

1 LEGAL SERVICES CORPORATION
2 BOARD OF DIRECTORS

3 GOVERNANCE AND PERFORMANCE
4 REVIEW COMMITTEE

5 OPEN SESSION

6 Monday, November 30, 2009
7 12:51 p.m.

8 3333 K Street, N.W. 3rd Floor
9 Washington, D.C. 20007

10 COMMITTEE MEMBERS PRESENT:

11 Thomas R. Meites Michael D. McKay
12 Herbert S. Garten

13 BOARD MEMBERS PRESENT:

14 Frank B. Strickland, Chair Jonann C. Chiles
15 Thomas A. Fuentes Bernice Phillips
16 Sarah Singleton Laurie Mikva

17 STAFF AND PUBLIC PRESENT:

18 John G. Levi, LSC Martha Minow, LSC
19 Gloria Valencia-Weber, LSC Julie Reiskin, LSC
20 Karen Sarjeant, LSC John Constance, LSC
21 Linda Perle, CLASP Matthew Glaser, LSC/OIG
22 Tom Hester, LSC Victor M. Fortuno, LSC
Julie Strandlie, ABH Robert E. Stein, ABA
Kathleen Connors, LSC Tom Coogan, LSC
Ronald Merryman, LSC Charles Jeffress, LSC
Sean Driscoll, LSC Tillie Lacayo, LSC
Alice Dickerson, LSC Chuck Greenfield, LSC
Joel Gallay, LSC/OIG David L Richardson, LSC
Evora A. Thomas, LSC/OPP Stephanie Edelstein
David Maddox, LSC Dan Sheahan, LSC
Steve Barr, LSC Katherine Ward, LSC
Matthew Glover, LSC/OIG Jeff Schanz, LSC/OIG

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Approval of Agenda

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Consider and Act on Performance Review
of the Inspector General

3

Consider and Act on Motion to Adjourn Meeting

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P R O C E E D I N G S

1
2 CHAIRMAN MEITES: The governance and
3 performance review committee, which consists of myself,
4 Herb, and Mike -- is that correct?

5 MR. MCKAY: Right.

6 CHAIRMAN MEITES: Is that -- that is the
7 membership. We are -- we have one agenda item today.

M O T I O N

8
9 CHAIRMAN MEITES: I would move that the agenda
10 be approved.

11 MR. MCKAY: So moved.

12 MR. GARTEN: Second.

13 CHAIRMAN MEITES: And all in favor?

14 (Chorus of ayes.)

15 CHAIRMAN MEITES: All right. The one agenda
16 item is the review of the performance of the inspector
17 general. There is a lot of history here, which, for our
18 board members-to-be maybe I will briefly summarize.

19 Although we -- the corporation has had
20 inspector generals for some time, it was not until Jeff
21 Schanz's immediate predecessor that the board dug into
22 the question of some kind of performance appraisal of

1 the inspector general.

2 We have, and we do also evaluate the
3 performance of the president. And that is a
4 conventional performance analysis. The president
5 reports to the board, and there is no question that the
6 board has the responsibility and the power to evaluate
7 the president's performance.

8 Matters are considerably more complicated with
9 the inspector general. I won't go into all of the ins
10 and outs. The board hires the inspector general. The
11 board is informed by the inspector general of the
12 conduct of his office. But it is not a straight
13 responsibility. The inspector general is, by statute,
14 in some ways an independent creature. And Jeff's
15 predecessor and the performance review committee
16 wrestled for some time as to what the relationship
17 should be between the board and the inspector general,
18 in terms of an evaluation.

19 Now, like a lot of things, it turned out it was
20 easier not to really define it, and just to do it,
21 without really setting out all the consequences that
22 might flow from an annual report to the performance

1 review committee, a discussion with the performance
2 review committee as to the inspector general's year.
3 And that is what we have here.

4 Unless Jeff thinks that we need more than that,
5 I think that that's generally the framework under which
6 we operate.

7 MR. SCHANZ: Yes, sir, Mr. Chairman. I would
8 defer to my semi-annual reports and we can go through
9 those in a little bit more detail as you want to. But
10 that is my report card in Congress as to my production
11 and performance over the last year.

12 CHAIRMAN MEITES: We have been provided by both
13 the -- both semi-annual reports, the most recent one
14 which just last month was finalized.

15 What I would kind of like to do is take a
16 little different approach. You gave us in November of
17 last year a work plan.

18 MR. SCHANZ: Correct.

19 CHAIRMAN MEITES: And it's in the board
20 materials. And what I would like you to summarize for
21 us, if it's doable, is what in your work plan do you
22 feel that you were not able to complete or accomplish,

1 and then tell us what you anticipate doing in the next
2 year.

3 MR. SCHANZ: I'm Jeff Schanz, the inspector
4 general. Interesting to meet the board nominees on my
5 performance appraisal for the first time. So, here I
6 am, and this is what I do.

7 Resources, of course, is always a constraint.
8 Since I have been on board -- as you well know, I
9 started on March 3rd of 2008, so I've been on board for
10 about a year-and-a-half now -- and I came to the
11 corporation with a management philosophy that I
12 affectionately call the three C's, which is
13 communication, coordination, and cooperation.

14 And I think, in a year-and-a-half, you have
15 seen evidence of that taking root and expanding. I have
16 a working relationship with the president of the
17 corporation. We meet biweekly to discuss issues and any
18 sort of access problems that may arise.

19 I brief the board quarterly two times, once in
20 open session on the IG's report, and then, if there are
21 any confidential matters that surfaced during the course
22 of the interceding three months between board meetings,

1 I brief you on that.

2 I also regularly use email. And so I believe
3 that the board has been fully informed of my activities,
4 culminating in the semi-annual reports to Congress.

5 Also, for my office in particular, the IG's
6 office, I have been able to increase staffing
7 incrementally by two. And my internal operating mantra
8 for the IG is, "More production and more
9 professionalism." And I am heading very rapidly down
10 those paths, also.

11 I don't believe that there have been any issues
12 of the work that I have performed, even confidential
13 work, that has not been fully briefed to the board.

14 Saying that, and having -- and I will get back
15 to your immediate question, Mr. Chairman, but I do want
16 to make sure, for the record, that the work that we have
17 done in the last year, as captured in the prior -- last
18 two semi-annuals, we have issued seven audit reports.
19 And I would ask you to compare my predecessor's work
20 with what I have been able to do.

21 We have made 45 recommendations to management
22 and grantees for improved performance. We have

1 questioned costs -- and this is something that is
2 manifested by the audit work that we do, almost \$600,000
3 of funds that were either subjected to fraud, waste, or
4 abuse, or not appropriately used.

5 We have performed -- and I call them ASRs,
6 audit service reviews. Not only does the OIG look
7 internally to the corporation and externally to the
8 grantees, but we also monitor the performance of all the
9 independent public accountant, CPA firms, that oversee
10 the grant funds. And they're required to provide an
11 annual financial statement audit, much like the
12 corporation does, from what you heard our corporate
13 auditors earlier today.

14 We have opened 39 investigations. I have
15 re-invigorated -- the hotline is what it's called. We
16 have closed 42 investigations. Not every investigation
17 is credible. But we do a vetting, a very good vetting,
18 of where we should devote our limited resources. We
19 have had in this past year, federal year, we've had one
20 indictment and one conviction.

21 We have also instituted -- under my tutelage we
22 have instituted something for immediate notification of

1 management of issues that we find -- I call them
2 management information memos -- so, the president and
3 the rest of the corporation do not have to wait for the
4 full life cycle of an audit or an investigation if there
5 are systemic issues that we think could be addressed by
6 a policy advisory from the president to the field. And
7 two of those have taken place, mainly based on the work
8 that the OIG has done. So, I offer those as examples of
9 the three C's approach to my management style.

10 Now, to your immediate question, Mr. Chairman,
11 as to the work plan, we cannot and -- nor can any IG;
12 and, as you know, I have worked for several -- finitely
13 define what we will be able to do. There are
14 congressional requests that come in -- more than I ever
15 thought possible when I took this position -- but we
16 have to -- that is one of our clients.

17 The board is one of our clients, so we have
18 taken on several board requests and provided information
19 to the requesting board members. I still am involved in
20 one, I think, and we talked a little bit about it today
21 with the counsel for thrift savings, and whether people
22 are actually contractors or independent employees. That

1 was raised in a pretty broad-based audit report that we
2 performed of the entire LSC contracting and consulting
3 efforts. We found 13 recommendations -- 11 of those are
4 still open -- which are identified in the semi-annual
5 report.

6 What I would like to do -- and this gets to
7 your question, as I recall it -- is what we were not
8 able to do is I want to be able to do concurrent reviews
9 of corporate policies and practices. With the staff
10 that I have -- as you know, I've divided the audit
11 division, or the audit staff, into two major components,
12 one looking at external grantees doing the work
13 that -- in the field, and then one -- and the
14 contracting report is one example of that.

15 We are also engaged internally in the
16 technology improvement grant audit.

17 The purposes of the internal audits is to
18 improve -- by statute I am designed or tasked to improve
19 economic and efficient operations in the host agency. I
20 tend to keep one of those jobs going on all times.

21 The remaining part of my audit division is
22 designed to go out and do external audits of grantees.

1 And we are not doing this willy nilly; we are doing this
2 based on a sophisticated risk assessment process that we
3 use. We use hotline information. We use input from the
4 board. I welcome -- and, to the new board, I send this
5 out to you in all earnestness -- any ideas that you
6 have, or that an OIG could provide information to you in
7 the areas of responsibility, accountability, and
8 transparency. I would be more than happy to entertain
9 those requests.

10 That being said, we have not yet finalized our
11 fiscal year 2010 work plan. What you -- we will follow
12 the general outline of what you have in your board book
13 at page 23 and following.

14 But resources is always a concern. Thankfully,
15 budget has not been a concern for the IG. Congress saw
16 fit to give the OIG a significant bump-up in 2009.
17 Instead of taking all those resources for the board
18 nominees, Congress gave the IG a \$1.2 million bump-up in
19 2009, which I believe speaks volumes of the work that we
20 are doing here. It was unsolicited, and they read our
21 reports, they've read what was submitted to Congress,
22 and they saw fit to give us an increase of \$1.2 million

1 for 2009.

2 The majority of that is being carried over into
3 2010, because I'm a fiscal conservative, and haven't run
4 out and hired numerous people. I wanted to integrate
5 the staff slowly and professionally and productively, as
6 I mentioned in my opening remarks.

7 We will be able to do pretty much everything we
8 say in our 2010 work plan, but I do solicit information
9 from all our stakeholders. I consider the people around
10 the table and the future people around the table to
11 provide input to me, personally, so we can mold that
12 into a work plan that the board is comfortable with, and
13 management is aware of, recognizing, of course, that
14 there are what I call significant externalities in the
15 office of inspector general.

16 We have congressional oversight. We have GAO
17 oversight. Each of those oversight bodies always rely
18 on OIG input. Not sometimes, but always. They want to
19 know what work we have done in the area, how we're doing
20 it, what our opinions are in certain areas. I draw the
21 line at opinions, because an IG should only report
22 facts. And that is what, under my tenure for a

1 year-and-a-half, the OIG has been reporting facts.

2 CHAIRMAN MEITES: I have a couple of questions,
3 if I can.

4 First, when do you expect we will get your 2010
5 work plan?

6 MR. SCHANZ: I was waiting for two things. I
7 was waiting for our budget, so I know how much I have to
8 work with, and then I was waiting for the accession of
9 the new board of directors.

10 CHAIRMAN MEITES: Okay. And, second, given the
11 \$1.2 million that you received in 2009, although you
12 haven't hired yet, do you have any ideas that you could
13 share with us as to what areas you're going to hire
14 into --

15 MR. SCHANZ: Sir --

16 CHAIRMAN MEITES: -- and how many people you're
17 talking about hiring?

18 MR. SCHANZ: I'm talking a ceiling -- a high
19 ceiling -- of 30. The interim plan is for 28. I
20 have -- I am hiring, and I have hired, an investigative
21 assistant to do some of the research and analysis that
22 is required of our investigative division, whose

1 workload keeps expanding exponentially, based on hotline
2 calls.

3 And based on something that we have proactively
4 done -- trying to stay on point here, instead of telling
5 you a laundry list of improvements we have made -- but
6 we do something called a fraud vulnerability assessment
7 from our inspections -- or investigations division.

8 We also do fraud vulnerability assessments. We
9 do fraud awareness briefings. And management has been
10 witness to each of those. What we do with that -- I can
11 call up my chief investigator, or chief auditor, at your
12 pleasure -- but we go out to a program where it has not
13 been visited for some time.

14 Or, what's happening now is these have become
15 such a success story that people are asking if we could
16 visit their program and provide a fraud vulnerability
17 assessment, which covers the surface of internal
18 controls and weak areas that they may be able to improve
19 on.

20 As much as we can with the resources allotted
21 and with the staff -- I have a very strong staff, and
22 they're getting stronger by the day, because I'm

1 mentoring them -- what we're doing is trying to be much
2 more proactive across the board --

3 CHAIRMAN MEITES: Well, I'm --

4 MR. SCHANZ: -- to protect the federal
5 fiscal --

6 CHAIRMAN MEITES: If I understood -- well, how
7 many people do you have now?

8 MR. SCHANZ: Right now we have 25 people on
9 board.

10 CHAIRMAN MEITES: And you're -- and with the
11 1.5 million extra, how many are you going to add?

12 MR. SCHANZ: We're going to add 3 in 2010.

13 CHAIRMAN MEITES: And --

14 MR. SCHANZ: Integrate those into our offices,
15 and then proceed in 2011 for two more, until -- a high
16 ceiling, we are anticipating 30 individuals.

17 CHAIRMAN MEITES: Let me ask Herb and Mike if
18 they have questions.

19 MR. GARTEN: I just have a statement to make.
20 You've been here a year-and-a-half, and of course we
21 were dealing with an inspector general in the
22 approximate preceding five years that -- most of us were

1 on this board -- and I want to again repeat what I have
2 said previously. I really appreciate, as chair of the
3 audit committee, and as a member of this board, the
4 cooperation you have extended to me and this board over
5 the last year-and-a-half.

6 It's been a -- I didn't think much of the
7 office of inspector general; I knew very little about it
8 until I came here. And I had problems, as you're
9 probably aware of, with the -- your predecessor. And
10 the change in your attitude and your cooperation with us
11 has been remarkable. And I want to thank you for all
12 the courtesies you have extended to us.

13 MR. SCHANZ: Thank you very much. I appreciate
14 that.

15 CHAIRMAN MEITES: Mike?

16 (No response.)

17 CHAIRMAN MEITES: Mike, are you there?

18 (No response.)

19 CHAIRMAN MEITES: Well, we will proceed. We
20 are going to make a report to the board on our views.
21 And I don't know if there is any real reason to prolong
22 it.

1 The advantage we have is we see you -- the
2 audit committee, both Herb and I are on it -- every
3 meeting. And you also participate vigorously in the
4 board meetings. So, I think that we are personally
5 familiar, as Herb has stated, with you personally, and
6 also the work your office has been doing.

7 What I would suggest we report to the board,
8 Herb, is that we believe that Jeff is doing his job
9 well, that the problems in the past, in terms of
10 cooperation between the IG and the board and the IG and
11 the management have been alleviated because of efforts
12 on both sides -- management and the IG side -- and that,
13 although the work of the IG is kind of never ending, as
14 he says, because things happen, that I, at least, have
15 the sense that Jeff is now on top of both what his
16 office does, and the staff he manages.

17 Is that where you're at?

18 MR. GARTEN: Exactly.

19 CHAIRMAN MEITES: Anything more you would like
20 to --

21 MR. SCHANZ: No. I thank you for the
22 opportunity to speak with you at each meeting. But I

1 would like to just underscore my request from the
2 current board and the new board for any issues that you
3 have seen in your practice or, as board members, to
4 provide to the IG as a fertile area for review that
5 would increase the economy and efficiency of the LSC.

6 CHAIRMAN MEITES: And I would just like to pick
7 that up. You know, I have seen your office as
8 essentially an unpaid management consultant. Uninvited,
9 unpaid, but very helpful. And I hope you continue in
10 that role.

11 M O T I O N

12 CHAIRMAN MEITES: All right, Herb, is that -- I
13 will take a motion to adjourn at this point.

14 MR. GARTEN: Yes. I'll make the motion.

15 CHAIRMAN MEITES: And so, we are in
16 adjournment. Thank you very much.

17 MR. SCHANZ: Thank you.

18 (Whereupon, at 1:12 p.m., the meeting was
19 adjourned.)

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