

LEGAL SERVICES CORPORATION  
BOARD OF DIRECTORS

MEETING OF THE  
OPERATIONS AND REGULATIONS COMMITTEE

Saturday, July 25, 2009

9:17 a.m.

Capitol Plaza Hotel  
1717 S.W. Topeka Boulevard  
Topeka, Kansas

COMMITTEE MEMBERS PRESENT:

Thomas R. Meites, Chairman  
Lillian R. BeVier  
Frank B. Strickland, ex officio

OTHER BOARD MEMBERS PRESENT:

Thomas A. Fuentes  
Herbert S. Garten  
Michael D. McKay  
Laurie Mikva  
Sarah M. Singleton

## STAFF AND PUBLIC PRESENT:

Helaine M. Barnett, President

Karen M. Dozier, Executive Assistant to the President

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

Karen J. Sarjeant, Vice President for Programs and  
Compliance

Charles Jeffress, Chief Administrative Officer

Jeffrey E. Schanz, Inspector General

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

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

Thomas Hester, Associate Counsel, Office of the  
Inspector General

Stephen Barr, Media Relations Director, Government  
Relations and Public Affairs Office

Kathleen Connors, Executive Assistant, Government  
Relations and Public Affairs Office

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

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

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

2 (9:17 a.m.)

3 CHAIRMAN MEITES: This is a meeting of the ops  
4 and regs committee. It has been noted that we have an  
5 absence of a quorum, so we cannot take any action. But  
6 we certainly can receive testimony and discuss the  
7 matters on our agenda.

8 So we cannot approve the agenda. We cannot  
9 approve the minutes. We cannot at least -- I think  
10 what I'd like to do on No. 3, consider and act on  
11 proposed grant assurances, I think we will hear Ms.  
12 Sarjeant on this, and then we'll just make -- Lillian  
13 will make a report to the full board on this without a  
14 recommendation.

15 MS. BeVIER: All right.

16 CHAIRMAN MEITES: No. 3, consider and act on  
17 proposed grant assurances for 2010. Ms. Sarjeant?

18 MS. SARJEANT: Thank you. Karen Sarjeant,  
19 vice president for programs and compliance.

20 This morning I am presenting the proposed 2010  
21 grant assurances that LSC uses when we make grants for  
22 the delivery of legal services. Each year the board

1 reviews and approves our proposed grant assurances.

2           This year we are bringing to you one proposed  
3 change. We have agreement from all offices and  
4 entities that participated with us in a review of the  
5 grant assurances for this year, which would be all of  
6 the oversight offices at LSC, including the Office of  
7 the Inspector General. And representing the field  
8 programs, Linda Perle of CLASP participated with us.

9           The proposed 2010 grant assurances have only  
10 one revision, and for approval by this committee and  
11 recommendation to the full board, and that is grant  
12 assurance 15, which begins on page 62 in your book. I  
13 also passed out a page in which you have the Track  
14 Changes version in an easier-to-read version than is in  
15 the book. And it also picked up the correct Track  
16 Changes.

17           The grant assurance 15 is a notice provision  
18 requiring grantees to report to the OIG when there is  
19 reason to believe there has been a theft or a loss. It  
20 has been updated to address the potential threats posed  
21 by electronic business practices such as the use of  
22 credit cards, online passwords or access codes, and

1 also to address issues regarding programs' Check Stop.

2 So we've updated the grant assurance to  
3 include additional OIG hotline contact information;  
4 also, to clarify that recipients are required to notify  
5 the OIG if the program believes it has been the victim  
6 of any theft that could lead to a loss of \$200 or more

7 And we've removed the requirement for follow-up  
8 written notification within ten days.

9 CHAIRMAN MEITES: Good. Lillian, I recall  
10 that we spent a considerable amount of time I think  
11 last year going over the grant assurances. I don't  
12 know if there's anything more we need do at this time.

13 MS. BeVIER: No. It seems to me that if  
14 everybody is on board with the changes, there's not  
15 much need to reinvent the wheel.

16 CHAIRMAN MEITES: Okay. Any public comment on  
17 this?

18 (No response.)

19 CHAIRMAN MEITES: Okay. Let's go on to the  
20 next item. So we'll report to the board that we  
21 reviewed them and explain the changes to them, and  
22 without a recommendation.

1           Next is staff report on follow-up to January  
2 30, 2009 on grant assurance, board governance, and  
3 oversight. Karen?

4           MS. SARJEANT: Thank you. After the January  
5 29 board meeting, or during that meeting, the panel  
6 made several recommendations to LSC. In response to  
7 those recommendations, we created a staff working group  
8 on board governance and oversight to develop a plan of  
9 activities to support grantee boards.

10           The initial activity of the working group was  
11 to create a targeted electronic survey to send to all  
12 grantee board chairs and executive directors. That is  
13 found at page 71 of your board book. That survey  
14 covered seven areas of inquiry.

15           The survey was e-mailed on May 28, 2009. The  
16 major areas of inquiry were: client board member  
17 involvement; board committee structure; financial  
18 oversight; policies for board governance; program  
19 planning and evaluation; recruitment, retention, and  
20 engagement of board members; and board training.

21           At this time, the board -- I'm sorry. The  
22 staff received the survey responses in the first week

1 or so of July. And so we have done a very, very  
2 preliminary review of the survey responses. And I  
3 wanted to share just a few highlights with you.

4 CHAIRMAN MEITES: Well, first, how many  
5 responses did you get?

6 MS. SARJEANT: That's my first highlight. We  
7 received 141 responses, and 64 of those self-identified  
8 as executive directors, 46 identified as current board  
9 chairperson, and one as a former board chairperson. So  
10 in total, there were 141 responses. Interestingly,  
11 there were 40 other responses that the respondents did  
12 not identify whether they were a board chair or an  
13 executive director.

14 From all of the information we've gathered, we  
15 need to do much more analysis. The respondents could  
16 choose to answer some of the questions but not others;  
17 so on any given question, the number that and the  
18 question varies. So of those that did answer and we  
19 could track, these are some of the highlights of that.

20 Of the 64 executive directors, 49 executive  
21 directors said that their program had an audit  
22 committee. Thirty board chairs said they had an audit



1 committee. Fifty-two executive directors said that  
2 their program had combined audit and -- they had  
3 committees that combined the audit with the budget  
4 committee or the audit with the finance committee or  
5 the audit with the executive committee. So we have a  
6 lot of, you know, drilling down into the survey to  
7 figure this information out.

8           Thirty-three of the executive directors said  
9 that their programs had a code of conduct and ethics.  
10 Twenty-eight of the board chairs said that they had  
11 those policies. Thirty-seven executive directors said  
12 that they were evaluated by their boards in the past  
13 year.

14           Forty-six executive directors, in response to  
15 the question about whether the regulation creates  
16 challenges to recruiting board members with needed  
17 expertise, 46 executive directors said that's correct.

18           Thirteen board chairs said that's correct.

19           We received an incredible amount of very  
20 valuable information in the narrative responses to the  
21 survey. And, for example, in the question about  
22 whether the board -- whether the regulation presents

1 challenges, the majority of narrative responses focused  
2 on the need for there to be a way to get additional  
3 financial staff -- I mean, financial expertise on the  
4 board.

5           So the survey has provided LSC with incredible  
6 amounts of information. We need to do further  
7 analysis. There was significant interest in LSC  
8 developing a board training curriculum; that came  
9 through in a lot of the narrative responses.

10           There was a lot of discussion about the role  
11 of committees and how they provide oversight. And so  
12 our staff committee is focusing first on the financial  
13 oversight responses because we understand the interest  
14 what this board in the issue of audit committees and  
15 financial oversight and review.

16           So we are putting emphasis at looking at that  
17 information first. And we're also doing things like  
18 identifying what effect, if practices were identified  
19 in the survey as being commonly used by programs, what  
20 challenges there are, what effective strategies  
21 programs are using to overcome the challenges, and  
22 whether there are novel strategies that are being

1 identified in the survey. We want to know where the  
2 gaps are and figure out how we can develop and respond  
3 to what -- all of the information we've gotten in the  
4 survey.

5           We need to drill down much more to get into  
6 the details. We may need to do some follow-ups with  
7 the programs. We expect by the October meeting we will  
8 have completed our analysis and we will have much more  
9 information and be able to let you know what activities  
10 we have underway in response to the identified needs of  
11 the programs.

12           At this time, we feel it's too early to  
13 determinable that LSC should mandate anything coming  
14 out of the survey. We want to do the analysis. We  
15 want to look at what we have. We may need to go back  
16 -- since we had a total of 141 responses with a -- you  
17 know, out of a potential pool of over 300, we may  
18 decide that we need to figure out how to go back and  
19 try to get, at least on some of the issues, some  
20 additional answers.

21           But the early indications are that programs,  
22 several -- many programs already have audit committees

1 or have audit/finance or audit/budget or  
2 audit/executive committees functioning. So it's a very  
3 interesting process for us, and we hope to come back  
4 with you with a lot more information.

5 CHAIRMAN MEITES: I have a couple of  
6 questions. But first of all, I'd like to compliment  
7 you on the survey. I thought it was very well  
8 designed, comprehensible, and the kind of survey that  
9 people are likely to answer rather than just throw  
10 away.

11 You said that there's a possible universe of  
12 300. We only have 140-odd grantees. Where does the  
13 300 number come from?

14 MS. SARJEANT: Because we surveyed both the --  
15 yes, we surveyed both the EDs and the board chairs.

16 CHAIRMAN MEITES: As for -- item No. 5 is the  
17 audit committee. But let's do that at the same time  
18 since you brought it up.

19 I agree that with this survey, I think we're  
20 going to learn more about what's happening and have the  
21 information by October.

22 A couple thoughts on an audit committee. My

1 experience with Herb has been if you don't have one,  
2 you don't know what you're missing, that an audit  
3 committee functions differently than a finance  
4 committee, and it has a different perspective.

5           And I for one will make a strong pitch in  
6 favor of an audit committee, not just because Herb and  
7 I have such a wonderful time, but I think -- I've  
8 learned from our experience that it is a different  
9 species than a finance or budget committee.

10           But I think that can wait till October. Do  
11 you agree with that, Lillian?

12           MS. BeVIER: Yes. I think you need much more  
13 information.

14           CHAIRMAN MEITES: Okay. What we'd like -- I  
15 think what I'd like to see by October is -- and I'd  
16 like to see it, just for Lillian and me, or our  
17 committee, in advance. Maybe you could circulate a  
18 draft in September so we can see if there's areas we'd  
19 like you to amplify.

20           MS. SARJEANT: Okay.

21           CHAIRMAN MEITES: Give us, you know -- right  
22 after Labor Day, if you could just give us some kind of

1 idea of what it looks like because if there's areas  
2 that we want you to go back on or to get more  
3 information, it will give us a chance to let you know.

4 The survey, by the way, is a fascinating data  
5 source for an institutional psychologist or an  
6 organization person because there's 100-odd entities,  
7 all of which have tried to solve the same puzzle on  
8 their own.

9 And it's not supposed to work that way. In 30  
10 Yes. ears they all should have reached more or less  
11 the same way of doing business. That's regression to  
12 the mean. It should have happened.

13 But apparently it hasn't. Lillian, being a  
14 states righter, is going to say, absolutely not.  
15 That's the great experiment. You do it 150 different  
16 -- 150 people do the same thing and you get 149  
17 different answers.

18 But from what you've said to date, there seems  
19 to be some commonality in what people are doing.

20 MS. SARJEANT: There are.

21 CHAIRMAN MEITES: But not as much as maybe I  
22 would have thought. Anyway, that can wait till

1 October.

2 MS. SARJEANT: Okay.

3 CHAIRMAN MEITES: Lillian, anything else?

4 MS. BeVIER: No.

5 CHAIRMAN MEITES: Good. Thank you.

6 MS. SARJEANT: Thank you.

7 CHAIRMAN MEITES: The next is, yes, another  
8 report on the Formal Order of Investigation function.  
9 Go to it. Is that --

10 MS. SARJEANT: That's not me.

11 CHAIRMAN MEITES: Oh, Victor, you are the  
12 Formal Order of Investigation reporter?

13 MR. FORTUNO: Perfect timing. Yes. I have  
14 just a very brief report, and it's that we are fully  
15 caught up with Sunshine -- with, I'm sorry, Freedom of  
16 Information Act. You know how it is, these open  
17 government statutes all kind of run together after a  
18 while.

19 But no, we are entirely caught up with our  
20 FOIA backlog. We're current, have been caught up for a  
21 while now. And I don't know if there are any questions  
22 about it, but just wanted to make sure that you were

1 aware of that.

2 CHAIRMAN MEITES: Okay. That's terrific news.

3 We compliment you on that.

4 MS. BeVIER: Yes.

5 CHAIRMAN MEITES: We're aware that it had  
6 fallen behind, and that kind of a problem is often hard  
7 to get on top of.

8 MR. FORTUNO: Thank you.

9 CHAIRMAN MEITES: We're very pleased. Thank  
10 you.

11 Next is staff report on program visits and  
12 oversight.

13 MS. SARJEANT: Thank you. At page 93 of your  
14 board book, there is the 2009 visit schedule for the  
15 Office of Program Performance and the Office of  
16 Compliance and Enforcement. And I have also made  
17 available to you -- and that schedule is sorted  
18 chronologically.

19 I've also made available to you this morning  
20 another sort of that same list showing the program  
21 oversight visits sorted by office and visit type.

22 CHAIRMAN MEITES: Now, this is your program



1 for the entire year?

2 MS. SARJEANT: For the year as far as we can  
3 plan. This is the calendar year.

4 CHAIRMAN MEITES: But through July, mid-July,  
5 this is a report of what you've actually done. Is that  
6 right? The visits through July 17th h occurred? Or  
7 else --

8 MS. SARJEANT: They have. We've done -- as I  
9 believe, through July 20th we've done 33 visits. And  
10 so of those 33 -- well, no. Let me just say this. For  
11 calendar year 2009, let me tell you what we've planned.

12 Eight in the Office of Compliance and  
13 Enforcement. There are CSR/CMS visits. that's case  
14 service report/case management system visits.

15 We're doing eight follow-up review visits. We  
16 found that it's very important for us to -- just like  
17 as being done with us in GAO, they're doing a follow-  
18 up. We do follow-ups with programs to see how the  
19 corrective actions have been implemented.

20 We're doing or have done two 1610 visits,  
21 which are visits to look at the issue of program  
22 integrity, which is one of our regulations. We have

1 one follow-up review visit being done, focused on  
2 program integrity.

3 We did a compliance overview visit with the  
4 interim provider, interim legal services provider, in  
5 the Wyoming service area where we currently have a  
6 grants competition underway.

7 And based on the referral of a questioned  
8 cost, to us on a program, after looking at the issues  
9 and the program's response, we've decide to add to the  
10 Office of Compliance and Enforcement an additional  
11 visit in the month of September. They're doing some  
12 moving around, and will actually do an onsite visit at  
13 that program. So that actually is not on this list.  
14 It was just recently added.

15 In the Office of Program Performance, we do  
16 different types of visits than we do in OCE. And for  
17 the year 2009, there are 42 program performance visits  
18 scheduled. We had 16 program quality visits scheduled.

19 One visit was canceled because of ongoing litigation.

20 We have 21 program engagement visits scheduled. One  
21 was canceled because the staff person who was going to  
22 do it suffered an injury, not at our office.

1           There were three capability assessment visits  
2 that are part of our grants competition, and there were  
3 two -- there will be two technical assistance visits.

4           So we are staying up to date with getting our  
5 reports out, as we have indicated to GAO, and where  
6 there are differences in, if we're beyond the time  
7 frames, we have determined what those causes are for.

8           And it's usually that there is a complex  
9 issue, that we're working with several offices or the  
10 programs have asked for extended time to respond to the  
11 draft report. We're trying very hard to stick to what  
12 we have committed to in getting reports out timely.

13           And we're beginning to plan for our 2010  
14 visits.

15           CHAIRMAN MEITES: Now, I notice that you  
16 described the OCE and the OPP. How do you determine in  
17 preparing your, say, 2010 schedule, which programs  
18 you're -- which programs OCE is going to visit and  
19 which programs OPP is going to visit?

20           MS. SARJEANT: We start with a master calendar  
21 or a master list that shows all of the LSC visits since  
22 2000 for every program. And then we apply the risk

1 criteria that we have in the OPP and the OCE procedures  
2 manual. And those are done -- it's a series of smaller  
3 group meetings that lead -- in OPP and OCE that lead to  
4 a joint meeting in -- let me tell you the process in  
5 OPP first, in program performance.

6           They have regional teams that are responsible  
7 for groups of states. They will take the master list  
8 and the criteria and apply those, and all of the  
9 information we have -- whether they've gathered it, you  
10 know, throughout the year from the competitive grants  
11 process, they're looking at reports from the IG, from  
12 the reports from OCE -- and they make recommendations  
13 of which programs they think should receive quality  
14 visits, which programs should receive program  
15 engagement visits, whether there are going to be  
16 technical assistance visits.

17           Then on the OPP side -- I mean, on the OCE  
18 side, the director and the deputy are doing that same  
19 process with the master list and determining where they  
20 need to do follow-ups, where there are -- as they apply  
21 the risk criteria, where there are programs that need  
22 to make it to the list for visits, and whether those

1 visits will be the case service reports visit, or a  
2 follow-up review, or if there's a 1610 issue that needs  
3 to be reviewed, or if issues have come up because of  
4 complaint investigations, or A-50 referrals, which we  
5 get from the IG.

6           So we're looking at all of those things,  
7 including some other criteria, such as -- that are  
8 listed in the man, such as a change in leadership,  
9 particular -- if there have been issues referred to us  
10 by the inspector general's office.

11           After both offices have done their initial  
12 proposed list, they come together with me and we sit  
13 down and go over that whole process again with an  
14 understanding so that we're actually talking as a  
15 corporation about where do we need to deploy resources  
16 and why. And then we share that list with the  
17 inspector general's office also.

18           We like to -- and we're doing pretty well with  
19 sticking to our annual planned visits. But we also  
20 have to leave enough flexibility that as things come up  
21 throughout the year, we can make the change if we need  
22 to.

1           CHAIRMAN MEITES: Is the typical OPP visit  
2 about as labor-intensive as the OCE, or is --

3           MS. SARJEANT: Well, the program quality  
4 visits, I would say, are as labor-intensive. The  
5 program engagement visits are designed to be done by  
6 one person, the program counsel. They are more limited  
7 purpose visits. And we don't do reports from those  
8 that go out to the programs and back for comment and  
9 all of that.

10           Program quality visits are as intensive.  
11 They're usually a week long. OCE --

12           CHAIRMAN MEITES: What about the OCE side?  
13 How labor-intensive are those visits?

14           MS. SARJEANT: They're very labor-intensive.  
15 And so you will see that there are fewer OCE visits  
16 than OPP visits. But it has to do with the type of  
17 visits that they do. And we think that the program  
18 engagement visits on the program performance side are  
19 important because it keeps us connected to what's going  
20 on in programs.

21           But it's the program quality visits and  
22 program performance, and the case service reports, case

1 management system, and the follow-up reviews. And  
2 almost all of the OCE visits are very intensive. We  
3 don't really have short-term OCE visits. They're just  
4 -- they're a different type of visit.

5 CHAIRMAN MEITES: Are there instances where  
6 both staffs visit as -- combine for a visit?

7 MS. SARJEANT: This year there have been. We  
8 haven't been calling them joint visits, but you will  
9 see in looking at the schedule that there were times  
10 when OPP staff was doing a program engagement visit at  
11 the same time that OCE staff was there doing one of  
12 their visits.

13 We certainly continue to discuss and look at  
14 the possibility of doing what you would consider a  
15 joint visit. But the types of visits are so different  
16 that we haven't found a way yet to combine them in an  
17 efficient way.

18 CHAIRMAN MEITES: I can see, if you look at  
19 the objectives of the OPP visits, they're not the same  
20 as those of OCE.

21 MS. SARJEANT: In the definitions. That's  
22 correct.

1           CHAIRMAN MEITES:  And it actually may be  
2 counterproductive to put them together at times.

3           MS. SARJEANT:  That's correct.

4           CHAIRMAN MEITES:  All right.  Well, we'll  
5 leave that to you to sort that one out.

6           Lillian, any questions or follow-up?

7           MS. BeVIER:  This might be sort of implicit in  
8 what you've suggested.  But I'm interested in what you  
9 do with the information collectively when you get it  
10 from these visits.

11           In other words, we've talked in the past about  
12 identifying recurring issues or recurring problems of  
13 quality or enforcement, and making sure that that kind  
14 of information gets collated and disseminated to  
15 people.

16           So is that part of what's going on?

17           MS. SARJEANT:  Of our visit planning process?

18           MS. BeVIER:  Yes.

19           MS. SARJEANT:  It is.  And there is, I think  
20 -- over the past year or two, there's been -- we  
21 continued to increase the amount of communication and  
22 coordination as visits occur, in between visits between



1 offices, so that we are sharing with each other what  
2 we're finding.

3           There's just -- so that as things are --  
4 whether they're out on a program engagement visit and  
5 they might see something that they're not going to be  
6 the ones who actually do the follow-up. They will come  
7 back, and if it's a compliance issue, they will share  
8 that with OCE and we'll take a look at that.

9           We're also -- throughout the year we're  
10 looking to see, are there recurring types of issues  
11 coming up that we need to pay attention to. And that  
12 is part of our planning as we talk about where are we  
13 going? What are we seeing? Is this something that we  
14 need to make sure that everybody is looking at it every  
15 visit that we go to. So we're trying to add that as we  
16 go along.

17           MS. BeVIER: Right. And what I'm also  
18 concerned about is you identify those things and you  
19 check on them with one visit or the other type of  
20 visit, depending upon what kind of issue it is.

21           But then getting that information out to the  
22 grantees, now, as I recall, this was something that

1 Helaine was going to do once a year and send --

2 MS. SARJEANT: We did that last year.

3 MS. BeVIER: Okay.

4 MS. SARJEANT: We did the compliance advisory  
5 and -- at the end of the year. And the other thing we  
6 have done, in November of last year and most recently  
7 in July of this year. I did -- and at the November  
8 event at NLADA, Jeff and -- Jeffrey Schanz, Danilo, and  
9 I did a compliance half day, you know, part of a  
10 workshop.

11 Most recently, at Southeast Project Directors  
12 Association, Linda Perle and I did a compliance session  
13 for all of the participants. It was administrators and  
14 executive directors there. And we have a Mountain  
15 States Project Directors meeting coming up where we  
16 will be, you know, sharing this information.

17 What we're trying to do is make sure that as  
18 many of our grantees are benefitting by hearing about  
19 what we're seeing in other programs even if we're not  
20 going to get to them that year because, you know,  
21 they're learning whether we're there or not.

22 MS. BeVIER: That's really what I was the most

1 interested in. Thank you, Karen.

2 CHAIRMAN MEITES: This isn't really what I --  
3 I hadn't envisioned this, but why not.

4 We've heard -- and this has been a very  
5 helpful report to me and Lillian. I'd be interested to  
6 hear what our grantees think about OCE and OPP. And  
7 would anyone like to address that now? Or if you'd  
8 like to address it in October, I would welcome a chance  
9 to hear -- if there is another side, to find out what  
10 it is.

11 And since they're shaking their heads, why  
12 didn't he tell me this five minutes ago, why don't you  
13 all come forward and tell me if you'd like to address  
14 this now or at a future meeting. And if you'd like to  
15 do it at a future meeting, we'll be glad to put it on  
16 the agenda.

17 MS. BeVIER: You just had to have something to  
18 put off, didn't you?

19 CHAIRMAN MEITES: I haven't put it off yet,  
20 Lillian. If there's consumer demand, I'll respond to  
21 the market.

22 MS. PERLE: Well, this is kind of a surprise.

1 I will say that we have had a very good relationship  
2 with Karen in particular, and have done a variety of  
3 joint programs on compliance and other issues. And I  
4 think that that's been very helpful.

5 I think that's very helpful -- I think it's  
6 very helpful for field programs to see -- we do a  
7 little bit of a point/counterpoint, but we don't  
8 disagree, you know, significantly on a lot of issues.  
9 But there are different perspectives on things, and I  
10 think it's helpful for programs to see that. And so  
11 I've found those sessions to be quite useful.

12 I think that we're not necessarily prepared to  
13 sort of give a -- you know, and we'd be happy to --

14 CHAIRMAN MEITES: Well, let me do it this way.  
15 Why don't you let us know before the October meeting  
16 if you'd like to have some time on the agenda to -- I'm  
17 not saying -- I don't want to critique. More how the  
18 grantees see what LSC staff is doing. If there's  
19 things the grantee thinks could be done differently,  
20 more effectively, both from the grantee's point of view  
21 but also from the point of view of improving the work  
22 that we're doing.

1           And so why don't you get to me by, say, Labor  
2 Day if that's something you all want some time on the  
3 agenda for and we'll just continue this discussion till  
4 then.

5           Lillian, does that make sense to you?

6           MS. BeVIER: Yes. That's fine.

7           MS. PERLE: Okay. Thank you.

8           CHAIRMAN MEITES: All right. The next item on  
9 the agenda is staff report on -- oh, missed something.  
10 Presentation on 2009 OIG visits. Yes. That's right.  
11 Jeff's presentation. Hang on. This is page 100 in  
12 the board book.

13           MR. SCHANZ: Okay, Mr. Chairman. As you asked  
14 us to follow up from the last board meeting, you asked  
15 several questions and they are answered on page 100.  
16 With me is Dutch Merryman, the assistant inspector  
17 general for audit, to further discuss any questions  
18 that you may have on this short presentation.

19           As we talked about a little bit earlier today,  
20 our schedules are not set in concrete for the reasons  
21 that I talked about earlier. We need to be flexible,  
22 we need to be dynamic, and we need to go where the

1 greatest need is.

2 But under Roman numeral I, you will see our  
3 grantee audit visits. Now, this is just from the audit  
4 side. I would also like to mention that we do have an  
5 investigative component to the OIG, and they're more  
6 retroactive, from hotline complaints, from other issues  
7 that we may hear about. And they're not incorporated  
8 on this. This is just the audit side of the house.

9 And Dutch, I'll turn it over to you as to  
10 where you're scheduled to go. And, well, as a  
11 predicate also, I'd like to mention, this is just what  
12 I call external audits. These are field visits to  
13 grantees. We also have an internal component, which is  
14 what you saw with the contracting audit of consultants.

15 We're going to do -- on the internal side of  
16 the house, next up or teed up is going to be an audit  
17 of the TIG program. And I have an audit team designed,  
18 and they're doing preliminary planning and research  
19 even as we speak. No, it's a Saturday, so I guess  
20 they're not doing it even as we speak.

21 But on the external side and going where the  
22 boots are on the ground and following the money, this

1 is our planned schedule through the rest of the  
2 calendar year. Any questions could be directed to  
3 Dutch.

4 CHAIRMAN MEITES: My question is really a  
5 follow-up to what Karen said, that if you find common  
6 issues or common -- I'll call them issues rather than  
7 problems -- on your field audits, is there a mechanism  
8 or do you think it would be helpful to have a mechanism  
9 where you could inform our grantees that this is a  
10 problem we've seen on several visits, and we'd like to  
11 alert you to it?

12 MR. SCHANZ: We have done that in the past.  
13 We've sent them out pretty much under the rubric of a  
14 fraud alert, more on the investigative side where we've  
15 found some schemes that may be endemic throughout the  
16 country.

17 We do have several CFEs on staff, certified  
18 fraud examiners, so we try to do that. And we did  
19 work, I believe, a little bit with management on their  
20 best practices that Karen had talked about a little bit  
21 earlier and what weaknesses there are out there in the  
22 systems.

1           CHAIRMAN MEITES:  Yes.  I'd like to encourage  
2  that to the extent you have -- you see things because  
3  your perspective is different, at least in the audit  
4  function --

5           MR. SCHANZ:  Right.

6           CHAIRMAN MEITES:  -- than what I understand  
7  OCE and OPP does.  And if you see things, it would be  
8  helpful for our grantees to know what they are.  We  
9  have so many grantees and we know they run things very  
10  differently.  And I suggest you consider appearing at  
11  perhaps one of these panels, the November NLADA panel,  
12  to contribute from your perspective potential problems  
13  that you may see our grantees face.

14          MR. MERRYMAN:  One of the things that Jeff  
15  initiated when he got here was to communicate with  
16  management through a process called Management  
17  Information Memos, MIMs.  So if we see something that  
18  we believe really needs to get in front of management,  
19  Jeff does issue a MIM to advise them.

20          CHAIRMAN MEITES:  And the next step is if I --  
21  I was on a grantee board, and the IG was a very remote  
22  figure.  It was, you know, layers beyond anything I



1 even knew existed.

2           And I don't think it would do any harm for you  
3 all to consider making an appearance at the NLADA  
4 meeting and explain what you do because even though the  
5 executive directors probably know in one sense what you  
6 do, they probably don't understand, since we had a  
7 great deal of trouble understanding it ourselves, how  
8 your office fits in with management.

9           So I urge you to consider that.

10           MR. SCHANZ: Okay.

11           CHAIRMAN MEITES: And also, I'm convinced that  
12 the mistakes that some of our grantees make, others  
13 make the same mistake as well. So if there is some  
14 mechanism that -- and you do find common problems --  
15 that you work with management to try to figure out a  
16 way to disseminate the problems, not just to management  
17 but through management to our grantees generally.

18           Lillian?

19           MR. MERRYMAN: May I just say one thing on the  
20 suggestion? We did make a presentation at a conference  
21 in November.

22           CHAIRMAN MEITES: Oh, you did?

1           MR. MERRYMAN: We did. I can't remember the  
2 conference.

3           MS. SINGLETON: It was NLADA.

4           CHAIRMAN MEITES: Okay. I'm sorry.

5           MR. MERRYMAN: NLADA, the one in --

6           MR. SCHANZ: It was NLADA. Karen had referred  
7 to it as a panel, and --

8           CHAIRMAN MEITES: Oh, you were on it? I'm  
9 sorry. I didn't realize you were on it. Excellent.

10          MR. SCHANZ: And it was -- actually, the title  
11 of it was, "Demystifying the OIG." And in doing so, we  
12 had myself, the IG; we had audit represented in the  
13 person of Dutch; we had our investigator there -- our  
14 AIGI, assistant inspector general for investigations,  
15 Tom Coogan, was there; Laurie Tarantowicz represented  
16 the general counsel of the OIG.

17                   And it was very well received. I didn't get  
18 the evaluations back, but I believed we met our goal,  
19 which was to demystify the OIG, and essentially show  
20 that we weren't seven-headed ogres, that we do have a  
21 mission to do. It's a statutory mission. And it  
22 engendered an awful lot of discussion.

1           CHAIRMAN MEITES: Well, you've already -- you  
2 anticipated my good suggestion. So I feel vindicated  
3 but unnecessary. So that's all right.

4           Anything else from anybody on the board or --  
5 good. Thank you very much.

6           Let's go to the second half of your  
7 presentation. This is the next item on the agenda. We  
8 had talked, at least for several meetings, about  
9 whether the IPAs can do the part of the job that  
10 Congress apparently asked them to do, but is commonly  
11 thought to be beyond the call of duty in a regular  
12 audit.

13           And in particular, I asked you all to answer  
14 two questions: Can they do it? And if they can do it,  
15 how much ballpark would it cost our grantees,  
16 typically, to pay for it? And I think you're prepared  
17 to answer both questions.

18           MR. SCHANZ: I did. And I've also provided  
19 the chairman with some background information as far --  
20 I sent to the entire board a study that was performed  
21 by the then-PCIE and the joint accounting  
22 accreditation.

1           And they estimated that to get to the opinion  
2 that is necessary by Section 509(a)(2), which requires  
3 an internal control statement on -- or an opinion on  
4 the financial controls, internal controls over  
5 financial controls; I'll let Dutch talk about that  
6 because I'm muttering about it -- but anyway, and the  
7 estimated cost was 51 percent more from the cost of a  
8 current audit.

9           CHAIRMAN MEITES: So it would be the current  
10 audit, and add 50 percent to that?

11           MR. SCHANZ: That's the -- from the federal  
12 sector. We're trying to get a better handle on that by  
13 -- I've suggested to management that we do a pilot.  
14 One of our grantees would offer themselves up as a  
15 sacrificial lamb to be subjected to an at where we  
16 actually focus on the financial opinion, and in  
17 addition to that, the statement on internal controls.  
18 That's one option that we've thought about.

19           The other one starting next week, we will have  
20 a survey, since you talked about surveys earlier, to  
21 the IPAs, and seeing what our response rate would be,  
22 and just getting, from their perspective -- and of

1 course, they're all different, with 137 grantees -- but  
2 to get their sense as to what it would cost to do this  
3 additional work. And there are professional standards  
4 that are available for them as guidance.

5 Dutch, you want to refer to those?

6 MR. MERRYMAN: Yes. We're trying to get a  
7 better handle on costs simply because those are CFO  
8 agencies, quite large, quite complex. And the range  
9 was all over the place on how much. So the best way to  
10 get the information, I went to AICPA and tried to see  
11 if they had tracked any information on internal  
12 controls reviews. They said they had none.

13 And so we decided upon surveying the IPA who's  
14 actually doing the work. If you pose this, what would  
15 the additional charge be, in terms of a percent. And  
16 again, we have the document draft -- we'll get it out  
17 next week -- to all the IPAs that we have on record to  
18 see if we can get a better range. So we are doing a  
19 lot of stuff in that area.

20 As far as the ability to do it, there are  
21 standards that are out there, published -- as a matter  
22 of fact, the AICPA is -- wants to work closely with us

1 because they know they'll get some questions from their  
2 practitioners.

3 More than to capability, it's just experience  
4 would be a question. How often have you done this?  
5 How many times have you done this? And so -- and,  
6 quite frankly, I would believe the smaller the IPA  
7 firm, the fewer times they've done it.

8 CHAIRMAN MEITES: Can you put in your survey  
9 about how much it would cost, also whether they've had  
10 experience doing it?

11 MR. MERRYMAN: We can add a question there.  
12 If I can reserve that and make sure I go through my  
13 process here with the boss and everything, and legal.

14 CHAIRMAN MEITES: That would be --

15 MR. MERRYMAN: But I would be interested to  
16 know if they've had experience doing it.

17 CHAIRMAN MEITES: Because if in fact our  
18 grantee has to change its IPA in order to do this,  
19 that's some additional expense in startup and --

20 MR. MERRYMAN: Well, the standards really  
21 emphasize you need to do it at the same time as the  
22 financial audit because of the extensive work that's

1 already done in internal control, this would be an  
2 extension of that work and be a component part of the  
3 overall financial situation of the organization under  
4 review.

5 CHAIRMAN MEITES: Well, I'm encouraged that  
6 there are professional standards in this area. But I  
7 am kind of discouraged at how much it's going to cost.  
8 Just so the percentage figure has some basis for me,  
9 do you have an idea what a typical grantee spends a  
10 year on the audit, the IPA, now?

11 MR. MERRYMAN: We did run that. I don't have  
12 it with me for some reason.

13 MR. SCHANZ: I do.

14 MR. MERRYMAN: You have that with you?

15 MR. SCHANZ: Yes. The average cost -- and  
16 this is history -- for IPA audits for calendar year  
17 2007 was \$20,853.00.

18 MS. SINGLETON: That's the average?

19 MR. SCHANZ: Average. That's big grantees.  
20 That's small grantees. But that's all grantees.

21 MR. MERRYMAN: That was the whole audit cost,  
22 not just IC.

1           MS. BeVIER: Yes. I mean, part of the problem  
2 with that, posing the question that way and that  
3 answer, is that I think the relevant -- another  
4 relevant piece of information is as a percentage of  
5 LSC, their LSC grant, what do they spend on the IPA?

6           And then maybe you want to break it out  
7 further. They obviously audit not just their LSC  
8 funds, so they had an audit committee. I mean, there's  
9 a lot going on, so that that 20,000 number doesn't mean  
10 anything, you know, sort of floating out there as kind  
11 of an average.

12           CHAIRMAN MEITES: No. It's not a good number  
13 because to add an internal control component for a  
14 small grantee is going to cost a lot of money relative  
15 to their basic audit. Now, if it's a \$5 million  
16 grantee, adding internal controls may be 2 percent.

17           But a grantee that now spends \$20,000 may have  
18 to spend as much to do the internal controls because  
19 they have a small firm that -- anyway, there are  
20 professional standards that are encouraging. It's a  
21 difficult area that Congress in an act said something.

22           And we -- I think it's important that we go through



1 every step to determine what exactly it involves doing  
2 and the cost to do it.

3 And there always are benefits for looking at  
4 every penny. If you had all the money in the world,  
5 you would find out where everything went. But that's  
6 not how your profession works.

7 MR. MERRYMAN: No, it's not.

8 MR. SCHANZ: No. It's cost-prohibitive.

9 CHAIRMAN MEITES: Right. And so somewhere  
10 between that and being once over lightly is what we  
11 have to try to end up at.

12 MR. SCHANZ: Well, I actually do, Mr.  
13 Chairman, have a range of the percentage that you're  
14 asking for.

15 CHAIRMAN MEITES: Good.

16 MR. SCHANZ: I have a spreadsheet for all 137  
17 grantees. And just as a quick look, there's a high of  
18 5 percent of the total grant amount. And just as a  
19 quick scan, I see a low of 4.2 percent of the total  
20 grant amount.

21 CHAIRMAN MEITES: So 5 percent, more or less,  
22 is what we should look at as the more typical --

1           MR. SCHANZ: As the ceiling. As the ceiling.

2           CHAIRMAN MEITES: Okay. Questions? Comments?

3           This has been very helpful. And we look forward to  
4 the results of your survey.

5           Yes, sir, please.

6           MR. GARTEN: Jeff, are you concentrating on  
7 educating the independent accountants on what is  
8 expected of them?

9           MR. SCHANZ: Well, we will send out guidance.  
10 They should be educating us, quite frankly, because  
11 they're the ones that do the CPA work on a regular  
12 basis. But yes, we will have guidance. We will have  
13 frequently asked questions once we get this ball  
14 rolling.

15           MR. GARTEN: Well, I would urge that you  
16 concentrate on that rather than to expose the grantees  
17 to this extra expense. It seems to me that the rewards  
18 are not going to be commensurate with the costs  
19 involved here, and that we ought to concentrate on  
20 getting the independent accountants to present the  
21 information and to do a super-audit without imposing  
22 upon them this additional expense.

1           MR. SCHANZ: Dutch, would you talk about what  
2 management's responsibility is before we go down this  
3 path?

4           MR. MERRYMAN: Well, I can tell you, you know,  
5 from standards what management's responsibility -- but  
6 if I may, could I answer the --

7           MR. SCHANZ: Sure.

8           MR. MERRYMAN: We are working with AICPA on  
9 instructions and trying to work with them because we  
10 know there'll be a lot of questions to them. And so we  
11 are going to be coordinating with AICPA to make sure we  
12 get the information out and get enough information.

13           The other thing is there is an education  
14 process that has to happen with management, and we will  
15 be working with LSC management on that education  
16 process. According to the standards put out by the  
17 AICPA for this type of an examination, there's  
18 management's responsibilities before it can even be  
19 done.

20           And part of that is to have a system of  
21 testing their own internal controls, in fact testing  
22 that, and then making an assertion about their internal

1 controls as a result of those tests. And that's  
2 presented to the auditors in a representation letter.

3 So some education has to go on all the way  
4 around on how these things are going to be done and  
5 what needs to be done. So we need to provide a lot of  
6 education in this area now.

7 MR. GARTEN: This also ties in with the  
8 discussion about recommending separate audit committees  
9 for the individual programs, who would also get  
10 involved in this.

11 MR. MERRYMAN: Could very well.

12 MR. SCHANZ: Yes.

13 CHAIRMAN MEITES: Thank you. Any more  
14 questions or public comment?

15 (No response.)

16 CHAIRMAN MEITES: All right. Thank you both,  
17 and we look forward to the results you have for us in  
18 October.

19 MR. SCHANZ: Okay. Thank you.

20 CHAIRMAN MEITES: Other public comment?

21 (No response.)

22 CHAIRMAN MEITES: Consider and act on other

1 business?

2 (No response.)

3 CHAIRMAN MEITES: And we don't even have a  
4 quorum to adjourn.

5 MS. BeVIER: Yes, we do. Frank's here.

6 CHAIRMAN MEITES: All right. We have a  
7 quorum. I'll take a motion to adjourn, then.

8 M O T I O N

9 MR. STRICKLAND: So moved.

10 MS. BeVIER: Second.

11 CHAIRMAN MEITES: We are in adjournment.

12 Thank you very much.

13 (Whereupon, at 10:08 a.m., the committee was  
14 adjourned.)

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