

LEGAL SERVICES CORPORATION  
BOARD OF DIRECTORS

MEETING OF THE  
AUDIT COMMITTEE

OPEN SESSION

Sunday, July 21, 2013

3:09 p.m.

Warwick Hotel  
Millennium Ballroom  
1776 Grant Street  
Denver, Colorado 80203

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:

Sharon L. Browne  
Robert J. Grey, Jr.  
Charles N.W. Keckler  
Laurie Mikva  
Martha L. Minow (by telephone)  
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  
Richard L. Sloane, Special Assistant to the President  
Rebecca Fertig, Special Assistant to the President  
Ronald S. Flagg, Vice President for Legal Affairs,  
General Counsel, and Corporate Secretary  
David L. Richardson, Comptroller and Treasurer,  
Office of Financial and Administrative Services  
Carol A. Bergman, Director, 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  
Ronald "Dutch" Merryman, Assistant Inspector General  
for Audit, Office of the Inspector General  
Thomas Coogan, Assistant Inspector General for  
Investigations, Office of the Inspector General  
David Maddox, Assistant Inspector General for  
Management and Evaluation, Office of the  
Inspector General  
Lora M. Rath, Deputy Director, Office of Compliance  
and Enforcement  
Janet LaBella, Director, Office of Program  
Performance  
Herbert S. Garten, Non-Director Member, Institutional  
Advancement Committee  
Allan J. Tanenbaum, Non-Director Member, Finance  
Committee (General Counsel, Equicorp Partners)  
Jonathan D. Asher, Executive Director, Colorado  
Legal Services  
Ed Marks, Executive Director, New Mexico Legal Aid  
  
Chuck Greenfield, National Legal Aid and Defender  
Association (NLADA)  
Don Saunders, National Legal Aid and Defenders  
Association (NLADA)  
Lisa Wood, American Bar Association Standing  
Committee on Legal Aid and Indigent Defendants  
(SCLAID)  
Meredith McBurney, American Bar Association SCLAID

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## 1 PROCEEDINGS

2 (3:09 p.m.)

3 CHAIRMAN MADDOX: This is the Audit Committee  
4 of the Legal Services Corporation, and I'm going to  
5 call the meeting to order. It looks like we have Harry  
6 Korrell, myself, Paul Snyder, and Gloria Valencia-Weber  
7 present. One more call for David Hoffman; David, are  
8 you there?

9 (No response.)

10 CHAIRMAN MADDOX: Could somebody maybe send  
11 David Hoffman an email? That would be great.

12 So it looks like we have a quorum nonetheless.  
13 The first item of business will be the approval of the  
14 agenda. Is there a motion?

15 MOTION

16 MR. LEVI: So moved.

17 CHAIRMAN MADDOX: And a second?

18 PROFESSOR VALENCIA-WEBER: Second.

19 CHAIRMAN MADDOX: Thank you. All in favor?

20 (A chorus of ayes.)

21 CHAIRMAN MADDOX: Opposed, no?

22 (No response.)

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

3           Could I just ask, do we have minutes from the  
4 July 2nd meeting? Does anyone know if minutes of that  
5 meeting were prepared?

6           MS. FERTIG: They're not back yet.

7           CHAIRMAN MADDOX: Thank you. So we don't have  
8 minutes from our July 2nd meeting.

9           The second item on our agenda is the report of  
10 the Management activities for grantee training. We're  
11 going to have Lynn Jennings, Vice President for Grants  
12 Management. Over to you, Lynn. Thank you.

13           MS. JENNINGS: Good afternoon. Lynn Jennings,  
14 for the record.

15           Currently the Legal Services Corporation  
16 provides limited training to the grantees. It would be  
17 in the form of technical assistance on request by the  
18 grantee or when we're doing followup visits. Also, we  
19 provide new director training; the Office of Compliance  
20 and Enforcement does that. And online, we have the LSC  
21 Resource Information, LRI, website, and participation  
22 in NLADA and of course the TIG summit and TIG

1 conference that we have every year. But by no means is  
2 it a robust system at all.

3           So in doing the analysis and preparing for the  
4 reorganization, I've talked to Jim a number of times  
5 about the need to institute robust training for  
6 grantees, particularly as it relates to what does good  
7 compliance look like? What does good fiscal health  
8 look like? And what does a good program look like?

9           So moving forward, it's our goal to have an  
10 interactive online learning portal so that  
11 people -- we'll develop modules, particularly as it  
12 relates to the regulations. What does 1614 look like?  
13 How can we comply with that? And the rest.

14           So we will be engaging, if the resources are  
15 available, in developing that online resource. We hope  
16 to also provide more one-on-one technical assistance  
17 than we do already, and we'll have to triage our  
18 programs for that to see where the need is greatest to  
19 provide technical assistance.

20           Then we are also -- for a long time, the  
21 Office of Compliance and Enforcement was not allowed to  
22 go to NLADA conferences or EJC conferences. So they

1 will be going out starting in December to give a  
2 previous of the Compliance Advisory that they prepare  
3 at the beginning of the year.

4           So that's it in a nutshell. But it will be an  
5 online interactive tool involving webinars, and we will  
6 also be serving the grantees in terms of what are their  
7 greatest training needs with regard to LSC issues,  
8 whether it is related to regulations or program  
9 performance.

10           CHAIRMAN MADDOX: Thank you, Lynn. That  
11 sounds like a good program. To what extent are you  
12 going to be telling grantees or training grantees in  
13 the finer points of fiscal health? I think you  
14 mentioned that was one of the three elements.

15           For instance, are you going to be dealing with  
16 them about how to implement the accounting manual that  
17 we spent some time a couple years ago updating?

18           MS. JENNINGS: It would be all of those things  
19 because we noticed that there is -- particularly what  
20 the Fiscal Oversight Task Force report recommended and  
21 anything related to fiscal, we can work with our  
22 friends in the Inspector General's Office and

1 help -- they already go out and do a number of  
2 trainings. But we'd like to amplify what they do.

3           Also what we'll do, we'll work with our  
4 colleagues at NLADA and MIE. If we can leverage  
5 resources there as well to provide trainings, we will.

6           CHAIRMAN MADDUX: Julie?

7           MS. REISKIN: I'm thrilled to hear this. I'm a  
8 big training fan. Are you going to make any of these  
9 available to the program board of directors? I'm  
10 thinking particularly around fiduciary responsibilities  
11 of boards.

12           MS. JENNINGS: Absolutely. Of course, all of  
13 this won't come online at once. We don't have a lot of  
14 in-house capacity for adult training and online  
15 training, so we will have to build that resource  
16 internally as well as probably contract out for it.

17           But yes. In fact, when I did 50 one-on-ones  
18 with the people that work in OPP, OCE, and OIM, and  
19 when they talked about challenges for our grantees,  
20 board training was one of those. So they recognize  
21 that it's a problem or an issue sometimes. And so we  
22 will be working on that.



1           Again, I think that is a good place to work  
2 with our colleagues at MIE and NLADA on that as well so  
3 that we have the stronger voice in that regard.

4           CHAIRMAN MADDOX: Lynn, what's your timeline  
5 on this program?

6           MS. JENNINGS: Well, I hope to identify people  
7 who will become technical assistance coordinators and  
8 to help launch it. So hopefully it will be -- we'll  
9 probably develop short-term, mid-term, and long-term  
10 goals.

11           But working with the Office of the CIO, we  
12 need to see what platforms are out there for the tools,  
13 so hopefully within the next six to twelve months. But  
14 we can be developing curricula during that time frame.

15           CHAIRMAN MADDOX: Gloria?

16           PROFESSOR VALENCIA-WEBER: Yes. I'm glad to  
17 hear that you're focusing on this. I'd recommend you  
18 thinking about what happens as we have cyclical entry  
19 of new directors, other fields, other professions, on a  
20 cyclical basis hold workshops, or in this case a  
21 webinar, just for brand-new directors because you get  
22 them coming in in cohorts.

1           MS. JENNINGS: Well, that is training we  
2 actually already do, at least with regard to the Office  
3 of Compliance and Enforcement. We regularly offer new  
4 executive director training. But if there are ways  
5 that we can improve upon that -- but we do offer that  
6 on demand as well.

7           CHAIRMAN MADDOX: Okay. Thank you very much.  
8 Is David on?

9           MR. HOFFMAN: Vic, it's David Hoffman. I just  
10 wanted to let you know I joined about five minutes ago.

11           CHAIRMAN MADDOX: Welcome, David. Thank you  
12 for joining us. I suppose you heard most of the  
13 report. Do you have any questions for Lynn?

14           MR. HOFFMAN: I did not, actually. When I  
15 joined, I was hearing maybe the tail end of a response,  
16 maybe, to Julie's question. So I joined too late, it  
17 sounds like, to hear her report. And I'm sorry about  
18 being late. I thought we were starting at 3:15  
19 Mountain, so my apologies.

20           CHAIRMAN MADDOX: Not to worry. We'll bring  
21 you up to date on anything you missed.

22           I also want to welcome Ron Flagg, Vice

1 President for Legal Affairs, to his first in-person  
2 meeting of the Audit Committee. So welcome, Mr.  
3 General Counsel.

4 MR. FLAGG: Thank you very much. It's great  
5 to be here.

6 CHAIRMAN MADDOX: Thank you.

7 The next item on our agenda is the briefing by  
8 the Office of the Inspector General -- oh, there he is,  
9 over there on the extreme left.

10 MR. SCHANZ: Or right. I am nonpartisan,  
11 Mr. Chairman. Independent and objective.

12 (Laughter.)

13 CHAIRMAN MADDOX: Absolutely. And as Father  
14 Pius says, everyone's on my extreme left.

15 (Laughter.)

16 CHAIRMAN MADDOX: All right. Well, thank you,  
17 Jeff.

18 MR. SCHANZ: Much like you, Mr. Chairman, John  
19 Levi, I didn't know when to introduce this. It was an  
20 add-on, an addendum to the Finance Committee. But when  
21 we were talking about budgetary issues and Congress's  
22 interest in oversight with the Sandy monies that have

1 been dedicated to the LSC, of course they come with  
2 strings attached.

3           One of those strings attached is GAO  
4 oversight, and CIGIE has taken charge of that. We are  
5 an active participant in overseeing the monies that are  
6 going into Sandy, basically because the IG community  
7 got together during Katrina.

8           And instead of duplicating efforts, they made  
9 sure that exchange person was limited to the monies  
10 that came out from their agency, and they would use  
11 those best practices to populate the entire CIGIE  
12 community. So the same thing is happening with Sandy.

13           We have lessons learned on that. I have a  
14 very skilled, dedicated employee that goes to the GAO  
15 and the CIGIE meetings as it relates to Sandy  
16 oversight. So that will not only be an  
17 agency-by-agency report, but I anticipate it being a  
18 CIGIE report also.

19           The other comment I have is I want to let the  
20 Board know that we extended the contract for the LSC  
21 fiscal audit for the next year. This would be the same  
22 person, Nancy Davis. Dutch Merryman communicated with

1 the Board and advised them that that's the direction we  
2 were heading, speak now or forever hold your peace, and  
3 we didn't hear any responses. So we're going forward  
4 with the -- okay, Dutch.

5 MR. MERRYMAN: We heard some responses, and  
6 considered all of them.

7 MR. SCHANZ: Oh, yes. And they were all  
8 favorable. So we're going to do that.

9 Then in the area of training, that's something  
10 that I've done my entire career and will be more than  
11 happy to work with Lynn Jennings. We are already in  
12 that area. You may have seen some of our "All Grantee"  
13 emails that go out. We do a blast.

14 The most recent one is on the West Virginia  
15 fraud. So we send that to all executive directors, and  
16 the entire grantee community will talk about that a  
17 little bit more in closed board meeting sessions.

18 But we also -- and when I have Tom Coogan up  
19 here, we'll talk about what we do as far as regulatory  
20 vulnerability assessments. That's a form of training.

21 We do our fraud vulnerability assessments that you all  
22 have attended -- thank you, Sharon; you were in person

1 when we took the show on the road -- and we do our  
2 fraud awareness briefings.

3           So there is a mosaic of training that's given  
4 to grantees. We don't have a regular cycle of doing  
5 that; we do it based on our risk matrix, which Ron  
6 Flagg will talk about next on the agenda.

7           But I do want to let the Board know that we  
8 take that very seriously. We try to educate when we're  
9 out in the field. And there's no better education,  
10 based on my prior -- prior, prior, way back  
11 when -- when an IG person is in an office, there will  
12 be more than a couple of informal conversations that go  
13 on and say, how would I do this? Those you can't  
14 really categorize. But it does occur on an informal  
15 basis.

16           As I mentioned on the formal basis, we have  
17 sent out the results of the QCRs, our QCR reviews, and  
18 we've sent those to all executive directors as well, as  
19 I mentioned, the last fraud. We've also put out some  
20 grantee information memos.

21           All these are captured in our website, and I  
22 would direct your attention to that because my memory

1 isn't as good as that computer that shows what we've  
2 done and what we've sent out to everybody.

3 So thank you for your support and attention.  
4 I'll turn it over. For the record, one moment, please.

5 (Pause)

6 MR. MERRYMAN: If I may, I'd just like to make  
7 one slight correction. My name is Ron Merryman. I'm  
8 the Assistant Inspector General for Audit. And I did  
9 personally interview the President and the Treasurer  
10 about the CPA form.

11 There were some concerns raised that can be  
12 addressed. I don't want to make it sound like that  
13 their concerns were not considered. They were. I  
14 don't believe they were to the point of not rising to  
15 the level of not rehiring.

16 But it will be items that we do bring up in  
17 our discussions when we start the audit with them, just  
18 to make them aware of some issues that were brought to  
19 our attention that we'd like them to address and be  
20 considerate of.

21 So I did want to make sure that the people I  
22 talked to and the information I got, it was all

1 considered. It wasn't without some level of concern,  
2 but not a large concern.

3 CHAIRMAN MADDOX: Thank you very much.

4 Any questions?

5 (No response.)

6 CHAIRMAN MADDOX: If not, we'll move to item  
7 No. 4 on our agenda, which is to continue the  
8 discussion regarding risk assessment by Management and  
9 the Office of Inspector General. So our panel is Jim  
10 Sandman, the President of the Corporation, Ron Flagg,  
11 David Richardson, and Jeffrey Schanz.

12 I don't have a memo on this of any sort, so  
13 I'm going to turn it over to -- although we've got the  
14 matrix, right. And then we've got David's cover memo,  
15 I guess.

16 So I guess one question I have is, are there  
17 significant changes from the prior matrix? And in  
18 particular, are there new items where they were high  
19 risk or the severity was considered high, identified?  
20 And otherwise, how has the matrix changed?

21 MR. FLAGG: Mr. Chairman, this is Ron Flagg  
22 for the record. I think I can address those.



1           The principal changes were really adding a  
2 column for identifying the different Board committees  
3 in addition to the Audit Committee that would have  
4 oversight responsibilities with respect to risk  
5 management.

6           The only two substantive changes that were  
7 made in terms of the ratings of the probability or  
8 severity of the risks identified on this matrix were  
9 the ones that you raised with respect to -- this would  
10 be on page 49 of the board book, page 8 internally of  
11 this risk matrix -- raising from low to --

12           MS. REISKIN: Which page on the matrix?

13           MR. FLAGG: Page 8. This had to do with the  
14 risks associated with grantee operations, and  
15 specifically with respect to major misuse of grant  
16 funds and failure of internal controls, moving those  
17 from low to method.

18           Let me, though, make an additional point in  
19 that regard. This is by no means a static document.  
20 What we envision going forward is having future  
21 meetings of this Committee and all of the other  
22 committees that are identified on the matrix be the

1 recipients and active participants in discussions about  
2 the risks that are identified on this matrix.

3           And as we go forward with that process, I'm  
4 quite certain that that discussion will cause us to  
5 recast some of this, will cause us to identify new  
6 strategies for addressing these risks, will give us  
7 cause to think about how we are approaching some of  
8 these risks.

9           So I think the most significant thing we did,  
10 as I said, was to identify the committees that we  
11 thought should, on a going-forward basis, be actively  
12 involved in the oversight of these issues. And  
13 beginning with our next set of meetings in Pittsburgh,  
14 I would anticipate we'd start making some of those  
15 reports, and certainly at future committee meetings,  
16 whenever they are.

17           CHAIRMAN MADDIX: Thank you, Ron. That's very  
18 helpful. I guess a question I've got is, we say in the  
19 memo, David's memo, that you've added a column  
20 identifying the committee that should receive  
21 Management reports in each risk area.

22           We've recently gone through a review of our

1 Audit Committee charter, which thankfully you weren't  
2 here to deal with. It was a painful process, I think,  
3 but one that was effective in the end.

4           So do we need, for instance, to look at our  
5 charter? Would you recommend that we look at our  
6 charter and try to correlate the items, the action  
7 items, that we have on an annual and a quarterly basis  
8 to the various risks that have been identified for  
9 review by our Committee, for instance, and factor that  
10 into an ongoing working plan?

11           MR. FLAGG: I think that makes sense.  
12 Certainly in identifying the committees that most  
13 sensibly were associated with each of the risks, I  
14 looked at the charters, and based on the existing  
15 charters, made a judgment about which of the committees  
16 it made the most sense to list.

17           There's nothing set in stone there. Either  
18 because as people look at these issues and think about  
19 them more, if it makes sense to reallocate some of  
20 these risks to other committees, that would be fine.

21           I think in the course of each of the  
22 committees, considering their charters and considering

1 what work they're going to do in a set of upcoming  
2 meetings, one, I think these functions are very  
3 important and ought to be considered for their agendas  
4 as the meetings are coming up, and two, the charters  
5 ought to be reviewed with an eye toward this function,  
6 that is, the oversight of risk management.

7 CHAIRMAN MADDOX: Should we anticipate that  
8 reports that we might get as a Committee in following  
9 onto these various risks, would that be sort of an ad  
10 hoc process? Or do we anticipate that there's going to  
11 be some sort of regular review of these various risks  
12 and a regular report to us?

13 MR. FLAGG: I would envision that they would  
14 be a rolling set of reports, beginning with the risk  
15 areas that were deemed most significant. Management  
16 has indicated by coloring certain risks in red as the  
17 ones that would be most significant, and presumably  
18 those would be the ones as to which the first reports  
19 would be given, but that over time, reports would be  
20 given with respect to all of these areas.

21 We haven't made a proposal as to the precise  
22 schedule or how frequently the reports would come in.

1 But certainly in consultation with the committees and  
2 the committee chairs, we would come up with a schedule  
3 that made sense, given the other responsibilities that  
4 the committees have.

5 CHAIRMAN MADDUX: Julie?

6 MS. REISKIN: Thank you. I was curious on the  
7 grantee operations if you thought that in addition to  
8 Ops & Regs, Promotion and Provision should also be  
9 there given the quality issues and the leadership  
10 issues, if that should also be an oversight committee  
11 there.

12 And I was curious about the strategy outreach  
13 to local boards business there's been a lot of back and  
14 forth about when should the Corporation be going to  
15 boards versus management of different organizations.  
16 So I was just wondering if that was just a list or if  
17 there was more thought behind that. I think it's good,  
18 but --

19 MR. FLAGG: Yes. Again, this was really a  
20 first cut at making committee assignments, and I don't  
21 think there's any rule. And particularly when you get  
22 into the grantee operations, which obviously cover a

1 broad array of issues.

2 MS. REISKIN: Right.

3 MR. FLAGG: Certainly they could be subdivided  
4 or certainly reports could be made to more than one  
5 committee. Again, I want to emphasize that this is not  
6 meant -- even once we get these sorts of initial  
7 threshold issues addressed for the first time, I'm  
8 quite certain as we move forward we'll be making  
9 additional changes to the matrix.

10 Again, all this is is a way of collecting  
11 information. Obviously, the risk management efforts  
12 are what we're trying to describe here, and those  
13 efforts -- you know better than I since you've been  
14 involved in them for several years now -- are quite  
15 extensive.

16 CHAIRMAN MADDIX: Thank you, Ron.

17 Charles?

18 MR. KECKLER: Thank you, Mr. Chairman. Well,  
19 obviously to follow on that point because -- and agree  
20 with Julie that I don't think Promotions and Provision  
21 is set up as an oversight committee here on this risk  
22 matrix. And I think that clearly, in the realm of

1 grantees and the role of grantees, that there should be  
2 a role for it.

3           So the question of how to -- because we've  
4 talked about overlapping jurisdictions before. But I  
5 think in this case, in terms of reports, we ought to  
6 think more clearly about -- it's good that we have this  
7 matrix. It's good that we have an assignment and an  
8 accountable Board committee for the risks.

9           But I think we do need to work out which  
10 committee for each of these, and with the idea that  
11 Promotions and Provisions be focused on the grantees  
12 and delivering high quality Legal Services to the  
13 grantees, and making sure that happens; and Ops & Regs,  
14 in its operational role, making sure that things are  
15 running well in Washington and it's producing the right  
16 kinds of data and has the right kinds of assignments  
17 and systems in place in Washington.

18           So anyway, I think we need to work that out.  
19 So you've covered part of my comment.

20           The other comment that I would have to think  
21 about in terms of considering is on page 6, which is  
22 the last column having to do with natural disasters.

1 Now, that's fine if the Audit Committee wants to take  
2 over the COOP plan.

3 (Laughter.)

4 MR. KECKLER: But we did do this, and although  
5 it has, in a sense, this general oversight role in the  
6 Audit Committee of integrity, of organizational  
7 integrity, it seemed to make sense when we thought  
8 about it before that it was in Ops & Regs to do the  
9 COOP plan. If you want to take the COOP plan away,  
10 just talk to me and I will tell you all about it. I  
11 mean that.

12 (Laughter.)

13 MR. KECKLER: But anyway, so that's more work  
14 than I'm willing to take on. But then, with the other  
15 things, I do think we need to work with P&P and  
16 possibly with others in terms of determining which of  
17 these different and important risks the reports should  
18 immediately go to.

19 And I don't know how we're going to organize  
20 that conversation, but I think it's going to be a  
21 needed one. That's my comment.

22 CHAIRMAN MADDOX: Thank you, Charles. I think



1 that's a good comment.

2 Gloria and then Harry.

3 PROFESSOR VALENCIA-WEBER: I had also  
4 highlighted the natural disasters issue, so thank you,  
5 Charles.

6 The other thing I want to raise is we saw our  
7 charter initially on this committee that had all these  
8 nouns and verbs that sort of frighten me. And one of  
9 them is "review." And I know I don't expect you to  
10 have an answer now, but as you start structuring what  
11 you're going to review and what reports will be  
12 generated, I will appreciate that conversation.

13 CHAIRMAN MADDIX: Thank you, Gloria.

14 Harry?

15 MR. KORRELL: Thanks. Partly for you, Mr.  
16 Chairman, and partly for Chairman Levi, assuming we  
17 come up with an allocation that makes sense, I trust we  
18 don't have to make every other committee redo its  
19 charter because it will take forever.

20 But it seems like we would need to have  
21 some -- and maybe it's a Board-level allocation of  
22 responsibility so that we're not just saying, from now

1 on this committee's going to do this thing. I think  
2 it's a broader Board conversation.

3 And perhaps it's a proposal that comes out of  
4 this that comes to the Board and we get some kind of  
5 buy-in from all the committees that these  
6 responsibilities are moved around in this particular  
7 way.

8 John, I don't know if you have a suggestion on  
9 what that looks like. It doesn't have to be now --

10 MR. LEVI: No. But I was having the same  
11 thought and worry.

12 MR. KORRELL: I don't think we necessarily  
13 satisfy our responsibilities as the Audit Committee by  
14 saying, somebody else should look at this. Unless we  
15 get buy-in, they're going to look at it.

16 MR. LEVI: Yes. But maybe they can -- well,  
17 they'll have to figure out without necessarily having  
18 to amend committee charters every time a new topic gets  
19 put on their plate.

20 MR. KORRELL: Yes. That doesn't seem  
21 like -- that's not a good solution.

22 MR. LEVI: No, no.

1 MR. KORRELL: Even if it's just --

2 CHAIRMAN MADDOX: I'm sure the charters are  
3 broad enough to --

4 MR. LEVI: I hope they are.

5 MR. KORRELL: But I also --

6 MR. LEVI: I think once the Audit Committee  
7 signs onto its recommendation and puts it to the Board,  
8 if the Board adopts it then that has to be  
9 communicated. Those committees then have to say, this  
10 looks right to us, I guess.

11 Actually, maybe we ought to talk about it,  
12 whether they should weigh in, as Charles just did as a  
13 committee chair, before it comes to the Board.

14 MR. KORRELL: And the second point, Vic, is I  
15 would encourage Management or whoever's responsible for  
16 pulling this together to work towards a schedule of  
17 these sorts of briefings. I don't think we want an ad  
18 hoc.

19 I think it's more work for the people who are  
20 asked to do it if they don't know it's coming, and I  
21 don't think we know enough yet, and I'm not sure any  
22 board would know enough, to request a schedule.

1           So I think a schedule -- it would be good for  
2 Management to work towards a schedule. Obviously,  
3 things will come up you want to move off the schedule  
4 or take sooner or have on an ad hoc basis. But I think  
5 everyone would benefit from knowing what's coming, and  
6 then we'd all know that at this meeting is when we hear  
7 about this. You'll know it. We'll know it. I just  
8 think that's better than an ad hoc approach.

9           CHAIRMAN MADDOX: So are you suggesting,  
10 Harry, that we ask Management to present to us some  
11 sort of schedule for a periodic review of these various  
12 risks? And maybe the review is to say that there's  
13 nothing new to report.

14           MR. KORRELL: Yes. Just because we have an  
15 hour on an agenda doesn't mean you have to take it,  
16 obviously.

17           CHAIRMAN MADDOX: Right. Right.

18           MR. KORRELL: But yes, I would like to see as  
19 part of -- and not necessarily immediately, but the  
20 goal ought to be, in addition to an assessment of risks  
21 and what they look like and who's responsible, some  
22 sort of proposed schedule about when we're going to

1 hear briefings.

2           CHAIRMAN MADDOX: Would it be possible then  
3 for us to suggest that we get that kind of  
4 recommendation some time before our next quarterly  
5 meeting? Maybe the Committee can adopt something or a  
6 resolution to take to the Board at our next meeting  
7 that we can present to the Board at our next meeting.

8           MR. KORRELL: Yes. That is certainly  
9 agreeable to me.

10           CHAIRMAN MADDOX: And in the meantime, we  
11 could ask committee chairmen to do the same kind of  
12 service that Charles just provided for us by looking at  
13 the various reassess for their committee.

14           MR. KORRELL: I think that would solve it. I  
15 don't want to put more work on Management if they're in  
16 the process of doing something and they're not ready to  
17 do a schedule.

18           CHAIRMAN MADDOX: Yes. Right.

19           MR. KORRELL: But if they've got the capacity  
20 and it's consistent with the evolution of it, I think  
21 it's a great idea.

22           CHAIRMAN MADDOX: So we can address that

1 perhaps at our Board meeting to get that on a schedule  
2 toward resolution at our next quarterly meeting.

3 MR. LEVI: As a part of your Audit Committee  
4 report to the Board.

5 CHAIRMAN MADDOX: Correct.

6 MR. RICHARDSON: Victor, if I may, I think  
7 Paul was trying to say something a moment ago, too.

8 MR. LEVI: He may have.

9 CHAIRMAN MADDOX: Paul?

10 MR. SNYDER: Yes. "Trying to say something"  
11 is probably a good characterization. But I do agree.  
12 I think we ought to get it up to the Board to approve  
13 the overall allocation in the committees and make sure  
14 the committee chairs are in agreement before we get  
15 there.

16 I do think it's helpful if the calendar and  
17 some of these items like review of annual audit, et  
18 cetera, fit nicely into our calendar schedule. And we  
19 can schedule those out at the various meetings.

20 I was going to refer to the IG's memo that  
21 came out -- and bear with me, Jeff -- it was Friday or  
22 the exact date -- that I thought the office had some

1 very good suggestions about how we could improve the  
2 overall process and documentation and making some  
3 recommendations on framework.

4 I guess I always also say, don't let the  
5 pursuit of perfection stand in the way of execution.  
6 But I think the recommendations he has for  
7 consideration of improvements would greatly enhance the  
8 overall risk management process.

9 And Jim, I guess one followup item I had was  
10 we had talked briefly about having, within the  
11 Management group, a risk management committee that  
12 obviously would be the main focal point from a  
13 Management standpoint, do the ongoing coordination and  
14 updating of the risk management plan.

15 Have you given any further consideration to  
16 that?

17 CHAIRMAN MADDOX: Is the question to you, Jim,  
18 or to me?

19 MR. SNYDER: I thought it was to Jim. I'm  
20 sorry.

21 PRESIDENT SANDMAN: Yes. I assumed it was  
22 directed at me. Yes. We can and will do that.

1 MR. SNYDER: Okay. Thank you.

2 CHAIRMAN MADDOX: Paul, thank you. Those are  
3 very helpful comments.

4 MR. SCHANZ: Paul, thank you for recognizing  
5 the work we did on the memo. I do have hard copies of  
6 that for the Board if they didn't receive it on Friday.

7 I apologize for the lateness of the transmission.

8 But as you indicated, we put quite a bit of  
9 work into that for the Committee's consideration. So  
10 if you need a hard copy, just raise your hand, for  
11 those in the room. For those that don't, it was  
12 absolutely right. It was sent on July 19th, and it was  
13 directed to the Audit Committee and the people in  
14 Management that have responsibility for this.

15 And while I have the mike, it's been a  
16 pleasure working with Ron Flagg on trying to get this  
17 all moving a little bit forward quicker. So thank you,  
18 Ron.

19 CHAIRMAN MADDOX: Okay. Oh, I'm sorry.  
20 Gloria, go ahead.

21 PROFESSOR VALENCIA-WEBER: I would like to  
22 commend the memo that the IG just sent us before we



1 came and has just been distributed. And among the good  
2 points that he wants us to consider is that to the  
3 extent we identify risks, we align the risks to our  
4 strategic plan goals.

5 I think besides aligning with committees and  
6 their charters, aligning the risks to strategic plans  
7 and the goals we have would be very helpful.

8 PRESIDENT SANDMAN: We were mindful of the  
9 strategic plan goals in preparing the matrix. I think  
10 that they are consistent. In terms of the way they're  
11 organized, I think it would be better to align them  
12 functionally ran by the three strategic plan goals.

13 If we were to organize our risk management  
14 objectives by maximizing the availability, quality, and  
15 effectiveness of the legal services our grantees  
16 provide, being a leading voice for civil legal services  
17 and promoting the highest level of fiscal integrity,  
18 that would be at a level of generality that I think  
19 would be difficult to operationalize within Management.

20 But we are at every step conscious of what the  
21 strategic plan goals are, and I think the substance of  
22 what we prepared is fully aligned with them.

1           CHAIRMAN MADDOX: Any other comments on the  
2 matrix? If not, it sounds like we're asking Management  
3 to put together at least a tentative schedule for  
4 reports on the various risk areas that can come to the  
5 Board at our various quarterly meetings.

6           If we could do that perhaps in advance of the  
7 next quarterly meeting so that we could discuss it at a  
8 meeting we might schedule, that would be very helpful,  
9 I think.

10           The OIG memo that you just gave me, David, did  
11 this come in by email?

12           MR. SNYDER: Yes. That's how -- I think it  
13 came in on Friday, Jeff?

14           MR. SCHANZ: Yes. That's correct.

15           CHAIRMAN MADDOX: Because I don't remember  
16 seeing this. I'm sorry. I apologize.

17           MR. MADDOX: Yes. If I can address it, Vic?

18           CHAIRMAN MADDOX: Yes, sir, please.

19           MR. MADDOX: My name is David Maddox,  
20 Assistant Inspector General for Management and  
21 Evaluation. This probably comes in the area of, be  
22 careful what you ask for; you might just get it.

1           The Audit Committee requested on its July 2nd  
2 telephonic meeting that the OIG provide comments on the  
3 LSC risk management program. This was the first time  
4 that the OIG has provided written comments on the  
5 program that was originally designed in January 2009.

6           The comments are advisory in nature only, and  
7 offered for Management and the Committee's  
8 consideration. We're sorry about the timing of the  
9 release; however, the comments, which vary greatly in  
10 terms of breadth and scope, took significant time to  
11 develop.

12           Going forward we would recommend that we meet  
13 with Management, potentially the Committee, after you  
14 get a chance to really digest the comments, and to meet  
15 to discuss the comments and answer any questions.

16           As Management and the Committee decides if and  
17 how to address these in the update of the risk  
18 management plan, the OIG will be happy to further  
19 consult with the Committee and Management.

20           CHAIRMAN MADDOX: Yes. Thank you. I wasn't  
21 being critical of the timing. I know that probably  
22 this came about as a result of our July 2nd meeting. I

1 just hadn't seen it. I wasn't in the office on Friday.

2 So it looks like it's going to be very helpful, and I  
3 look forward to studying it in connection with our  
4 upcoming meetings and work on the risk matrix.

5 Father Pius?

6 FATHER PIUS: Just one request. It looks like  
7 it was probably emailed just to the Audit Committee,  
8 which makes sense. But if you could forward it  
9 probably to the rest of the Board as well, I think it  
10 would be helpful.

11 MR. MADDOX: Definitely.

12 CHAIRMAN MADDOX: Harry?

13 MR. KORRELL: I just want to go back to  
14 something you had just said about the proposed schedule  
15 of the briefings. I for one am not limited to getting  
16 these briefings at the quarterly board meetings, and  
17 confess I find that we get so many briefings at the  
18 quarterly board meetings, and then we have the program  
19 visits, and we do award ceremonies, and we do  
20 receptions, and it does get to be a bit overwhelming.

21 I for one would appreciate some of these even  
22 on an off -- obviously, Mr. Chairman, you'll call the

1 schedule. But I would certainly be open to getting a  
2 briefing on one topic for a 20-minute briefing  
3 off-cycle.

4 It would probably be more informative. I  
5 would get more out of it, and it would probably take  
6 less time, honestly, than trying to cram it in and have  
7 these things run late. So just a suggestion for  
8 scheduling.

9 CHAIRMAN MADDOX: No. I think it's a good  
10 idea, and it's probably easier on the staff as well.  
11 Scheduling can be a challenge, but I'm sure we can  
12 manage that.

13 MR. KORRELL: If we knew that we were going to  
14 have a briefing, for example; just in between the  
15 quarterly meetings we know there's going to be an Audit  
16 Committee briefing meeting in which we take an hour and  
17 get one or two of these briefings, I think that would  
18 be -- it would be more digestible.

19 CHAIRMAN MADDOX: Right. And Ron, can we do  
20 that without formal notice? Can we take a briefing?  
21 Do we have to publish it in the Federal Register?

22 MR. LEVI: No.

1           CHAIRMAN MADDUX:  It's not a meeting.  It's  
2 not something we have to notice.

3           MR. LEVI:  A briefing, you don't.

4           MR. FLAGG:  If it's purely a briefing, it's  
5 not subject to the Sunshine Act.

6           Let me suggest a two-step process.  One is to  
7 make true my comment that this is a living, breathing  
8 document, and we'll revise this in light of the  
9 comments we've already gotten today about the committee  
10 assignments and recirculate it to the entire Board,  
11 including, obviously, all the committee chairs, and  
12 then, subsequent to that, in consultation with the  
13 various committee chairs, can begin to propose  
14 schedules for briefings for each of the various topics  
15 that would be assigned to each of the various  
16 committees.

17           Then it sounds as if that package would go to  
18 the Audit Committee, and then could be recommended to  
19 the Board.

20           CHAIRMAN MADDUX:  I think that's where we are,  
21 so thank you.

22           Any other discussion on the risk matrix?  If

1 not, we'll move on to the next agenda item. I want to  
2 thank the panelists and David for stepping in at the  
3 last minute.

4 The next item is the further discussion of  
5 Compliance and Enforcement followup to OIG  
6 investigation and audit reports. And we have the  
7 Inspector General and Lora Rath, Director of the  
8 Compliance and Enforcement Office.

9 This topic follows on the discussion that we  
10 had at our July 2nd meeting, which was, I think, a very  
11 helpful meeting, being driven by David Hoffman and his  
12 experience in the inspector general world. And we were  
13 promised that we would have some followup discussion  
14 and presentation about the operation and the  
15 interaction of those two offices. And so welcome,  
16 Lora.

17 MS. RATH: Hi. Thank you. This is Lora Rath,  
18 the Director of the Office of Compliance and  
19 Enforcement. And yes. At the July 2nd Audit Committee  
20 meeting, we discussed various referrals from the Office  
21 of Inspector General. And there were different charts  
22 that the Audit Committee asked us if we could produce.

1           So that's what's in your briefing book. We  
2 concentrated for this open session on the referrals  
3 that come from the Office of Inspector General's audit  
4 division.

5           So this is just to let you see what gets  
6 referred to us. There's a series of charts that are  
7 open referrals, and it lists out the progress that OCE  
8 is making on those referrals. And then, followed by  
9 that, starting on page 60, I think -- on page 60 is the  
10 closed referrals over the last two years.

11           So we were just hoping that the Audit  
12 Committee could tell us whether this is the type of  
13 information that you were looking for from us. You  
14 gave us six different charts that you wanted, and we're  
15 providing two of those six at this point.

16           CHAIRMAN MADDOX: I'm going to turn it over to  
17 David for comment here in a second. I'll just say that  
18 for me, it may or may not be. But without the  
19 magnifying glass that I left at home, I literally,  
20 Lora, cannot read a word on the page.

21           (Laughter.)

22           CHAIRMAN MADDOX: And when I try to look at it



1 on the computer and magnify it, it gets so distorted I  
2 can't read it that way, either.

3 So I did look at it in the office with a  
4 magnifying glass. It looked to be helpful and looked  
5 to be the sort of thing we're looking for.

6 MS. RATH: I apologize. Perhaps we could send  
7 it -- typically, the way I keep them on my computer,  
8 these are on legal size paper. But unfortunately, to  
9 put them into the briefing book, we needed to compress  
10 everything.

11 If it would be helpful, we could re-send them  
12 to the Committee on legal size view. Sorry about that.  
13 That's why I'm wearing my glasses, too.

14 MR. HOFFMAN: Lora, Vic, and the Committee,  
15 this is David, and I may have -- the question, I know,  
16 was addressed to the Committee as a whole, although I  
17 got disconnected from our call briefly there, right  
18 when you were asking, is this the kind of thing that  
19 the Committee was looking for.

20 So in case my response was being called for as  
21 well, my reaction was like Vic's. I did think that it  
22 was precisely what we were looking for after the

1 discussion with you and Jeff yesterday, and I've got  
2 some followup questions to ask whenever the appropriate  
3 time is. But I do very much appreciate your providing  
4 it to us in this form.

5 MS. RATH: You're welcome. Yes. So if you  
6 have any questions, because otherwise, the only thing I  
7 would be doing is updating the information that I  
8 provided to you in April. And the only thing on that  
9 is that the OIG issued two more reports on selected  
10 internal controls. Neither one of them had any  
11 referrals to OCE for followup, so they're not even  
12 reflected on the charts.

13 CHAIRMAN MADDOX: So David, this is the  
14 appropriate time.

15 MR. HOFFMAN: Great. Thanks. And I think, to  
16 set the context again for everybody following our July  
17 2nd meeting, this follows on our attempt to get a  
18 handle on the type of grantee oversight activities that  
19 OIG and OCE engage in, some of which are overlapping  
20 and some of which, as we're discussing here, involve  
21 interaction between the two, to make sure the Audit  
22 Committee understands fully what the two offices do,

1 especially when they're overlapping or interacting; and  
2 then to figure out, so that we can do our job of  
3 assessing those actions by Management on the one hand  
4 and the IG on the other, and then going forward so we  
5 can figure out the right way that we can get briefed.

6 I think that this chart certainly would be a  
7 helpful mechanism for us to receive on a regular basis,  
8 and I think that some of the questions coming off of  
9 the July 2nd meeting and this meeting and surely in the  
10 future will be designed to make sure, in a very  
11 efficient way, we can get to the nub of the issue about  
12 how OCE and IG are interacting and doing their jobs.

13 So if I just could ask a few questions to try  
14 to understand some of the things on this chart and get  
15 your and Jeff's perspective, that would be great. I  
16 want to make sure we're not overreacting or  
17 underreacting to things.

18 so I looked at this chart. I see that there's  
19 an open referrals and a closed referrals chart. And my  
20 memory of what you said and Jeff said last time is  
21 that -- actually, let me stop here one second and back  
22 up one more time.

1           What we described last time was that there  
2 were six things that we see that the IG's Office or OCE  
3 do that fall within the category of effectively grantee  
4 oversight, to make sure they're following the relevant  
5 regulations and are not involving the kind of  
6 misconduct that was the subject of the Fiscal Oversight  
7 Task Force.

8           This is one of those six, which is IG audits.

9       And one of the things we were getting at was, well, we  
10 can see the IG audit reports and their finished work on  
11 the website. What happens next? And the answer was,  
12 sometimes -- not always -- sometimes there's referrals  
13 to OCE for followup to make sure the grantees are doing  
14 the right things when the IG finds a problem.

15           My memory is that the IG's problems that get  
16 referred to are in two categories. One is we found an  
17 internal control problem, and second is we have some  
18 questioned costs that we think LSC should be able to  
19 recoup.

20           So let me just ask you some questions about  
21 the questioned costs category. We talked a little bit  
22 about this at the July 2nd meeting, and Jeff gave some

1 comments about the information that was provided to  
2 Congress on this.

3           So Lora and Jeff, I just want to tell you what  
4 I did. So I went through the two charts, and I was  
5 looking at the column that says -- I think it's the  
6 seventh column or so -- it says, "Amount referred by  
7 OIG."

8           And I see that some of the reports had an  
9 amount referred by the OIG, and some did not. So I  
10 assume that where it's there, it's because there are  
11 some questioned costs for OCE to follow up on.

12           I put aside the ones with a small amount,  
13 something under \$20,000, and I found a total of five  
14 where it was higher than that. And when I went through  
15 them, either there had been no action taken yet by OCE  
16 or you had found a much smaller amount. And this is  
17 one of the things, again, in following up on July 2nd I  
18 wanted to get your perspective on.

19           So on page 54 of the briefing book, it looks  
20 like they issued a report a year ago, in July 2012, on  
21 Inland Counties Legal Services where there was a  
22 questioned cost of \$1.3 million.

1 MS. RATH: Yes, sir.

2 MR. HOFFMAN: And there's been no Management  
3 determination yet, it looks like, on that early OCE  
4 determination.

5 Then skipping ahead to page 59, the Idaho  
6 Legal Aid Services, this is the one we discussed in the  
7 last meeting, I think, \$215,000 in questioned cost.  
8 And that one appears to be open as well in terms of  
9 your action.

10 And then the next page, when we get to the  
11 closed referrals, the first line there for the  
12 Appalachian Research and Defense Fund of Kentucky, it  
13 looks like the IG had questioned costs of \$257,000, and  
14 OCE determined that it was \$20,000. And that was an  
15 amount to be recouped, so about 10 percent or less of  
16 what the IG had found.

17 Then skipping ahead two pages to 62, the  
18 second line there, Central Arkansas Legal Services, the  
19 IG found questioned costs of \$82,000, and OCE and  
20 Management determined it was zero.

21 Then the next line, Southeastern Louisiana  
22 Legal Services, the IG's questioned costs are \$55,000,

1 and Management determined that it was \$4,000, or again,  
2 a little bit less than 10 percent.

3           So I want to make sure that we understand how  
4 to think about this because this follows up on the  
5 comment from last time. And you know, and I hope Jeff  
6 and the IG's Office know, none of this is an attempt to  
7 find blame or be critical.

8           It's really a question on the Audit Committee  
9 side, I think, of our understanding how things work and  
10 what, from your perspective and IG's perspective, is a  
11 process that's working, or what is a process that maybe  
12 needs some improvement in some way or another. This is  
13 designed to flesh that out.

14           I think when we see IG audits over the last  
15 couple years where the only significant questioned  
16 costs are ones where OCE is fundamentally not agreeing  
17 with it because you're finding 10 percent or less of it  
18 as being valid, I think it at least creates a question  
19 about what's going on.

20           And I don't want to prejudge that all. I just  
21 would like to frame that as a question and hear from you  
22 and/or Jeff to help us understand what you think the

1 right perspective on this is.

2 MS. RATH: Yes. This is Lora. Just to go  
3 back and go over them in the order, if you wouldn't  
4 mind, so Inland Counties, yes, it's a large one. And  
5 because of the large amount, we've been doing a lot of  
6 research into it. So it's not like nothing has gone on  
7 since it was referred to us. This has been a lot of  
8 back and forth.

9 What OCE does with a referral once we get it,  
10 a lot depends on the sophistication of the report and  
11 the amount of evidence that was in there and whether we  
12 agreed with it or not. So with Inland Counties, we're  
13 doing some of our own research into it. So we have  
14 been working on that one quite diligently.

15 Idaho, I will address that one with the TIG  
16 referrals because Idaho is a TIG referral, and we  
17 talked about that somewhat last year or at the last  
18 meeting. When the OIG refers something to us, it's at  
19 a specific point in time, and we can go back and ask  
20 the program to create or provide us with additional  
21 records. And we have a different standard.

22 When we're looking at allowability under 1630,



1 under 1630.3(a) there's nine different criteria that  
2 we're looking at. And if the program can satisfy that  
3 criteria to us -- and we also in LSC Management can use  
4 equity and practicality in deciding whether we should  
5 question the costs.

6 So especially for the TIG-related questioned  
7 costs, the programs have been able to build the  
8 evidence to show that the costs were allowable. We  
9 have seen any times where -- it's been a matter of how  
10 they were documenting it. They were able to go back  
11 and prove to us that they had the records to show that  
12 they had done the work necessary, that they had spent  
13 the time on it. So we found there was no reason to  
14 recoup the money.

15 If it was on a restricted activity or  
16 something like that, we would have done a different  
17 type of investigation. But we've gone back to the  
18 TIG-related programs and asked them to show us what  
19 documentation they can to show that they're valid  
20 costs, and they've been able to. So that's why they  
21 have turned out to be so much lower.

22 The OIG, they can explain better, but they go

1 out there and they're out there for a certain period of  
2 time. And they're looking at the exact records that  
3 the regulation says the program needs to provide. LSC  
4 Management has a little bit more room under 1630 to  
5 look at other records and to expand it.

6 Does that make sense?

7 MR. HOFFMAN: It does, although I guess it  
8 makes sense from an explanation of different statutes  
9 or regulatory authority. I'm not sure it makes sense  
10 from a practical standpoint because from one  
11 perspective, what you're describing is the IG goes out  
12 there and is just asking a narrower question. We're  
13 looking at this small universe of documents. What does  
14 this show?

15 It then writes an audit report that might be  
16 very critical of a grantee by saying, you appear to  
17 have either misspent hundreds of thousands of dollars  
18 or you may not have properly documented the spending of  
19 hundreds of thousands of dollars.

20 And then, because you can look somewhat more  
21 broadly at either a broader set of documents or using a  
22 broader standard, it might be very common for OCE to

1 say, never mind. Everything's fine.

2           We can all, as lawyers, appreciate that  
3 different standards may come into play at different  
4 times. I'm just thinking about it practically, both in  
5 terms of how much time people are spending on this, the  
6 doing of the audit, the reacting to the audit, and most  
7 importantly, the reaction that comes from the grantee's  
8 side, the time that needs to be spent on their side,  
9 and of course, the anxiety of responding to a criticism  
10 like that.

11           This is not -- look. If there is no way to  
12 change this process and this is just what's mandated,  
13 that's fine. Just as a practical matter, my reaction  
14 is, it seems like a little bit of a waste of time. And  
15 I know no one wants to be wasting their time. People  
16 want to be focusing the talented efforts of IG and OCE  
17 on determining, do we have problems here?

18           So don't take that as a set-in-stone mindset.

19           But I think that that's one reaction, and it's a  
20 series of questions about whether this process is  
21 really the best and most efficient process here in  
22 determining whether money is properly spent.

1           MS. RATH: That's a very valid point. But  
2 unfortunately, until we do go back and look, we don't  
3 know whether we can get a lot of money back. So I  
4 don't know off the top of my head how we could get away  
5 from this potential duplication.

6           But I feel LSC Management has the  
7 responsibility to follow up on anything that the OIG  
8 has a concern about, and the programs have to have the  
9 opportunity to respond. It's just a fairness issue.

10          MR. MADDOX: Vic, could I --

11          MR. HOFFMAN: Yes. Well, let me ask it a  
12 different way, then, and let me ask this question both  
13 to Lora and to Jeff or someone from the IG's Office.

14          So no question that if there's followup that  
15 needs to be done and Management needs to do that, then  
16 you need to look. And no question the grantees should  
17 always be given an opportunity to respond if they're  
18 going to be asked to pay some money back.

19          The question, I think, is if the standards  
20 that the two parts of LSC -- Management on the one side  
21 and IG on the other -- if the standards are different,  
22 and that's one of the reasons that's creating this

1 disconnect, is there any way that that should be fixed?

2           Should the IG's office, for instance, be also  
3 taking into consideration the kinds of questions and  
4 the kinds of standards that OCE would be taking into  
5 consideration because to not do so feels inefficient.

6           It feels like it's setting up the kind of  
7 disconnect, in a way, that you may be describing. That  
8 may be a question for the IG; that may be a question  
9 for OCE. There's also different standards you're  
10 describing regarding the documents people can look at.

11           So again, just being practical and efficient  
12 so that we can get clear answers, I am wondering, that  
13 would be a question for OCE and IG: Is there a way to  
14 align the inquiries that the two offices are doing more  
15 successfully so that we don't have this disconnect?

16           MR. MERRYMAN: This is Dutch Merryman. David,  
17 one of the things I want to make sure is that we ask  
18 the program for documentation. They can supply us any  
19 documentation they have, and we look at it. So it's  
20 not a matter of us not allowing them to give us  
21 documentation; we ask for the documentation.

22           If they don't have it on hand, it's not there,

1 we don't wait for it to be produced partly because the  
2 requirement in the regulation is extemporaneously  
3 documented in the financial records. And that's one of  
4 the things that they agree to do in -- it's one of the  
5 nine items in the regulation.

6           That's one of the things they agree to do when  
7 the sign -- referring to TIGs and other grants -- to  
8 follow those regulations. Also, with TIG, in the award  
9 letter there's very clear statements that any money not  
10 used must be returned.

11           So it's vitally important that people track  
12 these costs so that any money that is not spent for the  
13 intended purpose of that TIG or not used for that TIG  
14 goes back to LSC so it could be redistributed to other  
15 applicants of acceptable TIG programs.

16           So yes, we try to apply the same basic eight  
17 or nine criteria that are in 1630. But I don't believe  
18 that we should be making judgments for Management. If  
19 Management wants to accept a certain level of  
20 documentation, either the regulation needs to be  
21 changed so that we can apply the same criteria or they  
22 maintain that flexibility to operate as a manager of a

1 corporation to say, thank you, but we're going to do it  
2 this way for these particular reasons.

3 MR. HOFFMAN: Dutch, let me ask you -- those  
4 are all good points, I thought. And in the interest of  
5 time try to make this a bit more specific and concrete.

6 The three that I mentioned that were in the  
7 closed referral last -- and it's the Appalachian  
8 Research and Defense Fund of Kentucky, the Central  
9 Arkansas Legal Services, and the Southeastern Louisiana  
10 Legal Services -- those are all ones where the IG found  
11 significant costs that it said should be returned to  
12 LSC, and OCE found either nothing or less than 10  
13 percent should be returned.

14 So help us understand how you saw those three  
15 OCE responses. One would be, I disagreed with OCE.  
16 They're entitled to their opinion, but I disagreed. I  
17 think they got it wrong. One would be, you know what?

18 Once they found what they found, we were wrong and  
19 they were right and we realized that later. And the  
20 other would be, you know, we're actually both right,  
21 and then I'd want to hear how that could be.

22 Can you help us understand that by reacting to

1 what happened with these three audits and OCE's  
2 response?

3 MR. MERRYMAN: To the best of my recollection,  
4 I will. On AppalReD, it was a matter of we were not  
5 supplied. They did not have documented evidence of  
6 the -- most of that was for expenditures. They did not  
7 have it.

8 They could not provide it to us. They did not  
9 provide it to us. They did not provide it to us during  
10 the draft comment period. And therefore, we questioned  
11 the -- most of that cost was associated with lack of  
12 documentation.

13 Now, they were able to provide documentation  
14 at some point in time. I do not know where it came  
15 from. We didn't go back and do the audit. But we  
16 accepted Management's decision, in their role as  
17 Management, that they had the documentation that they  
18 felt was necessary to satisfy the expenditure of that  
19 fund under the regulations.

20 So we didn't go back and try to second-guess  
21 management or say, show us the documents. We're going  
22 to audit the review of the questioned cost. We do know



1 that Management does have flexibility to consider other  
2 factors in items, and we're not here to second-guess  
3 Management in exercising that discretion unless it is  
4 so blatantly severe that we would say something if we  
5 thought that -- for instance, if there's a conflict of  
6 interest, if Management had a conflict of interest that  
7 it was somebody that they'd worked with, we might have  
8 some question about it.

9           But Management does have an amount of  
10 discretion. And so rather than go back and audit  
11 everything that Management does and sends back to us on  
12 a separate audit, which we would have to basically do,  
13 unless there's something so egregious that we had to  
14 comment on it or felt we needed to, we would accept  
15 Management's decision on this.

16           MR. HOFFMAN: And how about the other two?

17           MR. MERRYMAN: I'm talking about the other  
18 two. We did not have the documentation that we felt  
19 was required by the regulations at the time we did the  
20 audit. We questioned the cost --

21           MR. HOFFMAN: So Lora, let me ask you. I  
22 mean --

1 MS. RATH: So do you want to know what the --

2 MR. HOFFMAN: I'm sorry. I didn't know you  
3 weren't finished, Dutch. Go ahead. Sorry.

4 MR. MERRYMAN: I said, so we questioned the  
5 cost and provided it to Management for review.

6 MR. HOFFMAN: Okay. So Lora, one followup on  
7 that would be, well, as a former IG, if what happened  
8 consistently -- it sounds like three out of three  
9 times -- the IG asks the grantee for responsive  
10 documentation; according to the IG, they don't provide  
11 documentation that establishes anything; the grantee  
12 obviously knows what the issue is -- and then somehow,  
13 after OCE follows up with them, they have the  
14 documentation -- even if that's true that the grantee  
15 provided the documentation to OCE that they didn't to  
16 IG and it answers the questions regarding the  
17 questioned costs, I would be concerned, well, why  
18 didn't you provide it to the IG the first time?

19 Can you enlighten us about what your  
20 perspective was on these three, either with regard  
21 to -- especially with regard to Dutch's point about  
22 that they provided different documentation to you all

1 that they didn't provide to the IG?

2 MR. MERRYMAN: David, can I just say something  
3 here real quick? I don't know that they provided  
4 necessarily different documentation to us and to  
5 Management. But the documentation they provided to us,  
6 we did not -- to the best of my recollection, was not  
7 extemporaneously entered into the financial records, or  
8 was not detailed enough to enable that.

9 So it wasn't that they necessarily brought  
10 different. It was documentation that we didn't think  
11 met the criteria.

12 MS. RATH: And I can follow up on that with  
13 the first one, with AppalReD. They did actually manage  
14 to get copies of bills and supporting documentation out  
15 of their storage facilities, and they did have  
16 different vendors reprint bills. So we did get a  
17 couple of those paper boxes full of receipts. They did  
18 actually go and get all of that supporting  
19 documentation. That's the first big one in AppalReD.

20 For the TIG ones, we allowed -- the programs  
21 went back and -- the regulation says that they need to  
22 be documenting the salary and wages and personnel

1 activity records contemporaneously. The programs  
2 didn't understand, for whatever reason, and we won't  
3 discuss that here, that they needed to be doing that  
4 for TIG funds. So that was one of the problems. They  
5 couldn't produce personnel activity reports.

6 In looking at the OMB Circulars when we  
7 started reviewing the TIG questioned costs, "personnel  
8 activity records" aren't really very well defined.  
9 They could be various things.

10 So in the two instances where we lowered the  
11 number significantly, the programs went back through  
12 all of their records -- through email records, through  
13 time records -- and provided us summaries, pages and  
14 pages, again, boxes full of documents saying, on this  
15 date, he sent an email that we figure took .2 hours; on  
16 this date, he attended a meeting; on this date, he did  
17 this, and provided us the backup documentation to show  
18 that the person had done these activities.

19 Now, true, it wasn't contemporaneously put  
20 into the system. But we felt that the post-created  
21 documents of a contemporaneously created document were  
22 sufficient to show that they were allowable costs.

1           MR. HOFFMAN: So, Vic, let me just wrap it up  
2 from my side of things, anyway, because I don't want to  
3 take too much time on this.

4           But first of all, I think that my point in  
5 asking these questions is only to look backwards for  
6 the purpose of looking forwards, and for trying to  
7 figure out how do things currently work so that we can  
8 understand how we can do our assessment of OCE and the  
9 IG and think about how we can get briefed.

10           So I think it's helpful. I don't want to  
11 belabor the point. I do think that from this  
12 discussion, it remains a concern of mine that I think,  
13 as we're going forward and receiving this chart and  
14 when there are referrals of IG audits to OCE and OCE is  
15 coming up with a determination, when that determination  
16 is different I think we as the Audit Committee should  
17 have some discussion with the IG and OCE about that.

18           It doesn't mean that anyone did anything  
19 wrong. But I think we should pay special attention  
20 going forward to what the differences were and what  
21 caused them. And that may flesh out whether there can  
22 be improvements made.

1           It seems to me the logical answer is that  
2 either one office is much stricter and much narrower in  
3 its approach than the other, meaning the IG's approach  
4 and audit is much stricter than the more lenient one by  
5 OCE, or much narrower than the broader one by OCE; that  
6 could be what's going on. Or they're doing a very  
7 similar type of inquiry and they're applying very  
8 different standards.

9           It seems to me that it's got to be one of  
10 those two explanations. Otherwise, I can't make sense  
11 of these consistent differences in assessments. And I  
12 would say let's just keep our eye on this going  
13 forward.

14           I would ask that OCE and the IG -- and there's  
15 nothing wrong with people having differences of  
16 opinion; I just think we should keep our eye on this  
17 going forward as a discussion point.

18           Let me make two other broader points that jump  
19 off this, Vic, and then I'll stop.

20           MR. MERRYMAN: David, can I make a point? Can  
21 I make a point on what you just said? First of all, I  
22 want to apologize. I mean contemporaneously rather

1 than extemporaneously. Excuse me; I'm not good with  
2 the English language.

3 I think there's other possibilities, and that  
4 is, Management has discretion and they can exercise  
5 that discretion. And that's what Management does from  
6 time to time, as they believe the circumstances are  
7 necessary.

8 So I don't think there's only two possible  
9 things that can cause the difference. I think that  
10 Management does have a level of discretion in these  
11 matters.

12 MR. HOFFMAN: Yes. Well, that's consistent  
13 with my thinking that one side is stricter and one side  
14 is more lenient because exercising discretion in a  
15 certain way is an indication of leniency.

16 And if that's what's going on here and the IG  
17 is finding that certain funds were improperly spent or  
18 that there is no documentation showing how funds were  
19 spent, and the OCE is looking at the same information  
20 and coming up with a different conclusion because  
21 they're exercising their discretion, there may not be a  
22 right or wrong. It may just be different standards of

1 leniency or strictness in the assessment of that.

2 But I don't want to dwell on it. I think that  
3 we're just trying to understand how the work is done.  
4 And I think that --

5 MR. LEVI: David, just a second. I  
6 think -- it's John Levi. And I think that  
7 characterization of leniency or stricter in that  
8 context is misplaced.

9 PRESIDENT SANDMAN: David, this is Jim. I  
10 agree with what Dutch has said. I think that this is  
11 not a matter of strictness or leniency. It's a  
12 question of where the responsibility for exercising  
13 Management discretion is properly vested.

14 I don't think that OIG is -- I don't think it  
15 is the nature of their role to exercise Management-type  
16 discretion to decide that, say, the evidence submitted  
17 in support of an expenditure, although it did not meet  
18 the strict requirements of the accounting guide, is  
19 nevertheless sufficient to establish that LSC got value  
20 for the money expended.

21 So OIG may make the determination that a  
22 particular expenditure was not documented in compliance



1 with the letter of the requirements of the Accounting  
2 Guide, and is not comfortable making the decision that  
3 a lesser level of documentation that they had, or other  
4 evidence of the value received for the expenditure, was  
5 nevertheless sufficient as a matter of judgment.

6 But I think it is a proper role for Management  
7 to establish, both through whatever documentation  
8 exists and through other means, that even though the  
9 requirements of the Accounting Guide may not have been  
10 met, we are comfortable that the expenditure was  
11 reasonable, that the grantee and LSC received value for  
12 the money.

13 I just think it goes fundamentally to what the  
14 relative roles of OIG and Management are.

15 MR. HOFFMAN: Yes. And I'm not sure I'm  
16 saying anything different, and if there was a concern  
17 that my use of the word "lenient" communicated  
18 something wrong, then maybe that's the wrong word. It  
19 was meant just to be descriptive in terms of a  
20 spectrum.

21 But I think the question about value that I  
22 would have is if what's consistently happening is that

1 the IG is issuing audit reports with occasionally high  
2 numbers for questioned costs, and it's based on the  
3 kind of more technical, formalistic inquiry that you  
4 described, Jim.

5           And then Management is properly going to  
6 exercise its discretion and look at additional  
7 documents and make more discretionary judgments and  
8 find very small amounts. It may not be a question of  
9 right or wrong. It may just be a question of, well,  
10 are we getting value from those IG audits?

11           It may be that both offices, as you say, are  
12 doing their jobs. But because they're using different  
13 standards, is it an efficient process that's really  
14 telling us anything at LSC? I think that's the  
15 question worth asking.

16           MR. KORRELL: This is Harry. It doesn't  
17 strike me, though, as -- when we first started this  
18 process, this conversation today, actually I was a  
19 little disturbed. But I actually am pleased with the  
20 explanation from Management on this.

21           And it doesn't strike me as necessarily  
22 inefficient for the OIG to point out that documentation

1 isn't being done right, and that because of your  
2 failure to document, you are exposed to the risk of  
3 having to pay back \$1.3 million.

4 I think that's valuable. And also valuable is  
5 Management's deep dive to -- any lawyers here who keep  
6 time have had the experience of trying to go back and  
7 reconstruct a day, right, where you look at your emails  
8 and --

9 CHAIRMAN MADDOX: I've never done that.

10 (Laughter.)

11 MR. KORRELL: Everyone except Vic. Right? Or  
12 a day or a week or even a month of time where the  
13 records are not kept contemporaneously, but I do think  
14 my clients got value. And when I do that, I know they  
15 got more value than I actually billed them for.

16 And you go back and you look at your emails  
17 and your phone records and your notes, and you  
18 reconstruct what you did over that day. It sounds like  
19 something like that's going on here, and I really  
20 appreciate, David, your dive into this because I think  
21 this 10 percent return rate is a little disturbing.  
22 But I think when it's explained as it has been, it may

1 well be that they are both providing value.

2 PRESIDENT SANDMAN: There is definitely, as  
3 Harry says, value beyond what is reflected in the  
4 numbers on this page. I can assure you that TIG  
5 grantees today are approaching timekeeping in a  
6 different way because of the OIG audit. And they got  
7 that direction from the Management of LSC.

8 So I think we've tightened up our procedures  
9 that way. There are benefits from that audit of Idaho  
10 that accrue that are not reflected on this chart.

11 MR. LEVI: And I was just referring to the  
12 words, not the conversation. David, I'm grateful to  
13 you for taking the lead on this.

14 MR. HOFFMAN: No. I think those are -- look,  
15 I think this is helpful, and I think that when we've  
16 got two on the open referral list where there's large  
17 questioned costs -- and it may be that when we talk  
18 about OCE's response in the future, it may flesh out  
19 this exact point that's been made in the last few  
20 minutes -- that both reports and both perspectives from  
21 the two offices are helpful.

22 Vic and the Committee and others, not wanting

1 to dwell too much on this on out of the six, the IG  
2 audits, but I think we've really fleshed this out over  
3 the last couple meetings. It feels like we've got a  
4 process through this chart and through hearing from  
5 Dutch and Lora to keep track in an efficient way of  
6 what the IG is finding and what OCE is finding in  
7 reaction.

8           Two other ones that I would suggest, Vic, and  
9 handle as you and Management see fit, and the IG, that  
10 I think would be very helpful to cue up for next time,  
11 whether the next Board meeting or if we're going to end  
12 up having something in between, the IG does, obviously,  
13 these audits of the IPAs.

14           And when it finds problems with the IPAs, it  
15 then sometimes does followup work itself, and sometimes  
16 has referrals to the OCE to do followup. And I don't  
17 have the numbers in front of me, but looking at the  
18 most recent report from the IG's Office to Congress, it  
19 was a very high number, a very high percentage, of the  
20 IPAs where it had some either recommendations or  
21 questions about the IPAs' work.

22           I think it would be helpful for us to hear,

1 again both from the IG's Office in particular and from  
2 OCE, how that process works, and from their perspective  
3 what the interaction and overlap is, and what's  
4 working.

5           Then I think the third thing that would make  
6 sense to go next would be the OCE program reviews. And  
7 my guess is that there's -- I don't know if there's  
8 similar overlap or interaction in terms of the OCE then  
9 referring things to the IG's Office, but there may be.

10           And all of this being said -- so I think, if  
11 the Committee and Vic and Management agree, I think  
12 that might put us on track to continue this process of  
13 getting educated and figuring out how we get briefed.

14           But remember that -- the last thing I'll say  
15 is that the jumping off point for this really was from  
16 the risk matrix, the overall risk matrix. And we were  
17 thinking about an assessment of risk with regard to  
18 grantees, with the thought that there are all these  
19 different types of oversight that are swirling around,  
20 different types from within the IG's Office, different  
21 types from within OCE, some of which are overlapping or  
22 interacting.

1           And the question that we were raising was, are  
2 those centralized or -- that's the wrong  
3 word -- consolidated in some place with regard to a  
4 particular grantee so that if there's a red flag for a  
5 particular grantee in four or five different types of  
6 oversight, is that being consolidated somewhere so that  
7 we can see, even if only confidentially, there are  
8 these eight to ten to fifteen grantees where there's  
9 enough red flag that we consider them high risk in some  
10 way?

11           That would make our review very efficient  
12 because there -- it's probably unnecessary to be  
13 reviewing every time there's an audit report or some  
14 relatively minor concern addressed. And it may even be  
15 inefficient to discuss more significant concerns if  
16 it's a grantee where there's other things in place that  
17 give everyone a very high level of confidence that the  
18 risk is low.

19           So this is in the spirit as well of trying to  
20 assess risk in an overall basis by a grantee using  
21 these different types of oversight by the IG and the  
22 OCE to figure out the answer on that.

1           So the final question I'll ask would be to  
2 Lora and Jeff or Dutch. Is that something that is  
3 either in place or you think would be a good idea? I  
4 note that it's something that the CBO recommended in  
5 terms of using risk-based criteria in terms of where to  
6 put resources for grantee oversight. It's not  
7 something I've seen in place. And so I wanted to ask  
8 what your views were on that.

9           MS. RATH: Can I ask for some clarification?  
10 Do you mean is there one risk assessment chart for both  
11 of us? Is that what you're asking?

12           MR. HOFFMAN: It's a broader question. I  
13 don't know how you might keep track of it or whether  
14 it's one on the Management side, one on the IG side.  
15 But it's really a question of whether there's an  
16 overall risk assessment done grantee-by-grantee based  
17 on the kind of oversight activities that the IG's  
18 Office and OCE do.

19           If IG is doing its own grantee-by-grantee risk  
20 assessment based on its investigations and audits and  
21 IPA reviews and so on, and OCE is doing its own risk  
22 assessment grantee by grantee based on its program



1 reviews and based on its followup work of the IG's  
2 audits and so on, that seems inefficient.

3           So it's really a question of, is either office  
4 doing that? And if both offices are doing that, is it  
5 combined in some way?

6           MR. MERRYMAN: I believe both offices are  
7 doing that, but it's not combined in that manner in  
8 that the way that we may weigh risk, the things that we  
9 might have on our plate that we find helpful for us or  
10 required by law that we do, would cause some risk  
11 factors to be different.

12           We did share our risk factors back in 2009,  
13 the types of things that we were considering. That is  
14 an evolving process as we find different things and  
15 different types of risk to include in that. We  
16 probably weigh them differently. But we always do a  
17 risk assessment as to the reason why we're going to be  
18 doing this audit. There's got to be a reason.

19           So yes, we do, and I know that OCE has been  
20 working on it. But I can't speak for --

21           MS. RATH: Yes. And OCE for the last several  
22 years has used a risk assessment chart where we look at

1 each grantee on an annual basis in order to determine  
2 who we think we should go to the next year. We've been  
3 doing that since about 2009/2010, and we're actually  
4 also looking at a Management-wide risk assessment to be  
5 used by both OPP and OCE at the same time.

6           And to follow up on some of the things that  
7 Dutch said, we have monthly meetings between LSC  
8 Management and the OIG staff where we are discussing  
9 where each of us has been, even if it's just, we're  
10 going here and there might be a problem at this place,  
11 so that that information can continually be put into  
12 the risk assessment chart so that both offices can try  
13 and figure out how to best coordinate and not  
14 duplicate; let one office go and finish something, or  
15 if it's more appropriate, refer it over to the other  
16 office.

17           So we've been working really well together  
18 ever since Jim came, at least, to make sure that we're  
19 sharing the information.

20           MR. HOFFMAN: It actually sounds pretty good.  
21           The only followup would be if OCE or OCE plus OPP  
22 together had, for the moment, a list of ten grantees

1 that you considered for the moment relatively high  
2 risk, and the IG's Office had a list of ten grantees  
3 that it considered relatively high risk for the moment  
4 based on what it had seen, are you comparing notes  
5 about those judgments?

6 Because that obviously might affect -- it  
7 would be helpful, I would think, for both offices to  
8 know whether you agreed or disagreed with that  
9 assessment, and it would inform your judgment.

10 There's lots of different ways to do that, and  
11 obviously one thing that we've seen that everyone's  
12 very positive about is the level of communication and  
13 coordination between the IG's Office and Management.

14 This seems like one aspect of it that would be  
15 important, and there are a variety of ways to do that.

16 Do you think that level of information-sharing and  
17 coordination is happening and/or makes sense?

18 MR. MERRYMAN: I think we have a level of  
19 that. But there are still certain things that -- two  
20 things. Number one, we cannot either in appearance or  
21 in fact let anybody influence what audits we're going  
22 to do. That's the sole discretion of the Inspector

1 General.

2           Second of all, sometimes our risk factors  
3 include confidential information that we got from  
4 sources that we may not be able to share at a  
5 particular point in time or until a particular point in  
6 time.

7           So I think to the extent that we can, we do  
8 share the information that we have and we see no  
9 benefit in keeping it from each other. We're in it to  
10 do the same thing. We want to see a strong and healthy  
11 LSC.

12           We are concerned about the client. We are.  
13 One reason that we have a large questioned cost with  
14 that \$1.3 million is we saw that that money might have  
15 been able to go to the client, based on the information  
16 that we gathered, instead of how it was used.

17           We put that in our report, one of the  
18 concerns. So I think we share common interests. So to  
19 the extent that we can share, we do. To the extent  
20 that we can't, we respect each other's boundaries.

21           MR. SCHANZ: Okay. And I would like to  
22 add -- this is Jeff -- we can't get too cozy, David.

1 We're a federal IG. We don't report to the President.

2 He has his staff of OCE and OPP, and the IG the  
3 statutory authority, and to use the GAO Yellow Book,  
4 otherwise knowledge as Government Auditing Standards.

5 We in fact are peer-reviewed every three years  
6 to make sure we're adhering to the Government Auditing  
7 Standards. As Dutch indicated, I am flatly prohibited  
8 by statute from stepping into Management's shoes. So  
9 there's a limit to what we can do.

10 We report independent and objective reports to  
11 Management for their use. You've seen where we're  
12 getting a lot of good, positive feedback from Congress.

13 That's very much a reflection of Jim's management and  
14 the Board's involvement.

15 But there's also another element to that,  
16 which is, Congress now has the confidence that money is  
17 being spent properly in LSC because they're getting and  
18 reviewing independent audit and investigative reports,  
19 as presented in our Semiannual Reports.

20 So while it sounds really good verbally, we  
21 are restricted from stepping into Management's shoes.  
22 I came into this organization before were on the board

1 with the three Cs -- communication, cooperation, and  
2 coordination. I have not deviated from that.

3 That includes dealing with Management when we  
4 can. There are certain things we can't do. And I have  
5 a Yellow Book right here, and I can provide it to you,  
6 but it's the Government Auditing Standards that we are  
7 held to and peer-reviewed on. And if I fail a peer  
8 review, I'd be the first IG to do that.

9 So I take these comments very seriously. But  
10 I worry about you pushing the envelope too far. Thank  
11 you.

12 MR. HOFFMAN: Okay. I appreciate those  
13 comments, Jeff. And I know we're probably anxious to  
14 wrap up this portion of it. You preserving your  
15 independence and your independent decision-making about  
16 what audits to do and what investigations to do is  
17 critical, and there's no question that you should  
18 continue to do that and protect that. And I think  
19 you've been doing an outstanding job of that, and  
20 that's central.

21 I don't think that taking into account to the  
22 maximum extent that you believe is appropriate

1 information from Management about their risk assessment  
2 grantee by grantee hurts your independence in any way,  
3 so I would encourage you to do that as much as  
4 possible.

5 I would encourage you to share as much  
6 information as you believe you can with regard to the  
7 same type of risk assessment with Management because  
8 the obvious reality is that there is a part of  
9 Management that does things that are somewhat similar  
10 to what you do, and that's OCE. And you'll be  
11 cognizant of that. And you will make your own  
12 judgment, obviously, about what you can share and what  
13 you can't.

14 So I'm going to leave it at that. I'm very  
15 heartened by what I hear. I would just encourage both  
16 parts to be as concrete as you can, grantee by grantee,  
17 about risk assessment just because I think that that  
18 will make things efficient it of where offices are  
19 spending their time.

20 Thanks, Vic, for letting me have all the time,  
21 and I'm sorry to have monopolized so much of the time  
22 here.

1           MR. MERRYMAN: David? David, real quick.

2 This is Dutch.

3           MR. HOFFMAN: Yes, Dutch?

4           MR. MERRYMAN: There's two things on the items  
5 you asked for. One, the QCR program is totally within  
6 OIG because it's of the IPA, not of the grantee. And  
7 so we'll still provide you information on that.

8           But the other item that you asked for that we  
9 owe you would be the recommendations from IPAs that we  
10 forwarded to OCE for review, and we're looking at that  
11 right now through the system that we have in order to  
12 come up with a microscopic schedule like we passed out  
13 this time.

14          MR. HOFFMAN: Is there a difference between  
15 the QCR, which is quality control review of the IPAs,  
16 and your actual review of specific IPA audits of  
17 grantees?

18          MR. MERRYMAN: There's two from programs. We  
19 review every report that comes in the door under the  
20 guidance set forth by the IG Council for desk reviews  
21 for audits, IPA audits.

22          The other thing that we do, and it was part of



1 the outgrowth of two things, one was the fiscal task  
2 force, and also because of the number of frauds that  
3 seem to be undetected is to do a 100 percent review of  
4 all IPAs over a four-year cycle to see what the IPAs  
5 are doing -- are they following the guidance? What  
6 issues do we have? -- to try to strengthen that program  
7 for the grantee.

8 But those visits are at the IPA. We deal  
9 directly with the IPA through our contract or directly  
10 through our auditors who are monitoring the contract  
11 and working the issues.

12 We do not refer those things to OCE for  
13 followup. We have --

14 MR. HOFFMAN: Right. So those are two  
15 different things. That was exactly what my  
16 understanding was. I think those are things that would  
17 be helpful for the Audit Committee to get briefed on by  
18 the IG's Office in the future because I think it would  
19 be helpful for us to hear, here's our QCR program.  
20 What have you been finding? And we understand that's  
21 IG-only.

22 Then second, when we review IPA audits of

1 individual grantees, here's what we've been finding and  
2 here's the summary of what's been getting referred to  
3 the OCE and so on.

4           So there was my suggestion for -- I had just  
5 mentioned the IPA grantee-specific audits as a topic.  
6 But I think if we're thinking about the IPAS, we would  
7 think about both those things. So I would ask you to  
8 think about the right way to give us a briefing on  
9 those things at the next meeting, subject to Vic and  
10 the Committee's agreement that that would be fruitful.

11           MR. MERRYMAN: Okay. Thank you.

12           MR. HOFFMAN: Thank you.

13           CHAIRMAN MADDOX: Harry, did you have  
14 something?

15           MR. KORRELL: Sorry. It was just to note  
16 where are on the timing. And I know that we have a  
17 briefing from Jeff -- I don't know if it's a long or a  
18 short one -- and that we're kind of right up against  
19 the schedule, and was suggesting that maybe we can move  
20 along, if we can.

21           CHAIRMAN MADDOX: I think we've already had  
22 our briefing. Yes. I think we're doing fine. I

1 haven't seen the red flag from the big chairman yet, so  
2 I think we're almost done.

3 Gloria?

4 PROFESSOR VALENCIA-WEBER: I'll be quite  
5 brief. First of all, I appreciated seeing this chart  
6 that we have. We have talked any number of times about  
7 what the IG does and then what happens with OCE, but  
8 this actually laid out for me, first, the nature of the  
9 kinds of problems that invoke the interest of the two  
10 bodies. I think we needed to have that more clearly  
11 illustrated, whether it's failure of inventory tabs or  
12 much more substantial direct, money problems.

13 I also would ask just that when you list in  
14 our future charts, which I look forward to seeing,  
15 would you put the state of the grantee? Many of them  
16 it's obvious from the title, but many of them are not.

17 Thank you.

18 CHAIRMAN MADDIX: Thank you, Gloria. And  
19 thank you, David, for your leadership on this  
20 discussion today. And Jeff, you said that you were  
21 worried about the Committee pushing too far, and I  
22 don't worry about that because I know it's not going to

1 happen with you on the other side.

2           So I think it's been a very helpful  
3 discussion, and I very much appreciate the frankness  
4 and the level of candor because I've learned a lot here  
5 today. The chart is very helpful.

6           I think David's suggestion that we as a  
7 Committee have a discussion at our meetings where there  
8 is a significant discrepancy between the two offices'  
9 treatment of a sizeable questioned cost is a good one,  
10 if only to help us understand the way in which  
11 Management exercises the discretion to turn your task  
12 into something of a Sisyphean task. You're pushing a  
13 quarter-million-dollar rock up the Hill and it comes  
14 down as a \$10,000 rock, and then you have to turn  
15 around and find another one.

16           But I think it's helpful. I also know that  
17 it's incredibly inefficient when grantee lawyers are  
18 being asked, months after a process is closed, to go  
19 back and create records to substitute for  
20 contemporaneous records.

21           So I'm very heartened to know that at least in  
22 the TIG issue, the grantees have apparently learned

1 that it's much better to do it right the first time  
2 because nothing is more inefficient than having lawyers  
3 trying to reconstruct what they've done. Not that I've  
4 ever done that.

5 (Laughter.)

6 CHAIRMAN MADDUX: So I will work with OIG and  
7 OCE between now and our next meeting to outline the  
8 presentations that we're going to be looking for, and  
9 to try to narrow the focus a little bit. I'll take  
10 suggestions from anybody on the Committee or solicit  
11 them myself.

12 I haven't heard any objection on the Committee  
13 to David's last suggestions that we have a briefing  
14 from OIG regarding the IPA referrals and whatnot. So  
15 if we could plan on including that in your upcoming  
16 briefings, that would be very helpful.

17 And I note that our time is nearly up. I have  
18 30 seconds or so left. Oh, there is? Okay. I'm sorry  
19 to hear that because now I'm in overtime.

20 (Laughter.)

21 MR. KORRELL: that was the reason for my  
22 comment.

1           CHAIRMAN MADDOX:  Yes.  I understand that.  
2  All right.  So we're going to have to go into closed  
3  session, and we do ask for public comment.  Is there  
4  any public comment?  Chuck Greenfield.

5           MR. GREENFIELD:  Good afternoon, everyone.  
6  Chuck Greenfield, chief counsel of NLADA.

7           I found this discussion about the role of the  
8  IG's Office and the OCE fascinating, and very, very  
9  helpful, I think, to come out, as you said, Vic, in  
10 candor and openness.

11          In my role, I advise a number of the programs  
12 with questioned costs.  And I think one area that we  
13 need to be mindful of -- and David Hoffman mentioned  
14 this -- is the cost to grantees, not only on  
15 constructing records but in responding to these  
16 investigations.

17          I've asked some of the grantees that have been  
18 involved in this to keep time records of how much time  
19 they're spending to respond to the LSC inquiries into  
20 these questioned cost proceedings, and some of them are  
21 quite substantial, thousands and thousands of  
22 dollars -- I might say probably LSC dollars -- being

1 used to respond to these inquiries. That's an  
2 unfortunate part.

3 I think there's a couple things I would like  
4 the Board and this Committee to keep in mind, which is,  
5 when there is a policy type of interpretation or some  
6 different approach, breaking new ground, the IG is  
7 really good at figuring out what's happening on the  
8 ground. They go out and they interview people and they  
9 look at records, et cetera.

10 So we have a couple of examples -- the TIG  
11 example, the compensation example with Inland Counties.  
12 A couple of examples where they're breaking new ground.

13 There are different things that are happening that the  
14 IG is seeing that the LSC Management hasn't heretofore  
15 instructed the field as to how to act in this area.

16 When that happens, I think it might be -- and  
17 following up, David, on your comments -- it might be  
18 much more efficient to have some mechanism for the IG's  
19 Office to share that with Management rather than having  
20 the grantee in the middle of this questioned cost  
21 situation where they spend enormous amounts of your  
22 resources responding to that.

1           Because these are often -- not often -- these  
2           are two examples of new approaches that were heretofore  
3           not done by LSC Management. And so while they may be  
4           good approaches for the future and the IG's Office  
5           might be right on in terms of what should be done for  
6           the future, it seems to me that that might be a  
7           mechanism that is much more efficient, would be to  
8           share that information with Management, having  
9           Management react to that, and maybe give instructions  
10          to the field so that prospectively, those changes could  
11          be made. Thank you.

12           CHAIRMAN MADDOX: Thank you, Chuck. I think  
13          that's a good suggestion, and we'll follow up on it.

14           Any other public comment? If not, we are now  
15          going into closed session. So if everyone who is not  
16          authorized could leave the room.

17           (The Committee adjourned briefly to executive  
18          session.)

19           CHAIRMAN MADDOX: We're going to reconvene the  
20          Audit Committee meeting for the purpose of adjourning  
21          it. Is there a motion to adjourn, please?

22          //



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M O T I O N

PROFESSOR VALENCIA-WEBER: I move we adjourn.

CHAIRMAN MADDOX: And a second?

MR. KORRELL: Second.

CHAIRMAN MADDOX: Okay. Having heard a second, all in favor?

(A chorus of ayes.)

CHAIRMAN MADDOX: Opposed, no?

(No response.)

CHAIRMAN MADDOX: The meeting is adjourned.  
Thank you very much.

(Whereupon, at 4:53 p.m., the Committee was adjourned.)

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