

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
DELIVERY OF LEGAL SERVICES COMMITTEE
OPEN SESSION

Monday, October 5, 2015

3:18 p.m.

Hyatt Regency San Francisco
5 Embarcadero Center
San Francisco, California 94111

COMMITTEE MEMBERS PRESENT:

Father Pius Pietrzyk, O.P., Co-Chair
Gloria Valencia-Weber, Co-Chair
Victor B. Maddox
Julie A. Reiskin
John G. Levi, ex officio

OTHER BOARD MEMBERS PRESENT:

Robert J. Grey Jr.
Charles N.W. Keckler
Harry J.F. Korrell, III
Laurie Mikva
Martha L. Minow

STAFF AND PUBLIC PRESENT:

James J. Sandman, President

Ronald S. Flagg, Vice President for Legal Affairs,
General Counsel, and Corporate Secretary

Lynn Jennings, Vice President for Grants Management

Rebecca Fertig Cohen, Chief of Staff

Mayealie Adams, Special Assistant to the President for
the Board

Wendy Rhein, Chief Development Officer

David L. Richardson, Comptroller and Treasurer,
Office of Financial and Administrative Services

Carol A. Bergman, Director, Office of Government
Relations and Public Affairs

Carl Rauscher, Director of Media Relations, Office of
Government Relations and Public Affairs

Marcos Navarro, Office of Government Relations and
Public Affairs

Jeffrey E. Schanz, Inspector General

Laurie Tarantowicz, Assistant Inspector General and
Legal Counsel, Office of the Inspector General

John Seeba, Assistant Inspector General for Audit,
Office of the Inspector General

Daniel O'Rourke, Assistant Inspector General for
Investigations, Office of the Inspector General

David Maddox, Assistant Inspector General for
Management and Evaluation, Office of the
Inspector General

STAFF AND PUBLIC PRESENT (Continued):

Lora M. Rath, Director, Office of Compliance
and Enforcement

Janet LaBella, Director, Office of Program
Performance

Allan J. Tanenbaum, Non-Director Member, Finance
Committee

Gregory Knoll, Executive Director, Legal Aid Society
of San Diego, Inc.

Mohammed Sheikh, Chief Financial Officer, Bay Area
Legal Aid

Bivett Brackett, Board of Directors Member, Bay Area
Legal Aid

Ariella Hyman, Bay Area Legal Aid

Josefina Valdez, Legal Aid Society of San Bernardino

Jose R. Padilla, California Rural Legal Aid, Inc.

Ilene Jacobs, California Rural Legal Aid, Inc.

Frank Bittner, California Rural Legal Aid, Inc.

Robert Sikin, California Rural Legal Aid, Inc.

Darrell Moore, Inland Counties Legal Services

Chris Schneider, Central California Legal Services

Don Saunders, National Legal Aid and Defender
Association (NLADA)

Robin C. Murphy, National Legal Aid and Defender
Association (NLADA)

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1 P R O C E E D I N G S

2 (3:18 p.m.)

3 CO-CHAIR FATHER PIUS: I am here, and we'll
4 begin now. We'll open this session of the Delivery of
5 Legal Services Committee according to the noticed
6 agenda for it.

7 If I could first have an approval o the
8 agenda?

9 M O T I O N

10 MS. REISKIN: So moved.

11 CO-CHAIR FATHER PIUS: Is there a second?

12 CO-CHAIR VALENCIA-WEBER: Second.

13 CO-CHAIR FATHER PIUS: All in favor?

14 (A chorus of ayes.)

15 CO-CHAIR FATHER PIUS: Approved. We also have
16 minutes from the last meeting, from the July 17th Board
17 meeting.

18 M O T I O N

19 CO-CHAIR VALENCIA-WEBER: I'll move the
20 approval of the minutes.

21 MR. MADDOX: Second.

22 CO-CHAIR FATHER PIUS: Moved and seconded.

1 All in favor please say aye.

2 (A chorus of ayes.)

3 CO-CHAIR FATHER PIUS: The first thing we
4 wanted to do that was on the agenda, and I assume Janet
5 is on board for this, is the review of LSC Management
6 proposal to include client-eligible representatives on
7 Office of Program Performance oversight visits, or
8 maybe it's Jim. It's just an update, I think, on an
9 issue that we've talked about in the past.

10 PRESIDENT SANDMAN: Janet will present.

11 CO-CHAIR FATHER PIUS: Thank you.

12 MS. LABELLA: Yes. Thank you. We are really
13 pleased to be able to report that we are looking
14 forward to getting our project for the participation of
15 client-eligible people on program quality visits.

16 We have come a long way with this, and we have
17 worked with Julie, who's been a great help. And we
18 have a basic framework for how we're going to involve
19 client-eligible people on program quality visits.

20 These folks will be eligible based on the LSC
21 criteria for eligibility. We are looking forward to
22 working with NLADA to help us with recruitment and

1 selection. We have a proposal that we will be having
2 three participants and they will each go on three
3 visits for a pilot project, and that will take place in
4 2016 and 2017, after which we'll do an evaluation to
5 see how effective it's been.

6 When they are on the visits, they will work
7 with the team, they will be part of the team, and they
8 will focus on those areas that most directly affect
9 clients. So they will be looking at needs assessments
10 from the client perspective. How are client-eligible
11 people involved? Are they actually identifying the
12 needs that the client-eligible people think are the
13 most important?

14 Of course, intake will be a big factor. How
15 are applicants treated during the very complicated
16 intake process, where demand so far outpaces the
17 resources? Are they treated with sensitivity and
18 respect throughout the process? And how long does it
19 take before they actually reach someone who can provide
20 them with advice and let them know whether or not their
21 case has been accepted?

22 They will also, of course, be involved with

1 reviewing board governance, particularly the
2 integration of the client members as full members of
3 the board, as well as the client-eligible assessment of
4 the overall program work.

5 So we are very happy to be putting this into
6 effect, and looking forward to starting it in 2016.

7 CO-CHAIR FATHER PIUS: Great. Are there any
8 questions from the Board?

9 PRESIDENT SANDMAN: I just wanted to add one
10 benefit of this. The principal purpose of including
11 clients on program quality visits is to get the client
12 perception of the service that the grantee is offering.

13 But I also hope out of this process to get the
14 client's assessment of the way LSC does its job. Do
15 they think that the way we approach evaluation of our
16 grantees is giving us an accurate picture of what's
17 really going on? What is their take on the fact of
18 their participation in our program quality visits?

19 So I think we'll get input both about how LSC
20 is doing its job and about how our grantees are doing
21 theirs.

22 CO-CHAIR FATHER PIUS: Julie?

1 MS. REISKIN: Yes. I just want to thank Jim
2 and the staff for this. This is really important. I'm
3 really thrilled to see it come to fruition. And I
4 think when Jim and I report to the client community in
5 NLADA, it will be very well-received. And I think this
6 will be very well worth it. So I just want to thank
7 you guys.

8 PRESIDENT SANDMAN: Thank you for your help,
9 Julie.

10 CO-CHAIR FATHER PIUS: Anyone else?

11 CO-CHAIR VALENCIA-WEBER: I'll second what
12 Julie has said because it's been a concern about what
13 role client representatives are to play, not just at
14 the local grantee level but also in how we at the
15 national level arrive at the information and policy
16 decisions we make.

17 No need to address it now, but when you
18 present your report, I would like to know what kind of
19 information or orientation you're providing for the
20 grantee directors and staff regarding what the role is
21 of the client rep members of the teams.

22 CO-CHAIR FATHER PIUS: Very good. Anybody

1 else have any questions on that?

2 (No response.)

3 CO-CHAIR FATHER PIUS: We'll move to the major
4 portion of our meeting, and that is the panel on
5 financial oversight and internal controls. Lora, are
6 you the one who's moderating this?

7 MS. RATH: Yes.

8 CO-CHAIR FATHER PIUS: So I will turn this
9 over to Lora to introduce some familiar faces and some
10 guests to talk about this issue.

11 Oh, the other thing -- I'm sorry, before I
12 forget -- Becky, are you around?

13 MS. FERTIG: Right here.

14 CO-CHAIR FATHER PIUS: If you could hand this
15 around. Just for everybody's information and
16 background, it's the performance criteria. As many of
17 you know, I always think that we should keep in the
18 background of our minds the performance criteria that
19 we use for grantees.

20 So what Becky's about to hand out is
21 performance area 4, criterion number 4, regarding
22 financial administration. This is all, of course, part

1 of your source material book for the Board. You have
2 it in there.

3 But I just wanted to excerpt this particular
4 page so we could reference it in the background. I do
5 certainly hope that our guests will be referencing some
6 of this in terms of the performance criteria as we talk
7 about this issue.

8 So with that, I will hand it over to Lora.
9 Thank you.

10 MS. RATH: Wonderful. Thank you, Father Pius.

11 Good afternoon. As you know, my name is Lora
12 Rath, and I'm the Director of the Office of Compliance
13 and Enforcement. And I'm very happy to be here with
14 this panel to talk to you all about best practices and
15 internal controls.

16 As Father Pius just referenced the performance
17 criteria, we're going to talk a little bit about
18 performance area 4, which looks at the management and
19 leadership of an organization as well as their internal
20 controls because having good leadership and a good tone
21 at the top, as well as having strong policies and
22 procedures that are then followed, increases the

1 likelihood that a program will provide effective legal
2 services and decreases the likelihood that the quality
3 of the services being provided will be adversely
4 affected by poor management, and also ensures that both
5 fiscal money and property are being safeguarded.

6 So I have with me three people who are very
7 experienced about this. But actually, before I get to
8 that, also wanted to say that it's the Office of
9 Program Performance that has historically done the
10 review of performance area 4, looking at things such as
11 board governance, leadership, overall management and
12 administration, human resources administration, and
13 internal communications.

14 However, in the last few years, due to the
15 direction of this Board and recommendations from the
16 Fiscal Oversight Task Force, the Office of Compliance
17 and Enforcement has become more involved in performance
18 area 4, particularly in the area of internal controls.

19 Specifically, since July of 2011, we have been
20 sending two fiscal compliance analysts on each onsite
21 visit that we do so that one of the fiscal analysts can
22 be concentrating on looking at the internal controls.

1 In the last year or so, we have also, as part
2 of our review process, starting interviewing either the
3 board chair or the chair of the audit and/or finance
4 committee to see what the board's interaction is.

5 On a desk review side, OCE has had a much
6 increased role in the competition process. There's now
7 a fiscal component of the competition, where our fiscal
8 compliance analysts look at answers and materials
9 provided by the grantees while they're still applicants
10 so that we can, throughout the life cycle of a grant,
11 look at the fiscal health of an applicant.

12 As you've heard me talk in the Audit
13 Committee, we have been taking the OIG's referrals and
14 recommendations much more seriously, I think, than in
15 the history of my time being here at LSC. We review
16 all of the referrals, and we use the recommendations of
17 the OIG to help frame what OCE does, both onsite and
18 what guidance we provide to the grantees.

19 So with that, I wanted to go on to talking
20 about how fortunate I am to be here with these three
21 people. They have a lot of experience, and they are
22 very good at what they do.

1 On my far right is John Seeba, who should be
2 familiar to you. He's the Assistant Inspector General
3 for Audits. On my immediate right is Greg Knoll. He
4 is the Executive Director of the Legal Aid Society of
5 San Diego. And on my left is Mohammed Sheikh. He is
6 the Director of Finance and Administration of Bay Area
7 Legal Aid here in Oakland.

8 As I was just saying, we have started to look
9 closer at the findings and recommendations of the OIG
10 in our work at OCE, and the grantees are of course also
11 paying greater attention to that.

12 John, I want to start with you first. And
13 bios for everyone are in the materials. John has a
14 long history of working with inspector generals. He
15 was the IG at the Federal Trade Commission, the
16 Assistant IG for Audit at both the Department of
17 Commerce and U.S. Postal, and he also worked in the
18 IG's office at the Department of Defense.

19 So in your experience both within LSC and
20 outside of LSC, what would you say are the most
21 important internal controls for an executive director,
22 a board of directors, and a CFO to be keeping an eye

1 on?

2 MR. SEEBBA: Thank you, Lora. Well, I wouldn't
3 be an auditor if I didn't say all controls were
4 important.

5 (Laughter.)

6 MR. SEEBBA: But having said that, I think I'll
7 touch on what I consider to be probably the broader
8 controls and the ones that probably are a little bit
9 more significant.

10 As Lora mentioned earlier, I think the tone at
11 the top really sets the standard for organizations.
12 The ethics and the integrity of the executive director
13 sets the standard, if you will, for an organization.
14 He emulates what the expectation is going to be for the
15 organization. That gets codified in a code of conduct,
16 and that also again then documents to the employees
17 what exactly is expected of them and what's not
18 permitted as well.

19 The next part is policies and procedures,
20 which I think is obvious in most organizations. You
21 have to have it documented in policies and procedures.
22 This helps you replicate the processes that employees

1 need to follow at all times.

2 If you have new employees, you can always give
3 them the policies and procedures. They can understand
4 what has to be done and how they can do it. So that's
5 a critical factor probably in most organizations, and
6 it's probably the biggest area that we focus on when we
7 do audits out in the field.

8 The other part, I would say, is the command
9 structure that an executive director puts in place.
10 Your other managers that report to you tend to be a key
11 player in running an organization, obviously, and also
12 being able to assign responsibility and accountability
13 and down through the organization.

14 This helps to segregate the duties amongst the
15 organization. And I think it also limits the ability
16 for employees to commit fraud over malfeasance in an
17 organization when you have more people that understand
18 what has to be done and how to do it.

19 Moving on to the board of directors, which I
20 think is -- they have a very special process, I think,
21 because their role is governance for an organization.
22 And governance is really about policy-making, strategic

1 direction, and oversight of the organization.

2 From a policy-making standpoint, it's
3 obviously the high-level policies. They don't get into
4 the nitty-gritty of how to run an organization, but
5 more to set the global policies internally and
6 externally.

7 From an external standpoint, obviously, with
8 LSC you look at more the regulatory aspects of what LSC
9 does and how we interpret those regulations and how
10 that gets transmitted out to the field. Internally,
11 it's probably more of the high-level things, like
12 whistleblower policies and that type of thing.

13 One thing about the board of directors as well
14 is because they bring such a wealth of knowledge and
15 experience to the table, they tend to be what I
16 considering helping management in molding some of the
17 initiatives and processes that come to the table. And
18 so they keep the organization on track, if you will,
19 making sure that we're meeting the mission and
20 organizational goals.

21 The one other thing that I would like to say
22 about the board is from a strategic standpoint, I think

1 in the nonprofit arena you also see that they kind of
2 serve a unique role, that there's additional
3 responsibilities that you probably don't see in the
4 private sector and in some of the government agencies.

5 And that role is the fundraising aspect that you have
6 to deal with, and trying to make the organization
7 continue as a viable organization and as a healthy
8 organization.

9 Then also, and I think we talked about this
10 and you saw this today in many of the presentations, is
11 the awareness of the organization, what its mission is
12 and trying to get other people involved in supporting
13 that mission.

14 Then finally, one last thing, too, on the
15 oversight aspect. The board has to take a very serious
16 role in questioning management, understanding
17 management, and seeing that the proper processes are in
18 place, that the internal controls at the lower level
19 are in place.

20 Certainly, for the LSC board, with all the
21 Committee meetings there's a lot of questioning that
22 goes on, a lot of detailed explanations that sometimes

1 have to be provided if things aren't understood at the
2 point in time; so to make sure that we have the
3 processes and procedures and policies in place that we
4 need to be effective and to make sure it's a good
5 organization.

6 Then finally on the CFO side, I think it's all
7 about show me the money and show you where you spent
8 it, and from that standpoint, the documentation
9 procedures, the policies, making sure that financial
10 information is properly recorded, that the statements
11 are accurate.

12 The different aspects of finance -- money is
13 what drives all organizations, in my opinion. And so
14 it has to be safeguarded. There have to be controls
15 put in place.

16 The reliability of the information that's
17 driven out of the financial information is very
18 critical because that's how managers understand what's
19 going on in an organization -- where the money's going,
20 if there's fundraising issues, if money is being
21 misappropriated.

22 I think proper controls, proper reporting,

1 will help you decipher whether some of those things are
2 happening -- the reconciliation processes, things like
3 that that the management needs to do to make sure that
4 everything is accounted for.

5 I think that's covering it.

6 MS. RATH: Very good. Thank you, John. In
7 your experience of being with LSC for about the last
8 three years, can you talk a little bit about where you
9 and your staff have seen the most issues when going
10 onsite to visit a grantee?

11 MR. SEEBBA: Well, at the risk of stealing the
12 thunder of the compendium report that we're going to
13 issue in a couple weeks --

14 (Laughter.)

15 MR. SEEBBA: -- I can tell you a few areas that
16 we tend to see repetitive findings. The biggest one is
17 policies and procedures. And it's not so much that
18 people don't have them; it's that they're either not up
19 to date, or they're missing certain aspects of them.
20 You might not have a specific procedure set up on,
21 let's say, derivative income or cost allocation or
22 something like that, which is required by the LSC

1 manual.

2 The next biggest area is probably the
3 contracting area, and this is one that we do see quite
4 a few -- at least lately we've seen quite a
5 few -- findings in that area. And the deficiencies
6 tend to focus more on either lack of documentation that
7 they go out, they hire somebody, and they don't really
8 document the process that they followed to get that
9 particular contractor on board. We always look for
10 that they did competition, that they got several bids
11 on a particular contract so that we know that
12 essentially, we got a fair value, a fair deal, in the
13 process.

14 Some of the other areas as well as is in
15 derivative income, and I think the fee income issue
16 that has come up lately, we do see that they're not
17 always allocated back to LSC when LSC funds were used
18 to generate that income.

19 Cost allocation is another area. And a lot of
20 that tends to deal with the lack of documenting the
21 process that they're following to allocate costs
22 throughout the different funding sources. And because

1 it's a fairly complicated process, we like to see what
2 the basis of their allocation method is -- if it's
3 square footage, if it's funding sources, if it's other.

4 It has to be fair and reasonable, is basically what
5 the rule is.

6 I think those are the biggest areas. Fixed
7 assets, we have some issues with that. Recordkeeping,
8 periodic inventories, and then some in disbursements,
9 which I think we're slowly seeing -- improvement is in
10 the flower and gifts area. And of course, I guess the
11 program bulletin that came out has certainly clarified
12 that that's now allowable, so we're seeing that, I
13 think, decreasing now.

14 So I think that's the main ones that we've
15 seen lately.

16 MS. RATH: All right. Thank you. That will
17 give some of our grantees a good idea on where to focus
18 going forward.

19 Now that we've gotten a good idea of what the
20 OIG is looking for and where they're seeing concerns, I
21 wanted to get the grantee's perspective of internal
22 control. So I'm going to turn to Greg, and Greg, you

1 have been the executive director at San Diego for 42
2 years, since you were a mere child.

3 MR. KNOLL: Forty-one plus.

4 (Laughter.)

5 MS. RATH: Forty-one plus. All right. I'm
6 giving you extra. But I'm sure that 42 years ago the
7 concentration on internal controls was not nearly at
8 the level that it is today. So can you tell me a
9 little bit about coming from the attorney side, how you
10 learned about internal controls and got up to speed?

11 MR. KNOLL: Sure. When I took over the Legal
12 Aid Society of San Diego, I was 27 years old. And we
13 were small, a few hundred thousand in funding. But I
14 had been a business major. And I remember when I got
15 the job and went home and went into the garage and dug
16 around and got all of my old business books out, which
17 I had never thought I'd ever use again, the ones about
18 Accounting 201 and 202 and et cetera.

19 Because there really wasn't a lot available
20 immediately to tell me, as executive director, what I
21 was to do. I was very lucky. There was an elderly
22 gentleman by the name of Paul Stevens who was a retired

1 CFO from the largest coop apartment group in, really,
2 the United States, in the Bronx, New York. And he had
3 retired, and came out and was the CFO I was handed.

4 It was just him, and he was suffering from
5 multiple sclerosis. But he lasted a good ten years and
6 was able to teach me slowly everything he had in the
7 shoebox, so to speak. He really knew his stuff. But
8 everything was pencil and paper, and not as recorded as
9 maybe it could have been.

10 I must say that the thing that really opened
11 my eyes a lot was the discussions leading to the
12 fundamental criteria, and I think a lot of the visits
13 from Legal Services Corporation folks, who weren't as
14 compartmentalized as they are now, when they came out
15 in the late '70s and the early '80s.

16 That is when you look at the criteria 4 -- the
17 systems and procedures in place; the type of people
18 you've got that are capable of handling financial
19 management; detailed written policies and
20 procedures -- not only having them written but
21 following them; the LSC accounting guide; having your
22 own accounting guide that is mirroring that accounting

1 guide.

2 I tell all new executive directors, if they
3 haven't been a part of this discussion at all, it's
4 really important to go and use the LSC website and the
5 OIG website. It's all there. Whenever we are going to
6 get a visit, we go and we look at all the reports done
7 for the last year, year and a half.

8 You go through them and we sit with our
9 management team and we look through them and say, well,
10 where are we on this one? This program had a problem
11 here. Oh, no, we're fine. We have this policy. These
12 are examples of how we follow it.

13 There is plenty of information now out there
14 for executive directors to be able to understand how
15 they have to put together a management team and a
16 financial management team that can really do a good
17 job. And I think all the programs that I work with
18 here in California are examples of that. I think they
19 really try to do a very good job.

20 But in terms of learning about internal
21 controls, sometimes you learn about those the hard way.

22 We have been fortunate not to, but I understand that

1 with small financial teams, segregation of duties can
2 sometimes be a problem, which is why you have to bring
3 in other management people sometimes. And it's very
4 important to make sure that those segregation of duties
5 are appropriate.

6 I think the other thing that executive
7 directors can do is look to the boards of directors.
8 There's a lot of experience on a lot of these boards.
9 One of my first audit and finance chairs was a great
10 attorney in town, but he was also a CPA. That had been
11 his first career, was being an accountant. And he led
12 our audit and finance committee, I think, out of the
13 dark.

14 MS. RATH: Very good. Thank you. Can you
15 touch on something? John was talking about the
16 different roles that the executive director, the board,
17 and the CFO play. And you just mentioned your first
18 CFO. Can you tell me a little bit or the Board a
19 little bit about having a good relationship with your
20 CFO and what a good CFO looks like?

21 MR. KNOLL: Yes. A good conflict, first of
22 all, questions you even more than your board questions.

1 Kps asking why we're doing this, and what's the
2 reason.

3 I've been very fortunate. The last two CFOs
4 that I have, including the one that's currently there
5 and then the one immediately before him, were there a
6 long time and were experienced in nonprofit management.

7 I can't emphasize enough how important that is.

8 There have been times -- I had to terminate a
9 CFO many years ago, in the '80s. And I remember our
10 then-IPA was helping us recruit and look around for
11 folks. And one of their partners, or associates, came
12 to help do our books. And it was a disaster.

13 It was a disaster because that person was an
14 auditor. The person was not a business-running,
15 nonprofit management accountant. That's not what he
16 was. And so that was a really good lesson.

17 I've always looked in my hiring to look at
18 people that have been in the business of nonprofit
19 management. It's worked out very well the last two
20 times, and that's covered over 20 years.

21 MS. RATH: Very good. Thank you. And one
22 other thing I wanted to ask you about, going back to

1 some of the comments that John made and that you made.

2 You were talking about tapping into the board. Can
3 you tell me how you, as an executive director, keep
4 your board engaged and get them to want to help?

5 MR. KNOLL: Well, part of it is, a lot of
6 board members nowadays, they're very sophisticated.
7 They're partners of major firms. And they know that
8 their big responsibility is fiscal oversight. And so
9 they take that seriously. That's a boon to us. That's
10 not a problem. That's a very good thing.

11 So what happens is you have to develop an
12 audit and finance committee that has experience. You
13 have to bring new board members onto that committee to
14 learn the fiscal oversight role. You have to bring
15 clients into that committee in order for them to learn
16 the fiscal oversight role.

17 Then what you have to do is what it says in
18 the criteria. You have to provide budgeting that goes
19 out six, 12, 18, 24 months. Every year that's exactly
20 what we do, and then every month we provide budgets to
21 actual as to how we are moving down that path during
22 the year.

1 It's very important for them to ask questions
2 about the variances, if there are any. It's very
3 important for them to understand what happens within
4 the management of the Corporation and why things may be
5 one way or the other.

6 They also have a very important role to play
7 in approving the policies and procedures that you set
8 forth in your accounting manual. Those all go our
9 board of directors, and they mirror not only the
10 regulations and the performance criteria, but they also
11 mirror the LSC accounting guide, and we have many
12 others that we have for ourselves but don't always -- I
13 think the other thing they have to do is I have them
14 approve my expenses every month.

15 Every month, if I've got expenses, the CFO
16 takes my travel, reimbursement, things like that, takes
17 them to the board, and they're always approved by the
18 board. And then the secretary of the board or the
19 president signs. We don't have anybody who's
20 subordinate to me approving any of my expenditures of
21 program funds.

22 MS. RATH: Very good. That is a wonderful

1 internal control to have in place.

2 Just one other thing I'm going to ask you
3 before we move on to Mohammed. You mentioned the CFO
4 bringing things to the board. Does the CFO have his
5 own relationship with the board of directors?

6 MR. KNOLL: Oh, absolutely. Particularly with
7 the audit and finance committee and with the treasurer,
8 vice president and treasurer of the board. That's an
9 ongoing relationship, and questions get asked. And I
10 often will bring a question the CFO and ask him to
11 handle that question at the board meeting when it comes
12 up.

13 It's multifaceted relationship -- myself,
14 other members of executive management, the CFO, and
15 then the board members and their committees.

16 MS. RATH: Wonderful. Thank you so much.

17 Now, Mohammed, I'd like to turn to you. You
18 are the director of finance and administration, which
19 means you're responsible for directing all of the
20 fiscal activities at Bay Legal, including their
21 accounting practices, budgeting, financial analysis,
22 grants management, and monitoring the financial

1 performance. That's a lot of stuff on one person's
2 plate.

3 We heard Greg talk a minute ago about the
4 executive director's perspective on why it's good to
5 have a good relationship with your CFO. Can you tell
6 us a little bit about your perspective of having a good
7 working relationship with the ED from the finance
8 perspective?

9 MR. SHEIKH: Sure. Thank you, Lora. First of
10 all, let me tell you, I don't have as many years in the
11 field as Greg does, but I have --

12 MR. KNOLL: You had to point that out.

13 (Laughter.)

14 MR. SHEIKH: I do have quite a few years in
15 the nonprofit arena. And I've been the director of
16 finance and CFO for Bay Area Legal Aid for over 13
17 years.

18 Let me just tell you that the relationship
19 with the executive director is more of a partnership.
20 As the CFO, I have to make sure that what I do, in
21 close contact with the executive director, is basically
22 driving us toward fulfilling the mission of the

1 organization. Basically, that's what drives us, that
2 relationship.

3 Secondly, I must say that this relationship is
4 also built on trust. It does take a number of years
5 and it does take time to establish that trust. But
6 once you are there, you have the ability to present
7 information to the executive director in a manner which
8 is then considered accurate and timely, and therefore
9 it does create the atmosphere where the CFO and the
10 executive director work very closely together.

11 Thirdly, let me tell you, it's also a
12 relationship of collaboration, and on strategic
13 planning and financial planning. Let me tell you,
14 especially on times when the times are tough and when
15 we face funding challenges or other financial issues,
16 those are the times when the CFO and the executive
17 director have to work very closely together.
18 Otherwise, the financial health of the organization can
19 really take a toll.

20 MS. RATH: Very good. As I said, you have a
21 lot of roles and responsibilities. So in the
22 day-to-day oversight of internal controls within your

1 organization or within any other grantee organization,
2 what would you say are the best tools that a director
3 of finance can develop to help them?

4 MR. SHEIKH: Well, of course, first of all,
5 you have to have the right people in the right
6 positions. The staff must be trained well, and the
7 control environment must be created within the
8 organization.

9 I think John pointed out there has to be
10 segregation of duties, and the processes of
11 authorization and review have to be established. And
12 the reconciliation and security of assets have to be
13 established.

14 But most importantly, you have to have the
15 right systems in place in order for to have an
16 effective internal control. For Bay Area Legal Aid, we
17 have done a remarkable job in that we have absolute
18 good systems in place that really make our internal
19 control easy to establish and to work with.

20 So for example, one of the things that we do
21 at Bay Area Legal Aid, and John also pointed thought
22 out, the allocations. The allocation model is

1 established within our timekeeping system and our
2 finance accounting system.

3 So what happens is, as you know, approximately
4 75 to 80 percent of an organization expense relates to
5 salaries. And with the number of funding sources,
6 numerous number of funding sources in case of Bay Area
7 Legal Aid, approximately 80 funding sources, you have
8 to be able to allocate your time to those funding
9 sources in a way that it -- you cannot have errors in
10 doing that.

11 In other words, your timesheets and your
12 payroll accounting systems have to talk to each other.

13 And so what we have been able to do at Bay Area Legal
14 Aid is to establish that link where we do payroll
15 in-house, and then when we transfer payroll into our
16 accounting system, we are able to do it seamlessly and
17 the allocations are done seamlessly to the funding
18 source.

19 MS. RATH: One of the things that we've talked
20 about before was the importance of having good and
21 meaningful reports to provide to your executive
22 director and to the board. Can you tell me a little

1 bit about what types of reports you've implemented at
2 Bay Legal over the last 13 years and how they've helped
3 to improve Bay Legal's fiscal operations?

4 MR. SHEIKH: Absolutely. As I was pointing
5 out about our allocation methodology and our allocation
6 system, what we have done is created a methodology
7 where we take all of the payroll expenses, for example,
8 directly to the funding source into the general ledger.

9 What that does is we are able to then produce
10 reports at the funding source level and be able to get
11 accurate information, not just about payroll, but all
12 of the other expenses that are allocated directly to
13 the funding sources. That way we know what we bill to
14 LSC or we bill to any other funding source is accurate.

15 So we have established that. And likewise, we
16 have other systems in place to make sure that the
17 reports that we produce, for example, we produce
18 various report on a monthly basis for every funding
19 source. So we compare that. We have the able to
20 compare that report against the budget for that funding
21 source and see whether or not we are under- or
22 over-spent in that particular area.

1 MS. RATH: Thank you. I want to build on
2 something that you mentioned about the 75 to 80 funding
3 sources that you have at Bay Legal. And this is going
4 to be a question for both you and for Greg, but I'm
5 going let you go first since you mentioned funding
6 sources first.

7 Out of those 75 to 80 funding sources, I
8 wanted to know which funding source does the best, most
9 thorough oversight.

10 MR. SHEIKH: Wow.

11 (Laughter.)

12 MS. RATH: And if that's not a leading
13 question --

14 MR. SHEIKH: Well, well, well.

15 MS. RATH: -- That I hope I know the answer
16 to.

17 MR. SHEIKH: I would say, by far, LSC. LSC is
18 the most restrictive grant, what we consider to be the
19 most restrictive grant, and we take that very
20 seriously. And they have the best oversight.

21 PRESIDENT SANDMAN: That's the right answer.

22 MR. KNOLL: Really. I don't think there's any

1 other answer. Yes. Just like Mohammed and Bay Legal,
2 we have over 60 large funding accounts that our CFO is
3 responsible for. We have County of San Diego, City of
4 San Diego, HUD.

5 We get millions of dollars from the State of
6 California, Department of Healthcare Services,
7 Department of Managed Healthcare, their health benefit
8 exchange program, which is the Covered California, to
9 provide consumer assistance.

10 I have to say, I wish I could say it was HUD
11 or that it was the City of San Diego. But it's not.
12 Without a doubt, the best and most thorough oversight
13 of our fiscal operations and our programmatic
14 compliance is, without a doubt, the Legal Services
15 Corporation.

16 I have to say -- and I don't have to say it,
17 but I will -- that when you started to ask me about
18 where I learned about internal controls, the examples
19 that have been given by John and his team, which was
20 recently out at my program, I've learned an awful lot
21 from LSC in terms of what is good fiscal oversight for
22 myself.

1 I always tell the folks when they come in -- I
2 started to say, we think we're really, really good.
3 However, we're really open to find out, is there
4 something that we could do better? And I really mean
5 that because I think we are the stewards of federal
6 money, of city money, of county money, of people's
7 money, of taxpayers' dollars.

8 We want them to be as effective as the
9 previous panel talked about. We must be effective with
10 those dollars. But we really have to have the
11 procedures in place and follow those procedures so that
12 we can really show to everybody, with a lot of
13 transparency, how good we really are at taking care of
14 the taxpayer dollars.

15 MS. RATH: Very good. Thank you, Greg. And I
16 want to build on something that you just said about the
17 helpfulness or learning from the review teams from LSC.

18 And with that I'm going to turn back to Mohammed
19 because Bay Legal recently had a visit from us, and
20 their final report just got issued today.

21 I'm very happy to say all required corrective
22 actions -- there were only two -- were closed at the

1 time the report was issued. But I know we had some
2 conversations about the onsite process. So if you
3 could talk about that a little bit?

4 MR. SHEIKH: Sure. Well, the process always
5 begins with, of course, a letter from either the OIG
6 office or the OCE or OPP office requesting a list of
7 documents that we need to provide by a certain time.
8 And we start the process with that, and of course, that
9 raises the level of anxiety in all of the staff.

10 (Laughter.)

11 MR. SHEIKH: The level of anxiety is really
12 because you don't know what to expect from any of these
13 site visits. And lucky for us, this time we were only
14 given recommendations.

15 As Greg pointed out, I thought that was an
16 opportunity for us to improve on our systems, and we
17 were able to quickly look through all of those -- they
18 were not findings; they were recommendations, as I
19 said. And we were able to really implement some of
20 those good changes right away.

21 For example, one of the recommendations was in
22 regards to the PAI reporting. And we were just about

1 ready to start our audit report at the time of this
2 last OCE visit. The recommendation was to separate,
3 for example, the PAI component on the LSC report and on
4 the audit on a separate page. We were able to
5 implement that right away. So we asked our auditors to
6 take a look at that, and we were able to, like I said,
7 get it done.

8 Likewise, I think there's always an
9 opportunity to improve. There's always an opportunity
10 to understand that there is a fresh set of eyes that
11 are going to look through your systems, look at your
12 procedures. And if there are any recommendations that
13 makes your system better, I think we implement that
14 right away.

15 So we were able to go through the list of all
16 of those recommendations, and very quickly, we were
17 able to implement most of them. Some of them required
18 minor tweaking of our policies, written policies or
19 procedures. We were able to do that.

20 For example, one of the criterias on our
21 client trust account was that each office was receiving
22 the bank statement directly before it came to finance,

1 and it took an inordinate amount of time for us to do
2 the reconciliation in finance. But we were able to
3 change that procedure very quickly, and now we require
4 the bank to directly send us the statements.

5 So the process of the audit itself or the
6 review itself was very comprehensive, I must say. It
7 involved a lot of documentation that we had to provide.

8 It required a lot of review. The team that came was
9 just remarkably professional.

10 Like I said, they provide us an opportunity to
11 really look at our systems and really -- and they were
12 the consultants, in fact. They became consultants for
13 us. And we really thank them for that.

14 MS. RATH: Wonderful.

15 MR. KNOLL: I wanted to say something about
16 that. As Mohammed told you, as Lora told you, I've
17 been around a long time. And I have seen the absolute
18 change for the better in the way that visits to my
19 program are being conducted.

20 I was there during the '80s when it was a very
21 difficult time, and there were some very unprofessional
22 people that acted very rude and crude, in my opinion.

1 Some of them got fired and then ended up testifying in
2 Congress. It was a sloppy, difficult time.

3 When you are shaped by those, it does make it
4 always stressful. Any audit by anybody is stressful.
5 We all know that. But I have been really pleased with
6 the quality of the folks that have shown up both for
7 OPP, OCE, and OIG, and on both sides, on the audit
8 side.

9 They've been really experienced people with
10 really quality backgrounds who have wanted to come in
11 and be helpful. That is a completely different
12 approach than I was used to 20, 25 years ago. And I
13 appreciate it more now than you'll ever know. It
14 really is a helpful process.

15 MS. RATH: Wonderful. Jim do you want to --

16 PRESIDENT SANDMAN: Yes. I'd like to
17 follow-up on something that both Mohammed and greag
18 mentioned earlier. They were talking about fund
19 accounting and cost allocation issues.

20 We have a number of grantees who are
21 challenged by those things. Have you developed systems
22 that are replicable and shareable with other grantees?

1 Do you consider these things proprietary, or are they
2 so customized that you think it would be difficult to
3 export them to another grantee?

4 It would be wonderful if, with your help, we
5 could develop some off-the-shelf kits to give to those
6 of our grantees, that they could adapt easily to their
7 circumstances, so that we don't face the continuing
8 problems that we see with some who have great
9 difficulty with these issues.

10 MR. KNOLL: I have a unique perspective in
11 California where I'm a coordinator. Our program
12 coordinates a lot of the healthcare funding. And so I
13 have a lot of -- all the rest of the programs are
14 subcontractors, and I get a chance to see all of their
15 CFOs and all the work that they do.

16 We're really all pretty sophisticated here in
17 California. But there are a lot of computerized
18 programs, software programs -- and Mohammed could speak
19 to that better than I could, and I don't have my CFO
20 here to promise to give you something that he's going
21 to say, well, hey.

22 But we always -- we would love to share. And

1 if anybody could do it, it would be Mohammed, Sergio
2 Valenzuela, my CFO. They could put something together
3 that could be available to other, maybe less
4 sophisticated programs that are starting out or that
5 don't have that ability.

6 MR. SHEIKH: First of all, it's not
7 proprietary information. It is available to anybody
8 who seeks help.

9 MR. KNOLL: That's right.

10 MR. SHEIKH: And over the years, I have helped
11 a number of programs establish cost allocation
12 methodologies and systems. The main issue there is
13 that a lot of these programs, they do outsourcing of
14 payroll.

15 When you do outsourcing of payroll, you cannot
16 really use your payroll module to the maximum benefit
17 where you do your allocation within that payroll module
18 and then transfer the information into your general
19 ledger.

20 So in order for this to be effective in an
21 allocation model, it has to be where people should be
22 willing to payroll in-house and be able to exert that.

1 MR. KNOLL: One of the problems we have, I
2 think, now are the various funding sources that have
3 different rules. Some want you to do direct expenses,
4 indirect experience. Some don't let you do indirect;
5 you have to put a bunch of what is normally direct into
6 your indirect.

7 That can be very confusing if you don't have a
8 plan for how to use that across the board. And I think
9 that may be one of the things people are having trouble
10 with.

11 MR. LEVI: Do we --

12 CO-CHAIR FATHER PIUS: We should have some
13 time for questions. I think the panel is done with its
14 presentation, and I would like to leave some questions
15 for the Board. I guess I'll start.

16 In the performance criteria, just because I
17 think about these things, if you look at the
18 performance criteria -- you don't have it there -- but
19 for the board governance part, the line on it is, "The
20 board exercises effective financial oversight," which
21 is a lovely statement.

22 But what in heaven's name does that mean?

1 This is one of the things in our performance criteria
2 that seems it could use a little elaboration. So if
3 you were looking at, for example, "The board exercises
4 effective financial oversight," what would you think
5 about it is the price way in which -- if this is
6 missing, the board's not exercising effective financial
7 oversight.

8 MR. KNOLL: I think you have to have an audit
9 and finance committee that knows what they're doing. I
10 think you have to require six, 12, 18-month, 24-month
11 budgeting out, where you're going to be. I think you
12 have to look at that monthly, and ask questions.

13 The best thing boards could do is ask
14 questions. Again, if you have really pretty smart
15 board members, they know their responsibility and they
16 really want to make sure this fiscal responsibility is
17 taken care of. I think if you have those systems in
18 place, I think then you have a real good shot at them
19 doing their job the way they're supposed to.

20 CO-CHAIR FATHER PIUS: Thank you.

21 Does anybody else have questions? John?

22 MR. LEVI: Two things. When I visited Bay

1 Area a few years ago, Ramon Arias told me that Mohammed
2 was a rock star.

3 (Laughter.)

4 MR. LEVI: And he certainly proved that today,
5 that he had developed a system, and that the system was
6 really terrific. And I asked him then and I ask you
7 now -- it's a similar followup -- should we be having
8 like a webinar for those programs that need the
9 assistance particularly?

10 Or should we be taking the proactive approach
11 of maybe even -- Martha called it Big Brother -- but
12 Big Sister, you know, pairing up programs to help
13 those -- now, of course, I know you're looking for more
14 to do.

15 MR. KNOLL: Yes. Thank you.

16 MR. LEVI: And so that was part of the 42
17 years. But in any event, should we be able to use
18 the -- we do have the ability, I think, to run a
19 webinar and help some of those, particularly the
20 programs that need the help and that are not in
21 communities that have the resources that you have here
22 to provide them with the support that they need.

1 MR. KNOLL: There are some excellent financial
2 management and legal services trainings that go on
3 around the country. I think it should be mandatory for
4 every executive director as they come in and every CFO
5 as they come in to go because you interact with so many
6 other people from large programs, small programs.

7 Some of those, I know that Sergio in his 15
8 years has been at least three, four times to it over
9 the years because things change. That's the other
10 thing. Having one webinar isn't -- things change, and
11 you have to keep up with systems.

12 We're getting rid of our current fundware
13 system and going to another system that is so far
14 advanced it's scaring us. But that's what you have to
15 do. You have to keep up and stay up.

16 I think we'd be involved with any kind of
17 webinar production you'd like to do. But I think there
18 have to be sophisticated training programs available
19 for folks when they go in that ought to be mandatory
20 that they go.

21 CO-CHAIR FATHER PIUS: Gloria?

22 CO-CHAIR VALENCIA-WEBER: I'd like to ask John

1 and Lora to help with one thing I was interested in
2 here. This Board has pushed for a greater
3 communication and cooperation between the IG and our
4 compliance people. And it is clearly forthcoming.

5 You mentioned, John, that the problem areas
6 were policies and procedures in contracting, and some
7 things that are on the website -- I don't know whether
8 you call them instruction manuals, whatever the
9 terminology for it.

10 I'd like to know if the IG and Lora's
11 operation are jointly producing those materials so that
12 they're not seeing something on the IG website and
13 something else -- I know we're getting an integrated
14 website now.

15 But whatever that form of instruction or
16 guidance, is it being collaboratively created so that
17 people aren't getting a different message from two
18 different units of our Corporation?

19 MR. SEEBBA: Well, I think that's certainly a
20 god question and something that I guess Lora and I need
21 to talk about. We're going to put out this compendium
22 report shortly. I think Lora just issued something

1 that's probably very similar in the sense that it was a
2 summary of the findings, the common findings.

3 I think there's probably some consistency
4 between what our report's going to say and theirs says
5 as well. So I don't think there's any conflict there,
6 but it certainly wouldn't hurt that we collaborate a
7 little bit on some of that as well and put, maybe, some
8 similar information on each of our websites.

9 CO-CHAIR VALENCIA-WEBER: I was particularly
10 thinking of anything in the way of instructional or
11 guidelines or whatever that people would record as
12 preparing them to do their jobs.

13 MR. SEEBBA: Yes. There is a fair amount of
14 guidance on the OIG website. We have a lot of
15 instructional memos. We have the LSC accounting
16 manual. We have a compliance supplement, which we're
17 actually going to update shortly, which is really more
18 for the independent public accounting firms to -- it
19 gives them areas that they need to focus in when they
20 go in and do their audits as well. So it leads them to
21 certain questions and certain information that they
22 should be focusing on when they do their reviews as

1 well.

2 So there is actually quite a bit, and we're
3 trying to right now update a lot of that as well to
4 refresh it, so to speak.

5 CO-CHAIR FATHER PIUS: Julie?

6 MS. REISKIN: Thank you. This was great. I
7 have a comment and a question. My comment is, on the
8 areas of inquiry on evaluation, I know this was written
9 a long time ago, and best practice now around
10 evaluation has really changed.

11 It says, "Have there been any problems?" And
12 I think a better question is, "What are you doing with
13 your findings?" Because we're trying to get past the
14 days -- again, in the best practice nonprofit -- of
15 making these kind of fake glowing evaluations that just
16 are there to show off to funders and not really
17 learning from them.

18 So that just kind of struck out at me, that
19 you want evaluations that are showing stuff so that you
20 can fix them. And how you respond to it is much more
21 important. Obviously, if there's some glaring problem,
22 you need to know.

1 But there's a lot of talk in the nonprofit
2 community of trying to get people past that fear of
3 evaluation and having evaluations really be about a
4 culture of learning that's continuous. So that's
5 just -- again, I know this is not something we can
6 necessarily change, but just a comment.

7 My question is, I'd be interested in any of
8 your thoughts on the relationship between the executive
9 director and the board chair. In my world, that's a
10 very important relationship. It has to be a very good
11 relationship, but there also needs to be an
12 accountability tone.

13 Often, you get a pair that work together for a
14 long time, and it can be very, very effective. I've
15 also heard from our IG that sometimes that can be a
16 concern. But I also know that a strong pair can -- so
17 I just would like your thoughts on that relationship,
18 on best practices, on whatever you want to say about
19 that because I think that's such an important part of
20 nonprofit governance.

21 CO-CHAIR FATHER PIUS: In one minute or less.

22 MR. KNOLL: From my perspective, we change

1 board president every two years. And we have a board
2 president in waiting, so they're learning about the
3 relationship.

4 I think it is incumbent upon the executive
5 director to develop, along with the current president,
6 the next one and the next one and the next one and the
7 next one. And that rotates around so that everybody
8 has the experience of working very closely with the
9 executive director and very closely in leading the
10 board.

11 That's worked out to have a group of very
12 strong board members. Many of them are former
13 presidents of the board.

14 CO-CHAIR FATHER PIUS: Thank you very much. I
15 just want to take this time to thank the members of
16 this panel. This is always instructive.

17 Jeff, you have 12 seconds.

18 (Laughter.)

19 MR. SCHANZ: Okay. The Inspectors General,
20 not only this one but across government, are
21 statutorily restricted from performing management's
22 function. While it sounds like a good idea in theory

1 that we work with Management to develop protocols for
2 the grantees to use, we would then in fact be setting
3 ourselves up to audit and investigate our own work. We
4 do not do that.

5 CO-CHAIR FATHER PIUS: Thank you. That's a
6 very good caution to keep in mind.

7 Again, I wanted to thank this panel for a very
8 instructive and informative discussion on what is, to
9 this Board, a very important issue, and obviously
10 because it's also an important issue to Congress. So
11 we thank you very much for your time, and thank you for
12 being here.

13 MR. KNOLL: Thank you for the opportunity.
14 Appreciate it.

15 (Applause)

16 CO-CHAIR FATHER PIUS: The next item on the
17 agenda is if there's any public comment. Is there
18 anybody who'd like to make a comment to the Committee?

19 (No response.)

20 CO-CHAIR FATHER PIUS: Seeing none, there's a
21 question of new business, which I will raise very
22 briefly. We had hoped to have a discussion session

1 among the Committee not only about future events but
2 also about the performance criteria itself.

3 I've talked a little bit with Lora Livingston
4 as well from SCLAID about being perhaps involved in
5 that. I've talked to Jim as well. We'll have a bigger
6 discussion on that. We don't have time now,
7 unfortunately. Because of some mixups, this was not
8 included in the schedule.

9 We will schedule in November a conference call
10 meeting to discuss both future issues and some of what
11 can be done about updating some of the performance
12 criteria and the best way to go about doing that. So
13 we will be in contact soon about doing a Committee
14 meeting for November. So that's the only new business
15 that I have.

16 Does anybody else have any new business?

17 (No response.)

18 CO-CHAIR FATHER PIUS: That is the end of the
19 agenda. And if I could look for a motion? Gloria?

20 M O T I O N

21 CO-CHAIR VALENCIA-WEBER: Motion to adjourn.

22 CO-CHAIR FATHER PIUS: Is there a second?

1 MS. REISKIN: Second.

2 CO-CHAIR FATHER PIUS: All in favor?

3 (A chorus of ayes.)

4 CO-CHAIR FATHER PIUS: And this Committee is
5 adjourned. Thank you.

6 (Whereupon, at 4:19 p.m., the Committee was
7 adjourned.)

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