

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
AUDIT COMMITTEE

OPEN SESSION

Thursday, January 23, 2014

2:57 p.m.

Hilton Garden Inn Downtown Austin
500 North Interstate 35
Austin, Texas 78701

COMMITTEE MEMBERS PRESENT:

Victor B. Maddox, Chairperson
Harry J.F. Korrell III
Gloria Valencia-Weber
David Hoffman (Non-Director Member) (by telephone)
Paul L. Snyder (Non-Director Member) (by telephone)
John G. Levi, ex officio

OTHER BOARD MEMBERS PRESENT:

Sharon L. Browne
Robert J. Grey, Jr.
Charles N.W. Keckler
Laurie Mikva
Martha L. Minow
Julie A. Reiskin

STAFF AND PUBLIC PRESENT:

James J. Sandman, President

Lynn Jennings, Vice President for Grants Management

Wendy Rhein, Chief Development Officer

Rebecca Fertig, Special Assistant to the President

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

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

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

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

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

Janet LaBella, Director, Office of Program
Performance

Frank B. Strickland, Non-Director Member,
Institutional Advancement Committee

Robert E. Henley, Jr., Non-Director Member, Finance
Committee

Paul Furrh, CEO, Lone Star Legal Aid

David Hall, Executive Director, Texas RioGrande
Legal Aid

Stacie Jonas, Texas RioGrande Legal Aid

Nancy Davis, WithumSmith+Brown (by telephone)

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

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Motions: 5, 7

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

2 (2:57 p.m.)

3 CHAIRMAN MADDOX: I'm going to start the Audit
4 Committee of the Legal Services Corporation meeting.
5 And I'll open the meeting by asking if there is a
6 motion to approve the agenda. Gloria?

7 M O T I O N

8 PROFESSOR VALENCIA-WEBER: I move to approve
9 the agenda.

10 CHAIRMAN MADDOX: Is there a second? David?
11 Anyone?

12 MR. HOFFMAN: Hi, Vic. It's David Hoffman.
13 Can you hear me?

14 CHAIRMAN MADDOX: I can.

15 MR. HOFFMAN: There's someone else, I think,
16 on the call, but it's very, very, very --

17 MS. DAVIS: Yes. This is Nancy Davis. I
18 can't hear.

19 MR. HOFFMAN: Yes, Vic. It's very faint and
20 staticky. So it may be either the location of the
21 microphone or more likely the conference line problem.

22 CHAIRMAN MADDOX: Yes. I'm not sure.

1 MR. LEVI: Should we reopen the line?

2 MR. HOFFMAN: We could hear that clearly.

3 MR. LEVI: You can?

4 MR. HOFFMAN: Yes. That we can hear very
5 clearly.

6 CHAIRMAN MADDOX: Before I go forward, do we
7 have a quorum? We have Gloria and myself. Harry is
8 not here. Does David actually serve for purposes of a
9 quorum?

10 MR. LEVI: He doesn't serve it, but I do.

11 CHAIRMAN MADDOX: Okay. So John does, so we
12 have a quorum. Thank you.

13 All right. So is there a second for the
14 motion? And David, can you all hear now?

15 MR. LEVI: I second.

16 CHAIRMAN MADDOX: Thank you.

17 MR. HOFFMAN: Yes. We can hear, Vic.

18 CHAIRMAN MADDOX: All in favor?

19 (Chorus of ayes.)

20 CHAIRMAN MADDOX: So the motion is approved.
21 Thank you, Paul.

22 Before we go forward, I'm going to mention

1 that I may seek leave by acclamation to change the
2 agenda here in a bit because I may want to move the
3 confidential session forward a bit so that David
4 Hoffman can participate in some or all of that.

5 David, do you still have to leave at 4:00?

6 MR. HOFFMAN: I do.

7 CHAIRMAN MADDOX: Okay. I don't think there's
8 any problem. So we'll try to get through as much as we
9 can, and then see about moving the confidential session
10 forward.

11 So item number 2 is approval of the minutes of
12 the Committee's October 20, 2013 meeting. Is there a
13 motion?

14 M O T I O N

15 PROFESSOR VALENCIA-WEBER: So move.

16 CHAIRMAN MADDOX: Gloria. And a second?

17 MR. HOFFMAN: Second.

18 CHAIRMAN MADDOX: Second. All in favor?

19 (Chorus of ayes.)

20 CHAIRMAN MADDOX: And the approval of the
21 minutes is agreed to.

22 Number 3 is presentation of the Fiscal Year

1 (FY) 2013 Annual Financial Audit. We have Ronald
2 "Dutch" Merryman from the IG's Office and Nancy Davis
3 from WithumSmith+Brown on the phone. Greetings and
4 welcome, Nancy.

5 MS. DAVIS: Thank you.

6 CHAIRMAN MADDOX: Okay. I'll turn it over to
7 you all.

8 MR. MERRYMAN: Thank you very much. This is
9 our customary briefing on the final results of the
10 audit at the January Board meeting. This year is the
11 last year under the contract, and we will be opening up
12 a contract for competition later in the year.

13 That being said, I'm going to turn it over to
14 Nancy to go ahead and give the final report on the
15 audit. Nancy?

16 MS. DAVIS: Well, I want to acknowledge the
17 Audit Committee for your active participation in this
18 process this year. I believe that many if not all of
19 you participated in the entrance conference when we
20 began the audit, and also participated in the exit
21 conference at the end, and were forthcoming with
22 questions that you might have had at that time. So I

1 simply will provide a summary here, then, of the
2 results of the audit.

3 First and foremost, the Corporation received
4 an unqualified opinion on its financial statements
5 again this year.

6 Also, the second report that we issued is
7 sometimes referred to as a Yellow Book report. It's
8 done in compliance with government auditing standards.

9 It's a report on the internal controls over financial
10 reporting and compliance.

11 It is not an opinion, but we provide some
12 assurance to what we found relative to the internal
13 controls and compliance. And in this case, we did not
14 find any deficiencies, whether material deficiencies or
15 significant deficiencies, as defined by the standards
16 that would be applicable. So there are no findings
17 that are included in this financial report.

18 We did issue a management letter. As I
19 indicated, the issue that we brought forward does not
20 rise to the level of a deficiency, as defined under the
21 government auditing standards, but was something that
22 we simply wanted to note. And we've had some active

1 discussion with Management about it.

2 It relates to the financial statement
3 disclosure notes. The disclosures in a financial
4 report are an integral part of the report, as required
5 under the standards.

6 Frequently the notes are just updated from the
7 year before, which occurred this year as well, and as a
8 result, some of them had not been -- when we first
9 received the notes, not all of them had been completely
10 updated.

11 We found, in certain cases, some inaccuracies
12 related to some instances, as noted in the management
13 letter, on restrictions of time. And we also found
14 that they were not complete.

15 The disclosure note number 6 on page 11 is a
16 brand-new disclosure that has not been included in the
17 financial statements or the report in previous years
18 because the fair value standard became effective for
19 this year.

20 So the reason that we brought the issue
21 forward is simply to note that because the disclosure
22 notes are an integral part of the statements, that they

1 need to be thoroughly reviewed for their completeness
2 and accuracy, as well as to ensure that they capture
3 what needs to be recorded and disclosed in accordance
4 with the standards.

5 So our recommendation is that perhaps someone
6 else, an individual outside of the individual that
7 prepares them, could review them for that completeness.
8 And we also suggest that perhaps a disclosure checklist
9 should be used because with the changing standards, in
10 order to stay current and ensure that everything is
11 completely included, these checklists are updated every
12 year. And they'd be easy enough to go through to
13 ensure that everything has been properly included.

14 So the issue here, it did cause some minor
15 delays. But the emphasis to us was not in the delays
16 themselves; it was just to bring forward and
17 reemphasize that these footnote disclosures are
18 important. But again, it did not rise to the level of
19 a significant deficiency in internal controls or
20 compliance in that regard.

21 I think that at this point, then, if there is
22 anything, because we have discussed this and we have

1 been through this in our previous sessions, I'd be
2 willing to take any questions that you all might have
3 at this time.

4 Also, I acknowledge that in light of your
5 short time frame here, that you had allowed some time
6 in your closed session for me to meet with the Audit
7 Committee on its own. But that, I do not believe, is a
8 need to do on that basis, so I would waive that time.

9 CHAIRMAN MADDOX: Great. Thank you, Nancy.

10 Are there questions from the Committee?
11 Gloria?

12 PROFESSOR VALENCIA-WEBER: Yes. I appreciate
13 that we had Committee meetings with Nancy at the
14 beginning of the process. And in looking at the
15 management letter, I know that during those meetings
16 with Mr. Richardson, we discussed about the timely
17 footnote disclosures and that Management was dealing
18 with them.

19 I would like for him to tell us what's being
20 done so at least it's in the public record because what
21 we had in Committee meetings may not be as readily
22 available to some people about what has been done about

1 the footnote disclosures.

2 MR. MERRYMAN: The management letter, I
3 believe, is on page 91 of your Board book.

4 MR. RICHARDSON: What we've done is we've
5 looked at the different disclosures that we're going to
6 have to be making in the future. There is additional
7 things that will need to be in next year's. We will be
8 looking at those to make sure that we get everything in
9 and completed.

10 And as Nancy said at the exit conference,
11 whoever our auditors end up being, we will seek
12 additional guidance from them and advice with the new
13 disclosures that need to be made. And we do know, for
14 instance, next year we've got some pledges because of
15 money coming in with pledges and the different
16 restrictions that are involved.

17 So we'll be working closely with our audit
18 firm, our accounting firm who comes in to do the audit.

19 And we will also be looking at the generally accepted
20 accounting principles and generally accepted auditing
21 standards to make sure that we get all of the
22 restrictions or all the reports and footnotes in

1 properly.

2 CHAIRMAN MADDOX: Thank you.

3 MR. MERRYMAN: One item real quickly?

4 CHAIRMAN MADDOX: Sure.

5 MR. MERRYMAN: I'm sorry. I might have
6 misunderstood you. I believe you said at the exit
7 conference you asked about disclosures. Do you mean
8 the entrance conference? Because at the exit
9 conference, the disclosures should already be in there.

10 You said any new disclosures and how to word
11 them. You're going to ask that at the entrance
12 conference. Correct?

13 MR. RICHARDSON: That's correct. And we will
14 do that as the auditors come on board, seeking their
15 advice.

16 MR. MERRYMAN: Thank you.

17 CHAIRMAN MADDOX: Okay. Any other questions
18 on the phone? David or Paul?

19 MR. SNYDER: No.

20 MR. HOFFMAN: No.

21 CHAIRMAN MADDOX: Thank you. Thank you very
22 much for your report, Nancy. We appreciate it.

1 MS. DAVIS: Thank you all.

2 CHAIRMAN MADDOX: So that takes us to the next
3 item on our agenda, if I can just find it again. Okay.

4 Item number 4 is a review of the LSC Form 990 for FY
5 2013. David Richardson? I understand that we don't
6 have a Form 990.

7 MR. RICHARDSON: That's correct. I have
8 received a draft from the auditors in regards to the
9 990. I was able to reconcile the balance sheet and the
10 statement of activity. The functional expenses, I was
11 not able to reconcile. I continue to work with the
12 audit firm to do that.

13 We will have to schedule a telephonic meeting
14 to go over the actual review showing the different
15 reports, where the numbers come from, as I did last
16 year so that we can then file it.

17 I will ask -- I'm not sure if Nancy is on the
18 phone now, but I just got the final reconciliation this
19 morning through email -- that we probably ought to go
20 ahead and do an extension so that we can have that done
21 so we'd not be cramped because it should be filed by
22 February 15th, and I'm not sure we'll have ample

1 opportunity, with your schedules, getting everybody
2 together to review it before it needs to be filed.

3 MS. DAVIS: Yes. We will automatically file
4 extensions like that.

5 MR. RICHARDSON: Thank you, ma'am.

6 CHAIRMAN MADDOX: The failure or the inability
7 to reconcile the expenses, David, is that extraordinary
8 in any way? Or is that something you run into from
9 time to time?

10 MR. RICHARDSON: It's something you run into
11 from time to time. This year it's been a little
12 moreso, I think, than in the past. Last year, I
13 provided you the reconciliation, tying everything down
14 and providing you a report on it.

15 I've not been able to do that. I spotted a
16 few errors that I did provide to the accounting firm
17 earlier in the week, and actually did some last week
18 because I've received two drafts, one last Wednesday
19 and another one on Friday.

20 Both had errors in them, and I emailed them
21 back with the errors that I noted. And hopefully we'll
22 be able to get it completed early next week.

1 CHAIRMAN MADDOX: Well, we'll work with you on
2 rescheduling.

3 Julie?

4 MS. REISKIN: I don't know that it's the law,
5 but isn't it best practice that the full Board review
6 and approve the 990, not just the Audit Committee?

7 CHAIRMAN MADDOX: I'm going to differ to
8 somebody more steeped in the full Board's processes.

9 MR. SNYDER: Well, the other ones I'm on,
10 Julie, the audit committee is charged with the
11 responsibility the review the 990, and then it is made
12 available to the remainder of the board to look at it.
13 I think the full board is supposed to at least see it
14 and review it, but the detailed review has always been
15 left to the audit committee, at least the other
16 organizations I'm involved in.

17 MR. RICHARDSON: That is the practice that we
18 have followed also, reviewing it with the Audit
19 Committee and then give a full copy to each Board
20 member.

21 MS. REISKIN: So there's a question on there
22 that says, "Has the full board reviewed it?" If we're

1 just saying it's available and we're not asking
2 everyone to acknowledge, are we then not going to check
3 that box?

4 MR. RICHARDSON: We check it as yes. I think
5 the actual -- and I don't have it in front of me, but I
6 think it says, "Has it been made available to the full
7 board?" I'm not sure it says "reviewed," but I will
8 double check that.

9 CHAIRMAN MADDOX: Well, we'll check the
10 appropriate box.

11 MR. RICHARDSON: Yes.

12 CHAIRMAN MADDOX: Thank you, Julie. Any other
13 discussion on the 990?

14 (No response.)

15 CHAIRMAN MADDOX: All right. Then we'll move
16 on to item number 5, briefing by the Office of the
17 Inspector General. And I'll recognize the Inspector
18 General himself, Jeffrey Schanz.

19 MR. SCHANZ: Thank you, Mr. Chairman. In the
20 interest of time, I would like to defer my report to
21 the full Board.

22 CHAIRMAN MADDOX: Very well.

1 MR. SCHANZ: Thank you.

2 CHAIRMAN MADDOX: We're going to move through
3 this agenda in record time.

4 MR. LEVI: That'll be a first for this
5 Committee.

6 (Laughter.)

7 CHAIRMAN MADDOX: I've taken my admonishments
8 to heart.

9 MR. LEVI: No, they're not admonishments.
10 You've had a very full plate.

11 CHAIRMAN MADDOX: Item number 6 on the agenda
12 is the Management discussion regarding risk management.
13 I see Ron Flagg, the General Counsel, has taken his
14 seat at the table, and I turn it over to him.

15 MR. FLAGG: Thank you. We can go through this
16 pretty quickly.

17 MR. LEVI: I don't think your mike's on.

18 MR. SNYDER: Yes. We cannot hear.

19 MR. FLAGG: Is this better? I think it's the
20 mike, not me.

21 This is a document that you've seen before.

22 As I indicated at prior meetings, risk management is

1 something that we do on a day-to-day basis, not just in
2 connection with these meetings. And as we think about
3 risk to the Corporation and think of different ways to
4 memorialize what it is we're doing, we will update this
5 chart, which is not a risk management plan so much as
6 just a memorialization of our ongoing efforts in that
7 regard.

8 I've highlighted in yellow the changes from
9 the draft that the Committee saw at the last meeting.
10 Really, the only material change was the addition of
11 material on the second and third pages of the chart.
12 In your book, it would be pages 95 and 96.

13 The Office of the Inspector General, with whom
14 we've had ongoing conversations, as you'd imagine, on
15 the issue of risk management, suggested that we add in
16 a category of management system risks, and those risks
17 which include risks related to management oversight of
18 our human capital and management oversight of
19 information and acquisitions have been added.

20 Again, these are not areas that we were not
21 already active in. They are areas in which we've been
22 very active, but they were not previously reflected in

1 the chart. I expect that you'll get -- that is, not
2 this Committee, but Ops & Regs -- will get reports on
3 this new management system risks area at our next
4 meeting.

5 Again, because these activities reflected in
6 the matrix are ongoing business activities and are not
7 necessarily labeled in our mind risk management, you on
8 a regular basis will be getting reports that fall in
9 these categories. And so, for example, at this meeting
10 the Governance Committee is going to be hearing about
11 our new performance management proposal.

12 Beyond that, I'm available to answer any
13 questions.

14 CHAIRMAN MADDUX: Questions? Martha?

15 DEAN MINOW: Just I'm glad to see that on the
16 chart there's cybersecurity, security of electronic
17 data. Glad to see that that's a risk that you're
18 looking at.

19 MR. FLAGG: Yes. And in fact, we've just had
20 a security audit, which we're going to hear about in
21 the closed session, and our CIO is going to talk to
22 that issue as well.

1 CHAIRMAN MADDUX: Jim?

2 PRESIDENT SANDMAN: I do want to note for the
3 Committee that we have formed an internal risk
4 management committee composed of the directors of the
5 offices most closely involved in all of the matters
6 that you see identified on the matrix. And we have a
7 regular schedule for getting together to talk about
8 these issues.

9 CHAIRMAN MADDUX: Very helpful.

10 Any questions from people on the phone? David
11 or Paul?

12 MR. HOFFMAN: Not from me.

13 MR. SNYDER: No. Not from me at this time,
14 either.

15 CHAIRMAN MADDUX: Well, thank you very much
16 for that briefing, Ron.

17 We will move now to the next item on our
18 agenda, which is item number 7, discussion of the
19 Committee's evaluation for 2013 and the Committee's
20 goals for 2014.

21 I guess everyone's seen the summary of the
22 results of the Committee evaluations. I think,

1 generally speaking, the Committee members are
2 reasonably satisfied with where we are, certainly in
3 light of our new charter.

4 And I think our ideas for improvement are
5 generally helpful: More guidance to Management and
6 staff on the length of presentations, which tend to be
7 too long, not a problem we're experiencing today. More
8 efficient time management by the Chairman. Mea culpa.

9 More informative, efficient, succinct, and
10 regular presentations by staff, and better interaction
11 with OIG. I think we're making progress on both of
12 those fronts. I don't know of anything specific that
13 any Committee members might have in mind; if there is
14 anything specific, I'm certainly happy to hear them.

15 For the future focus, where appropriate,
16 delineating and connecting Committee's work with other
17 Committees. I think the risk management discussion we
18 just had is an example of that. Implementing the new
19 charter.

20 Taking advantage of the expertise of non-Board
21 members, which I think we've been doing pretty well.

22 And continuing to oversee the implementation of the

1 fiscal oversight reforms, which I personally think is
2 one of the important functions of our Committee.

3 So I think the evaluations have been helpful
4 and productive. And if there are any comments from the
5 Committee or the Board members?

6 (No response.)

7 CHAIRMAN MADDOX: If not, we will move on to
8 the next item on our agenda, which I've just now lost.

9 Item number 8, briefing by the Office of Compliance
10 and Enforcement about followup from referrals by the
11 Office of the Inspector General regarding audit and
12 investigation reports and annual independent public
13 accountants' audits of grantees.

14 And I see Lora Rath has taken her seat, the
15 Director of Compliance and Enforcement, and I turn it
16 over to Lora.

17 MS. RATH: Thank you. In an effort to address
18 this Committee's request for ongoing information about
19 the interactions between the Office of Compliance and
20 Enforcement and the Office of the Inspector General, we
21 prepared and provided you three charts for your review
22 in advance of the meeting.

1 Two of them, which I'll talk about in a
2 second, can be discussed in the open session. The
3 third I would ask that we put off until we go into
4 closed session.

5 The first chart, which begins on page 109 of
6 the hard copy of the Board book and on page 115 of the
7 online version, is a revised and hopefully easier to
8 read version of the chart that I provided to you in
9 July 2013. I see nods. That's good.

10 So this chart lists the status of the various
11 referrals that the Office of Compliance and Enforcement
12 received from the Audit Division. So these are the TIG
13 referrals, they're reports on audited financial
14 statements, those types of reviews.

15 In my discussion with you in April of 2013, I
16 went through a lot of detail about how we deal with
17 these. I was thinking that we weren't going to have
18 much time, so I was going to just open it up to
19 additional --

20 MR. LEVI: Don't become overly excited about
21 that.

22 MS. RATH: No, no, no. Well, I wasn't going

1 to go through my whole presentation again, but instead
2 I was going to open it up for questions about any of
3 the closed referrals in chart 1. For any of the ones
4 that are listed as pending, I would ask that those also
5 get put off until the closed session because those are
6 ongoing processes of OCE that I think we should keep
7 more private.

8 CHAIRMAN MADDUX: Julie?

9 MS. REISKIN: I had a question about the
10 length. There were a couple of places where it started
11 off with saying "the client" didn't do something. In
12 other places, it said "recipient."

13 MS. RATH: Can you find that offhand? I'm
14 sorry.

15 MS. REISKIN: Yes. Line 29 on page 120.

16 MS. RATH: Okay. So that's going to be,
17 actually, chart 2, which I can get to in a second, if
18 there's any questions about chart 1. And then I'll
19 explain what chart 2 is, and then I'll take a look at
20 that for you, Julie.

21 CHAIRMAN MADDUX: Sorry. Martha?

22 DEAN MINOW: I did find this chart easier to

1 read. It's Martha Minow. I did have a question,
2 though, which is now that it's easier to read, I'm
3 wondering, are there lessons learned? Are there
4 repetitive patterns?

5 Take, for example, when there are -- it refers
6 in one to recurring issues about noncompliance with
7 timekeeping requirements. Another is credit card,
8 another a TIG. Are there patterns?

9 MS. RATH: Yes. And again, those, Martha,
10 refer to the chart 2, which let me just explain what
11 chart 2 is and then I can answer some questions about
12 that.

13 Chart 2 is a listing of the referrals that we
14 receive through the A-50 process, which is the OIG's
15 review of audited financial statements and the findings
16 that the independent public auditor made. When the OIG
17 feels that some of these findings need LSC Management
18 to follow up on it, they refer them to us.

19 OCE conducts either a desk review or an onsite
20 review, depending on it. And we also use all that
21 information as part of our risk assessment for where
22 we're going to go the next year.

1 But yes, we are seeing patterns. And as part
2 of OCE's ongoing attempts to help the recipients
3 understand what's going on, this information will also
4 be part of the compliance advisory that we should be
5 issuing in the next couple weeks to month, is our
6 proposed deadline for getting that out. But yes, that
7 information will get disseminated.

8 CHAIRMAN MADDUX: Sharon?

9 MS. BROWNE: I found this really interesting.
10 Do you have a sense of how long it takes from the date
11 of the OIG report to the date that it's closed? It
12 appears to take about two years for these to be
13 completed. Is that --

14 MS. RATH: It depends on the significance of
15 the issue at hand, how much additional research,
16 because for these referrals, the regulations indicate
17 or dictate that LSC Management do an independent review
18 of both the OIG's findings and the program's written
19 response in order to come up with an independent view
20 of what the legal assessment is, how much the money
21 that should be recouped, if necessary.

22 So it depends how much additional back and

1 forth. We often go to the program in advance of
2 issuing something like a Notice of Questioned Costs,
3 which can take five to six months, once that's issued,
4 to go through the process.

5 But we may ask the program in advance to
6 provide us some additional information to help us frame
7 our arguments if we have to ask for a Legal Affairs
8 opinion. And then there's often a lot of debate
9 amongst staff as to what the correct outcome should be.

10 So yes, sometimes it takes a little longer.
11 But I think in order to do our job correctly and not
12 jump to any conclusions and to make sure that we look
13 at everything, unfortunately sometimes it takes longer
14 than one would hope it would. We're working on speed,
15 though.

16 MR. HOFFMAN: Vic, it's David Hoffman. I have
17 a couple questions on that point. When is the right
18 time?

19 CHAIRMAN MADDOX: This is a good time, David.

20 MR. HOFFMAN: Hi, Lora. Thanks for that. I
21 want to follow up on the question just asked, but I
22 absolutely appreciate the changes to the chart. It's

1 really good, and I think it will be helpful to have
2 efficient discussions if we're getting this on an
3 ongoing basis.

4 I have a question about the timing as well,
5 and I guess I want to just align our expectations with
6 what you think should happen and what is happening.

7 One of the takeaways was that just in this
8 first set of referrals regarding the referrals from the
9 Audit Division, there don't appear to be a large
10 number. In 2013 there were, by my count, five
11 referrals to the OCE, and in 2012, there were six. And
12 then it does seem like, at least for some of them,
13 there's quite a long time period before it's closed.

14 This is asked in the most constructive
15 possible way because if the answer is, it should take
16 shorter but we don't have resources or other obstacles,
17 that's, I think, important for us to hear. If the
18 answer is, there's no way it can take less than X
19 period, that's important for us to hear.

20 But I suspect that for some of the legal aid
21 clinics or legal services agencies that receive an IG
22 notice that has questioned costs, for instance, that's

1 a significant thing and a significant cloud hanging
2 over their head. So I think there's a benefit to
3 trying to get resolution and either clear it up or
4 state what's owed.

5 And presumptively, with this small a number
6 and not knowing any details about what you all do,
7 presumptively it feels like anything longer than six
8 months might be something that there should be an
9 explanation for, in a positive way.

10 But I wanted to ask that really as a question
11 because I think that setting a presumption in these
12 situations is sometimes helpful to make sure that the
13 folks on the ground in the different states are getting
14 the "promptest" possible resolution that's realistic
15 for you, actually doing the work. So how should we
16 think about that?

17 MS. RATH: Okay. A couple of different things
18 that I'd like to mention. First of all, as I said a
19 minute ago, just the questioned cost proceeding process
20 itself from the date of the notice to a final decision
21 is gong to take a minimum of six months, with the
22 timing the way it's laid out in the regulation. So

1 that's always something to keep in mind, that once
2 we've made a decision to issue a notice, it's going to
3 be six months before something's closed.

4 Additionally, as I mentioned, the need for us
5 to do our own review of the information -- we can't get
6 a referral from the OIG's office and immediately turn
7 it around and turn it into a Notice of Questioned
8 Costs.

9 We ask the OIG's office to provide us whatever
10 background documentation they can. We review that. As
11 I said, we contact the program. So it's a lot of back
12 and forth.

13 And then third, you have to realize that one
14 of the primary missions of the Office of Compliance and
15 Enforcement is to do the onsite reviews. So I have
16 those visits scheduled out anywhere from three to six
17 to eight months in advance because programs have been
18 asking to know further in advance when we're going to
19 come see them.

20 And if I have staff dedicated to those visits,
21 it also becomes a strain on resources to assign
22 somebody to a questioned cost, which can be very

1 intensive, the research that goes into it.

2 So I do think it is taking a little longer
3 than it should. But I think we're doing a very
4 diligent job at it, and potentially, if we got more
5 resources, we could do it faster. But I don't know.
6 We're a work in progress.

7 MR. HOFFMAN: I don't want to dwell on it.
8 I'll just make some comments, and then whatever
9 direction you want to go.

10 My comment would be that I have no doubt, and
11 it's clear to me from everything I heard, that OCE is
12 doing a really diligent job, and there's a lot of other
13 things, as you said, on your plate other than this. So
14 no question about diligence.

15 I do think that we hear from the IG about the
16 good work that it's doing, and some of its work results
17 in these reports that say, we have these questioned
18 costs, costs or potential problems. But it's just a
19 report that either has a recommendation or creates a
20 question mark, and then nothing is real about that
21 until you look at it and decide whether it's been
22 resolved, and it moves to some sort of a resolution.

1 So I think for some of the activity of the
2 IG's Office to be meaningful in the real world, OCE has
3 to be getting to resolution relatively quickly, which
4 is not a statement that you should be doing different
5 than you do in light of the other things.

6 But I think it's a statement about needing to
7 keep track of how long, and maybe setting some
8 guideposts for, our expectation is that we would get to
9 this phase at this point. Our expectation is that we
10 would get to resolution at this point. If we don't, at
11 least it rises to the surface a little more, and maybe
12 the Audit Committee hears from you about that, and so
13 on.

14 Again, this is not to question in any way how
15 hard everyone is working and how much is on your plate.

16 But I think that feels very important in order to make
17 the work of the IG's Office translate to something real
18 in the real world and to protect the legal aid clinics
19 from not having things hanging over their head too long
20 if they shouldn't be.

21 That's really just a thought for you, Lora, to
22 think about, whether putting together some sort of

1 default schedule that can be guideposts, I think that
2 would be useful. Because I think without that, it's
3 hard to have an assessment with metrics about whether
4 it's moving quickly enough.

5 But otherwise, the message is, keep up the
6 good work. Thank you.

7 MS. RATH: Thank you. And point well taken.
8 I wanted to go back to --

9 MR. SNYDER: Lora, a quick question on -- I
10 think it's the last item on page 112. There's a note
11 there as far as, "OIG disagreed with LSC's
12 determination." Generally, we go through and look at
13 OIG in that second-to-the-last column on the right, and
14 OIG concurs. So we get action. We get an "OIG
15 disagrees." But we also have it marked as "Closed."

16 How do those things get escalated from a
17 review standpoint that the OIG's view on these has been
18 appropriately considered in the final steps? And maybe
19 lastly, from a Committee standpoint, when I see that,
20 that's something I'll at least be aware of, that we
21 have a disagreement between two groups on a particular
22 matter.

1 MS. RATH: One thing. It's very rare that the
2 OIG and the OCE disagree on a finding. I think in this
3 chart of 44, I think there were two. Typically, we try
4 and get back together and discuss it to see why they
5 disagreed.

6 Because what we do is OCE, as I said, either
7 contacts the program in writing or goes out there, and
8 then we send information to the OIG saying, based on
9 the document we reviewed, based on this, that, and the
10 other thing, we believe that the program has completed
11 the corrective action, and we provide documentation of
12 that.

13 The OIG reviews it, and then they decide
14 whether or not they have agreed with us. Actually,
15 Dutch and I were talking about that this morning, that
16 we would get together and talk about the two that were
17 listed on the chart and try and figure out whether we
18 could get those closed out.

19 MR. SNYDER: So --

20 MR. HOFFMAN: This is --

21 MR. SNYDER: Go ahead, David.

22 MR. HOFFMAN: I think Paul's question is a

1 good one. When the chart says "OIG disagrees," either
2 for you or for Dutch, does the IG write something up
3 that explains the disagreement? Or is it just a note
4 of disagreement and then it's done?

5 MS. RATH: Right now it's just a note of
6 disagreement. The system by which these referrals get
7 sent to us -- the acronym is called AIMS; it's a
8 database that has very little -- it's kind of like
9 tweeting; it has very little space for information to
10 be input. So that's actually where most of the
11 information in this chart came from.

12 If the OIG disagrees with OCE's
13 recommendation, they just click off that they disagree.
14 If they agreed and they've closed it, they check off
15 that. I don't receive a notification of it until I go
16 through and run a report.

17 MR. HOFFMAN: So just to talk about that from
18 a governance standpoint, my initial reaction, to allow
19 for discussion, that doesn't seem like a great practice
20 regarding governance because I think it then shuts off
21 the IG's voice if it disagrees.

22 It seems to me the better path might be to

1 consider giving -- if the IG really disagrees and feels
2 strongly enough about it, then it needs an outlet for
3 what the basis of its disagreement is. And one outlet
4 for its disagreement is, of course, this Committee.

5 It would be a normal corporate governance
6 outlet that a board or a board committee would hear
7 about that. And since the IG is independent of
8 Management here, that would be a natural outcome.

9 The IG might not feel that strongly about it
10 and might not come to the Committee. Before coming to
11 the Committee, the IG might think, all right, let's
12 really try to sit down, and that might change things.

13 But if the IG still strongly disagrees and all
14 they get to do is check a box, that doesn't sound like
15 the best outcome.

16 MS. RATH: Can I -- well, and one thing --
17 Dutch has come up here and I'll let him talk in a
18 second. But I agree, but that's actually a system that
19 the OIG created. So I'll let Dutch talk about why they
20 decided these were the check marks that they wanted.
21 This isn't a Management quashing of anybody's voice.

22 MR. MERRYMAN: Dutch Merryman. Good handoff,

1 Lora.

2 (Laughter.)

3 MR. MERRYMAN: I wasn't there when it was
4 created. I can't tell you why there's a check box.
5 I'm trying to get rid of the system.

6 Usually we don't have this. As a matter of
7 fact, when I sat down and went through the Board book
8 -- it was really only yesterday I really had some time
9 to try to see what was in there -- and I saw those two,
10 I highlighted them immediately.

11 Usually we discuss things. We just don't send
12 things back or accept just a checkoff. There's a
13 reason why we reject it. Usually we get a letter that
14 explains certain things.

15 One of the things that we always look for is
16 not the promise to do something like the grantee
17 promises to update their accounting guide; we want to
18 see where they have updated it. And usually when we
19 talk to each other, we reach agreement, and that
20 doesn't happen.

21 I asked my staff to try to research this very
22 quickly to see what happened on these, and they're

1 still researching it. I've just got some preliminary
2 information.

3 The second one will probably be closed. There
4 was a notification that didn't come through the system
5 that we didn't see that, when I looked at just the
6 general -- the preliminary stuff, it looks like it's
7 going to be fine. I just need to confirm that with my
8 staff.

9 The one that says OIG disagreed, the reason
10 that was in there, we did follow up with an email and
11 asked for some additional information from LSC. I have
12 not seen where we have gotten that information back.
13 It shouldn't be a big problem. So I'm having my staff
14 check the email responses to see what we have, and we
15 should be able to get that one closed.

16 But as soon as I saw those, that's just
17 unusual that we get to that level because everybody
18 I've worked with in OCE, and I hope everybody that
19 OCE's worked with in Audit, is reasonable about these
20 things, can explain things, and that we reach
21 agreement.

22 MR. SNYDER: Dutch, Paul Snyder. If that's

1 what the status of those, and I know there's people
2 concerned, I would probably note that it's pending
3 resolution but not have that the OIG disagreed because
4 then it sounds like it disagreed and nothing else is
5 happening. We can't have those things hanging out
6 there. I just think it eggs the Audit Committee to
7 follow up on this.

8 MR. MERRYMAN: Yes. What we need to do is
9 find a way to annotate those in such a manner that it
10 gives a better picture of what the status really is.

11 MR. SNYDER: Agreed.

12 MR. MERRYMAN: Because again, I really believe
13 that communication between OCE, OPP, and OIG has really
14 improved. And it's not unusual for Lora to pick up the
15 phone and say, "What the heck is this about?" Or I
16 pick up the phone and I ask her what the heck something
17 else is about.

18 And we understand there's a disagreement or
19 something that we misunderstood, and we get it resolved
20 and we get it fixed because it doesn't do anybody any
21 good -- it doesn't do the grantees any good; it doesn't
22 do us any good -- to have disagreements hanging out

1 there for a long time.

2 CHAIRMAN MADDOX: Dutch, can we ask that at
3 our next meeting in April you give us some update on
4 how you've proposed or how you have in fact resolved
5 this issue so that the system or the process is
6 improved?

7 MR. MERRYMAN: I will. I'll see what we can
8 do. If there's something in the system and we can get
9 more information in -- a lot of times, though, we work
10 outside the system because it was a custom-made system
11 back in 1996 or 1997.

12 We want to replace it. We just haven't found
13 the thing to replace it with yet. So we'll see what we
14 can do and report back.

15 CHAIRMAN MADDOX: Thank you.

16 MR. HOFFMAN: Vic, it's David. And Dutch,
17 thank you for that. Look. I think it's the preference
18 of this Committee every time, and we see that as such a
19 -- and I'm sure the Board does -- as such an important
20 and helpful improvement, that the preference is
21 absolutely every time that you and OCE and Management
22 can come to agreement and communicate that and we don't

1 hear about it, that's a victory. We think that's
2 great.

3 I just want to reiterate for you and Jeff and
4 folks in the IG's Office that if there are occasions,
5 whether rare or otherwise, where you feel like what's
6 happening is not right and you cannot reach agreement,
7 you always know that the Committee and the Board is
8 here as an outlet because the fundamental concern of
9 the Committee, and I believe of the Board -- and one of
10 the concerns is to ensure the integrity of the use of
11 funds and operations by the grantees.

12 And if you have a window into that that's not
13 being heard, we're an outlet for you. Having said
14 that, it seems highly unlikely because of what has been
15 such great progress and such great work by Management
16 and you to improve the communication.

17 So keep it up. Just know that if you need us
18 as a safety valve, we're here. And otherwise, we're
19 glad to see such good coordination.

20 MR. MERRYMAN: Thank you very much. I do
21 appreciate that, and we know the Board is there to
22 support both us and Management. And we would not

1 hesitate to bring issues that are professionally
2 different positions for the Board's input. But I
3 appreciate you saying that.

4 CHAIRMAN MADDIX: Jeff?

5 MR. SCHANZ: Thank you, Mr. Chairman. David,
6 this is Jeff Schanz.

7 This is an instance, I believe, where our
8 practice is better than our policy. We're not
9 documenting as well as we're practicing. Dutch and Tom
10 Coogan of Investigations meet with their Management
11 counterparts on a monthly basis.

12 I meet with Jim biweekly, with the President
13 of the Corporation. If we're at loggerheads on a
14 particular issue, we discuss it as professionals and
15 freely, seeking advice from one another and making
16 decisions based on our conversations.

17 Now, I think the area that you do not see is
18 probably those conversations. And we could do a better
19 job of documenting those processes. I won't be your IG
20 forever and you won't be Board members forever, so it
21 would be very helpful, I agree, to have those processes
22 documented.

1 As to what we do in the case of intractability
2 on the IG's part of findings based on the facts
3 presented and on Management as a funding source, they
4 can decide what they want to do as far as withholding
5 funds or putting in special conditions. We've had some
6 examples like that recently.

7 I have always looked at the Audit Committee --
8 and thankfully we haven't gone up to that point yet
9 where we just can't agree on disagreeing. And in my
10 years at the Department of Justice, we had something
11 called the audit resolution committee.

12 And I would look at the Audit Committee as
13 sort of a de facto audit resolution committee, where
14 Management presents their side, IG presents their side,
15 and the ultimate arbiter would be the Audit Committee.

16 But we're not there. That's where our
17 practice is better than our policy. But our practice
18 is such that we haven't risen to that level of
19 disagreement yet.

20 CHAIRMAN MADDUX: Martha?

21 DEAN MINOW: I once heard a story about a
22 group of economists who were arguing intensely. And

1 one finally said, "Well, that'll work in practice, but
2 it won't work in theory."

3 (Laughter.)

4 DEAN MINOW: And it seems to me what we have
5 here is a really good practice, really good flow of
6 communication. There may be, as Mr. Inspector General
7 suggests, room for more documentation.

8 And it's often the case that we hear about the
9 problem and not the successes. It's a way to
10 demonstrate the communication about any kind of
11 disagreement and how it gets resolved. But I wouldn't
12 want the theory to interfere with a good practice.

13 CHAIRMAN MADDUX: Thank you, Martha.

14 MR. KORRELL: It is funny that the issue is
15 lack of documentation.

16 (Laughter.)

17 CHAIRMAN MADDUX: Gloria?

18 PROFESSOR VALENCIA-WEBER: I do want to thank
19 Lora and whatever was involved in preparing the chart.
20 It's much more informative than the prior versions we
21 had.

22 I was wondering if, with this much-improved

1 format as well as the information we're gleaning out of
2 it, if you're doing a purely descriptive tabulation of
3 what are the recurring types of issues because you have
4 a whole variety of them, from timekeeping, inadequately
5 documented client files, et cetera, so that we might
6 get an as-it-happens picture of what is happening.

7 I think that could be very useful, not only to
8 the Audit Committee, but also the performance of the
9 Legal Services Committee, about helping us understand
10 our own charter and areas where we can our work.

11 CHAIRMAN MADDOX: Good suggestion.

12 Lora, were you finished with your briefing? I
13 think we kind of interrupted your flow.

14 MS. RATH: No, no, no. We've covered
15 everything except I just wanted to go back to Julie's
16 question about the client. And then I think we can go
17 into the closed session, unless there's other
18 questions.

19 CHAIRMAN MADDOX: Very well.

20 MS. RATH: The chart is actually taken from
21 information that was in the database that I talked
22 about. And I don't know whether --

1 MS. REISKIN: From the accountant?

2 MS. RATH: Yes. So I don't know whether the
3 IPA put "client," or I actually also went through and
4 tried to make it into more readable sentences. So I
5 may have inadvertently changed a word. So I'm not
6 sure. I either changed a word --

7 MS. REISKIN: Okay. But they're talking about
8 the grantee?

9 MS. RATH: They're talking about the grantee.
10 The client in here is the grantee. And I'll change
11 the words in the ongoing chart.

12 Other than that, I'm done.

13 CHAIRMAN MADDOX: Thank you, Lora.

14 Are there other questions?

15 (No response.)

16 CHAIRMAN MADDOX: If not, we will move on to
17 any public comment.

18 (No response.)

19 CHAIRMAN MADDOX: Seeing none or hearing none,
20 we'll move on to item 10, consider and act on other
21 business.

22 (No response.)

1 CHAIRMAN MADDUX: And if there is no other
2 business, we'll move into our closed session.

3 So with that, we will, I guess, ask that our
4 phone line be closed out and reopened for the closed
5 session, if that's appropriate.

6 (Whereupon, at 3:46 p.m., the Committee was
7 adjourned to executive session.)

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