

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
GOVERNANCE AND PERFORMANCE REVIEW COMMITTEE
OPEN SESSION

Saturday, April 16, 2011

9:05 a.m.

The Westin Hotel - Richmond
6631 West Broad Street
Richmond, Virginia 23238

COMMITTEE MEMBERS PRESENT:

Martha L. Minow, Chairman
Sharon L. Browne (by telephone)
Charles N.W. Keckler
Julie A. Reiskin
John G. Levi, ex officio

OTHER BOARD MEMBERS PRESENT:

Robert J. Grey, Jr.
Harry J.F. Korrell, III
Laurie I. Mikva
Father Pius Pietrzyk, O.P.
Gloria Valencia-Weber

STAFF AND PUBLIC PRESENT:

James J. Sandman, President

Kathleen Connors, Executive Assistant to the President

Victor M. Fortuno, Vice President for Legal Affairs,

General Counsel, and Corporate Secretary

Katherine Ward, Executive Assistant, Office of

Legal Affairs

David L. Richardson, Treasurer and Comptroller

John Constance, Director, Office of Government

Relations and Public Affairs

Stephen Barr, Communications Director, Office of

Government Relations and Public Affairs

Jeffrey E. Schanz, Inspector General

Laurie Tarantowicz, Assistant Inspector General and

Legal Counsel, Office of the Inspector General

Ronald "Dutch" Merryman, Assistant Inspector General

for Audit, Office of the Inspector General

David Maddox, Assistant Inspector General for

Management and Evaluation, Office of the

Inspector General

Joel Gallay, Special Counsel to the Inspector General,

Office of the Inspector General

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

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

2 (9:05 a.m.)

3 CHAIRMAN MINOW: I'd like to welcome everyone
4 to this morning's meeting of the Governance and
5 Performance Review Committee. I think that we have a
6 quorum.

7 I would entertain a motion to approve the
8 agenda.

9 M O T I O N

10 MS. REISKIN: So moved.

11 PROFESSOR KECKLER: Second.

12 CHAIRMAN MINOW: All in favor?

13 (A chorus of ayes.)

14 CHAIRMAN MINOW: And how about a motion to
15 approve the minutes of our last meeting?

16 M O T I O N

17 PROFESSOR KECKLER: So moved.

18 MS. REISKIN: Second.

19 CHAIRMAN MINOW: All in favor?

20 (A chorus of ayes.)

21 CHAIRMAN MINOW: Wonderful.

22 We have a staff report on progress on

1 implementation of the GAO recommendations. And the
2 chair recognizes John Constance.

3 MR. CONSTANCE: Thank you, Madam Chairman.
4 For the record, I am John Constance, director of
5 government relations and public affairs at LSC.

6 If I could direct everyone's attention to page
7 132 of your board book. This is a chart which lays out
8 the recommendations from the June 2010 report on
9 improvements required in grants awards and grantee
10 program effectiveness.

11 I would note, before really going any farther,
12 that the real good news in all of this is that we are
13 today updating on one GAO report and not three GAO
14 reports. Two of the reports that had been pending have
15 been completely implemented, and GAO has given us a
16 clean bill of health for the earlier reports.

17 This report, which was issued, as I said, in
18 June 2010, we are fortunately at this point less than a
19 year out, and 13 of the 17 recommendations made by GAO
20 have in fact now been completed, at least to our
21 satisfaction, in our opinion.

22 And any kind of scheduling in the future for

1 GAO to come back -- which I must say is not an absolute
2 standard practice, for them to come back and review
3 previous reports; they don't have the staffing to do
4 that. And so oftentimes what you have is the
5 self-declared completion of these items. But I would
6 recommend your reading this document in terms of those
7 things that have in fact been completed at this point.

8 At the bottom of each page, you'll note the
9 serial numbers. And I would direct your attention to
10 page 2 of the report. This recommendation No. 3,
11 having to do with our competition program at LSC, we
12 state this as ongoing.

13 There was a recommendation by the previous
14 vice president of the Corporation to engage a
15 consultant to look at the whole issue of the way we do
16 our competition. That has been on hold for some time
17 now. And again, it's for, I think, initially the
18 consideration of management to decide whether that's
19 the appropriate way to move forward in terms of looking
20 at the way we do competition.

21 MS. REISKIN: Are you talking about the
22 risk-based assessment?

1 MR. CONSTANCE: That's correct.
2 Recommendation No. 3 at the very top of page 2. This
3 will be one that we will report on in the future going
4 forward, but I know that Jim has not really had an
5 opportunity to look at this in any way.

6 And I must say that once you accept the
7 recommendation from GAO does not mean that your
8 implementation necessarily has to be exactly as you've
9 stated it. It's essentially that is the goal in terms
10 of looking at a risk-based assessment of our
11 competition process; but engaging an outside expert,
12 not necessarily the --

13 CHAIRMAN MINOW: So, John, thanks very much.
14 That prior view was of course taken before the new
15 board and, more importantly, before the task force.
16 And so I wonder, if our president agrees with this, if
17 we might refer that matter to the fiscal oversight task
18 force.

19 MR. CONSTANCE: The only thing that I would
20 say, Madam Chairman, is that this is a bit different
21 than oversight. It is essentially how we go about
22 doing the actual competition for new grantees.

1 MR. LEVI: I actually think it belongs as a
2 part of the --

3 CHAIRMAN MINOW: Mike.

4 MR. LEVI: (Feedback noise.) This happened
5 yesterday. Am I allergic to these things?

6 This probably is something that ought to be
7 looked at. I heard strains of it the other day in our
8 strategic planning. I think, as we examine our
9 strategic plan, how we go about awarding grants, grant
10 oversight, including competition, we could then decide,
11 as a part of the strategic plan, we wish to have a
12 consultant. We don't wish to have a consultant. I
13 think that's the place for this.

14 MR. GREY: Madam Chair. John, one thought
15 about this. When we'd started thinking about financial
16 controls and the like, that is going to be part of the
17 analysis with regard to the structure of taking -- of a
18 grantee becoming part of the LSC family to the end and
19 maintaining those fiscal oversight responsibilities.

20 It's not so much the process here of a
21 competition, I think, that the financial oversight
22 committee would be involved with. But you may want to

1 get them to look at the issue of financial controls to
2 feed into the overall process. Because I think it's
3 going to happen anyway.

4 MR. LEVI: Oh, that I absolutely agree with.

5 MR. GREY: Yes. So this may be a coordinated
6 effort that allows us to get out of this idea of having
7 a consultant to just do that because we've got two
8 consultants going on at the same time.

9 CHAIRMAN MINOW: I welcome that. I think that
10 since we have your wonderful group looking at the
11 entire set of controls and systems, that aspect of the
12 competitive process does need, it seems to me, to be
13 folded within your purview.

14 I of course agree that as a larger strategic
15 planning process, the place of a competitive bidding,
16 the direction of it, that should be part of the
17 strategic planning process. So if we might treat that
18 matter as being under active review in both places,
19 that would be my recommendation.

20 MR. CONSTANCE: Excuse me. If I could just
21 clarify one thing. When we're talking about
22 competition in this context, we're talking about

1 competition for grant areas, not contracts.

2 MR. LEVI: Right.

3 MR. CONSTANCE: Okay. I'm sorry. I just
4 wanted to be sure that that was clear.

5 MR. LEVI: And it did come up. There
6 was -- I'm trying to remember what the discussion was.

7 There was a reference to it during the fiscal
8 oversight because they were trying to understand:

9 Well, okay, if we have issues with a grantee, then what
10 happens and how do we deal with that in terms of a
11 service area?

12 So there is overlap here, and I think it would
13 behoove us not to rush into this until we see how these
14 two entities --

15 CHAIRMAN MINOW: Procedures.

16 MR. LEVI: -- or procedures -- well, the
17 fiscal oversight task force and the strategic planning,
18 where they get us. Then we'll -- I just don't want to
19 rush out and have yet another consultant into the --

20 CHAIRMAN MINOW: I think that's right. And we
21 are picking up this recommendation. We certainly
22 accept the GAO's point, and folding it into our now

1 much more ramped-up oversight process.

2 MR. LEVI: And it should be clear that we're
3 not dropping it. In fact, it's full steam ahead on it.

4 But it's just -- it's taking a slightly different
5 format, that's all.

6 CHAIRMAN MINOW: John, may I ask, the other
7 items that you indicate that are not yet completed, are
8 these items 9, 10, and 11?

9 MR. CONSTANCE: That's correct, Madam
10 Chairman. And two of them, items 9 and 10, you'll
11 note, have a -- actually, three of them -- have a
12 direct tie to the strategic planning process. So this
13 is the reason that we put a placeholder timeline on
14 that.

15 But again, those three items regarding
16 performance measures and essentially human capital
17 planning all are tied, really, to the whole issue of
18 the strategic plan, and would hope that, in some form,
19 that it be taken up in that process.

20 CHAIRMAN MINOW: Mr. Grey?

21 MR. GREY: Madam Chair, in that regard, I
22 think John brings up an excellent point, for us to be

1 sure that our consultant advising us on the strategic
2 plan is aware of this document as well, and the
3 specific points related to the strategic plan, which
4 include the competition area as well.

5 That just informs that person in a much more
6 meaningful way about being clear in helping us get to
7 where we need to go.

8 CHAIRMAN MINOW: I think that's a very, very
9 helpful suggestion.

10 Julie? Madam Reiskin?

11 MS. REISKIN: No. Just Julie.

12 (Laughter.)

13 MS. REISKIN: Would the GAO be a stakeholder,
14 or no, for the strategic plan? We were talking about
15 stakeholders, and I just didn't know if they should be
16 a stakeholder.

17 CHAIRMAN MINOW: I don't think so.

18 MS. REISKIN: No? Okay.

19 CHAIRMAN MINOW: I don't think that's -- they
20 are a monitor of our behavior, but they are not a
21 stakeholder. Thank you. Thank you for that.

22 Jim, does this seem right to you?

1 MR. SANDMAN: Yes. That makes a lot of sense.
2 I believe our strategic planning consultant already
3 has this, but we'll emphasize these particular
4 features.

5 CHAIRMAN MINOW: That's great. That's great,
6 and I'm not sure whether this is important to
7 communicate to GAO, John. But the arrival of our
8 president with his deep managerial experience in such
9 matters as performance review, I think, is another item
10 to indicate in response to the GAO and to show our
11 seriousness about implementing these recommendations.

12 MR. CONSTANCE: We will certainly include that
13 in our updates.

14 The last thing that I would offer for you this
15 morning is, on the last page of this update,
16 recommendation No. 17 was to establish a mechanism to
17 monitor our progress in taking corrective actions. My
18 office has taken that up, and Treefa Aziz is doing a
19 terrific job of staying on top of these particular
20 recommendations and reporting our progress to GAO.

21 All of the recommendations that we feel have
22 been completed, the documentation has already been

1 filed with GAO at this point to let them know that
2 we're moving ahead on this. So we'll continue to do
3 that and continue to update this board as we move
4 forward.

5 CHAIRMAN MINOW: Thank you very much, and
6 thank you for your handling of this.

7 Charles?

8 PROFESSOR KECKLER: Yes. Before we move on, I
9 just wanted to ask about recommendation No. 12, which
10 is indicated as recently completed. Is that --

11 MR. CONSTANCE: That's correct. That has in
12 fact been completed.

13 PROFESSOR KECKLER: Okay. And so it says,
14 "2009 performance appraisals are completed March 2011."
15 So I guess the logical inquiry that follows on about
16 that regards the issue of 2010 performance appraisals
17 and what our status is with regard to them.

18 MR. CONSTANCE: I'll defer to President
19 Sandman on that topic.

20 MR. SANDMAN: That's been a subject of some
21 discussion with the union leadership. The union
22 leadership has taken the position that their members

1 cannot be evaluated for the period in 2010 before they
2 received their performance evaluations for 2009. And
3 some of their members did not receive their performance
4 evaluations for 2009 until March of -- I'm sorry --

5 MR. LEVI: Yes.

6 MR. SANDMAN: -- yes, until March of 2011. So
7 that is an issue that we're going to have to negotiate
8 about.

9 MS. BROWNE: This is Sharon. May I ask a
10 question, please?

11 CHAIRMAN MINOW: Sharon, yes, please. Sharon?

12 MS. BROWNE: On the GAO recommendation -- oh,
13 am I on?

14 CHAIRMAN MINOW: You're on. Yes, please. I
15 wonder if we can make the volume louder, but yes.

16 MS. BROWNE: On the "GAO Recommendations from
17 June 2010 Report," all of the LSC responses seem to
18 have indicated that they've been accepted, and for the
19 most part, a completion date shows that they've been
20 implemented.

21 Once all the completion dates have been
22 implemented, what happens to this report? Does it just

1 get filed and then we wait for the next June 2011
2 report?

3 MR. CONSTANCE: GAO reports are made, are
4 done, at the specific request of Congress. There's not
5 an annual presumption or an annual process. In my
6 former position at the National Archives, being a large
7 organization, we at any one time could have had two or
8 three GAO reports working at the same time.

9 So the Corporation had two reports in 2007.
10 Those have been implemented. GAO has given us a clean
11 bill of health on both of those. This one came about in
12 2010. We have completed 13 of the 17 recommendations
13 and filed that documentation with GAO, and now we're
14 working through the remaining four recommendations, as
15 we have just discussed.

16 Basically, acceptance is an indication here
17 that we indicated that they were certainly valid
18 requests and we were going to follow through on them,
19 and the documentation, as I say, has been filed. My
20 comment early in this report was that not in all
21 cases -- in fact, my experience is in less than 50
22 percent of the cases -- does GAO actually do a formal

1 onsite review and close out. They often do a closeout,
2 but without an onsite inspection.

3 At this point, the ball is somewhat in their
4 court on the 13 of the 17 recommendations, and we're
5 following through with some dispatch to work with the
6 board to get the rest implemented.

7 MS. BROWNE: I have a follow-up question.
8 What triggers a GAO report?

9 MR. CONSTANCE: That's a very good question,
10 and I would say this. They're motivated by a variety
11 of things. Ofttimes it's the interest of your
12 oversight committee. It's the interest of a number of
13 members of Congress.

14 My experience here at LSC has been rather
15 unique in that it was -- the last couple GAO reports
16 were really initiated at the interest of one member of
17 Congress, and I would say that that is highly unusual.

18 But it is -- they come about as a part of a request
19 from Congress.

20 CHAIRMAN MINOW: So thank you. I think that's
21 really helpful. I do think we need to move on, and so
22 we'll see whether we are subject of a further inquiry

1 from GAO. The particular congressperson who has been
2 interested is not likely to be asking for this again
3 since his committee assignments have changed, but we
4 certainly could hear from others, so we'll see.

5 Thank you so much, John, and thank you for
6 your work on this.

7 We will move to the next item, which is the
8 performance review of our Inspector General. And I
9 would invite our wonderful Inspector General, if he
10 would like, to take a seat, and if you'd like to make
11 any opening comments, do that.

12 I do have, myself, three questions I'd like to
13 ask. I know that the chair of the board would very
14 much like to have the full meeting take place at 10:00
15 a.m., and therefore we will be trying to move
16 expeditiously.

17 MR. SCHANZ: Well, thank you, Madam Chairman.

18 This is Jeff Schanz, the Inspector General. First
19 off, I would like to thank the committee for your due
20 diligence in not rushing to judgment on this, and
21 developing a process and procedure that can be used
22 going forward for -- I intend to be here for a while,

1 but for a period of time forward. So I do appreciate
2 that.

3 I have the materials.

4 CHAIRMAN MINOW: Great. Then we're ready to
5 go. And I want to thank you also for your wisdom and
6 patience as we developed this process.

7 And I want to just say, as an opening comment,
8 this is an unusual situation because you're an
9 inspector general for a private, nonprofit
10 organization. You're here in a role that is
11 two-hatted, I guess is the way that the White House
12 describes this, that you report to us and you report to
13 Congress.

14 I want to start by noting and commending the
15 statement that appears in the semiannual report of
16 October 1 through March 31, 2010, on page 1, where the
17 statement is -- it's paragraph 2 -- of the OIG's
18 principal missions is as follows:

19 1) To assist management in identifying ways to
20 promote economy and efficiency in the activities and
21 operations of LSC and it's grantees; and

22 2) To prevent and detect fraud and abuse.

1 I think these are extremely well-stated.
2 Those are just what we would hope. And I'm also very
3 grateful to you for sharing with us many materials that
4 help us understand how you have been doing this
5 important work.

6 I have three areas of questions, and I'll just
7 state what they are and then work through them, and I
8 hope leave time for other people to have questions,
9 too.

10 The first has to do with your sense, as we
11 have a new board and a new president, of how, if at
12 all, you think that the things that you have done with
13 regard to these two principal missions will remain the
14 same, how they will change. That's my first question.

15 MR. SCHANZ: As I was called upon at our
16 appropriations hearing by Congressman Wolf, did I see
17 any changes or did I see optimism? And I'm pretty much
18 guarded optimistic just about everything I do, but in
19 this case I have some material to be optimistic.

20 We have an engaged board and a president that
21 I deal very closely with on issues that I haven't been
22 able to get a full hearing on before. So as part of

1 our early warning system, in looking at IPA reports and
2 going out to field visits, I'm very comfortable in
3 dealing with the president. So I think, right there,
4 we've seen a sea change of interest and engagement.

5 CHAIRMAN MINOW: Wonderful. Wonderful. I
6 look forward to hearing how that work together
7 proceeds.

8 The second question I have is really -- it's
9 an area question, as we discussed in our preparation
10 for this moment, is to discuss with you your thinking
11 about self-assessment, what procedures you do have in
12 place, would put in place. We explored the idea of a
13 360 degree review. This is entirely up to you.

14 But understanding that you are a role model
15 for the entire organization as well as a monitor, what
16 kind of performance review do you have in place, would
17 you put in place, how does it relate to peer review,
18 and so forth?

19 MR. SCHANZ: Well, I think the larger picture
20 here is how is my office running? And I think that's
21 going to be the final barometer of my success.

22 We've recently engaged the Federal Trade

1 Commission to send over an individual to take a look at
2 our audit products and our processes and our
3 documentation. It's a quid pro quo; we'll be doing the
4 same thing for FTC.

5 And I'm happy to report that I got the report
6 just last week, and with a little bit of tweaking on
7 our policies, everything that we reported was in
8 compliance with the government auditing standards,
9 which includes competence of staff, training, and
10 having the skill sets to perform the work that we're
11 doing.

12 And in fact, off the record she told me she
13 was very impressed with how far advanced we are from
14 our last peer review. And for that, I credit Dutch
15 Merryman because that's his staff and generally his
16 work. So he's taken the bull by the horns, to use a
17 trite phrase, and we're progressing very well in that
18 regard.

19 I think another test -- once again, this is of
20 the office -- is when we submit our semiannual reports
21 to Congress. Now, I know John Constance and his staff
22 and Mr. Sandman are on the Hill quite a bit, but so am

1 I. And I want to get to the stakeholders, to use that
2 term, to see what they want me to do as far as any
3 future work or any issues that are percolating.

4 They are convinced -- and this is across the
5 board, both sides of the aisle -- and I'm very pleased
6 to report that my notion of fact-based reporting is
7 being accepted very readily on the Hill. And they're
8 very impressed with the work that we're doing because
9 Jim Sandman and I share the same goal, and I think the
10 board does also.

11 Part of my job is to make this a much more
12 efficient and effective corporation and operation
13 across the board, down to the grantees, up to the
14 board. Once we do that, we're hearing that Congress is
15 less inclined to beat on us, to use a phrase.

16 We saw that with John Constance's efforts. We
17 saw that we fared a lot better than most agencies.
18 Part of that I want to take credit for because we're
19 doing the work that they're concerned about.

20 CHAIRMAN MINOW: Well, thank you. And I do
21 want to turn in a moment to the particular outcomes.
22 As you indicate, that ultimately is the point.

1 But before I leave this self-assessment
2 question, just as the GAO has urged us to implement
3 performance reviews of our staff and our senior staff,
4 I'm wondering what you might think about doing about
5 your own role, not just your whole office, and what
6 kinds of feedback.

7 And in addition, the peer review that you've
8 described, in the past I know you've posted such
9 results, and I assume that you will do that in an
10 ongoing way. But I do think that the peer review
11 process is very important and valuable, but it's not
12 the only source of review.

13 MR. SCHANZ: Correct.

14 CHAIRMAN MINOW: And so this committee has a
15 responsibility, as we've discussed, to continue. And
16 one of our suggestions is that you engage in a quite
17 explicit process yourself of designing a
18 self-assessment.

19 MR. SCHANZ: For that, I would recommend you
20 talk to my wife.

21 (Laughter.)

22 MR. SCHANZ: That's probably as honest as you

1 could get.

2 I have not specifically identified a process
3 to identify me as an IG. I take a more global view.
4 But at the recommendation of you, Madam Chairman, I
5 will look for a 360-type review.

6 CHAIRMAN MINOW: Or something, obviously,
7 within your discretion.

8 I'm just going to finish up on this area of
9 the self-assessment reflection issue by asking, in the
10 context of the peer review, how much is there attention
11 paid there?

12 And if there isn't, should we as a board
13 consider exploring the topic of metrics in terms of two
14 dimensions: one, how the dollars spent in your office
15 relate to the dollars recovered in such matters as
16 defalcations. Is there a comparison with other IGs on
17 a matter like that? Is that a relevant factor?

18 And the second is on timing, how long it takes
19 from the initiation of an investigation to its
20 completion, again, a peer benchmarking. Is that the
21 kind of question that a peer review does look to? And
22 if not, is that something that we should do as part of

1 our performance review?

2 MR. SCHANZ: Well, the peer review as it
3 stands now is to verify compliance with the GAO
4 standards, government auditing standards, otherwise
5 known as GAAS. No, there have not been performance
6 metrics built into any peer review that I'm aware of,
7 and I'm pretty well aware of the whole peer review
8 process, having been engaged in it --

9 CHAIRMAN MINOW: On both sides.

10 MR. SCHANZ: Yes -- in the Department of
11 Justice also.

12 So they don't normally do that. But my own
13 internal parameters for the IG shop, when I came on
14 board, was to professionalize and make it more
15 productive.

16 I'm on the way to meeting those goals, but I
17 don't have metrics for it. And there's always been a
18 concern in the IG community, and to use the term that's
19 been used, is witch-hunting. If your metrics demand
20 that you find X amount of questioned costs, then you
21 may not be looking at the most important things, and
22 you're focusing on the low-hanging fruit.

1 And that's not the way I do business as an IG,
2 and I've fought that notion way back with a then-HHS IG
3 also, where they did have money standards. So you
4 ended up looking at the same type individuals the same
5 way, and possibly missed the bigger issues.

6 CHAIRMAN MINOW: Well, you raise an extremely
7 important point, to which I will turn in one minute as
8 we switch over to consider goals, relationship of the
9 work of the office in relationship to the missions.

10 Just the last point on this, then, is I very
11 much take your point on money standards. But on
12 timing, I think there might be a different view. That
13 is, it might be worth -- if the peer review does not do
14 this, for your own office to think about, again,
15 looking at other IG offices.

16 Where there are investigations, what's the
17 standard view about how long it takes and, you know, it
18 may be that ours are more complicated and they take
19 longer, or they're easier and they take shorter. It
20 just -- we're new to this, and it would be helpful to
21 have some sense about that.

22 MR. SCHANZ: Well, the better measurement

1 would be audits because they're more similar.
2 Investigations are all over the board. They're not
3 fungible. I couldn't tell you -- and I have my chief
4 investigator back there -- I couldn't tell you right
5 now how long a prototypical investigation takes.

6 We sometimes deal -- we partner with the FBI,
7 we partner with U.S. Attorneys, and we can't drive
8 their schedule.

9 CHAIRMAN MINOW: You're raising an extremely
10 important point, and it reminds me about what I learned
11 about the meaning of averages when my daughter was
12 born, and learned about that the average child sleeps
13 about 8 to 10 hours a day. And since mine slept not at
14 all and one down the block was sleeping all the time, I
15 suddenly understood averages.

16 (Laughter.)

17 CHAIRMAN MINOW: Julie, I'll get there in a
18 minute. I just want to finish my questions.

19 So as I turn to the third area, and my final
20 area is to look at your performance in relationship to
21 the stated mission, let's just take the two, assisting
22 the organization in preventing -- in identifying ways

1 to promote efficiency and economy in activities and
2 operations. Let's start with that one.

3 I want to commend the work that your office
4 has done on fraud education. I know that that has been
5 enormously valuable and influential in the field. We
6 hear from people in the field how valuable they find
7 that.

8 MR. SCHANZ: Good.

9 CHAIRMAN MINOW: And I just wonder, are there
10 similar efforts that you have underway or that you
11 might be thinking about in terms of education, with
12 regard to accounting controls, with regard to audit
13 committee structures for the grantees, with regard to
14 other kinds of technical dimensions which we do hear
15 regularly from people in the field they are not
16 experts. They don't know how to do this.

17 This might fall within the purview also of the
18 fiscal oversight committee (sic). But I just wondered
19 if you had thoughts about replicating your very
20 successful fraud detection/fraud prevention program in
21 these accounting areas.

22 MR. SCHANZ: I had not given that any thought.

1 The management has just issued an accounting guide,
2 which pretty much, I think, if you follow that chapter
3 and verse, you're well on your way to preventing any
4 sort of frauds occurring because internal controls are
5 built into that guide.

6 I do provide, and I just handed Harry, a
7 listing of board sources and things that could be used
8 by the audit committee. Prior to this board, there was
9 a discussion whether LSC should mandate an audit
10 committee for each and every grantee. It was decided
11 that that might be --

12 CHAIRMAN MINOW: Sarbanes-Oxley.
13 Sarbanes-Oxley. Yes.

14 MR. SCHANZ: Yes. It was decided it might be
15 too onerous for some of the smaller grantees. And
16 candidly, that's a management decision. It wouldn't be
17 my decision. I can offer input into that, and yes,
18 with Dutch Merryman and his staff, we do have quite a
19 bit of expertise in that.

20 Right now I think my efforts are best directed
21 at detecting and preventing fraud instead of educating.

22 Now, that may change once I have a comfort level that

1 the grantees get it. And we have jail time that has
2 been sentenced on some of our malfeasors, and to me,
3 that is probably one of the biggest deterrents we could
4 even talk about, is, you're going to lose your freedom
5 if you steel.

6 CHAIRMAN MINOW: Well, you certainly are
7 moving ahead on that deterrence front. It's simply
8 this focus on assisting management and identifying ways
9 to promote economy and efficient. It's in that context
10 that I raised this question about education, technical
11 assistance.

12 You've done it in the fraud area, fraud
13 prevention area. You've done it in the laptop stealing
14 area --

15 MR. SCHANZ: Yes.

16 CHAIRMAN MINOW: -- which I know also has been
17 very effective. And there are going to be a certain
18 number of bad eggs in this sector, as any others. But
19 my general sense is that mainly, we're dealing with a
20 lot of ignorance.

21 And we now have the accounting standard, and I
22 guess I would beg to differ with you. I think that

1 you're very well positioned to do some education here,
2 and would ask you to think about that in this area in
3 the future.

4 MR. SCHANZ: I think that's an excellent idea.

5 How I've interpreted that and what I've done is I've
6 done two internal audits of the Corporation itself. So
7 our focus is external to the grants but also internal
8 to the Corporation.

9 If you focused on what we reported on our TIG
10 audit, if that is followed, that will fundamentally
11 change the way that management awards grants.

12 CHAIRMAN MINOW: Yes.

13 MR. SCHANZ: If you extrapolate what we said
14 in the TIG program to granting across the board -- and
15 with a new president, I'm optimistic that some of these
16 changes may be made -- that helps the efficient and
17 effective operations of the Corporation.

18 Similarly, in the prior year we did an audit
19 of consultant contracts, where we found out there were
20 numerous instances where independent
21 employees -- independent contractors and temporary
22 employees was a very muddied field.

1 CHAIRMAN MINOW: Yes.

2 MR. SCHANZ: And we've been able to try to
3 clarify that, which will make, I believe, the
4 Corporation much more efficient.

5 I'm not avoiding your point because I think
6 it's an excellent idea. At one point, LSC had all the
7 executive directors in a room in Rosslyn. I was not
8 asked to present.

9 CHAIRMAN MINOW: Wow.

10 MR. SCHANZ: That would have been a tremendous
11 opportunity to have fiscal governance and read them,
12 essentially, the riot act and say, this is what has to
13 happen. This is what the Department of Justice, as a
14 for instance, does with their granting procedures.

15 CHAIRMAN MINOW: I was not aware of that
16 meeting. I don't know if there were any UFOs that
17 were --

18 MR. LEVI: That was prior to our board.

19 CHAIRMAN MINOW: Right. That was prior to our
20 time.

21 MR. SCHANZ: Right.

22 CHAIRMAN MINOW: At this moment, we probably

1 are more likely to do virtual or webinar meetings, and
2 I would hope that your role would be elevated in those
3 settings, whether it's riot act or, again, technical
4 assistance.

5 Again, I think that that is probably at this
6 moment, now that we have an accounting manual -- and
7 I'm focusing on the accounting standards -- the more
8 central issue. And I don't know if I'm allowed to do
9 this, but I see Mr. Merryman nodding in the back.

10 So I think that's great. And just to finish
11 up this topic before I turn to the final goal and
12 performance, is just to ask you, not necessarily now
13 but in the coming year, to think about the relationship
14 between your office's role on the accounting controls
15 review and the OCE office and its review.

16 It's something that, as a new board member, I
17 confess I remain unclear about the allocation of
18 responsibility there. And so I would invite you to
19 work with the new president and that department of our
20 organization to sort out the best use of different
21 people's time so that again, we can all work to assist
22 management in identifying ways to promote economy and

1 efficiency.

2 I do know that on the Hill, others have been
3 asked. I have been asked. I don't understand it. You
4 have two offices that do accounting. And so it would
5 be helpful to have a better answer next time that we go
6 through that.

7 MR. SCHANZ: Well, we've discussed that at
8 length with the fiscal oversight task force, and I
9 think there's progress being made on those fronts. But
10 I do want to state for the record that the Office of
11 the Inspectors General have congressional statutory
12 authority to be independent.

13 CHAIRMAN MINOW: Of course.

14 MR. SCHANZ: So while there may be some
15 overlap, I can't not perform my duties of the statute.

16 CHAIRMAN MINOW: Of course. Oh, to the
17 contrary. I mean, if there's a way we can offload some
18 of what we're doing onto what you're doing, that would
19 be fine, too. It's just the duplication that I'm
20 raising the question about.

21 So then finally, on the second mission
22 statement, mission element, to prevent and detect fraud

1 and abuse, again thank you for the very thorough
2 reports and accomplishments there. Again, as a new
3 board member, I still am trying to understand a couple
4 of things.

5 How often is it the case that one of these
6 instances of fraud comes to your attention because the
7 local grantee has discovered it, and how often is it
8 through some other method?

9 MR. SCHANZ: There's no standard. We do have
10 a hotline, and we've very much enhanced the
11 distribution of the hotline. You see it in our
12 semiannual reports.

13 CHAIRMAN MINOW: Yes.

14 MR. SCHANZ: And I have one staff person
15 solely dedicated to fielding those calls, and she's an
16 expert at fielding those calls and trying to separate
17 the wheat from the chaff in that situation.

18 Grantees, as they get more comfortable,
19 hopefully, with the Office of the Inspector
20 General -- and we're doing this with our fraud
21 awareness briefings that you mentioned earlier, Ms.
22 Chairman -- we're making a difference and we're trying

1 to get away from the stigma of, well, this is the IG.
2 No, this is a part of the organization. We're trying
3 to make it a better place.

4 And what we find out as a practical matter is
5 once we have a whistleblower or a hotline complaint and
6 we follow that up and go onsite, then many, many people
7 are willing to talk to us.

8 CHAIRMAN MINOW: That's good.

9 MR. SCHANZ: In confidential session, I'll
10 discuss one of those with you.

11 CHAIRMAN MINOW: Wonderful. Well, the
12 hotline, of course, is a great development, a great
13 innovation, seems to be working extremely well. To put
14 on my academic hat for the moment, it does seem that
15 the very best developments in accountability measures
16 in the public and private sector involve a combination
17 of this kind of bottom-up reporting with a structure in
18 which there is a transparent and effective followup of
19 any kind of detection.

20 I just wonder if you have a ballpark figure of
21 the defalcations or fraud that you reported in the past
22 two years. What percentage of them came in this form

1 of hotline or other kind of self-reporting?

2 MR. SCHANZ: I would say about 50 percent.

3 And that's just a ballpark; I don't have any statistics
4 on that.

5 CHAIRMAN MINOW: Thank you.

6 MR. SCHANZ: But we welcome all calls. And
7 that's why you'll see on our semiannual report we have
8 a page devoted to, if you have any issues with misuse
9 of grant funds, please advise us.

10 CHAIRMAN MINOW: Thank you.

11 I am done with my questions. I turn to the
12 chair.

13 MR. LEVI: Jeff, I first want to say thank
14 you. I think we've established, our board with you and
15 your staff and team, a good working relationship. I
16 think you feel it, I think we feel it, and we
17 appreciate that. We certainly came into office at a
18 moment in time with a lot to do and a big agenda, and
19 we appreciate the assistance.

20 We do certainly understand the independence of
21 your role. But, you know, we do want to have good
22 communication with your office, and we've been trying

1 to make that happen. And I hope you have felt that.

2 MR. SCHANZ: Very much so, and that's stated
3 in the resolution that I reference. Thank you.

4 MR. LEVI: Wonderful. And I hope then, that
5 you appreciate also -- and you saw it at two meetings
6 this year -- that when you report to us, either in
7 closed or open session, that something is going on, our
8 board gets kind of excited --

9 MR. SCHANZ: Yes.

10 MR. LEVI: -- and they want to stop the
11 bleeding fairly quickly.

12 How can you help us, or has your staff been
13 thinking about how we can shorten the time -- of
14 course, all of us are -- Julie is not a lawyer. Those
15 of us who are lawyers -- and I think Julie understands,
16 too -- nobody here wants to mess up an investigation.

17 MR. SCHANZ: Great.

18 MR. LEVI: We don't want to cause any issue.
19 And we don't want to cause issues for you, or for a
20 U.S. Attorney. But at the same time, we want to stop
21 the bleeding, financial bleeding, as quickly as we can
22 and help the management.

1 How can we work with you or how can you help
2 us to maybe shorten that time that we can -- and I'm
3 not saying today that we think that through, but --

4 MR. SCHANZ: Well, those are some of the
5 candid discussions that Jim and I have had. And in one
6 case, I just walked up to his office. I said, you need
7 to know this, and you need to know it now.

8 It's not fully developed. It doesn't meet
9 government auditing standards. The investigation isn't
10 competent. But I feel comfortable, in a confidential
11 manner, to discuss those issues with the president.

12 And the president is the fun-giver, and we've
13 also talked about what sanctions are available, and to
14 put more arrows into management's quiver as to what to
15 do when we do find something that smells in
16 Denmark -- I think that's the phrase. And that's the
17 fine --

18 CHAIRMAN MINOW: That's superb.

19 MR. SCHANZ: -- that's the fine balance that I
20 have to do. I have to have documented evidence.

21 Earlier we heard from -- I think it was at the
22 fiscal task force -- somebody used a word that I

1 haven't heard before, is "conversational auditing."

2 And I can't engage in conversational auditing. I have
3 to have documented evidence.

4 MR. LEVI: The other thing that I want to just
5 mention because it came up here, we have now, I think,
6 upgraded the technology. We've done a couple
7 of -- what do you call them -- I guess they're kind of
8 a web -- a webcast.

9 MR. SCHANZ: Great.

10 MR. LEVI: And to the extent that your office
11 feels the need or thinks we should have or wishes to be
12 a part of the use of that capacity, we're not going to
13 tell you. But I don't want you to feel, as apparently
14 happened in Rosslyn, that you're somehow shut out from
15 using it.

16 MR. SCHANZ: No. That's an excellent thought.

17 And as part of Dean Minow's question, as a
18 self-assessment I need to be more aware of that. I
19 will tell you, I'm an old school type IG and I would
20 rather work and have my staff in the field than back
21 off and use some valuable resources to train. But I
22 see very clearly the benefit of that.

1 CHAIRMAN MINOW: Thank you. And I am so
2 pleased to know about the kind of working relationship
3 that you're building with the president, and the kind
4 of balance between your very -- two different roles,
5 assisting and also pursuing and prosecuting.

6 But I think that there's no one on this board
7 who feels anything other than we want this place to be
8 spick and span. We want our grantees to be exemplary.

9 And therefore, I would just echo what our chair has
10 said, that the minute that we have any hint that
11 there's a problem, we want to be able to take action.

12 So your suggestion about increasing the tools
13 available to the president to respond is a welcome one.

14 MR. SCHANZ: Thank you.

15 CHAIRMAN MINOW: Are there other comments?
16 Questions? Julie?

17 MS. REISKIN: Thank you. I don't know if this
18 is -- I have a question and a kind of request, and I
19 don't know if this request is more appropriate of the
20 IG or of our president or maybe something that happens
21 in strategic planning.

22 But would it be possible at some point to have

1 a one-page side-by-side of the differences in our
2 different oversights of OCE -- who does what and how
3 are they different that we could hand people when they
4 ask so that our messaging is consistent?

5 CHAIRMAN MINOW: I think that's a good
6 suggestion to hand, both as strategic planning and also
7 to the fiscal oversight committee. I think those kinds
8 of outcomes would be a way that we could test whether
9 we've made progress. I think that's a very good
10 suggestion.

11 MS. REISKIN: And my question is, when you
12 were talking earlier, you said that you were talking to
13 stakeholders, and then you talked pretty specifically
14 about Congress. Do you see Congress as your primary
15 stakeholder, or who do you see as your stakeholders?

16 MR. SCHANZ: Well, it's across the board. And
17 I gave a knee-jerk answer to a question that was given
18 to me by the fiscal oversight task force, and I hadn't
19 given it any thought. But I said, my biggest
20 stakeholder is the American taxpayer.

21 That's the broad view of the world, the macro
22 view, and then Congress, the board, LSC management, and

1 the grantees.

2 CHAIRMAN MINOW: That is, of course, an
3 excellent answer, and particularly impressive that you
4 did it without giving it any forethought.

5 I do wonder, given the two missions that you
6 state, whether you also view your stakeholders as
7 including those who eligible for LSC services.

8 MR. SCHANZ: Every dollar saved is a dollar
9 that can be spent for the corporate mission. And yes,
10 very much so.

11 CHAIRMAN MINOW: Thank you.

12 Other questions from the committee or the
13 board? Charles?

14 PROFESSOR KECKLER: Jeff, thank you. Again,
15 thank you for your work. And I'm also very pleased
16 about the issue of really bringing to life what you
17 talk about in your strategies about coordination and
18 communication with management on the issue that's
19 discussed because to make it even more concrete, when
20 an issue arises, if it's an ongoing issue of potential
21 waste, fraud, and abuse, part of our goal, of course,
22 is to minimize it while it's ongoing.

1 And so at that point the missions come --

2 MR. SCHANZ: Right. Our interests are very
3 much aligned. Yes.

4 PROFESSOR KECKLER: Are very much aligned.
5 But I'm very pleased to hear that that's going forward.

6 I had one thought, which is about the
7 self-assessment, in terms of activities. And I think
8 it's purely relevant for next year, and it wouldn't
9 even have been relevant this year, which is: Now that
10 we have a protocol here in which you're doing this
11 self-assessment with this structure, which I think is
12 fine, it just would be useful to me and possibly to
13 others to do a year-by-year comparison, where that's
14 appropriate, where there are numbers and possible
15 comparisons for the previous fiscal year to say, okay.

16 We did this much this year. We did this -- in
17 comparison to the prior year.

18 MR. SCHANZ: We can do that very easily by
19 using the numbers that are presented in the semiannual
20 report. Unfortunately, the environment is not static.

21 So I never know when a congressional request will come
22 in, which dominated my first two years on the job.

1 I will mention, and I do want you to be aware,
2 that on Monday of this week, April 11th, GAO holds an
3 annual coordination meeting with all the IGs at GAO.
4 And we talk about cross-cutting issues, government-wide
5 issues. A lot of that is not relevant to LSC because
6 the Improper Payments Act doesn't apply here. The
7 Recovery Act doesn't apply here.

8 But the principles I can use. And it gives me
9 an opportunity to meet with the GAO -- I mean, across
10 the board, they bring all their top managers in and we
11 have a roundtable discussion as to what to expect in
12 the future. And I guess I would add that GAO is a
13 stakeholder also. And I'm trying to get in on the
14 front end so they don't excoriate us on the back end.

15 PROFESSOR KECKLER: Right. Just to close out
16 with that, I think that that's good. In relation to
17 the previous comments about benchmarking, the broader
18 point of my year-by-year comparison -- that's just one
19 technique that you can use as you think
20 appropriate -- is that given that distinctive quality
21 of LSC and all of that that's come up from an inspector
22 general's point of view, the benchmark -- one of the

1 most appropriate benchmarks, it seems to me -- is
2 yourself.

3 I mean, you can benchmark your performance
4 from this year against the prior years. And I think,
5 then, you can choose those appropriate benchmarks, but
6 I think that that's something that you can think about.

7 MR. SCHANZ: Okay.

8 CHAIRMAN MINOW: As a runner, I think you're
9 an expert on that particular self-benchmarking
10 approach.

11 Well, I think that we're drawing this
12 committee meeting time to a close. Let me just again
13 echo and reinforce my thanks and the entire board's
14 thanks for your service, for your work, for your
15 dedication, for building your team, and for your
16 collaborative spirit with this new board and this new
17 president.

18 One of the very interesting elements I think
19 all of us have discovered in joining this board is that
20 we are unique in the world. There's nothing like this.

21 We are a private nonprofit organization. We are all
22 private citizens serving in a private, independent

1 role.

2 We are not beholden to anyone. We are not
3 beholden to the government. We are here as our own
4 individual selves, trying to live up to the highest
5 levels of integrity and commitment to the mission of
6 the organization.

7 I know that the same is true for you. It does
8 mean that your relationship to your two hats, to us and
9 to Congress -- I think it is absolutely crucial to keep
10 both in mind. We are the ultimate decision-makers
11 here, and we are the ones who have to go to bed at
12 night knowing that we've done the right thing with this
13 organization.

14 And further, I'm not saying you should never
15 do anything other than respond to a question from
16 Congress. But just because somebody in Congress asks
17 you to do something doesn't mean you drop everything
18 else.

19 MR. SCHANZ: That's a factor to be considered.

20 CHAIRMAN MINOW: It's a factor to be
21 considered.

22 MR. SCHANZ: Yes.

1 CHAIRMAN MINOW: You are -- you are
2 independent. You are independent. You make the
3 judgment about what is the right thing to do, just the
4 way that we are independent. The fact that we're also
5 kind of like -- what is it, the definition of a camel
6 is a horse that's designed by a committee? We're a
7 little bit like that. We're a private nonprofit that's
8 subject to a set of federal acts.

9 It makes me think that besides the very
10 important peer review process and peer group that you
11 have with other inspector generals, you might think
12 about the sector of private nonprofits and the
13 development of ombudspersons and other kinds of
14 monitoring regimes there, which are different because
15 we are a private nonprofit. From the beginning to end,
16 that's what we are.

17 We are regulated. We are appointed by the
18 President, confirmed by the Senate. We are a camel.
19 But we are trying very hard to live up to the mission,
20 and we know that you are, too. And so again, with my
21 deepest thanks, thank you for participating in this
22 process.

1 MR. SCHANZ: Well, thank you. And I'll pursue
2 several of your options. It's very good. It gives me
3 time to think about what I need to do. I will tell you
4 I share your vision and I share your mission. I have
5 done pro bono work myself, and it's one of the most
6 rewarding things I've ever done as an attorney. So
7 thank you.

8 CHAIRMAN MINOW: Thank you very much.

9 I will entertain -- let's see, what do I do?
10 New business? Does anyone have any --

11 MR. LEVI: We've got one other thing.

12 CHAIRMAN MINOW: One other thing? Oh, Yes, I
13 do. Research.

14 Well, I think here just a very quick report,
15 which is, this committee was given the task of
16 exploring what if any resources we could devote that we
17 currently have or we could obtain to enhancing our
18 internal research ability to describe both the need in
19 the field and the effectiveness of our services.

20 I can report that we are engaged in ongoing
21 conversations with the American Bar Foundation on that
22 score, and with several possible funding sources. And

1 so we will keep you updated about that as it develops.

2 Now any new business?

3 MR. LEVI: I think we could just say on that,
4 on the American Bar Foundation, they got started on a
5 civil justice mapping project to try to put a map of
6 the United States together to say what exists. We
7 thought we were going to be able to help them
8 financially with respect to that. And then we learned
9 how complicated that is. So they've done it
10 themselves, and --

11 CHAIRMAN MINOW: And they will share the
12 results with us. That's right. And so I think that
13 the commitment to research is all the more emboldened
14 by the willingness of a first-class organization like
15 the American Bar Foundation to be in dialogue with us.
16 And in consultation with the president, we'll be
17 exploring what our next steps will be.

18 Charles?

19 PROFESSOR KECKLER: Just one point, Madam
20 Chair, that I recently was reminded of the fact that
21 the Office of Management and Budget sometimes has funds
22 available for evaluations of the use of federal funds.

1 Now, whether they actually do at the current
2 time or whether they would be willing to do it is
3 unknown to me. But that may be another -- as you're
4 looking through funding sources, they might be
5 interested in that area.

6 CHAIRMAN MINOW: That's a terrific suggestion.
7 Thanks very much.

8 MR. LEVI: You're a member of the development
9 committee.

10 CHAIRMAN MINOW: That's wonderful. And this
11 is, I think, a development opportunity. I think
12 there's some people who would be willing to fund
13 evaluation who wouldn't fund other things.

14 Julie?

15 MS. REISKIN: Yes. I know Robert Wood Johnson
16 also has a callout right now on law and public policy,
17 and it's focused somewhat on health. So maybe for a
18 health aspect -- it's very high-level research, so it
19 might be something that maybe we could partner with the
20 university on.

21 CHAIRMAN MINOW: That's great. I do know that
22 they are interested in the legal-medical partnership,

1 which is something that we, of course, have highlighted
2 and fund. So we might even find a way to be in
3 consultation with them about that.

4 Public comment?

5 (No response.)

6 CHAIRMAN MINOW: No. New business?

7 (No response.)

8 CHAIRMAN MINOW: No. I'll entertain a motion
9 to adjourn this committee meeting.

10 M O T I O N

11 MS. REISKIN: So moved.

12 CHAIRMAN MINOW: Is there a second?

13 PROFESSOR KECKLER: I'll second.

14 CHAIRMAN MINOW: All in favor?

15 (A chorus of ayes.)

16 CHAIRMAN MINOW: Thank you all.

17 (Whereupon, at 10:03 a.m., the committee was
18 adjourned.)

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