

LEGAL SERVICES CORPORATION  
BOARD OF DIRECTORS

MEETING OF THE  
AUDIT COMMITTEE

OPEN SESSION

Thursday, July 16, 2015

3:16 p.m.

Radisson Blu Minneapolis Hotel  
35 South 7th Street  
Minneapolis, Minnesota 55402

COMMITTEE MEMBERS PRESENT:

Victor B. Maddox, Chairperson  
Gloria Valencia-Weber  
David Hoffman (Non-Director Member)  
Paul L. Snyder (Non-Director Member, by telephone)  
John G. Levi, ex officio

OTHER BOARD MEMBERS PRESENT:

Robert J. Grey Jr.  
Charles N.W. Keckler  
Laurie Mikva  
Martha L. Minow  
Father Pius Pietrzyk, O.P.  
Julie A. Reiskin

## STAFF AND PUBLIC PRESENT:

James J. Sandman, President

Lynn Jennings, Vice President for Grants Management

Rebecca Fertig Cohen, Special Assistant to the  
President

Wendy Rhein, Chief Development Officer

Ronald S. Flagg, Vice President for Legal Affairs,  
General Counsel, and Corporate Secretary

Stefanie Davis, Assistant General Counsel, Office  
of Legal Affairs

David L. Richardson, Comptroller and Treasurer,  
Office of Financial and Administrative Services

Jeffrey E. Schanz, Inspector General

John Seeba, Assistant Inspector General for Audit,  
Office of the Inspector General

Daniel O'Rourke, Assistant Inspector General for  
Investigations, Office of the Inspector General

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

Tom Hester, Associate Counsel, Office of the Inspector  
General

## STAFF AND PUBLIC PRESENT (Cont'd):

Lora M. Rath, Director, Office of Compliance  
and Enforcement

Janet LaBella, Director, Office of Program  
Performance

Bernie Brady, LSC Travel Coordinator

Carol A. Bergman, Director, Office of Government  
Relations and Public Affairs

Herbert S. Garten, Non-Director Member, Institutional  
Advancement Committee

Frank B. Strickland, Non-Director Member,  
Institutional Advancement Committee

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

Allan J. Tanenbaum, Non-Director Member, Finance  
Committee

Jean Lastine, Executive Director, Central Minnesota  
Legal Services

Jessie Nicholson, Executive Director, Southern  
Minnesota Regional Legal Services

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

Robin C. Murphy, National Legal Aid and Defender  
Association (NLADA)

Terry Brooks, American Bar Association Standing  
Committee on Legal Aid and Indigent Defendants

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

(3:16 p.m.)

CHAIRMAN MADDOX: I'm going to call the Audit Committee meeting to order. I see Gloria is here. I'm here. David Hoffman is here. And Chairman Levi is here. I don't know if Harry's on the phone or not. I don't believe he is. I understood that he was involved in a preliminary injunction proceeding this week, and he thought he would not be able to attend.

MR. LEVI: People have gone to great lengths to come up with reasons not to be with us.

(Laughter.)

MR. LEVI: But I'm sure this is one in which he would prefer to be with us.

CHAIRMAN MADDOX: Yes. So we have a quorum, and the first item of business on our agenda is the approval of the agenda. Is there a --

## M O T I O N

MR. LEVI: So move.

PROFESSOR VALENCIA-WEBER: Second.

CHAIRMAN MADDOX: And all in favor?

(A chorus of ayes.)

1 CHAIRMAN MADDOX: And opposed?

2 (No response.)

3 CHAIRMAN MADDOX: Hearing none, the agenda is  
4 approved.

5 Item 2 is the approval of the minutes of the  
6 Committee's April 13, 2015 meeting. Is there a motion?

7 M O T I O N

8 MR. HOFFMAN: So moved.

9 CHAIRMAN MADDOX: Second?

10 CHAIRMAN MADDOX: And all in favor?

11 MR. SCHANZ: Mr. Chairman, I have a correction  
12 to make on the minutes, if I may.

13 CHAIRMAN MADDOX: Yes, sir, Jeff.

14 MR. SCHANZ: Halfway down on page 99 of your  
15 Board book, I wanted to clarify. I believe this is a  
16 distinction with a difference. When we last met, we  
17 talked about our internal control reports. The minutes  
18 indicate that it was referring only to the IPA reports,  
19 which are the CPA reports of the grantees.

20 What we have done, and I'll get into this when  
21 I make my formal presentation, but we agreed to provide  
22 an executive summary to the internal control reports,

1 our work, not the IPA reports, which are derivative  
2 work. So I wanted to make that clarification.

3 CHAIRMAN MADDOX: Where exactly is that, Jeff?

4 MR. SCHANZ: Halfway down on page 99. "Mr.  
5 Schanz and Seeba briefed the Committee on the recent  
6 IPA reports the OIG sent to the Board." Now, those are  
7 different from what we do, our original work.

8 "Committee Chairman Maddox requested that,  
9 going forward, we provide an executive summary in  
10 transmitting such reports to the Board." As I'll talk  
11 about in a few minutes, we do that now, trying to make  
12 it more clear. But it doesn't refer to the IPA  
13 reports.

14 PROFESSOR VALENCIA-WEBER: So it's internal  
15 review?

16 MR. SCHANZ: It's our internal reviews. Yes,  
17 ma'am.

18 CHAIRMAN MADDOX: All right. Well, with that  
19 clarification, thank you, Jeff.

20 With that clarification, is there a motion to  
21 approve the minutes of the April 13 meeting?

22 //

1 M O T I O N

2 MR. HOFFMAN: So moved.

3 CHAIRMAN MADDOX: Second?

4 PROFESSOR VALENCIA-WEBER: Second.

5 CHAIRMAN MADDOX: All in favor?

6 (A chorus of ayes.)

7 CHAIRMAN MADDOX: Any opposed?

8 (No response.)

9 CHAIRMAN MADDOX: So the minutes are approved.

10 The first substantive item on our agenda is a  
11 review of the Audit Committee charter. I wanted to put  
12 this on our agenda so that we could take a few minutes  
13 to look at the charter that we drafted and put into  
14 place effective October 1, 2012 and see if, A, we think  
15 that it's working as intended, and B, if there's  
16 anything we need to do to better implement it, I'm not  
17 suggest, and I don't believe there's any need, to  
18 revise the charter in any way.

19 In particular, my thought was that we should  
20 look at Section 8, the Duties and Responsibilities, and  
21 see if there's a consensus about the extent to which we  
22 are actually doing what our charter calls for us to do,



1 and if not, whether we need to do anything different.

2           So for instance, on Section 8, section A,  
3 subpart 3, our charge is to: "Review and discuss with  
4 the OIG its audit responsibilities and performance, its  
5 audit plan for the Corporation, and the risk assessment  
6 that drives its audit plan," and such other things  
7 there.

8           I'm not actually sure that we've done that in  
9 the two or three years since we developed the charter.

10          And it may be that that's an aspirational goal rather  
11 than an actual duty we need to be undertaking.

12           If it's something that we need to be doing  
13 more substantively or aggressively, I think we ought to  
14 give some thought over the next three months or so, or  
15 maybe today if there are suggestions for how to  
16 actually better implement that.

17           My thought, for instance, is that we've never  
18 actually addressed in any substantive way what the OIG  
19 audit plan is for the Corporation or the risk  
20 assessment that drives its plan. And I'm sure, Jeff,  
21 you'll have some thoughts on this and whether this is  
22 something that we've done a reasonable job of or

1 whether we need to do more or whether we need to do  
2 something different.

3 I don't know if anybody else has any thoughts  
4 on the Committee or on the Board. David, do you have  
5 thoughts on this?

6 MR. HOFFMAN: Yes, I do. I think it's a good  
7 point. I agree with what you're saying. I think it  
8 makes sense to look back at this, and I do think there  
9 are some important things here that we're not covering.

10 My sense of what, if I look back on the last  
11 18 months or so, is that we've made, I feel like, as a  
12 Committee and with the IG and the OCE, making a lot of  
13 progress in understanding what they do, making sure we  
14 feel comfortable that there's the coordination and that  
15 we're getting briefed properly so that we can advise  
16 the Board.

17 What my suggestion would be is that we as a  
18 Committee offline in the next two to four weeks attempt  
19 to come up with our own work plan for the next four  
20 meetings, for the next year, in which we take these  
21 duties and responsibilities and we try to split them up  
22 over the next four meetings.

1           Then if we agree on that, then we give some  
2 notice and guidance to the various parts of LSC,  
3 including the IG's office and OCE, and say, at the next  
4 meeting two months from now we'd like to hear from you  
5 about A, B, and C. At the meeting five months later,  
6 we'd -- and so on. And I think that that might get to  
7 what you're trying to get to, which I think is a good  
8 idea.

9           CHAIRMAN MADDOX: Yes. I had actually gone  
10 through the charter after we adopted it and sent around  
11 an email to the Committee outlining how we might break  
12 out the various activities in Section 8 and how we  
13 would allocate them across the four quarters of the  
14 year. So I will pull that email back out and  
15 recirculate it just to start the discussion. I think  
16 it's --

17           MR. HOFFMAN: I knew that you had done that.  
18 I just wanted to cue -- I just wanted to basically give  
19 another cue to say, let's brush off that thing that we  
20 didn't do that Vic suggested. But if you did, that's  
21 great. I think that sounds like the right path.

22           CHAIRMAN MADDOX: Yes. I think that that'll

1 get the discussion started. I may see if Paul Snyder  
2 has any thoughts on this.

3 MR. SNYDER: I have been on the phone. Sorry,  
4 Vic.

5 CHAIRMAN MADDOX: Oh, hey, Paul.

6 MR. SNYDER: I apologize. I somehow got a  
7 different time. But anyhow --

8 CHAIRMAN MADDOX: Are you on your way over or  
9 are you going to attend --

10 MR. SNYDER: No. I think to try to do that on  
11 the phone, walk in, I'm just probably going to have to  
12 hold and join you for dinner. But rest assured I'm  
13 dressed up in my shirt and tie sitting here on my phone  
14 talking to you.

15 CHAIRMAN MADDOX: Well, we're sorry for the  
16 confusion.

17 MR. SNYDER: No problem.

18 CHAIRMAN MADDOX: We certainly appreciate your  
19 joining us now. Do you have any thoughts on what we  
20 just discussed, Paul?

21 MR. SNYDER: Well, I heard part of that, and I  
22 agree. I think that David's right. It would be

1 helpful to probably revisit it, I know you did it.  
2 Because I went back through the charter, and there are  
3 certain things, when I look at it, I was trying to  
4 figure out, I don't remember us doing these things.

5           So I think by having that, to go back and  
6 maybe revisit that grid the assignment of these things  
7 by the various meetings, would be helpful. And then to  
8 formalize what our expectations are from Management in  
9 the deliveries would be good.

10           CHAIRMAN MADDOX: Well, I think that's good.  
11 October will be the third anniversary of our adoption  
12 of the new charter, so that might be an appropriate  
13 time to actually look at it with the closer look that  
14 we're suggesting now.

15           That's really all I wanted to accomplish on  
16 that item on the agenda. Jeff, do you have any  
17 thoughts on this issue? I had identified, as I said, a  
18 number of areas where perhaps the interaction between  
19 the Committee and your organization --

20           MR. SCHANZ: Well, I was not party to that  
21 original email that you sent around, so I would like to  
22 have that as a background so I'm on firm ground with

1 the Committee.

2 CHAIRMAN MADDOX: Well, really, all the email  
3 did was to allocate the various tasks that we are  
4 charged with according to one of the four quarterly  
5 meetings. And it was just my attempt to group the  
6 various tasks according to some substantive process  
7 where we could have an annual review. We could satisfy  
8 ourselves that we had completed that task in the course  
9 of the year. But I'll be happy to send you that email.

10 MR. SCHANZ: Well, that will put me on an  
11 equal playing field, so I appreciate that. And then  
12 maybe I can have some formalistic comments related to  
13 your direction. Thank you.

14 CHAIRMAN MADDOX: All right. With that, we'll  
15 move to item number 4, a briefing by the Office of  
16 Inspector General. And I recognize Jeffrey Schanz, the  
17 Inspector General.

18 MR. SCHANZ: Well, I'm going with one arm tied  
19 behind my back. John Seeba is not here today. He  
20 dared to take a vacation. I don't know what that  
21 means, but he did it.

22 I do want to highlight a couple things that

1 I've been doing, though. Related to suggestions from  
2 the Board, specifically Mr. Maddox, the Audit  
3 Committee, Management, Jim Sandman, as well as my own  
4 OIG ideas, what we've been doing when we're issuing  
5 internal control reports now -- and I'm pleased to  
6 report that we've issued nine so far this year, which  
7 is at a pace greater than I've experienced in my seven  
8 years here.

9           But what I'm doing upon the recommendation  
10 which ties back to the correction in the minutes that I  
11 suggested is on all our own work, our internal control  
12 reviews, we're providing a synopsis of the report.

13           In addition to that, while trying to direct  
14 your attention to whether you want to read it or not,  
15 what else I've done -- and this was a Management and IG  
16 suggestion simultaneously -- was to add the chairman of  
17 the local board to the distribution of the final report  
18 so they know what the ED knows, and they can perhaps --  
19 the intent there is to apply pressure from a higher  
20 source to make sure that the recommendations are  
21 implemented and they understand the causes therefor.

22           In the interest of creativity, what I decided

1 to do is I put in, "Please note," it will say on the  
2 most recent issuances, "what makes this report unique  
3 from the IG's point of view." And you'll see that in  
4 the last three reports.

5 I decided there's significant things in here I  
6 want to draw your attention to, so we'll give you the  
7 synopsis up front for a generic look at what we're  
8 doing on the reports and then my take on what was  
9 important from that report. I'm signing it; I should  
10 know what's important about this report.

11 So those are a few of the things that we've  
12 done. When we get to the point of getting back to you,  
13 Mr. Chairman, on comments as far as the work planning  
14 we have developed, and I'll get into that in the open  
15 session of the Board meeting.

16 We have slides for that to draw your attention  
17 to what we're doing as far as we've updated our annual  
18 work plan. We've issued our strategic plan, which the  
19 work plan feeds into. And then in addition to that,  
20 we've updated our internet, and we'll have an  
21 interactive slide show, I think, showing you where our  
22 reports are filed, what's important about them.



1           Down the road, and I don't have enough data  
2 yet, but I would like to do common findings like we did  
3 in a capstone report, which we'll talk about in closed  
4 session, or in open session to the entire Board, the  
5 capstone report of investigations that we've provided.

6           Then we also have the subgrant report that  
7 we've provided to the Board, which shows a fundamental  
8 change in the way Management reviews and submits  
9 subgrants, which I think is a prime example of a  
10 cooperative reach with Management and the IG.

11           Jim took our recommendations and ran with  
12 them, and now the subgrant process of the entire LSC  
13 has fundamentally changed based on IG work. That'll  
14 come up. That's the intent I want to whet your  
15 appetite for for tomorrow.

16           Other than that, I do have copies of each of  
17 the reports I've submitted recently. I have the  
18 synopses in here. I have the "Please note" ideas. And  
19 I think we're moving forward with more information.

20           Certainly it's been transparent, but now I'm  
21 trying to -- I don't know if I should say this in open  
22 session, but I'm trying to lead the horse to water and

1 make it drink.

2           So no personal references there, just as a  
3 generic proposition from the IG. We do very good work,  
4 and I want you to realize what we're doing and ask  
5 questions on it. And that's all I have for right now.

6 I will, like I said, in open session of the Board get  
7 into a little more detail with a bit of a slide show.  
8 Thank you.

9           CHAIRMAN MADDOX: Thank you, Jeff.

10           Any questions for the Inspector General?  
11 Julie?

12           MS. REISKIN: Have you gotten any feedback on  
13 your new format? I know it's only three. You said  
14 you've issued three reports since you started. Have  
15 you had any feedback yet?

16           MR. SCHANZ: I'm waiting. No. But I'm trying  
17 -- well, like I said, the synopses part of it was a  
18 recommendation from Mr. Maddox. And then the referral  
19 to the ED or the board chair is from Jim Sandman, Jeff  
20 Schanz, and John Seeba. So we're doing that also. We  
21 came to the same conclusion at the same time.

22           Then of course our improved website, I'd like

1 you to spend at least a half hour every day on it so  
2 you can see, in addition, the other work that we're  
3 doing, not just the reports that make their way to the  
4 semiannual report, but we do a lot of collaboration and  
5 work with Management on their new policies and  
6 procedures.

7 A lot of those reflect IG input. You heard  
8 that at the Ops and Regs. A lot of those  
9 recommendations germinated with the OIG that Management  
10 has accepted and is working on.

11 CHAIRMAN MADDOX: Thank you, Jeff.

12 Anything else for the Inspector General?

13 MR. HOFFMAN: One of the reports was about the  
14 L.A. Legal Aid clinic. Some followup questions on that  
15 along the lines of the email exchange. Is that  
16 appropriate for closed session or open session, would  
17 you say? Were we planning on discussing some of those  
18 reports in closed session?

19 CHAIRMAN MADDOX: I don't know why it would be  
20 closed.

21 PROFESSOR VALENCIA-WEBER: There is a report.

22 CHAIRMAN MADDOX: There is? Is that in our

1 confidential materials?

2 PROFESSOR VALENCIA-WEBER: Yes, it is.

3 CHAIRMAN MADDOX: All right. There's one in  
4 open and a different one in the confidential.

5 MR. HOFFMAN: What are you looking at, Gloria?  
6 Are you looking at the chart?

7 PROFESSOR VALENCIA-WEBER: There's two charts.

8 MR. HOFFMAN: Right. Yes. My followup was on  
9 the public -- it was about the public IG report. But I  
10 think the followup questions are about specific  
11 individuals, so they may be more appropriate in closed  
12 session. I'm happy to do that. But I just wanted to  
13 make sure we had an option at some point to ask  
14 followup questions about that.

15 MR. SCHANZ: Well, if you would like, I could  
16 give you a little bit of background on that. That,  
17 once again, was a driver for us to send a synopsis to  
18 you and a report to the chairman of the board of the  
19 local entity.

20 That was LAFLA, we call it affectionately.  
21 Victor had some questions on their responses and were  
22 they good enough for the IG to assess. And we did

1 that, and I've checked with Victor, and I've sent it to  
2 the entire Board because he put his questions out to  
3 the entire Board So long ago I was told to write to  
4 your audience, so I sent all of the responses to the  
5 entire Board and the entire Committee.

6 That delays us. It takes a while to put  
7 together that level of detail. And from the GAO Yellow  
8 Book, number one, reports should stand on their own,  
9 and we feel that they do. But in that case, there were  
10 some questions raised by the chairman of this  
11 Committee, so we responded to those. If we do that on  
12 a regular basis, that's going to slow down our  
13 production quite a bit.

14 CHAIRMAN MADDUX: Well, my question, Jeff, had  
15 to do with what I perceived to be a grantee that was  
16 not forthcoming with your investigation in that there  
17 was question about the way certain, I think, expenses  
18 had been treated and approved.

19 As I recall, your office concluded that there  
20 hadn't been any support for that and it was a  
21 questioned cost.

22 MR. SCHANZ: Correct.

1           CHAIRMAN MADDOX:  And it was in only in  
2   response to the notice of that that the grantee for the  
3   first time provided what was ultimately their  
4   explanation, and that seemed to me to be problematic  
5   for a variety of reasons, not least of which was that  
6   the grantee seemingly didn't provide all the  
7   information that it had to the OIG during the course of  
8   the investigation.

9           I don't know if this is a confidential matter,  
10   David.  If you have thoughts or questions on this, I  
11   think this is a public report.  Isn't it, Jeff?

12          MR. SCHANZ:  The report itself is, yes.  The  
13   back-and-forth between the Committee and the IG is not.

14          CHAIRMAN MADDOX:  Sure.  Right.

15          MR. SCHANZ:  Yes.

16          CHAIRMAN MADDOX:  I don't see anything about  
17   that on our confidential reports.  Gloria, what were  
18   you looking at where you said it was confidential?

19          PROFESSOR VALENCIA-WEBER:  I was looking at  
20   page 293 and what happens after that on the chart,  
21   where we have some slightly different than what is in  
22   the public chart that we're at now.

1           CHAIRMAN MADDOX: 293 doesn't deal with this  
2 grantee, though, does it?

3           MR. HOFFMAN: No.

4           CHAIRMAN MADDOX: What I'm looking at doesn't  
5 have anything to do with the Los Angeles situation.

6           PROFESSOR VALENCIA-WEBER: No. No, it does  
7 not.

8           CHAIRMAN MADDOX: So David, if you have  
9 questions, I think this ought to be discussed in public  
10 unless there's some personnel issue that you think is  
11 -- your mike.

12           MR. HOFFMAN: Great. So Jeff, one of the  
13 points made in your report, and as fleshed out in the  
14 email chain with Vic, at least seemed to express a  
15 pretty significant concern regarding the explanations  
16 as to how the process had fallen down in a temporary  
17 way regarding review of credit card charges by this  
18 particular official there.

19           My question is -- well, I understood that the  
20 process failure had been identified. It had been  
21 pointed out to the board there, and so on. It to me  
22 raises a question about whether someone was reviewing

1 the substance of the credit card charges for the  
2 official in question because if there's a process  
3 failure, it raises a question mark.

4 Well, especially in light of the  
5 back-and-forth about the concerns about the credibility  
6 of the explanations, that to me raises a bit of a red  
7 flag about how the credit card's being used and how the  
8 money's being spent.

9 So my question is, do you know whether someone  
10 is looking into those credit card charges? It could be  
11 the board, it could be their own local auditor, or it  
12 could be the IG's office. But I think, with this red  
13 flag raised, if no one's looking into it, then that  
14 seems to be a gap.

15 MR. SCHANZ: Well, we, the OIG, the auditors,  
16 check into things exactly like that. We don't take  
17 things at face value. The joke is, trust but verify.  
18 So we drill down into credit card use, and if there is  
19 a scintilla of problem, then we go down further and  
20 expand the scope of that review for that official, and  
21 then if the controls are weak, then we look at numerous  
22 people.



1           What I've done recently, since I have what I  
2 would, I guess, say is a better staff than I used to  
3 have in the audit section, and John Seeba is a big part  
4 of that, is we don't take answers at face value. We  
5 never have because that would violate our standards.

6           But now it's more, and drilled into our  
7 auditors, even more importantly, and they know that I  
8 use the analogy of the dead body down the alley. You  
9 can't just look at that, and if there's a problem and  
10 credit card usage comes up -- I mentioned earlier I'd  
11 like to put together a table of common findings. And  
12 almost every grantee we go to has loose controls over  
13 credit cards because, oh, that's Joe. He's been with  
14 us for nine years. He wouldn't abuse a credit card.  
15 That's not the case.

16           MR. HOFFMAN: So just to clarify, as to the  
17 credit card use by this particular official, the IG's  
18 office reviewed the credit card charges themselves  
19 during a certain period of time?

20           MR. SCHANZ: That is correct.

21           MR. HOFFMAN: Especially during the time when  
22 it was not being reviewed, and --

1           MR. SCHANZ: Right. During the scope of the  
2 audit.

3           MR. HOFFMAN: -- and didn't find any specific  
4 problems?

5           MR. SCHANZ: I don't think that's correct. I  
6 think we did find specific problems. As I mentioned,  
7 John isn't here, so I can't lay my hands on it  
8 initially. But yes, we did have a problem with it. We  
9 determined, and not just this IG but every IG  
10 determines whether the grantee's or the auditee's  
11 recommendation satisfies our recommendation.

12          MR. HOFFMAN: Just to be clear, I'm not  
13 talking about the internal control problems. I'm not  
14 talking about the process problems that you identified  
15 and where there was the back-and-forth with the grantee  
16 about whether it was a true internal control problem or  
17 not.

18           I'm talking about the actual spending of the  
19 money, the actual charges. Are you saying the IG's  
20 office did find a problem with some of the charges on  
21 the credit card or --

22          MR. SCHANZ: Well, I'd like to get back to you

1 because I don't have the full report in front of me.  
2 We don't turn away from an instance like that because  
3 that's an indication of fraud.

4 MR. HOFFMAN: That's why I'm asking.

5 MR. SCHANZ: Yes. And that's why I'm saying  
6 fraud we take very seriously, as does every IG.

7 MR. HOFFMAN: So you would want to check  
8 further to see if the report says there was fraud?

9 MR. SCHANZ: Oh, yes. We always drill down.

10 MR. HOFFMAN: No, no. I mean the report  
11 either says there were problems in fraud or it doesn't.  
12 I don't, frankly, recall what it says.

13 MR. SCHANZ: Well, like I said, I'd have to  
14 get back to you, David. I don't have the report in  
15 front of me. And I don't have instant recall of the  
16 report.

17 MR. HOFFMAN: Yes. So I think if there were  
18 no problems identified, great. If there were problems  
19 identified, the question would be, what's the followup?  
20 So if you wouldn't mind getting back to us on that,  
21 that would be great.

22 MR. SCHANZ: Well, I'm looking at John's

1 explanation to the chairman of the Committee, Mr.  
2 Maddox. "Regardless of this explanation" -- they gave  
3 us what we felt was a somewhat watered-down or bogus  
4 reason for the credit card use and not being reviewed.

5 "Regardless of this explanation, the ED" --  
6 executive director -- "is fully cognizant that her  
7 credit card expenditures should be reviewed by the  
8 board and a reduction of staff should have no bearing  
9 on this. She was fully aware that the policy on this  
10 was either an oversight or she intentionally  
11 disregarded it."

12 MR. HOFFMAN: No. I know. I read that, and I  
13 think that is a helpful discussion about the process  
14 failure. And as you can hear, I'm asking about where  
15 there was a process failure, does that mean that there  
16 were inappropriate charges or not. And I'm just trying  
17 to figure out whether that's something you looked at.

18 It sounds like you did look at it, but you're  
19 going to follow up with us about what you found. And  
20 that would be helpful.

21 MR. SCHANZ: I can give you the level of  
22 detail as to how many expenditures we looked at.

1 That's in the report or in the working papers.

2 MR. HOFFMAN: Yes. I guess what I'd like to  
3 know is, did you find a problem or not?

4 MR. SCHANZ: I can't answer that right now.

5 MR. HOFFMAN: I understand. That's fine. The  
6 followup would be --

7 MR. SCHANZ: I'm suggesting that we did not  
8 because if we did, it would have been in that response  
9 to Mr. Maddox.

10 MR. HOFFMAN: Yes. An answer to that question  
11 would be great. Thank you very much.

12 CHAIRMAN MADDOX: Thank you, Jeff and David.  
13 Anything else on that, David?

14 MR. HOFFMAN: No. Thanks.

15 CHAIRMAN MADDOX: I just want to raise for the  
16 Board something that Jeff just alluded to, and that is  
17 that in this case there was an established oversight  
18 procedure by the grantee that the board president, I  
19 guess, would review the credit card charges of the  
20 executive director. And this didn't happen for at  
21 least a year, and it was only brought to light when the  
22 Inspector General's office brought it to light, as I

1 understand it.

2           So for at least a year, the board of the L.A.  
3 grantee was not executing its own oversight  
4 responsibilities on the grantee. And we've talked  
5 about how to improve our board management and our board  
6 best practices and the like, this seems to be an  
7 example of the sort of thing that we need to be  
8 concerned about because apparently, in this case, there  
9 were no improper charges on the card, but there  
10 certainly could have been.

11           If this had gone on for five years without the  
12 board exercising its own oversight, and in that  
13 five-year period the OIG and OCE or LSC Management  
14 didn't discover it, well, then, you could have lost a  
15 very substantial sum of money.

16           So I know that the Board in general is looking  
17 at ways to improve the functioning of our grantee  
18 boards, and I think that's one of the things that we  
19 ought to put into that mix if we can.

20           Martha?

21           DEAN MINOW: I was struck when our Inspector  
22 General said that this credit card issue is rampant,

1 which I am sure is true. And I wonder, is this a good  
2 topic for the fraud awareness kind of seminars that you  
3 do?

4 MR. SCHANZ: I think we -- well, I know we do.  
5 We talk about that in the fraud awareness seminars.  
6 This problem is not endemic here. It's endemic across  
7 government. You will read in headlines in the New York  
8 Times or the Washington Post about credit card abuse.

9 My other hat -- I'll put on my CIGIE hat now  
10 -- that's been a cross-cutting review for years that no  
11 one has offered to lead. I would lead it, but I'm such  
12 a small player in the use of credit cards. The credit  
13 card abuse and improper payments, they're calling it,  
14 it comes from HHS and DOD and GSA, are the big three.  
15 And their credit card use dwarfs us by -- exponentially  
16 number of times.

17 But it's always an issue out there. If you  
18 give somebody authority to spend, they may abuse that  
19 authority to spend. And the easiest way to do it, from  
20 what we've seen, is the L.A. example, that no one was  
21 reviewing it.

22 We did a fraud awareness briefing of LSC

1 headquarters, and even Jim Sandman submits his credit  
2 card and travel and time and attendance to the Board.  
3 From an IG point of view, no one is above reproach.  
4 And that's how I believe the entire CIGIE community  
5 looks at credit card use and abuse.

6 MR. SNYDER: Vic, Paul Snyder. Just a  
7 followup on this point because I looked back at the  
8 reports, and I don't see that we had any disease  
9 allowed costs that show up in any of the referrals on  
10 this.

11 But then the question comes up, as we get into  
12 like a public reporting format, you may not have an  
13 audit adjustment to financial statements, but people  
14 have, and that's a material weakness in controls. And  
15 it's not what did happen, it's what could have  
16 happened.

17 Back to this point. This is an issue that  
18 obviously could have had significant ramifications. Is  
19 there another process or reporting that we could just  
20 get that surfaced to the Board and then have the  
21 feedback about what is LSC doing with its grantees to  
22 address that issue that may not be isolated to one



1 grantee? Because it clearly is a control issue, and  
2 it's one thought could come back later --

3 MR. SCHANZ: Well, to your first --

4 MR. SNYDER: -- when the number is really  
5 large.

6 MR. SCHANZ: To your first point, Paul, and  
7 thank you; that's why we report these things. Even if  
8 we don't have, and condition, cause, effect, criteria,  
9 recommendation, are the basic elements of a finding,  
10 there is a potential.

11 Even though there wasn't an effect at this  
12 point, we report out on the potential for possible  
13 abuse in most of urine reports when we find this  
14 because the board and the ED need to know -- that's why  
15 we're sending the reports to the chair of their local  
16 boards now -- that this is a potential not only  
17 weakness, but it's an indication of possible fraud.

18 CHAIRMAN MADDOX: Jim, did you have a comment  
19 on that?

20 PRESIDENT SANDMAN: Yes. we have several  
21 mechanisms that we use to inform grantees of commonly  
22 recurring problems. The Office of Inspector General, I

1 believe once a year, puts out an advisory identifying  
2 lessons learned from the last year's audits and  
3 investigations. And the Office of Compliance and  
4 Enforcement does something similar. Here are the  
5 problems we're routinely seeing.

6           This discussion reminds me that it's important  
7 that we send those not only to executive directors but  
8 to boards, and I don't know if we've been doing that  
9 previously. When I read this report, the report about  
10 LAFLA, I asked Jeff if it had gone to the board because  
11 particularly with some of the things that were reported  
12 about the executive director, my reaction was, if I  
13 were on that board, I would want to know those things.

14       And Jeff has followed up on that suggestion.

15           So we do, through those two devices, the  
16 annual OIG advisory and the one that OCE sends out, try  
17 to flag these things. I think we can take it a next  
18 step, to be sure that it's not just the executive  
19 director, who may be the problem, but the board who  
20 understands what we're seeing and what their obligation  
21 is to follow up on the matters we identify.

22           And as Jeff said, the fraud awareness

1 briefings do take account of OIG's experience in  
2 identifying where the most common opportunities for  
3 fraud might be.

4 CHAIRMAN MADDOX: So, Jim, do I understand  
5 that LSC will now be sending those sorts of  
6 communications both to executive directors and to the  
7 boards of the grantees?

8 PRESIDENT SANDMAN: As of this meeting, yes.

9 CHAIRMAN MADDOX: Excellent. I think that's a  
10 great development.

11 Any other questions? Paul, did you have  
12 anything else?

13 MR. SNYDER: No. I just, again, think that  
14 from a control standpoint, we're looking at these  
15 disallowed costs. And I think it would be good if  
16 periodically those things that are material weaknesses  
17 maybe a summarized and how those get focused into the  
18 education and training with the grantees so we  
19 understand how those are being addressed. Because they  
20 could result in significant disallowed costs in the  
21 future, and that's how to keep ahead of it.

22 CHAIRMAN MADDOX: I agree.

1           MR. SNYDER:  Would be a thought.

2           CHAIRMAN MADDOX:  Yes.  Jeff, I want to go  
3 back to something you said just at the outset of this  
4 discussion.  You made a reference to, I think, that  
5 this exchange that I started with my email somehow  
6 would slow the OIG down.  Can you elaborate on that?

7           MR. SCHANZ:  Well, I would like to gain -- if  
8 I haven't already -- I'd like to gain the confidence of  
9 the Board that our audits meet GAGAS.  And the more we  
10 have to get into our working papers to report to any  
11 one of ten Board members could slow us down.

12           Right now I'm on pretty much a rocket docket  
13 with some of the audits that I'm putting out, and I  
14 think they're all quality work.  Any delay in that --  
15 and maybe I overstated it -- really wouldn't slow us  
16 down because we do have the information readily  
17 available.  But we'd have to go back instead of  
18 forward.

19           MR. HOFFMAN:  If I could just react to the  
20 exchange?  With appreciation for how much work that you  
21 all do and that everyone's busy, I certainly don't want  
22 to take Jeff's comment as creating any sort of chill,

1 Vic, on your enthusiasm for doing the kind of thing  
2 that happened here. I think that was very valuable.

3 I think that sending followup questions from  
4 the Audit Committee, especially from the chair, to the  
5 IG to say, I don't understand this or can you follow up  
6 on this, was very helpful. I think the exchange that  
7 came back from the IG staffer couldn't have taken that  
8 long.

9 So I would encourage you and others on the  
10 Audit Committee to ask followup questions in the way  
11 that's been done. And I think, Jeff, if there comes a  
12 time, in a specific email exchange or otherwise, where  
13 you feel like you all don't have time to respond, of  
14 course you're free to do that.

15 But I can just say from, I think, the exercise  
16 that just happened, I think it's a good thing and I  
17 hope that it continues, again with great appreciation  
18 for how much you all have to do.

19 MR. SCHANZ: Well, as I mentioned earlier,  
20 also I'm not John Seeba. But he was able to put this  
21 together in less than 24 hours for Victor's questions  
22 and respond to you, that turnaround. So I probably

1 misspoke as to the time.

2 I'm trying to set some parameters on -- we  
3 can't do this on every audit report. But if there are  
4 legitimate questions on how we resolve certain things,  
5 our answers are a lot of times going to be, well, we  
6 referred it to Management. The IG can only go so far  
7 in implementing its recommendations. Then it becomes a  
8 Management issue.

9 CHAIRMAN MADDOX: Well, Jeff, I appreciate all  
10 that. And I appreciate, David, your comments as well.

11 I'm not easily chilled.

12 (Laughter.)

13 MR. HOFFMAN: Good to hear.

14 CHAIRMAN MADDOX: It's part of the territory  
15 of being a commercial litigator. But Jeff I do want  
16 to, I guess, emphasize that I think it's appropriate  
17 for the Audit Committee of the Legal Services  
18 Corporation Board to interact with your office when it  
19 has substantive questions about the work that's being  
20 done.

21 In this case, I thought that your report was  
22 excellent and substantive and detailed. But as you

1 know, I had three or four questions about what it is  
2 that led to the results that you received, and what  
3 level of cooperation you got from the grantee.

4 I think what struck me the most was the fact  
5 that the grantee reported, in management's response,  
6 that the information OIG reported and relied on in the  
7 report itself was false; in other words, that they did  
8 not say to your investigators what your investigators  
9 reported was said. And I found that to be a troubling  
10 exchange between the staff of a significant grantee and  
11 OIG.

12 So I thought this was a useful exercise, as  
13 David did. I think that John Seeba's responses to my  
14 questions were very helpful. And I don't anticipate  
15 that either I or the Committee in general, or the Board  
16 more broadly, is going to be micromanaging what you  
17 guys do.

18 But I do think that we're probably going to be  
19 all better off if we have some of these exchanges. For  
20 instance, the discussion about how to inform the  
21 grantee boards, as we're now going to be doing, I think  
22 was a result of this whole exchange.

1           So I don't want to slow you guys down. I  
2 don't think that I will. I don't think I've been  
3 obtrusive in my requests. And I appreciate the spirit  
4 with which you guys are going forward and working with  
5 us, and I encourage you to keep doing it.

6           Gloria?

7           PROFESSOR VALENCIA-WEBER: On this particular  
8 grantee and the situation that was there, I feel that  
9 the Audit Committee was really asking appropriately  
10 because of the circumstances and the information that  
11 we were getting.

12           I think that we would not be doing that with  
13 every one of your reports. It doesn't make sense to.  
14 But the answers that were forthcoming in that, I find,  
15 were quite enlightening in terms of, first, how your  
16 information went, what you got in response from the  
17 grantee, and then what was ultimately the faulty part  
18 that could not justify what the grantee had done. So I  
19 think that there may be, in the future, some other  
20 situation where we have to ask questions. And it's not  
21 to be done all the time to slow you down.

22           Then secondly, you mentioned earlier today



1 that credit card misuse, overcharging verging if not on  
2 fraud, is such a common problem that you could chart it  
3 and list all this. Is this something that you have as  
4 a chart now with your fraud training?

5 I've attended your fraud training at the  
6 grantee in my state, and I found it very helpful. But  
7 I think if you do have these devices, like a potential  
8 chart and what it is you encounter again and again,  
9 that would be very useful.

10 MR. SCHANZ: Well, thank you, Gloria. We are  
11 working on that. As I said, I want to do something,  
12 and Rome wasn't built in a day, and as the Three  
13 Stooges say, either was Syracuse.

14 (Laughter.)

15 MR. SCHANZ: But it takes time out of the  
16 field. And my time in the field is about as important  
17 to me as an IG as anything because that gives us a  
18 presence. It gives us a contact, not necessarily just  
19 for the grantee but for whistleblowers who may come up  
20 and call the hotline.

21 We've not done the one-to-one nexus on that,  
22 but it does exist. And I've done that everywhere I've

1 ever been. I've tried to get a survey of common  
2 findings. And as Jim indicated, we send that out on an  
3 annual basis to all grantees.

4 But I don't have it for certainly my seven  
5 years. I don't have it yet because it takes time from  
6 what I'm fairly aggressively trying to do, which is  
7 eliminate fraud, waste, and abuse and inefficient  
8 practices in the LSC. But thank you. Yes.

9 CHAIRMAN MADDUX: Martha?

10 DEAN MINOW: Having been stung by credit card  
11 abuse in other organizations, I guess I just want to  
12 say being able to prevent upstream any such misconduct  
13 actually is a really good use of your time.

14 I do think that we are on the verge of an  
15 explosion of problems with evermore electronic use of  
16 the credit cards, with the Ubers and all the other  
17 kinds of ways in which people are using the credit card  
18 swipe for all kinds of things.

19 Finding some of it is a question of internal  
20 controls, but it's also there might be some  
21 technological solutions. And so I think it would be  
22 well worth an investment of time, whether it's you

1 alone or whether it's through CIGIE or something. It  
2 just seems to me a terribly important problem.

3 MR. SCHANZ: Thank you.

4 CHAIRMAN MADDOX: Thank you, Martha.  
5 Julie?

6 MS. REISKIN: I just had a clarification  
7 question, and I don't know if it's for you or Jim. But  
8 I heard one of you say the reports are going to the  
9 board chair, and someone else say to the board.  
10 There's a big difference, and which is it? Is it going  
11 to the whole board or just the chair?

12 MR. SCHANZ: Well, as of right now, that was  
13 what my prefatory remark said. That's one of the new  
14 things we're doing with our audit reports as well as  
15 the synopsis and the "Please note." If you will look  
16 at those, the CC is to the board chair.

17 CHAIRMAN MADDOX: Jim?

18 PRESIDENT SANDMAN: I do think that's a good  
19 point, Julie. I don't know that we have contact  
20 information for all board members. Lora is shaking her  
21 head no, we don't. We have in our database contact  
22 information for the board chair.

1           At a minimum, what we could do, at least  
2 initially, is in our transmittal to the board chair ask  
3 the board chair to share it with all board members.  
4 It's not unheard of for there to be a cozy relationship  
5 between an ED and a board chair. And I think that  
6 particularly members of boards who sit on audit  
7 committees should be aware of what our IG is finding.

8           MR. HOFFMAN: That's a good -- I guess I was  
9 assuming that the whole board would automatically get  
10 it. When you issue a report, when it says to  
11 so-and-so, is it addressed to the board?

12           MR. SCHANZ: No. It's addressed for the  
13 action official, which in this case is always the  
14 executive director.

15           MR. HOFFMAN: Is there a reason, either from  
16 process or experience, that you would not make it  
17 either to the board as the governing authority of the  
18 entity, or at least CC the whole board in the cover?

19           MR. SCHANZ: Well, that's what the discussion  
20 is. We CC the board chair.

21           MR. HOFFMAN: No, I know. But is there some  
22 reason from process or experience why you shouldn't

1 send it to the board or CC the board?

2 MR. SCHANZ: No.

3 MR. HOFFMAN: So I think --

4 MR. SCHANZ: I can give you --

5 MR. HOFFMAN: Shall we recommend that the IG  
6 consider doing that on a going-forward basis? If I'm  
7 on the board, whether you're the chair or not, you want  
8 to know if the LSC IG finds a problem.

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

10 I think it ought to be directed to the executive  
11 director, but I see no reason why it shouldn't be  
12 copied to all the board, unless there is, as you say,  
13 some good policy reason why not. I assume there's no  
14 logistical reason why it couldn't be done.

15 These are electronic communications, Jeff, by  
16 and large?

17 MR. SCHANZ: Yes.

18 CHAIRMAN MADDOX: So we need an email list. I  
19 assume LSC can compile, or the OIG, or between the two  
20 of you can compile a comprehensive list of board  
21 members' emails.

22 PRESIDENT SANDMAN: That could be complicated.

1           MR. HOFFMAN: Isn't the easier way to do this  
2 to, along lines of what was suggested, is that it's  
3 addressed -- the report is to the executive director,  
4 copied to the board? The cover page says that. In  
5 your electronic communication, you could say to the  
6 board chair, please forward this to the board with a  
7 copy to me so that I can see that you've sent this to  
8 the board. And then you know.

9           CHAIRMAN MADDUX: Sounds like a solution.  
10 Julie?

11          MS. REISKIN: Yes. I'm a board chair of a  
12 nonprofit that's government-funded and regulated, and  
13 those audit reports are addressed to me, copied to the  
14 executive director, and I can't remember if it says to  
15 send it to the board.

16          Of course I do, but that's how it -- and it's  
17 emailed to me and the director at the same time. But  
18 that way the director knows that I'm getting it. But  
19 it is actually addressed to me as the board chair.  
20 That's just one. And that's in the office of -- it's  
21 through HHS, but it used to be through the Department  
22 of Ed. It's an independent living center. And so

1 that's just how it's done in that arena.

2 CHAIRMAN MADDOX: Martha?

3 DEAN MINOW: So maybe your report should be  
4 addressed simultaneously to the ED and the board chair  
5 and not just a CC, but it's actually addressed to the  
6 board chair. Does that make sense?

7 MR. SCHANZ: It does. I used the term "action  
8 addressee" before, and that's audit-speak. That's the  
9 person who is responsible for the funding and the  
10 resolution of the recommendations. You want to direct  
11 it directly to the person who can impact the different  
12 changes that need to be made.

13 The board chair generally -- and I don't know  
14 the composition of the local board chairs; I do know we  
15 had a major fraud in New Orleans, and had 32 board  
16 members. And if you had two that were paying  
17 attention, you were doing well.

18 But I can certainly do that. It'll take a  
19 little more process, and maybe Jim and my staff can  
20 figure out who the board members are. But it's a very  
21 fluid dynamic out there. They come and go.

22 PRESIDENT SANDMAN: No. I think David has --

1 I think it was David -- made the great suggestion that  
2 we send it, whether it's coming from OIG or OCE, to the  
3 executive director and the board chair simultaneously,  
4 ask the board chair to circulate it to the board, and  
5 confirm to us that the board chair has done so.

6 Put the burden on them, but also require that  
7 they confirm it's been done. Because compiling  
8 information -- we have some grantees that have very  
9 large boards. Getting board contact information for  
10 134 grantees is a burden we don't need.

11 CHAIRMAN MADDOX: Well, I think that's a good  
12 resolution, Jim. I think the important point is that  
13 the information be communicated to the people who need  
14 to see it. So it's probably not for this Committee to  
15 direct you, Jeff, about how you're going to go about  
16 doing that. But I assume that, Jim, you and Jeff in  
17 consultation together will see that an appropriate  
18 process is developed.

19 PRESIDENT SANDMAN: Yes.

20 CHAIRMAN MADDOX: All right. Thank you, Jeff.  
21 Anything else from the Inspector General on your  
22 report?



1           MR. SCHANZ: Other than the fact how I  
2 started. I took advice from the Board, Management, and  
3 my own staff on providing a synopsis and now providing  
4 more information on the issuance of our reports. And  
5 later, in Board session, we'll have a screenshot of our  
6 new internet and show you where all of our reports are  
7 residing.

8           CHAIRMAN MADDOX: Excellent.

9           MR. SCHANZ: I was going to say hosted, but  
10 I'm not good at -- I'm good at audit-speak, less so at  
11 IT-speak.

12           CHAIRMAN MADDOX: Well, thank you very much  
13 for your report.

14           MS. REISKIN: Does that mean that you don't  
15 have a tracker to see if we're actually spending a half  
16 hour a day on your site?

17           (Laughter.)

18           MR. SCHANZ: That's coming.

19           CHAIRMAN MADDOX: All right. Thank you, Jeff.

20           We're going to move on to item number 5 now,  
21 Management's update regarding the risk management  
22 matrix. I recognize the General Counsel.

1           MR. FLAGG: Thank you. The matrix appears at  
2 page 109 and the following pages of your Board book.  
3 In the interest of time, and I know you have some  
4 weighty matters coming up, I'm happy to answer  
5 questions.

6           There were two things I was going to  
7 highlight, but they will both be reported on at greater  
8 length in October. We have substantial changes in our  
9 acquisitions management policies, procedures, and  
10 electronic tools for accomplishing what we're seeking  
11 to do. And we'll elaborate on those in October.

12           I think that's a very substantial advance for  
13 us in terms of risk management. And we also have a new  
14 records management policy, which we'll share with the  
15 Operations and Regulations Committee in October.

16           Happy to answer any questions.

17           CHAIRMAN MADDUX: Charles?

18           MR. KECKLER: Thanks. Just a quick note or  
19 question, if you want to respond. I notice that in  
20 addition to the item that you just mentioned, and Ops  
21 and Regs is the responsible committee for accuracy of  
22 grantee data. That's on page 115.

1           That, I think -- I'm trying to look back and  
2   forth -- is the only red item that doesn't have a next  
3   report or a last report, either. So I was wondering if  
4   there's a thought about the accuracy of grantee data  
5   issue.

6           MR. FLAGG: Yes. The short answer is, let me  
7   get back to you on that. That, to my mind, is  
8   something that falls both within the Ops and Regs  
9   Committee as well as the Delivery of Legal Services  
10   Committee. But let me consult with Lynn and Lora and  
11   Janet, and we'll get back to you with a suggestion as  
12   to how to report on that obviously very significant  
13   item.

14           We have a new data portal, which also involves  
15   the Office of Information Technology, which I think  
16   will help address this issue as well. So we will come  
17   up with a plan for updating the Board and the  
18   appropriate Committee or Committees on this topic.

19           MR. KECKLER: Thank you.

20           CHAIRMAN MADDIX: Thank you, Ron.

21           Any other questions for Ron on that?

22           (No response.)

1           CHAIRMAN MADDOX:  If not, in the interest of  
2  time, we're going to move on to item number 6, a  
3  briefing about the followup by OCE on referrals from  
4  OIG regarding audit reports and IPA audits.  And I  
5  recognize Lora Rath, director of OCE, and Jeff Schanz,  
6  standing in for John Seeba.  Lora?

7           MS. RATH:  Good afternoon.  In the interest of  
8  time, I will try and talk in my best New York  
9  fast-speak so we can get through what we need to.

10           Before I get to the materials that I provided  
11  in the Board book, I wanted to go back to something  
12  that was just briefly mentioned during the April  
13  meeting.  I believe you were all given a copy of the  
14  April 9th memo from Jim to Jeff talking about the  
15  target timelines for OCE or LSC Management completing  
16  OIG referrals.  This was, as you know, something that  
17  this Committee recommended.

18           Just to briefly go through it so that -- it's  
19  pretty self-explanatory.  But what we've decided is  
20  that from the time that we receive an OIG referral and  
21  the backup information, within 120 days, so four  
22  months, OCE will review the materials and decide how

1 they're going to proceed, whether a notice of  
2 questioned costs, an informal negotiation.

3 Then at that point the regulatory timelines  
4 start kicking in. And that would bring us to if we  
5 stuck exactly to those regulatory timelines, it would  
6 take 270 days to complete our referral.

7 So that's going to be our target timeline.  
8 And as part of my reports, my quarterly reports, from  
9 now on I'm going to give you, when something is  
10 completed, how many days it actually took us to  
11 complete so that you guys can see how we're doing.  
12 Okay? Thank you for giving us that push in that  
13 direction, and hopefully that will keep me and my staff  
14 on target.

15 Does anybody have any questions about that  
16 memo? I think it's pretty self-explanatory.

17 MR. HOFFMAN: So four months to consider it  
18 internally and then five months to do the pursuit, and  
19 then it does total nine months?

20 MS. RATH: Right. Because the program has 30  
21 days to respond. Then we have 60 days back and forth,  
22 back and forth. If the program, for written good

1 cause, asks for an extension, we can give them an  
2 extension, and there have been a few instances where it  
3 is. But 270 should be a pretty good framework for us  
4 to work with. Okay?

5           So in the Board book for the open session,  
6 there are three documents: a cover memo, talking about  
7 the current status of audit referrals. Just to briefly  
8 go over it, there were two outstanding referrals at the  
9 beginning of the year. In the first half of the year  
10 there have been two new referrals, and we managed to  
11 close out one referral. So we now have three pending  
12 referrals.

13           Just to update information since the memo was  
14 put into the Board book, New York City has let us know  
15 that they have looked at their numbers and they are  
16 actually going to restate an extra \$122,000 for 2014.  
17 So that's on top of the 2013 numbers that we had asked  
18 them to restate. And Northeast New Jersey has indeed  
19 provided us evidence that they restated the \$72,000 and  
20 change. So that's going to get closed out very  
21 quickly, those two.

22           Then just to, as I said that I would update

1 you on how long things took, Nevada Legal Services took  
2 us 214 days to complete. So well within our goal of  
3 270 so far.

4 Questions?

5 CHAIRMAN MADDOX: David, go ahead.

6 MR. HOFFMAN: A quick question.

7 MS. RATH: Yes, sir.

8 MR. HOFFMAN: The excellent work looks good.  
9 This is a question either for you or for Jeff or for  
10 both. Looking at the New York City one and the New  
11 Jersey one, should the IPA that did the audit of these  
12 entities have caught what you caught?

13 One of the things I'm mindful of is that if  
14 the burden of catching every problem -- these are  
15 significant amounts of money -- is on the IG's office,  
16 that's a burden that certainly can't be met, given the  
17 number of entities.

18 But there are IPAs out there that are actually  
19 doing the audits, and both of these instances of what  
20 you found and that OCE followed up on seemed to be one  
21 that any auditor who was looking at the books would  
22 have caught because they're pretty large amounts that

1 seem pretty clearly wrong.

2 I didn't want to dwell on this, but are we  
3 maximizing the inquiry into whether the IPAs are doing  
4 their job? Because they seem to be the front line on  
5 this.

6 MS. RATH: I'm going to defer to the IG.

7 MR. HOFFMAN: Yes. I thought it was an IG  
8 question, yes.

9 MR. SCHANZ: I can answer that, David. The  
10 IPAs, their objective of their audit is to deliver a  
11 financial opinion. And everything that doesn't lead to  
12 the issuance of that financial opinion could be  
13 considered material or not material, depending on the  
14 audit team.

15 In some cases, we always find payments for  
16 flowers and occasional alcohol and going-away gifts.  
17 That's not material to a financial statement, so an IPA  
18 wouldn't even be looking for that because it's such a  
19 small amount of the total.

20 MR. HOFFMAN: When you look at the New York  
21 City ones and the New Jersey ones, are you saying that  
22 those are small? One's about 200,000. One's about



1 75,000.

2 MR. SCHANZ: No. I'm talking in generalities.

3 MR. HOFFMAN: No, I want to talk about these  
4 two. These two examples, one question that comes to my  
5 mind is, is there an appropriate followup from the IG's  
6 office to the IPA that did the audit to say, I want to  
7 let you know that it looks like you may have missed  
8 something, and I'm inquiring as to why you missed it?

9 Your reaction might be, no. They didn't miss  
10 anything. It's not their job. But that's what I  
11 wanted to ask because it struck me that it probably was  
12 within the scope of their audit to look for something  
13 like this, and it looks like they didn't get it.

14 MR. SCHANZ: Well, we have something that I'm  
15 pretty proud of. I think it's fairly unique in the IG  
16 community. We do QCRs. We hire a firm to do a QCR of  
17 each IPA. I reported the results of that to the Board  
18 at the last meeting, where we pay an IPA firm -- in  
19 this case it was McBride -- and in fact, we recompeted  
20 the contract and got them down a thousand dollars for  
21 each review they do. So that was a result of a good  
22 contract that we negotiated.

1           Same firm, but with lesser cost. And their  
2 job is to do precisely what you're asking. Did that  
3 audit meet standards?

4           MR. HOFFMAN: Yes. In general. I guess, in  
5 the interest of time, one thing, if it's not being done  
6 now, I would ask you to consider discussing with your  
7 staff is when you do an audit and find questioned costs  
8 to this degree, that one followup step that your staff  
9 take is to then communicate with the IPA to let them  
10 know about this; and secondly, to consider internally,  
11 do we need to do a special look at that IPA to  
12 determine whether they're appropriate.

13           If you all could just consider that, and then  
14 maybe the next time we're together you could tell me  
15 whether you think it's a good idea to do that kind of  
16 followup. It seems worthy of consideration.

17           MR. SCHANZ: I can tell you right now it's a  
18 good idea. We have actually debarred one IPA for  
19 faulty work, and we have another one in process. So we  
20 do take a look at that. We go back to -- I'll use the  
21 contractor's name, McBride -- we go back and look at  
22 their working papers and make sure we see where the

1 holes are in what they look at from the IPA.

2           Then we communicate directly with the  
3 independent public accountant and say, you're guilty of  
4 faulty work. You didn't meet standards. And in due  
5 process, we give them an opportunity to respond. But  
6 then we go forward, and if it's satisfactory, we will  
7 ask them to give us more detail as to how they  
8 mitigated the hole that they left or we debar them. We  
9 initiate suspension and debarment activity. We've done  
10 that twice now through our QCR process.

11           I guess in general, David, we can't drill down  
12 to every single issue with a staff of less than 30 and  
13 134 grantees.

14           MR. HOFFMAN: Sure.

15           DEAN MINOW: It is striking that these three  
16 newish ones each involve attorneys' fees. And we have  
17 changed our rule about attorneys' fees.

18           MR. SCHANZ: Correct.

19           DEAN MINOW: And so I'm wondering if that's  
20 something that actually requires some special  
21 attention. And we probably will see others that aren't  
22 familiar with, and it's a change in how operations have

1 to proceed.

2 MS. RATH: You're exactly right. And  
3 actually, the compliance advisory that Jim was  
4 referring to does discuss this issue as something for  
5 grantees to be aware of.

6 DEAN MINOW: Just a followup. David --

7 MR. SNYDER: Jeff, Paul Snyder. If we wanted  
8 the IPAs to cover this, we probably would need to send  
9 something to the grantees that requested their IPA to  
10 specifically look at this issue, like an agreed-upon  
11 procedure, and report back their finding. Because I  
12 don't think typically they're going to look at it as  
13 part of the financial statement audit.

14 DEAN MINOW: Well, just to connect --

15 MR. SNYDER: The other one -- just out of  
16 curiosity; maybe we don't want to get in this  
17 relationship with our grantees -- but state  
18 governments, with sales taxes, will put firms out to go  
19 out and look at how these things are reported, and  
20 they'll pay them on a contingent basis for what they  
21 find.

22 If we want to get the coverage, and we think

1 there's something out there, is that something,  
2 although it would be a different relationship with our  
3 grantees?

4 CHAIRMAN MADDOX: Martha?

5 DEAN MINOW: Not to prevent you hunting.

6 MR. SNYDER: I'm sorry. I didn't hear that.

7 DEAN MINOW: To connect the dots of the last  
8 couple of comments, when we have a change in policy, we  
9 can predict there's going to be difficulty implementing  
10 it. Is the IPA one of the audiences for a change, for  
11 when we announce a change like this? Because it's kind  
12 of a clue that they need to be paying attention to it,  
13 not just the ED but the IPA?

14 MS. RATH: That's actually a very good  
15 question. I don't know the answer to that. I don't  
16 know what went out when the attorneys' fees rule  
17 changed. We can look into that and get back to you.  
18 But it is a very good point for moving forward.

19 CHAIRMAN MADDOX: Thank you, Lora.

20 If there's nothing else, we are out of time on  
21 this. We've got six minutes, maybe five minutes now,  
22 to complete our meeting, which includes a confidential

1 closed session. So thank you very much, Lora.

2 We're going to move now to item number 7. Is  
3 there public comment?

4 (No response.)

5 CHAIRMAN MADDOX: If there's no public  
6 comment, we'll move to item 8, which is consider and  
7 act on other business. Any other business?

8 (No response.)

9 CHAIRMAN MADDOX: Hearing none, I think a  
10 motion to go into closed session would be in order.  
11 Gloria? Sorry.

12 M O T I O N

13 MR. HOFFMAN: So moved.

14 CHAIRMAN MADDOX: Second?

15 PROFESSOR VALENCIA-WEBER: Second.

16 CHAIRMAN MADDOX: All in favor?

17 (A chorus of ayes.)

18 CHAIRMAN MADDOX: All right. Then we are  
19 going to go to closed session now.

20 (Whereupon, at 4:25 p.m., the Open Session of  
21 the Committee was adjourned to Closed Session.)

22 \* \* \* \* \*