

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

JOINT TELEPHONIC MEETING OF THE
AUDIT AND AD HOC COMMITTEES

Thursday, December 11, 2008

11:11 a.m.

3333 K Street, N.W.
Washington, D.C.

AUDIT COMMITTEE MEMBERS PRESENT:

- Herbert S. Garten, Chairman
- Jonann C. Chiles
- Thomas R. Meites
- Frank B. Strickland, ex officio

AD HOC COMMITTEE MEMBERS PRESENT:

- Sarah Singleton, Chairman
- Herbert S. Garten
- Jonann C. Chiles
- Frank B. Strickland, ex officio

OTHER BOARD MEMBERS PRESENT:

- Frank B. Strickland, Chairman
- Lillian R. BeVier
- Thomas A. Fuentes
- Bernice Phillips-Jackson

1 STAFF AND PUBLIC PRESENT:

2 Helaine M. Barnett, President

Victor M. Fortuno, Vice President for Legal Affairs,

3 General Counsel, and Corporate Secretary

Jeffrey E. Schanz, Inspector General

4 Charles Jeffress, Chief Administrative Officer

Karen Sarjeant, Vice President of Programs and

5 Compliance

John Constance, Director, Office of Government

6 Relations and Public Affairs

Joel Gallay, Special Counsel to the Inspector General

7 David Maddox, Assistant IG for Management and

Evaluation

8 Ronald "Dutch" Merryman, Assistant IG for Audits

Eric R. Jones, System Administrator, Office of

9 Information Technology

Wendy Burnette Long, Executive Assistant, Executive

10 Office

Katherine Ward, Executive Assistant, Office of Legal

11 Affairs

Linda Perle, Center for Law & Social Policy (CLASP)

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P R O C E E D I N G S

(11:11 a.m.)

CHAIRMAN SINGLETON: I'll call this meeting to order while Herb is trying to log on.

This is a meeting of a special joint committee of the board of the Legal Services Corporation consisting of the audit and the ad hoc committees. It has been duly noticed in the Federal Register as a telephone and web internet-conferenced meeting. And the instructions for joining were noticed.

I'd like to have an indication of who is present. Let me start with the board, first of all. And I'll call names, and if you're here, say, "Present." All right? Or whatever you want.

Lillian BeVier?

MR. JONES: Here.

CHAIRMAN SINGLETON: Herb Garten?

MR. GARTEN: Yes.

CHAIRMAN SINGLETON: Mike McKay said he could not be present.

David Hall.

(No response.)

1 CHAIRMAN SINGLETON: Did anyone hear from
2 David?

3 MR. JEFFRESS: No. I did not know that he
4 plans to attend.

5 CHAIRMAN SINGLETON: Okay. Frank Strickland?
6 Frank, are you there?

7 MR. STRICKLAND: Yes.

8 CHAIRMAN SINGLETON: Thank you. Tom Fuentes?

9 MR. FUENTES: Yes. Present.

10 CHAIRMAN SINGLETON: Bernice?

11 MS. PHILLIPS-JACKSON: Present.

12 CHAIRMAN SINGLETON: Sarah Singleton is
13 present.

14 Jonann Chiles?

15 MS. CHILES: Present.

16 CHAIRMAN SINGLETON: Tom Meites? Tom, are you
17 there?

18 MR. MEITES: I am here.

19 CHAIRMAN SINGLETON: All right. I have named
20 all of the board members.

21 Is there anyone else who's present via
22 telephone?

1 MS. PERLE: Hi. This is Linda Perle. I'm
2 present, and I'll be here for part of the meeting.

3 CHAIRMAN SINGLETON: Welcome, Linda.

4 Anyone else present via telephone?

5 (No response.)

6 CHAIRMAN SINGLETON: All right. Charles,
7 would you like to inform us who is present in person at
8 LSC?

9 MR. JEFFRESS: Yes. I'll just go over the
10 names. Can people hear me all right?

11 CHAIRMAN SINGLETON: Yes.

12 MR. JEFFRESS: Okay. Charles Jeffress, the
13 chief administrative officer. With me is Wendy Long,
14 my assistant, who will be doing the ed brief on the
15 document with us today. And Eric Jones from our Office
16 of Information Technology, who will be assisting with
17 the technology.

18 Helaine Barnett, president. Karen Sarjeant,
19 vice president. John Constance, director of Government
20 Relations and Public Affairs. Jeff Schanz, the IG.
21 Dutch Merryman, Joel Gallay, assistant IGs. David
22 Maddox from the IG'S office.

1 CHAIRMAN SINGLETON: Could you slow down a
2 minute? Who did you say after Dutch?

3 MR. JEFFRESS: Joel Gallay.

4 CHAIRMAN SINGLETON: Okay. Thank you.

5 MR. JEFFRESS: David Maddox from the IG's
6 office. Vic Fortuno, general counsel. Katherine Ward
7 from the Office of Legal Affairs. And our recorder,
8 Peter.

9 CHAIRMAN SINGLETON: Thank you, and welcome,
10 everyone.

11 At this point, I'm going to ask Charles to
12 lead us through a discussion of the policy grassroots
13 management program, which I believe everyone has had an
14 opportunity to review and comment on. And Charles,
15 perhaps you could tell us which draft you're going to
16 have us look at.

17 MR. JEFFRESS: Thank you, Sarah. The draft --
18 you should be seeing the title page to the document on
19 your screen at the moment. And this is the draft that
20 was e-mailed to the four members of the board who were
21 on the special committee on December 8th.

22 MS. CHILES: Charles, I'm sorry. I can't hear

1 you.

2 MR. GARTEN: This is Herb. May I interrupt
3 for a second?

4 CHAIRMAN SINGLETON: Yes.

5 MR. GARTEN: For anybody that's helping me
6 here, it says we need a registration number. And I
7 don't see any.

8 MR. JEFFRESS: Yes. You need a member number,
9 and I'm going to give you the member number, Herb. It
10 might say "meeting number." It might say "access
11 code." But it's the same number. It's 486949596.

12 MR. GARTEN: 4869596 (sic). All right. Thank
13 you. Sorry I interrupted you.

14 MR. JEFFRESS: Okay. I've moved closer to the
15 telephone, if that will assist with the --

16 CHAIRMAN SINGLETON: It may be due to the
17 interference that is operating on the telephone line.

18 MS. BeVIER: I can hear you, Sarah -- this is
19 Lillian -- but it's much harder to hear Charles.

20 CHAIRMAN SINGLETON: Right. You seem clear,
21 too.

22 MR. JEFFRESS: And you all are very clear to

1 us. I think it must be the projector we're using in
2 this room to show the screen may be picking up a buzz.
3 But there's some kind of -- it would appear to be some
4 kind of interference coming from this phone.

5 We checked it yesterday using all of this
6 equipment and it was fine. I'm not certain what's
7 causing the problem today.

8 MR. CONSTANCE: And there's no volume button
9 there that you've --

10 MR. JEFFRESS: Yes. The volume is at max.

11 CHAIRMAN SINGLETON: Is there a microphone
12 that's close to the speaker that's being used to put
13 your voices into the telephone?

14 MR. JEFFRESS: As a matter of fact, there was,
15 for the recorder. We've just moved that. Did that
16 help any?

17 CHAIRMAN SINGLETON: I think it did it,
18 actually.

19 MR. JEFFRESS: Okay. There may have been some
20 interference between that microphone and the telephone.

21 MR. FUENTES: The buzz is completely gone out
22 here in California now.

1 CHAIRMAN SINGLETON: Yes. Mine is, too.

2 MR. JEFFRESS: Well, you know, the one thing
3 we didn't practice, we didn't have the recorder here
4 yesterday. And so thank you for suggesting that,
5 Sarah. So I hope this will make it easier to go
6 forward.

7 CHAIRMAN SINGLETON: Okay.

8 MR. JEFFRESS: All right. What I'd like to do
9 before -- someone asked the version of the document.
10 This is the document that was e-mailed out around to
11 the special committee on December 8th. It is slightly
12 revised from the version that the board received at the
13 board meeting on November 1st.

14 If you have worked with that November 1st
15 document, you will see some additions to this document,
16 and the additions should appear in color on your screen
17 as we go through it so it will be easy to identify what
18 modifications have been made.

19 Before we get into the document, if you will
20 permit me, I'd like to give just a brief background to
21 the rationale of why we're doing this for the record
22 and a brief background on the steps that brought us to

1 this point. I won't take long, but I think it's
2 important to have this on the record.

3 Go to the rationale, to the first page of
4 this, if you will.

5 In terms of the -- and you see on the screen
6 the rationale, the notes that I'm going to go through
7 briefly as we go through this. Having a risk
8 management plan is now considered a best practice for
9 organizations, whether private, nonprofit, or public.

10 And the risk management program is intended to
11 compliment and organization's strategic plan. It's
12 intended to help the corporate leadership, both board
13 and management, set the priorities and focus on
14 accomplishing what is most important to accomplish.

15 Here at LSC, of course, a few years ago we set
16 out Strategic Directions, and in setting those
17 directions, we made implicit decisions about risk
18 management, about what we thought was important to
19 accomplish, about what strategies we were going to
20 pursue to make sure we accomplished those objectives.
21 And in doing that, we may not have been explicit about
22 it, but certainly we were conscious of what are the

1 risks entailed with these different objectives and
2 these different strategies.

3 This risk management plan makes explicit the
4 statement of those risks that I'm sure we were all
5 taking into consideration when we developed that
6 Strategic Directions document. And the plan also goes
7 into more detail about the strategies for mitigating
8 those risks.

9 So if you will, in the course of looking at
10 and thinking about this document, which is a
11 complimentary document to our strategic documents,
12 considered a refinement, a review, a kind of
13 doublecheck on our priority and our strategies for
14 action.

15 In terms of how we got to this point where
16 this special committee is reviewing the risk management
17 program, you will recall that the Government
18 Accountability Office made the recommendation to LSC
19 that we implement a risk management program, a
20 recommendation which we accepted.

21 The Office of the Inspector General then
22 provided us some information on internal controls,

1 which are certainly a part of any risk management
2 program. You may recall that talk about the COSO
3 documents, the Committee on Sponsoring Organizations,
4 or the Treadway Commission, depending on how different
5 people refer to it. That's the same basic information
6 that the Government Accountability Office has on their
7 website about internal controls and risk management.

8 So David Richardson and I used that
9 information. We did some further research on the
10 topic, attended some workshops, and looked at various
11 models of other organizations for risk management
12 programs.

13 Helaine Barnett also went to the Southeast
14 Project Directors Association, where she saw a
15 presentation and brought back information on a risk
16 management program. And that led us to the Center for
17 Nonprofit Risk Management model, which we adopted for
18 use by LSC.

19 We had our office directors and the staff
20 involved in discussions about risk management and in
21 developing the first draft. The executive team
22 developed the first draft that's before you. Input

1 from office directors. And then at the 1st of November
2 board meeting, at the board's request, we went back to
3 some pro bono consultants that David and I had talked
4 to and asked them to give us a pro bono review of the
5 draft we had come up with.

6 They gave us some general comments, and you'll
7 find the references to those as we go through the
8 revised draft. And also at the board's request, you
9 asked that the Office of the Inspector General review
10 the draft and make comments, which they did and
11 provided. And a number of their comments have been
12 incorporated in the draft before you as well.

13 So the executive team took the comments from
14 the consultants, Sarah had made some individual
15 comments, comments from the IG, and inserted them into
16 the draft that's going to come before you. Today this
17 committee's reviewing the draft, and it's our hope that
18 you'll make a recommendation to the board to take
19 action either on the plan or some modification of it.
20 And it would be our intent, if you do, to present the
21 final plan to the board for adoption in January.

22 One note: This is an overall plan for the

1 Corporation. It's at somewhat of a high level. When
2 people might be looking for internal controls, such as
3 in the finance office where you have two people signing
4 checks, for instance, those kinds of detailed
5 strategies will be in each office's plan.

6 Once the board approves the overall plan, we
7 will make sure that those office plans are consistent,
8 carry out the intent of the strategies, and we will
9 append them to the board-adopted plan so that we have
10 one comprehensive risk management plan for the
11 Corporation.

12 So that's where we are. And unless there are
13 questions, I'll go to the document.

14 CHAIRMAN SINGLETON: Sounds good.

15 MR. JEFFRESS: All right. Wendy, if you will.

16 Oops, that's a little too big.

17 Okay. "Introduction to the risk management
18 program." This first paragraph on risk management
19 philosophy has not been changed, but you will see the
20 sentence in parentheses following the first paragraph
21 is a suggestion by one of the consultants. I wanted
22 you to see what the consultants recommended, but the

1 executive committee didn't recommend incorporating this
2 into the plan.

3 But the consultant -- that sentence is in
4 brown on our screen. I hope it's in brown or something
5 similar to that on your screen. The consultant
6 recommended that the Corporation set up a risk
7 management committee to monitor the implementation of
8 this plan; that it would have both management and board
9 members on the committee.

10 MR. MEITES: Hey, Charles?

11 MR. JEFFRESS: Yes?

12 MR. MEITES: Charles, before you to any
13 further, is there any definition in this document of
14 risk, r-i-s-k?

15 MR. JEFFRESS: There is not in the document.
16 Wendy, if you would --

17 MR. MEITES: Can you give me a definition of
18 the kind of risk that a risk management plan is
19 supposed to guard against? It seems to me from reading
20 this that everything that could possibly be considered
21 any kind of less than optimum performance by the entity
22 is a risk.

1 And if you define risk that way, essentially
2 what you're doing is laying out all the
3 responsibilities of an organization and then simply
4 saying, we might not succeed in meeting all these
5 obligations.

6 If that is what is meant by risk, what you've
7 really presented to us is simply an outline of what LSC
8 is supposed to do, and state that we may not be able to
9 do everything as well as the world might hope.

10 I would think that risk would have a far
11 narrower meaning, and if it has a narrower meaning,
12 which I'll give you in a minute, would have some value.
13 Risk is something untoward, illegal, unexpected, out of
14 the ordinary, extraordinary. But apparently this
15 document has been drafted from the other point of view.

16 MR. GARTEN: Herb Garten here. Tom, I think
17 it's clear where the probability is set forth on risks.
18 They have evaluated. This is below -- but that answers
19 a good deal of your comments.

20 MR. MEITES: I will tell you that I don't find
21 the document -- I've always thought it would be very
22 useful outlining everything that LSC hopes to

1 accomplish. But if that's what risk management means
2 today, then I'm perfectly happy with this approach.
3 But I think that if that's the approach we're taking,
4 we should make clear somewhere early in the document
5 what we are considering to be a risk.

6 CHAIRMAN SINGLETON: Tom and Charles, you
7 know, trying to review this document, I looked at some
8 of the GAO material that was provided for us to go to
9 if we wanted.

10 MR. JEFFRESS: Yes.

11 CHAIRMAN SINGLETON: One of which is
12 information security, risk assessment, and GAO
13 publications, which has a fairly nice statement of
14 basic elements of the risk assessment process,
15 including what I think is a definition of risk that
16 Tom's looking for, which is identifying threats that
17 could harm and thus adversely affect critical
18 operations and assets.

19 Risk includes such things as intruders,
20 criminals, disgruntled employees, terrorists, and
21 natural disasters. And maybe -- and I think that is a
22 broad definition, at least broader than the way Tom had

1 the narrow definition.

2 And I'm wondering whether we couldn't have
3 something like that in the beginning so that it's
4 before -- it might be a glossary, or it might be
5 included in our risk management philosophy to explain
6 what it is that we're trying to do.

7 MR. MEITES: I would feel very comfortable
8 with that, Sarah.

9 MR. GARTEN: Sarah, the best practices booklet
10 that you all have from the Inspector General of the
11 Department of Justice does have a nice statement on
12 page 10 regarding the responsibilities of the audit
13 committee:

14 "To ensure that the organization has
15 implemented appropriate internal controls to address
16 organizational risks, and that those internal controls
17 are operating effectively." And you might want to
18 consider adopting some of that language also.

19 CHAIRMAN SINGLETON: Well, Herb, I think
20 that's a good point. And it goes to what I was going
21 to say in response to the comments from the pro bono
22 consultants, which is I think we shouldn't create

1 another committee, but ought to ask the audit committee
2 to review this document periodically along with its
3 other general review of whether or not, you know, LSC
4 is doing sufficient internal controls.

5 MR. GARTEN: Then I would refer the group to
6 the charter of the audit committee, which specifically
7 addresses this, in Article 8, Duties and
8 Responsibilities, in subparagraphs 4 and 7. So perhaps
9 some reference should be made to supplement what you
10 just stated, with a reference to the relevant
11 paragraphs of the committee charter.

12 MR. JEFFRESS: Let me ask Wendy, before the
13 "Risk Management Philosophy" paragraph, to insert
14 something new -- no, before even the subhead, to insert
15 a new section which we won't, unless you want to, try
16 to spell out today entitled something like, "Definition
17 of Risk Management."

18 CHAIRMAN SINGLETON: Okay.

19 MR. JEFFRESS: And we will --

20 CHAIRMAN SINGLETON: Do you want me to fax to
21 you this page from this GAO publication that I read
22 from?

1 MR. JEFFRESS: That would be great. A fax or
2 a link would be great. And we'll start with that, and
3 draft something that does define the risks in ways that
4 narrow somewhat what we have here.

5 I would also say that one of the comments from
6 the consultants, in reviewing the earlier draft, was
7 that we had way too many risks to focus on in our
8 initial chart that was presented to the board on
9 November 1st. And so the executive team went through
10 that chart and eliminated a lot of the routine -- as
11 Tom Meites says, the things that are just everyday
12 things, but not the exceptional risks.

13 So you will find the list of risks in this
14 document significantly shorter than what was in the
15 document presented on November 1st.

16 I take it, then, from the suggestion that I
17 hear, that we should delete, then, the sentence in
18 parentheses at the end of the risk management
19 philosophy paragraph, and say instead that: "The audit
20 committee will monitor the implementation of the RMP"?

21 MR. GARTEN: Yes. "In accordance with the
22 provisions of the charter."

1 MR. JEFFRESS: I'm sorry. In accordance with
2 what, Herb?

3 MR. GARTEN: Yes. Have a reference to the
4 charter.

5 MR. JEFFRESS: Okay. And then you can just
6 del that and say, "monitor the RMP."

7 MR. GARTEN: Or you could say, "This is
8 standard operating procedure from all the charters
9 and" --

10 MR. JEFFRESS: "In accordance with the charter
11 of the audit committee."

12 MR. GARTEN: -- especially the reference I
13 just made to the best practices review at the
14 Department of Justice. It clearly is within the
15 purview of the audit committee.

16 MR. JEFFRESS: Okay. Well, Wendy has just put
17 a sentence in there to replace what was there. And
18 does that seem to capture what we're saying? Or the
19 implementation of the RMP; let's put the
20 implementation.

21 You all will note you see your changes on the
22 screen as Wendy types. If at any point any one of you

1 wants to type your own changes in here, we can give you
2 permission to do that and you can enter it yourself if
3 you prefer to do it yourself.

4 All right. Shall we go on to the "Risk
5 Management Goal," then? All right. Wendy, pull up
6 that paragraph, if you will.

7 In this "Risk Management Goal," the first
8 sentence, it was in the original or in the earlier
9 draft. The next sentence, which is in red on our
10 screen, was recommended by the Office of the Inspector
11 General in the course of their review.

12 And then what's in blue on our screen, the
13 remainder of that paragraph, was in response to
14 comments from both the inspector general and from the
15 consultants that there needed to be a clear link
16 between this document and our Strategic Directions
17 document to indicate that they are complimentary and to
18 indicate how the two work together. So those two
19 sentences in blue represent that linkage.

20 The last two sentences, that are in
21 parentheses and brown on our screen, are again
22 recommendations from consultants which the executive

1 team did not recommend inserting, but I wanted you to
2 know of them.

3 The first: A discussion of LSC's appetite or
4 tolerance for risk is needed. Consultants tend to take
5 the risks, weight them as to which is the most
6 important, and then define what level of risk the
7 organization is willing to tolerate, and then not
8 address those that are within the tolerance for risk.
9 I'll give you an example.

10 When the GAO reported on the failures at the
11 grantees which they found, some of those failures were
12 things such as grantees encountering late fees because
13 they paid a bill late. So in terms of tolerance for
14 risk, a question for our organization is: Should we be
15 monitoring grantees' payments of bills at the level of
16 which we can make sure they don't encounter late fees?

17 That would appear to me to be too great an
18 investment for a relatively small return. So in that
19 case, I would say we would have to tell the grantees
20 they should not incur late fees, and expect them to do
21 that, but not to invest our resources. Our tolerance
22 would be high enough such that we wouldn't go after

1 every grantee's bill payment to see that it was on
2 time.

3 But that's the nature of what the consultants
4 meant by tolerance for risk. I would say the executive
5 team didn't see a need for a lengthy discussion of how
6 much risk the organization is willing to tolerate.
7 Nevertheless, many risk management plans do attempt to
8 define what level of risk the organization is willing
9 to tolerate. In the private sector, it's often defined
10 by the amount of money involved. That's not
11 necessarily appropriate for us.

12 CHAIRMAN SINGLETON: Well, I tend to agree
13 with management's position that they should not put
14 that into this plan. And I would just take out that
15 first parenthetical.

16 I do have a question about the second
17 parenthetical, though. Are you going to discuss that
18 more?

19 MR. JEFFRESS: Yes. The second parenthetical,
20 in terms of using the RMP as a basis for management
21 decisions, the executive team feels like with setting
22 out the Strategic Directions document and setting out

1 this document, we will in fact be communicating to
2 staff, and have communicated to staff, about the
3 Strategic Directions document, the importance of that
4 as a guiding document for our activities, in fact,
5 report regularly on our success with meeting the
6 objectives set out in the Strategic Directions
7 document.

8 So in terms of a strategy for motivating staff
9 and board members to use the RMP, we didn't feel that
10 we should exchange the Strategic Directions, which is
11 our guiding document, with this RMP. So we didn't see
12 a need to put something in here, but again, welcome
13 advice from the board.

14 CHAIRMAN SINGLETON: I personally agree with
15 that position also because it seems to me this is more
16 like a negative statement of things that might go
17 wrong. And that's generally -- I mean, I guess that
18 could be the motivator.

19 But your strategic plan is what you really use
20 to get people to be moving in the same direction, and I
21 would say it would be better to focus on that when
22 we're trying to talk about whether or not -- or whether

1 management's decisions are consistent with the goals of
2 the organization. So I would omit this parenthetical
3 also.

4 MR. GARTEN: I concur in that.

5 MR. JEFFRESS: All right. Hearing no one
6 defending it --

7 MR. GARTEN: Is there any value in the cross-
8 reference in any of these documents, like from here to
9 the strategic plan?

10 MR. JEFFRESS: I'm not sure I heard your full
11 question, Herb.

12 MR. GARTEN: Is there any value in having
13 cross-references in the document, for example, in this
14 instance, to the strategic plan?

15 MR. JEFFRESS: If you see the sentence right
16 above, at the end of that risk management paragraph we
17 refer to it. We could, if you wanted to as we go
18 through the different risks, we could do that cross-
19 reference. I don't know that it's essential, but as we
20 get to those points, if that would be useful, we could
21 footnote it and identify where that strategy also
22 appears in our strategic plan. But at this --

1 CHAIRMAN SINGLETON: Let's think about it as
2 we go through.

3 MR. JEFFRESS: Okay. But at this point, we'll
4 delete these two parentheticals and go on.

5 Okay. The next paragraph, the consultants
6 pointed out that we had no narrative in here that
7 described how this plan came to be and how it was
8 developed. And we didn't have any definition of
9 severity of consequences or of probability.

10 So we wrote this paragraph -- and Wendy, I
11 think there's another sentence or two on the next
12 page -- we wrote this paragraph to attempt to address
13 how the document was put together and what it contains.

14 CHAIRMAN SINGLETON: Looks good to me.

15 MR. GARTEN: In particular, I think the
16 sentence about the risk areas being identified as being
17 high, medium, and low probability is very valuable.

18 MR. JEFFRESS: Okay. Well, I think it was
19 good advice, and I think that's just pretty much a
20 statement of fact there. So let's go on then to the
21 next section, which is LSC's resources and control
22 environment.

1 In the earlier draft sent to you, we listed
2 with long lists of people, funding, assets,
3 reputation -- we had a long list of resources. We did
4 not actually speak -- and we had a list of policies
5 which represented essentially the control environment
6 that the COSO materials and the GAO talk about. But we
7 didn't have any narrative that explained why they were
8 there or what they represented.

9 Moreover, in listing those resources, we got
10 advice from consultants, one, that policies are not
11 resources, so we shouldn't try to protect the policy at
12 all costs; policies ought to be adapted as needed.

13 And second, that reputation was the result of
14 doing other things well, and if all you were doing was
15 trying to protect your reputation, it sounded a little
16 self-serving. Better off to let the reputation follow
17 whatever other actions we take.

18 So the consultants recommended deleting
19 reputation and policies as resources to be protected,
20 and instead, just do a narrative describing what it is
21 we're trying to protect and what documents we use to
22 guide us in these protections.

1 So that long list of resources has been
2 collapsed into one brief paragraph, and then a second
3 paragraph added that describes the control environment
4 and the documents we use to guide our conduct as we go
5 about our business.

6 CHAIRMAN SINGLETON: Can I ask a question
7 about the list of people that you are seeking to
8 protect? Would it be inappropriate to put in there
9 "the clients served by the grantees"?

10 MR. JEFFRESS: Not inappropriate at all.

11 CHAIRMAN SINGLETON: It seems to me that to a
12 large extent, what you are trying to do with the
13 controls, in looking at the risks that the grantees
14 present, is to prevent harm to their clients or their
15 potential clients, as opposed to them as an
16 institution.

17 MR. JEFFRESS: So where we say, "LSC seeks to
18 protect the people of LSC, LSC's fundings, its assets,
19 and its grantees," you would add to this list, "and the
20 clients of the grantees"?

21 CHAIRMAN SINGLETON: Yes. Or, "the people the
22 grantees serve," something like that, and take out the

1 "and" before "its grantees."

2 CHAIRMAN SINGLETON: All right. Wendy, take
3 out that "and," and after "grantees" put a comma and
4 put, "and the people served by the grantees."

5 MR. STRICKLAND: Well, do you want to say
6 "people" or "clients served"?

7 CHAIRMAN SINGLETON: I wanted to put people
8 because we are also protecting the people who are
9 potential clients, I think.

10 MR. STRICKLAND: Okay. Got it.

11 CHAIRMAN SINGLETON: You might just put "those
12 served by the grantees," if you wanted to, I don't
13 know, have it be less folksy.

14 MS. BeVIER: I'd prefer to put "those served."

15 CHAIRMAN SINGLETON: Yes. Okay.

16 MR. JEFFRESS: All right.

17 MS. BeVIER: But I'm not on the committee.

18 CHAIRMAN SINGLETON: Well, that's okay.

19 MR. JEFFRESS: But you'll get a vote sooner or
20 later.

21 CHAIRMAN SINGLETON: We welcome input from
22 anyone who's willing to read this stuff.

1 (Laughter.)

2 MR. STRICKLAND: A friendly committee. They
3 accept comments from others.

4 MR. JEFFRESS: All right. Good point. Other
5 comments on that section?

6 (No response.)

7 MR. JEFFRESS: Okay. Let's go, then, to the
8 next section. And before we get into the long/short of
9 risks and strategies, I have in here a number of
10 comments made by the consultants that have not been
11 incorporated as the consultants recommended. Some of
12 them have been, to some degree. But again, I wanted
13 you to know what the consultants said to have this in
14 mind as you look at the charts.

15 First, an unusually high number of risks are
16 labeled as high risks, and there are no measure for
17 determining success in mitigating risks. Well, with
18 respect to this one, as I said earlier, we did go
19 through and eliminate a lot of the routine things that
20 are everyday risks, so there are fewer risks here. But
21 we did feel like where there was a significant
22 possibility, we labeled them as high.

1 Certain things that we know are going to
2 happen, and we just have to address them as they
3 happen. But as you go through here, you might think,
4 do we have too many labeled as high risks?

5 The second portion of that, we have no
6 measures in here for determining whether we have been
7 successful in mitigating the risks. And as you will
8 recall from our Strategic Directions, the performance
9 measures are the hardest part of these documents.

10 In looking at various other risk management
11 plans, there are very few that have such measures. But
12 I'm sure it is the best practice to develop such
13 measures, but it is not an easy or simple thing to do.

14 But as you go through this, if you have
15 suggestions for how we might measure our success in
16 mitigating a risk, it is certainly possible for us to
17 add a column on the charts for measures for determining
18 success.

19 The second parenthetical goes with the last
20 sentence, actually. The chart needs tactics or the
21 strategies need more detail regarding the degree of
22 difficulty in implementing the strategies. We felt

1 like we had sufficient in there, but you should know
2 the consultants wanted to see more specificity on them.

3 The consultants tend to assign numbers to the
4 degree of difficulty, and once they assign numbers,
5 they then weight things and average things and use
6 those numbers to determine priority. It is certainly
7 possible, but it is a long and time-consuming process.
8 And I think the executive team didn't think the return
9 on investment on that process was very high.

10 MR. GARTEN: Well, why don't we consider that
11 for future study.

12 MR. JEFFRESS: Okay. The audit committee may
13 well want to talk about that as you monitor the
14 implementation of the plan.

15 All right. Next, how are probability and
16 severity defined, and how are high, medium, and low
17 defined? We did put in the preceding paragraph, as you
18 saw, that we defined them as high, medium, and low, but
19 we didn't make any extra effort to define what
20 constitutes high, medium, and low. And again, the
21 consultants were looking for a number.

22 CHAIRMAN SINGLETON: Charles, I sort of had

1 the same problem, although I wasn't looking for a
2 number. I was trying to figure out what standards were
3 used to assign something the category of high or low or
4 whatever.

5 MR. JEFFRESS: Well, in terms of --

6 CHAIRMAN SINGLETON: I mean, suppose there's
7 something that you're fairly certain is going to
8 happen, but it's only going to happen once. Now, is
9 that a high risk because you're fairly certain it's
10 going to happen, or a low risk because it won't happen
11 very often?

12 MR. JEFFRESS: Could you give us an example of
13 something like that?

14 CHAIRMAN SINGLETON: I'm fairly certain that
15 one of our grantees is going to bill LSC for something
16 it shouldn't have billed LSC for.

17 MR. JEFFRESS: Right.

18 CHAIRMAN SINGLETON: I believe that will
19 happen. But I believe it will not happen very often.

20 MR. JEFFRESS: Right. In that case, you
21 know, we have probability and severity. So we tended
22 to rate the probability as high because it's likely to

1 happen, but the severity as low because it's not going
2 to happen very often and it didn't appear to have
3 significant consequences.

4 Now, but that really depends on what violation
5 it is. If they simply bill us for something
6 inappropriate, you know, low consequence. But if
7 someone were to go out and represent a client in a
8 redistricting case, that would have, you know, huge
9 consequences.

10 So you almost have to specify what the error
11 or problem is before you can really be precise in the
12 definition of consequences.

13 CHAIRMAN SINGLETON: Okay. So in essence, if
14 I heard what you were saying or I'm reading between the
15 lines, if the consequences are severe, you rated it
16 high?

17 MR. JEFFRESS: Well, again, there are two
18 ratings, one probability and one severity.

19 CHAIRMAN SINGLETON: Right.

20 MR. JEFFRESS: So severity is rated based on,
21 you know, how significant are the consequences if this
22 occurs. But the probability is rated independent of

1 severity, that is, is this event likely to occur.

2 CHAIRMAN SINGLETON: But is it rated
3 independent of materiality?

4 MR. JEFFRESS: Probability is rated
5 independent of materiality. If it's not material, it
6 probably shouldn't be on this chart in the first place.
7 I think that's what the consultants were saying to us.

8 CHAIRMAN SINGLETON: Well, I guess I was using
9 materiality in maybe a way like they talk about when
10 they write you audit letters. Okay. We'll go ahead.

11 MR. JEFFRESS: Okay. I'm sorry. We got some
12 comment from the room. And by the way, I'm happy to
13 share this responsibility for talking with anybody in
14 this room who wants to help.

15 (Laughter.)

16 MR. STRICKLAND: Sarah, this is Frank. I'm
17 going to have to drop off the call.

18 CHAIRMAN SINGLETON: Okay, Frank. Thank you
19 for joining us while you could.

20 MR. STRICKLAND: Thanks very much.

21 MR. JEFFRESS: Wendy asked for Herb's comment
22 about reserving something for future reference. Let's

1 go ahead and put a parenthetical in here, Wendy, under
2 the first parenthetical, saying that the audit
3 committee will review this --

4 MR. GARTEN: Recommendation?

5 MR. JEFFRESS: -- this recommendation as they
6 review the implementation of the RMP.

7 CHAIRMAN SINGLETON: Does it go under the
8 first or the second one, Charles?

9 MR. JEFFRESS: Okay. Second one, then. I was
10 referring to the measures, but those two really kind of
11 work together.

12 CHAIRMAN SINGLETON: Okay.

13 MR. JEFFRESS: We'll put that underneath the
14 second one.

15 CHAIRMAN SINGLETON: And you might lump the
16 first two together to make them one parenthetical, and
17 then have the audit committee look at everything.

18 MR. JEFFRESS: Okay. I'm sure they'll be
19 doing that anyway. Herb is going to be very thorough.

20 CHAIRMAN SINGLETON: And you can just make
21 that a footnote.

22 MR. JEFFRESS: Okay. That's probably the

1 better way to handle it in the final document.

2 CHAIRMAN SINGLETON: Yes. Okay.

3 MR. JEFFRESS: All right.

4 CHAIRMAN SINGLETON: Well, why don't we just
5 keep in mind as we're going through and seeing how
6 things are rated, making sure that we're consistent in
7 when we define something as high, medium, or low. And
8 if it looks like we're being inconsistent, then we need
9 some definitions or standards.

10 MR. JEFFRESS: That works for me.

11 Okay. Going down to the third parenthetical
12 now, consider assigning weights, again, we did not feel
13 that the investment of time in trying to weigh these
14 relative risks would be useful.

15 Next, how will the Corporation assign who is
16 responsible for the risks? The last page of this has
17 the assignment of who's responsible for the overall
18 plan.

19 And in terms of the column on the chart which
20 says who's responsible, the executive team and the
21 president will assign to specific offices the
22 responsibility for the strategies for mitigating those

1 risks. We haven't yet gotten to that point, but the
2 consultant is simply pointing out that we do need to
3 fill out that column after the board agrees on what
4 risks we're going to address.

5 The next question, does this listing of risks
6 get to the root cause of the risks, the consultant
7 didn't offer me any further advice. It was just this
8 one sentence in his report, and he would like -- you
9 know, he says we ought to spend more time on each risk
10 and make sure we've gotten to the root cause. That's
11 clearly something that the audit committee will be
12 looking at as we go through, is are these risks
13 correctly identified.

14 And then the last parenthetical about an
15 addition to the strategies, one consultant recommended
16 tactics beneath the strategies. The executive team
17 felt very much like we give our office directors and
18 our staff the strategies to be pursued, and expect them
19 to work on the tactics, discuss them with us, but
20 didn't feel like it needed to be in this high-level
21 board document to have tactics.

22 CHAIRMAN SINGLETON: Okay. Charles, let me

1 ask the members of the special committee now to give
2 some indication of how they feel about the task of
3 assigning specific numbers or weights to these various
4 items.

5 This has come up from the consultants in a
6 couple of places now, and I think if we could give
7 management an indication of whether we agree with their
8 position that the time it would take to do that is not
9 worth the benefit we would receive from having
10 undertaken the exercise, we ought to just let them know
11 so that we don't need to keep repeating the discussion
12 of it.

13 Does anybody have an opinion on it?

14 MR. MEITES: Yes. I think that it's a false
15 precision. I think it gives the kind of numerical
16 stuff that consultants like, but is really just a
17 guess. I would do without it.

18 CHAIRMAN SINGLETON: Yes. I would go even
19 further and say it's the kind of thing consultants
20 think they can do very well and get paid for.

21 (Laughter.)

22 MS. CHILES: This is Jonann. I agree.

1 MR. GARTEN: And I agree.

2 CHAIRMAN SINGLETON: Herb, are you on board
3 with that, too?

4 MR. GARTEN: Yes. But that doesn't mean that
5 if we're educated a little bit more and see some value
6 in it, we won't consider it as a committee. But --

7 CHAIRMAN SINGLETON: Yes. I think the audit
8 committee can consider it in the future as they're
9 seeing how this is implemented. But for right now, I
10 think it would really be not a good use of our limited
11 resources.

12 So I think, Charles, I would suggest that you
13 take out all the parentheticals that deal with that,
14 finding numbers or weights or whatever. And we are
15 agreeing with the management position, and will make
16 that recommendation to the board.

17 MR. JEFFRESS: That third parenthetical,
18 consider assigning weights, we'll just delete that.

19 CHAIRMAN SINGLETON: Right.

20 MR. JEFFRESS: What about the -- any other of
21 those parentheticals the committee would be comfortable
22 deleting at this point?

1 CHAIRMAN SINGLETON: I'm comfortable with
2 deleting them, given the explanation that you're going
3 to take care of the first one after we get the document
4 done. And I really think that that root cause exercise
5 is also similar to putting weights on it. It's just
6 too much. It's not -- we're not going to get benefit
7 for it.

8 And I don't -- I think we go deep enough
9 without adding tactics to this. So I would get rid of
10 all three of those.

11 MR. GARTEN: I concur in that.

12 MR. JEFFRESS: Okay. And we will leave the
13 probability and the severity, high, medium, and low, up
14 there for now. As we go through the chart, we just
15 keep that in mind. But we'll delete that from what
16 goes forward to the board unless, during the course of
17 going through these charts, folks feel like we need to
18 come back and do something to that.

19 CHAIRMAN SINGLETON: Right.

20 MR. JEFFRESS: Okay. Let's go, then. Now we
21 get to the charts. And we need to adjust these to get
22 them to fit the screen here. Let's see, Wendy. I

1 think we can go up a little bit. We don't need those
2 last two columns right now. 115, maybe. You have to
3 type it in. Oops, too high. Oh, that's 200.

4 CHAIRMAN SINGLETON: I just disappeared.

5 MR. JEFFRESS: Okay. Hold on a minute. We're
6 trying to adjust this.

7 CHAIRMAN SINGLETON: I don't know what it's
8 like on your screen, but on mine, it's just taking
9 up -- I mean, I have a lot more empty screen space.
10 Can you make it any bigger? The whole box, I'm talking
11 about.

12 MR. MEITES: You have a big screen.

13 MR. JEFFRESS: We just adjusted it. How much
14 can you -- what do you see? Do you see the risk to LSC
15 resources and people? You see the whole page?

16 CHAIRMAN SINGLETON: No, not now, I don't. I
17 see over to about half of who is responsible.

18 MR. JEFFRESS: Right. Okay. Those last
19 columns are blank, so we tried to make it as large as
20 we could for the risks and strategies.

21 CHAIRMAN SINGLETON: Okay.

22 MR. JEFFRESS: Okay. So this is the first

1 page of risks to LSC resources. And the -- golly, this
2 is going to be a lot of detail to go through. So in
3 terms of time, perhaps I should just address the
4 changes that were made from what was presented to the
5 board the first of November, unless you want me to
6 review the whole thing. Can I get some guidance on --

7 CHAIRMAN SINGLETON: Charles, remember, you
8 didn't get to make a presentation in November. So
9 maybe you could give a very brief description of what
10 each risk is supposed to be getting at.

11 MR. JEFFRESS: All right. Then I will go
12 down.

13 The first section that says governance and
14 board leadership, the risk is should there be some
15 failure in our process, should there be some problem
16 with good direction, good leadership from the board,
17 good information to the board so they could provide
18 good leadership.

19 It's obviously always a risk, as we've seen
20 from some of our local grantees, if the board isn't
21 informed and active. So that's the reason why risk is
22 on there.

1 In terms of strategies, to ensure that the
2 board was as well-informed and prepared as possible to
3 carry out their governance and leadership
4 responsibilities, we listed seven strategies. And two
5 of those have been amended since what we sent to the
6 board originally.

7 The same thing applies to the next box, which
8 is LSC management leadership. Obviously, there's a
9 potential risk of leadership by your management,
10 leadership failures by the management.

11 In both cases, for the board and for
12 management, we rated the probability of problems
13 procuring as low, but we rated the severity, should
14 problems occur, as high.

15 CHAIRMAN SINGLETON: All right. Now, let me
16 ask you this. This LSC management leadership, is that
17 just referring to the management team that Helaine has?
18 Or does it include the OIG office in it?

19 MR. JEFFRESS: The OIG has a separate risk
20 assessment for the Office of the Inspector General.
21 And this is only intended to be for the management
22 side. But let me just ask Jeff Schanz, who's here, if

1 he has any comment he wants to make. Oh, he just left.

2 Let me ask Dutch and Joel if they have any thoughts
3 about any need to include OIG in here.

4 CHAIRMAN SINGLETON: We don't have to put it
5 in. I was just asking what was envisioned.

6 MR. JEFFRESS: Okay. Well, it was envisioned
7 that the OIG had a separate one.

8 MR. GALLAY: Yes. I think that's correct.

9 CHAIRMAN SINGLETON: All right.

10 MR. JEFFRESS: And the OIG staff is nodding on
11 that.

12 MR. GALLAY: Correct.

13 CHAIRMAN SINGLETON: Okay. Now, you say there
14 is a low probability that you're going to run into
15 problems. But in my experience, while you all have a
16 cohesive management team, that has more often than not
17 not been the case.

18 MR. JEFFRESS: For the Corporation, you mean?

19 CHAIRMAN SINGLETON: Yes. For the Corporation
20 predating current tenure or even maybe sometimes during
21 current tenure. I'm not excluding that as a
22 possibility.

1 So it seems to me that why do you say that
2 probability is low?

3 MR. JEFFRESS: I think because --

4 CHAIRMAN SINGLETON: I mean, I've heard about
5 vice presidents fighting with each other almost the
6 whole time there's been an LSC.

7 (Laughter.)

8 MR. JEFFRESS: And that doesn't happen in any
9 organization, I'm sure.

10 CHAIRMAN SINGLETON: Yes.

11 MR. JEFFRESS: I think it's important to --
12 and perhaps we should insert something in here about a
13 time horizon. You know, our strategy directions talked
14 about a five-year time horizon for our mission and
15 goals, and this risk management program really needs to
16 be reviewed on an annual basis to make sure that it's
17 still appropriate. Or we could do it every two years
18 or every three years, depending on the appetite of the
19 audit committee for risk assessment.

20 But I would say that executive team, in
21 looking at this, took a relatively short time horizon
22 and was not looking beyond the tenure of the current

1 president.

2 MR. GARTEN: I think that there should be some
3 note of that by way of a footnote indicating that the
4 time limitation is reversed.

5 MR. JEFFRESS: Perhaps we should put that
6 right up front in the first paragraph, that the time
7 horizon is one year. But if we put one year, it really
8 commits the management and the audit committee to an
9 annual review. Maybe we should --

10 CHAIRMAN SINGLETON: It does.

11 MR. JEFFRESS: Maybe we should extend that
12 out.

13 MR. GARTEN: I think the risk assessment
14 should be made annually.

15 CHAIRMAN SINGLETON: At least you ought to
16 assess whether you need to assess it annually. Do we
17 need to redo this?

18 MR. JEFFRESS: Well, I would certainly hope
19 whatever we redo in the future will be modifications to
20 what's here instead of doing the whole thing from
21 scratch.

22 CHAIRMAN SINGLETON: Right. So that's what I

1 was --

2 MR. GARTEN: Well, why don't there just be a
3 simple sentence to the effect that the evaluation of
4 risk will be done on an annual basis by the management
5 committee.

6 MR. JEFFRESS: Okay. Perhaps in the paragraph
7 where we talk about rating risk as high, medium, and
8 low, say that the risks have been rated based on the
9 risks projected for the next year, and the program will
10 be reviewed annually by the audit committee.

11 MR. GARTEN: Right. But specify who it was
12 done by.

13 CHAIRMAN SINGLETON: That's right, because you
14 reference a document that's a five-year document.

15 MR. JEFFRESS: Right.

16 CHAIRMAN SINGLETON: And I think -- I would
17 think that that's a much longer period than one year,
18 so that if you don't think this plan is going to last
19 for five years, then you ought to say something like
20 what you just said.

21 MR. GARTEN: Well, it's the question of the
22 evaluation of the risk on a yearly basis.

1 CHAIRMAN SINGLETON: That's right.

2 MR. JEFFRESS: Okay. There's a sentence
3 that's on the screen now, development of the RMP:
4 "Risk areas were identified as being of high, medium,
5 or low probability or of having a negative event occur
6 during the next year."

7 So that's where we identified our time
8 horizon. I'm glad we went back to this. I had
9 forgotten to point that out, that we did have a
10 one-year time horizon. But we should add to this a new
11 sentence after this sentence that says, "The board
12 audit committee will review the risk assessment on an
13 annual basis."

14 Is that sufficient?

15 CHAIRMAN SINGLETON: Should that be, "will
16 review the RMP on an annual basis"?

17 MR. JEFFRESS: Okay. The RMP. Sure.

18 MR. GARTEN: Just technically, the first time
19 you use the full name, why don't you just put so we can
20 refer to RMP throughout.

21 MR. JEFFRESS: We do. In the very first
22 paragraph of the document, it is spelled out that way.

1 This is not the first paragraph of the document.

2 Okay. Shall we go back, then, to the charts?

3 CHAIRMAN SINGLETON: Yes.

4 MR. JEFFRESS: All right. We were down
5 through board and management leadership. The next --

6 MR. GALLAY: I'm sorry, Charles. If I can
7 just jump in before you left that one --

8 MR. JEFFRESS: Please.

9 MR. GALLAY: -- to point out the one area that
10 Sarah had commented earlier.

11 MR. JEFFRESS: This is Joel Gallay who is
12 speaking.

13 CHAIRMAN SINGLETON: Thank you.

14 MR. GALLAY: Thank you -- that communication
15 with the client community and other stakeholders might
16 be something you wanted to consider for the governance
17 and board leadership. Certainly the board always takes
18 great pains at its meetings to hear from the grantee
19 community and stakeholders, and that may be something
20 that's consistent with the other point.

21 MR. JEFFRESS: I think what Joel is referring
22 to is previously in the earlier draft, we have a long

1 section on communications as a separate risk area.
2 That's no longer in this document. In that earlier
3 section, we had communications with stakeholders and
4 others.

5 It sounds like Joel is suggesting under LSC
6 management leadership, as a strategy for mitigating
7 potential problems, to add regular communications. Is
8 that what you're speaking of?

9 MR. GALLAY: Well, actually, governance and
10 board leadership. A reference to that I thought was
11 consistent with Sarah's earlier point, that
12 communications --

13 CHAIRMAN SINGLETON: Yes. I think Joel's
14 right, that right after we say, "staying abreast of
15 best board governance practices," we may want to say,
16 "staying abreast of stakeholder opinions," or something
17 like that.

18 MR. GALLAY: "Concerns of the client
19 community," whatever.

20 MR. JEFFRESS: "Stakeholder concerns."

21 CHAIRMAN SINGLETON: I couldn't hear what
22 that --

1 MR. JEFFRESS: "Stakeholder concerns." Joel
2 was also suggesting, "concerns of the client
3 community."

4 CHAIRMAN SINGLETON: Okay. Yes.

5 MR. JEFFRESS: Stakeholder and client.

6 CHAIRMAN SINGLETON: Hopefully the
7 stakeholders are looking at that, but --

8 MR. JEFFRESS: Right. I'm sure --

9 CHAIRMAN SINGLETON: That's good. That's
10 good.

11 MR. JEFFRESS: All right. Okay.

12 All right. That's those two, then, board and
13 management leadership. The last three on --

14 CHAIRMAN SINGLETON: Can we -- I'm sorry.
15 Before you leave, these various colors that are up
16 there, can we just ignore them now and turn them all to
17 black?

18 MR. JEFFRESS: We can. But just again to
19 refresh your memory, the red, what's in red, was a
20 result of recommendations from the OIG. What is in
21 green were Sarah's recommendations on the earlier
22 draft. I think those are really the only two colors in

1 the chart.

2 MR. GARTEN: I think it's helpful to keep
3 them, Sarah.

4 MR. JEFFRESS: All right. For right now,
5 we'll keep them.

6 CHAIRMAN SINGLETON: Okay. But hopefully,
7 when it's finally adopted, we don't need to preserve
8 this for posterity, do we?

9 MR. JEFFRESS: No. What goes to the board
10 will be all one color.

11 CHAIRMAN SINGLETON: All right.

12 MR. JEFFRESS: Okay?

13 CHAIRMAN SINGLETON: Yes.

14 MR. JEFFRESS: Are we ready to go to the next
15 three? Leadership transitions. Because of the
16 election, obviously, the board transition is a pretty
17 high probability for the next year. The president has
18 a one-year contract, so we thought that was a high
19 probability of a transition, potential for risks.

20 And in terms of severity -- you can hard see
21 that at the top of the screen -- but severity we rated
22 as medium. Any time you have a change in leadership,

1 there's going to be some consequences. So it put it at
2 medium. And in terms of the strategies, we talked
3 about having a plan for both of those transitions.

4 The governance and performance review
5 committee has already talked about preparing
6 orientation documents for board members. So we
7 mentioned that specifically.

8 Management/IG relations: Probability, we
9 wanted to put low. But recognizing that two years ago
10 there were issues that we, you know, continue to work
11 on, while we believe that the relationship is very good
12 at the moment, we felt like to put it low would maybe
13 be to ignore too much of the recent history. So we
14 left that at medium.

15 Severity: If there are problems, high.
16 Clearly, the Corporation had problems two years ago,
17 and the poor communications was part of that.

18 Conflicts of interest and ethics violations:
19 Probability low, severity medium. And again, here's an
20 example. You've got to take an average. There'll be
21 some conflicts of interest that are really not
22 consequential at all.

1 Of course, you have the potential for a major
2 one that would have major consequences. But overall,
3 we rated the severity medium. And in terms of
4 strategies, reminding people about the code, and what
5 they promise to do, and the training on the code that
6 we will do each year for the staff.

7 Comments on those three?

8 CHAIRMAN SINGLETON: I guess I still am having
9 problems with this severity. I understood your
10 averaging thought, but how likely is it that there's
11 going to be a conflict of interest or an ethic
12 violation that's very severe?

13 MR. JEFFRESS: Well, again, the likelihood we
14 rated as low. Should one occur --

15 CHAIRMAN SINGLETON: Okay. So, yes, the low
16 likelihood of something severe. How likely is it that
17 there's going to be a non-severe conflict of interest
18 or an ethic violation?

19 MR. JEFFRESS: All I can --

20 CHAIRMAN SINGLETON: I would think that's also
21 probably low.

22 MR. JEFFRESS: Well, all I can report is that

1 prior to Vic's handing over the ethics concerns to John
2 Meyer, he had quite a few inquiries. None of them --

3 CHAIRMAN SINGLETON: But how often was there a
4 violation?

5 MR. JEFFRESS: I'm going to let Vic speak to
6 that. Vic?

7 MR. FORTUNO: This is Vic Fortuno, general
8 counsel. And we had a fair number of inquiries
9 resulting in, oh, I'd say maybe seven or eight
10 opinions, some of which were fairly lengthy.

11 I think that the issues that were raised in
12 most instances proved not to be a problem. And where
13 there were problems, they proved to be relatively minor
14 and corrected. I don't know if that helps, but --

15 CHAIRMAN SINGLETON: So for me, that would
16 mean the rules that we put in place for trying to avoid
17 these conflicts or ethical violations worked. So there
18 is low probability -- even though you had a number of
19 inquiries, there's a low probability that there's going
20 to ultimately be a violation.

21 MR. JEFFRESS: And the probability is low.
22 And again, as you point out, those that --

1 CHAIRMAN SINGLETON: But everything is low.

2 So why is it medium in severity?

3 MR. JEFFRESS: I'm happy to change it to low.

4 MR. GARTEN: What about the situation where it
5 doesn't come up often, but when and if it did come up,
6 their judgment was that the severity was at the end
7 level? I mean, that's conceivable.

8 CHAIRMAN SINGLETON: But there is a very low
9 probability that that would happen.

10 MR. GARTEN: I understand that. It could be
11 one every ten years. But the one in ten years --

12 CHAIRMAN SINGLETON: But we're only talking
13 about one year. During the next year, how likely is it
14 that that kind of a severe violation is going to occur?

15 MR. GARTEN: If it's one in ten years, the
16 percent of likelihood is 10 percent. So it's low.

17 CHAIRMAN SINGLETON: I guess I just don't
18 understand the math that you use to assign something a
19 medium severity risk.

20 MR. GARTEN: Well, is that a fair assumption,
21 what I just said? Once in ten years? Management?

22 MR. FORTUNO: I don't know that we've had

1 enough experience to be able to gauge it that way. I
2 think that while both probability and severity could be
3 low, I think the concern that maybe prompted use of the
4 midrange here, although as I said, it could easily be
5 low, was that while remote, it's possible that a given
6 conflict could have political consequences and thus be
7 of more significant severity than anything we've
8 experienced thus far under this code.

9 But that's speculation. Obviously, we don't
10 have anything concrete to base that on. And the survey
11 could easily, I think, be low in this category as well.

12 MR. JEFFRESS: If we modify it to low and
13 present it to the board, will that meet the wishes of
14 the committee?

15 MR. GARTEN: I think that to play it safe,
16 that it should stay at the medium level.

17 MR. MEITES: This is Tom Meites. Yes. I
18 agree that if you look at some of our fellow entities,
19 when they get in trouble for conflicts, it's big-time
20 trouble. So I think it's low, but if it happens, it's
21 going to be a disaster.

22 MR. FORTUNO: I mean, I don't know if any of

1 you followed the Smithsonian, but, you know, that's an
2 example of where things can get really out of hand.

3 MR. MEITES: Yes.

4 MR. JEFFRESS: Okay. Sarah?

5 CHAIRMAN SINGLETON: Well, this is not a fall
6 on your sword item. I was just trying to understand
7 the weighing process because to me, the mathematics of
8 it don't make sense although I understand your
9 rationale. But go ahead. Just leave it the way it is,
10 I would suggest.

11 MR. JEFFRESS: Well, you all are encountering
12 some of the same difficulties the executive team had.
13 This is not a very precise science in terms of
14 assigning probability and severity. So I recognize it,
15 and I can't claim that all these are real precise.

16 Wendy, let's go on to the next chart. I think
17 that's the end of this chart. Is it? Okay. Now these
18 are risks to our funding. Let me point out the two
19 questions down at the bottom of the page from Sarah on
20 the earlier draft.

21 Should it be a special discussion of other
22 federal funding like veterans, FEMA, et cetera? Since

1 the veterans funding is for a specific contract that
2 they asked us to do, not for serving the clients that
3 the LSC Act directs us to; FEMA funding would only come
4 if there were a disaster, and we don't have any at the
5 moment, we felt like putting that in as a risk to our
6 basic operations wasn't necessary or was not one of
7 those that rated a high enough problem to put in.

8 And then is this funding for the Corporation
9 or grantees or both? This only addresses Corporation
10 funding. These are risks to LSC's operations and to
11 our activity. Obviously, a lot of the grantee funding,
12 more than half of it, is from non-LSC sources. So we
13 didn't feel like addressing the risks to the non-LSC
14 sources of grantee funding was something that LSC could
15 do much about.

16 But we did differentiate --

17 CHAIRMAN SINGLETON: But that does include LSC
18 funding to grantees.

19 MR. JEFFRESS: Right. So the adequacy of
20 funding here we divided into basic field funding, which
21 is our funding to grantees, and then a separate
22 category for funding for the oversight operations. So

1 the first category there, we say basic field funding.
2 Perhaps we should say insufficient funding for
3 grantees, if that would be clearer to the public. But
4 we really were addressing that funding --

5 CHAIRMAN SINGLETON: Well, I mean, it's the
6 impact on the grantee that you're assessing in terms of
7 severity, is I guess what I'm meaning, as opposed to
8 your assessment of the impact on LSC as a corporate
9 entity.

10 MR. JEFFRESS: Well, it's the severity of our
11 achieving our mission. But John?

12 MR. CONSTANCE: This is John Constance. I
13 mean, I think also you have to look at -- the severity
14 really goes to the accomplishment of our mission. And
15 so, I mean, I think that, you know, when you look at
16 the overall mission of the Corporation, and again
17 taking this back to Strategic Directions, that's
18 what -- you know, that ultimately is what you're
19 talking about here in terms of whether you get adequate
20 funding or not.

21 CHAIRMAN SINGLETON: Okay.

22 MS. BEVIER: This is Lillian. I have to leave

1 the call. It was most enjoyable.

2 (Laughter.)

3 MR. JEFFRESS: Thank you, Lillian.

4 CHAIRMAN SINGLETON: Lillian, you need to get
5 a life.

6 (Laughter.)

7 MR. MEITES: Happy holidays, Lillian.

8 MS. BEVIER: Thank you all. Bye.

9 CHAIRMAN SINGLETON: Bye.

10 I don't know, but to me it would be helpful if
11 what John just said was in here somewhere, maybe as a
12 footnote explaining what we're talking about is funding
13 to accomplish LSC's mission, something like that.

14 MR. JEFFRESS: Okay. Where we say,
15 "insufficient basic field funding," Wendy, add, "to
16 accomplish LSC's mission of providing equal access to
17 justice."

18 CHAIRMAN SINGLETON: Okay. That's helpful to
19 me, at least, because I think green is my comment.

20 CHAIRMAN SINGLETON: Right. Oh, and one other
21 thing, Sarah. In your original comment, you had
22 something about grassroots partnerships. Grassroots is

1 such a third rail issue in terms of LSC doing
2 grassroots funding -- I mean, grassroots lobbying, we
3 took out the word "grassroots," if that's all right.

4 CHAIRMAN SINGLETON: Oh, fine.

5 MR. GARTEN: Sarah, I would like you to
6 consider adding, after "advocacy organizations," adding
7 "and financial supporters." And I'm thinking of the
8 Friends.

9 CHAIRMAN SINGLETON: Okay.

10 MR. JEFFRESS: In the strategies, Wendy, after
11 "advocacy organizations."

12 MR. GARTEN: One of your clients is going to
13 make a \$100,000 contribution like they did for Helaine.

14 CHAIRMAN SINGLETON: Who is?

15 MR. GARTEN: There's a lot of money in New
16 Mexico now, I hear.

17 CHAIRMAN SINGLETON: Yes, right. No, our
18 fortunes rise and fall with gas. You all might like
19 \$1.50 gas. We hate it.

20 (Laughter.)

21 MR. JEFFRESS: If I could point out, in the
22 second section, the insufficient management grants

1 oversight funding, Sarah had a suggestion there that we
2 assess M&A expenses to remove unnecessary duplication
3 and inefficiencies.

4 I sent a note out -- I don't think the full
5 board got it; I sent it to the people on the special
6 committee -- regarding what the board and Helaine have
7 done in the last four or five years to address the
8 administrative costs of the organization.

9 In our administrative operations -- the
10 president's office, the financial services, human
11 resources, OLA, IT, OIM -- we have reduced the number
12 of staff by 20 percent since this board took office.
13 You all have been good about going over the budget.
14 You've been good about demanding efficiencies. Helaine
15 has been very good at assessing what's necessary and
16 what we can do without.

17 We've reduced those administrative operations
18 by 20 percent to be able to continue the level of
19 investment in compliance and program performance that
20 we have. As you know, we've had a flat M&A budget, but
21 we've been able to keep that level of investment in OCE
22 and OPP because we have reduced the costs in other

1 areas.

2 So the sense of this sentence that Sarah had
3 in there, I was concerned maybe the board wasn't
4 recognizing what you have done over the past four or
5 five years at redirecting resources to program
6 performance and to compliance. And I wouldn't want you
7 to put something in this strategy that suggests that
8 there continue to be unnecessary duplication and
9 inefficiencies in the administrative operations.

10 CHAIRMAN SINGLETON: Well, you could put in
11 "if any," but I think that's a good reminder to the
12 board they need to keep doing that. And frankly, I
13 don't think the board really did that anyway.
14 Management may have done it, but I don't believe that
15 we did it.

16 MR. JEFFRESS: Well, you all have oversight of
17 this budget every year, and we're very conscious of the
18 fact that you would ask, you know, why are certain
19 offices going up. How about if we say, "continue to
20 assess M&A expenses"?

21 CHAIRMAN SINGLETON: That's fine. That's
22 fine.

1 MR. JEFFRESS: "For efficiencies." Hold on.

2 I'm not sure that Sarah's okay with that.

3 CHAIRMAN SINGLETON: Well, I think you could
4 take out "to remove," but you do need to say, "for
5 unnecessary duplication or inefficiencies."

6 CHAIRMAN SINGLETON: Okay.

7 MR. MEITES: Hello? Are you still there?

8 MR. JEFFRESS: We're here.

9 CHAIRMAN SINGLETON: We're still there. Are
10 you?

11 MR. MEITES: I've been asleep at the switch.
12 What does "redefine M&A" mean? Was it ever defined in
13 the first place?

14 CHAIRMAN SINGLETON: Yes.

15 MR. JEFFRESS: Yes. Management and
16 administration is what we've been --

17 CHAIRMAN SINGLETON: Go ahead, Charles.

18 MR. MEITES: Go ahead.

19 MR. JEFFRESS: Right. Management and grants
20 oversight is what we are calling it in the budget going
21 forward to Congress now to indicate that these expenses
22 are not just for administration, but also for our

1 program performance and compliance and enforcement
2 activities.

3 MR. MEITES: Okay. The entry, "Redefine M&A,"
4 is too inside baseball for me.

5 MR. JEFFRESS: Okay. And is that --

6 MR. MEITES: Use a few more words to explain
7 what you just said.

8 MR. JEFFRESS: And it's actually already been
9 done. So we might even delete it from here, actually.
10 But the board approved that in the 2010 budget. So
11 let's just delete "Redefine M&A" in here.

12 CHAIRMAN SINGLETON: Well, you might want to
13 make -- like you made "emphasize quantifying return on
14 investment," "emphasize grants oversight mission or
15 aspect." I'm not suggesting changing the one that's
16 there. I'm suggesting adding one in place of "Redefine
17 M&A."

18 MR. JEFFRESS: To --

19 CHAIRMAN SINGLETON: "Emphasize grants
20 oversight function."

21 MR. JEFFRESS: "Emphasize grants oversight
22 function"? Okay. All right.

1 CHAIRMAN SINGLETON: Yes.

2 MR. GARTEN: Put between "duplication" and
3 "inefficiency" an "and."

4 MR. JEFFRESS: Okay. So we have "duplication/
5 inefficiency", delete the slash and put an "and" in
6 there.

7 CHAIRMAN SINGLETON: And take off the
8 parentheses. You made your point, but we want it in
9 there, some of us.

10 MR. JEFFRESS: Okay. It's in there. Take off
11 the parentheses, and we'll make it back.

12 CHAIRMAN SINGLETON: But now you also need a
13 space.

14 MR. JEFFRESS: Yes. Okay. Inefficiencies.
15 There we go.

16 Okay. What about the next two risks? Are we
17 ready to go on to the next two?

18 CHAIRMAN SINGLETON: Yes. Go on to the next
19 one because I again have a severity issue question.

20 MR. JEFFRESS: Okay. The elimination of
21 restrictions, there's been quite a bit of talk since
22 the election, both on the Hill and even from -- I've

1 heard it from OMB, that there will be an effort to
2 modify the restrictions in the upcoming Congress. So
3 we rated that as --

4 MR. MEITES: Wait. Stop. Wait, wait. Why is
5 that a risk? "Risk" is a pejorative word.

6 MR. JEFFRESS: Yes. It is --

7 MR. MEITES: But I will not accept the
8 elimination of restrictions as a risk. Sorry. I
9 just -- it's written backwards. If restrictions are
10 eliminated, there'll be more work for the Corporation.
11 End of story. What does that have to do with this
12 presentation at all?

13 CHAIRMAN SINGLETON: Here's how I see it does.
14 What's the title of this chart? Can you go up above?

15 MR. JEFFRESS: "Risks to our funding."

16 CHAIRMAN SINGLETON: Okay. Risks of
17 resources. To me, elimination of restrictions presents
18 some risk that various Republicans who have been
19 supportive of LSC funding since 1996 may decide that
20 without the restrictions in place, they no longer will
21 support LSC funding.

22 MR. MEITES: Yes. But wait. On the other

1 hand, if the attorneys fees provision is eliminated,
2 there'll be more funding opportunity.

3 MR. GARTEN: There's a way to compromise this.
4 On the strategies, "Assess impact of elimination of
5 public and private funding." So that takes care of
6 your concern, Sarah, about Congress reacting negatively
7 and that our allocation be reduced. Saying that we
8 need this money for other purposes, and you go out
9 there; you can get it from private sources, and the
10 attorney fee restrictions. And that's the risk.
11 That's your concern, as I heard you.

12 CHAIRMAN SINGLETON: My concern is we'll lose
13 bipartisan support for federal funding for legal
14 services.

15 MR. GARTEN: Well, then, the word is
16 "elimination or reduction of public" -- it's two
17 things.

18 CHAIRMAN SINGLETON: No. I don't think so
19 because we're talking about a specific event, which
20 would be eliminating some of the restrictions. What
21 risk does that run? And it runs the risk that we will
22 lose some support in Congress for federal funding.

1 MR. MEITES: No, Sarah. I think that's pure
2 speculation. I think that that is far afield from --
3 it's a guess what might happen if something else might
4 happen. It's a two step removed from what, to my mind,
5 is a real world risk.

6 I agree that if you want to put something --
7 that private funding is always in flux. And I wouldn't
8 mind putting --

9 CHAIRMAN SINGLETON: But --

10 MR. MEITES: Wait, wait, wait. I'm not done.
11 I wouldn't mind putting a bland statement in adequacy
12 of funding is something about private funding. But I
13 wouldn't tie it to any particular event. You know, it
14 may be that there's an axe murderer in one of our
15 grantee's offices, and the people think that they're
16 not going to give money to our grantees.

17 CHAIRMAN SINGLETON: Well, but there is
18 significant talk in the legal services community about
19 eliminating two particular restrictions, private
20 funding and attorneys fees. This is coming up. This
21 is not speculation.

22 MR. MEITES: Well, but Sarah, what -- you

1 know, the sky is falling worries. I can list a hundred
2 things that might happen that might turn off donors.
3 And I can list a thousand things that might happen in
4 Congress that might be good news for us or bad news for
5 us.

6 I think this is much too specific a kind of
7 event to include in the risks. So I very much would
8 put it in just the continued public/private funding,
9 which is always a variable which we have no control
10 about, which may be affected by many functions. But I
11 see no mandate at all to focus on this one possible
12 event.

13 CHAIRMAN SINGLETON: Okay. Well --

14 MR. MEITES: In fact -- go ahead.

15 CHAIRMAN SINGLETON: All right. Well, I don't
16 see any need to put in private funding because LSC
17 receives no private funding. So we don't need to talk
18 about -- this category or chart is about risk to LSC
19 resources, nor our grantees. So I don't think we need
20 to put in anything about private funding here.

21 If you think that the adequacy of funding
22 covers that, this issue, then that's another thing. We

1 can just take this out as a specific that's already
2 been covered by what's up above.

3 MR. JEFFRESS: If I could add something to
4 this, I understand Tom's point that eliminating
5 restrictions is an opportunity as well as a risk. So I
6 concur with that.

7 The Corporation, though, if either the private
8 funding restriction is eliminated or if the attorney
9 fee restriction is eliminated, if either of those is
10 eliminated, we obviously are going to have to modify
11 our regulations, change the way we enforce the rules,
12 change our procedures manuals. There are things that
13 we're going to have to do should either of those events
14 occur.

15 So, Tom, in terms of it being a risk, I'm not
16 trying to suggest that this is a risk that's a bad
17 thing. But I think it is something that's going to --

18 CHAIRMAN SINGLETON: Well, I understand what
19 you just said, Charles. But then it doesn't belong
20 under "Risk to LSC Resources."

21 MR. JEFFRESS: Okay. Where is --

22 CHAIRMAN SINGLETON: If all you're talking

1 about i we might have to do more work to change our
2 regulations, I wouldn't put it on this chart.

3 MR. CONSTANCE: This is John Constance. I
4 mean, the only question would be, Sarah, is if anybody
5 here thinks that we're going to get more money in order
6 to the additional work that would be associated with
7 that. And I don't know that one can assume, you know,
8 that you will.

9 CHAIRMAN SINGLETON: Why would you think we
10 would get more money to write restrictions -- to
11 rewrite our regulations?

12 MR. CONSTANCE: No. What I'm saying is
13 that --

14 CHAIRMAN SINGLETON: We didn't get more money
15 to rewrite them when they put the restrictions in.

16 MR. CONSTANCE: I'm saying the point is that
17 you won't --

18 MR. MEITES: I think just drop this whole
19 item. It doesn't belong here, it's contentious, and
20 for the reasons I've stated, it really is the kind of
21 chicken, you know, the sky is falling stuff I can't
22 stand.

1 MR. GARTEN: Jonann, what do you think? Is
2 she on with us?

3 MR. JEFFRESS: Jonann? Are you there?

4 MS. CHILES: Hi. Sorry.

5 MR. JEFFRESS: Herb asked for your opinion on
6 this.

7 MS. CHILES: I think I come down on the side
8 of Tom Meites on that issue.

9 MR. GARTEN: All right. So let's eliminate
10 it, Sarah, if it's okay with you.

11 CHAIRMAN SINGLETON: Yes. It's fine with me.
12 Take it out.

13 MR. JEFFRESS: Okay. We'll eliminate that
14 whole row.

15 CHAIRMAN SINGLETON: Let's make sure, then,
16 when we have strategies under the top category, that we
17 have generic enough words to cover what we need to do
18 if we start -- if there's real fallout from eliminating
19 restrictions. Probably they are strong enough.

20 MR. JEFFRESS: Okay. John Constance is saying
21 he thinks that we have the necessary strategies there.

22 CHAIRMAN SINGLETON: Yes. I agree.

1 MR. JEFFRESS: Okay. The last category,
2 "Special Population Funding Distribution Formulas."
3 Obviously, we're in the middle of looking at those
4 already, so the probability is high. The severity is
5 hard to assess.

6 CHAIRMAN SINGLETON: This is Native American
7 funding and what else?

8 MR. JEFFRESS: Well, potentially migrant
9 funding as well. But Native American is what we know
10 we're addressing at the moment.

11 CHAIRMAN SINGLETON: Okay. Again, I guess in
12 this one I'm going to sort of echo what Tom just asked
13 about the last one. Is this a challenge or is this an
14 area where there might be change? I mean, is somebody
15 threatening to do away with the special funding formula
16 for Native Americans?

17 MR. JEFFRESS: Not that I'm aware of. The law
18 requires us to set aside money for Native Americans.
19 So it's only a matter of increasing it, and under what
20 terms and conditions, is the question.

21 CHAIRMAN SINGLETON: Again, I'm wondering why
22 that's a risk.

1 MR. JEFFRESS: Okay. I see that management,
2 the executive team folks here, suggest that we just
3 eliminate it.

4 CHAIRMAN SINGLETON: And then maybe we want to
5 move up "Work with interested parties on special
6 population funding issues" to strategies under --

7 MR. JEFFRESS: Basic field funding?

8 CHAIRMAN SINGLETON: -- under "Adequacy of
9 Funding." Now, insufficient basic field funding?

10 MR. JEFFRESS: That's where the special
11 population funding comes from. So that would be an
12 appropriate strategy.

13 CHAIRMAN SINGLETON: Yes. So maybe if we just
14 moved up one of those strategies to that, then we could
15 eliminate that bottom thing.

16 MR. JEFFRESS: Okay. Why don't we move both
17 of those strategies to the top one. And then the
18 second one, we'll say, "criteria-based funding
19 distributions for special populations."

20 CHAIRMAN SINGLETON: Okay. Is that all right
21 with everybody on the special committee?

22 MR. GARTEN: Yes.

1 MS. CHILES: Yes.

2 CHAIRMAN SINGLETON: Okay.

3 MR. JEFFRESS: And then we'll otherwise delete
4 that last row, then.

5 Okay. Let's go to the next page. Wait a
6 minute. Helaine has a question.

7 MS. BARNETT: We can delete the two bottom of
8 that page, the two greens.

9 MR. JEFFRESS: Oh, and Sarah, the two comments
10 you had at the bottom of the page --

11 CHAIRMAN SINGLETON: You can take them out.

12 MR. JEFFRESS: -- delete those? Okay.

13 MR. CONSTANCE: At the very bottom of the
14 page.

15 CHAIRMAN SINGLETON: And you don't have to
16 redline them out.

17 MR. JEFFRESS: We'll just delete them.

18 CHAIRMAN SINGLETON: They can not be there.

19 MR. JEFFRESS: Okay. Next page. This is
20 entitled, "Assets." This chart has added to it some
21 things that were not in the earlier chart, and pulled
22 together things that were -- some things were in the

1 people and reputation and policy things that we
2 classified as an asset. So it's a little different
3 from what you saw earlier. But most of it's been
4 brought over from other charts that were otherwise
5 deleted.

6 The financial control failures, I notice Sarah
7 had a question about what this means. Here we were
8 talking about a failure within our financial offices to
9 record something properly or to account for something,
10 the same kinds of things, that GAO pointed out happened
11 at our grantees. Those are the kinds of failures we're
12 talking about, the failures of internal financial
13 controls.

14 CHAIRMAN SINGLETON: But it's of money that we
15 use at LSC?

16 MR. JEFFRESS: Well, there are two sections.
17 One would be internal control failures at LSC, and then
18 underneath the dotted line, internal control failures
19 at grantees.

20 CHAIRMAN SINGLETON: But again, it's the same
21 conceptual problem. Are we talking about LSC in
22 relation to the grantees? In other words, has LSC

1 failed to ensure there are internal financial controls
2 at the grantees? Or are we talking about the grantees
3 not having --

4 MR. JEFFRESS: We're talking about the
5 financial controls not working. And the first section
6 is them not working at LSC, and the second section is
7 them not working in grantees. And LSC has the
8 responsibility for both of those.

9 CHAIRMAN SINGLETON: Okay. Well, then, we're
10 back to my problem. We're lumping these together
11 because we also have -- then we have a third category,
12 is LSC fails to detect that the grantees don't have
13 adequate financial controls.

14 Because your failures at LSC, if you are
15 characterizing it, means that somebody at LSC isn't
16 double-signing a check at LSC. It has nothing to do
17 with LSC's oversight function. And there's two
18 different problems at work there.

19 MR. JEFFRESS: Perhaps we should -- Wendy, go
20 down to the net chart where we talk about grantee
21 failures. Perhaps we should delete it from this chart
22 and go on to the next -- no, the next page. I'm sorry,

1 next page. "Grantee Oversight." If you will see,
2 later we have --

3 CHAIRMAN SINGLETON: Yes. Right. I think
4 that's what you ought to do. Eliminate grantees from
5 the first chart we were looking at and put it in this
6 one.

7 MR. JEFFRESS: Okay. Well, before we go back,
8 let's just make sure we get it in this one. So
9 preventing lapses here -- maybe we've got all the
10 strategies we need. Okay. Let's just go back, then,
11 and delete it from the earlier charts since it's here,
12 and maybe that'll help clarify it. So that "Failures
13 of grantees" row, just del that.

14 MS. SARJEANT: Except that board education's
15 not there.

16 CHAIRMAN SINGLETON: Put it somewhere so we
17 can make sure we have all the strategies on the other
18 page.

19 MR. JEFFRESS: Okay. We'll just strike
20 through it for now so we can come back and read it if
21 we need to.

22 CHAIRMAN SINGLETON: Okay.

1 MR. JEFFRESS: Other comments on this page?

2 CHAIRMAN SINGLETON: You can take out my green
3 comment on the first one.

4 MR. JEFFRESS: "What does this mean?" Okay.

5 CHAIRMAN SINGLETON: The failures of -- yes.

6 MR. JEFFRESS: Right. On litigation, we
7 listed different types of litigation that were
8 potential risks. On employment litigation, Sarah, you
9 suggested the use of employment contracts with limited
10 revenues. LSC is an at-will employer, so we don't have
11 contracts with employees except for the contract the
12 board has with the president.

13 CHAIRMAN SINGLETON: Well, I'm suggesting you
14 might want to think about having them, and putting in
15 limitation of remedies of clauses.

16 MR. GARTEN: In my experience, Sarah, and I'm
17 just telling you how I feel is, we're much better off
18 with no contracts here in Maryland.

19 MR. JEFFRESS: If we're an at-will employer,
20 why would we want a contract?

21 CHAIRMAN SINGLETON: Because, one, I seriously
22 doubt whether you're going to be an at-will employer

1 given the employment manual that you have. It's going
2 to be an implied promise of a contract.

3 And two, you can still in your contracts say
4 you are an at-will employer, but should you believe
5 that you were wrongfully terminated, here -- you agree
6 that the following are the remedies you will be limited
7 to, you know, six months severance pay or something
8 like that.

9 MR. GARTEN: All right. Vic, what's your
10 comments on this?

11 MR. JEFFRESS: He's coming to the phone. Just
12 a minute.

13 MR. FORTUNO: I think that if the claim of the
14 former employee is that they were dismissed on the
15 basis of some impermissible reason, then that's going
16 to survive, I would think, the contract. But clearly,
17 it does limit damages in some instances, so there's a
18 benefit to it.

19 But I think in most instances, employers that
20 are employers at will have valued that and have stayed
21 away from employment contracts. It's certainly
22 something we can do, but I think it's probably a bigger

1 issue than we can take up here in this context. But
2 certainly it's something --

3 CHAIRMAN SINGLETON: Well, why don't you just
4 put in the "consider use of employment agreements that
5 limit remedies."

6 MR. GARTEN: I'm opposed to putting it in at
7 all based upon my experience here in Maryland.

8 CHAIRMAN SINGLETON: I think you'd find that
9 most upper level management employees, even in at-will
10 states, will have an employment contract and it will
11 limit the remedies, in most businesses.

12 MR. GARTEN: Well, you not saying -- saying
13 "use of employment contracts" would cover everybody.

14 CHAIRMAN SINGLETON: Well, not necessarily.

15 MR. GARTEN: Well, you're not restricting it
16 here. Why don't we -- well, Tom, you're good at this.
17 What do you think?

18 MR. MEITES: Well, I prefer to have --
19 represent a fellow with an employment contract.

20 MR. GARTEN: When you're representing him.

21 MR. MEITES: Yes, just as a plaintiff's
22 lawyer. The world of employment at-will is pretty

1 murky in most places. Employment contracts give you
2 something to chew on, and a smart lawyer can always
3 find a misplaced comma or a poor use of words that'll
4 get you by summary judgment on a contract case.

5 So if I ever advised employers, I would not go
6 this way. I think it -- but I have a different -- I
7 think it's just too specific for this kind of document.

8 MR. GARTEN: Jonann?

9 MS. CHILES: Hi. I would be in favor of
10 saying "consider use of employment contracts with
11 defined remedies." I'm on the fence as far as using
12 employment contracts. Was that the question?

13 CHAIRMAN SINGLETON: Yes. I think those
14 changes are good. But it's really not any different
15 than effective negotiation and use of releases.

16 MR. GARTEN: If you present somebody with a
17 contract, we're getting -- they have to have their own
18 counsel. The employment contract may be something
19 that's acceptable or not acceptable to the other
20 lawyer. And based upon my experience -- but I'll go
21 with the majority of the joint committee, of course --
22 I would say don't include it in this risk assessment

1 analysis.

2 That doesn't mean it shouldn't be taken up by
3 management to see whether they think it's a good idea,
4 in consultation with Vic and also in consultation with
5 a lawyer in the District of Columbia where the
6 agreement is litigated or interpreted. That law would
7 provide for it. But D.C. and Maryland have very
8 similar positions in this area.

9 MR. JEFFRESS: At some risk, if I could speak
10 for management on this, it would appear to me that this
11 is an issue that ought to be addressed in conjunction
12 with the employee handbook and our personnel policies
13 rather than in the risk management program.

14 And I would encourage, if we want to consider
15 this, that this get referred for, you know, a different
16 place to consider and not be a part of a risk
17 management program because it seems to me it's a
18 personnel policy issue that deserves further study
19 rather than being a strategy on risk management.

20 MR. GARTEN: Sarah, how to take a vote on
21 this, or do you want to drop it, or what?

22 CHAIRMAN SINGLETON: Why is -- you can take it

1 out. But then why do you leave in the third one?

2 MR. GARTEN: Well, let's take a look at it.
3 What's the third one?

4 MR. JEFFRESS: Well, currently, to avoid
5 litigation, we do negotiate sometimes with employees
6 who are leaving under difficult conditions, and we do
7 use releases, carefully worded by our general counsel,
8 to address the conditions under which they leave. So
9 those are --

10 CHAIRMAN SINGLETON: So what you're saying is
11 this document should only have existing practices in
12 it?

13 MR. JEFFRESS: No, I'm not. But I'm saying
14 the practices that are in this document are things that
15 essentially are being recommended as strategies. And
16 it seems to me employment contracts, at least
17 management is reluctant to recommend as a strategy at
18 this point without a lot more conversation.

19 MR. GARTEN: I think we ought to wait for
20 management to --

21 CHAIRMAN SINGLETON: Then take it out.

22 MR. JEFFRESS: Okay. All right. Going down,

1 then, let's see if we can get this whole chart.
2 Anything else on this chart, this particular page, we
3 need to address?

4 (No response.)

5 MR. JEFFRESS: Okay. Let's go to the next
6 page, then. Continue to be LSC resources, different
7 kinds of assets, the data we collect from grantee,
8 records management. Perhaps here, Wendy --

9 MR. GARTEN: I think there's a typo here, so
10 maybe I ought to give it to you now. Clarify and
11 report other services, is that meant in word "other" or
12 "over"?

13 MR. JEFFRESS: It's "other." "Other services"
14 is a term of art in our grantee reporting -- in our
15 grantee reports. We have cases and then we have other
16 services. Would you like us to put that in quotes so
17 that it's clear that it's a reference to a term of aft?

18 MR. GARTEN: "Better report" -- who's making
19 the report, again?

20 MR. JEFFRESS: The reports comes from grantees
21 as to what services they provide. And we've had
22 some --

1 MR. GARTEN: So why don't you just put the
2 word "other grantee services"?

3 MR. JEFFRESS: How about clarifying "better
4 report on services provided by grantees"?

5 MR. GARTEN: That's fine.

6 MR. JEFFRESS: Because you're right, that is
7 an inside baseball kind of term of art for us, and I'm
8 not sure even putting quotes around it is going to
9 clarify it. But Karen has a concern.

10 MS. SARJEANT: Well, under our --

11 MR. GARTEN: I can't hear her.

12 MS. SARJEANT: The way we count data, this was
13 what used to be considered "matters." And so if we
14 capitalize it and put quotes around it -- I don't think
15 we should change the terminology of what we call the
16 other work that programs are doing.

17 MR. JEFFRESS: For those who might not hear
18 her, Karen was pointing out that "other services data,"
19 if we put those three words in quotes, that is an area
20 of reporting that we've been working on this past year
21 that we need to continue to work on in order to capture
22 things other than cases that grantees do.

1 So because it is a specific category of things
2 we're working on, Karen suggested it would be a problem
3 if we modified it somehow by communicating something
4 different. So Wendy, put quotes before "other" and
5 after "data."

6 MR. GARTEN: That's fine.

7 MS. SARJEANT: After "services."

8 MR. JEFFRESS: Okay. All right.

9 MR. GARTEN: All right. I have one to add for
10 us to consider, and that would be reliance upon the
11 IPAs. It's mentioned several places, I think,
12 throughout this. But I think the -- I don't know
13 whether it's appropriate to put it in here.

14 MR. JEFFRESS: I don't think --

15 MR. GARTEN: But I think it's important.

16 MR. JEFFRESS: It is important, Herb, and we
17 do address it in the grants oversight chart when we get
18 there. But this is data on clients served and not the
19 kind of financial data that IPAs report on. And that
20 is going to be covered in the grants oversight
21 category.

22 MR. GARTEN: Okay. I follow you. Go ahead.

1 MR. JEFFRESS: One thing, Wendy, if you will,
2 under "records management," make that "LSC records
3 management." Sarah's concerned about whose records are
4 they. Let's make it clear we only here talked about
5 our records.

6 And you see the preservation of LSC interests
7 and grantee property. The IG pointed out that we
8 didn't have any recognition of this in the earlier
9 draft, and one of the consultants also asked about are
10 there property interests we need to protect. So we
11 added this row.

12 Any other comments on this page?

13 (No response.)

14 MR. JEFFRESS: Let's go to the next page.
15 Okay. Here's where we get to the grantee oversight.
16 And maybe we need to refine this, given the discussions
17 that have gone before. But in that parentheses,
18 "(including LSC and IPAs)," what we were referring to
19 was oversight by LSC and IPAs. And maybe it's not
20 exactly clear. Wendy, take out the parentheses and the
21 word "including" and put "by."

22 Now, Herb, let's see. Does this get at your

1 concern about the reporting by IPAs? One thing that
2 Sarah suggested we consider as a strategy is
3 overhauling the IPA system, and I'm sure that's an
4 outcome of the ad hoc committee's discussions with the
5 IG as well as all of us.

6 MR. GARTEN: I think that -- I'm open for
7 discussion on this, but I struck it out on my copy
8 because we've had this IPA system in effect with
9 probably over a hundred independent accounting firms
10 all over the country.

11 And to start overhauling something that's been
12 in existence I think is a major matter to take. I'm
13 not sure we'd want to take it. Maybe there are some
14 things that will come up. But I think to implement
15 it -- and the IG is very much involved in this, and
16 what is their position on this insertion? Who's there?

17 MR. JEFFRESS: Joel Gallay is the senior IG
18 person here. David Maddox is here as well. I'll ask
19 them to choose between them who wants to respond.

20 MR. GALLAY: I think we'll defer responding at
21 the moment on this one. I mean, I think I'd echo the
22 comment before just saying that overall, the IPA system

1 is probably beyond what you're talking about for this
2 document. But we may supplement that more when Jeff
3 gets in the room.

4 MR. JEFFRESS: Karen has a comment. You'll
5 have to speak up.

6 MS. SARJEANT: Yes. In the course of the
7 joint meetings that we --

8 CHAIRMAN SINGLETON: Can she get to the
9 microphone? I can't hear her.

10 MR. JEFFRESS: Just a minute.

11 MS. SARJEANT: In the course of the joint
12 meetings that we've been having with representatives
13 from the inspector general's office, we have been
14 talking about areas where there may be some
15 improvements made to the system.

16 So I don't know that the correct word is
17 "overhaul." But there certainly are some changes and
18 additions that may be being considered.

19 MR. GARTEN: Well, what you're considering, is
20 the words "enhanced IPA oversight" sufficient?

21 MS. SARJEANT: I think that would be okay.

22 MR. GARTEN: What does Joel say?

1 MR. GALLAY: Yes. I would agree with that.

2 MS. SARJEANT: Here comes Jeff.

3 MR. GARTEN: Oh, we got the big shot here.

4 Great.

5 MR. JEFFRESS: Let me bring him up to date.

6 Jeff, we were discussing this item on the strategy for

7 avoiding lapses in grantee oversight regarding IPAs.

8 What is in there was "enhanced IPA oversight," and

9 Sarah, after the ad hoc committee considerations,

10 suggested inserting "or overhaul of IPA system." We're

11 discussing what's the best strategy to pursue with

12 respect to assuring no failures in the IPA oversight.

13 MR. SCHANZ: This is Jeff Schanz, the

14 inspector general. It's easy to talk about enhanced

15 IPA oversight or overhaul of the system. But that

16 comes with a cost. And with that cost, you need to be

17 able to consider the return on investment.

18 Now, the issue that has not yet been defined

19 that the Corporation wants to see and the IPAs are not

20 contracted to do is internal control reporting of the

21 financial system, which comes up under Section A(2) in

22 the legislation.

1 We intend -- we, the IG's office, intend to
2 send out a bulletin to the IPAs asking them to consider
3 doing that. We have information that they already do
4 some testing of financial statement internal controls,
5 but they don't report out on it. And we need to get a
6 better handle on, A, if they can do that, and B, what
7 it will cost.

8 We did bring in somebody from Cotton &
9 Company, who is a local CPA firm here. They indicated
10 that the general IPA community is able to do this, but
11 they weren't able to quantify what the cost would be
12 and what the actual assessment would be.

13 So it is something that I think is a good
14 strategy. There is a cost involved with it, and we're
15 going to be -- as part of our IG oversight of the IPA
16 process, we're going to be considering the best way to
17 do that and try to identify what the cost would be.

18 MR. GARTEN: Okay. Well, Sarah, I would ask
19 that you delete the "or overhaul of the IPA system."
20 But certainly I think "enhanced IPA oversight" will
21 cover everything that we need.

22 CHAIRMAN SINGLETON: Well, my point was to

1 suggest that the IPA system ought to be revamped. I'm
2 willing to take it out of here because I think it would
3 need a congressional change. But I think the whole
4 thing is ill-conceived and ought to be changed. But I
5 don't care if you take it out of this document.

6 MR. JEFFRESS: Well, I think we all agree it's
7 a system that's going to get some more attention than
8 what it's getting. So let's just, Wendy, delete that
9 from --

10 MR. GARTEN: Yes. I'm very interested in,
11 Jeff, your following through on the request and coming
12 up with an answer to what additional cost it would mean
13 at the local level. It may be minor.

14 MR. SCHANZ: Well, from the indications -- and
15 the AICPA actually has a standard that relates to
16 this -- once again, and since we're talking about risk,
17 it depends how much risk you want to assess because you
18 will never get 100 percent assurance that the internal
19 controls are functioning as they're designed to do
20 without 100 percent testing. And that becomes cost-
21 prohibitive.

22 So the risk is always going to be, short of

1 100 percent compliance testing, that there are going to
2 be, to use the term I just heard, lapses, lapses in the
3 coverage and lapses in the reports. And what we're
4 trying to do from an IG shop in dealing with the IPAs
5 is to mitigate and minimize those risks as well as we
6 can at an appropriate cost.

7 MR. GARTEN: I think we agree with that.

8 MR. SCHANZ: That's where we're heading.

9 We're not there yet, but that's what we're doing.

10 MR. GARTEN: Well, it would be an improvement
11 over what's going on now.

12 MR. SCHANZ: Well, if nothing else, what we
13 will do is put them on notice, put the -- if there's
14 137 IPAs for the 137 grantees, we will put them on
15 notice that this is a huge concern for the Corporation.
16 And whatever testing they will do to get us closer to
17 the goal of having a report on the financial controls,
18 the internal controls over the financial system, will I
19 think go a long way to reducing or at least recognizing
20 that there is risk involved.

21 MR. GARTEN: And we'll be meeting the
22 standards of the AICPA with this internal audit.

1 MR. SCHANZ: Correct. If that's what we
2 contract them to do, yes.

3 MR. GARTEN: Well, I think that's a good
4 improvement, and it reflects that we're moving ahead if
5 we can do it. And the cost-effectiveness, of course,
6 is something that's important, especially at the local
7 level.

8 Anyway, what is your time period for that?

9 MR. MEITES: Herb, stop for a second. Herb, I
10 think that the operations and regulations committee has
11 on several occasions put the IPA issue on its agenda.
12 I think that's where this belongs. I'd like Jeff to be
13 prepared to continue this discussion at our January
14 meeting. But I don't really think we have to go into
15 it here.

16 MR. GARTEN: Fine. So if everybody is
17 satisfied --

18 MR. MEITES: Jeff, let me just --

19 MR. GARTEN: -- leave it at "enhanced IPA
20 oversight."

21 MR. MEITES: Yes. Jeff, you heard what I
22 said?

1 MR. SCHANZ: Yes, I did.

2 CHAIRMAN SINGLETON: Well, I'm not satisfied
3 with the word "enhanced."

4 MR. MEITES: Wait, wait, wait. Let me finish
5 and get an answer for Jeff first, and then you guys can
6 go back to language.

7 Jeff, will you be in a position to make a
8 report to our committee on what we've been talking
9 about at our January meeting?

10 MR. SCHANZ: Actually, we were prepared to
11 talk about it in Salt Lake City, but we ran out of
12 time. So yes, we are --

13 MR. MEITES: That's right. So we'll put you
14 back on the agenda and we'll do it there. Okay. I'm
15 done.

16 CHAIRMAN SINGLETON: I wouldn't use the word
17 "enhanced." I would use the word "improved."

18 MR. GARTEN: That's fine.

19 MR. JEFFRESS: Okay. Change "enhanced" to
20 "improved."

21 While she's doing that, I've noticed that
22 we've made one more typo on this chart. The

1 probability and severity for this item, somehow it
2 mixed it up. The probability is supposed to be medium
3 and the severity is supposed to be high.

4 The probability we'd like to be low. Given
5 the oversight and criticism we had this past year, we
6 felt like we needed to put it at medium. So go ahead
7 and change that probability to medium for right now, if
8 you will.

9 The severity, obviously, if something -- some
10 poor oversight occurs, the severity has the potential
11 to be high. But that's what we had in the draft. But
12 I invite again your comments on that assessment as
13 well.

14 CHAIRMAN SINGLETON: Is it correct that you
15 assess, if you got in trouble with Congress, that that
16 means it's a high severity?

17 MR. JEFFRESS: If LSC gets in trouble with
18 Congress, yes, it would be high severity, we think.

19 CHAIRMAN SINGLETON: Even if there's no
20 consequence other than you have to take time talking to
21 people on the Hill? That counts as high severity?

22 MR. JEFFRESS: It's certainly a consequence

1 for our reputation, and I think it damages our ability
2 to get future funding. Yes, I think it has high
3 severity consequences for the Corporation.

4 CHAIRMAN SINGLETON: What would you call it if
5 it resulted in a reduction in funding? Very high?

6 MR. JEFFRESS: John and I would be looking for
7 other jobs, I think.

8 MR. CONSTANCE: Yes. It would be high to the
9 second power.

10 MR. JEFFRESS: And Karen just pointed out that
11 in the strategies here is the place where we needed to
12 come back and insert local board education. Wendy, if
13 you will, after "monitoring media reports," insert an
14 additional "strategy." And it's the insertion from the
15 previous one about local board education.

16 Other comments? The other two rows on this,
17 "Interpretation of regulations by LSC staff," we
18 thought was a potential risk, even though we think it's
19 low probability that we should address and make sure
20 that we don't encounter that. And then there's a long
21 list of potential risks from grantee operations.

22 In this case, the list of strategies addresses

1 more than one of those risks on the left. So don't
2 read across that the strategy addresses that particular
3 risk. All of those strategies would be useful in
4 addressing multiple risks on the left.

5 Any other -- go ahead.

6 CHAIRMAN SINGLETON: Before you leave, we
7 knocked out four different strategies for failure at
8 grantees under internal financial controls when we took
9 that out, only one of which was board education.

10 MR. JEFFRESS: Right. Let's look at those.
11 They were grantee management education, local board
12 education, effective IPA system, and effective OCE
13 monitoring.

14 CHAIRMAN SINGLETON: Right. Have we covered
15 all of those? I'm just trying to see.

16 MR. JEFFRESS: Go back down now to the other.

17 MR. MEITES: Can you repeat what those four
18 are, please?

19 MR. JEFFRESS: Okay. We're going to paste
20 them in here so that you can look at them.

21 Go on down to the very bottom. Okay. Add
22 them after that "competition" line, the last line.

1 CHAIRMAN SINGLETON: Where are you adding
2 them? Okay.

3 MS. CHILES: Madam Chairwoman, this is Jonann
4 Chiles.

5 CHAIRMAN SINGLETON: Yes?

6 MS. CHILES: I apologize. I'm going to have
7 to sign off the call. If there is a motion at the end
8 of this meeting to the effect that, with the changes
9 that we've discussed in this conference call, that the
10 RMP be presented to the board, then I would vote in
11 favor of that motion.

12 CHAIRMAN SINGLETON: All right. That will be
13 noted for the record. Thank you, Jonann.

14 MS. CHILES: And again, my apologies. And
15 thank you for putting all this together, Charles and
16 everyone.

17 MR. JEFFRESS: You're welcome. Thank you for
18 your patience this afternoon.

19 CHAIRMAN SINGLETON: I think you've put that
20 in the wrong place. But maybe --

21 MR. JEFFRESS: Well, we just put it up there
22 on the screen so you could review them. But let's go

1 back up and look and see --

2 CHAIRMAN SINGLETON: But now we need to go
3 back up.

4 MR. JEFFRESS: Yes. Go back up. Okay. We're
5 looking for OCE, IPA, and grantee management education.
6 We have training of grantee staff in the strategies of
7 the grantee operations. Keep going up. Keep going up.
8 Wendy, please go up. And then we have IPA up there up
9 above.

10 CHAIRMAN SINGLETON: Where is the training?
11 I'm sorry, I'm just missing it.

12 MR. JEFFRESS: Okay. Go down a little, Wendy.
13 No, no, a whole screen down. Keep going. Okay.

14 On the right-hand -- under "Grantee
15 operations" --

16 CHAIRMAN SINGLETON: Yes. But we're under --
17 shouldn't this be under "Preventing lapses"? Go up to
18 the "Preventing lapses" part.

19 MR. JEFFRESS: Okay. But this is lapses in
20 our oversight. The lapses in grantee --

21 CHAIRMAN SINGLETON: Okay. I'm just trying to
22 look at it.

1 MR. JEFFRESS: Right.

2 CHAIRMAN SINGLETON: Because we put in local
3 board education here. Is that right? Is that where it
4 goes?

5 MR. JEFFRESS: I think you're right. I think
6 that goes down under "Grantee operations." I think
7 you're right. So Wendy, that last line, local board
8 education, delete it there and put it under "Grantee
9 operations."

10 MS. SARJEANT: Although --

11 MR. JEFFRESS: Well, they don't do oversight
12 for us. This oversight right now is LSC and IPAs.
13 Sarah, do you think that it's more appropriate down
14 there?

15 CHAIRMAN SINGLETON: Yes. Or at least we need
16 to be consistent and make sure we're always focused,
17 looking at it from the same focus. That's all.

18 MR. JEFFRESS: I think you're right because
19 this section focuses on grantees, and the previous
20 section focuses on LSC and IPAs.

21 CHAIRMAN SINGLETON: Right. Right.

22 MR. GARTEN: I have a question about your

1 insert, "including hiring financial overseer." What's
2 your reasoning on that one?

3 CHAIRMAN SINGLETON: I think that -- there's
4 been a lot of talk about whether we could do that, and
5 this is what it seems to me we need to do in some of
6 these Wyoming-type situations. And I wanted to point
7 out that that should be a grant condition we should
8 think of.

9 MR. MEITES: Hold on. I missed the predicate
10 to your statement. What should be a grant condition we
11 should think of?

12 CHAIRMAN SINGLETON: That a program that was
13 failing would have to hire a financial overseer.

14 MR. MEITES: So you want to put -- but it's in
15 the wrong place now, then.

16 CHAIRMAN SINGLETON: Well, I think we could do
17 it as a grant condition. You know, we've talked about
18 receivership, and that might be the wrong word. This
19 is really what I think we might need to require
20 programs to do --

21 MR. JEFFRESS: Oh, I see. So you're saying as
22 a new grant condition, grant conditions should include

1 a -- oh, I got you. I understand. Thank you.

2 CHAIRMAN SINGLETON: Yes.

3 MS. SARJEANT: Sarah, this is --

4 MR. GARTEN: Management apparently did not --
5 did we get their position?

6 MS. SARJEANT: Yes. This is Karen. I was
7 just getting ready to speak to that. I think that this
8 may be too much detail for this particular chart
9 because we use a variety -- we have a variety of grant
10 assurances, and we use a broad range of grant
11 conditions.

12 And there's really no reason to pick out one
13 over any of the others that are -- many of which are
14 just as substantial.

15 CHAIRMAN SINGLETON: That's fine. Take it
16 out.

17 MR. GARTEN: If we're talking about
18 regulations, and it was okay with the executive
19 committee, and it was recommended by the IG -- and what
20 do they mean?

21 CHAIRMAN SINGLETON: All right. This is --
22 I'm sure they mean lesser sanctions. And I think that

1 that is not what we need relative to some of what I
2 think we already could do.

3 MR. JEFFRESS: No. I --

4 MR. MEITES: No. Sarah, I don't think so.
5 For regulations, for example, we're going to be talking
6 about requiring the boards of our grantees to have an
7 audit committee. There's all kinds of stuff we might
8 do. I don't think that this is limits to sanctions at
9 all.

10 CHAIRMAN SINGLETON: Okay. Fine.

11 MR. JEFFRESS: And I would --

12 MR. GARTEN: Which regulations are we talking
13 about?

14 MR. JEFFRESS: Herb, the executive team, in
15 looking at this, we were talking about what strategies
16 do we use to try to avoid problems at grantee
17 operations, we listed grant assurances. We listed
18 grant conditions. We didn't list regulations, but
19 that's clearly one of the strategies we use.

20 But we didn't assume, by mentioning this as a
21 strategy, that we were endorsing any particular change
22 or any particular regulation, simply that maybe we

1 could put appropriate regulations. But regulations are
2 one of the means we use --

3 MR. GARTEN: Are you talking about compliance
4 with regulations on the grant?

5 MR. JEFFRESS: Well, we have --

6 MR. MEITES: No, Herb, to impose new
7 regulatory burdens on them besides compliance.

8 MR. JEFFRESS: We were trying to make it
9 consistent with program letters, advisories, grant
10 conditions, grant assurances. We don't list in every
11 case "compliance with." We just list these as
12 strategies that we use.

13 MR. GARTEN: Just saying regulations by
14 itself, I needed explanation of what you were talking
15 about. Could we do any better than just putting
16 "regulations" in there?

17 MR. MEITES: Well, what you might want to put
18 is "Review existing regulatory structure."

19 MR. JEFFRESS: Well, we were just talking
20 about enforcing existing regulations, is what we
21 thought we --

22 MR. MEITES: No. That's not broad enough

1 because in some instances, we might want to change the
2 regulations as far as --

3 MR. GARTEN: I think "Review and enforcement
4 of." It's both categories that you're talking about.

5 MR. MEITES: Yes. Herb's right. There are
6 two different issues, one, enforcement of our existing
7 regulations and review of the regulations for needed
8 changes.

9 MR. JEFFRESS: Okay. Well, why don't we put
10 "Enforcement of regulations" as one. Wendy, make the
11 regulations "Enforcement of regulations." And then add
12 one saying, you know, "Periodic review of program
13 regulations." Because that's what you do now. The
14 operations and regulations committee does that on an
15 annual basis anyway.

16 MR. GARTEN: All right. That would solve it.

17 MR. JEFFRESS: I mean, you do that on an
18 annual basis, to look and see which ones need
19 attention.

20 MR. GALLAY: Yes. I mean, our original
21 comment about this was exactly what Charles said. It
22 was simply that regulations is another tool that is

1 available to the Corporation to use as one of the
2 strategies to address, you know, any of the variety of
3 risks that were identified. So we did not have in mind
4 a particular regulation. It was simply that that's one
5 of the vehicles, the tools in the arsenal, for
6 appropriate oversight.

7 MR. GARTEN: The poor quality legal
8 services -- could you move it down a line or what is
9 that?

10 MR. JEFFRESS: Yes. We can do that. And this
11 was pointed out by the IG, that in listing the
12 potential problems, we had not addressed ourselves to
13 actually the quality of the services actually
14 delivered. So we inserted that, and we can push that L
15 down a line so that it follows that better, if you
16 like.

17 CHAIRMAN SINGLETON: Well, I think you ought
18 to be consistent. Are you always putting the letters
19 with the second line of an entry?

20 MR. JEFFRESS: We meant to. Obviously, we
21 missed that one.

22 Okay. Let's go down and see if -- I think

1 that's the end of this page. Are we ready to go to the
2 next page? Yes, take those four out.

3 So here were some more strategies that went
4 with preventing lapses in grantee operations. And then
5 there were two comments from Sarah.

6 I think we have now listed the IPAs. I think
7 we've addressed that one. The A(50) report, you know,
8 that's an internal referral between OIG and OCE. And
9 we haven't listed that level of detail, generally, in
10 this document.

11 So if it's all right, Sarah, can we delete
12 those two lines?

13 CHAIRMAN SINGLETON: Yes.

14 MR. GARTEN: What category is this under?

15 MR. JEFFRESS: It continues the grantee
16 operations, "Potential problems at grantee operations"
17 category. And we'll work on this to get it all on one
18 page so it doesn't do this.

19 MR. GARTEN: What's the relevance here of an
20 outreach to congressional and federal agency
21 representatives? We mention that on the part of the
22 board and the officers, I believe.

1 MR. JEFFRESS: The issue here is when we have
2 a problem at a particular grantee, John makes sure that
3 the congressional folks are informed.

4 MR. CONSTANCE: Yes. The example right now
5 would be Wyoming, where we've reached out to Senator
6 Enzi's office and, you know, not only kept them
7 informed, but also asked them to, you know, provide
8 support back to the state judiciary and others to
9 express their --

10 CHAIRMAN SINGLETON: Could you go up just a
11 little bit so we could see the problem?

12 MR. JEFFRESS: Okay. It's still grantee
13 operations.

14 MR. GARTEN: "Need to replace program." It
15 would be under that category. Is that what you're
16 saying?

17 MR. JEFFRESS: Yes.

18 MR. GARTEN: All right. That's what confused
19 me. Okay. I understand it now.

20 MR. JEFFRESS: Okay. Go on down, Wendy.

21 All right. That's the end of the risk
22 categories, and this is the last page. Thank you all

1 for your patience. This page assigns responsibilities
2 within the Corporation --

3 CHAIRMAN SINGLETON: Charles, something's
4 happening with your microphone. It's very hard to hear
5 you again.

6 MR. JEFFRESS: I'm sorry. I've walked away
7 from the telephone. I'm sorry. This is the last page,
8 and it assigns responsibilities within the Corporation
9 for risk management. I think now that we have added
10 the audit committee responsibility in particular, so
11 under board of directors we should add another line,
12 Wendy, at the bottom saying, "Audit committee to review
13 implementation of the RMP." Right now we have the
14 whole board doing that, if we want to do it just for
15 the audit -- if they're going to have that function, we
16 should highlight them, I think.

17 The line in blue about --

18 CHAIRMAN SINGLETON: What is No. 2, then,
19 under board of directors? "Reviews the operations to
20 monitor progress towards goals and assures compliance
21 with organizational requirements." What is that
22 talking about?

1 MR. GARTEN: Where are we now, Sarah?

2 CHAIRMAN SINGLETON: Still under board of
3 directors, the second item. They're not numbered, but
4 it starts, "Reviews." Yes, right there where you've
5 got the cursor. What is that talking about?

6 MR. JEFFRESS: Well, this is what we try to do
7 at board meetings, particularly on the occasion where
8 we review our progress towards the Strategic Directions
9 goals and objectives, understanding that the goals and
10 objectives in the Strategic Directions are also those
11 goals that we're trying to avoid problems with.

12 CHAIRMAN SINGLETON: Okay. I just wanted to
13 make sure it was broader than the risk management plan.

14 MR. JEFFRESS: It is. And perhaps we should
15 say, "Reviews operational goals as defined in Strategic
16 Directions," and make that clear.

17 CHAIRMAN SINGLETON: Yes. Okay.

18 MR. JEFFRESS: "Reviews operational reports as
19 defined in the Strategic Directions." Put it after
20 "towards goals." "Reviews operational reports and
21 requirements towards goals as defined in Strategic
22 Directions." Okay. Thank you.

1 MR. GARTEN: All right. I want to thank the
2 staff and Sarah and all those who have participated in
3 this. I think we've got a much better product than we
4 had previously.

5 MR. MEITES: I want to commend Charles on the
6 improved telephone service.

7 CHAIRMAN SINGLETON: Well, I want to thank
8 Sarah for asking about the microphones. That was the
9 key. That was the entire key.

10 MR. MEITES: That was my single issue.

11 CHAIRMAN SINGLETON: Okay. Well, hopefully we
12 won't have that problem in the future, either.

13 MR. GARTEN: I hope that everybody has a good
14 holiday season.

15 CHAIRMAN SINGLETON: Well, wait a minute.
16 Don't leave.

17 MR. GARTEN: Why?

18 CHAIRMAN SINGLETON: This special committee
19 needs to take a vote, so don't go anywhere.

20 MR. GARTEN: Oh, okay.

21 CHAIRMAN SINGLETON: Are we done, Charles?

22 MR. JEFFRESS: I'm done. I'd be happy to

1 respond to any further questions you have.

2 MR. MEITES: Sarah, why don't you make a
3 motion.

4 MR. FUENTES: Before you do, Sarah, as a
5 member of the board, I'd like to commend the committee
6 members. I think all of your efforts have really --
7 and really a great contribution. I commend you on your
8 hard work, and happy holidays.

9 CHAIRMAN SINGLETON: Thank you, Tom, and thank
10 you for sitting through this.

11 I would entertain a motion that the special
12 joint committee of the board recommend to the board
13 that the risk management plan be adopted as modified by
14 the special -- or the joint committee. Is there such a
15 motion?

16 M O T I O N

17 MR. MEITES: I so move.

18 CHAIRMAN SINGLETON: Thank you, Tom Meites.
19 Is there a second?

20 MR. GARTEN: Second. Herb here.

21 CHAIRMAN SINGLETON: Thank you, Herb. I
22 believe there was one thing we left in at the beginning

1 that we can now take out, Charles, which is to define
2 high, medium, and low. Remember that sort of
3 parenthetical in brown we had?

4 MR. JEFFRESS: Yes. Keep going, Wendy. Keep
5 going. It's under the --

6 MS. SARJEANT: It's on page 3.

7 MR. JEFFRESS: There we go. In parentheses,
8 right.

9 CHAIRMAN SINGLETON: There. Take out that
10 parenthetical that's at the bottom.

11 MR. JEFFRESS: The bottom line.

12 MS. BARNETT: The last line.

13 CHAIRMAN SINGLETON: Yes. And then --

14 MR. JEFFRESS: We still have to draft a first
15 paragraph about defining risk management using the
16 material that you'll fax to us, Sarah.

17 CHAIRMAN SINGLETON: Yes. And then you need
18 to rephrase what's as a parenthetical into the
19 statement that the audit committee will review the, you
20 know --

21 MR. JEFFRESS: The need for measures and more
22 detail?

1 CHAIRMAN SINGLETON: Yes.

2 MR. JEFFRESS: Okay. We'll rephrase that so
3 it will be a footnote to this section.

4 CHAIRMAN SINGLETON: All right. With those
5 further modifications, are they all right with the
6 movant and the second?

7 MR. MEITES: They are.

8 MR. GARTEN: Yes.

9 CHAIRMAN SINGLETON: All right. Is there any
10 more discussion?

11 (No response.)

12 CHAIRMAN SINGLETON: All right. Then all in
13 favor of the motion, please say aye.

14 (A chorus of ayes.)

15 CHAIRMAN SINGLETON: All opposed?

16 (No response.)

17 CHAIRMAN SINGLETON: And the record should
18 reflect that Jonann Chiles would have voted aye had she
19 been able to stay with the committee for the entire
20 meeting.

21 Is there any other business to come before
22 this special -- or the joint committee?

1 (No response.)

2 CHAIRMAN SINGLETON: Hearing none, the
3 committee meeting is adjourned.

4 MR. MEITES: Thank you.

5 MR. JEFFRESS: Thank you, all.

6 (Whereupon, at 1:24 p.m., the committee
7 meeting was adjourned.)

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