

LEGAL SERVICES CORPORATION
BOARD OF DIRECTORS

AUDIT COMMITTEE
MEETING

Wednesday, July 20, 2011

Davis Wright Tremaine, LLP
1201 Third Avenue, Suite 2200
Seattle, Washington 98101

COMMITTEE MEMBERS PRESENT:

Victor B. Maddox, Chairman
Harry J. F. Korrell, III
Gloria Valencia-Weber

BOARD MEMBERS PRESENT:

Julie Reiskin
Charles Keckler

STAFF AND PUBLIC PRESENT:

Kathleen Connors, Exec Asst to the President
Mattie Cohan, Senior Asst General Counsel
Jeffrey Schanz, Inspector General
Laurie Tarantowicz, Asst IG and Legal Counsel
Ronald "Dutch" Merryman, Asst IG for Audit
Joel Gallay, Special Counsel to the IG
Tom Coogan, Asst IG for Investigations
Alice Dickerson, Director, HR (by telephone)
Lora Rath, Acting Director, OCE
Janet LaBella, Director, OPP

Linda Perle, NLADA

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

2 CHAIRMAN MADDOX: (In progress) plan review
3 and update on the annual audit. Alice Dickerson? Are
4 you on the phone, Alice?

5 MS. DICKERSON: Yes, I am on the line.

6 CHAIRMAN MADDOX: Okay. I didn't see you
7 out there. I will turn --

8 MS. DICKERSON: I'm on the phone.

9 CHAIRMAN MADDOX: Yes, I know you are now.

10 (Laughter.)

11 CHAIRMAN MADDOX: I will turn it over to
12 you.

13 MS. DICKERSON: All right, thank you. The
14 annual plan review, I thought you may be interested in
15 knowing that our annual plan level rate of return as
16 of March was 11.62 percent. Now that has improved,
17 and as of June 30th it is up to 18.83 percent.

18 PARTICIPANT: How do I get into the plan?

19 MS. DICKERSON: Would you like to come to
20 work for LSC?

21 PARTICIPANT: On second thought --

22 (Laughter.)

1 MS. DICKERSON: Total plan assets as of June
2 30th are \$16,126,237. The total contribution for all
3 sources, which would be the employer and employee for
4 this period of time, would be \$2,020,163. The
5 employees and the roll-overs have contributed over \$1
6 million of that. And LSC's contributions during that
7 period are \$972,956.

8 LSC's participation rate in the 403(b) is 88
9 percent of our employees. And the industry average is
10 76 percent. So you can see we are well ahead of the
11 industry average. LSC's active participant's average
12 account balance is \$111,675, whereas the industry
13 average account balance is \$65,450.

14 We have 123 participants in the plan. And
15 there are 26 investment options that are offered.
16 Based on our latest reports, all of the 26 funds that
17 are in the plan are being rated in very good
18 categories by Morningstar. And this is based on our
19 latest report from (inaudible), who shares a fiduciary
20 responsibility with us.

21 I have included in your board books a copy
22 of the peer review analysis for 3/31, because I don't

1 yet have the one for 6/30. And by that you also see
2 that the funds are well-rated.

3 Let's see. Our annual audit. We are
4 currently in the process of the audit. It is
5 progressing well. We hope that it's going to be
6 completed in the next two weeks. However, (inaudible)
7 has requested an extension for (inaudible) of the Form
8 5500 for all of their accounts. But we hope that ours
9 will be completed, and that we can submit the Form
10 5500 by August 1.

11 Does anyone have any questions?

12 MR. KORRELL: This is Harry. What is the
13 scope of the audit?

14 MS. DICKERSON: The scope of the
15 audit -- it's a limited scope audit. That was what
16 was recommended, beginning with the first year, which
17 was 2010, that we had to have in the audit. And it
18 mainly reviews how the plan administrators,
19 (inaudible) Life, is handling our assets, and that
20 kind of thing. And, of course, assures that we are
21 operating the plan within the plan (inaudible).

22 MR. KORRELL: And so we -- with their

1 request for an extension, we -- when do you think that
2 this committee could get a report from the auditor?

3 MS. DICKERSON: (Inaudible) once the audit
4 is completed, then I would think that we could get
5 the -- we would get a copy of the management letter,
6 and we can certainly provide that to the committee.

7 MR. KORRELL: And then when is that likely
8 to be?

9 PARTICIPANT: Yes.

10 MR. KORRELL: I'm sorry, I didn't mean to
11 cut you off.

12 MS. DICKERSON: If the audit is completed in
13 the next two weeks -- generally, the way this happens
14 is that we will get a draft management letter, we will
15 have an opportunity to comment on that. And it just
16 depends on whether there is -- you know, whether they
17 find any irregularities, or anything that we want to
18 comment on.

19 If there is nothing unusual -- and, so far,
20 we have no reason to think there will be -- then, you
21 know, we should be able to just look at the draft,
22 say, "That's fine," and then we will issue the final.

1 And then we should be able to get it back to you.

2 Now, that is if the audit is completed
3 within the next couple weeks. If not, then we can get
4 it to you (inaudible) thereafter as we do receive it.

5 MR. KORRELL: All right, thank you.

6 PARTICIPANT: And, Alice, will that be an
7 audit for the first six months? Is that it?

8 MS. DICKERSON: Oh, yes, the plan -- based
9 on the plan year.

10 PARTICIPANT: Based on the plan -- okay.

11 MS. DICKERSON: Yeah. It will be based on
12 the 2010 plan year.

13 PARTICIPANT: Okay.

14 CHAIRMAN MADDOX: Does that complete your
15 report, Alice?

16 MS. DICKERSON: Yes, it does.

17 CHAIRMAN MADDOX: If there are no other
18 questions, I thank you for the report. And --

19 MS. DICKERSON: You are very welcome.

20 CHAIRMAN MADDOX: And have a great day back
21 in East Coast time.

22 MS. DICKERSON: Very, very hot and muggy

1 here.

2 PARTICIPANT: Yes.

3 PARTICIPANT: It is really hot here, by
4 Seattle standards.

5 (Laughter.)

6 PARTICIPANT: Kind of sweltering. The sun
7 has been out for about 15 minutes, and it's almost 70,
8 I think.

9 MS. DICKERSON: Oh, almost 70? Oh, gee.
10 Well, it is just about 100 here today.

11 CHAIRMAN MADDOX: All right. We will --

12 MS. DICKERSON: (Inaudible) terrible.

13 CHAIRMAN MADDOX: Well, stay cool, and thank
14 you very much.

15 MS. DICKERSON: All right. Thank you.

16 CHAIRMAN MADDOX: Okay. We will move to the
17 next item of business, which is to consider and act on
18 revised audit committee charter, or at least to
19 consider acting on the revised audit committee
20 charter. Mattie Cohan, from the office of legal
21 affairs, and Dutch Merryman, from the office of
22 inspector general, and an appearance by the inspector

1 general, himself, Jeff Schanz.

2 So, we have your report -- I guess
3 Mattie -- and I will (inaudible) you first, I guess.

4 MS. COHAN: Yes, and I don't really have
5 much else to say beyond what was in the written
6 background paper. This is really kind of an opening
7 for a discussion amongst yourselves.

8 CHAIRMAN MADDOX: Yeah.

9 MS. COHAN: If you have -- I mean if you
10 want me to go over the --

11 CHAIRMAN MADDOX: No, I --

12 MS. COHAN: Or if you have any questions?

13 CHAIRMAN MADDOX: I think we are --

14 MS. COHAN: I am taking direction.

15 CHAIRMAN MADDOX: We are having this
16 discussion because, I think, of some current concerns
17 that each of us have on the committee about the scope
18 and range of the duties identified in the 16 items for
19 committee action, many of which use the word "shall,"
20 et cetera.

21 And I know at one point, Harry, you
22 identified some specific concerns.

1 PARTICIPANT: Yes.

2 CHAIRMAN MADDOX: And, Gloria, you have, as
3 well, and I have.

4 I had a discussion with Dutch
5 Merryman -- and I don't think anybody else was on the
6 call, other than Vic Fortuno -- about sort of some
7 general issues. And I know that we have explored, in
8 general, sort of the background concerns. And my
9 concern is that we have got a variety of duties in the
10 charter that, A, we haven't done in the, I guess, year
11 or so that we've been together as a committee -- when
12 did you all come in, was it October of last year?

13 PARTICIPANT: October.

14 PARTICIPANT: October.

15 CHAIRMAN MADDOX: Okay, and then I came in
16 in April of last year. And I mean, for instance, you
17 know, we -- item number seven, "Shall, in conjunction
18 with the finance committee, review, monitor, and
19 evaluate the effectiveness and execution of policies
20 and procedures with respect to identifying and
21 managing financial and other risk exposures." We
22 haven't done that, so far as I know. And I am not

1 sure that we plan to do it this year.

2 Now, maybe the finance committee has got
3 something in store for us. You know, another one that
4 I am concerned about, in particular, is 13.

5 PARTICIPANT: Yes.

6 CHAIRMAN MADDOX: "Review all regulatory and
7 internal control matters that may have a material fact
8 on the corporation's financial statements." I think
9 we talked about this in our phone conference a little
10 bit. I mean I could not begin, as chairman of the
11 audit committee -- and I doubt if any of the three of
12 us together could -- identify all the regulatory and
13 control matters that may have a material affect on the
14 financial statements, much less review them in any
15 substantive way.

16 So, you know, I suppose, from my
17 perspective, because I don't want us to have a charter
18 that we honor in the breach, so to speak, I would like
19 for us to either identify a process and a mechanism
20 whereby, either with OIG's assistance, OLA's
21 assistance, or a combination thereof, you know, on
22 some probably annual basis we get some sort of review

1 and, you know, report on the extent, if any, to which
2 there have been changes, either in the financial, you
3 know, statements, or the regulatory framework in which
4 those statements are created, so that we could at
5 least make an effort to do that -- now -- and if we
6 can't do that, then, you know, it may be that, unless
7 this is one of the items that GAO somehow insists be
8 in the charter, that we ought to modify so it isn't
9 there at all.

10 PARTICIPANT: Okay.

11 CHAIRMAN MADDOX: And so that is kind of my
12 concern. I don't know, Dutch, do you have any
13 thoughts on that?

14 MR. MERRYMAN: I do. Having reviewed it in
15 great detail since it's been implemented -- it's been
16 three years since I've reviewed it in great
17 detail -- and listening to the concerns expressed, and
18 looking at some of the concerns that we had expressed
19 before about process and procedure, it sounds real
20 good to get down to the process and procedure and how
21 you're going to do it.

22 (Inaudible) talk about something else that

1 you brought up specifically, that, you know, really,
2 if you -- as I take a look at this and re-evaluate
3 what's in here, there are several categories of items.

4 Some things probably clearly doesn't need to be in
5 there because there is an IG function doing them,
6 really.

7 Some of them can be modified to some degree,
8 because there is requirements and professional
9 auditing standards have changed that require
10 communication with those who govern. And the entrance
11 conferences could satisfy some of those communications
12 plus the auditors should communicate with you during
13 the course of the audit about various control issues
14 or financial reporting issues.

15 Some of the items have broken out, but they
16 are really related. And if you put them back
17 together, it makes it a little bit easier to
18 comprehend. And then there are some things
19 that -- like the word "shall," and those types of
20 things, that need to be modified.

21 PARTICIPANT: Yes.

22 MR. MERRYMAN: And we have one that has

1 probably three or four verbs that you're supposed to
2 be doing --

3 PARTICIPANT: Yes.

4 MR. MERRYMAN: -- with it, and by the time
5 you get done with it no one else has to look at it
6 ever again type of thing, which is not going to
7 happen.

8 But there are established items out there,
9 too, that could be drawn upon, or at least looked to
10 for guidance and process or procedure. A123
11 (phonetic), which is OMB circular A123, "Management
12 Controls," requires management to put together a
13 report on internal controls, basically, and to
14 evaluate them and report them out. We can use that as
15 a basis for looking at things, if that were a
16 requirement. It's not a requirement. There might be
17 some modified requirement of that that can be used.

18 The enterprise risk management system should
19 incorporate these things that deal with internal
20 control changes, or changes in regulations, so that
21 you get briefed on this as the risks change. Because
22 part of internal control is risk assessment, and you

1 need that -- it has to be a continuous process, not
2 just a one-time process. And the thing I think about
3 is, like, with the union in place, I don't know if our
4 current one -- enterprise risk management process has
5 picked up the union as a risk, not because we have
6 one, but because there is a risk of us not following
7 the union contracts, and what risk is there to us and
8 our financial well-being and all those types of
9 things.

10 So, you could use the enterprise risk
11 management system as a way of informing this committee
12 of changes and things that have been modified over
13 time, the risks have changed, some risks have become
14 higher than they were before, what's been done to
15 mitigate those risks, new risks that have come about,
16 a new risk has come about because of regulation or
17 because of laws being passed sometimes and things --

18 PARTICIPANT: Right.

19 MR. MERRYMAN: -- where that could be part
20 of a process that really gets you informed to the
21 things that you need to be looking at.

22 So I think, you know, briefings from

1 management is very good. But in order for those to be
2 effective for the committee, you have to have a
3 universe. How do you know what should be briefed?
4 Because that would be what your oversight would be.
5 "I want to be briefed on these things, and make sure I
6 get briefed on all of them that need to be briefed."

7 So, there are some things that can be done.

8 You can talk to the corporate auditor if there is
9 certain concerns that you have about a particular area
10 to ask for some emphasis at the time of the entrance
11 conference. You can ask the OIG to do certain
12 reviews, request some reviews.

13 So, I think if we sit down and really try to
14 put this back together a little bit more, a little bit
15 of education on what those things mean, a little bit
16 about what are the things that are available to come
17 into focus for you to operate, as a committee, get it
18 down to a workable, meaningful document that the
19 committee can really execute.

20 PARTICIPANT: Mr. Chairman, I --

21 CHAIRMAN MADDOX: Yes, sure.

22 PARTICIPANT: As Dutch is talking, it

1 strikes me that maybe, as much as a refined version of
2 the charter, maybe what we need is something like an
3 annotated version --

4 PARTICIPANT: Yes.

5 PARTICIPANT: -- of the charter that
6 provides some of the examples that Dutch has just
7 provided us. I mean so when it says, "Review this or
8 that," whether it is part of the charter or it is just
9 a working document for us, it says, you know,
10 "Generally, this is going to consist in reviewing the
11 annual this, the quarterly that," so that those of us
12 on the committee and those who replace us on the
13 committee down the road --

14 PARTICIPANT: Right.

15 PARTICIPANT: -- don't come in cold, and
16 have no -- when you see one of these things, it says
17 you're going to review all this stuff and you're going
18 to ensure all these things and you're going to consult
19 about all these things.

20 PARTICIPANT: Right.

21 PARTICIPANT: Have we done it? I mean maybe
22 we have. Maybe, with all the reports -- we get these

1 reports, we send -- maybe we have accomplished a lot
2 of these things, and our anxiety about whether we are
3 doing it right is that we just don't know.

4 CHAIRMAN MADDOX: Well, I mean, some of it
5 we have done, although some has not been done in any
6 sort of highly formal way, I think. But much of it we
7 haven't done, either.

8 And I agree. You know, I mean I came along
9 a little bit before you guys did, and there were
10 actually two existing members on the committee. But
11 they turned the chairmanship over to me.

12 (Laughter.)

13 CHAIRMAN MADDOX: I thought, "Well, this
14 makes a lot of sense." But I digress.

15 But the annotated version, you know, or some
16 sort of, you know, audit committee manual that says
17 sort of, "Here is the schedule of the way things
18 happen" -- I mean I know one thing that we did early
19 on -- I think in my first meeting -- was the
20 management recommended that we have a sort of a review
21 of substantive functions of various different areas.
22 Like today we are having, I think, what, grants

1 oversight? And that came about because, up until
2 April of last year, that didn't happen.

3 So, I would like to see us -- and maybe -- I
4 don't know how we actually get to this -- but maybe in
5 our next meeting somehow we --

6 PARTICIPANT: Sure.

7 CHAIRMAN MADDOX: -- we could have some sort
8 of operating manual, if you will.

9 PARTICIPANT: Sure.

10 CHAIRMAN MADDOX: The annotated version of
11 the charter. Because I don't want to find ourselves
12 two or three years down the road, and GAO comes along
13 and says, you know, all these things are being
14 basically ignored.

15 PARTICIPANT: With an annotated version of
16 the charter or an audit committee manual, however you
17 want to call it, that might also help you figure out
18 which duties you want to keep, which duties you don't
19 want to keep, which duties you want to keep, but you
20 want to modify the language that is in the charter.
21 And that might be -- that might help you further do
22 that.

1 We could also provide, I am sure, examples
2 of other committee charters.

3 CHAIRMAN MADDOX: Yes. I mean I think the
4 committee charter -- you mean other LSC committee
5 charters?

6 PARTICIPANT: No, other --

7 CHAIRMAN MADDOX: Right.

8 PARTICIPANT: Other audit committee
9 charters.

10 CHAIRMAN MADDOX: Right.

11 PARTICIPANT: I think when -- I was not
12 involved in the development of the audit committee
13 charter last time, so I am speaking second,
14 third-hand, at best. But I know that the committee at
15 the time, and the committee chairman, looked at a lot
16 of audit committee charters. And I think he looked
17 primarily -- my sense is that they looked primarily at
18 non-profit organization charters, which -- I know we
19 are a non-profit organization.

20 I don't know how many charters they looked
21 at from government corporations that have IGs, for
22 example.

1 PARTICIPANT: Right.

2 PARTICIPANT: Like the Smithsonian, or the
3 FDIC --

4 PARTICIPANT: Right.

5 PARTICIPANT: -- which is an example given
6 in the GAO report itself.

7 MR. SCHANZ: If I can add some clarity to
8 that, the prior chair was Herb Garten from Baltimore,
9 so he was very close and would see fit to drive down
10 and consult with anyone in management or in the IG
11 shop. He relied very heavily on the DOD (phonetic)
12 charter and, in fact, directed his committee members
13 to read that. And it was a kitchen sink approach.
14 That was the term I used the last meeting we had. And
15 it was. It included everything, including the kitchen
16 sink.

17 I think we have an opportunity here to cull
18 that down to a realistic view of Harry's concerns, and
19 what this IG can do with -- working with the audit
20 committee, which I think would make it a little more
21 relevant, and focused on this now. So it's not going
22 to spin out of control. And I think we can make it a

1 palatable product for everybody, going forward. I am
2 not going to be the IG forever, you're not -- well,
3 surprise, surprise -- you're not going to be the audit
4 committee forever. So we do have to have something
5 that, I think, is an outline.

6 And then, as we go along, there is no
7 requirement that is set in stone. We can modify it as
8 we go along. If we see you wanting to get more
9 engaged in the annual audit, then you get more engaged
10 in the annual audit. So --

11 CHAIRMAN MADDOX: I think it would be
12 fantastic, Jeff. Can we kind of look forward to that
13 for our next meeting, some sort of draft that we can
14 look at? Gloria?

15 PROFESSOR VALENCIA-WEBER: Yes. I -- this
16 concern that Harry and -- excuse me -- has touched on,
17 it is -- to me, reading this charter from the
18 beginning, has been overwhelming.

19 For instance, in getting an annotated
20 version here, item number 15, it says, "Shall review
21 any significant deficiencies in internal control over
22 financial reporting identified by management, the IG,

1 or the external auditors," and then, "Ensure that
2 corrective action is taken by management."

3 Well, I would like the annotation, first of
4 all, of what are those reports that we would be
5 expected to look at? We don't even -- I mean I have
6 no idea. I have a feeling that this charter was
7 drafted in some big global aspirational terms. And
8 from who knows how many other charters?

9 But just that one, what are we supposed to
10 look at from those three sources, and what is it that
11 we would then use as the tool to determine
12 deficiencies or no deficiencies?

13 MS. COHAN: Right. I mean I think part of
14 the understanding here is Herb was a CPA. I think he
15 knew exactly what a lot of these terms meant. You
16 know, so I don't -- we have heard in the last session
17 the different people with the different frames of
18 reference. And I think that may have been part of
19 what was going on here.

20 And I think, you know, this particular
21 one -- I don't know that it's intended that the audit
22 committee go find reports and identify them, as

1 opposed to --

2 PARTICIPANT: Right.

3 MS. COHAN: -- you get an audit or an IG
4 report or a GAO report which identifies deficiencies,
5 you are going to know when they have been identified
6 to you.

7 PROFESSOR VALENCIA-WEBER: Well, see, even
8 that explanation, Mattie, moves some degree of
9 comprehension of --

10 MS. COHAN: Sure.

11 PROFESSOR VALENCIA-WEBER: -- what might
12 have been the underlying motive --

13 MS. COHAN: Yeah.

14 PROFESSOR VALENCIA-WEBER: -- of that
15 particular item number, 15, which -- it begins to make
16 more sense. But this global language is much too
17 over-reaching.

18 PARTICIPANT: Well, we have actually been
19 having some discussion about some of this in our
20 physical oversight task force. I mean the -- I think
21 it is fair to say that the OIG has oversight over the
22 whole financial audit process for all the grantees.

1 And that is pretty clear, and that -- and while those
2 audits are not themselves internal control items, they
3 attempt to identify significant --

4 PROFESSOR VALENCIA-WEBER: Yes.

5 PARTICIPANT: -- problems. And I think, in
6 reviewing those audits -- correct me if I'm
7 wrong -- OIG would bring to our attention, or to the
8 attention of management, or both, any significant
9 deficiencies in internal control. And it is at that
10 point that management might then issue its own
11 reports, or have other --

12 MS. COHAN: This provision gets to the
13 corporation --

14 PARTICIPANT: Corporation, more than --

15 MS. COHAN: It -- deficiencies of the
16 corporation, not --

17 PARTICIPANT: Corporation, that's right.

18 MS. COHAN: -- grantees.

19 PARTICIPANT: That's right.

20 PARTICIPANT: Well, let me ask you in that
21 sense. Has there ever been any material or
22 significant deficiency in internal controls identified

1 for the corporation?

2 PARTICIPANT: Yes.

3 PARTICIPANT: There has been? Can you --

4 PARTICIPANT: Well, one -- it was just about
5 three years ago, it dealt with a \$400,000 refund or
6 returned payment. It wasn't a system to get
7 information from -- I believe it was OLA -- to
8 finance.

9 PARTICIPANT: Right.

10 PARTICIPANT: And what happened was, since
11 \$60,000 was considered material, we were at the
12 outbrief, first time we'd heard about it, first time
13 the auditors -- "Oh, by the way, we got that \$400,000
14 payment, and it should have been recorded in last
15 year." So there was a material weakness. I'm sorry,
16 I can't remember if it was called significant
17 deficiency or material weakness --

18 PARTICIPANT: I don't remember the phrase.

19 PARTICIPANT: -- because there wasn't a
20 communication so that it could be recorded in the
21 proper accounting period.

22 Other than that, there has not been. There

1 has been a number of findings and -- since I have been
2 here, since 2005, there has been some -- does anybody
3 know of any other ones?

4 PARTICIPANT: Tax treatment of --

5 PARTICIPANT: That was not --

6 PARTICIPANT: (Inaudible.)

7 PARTICIPANT: That was finding, but not a
8 material --

9 PARTICIPANT: Okay.

10 PARTICIPANT: It wasn't a material weakness
11 in internal controls. It was a finding we had whether
12 or not consultants were properly classified as
13 consultants or temporary employees --

14 PARTICIPANT: (Inaudible.)

15 PARTICIPANT: -- (inaudible), because there
16 has been findings. But as far as an
17 internal -- material internal control weakness, or
18 significant -- I think that was the only one that I
19 remember.

20 Now, there is -- in the management letter
21 there is other items that the (inaudible) bring up
22 from time to time: inventory, closing on TIG

1 (phonetic) grants, stuff like that. But it didn't
2 rise to the level of significant deficiency in control
3 or material weakness, that I recall. That one did not
4 (inaudible) from the IPA (phonetic) standpoint.

5 Now, we did issue a report on TIG that we
6 thought there was a material weakness --

7 PARTICIPANT: Right.

8 PARTICIPANT: -- in that program.

9 PARTICIPANT: And I think we are familiar
10 with that.

11 PARTICIPANT: Right. And that was -- but
12 that wasn't from the IPA, that was from us.

13 PARTICIPANT: Right.

14 PARTICIPANT: I think that needs to be
15 addressed in that program. But it is not a very
16 frequent occasion, or occurrence, that that happens.
17 And the -- I don't think (inaudible) exception, except
18 for that one time that there was that communication
19 from the IPA.

20 MS. COHAN: And after that --

21 PARTICIPANT: Go ahead.

22 MS. COHAN: -- that problem was rectified

1 within management, and a system was set up to make
2 sure that the offices were properly talking to one
3 another about when OLA was anticipating getting -- it
4 was from a litigation settlement -- going to get the
5 money, and then it was coming in, and that the finance
6 people knew that, actually --

7 PARTICIPANT: Accounting standards require
8 it to be --

9 MS. COHAN: Yes.

10 PARTICIPANT: -- booked when it's reasonable
11 that you can receive --

12 PARTICIPANT: Right.

13 PARTICIPANT: -- whether or not you receive
14 it. So --

15 CHAIRMAN MADDOX: Right.

16 PARTICIPANT: It was just out of period.

17 CHAIRMAN MADDOX: Okay. Harry?

18 MR. KORRELL: Mattie mentioned that
19 the -- for frame of reference comment from earlier
20 meetings. And I don't know if this helps in the work
21 that I think you guys are now going to do to pull
22 together an annotated version, but my frame of

1 reference is depositions, you know?

2 And so you get this document with the
3 "shall, shall, shall, shall," and I think it would
4 give us all some comfort if we had a consensus about
5 what really satisfies the "shall," you know?

6 PARTICIPANT: Well, I will tell you that I
7 think what we'll end up doing is committing -- kind of
8 committing to paper a meeting (inaudible) I had where
9 I said, "What does any of this mean? I don't know.
10 And you explain the charter to me, to the extent you
11 can." And it was really helpful. Because, to the
12 extent that I explained what I thought 15 might mean,
13 that was because Dutch was kind enough to walk me
14 through it. So --

15 PROFESSOR VALENCIA-WEBER: Well, I think
16 that is what I would like from the annotation.

17 PARTICIPANT: Yes, yes, it's not a question
18 of unwillingness to do it, I think. Because we want
19 to make sure that anybody else -- we don't want to
20 come in here and have them come in and read one of
21 these and say, "You know, I'm not sure I've done this.
22 Why don't you go and do this stuff" --

1 PARTICIPANT: Right.

2 PARTICIPANT: Yes.

3 PARTICIPANT: -- and the response is, "Well,
4 we just did this a month ago, and this other thing --

5 PARTICIPANT: Right.

6 PARTICIPANT: And I just think it would make
7 life easier for everybody and we would all have some
8 more comfort. So --

9 CHAIRMAN MADDOX: And ultimately, I mean,
10 one of the things we, as a committee, need to do is
11 assess the quality of the committee's activities.
12 That is one of the items.

13 PARTICIPANT: Yes.

14 CHAIRMAN MADDOX: We have to assess
15 ourselves each year, and we have to report to the
16 board. I would like to be able to say at the end of
17 the fiscal year -- which, I guess, is -- this is our
18 last meeting of the fiscal year, right?

19 PARTICIPANT: Yes, end of September.

20 CHAIRMAN MADDOX: Well then, at the end of
21 the calendar year --

22 (Laughter.)

1 CHAIRMAN MADDOX: -- I would like to be able
2 to say, you know, "Here is what we have done, and here
3 is how we have accomplished our committee's mission,
4 under the charter."

5 And if we identify things that we haven't
6 done because, you know, they are just -- they haven't
7 been something we have done regularly, but we are
8 going to do them in the future, we will know that. We
9 will note it.

10 Or, if we are not going to do those because
11 they seem inappropriate, then we can say, "We are
12 going to amend our charter, and we're not going to do
13 these things in the future."

14 PARTICIPANT: Right, yes. If we could have
15 identifiable actions to undertake, identifiable tasks,
16 then we have a handle on how to assess our
17 performance, as a committee.

18 CHAIRMAN MADDOX: So, we will look forward
19 to that, I guess, at our next meeting, Mattie?

20 MS. COHAN: Yes

21 PARTICIPANT: That would be helpful, thank
22 you.

1 CHAIRMAN MADDOX: And we will have you on
2 the agenda again.

3 PARTICIPANT: Yes.

4 CHAIRMAN MADDOX: And Jeff and your shop, if
5 that is --

6 PARTICIPANT: I will try to bring my --

7 CHAIRMAN MADDOX: -- (inaudible), which I
8 suspect it will be.

9 MR. SCHANZ: Well, Dutch is my subject
10 matter expert, so I just yield my (inaudible).

11 PARTICIPANT: So noted.

12 MR. SCHANZ: Which will be on the next
13 (inaudible).

14 CHAIRMAN MADDOX: Is that -- is there
15 anything else on this topic? If not, I want to thank
16 you all --

17 PARTICIPANT: Thank you.

18 CHAIRMAN MADDOX: -- for your good work and
19 your presentations. And we will move on to our next
20 item agenda -- agenda item, which is number five, and
21 that is the briefing by the office of inspector
22 general. And I turn it over to you, Mr. Inspector

1 General.

2 MR. SCHANZ: Thank you. We do want to keep
3 the lines of communication open, particularly as we
4 move forward on the charter. So I will reserve this
5 time, whether I have a lot to say or not, as we go
6 forward in our board meetings.

7 In this case, we do have some things to tell
8 you, and I would like Dutch to keep the committee very
9 much abreast of what we are doing, as far as the
10 annual charter, and some of the products that we have
11 in the pipeline.

12 MR. MERRYMAN: First thing I want to inform
13 the committee of is, as I mentioned last time, that we
14 were going to open up the bidding for the corporate
15 audits, and we did. And we issued a request for
16 proposals. We got seven responses, ultimately.

17 We evaluated them, and we are negotiating
18 now with the firm that we thought was the -- provided
19 the best value. And it is a firm that had done the
20 corporate audit for us before. It is Wortham, Smith
21 and Brown (phonetic). Used to be Oppenheim
22 (phonetic). And we are in negotiations with them. We

1 have notified the other applicants that they would
2 not -- that we have entered negotiations with another
3 firm. And so we will keep you posted on that.

4 One of the things in the charter was to
5 confirm the independence of the independent auditor.
6 We actually do that. We do that through our process
7 system, and we make sure that there is no conflicts.
8 We -- then they also have a process internally to make
9 sure there is no conflicts, so that they are an
10 independent firm.

11 MR. SCHANZ: We do take a look at
12 (inaudible) peer review, also. CPA firms, much like
13 OIG audit shops, are peer reviewed. We are undergoing
14 one of those, currently.

15 PARTICIPANT: Right.

16 MR. SCHANZ: Yes.

17 PARTICIPANT: How long ago was it that
18 Wortham, Smith and Brown --

19 MR. MERRYMAN: Two years.

20 PARTICIPANT: Two years?

21 MR. MERRYMAN: Last two audits were done by
22 Thompson Cobb (phonetic), and before that it was the

1 Oppenheim Group.

2 PARTICIPANT: Right.

3 MR. MERRYMAN: Changed names, changed
4 affiliations. And really didn't have any significant
5 issues with their product. I do remember last time we
6 went through the bidding process, that both the two
7 finals were very, very close. But we did go with
8 Thompson Cobb.

9 And this time we did ultimately have seven
10 competitors, three very highly ranked, and it took a
11 little while to work through all that, but --

12 PARTICIPANT: Okay.

13 MR. MERRYMAN: -- we had a three-person
14 panel that rated them on technical ability and price,
15 and then that information was provided to me to
16 ultimately make the decision on who I would recommend
17 for (inaudible) based on best value. So, we should
18 start seeing them come around the building after we
19 get through with the contract negotiations.

20 We also have started the QCR (phonetic)
21 process. We enter into a contract with McBride
22 (phonetic) Associates to (inaudible) plan to look at

1 all the IPA's both financial and compliance work
2 papers. And they have started their reviews.

3 We have divided them into 35 a year,
4 basically, because there will be some new IPAs that
5 come on board during that time. So we do have one
6 year plus three option years. Each year we will
7 assess the results of that, determine what we are
8 getting, and look for -- one of the things that is
9 required of the contract is to provide a report on any
10 trends that they see in their work, looking at the
11 IPAs. So we are taking a closer look at the IPAs.

12 Also, we have completed our targeted reviews
13 of two IPA firms, looking at four years for each of
14 them. For the most part, there was no significant
15 deficiencies in the work that was documented. We do
16 have one issue that we are working, but we will be
17 getting (inaudible) letters on those reports out very
18 shortly.

19 During the period we issued four draft
20 reports. We have received comments back on three.
21 Those will be going final -- two of them will be
22 definitely going final next week, and one probably the

1 following week. It's a fairly lengthy report. We
2 have some analysis to do of the response.

3 We have one other draft out, waiting for
4 comment. We have one draft that will be published in
5 the next week or two. And then two more in the month
6 of August will come out.

7 We have also -- I've got one
8 grantee -- auditing the progress, and we are doing
9 research work on two others.

10 The other thing that we started during this
11 period was TIG grant review at the grantee level. And
12 we requested information from grantees so that we can
13 make a selection. And then we will visit grantees and
14 be very targeted on the TIG grant, just to make sure
15 we understand what is actually happening out in the
16 field on TIG grants. It is really the extension of
17 the TIG grant audits, the next step. We tried to
18 focus on the headquarters at first, and now we are
19 going to go out to the field and see what is
20 happening.

21 As far as the IPA reports that are required
22 of each grantee annually, 113 have been received.

1 There are -- most of them came in on time. There are
2 a few we granted extensions for, for various reasons.

3 As of Monday, we made four of those reviews. Seven
4 are under review. We've got 22 waiting assignment.

5 But we do a triage on these reports when
6 they come in, to make sure that we have any
7 significant findings that we put at the top of the
8 list. We also had to adjust our selection process,
9 because we needed to get them done for the QCR
10 contract, the -- 35 of the contractors are going to be
11 working on it, we wanted to make sure we had current
12 information, so we moved those to the top of the list.

13 And with all of the other activity of the
14 teams we have contract evaluation, those types of
15 things, we are a little behind where I want to be on
16 that. But we should have the rest of them fixed
17 within a couple of weeks for the 113 that came in, as
18 of (inaudible).

19 That is it, in a nutshell. We have been
20 working, and we will be briefing the board on this,
21 maybe a little more information in closed session on
22 some of these. (Inaudible.)

1 MR. SCHANZ: And to presage a question,
2 after the OIG review, those IPA reports that come in
3 with concerns, issues, findings, red flags, we do
4 refer to the office of compliance and enforcement,
5 because it is a management responsibility to follow up
6 on those. So there is no break in transition of
7 sending those over.

8 PARTICIPANT: On an unrelated note, is there
9 anything that you could say publicly about what is
10 happening with your investigation in Kentucky, or is
11 that something that --

12 MR. SCHANZ: That will be a closed session
13 briefing for the board.

14 PARTICIPANT: I can't -- I am doing the
15 audit side of that. And we do have management
16 comments back that we are evaluating. That is one of
17 the three (inaudible) take a little bit longer to get
18 through the comments that we get back on that.

19 PARTICIPANT: Okay.

20 PARTICIPANT: We're very close. Hopefully
21 we will be done with the evaluation of those comments
22 next week, (inaudible).

1 CHAIRMAN MADDOX: Thank you very much. I
2 think that takes us to the next item on our agenda,
3 which -- if I can find the agenda -- number six is the
4 briefing by the OCE on the oversight of grantee
5 compliance, Lora Rath.

6 I am using the chairman's rule of four
7 minutes.

8 (Laughter.)

9 CHAIRMAN MADDOX: We have a 3:30 deadline.
10 No, seriously. You're not limited to four minutes.

11 MS. RATH: Okay. I'm from New York; I talk
12 fast, but not that fast.

13 All right, good afternoon. I'm Lora Rath, I
14 am the acting director of the office of compliance and
15 enforcement, filling in since Danilo's retirement on
16 June 1st. Today I'm just going to give you a brief
17 overview about OCE, and what we do, and how we do it.

18 OCE's mission is twofold: first, to review
19 our recipients' compliance with the LSC Act
20 regulations and all the things that go along with
21 taking LSC money; and second, to respond promptly and
22 effectively to complaints and inquiries about our

1 recipients.

2 In order to successfully complete our
3 mission, OCE has numerous oversight responsibilities.

4 And many of these functions are investigatory and
5 reactive in nature. For example, we investigate
6 complaints about recipients that are received by
7 applicants who were denied services, clients who were
8 unhappy with services, opposing parties, or other
9 interested parties. We initiate question cost
10 proceedings when it appears that LSC funds have been
11 used inappropriately. And we follow up on any variety
12 of fiscal or SCR (phonetic) compliance-related issues
13 referred to us by the Office of Inspector General.

14 Some of OCE's other oversight
15 responsibilities involve evaluating data which is
16 submitted by the recipient to LSC. For example,
17 receive and make decisions regarding recipient
18 requests for waivers related to their PAI (phonetic)
19 expenditures and fund balances. That's if they can't,
20 you know, complete their 12.5 percent in a year. They
21 can ask us for a waiver and, you know, we get that
22 request.

1 We also make decisions regarding sub-grant
2 approval. If you want to use LSC funds to enter into
3 a sub-grant, it (inaudible) ask for approval on an
4 annual basis. OCE does that.

5 We also receive and we do all the requests
6 to use LSC funds for buying real estate, personal
7 property over \$10,000, and for making capital
8 improvements. And then each of those instances OCE is
9 receiving information and reviewing it, and then
10 contacting the recipient, as necessary, to make sure
11 that they are complying with the specific regulation
12 involved.

13 PARTICIPANT: Can I stop you there?

14 MS. RATH: Mm-hmm.

15 PARTICIPANT: What -- the waiver related to
16 PI (phonetic) expenditure requirements and fund
17 balances, there was some discussion by Mr. Torres
18 today about that, which seemed to be a sore spot. And
19 I don't know if maybe you -- but I didn't understand
20 what his point was, or what the bone of contention
21 was.

22 MS. RATH: His --

1 PARTICIPANT: Are you familiar with that?

2 MS. RATH: His point was when OCE went to
3 NJP (phonetic) back in 2007 or 2008, the team felt
4 that some of the PI expenditures were not accurately
5 allocated to PAI. It was, I believe -- and you can
6 help me -- it was expenditures that were for PAI
7 things that were not being overseen. They would make
8 a referral and then never get any information back.
9 So there wasn't any oversight, there wasn't a case, we
10 didn't know what happened to it. So we said that
11 those funds were not properly allocated.

12 The team brought it back. We asked for an
13 OLA opinion. And in the meantime, we have granted a
14 waiver for the last four years, saying that, okay, in
15 case it is decided that these are not proper
16 allocations, we are going to waive these. And so
17 that's what we have done every year. Now the OLA
18 opinion has come out, and he's not happy with it.

19 PARTICIPANT: Right. And this is actually
20 fairly technical, and I don't want to take up the
21 committee's time -- although I am more than happy to
22 do the long, technical legal explanation -- but

1 he -- they ended up asking a question that turned
2 out -- so you can do -- there are direct delivery
3 activities that have to have certain accouterments.
4 They have to be -- do some oversight, they have to be
5 clients of the grantees. And those things can be
6 allocated to PAI.

7 And then, there is another type of thing
8 that can be allocated to PAI, which are considered
9 support activities. And the question it came down to
10 was whether a direct delivery model that did not have
11 all of the elements of the oversight from the first
12 section can be considered among the support
13 activities. So that was the (inaudible) of the legal
14 question, without getting into the exact regulatory
15 words.

16 The legal opinion noted that the regulation
17 does not answer that question. It was technical
18 written support in the wording of the regulation to
19 say yes, to say no. So the office of legal affairs
20 came to a point where we said, "This has to be a
21 policy question. There is not a legal interpretive
22 answer that is dictated by the regulation." Jim made

1 a policy call not to permit those things to be
2 counted.

3 Typically, what would happen is that there
4 would be a policy pronouncement through something like
5 a program letter, and then the OLA opinion would have
6 referred to the program letter as, like, the
7 controlling piece of authority. For a variety of
8 reasons that didn't happen.

9 And -- but in the absence of a program
10 letter to refer to, the only thing that OLA could do
11 at that point was explain in the opinion that a policy
12 decision had been made, and that the legal opinion
13 rested on the policy decision. And it was
14 not -- doing it that way was not a particularly clean
15 way of doing it, but that's what happened.

16 And so, I think Cesar is mostly unhappy with
17 the policy decision. So --

18 PARTICIPANT: That's helpful.

19 PARTICIPANT: Do the grantees -- sounds like
20 this is an issue that comes up a bit. Is that a
21 difficult thing, for the grantees to spend their PAI?

22 MS. RATH: There are a significant number of

1 requests every year. I could get you the exact
2 numbers, but I would probably say at least 25 percent
3 or more requests, some portion, some -- there are some
4 programs that get a full waiver, programs like Guam
5 (inaudible), because there are just literally no
6 private attorneys to expend the money on.

7 And then there are partial. You know,
8 somebody might not be able to spend, you know, a
9 certain percentage, and then that gets, unfortunately,
10 usually added on to the next year's.

11 PARTICIPANT: I mean because it seems, from
12 our perspective on this side of the table, hearing
13 about "We need more money, more money, more money,"
14 and then there is -- and we are trying to encourage
15 more private attorney involvement, and it just seems
16 odd that there is money that is not getting spent on
17 something that everyone seems to think we ought to
18 do --

19 MS. RATH: I think it's in the programs that
20 don't have that many private attorneys to spend the
21 money on. I mean I could gather the data for you,
22 because I think we have it, but --

1 PARTICIPANT: I was curious what your
2 impression is --

3 MS. RATH: -- if you're interested.

4 PARTICIPANT: Thank you.

5 PARTICIPANT: Thank you.

6 PARTICIPANT: Thank you, Mattie (phonetic).

7 PARTICIPANT: Okay.

8 MS. RATH: One of the most important things
9 that OCE does -- and you're not going to get to see
10 it --

11 (Laughter.)

12 MS. RATH: -- is investigate the recipient's
13 compliance with the regulations and guidelines, as I
14 said before. But the -- and what I am talking about
15 here is the ones that -- where they're not submitting
16 something to us, and something that isn't being
17 complained about.

18 I am talking about the whole gamut of rules
19 and regulations the program has to abide by day by
20 day, when they are doing their everyday work. And the
21 best way that we can do that is to go on site, and
22 that is what I am going to mostly discuss today, is

1 our on-site visits.

2 These are just examples of the types of
3 visits that we do. They range in spectrum from the
4 full gamut of regulations, which is the CSR/CMS
5 (phonetic) review at the top, to a follow-up review,
6 which is where we're going back to a program that we
7 have already been at, that we know they have problems
8 with certain issues, and we're just going back to see
9 whether they did the required corrective actions that
10 came out of the first visit.

11 We can also do targeted reviews, where we're
12 just looking at a certain related set of rules and
13 regulations, such as PAI assessment, intake
14 assessment, starting to do more specific fiscal
15 assessments. We can get really, really specific, down
16 to just looking at one regulation, and that's a
17 program integrity review. We're just looking at
18 compliance with one specific regulation.

19 Now, the CSR/CMS review is the one that we
20 do the most often, and you can see that in the chart.

21 That's the red ones. And the CSR/CMS review is
22 typically done if OCE has not been to a program in

1 five or more years -- that's a big indicator -- or if
2 there is any other significant factors that come to
3 our attention during our annual risk assessment.
4 Every year we go through a set of factors for each of
5 the 136 programs, and try and figure out which
6 programs we should go to in the next year.

7 Follow-up reviews, which are the blue, are
8 the ones that we do next most frequently. And, as I
9 said, those are where we're going back to some place
10 where we've been before. And the way we decide
11 whether to do a follow-up review is it depends on the
12 significance of the corrective actions that were
13 required. And by that I mean both the number and the
14 substance, and then also how much faith we have in the
15 program to be able to fix it. So we will try and go
16 back within a year to three years of the CSR visit,
17 just to make sure that the corrective actions have
18 actually taken place.

19 You can see that in 2008 and 2009, the
20 number of CSR/CMS reviews kind of went down fairly
21 significantly. In 2008, after the GAO report was
22 issued, OCE stopped making on-site visits for

1 approximately 2 to 3 months, so that we could catch up
2 on our report-writing. So that brought down our
3 numbers in 2008. And then in 2009 the numbers went
4 down, primarily because in our OCE manual we
5 implemented a time restriction as to how often our
6 staff could go out. So it took us a little while to
7 figure out the timing of visits to get the numbers
8 back up.

9 But in 2010 and 2011, we are managing to do
10 a significant number of both CSR reports and CSR
11 visits and follow-up reviews. In 2010 we did 27 total
12 oversight reviews, 15 full visits, 7 follow-ups, 4
13 targets, and 1 follow-up on an audit report that was
14 referred to us by the Office of Inspector General.
15 And included in that were a three-week visit to Legal
16 Services of New York, and a two-week visit to Puerto
17 Rico Legal Services and community law offices.

18 And the significance of those two visits
19 were that both of those programs have over 300
20 employees. So it was really a significant amount of
21 work, both for our staff, in advance of the visit,
22 doing the prep work, and then the time it took. We

1 pretty much emptied out the office for both of those
2 visits, to have them take place. But neither one of
3 those programs had been visited in the last 10 years,
4 so it was important that we go there and look at them,
5 and see what they were doing.

6 PARTICIPANT: Just a question. After a
7 10-year absence in a big program like that, how many
8 problems and issues did you find that, you know, were
9 noteworthy?

10 MS. RATH: Well, we are going back to New
11 York. There were noteworthy problems there. And with
12 them, a lot of it had to do with some fiscal issues.
13 Almost every program that we go to, unless it is a
14 perfect program, they all are basically going to have
15 the same sorts of issues. And it is usually something
16 as simple as the program just doesn't understand the
17 regulation. They haven't updated their policies since
18 the 2005 changes to 1611 (phonetic). It is usually
19 things like that.

20 So, New York and Puerto Rico weren't
21 disaster areas. They were both good programs. But
22 there were problems that do need to be fixed.

1 For 2011, this is our target for 2011. We are
2 hoping to do 27 reviews, 18 CSRs, 7 follow-ups, and 2
3 targeted reviews. And both of our targeted reviews
4 are fiscal assessments. One we have already done; we
5 participated with OPP (phonetic) when they were doing
6 their capability assessment during the competition for
7 the Louisiana area this summer.

8 And next month, in August, we are doing our
9 first sending out of a fiscal team all by themselves.

10 We usually send a team with attorneys and
11 accountants. But next month we are sending three
12 accountants down to -- or up to -- the Legal Aid
13 Bureau in Maryland, to look at what they have done for
14 their internal control structure since the whole
15 problem with the CFO and finding out about the
16 misallocation of funds there.

17 Significant reviews for 2011 will be 2
18 programs that we also haven't been to in the last 10
19 years or so. We are going to CRLA (phonetic) for two
20 weeks in October, California Rural. That is another
21 huge program. It's going to be a two-week visit, and
22 will probably clean out the office. And then, in

1 December we're going to spend two weeks at Lone Star
2 Legal Aid, and we haven't been there since April of
3 2001. So that will be another big visit.

4 So, when we go on site, in order to do what
5 we do, we visit all the programs, branch offices,
6 their units, and their sub-grantees, and we do that
7 because we want to make sure that all the offices and
8 units are doing things the same way. We don't want an
9 applicant to go to one office and be denied for
10 service, but go to another office and be accepted. We
11 want to know that everything is being done the same
12 way.

13 The attorneys interview staff at all levels,
14 both the management, the intake workers, the
15 attorneys, and we review sample cases from, usually,
16 about a two-year period, just to see how the program
17 has done things, whether they have improved over the
18 last two years, where the problems have arisen over
19 the last two years. We find it better to look at a
20 fairly large range of cases.

21 We also review the recipient's policies and
22 procedures to make sure, not only that they are in

1 compliance with LSC's regulations, but that the
2 program staff is actually following a policy. The
3 program can have beautiful policies, but if staff is
4 not following them, they are not doing anybody any
5 good.

6 While the attorneys are doing that, our
7 fiscal staff are working with their fiscal staff.
8 They are looking at the books and at the fiscal
9 systems to assess the compliance with the various
10 regulations that have a fiscal component, things like
11 the PAI expenditures, the PAI allocation methodology,
12 making sure that indirect costs are being allocated
13 correctly, that the methodology is documented
14 according to how the accounting guide says it should
15 be.

16 Then, both the attorneys and the accountants
17 do oversight into all those CFR parts, which are
18 things such as political -- prohibited political
19 activities, lobbying, and using LSC funds for
20 non-mandatory fees. The fiscal folks are looking at
21 the books, to see if there is any unusual expenditures
22 that might trigger them to think that there has been a

1 violation of the regulations, and then the attorneys
2 are interviewing the staff, to see whether anything
3 comes out of those. So it is kind of a dual review on
4 those regulations. They have both a fiscal and a CSR
5 compliance.

6 PARTICIPANT: The last bullet point says "as
7 time allows".

8 MS. RATH: And that is what I was going to
9 go to next. So --

10 PARTICIPANT: I don't understand that.

11 MS. RATH: Well, because for the longest
12 time we were just doing the regulations that had a
13 fiscal component, because there was that whole who
14 does internal controls and who doesn't. So, until
15 recently, LSC -- OCE only had two fiscal people. So
16 there was only one fiscal person going out on each
17 visit.

18 So, their first role on site was to do the
19 time-keeping, the lobbying, the PAI. And then, if
20 they still had time during that week, they would do
21 limited internal controls. And to help them do that,
22 we developed an internal control worksheet, which goes

1 through various internal controls, looks at
2 segregation of duties, who is doing what, things like
3 that. And if there was a potential concern based on
4 that worksheet, they would try and go and investigate
5 those areas of concern.

6 Now, as times have changed, and internal
7 controls have really come to the forefront more, as of
8 July 1st all the visits for the remainder of this
9 year, except for 1, which was a teeny tiny program, is
10 going to have at least 2 fiscal persons on it, so that
11 we can do a more in-depth internal control review. So
12 that's going to be our methodology, going forward.

13 PARTICIPANT: So, is this "as time allows"
14 qualifier, is that going to be eliminated?

15 MS. RATH: Yes. That was, you know -- just
16 wanted to --

17 PARTICIPANT: Right. Well, let me ask
18 you --

19 MS. RATH: I didn't want to let you think
20 that the visits that we have done previously had
21 full-blown internal controls.

22 PARTICIPANT: Sure.

1 MS. RATH: This is --

2 PARTICIPANT: Let me ask you about -- are
3 you familiar with the Baltimore situation and the
4 southwest Pennsylvania situation?

5 MS. RATH: Basically.

6 PARTICIPANT: I mean do you know to what
7 extent, if any, there were internal control structure
8 reviews in those programs in the last 10 years?

9 MS. RATH: Well, we had gone to Maryland in
10 2007, and hadn't seen any problems. But the thing is,
11 with the Legal Aid Bureau, unless -- and actually, let
12 me go back.

13 The Legal Aid Bureau was a very fancy,
14 sophisticated kind of -- you know, setting up the
15 dummy program, the dummy corporation. Unless we had
16 looked into every single corporation that they were
17 utilizing, even if we were doing internal control
18 review at that point, unless we looked at every single
19 corporation, we wouldn't have found that.

20 But now, as part of -- I just read the work
21 plan for the new visit to LAB -- that is part of the
22 review, is to take a significant portion of the checks

1 that they're writing, and look. Do a website search,
2 do a telephone search, make sure that it is an actual
3 company.

4 So, at the time, I don't know how much of an
5 internal control review we were doing. But I don't
6 think that, because of the way it was done, that we
7 would have found that anyway --

8 PARTICIPANT: What about southwest
9 Pennsylvania? That was just a case of somebody who
10 was writing herself checks, and using credit cards,
11 and all that other stuff.

12 MS. RATH: Yeah, I don't think we had been
13 to southwest Pennsylvania in years.

14 PARTICIPANT: Okay.

15 MS. RATH: I don't know the exact time
16 frame. That was before my --

17 PARTICIPANT: One of the early slides said
18 that one of your jobs is to see that all the
19 regulations, LSC regulations, are being complied with.
20 And one of those regulations is that grantees will
21 satisfy the audit guidelines, the audit manual -- the
22 accounting manual, excuse me.

1 So, do we now have a system whereby we
2 verify that we are satisfied ourselves that they
3 understand that guideline, and they are employing it?

4 MS. RATH: We can only do that by going on
5 site. So I cannot say, you know, without a doubt,
6 that all 136 are doing it. I can only tell you about
7 the ones that --

8 PARTICIPANT: Right. But when we do the
9 review, when we go on site --

10 MS. RATH: When we do --

11 PARTICIPANT: -- we do that.

12 MS. RATH: Yes, yes.

13 PARTICIPANT: Okay.

14 MS. RATH: So those -- I mean we are now
15 looking at their manuals, their accounting manuals,
16 and telling them they need to be updated to be in
17 compliance with the accounting guide. That has been
18 an often finding over the last six months to a year,
19 that they need to update their manuals.

20 Okay. Almost done.

21 PARTICIPANT: Yeah, we are --

22 MS. RATH: Oh, yeah, okay. And we will skip

1 over --

2 PARTICIPANT: We probably need to get --

3 MS. RATH: -- (inaudible).

4 PARTICIPANT: -- finished up here soon.

5 MS. RATH: Or we don't even have to. I just
6 wanted to -- I know one of the -- we kind of talked
7 about that.

8 I just wanted to go over how our
9 visits -- how our findings are shared, because that's
10 been a question.

11 On site during the week we update the
12 executive director or his designee every day as to
13 what we are seeing, telling them about the
14 recommendations, what the corrective actions are going
15 to be. At the end of the week we have an exit
16 conference which should be no surprise to anybody. We
17 just review what's going to happen, and what the
18 recommendations and required corrective actions are
19 going to be.

20 Post-visit, everybody on the team writes an
21 individual report about their findings, what their
22 interviews and record reviews showed. Their team

1 leader puts that into a draft report, which is then
2 sent to the recipient, and they are given a minimum of
3 30 days to comment. And we find that to be a very
4 important thing to have done, because often, since we
5 have shared our findings before we leave, the comments
6 usually come back saying they have already taken
7 action to fix the problem.

8 So, we want the benefit of that before the
9 final report is issued. We take those comments,
10 incorporate them into the final report, the final
11 report is issued, and then it is also posted to the
12 Internet. So that's why we really want the reports to
13 be up to date --

14 PARTICIPANT: Where is that posted? Is that
15 on the LSC website?

16 MS. RATH: Yes, the LSC website, under the
17 FOIA reading room. So then there is a page for OCE
18 reports and for OPP reports.

19 PARTICIPANT: How far back do those reports
20 go?

21 MS. RATH: OCEs go to every report that was
22 issued for visits starting January 1, 2010.

1 PARTICIPANT: Okay. But earlier than 2010
2 they're not available?

3 MS. RATH: Or is it --

4 PARTICIPANT: I think it's 2009.

5 MS. RATH: Okay.

6 PARTICIPANT: And earlier than that, reports
7 are available through the Freedom of Information Act
8 process. So they could always be -- all the reports
9 could be requested.

10 PARTICIPANT: Right.

11 PARTICIPANT: A policy was adopted to
12 start -- to get them current ones up within X number
13 of days.

14 MS. RATH: Yes.

15 PARTICIPANT: Right.

16 PARTICIPANT: And then to post --

17 PARTICIPANT: If I wanted to see an older
18 report, I wouldn't have to go through the Freedom of
19 Information Act --

20 PARTICIPANT: You would not.

21 (Laughter.)

22 PARTICIPANT: I could just ask you guys?

1 PARTICIPANT: Yes, and we would send it to
2 you.

3 PARTICIPANT: And we still have them,
4 either --

5 PARTICIPANT: Oh, yeah.

6 MS. RATH: We have them electronically, and
7 we have --

8 PARTICIPANT: Okay.

9 MS. RATH: -- them in hard copy back forever
10 under lock and key in my office.

11 PARTICIPANT: Okay.

12 PARTICIPANT: It was just the posting of the
13 older ones is --

14 PARTICIPANT: Sure, takes --

15 PARTICIPANT: You do it as you --

16 PARTICIPANT: Right.

17 PARTICIPANT: Yes.

18 PARTICIPANT: Okay.

19 PARTICIPANT: Yes.

20 MS. RATH: Because all the ones from 2008
21 and 2009 were already pdf'd and easier to upload.
22 Everything else we would have to --

1 PARTICIPANT: Okay.

2 MS. RATH: -- go back from hard copy.

3 PARTICIPANT: Thank you.

4 MS. RATH: That's pretty much what OCE does.

5 Any other questions on what we do, how we do it, why
6 we do it?

7 CHAIRMAN MADDOX: Why do your grantees not
8 like you?

9 MS. RATH: I don't know. I don't know.
10 Because we really do try and tell them -- the CSR/CMS
11 visit is really -- like Danilo always used to say, and
12 I agree with it -- it's the first bite of the apple.
13 We'll give you the first bite. CSR/CMS visit, if we
14 find you're doing something wrong, we will discuss it
15 with you, we will make recommendations, we will
16 provide guidance and, you know, point you to other
17 programs. But we are going to tell you that you have
18 to fix it, you have to come and be in compliance with
19 the regulations. Yeah.

20 CHAIRMAN MADDOX: Okay.

21 MS. RATH: That's what we have to do.

22 Follow-up review, if you still haven't done it, then

1 we're going to get mean.

2 CHAIRMAN MADDOX: Right. You're the hammer.

3 MS. RATH: Then people think we're mean.

4 But we're just -- I mean we are the guardians of the
5 money. And if the money is not being spent right, we
6 can't get more of it.

7 CHAIRMAN MADDOX: Somebody has got to be the
8 bad cop.

9 MS. RATH: So that's --

10 CHAIRMAN MADDOX: Thank you very much.

11 MS. RATH: That's us for the time being.

12 CHAIRMAN MADDOX: Thank you. We are going
13 to try to move on to our item number seven, which is
14 public comment. Is there any comment from the members
15 of the public? Anybody?

16 (No response.)

17 CHAIRMAN MADDOX: No? Well, then --

18 (Laughter.)

19 CHAIRMAN MADDOX: Nothing you want to put on
20 the record? Okay.

21 Is there any other business to come before
22 the committee?

1 (No response.)

2 M O T I O N

3 CHAIRMAN MADDOX: Is there a motion to
4 adjourn?

5 PARTICIPANT: I so move.

6 PARTICIPANT: Second.

7 CHAIRMAN MADDOX: And all in favor?

8 (Chorus of ayes.)

9 CHAIRMAN MADDOX: And the motion stands --
10 meeting stands adjourned. Thank you very much.

11 (Whereupon, the meeting was adjourned.)

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