

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

Teleconference
~~SEMI-ANNUAL MEETING OF BOARD OF DIRECTORS~~

Saturday, November 30, 1996

Legal Services Corporation
750 First Street, N.E., Ninth Floor
Washington, D.C. 20002

BOARD MEMBERS PRESENT:

Martha Bergmark, Executive Vice President
Victor M. Fortuno, General Counsel and Corporate
Secretary
Edouard Quatrevaux, Inspector General

BY TELEPHONE:

Alexander Forger, President
Hulett H. Askew
LaVeeda M. Battle
Hon. John T. Broderick
Douglas S. Eakeley, Chairman
Hon. John N. Erlenborn
Maria L. Mercado
F. Wm. McCalpin
Nancy H. Rogers, Vice Chair
Thomas F. Smegal, Jr.
Ernestine P. Watlington
Edna Fairbanks-Williams

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P R O C E E D I N G S

1
2 CHAIRMAN EAKELEY: Why don't I call the
3 meeting to order. This is Doug Eakeley. Do you all
4 have the agenda and the proposed Board of Directors
5 Semi-Annual Report to the Congress that was distributed
6 earlier this week?

7 (Affirmative responses.)

8 CHAIRMAN EAKELEY: Are there any changes or
9 corrections to be made to the agenda, or should we
10 approve it as submitted?

11 MR. FORTUNO: If I may just for a moment.
12 We've got a stenographer here. And she's going to need
13 for anyone who speaks up to identify him or herself.

M O T I O N

14
15 CHAIRMAN EAKELEY: Okay. Motion by John
16 Erlenborn to approve, and we need a second.

17 MS. MERCADO: Seconded by Maria Luisa Mercado,
18 M-e-r-c-a-d-o.

19 CHAIRMAN EAKELEY: I don't know what to do
20 about the static, unfortunately. All of those in favor
21 of approving the agenda as submitted?

22 (Chorus of ayes.)

1 CHAIRMAN EAKELEY: Any noes?

2 (No response.)

3 CHAIRMAN EAKELEY: The ayes have it. Now,
4 we'll turn to the report of the Board of Directors. By
5 way of background, first, let me apologize to everyone
6 for pulling you away on the Saturday of Thanksgiving
7 weekend to make the time to deal with this. But we
8 have a reporting requirement. Every six months when
9 the Inspector General submits his semi-annual report,
10 we have 30 days within which to make our report or
11 comment on his report.

12 And what you have in front of you is a report
13 that has a component that, as usual, was drafted by
14 management. But, in addition, it has a message of the
15 Board of Directors, the first two pages that was
16 essentially drafted by Bill McCalpin, after Bill and
17 John Erlenborn and I met with the Inspector General
18 last week and covered the items that are addressed in
19 that message.

20 I would just open it up for any questions that
21 anyone might have, but it's -- I think it's again quite
22 straightforward in total. But I know that this is a

1 little bit more unusual than in recent past. So, if
2 you have any comments or questions, please let me know.

3 MS. FAIRBANKS-WILLIAMS: I had one question.

4 CHAIRMAN EAKELEY: Edna, yes.

5 MS. FAIRBANKS-WILLIAMS: This is Edna
6 Fairbanks-Williams. On table 1 on page 13, it says,
7 Management Report on Office of Inspector General Audit.
8 And then it says, Questioned Costs. Is this audit of
9 us or is this audit of grantees?

10 CHAIRMAN EAKELEY: I'm trying to find the page
11 number.

12 MS. FAIRBANKS-WILLIAMS: It says page 13.

13 MR. McCALPIN: Well, I think it's really page
14 8 at the bottom.

15 CHAIRMAN EAKELEY: That's Bill McCalpin
16 speaking now.

17 MS. FAIRBANKS-WILLIAMS: Okay. Page 8 at the
18 bottom.

19 MR. FORTUNO: Is that the draft response that
20 we're talking about now?

21 MS. FAIRBANKS-WILLIAMS: Yes.

22 MR. FORTUNO: Okay.

1 MS. FAIRBANKS-WILLIAMS: It says, Inspector
2 General Audits. And then it says, Questioned Costs.
3 And it calls it Reports F and Audits F. And it has a
4 questioned cost of \$4,627.

5 CHAIRMAN EAKELEY: Those are grantees, Edna.

6 MS. FAIRBANKS-WILLIAMS: Those are grantees.

7 CHAIRMAN EAKELEY: Yes.

8 MS. FAIRBANKS-WILLIAMS: Well, it doesn't say
9 that. So who knows, when it gets up to the Congress
10 and the workers in the offices of key Congressmen,
11 whether this is questioned costs of ours or questioned
12 costs of the grantees?

13 MR. ERLNBORN: This is John Erlenborn. I
14 think that's a good question. And I would suggest that
15 we might add the words, "of grantees," after "audits"
16 in the title.

17 MS. FAIRBANKS-WILLIAMS: Yes.

18 CHAIRMAN EAKELEY: That's for Table 1. That's
19 fine.

20 MS. FAIRBANKS-WILLIAMS: Then where it says,
21 the recommendations were agreed to by management and
22 were not agreed to by management, should you say,

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1 "grantees," down there, because we are actually the
2 management and they are the grantees or whatever? Do
3 we need that word, "management," there? Don't we need
4 "grantees" down there?

5 MR. ERLNBORN: Again, John Erlenborn. I
6 think that it would be helpful to again after each
7 place where it says "audit reports" put "of grantees,"
8 so there will be no questions.

9 MR. ERLNBORN: That's fine.

10 CHAIRMAN EAKELEY: If that is accurate. Doug
11 Eakeley. But that's --

12 MS. FAIRBANKS-WILLIAMS: That's why he said
13 you don't know what that audit is, whether it's us or
14 them.

15 CHAIRMAN EAKELEY: No, it isn't us. Okay.

16 MR. FORTUNO: Yes, it's correct that the audit
17 report at issue here is not of the corporation, but of
18 one of its grantees, Capital Area Legal Services, in
19 Louisiana.

20 The reference to management, however, I think
21 is to LSC management. That is, whether LSC management
22 has agreed with the questioned cost as accepted, or

1 disallowed it.

2 So the reference to audit is to a grantee's
3 audit, but the reference to management is, I believe,
4 to LSC management.

5 MR. QUATREVAUX: Ed Quatrevaux. The language
6 here -- first of all, it comes straight from the
7 statute. There is no distinction in the statute
8 between grantee and host entity. I'm sure there is no
9 problem in labeling it any way you'd like to. I just
10 want to point out that the language for the specific
11 lines in the report comes from the statute.

12 CHAIRMAN EAKELEY: Doug Eakeley. But is it
13 accurate then for each of these to say, "audit report
14 of grantees for which no LSC management decision has
15 been made"?

16 MR. QUATREVAUX: That's my understanding, yes.

17 CHAIRMAN EAKELEY: Well, if it would help some
18 people understand it and by eliminating some of the
19 ambiguity, maybe we ought to just do it that way.

20 MR. QUATREVAUX: Sure.

21 MR. SMEGAL: Doug, this is Tom Smegal; the sun
22 is rising here in California and I've joined you.

1 CHAIRMAN EAKELEY: Thank you for joining us.
2 I will apologize again to you for having to tear you
3 away on a Thanksgiving Saturday.

4 MR. SMEGAL: No problem. I would just point
5 out that the table of contents makes it clear, I think,
6 that the management we're talking about is LSC
7 management in every instance. But I think the first
8 point is a good one and I would agree with John that
9 maybe we can make it clearer as to who is being
10 audited.

11 CHAIRMAN EAKELEY: Why don't we just -- how
12 about then just doing it, "audit reports of grantees
13 for which no management decision has been made"? Does
14 that meet with everyone's agreement?

15 MS. FAIRBANKS-WILLIAMS: That would definitely
16 make me happier.

17 CHAIRMAN EAKELEY: That's a good suggestion,
18 Edna, and I thank you for it. Okay. Let's do that.
19 Any other questions or comments?

20 MR. ERLNBORN: Doug, John Erlenborn. Just a
21 grammatical correction, I believe. On page 2, number 2
22 at the bottom, the first line says, "Personnel policies

1 among two groups." I believe that should be, "between
2 two groups."

3 CHAIRMAN EAKELEY: You're right.

4 MR. McCALPIN: Where is that?

5 MR. ERLBORN: Page 2, number 2 at the
6 bottom.

7 MR. McCALPIN: Yeah.

8 MS. MERCADO: First paragraph, right?

9 MR. McCALPIN: Yeah, the first line.

10 MR. ERLBORN: Very first line, "Personnel
11 policies among two groups of employees," and I think it
12 should be "between two groups."

13 CHAIRMAN EAKELEY: All right. I think that
14 sounds like a friendly amendment.

15 MR. McCALPIN: You went to grade school at the
16 same time I did. This is Bill McCalpin.

17 CHAIRMAN EAKELEY: Any other questions,
18 changes, comments?

19 MR. McCALPIN: Doug, this is Bill McCalpin.
20 In the second paragraph on page 1, in the second line,
21 it says, "See also page 3." And I think that it's not
22 clear whether that refers to this document or the so-

1 called report, which we have identified up above as the
2 Inspector General's report. I think it might clarify
3 and avoid any confusion if the words, "of the report,"
4 were added after page 3. "See also page 3 of the
5 report." That refers to the Inspector General's six-
6 month report.

7 MS. BATTLE: Yeah, I think that does make it
8 clearer.

9 CHAIRMAN EAKELEY: Okay. Good. This is an
10 agreeable group today. Any other comments, changes,
11 questions? Hearing none --

12 MR. FORTUNO: Well, if I may, not to sound a
13 note of dissention, insert any confusion, --

14 CHAIRMAN EAKELEY: Victor.

15 MR. FORTUNO: -- but there is Table 1, which
16 appears at page 8, which is the table to which I guess
17 Edna made reference to moments ago. Just so that
18 you're clear, line A indicates that there was one audit
19 for which no management decision, LSC management
20 decision, has been made by commencement of the
21 reporting period.

22 I think, however, if you look back at the

1 previous SAR, there was none shown as being carried
2 over. So we would ordinarily expect to see a zero
3 there.

4 However, the fact is there is an old report
5 from an even prior SAR. And that is the one for
6 Capital Area Legal Services. Table 1, that one
7 reference there, that one audit report of a grantee
8 that's reported, is, as I've already indicated, of
9 Capital Area Legal Services.

10 The confusion is that the OIG was down there
11 some time ago and proposed \$4,627, I believe, in
12 questioned costs.

13 The Corporation, after reviewing that,
14 determined to allow all but 588. It disallowed 588.

15 To complicate things further, OPEAR, now OPO,
16 also took a look at that program and found an
17 additional \$1,927 of possible questioned costs, which
18 ultimately the corporation questioned 1666 of. And if
19 you combine those two that were disallowed, the 1666
20 and the 588, you come up with a figure of 2554, which
21 is shown on the reply draft of the SAR. I'm sorry,
22 2254.

1 I don't think we can reasonably -- well, the
2 problem here is that we're talking about two different
3 audits, one by the OIG for one figure and one by OPEAR
4 adding an additional figure, and whether we report
5 that, I think the IG's SAR has the two combined,
6 whereas the management draft response has pulled out
7 the OIG's recommended questioned costs and identified
8 those without including the OPO-recommended questioned
9 costs.

10 This is all very confusing, but what I would
11 suggest is I think that the OIG and management can
12 probably come to a very quick agreement as to how to
13 report it. I think we're all clear as to what the
14 numbers are. And I, frankly, don't think there is
15 going to be any difference of opinion as to how to
16 report it.

17 I don't know if the Board wants to go through
18 the numbers now or --

19 CHAIRMAN EAKELEY: Well, I don't understand.
20 I thought this was as presented by management, or by
21 you, Victor.

22 MR. FORTUNO: Yeah, this is.

1 CHAIRMAN EAKELEY: What is it that you're
2 saying that has to be changed on Table 1?

3 MR. FORTUNO: What I'm saying is the -- if you
4 look at Table 1 on the IG's Semi-Annual and Table 1 of
5 the draft Board response, the figures are different.
6 And what I was trying to do was explain why the figures
7 are different.

8 CHAIRMAN EAKELEY: Okay. Well, I understand
9 that much. But are you suggesting that there is
10 something wrong with the Table 1 you've asked us to
11 approve today?

12 MR. FORTUNO: Well, is the IG comfortable with
13 it?

14 MR. QUATREVAUX: No, not at all.

15 MR. FORTUNO: So it's fine. I think we can go
16 with this, but --

17 CHAIRMAN EAKELEY: I mean, I think --

18 MR. QUATREVAUX: No, no, no, please. This is
19 Ed Quatrevaux. I don't understand entirely the issue.
20 I mean, I get the gist of it. But I'm not going to be
21 able to get an answer on Saturday, November 13th (sic),
22 as to what the right numbers are. I'm not sure what's

1 actually going on here and why there's an accounting
2 problem.

3 I am fearful that this is an indicator of the
4 types of problems we're likely to have in the future
5 when we're dealing with hundreds of grantee audit
6 reports. And that's why we need a very good follow-up
7 system. But I'm amazed that this should arise on
8 Saturday, November 13th, more than 30 days --

9 CHAIRMAN EAKELEY: It's the 30th.

10 MR. QUATREVAUX: Thank you, 30th. Some time,
11 a month, after we've delivered a draft report. So I'm
12 just not in a position to sort it out today. I don't
13 have people in here. They're preparing to travel
14 tomorrow.

15 MR. ERLENBORN: This is John Erlenborn. Could
16 I ask a question, Vic?

17 MR. FORTUNO: Sure.

18 MR. ERLENBORN: The Table 1 is referring to
19 Inspector General Audit.

20 MR. FORTUNO: That's correct.

21 MR. ERLENBORN: You are now suggesting that
22 there are some numbers in here that were not contained

1 in the Inspector General's audit that came from another
2 source?

3 MR. FORTUNO: That's correct. That's my
4 understanding.

5 MR. ERLNBORN: It seems to me the table
6 should reflect only the figure that was in the
7 Inspector General's report. Otherwise, it's totally
8 misleading.

9 CHAIRMAN EAKELEY: John, Doug Eakeley. Not
10 quite, because, basically, as I understand it, the
11 management made a decision with respect to the audit
12 report of the Inspector General with respect to
13 allowing and disallowing certain costs. The numbers
14 don't coincide exactly, but these are, I take it, a
15 portion of the decisions that management agreed to
16 here. It's out of the same audit report, the same
17 grantee that they're looking at.

18 MR. McCALPIN: Yeah, but I think -- this is
19 Bill McCalpin. I think John is right. The table says,
20 Management Report on Office of Inspector General
21 Audits.

22 MS. FAIRBANKS-WILLIAMS: With questioned

1 costs.

2 MR. McCALPIN: Well, yeah, with questioned
3 costs. So the number ought to be what the Inspector
4 General reported. I think that's right.

5 MR. ERLBORN: Well, I'm looking -- are we
6 talking about the same -- I'm looking at line C, little
7 I and little 2-I.

8 MR. McCALPIN: Doug, this is Bill McCalpin. I
9 want to go back.

10 MR. ERLBORN: Is that where you're looking?

11 MR. McCALPIN: I have the IG's Semi-Annual
12 Report in front of me. Line A is \$6,557, as opposed to
13 \$4,627 on our response. There's a difference of \$1900
14 roughly there.

15 Then that larger number is carried forward to
16 subtotals A plus B. And the larger number also appears
17 in line C.

18 Then, C-1 is the same 2254. C-2 is 4303 on
19 the IG's report against 2373 on our report.

20 So there are a number of different numbers.

21 MR. ERLBORN: Well, Bill, but the only
22 different number is the 6557 versus the 4627.

1 MR. McCALPIN: Well, everything else flows
2 from that.

3 MR. ERLNBORN: Right. They all come as a
4 result.

5 CHAIRMAN EAKELEY: This is Doug Eakeley. Can
6 someone from management explain why the starting number
7 is different? Or is that what you're doing, Victor?

8 MR. FORTUNO: That's what I was trying to do.
9 The figure, 4627, is what the OIG audit proposed to
10 question, to have questioned by the corporation.

11 The figure that you have in the IG's SAR, the
12 6,000-plus figure, actually combines the OIG audit plus
13 the OPO audit, if you will, or the OPEAR audit.

14 If we're going to dedicate this table
15 exclusively to questioned costs in an OIG audit, then
16 the figure should be this 4,627.

17 Since management determined to allow all but
18 588, then those figures should be reflected below.

19 I think what confuses it is that the OIG
20 report combines both their questioned costs and the OPO
21 questioned costs. And I think what we're moving
22 towards here is a decision that this report ought to be

1 limited to the questioned costs that were recommended
2 in the OIG audit.

3 MR. FORGER: And should the OIG audit embrace
4 the OPO finding?

5 CHAIRMAN EAKELEY: That was Alex Forger.

6 MR. FORTUNO: It actually predates the OPO
7 finding.

8 MR. FORGER: Then how do they get to 6,000?

9 MR. FORTUNO: I think because the two were
10 combined for purposes of the report.

11 MR. QUATREVAUX: Ed Quatrevaux. That would be
12 my impression, as well.

13 MR. BRODERICK: This is John Broderick. It
14 seems to me -- I don't have a strong feeling one way or
15 the other, but it ought to be clear what the numbers
16 are. If we're going to use 4627, and it represents the
17 OIG's number, but it doesn't include the OPO number
18 which is in the Inspector General's report, shouldn't
19 there be a footnote here that explains it?

20 MR. FORTUNO: I can easily do that.

21 MR. BRODERICK: So somebody reading this
22 could --

1 CHAIRMAN EAKELEY: Doug Eakeley. I like that
2 idea.

3 MR. SMEGAL: This is Tom Smegal. Isn't there
4 a more basic question, is why does Ed have these other
5 costs in his report Table 1, which are not his
6 questioned costs?

7 MR. QUATREVAUX: Ed Quatrevaux. I have to
8 tell you I'm operating at a disadvantage. I'm not
9 sure, when we talk about OPO costs, what the source
10 was. If it was an independent auditor conducting it,
11 then it's probably appropriate for it to be included.

12 But I just don't know at this point.

13 MR. FORGER: Well, this is Forger speaking. I
14 think there is no question as to what the issue is here
15 and we ought to be able to sort it out either with
16 footnotes or other explanations. I don't think anybody
17 disagrees with Ed's figure of 46 and ours, OPO, with
18 19, and can just sort them out in these tables. Isn't
19 that so, Victor?

20 MR. FORTUNO: Yes.

21 CHAIRMAN EAKELEY: Maria Luisa, did you want
22 to get in this?

1 MS. MERCADO: Yes, I did. The thing is that
2 this is management's response to the OIG report. And
3 just as we have paragraph and comments about certain
4 items that the OIG reported to and we might have a
5 difference of opinion or a different set of facts that
6 can bear some light on it, the same thing is for this
7 Table 1. We have a difference of opinion of what
8 management disallowed or didn't disallow as costs for
9 this particular grantee.

10 And so that's our position. It does not
11 necessarily say that it is wrong. And they can't
12 possibly be the same figures if we're not agreeing on
13 them.

14 But we just have to note where the
15 disagreement lies, but it's clearer.

16 CHAIRMAN EAKELEY: Ernestine, did you want to
17 get in, also? Did you want to say something?

18 MS. WATLINGTON: Yes, I did. I wanted to say
19 that I agree with that footnote. And I'm going to have
20 to be getting off soon. So what do we do?

21 CHAIRMAN EAKELEY: I feel uncomfortable that
22 we're spending so -- can we go with a footnote and

1 delegate it to management to put in a footnote that is
2 sufficiently explanatory?

3 MS. MERCADO: Yes, just to clarify it.

4 MS. WATLINGTON: Fine.

5 CHAIRMAN EAKELEY: Any other comments,
6 questions, or changes before we get to a vote on this?

7 (No response.)

8 CHAIRMAN EAKELEY: Hearing none, can we have a
9 motion to approve the Board of Directors Semi-Annual
10 Report to the Congress, as amended?

11 M O T I O N

12 MR. SMEGAL: So moved.

13 CHAIRMAN EAKELEY: Who was that?

14 MR. SMEGAL: Smegal.

15 MS. FAIRBANKS-WILLIAMS: Edna here. Second.

16 CHAIRMAN EAKELEY: Who made the motion?

17 MR. SMEGAL: Smegal.

18 CHAIRMAN EAKELEY: Tom Smegal made the motion.
19 And Ernestine seconded?

20 MS. FAIRBANKS-WILLIAMS: That was Edna
21 seconded it.

22 CHAIRMAN EAKELEY: Any further discussion?

1 (No response.)

2 CHAIRMAN EAKELEY: All those in favor.

3 (Chorus of ayes.)

4 CHAIRMAN EAKELEY: All of those opposed?

5 (No response.)

6 CHAIRMAN EAKELEY: The ayes have it. The
7 report is approved. I thank you for taking time out of
8 the Thanksgiving weekend. Again, Edna, our collective
9 condolences on the death of your son this week. And we
10 will look forward to seeing you.

11 We're still jockeying to see when we can find
12 the time when we can all meet next. But ops and regs
13 has a meeting coming up in two weeks. And we will wish
14 you all well and have a good balance of your weekend.
15 And we'll be back in touch.

16 M O T I O N

17 MR. McCALPIN: Move we adjourn.

18 MS. FAIRBANKS-WILLIAMS: And you will mail us
19 these footnotes and corrections when you have them.

20 MR. FORTUNO: Yes, certainly. That will go in
21 the mail Monday evening.

22 CHAIRMAN EAKELEY: Bill McCalpin moved that we

1 adjourn. Is there a second to that?

2 MS. WATLINGTON: Ernestine second.

3 CHAIRMAN EAKELEY: Ernestine second. All
4 those in favor?

5 (Chorus of ayes.)

6 CHAIRMAN EAKELEY: All of those opposed?

7 (No response.)

8 CHAIRMAN EAKELEY: We stand adjourned.

9 (Whereupon, at 11:30 a.m., the meeting was
10 concluded.)

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