

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

MEETING OF THE
AUDIT COMMITTEE

OPEN SESSION

Monday, October 17, 2011

3:35 p.m.

American Bar Association Offices
321 N. Clark Street
Chicago, Illinois 60601

COMMITTEE MEMBERS PRESENT:

Victor B. Maddox, Chairman
Harry J.F. Korrell, III
Gloria Valencia-Weber
David H. Hoffman, Non-Director Member

OTHER BOARD MEMBERS PRESENT:

Sharon L. Browne

STAFF AND PUBLIC PRESENT:

Kathleen Connors, Executive Assistant to the
President

Victor M. Fortuno, Vice President for Legal Affairs,
General Counsel, and Corporate Secretary

Mattie Cohan, Senior Assistant General Counsel,
Office of Legal Affairs

Katherine Ward, Executive Assistant, Office of Legal
Affairs

David L. Richardson, Comptroller and Treasurer,
Office

of Financial and Administrative Services

Jeffrey E. Schanz, Inspector General

David Maddox, Assistant Inspector General for
Management and Evaluation, Office of the
Inspector General

Ronald "Dutch" Merryman, Assistant Inspector General
for Audit, Office of the Inspector General

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

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

Teresa Low

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P R O C E E D I N G S

(3:35 p.m.)

CHAIRMAN MADDOX: Okay. I'm going to call the meeting to order, the meeting of the Audit Committee of the Legal Services Corporation. It is 3:30 p.m., and the meeting was duly noticed, so we may have members of the public present with us on the line. We're here in Chicago at the ABA offices, and I note the presence of a quorum, with all of the members of the committee present. And so I'll call the meeting to order.

The first order of business after -- well, let me ask for -- the first order of business is approval of the agenda. Is there a motion to approve the agenda?

M O T I O N

PROFESSOR VALENCIA-WEBER: I so move.

MR. KORRELL: Second.

CHAIRMAN MADDOX: And the second. And then all in favor?

(A chorus of ayes.)

CHAIRMAN MADDOX: Let me --

1 MR. SCHANZ: Mr. Chairman?

2 CHAIRMAN MADDOX: Yes?

3 MR. SCHANZ: If I may, please, we've always
4 requested a spot in the Audit Committee for the
5 Inspector General. And I'd like to reserve that
6 option for every forthcoming Audit Committee
7 meeting. It somehow didn't make it on this agenda.

8 CHAIRMAN MADDOX: Okay. Well, I appreciate
9 that, and we'll make sure that future agendas
10 reflect your continuing and standing invitation.

11 MR. SCHANZ: Thank you.

12 CHAIRMAN MADDOX: Before I go any further,
13 I want to note that we have a new member of the
14 committee today, David Hoffman. David is, of
15 course, not a director of the Corporation. He's
16 joined the committee today, I think, as a result of
17 his incredible work on the Fiscal Oversight Task
18 Force. Some of you may know him from that.

19 David, you were the Inspector General for
20 the City of Chicago?

21 MR. HOFFMAN: I was. Right.

22 CHAIRMAN MADDOX: And I'm not sure what the

1 rest of your background is. I think it involved
2 Supreme Court clerking. Am I right?

3 MR. HOFFMAN: Yes.

4 CHAIRMAN MADDOX: That's pretty impressive.
5 So who did you clerk for?

6 MR. HOFFMAN: Chief Justice Rehnquist.

7 CHAIRMAN MADDOX: Outstanding. And now
8 you're with Sidley?

9 MR. HOFFMAN: That's right.

10 CHAIRMAN MADDOX: Well, we are certainly
11 thrilled to have you here. We certainly appreciate
12 your willingness to continue your contribution to
13 the Corporation and the public with your work on the
14 task force and your joining us here, and look
15 forward to seeing you at future meetings.

16 MR. HOFFMAN: Thanks. It's a pleasure.
17 I'm looking forward to it.

18 CHAIRMAN MADDOX: I think you've met all
19 the committee members?

20 MR. HOFFMAN: Yes. I did today.

21 CHAIRMAN MADDOX: Sharon, of course, is not
22 a member of the committee, but we're glad to have

1 her here.

2 Okay. Item No. 2 on our agenda is the
3 approval of the minutes of the committee's July 20,
4 2011 meeting. And is there a motion to approve
5 those minutes?

6 M O T I O N

7 PROFESSOR VALENCIA-WEBER: I'll move.

8 MR. KORRELL: Second.

9 CHAIRMAN MADDOX: And all in favor?

10 (A chorus of ayes.)

11 CHAIRMAN MADDOX: And with that, the
12 minutes of the July 20, 2011 meeting are approved.

13 Item No. 3 is a report on the 403(b) annual
14 plan review and update on our annual audit. Alice
15 Dickerson, the Director of Human Resources -- Alice,
16 are you on the phone?

17 MS. DICKERSON: Yes, I am.

18 CHAIRMAN MADDOX: Alice?

19 MS. DICKERSON: I think you all can hear
20 the music I'm hearing.

21 CHAIRMAN MADDOX: Alice, we are having a
22 very difficult time understanding you.

1 (Loud music playing on telephone.)

2 MS. DICKERSON: I'm hearing music. It's
3 difficult on my end of the line, also.

4 CHAIRMAN MADDOX: We're having some
5 technical difficulty, Alice. We may be able to
6 resolve it.

7 MS. DICKERSON: How about if I try to call
8 back in and see if that eliminates some of it?

9 CHAIRMAN MADDOX: Okay. Try calling in
10 again. Thank you.

11 (Pause)

12 MS. DICKERSON: I'm back on the line now.

13 CHAIRMAN MADDOX: Okay. Alice, I'm not
14 sure that you're going to be intelligible to us.

15 MS. DICKERSON: Okay. And there's the
16 music again, even though I called back again.

17 CHAIRMAN MADDOX: Really not an acceptable
18 link.

19 MS. DICKERSON: Okay. Well, I was just
20 going to give a brief report, so it doesn't have to
21 happen today. I don't have all of the information
22 anyway, so I'm going to have to get back.

1 (Pause)

2 CHAIRMAN MADDUX: Alice, can you hang up?
3 Victor Fortuno is going to call you on his cell
4 phone.

5 MS. DICKERSON: Okay. Great. Thank you.

6 (Pause)

7 CHAIRMAN MADDUX: If anyone is on the line
8 listening, we're going to try to clean up the
9 connection here. So we're going to drop all of your
10 calls. You can call back in to the same number.
11 And if you do, please keep your phone off of hold.
12 And now we're dropping you off.

13 (Pause)

14 CHAIRMAN MADDUX: All right. Well, with
15 all that excitement, I've kind of lost track. But I
16 think we're on item No. 4 on our agenda because I
17 believe we've deferred item No. 3 in light of our
18 technical difficulties.

19 So item No. 4 is to consider and act on a
20 revised Audit Committee charter. We have a panel
21 today of Mattie Cohan from the Office of Legal
22 Affairs and the Office of the Inspector General,

1 Ronald Merryman and Jeff Schanz. And I would turn
2 it over to you.

3 MS. COHAN: Sure. At the last committee
4 meeting in July, the committee asked for, basically,
5 an annotation of the duties in their current
6 charter. And that's the main document that was in
7 your book, as I went through, listed all of the
8 duties, and tried to provide a little bit of an
9 annotation about what the duties seemed to be doing
10 and, if this was a duty that the committee wants,
11 how the committee might in fact effectuate it. So
12 there's a little bit of that.

13 And then what just got handed out, and I'm
14 sorry that they did not make it into the book, are
15 just four sample charters. The other thing that the
16 committee had said at the last meeting was that it
17 would be useful to look at audit committee charters
18 from other organizations not unlike LSC that have
19 inspectors general.

20 So we have the Corporation for Public
21 Broadcasting's audit and finance committee charter;
22 the Smithsonian Institution; the NSF's committee on

1 oversight, audit and oversight, their principles,
2 which is kind of like their charter; and the
3 oversight, governance, and audit committee charter
4 for the Corporation for National and Community
5 Service.

6 I picked those because they were easily
7 accessible online and were organizations that seemed
8 sort of like what we do in being a grantmaking
9 organization and/or an organization with an IG. So
10 that's why I happened to pick those. I could get
11 more if you wanted them, but I also didn't want to
12 overload the committee with samples.

13 That said, I would suggest perhaps, unless
14 you have a different suggestion, kind of walking
15 through the duties one by one. And the committee
16 can discuss them and decide if that's something you
17 want to keep, would like us to think about revising
18 the language in any way -- because some of them, the
19 duty itself may be fine but the language itself may
20 not recommend what may seem broader than what was
21 intended. But I leave that to you.

22 CHAIRMAN MADDOX: Well, let me ask, first

1 of all, on the four charters you gave us, the
2 Corporation for Public Broadcasting charter is a
3 combined audit and finance committee. It seems to
4 me that that charter might not be particularly
5 instructive for us because it may include all manner
6 of things that we are not obliged to do, and
7 probably overlap with our own Finance Committee. So
8 personally -- I don't know what you guys think --
9 I'm probably not going to look at that one. I think
10 the other three are going to be very helpful.

11 We've been sort of batting this about,
12 Mattie and Dutch and everybody, for six months now,
13 I guess, and it's probably frustrating to you. We
14 got onto this because when I started looking at the
15 committee charter, and then when we got Gloria and
16 Harry, who came to it with completely fresh eyes
17 because they didn't even serve with the prior
18 members like I did for a few months, it looked like
19 the charter asked more of us than, certainly, the
20 committee had been doing, and perhaps more than, at
21 least as the committee was constituted before David
22 joined us, than the members were really well-

1 qualified to do.

2 I mean, I personally don't think that I've
3 got the expertise or the background to review the
4 audit plan, for instance, of the OIG's office, and
5 to in essence critique it. I noted in your comments
6 that there are concerns within OIG about the charter
7 itself, which I thought was interesting, because
8 that's one of the items I want to talk about at some
9 length.

10 Ultimately, I think what we want to do --
11 and I'd love to get your comments, David; I know
12 you're brand-new, you just looked at the charter for
13 the first time, but you've got a lot of experience
14 and maybe you can add some light. So part of the
15 reason why I'm giving this background is for your
16 benefit, so that I can get you up to speed in short
17 order.

18 What we want to do ultimately is to
19 streamline the charter so that we have a charter
20 that is a responsible charter, one that accurately
21 and realistically reflects the concerns that the GAO
22 addressed initially in 2007, I guess, that led to

1 the creation of the committee in 2008, and yet at
2 the same time does not force us to, as I've said in
3 the past, honor it in the breach by basically
4 winking and nodding at certain things that either
5 haven't been done or that we just aren't really
6 going to be capable of doing.

7 So I know Harry has outlined a number of
8 things. Gloria has had comments. I have as well
9 about some of these that we don't think we're well-
10 equipped or perhaps even that it makes sense for the
11 committee to try to do, given the presence of the
12 OIG and the nature of the charter itself.

13 So your comments seem to address a lot of
14 that. And I've gone through them myself. I don't
15 know if the other committee members have done so.
16 I'm sure that they have. So I don't know if it
17 makes sense to go through there one by one.

18 MS. COHAN: However you --

19 CHAIRMAN MADDUX: Let me just finish. I
20 mean, there are a number of items that I think are
21 particularly noteworthy and important, and I'd like
22 to, I think, discuss some of those, use our time

1 better that way.

2 Harry, did you have a comment?

3 MR. KORRELL: Two things. One is -- I
4 should use a microphone here --

5 CHAIRMAN MADDOX: Yes.

6 MR. KORRELL: -- as I understand the
7 drafting, the creation of our charter grew out of
8 wanting to respond to the GAO concerns. And my
9 reaction is that a lot of the language is quite
10 broad, the effect of which is we satisfy GAO because
11 now there's an Audit Committee that has a charter
12 that has words that are broad enough to grab what
13 they were concerned about.

14 But it also seems to grab in broad sweep a
15 lot of other things that I don't think any of us
16 intend to do. And it seems beyond the scope of what
17 I think of as our charter, especially with the OIG.
18 And I worry that we've got this charter that's over-
19 broad, that says we're going to be doing things, and
20 if we fail to do them, we haven't honored our
21 charter. That's my general reaction.

22 As to going through these point by point, I

1 kind of feel like we don't have nearly enough time
2 to do that today. I appreciate the annotation.
3 Sometimes the conclusion of the annotation, though,
4 is, this language is vague; maybe we should revise
5 it.

6 MS. COHAN: Well, that's because we weren't
7 asked to provide any recommendations.

8 MR. KORRELL: No. I appreciate that.

9 MS. COHAN: Yes.

10 MR. KORRELL: And so I guess what I'm
11 worried about is without something more specific
12 worked out -- and maybe it's a working group,
13 someone from the committee and someone from Mattie's
14 shop, something like that -- to hammer out some more
15 precise language, it doesn't seem like a great use
16 of everybody's time for us to have a work session
17 now to go through 16 items and kind of revise and
18 interlineate. But that's just my reaction.

19 CHAIRMAN MADDOX: No. I think that's
20 perfectly sensible. I agree with it, largely.

21 Gloria?

22 PROFESSOR VALENCIA-WEBER: I would just --

1 first of all, I agree with all the comments about
2 why the charter concerns us. And secondly, to make
3 this afternoon's work productive, maybe we should
4 start with making, as suggested, the most parts that
5 we think are within the core of what, regardless of
6 the verbiage in the draft, of what we would expect
7 to do as an audit committee and what our views are
8 on that; and then perhaps, as has been suggested,
9 leave for a working task force involving staff we
10 suggest, what remains.

11 But like us at least to reach some
12 understanding of what an audit committee for LSC
13 should do.

14 CHAIRMAN MADDOX: I think that's a good
15 idea.

16 Mr. Inspector General, did you have
17 comments?

18 MR. SCHANZ: Yes. Thank you, Mr. Chairman.
19 This has seen fits and starts ever since Harry sent
20 out his email about seven or eight months ago with a
21 delineation of concerns.

22 If I could be so bold as to recommend that

1 we take a look at what is, and with the committee,
2 with an expert on the committee now, to be able to
3 take a look at what is first and then what should
4 be, so management -- and we've been working with
5 management -- has some guidance as to what the audit
6 committee thinks is appropriate instead of -- what
7 you've seen here, even with the annotation, is just
8 we're piling.

9 I think it's time to go back to the very
10 basics and say, okay. Well, this is what a
11 traditional audit committee does. And an audit
12 committee for a profit corporation is a lot
13 different from an audit committee with an IG.

14 So I think it's time to just blow this up
15 and go back to the basics and say, okay. This is
16 what the Audit Committee charter is currently.
17 These are our issues with that because we don't
18 think we're inherently equipped to do that, and the
19 overriding concern is that there's an inspector
20 general.

21 One of the things in the current charter
22 talks about you guys taking care of whistleblowers.

1 That is truly an IG function. And I would think
2 that something like that, taking a fresh look at
3 that and just -- instead of adding on -- I used the
4 term "piling on" earlier, but I would take a scalpel
5 or a meat cleaver to what the current charter is.

6 And then you all tell Mattie, and we've
7 been working with Mattie -- Dutch mainly; I'm the
8 figurehead here -- but would just start basically
9 from scratch and say, no. This doesn't make sense.
10 And there's four people on the committee, so you
11 might have a tie. But this doesn't make sense with
12 what knowledge that, Gloria, you've gained and to
13 address Harry's concerns.

14 MR. HOFFMAN: Mr. Chairman, if I may?

15 CHAIRMAN MADDOX: Mr. Hoffman?

16 MR. HOFFMAN: Sorry. I was going to -- the
17 procedural suggestion I was going to have, in part
18 since I'm new and maybe if you think it's a good
19 mechanism to move it forward, is to hear from
20 whoever on the committee had specific concerns about
21 why you thought it was over-broad.

22 That would help, maybe, me understand what

1 you thought that first -- I still don't have a sense
2 of what you -- other than that it maybe needs some
3 streamlining, what is -- maybe your top one or two
4 examples of what concerned you about its breadth.

5 CHAIRMAN MADDOX: Well, there are a number
6 of them. Take a look at No. 13 on the charter, for
7 instance. "The committee shall review all
8 regulatory and internal control matters that may
9 have a material effect on the Corporation's
10 financial statements."

11 To the extent that that suggests that the
12 committee, independently of management bringing
13 these matters to our attention or the IG's office
14 bringing them to our attention -- I personally don't
15 know how I would survey the universe of existing
16 federal regulations and say, oh, this might have an
17 impact. This might have a material effect, or on
18 the government accounting standards, or the like.
19 So that's one example.

20 Item No. 4 is another example where -- and
21 I think this is an item where the Inspector
22 General's office itself has suggested concerns.

1 We're not even sure what some of these terms really
2 mean, the OIG's internal audit responsibilities or
3 the OIG's sanctions. I don't know how I would
4 review the OIG's sanctions. I don't even know what
5 the OIG's sanctions are.

6 MR. MERRYMAN: I can only think of one. We
7 actually can bar an IPA from --

8 CHAIRMAN MADDOX: Right. So debarment.

9 MR. MERRYMAN: -- from doing LSC work.
10 That's the only sanction I'm aware of.

11 CHAIRMAN MADDOX: Right. But it's not
12 clear to me that the language of item 4 in our
13 charter is meant to refer to the possibility of an
14 IPA being debarred.

15 Yes, Dutch. Go ahead.

16 MR. MERRYMAN: If I may, sometimes these
17 things percolate a little bit longer in my mind than
18 they should. But what occurred to me is that this
19 charter is mainly, in my opinion, now, written for
20 more of a for-profit corporation where there's a lot
21 of financial information that can be gleaned about
22 that for-profit, such as what's their inventory

1 turnover? Cost of goods sold? What's the value of
2 stock? Those types of things. That's why there's a
3 lot, I believe, of very heavy weight on the
4 financial statements.

5 When you look at LSC in general and you
6 look at their financial statements and their
7 controls, that's dealing internal to the
8 headquarters building, for the most part. I mean,
9 obviously there's some work that is done on the
10 grants that are given out in ensuring that the right
11 amounts are given out.

12 But all in all, going over the internal
13 control structure, while important for LSC's
14 internal management, there's a whole lot of other
15 areas that have probably some more significance to
16 the funders that you should be concerned with, like
17 how are the regulations enforced and looked at?
18 That could really ultimately impact the funding of
19 LSC.

20 So I think this needs to be written in such
21 a manner to recognize that there is an IG that can
22 take care and does take care of some of the

1 financial audit portion of it, and that the focus of
2 the Audit Committee in looking at the controls and
3 regulatory could be used in the strategic plan of
4 LSC when it comes out, could be used in the risk
5 assessment or the enterprise risk management.

6 What are the high risks? For instance,
7 labor union. A labor union could be a high risk,
8 not from the standpoint we have a labor union, but
9 what's the risk of our managers do not comply with
10 the labor union contracts and stuff?

11 You can also have something similar to
12 other federal agencies, like an A-123 report, which
13 is over management's controls, not just financial,
14 but management controls to ensure that the effect --
15 what is the plan? What is their structure? How is
16 it designed? What's the flow chart?

17 So that you could get away from just
18 strictly financial statements, which this appears to
19 refer to a lot, and look at what are the things that
20 are important to LSC, not only from financial
21 management but also from a funding stream and how
22 they deal with the grantees, the individual

1 grantees.

2 So I just wanted to put that out there
3 because I think if we start thinking about what
4 should our focus be, it will help the design of the
5 charter a lot better.

6 CHAIRMAN MADDOX: So really what you're
7 suggesting -- we've kind of started this because we
8 were concerned about the scope of the financial and
9 internal control sorts of issues, and with a view
10 toward sort of tightening it up.

11 You're really suggesting, I think, a
12 refocus of the charter itself, and perhaps bringing
13 it in line with the nature of the Corporation more
14 than perhaps whatever the model was for this
15 particular charter.

16 MR. MERRYMAN: Absolutely.

17 CHAIRMAN MADDOX: I think it's a good idea.
18 I don't know what the other committee members think.
19 I mean, Gloria, Harry, whatever.

20 PROFESSOR VALENCIA-WEBER: Well, I have
21 similar concerns to what Vic mentioned. But your
22 comment about where this framework came from makes

1 me understand how this language got here because
2 related to No. 13, which Vic has pointed out, if you
3 look at No. 6, it also has all of this concern that
4 this committee somehow has to assure the whole Board
5 of Directors that there are appropriate controls in
6 place to identify -- to safeguard the Corporation's
7 assets and to accurately report financial
8 information to internal and external users.

9 That's tied in with something similar in
10 approach and language to what you see in 13, which
11 again is a very different focus than what are the
12 important things that this committee should do for a
13 nonprofit corporation with the specific mission that
14 we have.

15 MR. MERRYMAN: And this committee also,
16 from the nonprofit standpoint -- for instance,
17 accounts receivable would be an important financial
18 statement item for most nonprofits, people making
19 pledges. Our funding source is pretty well set, and
20 we know what that is. So there's certain things
21 that we may not have to focus on as much as other
22 things in order to focus on the major thing, which

1 would be our funding stream.

2 CHAIRMAN MADDOX: Okay.

3 MR. HOFFMAN: May I?

4 CHAIRMAN MADDOX: Go ahead.

5 MR. HOFFMAN: Sorry about the water there.

6 So again, this will be maybe me playing catch-up a
7 little bit. And I'm glad Jeff came in the room
8 because he may have thoughts on this.

9 So my core thoughts about what should be at
10 the center of the committees in a normal audit
11 committee for not-for-profits' responsibilities
12 relate to -- and going quickly over the models here,
13 I think they confirm this -- big picture concern
14 about risk.

15 What are the risks for the LSC and its
16 assets? And the assets are both its money and also
17 its reputation. So with regard to that, one aspect
18 of that is -- and having just served on the Fiscal
19 Oversight Task Force and spending a lot of time
20 learning about the different parts of the LSC that
21 are supposed to conduct oversight, how are those
22 parts working?

1 How is the IG working? How is the
2 reconstituted or reformed parts of management
3 working on that? I think that would be a normal
4 core part of an audit committee, to look at the
5 performance of those entities, look at their plan
6 for the future. That would be a normal part of it.

7 Another part of it would be, do we -- and
8 that would be a way of assessing the controls, the
9 internal controls that LSC has in place in the form
10 of these oversight groups to make sure that our
11 integrity and assets are being monitored.

12 So I think that could spawn several
13 different paragraphs and descriptions of what that
14 could mean, to look at the performance and plans of
15 these different entities and to be hedging controls.
16 But I think that would be at the core of what an
17 audit committee should do.

18 Included within that would be, I think, to
19 stay with the IG or other parts of this, is the
20 ability -- if the IG needs to -- or management --
21 needs to inform the Board about a particularly
22 sensitive, what does the IG do or what does

1 management do?

2 Often, the solution is to go into executive
3 session with the audit committee. And that's sort
4 of the safe haven for the IG or someone else to be
5 able to say, here, I don't want to let the entire
6 Board know, but I want to let some responsible body
7 know about some risk that either we're investigating
8 or looking into with regard to LSC as a whole. And
9 I think that would be a normal part of this
10 committee's job.

11 I think accounting, feeling comfortable
12 that the accounting -- the way the accounting is
13 done regarding the financial statements of LSC, even
14 though it's not-for-profit, would be another key
15 part of that.

16 So again, looking at the language for the
17 first time, it may be that the terms are vague, and
18 it feels over-broad with regard to those core
19 functions. But what I just described feels pretty
20 broad to me, actually. I mean, that's a pretty
21 broad statement of what the committee would do. But
22 I think that's appropriate.

1 I'm not an expert, obviously, on the other
2 committees. I gather there's a finance committee,
3 so I think that's one question about maybe there's a
4 division of labor there.

5 So with 38 minutes of experience on the
6 committee, I apologize in advance, therefore, for
7 what --

8 CHAIRMAN MADDOX: That's all you can bring.

9 (Laughter.)

10 MR. HOFFMAN: That's right. So with that
11 caveat -- but those are some initial thoughts. And
12 I think if that's accurate in terms of the core,
13 maybe we can move from there.

14 CHAIRMAN MADDOX: My sense, after a year or
15 so of this, is that we do a fairly good job of the
16 accounting issues. I have absolutely no concerns
17 that the IG's selection and oversight of the
18 independent audit of the Corporation is perfectly
19 appropriate. I think that the decision to change
20 auditors this year was the correct one.

21 I also have no concerns that I'm aware of
22 if the oversight and the work that the IG does with

1 the CPAs for the various grantees. So the
2 accounting so far doesn't trouble me. I think that
3 the charter outlines our responsibilities there
4 reasonably well, and I don't have concerns about our
5 ability to effectively interact with the IG's office
6 or with management, and with the rest of the Board,
7 for that matter, to do those things.

8 For my preferences, it's where the
9 committee is charged with basically overseeing the
10 inner workings of the Inspector General's office I
11 think we are completely unqualified to do. Maybe
12 we're not so unqualified now. Maybe, David, we are
13 less unqualified; maybe we're even qualified now,
14 since you have intimate know of the way an inspector
15 general's office works.

16 Then, to the extent that the committee is
17 charged with this overarching obligation to know the
18 impact of regulations in the abstract --

19 PROFESSOR VALENCIA-WEBER: At least that I
20 can find.

21 CHAIRMAN MADDOX: -- regulations in the
22 abstract -- thank you, Kathleen -- or statutory

1 impact and the like, I just don't think -- I mean,
2 unless it's something that comes to the IG's
3 attention or it's something that the OLA or the
4 comptroller or somebody brings to us in a report, I
5 don't think that this committee, as currently
6 constituted, is going to independently identify
7 regulatory malfeasance or the failure to address the
8 concerns that some obscure federal regulation or
9 statute might have on us. So that's one thing I
10 would like to fix.

11 I also think that your comments, David, are
12 excellent, and I think they dovetail with Dutch's
13 comments about how to refocus the committee on
14 guaranteeing or ensuring that the Corporation is
15 actually satisfying its mission and its strategic
16 plan.

17 I mean, looking, for instance, at the
18 sample charter of the Corporation for National and
19 Community Service, which I didn't even know existed
20 until today, "The committee will review financial
21 metrics, grant management metrics, customer service
22 surveys, management audits," et cetera.

1 I don't know that right now we have any
2 focus on grant management metrics.

3 MS. COHAN: Right. And this charter is
4 also their oversight and governance committees.

5 CHAIRMAN MADDOX: Right.

6 MS. COHAN: And some of those functions
7 might be in -- the Governance Committee has the
8 governance function here, and the Operations and
9 Regulations Committee has an operations function.

10 So I couldn't find very many samples where
11 the committee was purely an audit committee of a
12 nonprofit corporation with an IG. So my sample
13 capacity was limited, so I had to start looking at
14 organizations that had chosen to combine their
15 functions with some other committee functions --

16 CHAIRMAN MADDOX: Right. Right.

17 MS. COHAN: -- in the hope that you could
18 find the audit functions within the charter as a
19 guide.

20 MR. HOFFMAN: Vic, if I can respond to your
21 concern about, for instance, No. 13 here and the
22 tough time the committee would have independently

1 figuring out regulations that would create risk and
2 so on. And my thoughts on this come not just from
3 time as IG, but also currently getting the chance to
4 talk with both for-profit and, in a pro bono way,
5 not-for-profit places on compliance and ethics
6 issues and looking and what their structures are for
7 their boards and committees.

8 I absolutely agree that it's virtually
9 impossible for this group to in any independent way
10 figure out most of these questions that are posed by
11 the responsibilities here, especially that one, 13.
12 But I don't think that's the job of the Board or its
13 committees. I think that's the job of management,
14 to know what the scope of the issues that the Board
15 or the committees need to be briefed on and then
16 bring us the briefing that suggests the answers.
17 And then we get to figure out whether or not that
18 seems like the right answer.

19 I think what these responsibilities should
20 be is really an outline for staff to know what they
21 need to bring to the Audit Committee's attention,
22 and we need to say, all right. What do we need to

1 know about No. 1? What do we need to know about No.
2 2? What do we need to know about No. 3? And
3 really, a normal board committee can be expected to
4 show up and then get brief by management, and then
5 use its judgment to decide what makes sense.

6 I think that -- so this may be a
7 wordsmithing thing, for instance, in No. 13, because
8 --

9 CHAIRMAN MADDOX: I think you're right,
10 David.

11 MR. HOFFMAN: -- it may be not that we need
12 to review all regulatory and internal control
13 matters; it's that we need to review those
14 regulatory and internal control matters brought to
15 its attention by the staff that, in the staff's
16 view, may have a material effect on the
17 Corporation's financial statements. Or maybe it's
18 not on the Corporation's financial statements, but
19 on the Corporation, risk to the Corporation.

20 MS. COHAN: Right. And --

21 MR. HOFFMAN: And then I think the
22 management, then, can come to us and say, it's

1 impossible for us to brief you on 13 because it's
2 too broad or too vague or what have you. And those
3 would be my thoughts because, as you stated, that's
4 way too big a burden for the committee to take on.

5 CHAIRMAN MADDOX: No. I think right now,
6 as it's drafted, it really gives us an independent
7 obligation to start from ground zero, if you will.
8 And if nothing's brought to us, then it's our
9 responsibility. We shall review all regulatory and
10 internal control matters.

11 MS. COHAN: That's right. And in fact,
12 talking about how at least what I expected the
13 annotations to help do for you was to the extent
14 that the annotation suggests that what this might
15 have been -- one way to get at what this might have
16 been intended to do would be to have management
17 regularly report to the committee on items that
18 might affect this.

19 And so my expectation was that if the
20 committee talked about it that way, that the
21 committee could then decide either, yes, that's a
22 good duty; we want management to report to us.

1 Let's go back and fix the language to reflect what
2 we actually want to have happen. Or, alternately,
3 that's a duty that we don't think the committee even
4 needs to be doing.

5 For example, with the whistleblower one, if
6 the committee decided, well, we have an IG; the
7 committee doesn't need to do this, the direction
8 back to staff would be, take that one out, for
9 example.

10 CHAIRMAN MADDUX: Yes. On that topic --
11 this is going to be a small digression -- the prior
12 committee, I thought that there were some fairly
13 strong concerns or feelings about the importance of
14 that separate concern.

15 Frankly, I thought it was odd that there
16 would be this sort of separate mechanism, avenue, if
17 you will, for somebody -- when there's an inspector
18 general's office that everybody I think understands
19 is independent, housed in the building, et cetera --
20 to think that an appropriate mechanism is to have a
21 separate process whereby you could sort of
22 circumvent the inspector general's office

1 altogether.

2 Then it imposes -- I can't remember where
3 that language is --

4 MR. HOFFMAN: Is it No. 9?

5 CHAIRMAN MADDOX: Well, No. 9 is the
6 charter. But somewhere, the procedures are
7 outlined.

8 MR. MERRYMAN: It's in policy.

9 CHAIRMAN MADDOX: It's in the policy
10 manual. And basically, it's set up so that the
11 chairman of the Audit Committee is the first point
12 of contact. And they've got my email address and my
13 phone number and all this. And then the chairman is
14 charged with deciding whether it falls within the
15 committee's jurisdiction, and if it does, you can
16 send it on. If he decides that it doesn't, he can
17 basically deep six it, ignore it, and decide if it's
18 worthy of further attention.

19 I originally had suggested some changes to
20 that practice because I thought that the committee
21 chairman should simply decide if the committee has
22 jurisdiction, and if it does, then it ought to go to

1 the whole committee. Right now it's not set up that
2 way.

3 I basically decided to just ignore that for
4 a while and see if anybody ever brings anything to
5 my attention or to the committee's attention. But
6 by and large, I don't know that it makes sense -- I
7 could be persuaded otherwise --

8 MS. COHAN: It was my understanding -- and
9 fortunately, the good part here is I was not
10 involved at all in the creation of the last audit
11 committee charter, so I have no pride of ownership.
12 I have a limited knowledge base about it.

13 But it was my understanding that a kind of
14 kitchen sink approach was taken. And there was the
15 stuff drawn from the GAO, and there was stuff drawn
16 from model audit committees, and that everything was
17 put in there.

18 I think a few people expected that the
19 committee would we'd, and then the committee just
20 said, yes, okay. And the Board said, yes, okay.

21 CHAIRMAN MADDIX: Okay. I see. Well, I
22 don't think that's going to happen now. I think

1 we're going to change it pretty dramatically. But
2 it sounds like we need to put in place a process,
3 maybe with a task force, where we look at the
4 various concepts for the charter and ways to meet
5 some of the concerns that we've expressed, ways to
6 perhaps shift the focus from this financial issue to
7 some of the more mission-oriented items, especially
8 in light of the fact that we're redoing the
9 strategic plan.

10 MR. MERRYMAN: While we should have
11 focused, there will always have to be some focus on
12 the financial side.

13 CHAIRMAN MADDOX: Of course.

14 MR. MERRYMAN: But the way the charter is,
15 it could be a lot more specific to oversight
16 responsibilities of the Corporation as opposed to
17 oversight of the audit process.

18 CHAIRMAN MADDOX: Right. Here's an
19 example. In Seattle, I heard one of the presenters
20 explaining a process whereby he did think that he
21 had enough money for his program under the grants
22 that he got. And because he had a big state and a

1 lot of work to do, he basically said, can I do all
2 this on \$61,000? No. So what do I do? I take the
3 money out of basic field grant.

4 Now, I thought that sounded like a
5 circumvention of our grant and the terms of our
6 grant. I don't know that we have a mechanism in
7 place whereby the Audit Committee reviews that sort
8 of thing on a regular basis or as a routine matter.

9 I think it would be good to know if, as a
10 general proposition, people who don't like the way
11 the grants are awarded or the amount of money they
12 get versus some other grant to their organization
13 are shifting funds to suit their purposes instead of
14 the Board's purposes. And the charter of the
15 Corporation for National and Community Service
16 suggests that reviewing grant management metrics,
17 that might catch something like that. So I think I
18 would actually like to see some focus on that.

19 MR. MERRYMAN: And I believe this Audit
20 Committee's focus will be how does management, once
21 systems are in place to minimize or mitigate that
22 risk to an acceptable level.

1 CHAIRMAN MADDUX: Sure.

2 MR. HOFFMAN: And I think that's kind of a
3 key point. I do think that a traditional audit
4 committee role, and especially limited by the fact
5 that there are other committees, would focus on
6 whether the systems, especially the oversight
7 systems, are working properly and would not be
8 getting in the weeds as much in terms of individual
9 instances.

10 CHAIRMAN MADDUX: Sure.

11 MR. HOFFMAN: And there are several key
12 systems, one of which is the IG, one of which is
13 management, different oversight parts, and so on.
14 And the whistleblower thing is, I think, probably at
15 the least far too broad in terms of the way it's
16 stated.

17 But I think it's a little more complicated
18 a question about whether you get rid of it entirely
19 because on this question of, well, are the systems
20 working properly, one of the common things for an
21 audit committee or some sensitive part of the board
22 to look at is, has X part of management been

1 compromised in some way so that people who really
2 have something important to say can't go to that
3 normal oversight mechanism.

4 I don't think any of us think that now, but
5 that's one important safety mechanism that an audit
6 committee would serve. And what if there is someone
7 who just thinks X portion of the LSC system really
8 just doesn't function at all and I can't go to them?

9 I think that was the point behind -- now
10 one thing we could do -- this is just speaking off
11 the top of my head, but as we talk about this issue
12 further -- is you could say, well, if someone's
13 going to come directly to the Board or the Audit
14 Committee, which would be a really extraordinary
15 step, the only reason to do that would be to first
16 establish that the normal mechanism I would go to in
17 management is not functioning.

18 That's the first thing that you or we would
19 have to hear. Here's my statement about how it's
20 not functioning. And then only if they meet some
21 standard on that is it then passed through the door.

22 Again, that's off the top of my head. I'm

1 not sure. I just -- on the one hand, the audit
2 committee serves an important function. On the
3 other hand, I'm sensitive to some of the things that
4 have been said, which is that no one here wants to
5 do management's role and there's a lot of very
6 built-up, good systems that we don't want to have to
7 duplicate.

8 CHAIRMAN MADDUX: Well, I don't think we
9 want to minimize the importance of the Audit
10 Committee. I just think we want to properly
11 articulate what it should do and can do for this
12 Corporation to make sure that it functions
13 effectively.

14 Are there suggestions for how we proceed?
15 I think we could bat about this most of the
16 afternoon. I had been thinking that we would be
17 able to get this resolved perhaps at our next
18 meeting, and now I'm not so sanguine about that. I
19 think perhaps it might take another meeting plus to
20 work through and come up with some suggestions.

21 Mattie, given what we have said here, is it
22 possible to look at these other draft charters in

1 light of our comments and your annotations and
2 suggest -- I mean, perhaps even a redline version --

3 MS. COHAN: Sure.

4 CHAIRMAN MADDOX: -- of our charter? Or at
5 least broader concepts that we would, you know,
6 delete here and substitute there?

7 MS. COHAN: Sure.

8 CHAIRMAN MADDOX: I don't know. Harry, do
9 you have any thoughts on how to do it?

10 MR. KORRELL: I do think that's good. I
11 mean, we had a late start on our meeting today, and
12 we're into it 30 minutes plus on this, and we could
13 go for another two hours, probably.

14 I do think either with a redline from
15 Mattie -- but rather than take up another meeting
16 with the full committee, I would suggest a redline
17 from Mattie and then perhaps some consultation with
18 one of the members of our committee to kind of bat
19 back and forth before we bring something back in
20 front of the full committee.

21 I can work on it, our new member seems to
22 have this experience better than mine to work on it,

1 or maybe you. But one of us at least to work with
2 Mattie a little bit and give some feedback, assuming
3 that's consistent with Sunshine Act requirements.

4 PROFESSOR VALENCIA-WEBER: And I would add
5 to that -- I guess it would be Dutch from the IG's
6 office. For instance, No. 3 talks about how the GAO
7 report normally holds audit committees responsible
8 for contracting and overseeing the external auditor,
9 which is not the way we operate nor that makes
10 sense, so that those kinds of actual functions can
11 be properly delineated in the right kind of
12 language.

13 I don't know whether it's an advice or
14 consultation type language. But we don't have
15 complaints about the external auditor system, and we
16 don't want to imply, even with that kind of
17 language, that we're somehow going to oversee that.

18 MS. COHAN: Oh, and believe me, if I'm
19 working on a redline, Dutch doesn't get off without
20 helping me on it.

21 MR. HOFFMAN: Well, I think it's good
22 suggestions. I think that -- I was just reading at

1 the start of this document the mission of -- the
2 purposes of the committee. And the main one is --
3 well, it's to make sure the Corporation's assets are
4 properly safeguarded, which presumably means both
5 the money and its reputation, and to "oversee the
6 quality and integrity" of different practices.

7 So I think that having some sort of clear
8 understanding of what are the core functions, even
9 if we haven't gotten into defining what the
10 paragraphs look like, of both audit committees
11 generally for not-for-profits but in this
12 circumstance, where we're surrounded by these other
13 committees, it would be helpful.

14 Mattie, nice to meet you for the first
15 time. Do you feel like that's -- especially having
16 studied these models, being able to list what you
17 think are the core responsibilities sounds like
18 that's something that you'd be able to do?

19 MS. COHAN: Sure. I'll give it a shot.

20 MR. HOFFMAN: I mean, especially if it's --
21 and not whether -- and that's exactly what it
22 currently says regarding the purposes of the

1 committee, or -- and that would be a change, FYI, in
2 the purposes of the committee --

3 MS. COHAN: Right.

4 MR. HOFFMAN: -- because it would add this
5 in or take that out. I don't think that's going to
6 be very controversial, but I think defining those
7 then allows for some good movement on what the
8 paragraphs should say and whether we've checked off
9 the core values we agree on or not.

10 MS. BROWNE: Can I just --

11 CHAIRMAN MADDOX: Sure.

12 MS. BROWNE: I've been listening, and I'm
13 finding this fascinating. And I think you hit what
14 I thought was one of the problems with the audit
15 charter, is that it's listing all your duties and
16 responsibilities without identifying up front what
17 the core function or purpose of the audit committee
18 is.

19 So you're going into step-by-step duties as
20 opposed to, well, who's the audience? What is the
21 basic purpose? And so I think once you get that
22 down, the rest should flow from there. But right

1 now it seems to be pretty big, from what I
2 understand.

3 MS. COHAN: Right. Although I will say,
4 just so you know, that the document you have, that's
5 an excerpt. I did not annotate the entirety of the
6 charter. I only worked up an annotation of the
7 duties for the purposes of this discussion. So the
8 charter has other stuff in it.

9 MS. BROWNE: Yes. I was just going back
10 from what the initial comment was.

11 MR. HOFFMAN: Yes. And I could see how
12 part of the problem is it's kind of a laundry list.
13 I mean, there's 16 things with no organization. And
14 like looking at the Smithsonian one, it's at least -
15 - I'm just reading it for the first time, but it's
16 organized into categories, which might allow the
17 committee to figure out what area are we in.

18 So part of it is relationship with the IG,
19 auditors, and auditor independence. Well, that's a
20 category. And then how do we explain what -- and
21 the next one is risk assessment and control
22 environment.

1 So I don't know if those are the exact
2 right categories, but they seem pretty good. And I
3 think --

4 MS. COHAN: Yes. That's why I like this
5 one. I thought it was very well organized.

6 MR. HOFFMAN: I think that might help.

7 MR. KORRELL: Yes. I agree. I agree.

8 MR. SCHANZ: There is an opening for the
9 inspector general at the Smithsonian Institute.

10 MR. HOFFMAN: Vic, are you --

11 CHAIRMAN MADDOX: No.

12 (Laughter.)

13 MR. SCHANZ: So if any of you choose to
14 apply.

15 MS. COHAN: Are you saying that when I'm
16 done with this charter, I have a job application to
17 submit?

18 CHAIRMAN MADDOX: Gloria, did you have
19 something?

20 PROFESSOR VALENCIA-WEBER: Yes. There's
21 also another benefit from cleaning up both the
22 primary purpose and identifying the values and

1 designated what it is this committee should do, that
2 is, how we intend to inform our grantees.

3 Remember that the thrust of the GAO report
4 and of some of the comments from our overseers in
5 Congress is what our grantees do. And we're
6 expecting them in some way to establish an audit
7 committee, which is really hard, given you have a
8 volunteer board of directors, in many instances from
9 rural, isolated areas where it's very hard to get a
10 full board to begin with, much less that they're
11 going to have the expertise within their board to
12 know what an audit committee does and how it does
13 it.

14 So in some ways, one of our jobs as this
15 committee is to try to be as clear a model as
16 possible because maybe in an urban area you have the
17 expertise on a volunteer grantee board, but out in
18 the hinterland, I can tell you, you can't assume
19 that.

20 MR. SCHANZ: Gloria, if I may, that was
21 addressed with the prior board, at which point they
22 asked for my opinion. And I have opinions on many

1 things, but my opinion on this was GAO did not
2 mandate an audit committee for each grantee.

3 What I argued was you need the function of
4 an audit committee, not necessarily the rigid
5 structure of an audit committee. There could be
6 someone on the board of directors who would be a CPA
7 that would actually look at the work.

8 And I agree, that's the basis of my
9 argument -- I come from the West also -- is that a
10 lot of these small grantees can't afford to have an
11 audit committee, and what would they do if the
12 board's only seven persons or a three-person board?

13 So the decision was made at that time that
14 as long as the grantees had that sort of function,
15 and I would still argue that same point today, that
16 GAO didn't mandate a committee. They mandated a
17 function.

18 PROFESSOR VALENCIA-WEBER: Right. But it's
19 still a function that -- these grantees are going to
20 look somewhere for help in modeling.

21 CHAIRMAN MADDOX: Harry?

22 MR. KORRELL: What do we need to do? Do we

1 need to take up an action in this committee, or --

2 CHAIRMAN MADDOX: I think we're going to
3 refer it back to Mattie Cohan. And I would do that
4 now, with the understanding, Mattie, you can contact
5 us with any interim input you need or want; but that
6 we would look forward to getting something in
7 advance of our next meeting whereby we can perhaps
8 look at what amounts to a draft charter, and that we
9 can probably, if not at the next meeting, then
10 certainly by our spring meeting, have a new charter
11 to be finalized.

12 MS. COHAN: Here's just a technical
13 question. Do you want to see something in the form
14 of a redline from the current charter? Or if it
15 looks different enough, are you comfort with just
16 getting something fresh, brand-new to start with?

17 CHAIRMAN MADDOX: Sure. Absolutely.
18 Absolutely.

19 MR. MERRYMAN: That was an "or" question,
20 so it meant either one.

21 CHAIRMAN MADDOX: No. Well, I'm saying
22 absolutely. If a fresh look and a fresh document

1 altogether makes more sense, then that's fine.

2 MR. HOFFMAN: Can I ask -- in terms of the
3 history of the current document, was it written
4 recently? Is there some sort of -- are there
5 stakeholders with regard to how it was written,
6 or --

7 CHAIRMAN MADDOX: My understanding is it
8 was written after the 2007 GAO audit, and it was
9 implemented in 2008.

10 MS. COHAN: 2008. It was adopted in 2008.

11 CHAIRMAN MADDOX: And if I understood
12 Mattie's comments earlier, it was sort of a
13 committee effort.

14 MS. COHAN: And the main driver -- as I
15 understand it, the main driver in terms of putting
16 it together was a particular board member, who was a
17 CPA and who kind of understood what all this stuff
18 was. He had a much more intuitive understanding of
19 it than certain I do.

20 CHAIRMAN MADDOX: Well --

21 MR. KORRELL: I think it hasn't been around
22 long enough to have really been a useful document

1 for anybody, for anyone to have any stake in it.

2 MS. COHAN: And the board members who
3 adopted it are --

4 CHAIRMAN MADDOX: Are all former board
5 members.

6 MS. COHAN: None of them are on the board
7 any more.

8 MR. HOFFMAN: Got it.

9 CHAIRMAN MADDOX: So thank you, Mattie, for
10 that report.

11 MR. HENLEY: Do you have time for a comment
12 from the public?

13 CHAIRMAN MADDOX: Absolutely, although
14 we'll take it out of order. Go ahead.

15 MR. HENLEY: Okay. Like 13 and 15, I think
16 13 is maybe just kind of poorly worded. I would
17 take that to be similar in intent to 15, which is
18 where internal control and regulatory problems or
19 possible problems that are detected through internal
20 audit, through IG, through management oversight, are
21 brought to the audit committee for assistance and
22 evaluation.

1 So they're really very similar, if you look
2 at 15 and 13 together. And beyond that, I would
3 also agree with the order. I think that there is a
4 lot to be said for organizing this charter in a more
5 systemic fashion.

6 And then lastly, because Arthur Young and
7 Ernst & Whinney and Ernst & Young have pumped out
8 countless pages of guidance and research with
9 respect to audit committee charters, I'd be happy to
10 provide Mattie with some of that since we've got it.

11 PROFESSOR VALENCIA-WEBER: Great.

12 MS. COHAN: Sure. I'll take more than I
13 already have. Sure.

14 MR. HOFFMAN: Yes. I think that would be
15 helpful.

16 MS. COHAN: Yes. Absolutely.

17 CHAIRMAN MADDOX: Thank you, Bob.

18 PROFESSOR VALENCIA-WEBER: We need to
19 acknowledge that in the record, recognizing the
20 people who speak.

21 CHAIRMAN MADDOX: Oh, those comments were
22 from Bob Henley.

1 MR. HENLEY: Yes.

2 CHAIRMAN MADDOX: Apparently the record
3 doesn't reflect that. Now it does. Thank you very
4 much.

5 We are going to move now to the next item
6 of business, which is to consider -- or a briefing
7 on the LSC's contracting procedures.

8 MR. KORRELL: Mr. Chairman, may I make a
9 proposal? We're already ten minutes over our
10 allotted time, and we have limited time to get to
11 our next event. And I read Mr. Richardson's
12 memorandum and enjoyed it.

13 At the risk of stepping on his toes -- he
14 really wanted to give us the report -- but I'm going
15 to suggest that we take his report in writing, since
16 we all have it and it's good and it's detailed,
17 rather than give an oral briefing.

18 CHAIRMAN MADDOX: I don't think that's
19 going to step on anyone's toes. But I agree with
20 the suggestion. I appreciate it. I thought the
21 report was extremely well done, straightforward,
22 easily understood. I'm encouraged to know that any

1 contract requires the level of review and systemic
2 approach that the Corporation does, and ultimately
3 that officers or directors are required to sign off.

4 So I appreciate that suggestion, and I'm
5 going to adopt it.

6 PROFESSOR VALENCIA-WEBER: I'm fully
7 satisfied.

8 CHAIRMAN MADDOX: Good. Thank you, David.

9 Let's go to item No. 6, consider and act on
10 which major management processes the committee will
11 review in calendar year 2012.

12 Do we have any suggestions from the staff
13 on this? I guess we don't, do we?

14 PROFESSOR VALENCIA-WEBER: I don't think we
15 got anything or email.

16 MR. KORRELL: No.

17 CHAIRMAN MADDOX: I recognize the general
18 counsel.

19 MR. FORTUNO: Recognizing you're short on
20 time, I can make this really short. That is, in
21 response to one of the GAO observations -- and this
22 kind of dovetails nicely with the discussion that

1 occurred just now about the role of the committee --
2 the GAO voiced the view that the Board should be
3 briefed on major management processes.

4 So we've identified a number. The
5 committee selected four to review during the past
6 year, the last of which was to be the contracting
7 procedures. I think the last time we had security
8 of our IT process, and I think our grantmaking
9 procedures were covered, as well as others.

10 For next year -- that is, for calendar year
11 2012 -- the committee may want to wait until January
12 so that it has the feedback that you can expect to
13 get from the self-evaluations, where board members
14 will identify areas that they think they should be
15 briefed on or know more about.

16 In the meantime, we can identify three that
17 haven't been covered in the event that you feel
18 these three or any of these three, if any, are worth
19 being briefed on. One is our continuation of
20 operations plan. The other is program quality
21 evaluations. And then the third is our banking
22 practices.

1 As you know, some \$400 million a year
2 passes through our hands, and so if you want to know
3 how that's handled, that is, how we draw that down
4 from the Treasury and how it's processed and what
5 banks or accounts it's in, but what steps have been
6 taken to ensure the safety of those funds in the
7 event of bank failure or something, that's another
8 one.

9 So it seems that those are three possibles.
10 I think you'll be getting others as a result of the
11 feedback that individual board members will be
12 providing. But in any event, here are some ideas,
13 and if you want to select one to be briefed on in
14 January, we can do that, and then hold off on
15 identifying any others until the January meeting,
16 where you get not just what little information we've
17 given you now but additional feedback from the
18 Board, and can then select those others that you
19 want to be --

20 MR. KORRELL: Can I suggest to the
21 committee that we ask that they would be briefed on
22 program quality evaluation in January?

1 MR. FORTUNO: Okay.

2 CHAIRMAN MADDOX: That would be my
3 preference.

4 PROFESSOR VALENCIA-WEBER: Yes. That would
5 be my preference also.

6 MR. FORTUNO: And then in January there can
7 be committee discussion about which others. And you
8 can discuss, among others, possibly even the two
9 that we've covered here and decide which you want to
10 be briefed on in 2012.

11 CHAIRMAN MADDOX: Okay. Well, that sounds
12 like a great plan, Vic. We appreciate it.

13 PROFESSOR VALENCIA-WEBER: The program
14 quality evaluation fits in with what --

15 CHAIRMAN MADDOX: It does.

16 PROFESSOR VALENCIA-WEBER: I think we've
17 sort of --

18 CHAIRMAN MADDOX: It fits with the
19 refocus.

20 PROFESSOR VALENCIA-WEBER: Yes.

21 CHAIRMAN MADDOX: I agree. Mr. Inspector
22 General, Jeff Schanz, is there anything for the

1 Board from you?

2 MR. SCHANZ: Yes, sir, Mr. Chairman. I do
3 want to report for the record that the entrance
4 conference for the annual fiscal audit of the LSC
5 was held on October 11th of this year with OIG staff
6 in attendance and the corporate auditor. And they
7 laid out a timeline for us that is very ambitious,
8 and we believe, with the contractor we have, will be
9 met.

10 CHAIRMAN MADDOX: Outstanding. Is that
11 your report?

12 MR. SCHANZ: Yes, sir.

13 CHAIRMAN MADDOX: Thank you, Mr. Schanz.

14 Can you open back up the public line? I'm
15 going to move to item No. 7, which is public
16 comment. Is there any public comment?

17 (No response.)

18 CHAIRMAN MADDOX: Hearing none, I'm going
19 to move to item No. 8, consider and act on other
20 business. Is there any other business before the
21 committee?

22 (No response.)

1 CHAIRMAN MADDOX: Seeing none, I'm going to
2 ask for item No. 9, a motion for adjournment. Is
3 there a motion?

4 M O T I O N

5 PROFESSOR VALENCIA-WEBER: I'll move.

6 MR. KORRELL: Second.

7 CHAIRMAN MADDOX: All in favor?

8 (A chorus of ayes.)

9 CHAIRMAN MADDOX: The committee stands
10 adjourned.

11 (Whereupon, at 4:42 p.m., the committee was
12 adjourned.)

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