

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
AUDIT COMMITTEE

OPEN SESSION

Monday, July 21, 2014

4:02 p.m.

Des Moines Marriott Downtown
700 Grand Avenue
Des Moines, Iowa 50309

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
Father Pius Pietrzyk, O.P.
Julie A. Reiskin

STAFF AND PUBLIC PRESENT:

James J. Sandman, President
 Lynn Jennings, Vice President for Grants Management
 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
 Wendy Long, Executive Assistant, Office of Government
 Relations and Public Affairs
 Jeffrey E. Schanz, Inspector General
 John Seeba, Assistant Inspector General for Audit,
 Office of the Inspector General
 Thomas Coogan, Assistant Inspector General for
 Investigations, Office of the Inspector General
 David Maddox, Assistant Inspector General for
 Management and Evaluation, Office of the
 Lora M. Rath, Deputy Director, Office of Compliance
 and Enforcement
 Julia Kramer, Program Counsel, Office of Compliance
 and Enforcement
 Janet LaBella, Director, Office of Program
 Performance
 Herbert S. Garten, Non-Director Member, Institutional
 Advancement Committee
 Frank B. Strickland, Non-Director Member,
 Institutional Advancement Committee
 Robert E. Henley, Jr., Non-Director Member, Finance
 Committee
 Allan J. Tanenbaum, Non-Director Member, Finance
 Committee
 Dennis Groenenboom, Executive Director, Iowa Legal
 Aid
 Patrick McClintock, Iowa Legal Aid
 Chris Luzzie, Iowa Legal Aid
 Alan O. Olson, Iowa Legal Aid Board of Directors

 Don Saunders, National Legal Aid and Defenders
 Association (NLADA)
 Robin C. Murphy, National Legal Aid and Defender
 Association (NLADA)
 Terry Brooks, American Bar Association Standing
 Committee on Legal Aid and Indigent Defendants
 (SCLAID)

C O N T E N T S

OPEN SESSION	PAGE
1. Approval of agenda	5
2. Approval of minutes of the Committee's Open Session April 7, 2014 meeting	6
3. Approval of minutes of the Committee's Telephonic Open Session May 22, 2014 meeting	6
4. Briefing by Office of the Inspector General	7
Jeffrey Schanz, Inspector General	
5. Management update regarding risk management	10
Ron Flagg, Vice President of Legal Affairs	
6. Briefing about Management representation letters in connection with financial reporting	13
David Richardson, Comptroller	
7. Briefing regarding LSC audit and review activities	16
Lynn Jennings, Vice President of Grants Management Janet LaBella, Director of Program Performance Lora Rath, Director of Compliance and Enforcement	

OPEN SESSION

PAGE

8. Briefing about follow up by Office of Compliance and Enforcement from referrals by the Office of Inspector General regarding audit reports and annual Independent Public audits of grantees 45
- Lora Rath, Director of Compliance and Enforcement
John Seeba, Assistant Inspector General for Audits
9. Public comment 64
10. Consider and act on other business 64

CLOSED SESSION

PAGE

11. Approval of minutes of the Committee's Closed Session meeting on April 7, 2014
12. Briefing by Office of Compliance and Enforcement on active enforcement matter(s) and follow up to open investigation referrals from the Office of Inspector General
- Lora Rath, Director of Compliance and Enforcement
13. Update on Management response to the OIG Information Technology Systems Risk Assessment
- Peter Campbell, Chief Information Officer (by telephone)
14. Consider and act on adjournment of meeting

Motions: 5, 6, 6, 64

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

2 (4:02 p.m.)

3 CHAIRMAN MADDOX: I'll call the meeting to
4 order. I noted that Gloria Valencia-Weber is here. I
5 am here. David Hoffman, are you on the phone?

6 MR. HOFFMAN: Yes. I'm here, Vic.

7 CHAIRMAN MADDOX: Okay. And Paul Snyder, are
8 you on the phone?

9 MR. SNYDER: Yes, Vic. I'm here.

10 CHAIRMAN MADDOX: So we have -- and I notice
11 that the chairman is here, Mr. Levi. So we have a
12 quorum.

13 So I'll call the meeting to order, and the
14 first order of business is approval of the agenda. Is
15 there a motion?

16 M O T I O N

17 PROFESSOR VALENCIA-WEBER: So moved.

18 MR. SNYDER: Second.

19 CHAIRMAN MADDOX: And Paul seconded. All in
20 favor?

21 (A chorus of ayes.)

22 CHAIRMAN MADDOX: The agenda is approved.

1 The second order of business is approval of
2 the minutes of the Committee's Open Session, April 7,
3 2014. Gloria, could you move that?

4 M O T I O N

5 PROFESSOR VALENCIA-WEBER: I move approval.

6 CHAIRMAN MADDOX: And a second?

7 MR. HOFFMAN: Second.

8 CHAIRMAN MADDOX: All in favor?

9 (A chorus of ayes.)

10 CHAIRMAN MADDOX: And the approval of the
11 minutes is passed.

12 The third item is approval of the minutes of
13 the Committee's Telephonic Open Session, May 22nd. Is
14 there a motion?

15 M O T I O N

16 PROFESSOR VALENCIA-WEBER: I move approval.

17 CHAIRMAN MADDOX: Gloria. A second?

18 MR. HOFFMAN: Second.

19 CHAIRMAN MADDOX: All in favor?

20 (A chorus of ayes.)

21 CHAIRMAN MADDOX: And the minutes are
22 approved.

1 Our first substantive matter is the briefing
2 by the Inspector General. I see Jeff Schanz is
3 approaching the table, and I welcome you, Mr. Inspector
4 General.

5 MR. SCHANZ: Thank you very much,
6 Mr. Chairman. I can keep this fairly short.

7 I want to tell you that -- and I won't
8 introduce John Seeba as the AIGA; I did that last time.
9 But he'll be joining me shortly at the table. But I
10 did want to tell you that in part because of John, and
11 in part because of the fact that since I've been the IG
12 for six years now, I've turned over 80 percent of the
13 audit division.

14 We're moving reports very quickly. Hopefully
15 they're of substance to you. They're sent to the Board
16 every time I issue them; they're sent to Management and
17 the Board, and then I post them on the website, the LSC
18 OIG website. So I'm into the transparency.

19 The reports that I've sent out since we last
20 met were consultant contracts of the Corporation. We
21 did a review several years ago; we found numerous
22 problems. So we did a followup on that, and I'm

1 pleased to report most of those issues have been
2 addressed.

3 This is something that it takes a while to
4 turn a battleship, so we didn't expect immediate
5 responses. A lot of it has to do with developing
6 policies and procedures. So in order to fully close
7 out an audit report that requires that, we will wait
8 till we actually see the revised policies and then make
9 sure they're being implemented as proposed.

10 We also sent out a report on Legal Services of
11 Alabama. And in that -- and that was posted -- we had
12 the individual from the Alabama Bar Foundation respond
13 to us in saying, gee, thank you for this information.
14 So I was very pleased to know that people are reading;
15 hopefully, the Board is. As I said once before, it's
16 interesting reading, especially if you suffer from
17 insomnia.

18 So we got feedback from Alabama Bar Foundation
19 that said, I didn't know these problems existed. So
20 that's sort of emblematic, and I throw that out as an
21 illustrative example of some of the difference that the
22 OIG reports can make. We also sent out an audit report

1 that we had done of Oregon Legal Services.

2 I am pleased to report, and I sent this to the
3 Committee, the Audit Committee, that we have a
4 successfully fully executed contract for the audited
5 financial statement for next year. It is going to be
6 with WithumSmith+Brown again, which is good and bad.

7 It's good because they have knowledge of LSC
8 and the procedures, and we're familiar with them and
9 their work. It's bad because sometimes it's good to
10 get new independent auditors. But they were the best
11 of the 27, I think, responses we got, and so we decided
12 to go ahead and execute a contract with them for the
13 audited financial statements for the succeeding year.

14 That's all I have, Mr. Chairman, unless
15 there's any questions on that.

16 CHAIRMAN MADDUX: Thank you very much. Let me
17 just note that Harry Korrell has joined the meeting a
18 few moments ago.

19 Are there any questions of the Inspector
20 General?

21 (No response.)

22 CHAIRMAN MADDUX: Anyone on the phone have a

1 question?

2 MR. SNYDER: No. Not at this time. Thank
3 you.

4 CHAIRMAN MADDOX: Well, thank you, Jeff, and
5 we appreciate that.

6 MR. SCHANZ: Thank you.

7 CHAIRMAN MADDOX: Item 5 on our agenda is the
8 Management update regarding risk management and Ron
9 Flagg, the Vice President for Legal Affairs. Welcome,
10 Mr. General Counsel.

11 MR. FLAGG: Thank you. I realize my
12 credibility in this regarding, but I'm going to be
13 brief, or I intend to be brief.

14 You should have at pages 180 through 191 the
15 updated risk matrix. Again, just to put it into
16 context, the risk items highlighted in red are the ones
17 we collectively, and with your guidance as well, have
18 rated as the most significant.

19 Those highlighted in yellow are the ones where
20 there are changes. You'll see a couple changes where,
21 as a result of our last meeting, either the severity or
22 probability of risks or whether they should be

1 highlighted in red has changed.

2 The other change to the matrix is to reflect
3 when we anticipate addressing certain risk areas. And
4 these arise in a number of different ways. Charles
5 called us and asked for a report, which we ended up
6 agreeing would be on contracting and procurement, and
7 so that's noted.

8 Actually, Vic, as you know, you asked for
9 several reports on a number of different areas, which
10 actually don't necessarily line up with the risk
11 matrix. But that was certainly appropriate and fine.

12 I think Management's suggestion is that we not
13 populate this from here through 2018 with projected
14 dates because we think the better approach is for
15 Management and Committees and Committee chairs to just
16 agree on what the Committees would like to hear about.

17 That's how we would propose to populate these.

18 In essence, where you see dates in the future,
19 that's basically Management's proposal of when to make
20 a particular report. But we welcome, obviously, your
21 thoughts on those or other areas you want to hear
22 about.

1 CHAIRMAN MADDUX: Thank you, Ron.

2 If anybody's on the phone, could you mute your
3 phone if you're on speaker, please?

4 Does anyone on the Committee have any
5 questions of Ron about the reporting date for any of
6 the items on the risk matrix or any other questions?
7 Gloria?

8 PROFESSOR VALENCIA-WEBER: Ron, on page 185 --
9 that's page 6 of the matrix, but it's 185 in the Board
10 book -- this is mostly a question about the content of
11 the last one, the integrity of electronic data
12 information when you have to have effective disaster
13 recovery.

14 Given the idiosyncrasies that we've had the
15 last two years with weather and natural disasters, has
16 that training and other elements you list there been
17 tuned up to different kinds of disasters, from a
18 wipeout of the electrical grid for reasons not having
19 anything to do with weather to weather-caused events?

20 MR. FLAGG: Happily, we're actually having a
21 report from Peter Campbell on integrity of electronic
22 data, and he's in a better position to answer that

1 question. He's going to be reporting in the closed
2 session, and I suggest you ask him that question.

3 CHAIRMAN MADDOX: All right. Any other
4 questions?

5 (No response.)

6 CHAIRMAN MADDOX: If not, appreciate that
7 report, Ron.

8 MR. FLAGG: Thank you.

9 CHAIRMAN MADDOX: The next item on our agenda
10 -- let me just find it again -- the next item on our
11 agenda is the briefing about the Management
12 representation letter in connection with financial
13 reporting by David Richardson.

14 I'll turn it over to you, David. Just in the
15 interests of time, we want to try to make sure we don't
16 go too long. I've asked the next panel presentation to
17 keep theirs to ten minutes or so, and if you could do
18 the same or less, that would be great.

19 MR. RICHARDSON: It will be less.

20 CHAIRMAN MADDOX: Good.

21 MR. RICHARDSON: The Management representation
22 letter that we provided WithumSmith+Brown is in the

1 Board book at page 193. Basically, this is a letter
2 stating that we have provided all the information to
3 the accounting firm, anything that would affect the
4 financial statements.

5 We go through this each year, and as I provide
6 the financial information, I certainly keep apprised of
7 what's going on in the Corporation. But because there
8 are some things that I may not be aware of -- for
9 instance, in litigation -- I put them in touch with Ron
10 Flagg and the Legal Affairs Office. So they have the
11 information that I provide, and then Legal Affairs also
12 has a meeting with them also to see if there's anything
13 that would give rise to an issue in regards to the
14 financial statements.

15 Ron and his office also prepare the footnote
16 for the contingencies if there's any there. Also, with
17 the grants, they meet with the Program Performance
18 staff on the compliance issues. They meet with OCE on
19 the issues regarding grantees and anything that may
20 affect our financial statements.

21 We keep an open book here so that we can make
22 sure that they get all the information they need. Jim

1 and I sign this, but this is a collaborative effort
2 across the full spectrum of the Corporation so we make
3 sure that we get all the bases covered.

4 Be glad to take any questions from you.

5 CHAIRMAN MADDOX: One question: Did we not
6 discuss this earlier in the year? The letter's dated
7 December of 2013. I was thinking that we had discussed
8 this earlier in connection with the closing out of the
9 audit. Is that --

10 MR. RICHARDSON: We did discuss that there
11 would be a representation letter, but we did not look
12 at the letter.

13 CHAIRMAN MADDOX: I don't have any questions.
14 Gloria?

15 PROFESSOR VALENCIA-WEBER: My memory is --

16 MR. SNYDER: David and the Committee, this is
17 Paul Snyder. It looks like a fairly standard letter.
18 I assume there's nothing in here that troubles you?

19 MR. RICHARDSON: No, there is not. And as
20 Paul says, it is a standard letter. It is something
21 that is required under generally accepted auditing
22 standards that's released each year.

1 MR. SNYDER: And maybe just to help refresh my
2 memory, the very last bullet where we confirm about tax
3 service, that's because they prepare the tax return for
4 us?

5 MR. RICHARDSON: That is correct.

6 MR. SNYDER: Thank you.

7 CHAIRMAN MADDOX: Gloria, did you have a
8 question? Okay.

9 If there are no other questions, thank you
10 very much, David.

11 So the next item on our agenda is a report or
12 briefing regarding LSC audit and review activities by a
13 star panel, Lynn Jennings, Janet LaBella, and Lora
14 Rath. And I will turn it over to Lynn.

15 MS. JENNINGS: Great. Thank you. Thank you,
16 Mr. Chairman. I think it's been a few years since both
17 Lora and Janet have briefed the Committee on --

18 CHAIRMAN MADDOX: Let me just -- before you go
19 on, David and Paul, did you receive the PowerPoint
20 presentation that Lynn prepared?

21 MR. SNYDER: Yes. Yes, I did.

22 MR. HOFFMAN: Yes. It's David. I did receive

1 it.

2 CHAIRMAN MADDUX: Thank you.

3 MS. JENNINGS: They may have done it at that
4 time by what their office does. This time we're taking
5 a more global approach and looking at the life cycle of
6 the grants.

7 So we'll review what that looks like as well
8 as the distinct roles and responsibility of both OPP
9 and OCE in grantee oversight, and we'll start that off
10 -- since we have ten minutes, we'll be moving quickly.

11 But Janet and Lora will review the missions of
12 their office, and then we'll be looking at what the
13 competition cycle looks like in terms of grantee
14 oversight and what the post-award cycle looks like as
15 well.

16 Janet?

17 MS. LABELLA: Thank you, Lynn. As most of
18 you, I'm sure, by now know, the mission of the Office
19 of Program Performance is to promote grantee provision
20 of high quality legal services. And we do that in a
21 variety of ways.

22 One of the most important ways is through

1 managing the competitive grant processes. And in
2 addition to the basic field, which includes migrant and
3 Native American, we also manage the Technology
4 Innovation Grants process, affectionately known as TIG,
5 and the disaster.

6 And this year we had the additional funds with
7 respect to the Sandy hurricane, and there were some
8 specific grants related to that that we manage as well.

9 And our new grants program is the Pro Bono Innovation
10 Fund grants. We're in the process now of reviewing
11 applications for that new grant program.

12 In addition to the competition, review, and
13 award of grants, we also conduct onsite assessments of
14 grantees. And I'll go into that in a little bit more
15 detail later on, but that assessment covers all of
16 these different grant programs.

17 It's not just related to the basic field, but
18 we also review TIG grants when we're on site. We've
19 recently done three visits that specifically review the
20 start and Sandy grants. And I'm sure, after we award
21 the Pro Bono Innovation Fund grants, they will be
22 included in our onsite reviews as well.

1 We provide regular follow up to grantees in
2 which we hope that we're being helpful and supportive
3 to review what their challenges are and have some
4 hopeful solutions to those.

5 We also encourage innovation and best
6 practices, and particularly with respect to technology
7 and pro bono. And we do that through, of course, TIG,
8 the new Pro Bono Innovation Fund, LRI, and
9 cross-pollination when we go on visits. If there's a
10 particular challenge that a program has, we're able to
11 put them in touch with someone else who has a best
12 practice in place.

13 MS. RATH: Now going on to what OCE's mission
14 is, as we've discussed before, our primary mission is
15 to review and ensure grantee compliance with the LSC
16 Act, implementing regulations, and other guidelines.

17 One of our other primary missions is to
18 respond and review -- well, review and respond -- to
19 inquiries and complaints made about the recipients from
20 the public. And those can come from people who were
21 denied service, people who don't like the service they
22 were getting, opposing parties, things like that.

1 The ways in which we do this is we conduct
2 fiscal and compliance review of the competitive grant
3 applications and make recommendations to Management
4 about those. We conduct onsite assessments of the
5 grantees, including both their fiscal systems and legal
6 compliance with the regulations.

7 We initiate and follow up on questioned cost
8 matters, and those can be things that we discover on
9 site ourselves or are referred by the OIG. We follow
10 up on findings referred by the OIG, and that can be
11 related to IPA findings in the audited financial
12 statements.

13 Then we're also responsible for reviewing and
14 responding to recipient requests for waivers related to
15 their PAI expenditures, their fund-balanced waivers if
16 they haven't spent all their money, sub grant
17 approvals, and any time they want to use LSC funds for
18 a major property purchase, whether that's real property
19 or personal property.

20 MS. LABELLA: In 1996, Congress mandated that
21 the basic field competition be instituted. And so that
22 has been in effect since 1996. Now, typically we will

1 grant awards for up to three years. We actually have
2 the authority to grant awards up to five years.

3 LSC has never done that. Five years seems to
4 be a very long span of time, where a lot can happen.
5 So most of our awards are from one to three, with three
6 being the majority of the term for the awards.

7 Grantees that are awarded a multi-year grant
8 file annual grant renewals, and that's a mechanism for
9 us to keep in touch with them and to see what progress
10 they're making on their grants, to see if there have
11 been any changes in any of the aspects of the
12 performance criteria, their delivery structure.
13 Everyone files, of course, the grantee activity reports
14 that are considered as part of the competition review.

15 LSC may attach special grant conditions to any
16 grant award. And that is, of course, whether they're
17 in competition, whether they're in renewal, or at any
18 other time.

19 Now, most service areas have only one
20 applicant, which has been the current provider. And
21 typically, there is one multi-applicant every year.
22 That varies, but on average, in about the last five or

1 six years, it's been about one. We also sometimes will
2 have a new applicant who has not been an LSC grantee at
3 all or currently is not the LSC grantee for the service
4 area.

5 MS. JENNINGS: I think one of the major
6 changes that has happened to competition, particularly
7 since you all have been on the Board, is the fact that
8 just having a programmatic component, we have expanded
9 it, particularly after the Fiscal Oversight Task Force,
10 into really being more rigorous as it relates to fiscal
11 and regulatory compliance. And we'll be going through
12 that and OCE's role in that moving forward.

13 But we also have a rigorous review process.
14 It is a long process that takes approximately six
15 months from beginning to end as it relates to basic
16 field. It starts with the Office of Program
17 Performance. The director and the program liaison
18 review everything. That is scored. Then the OCE
19 director and fiscal compliance analysts score their
20 fiscal application.

21 The executive team then evaluates all three
22 components of the application. Jim, of course, is the

1 final decision-maker on that. And I think in the last
2 two years, all of the recommendations are formally
3 recorded in LSC Grants for audit functions.

4 MS. LABELLA: OPP's review begins with the
5 application that is submitted. And as Lynn mentioned,
6 they're all submitted now through LSC Grants. Last
7 year is when it was automated. We used to call it a
8 narrative, and now the narrative is basically text
9 boxes with respect to individual inquiries.

10 In addition to the narrative, there's also a
11 lot of charts and forms, and also other uploads that
12 are part of the competition package. The beauty of
13 some of the charts is that we can search those and see
14 how all applicants have responded.

15 For example, if we want to know, well, what's
16 the breakdown for intake? What's the percentage of
17 intake done by telephone? What's the percentage, now a
18 growing percentage, of online intake? We can actually
19 do a search, which is not to suggest that searches are
20 always easy in LSC Grants.

21 But we can manage to get the data out of LSC
22 Grants and do a search and come up with a composite

1 number of what's the percentage that are doing intake
2 this way or that, or what some of the other forms are.

3 And that's been something that has been very useful.

4 So each liaison evaluates and scores each of
5 the -- and we're talking here about basic field --
6 basic field grant applications. And on the next slide,
7 which we'll get to in a minute, I'll show you the tool
8 that we use for the liaison and other staff to access
9 all the different data points that are reviewed as part
10 of the competition review.

11 Now, starting with last year, we've had about
12 25 percent of the grant applications reviewed by
13 outside reviewers. And when we get their review, which
14 is a scoring and also they put comments in -- so they
15 can enter comments as to any inquiry that they think is
16 particularly strong, or any inquiry that they think is
17 particularly weak, or one that they find particularly
18 interesting.

19 We will typically then do what we call a score
20 compare. So we will look at the scores that the staff
21 did and compare them to the scores and the comments
22 that the outside reviewers did. And it's been an

1 interesting process to do that comparison.

2 CHAIRMAN MADDOX: Lynn, let me jump in here.

3 I'm always shocked when I'm doing an oral argument how
4 quickly ten minutes goes by.

5 MS. JENNINGS: Okay. Okay.

6 CHAIRMAN MADDOX: And if I were the presiding
7 judge, the red light would be on right now.

8 MS. JENNINGS: Gotcha. Gotcha.

9 CHAIRMAN MADDOX: So let me just suggest that
10 we do the executive summary from here on in. I think
11 the Committee members all have the PowerPoint, and I'll
12 suggest that if we have other questions about the
13 substance -- it's like 30 pages. Right?

14 MS. JENNINGS: No -- oh, it is. Yes.

15 CHAIRMAN MADDOX: It's about a 30-page
16 PowerPoint. So we'll send you questions about the
17 details.

18 MS. LABELLA: All right. Point well taken.
19 But I could show them just the access tool.

20 MS. JENNINGS: No. I don't think we can. So
21 since it's in the PowerPoint slide --

22 CHAIRMAN MADDOX: Let me ask you -- I have one

1 question -- first of all, who are the outside
2 reviewers? And then second of all, one of the things
3 we did with the Fiscal Oversight Task Force, one of the
4 reasons we did it, was to try to eliminate
5 inefficiencies between OCE and OPP, and the different
6 offices being at grantees on multiple bases throughout
7 the year, multiple times throughout the year.

8 Can you tell me how you perceive the Fiscal
9 Oversight Task Force recommendations to have been
10 implemented? To what degree were we successful in
11 introducing greater efficiencies through the creation
12 of your office?

13 MS. JENNINGS: I think we've implemented a
14 number of them. There's still two or three things, big
15 things, left to do, which I have a memo I thought would
16 be finished but then was erased from my drive.

17 But we've moved along quite well in that. And
18 then there will be a couple of announcements that have
19 been previewed. What was helpful recently was that we
20 had Barker & Scott, the business process consulting
21 folks, to help validate some of the ideas that we were
22 talking about. But those will increase the

1 efficiencies we have seen to date.

2 Now, as it relates to oversight now, there's
3 much better integration and coordination among OCE,
4 OPP, and OIG, to a certain degree, where we coordinate
5 together at least as it relates to when we go on site
6 to a grantee.

7 I've been on about 13 trips since I've been
8 here, and there are occasions when there is definitely
9 a call for joint trips. We've done about three or four
10 of those at least in the last year, and one was most
11 recently to a grantee where saw a significant decrease
12 in both cases closed, about 63 percent, but yet there
13 was something fishy about it because there was only a
14 12 percent cut in their budget.

15 So to have such a precipitous drop, we worked
16 together and put together a cross-functional team to go
17 out together and look to see what was going on on a
18 programmatic side and what was going on on a fiscal and
19 compliance side. And that grantee eventually got
20 six-month funding because we really couldn't tell at
21 the end of six months what was going on.

22 We've been working with them very closely over

1 the last six to eight months, working through what the
2 issues are, and we were finally able to identify what
3 the exact issues were with them. And they have been
4 working on the programmatic side as well as the fiscal
5 side.

6 So there are times when it is definitely worth
7 doing joint trips. But because, really, of the
8 different oversight foci of the groups and because of
9 the burden on the program, it makes sense many times to
10 split them up.

11 When I first joined LSC, I thought definitely
12 we should always do joint trips. But having gone out
13 and been there on site for both compliance trips and
14 for programmatic trips, it really is quite an
15 undertaking to get to really what is going on in a
16 program on site, both program-wise and compliance-wise.

17 So that's why we're very selective about when we do
18 joint visits.

19 Does that answer your question partly?

20 CHAIRMAN MADDUX: Yes. That's helpful.

21 MS. LABELLA: Yes. We found that the joint
22 visits are most effective when they are focused on a

1 narrow point so that we can send a team of two or three
2 from both offices, and they can really zone in on a
3 particular issue, as opposed to doing a full-blown
4 program quality visit and compliance review together.

5 MS. JENNINGS: Right. Just today we got an
6 email about a program that has been on long-term
7 special grant conditions, and they've just never seemed
8 to get their act together. So we will be having a
9 joint visit out to that program as well some time soon.

10 CHAIRMAN MADDUX: If you want to wrap it up in
11 whatever way you think if appropriate, we've already
12 been about 15 minutes, Lynn.

13 MS. JENNINGS: I think it's important to focus
14 on -- because of the Fiscal Oversight Task Force, I'd
15 like Lora to talk about -- and we'll talk about two
16 things: the fiscal oversight, and engaging the risk
17 assessment when we go on site. So those would be the
18 two things that I would focus on.

19 Lora, if you want to talk about --

20 MS. RATH: The fiscal component in the
21 application process? Okay. So this is something that,
22 thanks to the Fiscal Oversight Task Force, OCE has a

1 much greater role in the --

2 MR. SNYDER: Can you put the microphone closer
3 to her, please?

4 CHAIRMAN MADDOX: Paul, is that better? Say
5 something, Lora.

6 MR. SNYDER: It's been very faint whenever
7 she's talking.

8 MS. RATH: We always have problems with me.
9 Is this better? Paul, is that better?

10 MR. SNYDER: That's better. Thank you.

11 MS. RATH: So one of the recommendations of
12 the Fiscal Oversight Task Force that we implemented was
13 greater OCE role in the application review process. So
14 starting with the 2012 cycle, OCE began submitting
15 formal recommendations on each applicant, related both
16 to their fiscal health and their compliance health.
17 Before that, it had been very informal, but now we were
18 making written recommendations.

19 With the 2013 grant cycle, the applicants were
20 required to submit separate fiscal information. With
21 2014, we built on that and there became an entire
22 fiscal application. And now, in the 2015 cycle, that

1 application has become even more sophisticated, and we
2 assume that this is going to continue to evolve with
3 the lessons that we learn when we're reviewing the
4 information.

5 Now, if we go to the next slide, it tells you
6 the types of things that we're asking about. The
7 application has four or five major sections, but we're
8 asking about the board involvement in fiscal oversight
9 because we've all learned that having an active board
10 is a key component.

11 We're asking about the competence of the
12 fiscal staff. We're also asking about any special
13 grant conditions or required corrective actions that
14 were imposed by non-LSC funders, to try and find out
15 what other funders are seeing when they go out there.

16 So the questions all are -- in LSC Grants,
17 they're answering yes/no. They're picking the correct
18 answer from multiple choices. But then they're also
19 required to submit all the documents that are listed on
20 here, and actually a little bit more.

21 The fiscal compliance analysts are then
22 reviewing the finance and audit committee charters,

1 making sure that they comply with the accounting guide.

2 They're looking to make sure that fidelity bond
3 coverage is in effect for the correct amounts.

4 They're looking at the segregation of duties
5 worksheet, which is something that looks at internal
6 controls to make sure that no one or two people are in
7 charge of a process from beginning to end, which can
8 lead to fraud; the accounting manual; fiscal policies;
9 and then again, special grant conditions imposed by
10 other funders.

11 So we're looking at all of that information
12 with the fiscal analysts, and they are then making a
13 recommendation about whether that program should get
14 one, two, or three years funding, and whether special
15 grant conditions should be imposed, and what the
16 special grant conditions can be.

17 There's a slide in there that shows that since
18 OCE fiscal staff became involved in this process, the
19 number of special grant conditions imposed has
20 increased tremendously. And a lot of that is due to
21 the fiscal oversight that we're now doing at the
22 beginning of the process rather than waiting until we

1 go on site.

2 MS. JENNINGS: Then just one other thing
3 related to the Fiscal Oversight Task Force
4 recommendation was that of risk assessment. That was
5 also something that was flagged by GAO in prior reports
6 as well.

7 Now, we still don't have a universal risk
8 assessment. This is just twelve of the factors that
9 are considered by OPP and OCE when they go out. It can
10 span anywhere from 25 to 30 on each other side. But
11 because of the different focuses of each of the
12 offices, the weighting of them sometimes differs.

13 I will ask Janet to show you how she -- this
14 is the last minute, Mr. Chairman -- this is what an OPP
15 risk assessment -- it's scored and weighted, and that's
16 how they come to their decisions.

17 MR. HOFFMAN: Vic, it's David. I know we're
18 very short on time with this portion of it, but the one
19 question I had related to what was just being discussed
20 regarding the risk assessment -- so if I can ask a very
21 quick question, which may call for a very quick answer?

22 CHAIRMAN MADDUX: Sure. Can you go back to

1 that slide, Lynn?

2 MS. JENNINGS: Sure.

3 MR. HOFFMAN: So Lora, in particular,
4 regarding slide 17, this OCE risk assessment, my
5 question was going to be about the way this comes from
6 coordinated information and sharing of information with
7 the IG.

8 I note on slide 30 at the end that you have a
9 slide about the coordination, which is great, and I
10 know we all appreciate. My view is that it's
11 especially important regarding the definition of risk
12 on a specific grantee basis since they will have some
13 information that's relevant and you will have some
14 information that's relevant.

15 I grant that, just as what's just stated about
16 the different approach with OPP, there may be a
17 somewhat different approach from the IG and you all.
18 But it would be helpful, it seems to me, if it's not
19 happening already, that there be coordination regarding
20 the specific grantee risk assessment.

21 So the question is, with regard to this slide,
22 does this reflect a coordinated effort with the IG's

1 office to come up with a grantee-specific risk
2 assessment that, loosely speaking, will guide actions
3 for your office and theirs? Or is this something
4 that's being done without coordination with the IG's
5 office?

6 MS. RATH: This is just you all have seen how
7 much I like charts and how much I like to make long
8 charts. So this has most of the columns hidden. If
9 you saw the whole chart, there'd be, as Lynn said,
10 about 15 to 17 columns.

11 Among those columns are IPA referrals from the
12 OIG for the last two years. There's OIG concerns that
13 are raised during our monthly meetings with the OIG.
14 There's also a column for OIG audit referrals and
15 investigation referrals.

16 Then we have our own OCE columns for things
17 that my fiscal compliance analysts found during their
18 audited financial statement reviews and things that we
19 found when we were on site.

20 So we're taking the information that the OIG
21 gives us and forwarding it into this chart, and then we
22 take each grantee one by one, go across the chart, and

1 then the column on the far right is the professional
2 judgment, where me and my staff have weighed the
3 different factors and decided which program to go to
4 for a particular year.

5 Does that answer the question?

6 MR. HOFFMAN: That was very helpful. And the
7 only follow up I would have is, does the IG'S office
8 get a copy of this from you all? I know it's an
9 organic document, but do they get it from you on a
10 regular basis?

11 MS. RATH: No. But as I said, we have monthly
12 meetings with both Janet, Lynn, Tom Coogan, John Seeba,
13 and Dave Maddox, and we discuss where we're going to be
14 going at a particular time.

15 Particularly towards the end of the year, a
16 calendar year, when we're gearing up for the next year,
17 we will exchange -- provide them lists of where we're
18 thinking of going, and they let us know whether they
19 have concerns about a particular program.

20 MR. HOFFMAN: Yes. I would just say -- this
21 is absolutely just for your consideration and
22 discretion as you all see fit -- but I think, from my

1 experience, it might be very useful for you to consider
2 sharing it with them on a regular basis because what I
3 would want is if they were to look at this on a regular
4 basis and to say, ah-hah, this is way too high a risk,
5 given what we know, or way too low a risk on this
6 chart, you would want that feedback. And so it might
7 be helpful to share with them on a regular basis if
8 there's no down side to it.

9 But again, obviously that's completely within
10 your discretion and just something I'd note for your
11 consideration.

12 MS. JENNINGS: Absolutely. One point of
13 amplification is, it's not only on the risk assessment
14 of where to conduct site visits, but we also exchange
15 information with the OIG with regard to competition.

16 Before we sign off on anything, if we have
17 been talking about a program internally in our monthly
18 meetings, or if Jeff and Jim have been talking about
19 something and we still have concern or it hasn't been
20 put to rest, then that assessment and that information
21 goes into our grant-making decision-making.

22 CHAIRMAN MADDUX: Thank you.

1 Further to David's point, John Seeba is at the
2 table. Now, John, did you have something to add?

3 MR. SEEBBA: I just wanted to say that --

4 MR. HOFFMAN: Can't hear you, John.

5 MR. SEEBBA: I just wanted to say that the IG
6 accumulates very similar information. And also, as
7 Lora mentioned, we do coordinate during our monthly
8 meetings as well. And even before we go out to a
9 particular grantee, probably a month or two before, we
10 actually go back to Lora and ask her, okay, updated
11 information -- do you have anything else to add for
12 what we already have?

13 So it's pretty closely coordinated. We're
14 independent, but we still do gather very similar
15 information, and we try to give each other pertinent
16 information for each grantee before they go out there.

17 MR. HOFFMAN: I would just say, as a -- go
18 ahead.

19 MR. SNYDER: Go ahead, David.

20 MR. HOFFMAN: I was just going to say, as a
21 former member, like Paul, of the Fiscal Oversight Task
22 Force, I want to commend both of you. I think that's

1 one of -- there are several -- but one of the key, I
2 think, takeaways was that the maximum coordination that
3 can be feasibly achieved is really, really beneficial,
4 given how overlapping these functions are.

5 I think what you have both described really,
6 in my mind, meets it. So you've heard this Committee
7 say this before -- I think it's a consensus -- that we
8 want to see the maximum amount of that that is feasible
9 and consistent with everyone's different offices.

10 I think in the future, coming forward, I would
11 encourage you to hit that point very quickly, and at
12 the beginning of whatever you're saying to us, because
13 I think that will put a lot of us immediately at ease
14 that one important feature of this is happening. And
15 then I think if that coordination is happening, then
16 that suggests that the process is going to be very well
17 done.

18 Paul? Sorry to interrupt you.

19 MR. SNYDER: No, no problem.

20 Lora, just to clarify for me, on page 16 where
21 you have the OPP risk assessment, in that risk analysis
22 score, is that OPP score based on the program-related

1 activities of the grantee, and then that's combined
2 with OCE's risk and OIG? Or is this meant to be a
3 composite score that we're seeing here on page 16?

4 MS. LABELLA: All right. This is compiled
5 initially by the liaisons when they're doing the
6 competition review. So on the prior slides, you saw
7 the different risk factors.

8 MR. SNYDER: Right.

9 MS. LABELLA: There's a form in LSC Grants
10 that everyone fills out with respect to every single
11 program. Then there is a weighting formula that's
12 applied. The key weight is to the date of the last OPP
13 visit, particularly the program quality visits, but the
14 program engagement visits are factored in as well.

15 Then if there's a significant issue --
16 compliance issue, issue from the OIG, or programmatic
17 issue -- that will get five points. The other lesser
18 factors get one point each. It is calculated, and then
19 we do a run in descending order, and that is what forms
20 the basis for our program visits. So we review that
21 annually --

22 MR. SNYDER: I just was surprised, when I

1 looked at that with one of the grantees we have in
2 Pennsylvania, that it had a score of nine compared to
3 others in light of --

4 MS. LABELLA: I should mention, just like Lora
5 said, this is only the upper left-hand corner of this
6 chart. It actually goes across for a column for every
7 risk factor, and there are 134 rows.

8 So these are the ones that were selected for
9 program quality visits because they had the highest
10 scores, and you'll see that some were jumped over for
11 particular reasons, and those are indicated in the
12 notes, if they were not scheduled for a program quality
13 visit.

14 So there are lots of other rows on this chart
15 for the programs that did not score as high.

16 MR. SNYDER: That's the disadvantage. We have
17 parts of that chart but not all of the chart. Okay.
18 That is helpful.

19 CHAIRMAN MADDOX: Let me just ask the panel
20 generally, anecdotally, is it your impression that
21 grantees are more satisfied with the level of
22 duplication and intrusion in their operations, less

1 satisfied, or about the same as a result of the fiscal
2 oversight changes that we implemented? Or do you have
3 any impression whatsoever?

4 MS. LABELLA: Well, I'm not sure I accept the
5 characterization of all the intrusion. I think that --

6 CHAIRMAN MADDUX: No. I'm not saying it was
7 intrusive. I'm saying that it was my impression, when
8 I came on the board, that it was the grantees'
9 impressions that the processes were relatively
10 intrusive. And one of our goals was to eliminate some
11 of that, to the extent that we could.

12 So if you don't share that impression, then
13 you wouldn't have noticed --

14 PRESIDENT SANDMAN: I can respond to the
15 question in part. No one likes to be visited by a team
16 of five people for a week, and that's never going to
17 change.

18 But if you look at this chart here, you'll see
19 that there were visits that OPP otherwise would have
20 made that they deferred for a year because they were
21 conscious of the fact that those programs had recently
22 been visited by OCE and/or OIG.

1 That was one complaint that we had heard, that
2 different offices of LSC -- and the grantees include
3 OIG within their definition of LSC -- they felt they
4 would get sequential visits from one office after
5 another, and their sense was, are you talking to each
6 other? Do you know what each other is doing?

7 I think this chart is evidence that we do know
8 what each other is doing, and we take that into account
9 in the scheduling of visits. So that particular
10 problem is something that I think we've tried to be
11 responsive to.

12 CHAIRMAN MADDOX: Thank you, Jim.

13 MS. JENNINGS: And I would say it's one of
14 tone or attitude. It all depends on why we're there.

15 CHAIRMAN MADDOX: Right.

16 MS. JENNINGS: For example, some of the visits
17 are not very pleasant. Generally, if I show up, it's
18 not a good thing.

19 (Laughter.)

20 CHAIRMAN MADDOX: Right. Right.

21 MS. JENNINGS: Because I'm past the learning
22 phase. And so if I show up, it's either because I have

1 never been to that state before or there has been an
2 issued flagged.

3 CHAIRMAN MADDOX: The big sheriff is in town.

4 MS. JENNINGS: Yes.

5 CHAIRMAN MADDOX: Lynn, thank you very much.
6 If you all could send your PowerPoint presentation to
7 the full board.

8 MS. JENNINGS: Sure. Happily.

9 CHAIRMAN MADDOX: I don't think that everyone
10 saw it. That would be very helpful.

11 MS. JENNINGS: Yes.

12 CHAIRMAN MADDOX: Thank you very much.

13 MS. JENNINGS: Sorry to run overtime.

14 CHAIRMAN MADDOX: No, that's great. It was
15 very helpful. I want to move on, though, because we
16 have a few more important things to get to.

17 Let me just ask, were there any other
18 questions from the Board or from Committee members
19 before we let them go?

20 (No response.)

21 CHAIRMAN MADDOX: So our next item is the
22 briefing about follow-up by the OCE from referrals by

1 the OIG regarding audit reports and annual IPA audits
2 of grantees. And I'll turn it over to Lora Rath and
3 John Seeba. We have a chart in the materials, I
4 believe, which should be in everyone's materials. I
5 don't have a page number.

6 MS. RATH: The first chart begins on page 198
7 in the Board book. And it is an update to the status
8 of open or recently closed referrals from the audit
9 division.

10 Updates since the last Board meeting are in
11 red, and it will note that three of the four pending
12 referrals were closed out in the last couple of months.

13 We have one pending, Legal Services of Alabama, which
14 we are reviewing, which was referred to us in June.

15 Then there's another one that didn't make it
16 onto the chart because it was referred after the charts
17 were developed. So as the Inspector General mentioned,
18 he recently issued a report regarding Oregon, and that
19 was referred to us on July 11th. So we are reviewing
20 that for next steps to make a recommendation to the
21 Vice President on how to proceed.

22 Does anybody have any questions about the

1 first chart?

2 CHAIRMAN MADDUX: I'm sure there are. Paul,
3 do you have any questions, or David?

4 MR. SNYDER: Yes, Vic. I just had a couple
5 questions.

6 One, to me it would be helpful if, as we go
7 through this thing, when the IG has a questioned cost,
8 either by the IG or the OCE write up -- and I'll take
9 Inland Counties Legal Services, where we start off with
10 a million 384, and by the time we're done we're down to
11 252,000.

12 I'm assuming, based on what we've talked about
13 in the past, is that when there's questioned costs,
14 those could be ones that the IG has seen the
15 documentation and challenges whether or not it's a
16 qualified cost or allowable cost. And there are some
17 that they didn't provide the documentation at the time
18 of the visit.

19 So those are all in questioned costs. I don't
20 know, the former may not change much as it goes through
21 the Management review, but the latter, with the
22 undocumented, as the grantee provides data and support,

1 may change.

2 It certainly would be helpful, I think, at
3 least for myself and I assume for the other members, if
4 we could break down those components because when we
5 start off with a million 384 and go to 252 and we
6 really don't know the reason why, it really doesn't
7 provide a very good oversight for the process.

8 So I would just ask the company and the IG to
9 think about, is there a way to help us break out those
10 components to understand them better?

11 MS. RATH: Can I interrupt --

12 MR. SNYDER: Then the other piece, along with
13 that, is -- I think we've talked about this in the
14 past, and I think we have to look about how can we move
15 this process along so these things are resolved on a
16 much more timely basis because I think in some of these
17 cases, there are two years, three years, before
18 something occurs.

19 I certainly would not want to be in a position
20 to try to defend that down the road about why it could
21 possibly take that long if we thought this was
22 something that was really important to the overall

1 operations of LSC.

2 MS. RATH: This is Lora. I'd like to address
3 your two points.

4 We can try and put a greater breakdown in the
5 charts, though they're already big. But I would also
6 let the Board know that the notices of questioned
7 costs, the Management decisions, and the President
8 decisions for questioned cost proceedings are now all
9 being posted to the FOIA reading room on LSC.gov.

10 So that might give you more background than
11 you would want, but it would definitely give you the
12 breakdown of how we got from A to B to C.

13 MR. SNYDER: But if we had some big general
14 breakdowns for the Board materials so we don't have to
15 go research it. I think that would be helpful in the
16 oversight process.

17 MS. RATH: Point taken.

18 MR. SNYDER: If we could get that, Lora.

19 MS. RATH: Point taken. And as to your
20 comment about moving the process along quicker, we
21 agree. We've already had two meetings with the Office
22 of Inspector General to discuss developing goal

1 timelines.

2 We're benchmarking at different federal
3 agencies, and we're looking at what our past
4 performance has been, and the two divisions are going
5 to work together to come up with some time frames that
6 we're going to work towards meeting in the future to
7 move these things along quicker.

8 We can discuss both Inland Counties and
9 another one that shall remain nameless in the closed
10 session, if you want, because we have detailed
11 timelines about what was going on throughout the
12 process, if the Board or the Committee would like to
13 hear that.

14 MR. HOFFMAN: It's David. Let me echo the two
15 points that Paul made. I think in terms of future
16 reporting to us and our attempting to do our job as
17 oversight, that the two points of -- reporting to us
18 regarding the time frame of both -- I would say both
19 the OIG report and then a followup OCE action is
20 important.

21 The second one, I do think that some greater
22 clarity regarding the dollar amounts of questioned

1 costs in the IG and then what the final outcome is from
2 OCE, especially when there's a significant difference,
3 and getting some explanation of why there was a
4 difference of opinion, I think is important.

5 I would say that on item number 1, I
6 appreciate the process you're going through right now
7 with the IG's office to try to jointly come up with
8 some it sounds like basically presumptive dates --
9 there's always going to be exceptions -- but
10 presumptive dates, and that will, I think, ease our
11 ability to look at whether something is out of the
12 ordinary and get an explanation, or whether it's fully
13 within the expected or presumptive timelines.

14 So would it make sense -- at our next meeting,
15 is that something that you're going to be able to lay
16 out for us, what the presumptive timelines would be for
17 both IG reports following the date of the onsite review
18 and then the presumptive timeline for the OCE action
19 following an IG referral?

20 Is that something that, Lora and -- I forget,
21 is it John who's there from the IG's office -- is that
22 something that would work for you all, to report back

1 at the next meeting to us?

2 MR. SEEBA: Sure.

3 MS. RATH: Yes. We can do that.

4 MR. HOFFMAN: Then I think if so, then I think
5 that will make these charts, I think, easier and
6 quicker to go through because it will allow us -- if
7 something's within the presumptive time frame and we
8 hear it next time and it makes sense and it's within
9 the presumptive time frame, it will probably not merit
10 as much time or scrutiny as if it's something that's
11 beyond that, in which case there will be an explanation
12 and we'll be interested to hear that.

13 On the questioned cost and the issue of when
14 the IG's -- I know it's an important metric for the
15 IG's office, the questioned costs that it's come up
16 with in its reports. But then when we see that it's
17 only 25 percent or less that has actually been
18 collected or that the OCE has determined is the proper
19 amount, I think it does create a question.

20 It seems to me the proper process, which we
21 might want to have done right now, is to then have a
22 discussion before the Committee of, well, there was a

1 difference of opinion here. What is the reason for
2 that?

3 So, Vic, unless you see differently, is this
4 the right time to hear from the OCE and the IG about
5 what is behind the difference of the two conclusions
6 about 1.3 million versus 250,000?

7 CHAIRMAN MADDOX: I think it's appropriate,
8 unless it needs to be done in closed session. My
9 understanding is part of that difference is because of
10 a statute of limitations issue, and that some of the
11 1.3 million was beyond the five-year limitation period,
12 which raises in my mind the question, why did it take
13 so long to get to the point where you could recoup that
14 part, and how much of the 1.3 was in fact lost due to
15 the statute of limitations, if you know?

16 MS. RATH: At the time the referral was made
17 from OIG to OCE, already \$291,000 was not recoupable
18 because it was already at the six-year mark. We
19 received the referral in late July/early August of
20 2012, and 291,000 of it was from 2006. So that was off
21 the table.

22 Then when we met with the OIG and we also

1 requested some additional information from the
2 recipient, by the time we got that information, it was
3 December of 2012, which then took 2007 off the table,
4 which unfortunately was another \$300,000. So off the
5 bat, a half a million was lost.

6 CHAIRMAN MADDUX: So Lora, the chart says that
7 the initial referral was August of '12. And then there
8 was a reduction in November of '12, but not by much.
9 And then the questioned cost proceeding under 45 CFR
10 1630 was initiated in November -- or, excuse me,
11 September 30th of '13.

12 What has to happen before a questioned cost
13 proceeding is initiated, and why did it take nine
14 months or more?

15 MS. RATH: It depends on what the issue is.
16 When it's a very clear cut regulatory violation, the
17 1630 proceeding can happen pretty quickly. In this
18 case it was the whole stipend issue, and we did
19 extensive research into what reasonable bonus
20 percentages were in California, were for nonprofits in
21 California.

22 We consulted the Hay Group, or the research

1 done by them. We were compiling what other LSC
2 grantees in similar situations were doing. So there
3 was a lot of research going into it because this was
4 potentially very damaging to the program. Because in
5 the end it hurts the program to take the money back, we
6 were very cautious in dotting all our I's and crossing
7 our T's before we moved forward.

8 But we have a timeline that shows we were
9 working on it the whole time. With competing
10 priorities, whether we could have shifted priorities
11 and worked on it faster is something that part of this
12 timeline review will come up with.

13 MS. JENNINGS: Granted, it was -- and I take
14 full responsibility --

15 MR. SNYDER: I'm sorry. Can you move closer
16 to the microphone?

17 MS. JENNINGS: Sorry. This is Lynn Jennings
18 for the record. I take full responsibility for the
19 lateness of it because I was new and wanted a lot of
20 research done.

21 The threshold question was, were stipends
22 reasonable? And once we got to the legal question that

1 stipends were reasonable, the question then becomes,
2 what is a reasonable level for the stipends? And we
3 did further research on that.

4 But in the end, we are normally a 26 percent
5 funder of Inland Counties. And so once you knock down
6 the \$500,000 or so that Lora talked about from the 1.3,
7 that's approximately 800,000. And then if we're a 26
8 percent funder and they have only used 26 percent of
9 their funds to cover the cost of the stipends, then we
10 can only question 26 percent of the total amount of the
11 stipends given.

12 MR. SCHANZ: This is Jeff Schanz, the IG.

13 MR. HOFFMAN: This is David. That was
14 actually quite helpful. So are those basically the two
15 categories that explained the large difference between
16 1.3 million and 252,000, namely, category one, the
17 statute of limitations, and category two, the 26
18 percent funding formula?

19 MR. SCHANZ: I would also like to try to
20 clarify and/or confuse. We sometimes use questioned
21 cost as the end-all/be-all. But there's various
22 categories within questioned cost, including

1 unsupported cost.

2 If the grantee can prove then to OCE during
3 the follow up that what the IG questions is unsupported
4 cost -- I talked to you one time before, David, about
5 after-acquired information. OIG audits are at the time
6 of our field work and on site.

7 OCE has a little lengthier process in the
8 questioned cost proceeding where they can include
9 after-acquired information, which may further reduce
10 the reduction of what the IG, at the time of the visit,
11 questioned appropriately.

12 We will say, and break out, what is
13 unsupported cost. But it all goes into the
14 amalgamation of questioned cost.

15 MR. HOFFMAN: So Jeff, I think that makes
16 perfect sense. Obviously, if after your report the
17 agency is able to explain to OCE that it was justified
18 in some way, then that makes a lot of sense that of
19 course that information should be brought forward.

20 But wouldn't that information also have been
21 brought forward to you all? Is there some reason why
22 we think that information would be available to OCE

1 that wouldn't have been available to the IG?

2 MR. SCHANZ: I can't answer that. We demand,
3 essentially, being the OIG, the records that are
4 available to support cost, the costs that are reflected
5 on the general ledger and then forwarded on to LSC.

6 If there is no information available or
7 incomplete information -- we'd love to have perfect
8 information. But the reality is we sometimes get
9 imperfect information or half a loaf. I can use any
10 metaphor that you want.

11 But if we don't see -- and we have our sample
12 -- if we don't see what is in our sample is a
13 reasonable and necessary cost to the LSC, then we have
14 the authority to question it.

15 MR. HOFFMAN: Again, I think that makes sense.
16 I would say, though, that going forward with regard to
17 metrics for the IG -- and you may do this already -- I
18 remember in one of the Committee meetings several
19 meetings ago, when we were talking about metrics, one
20 of the metrics, the most prominent point, perhaps, we
21 were pointed to, was the questioned cost total for a
22 particular year.

1 But it sounds like it would be important to
2 have numbers that only show the questioned costs as
3 issued in IG's reports, but then what the final outcome
4 was of that, because if there's \$5 million of annual
5 questioned costs but at the end of the day only 200,000
6 was recouped, I think that's important to be looking
7 at.

8 There may be strong reasons for that, but it's
9 sort of like, in one of my prior jobs, looking at a
10 project leader's office's indictment numbers and then
11 not looking at whether were convictions. It's
12 important, I think, to look at the final outcome as
13 well.

14 So from your perspective, Jeff, does that make
15 sense regarding reporting to us and to the Board that
16 the -- and maybe you do this already -- but that not
17 only would we get information about questioned costs in
18 your report, but that also then it would link with the
19 total amount that was actually determined by Management
20 and/or recovered?

21 MR. SCHANZ: Well, we do report that, David,
22 in the Semiannual Reports to Congress, the information

1 on questioned cost flows as connected with the prior
2 reporting period, which is the baseline from which we
3 report on the next six-month period, saying, these
4 questioned costs have been upheld by Management/they
5 have not been upheld by Management, and this is what's
6 left open during the six-month period of the new
7 Semiannual Report.

8 We haven't drilled down and provided that to
9 the Audit Committee because we provide it to our
10 ultimate funder, which is Congress.

11 MR. HOFFMAN: Yes. And I'll end with this,
12 just along the lines of the second to Paul's two
13 initial points, about having as much efficient clarity
14 as we can about the questioned cost thing.

15 I think seeing it broken down by what OIG
16 found and then what OCE found, and then seeing it not
17 just in individual reports but then aggregated -- we
18 only need to see that in one chart -- but I think that
19 would be helpful for everyone. But I appreciate all
20 the comments, Jeff.

21 MR. SNYDER: I agree, David. And I think that
22 piece about which of those costs were questioned

1 because they could not provide contemporaneous
2 documentation but provided it afterwards it seems to me
3 help us evaluate the follow up by LSC on those points
4 because those documentation, you would think those
5 would get reduced at a much higher percentage than
6 where OIG felt they were disallowed costs and they were
7 able to see the documentation.

8 Just one person's view, but it seems like it
9 would be very helpful to split those up.

10 CHAIRMAN MADDUX: Thank you, Paul.

11 Harry, do you have a question?

12 MR. KORRELL: No.

13 CHAIRMAN MADDUX: Okay. Harry's going to have
14 to leave momentarily.

15 We are running out of time. So are there any
16 other questions about the first chart? If not, Lynn,
17 can you address the second chart briefly?

18 MS. RATH: This is Lora. I'll address it, if
19 that's okay, and I'll do it quickly.

20 CHAIRMAN MADDUX: Lora. Sorry.

21 MS. RATH: These are the referrals from the
22 independent public auditor's findings in the audited

1 financial statements. As you can see, we still have
2 ten grantees with pending referrals to us.

3 There are three of them -- four -- with
4 multiple issues, and these are programs that OCE and
5 OPP are well aware are programs with issues and need
6 some help. So they each have special grant conditions
7 attached to their funding at the time. OCE is going to
8 visit one of them in August to give technical
9 assistance.

10 All of the information in these charts is part
11 of the risk assessment for OCE's visits. One of the
12 programs listed with multiple is on our list for 2015
13 visits. So again, the red is just what has happened
14 since the last meeting, but it's the IPAs' referrals.

15 CHAIRMAN MADDUX: Lora, there were a couple of
16 places where the OIG found that there were insufficient
17 internal controls. And it looks like OCE determined
18 that because the program was small and because of other
19 factors, I guess, that you were going to basically
20 allow that to continue that way. Is that generally
21 what's going on?

22 MS. RATH: Well, there are a few programs, and

1 if we have been on site and we can give them
2 recommendations as to how they can best limit their
3 fraud --

4 CHAIRMAN MADDUX: Exposure?

5 MS. RATH: Thank you. Fraud vulnerability.
6 But oftentimes the programs don't have the money to
7 hire extra staff, and we can't demand that they hire
8 extra staff. So we provide technical assistance and
9 try and help them to find ways to limit.

10 CHAIRMAN MADDUX: And does the oig -- John or
11 Jeff, when the OCE makes that determination, do you
12 take any further action? Do you consider it an
13 unresolved issue or an open issue?

14 Thank you, Harry. Have a great trip.

15 MR. SCHANZ: We will discuss that. But the
16 ultimate responsibility rests with the funder. I
17 cannot perform Management's job by statute. We surface
18 our questioned costs and we accept what Management does
19 with them. And in the Semiannual, we do report that to
20 Congress.

21 MR. SEEBA: I think with small programs it is
22 problematic. You can't always have adequate separation

1 of duties. Sometimes people can switch some job duties
2 and things like that, and again, you accept that risk.

3 And hopefully the executive director then monitors
4 that a little bit closer.

5 CHAIRMAN MADDUX: Any questions on the second
6 chart from the Committee or Board?

7 (No response.)

8 CHAIRMAN MADDUX: Hearing none, thank you for
9 your helpful and thorough presentation.

10 That takes us to the next item on our agenda,
11 if I can find it again. It looks like we have public
12 comment. Is there any public comment? Terry?

13 MR. BROOKS: This is Terry Brooks with the
14 American Bar Association. I have a quick comment
15 relating to the outside reviewer process for
16 competitive grants. But recognizing that you are
17 behind schedule, I'd be happy to hold that comment and
18 make it tomorrow, perhaps, during the public comment
19 period, if you prefer.

20 CHAIRMAN MADDUX: I think that would be fine.

21 MR. LEVI: Is this comment related to the
22 Audit Committee?

1 MR. BROOKS: Well, it only relates to it
2 because it was raised here.

3 MR. LEVI: I see. I would prefer you --

4 CHAIRMAN MADDOX: Let's do it tomorrow.

5 MR. BROOKS: That's fine. Thank you.

6 CHAIRMAN MADDOX: You'll have a lot more time
7 to think about it. But thank you for coming forward.

8 Any other public comment?

9 (No response.)

10 CHAIRMAN MADDOX: Seeing and hearing none, is
11 there any other business for the Committee to act on?

12 (No response.)

13 CHAIRMAN MADDOX: Seeing and hearing none,
14 that will conclude the open session.

15 M O T I O N

16 PROFESSOR VALENCIA-WEBER: I move to close the
17 meeting.

18 CHAIRMAN MADDOX: Thank you, Gloria. Is there
19 a second?

20 MR. HOFFMAN: Second.

21 CHAIRMAN MADDOX: All in favor?

22 (A chorus of ayes.)

1 (Whereupon, at 5:12 p.m., the Committee was
2 adjourned to Closed Session.)

3 * * * * *

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22