been able to follow up in a timely manner. And then in addition to that, we're doing spot checks, as it were, of a hot issue.

So I'm looking at every draft audit report. I'm signing every final draft audit report. So I've gotten involved earlier in the process to make sure
that we're fully functioning within the requirements of the GAGAS.

That's all I have as the IG report for the Audit Committee, unless there's any questions.

CHAIRMAN MADDOX: Jeff, just let me ask you: On the peer review findings and corrective actions, was there some sort of formal closeout of that peer review and its recommendations? You've provided us a spreadsheet of the recommendations and corrective actions and the completions date. Was there some closeout letter with the peer reviewer, or any way that that is noted?

MR. SCHANZ: That has not been part of the process, and I've been involved in the process since day one 20-some years ago, having drafted the first memorandum of understanding of how this process will work with VA, Commerce, and AID.

So the immediate answer is no. They come in. Of course -- I've mentioned this at the last Board meeting -- they follow up on the previous year's findings. But this is supposed to be a collegial process instead of a hard and fast audit. It's a peer
review. It's a different animal.

So no, they do not follow up. And in the IG community, myself included, I took this very seriously. So I'm not going to let anything languish, and we expect that of our colleagues. So there hasn't been a formal follow up written into this process.

CHAIRMAN MADDOX: But all those recommendations have been met and corrective actions have been taken?

MR. SCHANZ: And continuous monitoring of those to make sure we don't backslide.

CHAIRMAN MADDOX: Thank you very much.

Harry?

MR. KORRELL: I have a quick question. Mr. Inspector General, there's a reference on page 86 to OIG performing attestations in engagements. Could you just tell me what that is? I didn't understand that.

MR. SCHANZ: Well, I wish -- and maybe John's still on the line because I am not --

MR. SEEBA: Yes. I'm still here.

MR. SCHANZ: Okay. I'm not a CPA. I'm a JD with a boatload of audit experience. But John, you
want to talk about an attestation review, please?

MR. SEEBA: Basically, they are special reviews where the auditor looks at a particular performance characteristic of an organization to make sure that they're actually doing something in compliance with a certain regulation or some type of process.

We would be essentially giving an opinion on that, that they are meeting the requirements of that process or those goals, that type of thing. That's basically what an attestation is.

We don't really plan on doing those, and they're usually pretty far and few between in most IG offices. But it is in the Yellow Book that we have for government auditing standards, and the peer review wanted us to include that in our own internal guidance and policies.

MR. SCHANZ: Harry, we have not done any since I've been the IG of LSC. I can go back in time to DOJ --

MR. KORRELL: I was just curious. Those kinds of things --
MR. SCHANZ: Well, an attestation is a different animal. All the standards do not apply, but what you're doing is certifying as an auditor that, to my knowledge and belief, this has occurred without the necessary documentation that you would drill down under GAGAS.

So an attestation, as John mentioned, is in the Yellow Book. It's when if the President or the Chairman of the Board wanted me to look at something within the Corporation that didn't meet the standards of an audit, it would be an attestation. I can give you the back stories.

MR. KORRELL: No need for that.

MR. SCHANZ: Oh, yes.

MR. KORRELL: You're looking for a gold star for efficiency.

(Laughter.)

MR. SCHANZ: I know that. I know that. And I don't want him to get a big head here. Attestation reviews came up in the concept of internal control reviews under OMB A-123.

MR. KORRELL: You're losing your gold star for
efficiency.

(Laughter.)

MR. SCHANZ: I wasn't promised that. So anyway --

MR. KORRELL: Thank you for that.

MR. SCHANZ: -- but it is a formal procedure that auditors are qualified to do by the Yellow Book.

CHAIRMAN MADDOX: Thank you, Jeff.

Any other questions for the Inspector General?

(No response.)

CHAIRMAN MADDOX: If not, thanks so much.

We'll move on to item number 7 now, Management update regarding risk management. And I recognize Ron Flagg, General Counsel of the Corporation.

MR. FLAGG: Thank you. You have in your materials the risk management matrix that has typically been appearing at these meetings. I would supplement that with just a remark or two about how it is items are reported on or how we identify what items are reported on.

They basically fall into two categories, or maybe three. One category is what I would call
recurring reports; so for example, I think this Committee has properly identified the relationship between the IG and OCE as a very significant area generally, and certainly a significant area of risk management. So every meeting there's a report on that; that's reflected on this chart.

Then in addition to recurring issues, we have obviously issues that are selected for reporting at a given meeting. And that can be at the instance of Management because of new developments within the organization, and on a number of occasions, Committee chairs have asked us for a report on a particular topic.

So, for example, at this meeting of the Board and its Committees in Miami, we've already heard a report on management transitions to the Governance Committee. The Delivery of Legal Services Committee is going to hear a report also on management transitions, but hear management transitions within our grantees, which is a critical area of risk management, obviously a critical area for our grantees, and you will be hearing a panel on that.
Coming up at the April meeting, we've already identified at least two areas that Management would like to report on that we consider quite significant and worthy of additional reporting.

One is on procurement and contracting; probably, of all of our areas of operation, I think from what the IG tells us and what we ourselves see, it's an area of significant risk and we've made -- and you will see in April, I think -- substantial advances on how we're doing procurement and contracting. And you'll get quite a substantial report on that and see what will be our new policy and new electronic tool to help us do that better.

Likewise, and the Board has heard about this over the course of the last couple years, performance management is an area of significant importance and risk. And we've devoted a lot of time and new procedures and policies to that, and there will be a report on that.

So I just wanted to give that for context, and with that, I'm happy to answer any questions.

CHAIRMAN MADDOX: Thank you, Ron, for that
Are there any questions for Mr. Flagg?

MR. KORRELL: Are we going to talk about the risk management matrix? Is that a separate topic, or is that --

CHAIRMAN MADDOX: That's what we're talking about.

MR. FLAGG: No. That's what we're talking about.

MR. KORRELL: I just didn't know if you were going to walk -- I just had a question about the management system risks entry on page 2. And it identifies examples of performance management, and potential failures are failure to achieve performance goals, performance of defined goals including implementation of fiscal oversight and Pro Bono Task Force reports.

I would have expected to see the strategic plan referred to there, and maybe not the Pro Bono Task Force report. I guess I view that as -- that was a large group of us and a lot of information came out of that, but I guess I didn't view that as imposing
There were some ideas in there. There were some interesting -- I'd invite Martha to weigh in. But I guess I viewed that as a different kind of document from a strategic plan that the Board has voted on and adopted.

DEAN MINOW: I completely agree about the strategic plan. It ought to be there. I think that there were subparts of the pro bono report, and a couple of the items did specifically direct Management to take charge.

MR. KORRELL: I guess the question is, are those items --

DEAN MINOW: And we voted them.

MR. KORRELL: So as adopted by the Board?

DEAN MINOW: Yes. As adopted by the Board. But not the whole report, so you're right about that. But there were some particular items that directed Management to do things.

Ron, is that right?

MR. FLARG: Yes.

MR. KORRELL: Then I would like to see the
strategic plan mentioned there, and maybe --

MR. FLAGG: We'll add that. That's a good catch.

CHAIRMAN MADDOX: Thank you, Harry. That's a good comment.

Anyone else have anything for Ron on that?

(No response.)

CHAIRMAN MADDOX: Anyone on the Board?

(No response.)

CHAIRMAN MADDOX: If not, Ron, we appreciate it. You get a star.

We'll move on now to our next item, number 8, briefing about referrals by the Office of Inspector General to the Office of Compliance and Enforcement, et cetera. And I see Lora Rath, and Jeff Schanz is returning to the table. John Seeba is on the phone, and Lynn Jennings is in waiting.

MS. JENNINGS: Just waiting in case you need me.

CHAIRMAN MADDOX: I see that. So welcome to you all. This has been an important ongoing issue for the Committee, and I know that, Lora, you've worked
hard on it since our last meeting.

MS. RATH: Yes, sir.

CHAIRMAN MADDOX: Where I was something of a Simon Legree. And I know the Paul Snyder has helped work on some of the presentation of data and helped to communicate some of the Committee's concerns and whatnot. So I appreciate all that, and I'll turn it over to you.

MS. RATH: Great. Thank you. Good afternoon.

As the Chairman said, Paul Snyder helped me a great deal in putting together the memo that starts at page 102. I think it was a recommendation from one of the Committee members or one of the Board members that perhaps a cover memo would help the Board to understand the charts.

So the memo goes through calendar year 2014 and everything that we were able to finish on the LSC Management side. Coming into the year, we had five pending referrals from the Audit Division of the Office of the Inspector General. Throughout the year, we received another five.

So in total we closed eight of the referrals
from the Audit Division. We have two pending that we hope to be closed within the next 30 to 60 days. So the memo goes through and gives a little bit more detail than was in the charts, which we've also provided in case you were used to the charts.

If anybody has any questions about the information in the memo or has suggestions about a better way to convey the information to you, I'd be happy to hear them.

CHAIRMAN MADDOX: Lora, I thought the memo was helpful and detailed, perhaps maybe a little too detailed. I'm not sure. I know that Paul has maybe had that same thought. But you've got to get there, and maybe there'll be perhaps a way to shorten it.

One of the questions I had was, at the end of each section you state the total time from the date of the revised referral --

MS. RATH: Yes.

CHAIRMAN MADDOX: -- and the time from the date of the Notice of Questioned Cost to a Management decision. And there doesn't seem to be any particular standard there. Sometimes it's 59 days. Sometimes
it's 359 days.

So I'm wondering, what use can we make of that information? Do you have a goal in mind or some sort of standard that you're using?

MS. RATH: Yes. Not to cut you off. So there were two reasons for giving the goal or giving the time frames, to let you see how long it took us from the time we actually got the referral versus once we issued the notice because the notice follows the regulations.

If it goes through all the steps of the regulations, if the program appeals the Management decision to the President, that can take a minimum of 150 days, and that's if they don't ask for any extensions or if we don't need an extension. So that was just to let you know what the minimum is.

As far as goals, yes. We've been working with the Office of the Inspector General, and we met with them once specifically to talk about our goal time frames. And then just this past Tuesday, another suggestion was made from the Office of the Inspector General.

We're trying to put together what our goal
time frames will be from the time we get a referral to when LSC Management will make a decision as to what we're going to do with the referral, whether we're going to do it through informal negotiations, whether we're going to issue a Notice of Questioned Cost, whether we're not going to do anything with it, which we've not done to this point, so that we are in agreement as to what the steps will be.

So hopefully by the next Board meeting we will have something to show you as to what we've decided is going to be our goal going forward. We do want it to become a quicker process. We recognize that it's taken too long. And I think some of it was trying to show that in some instances, we are getting faster.

CHAIRMAN MADDOX: Right. And I appreciate that. Right now, the information is interesting but it's not particularly helpful because I don't know if it should be shorter than the time stated or if you're actually getting things done lickety-split.

So I'll look forward to that. I don't know if the Committee has any thoughts on what we think is an appropriate time frame. I'm not aware what the
regulatory scheme is. You suggested 150 days?

MS. RATH: Well, yes. And that's from the
time we issue the notice. There is no time frame, and
this is what we're trying to look at. There is no time
frame for us, LSC Management, to take action from the
time of an OIG referral. There is no time frame for
that. That's where we probably could improve in making
a decision.

But it depends a lot on the amount of the
referral, the issues involved in the referral, whether
we need to do extra research on our own to decide what
to do with the referral. It also has to do with our
staff resources because this is just one component of
what we do, and to have the staff available to dedicate
to that time.

So that's the area that we don't have any
deadlines or regulatory time frames. That's what we're
going to be looking at where we can make improvements.
The regulations at 1630 say that once the notice is
issued, the program has 30 days to respond.

Once we get the information back from them, we
have 60 days to respond. Then they have another 30
days to appeal to the President. Then the President has 30 days. So that's where the 150 comes from. So that's in the regulation. And then it of course says for good cause, you can give them extra time, which is where it could go over 150 days.

CHAIRMAN MADDOX: Gloria?

PROFESSOR VALENCIA-WEBER: First, I don't at this point think the memo report has too much detail because actually, we're moving in the direction of transparency about what actually happens. And so as the report is today, I get a much better feel for what was the cycle for each of these grantees and what happened.

I remain hopeful that now that we've been trying to both restructure what happens within LSC at the corporate enforcement arms that we have, the different ones; that we don't run into any more five-year statute of limitations problems; and I think that right now, I see the value of the report as descriptive.

But yet the question about what goals, given what's in the regulation -- and then, as Lora has
explained, it depends on the nature of what are the flaws or possible problems, and what might be the approach that's going to differ among however many of our grantees you're acting on referrals.

I think that will be very helpful once you and Jeff come up with what you construct as how you operate. Even though you have the regs, that doesn't answer how you will see performing on any given grantee. So I think that's one thing.

The other is, this is one of the first ones, in the Idaho Legal Services on page 104, where we have something involving unexpended TIG funds. And I don't know if this is the place to discuss it. Maybe it's more appropriate when we have the Board discussion.

But how TIG funds that are not expended on whatever it is is the project, and that's assumed the project is completed but you still have some unspent funds, I'd like to understand how that works.

PRESIDENT SANDMAN: I can answer that very briefly. We do a reconciliation at the end of each TIG grant to see how much money was spent and what the documentation was. And if there's money that wasn't
spent, it has to be returned to LSC. It goes into our TIG fund and is then used for other TIGs. We recover the unspent money.

PROFESSOR VALENCIA-WEBER: So assuming the completion of what the project was, the unexpended funds, for instance, could not be used for possibly staff or training to maintain and take care of whatever the project developed?

PRESIDENT SANDMAN: Not without LSC's permission. The grantee might ask our permission to use leftover TIG funds for a purpose like that, but we would have to approve.

PROFESSOR VALENCIA-WEBER: Okay. As opposed to just putting it into the grantee's general funds?

PRESIDENT SANDMAN: No. They cannot use it for that purpose. It is granted for a specific technology project, and we take account of what the purpose of TIG is. It's to encourage innovation, not mere maintenance of technology.

But there have been circumstances where we have permitted a grantee to redirect TIG funds to another technology purpose related to the underlying
purpose of the original grant.

PROFESSOR VALENCIA-WEBER: Thank you.

CHAIRMAN MADDOX: Thank you, Jim.

Anyone else? Julie?

MR. HOFFMAN: Vic --

CHAIRMAN MADDOX: I'm sorry. Julie and then

David.

MS. REISKIN: You said that it would be about

159 days with an appeal. Is it safe to assume that

there's almost always going to be an appeal, or is that

not a fair assumption?

MS. RATH: Well, if the amount that LSC is
determined to recoup is less than $2500, then there is

no right to an appeal. So those would always be around

the 120-day mark.

I would say in the last couple years since

I've been in charge, the majority of programs do appeal
to the President to try and get the amount reduced.

CHAIRMAN MADDOX: Thank you, Julie.

David?

MR. HOFFMAN: Hi, Lora. So on the time frame

question, I'd say that my recommendation would be to
pick a presumptive completion date for your followup investigative work after receiving a referral. And then in the reporting to us, you would noting to whether it then has gone beyond that presumptive date.

As you said, every information or followup is different. And both depending on your resources and what comes up as you look into it, it may turn out to be beyond your control about how long it takes. But I think the creation of default rules that are reasonable will help guide us and the Board in determining what feels like too long, or at least requires an explanation. And of course, the explanation may quickly make everyone understand why it is taking so long.

And I think, as potential time frames for that, what about 90 days? That seems like the IG has done work. You're being asked to follow up. In a world that moves pretty promptly, that seems like a good time frame.

I think 180 days feels like at the outer edge of what it should normally take in a normal situation, and feels like it may be too long for a default rule.
But any default rule should be chosen, first of all, just a guide -- not as an absolute deadline, obviously, but just as a guide to help with reporting; and second, as a number that feels comfortable, your office then to Management.

Comments on that?

MS. RATH: Can I comment? This is Lora, David. Actually, in what we've proposed right now, we're using 120 days as a goal to strive for. Of course, this still needs to go up through presidents and Mr. Schanz.

But that's what staff has recommended right now, for 120 days to decide whether to issue the Notice of Questioned Cost. And that's based on what we think we can get done. In our discussions last week, we said, then after trying that out for a little while, we'd see whether that number needed to be moved up or could hopefully be moved down for the goal. So we're in that --

MR. HOFFMAN: And Lora, I'm sorry, within the report that you provide us, have some special indication if your investigation had gone beyond 120
days?

MS. RATH: I'm sorry. I didn't really hear you. Are you asking that we would then give an explanation if we went past 120 days? Is that what you said?

MR. HOFFMAN: Yes. I guess that I'm imagining that the chart or report that you provide would list those matters separately if they had gone beyond 120 days, and then you could proactively, either in the chart or in front of the Committee, just provide a quick explanation, and that would allow for any discussion if there are any concerns.

And that would mean that if it's below 120 days, there won't be any particular reason to discuss the timing of it because you're still within that time frame. That's what I would envision being helpful in terms of how the report would be organized. Does that make sense from your perspective?

MS. RATH: It does. It does. I know what you're asking for. I think, assuming it gets approved by everybody, we could work it out that way.

MR. HOFFMAN: Yes. So to wrap this up, from
my perspective I think this is a good outcome, assuming
that Jim and others in Management agree with the time
frame, meaning that I think 120 days under the
circumstances seems like a reasonable time frame.

I think framing it so that there's a
difference between under and over 120 days in the
report and/or chart you provide to the Committee will
help us, and I think really streamline where we need to
focus on any concerns, if there are any, going forward.

So I think it's a good outcome.

CHAIRMAN MADDOX: Thank you, David. I think I
agree with you.

Just then to clarify, Lora, the 120 days is
from the date of the referral to OCE from OIG.

Correct?

MS. RATH: Yes, sir.

CHAIRMAN MADDOX: Thank you.

Gloria?

PROFESSOR VALENCEIA-WEBER: This is more of a
curiosity question here. I notice that repeatedly in
this memo is grantees who have had questioned costs,
unallowable costs, relating to flowers and alcohol. Is
there something about our instructional materials, whatever they are, that allows a confusion or a misunderstanding about this? It goes from about $240-some to $2800, but it's repeated.

So I'm just curious about what is the understanding that our grantees get and where did they get it from that results in this kind of repeated --

CHAIRMAN MADDOX: That's a good question. Lora?

MS. RATH: So the regulations just talk about what's reasonable and what's allowable, and it talks about things that are necessary for the grant. This has been a finding that's come up numerous times over the last several years.

Programs want to argue things like, flowers, it's goodwill for employees, so yes, it's reasonable and necessary. The OIG, LSC Management, the OMB Circular, all pretty much say that things like alcohol, flowers, are not allowable.

What we're going to do, and I think we've discussed before, that Jim sends out an annual compliance update to point out to programs that we
haven't been to the issues that we've been seeing.
That is definitely at the top of our list under fiscal issues, that LSC funds cannot be used for flowers, alcohol.

PRESIDENT SANDMAN: Just to clarify, the types of flower we're talking about is someone sends flowers because of a death or the birth of a child. We've concluded that that is a personal expense. That is something that people should chip in for and not something that appropriated tax money should be used for. But we're not talking about people decorating their offices with elaborate floral displays or anything like that.

MS. JENNINGS: Right. And we are doing a full court press on this because it happens so frequently. And so all of our training materials when we're at NLADA or anything of the like, we have pictures and words to illustrate that that is not allowed. We are on the anti-tchotchke, anti-flower brigade.

(Laughter.)

CHAIRMAN MADDOX: ALL RIGHT. Thank you very much.
Julie?

MS. REISKIN: I'm confused about bar dues. I thought I had heard that those were allowed because don't you have to be a member of the bar?

MS. RATH: This is for non-mandatory bar dues. You cannot use LSC funds if you just want to be a member of the local bar association.

MS. REISKIN: So there's mandatory and non-mandatory?

MS. RATH: Yes.

MS. REISKIN: Okay. I didn't understand that.

CHAIRMAN MADDOX: Thank you. Just one followup question, Lora. On the open referrals, the LSNYC matter, it says you were expected to receive information earlier this month. Did we get anything on that?

MS. RATH: Actually, I've been going back and forth with their comptroller. There was a little bit of confusion as to what information I was seeking. I last talked to them on Tuesday, talked to them and sent them a written description. So I expect it in the next week or so. They've been cooperating; it's just a
miscommunication as to what was needed.

CHAIRMAN MADDOX: Thank you very much.

Harry?

MR. KORRELL: Thank you, Mr. Chairman.

I for one like the memo and detail. I thought it was helpful for me to see -- I feel like I have a better understanding now of the process that the office goes through when addressing one of these referrals. That's the kind of detail that it's just not possible to glean from the spreadsheet.

So I actually thought it was good. It's a little longer than maybe some would like, but I can handle seven double-spaced or large font pages as opposed to the 6-point font on the chart. So I thought it was useful.

I was happy to see that we're intelligently negotiating with grantees when the amount is a couple hundred bucks or a thousand or two thousand bucks. We can have a conversation and can sort it out. And I'm glad we're not spending a ton of time on an expensive questioned cost proceeding there.

Two substantive things came to mind, and it's
related to the statute of limitations line. The number that grabs everybody's attention -- I know Jeff has mentioned this in the past -- if his office refers a potential questioned cost or questioned costs of a million and a half and then what we wind up recovering is $500,000, I understand there can be very good reasons for getting to that decision, but that it can raise eyebrows with somebody.

If 36 percent of it is due to statute of limitations issues, I recognize that some of that might be that what the OIG has uncovered is stale, and then sometimes it's what he's uncovered took longer -- it took us too long to get to a determination of whether we were going to proceed, and so some things fell off.

So recognizing that there could be some differences, one question is, is there a way for the OIG to screen out -- should the OIG be screening out -- stale claims, if you will? If the thing is seven, eight, ten years old and we know it, does it make sense to include that in the original input? Maybe it does. But if it makes the discrepancy look larger when it's not a real discrepancy, I wonder whether that's useful.
That's question one, and maybe that's for the OIG.

Then, Lora, you may have answered this for me before and I've just forgotten. But is there a way to toll the running of the limitations period under the regulations?

MS. RATH: No. There's currently not. I believe that looking at 1630 is on the Ops and Regs, so we'll --

MR. KORRELL: It just strikes me that if we have a big one, if it's a million bucks, there ought to be some way -- as in civil litigation, if you say -- yes.

MR. FLAGG: We have, as part of our rulemaking agenda, a review of Part 1630, which addresses this. And high on the list of items to look at is the issue that you're referring to.

MR. KORRELL: I thought I had a recollection of that, but it helps to have that confirmed.

Then, Jeff, your using a statute of limitations filter, does that make any sense?

MR. SCHANZ: Well, it does. But we try to portray a pattern. And if it goes back ten years, we
can prove that it's taken ten years for this ED to figure out, before an IG visit, that this is an inappropriate behavior, we can certainly question cost within the statute of limitations.

But in this particular instance, I think the behavior was so egregious that we presented going back more than the statute.

MR. KORRELL: Presenting the facts makes sense to me, to say to the office, it's been going on for ten years. But do you question costs going back ten years even if you know that the limitation period is only five? And doesn't that create this gap that your office is concerned about?

MR. SCHANZ: In this particular case, you're correct, yes. We did that. But remember, I have auditors, not all attorneys, out in the field. And auditors see questioned cost, and they know that drives the semi in a large part, and it drives a possibility for changing behavior when someone gets slapped with a very large questioned cost fine.

MR. KORRELL: It just seems that if your office is concerned about the delta, that at least
keeping in mind what the limitations period is would help with the size of the delta, that's all.

MR. SCHANZ: Yes.

MR. KORRELL: Thanks.

MR. SCHANZ: I said in this case it wasn't, but it will be in the future. Thank you.

CHAIRMAN MADDOX: Any other questions?

MR. SNYDER: Hey, Vic?

CHAIRMAN MADDOX: Paul?

MR. SNYDER: Vic, Paul. Sorry, just real quick. I think, following up on Harry's comment, one, I think with Lora and Lynn, they worked hard to have a memo that you could flow through the process and I think gave better insight to why things took certain periods of time.

So I do think, if we like it and agree this top cover memo makes sense, those detailed schedules below are really repetitive, whether or not we need them going forward.

I would say also, I personally, on that 108 -- I think it's 108 -- schedule where the cost -- again, back to Harry's point -- we started out at a million
six and then by the time we get to amount recouped, it's basically 277,000, how did we get such a number, I think that schedule, at least, helps me as a member of the Committee understand how Management is pursuing these.

So I would like, if the Committee has suggestions for changes or if they believe we don't need these schedules any more, at least we think about that and communicate that to Lora and Lynn.

CHAIRMAN MADDOX: Thank you, Paul. I think that's helpful.

If there's no other comments, thank you, Jeff, thank you, Lora, and we look forward to continuing to improve this process, make it better for everyone.

Thank you.

The next item on our agenda is number 9, consider and act on the 403(b) Thrift Plan amendment. I think we have Mark Freedman and Sophia Mason on the phone. Is that correct?

MR. FREEDMAN: That is correct, Mr. Chairman.

This is Mark Freedman, and Sophia Mason is also on the phone from the Office of Human Resources.
CHAIRMAN MADDOX: Welcome. There are memos in your materials on these topics. And the memo from Traci Higgins regarding the amendments to the 403(b) Thrift Plan outlines the proposed amendments and explains the reasons for the proposed amendments. I assume everyone has read through that.

I didn't see any need for a presentation from Traci or Mark today since the memo is self-explanatory. Basically, there would be a change to allow partial withdrawals for former employees. There would be changes to the one-year marriage requirement. There would be another change to the in-service withdrawals, and finally, the way hours of service are calculated. All of these amendments have been, I think, reviewed thoroughly by both the Human Resources people and by the Legal Office. Mark has explained to me that in the one instance where there was action in technical violation of the plan in the past whereby people were making withdrawals, there shouldn't be any implications for those past practices for going forward, and there shouldn't be any sort of enforcement issues or reasons for compliance concerns.
So it's my recommendation that the Committee make this recommendation, for the resolution that appears on page 121 in the Board book, which would be adopted by the full Board at the meeting on Saturday.

PROFESSOR VALENCIA-WEBER: I move for adoption of the resolution.

CHAIRMAN MADDOX: Any other comment before we do that?

MR. KORRELL: I did have just one quick question, and it's about the equivalency method, which I had not heard of. But I assume we've looked -- and this is maybe either for you, Vic, or for Mark on the phone -- we've looked into whether there's any exposure if by using the equivalency method we get it wrong or we understate, in the estimate, the amount of time the person worked.

From the employment law perspective, actual hours matter, and estimates are great unless they work to the detriment of the employee, and then you lose. Is that something that we looked into, and are we satisfied there's not --

CHAIRMAN MADDOX: Let's ask Mark, who I'm sure
has looked into that.

Mark, can you answer Harry's question?

MR. FREEDMAN: I can indeed. The equivalency method is provided for as a standard method for situations where you have employees who are not on an hourly basis. So actually, as an example, one of the standard things that the plan would allow by its structure, and some employers do, is have all exempt employees on an equivalency method and all FLSA-covered employees on an hourly method.

We're not doing that. We're doing a much smaller set of that. It's simply having these project-based employees on the equivalency method. But it's an established, accepted approach, and it's acknowledging that actual hours are not what's required for those employees.

MR. KORRELL: Thank you.

CHAIRMAN MADDOX: Does that answer your question, Harry?

MR. KORRELL: Yes.

CHAIRMAN MADDOX: All right. Well, the resolution is on page 121 and 122, and the motion,
then, would be that the Committee vote to recommend
this resolution to the full Board.

Is there any further discussion of the
resolution or the motion?

(No response.)

CHAIRMAN MADDOX: If not, is there a motion?

MOTION

PROFESSOR VALENCIA-WEBER: Well, I move again.

CHAIRMAN MADDOX: Thank you, Gloria. Second?

MR. KORRELL: Second.

MR. SNYDER: Second.

MR. HOFFMAN: Second.

CHAIRMAN MADDOX: Thank you, Harry, Paul, and
David. And all in favor?

(A chorus of ayes.)

CHAIRMAN MADDOX: All opposed?

(No response.)

CHAIRMAN MADDOX: None. So the motion is
agreed to, and the Committee will recommend the
resolution on amendments to the 403(b) Thrift Plan to
the full Board at Saturday's meeting. Anything else on
that?
CHAIRMAN MADDOX: All right. So that takes us to item number 10 on our agenda, which is public comment. Is there any public comment on today's proceedings or anything else of interest to the general public?

(No response.)

CHAIRMAN MADDOX: Seeing and hearing none, we'll move to item number 11, which is consider and act on other business. Is there any other business for the Committee?

(No response.)

CHAIRMAN MADDOX: Seeing none, we'll then move that the Committee go into closed session, I guess, is what we need to do. Is there a motion? You guys will have to dial back in, David and Paul. Is there a motion?

MOTION

MR. KORRELL: So moved.

CHAIRMAN MADDOX: Second?

PROFESSOR VALENCIA-WEBER: Second.

CHAIRMAN MADDOX: Seconded. All in favor?
(A chorus of ayes.)

CHAIRMAN MADDOX: And the motion is agreed to, and we'll now go into closed session.

(Whereupon, at 3:26 p.m., the Committee was adjourned to Closed Session.)

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